

Retail Year in Review 2015

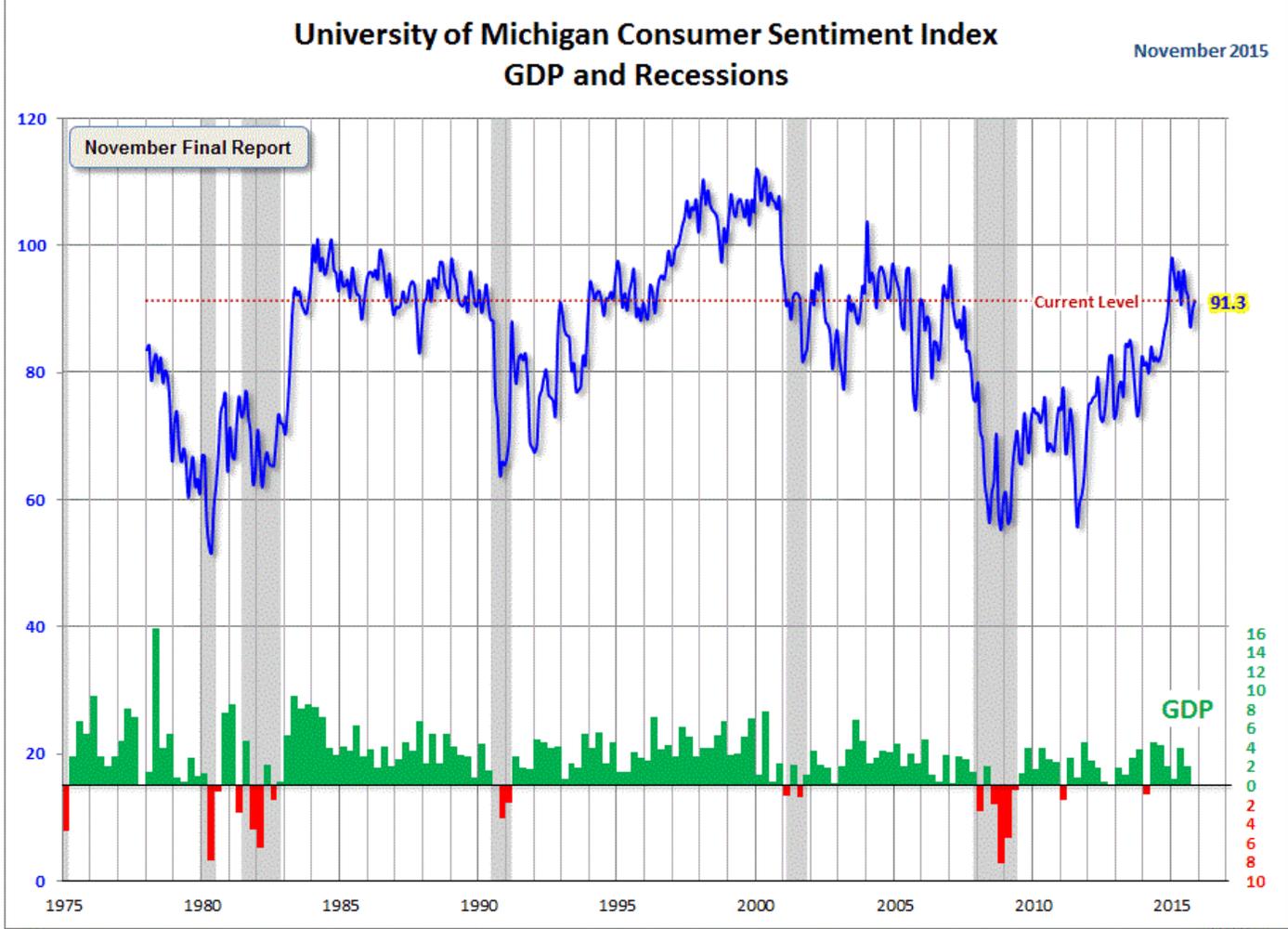


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Consumer Sentiment in U.S. Continues to Remain High

University of Michigan – Thompson Reuters Consumer Sentiment Survey November 2015



Source: Advisor Perspectives, Inc.

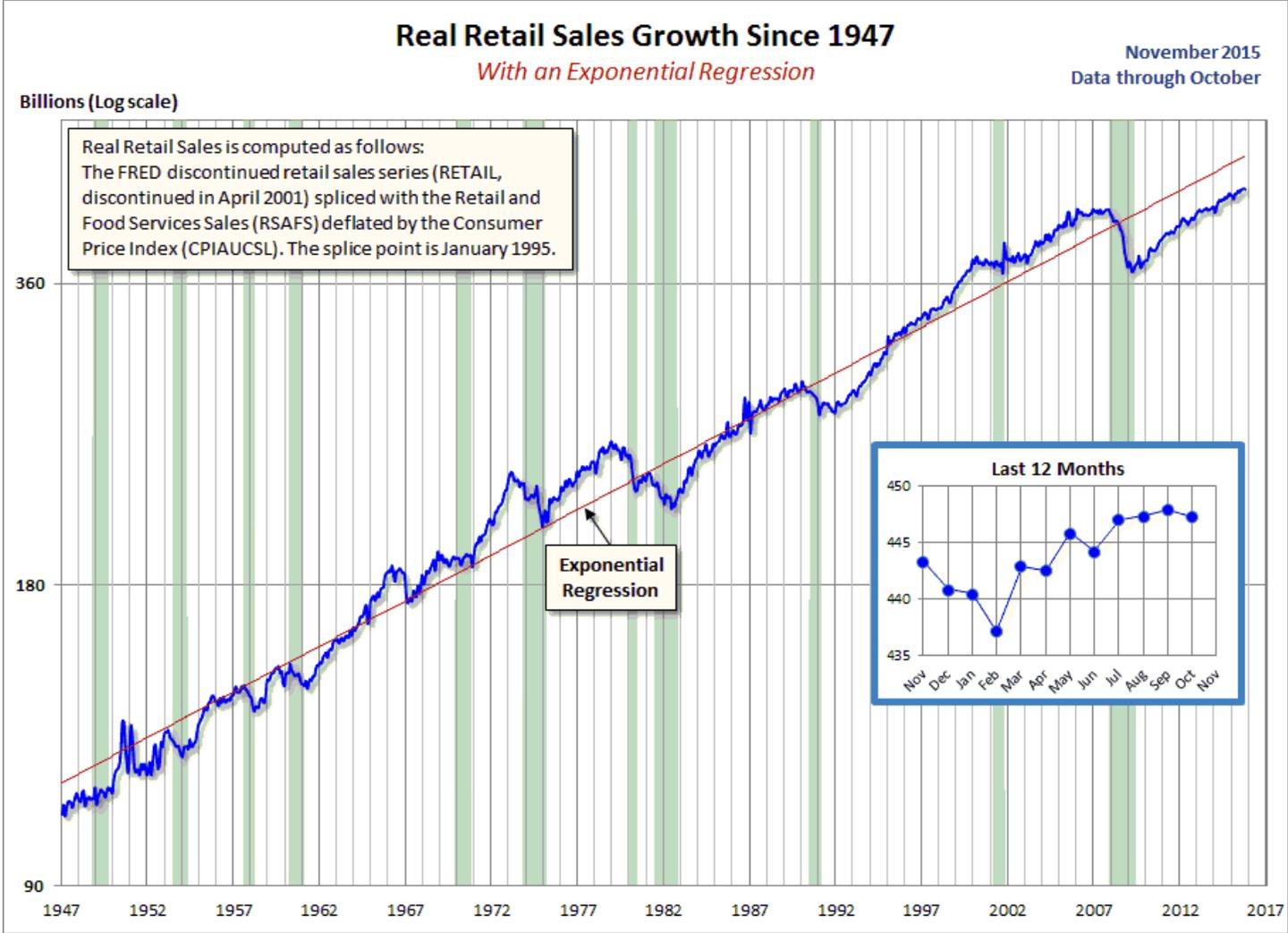
Consumer Sentiment in U.S. Continues to Remain High (cont.)

"The more guarded outlook of high-income consumers reflects a slightly weaker outlook for their own personal finances and has prompted a greater insistence on discounted prices and low interest rates,"

"Middle- and lower-income households expect somewhat larger income gains than they enjoyed in the past, but their insistence on discounts is no less than before."

