



## SUBURBAN RETAIL INVESTMENT UPDATE

Limited Supply + Strong Tenant Demand & The “Haves” and the “Have Nots”

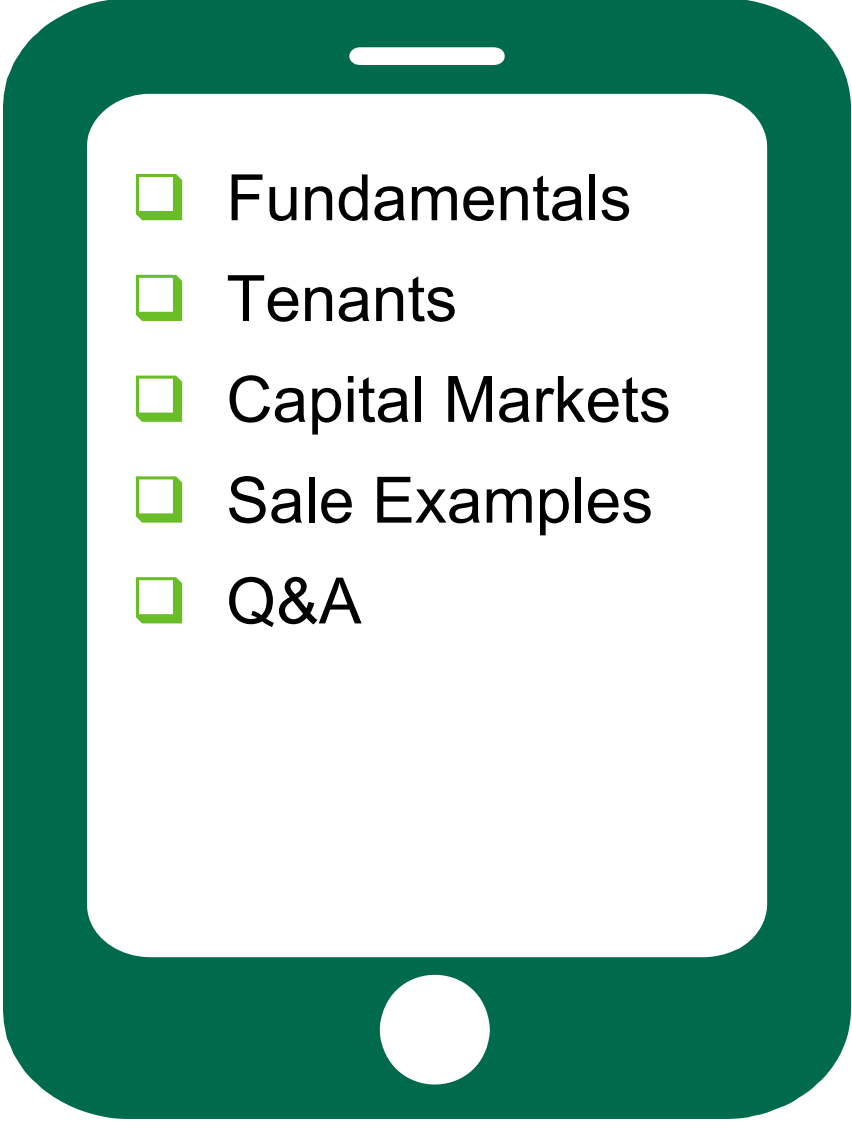
Prepared for Appraisal Institute – March 2016

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# AGENDA

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- ☐ Fundamentals
  - ☐ Tenants
  - ☐ Capital Markets
  - ☐ Sale Examples
  - ☐ Q&A



