Anchors Aweigh
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February 10, 2025

Anchored Retail Product by Format

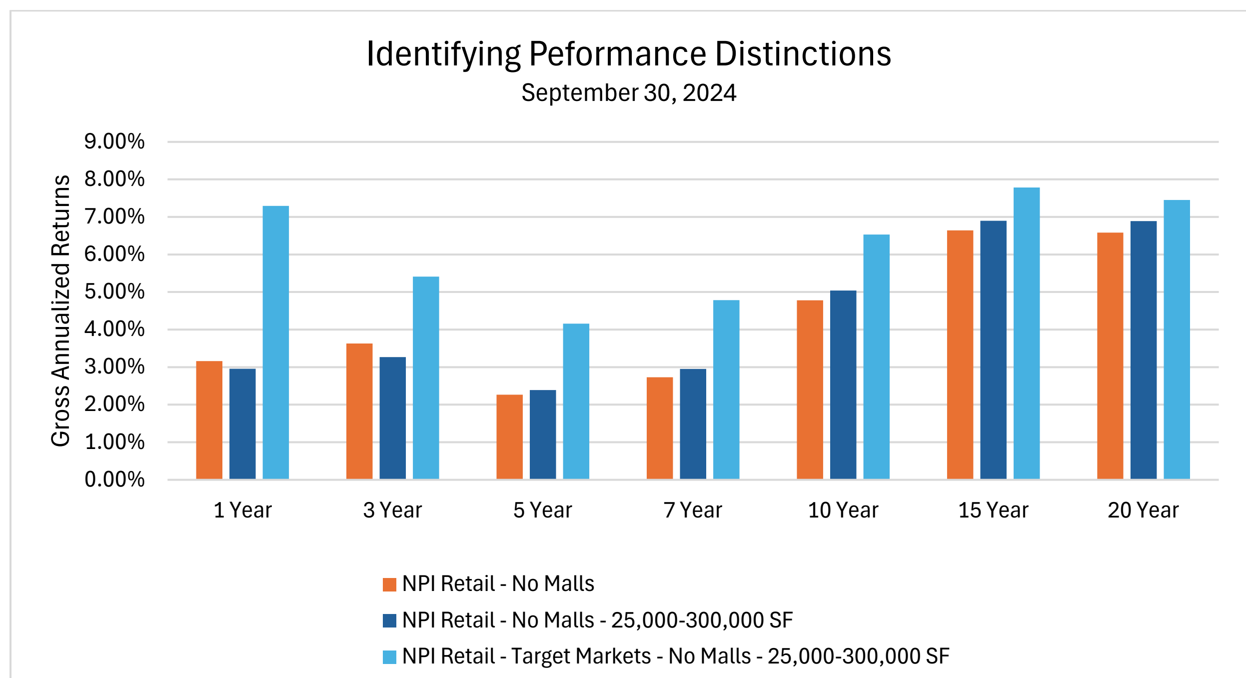
Anchored, open-air retail consists of a wide range of retail product that is measured by NCREIF Property Index – Classic ("NPI") in 3 main categories: Power, Community and Neighborhood. The purpose of this paper is to review historical performance between these anchored retail formats to determine if a higher number of anchors negatively impacts asset performance. *Note: NPI data does not historically distinguish centers with a grocery store anchor, however, neighborhood centers are traditionally grocery anchored.*

- **Power Centers** typically have 75-90% of leasable space comprised of 3 or more anchors (or "big box") tenants; 250k-600k square feet
- **Community Centers** have two or more anchors; 100k-350k square feet
- **Neighborhood Centers** have one or more anchors; 30k-150k square feet

