



## SAMPLE REPORT

# Mall Sector Report: Raising Cap Rates for “Middle” Malls, Aiding Already Strong IRRs



## Raising Cap Rates for “Middle” Malls, Aiding Already Strong IRRs

Valuations in the mall space have largely been opaque since the onset of the pandemic given few relevant transactions. Until recently, most of the malls that have traded hands over the past few years were either: 1) two-party negotiations between existing joint venture partners; 2) centers with capital structure issues where buyers contributed minimal equity capital, at least initially; or 3) lower-quality malls where the purchase price is more representative of residual land value than the value of a going-concern retail center. All these factors somewhat muddy the pricing readthrough of the transactions to other comparable quality assets.

Macerich’s ([MAC](#)) acquisition of the 100% interest in [Crabtree Mall](#) (A-, Raleigh, NC) on June 24<sup>th</sup> for \$290 million at a low-11% adjusted stabilized cap rate was the culmination of a full marketing process for the center that featured crowded bidding tents, especially among private equity players, offering one of the “cleaner” comps of late. Crabtree has many attractive features, such as robust sales productivity of \$951/s.f. and a Dick’s House of Sport opening soon in a vacant anchor box. There are also nuances with Crabtree, such as deferred capex needs and more prohibitive/expensive secured debt options given the value-add nature, but it is still surprising that no bidder was willing to go to a high-single-digit cap rate to win given **Green Street’s view that the Crabtree deal, and A-/B+ malls broadly, offer attractive unlevered expected returns at low-double-digit cap rates.**

Prior to this transaction, we ascribed a high-8% nominal cap rate to Crabtree, which was near the low-end of our 8.5% to 11.5% cap rate range for ‘A-’ graded malls. It now seems unlikely that any ‘A-’ mall would trade at a single-digit cap rate. Accordingly, **we are herein increasing our cap rates by ~125 basis points on average for ‘A-’ malls to 11.2% and by ~150 basis points on average for ‘B+’ malls to 13.8%, which equates to a ~10% decline in value. We are also raising our estimated cap rates more modestly for ‘A’ and ‘B’ graded malls, equating to a ~5% decline in value. Cap rates for ‘A++/A+’ malls and ‘B-’ and below malls are unchanged.**

## Crabtree Mall Overview and Transaction Summary

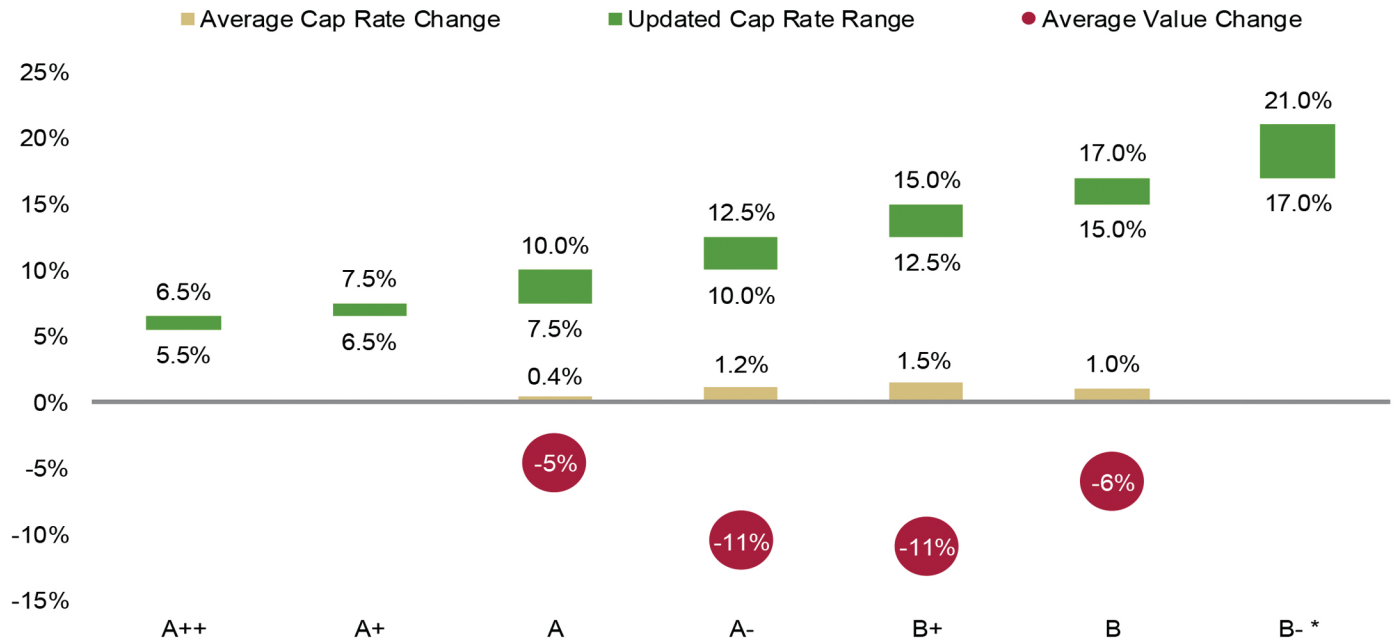
Crabtree is located approximately five miles north of downtown Raleigh in a strong demographic trade area, sporting a TAP score of 89, which is a measure of demographic strength on a scale of 1 to 100. The only other high-quality mall in the market is [The Streets at Southpoint](#) (A+, Brookfield) that resides ~20 miles to the west, closer to Chapel Hill. Crabtree has a dated aesthetic and deferred maintenance that will both be addressed as part of Macerich’s \$60 million



