And the Winner Is – "Retail"

Abe J. Schear

As the economy began to rebound from its woeful performance in the latter part of the first decade of this new century, the market for retail investment, while surely more robust, did not keep pace with the higher demand for multi-family properties. And now, as the multi-family market has cooled just a bit, the retail market is surely of more interest to sophisticated investors and eye popping cap rates have become more the norm than the exception.

There are numerous reasons for this turnaround, a few of them being noted herein.

- Investors covet credit tenants, notably users like grocers and convenience stores. Unlike multi-family where risk is difficult to ascertain but spread over numerous tenants, retail is in part built with true credit tenants anchoring the stream of rent. Sophisticated buyers are drawn to credit tenants who help to stabilize the property.

- Of course, investors look to yield and it is interesting that investors have begun to widen their focus to different markets. Buyers continue to want core product but they now better understand that credit in many cases is as important as being in a large city. We are surely less large market centric in today's economy.

- With sales rebounding a bit and less new property being built, Landlords today understand (as do Tenants) that better sales lead to higher rent and that better rents will translate into higher property values. Many current leases were entered into some years ago, again allowing for an opportunity in some instances for Landlord to raise rents and improve the property from an investment perspective. Easy renewals in better retail properties are generally a thing of the past as Landlords attempt to maximize rents.

- Investors feel that they understand retail and this is true for domestic and international investors. There is, for sure, a comfort level with stores that have familiar brands and dependable products. Additionally, retail is surely the beneficiary of the glut of money which sits relatively idly on the sidelines. It is worth noting that international investors have, mostly quietly, invested in dozens of properties, this adding competition to the market, often with goals that are different from those of historical domestic investors. Fragile international economies have forced investors to further diversification in more stable countries such as the United States.

Not unlike the multi-family market which seems to have peaked a bit (but still chugs along), investment in retail property will eventually lose some steam but, for now, we seem to be in the positive part of the cycle.

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