



## Black Creek Research Insights

# The Opportunity for Growth in Grocery-Anchored Real Estate is Now

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**You can't get a haircut online.  
And most people still prefer to pick out their own produce.**

Many investors are turning to commercial real estate for potential portfolio diversification benefits, steady income and solid returns. One of the major commercial real estate sectors is retail – but not all retail is created equal. Strong trade-area demographics continue to drive demand for necessity-based retail, commonly seen as grocery stores, restaurants and dry cleaners. Contrary to conventional wisdom, retail is growing, not declining. In fact, there are almost three times as many companies opening stores than there are closing them.<sup>1</sup>

Disruption in retail today can broadly be attributed to two forces: the rise of internet retailing and legacy oversupply from the last building cycle peak of 2004-2008. Distress has been acute in the mall and big-box subsectors, which are primarily occupied by tenants that are public, chain retailers such as Toys “R” Us, Sears, Sports Authority and JCPenney.

E-commerce disruption of the mall and big-box retail segments have been making headlines with retailer bankruptcies, store closures and dead centers. These problems have overshadowed the continued health and vigor of well-located, necessity-focused retail centers. Grocery-anchored centers circumvent and complement e-commerce and have continued to demonstrate strong fundamentals and outsized investment performance.

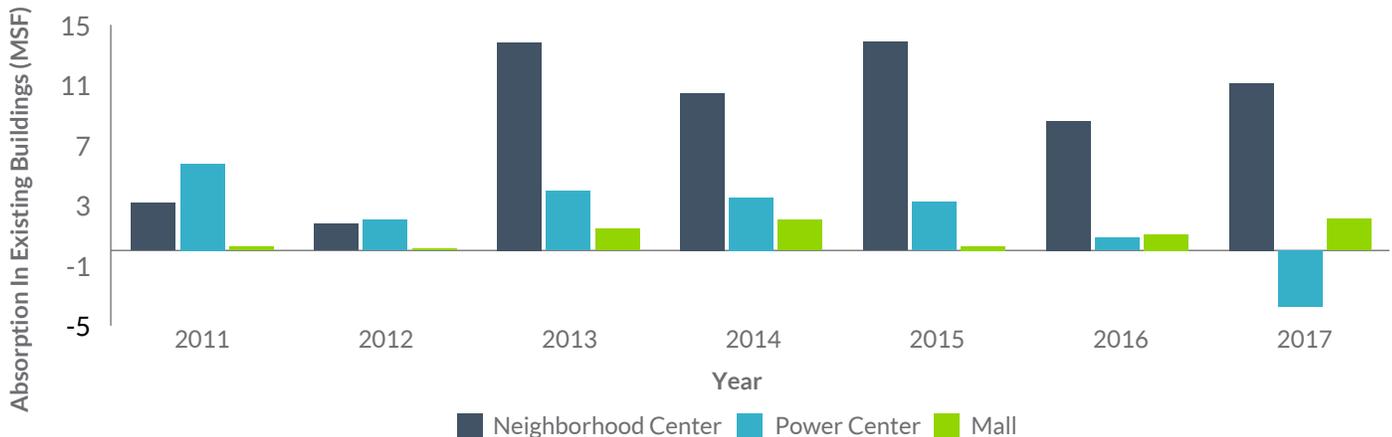


**The subsectors circumventing or complementing e-commerce continue to demonstrate strong fundamentals and outsized investment performance.**

## Grocery-Anchored Retail Continues to Perform Well, Despite Retail Headwinds

The grocery-anchored, neighborhood center has been retail’s most resilient format against e-commerce pressures, sustaining strong tenant demand this economic cycle, and capturing a significant amount of net new absorption in existing buildings each year since 2013. This small-retail format remains the most efficient channel for delivering the combination of grocery, other necessity and service-based offerings that comprise the bulk of tenancy, with minimal e-commerce penetration.