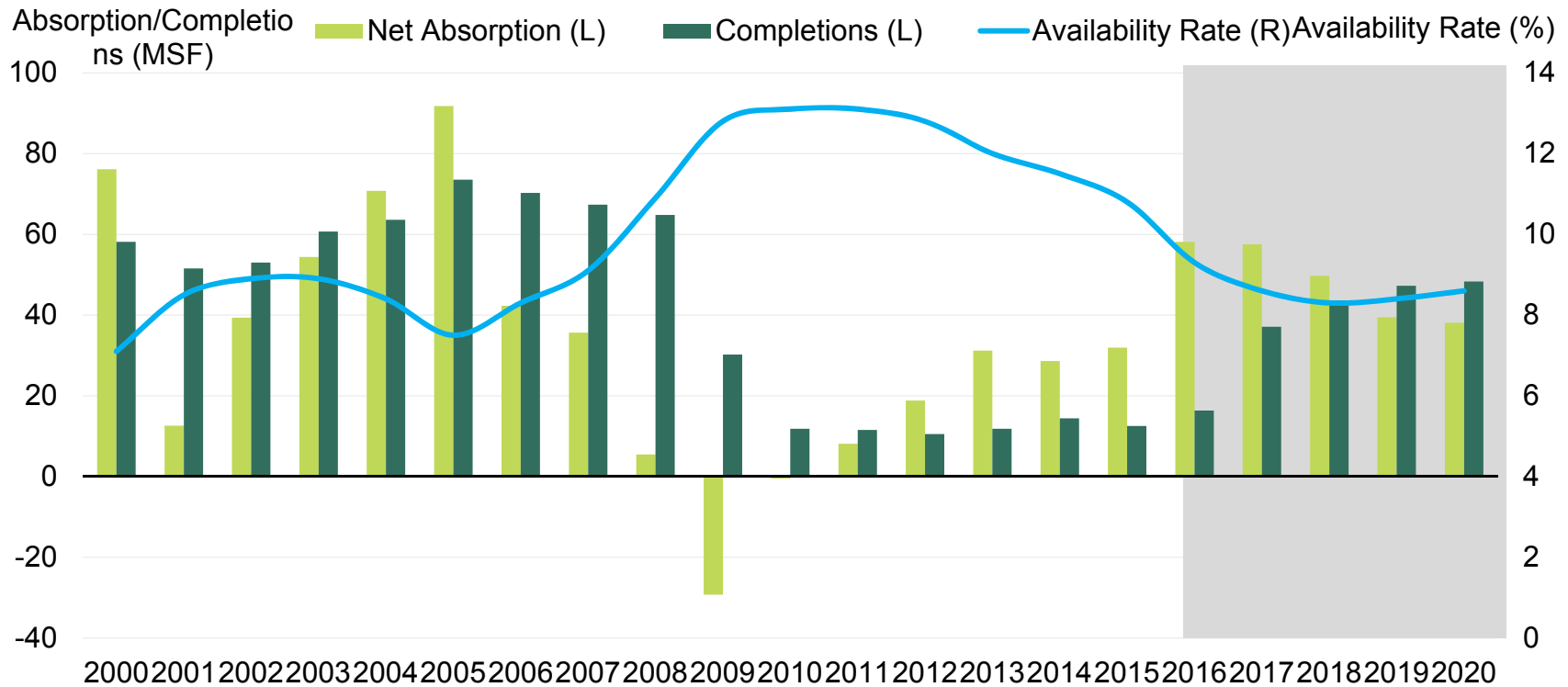
## FUNDAMENTALS

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# DEMAND FAR EXCEEDS SUPPLY

Figure 15: Neighborhood, Community and Strip Center Retail Forecast

