

Retail Year in Review 2014

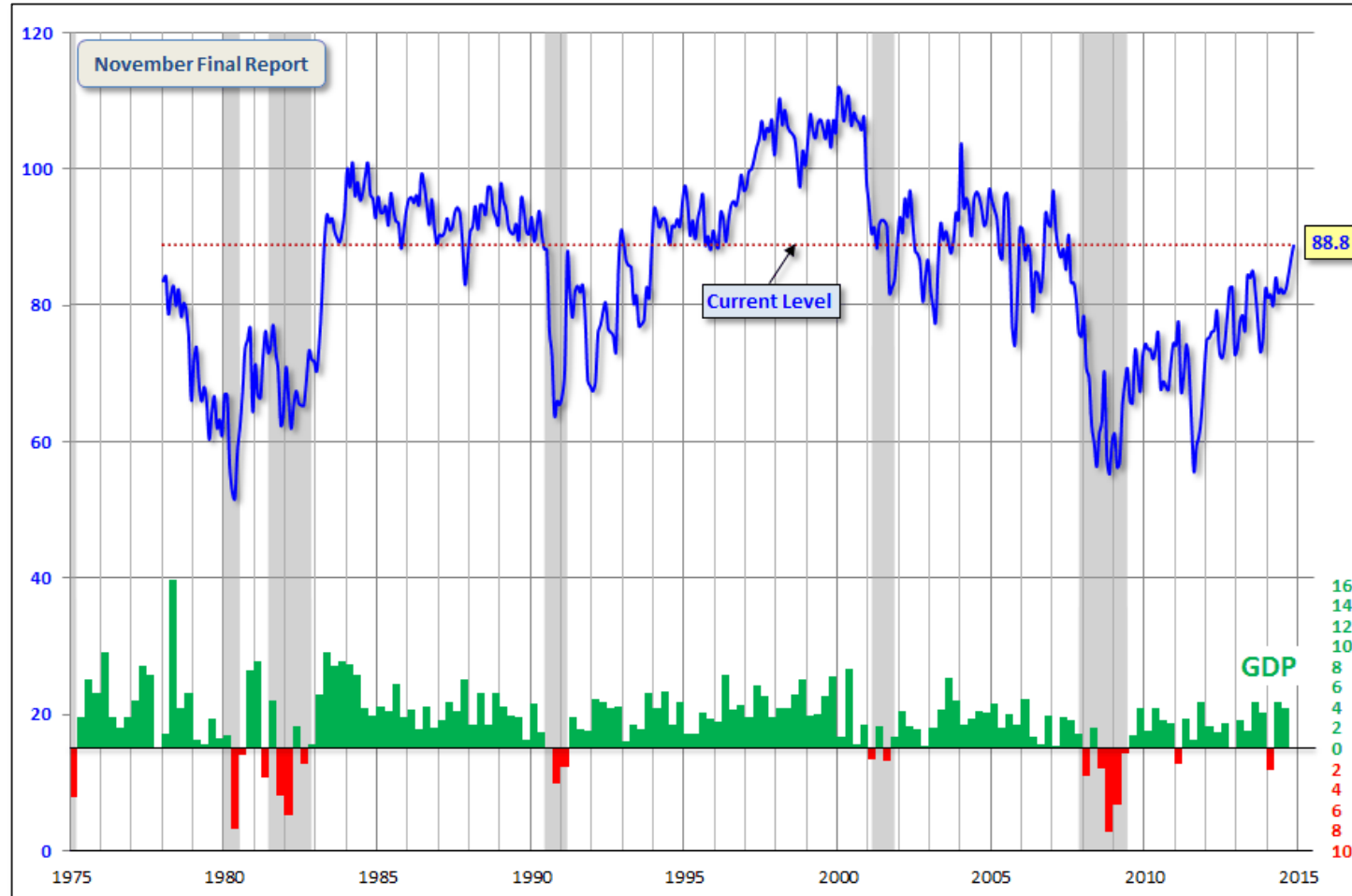


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Consumer Sentiment in U.S. Rises to Highest in Seven Years

University of Michigan – Thompson Reuters Consumer Sentiment Survey November 2014



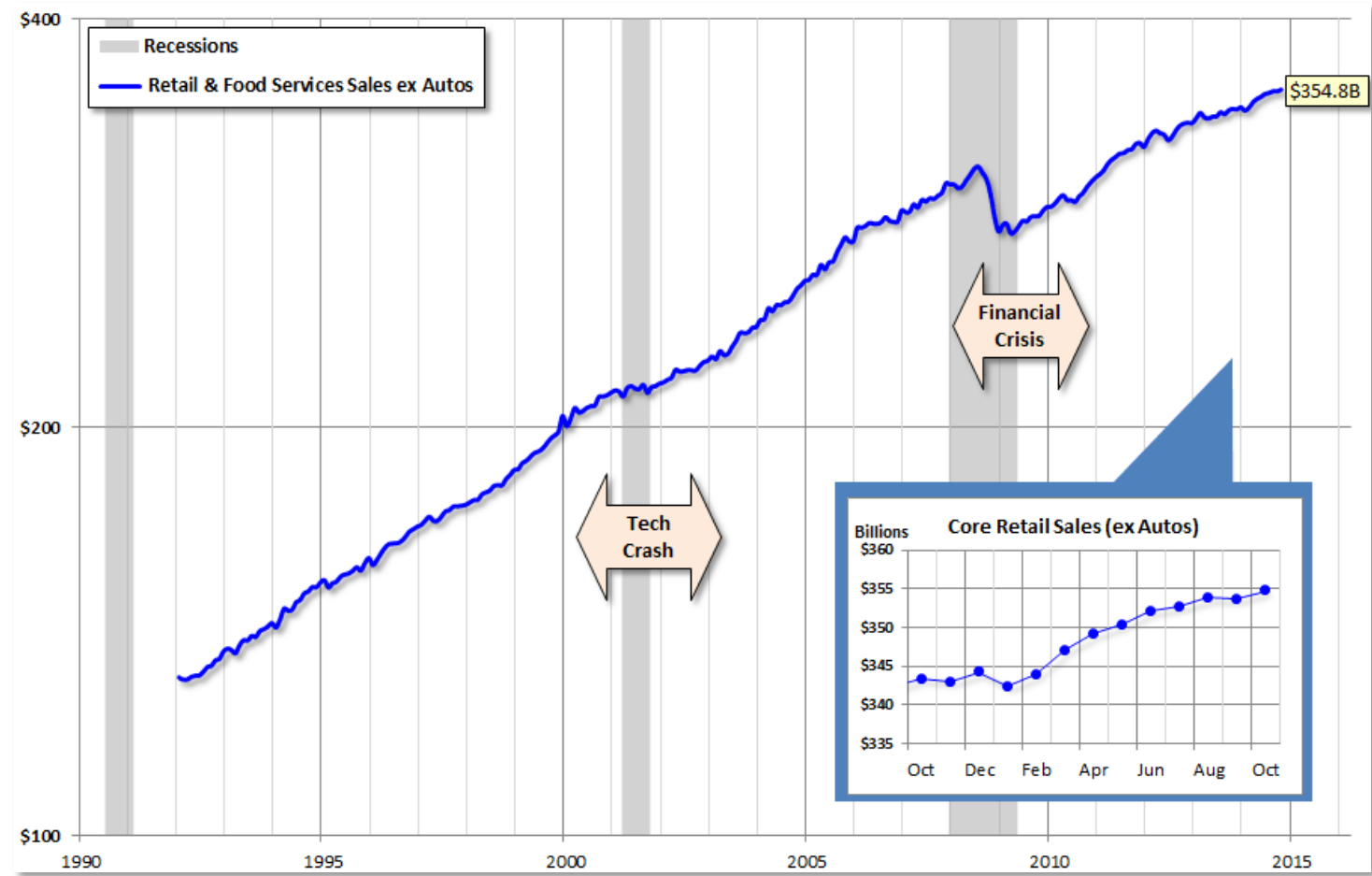
Source: Advisor Perspectives, Inc.

