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RCM: Retail Investors Favor Anchored Centers

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CARLSBAD, CA -- Although e-commerce is proving disruptive to many businesses, “grocery stores may be among the least vulnerable, “ says Steve Shanahan at Real Capital Markets.

“Investors continue to believe in the value of retail investments,” Shanahan says.

CARLSBAD, CA—Anchored shopping centers offer the best investment opportunity, especially in centers with centers in which supermarkets hold the anchor position, according to Real Capital Markets’ May 2017 Retail Sentiment Report. Based on RCM’s survey of retail investors earlier this month, the report finds anchored centers cited by more than 40% of respondents, due largely to the relative ease of underwriting these properties.

“Anchored centers, whether highlighted by a grocery store or another strong big box retailer, remain the category where the majority of investors see the greatest opportunity,” says Steve Shanahan, executive managing director with Carlsbad, CA-based RCM. “Though e-commerce is highly disruptive for so many businesses, grocery stores may be among the least vulnerable.”

If anchored centers offer the most attractive investment opportunity, then shifting buying habits among consumers are viewed as the biggest threat—although not so decisively as to rule out other factors. Nearly 36% of respondents chose consumers’ buying habits, followed by the impact of e-commerce and big-box vacancy rates.

However, survey respondents say, retail closures do not mean the end of the brick-and mortar-business.

Some investors suggest that it "may be a good thing" that there is no clear greatest threat because it mandates reinvention in the sector.

One third of investors told RCM that the current state of retail is making, and will continue to make, an impact on their acquisition plans. Although just 13% cited financial market conditions—interest rates, availability of capital/cash, etc.—as having the greatest impact, more than 42% said the combination of retail issues and financial market concerns has caused the "greatest impact on investment position."

"Some retail property investors are taking a broader look at the impact of e-commerce and other influences as they fine-tune their investment strategies moving forward," says Tina Lichens, COO at RCM. "At the same time, others are choosing to observe how those strategies unfold before making any financial commitments."

One potential influencer that isn't actually having much influence is interest rates. RCM's survey finds little or no correlation between investors characterizing themselves as net buyers and higher-trending interest rates. Despite the fact that the Federal Reserve is apt to continue with rate hikes this year and into 2018, investors still aren't motivated to accelerate their acquisition plans in order to lock in rates at levels that are still historically low. Nearly 63% of respondents reported that interest rate activities will not be the motivating factor.

At the same time, though, investors are net buyers, with 57% of respondents characterizing themselves in this fashion. That's three times the response rate of the second most popular option, "holding to manage what we already have acquired." Just over 12% see themselves in a holding pattern to wait and see how the retail industry and general economic concerns play out in the coming days, with the remainder—slightly less than 12%–considering themselves net sellers.

"RCM's Retail Investor Sentiment Survey shows that investors continue to believe in the value of retail investments, overwhelmingly characterizing themselves as either net buyers or holding to manage what they already own," Shanahan says. "That tells me that should the right opportunity come along, they won't hesitate to act quickly and decisively."

View Full RCM Retail Sentiment Report:
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