

CBRE National Retail Partners – Midwest Team

2022 Notable Transactions



Hawthorne Plaza
Overland Park, KS | 134,438 SF



Westmont Market Centre
Westmont, IL | 8,540 SF



Mariano's Fresh Market - South Loop
Chicago, IL | 65,568 SF



Mount Prospect Plaza
Mount Prospect, IL | 227,690 SF



Novi Town Center
Novi, MI | 305,561 SF

MIDWEST TEAM:

George Good :: Richard Frolik :: Christian Williams :: Michael Kaider :: Adam Foret

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2022 RETAIL INVESTMENT MARKET RECAP and 2023 FORECAST

CBRE's National Retail Partners - Midwest Team is pleased to announce our 2022 sale activity. Last year our team completed **113 transactions** encompassing nearly **13 million square feet** of retail space with a total consideration of **\$1.84 Billion**. The properties sold included 67 neighborhood/community/power/lifestyle centers, 18 unanchored strips and 28 single tenant net leased assets in 22 different states. Below are our observations on last year's retail property investment market and some thoughts on what's ahead in 2023.

2022 RETAIL INVESTMENT MARKET RECAP - "IS THIS HEAVEN? NO, IT'S RETAIL"

Despite the monkey wrench tossed by the Fed into the capital markets seven times in 2022, the retail investment sale market remained very active. Real Capital Analytics year-end numbers won't be available for another month, but after 27 years we've found that our team's activity is generally indicative of the overall market. Surprisingly, given the turmoil in the capital markets generally, our volume of sales was up 30% over record 2021 levels. Why? Since it appears to be retail's time in the sun, we borrowed a few lines from Hollywood to help explain.

- **Strong Operating Fundamentals** - "You see George, you've had a wonderful life." Post-pandemic expansion from retailers, service tenants, restaurants and other retail space users, coupled with virtually no new development, meant declining vacancy rates and growing rents across all center formats. Pent up consumer demand led to revenge shopping tempered only by supply chain restraints and retailer staffing to handle the demand. It also led to...
- **Predictable NOIs** - "I'd keep playing. I don't think the heavy stuff is coming down for quite a while." Shopping centers survived the 2008 GEC, the explosion of e-commerce, and over two-years of Covid-induced store, restaurant, and theater closures. All these obstacles proved that shoppers want both virtual AND physical stores. The obstacles culled the herd of weak retailers so that 2022 saw historically low retailer bankruptcies and store closures. NOIs outperformed with very few tenants on investor's current watchlist.
- **Continuing Inflows of Private Investor Equity Capital** - "For lack of a better word, greed is good." Early in the year, a few acquisitions by public REITs and pension fund advisors occurred in the Midwest. However, the vast majority of the record volume of sales activity was driven by private leveraged investors, even for transactions +\$50M. Global wealth and few attractive investment alternatives made shopping center operators flush with investable cash. For the reasons noted above retail appeared a great place to park it.
- **More Expensive But Available Debt** - "Frankly, my dear (lender), I don't give a damn." The rate increases noted earlier tempered activity and prices, particularly in the last third of the year. However, the market was far from shut down, even though the cost of debt effectively doubled, the largest money center banks went to sidelines and LifeCo's spent a lot of their allocations earlier in the year. Leveraged investors still found mortgage capital from smaller regional banks and other sources. Sellers who recognized the new reality in borrowing costs, did not let perfect become the enemy of good. Many swallowed the re-trades and closed while they still could.
- **Relative value** - "All glory is fleeting" (sorry, apartment and industrial investors). Retail's higher cap rates and steady operating performance caused it to be less impacted by 2022's rising rates. Shopping center yields are also based on current cash flow, and not reliant on overly optimistic residual values or highly speculative rent growth (although the rent growth story in retail is starting to be recognized). Most retail transactions are still at or below replacement cost.

2023 RETAIL INVESTMENT MARKET FORECAST

- **Inflation, Recession or Both?** - "Life is like a box of chocolates. You never know what you're gonna get." We enter 2023 with institutional capital primarily sitting on their hands (and cash) for fear of a recession brought on by the Fed's continuing battle to combat inflation. Multiple investment forecasts predict a nearly 100% probability of a recession, some say its already started. The impact on jobs, corporate earnings, home values,

and the stock market could finally stem the wave of private wealth and capital driving retail investment. But as last year wound down and the new year unfolds, there seems to be shifting sentiment that inflation is already cooling, and the recession will be shallower and shorter-lived than many believed months ago.