### Exhibit 1: Mall Cap Rate Changes and Unlevered Return Expectations

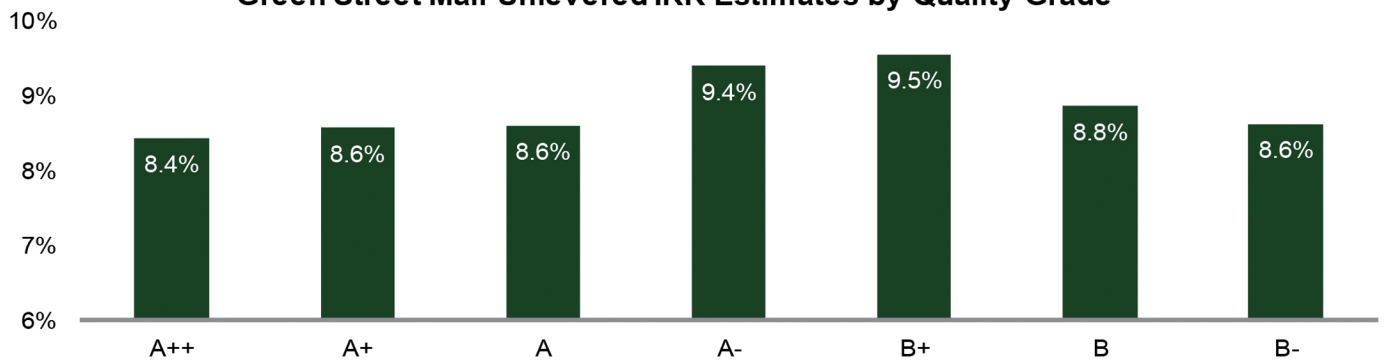
**Still Out of Favor:** Estimated mall cap rates are herein increased for malls graded ‘A’ to ‘B’ based primarily on the Crabtree comp. Expected unlevered returns at current estimated pricing are attractive for malls across the quality spectrum but especially so for those graded ‘A-’ and ‘B+’.

**Green Street Mall Cap Rates by Quality Grade**



\*Malls graded 'B-' and below often trade at residual land value, not on a cap rate basis for going concern retail

**Green Street Mall Unlevered IRR Estimates by Quality Grade**



**Key Underwriting Assumptions**

Avg. Nominal Cap Rate	5.8%	7.0%	8.3%	11.2%	13.8%	16.0%	19.0%
Cap-Ex (% of NOI)	15%	18%	21%	24%	24%	28%	25%
Near-Term NOI Growth	4.5%	4.0%	3.0%	1.5%	0.0%	-1.5%	-3.5%
Long-Term NOI Growth	3.2%	2.5%	1.7%	0.5%	-1.5%	-3.5%	-7.5%

- **Woodfield sold a 100% interest to The Clute Co., Los Angeles for \$127 million at a 10% cap rate in December '24 to a private buyer with redevelopment ambitions. The Clute has struggled to meet goals largely due to strengthening nearby competition from **Woodfield Square** (2022) that recently completed a multi-million-dollar renovation.**
- **Centennial and other 100% RE acquired **Amesbury Mall** (20, 200,000 sq ft) from United Business Woodfield (UBW) in September '24 for \$100 million. A transaction cap rate was not disclosed but was rumored to be in the low teens.**

### Why Attractive Returns for Malls Exist

There are no free lunches in private commercial real estate investing but there appears to be attractive opportunities in the mall space today. This is especially true among 6' and 8' malls – centers that are not the obvious retail hub one typically thinks and should deliver roughly flat-to-slow growth over the long term if the property receives an adequate amount of investment capital to remain competitive, which should produce above average returns (RRs) at low double-digit weighted cap rates. There are several likely explanations as to why attractive returns are available in malls.

