



Green Street

Strip Center Sector Update

Rising Above Economic Noise

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August 20, 2024



Executive Summary

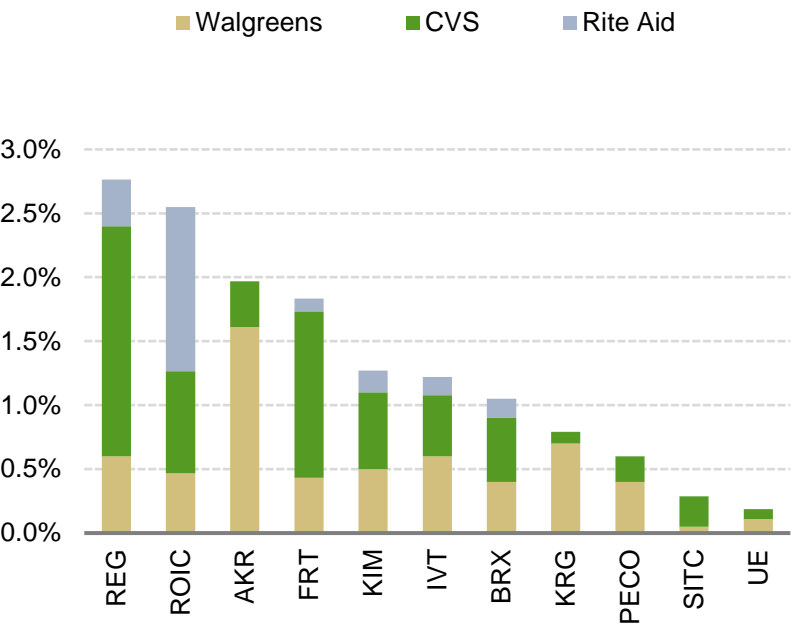
Retail Backdrop	<ul style="list-style-type: none">While higher interest rates are taking a toll on the economy, a 'soft landing' remains the base case scenarioRetail and food sales year-to-date have been resilient, keeping pace with inflationRetailers specializing in value and off-price are generally showing better sales trends, but exceptions abound
Sector Fundamentals	<ul style="list-style-type: none">Retailer interest in strip center space remains strong, with no signs of easing upIn 2Q24, the leased rate across REIT portfolios averaged a peak level of ~96%, increasing YoY and QoQThe strength of retailer demand spans store sizes, but the rise in small shop occupancy has been notableTenant disruption so far into '24 has been minimal, as reflected by subdued bad debt chargesStrip center new supply as % of the stock is set to be lowest among traditional sectors – great news for landlordsStrip center '24-'28 M-RevPAF CAGR is driven largely by expected rent growth'24 same-property NOI growth estimates are up 30 bps on avg. to mid-3%; '25 largely unchanged at ~4%
Balance Sheet	<ul style="list-style-type: none">Balance sheets are sound, with average leverage at approximately 35% and debt-to-EBITDA of ~5.5x
Asset Values & Recs	<ul style="list-style-type: none">Institutional investors' interest in strip centers seems to be on the riseCap rates outside gateway markets are hereinREIT NAVs are on average, ranging fromStrip centers are fairly priced both in the private and public marketsStock recommendations are herein unchanged and highlighted below