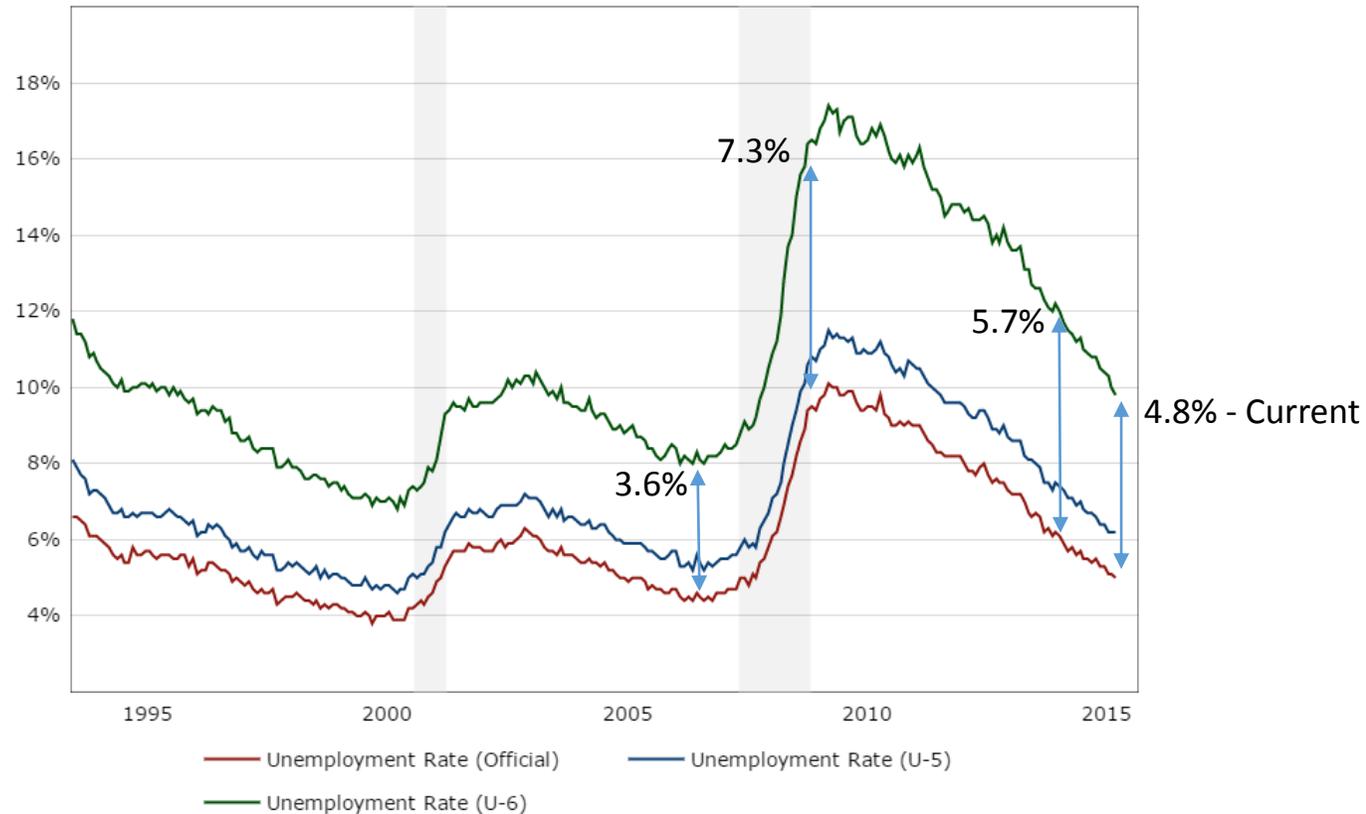
- Richard Curtin, Survey Director, University of Michigan

Overall Retail Sales Continue Overall Increase



Source: Advisor Perspectives, Inc.

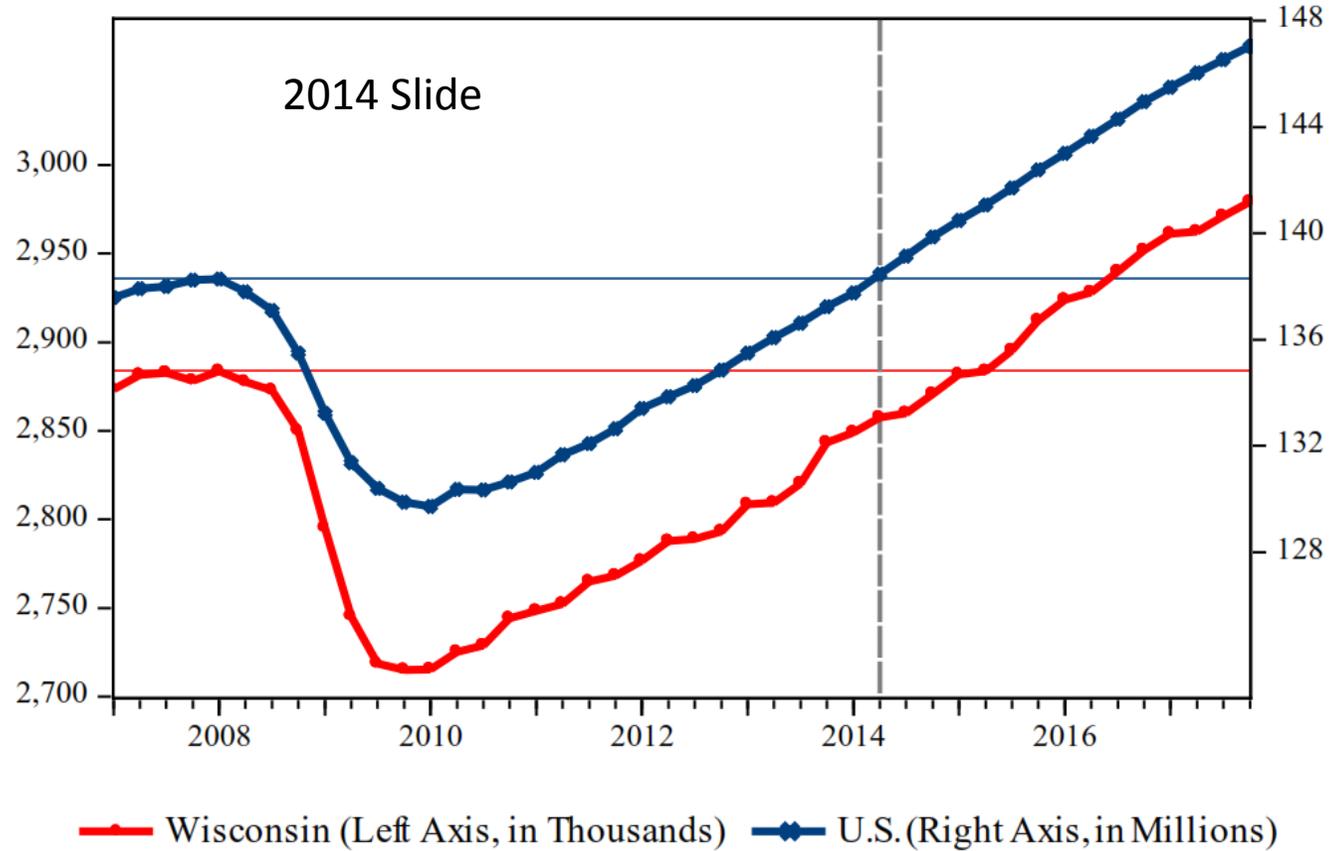
National Unemployment Trending Down



October 2015	
Official (U-3)	5.0%
U-5	6.2%
U-6	9.8%
U-6 less U-3	4.8%

Source: US Bureau of Labor Statistics, Macrotrends

Wisconsin Employment Pre-Recession Levels by Mid-2015



Source: WI Department of Revenue

Wisconsin Unemployment At Pre-Recession Levels

Unemployment Rate	October 2015	Month/Month	Year/Year
National	5.0%	-0.1	-0.7
Wisconsin	4.3%	0.0	-1.0

