



MIDWEST *retail* *investment* REPORT

Fourth Quarter - 2023

Market Overview

3.1%

Unemployment Rate

3.4%

CPI

114.8

Consumer Confidence Index

Market Outlook

Interest rates and inflation continued to be the primary focus of investors, banks, and everyone else interested in commercial real estate in Q4. More importantly, how these 2 things affect borrower's ability to obtain debt weighed on the minds of many. With the Fed leaving rates unchanged for most of the last half of 2023 and many people thinking rates will decline somewhat in 2024, many investors who have been on the sidelines have begun to come back into the conversation even if they are still cautiously optimistic.

Cap rates increased across all types of retail centers in 2023 except for grocery anchored centers which increased nationally but fell slightly in the Midwest. Retail sales volume for the year was lower than any year in recent memory other than 2020 which left retail crushed by the Covid 19 pandemic. The composition of buyers and sellers of Midwest retail centers normalized substantially to end 2023 although REITs were more active than any time in the last 7 years. Private investors still maintained the largest segment making up 75.6% of buyers and 42.1% of sellers in the Midwest in 2023.

If borrower's ability to maintain debt remains difficult throughout 2024, we expect REITs will maintain an above average slice of the pie but expect private investors to make up a heavy majority again if debt becomes easier to access. How this continues to develop throughout 2024 will be the focus of most investors and brokers alike throughout the year.

Fourth Quarter Takeaways

Investment Activity:

Retail investment sales volume decreased in Q4 after an increase in Q3, both nationally and in the Midwest. A similar trend to 2022 but much different than the historical trend.

Cap Rate Compression:

Cap rates of retail centers increased in the Midwest and nationally except for grocery anchored centers. Cap rates for the subset including all centers saw the largest increases with centers in the Midwest increasing 21 basis points and centers nationally increasing 26 basis points. Grocery anchored centers in the Midwest fell 7 basis points while grocery anchored centers nationally fell a staggering 34 basis points.

Current Inventory:

The retail investment market continues to have well below average inventory, although inventory increased in Q4, it is still a struggle for investors to find realistically priced listings. Below average inventory continues to directly contribute to below average sales volume.

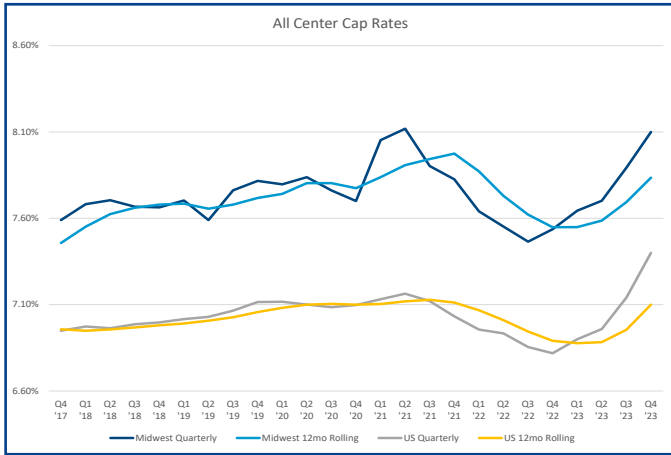
Pricing Growth:

Grocery anchored centers in the Midwest and nationally as well as unanchored centers in the Midwest saw an increase in price per square foot in Q4. Grocery anchored centers in the Midwest increased \$6.62 psf and increased \$4.91 psf nationally. The subset including all centers in the Midwest saw the largest decrease of any retail center with a decrease of \$12.17 psf. a decrease of \$8.23.

Debt

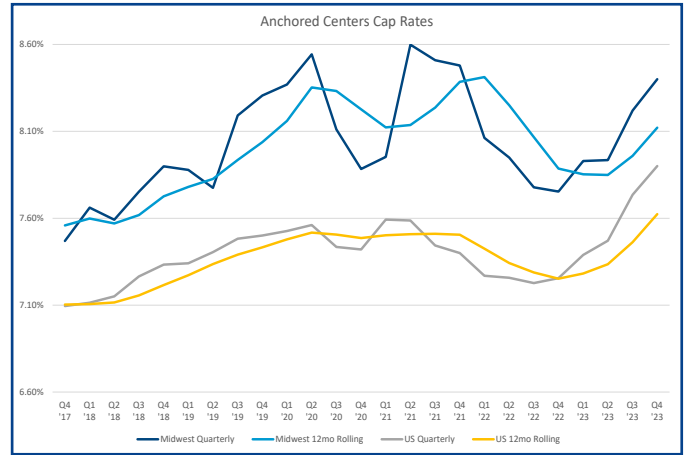
The ability for investors to access capital through debt continues to be an extremely important factor driving sales volume and pricing in the retail investment market. Life insurance companies continue to be the most aggressive lenders with the most capital to lend and the best terms while banks and credit unions continue to have strict underwriting. The 10-year UST increased to start Q3 before falling from a high of 5.00% in mid-October to 3.87% on December 31st. Although the 10-year UST is up to start 2024 this has created increased activity in the market.