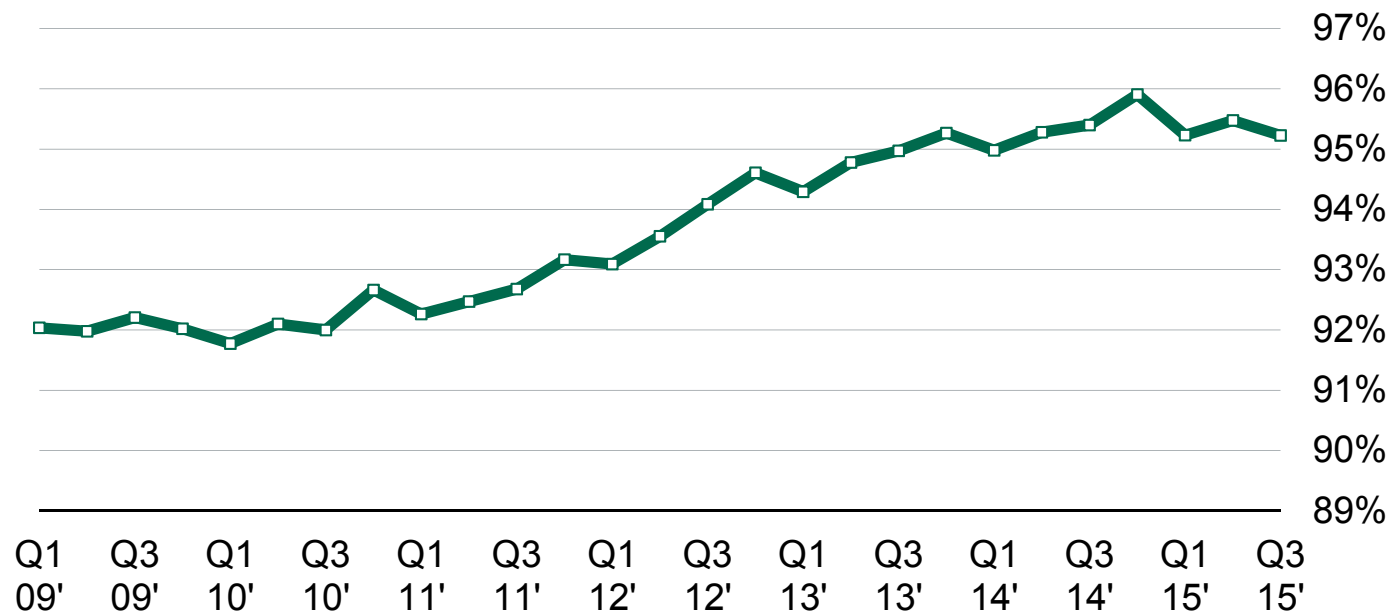


Source: CBRE Econometric Advisors, Q2 2015



# OCCUPANCY AT THE STRIP CENTER REITS

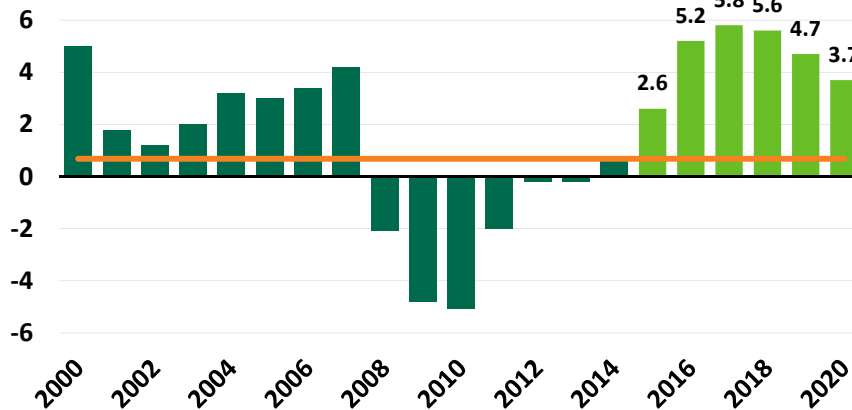
REITs are a Proxy for High Quality Centers



