The Great Retail Real Estate Convergence

Christopher Gerlach
ICSC, Director of Research

FTA: Revenue Estimation Conference
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ICSC Background

ICSC serves the global retail real estate industry. We provide our 70,000+ member network in over 100 countries with invaluable resources, connections and industry insights and actively work together to shape public policy. For more information about ICSC visit www.icsc.com.

ICSC's mission is to ensure the retail real estate industry is broadly recognized for the integral role it plays in the social, civic and economic vibrancy of communities across the globe.

ICSC Research

Data & Statistics

- QuickStats
  - ✓Operational Benchmarks
  - ✓Mall Sales Performance
  - ✓Economic Impact Statistics

Analysis & Insights

- Industry Insights
- Special Studies
- Consumer Surveys

Resources & Networking

- Research Conference
- Global Advisory Groups
- Industry Definitions

Discussion Roadmap

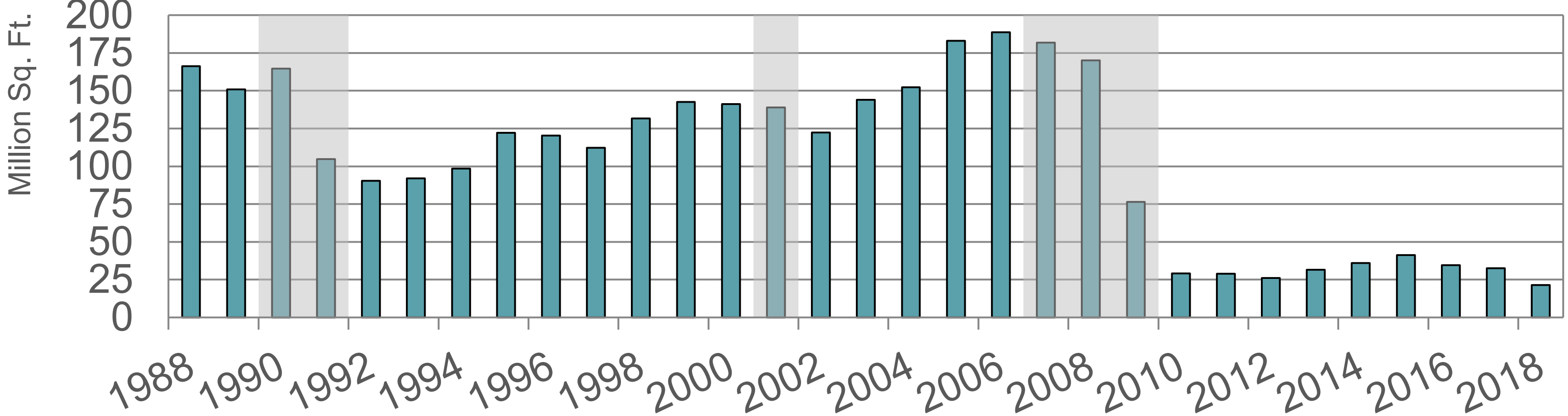
- Performance Metrics
- Unpacking E-Commerce
- Consumer Trends
- The Halo Effect
- Retail Real Estate 2.0