Consumer Sentiment in U.S. Rises to Highest in Seven Years (cont.)

Primary Drivers:

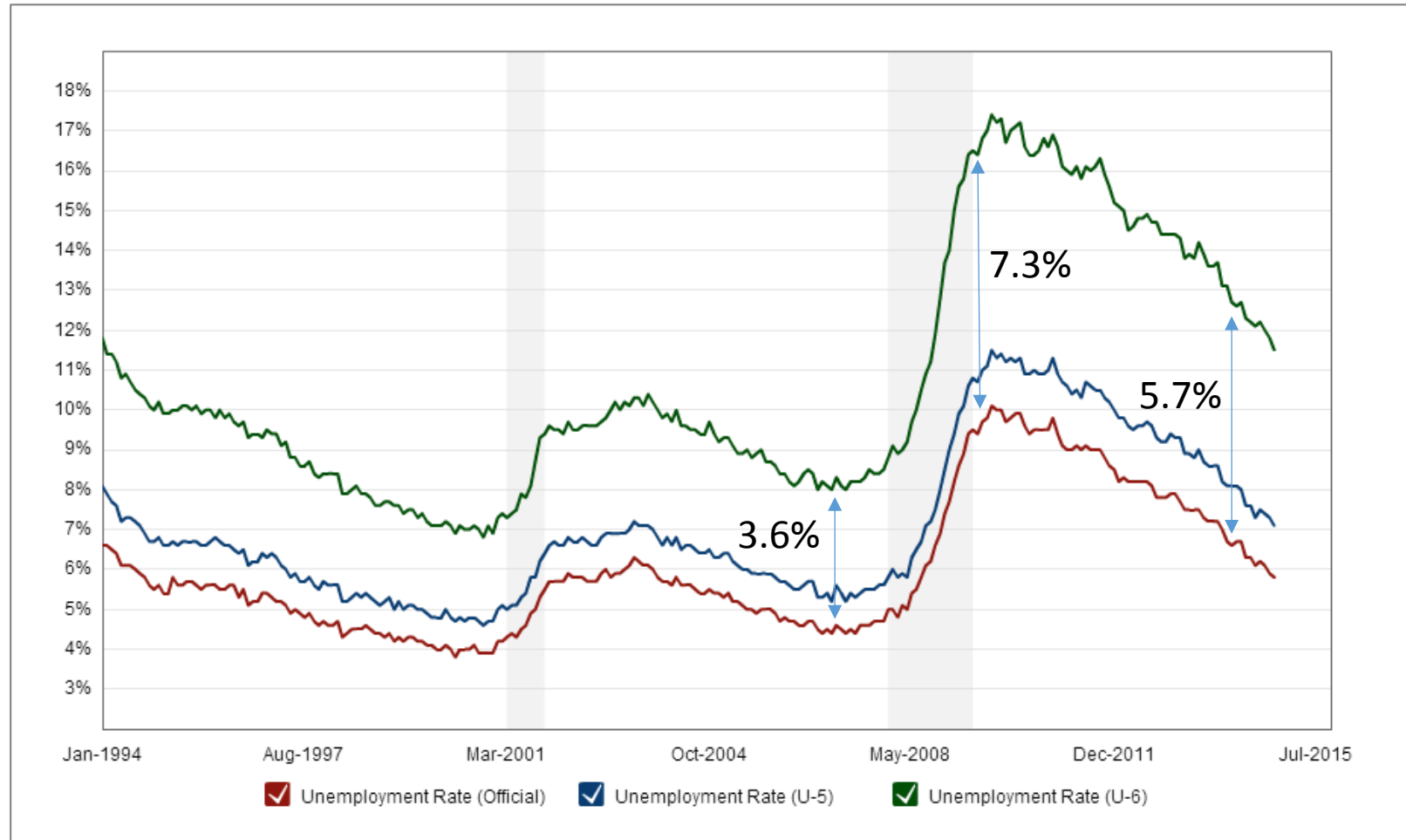
- Expected Increases in Employment
- Expected Increases in Income
- Reduced Fuel Prices
- Higher Stock Prices
- Lower expected inflation

Overall Retail Sales Increase



Source: Advisor Perspectives, Inc.

