

Retail Equity REITs Under Pressure In 2017

Total Returns for the FTSE NAREIT All Equity REITs Index and its Retail Subsectors

Year	All Equity REITs	Shopping Centers	Regional Malls	Free Standing
2000	26.37%	15.10%	23.50%	8.94%
2001	13.93%	29.89%	31.87%	23.95%
2002	3.82%	17.72%	24.56%	21.76%
2003	37.13%	43.12%	52.24%	35.92%
2004	31.58%	36.25%	45.01%	32.87%
2005	12.16%	9.27%	16.54%	-0.49%
2006	35.06%	34.87%	23.83%	30.74%
2007	-15.69%	-17.68%	-15.85%	-0.43%
2008	-37.73%	-38.84%	-60.60%	-15.09%
2009	27.99%	-1.66%	62.99%	25.93%
2010	27.95%	30.78%	34.64%	37.37%
2011	8.28%	-0.73%	22.00%	0.43%
2012	19.70%	25.02%	28.21%	22.46%
2013	2.86%	4.99%	-0.98%	7.29%
2014	28.03%	29.96%	32.64%	9.66%
2015	2.83%	4.72%	4.23%	5.88%
2016	8.63%	3.68%	-5.20%	17.02%
YTD (5/31/17)	2.86%	-20.05%	-13.19%	-9.42%

Source: REIT.com. Past performance is no guarantee of future results.

View from the Observation Deck

1. Today's blog post is timely due to the rise in the number of announced store closures in the U.S. As of 6/3/17, there were nearly 5,100 planned store closures for 2017, according to Business Insider.
2. Credit Suisse estimates that the number of announced closures could rise to 8,640 by the end of 2017, and expects 20% to 25% of malls (roughly 220 to 275 shopping centers) to shut down over the next five years, according to Business Insider. From 2000 through 2016, the biggest year for store closures was 2008, with 6,163. That was year-one of the financial crisis.
3. While the growth in online shopping has negatively impacted foot traffic at some brick-and mortar stores, ratings agency Fitch estimates that 70% of retail sales will still take place in a physical store in 2020, down from 80% today, according to MarketWatch.
4. As indicated in the table, the FTSE NAREIT All Equity REITs Index posted a total return of 2.86% in the first five months of 2017. The three retail subsector indices (Shopping Malls, Regional Malls & Free Standing), however, performed poorly. Aside from Retail, no other equity REIT sectors/subsectors were down more than 3.73% through the first five months of 2017.
5. From 12/31/99 through 12/30/16, the average annual total returns (not shown) for the four FTSE NAREIT indices featured in the table were as follows: 13.54% (All Equity); 11.14% (Shopping Centers); 14.19% (Regional Malls); and 14.59% (Free Standing), according to REIT.com and Bloomberg. Shopping Centers clearly stand out as the laggard of the group, both on a year-to-date and average annual total return basis.
6. Despite the downturn in Retail, the dividend yield on the FTSE NAREIT All Equity REITs Index has been relatively steady. It stood at 3.87% on 5/31/17, down slightly from 3.96% as of 12/30/16, according to REIT.com.
7. The ability of REITs to raise capital is a key barometer of the confidence levels in this niche of the market, in our opinion. In Q1'17, REITs raised \$23.11 billion of capital, the highest amount for a quarter since Q2'14, according to Zacks.
8. Another key measure for assessing the viability of REITs is funds from operations (FFO), which is equal to a REIT's net income, excluding gains or losses from the sale of property, and adding back real estate depreciation. In Q1'17, total FFO of the listed U.S. Equity REIT industry was up 8.1% year-over-year to \$14.3 billion, according to REIT.com.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The FTSE NAREIT All Equity REITs Index and its Sector/Subsector indices are free float adjusted market capitalization-weighted indices that include all tax qualified REITs listed on the major U.S. exchanges.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA and the Internal Revenue Code. First Trust has no knowledge of and has not been provided any information regarding any investor. Financial advisors must determine whether particular investments are appropriate for their clients. First Trust believes the financial advisor is a fiduciary, is capable of evaluating investment risks independently and is responsible for exercising independent judgment with respect to its retirement plan clients.