Source: SNL

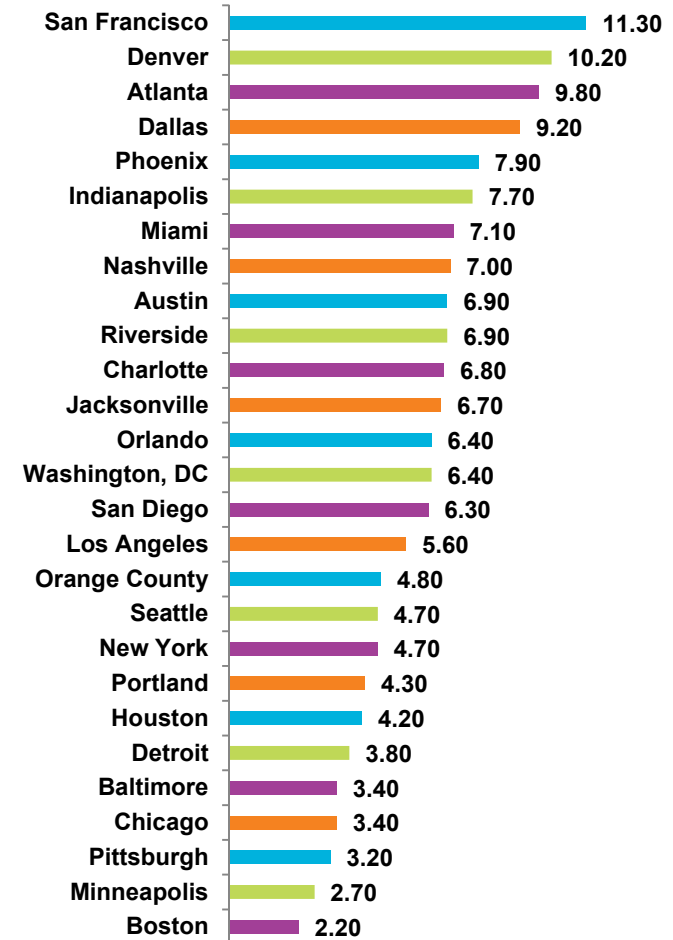
# RENT GROWTH IS ROBUST

Annual Rent Change for Neighborhood & Community Centers



2015 Q3	Volume (ksf)		Leasing Spreads	
REIT	New	Renew	New	Renew
Brixmor	600	2,700	49.0%	7.7%
DDR	693	2,184	12.3%	7.1%
Equity One	50	311	6.3%	11.9%
Kimco	300	1,092	28.6%	6.2%
Regency	241	796	12.9%	7.6%
Weingarten	227	585	18.6%	9.1%
<b>Average</b>			<b>21.3%</b>	<b>8.3%</b>

Projected Annual Rent Growth for Major Metros Over the Next Two Years



Source: CBRE Econometric Advisors, Q2 2015

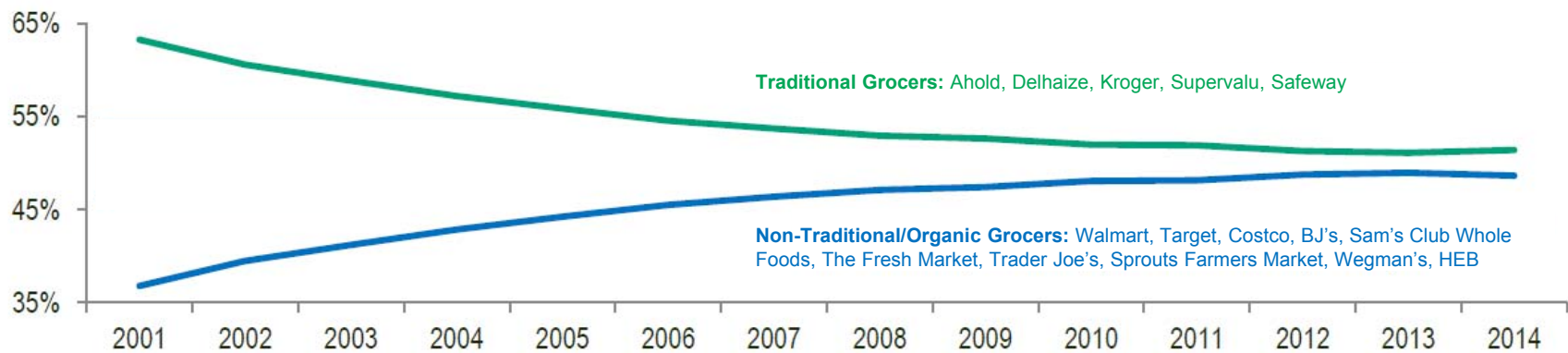
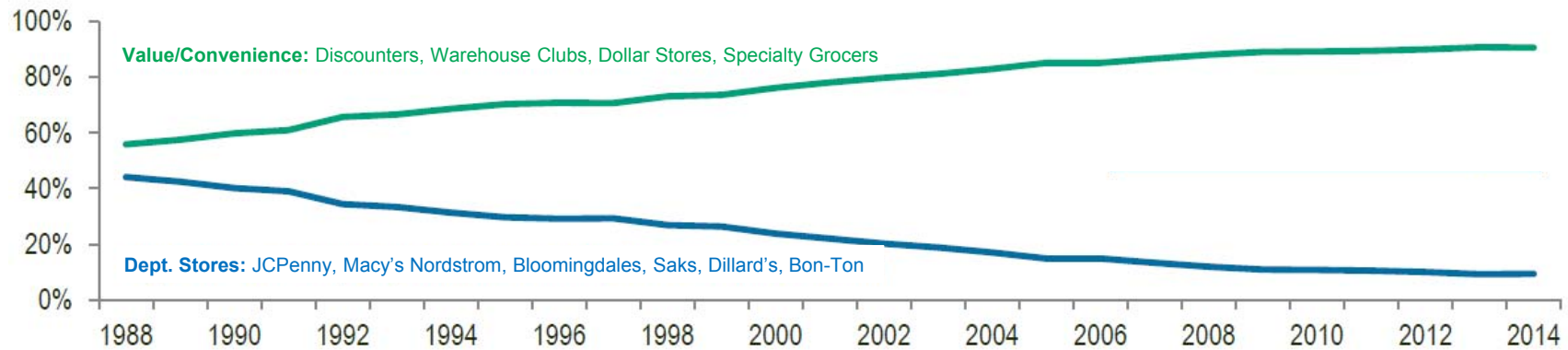


