

MIDWEST *retail* *investment* REPORT

Fourth Quarter - 2024

Market Overview

4.1%

Unemployment Rate

3.0%

CPI

104.7

Consumer Confidence Index

Market Outlook

Ongoing challenges in debt financing defined the commercial real estate market in Q4 as investors navigated a lending environment characterized by cautious underwriting. Traditional banks remained restrictive in their loan approvals, prompting borrowers to seek alternative financing sources. Midwest retail sales volume reached \$1.17 billion in Q4 2024, reflecting a 9% increase from Q3's \$1.07 billion and a 15.5% year-over-year gain from Q4 2023's \$1.01 billion. This rebound follows a Q3 decline and suggests renewed market activity, potentially signaling early signs of stabilization after a period of fluctuating sales.

Cap rates increased across all retail center types in the Midwest and nationally, continuing the trend throughout 2023. In Q4, the Midwest retail cap rate for all centers reached 8.02%, the highest in recent quarters. This indicates that pricing adjustments still occur amid a high-interest rate environment, continuing price discovery. The combination of elevated sales volume in the second half and rising cap rates suggests that the gap between buyer and seller expectations continues to narrow, facilitating more transactions compared to early 2023 and late 2022.

As Q4 has historically been one of the most active quarters of the year, we will continue monitoring how these trends develop into early 2025. The availability of financing and the trajectory of interest rates will remain critical factors shaping the retail investment landscape in the Midwest.

Fourth Quarter Takeaways

Investment Activity:

In Q4, retail investment sales volume rose to \$1.17 billion in the Midwest and \$9.74 billion nationally. This is only higher than Q3 in the Midwest during 2024 but the highest since Q3 2023 nationally.

Current Inventory:

Although inventory increased again in Q4, the retail investment market continues to have well below-average supply, which directly contributes to below-average sales volume

Cap Rate Trends:

Retail center cap rates remained relatively stable in the fourth quarter nationally, while anchored center and grocery anchored center cap rates in the Midwest fell 26 and 18 basis points respectively.

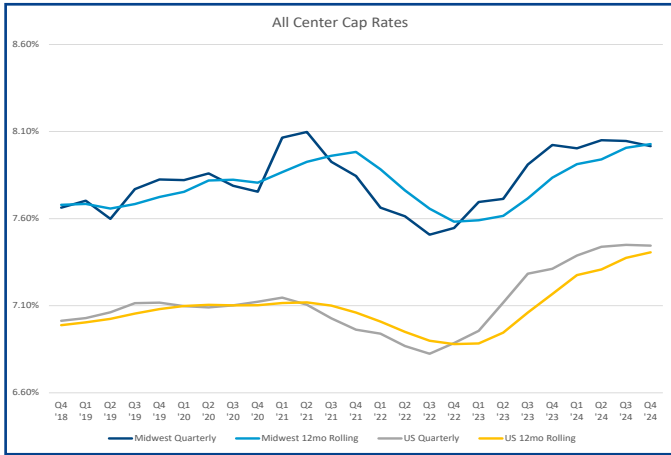
Pricing Growth:

Retail centers across the Midwest saw price per square foot increases in Q4, with unanchored centers experiencing the most significant gain of \$8.31. Retail centers performed well nationally, as grocery-anchored centers rose by \$10.86. Unanchored centers nationally recorded the only decline decreasing by \$3.33.

Debt

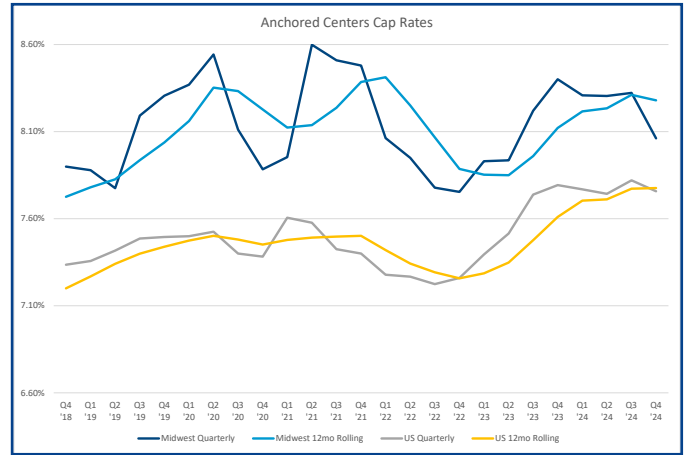
Debt and the ability of investors to access capital continue to be the most important factor driving the retail investment market. Life insurance companies and credit unions are doing the bulk of the lending, with banks on the sidelines for commercial lending. The 10-year UST increased over 83 basis points in Q4 to 4.57% after starting the quarter at 3.74%. This has caused a substantial increase in lending rates for investors if they can get a loan.