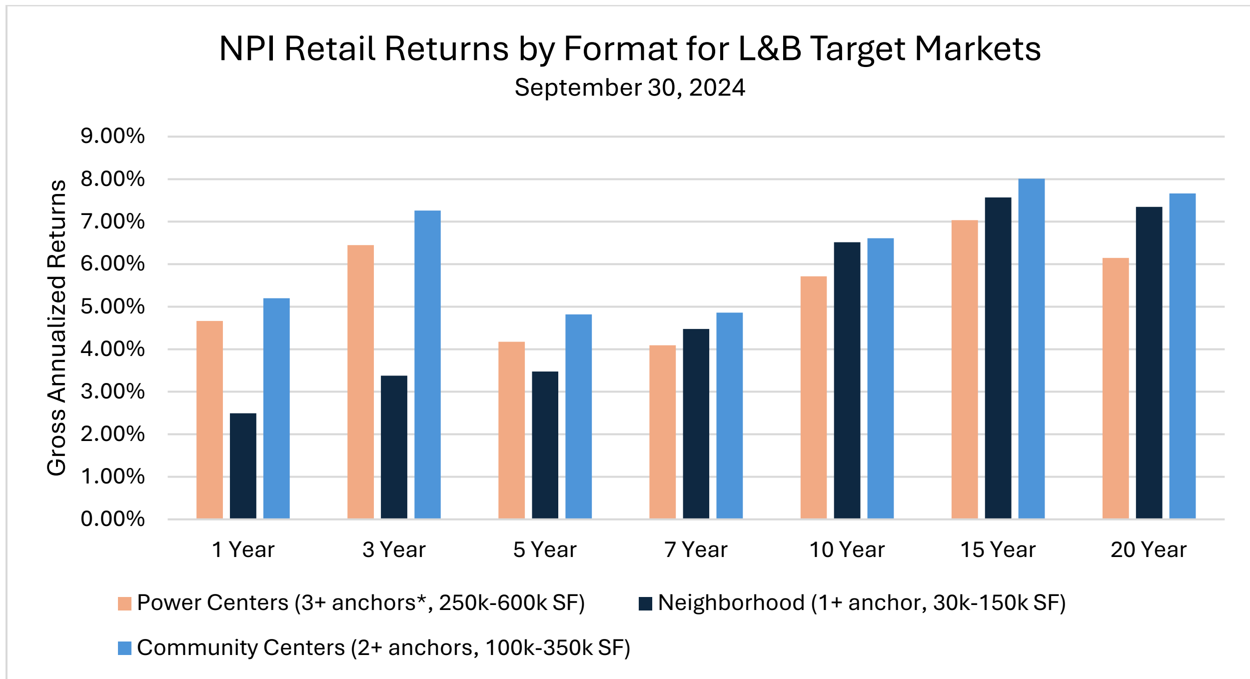
L&B Retail Fund Diversification by Format

L&B's Retail Fund ("Fund") primarily targets centers between 25k and 300k square feet which aligns most closely with the typical sizes of Neighborhood and Community Centers. However, larger centers (>300k square feet) may be considered if they meet other Fund criteria such as trade area demographics and tenant type, and are accretive to total return.

When isolating L&B's target center size for non-mall retail of 25k to 300k square feet, this concentration sees some improvement over all non-mall retail in the longer term as indicated in the graph below. However, when isolating both L&B's target center size and target markets, a more significant improvement in performance is noted pointing to location as a determinative factor.



In L&B's target markets, Community Centers, which have 2 or more anchors, outperform in all time periods. Neighborhood Centers, which are traditionally grocer anchored, underperform Power in the short-term but outperform in the long-term. These return comparisons indicate that total square footage or number of anchors may not be highly outcome determinative, which aligns with L&B's Retail Fund investment thesis focused on location, consumer demographics and resilient tenancy.



In addition to investing across diverse open-air retail formats in areas with targeted demographic distinctions, L&B's Retail Fund will diversify across tenant type avoiding exposure to any single tenant or tenant classification. L&B is focused on both in-line and anchor tenants who exhibit resiliency as defined in our Fund materials.