Unemployment Rate: Wisconsin, National

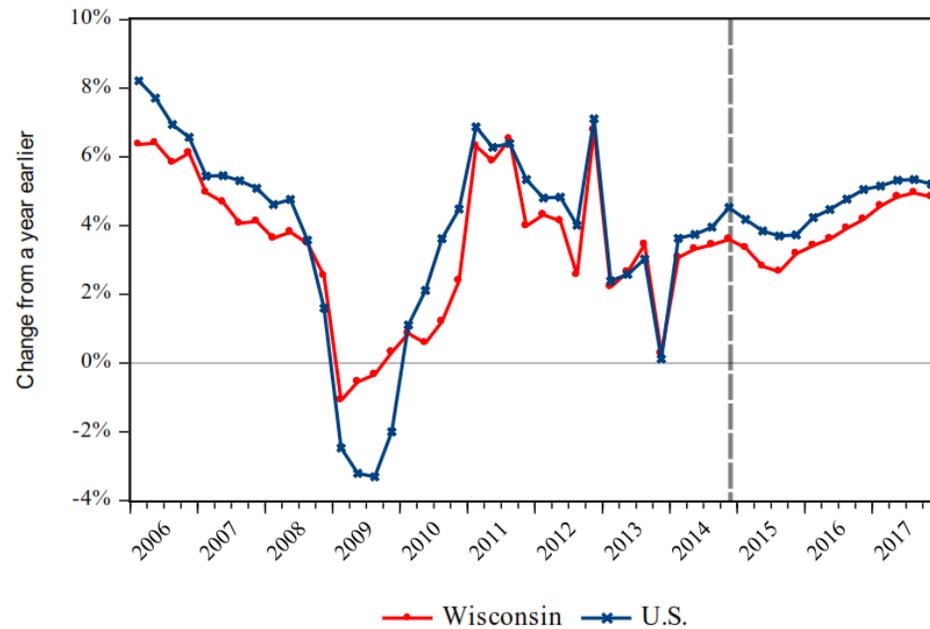


Note: Recessions shown in gray

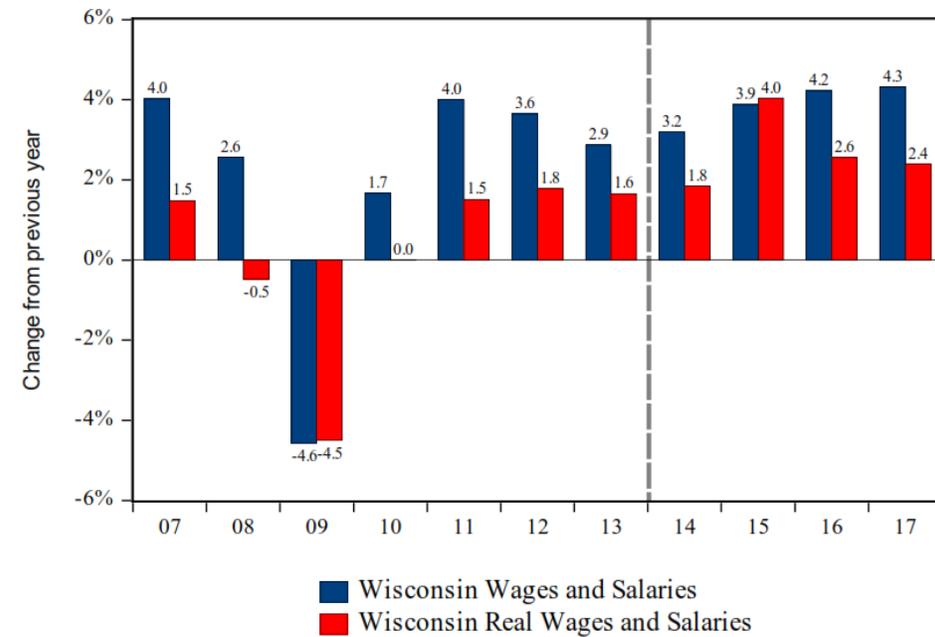
Source: Department of Numbers

WI and US Personal Income Trends

Personal Income Growth



Wages and Salaries Growth

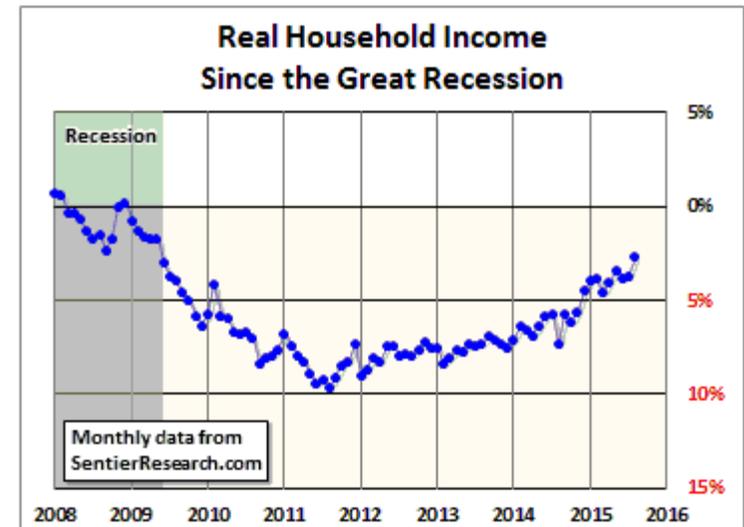
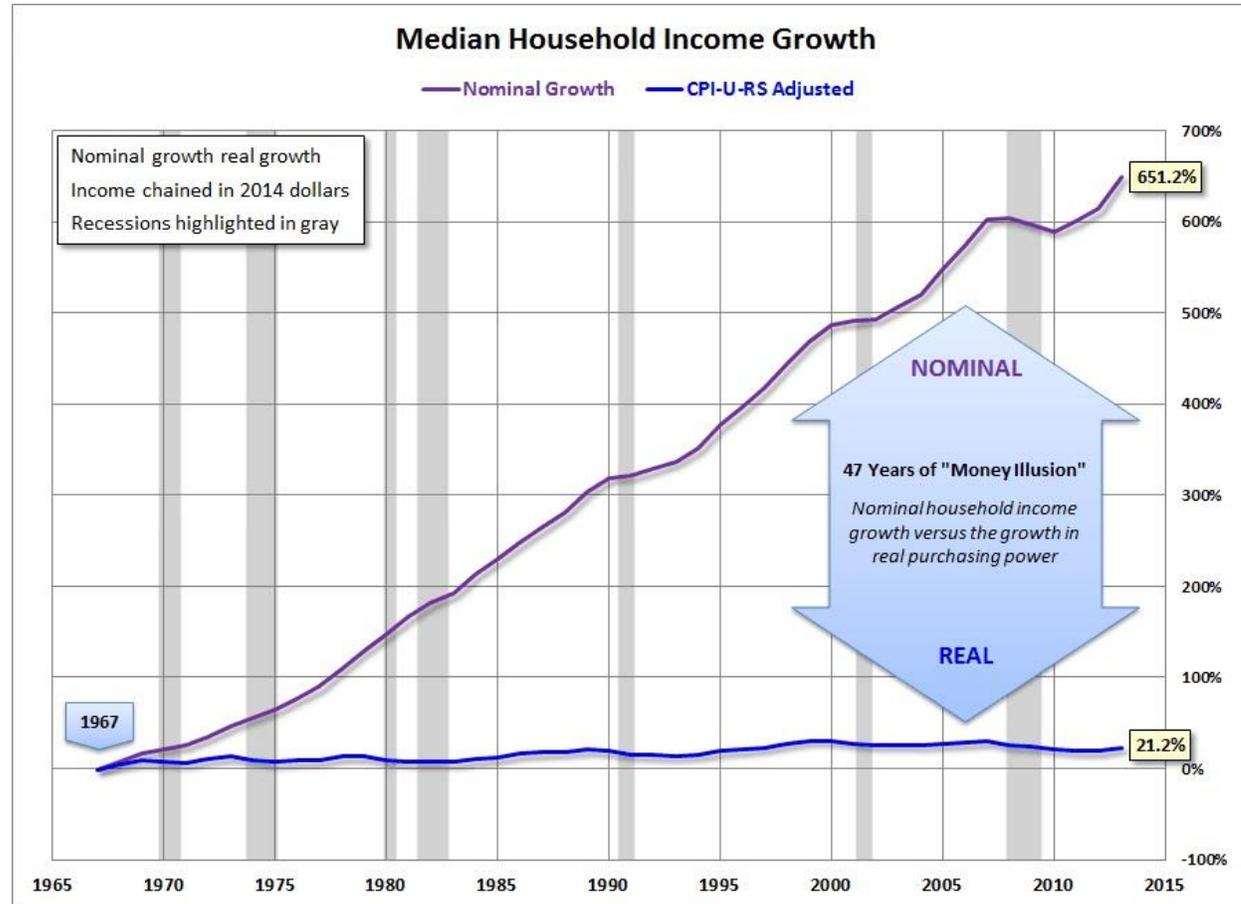


Source: WI Department of Revenue

But . . .