**TENANTS**

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# VALUE RETAILERS AND SPECIALTY GROCERS ARE WINNING MARKET SHARE



Source: US Census Bureau



# SALES GROWTH BY TENANT

Anchor Tenants	4 Qtr Sales CAGR	Credit Rating
Bed Bath & Beyond	3.1%	A-
Burlington Stores	3.8%	B+
Dollar Tree	4.5%	BB
Gap	-1.0%	BBB-
Kroger	5.9%	BBB
Michael's	0.6%	B+
Nordstrom	4.6%	A-
Office Depot	-0.5%	B-
Ross	5.5%	A-
Staples	-4.5%	BBB-
TJX	4.5%	A+
Walmart	0.7%	AA
Whole Foods	2.5%	BBB-

# RETAILER EXPANSION PLANS

Anchor Tenants	Openings	Typical Size	Demand (SF)
Bed Bath & Beyond	30	30,000	900,000
Burlington Stores	25	78,000	1,950,000
Conn's	15	40,000	600,000
Dick's	45	50,000	2,250,000
DSW	35	22,000	770,000
LA Fitness	55	45,000	2,475,000
Michael's	47	20,000	940,000
Nordstrom Rack	27	35,000	945,000
PetCo	70	10,000	700,000
PetSmart	75	20,000	1,500,000
Publix	14	47,000	658,000
Ross	70	28,000	1,960,000
Sprouts	27	28,000	756,000
TJX	110	30,000	3,300,000
Ulta	100	11,000	1,100,000
Walmart Markets	190	40,000	7,600,000
Walmart Super Centers	65	150,000	9,750,000
Whole Foods	38	40,000	1,520,000
<b>Totals</b>			<b>39,674,000</b>

Smaller Tenants	Openings	Typical Size	Demand (SF)
Autozone	44	6,600	290,400
Chipotle	200	2,500	500,000
Dollar Tree	282	11,000	3,102,000
Dunkin Donuts	267	1,600	427,200
Five Below	75	8,000	600,000
Five Guys	600	2,500	1,500,000
Mattress Firm	20	5,000	100,000
Menchie's	150	1,500	225,000
Noodles	57	2,700	153,900
Panda	110	2,000	220,000
Panera	110	4,500	495,000
Party City	30	10,000	300,000
Sketchers	40	8,000	320,000
Starbucks	200	2,000	400,000
UPS Stores	120	1,000	120,000
Verizon Wireless	100	4,000	400,000
Vitamin Shoppe	50	4,000	200,000
<b>Totals</b>			<b>9,353,500</b>

# RETAILER CONTRACTION PLANS

Anchor Tenants	Closures	Average Store Size	Shadow Supply
Staples	60	19,000	1,140,000
GameStop	200	1,500	300,000
Office Depot	135 stores in 2015 100 stores in 2016	23,000	3,105,000
Gap	175	10,000	1,750,000
Rite Aid	40	13,000	520,000
Barnes & Noble	15	26,000	390,000
Totals			7,205,000



**CAPITAL MARKETS**

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# CAPITAL RECYCLING AT THE REITS CONTINUES

REIT	Acq (\$000)		Disp (\$000)	
	1H 2015	FY 2014	1H 2015	FY 2014
Brixmor	\$59,208	\$0	\$42,599	\$7,250
DDR	\$160,100	\$1,064,600	\$222,800	\$1,120,600
Equity One	\$72,750	\$199,029*	\$4,800	\$199,025
Kimco	\$93,673	\$425,125	\$235,856	\$717,127
Regency	\$0	\$196,153	\$40,313	\$151,468
Weingarten	\$173,191	\$43,832	\$63,764	\$387,393
<b>Total</b>	<b>\$558,922</b>	<b>\$1,928,739</b>	<b>\$610,132</b>	<b>\$2,582,863</b>