Retail Cap Rates



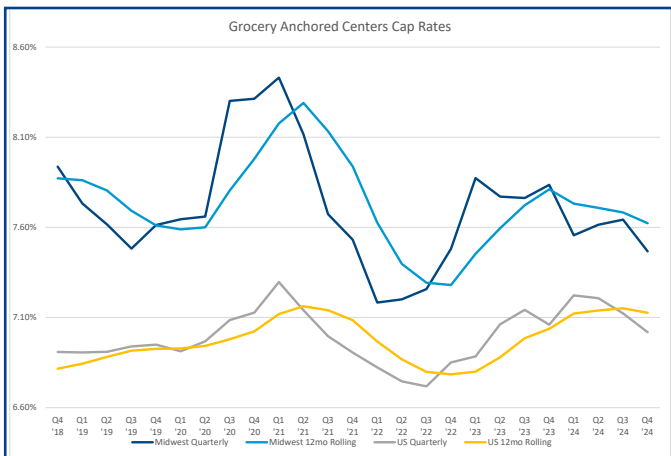
Overall Retail Center Cap Rates:

Cap rates for retail centers nationally remained unchanged while the Midwest decreased by three bps. The rolling cap rate in the Midwest has reached 8.03%, its highest mark since before 2018. Meanwhile, the rolling cap rate nationally has reached its highest mark since before 2018, at 7.41%



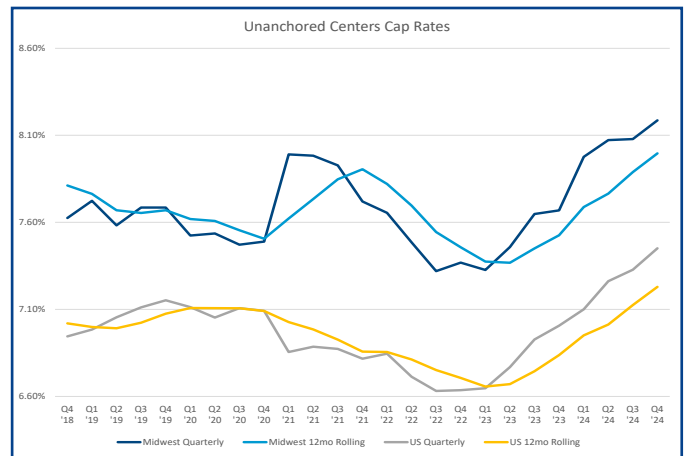
Anchored Center Cap Rates:

Cap rates for anchored centers decreased 26 bps in the Midwest and 6 bps in the US. The 12-month rolling cap rate for anchored centers in the Midwest decreased slightly to 8.28%. The national rolling cap rate is 7.78%, which is its highest since before 2018.



Grocery Anchored Center Cap Rates:

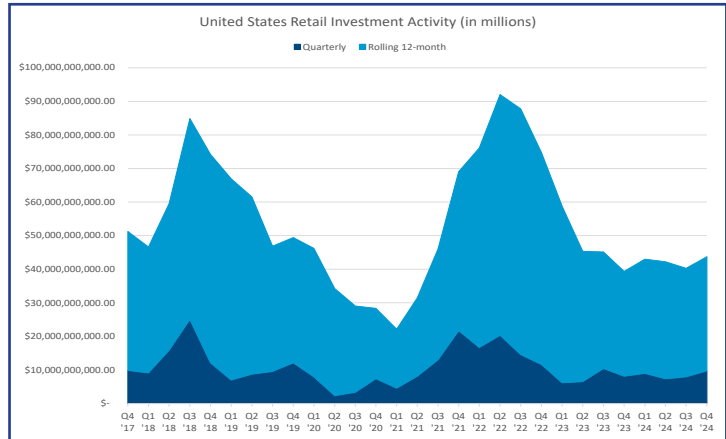
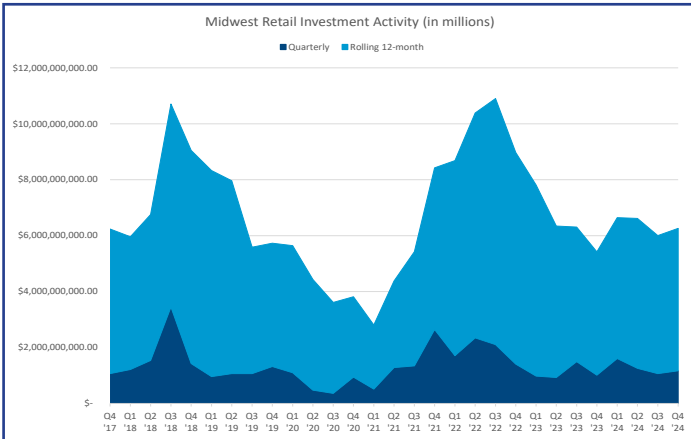
Grocery-anchored centers in the Midwest decreased by 18 bps, and in the US, cap rates decreased by 10 bps. The 12-month rolling cap rate nationally settled at 7.13%, while the Midwest rolling cap rate decreased to 7.62%, the lowest since Q2 2023.



