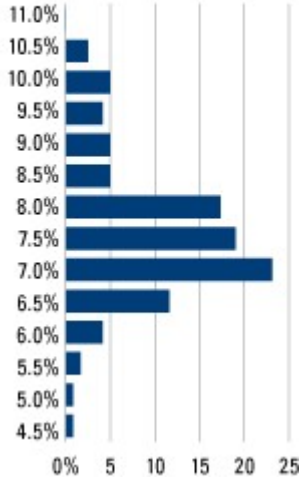


Retail Quarter in Review

Sales of significant retail properties totaled \$2.1 billion in Q3, an impressive 36% gain over Q2 and the first quarterly rise in two years. With deep problems at the operating level for retail owners and operators, it is clear that a significant recovery is still well into the future. The gain last quarter brings the year-to-date total to \$5.7 billion of retail properties sold. Volume remains at depressed levels, off 66% from a year ago and 91% from two years ago.

DISTRIBUTION OF CAPS RETAIL Q3'09



Boosting the total in Q3 was a welcome 123% gain in sales of malls which far overshadowed an 8% decline in strip center sales. The sale by [Macerich](#) of a 75% interest in the [Flatiron Crossing Mall](#) valuing the property at nearly \$350 million is by far the largest individual retail property sold this year. Just one other retail transaction above \$75m was recorded in Q3 and no significant portfolios traded, a departure from other property types which did see deal sizes increase.

Even though sales volume for Q3 was up, the trend is not decisive. Volume in September was almost 40% below that recorded in August, which is unusual based on past patterns of seasonality. Many markets had no retail sales at all in Q3 and only a handful saw 5 or more properties sold; LA, Chicago, Atlanta, Houston and Phoenix.

Sales of retail properties associated with distress for the month of September, at 15% of total, did not contribute much to the increase in activity in Q3 as it is only a slightly higher ratio than in prior quarters. Retail properties falling subject to default, foreclosure or bankruptcy climbed by \$3.2 billion in Q3 and the outstanding distress in the sector now totals \$35 billion.

During Q3, an additional \$4.0 billion of retail property was listed for sale, still well above the level of closings but a marked decline from offerings in the prior quarter or from a year earlier. The seasonal surge in offerings usually experienced in September did not materialize and actually dropped significantly, perhaps indicating sellers are being more realistic about current prices.

Cap rates on closed retail deals rose on average by 30 BPS in Q3, with mall caps up just 10 BPS but strip center yields up sharply. The cap rate for nearly a quarter of retail properties trading in Q3 was reported to be between 7.0-7.5% while another 36% fell between 7.5% and 8.5%. Cap rates were 9.0% or more in 17% of the transactions, compared to less than 2% that traded at that level during the peak in 2007. At the peak, nearly half of all retail deals traded below a 6.5% cap, but now only the best 7% of properties have commanded yields that low. All sales at such low yields

All SubTypes



recently have been for properties smaller than 20,000 square feet located either in New York City or California.

Volume (2009 YTD)						
	Closed		Offered		Newly Distressed	
	\$ Bil	# Props	\$ Bil	# Props	\$ Bil	# Props
Mall & Other	\$2.47	235	\$8.88	744	\$16.24	429
Strip	\$3.23	215	\$7.90	565	\$7.01	385
RET Total	\$5.70	450	\$16.78	1,309	\$23.25	814

All data subject to future revision; based on properties & portfolios \$5 million and greater.

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