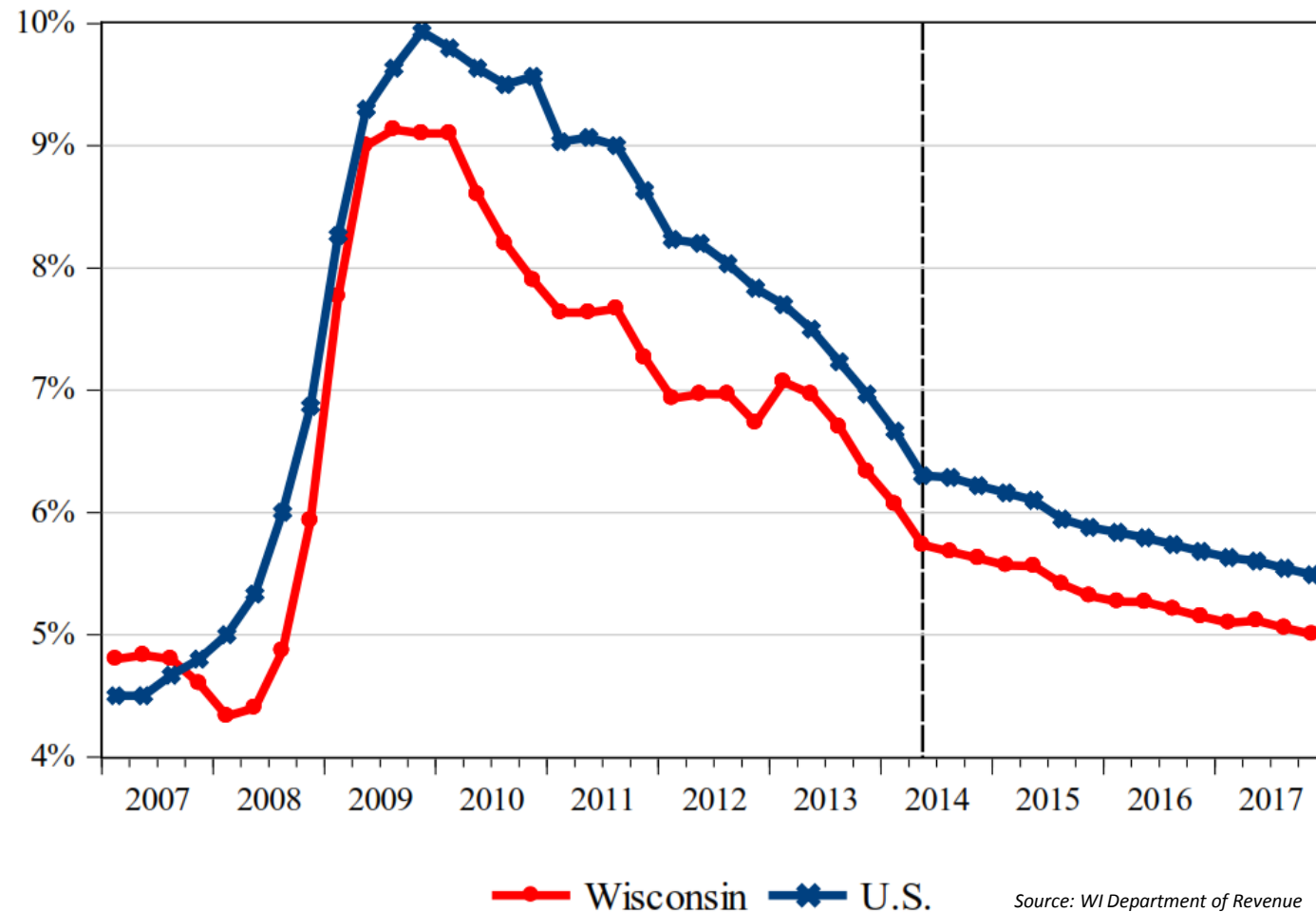
National Unemployment Trending Down



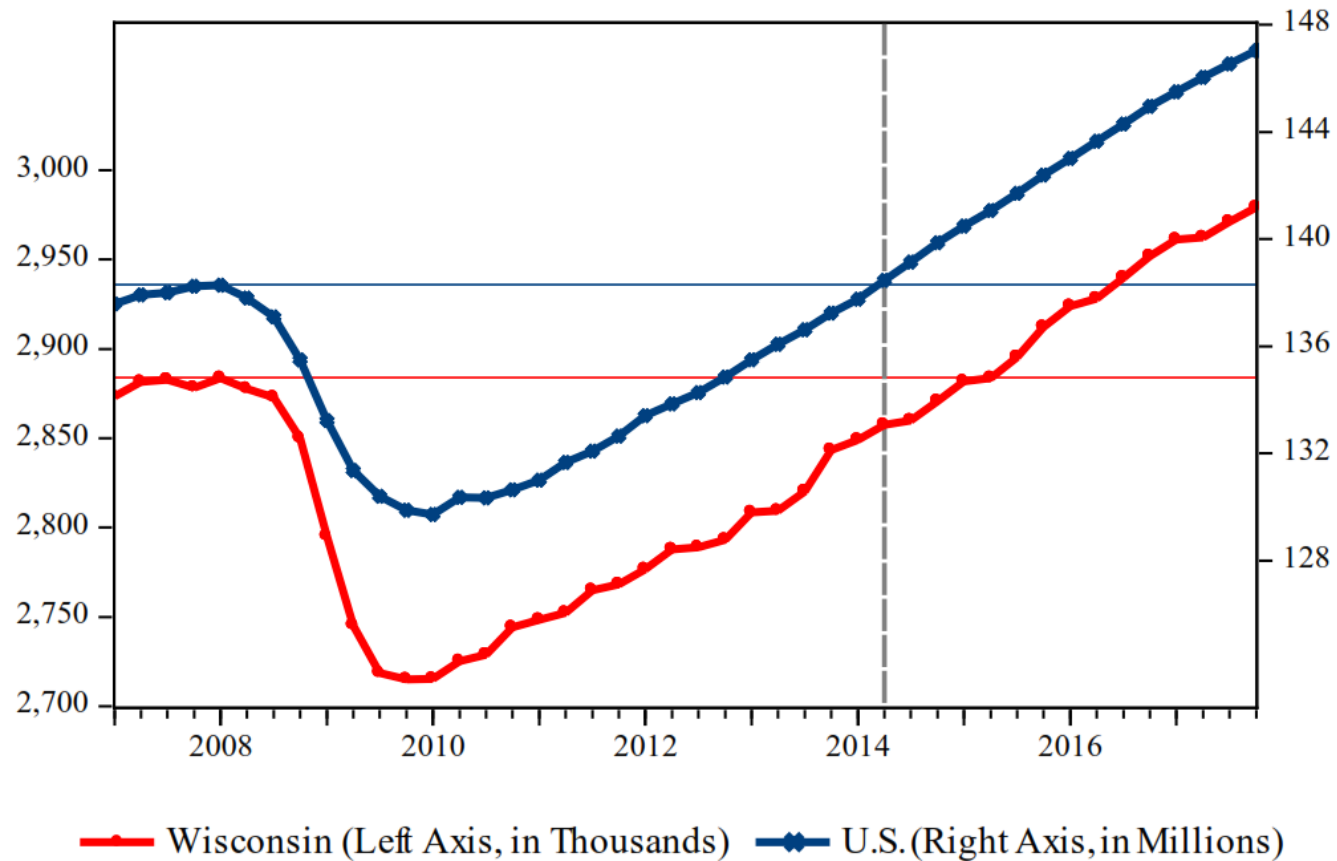
October 2014	
Official (U-3)	5.8%
U-5	7.1%
U-6	11.5%
U-6 less U-3	5.7%