Investment Recommendations:	<div>BUY:</div> <div>HOLD:</div> <div>SELL:</div>	Authors:	Paulina Rojas Schmidt Daniel Purpura
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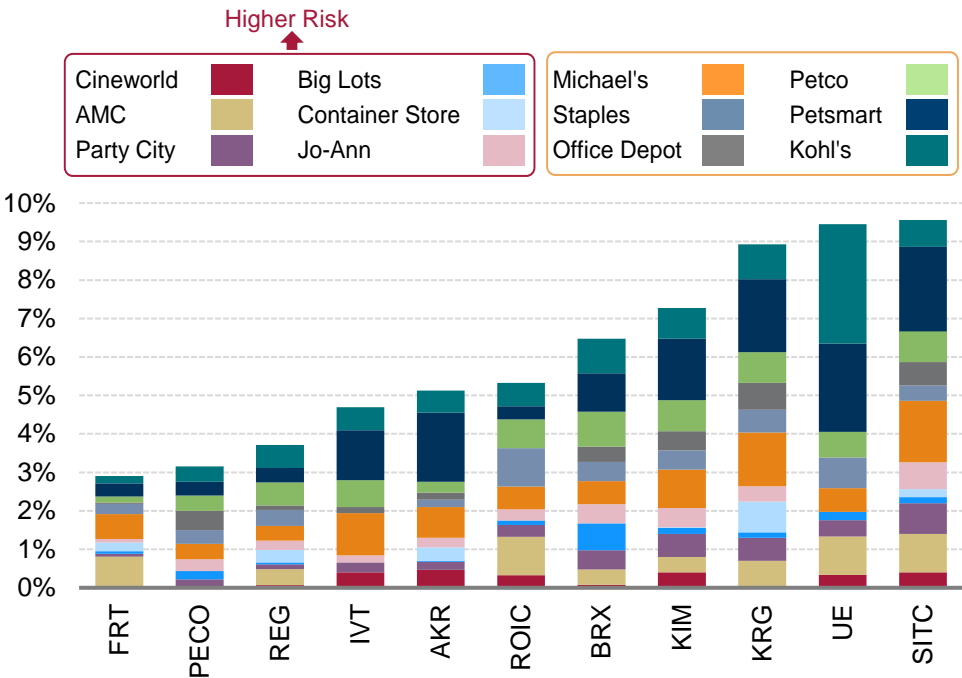
Demand: Troubled Retailers

Not Breaking Yet: Tenant disruption so far into 2024 has been minimal, as reflected by subdued bad debt charges across REIT portfolios. While tenant watchlists are shorter than usual, some tenants are facing challenges. The vast majority of them are not on the verge of bankruptcy but may still decide to close stores. For example, [Walgreens](#) revealed in June a plan to close a substantial number of stores over the next three years, indicating the current pharmacy model was, overall, not sustainable.

Estimated Drugstore Exposure
(% of ABR)



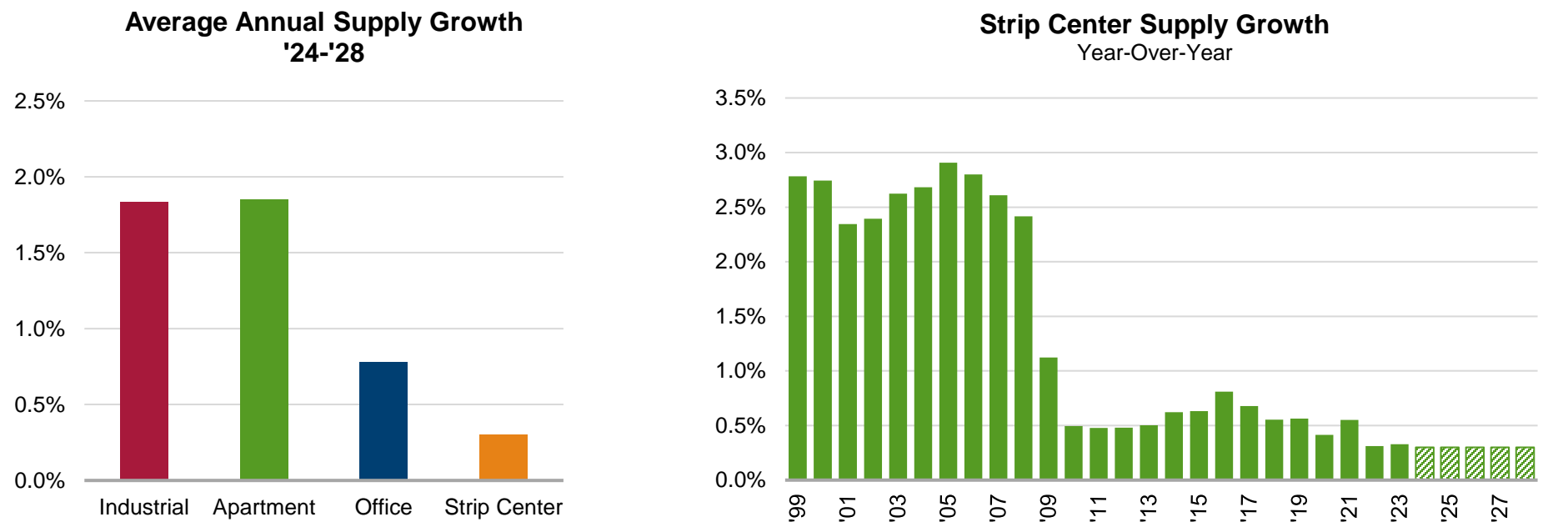
Exposure to Other 'At Risk' Retailers as % of ABR



Source: Company disclosure, Green Street.