National Retail Absorption by Subsector<sup>2</sup>

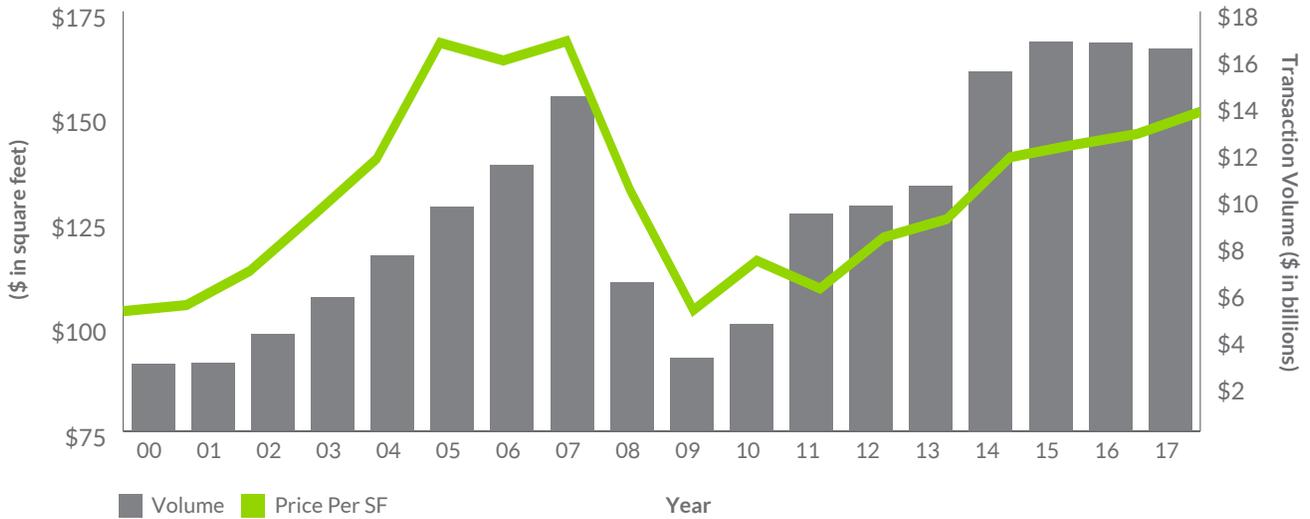


# Fundamentals and Pricing Remain Strong for Neighborhood Center Retail

The necessity-based format’s strong appeal has also played out in the investment markets, exhibited by elevated liquidity in recent years, with transaction volume averaging \$16 billion per year from 2014 to 2017.<sup>2</sup> Pricing trends are bullish, with the average dollar per square foot having increased by 39% since 2011.<sup>2</sup> As the market continues to rebound from pre-recession levels, pricing should continue to rise in tandem with rents, and rents should rise in tandem

with trade-area demographic growth. One of the hallmarks of this market cycle is that population growth is outpacing retail stock growth, meaning that retail properties not in direct competition with e-commerce are recording sustained sales-per-square foot growth. Additionally, investment performance should remain buoyant as long as grocery-anchored retail pricing gains are sustained by a parallel increase in store performance and rent growth.

National Neighborhood Center Investment Trends<sup>2</sup>



## Many investors are turning to commercial real estate for<sup>3</sup>:

1. Steady income
2. Solid returns
3. Portfolio diversification

The flexibility afforded to grocery-anchored assets mitigates the headline risks of technological disruption and boosts its appeal to defensive-minded investors. While it is impossible to predict how e-commerce will ultimately shake out, we believe retail centers that have these insulating characteristics are best positioned to remain relevant over the long-term.



We continue to see strong fundamentals and opportunity for solid future growth in grocery-anchored retail.

<sup>1</sup> IHL Group, Company Reports. Data for 2017.

<sup>2</sup> CoStar Portfolio Strategy, Q1 2018.

<sup>3</sup> There can be no guarantee that an investment in commercial real estate or an investment in any Fund of other entity that purchases/owns commercial real estate will provide such benefits. It is important to note that such investments generally lack the liquidity of many other investment types.