Source: US Bureau of Labor Statistics, Macrotrends

Wisconsin Unemployment Trending Down

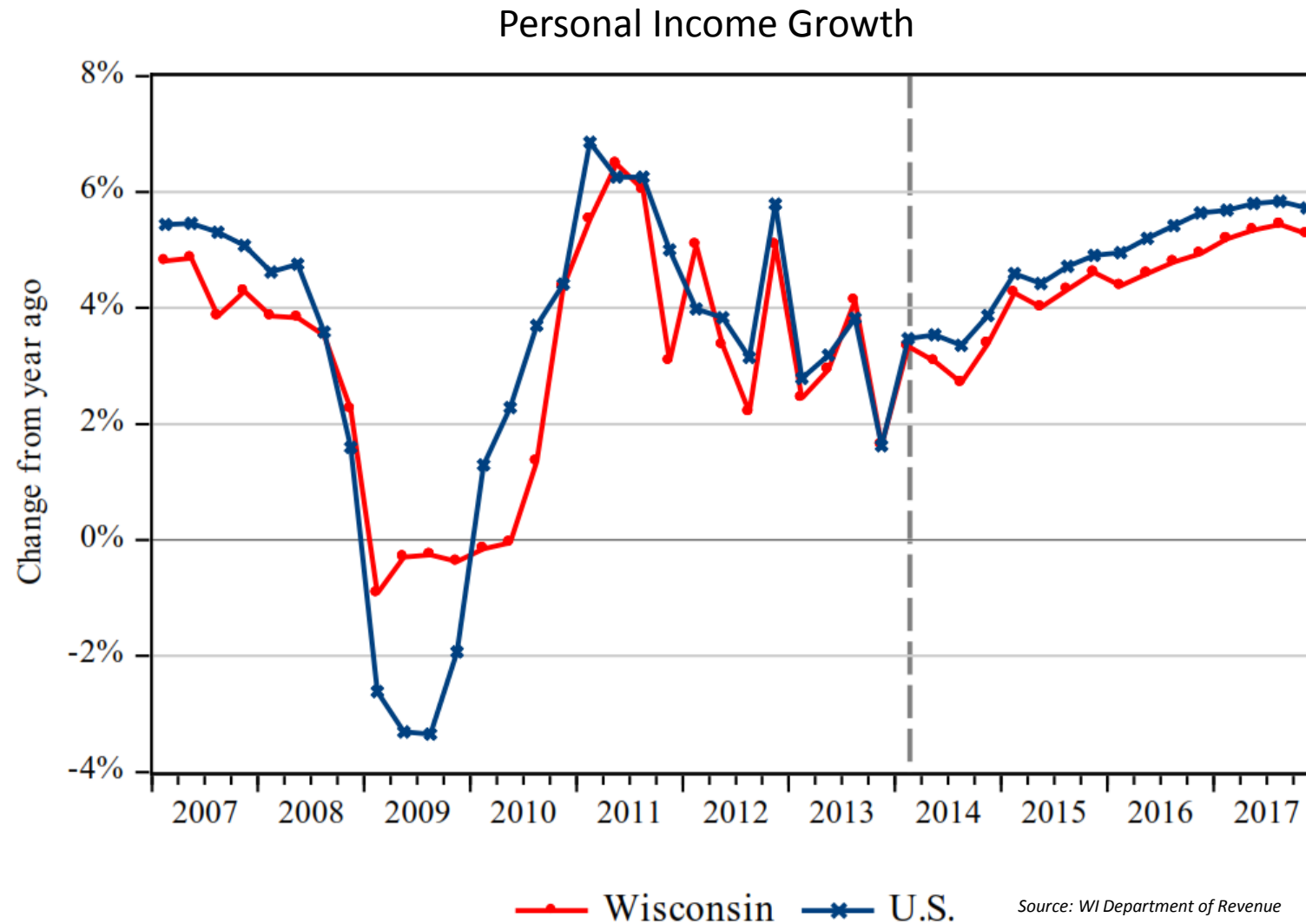


Wisconsin Employment Pre-Recession Levels by Mid-2015

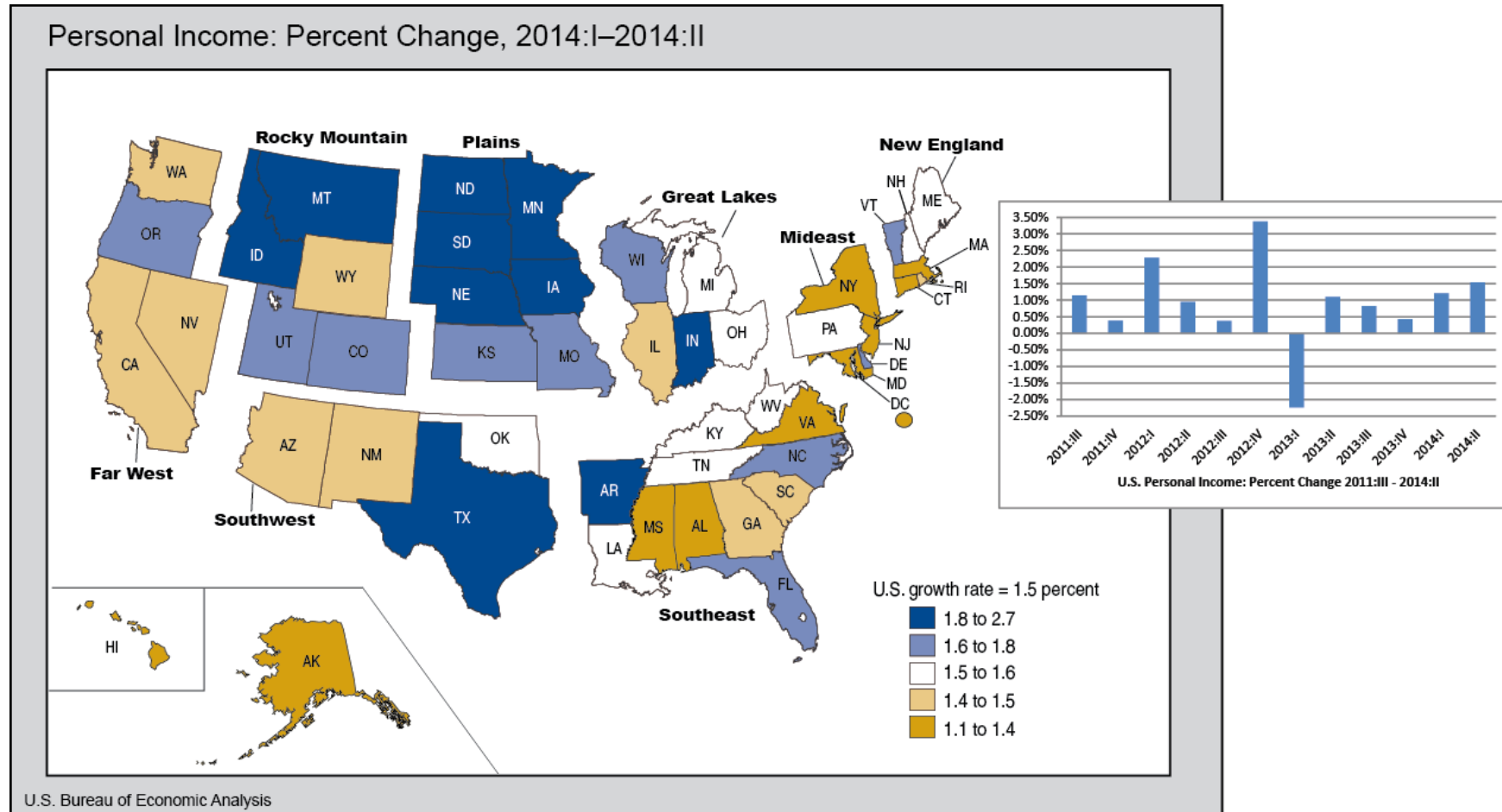


Source: WI Department of Revenue

WI and US Personal Income Trends



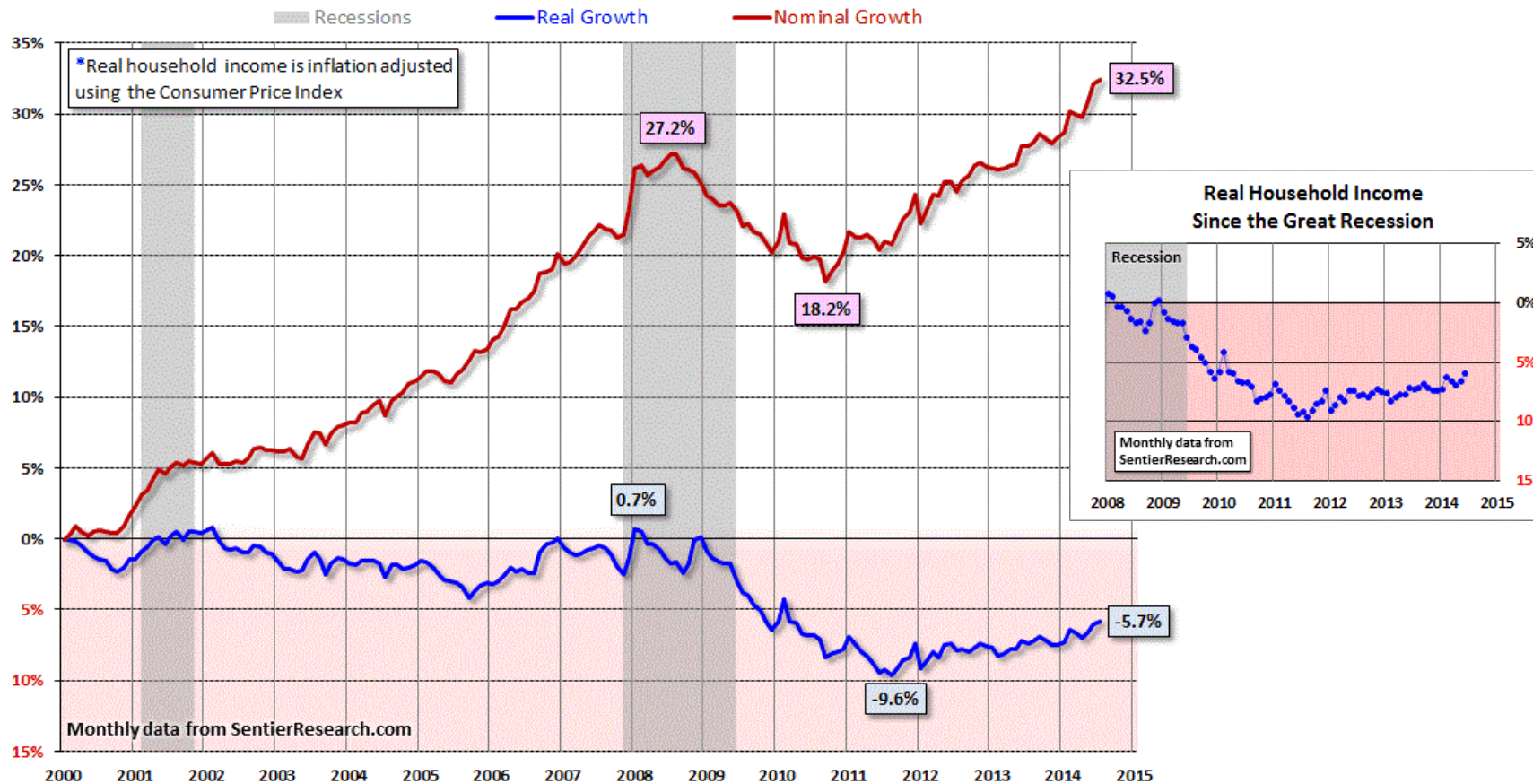
Wisconsin Personal Income 2014



But . . .