U.S. Strip Center Supply Forecast

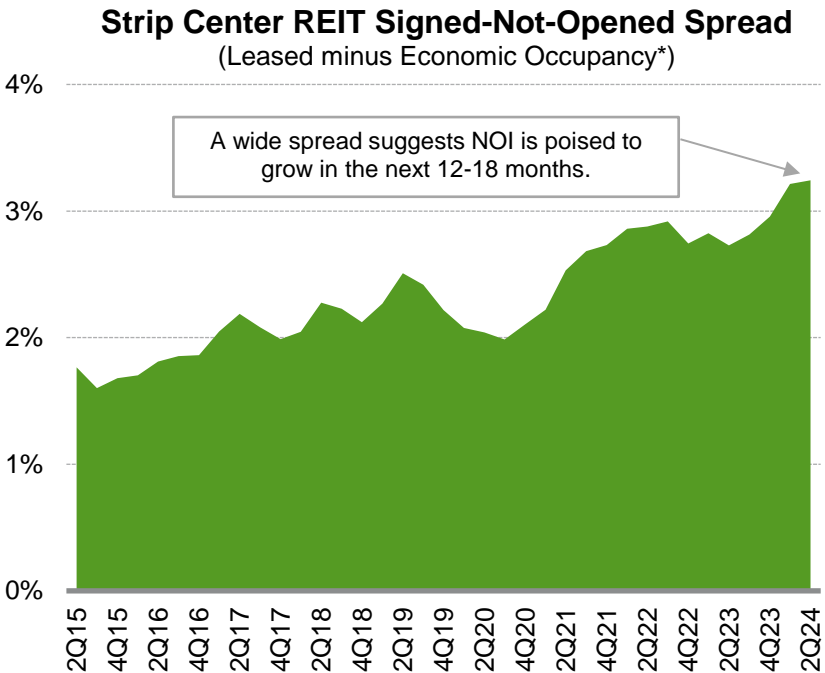
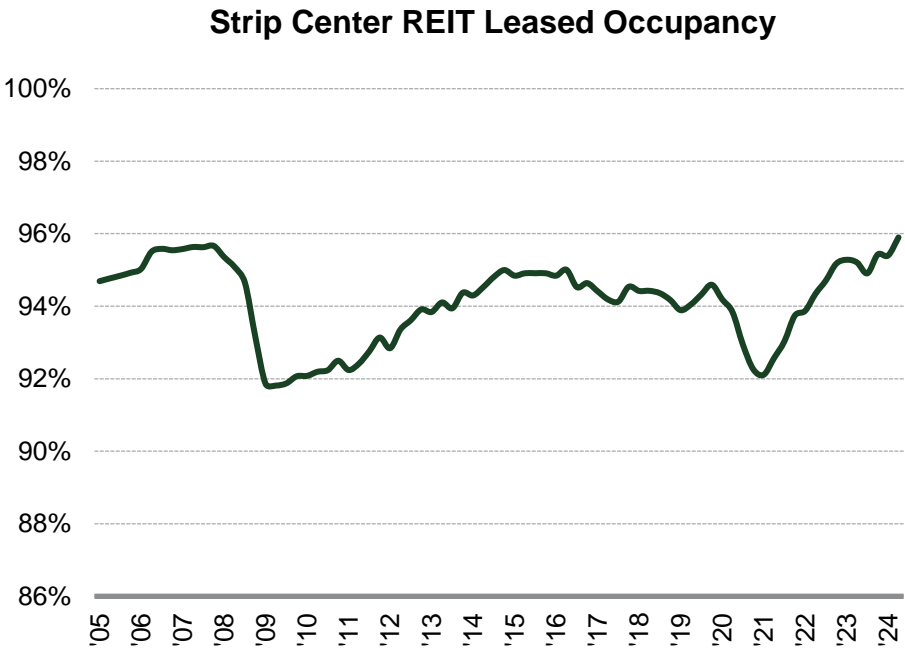
Limited Outsider Competition: Between 2000 and 2008, strip center new supply as a percentage of the total stock averaged a hefty ~2.5% per year. However, following the Great Financial Crisis, new developments became scarce, setting the stage for the strong fundamentals observed today. Looking ahead, strip center development starts are expected to average just 0.3% of the existing stock annually between '24 and '28, the lowest level among traditional sectors, which is fantastic news for strip center owners.