Retail Cap Rates



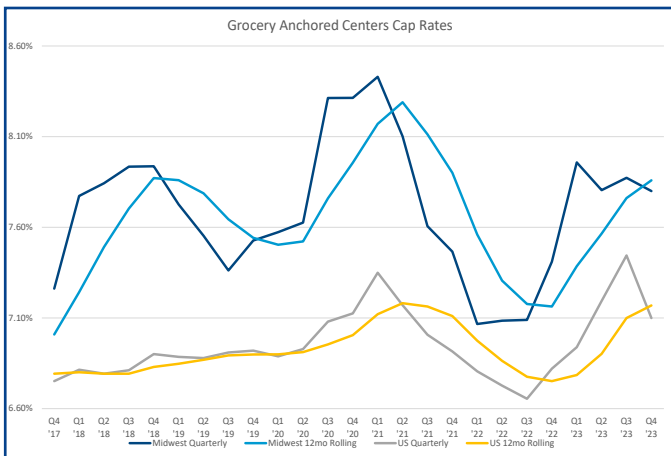
Overall Retail Center Cap Rates:

National cap rates for retail centers outgained Midwest cap rates by 5 bps. Cap rates for retail centers Nationally increased by 26 bps while the Midwest saw an increase of 21 basis points. The 12-month rolling cap rate nationally and, in the Midwest, grew nearly identically at 15 bps and 14 bps respectively for the highest rolling cap rates Nationally since the end of 2021, and in the Midwest, Q1 of 2022.



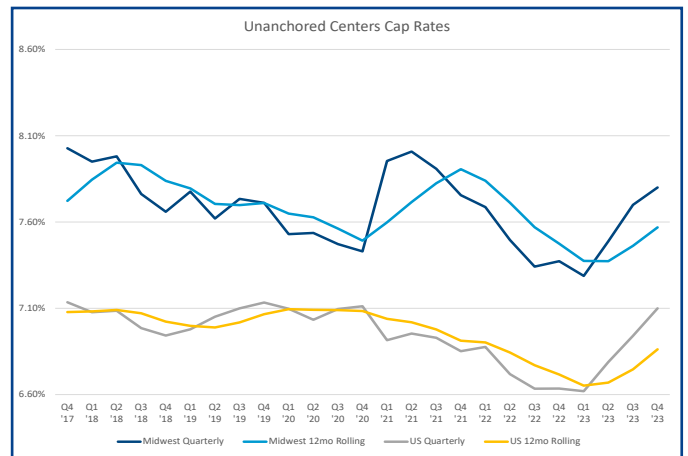
Anchored Center Cap Rates:

Cap rates for anchored centers saw the largest increases nationally and in the Midwest. The 12-month rolling cap rate for anchored centers in the Midwest flew past 8.0% for the first time since Q3 of 2022 with a rate of 8.12% with anchored centers nationally at their highest rolling rate since before 2018 with a rate of 7.62%.



Grocery Anchored Center Cap Rates:

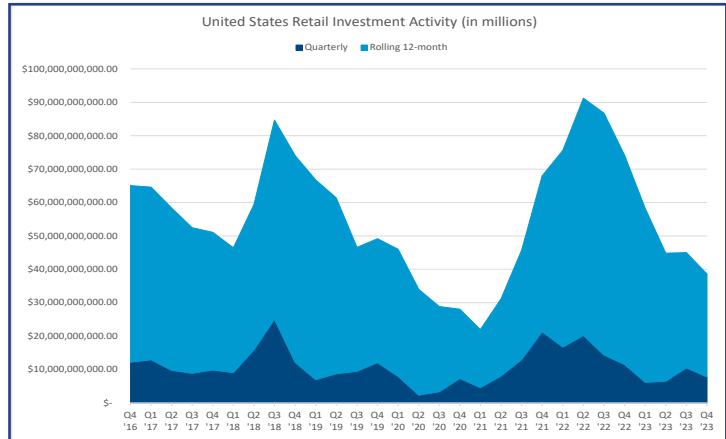
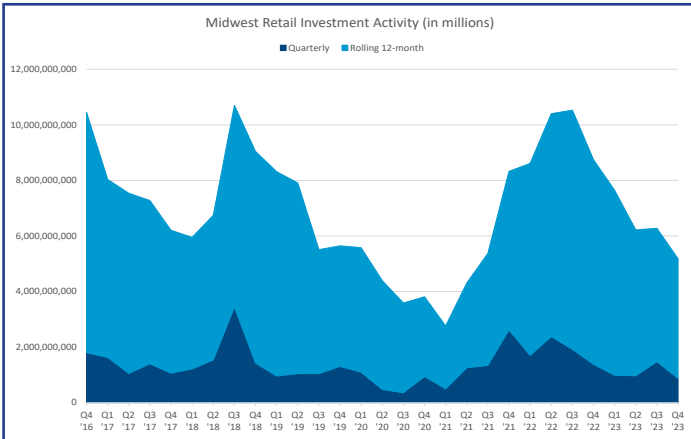
Grocery anchored centers in the Midwest saw a slight decrease of 7 bps. Grocery anchored centers nationally endured the largest decrease of all retail centers, dropping 34 bps. While the quarterly rate is down from Q3, the national rolling cap rate increased to 7.17%, which is its highest rate since Q2 of 2021. This is only the second quarter since Q4 2021 that grocery anchored centers are above 7.0% nationally.