Nominal Income Growth vs Actual Purchasing Power

Median Household Income Since 2000



Retail Expansion Potential

- Despite growing confidence, **consumers remain cautious in opening their wallets**
- **Consumer spending**, which accounts for roughly two thirds of the demand in the U.S., **has increased at the slowest pace of any recovery.**
- The fact that **real** wages and salaries haven't picked up that dramatically, it **puts a ceiling on 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
 - Ethnic
 - 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

Challenges for Retailers

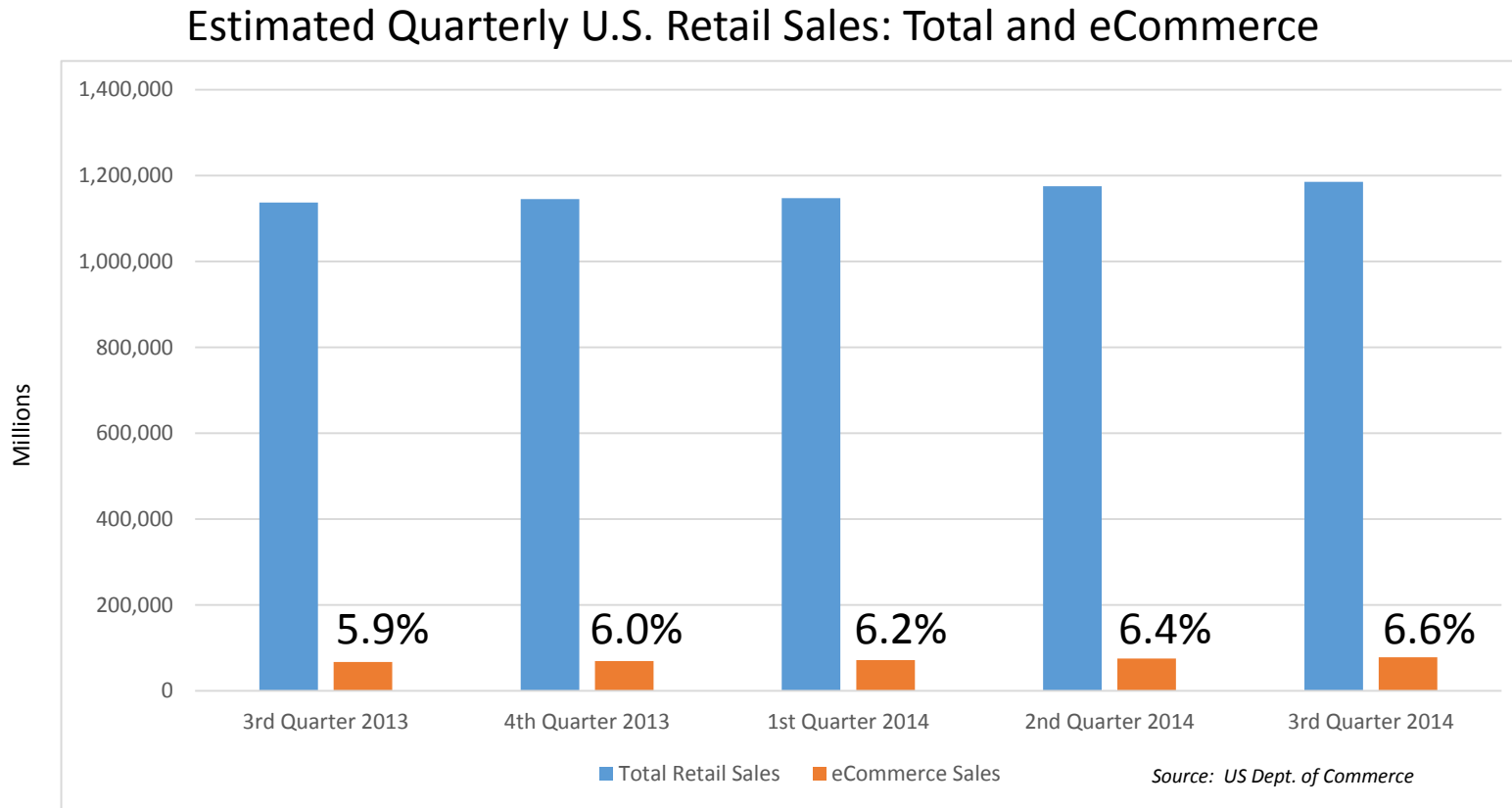
1. Technology:

How does the Internet Threaten Retailers?

2. Demographics:

What does the Spending Shift to Millennials Mean?

Technology: Rise of eCommerce



Bricks and Mortar vs eCommerce

- eCommerce will continue to negatively impact demand for bricks and mortar retail space
- eCommerce will never replace the shopping experience but it will alter the landscape
- Retailers who fail to grasp the new paradigm demand of higher levels of in-store customer service will face continuing challenges

Bricks 'n Clicks: Omni-Channel Retail

- **Omnichannel:** a **multichannel approach** to sales that seeks to provide the customer with a **seamless shopping experience** whether the customer is shopping online from a desktop or mobile device, by telephone or in a bricks and mortar store. (Definition from techtarget.com)
- Top Omnichannel providers: Apple, Best Buy, Nordstrom, Crate & Barrel, Sephora, Chipotle
- Ship to Store, Gift Registries, Wishlists, Order History, Return Initiation

Bricks 'n Clicks: Omni-Channel Retail Impact

- Store layouts and finish (larger inventory in-store)
- Retailer distribution networks
- Retailer geographic footprints and strategies
- Human resources needs for increased expectation of customer service within store