\* Inclusive of unconsolidated real estate joint venture activity

# RETAIL TENANTS OWNED BY PE FIRMS

Tenant	PE Firm	Ownership %	Public?	Credit Rating
99 Cents Only	Ares Management	Majority	Private	F1
Albertsons	Cerberus Capital Management	Majority	Private	D2
AMC Entertainment	Apollo Global Management	Majority	Yes	C1
BJ's Wholesale	CVC Capital Partners / LGP	Majority	Private	N/A
Guitar Center	Ares Management	Majority	Private	N/A
Haggen	The Comvest Group	Majority	Private	N/A
Jo-Ann Stores	LGP	Majority	Private	B2
Marsh Supermarkets	Sun Capital Partners	Majority	Private	N/A
Michaels Stores	Bain Capital / Blackstone	Majority	Yes (Ticker: MIK)	C1
Neiman Marcus	Ares Management	Majority	Private	D1
Party City	Thomas H. Lee Partners / Advent	Majority	Yes (Ticker: PRTY)	C2
Petco	LGP / TPG Capital	Majority	Private	N/A
PetSmart	BC Partners	Majority	Private	C2
Roundy's	Willis Stein & Partners	Majority	Yes (Ticker: RNDY)	E1
Safeway	Cerberus Capital Management	Majority	Private	C1
ShopKo	Sun Capital Partners / Manchester Securities / KLA	Majority	Private	N/A
Smart & Final	Ares Management	Majority	Yes (Ticker: SFS)	C1
Sport Chalet	Versa Capital Management	Majority	Private	N/A
Sports Authority	LGP	Majority	Private	E1
Toys "R" Us	Bain Capital	Majority	Private	E1

# GROCERY TENANTS INCREASE VALUES

Cap rate compression over three years has increased values by 10% - 30%

Retail Sub-Type	2012	2013	2014	2015
Community Center	8.2%	7.6%	7.3%	6.4%
Lifestyle Center	6.9%	7.5%	7.0%	7.2%
Lifestyle Center w/ Grocer	7.3%	6.5%	7.0%	4.8%
Neighborhood Center	7.4%	7.5%	7.0%	6.3%
Power Center	7.5%	7.4%	7.3%	6.8%
Power Center w/ Grocer	7.5%	6.6%	6.8%	6.2%
Regional B Malls	8.2%	8.4%	9.2%	14.1%
Street Retail	5.9%	6.0%	5.6%	5.8%
Strip / In-Line Center	8.0%	7.6%	7.5%	6.7%
<b>10 Year Treasury</b>	<b>1.97%</b>	<b>1.91%</b>	<b>1.88%</b>	<b>2.14%</b>

# DEAL SIZE HAS A MATERIAL IMPACT ON PRICING

Larger deal size typically indicates higher quality properties

Sub-Type	\$10 - \$20	\$20 - \$40	\$40 - \$60	\$60 - \$100	\$100 - \$200
Community Center	8.3%	7.2%	6.8%	6.1%	6.3%
Lifestyle Center	7.6%	7.8%	7.3%	7.3%	6.4%
Neighborhood Center	7.2%	6.6%	5.8%	5.7%	5.2%
Power Center	8.0%	7.6%	7.0%	6.8%	6.1%
Power Center w/ Grocer	8.7%	8.4%	6.9%	6.7%	5.9%
Regional Mall	10.5%	11.0%	9.9%	7.4%	7.6%
Street Retail	5.2%	5.3%	5.8%	5.0%	6.3%
Strip / In-Line Center	7.3%	6.8%	6.2%	5.4%	4.4%