Source: Green Street

Occupancy Rates

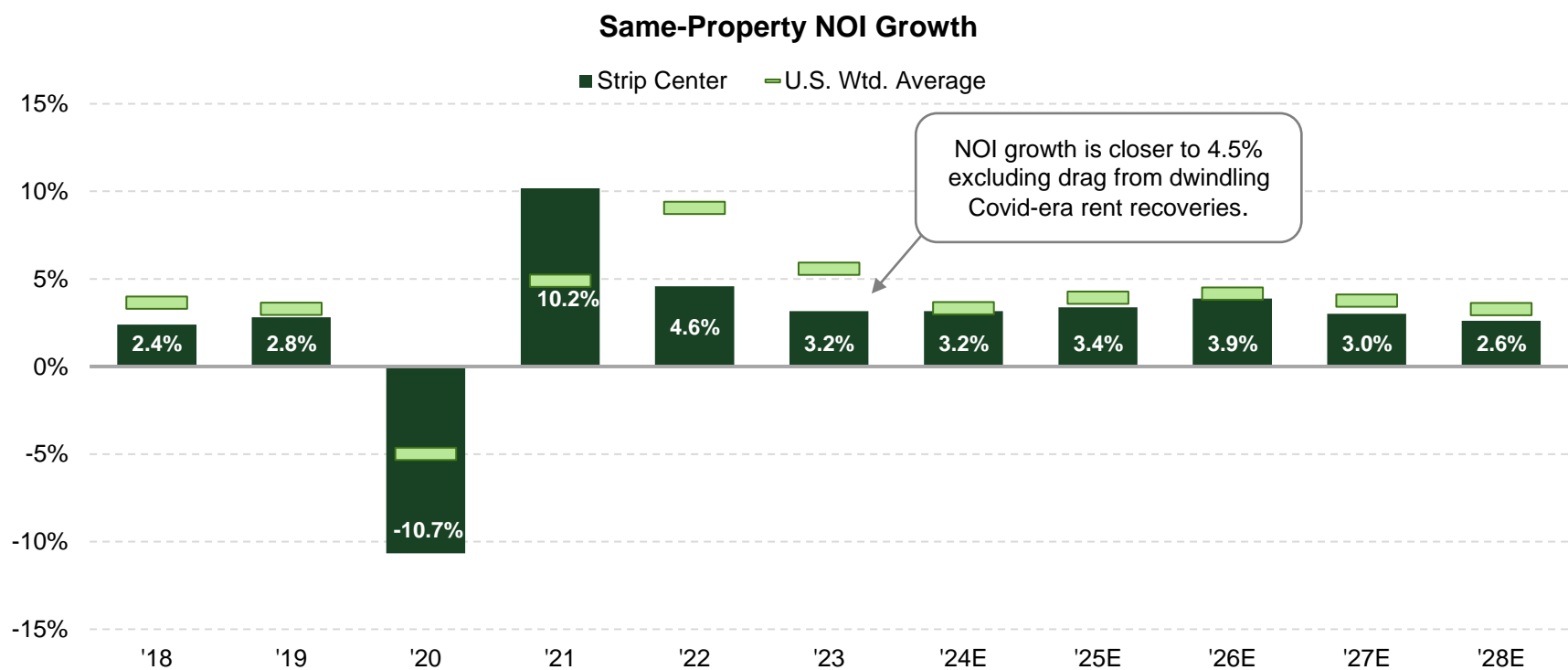
No Indication of a Slow Down: Retailer interest in strip center space remains strong, with no signs of easing up. In 2Q24, the leased rate across REIT portfolios increased both sequentially (+50 bps) and on a year-over-year basis (+70 bps), averaging a peak level of ~96%. The backlog of leases signed and set to commence in the next 12-18 months was stable vs. 1Q24 but at historically high levels, which bodes well for future NOI growth.