Demographic Shifts: Retailment

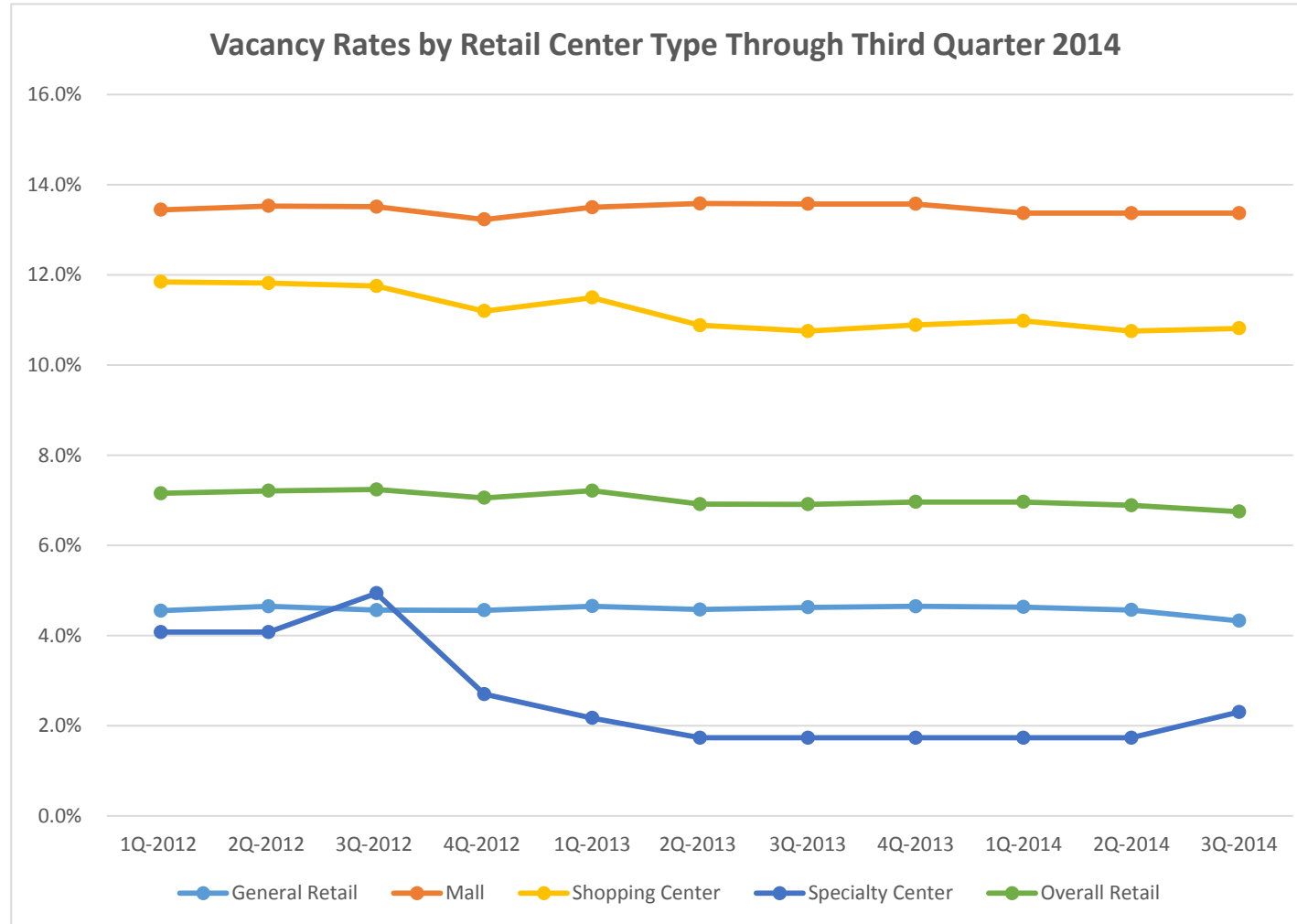
Retailment: the "use of ambience, emotion, sound and activity to get customers interested in the merchandise and in a mood to buy."

Source: Enchanting a Disenchanted World: Revolutionizing the Means of Consumption (1999), author George Ritzer

- Used colloquially as an intent to **boost shopping center traffic** and create an "all-inclusive" shopping experience
- Retailers and Developers are creating additional dining, services and entertainment options.
- Sit-down restaurants were 7.1% of the total sales at U.S. shopping centers in 2013

