DYNAMIC TRENDS IN THE CURRENT AND FUTURE RETAIL ENVIRONMENT

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IS THE E-POCALYPSE HERE?

3 Myths Ruling Today's Headlines
MYTH 1:
Online purchasing is cannibalizing brick and mortar.
THE COMMON E-COMMERCE DATA HEADLINES

E-COMMERCE AS A % OF RETAIL SALES

- Share of GAFO Sales
- Share of Total Retail Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Share of GAFO Sales</th>
<th>Share of Total Retail Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>15.2%</td>
<td>4.4%</td>
</tr>
<tr>
<td>2011</td>
<td>17.2%</td>
<td>4.8%</td>
</tr>
<tr>
<td>2012</td>
<td>19.3%</td>
<td>5.3%</td>
</tr>
<tr>
<td>2013</td>
<td>21.4%</td>
<td>5.8%</td>
</tr>
<tr>
<td>2014</td>
<td>24.0%</td>
<td>6.4%</td>
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<tr>
<td>2015</td>
<td>27.0%</td>
<td>7.2%</td>
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<tr>
<td>2016</td>
<td>30.9%</td>
<td>8.0%</td>
</tr>
<tr>
<td>2017*</td>
<td>35.4%</td>
<td>8.9%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, Q4 2017
*Estimated

AVERAGE ANNUAL GROWTH RATES (2010-2016)

- 15% E-COMMERCE RETAIL SALES
- 4% IN-STORE TOTAL RETAIL SALES
BRICK-AND-MORTAR BRANDS ARE LEVERAGING E-COMMERCE

ONLINE VS. IN-STORE REVENUE GROWTH (2014-2017)

- E-commerce as a share of total revenue varies significantly by retailer category, brand and price point (ie: Williams-Sonoma vs. Walmart)
- In nearly all cases, e-commerce growth outpaces brick-and-mortar growth

BRICK-AND-MORTAR RETAILERS ABSORB THE MOST INDUSTRIAL SPACE

Source: CBRE Research, Internet Retailer
FORECAST E-COMMERCE GROWTH

RETAIL E-COMMERCE SALES

$ billion

Source: eMarketer, Q1 2017
MYTH 2: Consumers prefer shopping online.
CONSUMERS LOVE SHOPPING ONLINE...
THERE IS STILL A PLACE FOR PHYSICAL RETAIL, BUT ITS ROLE HAS CHANGED

THE STORE IS NOW A CHOICE

OMNICHANNEL

CONSUMER EXPECTATIONS HAVE SHIFTED

TIME

LOCATION

CONVENIENCE

CHOICE
MYTH 3:
The store will shrink
(and eventually disappear).
THE BIG BOX IS FAR FROM DEAD

HOWEVER THE BIG BOX LANDSCAPE IS SHIFTING TOWARDS OFF-PRICE AND DISCOUNT.
BUT STORES AREN’T ACTUALLY SHRINKING.

SOME BRANDS ARE GOING BIGGER.
WHAT ABOUT THE RISE OF SMALL-FORMAT STORES?

IT’S ABOUT ENTERING URBAN MARKETS...
AND THERE’S A BIGGER REASON WHY STORES WON’T GO AWAY: PROFIT

E-COMMERCE IS EXPENSIVE

• MAINTAINING AN OMNICHANNEL PLATFORM
• THE HIGH COST OF FREE DELIVERY
• THE EVEN HIGHER COST OF RETURNS...

2 MILLION TONS
(4 BN LBS) OF RETAIL RETURNS SENT TO LANDFILLS EACH YEAR

$260 BN
IN LOST REVENUE IN 2014

19%
OF THE TOP 250 RETAILERS SAY THEY CAN FULFILL OMNICHANNEL DEMAND PROFITABLY

SOURCE: NRF; JDA & PWC, "THE OMNICHANNEL FULFILLMENT IMPERATIVE", DECEMBER 2014
AND THERE’S A BIGGER REASON WHY STORES WON’T GO AWAY: PROFIT

STORES GENERATE PROFIT

• SPEND PER TRANSACTION IS HIGHER IN-STORE
• UPSELL OPPORTUNITIES WITH IN-STORE RETURNS
• THE ROLE OF A STORE IN ONLINE SALES
E-TAIL BRANDS RECOGNIZE THE VALUE OF BRICK-AND-MORTAR RETAIL
CLICKS-2-BRICKS ARE EXPANDING
CONCLUSIONS