* Economic occupancy only includes commenced/billed leases, while leased occupancy also incorporates leases signed but set to commence over the following months.
Source: Company disclosure, Green Street.

NOI Outlook: Sector-Level Forecasts

Growth Above Historical Trend: Over the next five years, same-property NOI is expected to grow at an average rate in the low-3% range, above the long-term historical norm for the sector of ~2.5%. Strip center NOI growth is projected to largely match the average of other real estate sectors after lagging the group significantly in the last few years.

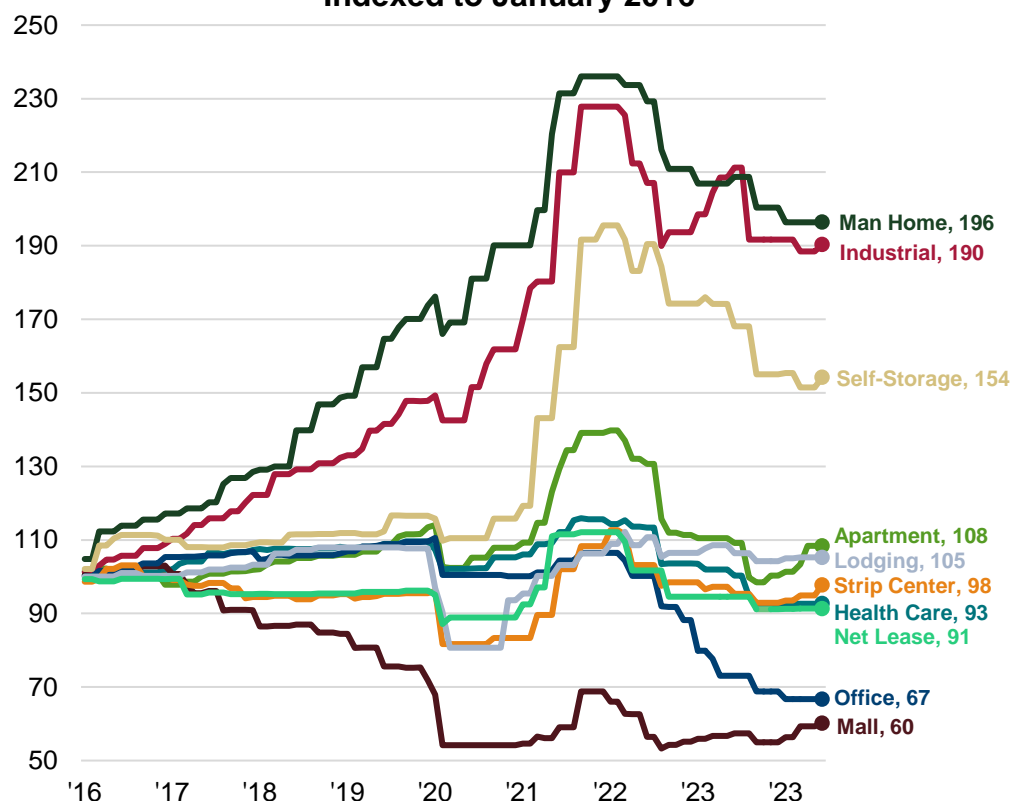


Source: Company disclosure, Green Street.