\*Deal Size / \$MM



# CORE RETAIL PROPERTIES

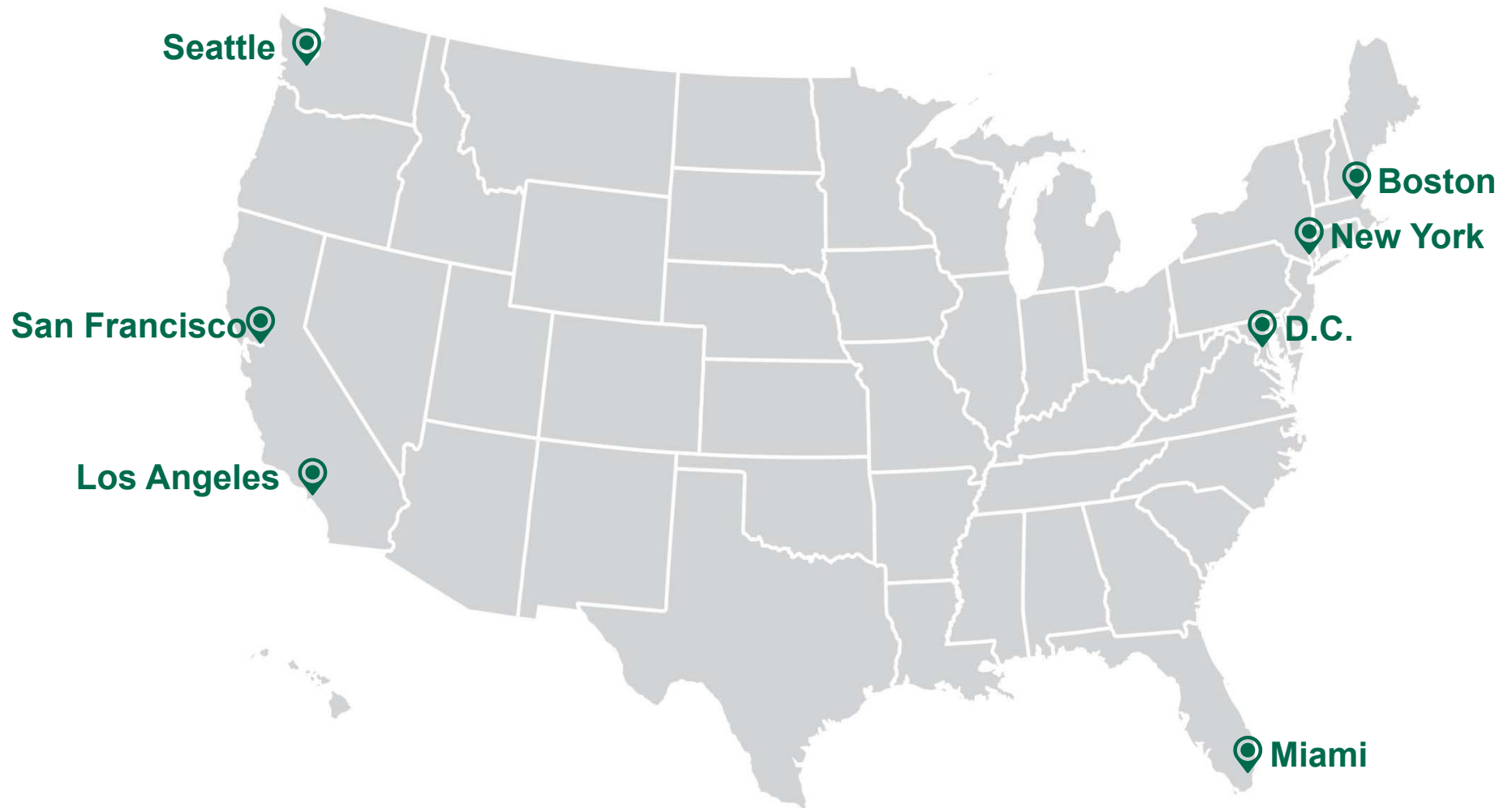
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## Boxes that Need to be Checked

- ✓ Good Infill Location
- ✓ Excellent Demographics
- ✓ “A” Retailers
- ✓ Strong Tenant Sales
- ✓ No Debt to Assume
- ✓ NOI Growth of at least 2% Annually
- ✓ Larger Deal Size

# CORE RETAIL PROPERTIES

Coastal Markets: 4.5%-5.5% Capitalization Rates



# CORE RETAIL PROPERTIES

Non-Coastal Major Markets: 5.5%-6.5% Capitalization Rates



# CORE RETAIL PROPERTIES

Secondary Markets: 6.5%-7.5% Capitalization Rates





# WHERE ARE THE OPPORTUNITIES TODAY?

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## ➤ Urban Retail

- Look beyond High Street retail
- Many urban markets are underserved by retailers
- Bigger boxes have scarcity value in urban locations
- Future densification is a benefit