Anchor Tenants	
Strengths	**Weaknesses**
Many national anchors considered "credit" with strong balance sheets; grocers favored	Less ability to improve individual store performance for national chains
Non-grocer anchored centers trade at higher cap rate, strong cash/cash returns	Store sizes and long-term leases restrain rent growth for larger anchors
Many anchor tenants have integrated retail stores into their logistics models	Space reconfigurations can be costly
Best locations seeing rent growth and little vacancy	Fewer replacement tenants
Strong anchors draw traffic to a center lifting in-line sales	Some tenants highly impacted by e-commerce
Anchors have lower tenant improvement requirements	Co-tenancy clauses (today LL's have more negotiating power to minimize impact)

Evaluating Power Centers

Retail performance for the non-mall portion of the Index shows Power Centers have performed better in the short term relative to total non-mall retail product. The 20-year performance returns for Power Centers compare unfavorably to non-mall retail driven by poor returns in 2008 and 2009, the years following peak retail deliveries of 2006 and 2007 and during the Great Recession of 2007-2009.

NPI Classic Retail Returns	Power Centers	Retail, no malls*	Difference
1 Year	4.11%	3.16%	0.95%
3 Year	4.79%	3.63%	1.16%
5 Year	3.13%	2.26%	0.86%
10 Year	4.79%	4.78%	0.01%
15 Year	6.54%	6.64%	(0.10%)
20 Year	5.83%	6.58%	(0.75%)

As of September 30, 2024
**Includes Power, Community, Neighborhood, Fashion, Theme and Single Tenant.*

During the Great Recession and in the years following, retail faced multiple challenges: oversupply, retail tenants who were overleveraged, and the threat of e-commerce. In addition, the US consumer was weak as they recovered from job and financial losses that occurred between 2007-2009. These combined factors led to a decade of poor performance for the retail sector at-large. Big box spaces were disproportionately impacted as tenants filed bankruptcy and few replacement options were available.

The events of the last decade are unlikely to repeat in the near term as new deliveries have been nearly non-existent. Even with positive growth over the last few years, rents do not support new construction in most markets. This supply/demand balance is evidenced by the recent backfilling of vacancies resulting from the Bed, Bath & Beyond 2023 bankruptcy filing. REIT's reported 80% of these vacancies were filled within one-year. Comparatively, Sports Authority filed bankruptcy in 2016 and only 20% of vacancies were filled within one-year (*Green Street*).

The years following the Great Recession saw a period where tenants had significant negotiating power. The L&B Retail Fund will take advantage of the current landlord market as those leases expire. New lease terms will provide better rents together with more favorable lease language such as options at fair market value, and less oppressive co-tenancy language.

The availability of shopping center performance data has improved significantly over the last decade. For example, independent sources of traffic information such as Placer.ai utilize location data to help buyers identify the true trade area from which consumers are visiting the center, better informing investment decisions. The L&B Retail Fund utilizes traffic data, overlaying it with the ESRI mapping tool to ensure demographics within a trade area meet Fund objectives before making buy decisions. In addition, online shopping has provided detailed customer data for retailers to identify exactly where their existing and target consumer lives, making optimum bricks and mortar locations easier to identify and providing more successful locational outcomes.

The L&B Retail Fund will invest in anchored centers that meet demographic criteria of the Fund and have upside opportunity. Anchored assets will be evaluated on an individual property and trade area basis with an anchor strategy determined at acquisition, which may include replacement of big box retailers to improve tenant mix and/or rental revenue (replacement options are partially identified through void analysis).

Power Center cap rates (7.5%-9.0%) are higher than the retail sector average (6.0%-7.5%), and assets can be acquired well below replacement cost. According to Costar, rent growth is forecasted to be slightly higher in Power Centers than the retail sector average over the next five years, 2.2% vs 2% respectively. Neighborhood and Community Centers are primary targets for the Fund, however, due to the attractive cap rate spread over other retail formats, strong fundamentals, and for assets where a strong anchor tenant strategy can be defined the L&B Retail Fund will consider limited investment in Power Centers.

Conclusion

Power Centers should not be avoided categorically but should be critically evaluated. L&B considers demographics, tenant line-up, market position relative to competitive set and property specific characteristics to be the most meaningful predictors of performance results. No single retail type will comprise the L&B Retail Fund which is expected to be broad based and well balanced across all open-air center formats, mitigating risk.

The Fund's differentiated strategy demands a dedicated specialist who has honed a distinct, tailored process and skill set for identifying assets that appeal to retailers and consumers alike; and experience proactively executing an asset management plan to unlock value.