Retail Real Estate Performance

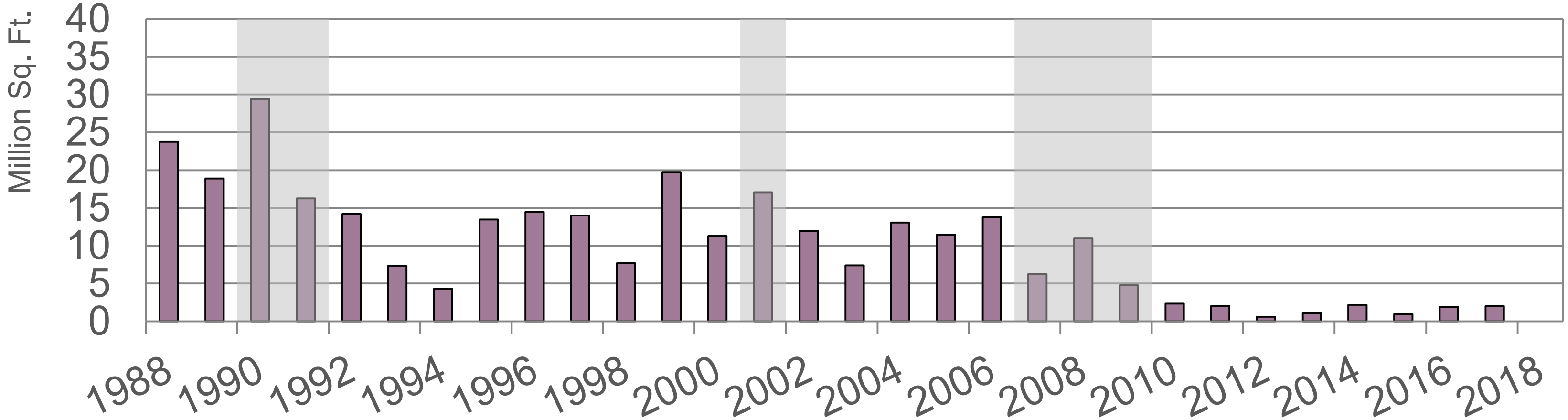
By Traditional Metrics

Moderate Supply Growth

GLA Growth: Open-Air Centers

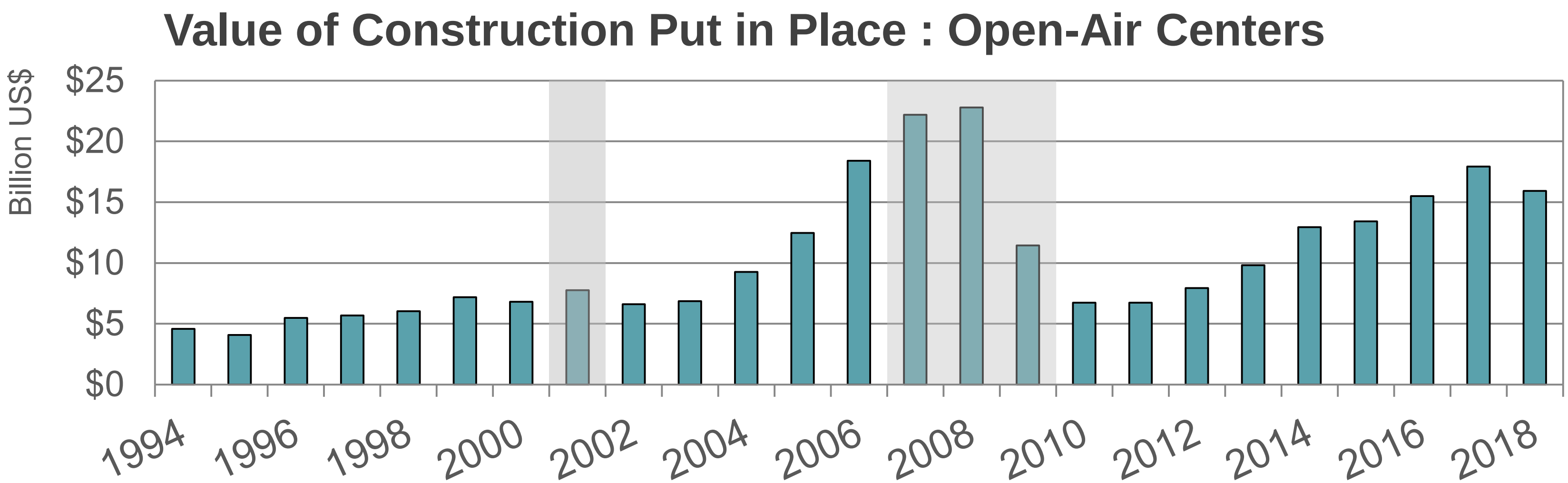