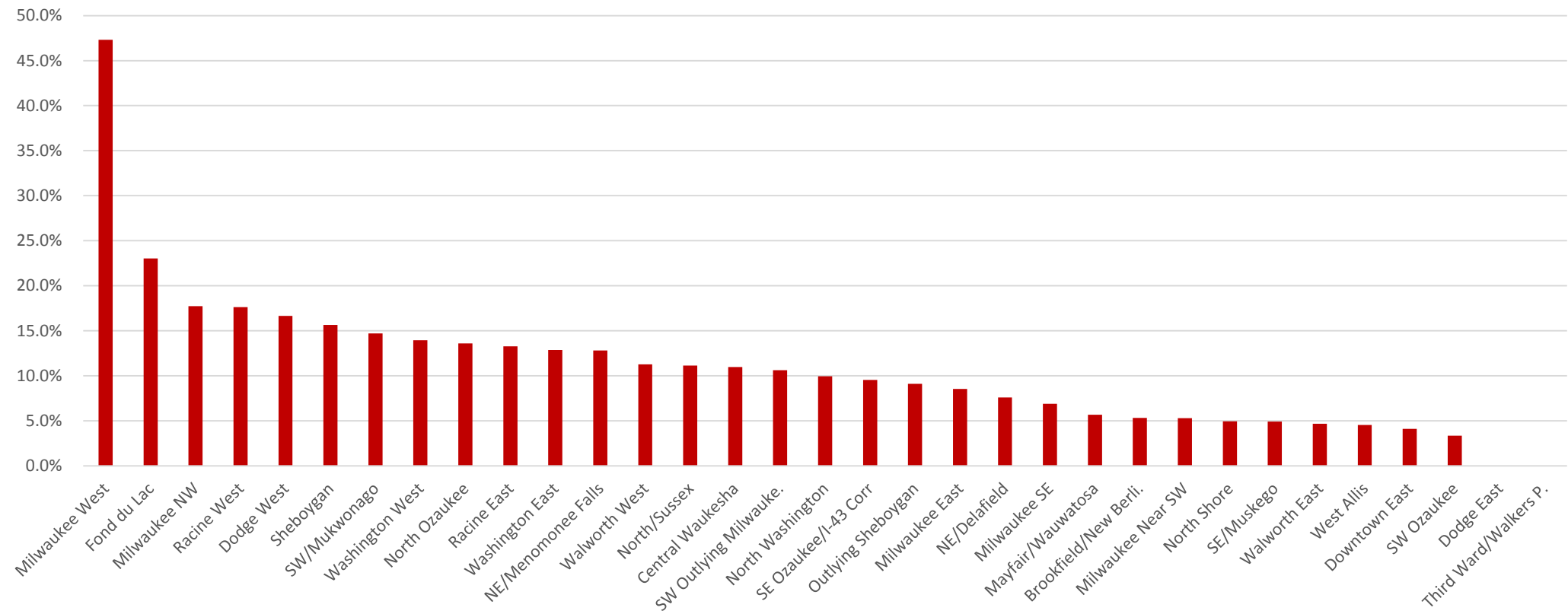
Milwaukee Metropolitan Area Statistics

Vacancy Rates by Retail Center Type



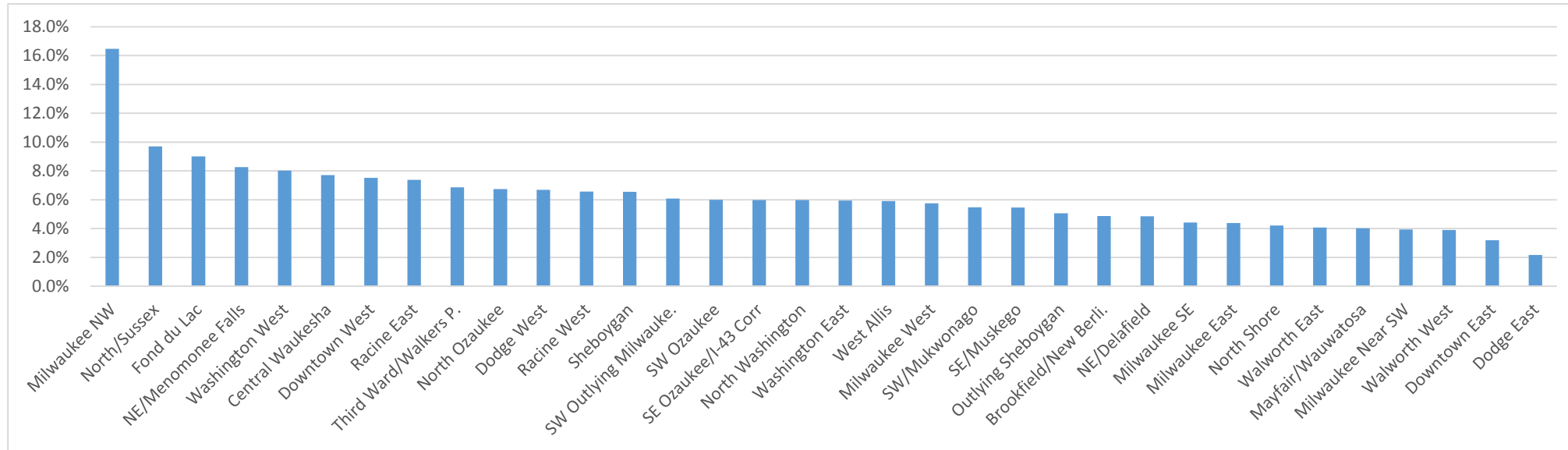
Source: CoStar Property®

Shopping Center Vacancy by Submarket - 3Q 2014



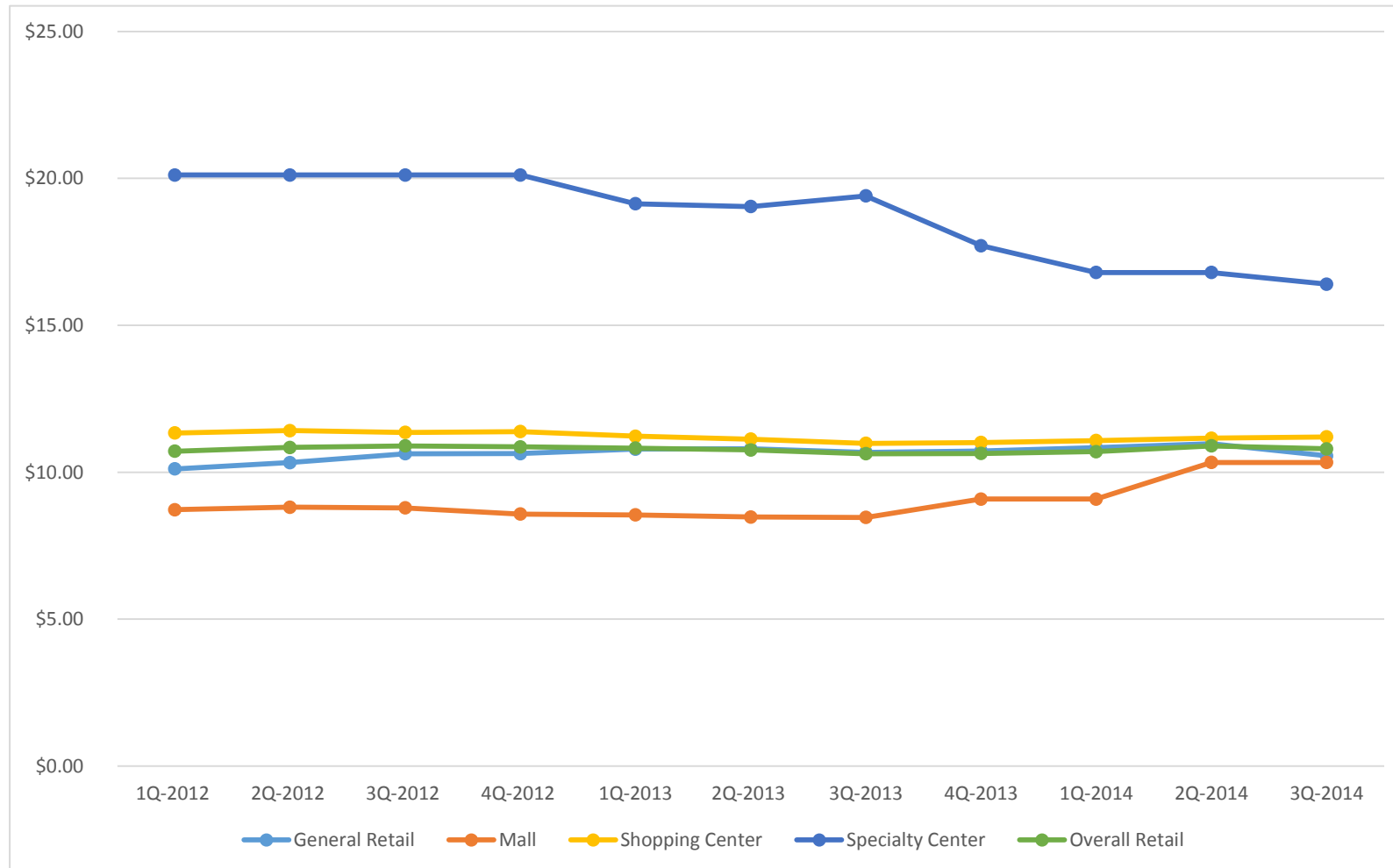
Source: CoStar Property®

General Retail Vacancy by Submarket



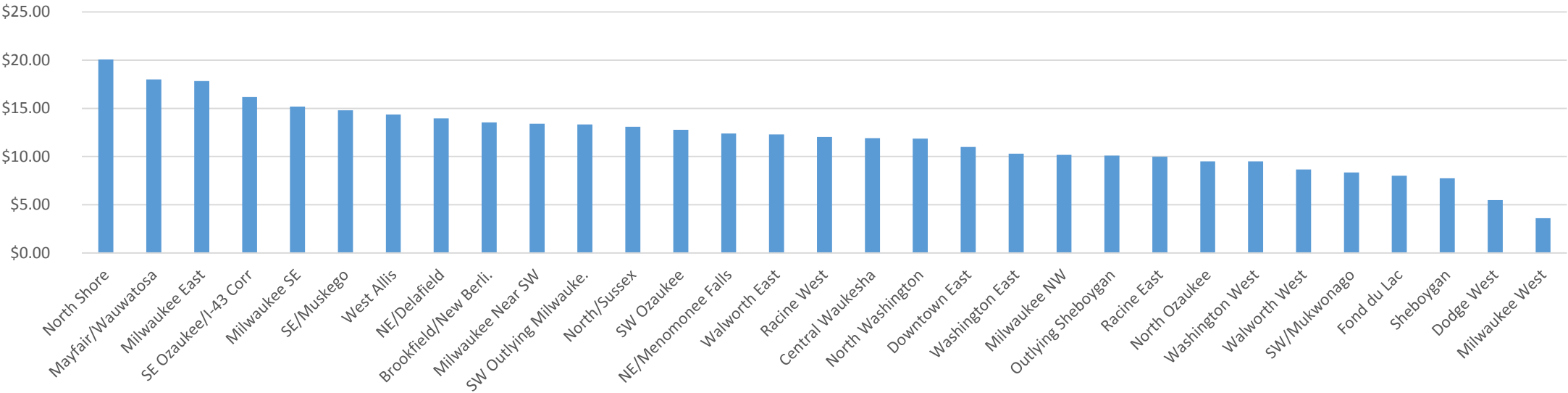
Source: CoStar Property®

Rental Rates by Retail Center Type



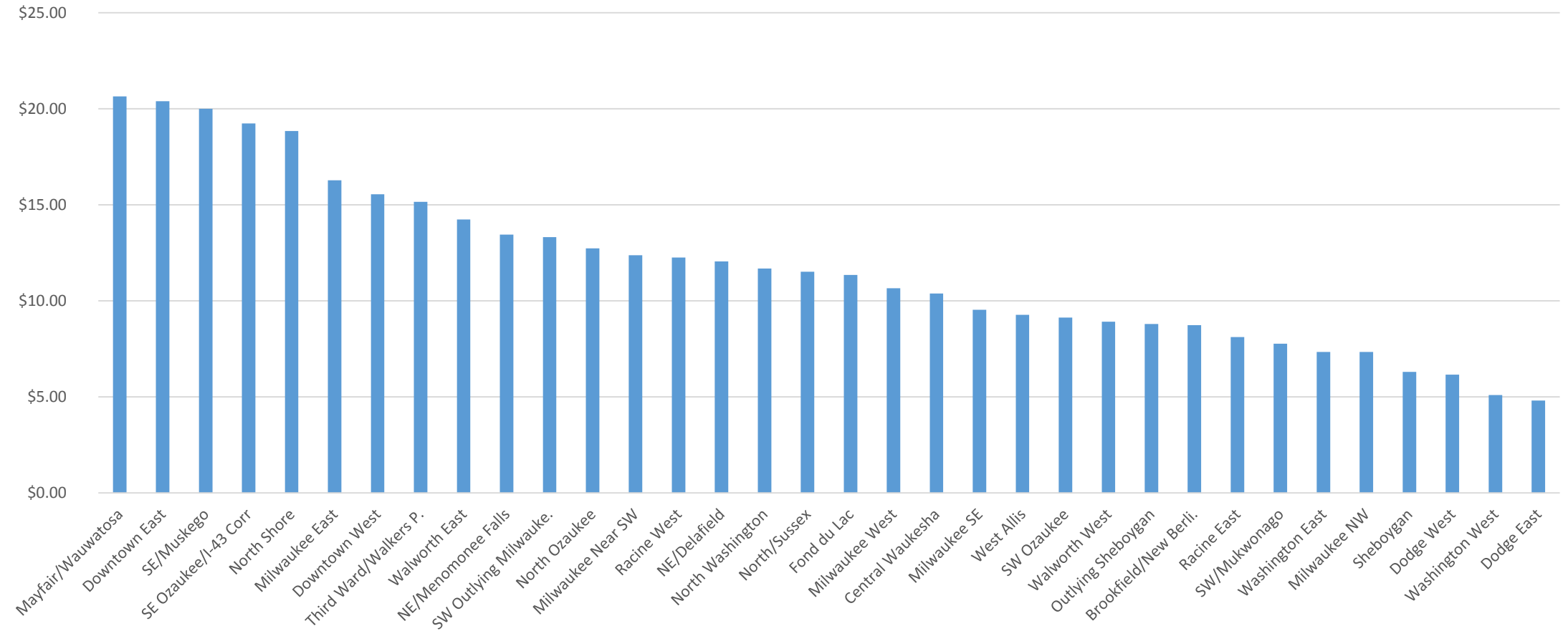
Source: CoStar Property®

Shopping Center Quoted Rates by Submarket



Source: CoStar Property®

General Retail Quoted Rates by Submarket



Source: CoStar Property®

National Shopping Center Average Cap Rate



Source: Resireports

Single-Tenant Net Lease Market 2014

Drug Stores			
Median Asking Cap Rate by Lease Term Remaining			
Term Remaining	Walgreens	CVS	Rite Aid
20+	5.50%	5.50%	N/A
15-19	5.65%	5.90%	7.00%
10-14	5.90%	6.08%	7.30%
6-9	6.63%	7.42%	8.50%
5 & Under	7.34%	7.75%	8.75%

Auto Parts Retailers			
Median Asking Cap Rate by Lease Term Remaining			
Term Remaining	Advance Auto Parts	O'Reilly Auto Parts	AutoZone
18-20	N/A	6.00%	5.90%
15-17	6.41%	6.25%	5.96%
10-14	6.64%	6.75%	6.20%
6-9	7.23%	7.00%	6.31%
Under 5	7.82%	N/A	6.84%

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	Family Dollar	Dollar Tree
15-12	6.50%	5.75%	N/A
11-9	7.50%	7.15%	6.80%
8-6	7.75%	7.85%	7.37%
5-3	8.42%	8.25%	8.25%
0-2	8.90%	8.80%	8.90%

Big Box		
Median Asking Cap Rate by Lease Term Remaining		
Years Remaining	Investment Grade	Non Investment Grade