Unanchored Center Cap Rates:

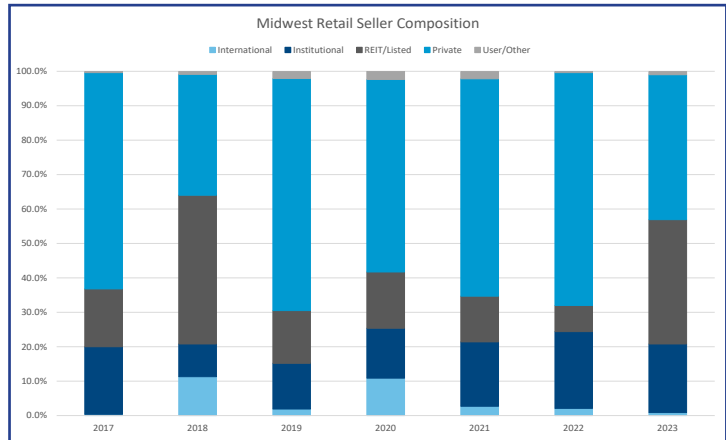
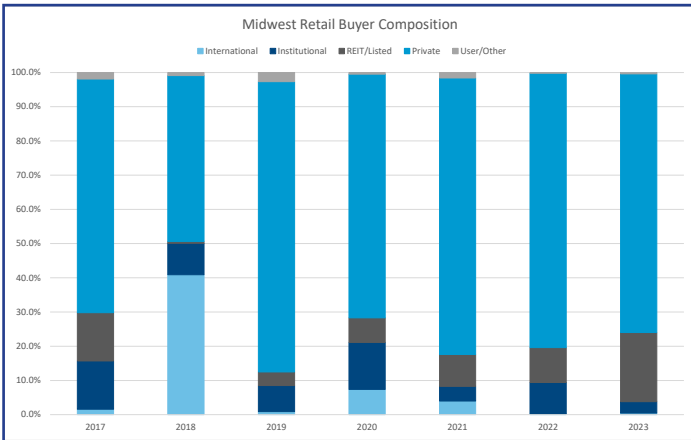
Unanchored centers saw moderate increases both in the Midwest and Nationally at 10 bps and 16 bps respectively. This is the highest unanchored centers cap rates have been in Midwest since Q3 2021 and Q4 2020 nationally. Both rolling cap rates continued to trend upwards, after being relatively stagnant before increasing in Q3.

Investment Activity



Investment Activity:

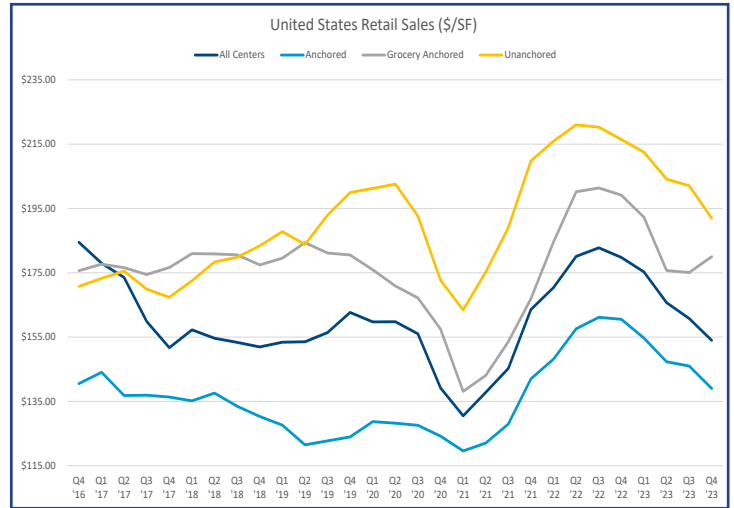
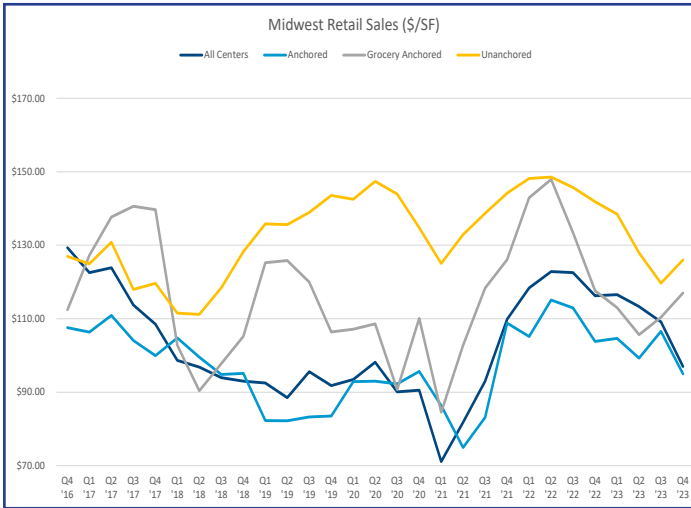
Retail investment sales volume in the Midwest slowed down this quarter to 877 million, the lowest mark since Q1 2021. National sales volume dropped by nearly 3 billion to 7.7 billion. However, the decrease still keeps national sales volume over a billion dollars higher than Q1 and Q2 of 2023.



Composition Buyer/Seller:

- International:** International investors finished 2023 making up less than 1.0% of buyers and sellers in the Midwest, 0.5% and 0.9% respectively. This is lower than normal with international investors making up 7.93% of buyers and 4.31% of sellers in the Midwest on average for the last 7 years.
- Institutional:** Institutional buyers and sellers continued to be less active in 2023 making up 3.3% of buyers and 19.9% of sellers in the Midwest, compared to 9.2% and 22.3% in 2022. Institutional investors have made up on average 8.77% of buyers and 15.46% of sellers in the Midwest in the last 7 years.
- REITs:** REITs nearly doubled their activity as buyers from 10.2% in 2022 to 20.2% in 2023. REITs weren't very active in Q4 dropping from 52.0% of buyers through Q3 to close the year out at 20.2%. REITs increased their overall seller composition by almost 30 percentage points, up to 36.1% to finish 2023. The cost of and ability to access capital for most buyers is most likely the primary reason REITs have continued to show the most growth as a group in 2023 since they rarely have the same challenges accessing capital as a private investor would.
- Private:** Private investors finished with the largest buyer and seller makeups at 75.6% and 42.1% respectively. However, private investors currently make up their smallest recorded percentage of buyers since 2020 and smallest percentage of sellers since at least 2018. Private investors increased activity as buyers and sellers in Q4, most likely due to more transparency in the expectations of the direction of rates as well as a better understanding for most investors on the continued price discovery that has played out.

Comps and Listings



Price Per Square Foot:

Per square foot prices fell in most type of centers apart from unanchored and grocery anchored centers in the Midwest increasing \$6.31 psf and \$6.62 psf respectively. Nationally, grocery anchored centers increased \$4.91 psf, but all other types decreased at least \$6 psf. Overall, centers in the Midwest fell by over \$12 psf.

Comps: On The Market

Property Name	Asking Price	Cap Rate	GLA	Occupancy	\$ PSF	Major Tenants
Shops at Foster Brook	\$3,273,882	8.00%	31,894	100%	\$102.65	Enterprise, Edward Jones, Valor Healthcare, Leisure Time Powersports
Washington Shopping Center	\$5,145,000	8.00%	29,100	100%	\$176.80	Dollar Tree, Verizon Wireless, Shoe Sensation, Cricket Wireless, H&R Block
Shoppes at Niles	\$4,511,160	7.50%	11,546	100%	\$390.71	Aspen Dental, Verizon, Great Clips
Holland Retail Center	\$6,389,000	7.49%	71,551	100%	\$89.29	Bigby Coffee, Rent A Center, Hungry Howie's, T-Mobile

Comps: Recently Closed

Property Name	Sale Price	Cap Rate	GLA	Occupancy	\$ PSF	Major Tenants
Chambersburg Towne Center	\$3,750,000	8.62%	51,243	90%	\$73.18	Save A Lot, Goodwill, LA Cameras, Power Train Fitness
Liberty Way West	\$10,250,000	7.20%	17,587	100%	\$582.82	Shake Shack, Sleep Outfitters, Torchy's Tacos
Greensburg Plaza	\$2,500,000	8.12%	20,955	100%	\$119.30	Anytime Fitness, Papa Johns, Centra Credit Union

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