- **The Kroger (Mariano's) and Albertson (Jewel) Merger.** - "Keep your friends close and your enemies closer." Unless the FTC steps in, Chicago's #1 and #2 grocers will combine sometime in 2023. That will likely mean the disposition of hundreds of stores, with dozens in Chicago alone. It will be fascinating to see whether management keeps the old, tired Jewel's or newer but much higher rent Mariano's where the two sit across the street from one another. Either way, there will be a flood of opportunities for the private independent grocers that oftentimes kick the tail of the major chains by knowing and delivering what their local customers want vs what absent senior management chooses to provide.
- **Urban/High Street** - "Houston, we have a problem." Perhaps the single most lasting impact brought on by the pandemic is on Chicago's iconic Michigan Avenue and State Street retail districts. Workers aren't back, tourism is confined to the weekends with limited weekday conventions and business travel, and most important: shoppers don't feel safe downtown anymore. Chicago is hardly alone with this problem. Some downtowns are arguably worse. But there is no quick fix in sight. More likely there will be a huge re-setting of basis accompanied by changes in rents and the nature of tenancy.
- **Mall Redevelopment** - "So you're saying there's a chance..." The redevelopment of malls is finally taking off as the different stake holders realize holding out for more or, even for yesterday, harms everyone. Every mall has some re-positioning underway or planned. Fox Valley and Hawthorn, being early to the process, are being watched and copied nationally. Do people really want to live, work and play in what formerly was a mall and its massive parking lots? Many mall owners are betting big on it.
- **Debt** - "It was beauty killed the beast." Volatility in the index market will be the key theme for the first half of the year as investors monitor the regular CPI reports and ongoing debate regarding the magnitude of the next FOMC rate hike. Because of this, there will be a lack of discretionary re-financings in the market and instead new volume will focus on maturity-based refs and acquisitions. Most balance sheet lenders are predicting a sluggish start to the year with activity picking up in the second half. However, liquidity remains high and those investors who's yields can tolerate a higher cost of capital will find options in the market—particularly for grocery anchored transactions. Private label CMBS will likely be down again this year, though an increased volume of five year paper will be issued as securitized lenders recognize the growing sentiment of Borrowers to have shorter duration loans and the prevalence of entire pools of five-year money becomes more common.

CONCLUSION

"Carpe diem" Over the last 50 years we have seen that waves of capital drive activity and pricing, much more than politics, labor, or even the specific property sector's operating performance. The wave of private capital that drove activity and pricing for the last 24 months may be showing signs of cresting. A recession and its corresponding impact on jobs, the stock market, wealth, and home prices may finally cause the private investor to step to the sidelines like their institutional counterparts. When that happens, it could destroy the recent upward trends in retail sale activity and pricing. At the same time, it will create tremendous buying opportunities. **"I love the smell of napalm in the morning. It smells like...victory."** Here's wishing you a victorious 2023.

2022 **Notable** Transactions



Shops at Sawmill Station - Morton Grove, IL
11,624 SF



Marshfield Plaza - Chicago, IL
259,373 SF



Aldi - Woodstock, IL
20,442 SF



Birch Run Station - Maplewood, MN
279,343 SF



Naperville Plaza - Naperville, IL
115,380 SF



Farmgate Shopping Center - Schaumburg, IL
56,632 SF



LA Fitness - Riverside, CA
49,661 SF



Fresh Thyme – Indianapolis, IN
27,519 SF



Levin Furniture - Oakwood, OH
89,723 SF



CVS Pharmacy - Chicago, IL
18,100 SF



Joliet Commons – Joliet, IL
228,394 SF



Dollar Tree - Chicago, IL
10,988 SF



OhioHealth - Reynoldsburg, OH
9,956 SF



Hilliard Rome Commons - Hilliard, OH
106,571 SF



Prairie Stone - Hoffman Estates, IL
40,531 SF

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Gateway Plaza
Bloomingdale, IL | 23,150 SF