- **Operational expertise is required.** Malls are an operationally intensive sector where a landlord's pre-existing tenant relationships, or lack thereof, can have a material impact on leasing. Retailers open new locations with the mindset that the store will remain open over the long term, likely well beyond the term of the initial lease. A growing trend is much more likely to occur in a mall than in other commercial real estate sectors. This dynamic can potentially lead to a property's inability to attract new tenants, which can significantly impact a mall's ability to achieve a center's full potential. It also gives the REITs and larger private players a significant advantage when pursuing acquisition opportunities. For example, private buyers for Centennial likely could not reasonably underwrite the same – \$40 million of 100% RE as Woodfield could.
- **Many institutional investors, particularly those with lower costs of capital, remain bullish on malls following prior round-trip investments made during the mall heyday in the mid-2000s.** Only a decade ago, malls were the bulk of the full, opening wave of the lowest cap rates among all commercial real estate property types. Since that time, the rise of e-commerce, followed by the pandemic, have resulted in steep value declines for high-quality malls that have been more pronounced than many other major property sectors. Since the beginning of '24, Green Street's Mall Commercial Property Price Index (CMPI) is down 30%, marginally more than the 24% drop in the Office CMPI over the same period. Many lower cost of capital investors, such as pension and sovereign wealth, are

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will bring their proceeds from prior mall investments and are not actively pursuing new opportunities.

- Increased debt markets have improved, but rates will be expensive for value-add opportunities.** Mortgage markets have been accommodative for roughly equal for several years, as evidenced most recently by [Woodfield Centers LLC](#) (100+), Los Angeles, CMRT pricing a fixed rate, five-year \$500 million CMRT loan on July 27<sup>th</sup> at a coupon of 2.25%, representing a 100 basis point spread to the five-year Treasury. Also in the past week, CMRT loan received by [Cross Creek Mall](#) (100+), Portland, OR at a 2.25% coupon rate, representing a 100 basis point spread to the five-year Treasury. The market has value premiums of 100-150bps, is well accepted, and has no under capacity. Cross Creek Creditors has significantly higher rates and a higher quality grade than Cross Creek. Feasibility for many potential buyers was more challenging due to its value-add nature (deferred capex, potential losses used to increase debt service), according to conversations with market participants. Private equity buyers for Creditors did not view CMRT debt as a viable option and likely would have pursued financing via higher rate debt bank out of necessity.

Contact us to uncover more insights.

### REIT Estimate Changes and Investment Recommendations

Our REIT NAV estimates are broadly updated for higher mall cap rates. Under cap rates across the quality spectrum are unchanged as there is little real through between mall and value transactions of similar quality. Shores's portfolio cap rate is increased 100 basis points to 7.0%, resulting in a 0% decline in the REIT's NAV estimate to \$21.00/csh. Shores's portfolio cap rate is increased 100 basis points to 8.0%, inclusive of the pro forma adjustment for selling Creditors (the portfolio cap rate would be up 100 basis points solely due to revised mall cap rates), resulting in a -0% decline in the REIT's NAV estimate to \$21.00/csh. Shores's earnings estimates have also been updated to incorporate the accretive nature of the Creditors transaction, raising near-term FFO estimates by +0% and our 12-M FFO estimate by +0% when the acquisition unfolds. Our 12-M FFO estimate is now \$1.00/csh, or +0% higher than the company's target of \$1.00/csh prior to the Creditors deal. Please see the [Company Analysis](#) section of our platform for earnings estimate details. Target's [NAV](#) is unchanged at \$21.00/csh using a 7.0% portfolio cap rate.

**Our REIT investment recommendations are unchanged.** We maintain a BUY recommendation on Shores due to increasing conviction the REIT will successfully execute on its turnaround plan, which should warrant a stable or rising share price, a HOLD recommendation on Shores, and a BUY recommendation on Target based on relative valuation (lower implied EV plus similar NAV premium), forecast depth as retained cash funds.

To further elaborate on the Shores's valuation, the REIT is currently trading near NAV, as is Shores and Target, which does not appear to present a compelling opportunity on its surface.

However, Macerich should begin producing retail-sector-leading same-property NOI and FFO growth beginning in late '26 when the company's remerchandising strategy bears fruit and the large signed-but-not-open leasing pipeline begins coming online in a material way. NOI and earnings growth should remain outsized through '29 before operating results normalize. To quantify, the current estimated NOI CAGR for '26-'29 is ~6% for MAC versus high-3% for SPG/SKT and the FFO/sh growth CAGR over the same period is ~9% for MAC versus mid-single-digits for SPG/SKT. On our current '28 FFO estimates (management's target completion date of the turnaround plan), Macerich is trading at ~9x multiple versus both Simon and Tanger at ~12x. On an implied cap rate basis, Macerich is trading ~100 basis points outside of Simon, which is wider than the long-term average. As Macerich makes further progress on its leasing and delevering goals, these valuation spreads to peers should tighten.

[The mall sector is attractively priced for long-term investors in the public market](#) versus other REIT sectors. Macerich is the most attractive mall REIT at current pricing, but we also recommend overweighting Simon versus the REIT index.

**BUY:** 

**HOLD:** 

**SELL:** 

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