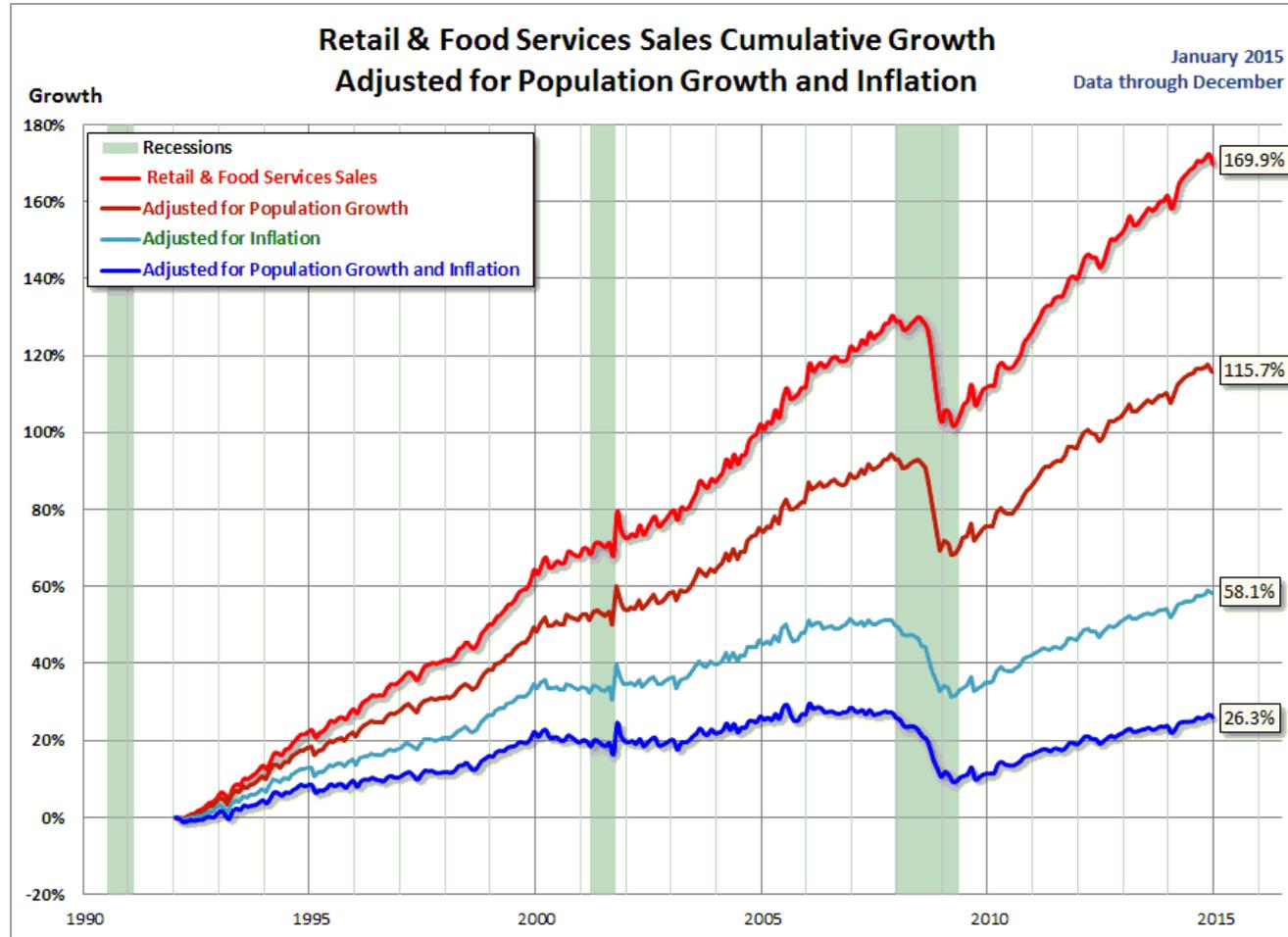
Nominal Income Growth vs Actual Purchasing Power

Median Household Income Growth Since 1965



Source: Advisor Perspectives, Inc.

Four Perspectives of Retail Growth



Retail Expansion Potential

- Despite growing confidence, **the most recent recession has had lasting impact on consumer psychology**
- **Real consumer spending**, which accounts for roughly two thirds of the demand in the U.S., **has not grown significantly since 2004**
- The fact that **real** wages and salaries haven't picked up that dramatically, **consumers are limited with how much retail spending can accelerate**

Retail sectors affected by current trends

Growth Areas

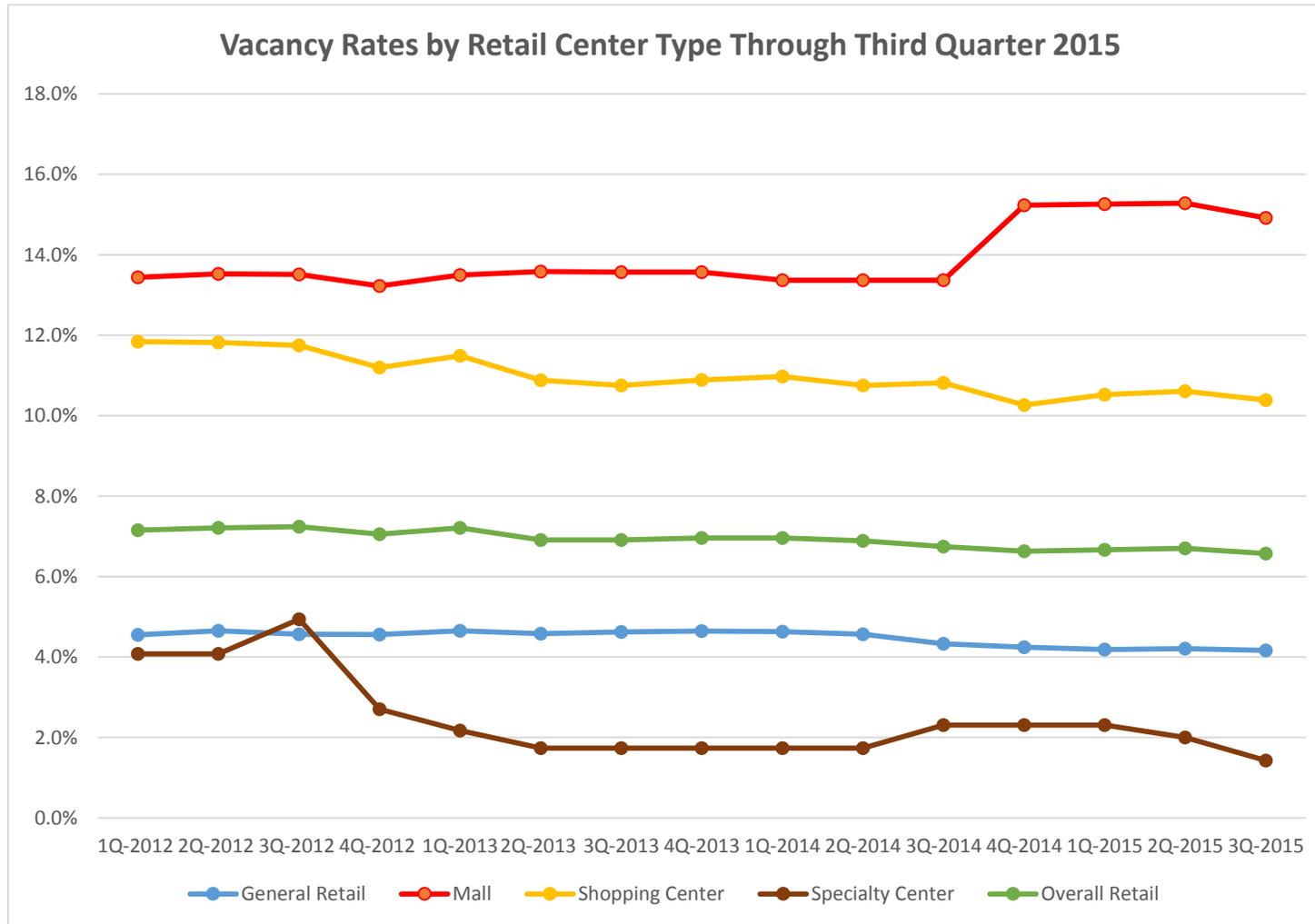
- Fitness/Health/Spa Concepts
- Drug Stores
- Thrift Stores
- Grocery (Smaller Format Concepts)
 - Discount
 - Organic
 - Upscale
- Fast Food / Fast Casual Restaurants
- Automotive
- Discounters
- Dollar Stores

Contraction Areas

- Bookstores
- Video Stores
- Do-It-Yourself Home Stores
- Mid-priced apparel
- Mid-priced grocery
- Office Supplies
- Stationary/Gift Shops
- Shipping/Postal Stores
- And Casual Dining

