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## Retail Property Sales Trends Dismal; But Recent Activity May Signal a Thaw

### *Fourth Quarter Activity Shows Sellers are Increasingly Willing to Come Down to Buyers' Price Expectations*

Recent significant sale transactions in the retail property sector may be pointing to a recharging of investment sales activity for 2009. What remains to be seen is if the buyers making moves now, "may be acting ahead of the real estate market's trough," as Kenneth Bernstein, Acadia Realty Trust president and CEO, commented on the company's January purchase of a Centro Properties Group shopping center.

This week we focus on recent sales activity examined against the backdrop of retail property sale statistics and trends (transaction activity, volume, price per square foot, cap rates, time on market, sale price/asking price ratios) from the third quarter 2008 as well as more recent months including year-end transactions that continue to funnel into CoStar COMPS.

CoStar's Year-End 2008 National Retail Report, which provides comprehensive statistics for national and local retail real estate trends, is now available to subscribers under the Analytics / Market Reports headline on the CoStar Control Panel. For non-subscribers, the report can be purchased via CoStar's Yahoo Store by following this link. In addition to covering national retail vacancy, rent, construction and leasing trends (see last week's CoStar Advisor retail story for details), the report provides retail investment sales trends for third quarter 2008.

#### KEY RETAIL PROPERTY SALE STATISTICS/TRENDS

The following statistics are based on an analysis of information derived from CoStar COMPS using the "Quick Stats Report" option available in the print reports module. The figures encompass all retail property types, buildings 15,000 square feet or larger, across the 63 major markets that CoStar tracks. Portfolio transactions involving mixed property types, as well as transactions where the sale price was not disclosed, were excluded.

#### TRANSACTION ACTIVITY & SALES VOLUME

During third quarter 2008, the number of closed retail property sale transactions (732) was down a bit in comparison to second quarter (750). However, both total sales volume (\$5.2 billion, up 6.6%) and the average price per square foot (\$120.58, up 4.5%), were up over the previous quarter.

With third quarter 2008 being recognized industry-wide as generally "frozen" in terms of credit availability, a nearly 7% increase in sales volume seems hard to believe. This seems more possible, however, when we consider that sales of shopping centers, which are more widely publicized due to generally higher sale prices, accounted for only 6.3% of that total third quarter sales volume. Sales of freestanding retail buildings, continued to buoy the market during third quarter.

And while it's no secret that retail property sale activity is "way down" in comparison to 2007, just how down is it?

During the first nine months of 2008, nearly 2,300 retail property sale transactions closed, for a total sales volume of \$16.8 billion -- the number of closed transactions was down 25.5%, while total sales volume was down 40%, in comparison to the first nine months of 2007.

This phenomena is even more drastic when we look solely at shopping sale transactions; in fact, the

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figures are staggering. During the first nine months of 2008, 236 shopping center sale transactions closed (80.3% less than the same period in 2007) for a total sales volume of \$1.61 billion (89% lower than the same period in 2007).

With the caveat that fourth quarter 2008 retail property sale transactions continue to be recorded through the first quarter of 2009, retail property sales activity for all of 2008 is shaping up to look like more of the same dismal trends.

For all of 2008, 2,839 retail property sale transactions have closed, which includes 258 shopping center sales. In comparison to 2007, retail transaction activity as a whole is down about 30%, while shopping center transaction activity is off a whopping 81%.

In terms of total sales volume, retail property sales have amounted to \$20.16 billion, with shopping center sales accounting for only 8.5% of that total. In comparison to 2007, total retail sales volume is down 43%, while shopping center sales volume is down a sobering 90%.

#### AVERAGE CAPITALIZATION RATES

During the retail investment sales boom times of 2006 and 2007, cap rates of 5% to 6% were not uncommon; these days, they are the exception to the rule. As a general rule, the actual capitalization rate (defined as the property's annual net operating income at the time of sale/closing sale price) a retail property trades for, has been on the rise since first quarter 2007. Any significant change, however, didn't appear until the last few months -- the average retail property buyer is just now seeing some risk relief on the cap rate side.

For all retail property types, the average actual cap rate is at 8.01% for transactions closing during fourth quarter 2008, which is up 57 basis points over the third quarter 2008 average of 7.44%, and 78 basis points higher than the low 7.23% average recorded during second quarter 2007.

Shopping centers have recorded an even wider spread. The average actual cap rate is at 8.65% for transactions closing during fourth quarter 2008, which is up 105 basis points over the third quarter 2008 average of 7.6%, and 145 basis points higher than the low 7.2% average recorded during first quarter 2007.

#### TIME ON MARKET

CoStar tracks the length of time a property for sale spends on the market, from listing to closing, which is a very important measure of the level of buyer interest. In addition, it is an indicator of how far apart sellers' and buyers' expectations are, as time spent in negotiation is factored in.

The average time a retail property spends on the market has increased fairly consistently over the past two years. Retail property that sold during 2008 had been on the market for an average of 277 days, which compares to an average of 232 days during 2007.