THE HEADLINES ARE NOT THE FULL STORY

- Most retailers are reporting 2017 holiday sales increases above forecasts
- Tax plan should boost investment and earnings for retailers
- There will be more negative retailer news coming in early 2018 as marginal retailers are forced out of business or rationalize their store base
- However, the majority of the bankruptcies for open air retail tenants will decline substantially in 2018
- There are retailers who are making lots of money – ULTA, Zara, TJX, Ross, Home Depot, Nordstrom, etc. who are seeking to grow their store count
- Retailers have to implement ecommerce and accept lower margins. The good news is that for those retailers who adjust and thrive, they will be only one of a few choices for consumers (like Best Buy or Home Depot)
- 2018 could be a “vintage” year for investors to buy value add retail

EVOLUTION TO THE NEXT STAGE OF PHYSICAL RETAIL

- Brick-and-mortar won’t disappear, but retailers must rethink how they leverage the store within an omnichannel strategy to drive sales
- E-commerce will continue to grow, and physical store brands will continue to capture a large share of that growth
- Omnichannel success will depend in large part on a retailer’s ability to fulfill e-commerce demand profitably
- Consumers want to shop across channels with a seamless experience (“channel agnostic”)
- Retailers and landlords must adapt to consumers’ heightened demand for convenience, experience, and value
THE EVOLVING MALL
REDEVELOPMENT
MANHATTAN TOWN CENTER- MANHATTAN, KS

KEY FACTS

• Regional malls with 398,314 sf
• Anchored by Dillard’s and JCPenney
• Former Sears with 72,292 sf was demolished
• Replaced with Carmike with 59,900 sf and adjacent restaurant pad
• 13 screens including 575 seat IMAX theater and restaurant
• Opened in 2016
REDEVELOPMENT
PARKWAY PLAZA- SAN DIEGO, CA

KEY FACTS

• Added a two level Walmart in a vacant department store along with a Best Buy, Dick’s Sporting Goods, Home Goods, Office Depot, and Regal Cinemas

• Mall was originally developed by May Centers in 1972 most recent redevelopments were done by Westfield

• Westfield sold the center to Starwood Retail in 2013
ALTERNATIVE USES

ENTERTAINMENT/FOOD AND BEVERAGE
ALTERNATIVE USES
ONE HUNDRED OAKS- NASHVILLE, TN

KEY FACTS
• High vacancy for years redeveloped with the first floor occupied by retailers and second floor leased to Vanderbilt University Medical Center
• M & R Investors redeveloped the property and sold it to LaSalle Investment Management in 2012
• Fully leased
• 440,000 SF of retail space and 440,000 SF of Vanderbilt Medical Offices & Services
• Tenants: Vanderbilt University Medical, Guitar Center, HH Gregg, Michaels, T.J. Maxx, Electronic Express, PetSmart, Burlington Coat Factory, Ross Dress for Less, Chipotle, Logan’s Roadhouse, Regions Bank, Panera Bread, Panda Express, ULTA, BCBS of Tennessee
ALTERNATIVE USES
LEGRAN PLAZA- FORTH WORTH, TX

KEY FACTS

• First mall developed by Homart Development Company in 1962
• Redeveloped it into a Mexican festival marketplace catering to the large and growing Hispanic trade area
• GLA: 1,077,782 sf
• Tenants: Burlington Coat Factory, Everest College, Cinema Latino, Ross Dress for Less, Anna’s Linens, Claire’s, Foot Action, and Fiesta Grocery
• 125,000 sf Mercado
ALTERNATIVE USES
THE CASTLE- SAN ANTONIO, TX

KEY FACTS

• Originally developed by Simon and opened in 1974
• Demographic and competitive changes beginning in the 1990’s contributed to a nearly vacant property by 2005
• Rackspace purchased the mall in 2012 and has converted it into their corporate campus for 3,200 employees
• Approximately half of the 1.2 million sf property has been redeveloped to date and includes 80 conference rooms, cable car gondolas, a coffee shop and fitness center
• Redevelopment has been a catalyst for retail and multi-family residential developments near the Castle
• Based on this success, Rackspace in 2014 leased the former Dillard's space at Highland Mall in Austin, TX to consolidate their employees
ALTERNATIVE USES

EAGLE ROCK PLAZA- LOS ANGELES, CA
WESTFIELD SOUTHCENTER- SEATTLE, WA

KEY FACTS

• Experimenting with supermarket tenants including Seafood City
• Seafood City has a mix of Asian and Filipino-influenced offerings with practical products to serve a diverse population
• The supermarket features fresh seafood and meat departments, a wide selection of fresh produce, bakery, health and beauty, as well as quick grab-and-go options
QUESTIONS?
THANK YOU.