16-20	5.80%	6.74%
15-11	5.98%	7.50%
10-6	6.42%	7.65%
5 & Under	6.90%	8.25%

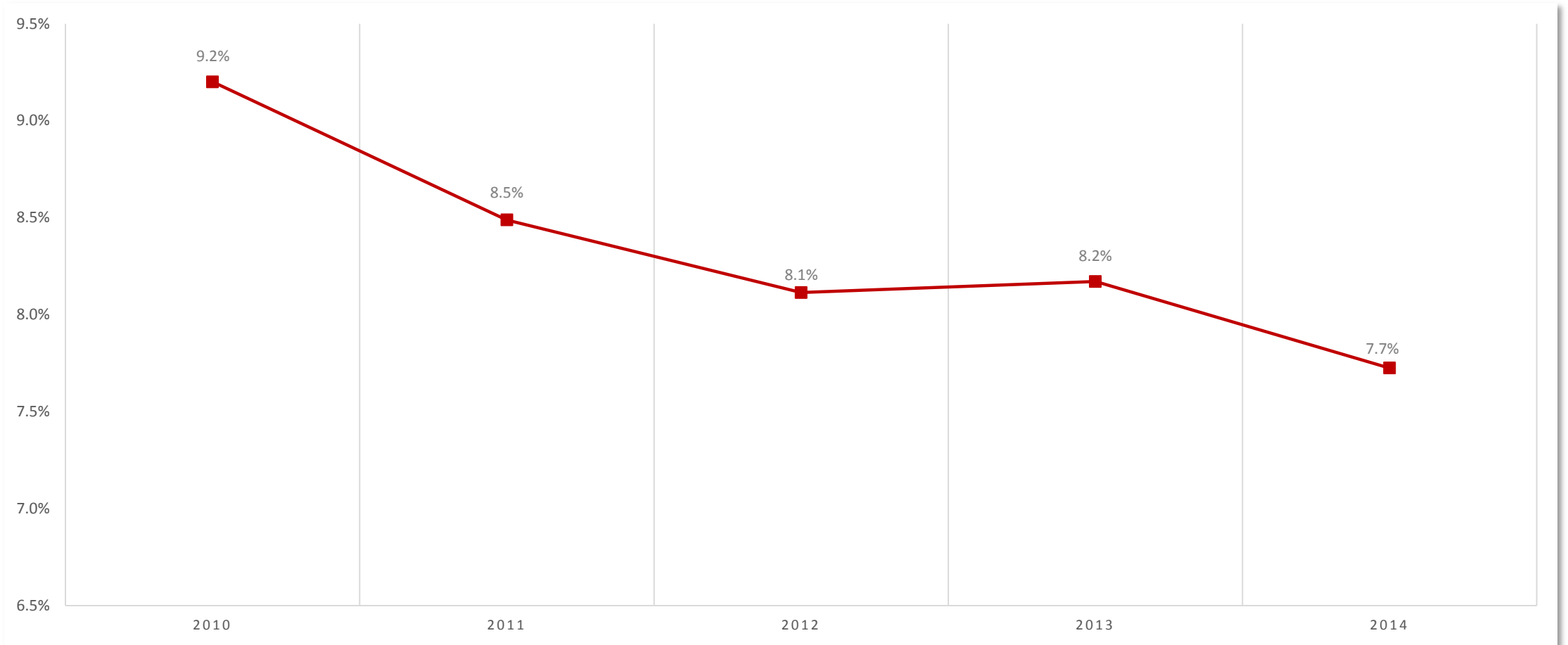
Source: The Boulder Group, Xceligent, Loopnet, CoStar Comps

Single-Tenant Net Lease Market 2014

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

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

Milwaukee Metro Shopping Center Average Cap Rate



Source: Xceligent, Loopnet, CoStar Comps

Cornerstone Center Sale 2012 & 2014



Located: Port Washington & Silver Spring

100% Occupied: Panera, Sprint, Jos. A Bank, Pearl Vision

Sold May of 2012 at 7.75% OAR

Buyer: Repak Real Estate Development (Northbrook, IL)

Sold October of 2014 at 6.76% OAR

Buyer: Parliament Properties, Inc. (Cardiff, CA)

Cap Rate Compression

- Current cap rates **reflect the returns on alternative investments** rather than underlying property fundamentals
- Low rates for 10-year Treasuries are encouraging buyers to find **alternative options** for safe investments as they transition into their retirement years
- In addition to risk-averse buyers, **foreign investors** from Canada, Asia and former Eastern Bloc countries are looking toward **capital preservation**

Cap Rate Compression

- 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.
- **Rates of return for alternative investments are forecast to increase, if so, investors will find other safe havens** for retirement funds, bringing balance back to the retail and single tenant market.

Thank You



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