Shopping centers appear even less desirable, as they spend even more time on the market and have also experienced a more drastic increase in this parameter. In fact, shopping centers that sold during 2008 had been on the market for an average nearing one year -- 347 days, which is up from an average of 206 days during 2007.

#### SALE PRICE PER SQUARE FOOT & SALE PRICE/ASKING PRICE RATIO

Buyers' response to the volatile retail tenant stability created during 2008 has been unequivocally demonstrated by statistics showing that retail property is selling for a lower average price per square foot, and at a lower sale price/asking price ratio, than the market has seen in a long time.

The average price per square foot of a retail building sold hit a high of \$144.13 during second quarter

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2007. Since, the average has been declining fairly consistently, to a current average of \$106.69 per square foot during fourth quarter 2008.

The average price per square foot of a shopping center sold was at a high \$159.03 during first quarter 2007. Since, the average has declined fairly consistently, to a current average of \$80.62 per square foot during fourth quarter 2008.

The average sale-to-asking price ratio for a retail building sold has hit a low 85% during fourth quarter 2008, which compares to an average of 94.3% during 2007.

For shopping centers sold, the average sale-to-asking price ratio is a little more positive. During fourth quarter, shopping centers have been selling for an average 91.2% of the asking price, which compares to an average of 95.7% during 2007.

### **RECENT RETAIL PROPERTY SALE ACTIVITY**

With cap rate risk beginning to ease, and retail property owners finally starting to show the willingness to meet buyers' expectations in terms of sale price (which in some cases is a function of distressed ownership in this economy), some recent transactions have been widely publicized, sparking opinions that retail property sales activity may be starting an upward climb.

To see if this is a thought that can be supported by statistics, we've taken a look at the number of closed retail property sale transactions recorded on a monthly basis, back to October 2008:

October 2008: 171 transactions, including 69 shopping center sales  
November 2008: 139 transactions, including 52 shopping center sales  
December 2008: 214 transactions, including 76 shopping center sales  
January 2009: 70 transactions, including 29 shopping center sales

The uptick already showing in December sales activity, when considering that new sales comps will be regularly added to the month throughout first quarter, is promising. Likewise, 70 transactions already recorded in January 2009 is a good sign. Of particular note is an uptick in higher-priced shopping center sales. Take note that relatively stable REIT, Inland, as well as debt-stressed Centro Properties Group, have been particularly active as of late.

### **RECENT LARGE TRANSACTIONS**

**Centro Sells 99% Occupied Connecticut Shopping Center for \$1.3M Less Than 2004 Acquisition Price**

Most recent is the yet-to-be verified sale of the New London Mall. Reportedly, Centro Properties Group and J.P. Morgan sold the 260,000-square-foot shopping center, located in New London, CT, to Cedar Shopping Centers for \$40.7 million, or \$156.54 per square foot. Cedar assumed an existing \$24.7 million loan on the property, which was 99% occupied at the time of sale. The transaction closed with a 7.7% cap rate, but the sale price is \$1.3 million less than J.P. Morgan and New Plan (acquired by Centro in 2007) paid for it in March 2005. This transaction shows that Centro is willing to sell even its solidly-performing centers at a discount.

For more information, see CoStar COMPS ID# 1644767.

**After 10 Months of Marketing, Voice Road Plaza Sells for \$36.225M, \$275 PSF, Published Feb. 2, 2009**

An undisclosed New York-based hedge fund closed Jan. 2, 2009 on the \$36.225 million sale of Voice Road Plaza, a 131,850-square-foot community shopping center located in Carle Place, NY on Long Island, to an undisclosed New York-based private investment group. At the time of sale, the center was 98.8% occupied and the annual net operating income was \$2.8 million; the property sold at an 8% cap rate. The

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White Plains, NY office of Sperry Van Ness ("SVN"), which represented the seller, said the center was marketed for nearly 10 months.

SVN's Joseph French, CCIM, said the sales was the "most difficult" his team had ever completed. "The property was acquired at the market peak in December 2006. Since then, the economy has declined with disappearing liquidity and diminishing consumer confidence. The owner needed an exit strategy and listed it at the beginning of the recession. The major obstacle was the existing mortgage, which required an assumption. Due to its low loan-to-value, a significant amount of capital was required to complete this transaction, which drastically limited the pool of potential buyers." Note: The Dec. 2006 acquisition price was \$35.35 million.

For more information, [click here](#) to read the full story, or see CoStar COMPS ID# 1642040.

Centro Sells Power Center to Acadia for \$78M; 40% Discount, published Jan. 29, 2009

Acadia Realty Trust (NYSE:AKR) acquired Cortlandt Towne Center, a 640,000-square-foot regional shopping center located in Cortlandt, Westchester County, NY, for \$78 million from Centro Properties Group. At the time of sale, the center was 85% occupied and the buyer reported \$7 million in net operating income.