Asset Values

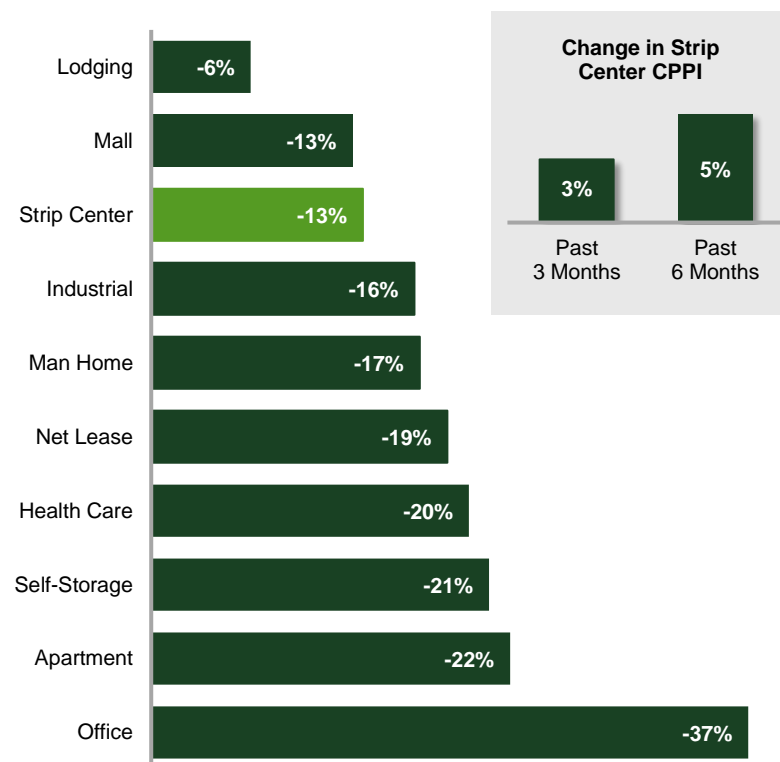
Slight Nudge Up: Green Street's Strip Center Commercial Property Price Index (CPPI) is up ~3% from three months ago, with higher NOI and lower cap rates each contributing roughly half to the increase. Values are down ~13% since the valuation peak in March '22.