## ➤ Retail centers where not all boxes are checked

- A good location with solid demographics is a must have
- Upgrading the center with new and better merchants
- Acquiring a center with additional land

## ➤ Secondary Markets

- Buy the best center in the trade area
- Get enough of a return premium for the lower liquidity

## ➤ B+ Malls

- Shop sales greater than \$375/SF
- Replacement tenants for Sears & Macy's
- Infill high barriers to entry markets

# RETAIL PROPERTY TYPES AT RISK

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## ➤ Grocery Anchored Centers

- Where the grocer is owned by a private equity firm with multiple brands in the trade area
- Watch out for new grocery stores entering the market or trade area (Wegman's, HEB, Sprouts, Whole Foods, Mariano's, Aldi)
- Binary risk with the centers anchored by grocers with low sales volume

## ➤ B- Malls

- Tenant sales below \$300/SF
- Large capital expenditures
- Sears is in trouble, Bon-Ton is losing market share

## ➤ Lifestyle Centers

- Tenant sales below \$300/SF
- Threat of new outlet center construction
- Shift by consumers to value oriented stores



## RECENT INVESTMENT SALES

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# “THE HAVES”



## LINCOLN PARK CENTRE • CHICAGO, ILLINOIS Street Retail Center

Address	755 West North Avenue
Size	61,761 SF Plus 156 car parking deck
Tenants	Eddie Bauer, Sur La Table, Design Within Reach, Carter's, Mitchell Gold & Bob Williams and Bank of America
Occupancy	100%
Price	\$64,000,000
Cap Rate	4.8%
Buyer	The Georgetown Company
Seller	Acadia Realty Trust
Financing	None, all cash
Date	January, 2015

# “THE HAVES”



## REGENCY SQUARE • HUNTLEY, ILLINOIS NEIGHBORHOOD CENTER

Address	12200-12300 Princeton Drive
Size	43,361 SF
Tenants	Aldi, Starbucks, Sleepy's, Athletico, Jimmy John's, Little Caesars and Sports Clips
Occupancy	97%
Price	\$10,807,000
Cap Rate	6.36%
Buyer	Hamilton Partners
Seller	Interstate Partners
Financing	None, all cash
Date	January, 2016



## “THE HAVES”



### WENDY'S ARCHER STATION • CHICAGO, ILLINOIS Single Tenant

Address	2610 Pershing Road
Size	3,507 SF
Tenants	Wendy's
Occupancy	100%
Price	\$2,620,000
Cap Rate	5.0%
Buyer	Tishman Corp.
Seller	First American Properties
Financing	N/A
Date	January, 2016



# “THE HAVE NOTS”



## PLAINFIELD MARKETPLACE • PLAINFIELD, IL COMMUNITY CENTER

Address	11860 S. Route 59
Size	122,800 SF
Tenants	Kohl's, CVS Pharmacy, Party City
Occupancy	100%
Price	\$21,000,000
Cap Rate	7.11%
Buyer	VEREIT Acquisitions, LLC
Seller	Inland Private Capital Corporation
Financing	All cash
Date	December 2015

# “THE HAVE NOTS”



## COMMONS OF HAZEL CREST • HAZEL CREST, ILLINOIS STRIP/INLINE CENTER

Address	18220 - 18244 Kedzie Avenue
Size	51,222 SF
Tenants	Dollar Tree, Check 'N Go, Allstate Insurance, H&R Block, CSL Plasma
Occupancy	76.3%
Price	\$4,000,000
Cap Rate	8.51%
Buyer	Baceline Investments
Seller	Wool Finance
Financing	None, all cash
Date	January, 2016

# “THE HAVE NOTS”



## LIBERTY PLAZA • MATTESON, ILLINOIS STRIP/INLINE CENTER

Address	4515 Lincoln Highway – Matteson, IL
Size	61,437 SF
Tenants	FedEx Office, Jimmy John's, America's Best, Discount Rugs & Furniture, ATI Physical Therapy, DaVita Dialysis
Occupancy	80.0%
Price	Under Contract
Cap Rate	Hilarious
Buyer	Opportunistic Flake
Seller	Someone in a Short Sale
Financing	How on Earth
Date	Who Knows

# QUESTIONS

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