Acadia said the \$78 million purchase price, which equates to \$122 per square foot, represents a 40% discount to the center's replacement cost. Acadia's president and CEO, Kenneth Bernstein, said the REIT "may be acting ahead of the real estate market's trough," but added the company is confident in its purchase due to the center's "great price," remaining category-leading tenant mix and high barrier-to-entry location.

For more information, [click here](#) for the full story or see CoStar COMPS ID# 1642699.

Inland American Acquires Grocery-Anchored Portfolio for \$71.1M; First Phase of \$427M Transaction, Published Jan. 27, 2009

Inland American Real Estate Trust closed on the \$71.1 million purchase of a 588,522-square-foot, seven-property shopping center portfolio on January 14, 2009.

In a Jan. 27th press release, the seller, Australia-based Macquarie CountryWide Trust, said this deal is the first phase of a larger portfolio transaction, under which Inland American will acquire 30 U.S. shopping centers from Macquarie for \$427 million. Macquarie said the portfolio's sale price represents a 12% discount to the original cost base of the assets. The sale of the remaining 23 assets is expected to close by the end of March 2009.

For more information on this transaction, [click here](#) for the full story, or see CoStar COMPS ID# 1640588.

J.S. Rosenfield Acquires Larkspur Landing from Inland for \$65M, Published Jan. 26, 2009

J.S. Rosenfield & Co. recently acquired Larkspur Landing, a 172,443-square-foot shopping center located in Marin County, Larkspur, CA, from Inland Western Retail Real Estate Trust for \$65 million. The sale price is only 3.85 million more than Inland spent to acquire the property four years ago. At the time of sale, the neighborhood center was 70% to 80% leased.

For more information on this transaction, [click here](#) for the full story or see CoStar COMPS ID# 1635754.

Inland American Acquires Lifestyle Center For \$61.6 million, Published Jan. 26, 2009

Inland American Real Estate Trust acquired the Streets of Indian Lake, a 235,144-square-foot lifestyle center located in Hendersonville, TN, from Continental Real Estate Companies for \$61.6 million on Dec. 5, 2008. The center was 91% occupied at the date of acquisition. Inland paid \$20.8 million in cash and assumed a \$40.8 million first mortgage from the seller. Inland also agreed to acquire an additional 21,249 square feet of the currently vacant space at the shopping center for \$8 million at a later date.

For more information, [click here](#) for the full story, or see CoStar COMPS ID# 1638534.

Centro Sells Six Shopping Centers for \$22M, Published Jan. 21, 2009

HT Group acquired five shopping centers, which are located in Tennessee and total 320,372 square feet, for \$12 million, or approximately \$37.46 per square foot from Centro Properties Group. The transaction was financed with a \$9.7 million loan from Atlantic Capital Bank.

Gator Investments acquired Harwood Central Village, an 119,742-square-foot neighborhood shopping center in Bedford, TX from Centro for \$10 million, or approximately \$83.51 per square foot. At the time of sale, the center was 84% occupied. The buyer assumed the existing loan on the property.

"Each of the properties sold at valuations above those that were sought by the seller back in July 2008, despite the fact that the current financial crisis forced many sellers to significantly lower their valuations," said NAI ReStore president & CEO David Solomon, who facilitate the transactions.

For more information on these transactions, [click here](#) for the full story, or see CoStar COMPS ID#s 1638079 and 1632181.

Glimcher Sells The Great Mall of the Great Plains for Only \$20.5M, Below Mortgage Amount, Published Jan. 7, 2009

On January 5, 2009, Glimcher Realty Trust sold the 782,038-square-foot enclosed regional mall, The Great Mall of the Great Plains, located in Olathe, KS -- a suburb of Kansas City.

The REIT sold the center to a group lead by local third party leasing and management company, Block & Company, for \$20.5 million. The sale price was well below the \$30 million mortgage Glimcher carried on the property. Block said The Great Mall's original building cost was \$137 million in 1997.

As of the end of 2007, The Great Mall was nearly 20% vacant and brought in average sales per square foot of \$172 - well below Glimcher's productivity average and the lowest producing mall in its portfolio. Since, anchor tenant Steve & Barry's has closed its store.

Please refer to CoStar COMPS #1630757 for more information on this transaction.

(Editor's Note: To keep up on happenings and trends in retail real estate, subscribe to CoStar's Retail News Roundup, a weekly column covering retailer expansions and new concepts, store closings, bankruptcies, cutbacks, acquisition, mergers, sales. new shopping centers, personnel changes, and sustainability. Follow this link for access to back issues of the roundup. In addition to appearing every week in the national news and retail news sections of our web site, you may also receive the Retail News Roundup for free via email by requesting to be added to the distribution list by contacting senior editor, Sasha Pardy at [spardy@CoStar.com](mailto:spardy@CoStar.com) Also, [click here](#) to subscribe to CoStar's dedicated Retail RSS Feed.