SHOPPING CENTER REAL ESTATE QUARTERLY NEWSLETTER

3RD QUARTER 2023

Bringing You the Latest Insights in Shopping Center Real Estate

EQUITY RETAIL BROKERS

David DeRienzo, Investment Sales

In This Issue: A Recap of the 3rd Quarter Investment Sales Activity and Current Lending Environment

Dear Readers,

Welcome to the latest edition of the Shopping Center Real Estate Quarterly Newsletter, where we provide a comprehensive overview of the happenings in the shopping center real estate market. As we wrap up the 3rd quarter of 2023 and make the final push to close deals by yearend, we are witnessing significant shifts in our market, driven by various factors impacting the industry this year.

1. High Mortgage Rates Challenge Shopping Center Owners

Persistently high mortgage rates are still here. Typically, I avoid making absolute statements, so I'll simply say that the prospect of interest rates experiencing a significant drop anytime soon is not favorable. A commentator recently claimed the FED's attempted to tame inflation to 2% (currently 3.7%) is akin to catching a slippery, greased-up pig. Sounds about right. Recent term sheets for shopping centers are showing mortgage rates at a minimum of 6.75%, adding significant financial pressure on property owners and investors. These elevated rates have not only increased financing costs but have also caused some investors to reassess their portfolios and strategies. The prevailing outlook suggests an ongoing upward trend in interest rates.

2. NOI Growth and Shopping Center Metrics Remain Solid

Steady increases in average rents combined with occupancy rates at their highest level in years (94.3%), are offering relief for inflation-weary owners. Overall metrics continue to strengthen, with net operating income increasing year-over-year at 4.5% and rents up 6.9%. Demand for retail space in open-air shopping centers and strip centers is robust. Many retailers have switched to a hybrid online and brick and mortar presence. The convenience of easy in-and-out of these shopping centers for curbside pickup and returns are alleviating many of the last-mile distribution issues that have plagued retailers. Increasing the demand for retail space are a growing number of medical tenants, ranging from urgent care centers to dentists, seeking the convenience of shopping centers, rather than being hidden in a random second-floor suburban office building.

3. Pricing Disagreements Stalling Transactions

One of the most significant hurdles in the shopping center real estate market during the 2nd and 3rd quarter has been the inability of buyers and sellers to agree on pricing. Earlier this year, the catchphrase "price discovery" between buyers and sellers was floated as the primary reason for muted deal flow. Quite frankly, we are past the point of "price discovery." And we get it. With the changing economic landscape and the uncertainty surrounding future revenue streams for these properties, finding common ground on valuations has proven to be a challenging task. Buyers, fully aware of higher debt service costs, are cautious and their pencils are extra sharp this year. Meanwhile, there is the bulldog-like tenacity of sellers holding out for pre-pandemic valuations. With many hesitant to lower their asking prices. Negotiations have become more protracted, and many deals have remained on hold.

4. Decline in Shopping Centers Transactional Volume

The ongoing standoff between buyers and sellers is resulting in a decade-low level of transactional activity. When we compare this year's data to the corresponding period from last year, we can see a significant drop in the number of shopping centers changing ownership in both the Pennsylvania and New Jersey markets. Between January and August of 2022, a whopping 175 shopping centers switched hands, but this year, during that same period, we've seen just 45 shopping centers change owners. The decline in transactions can be linked to various factors, including the obstacles presented by elevated mortgage rates and the persistent difficulties in reaching agreements between buyers and sellers.

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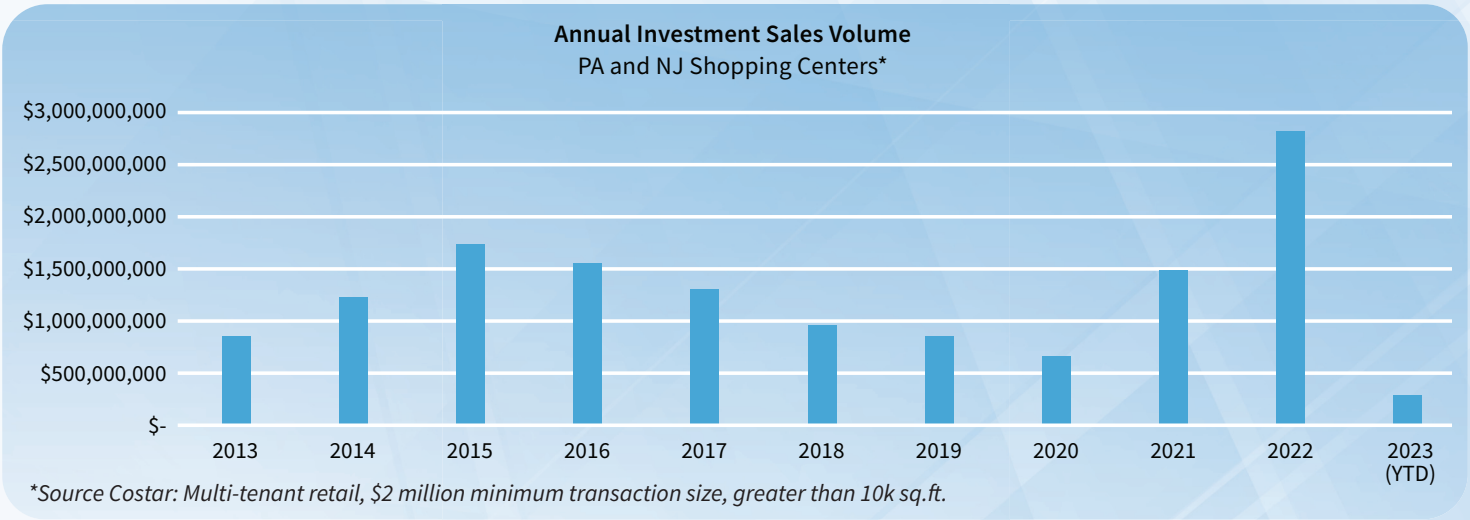

**Source Costar: Multi-tenant retail, $2 million minimum transaction size, greater than 10k sq.ft.*

5. Potential Impact of Discretionary Spending with Student Loan Payments Restarting

The restart of student loan payments has added another layer of uncertainty to the shopping center real estate market. With many borrowers resuming payments on their student loans, there is speculation about the possible impact on discretionary spending. Right now, everyone's playing the guessing game about what it means for those spontaneous shopping sprees. This could influence the performance of businesses within shopping centers, particularly those reliant on the spending habits of younger consumers.

Looking Ahead

As we move into the final quarter of the year, there are several questions that remain unanswered in the shopping center real estate market. Will mortgage rates continue their upward trajectory, or will they stabilize? Can buyers and sellers find common ground on pricing to facilitate more transactions? And how will the restart of student loan payments impact consumer spending and, in turn, shopping center tenants?

Stay tuned to our newsletter as we continue to track these developments and provide you with the latest insights and analysis on the shopping center real estate industry. In the meantime, we encourage you to reach out to our team for personalized guidance and market-specific information.

Thank you for your continued readership, and we look forward to keeping you informed in the months ahead.

Sincerely,

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