**Green Street Commercial Property Price Indexes
Indexed to January 2016**



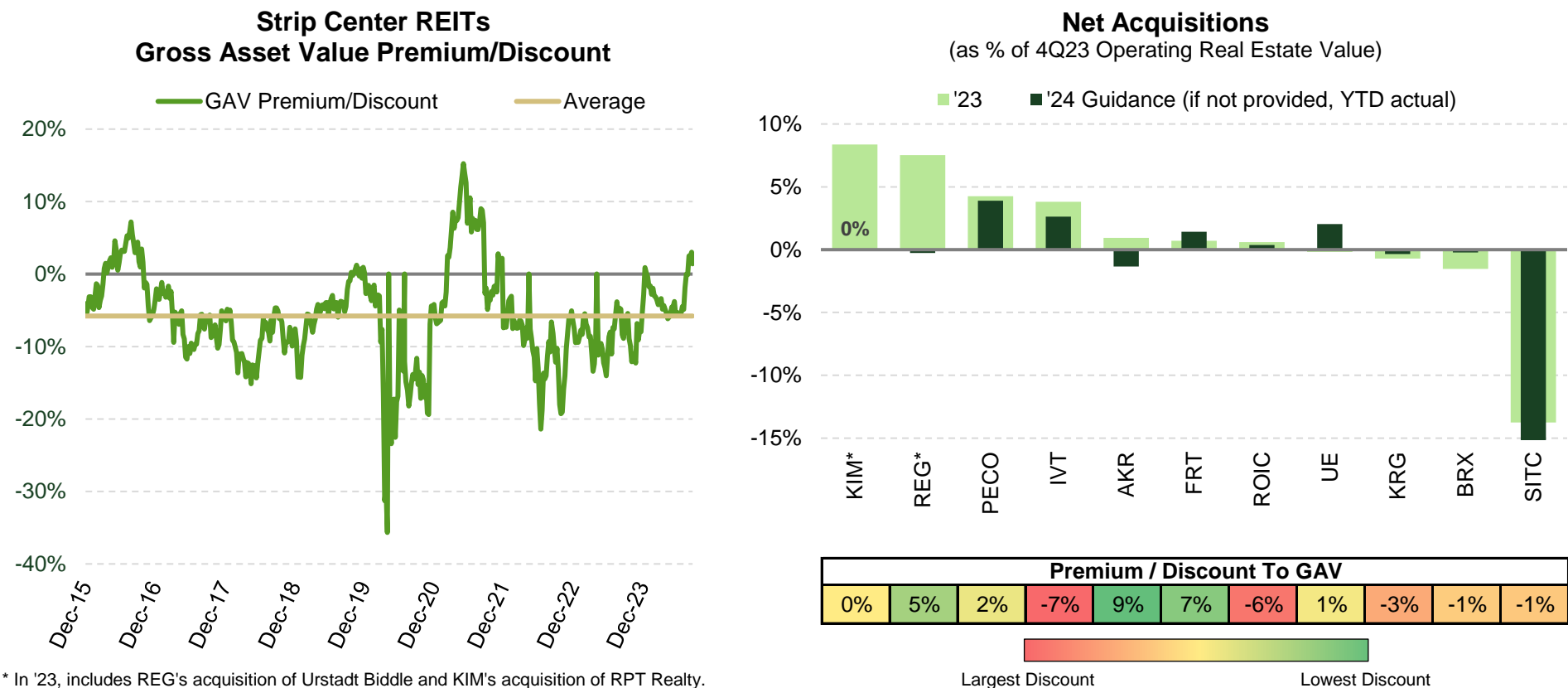
Source: Green Street

**Change in Private Market Value
Since '22 Peak**



Capital Allocation

Public Market ~ Private Market: So far into '24, REITs have not materially grown or shrunk their portfolios, except for Site, which has sold over ~15% of its assets as it prepares to shift its focus to convenience centers. This year, Phillips Edison, InvenTrust, Federal Realty and Urban Edge have expanded their asset base by 1% to 4%. Of the four, only Federal trades at a relatively material GAV premium. On average, strip centers trade roughly in line with private market values.



* In '23, includes REG's acquisition of Urstadt Biddle and KIM's acquisition of RPT Realty.

Source: Company disclosure, Green Street.