Unanchored Center Cap Rates:

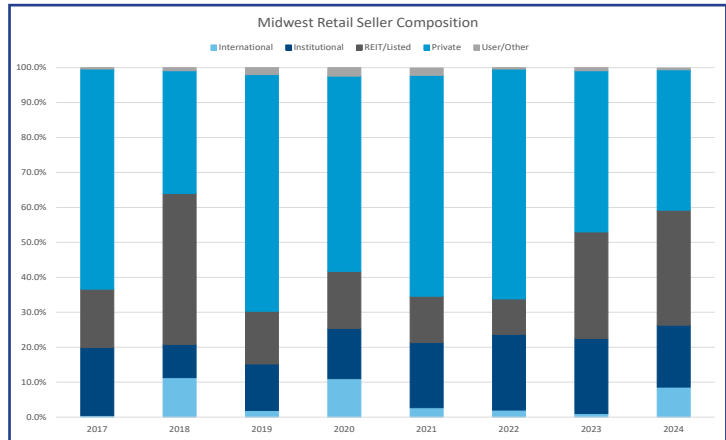
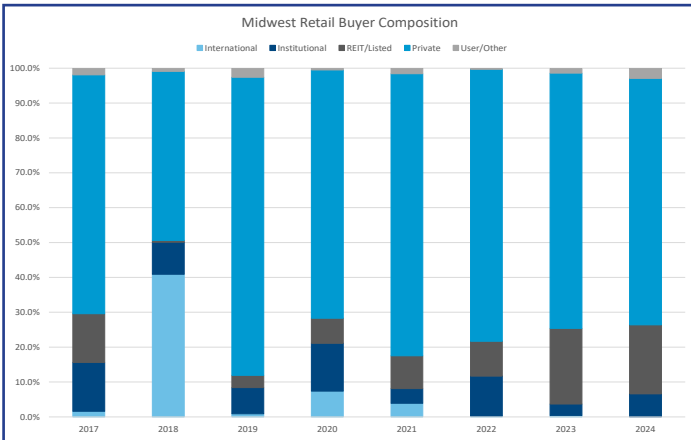
Unanchored centers saw moderate increases in the Midwest and nationally, at 11 and 12 bps, respectively. This is the highest unanchored center cap rate in the Midwest since before 2017. Both rolling cap rates continued to trend upwards, helped by consecutive increases in the previous quarters.

Investment Activity



Investment Activity:

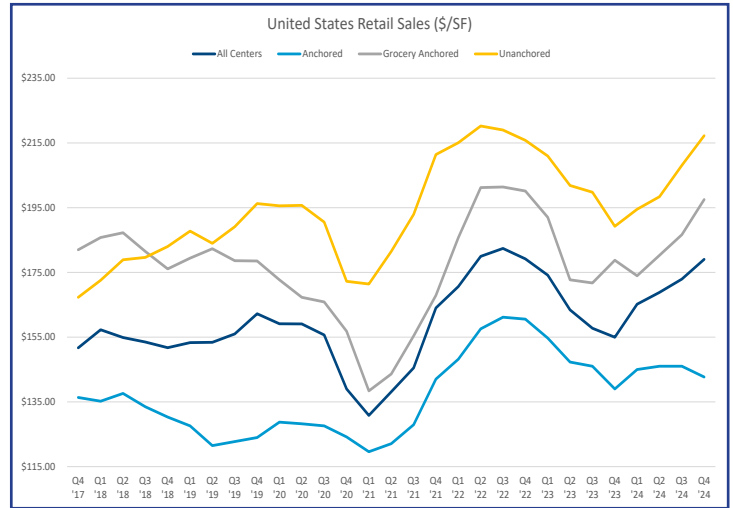
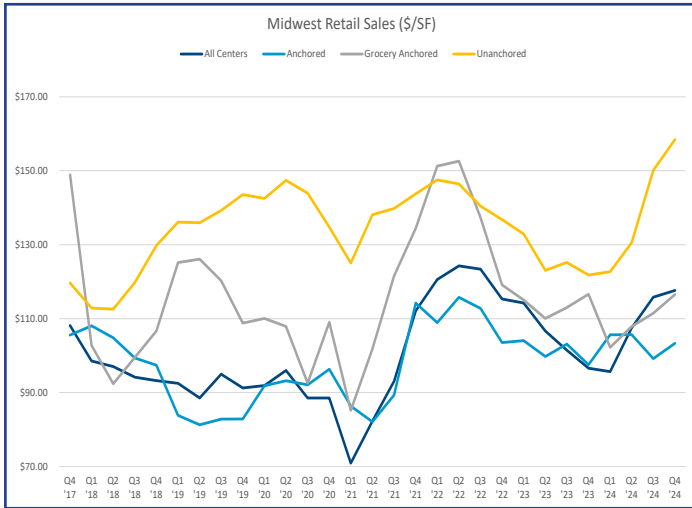
Retail investment sales volume in the Midwest slightly increased this quarter to just over \$1.1 billion. National sales volume sharply increased this quarter to \$9.7 billion. The Q4 increase is likely a result of many investors starting to trickle back into the market now that the Fed has started to cut rates.