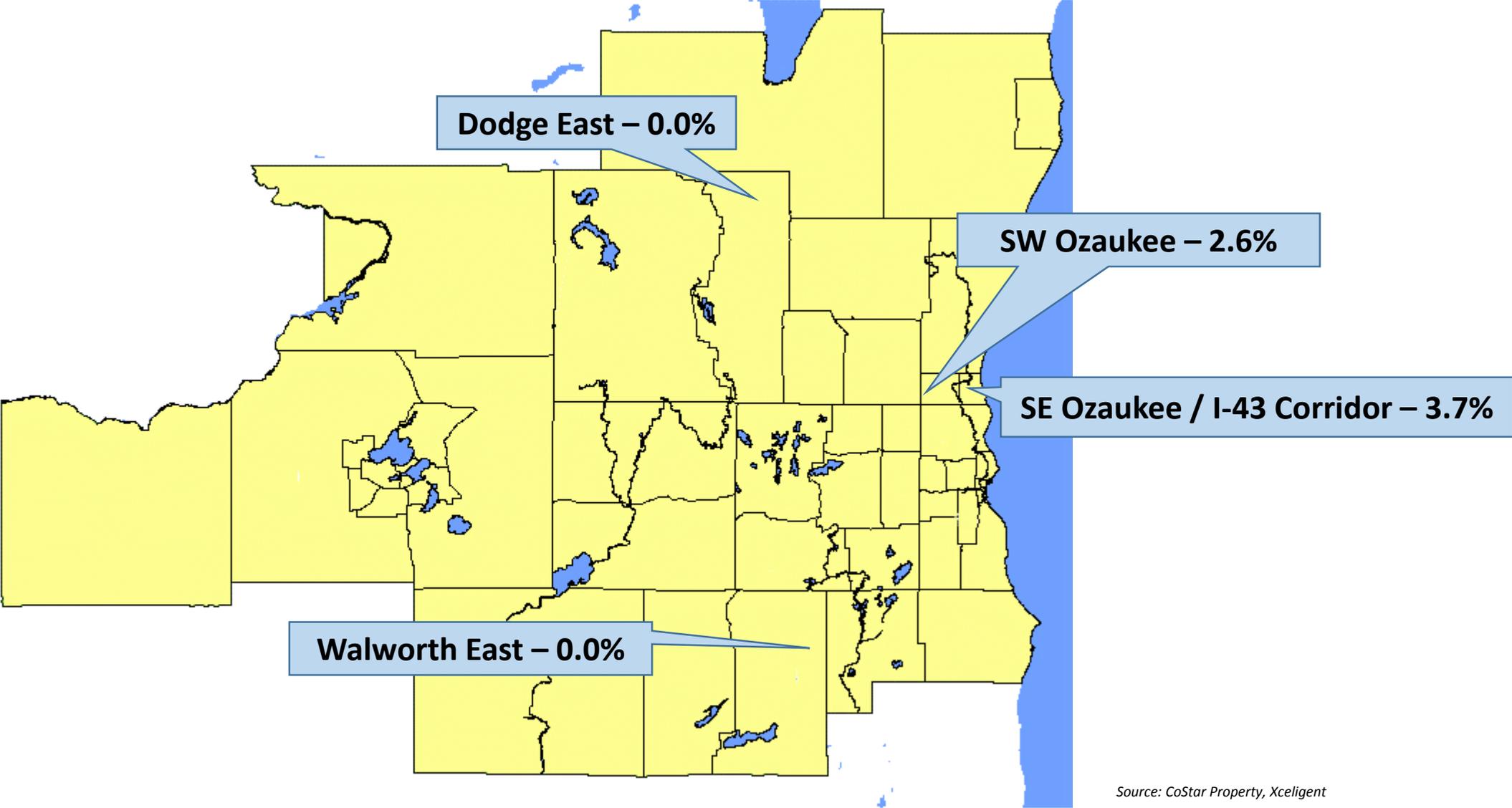
Milwaukee Metropolitan Area Statistics

Vacancy Rates by Retail Center Type



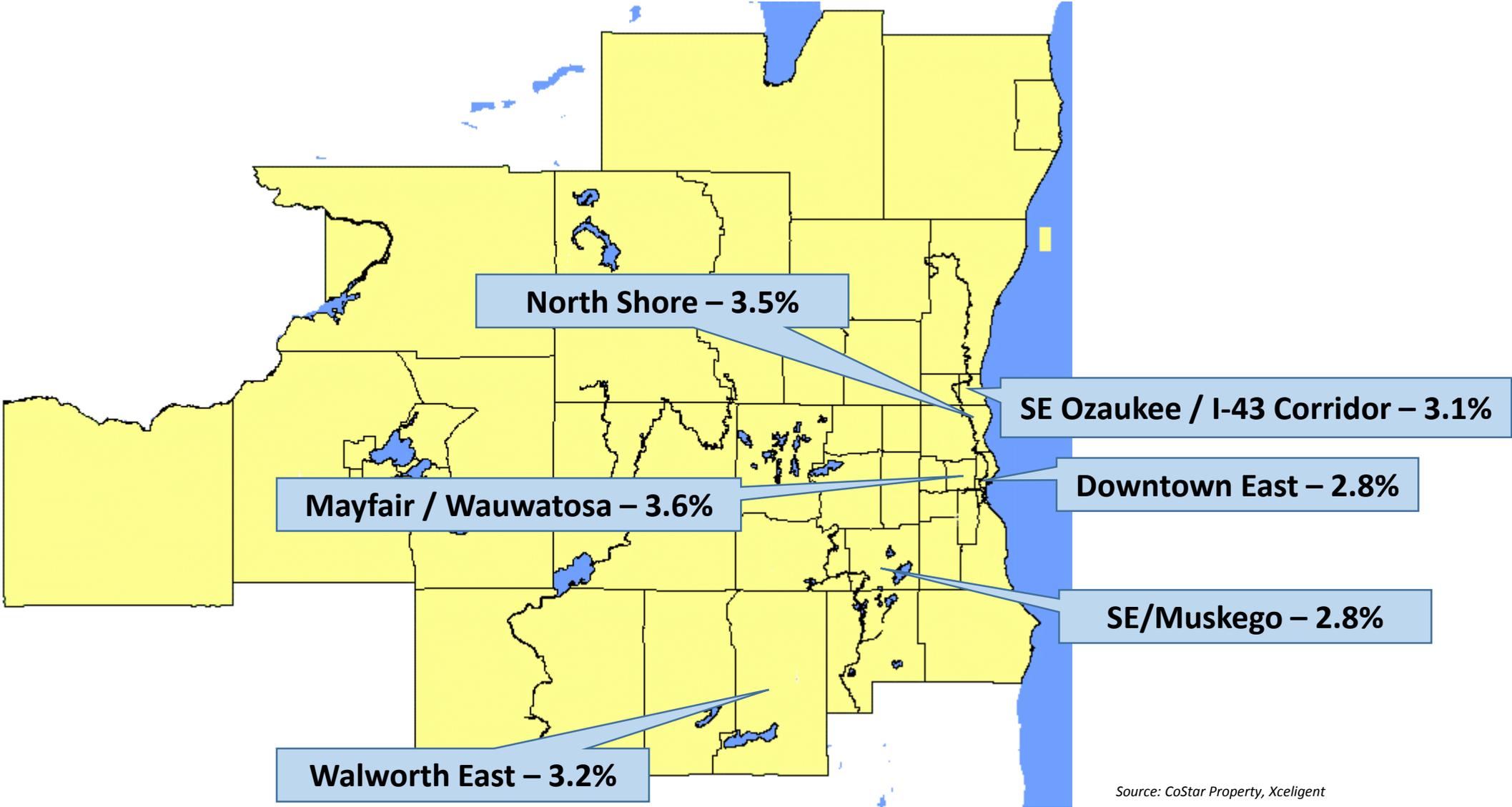
Source: CoStar Property®

Lowest Shopping Center Vacancy Submarkets - 3Q 2015



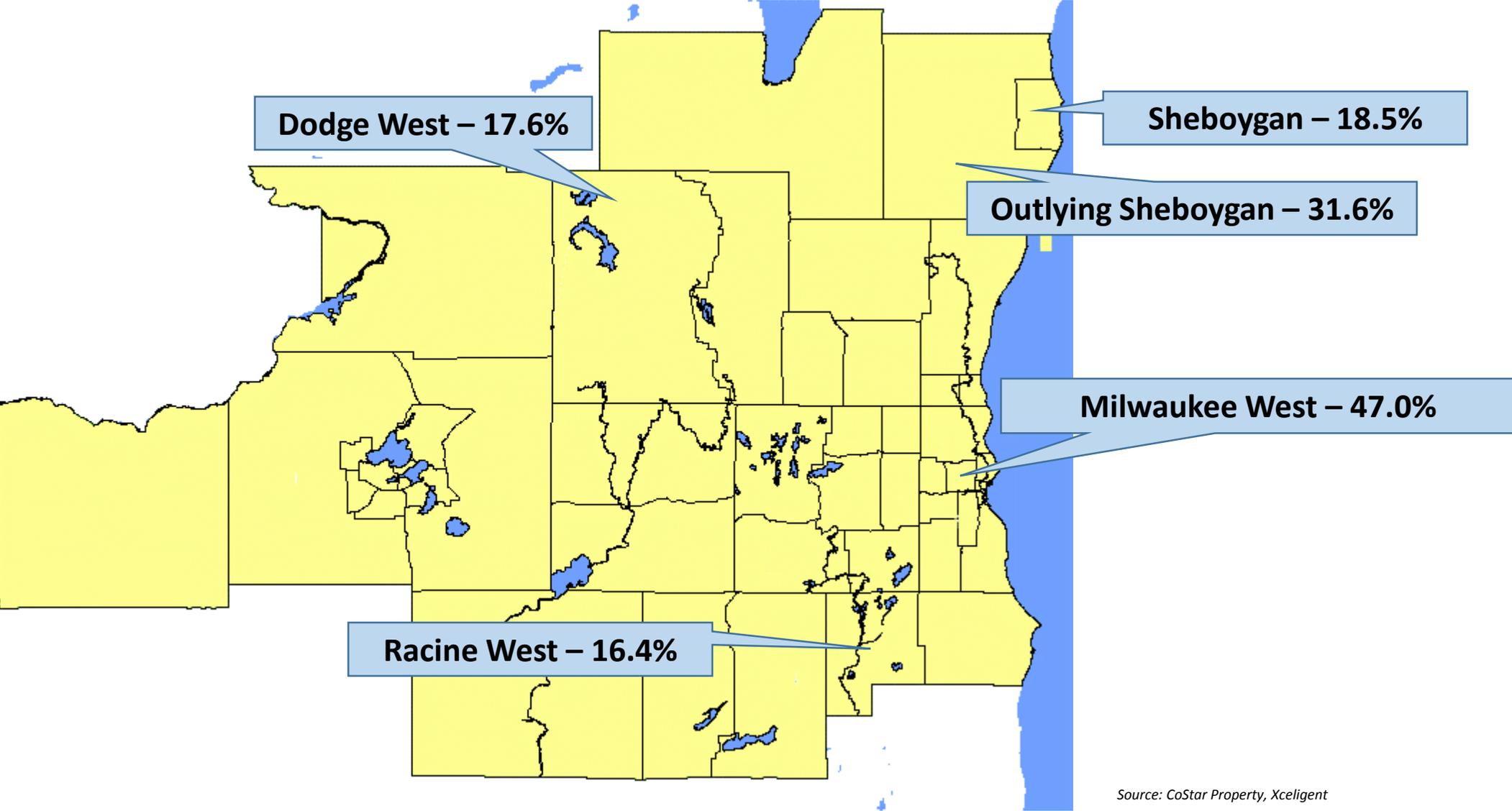
Source: CoStar Property, Xceligent

Lowest Overall Retail Vacancy Submarkets - 3Q 2015



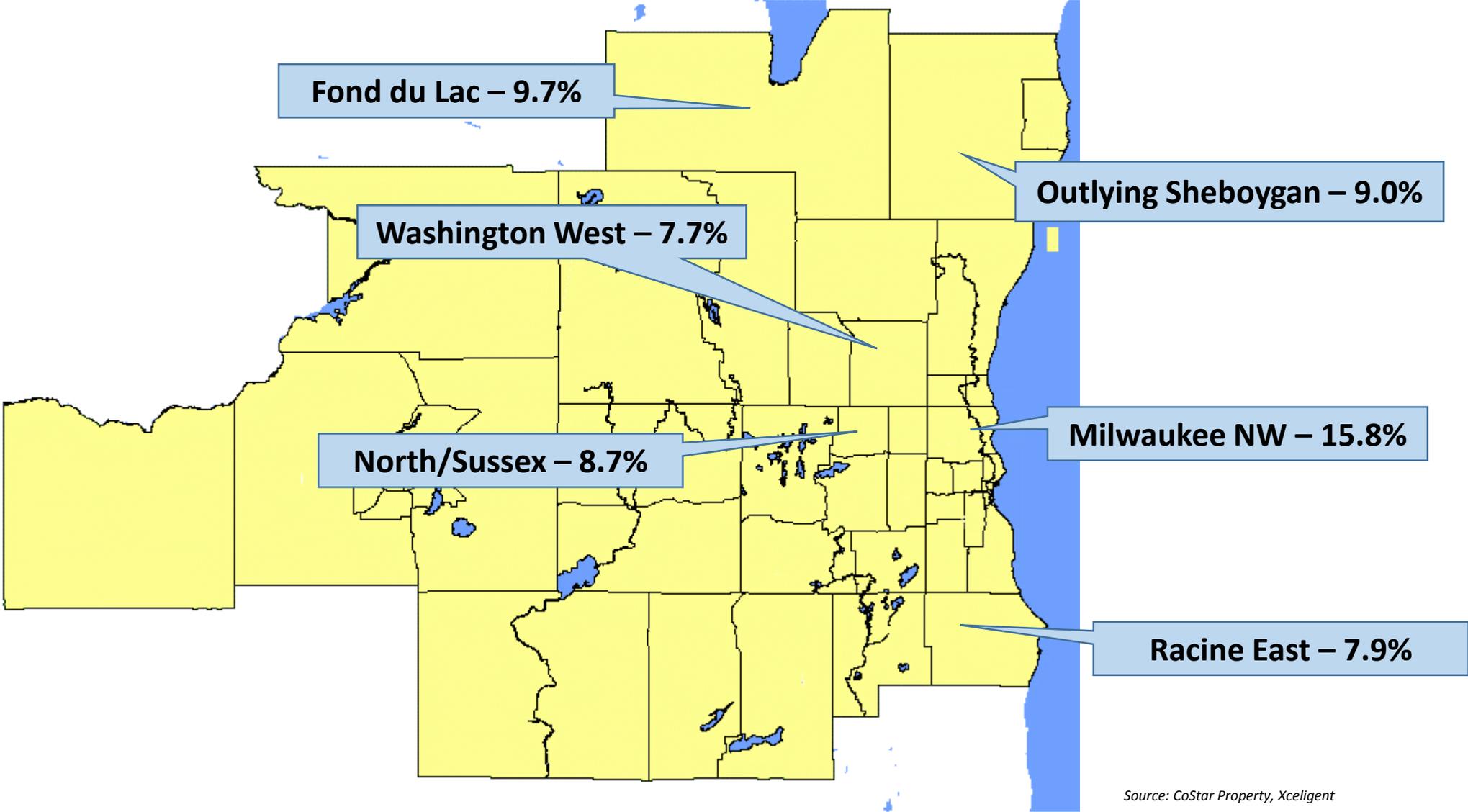
Source: CoStar Property, Xceligent

Highest Shopping Center Vacancy Submarkets - 3Q 2015



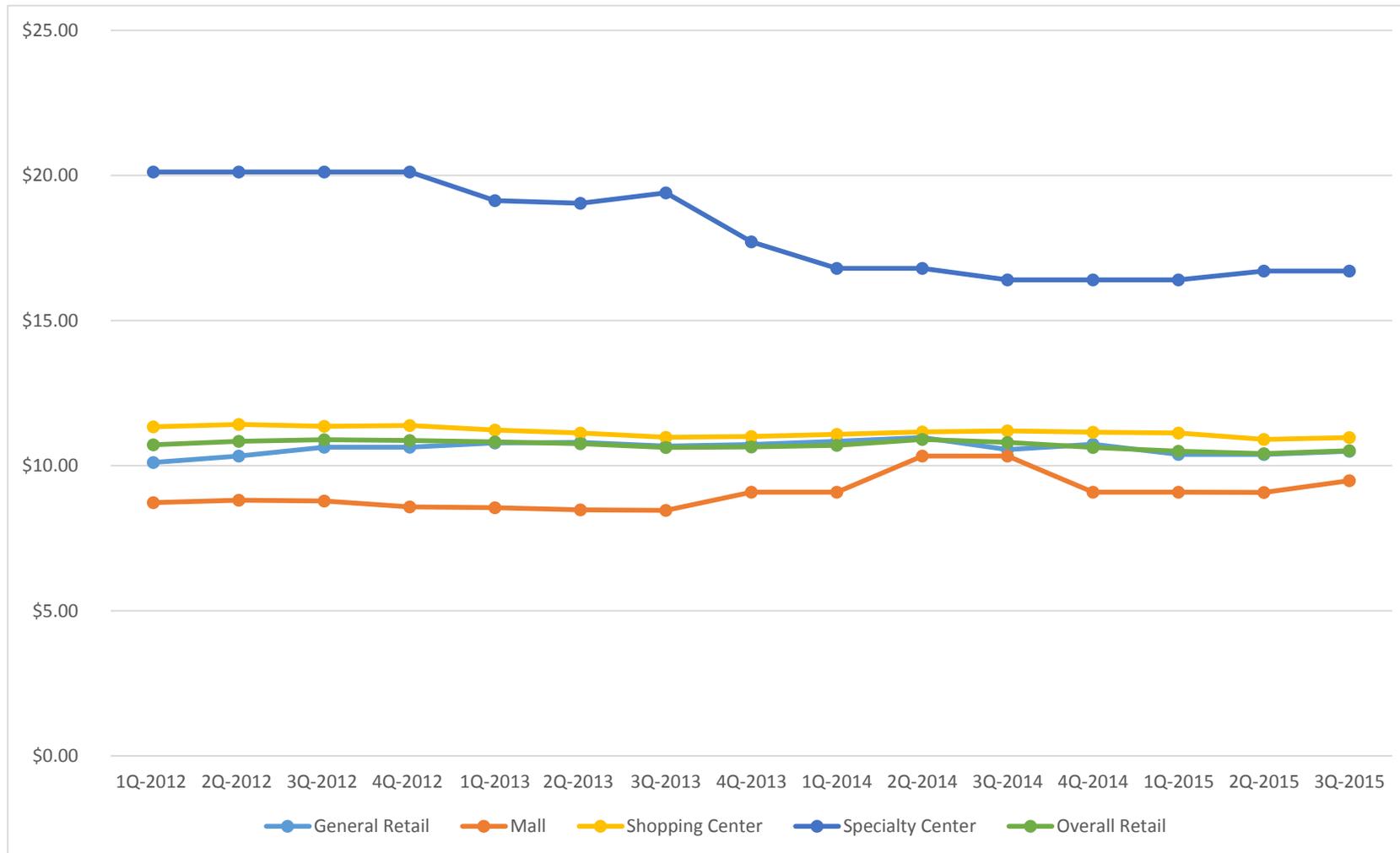
Source: CoStar Property, Xceligent

Highest Overall Retail Vacancy Submarkets - 3Q 2015

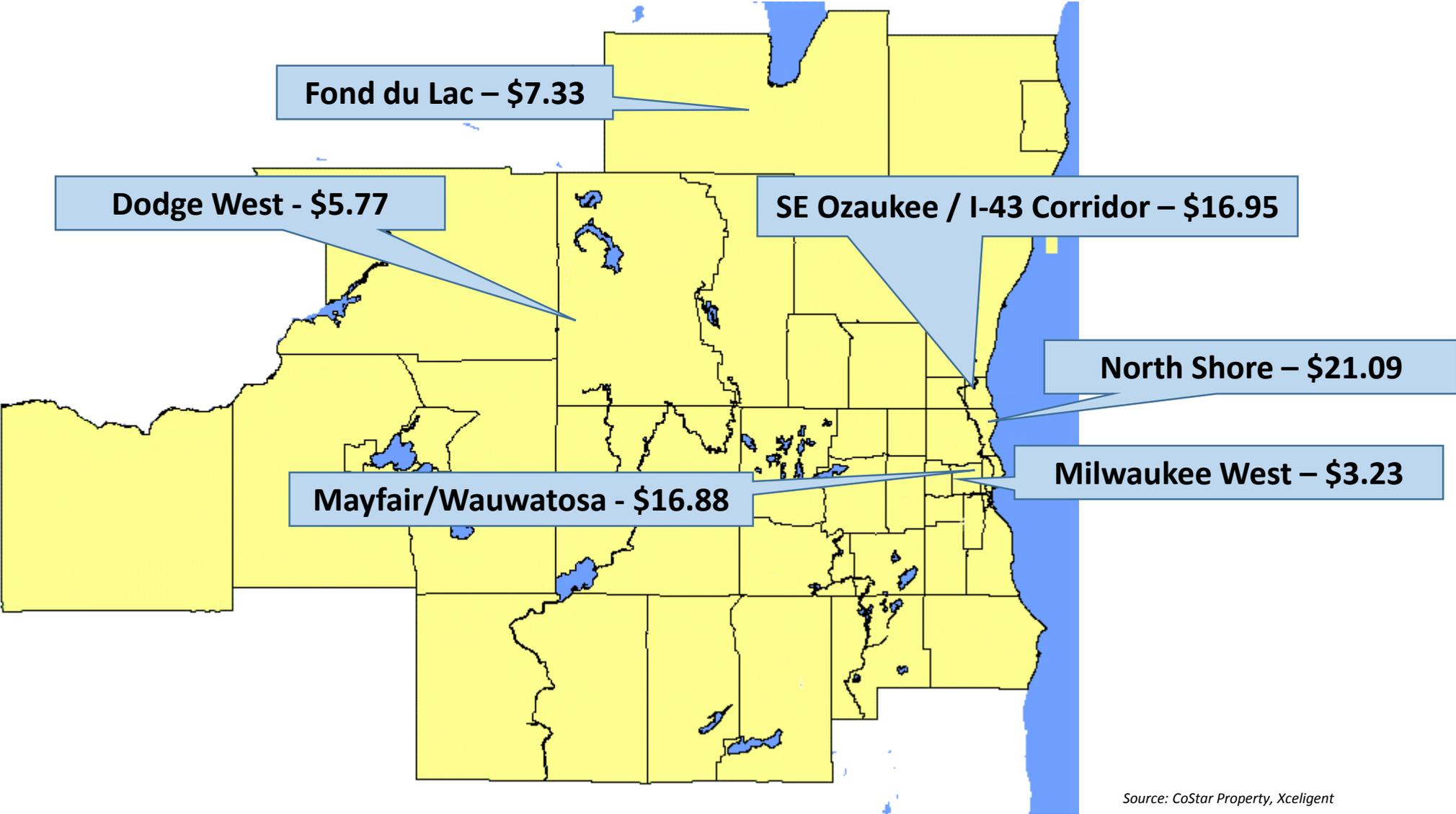


Source: CoStar Property, Xceligent

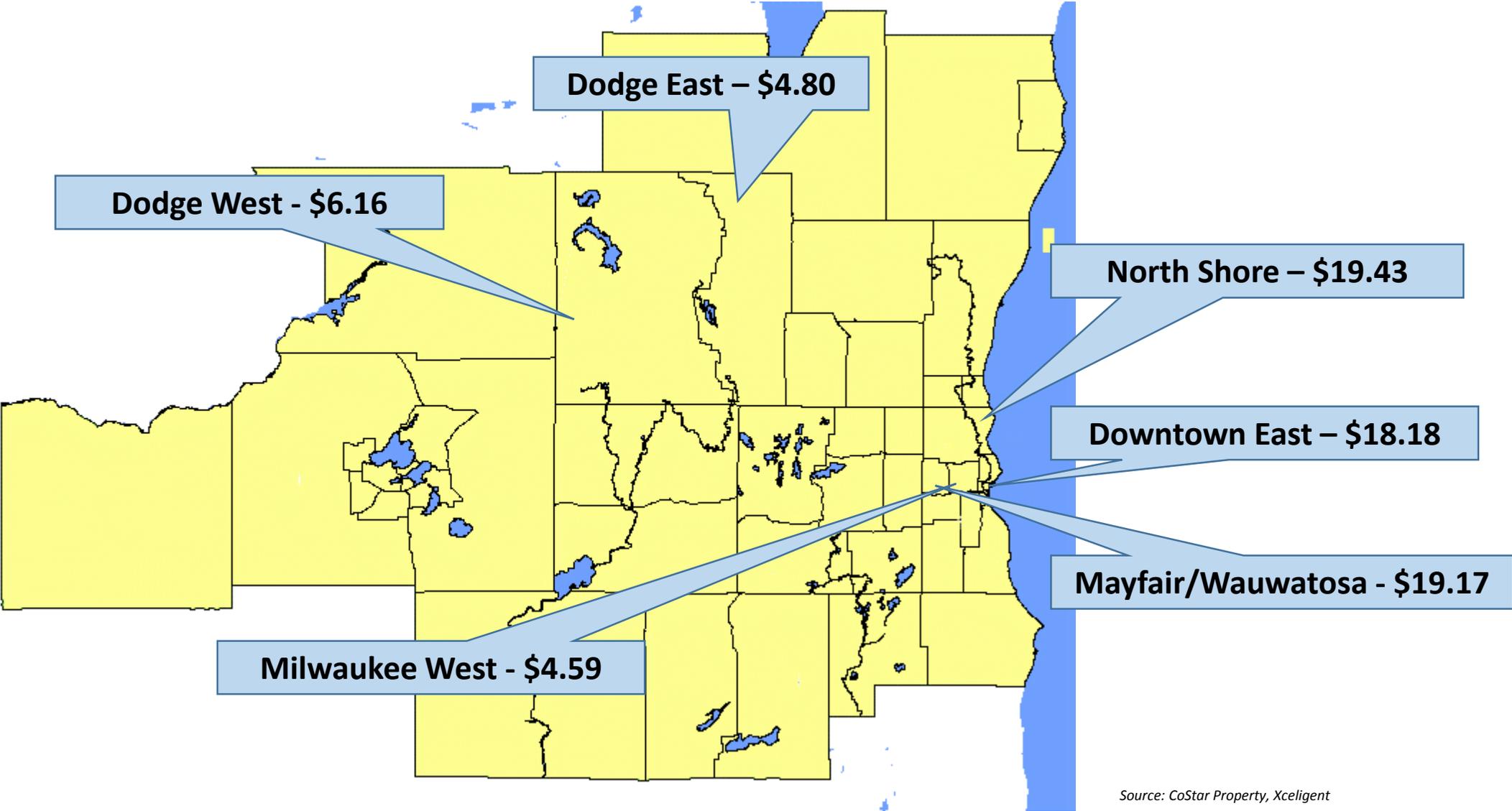
Rental Rates by Retail Center Type



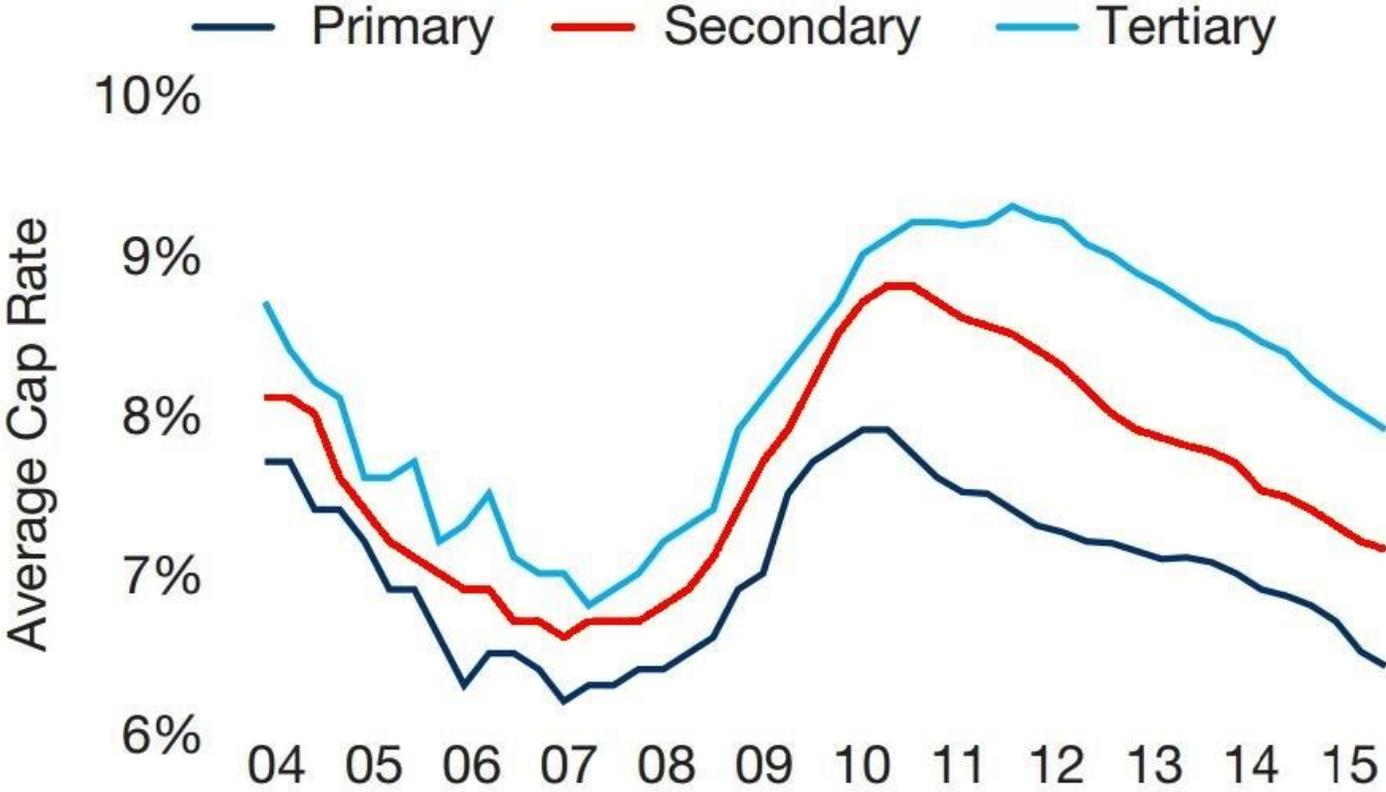