Strip Center Sector Update

August 20, 2024
Data: 4Q 2023 | RUC: 1.38% | 10-Year T-Bill: 3.87%

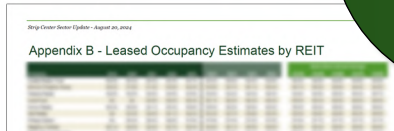
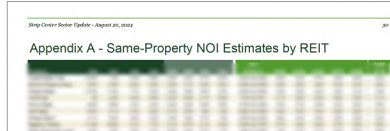
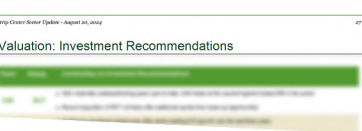
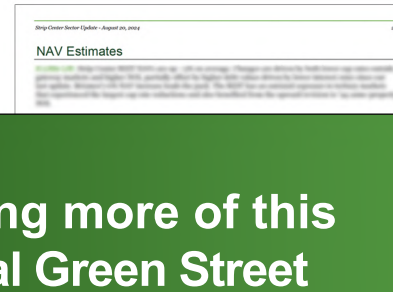
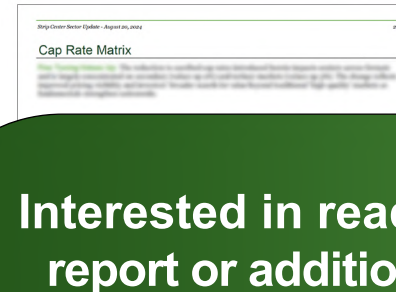
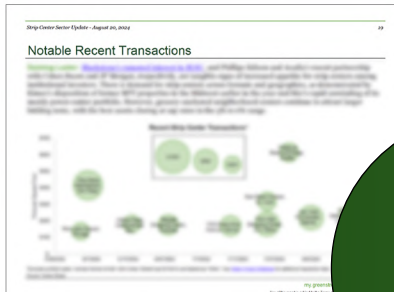
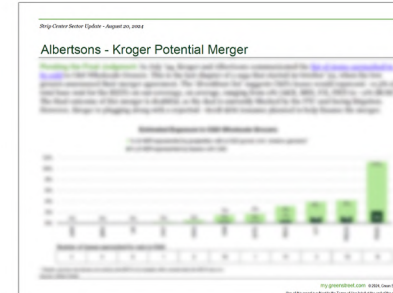
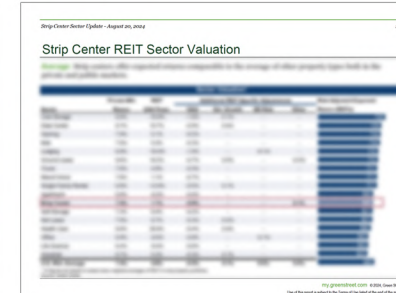
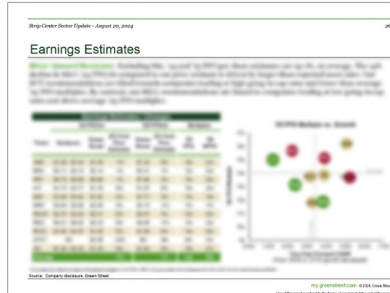
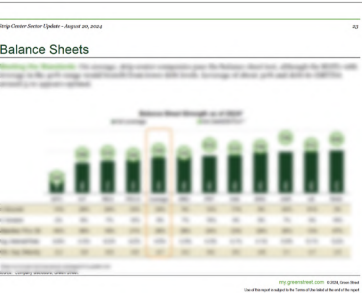
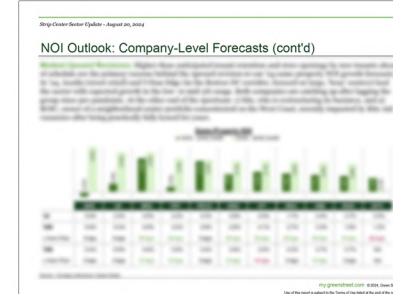
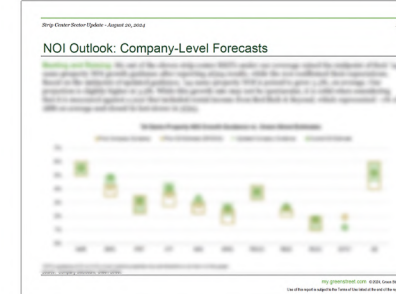
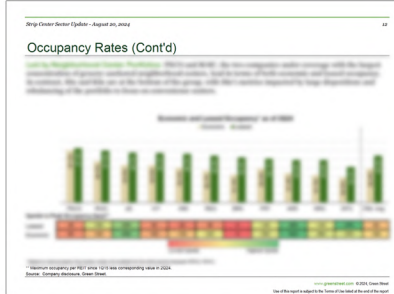
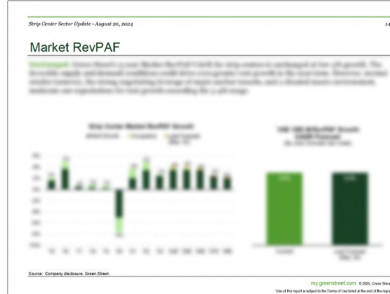
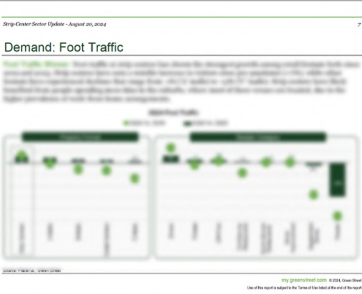
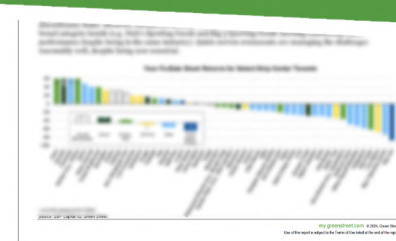


Rising Above Economic Noise



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Quarter in Review



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- ☐ Annual Sector Outlook
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Property Sectors

- ☐ Apartment
- ☐ Cold Storage
- ☐ Data Center
- ☐ Gaming
- ☐ Ground Lease
- ☐ Health Care
- ☐ Industrial
- ☐ Life Science
- ☐ Lodging
- ☐ Mall
- ☐ Manufactured Home
- ☐ Net Lease
- ☐ Office
- ☐ Other
- ☐ Self-Storage
- ☐ Senior Housing
- ☐ Single-Family Rental

Market Grade

Metric	Current	Rank of 50
Avg. Effective Rents	\$1,300	26
Occupancy	93.8%	46
YOY M-Rev/FAF Growth	6.7%	23

Job Growth
2.5%
Rank: 6 of 50

Supply Growth
6.1%
Rank: 50 of 50

Desirability Index
A+

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