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RETAIL TRAFFIC

Where Real Estate and Retail Development Meet

TITLE INSURANCE ACTIVITY SHOWS THAT THE MARKET IS BOUNCING BACK

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As the national economy continues to show signs of recovery, so too does the commercial real estate industry. Modest job growth, rising business confidence and higher levels of consumer spending have resulted in a marked increased in commercial real estate activity.

Title insurers, like Stewart Title Guaranty's National Title Services division, serve as a barometer for the market. Many deals come in front of our company, and the deals that make it to closing show the shape of things. By that measure, we have a changing landscape.

In 2010, there was little new development of any kind. Many retail customers who were in a position to do so refinanced or modified existing debt based upon need and lender relationships. There were many specialty projects, small one-off deals, REO sales and transactions out of bankruptcy.

Bankruptcy and foreclosure transactions can be fraught with delays and complications, requiring a high degree of specialization and expertise in the title underwriting process.

In 2011, refinances, REO transactions and bankruptcies will continue to make up a considerable portion of retail activity. However, the market is also seeing an uptick in new financing to replace matured loans, for redevelopment and expansion, some acquisition, and even new construction. Retail developers in bankruptcy are still restructuring and attempting to sell, reworking debt or acquiring new financing. Investors continue to look for value-add deals among distressed assets.

The seasoned and surviving local, regional and national developers are focusing inward and updating their product to meet future demand. Nationally, the market is seeing an increase not only in retail closings, but also in the number of retail transactions in the pipeline. Current national retail deals for Stewart include sale/leasebacks, new construction, acquisitions and the redevelopment of existing product, a primary component of development for 2011.

As reported by CoStar, the first quarter of 2011 saw positive net absorption of 9 million square feet of retail space. During the last twelve months, a total of 58 million square feet was added—more than triple the amount added in the previous twelve months. The first quarter also showed retail vacancy rates continuing their decline, dropping to 7.2 percent.

Equity and debt are also more available than in years past. Banks and life insurance companies seem to be among the most willing lenders. "Willing" means they require real equity based on today's appraisals. Developers we work with are saying that lenders are offering 65/35 to 70/30 percent loan-to-value ratios for viable projects with strong fundamentals. There is available equity from a number of institutions, private equity funds and REITs scouring the market for attractive returns with acceptable levels of risk.

Most prominent among investors are REITs, which have become one of the commercial real estate industry's most active acquirers of properties in the last year.

The FTSE NAREIT All Equity REITs Index, which covers 120 investment trusts, rose 7.50 percent in the first quarter of 2011. Overall, the retail sector posted total returns of 4.51 percent in this period, led by regional mall REITs, up 6.30 percent, and followed by shopping center REITs, up 2.94 percent. These gains further reflect expectations that fundamentals will continue to improve.

Market trends and studies tend to be either reflective or futuristic. As a national title company, Stewart has the unique opportunity to see first hand the deals that actually make it to closing. Optimism and market activity are good but must translate into absorption, acquisitions, dispositions, development and available financing to tangibly benefit the commercial real estate sector. If Stewart's first quarter activity levels are any indication, this optimism has indeed translated into recovery.

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