

Positive Signs for Retail Sector as Cap Rates Compress in Q3 2021

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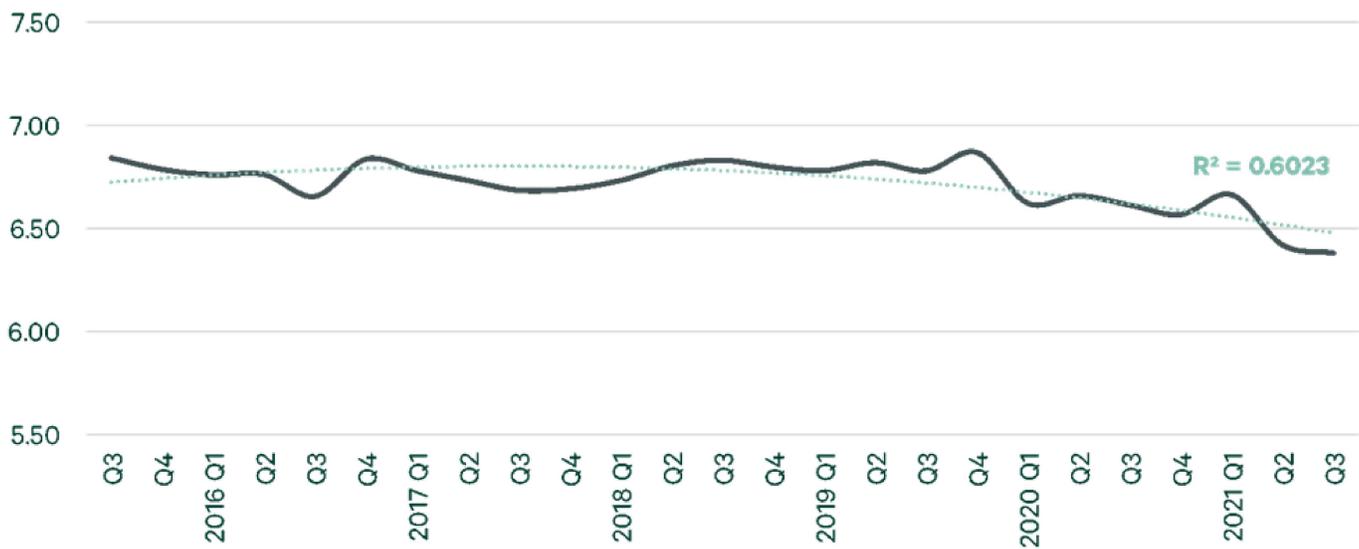


National Retail Cap Rate Report

As COVID-19 restrictions eased and the mass rollout of vaccines continued in Q3 2021, the U.S. retail average capitalization rate decreased by 4 basis points (bps) quarter-over-quarter to 6.38%. The average retail cap rate decreased 23 bps compared to the year earlier Q3. Among the six U.S. regions tracked by CBRE, the average cap rate decreased in four regions (Midwest, Mountain, Northeast and Southeast) and increased in two (Pacific West and South Central). The Pacific West region retained the lowest average cap rate for retail properties (averaging 5.88% in Q3 2021), followed by Mountain (6.04%), Northeast (6.12%), Southeast (6.32%), South Central (6.65%), and Midwest (6.82%).

The compression in cap rates recorded in Q3 2021 is a positive signal for the retail sector overall. Retail cap rates have been relatively stable since 2017 and throughout the period since the COVID-19 pandemic was officially declared at the end of Q1 2020 (increases in the South Central and Pacific West regions may reflect outliers based on the inventory traded.)

Retail investment sales reported as closed during Q3 2021 were negotiated well after the pandemic's start and reflect willing buyer and seller knowledgeable of the pandemic's impact. Single-tenant net-leased properties or grocery—and other-essential-business-anchored centers—were in strong demand throughout Q3 2021. As more types of retail properties trade, especially large-format retail (power and lifestyle centers and malls), cap rates may reflect some revision in pricing, even as single-tenant and essential-anchored centers continue to reflect tightening from strong demand.



Source: Valuation VIEW

Data points are confirmed closed transactions adjusted for assumed financing and reflect overall market trends.

U.S. Retail Cap Rate Trends

Quarterly Average Region	2019			2020			2021			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Midwest	7.81	7.42	7.80	7.32	7.09	7.29	7.13	7.30	6.85	6.82
Mountain	6.67	6.62	6.59	6.66	6.73	6.17	6.06	6.37	6.17	6.04
Northeast	6.83	6.71	6.83	6.87	6.64	6.63	6.72	6.54	6.57	6.12
Pacific West	5.86	5.71	5.90	5.71	5.81	5.62	5.75	6.05	5.65	5.88
South Central	7.16	7.36	6.94	7.08	6.93	6.87	6.90	6.57	6.54	6.65
Southeast	6.71	6.87	6.93	6.50	6.65	6.68	6.52	6.66	6.45	6.32
Nation	6.82	6.78	6.87	6.62	6.66	6.61	6.57	6.66	6.42	6.38
Change		-0.04	0.09	-0.25	0.04	-0.05	-0.04	0.09	-0.24	-0.04

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