Composition Buyer/Seller:

- **International:** International investors will account for 0% of the Midwest buyer composition in 2024. They currently represent 8.6% of sellers in the Midwest, the highest composition since 2020.
- **Institutional:** Institutional buyers nationally in 2024 make up 6.6% of buyers, just over a 3% increase from where the percentage finished in 2023. Institutional sellers in the US have also seen a slight drop in activity, up to 17.7%. Institutional investors have made up, on average, 8.8% of buyers and 17.0% of sellers in the Midwest in the last 7 years, so the seller composition will likely easily exceed the average, but buyer composition will fall short.
- **REITs:** REITs decreased 190 bps to 19.8% of buyers in 2024. REITs are the second highest seller composition in the Midwest, with 32.9%. Despite the decrease in REIT buyer activity, 2024 was the second-highest level of REIT buyer activity in the last seven years. The cost of and ability to access capital for most buyers is most likely the primary reason REITs have continued to show the most growth as a group since they rarely have the same challenges accessing capital as a private investor would.
- **Private:** Private investors continue to trend down in the Midwest, with buyer and seller makeups at 70.7% and 40.2%, respectively. Private investors currently make up the smallest recorded percentage of buyers since 2020 and the smallest percentage of sellers since 2018 although they still make up the largest group of both buyers and sellers by over 50% and 7% respectively.

Comps and Listings



Price Per Square Foot:

In the Midwest, prices per square foot in all centers increased by \$2 to \$117 per square foot. Anchored centers saw a \$4 psf increase, and grocery-anchored centers jumped up \$5 psf. Unanchored centers rounded out the psf gain, with a \$8 increase to \$158 psf. National retail centers experienced psf gains across all centers, grocery-anchored and unanchored while decreasing \$3 psf for anchored centers.

Comps: On The Market

Property Name	Location	Price	Cap Rate	GLA	Occupancy	\$ psf	Major Tenants
*Sangamon Center North	Springfield, IL	\$16,695,000	7.50%	139,757	98%	\$119.46	Schnuck Markets, Planet Fitness, Pet Supplies Plus, Rent A Center
*Findlay Village	Findlay, OH	Auction	N/A	76,549	100%	N/A	Best Buy, Michaels, Dunham's Sports
Warwood Commons	Wheeling, WV	\$5,185,305	9.00%	45,223	98%	\$114.66	Save A Lot, McDonalds, Dollar General, Cricket, Little Caesars
Rivergate Shopping Center	Shelbyville, IN	\$4,820,000	8.00%	45,314	93%	\$106.37	Hibbett Sporting Goods, Anytime Fitness, T-Mobile, Sports Clips
Johnstown Galleria Outlot	Johnstown, PA	\$4,000,000		61,968	100%	\$64.55	Dunham's Sports, Staples, Verizon
*Eastlake Plaza	Eastlake, OH	\$2,290,000	8.25%	36,521	100%	\$62.70	Convenient Food Mart, The Healthy Smile, Circle Lounge

Comps: Recently Closed

Property Name	Location	Price	Cap Rate	GLA	Occupancy	\$ psf	Major Tenants
Hilliard Square	Hilliard, OH	\$8,675,000	7.25%	52,800	97%	\$164.30	Jersey Mike's, H&R Block, Play It Again Sports, UPS Store
Mellet Plaza	Canton, OH	\$2,920,000	11.40%	55,913	86%	\$52.22	Family Dollar, Sherwin Williams, Eagle Rental
Hanna Retail Shoppes	Indianapolis, IN	\$2,250,000	9.19%	16,500	100%	\$136.36	Friends Diner, VT Laundry, Papa Johns

*Colliers transaction

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