Verizon - Littleton, CO
3,883 SF



Silgan Closures - Downers Grove, IL
42,000 SF



Pick 'n Save - Waupaca, WI
163,740 SF



Shoppes on Maine - Rochester, MN
239,216 SF



Oak Brook Court - Oak Brook, IL
103,955 SF



Creston Park Strip Center - Janesville, WI
73,477 SF



Seritage Multi-Tenant Portfolio - Multi-State -
8 Assets | 1,076,000 SF



Hoffman Plaza - Hoffman Estates, IL
146,263 SF



Hometown Plaza - Hometown, IL
77,954 SF



Har Mar Mall - Roseville, MN
446,308 SF



446-484 S. Rand Road - Lake Zurich, IL
12,000 SF



Shoppes at Shoal Creek - Liberty, KS
97,085 SF



Ward Parkway - Kansas City, MO
436,761 SF



Park Avenue West Commons - Highland Park, IL
6,893 SF



North Mayfair Commons - Chicago, IL
87,270 SF



CIM Portfolio - Multi-State - 39 Assets
3,980,000 SF



Havertys Furniture - Midland, TX
28,827 SF



Archway Retail Center - Crystal Lake, IL
11,920 SF



Shops at CenterPoint - Grand Rapids, MI
537,948 SF



Big Lots - Burbank, IL
39,460 SF



House of Brides - Glen Ellyn, IL
23,333 SF



Holliday Towne Center - Duncansville, PA
28,800 SF



Kids & Company - Schaumburg, IL
11,000 SF



The Crossings Mall - Mishawaka, WI
245,045 SF



Piggly Wiggly - Omro, WI
22,506 SF



Walgreens - Kannapolis, NC
13,643 SF



Loyola Medicine - River Forest, IL
9,812 SF



PNC Bank - Aurora, IL
6,400 SF



Michel Tires Plus - Toledo, OH
6,832 SF

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CONTACT US:



George Good
Executive Vice President
+1 630 573 7010
george.good@cbre.com



Christian Williams
Senior Vice President
+1 630 573 7075
christian.williams@cbre.com



Richard Frolik
Executive Vice President
+1 630 573 7012
richard.frolik@cbre.com



Adam Foret
Vice President
+1 630 368 8609
adam.foret@cbre.com

SINGLE TENANT NET LEASE:



Michael Kaider
Senior Vice President | NNN Specialist
+1 630 573 7015
michael.kaider@cbre.com

DEBT & STRUCTURED FINANCE:



Steven Kundert
Senior Vice President
+1 630 573 7044
steve.kundert@cbre.com

We would like to personally thank those clients with whom we worked on these 2022 transactions:

Agree
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Alpine CTO
AmCap Acquisitions
Apex Holding, LLC
Apollo
ARC Commercial
Arizona Partners
Armada Hoffer
Arnold Lies Company
Asher Group
Berengaria Development
Block & Company
Bradford Companies
Brookfield REIT Services
Brookwood Capital Partners
Cardinal Green Investments, LLC
CIM Group
Clarion Partners
Coastal One Properties
Crosstown Real Estate Advisors
DRA Advisors
Eleventh Hour
Elitfe Properties
Equity Investment Group
Exchangeright Real Estate
Farallon Capital Management

FHS Design Build
Fidelis
First Equity Group LLC
Founders Properties
Four Corners Property Trust
Goldman Sachs
Goodrich Management Co.
Green Oak Real Estate Advisors
Green Realty Co.
GW Properties
Hifai Family Investments
Horne Properties
House of Brides
HSA Commercial Real Estate
Inland Private Capital Corporation
INVESCO Real Estate
Jeff Stahl
Kensington Development Partners
Kris Bazos
Lane 4
LBX Investments, LLC
LEVTI, LLC
Melohn Capital, LLC
Meredith Mendes/Gersham Partners
Midwest Equity Investors
Mirumi Properties, LLC
Northpond Partners
Palmstar Global, LLC
PGIM Real Estate

Pine Tree
RCG Ventures
Real Property MD, LLC
Realty Income Corporation
Regency Centers Corporation
RK Centers
RPT Realty
Schaumburg Investment Group
Schottenstein Property Group
Seritage Growth Properties
Shannon Waltchack
Silver Shield, LLC
Slate Asset Management
Sparrow Ridge Properties, LLC
Spirit Realty Capital
Stafford LLC
Sterling Organization
Symetra
Tabani Group
Terraco, Inc.
Third Lake Capital - Fairbourne
Time Equities
UBS
Ultimo Motors
URW
Voya Investment Management
WS Partners, LLC
YFP LLC



700 Commerce Drive, Suite 450
Oak Brook, IL 60523
T +1 630 573 7000