Shopping Center Quoted Rates - Submarkets - 3Q 2015



Overall Retail Quoted Rates - Submarkets - 3Q 2015



National Retail Cap Rates



Source: Real Capital Analytics, Marcus & Millichap

Single-Tenant Net Lease Market 2014

Drug Stores						
Median Asking Cap Rate by Lease Term Remaining						
Term Remaining	Walgreens		CVS		Rite Aid	
Year	2014	2015	2014	2015	2014	2015
20+	5.50%	5.00%	5.50%	5.00%	N/A	6.15%
15-19	5.65%	5.50%	5.90%	5.25%	7.00%	N/A
10-14	5.90%	5.60%	6.08%	5.83%	7.30%	6.65%
6-9	6.63%	6.75%	7.42%	6.60%	8.50%	7.15%
5 & Under	7.34%	6.90%	7.75%	7.00%	8.75%	8.00%

Auto Parts Retailers						
Median Asking Cap Rate by Lease Term Remaining						
Term Remaining	Advance Auto Parts		O'Reilly Auto Parts		AutoZone	
Year	2014	2015	2014	2015	2014	2015
18-20	N/A	N/A	6.00%	5.75%	5.90%	N/A
15-17	6.41%	5.80%	6.25%	5.90%	5.96%	5.55%
10-14	6.64%	6.25%	6.75%	6.10%	6.20%	5.95%
6-9	7.23%	7.08%	7.00%	6.75%	6.31%	6.65%
Under 5	7.82%	7.75%	N/A	7.95%	6.84%	7.00%

Source: The Boulder Group, Xceligent, Loopnet, CoStar Comps

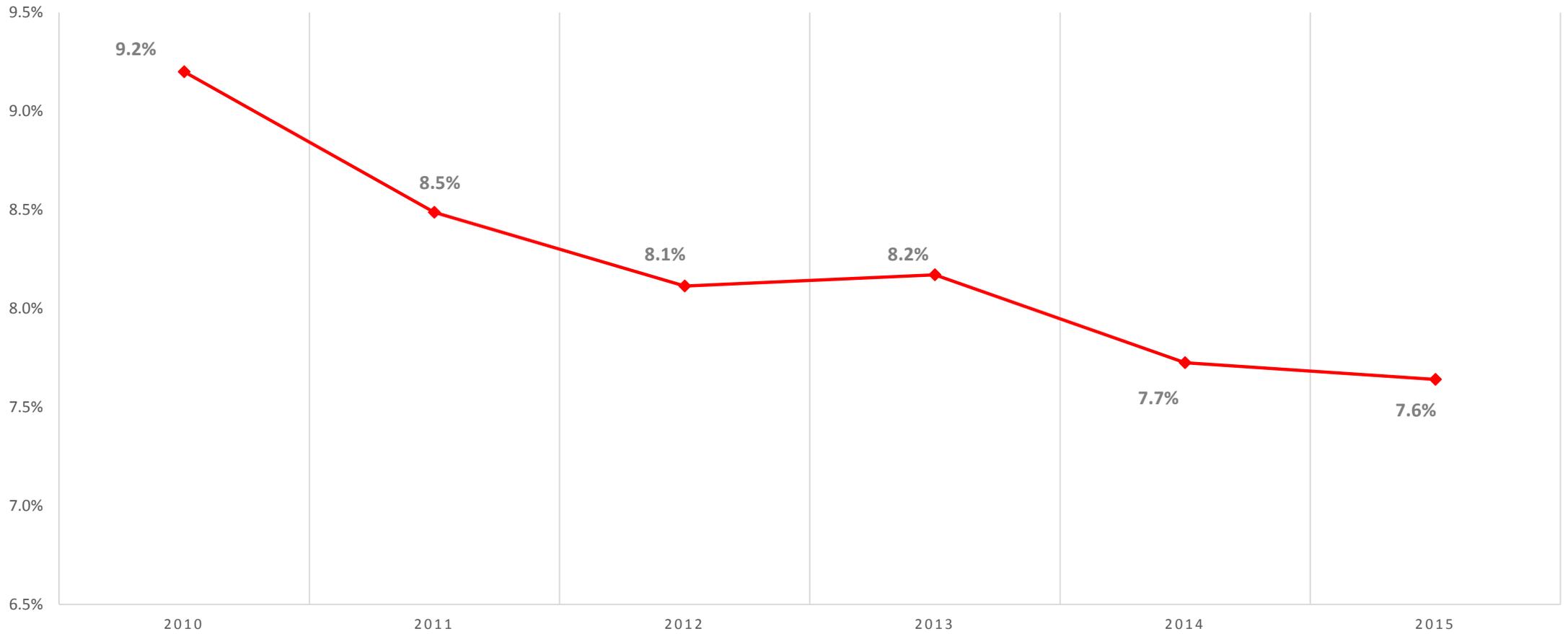
Single-Tenant Net Lease Market 2014

Dollar Stores				
Median Asking Cap Rate by Lease Term Remaining				
Years Remaining	Dollar General		Dollar Tree	
Year	2014	2015	2014	2015
15-12	6.50%	6.40%	N/A	N/A
11-9	7.50%	6.98%	6.80%	6.75%
8-6	7.75%	7.65%	7.37%	7.25%
5-3	8.42%	8.25%	8.25%	7.54%
0-2	8.90%	8.40%	8.90%	8.35%

Quick Service Restaurants (Corp and Franchisee)		
Median Asking Cap Rate by Lease Term Remaining		
Lease Term Remaining	Cap Rate	
Year	2014	2015
20+	5.80%	5.64%
15-19	6.10%	5.75%
14-10	6.35%	5.96%
Under 10	6.80%	6.30%

Source: The Boulder Group, Xceligent, Loopnet, CoStar Comps

Milwaukee Metro Shopping Center Average Cap Rate



Source: Xceligent, Loopnet, CoStar

Cap Rate Compression

- Current cap rates **reflect the returns on alternative investments** rather than underlying property fundamentals
- Baby boomers are **moving capital out of the multifamily and equity markets, and into net-leased assets** as a perceived long-term, low-risk, cash-flow investment.
- In addition to risk-averse buyers, **foreign investors** are looking toward **capital preservation**

Final Thoughts on Cap Rates

- Capital is migrating to the Midwest, especially from the coasts, attracted by higher yields and less fierce competition for available assets than in the investors' home markets.
- As prices trend upward, buyers have become more selective, which is beginning to level off cap rates.

Thank You



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