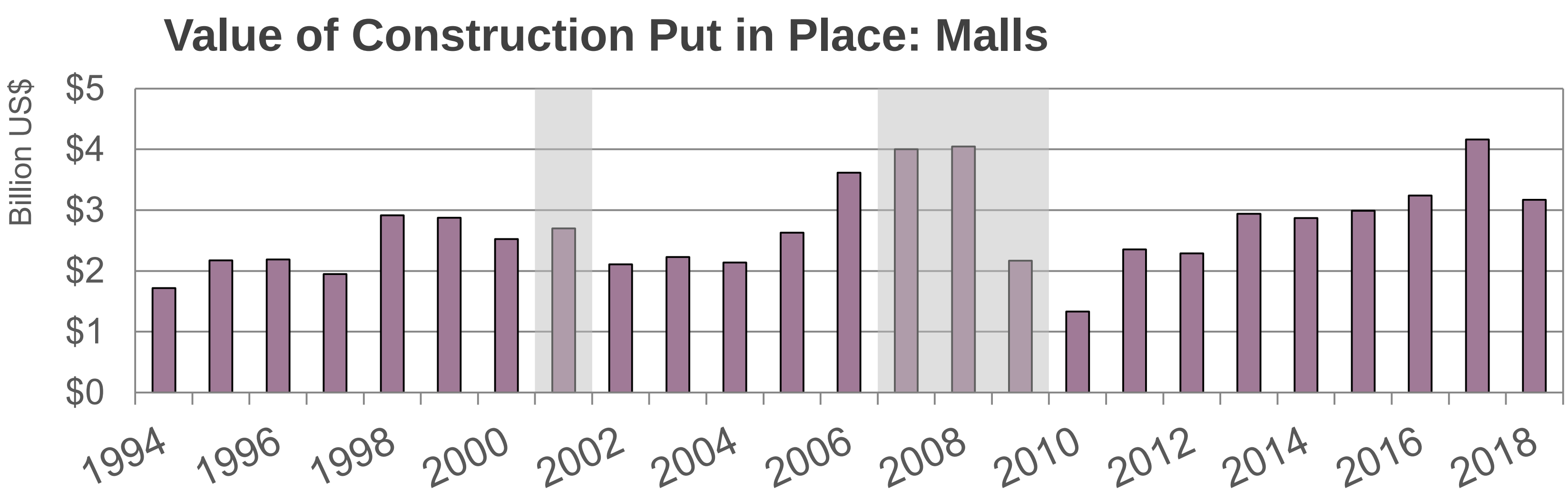
GLA Growth: Malls



Source: CoStar Group; ICSC Research

Construction Spending Growth



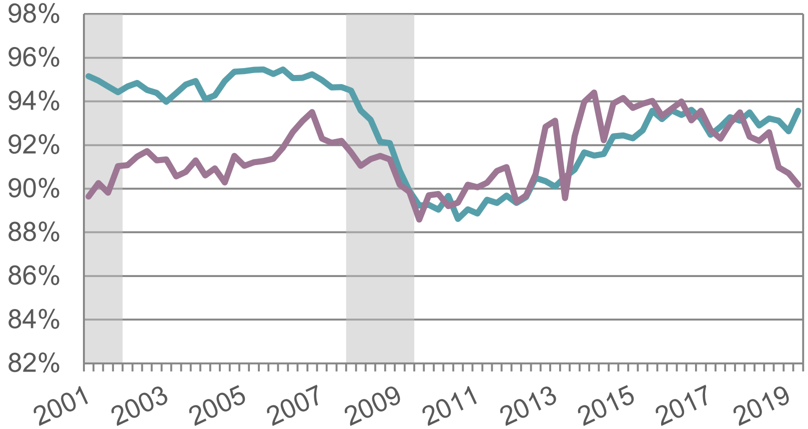


Source: US Census Bureau

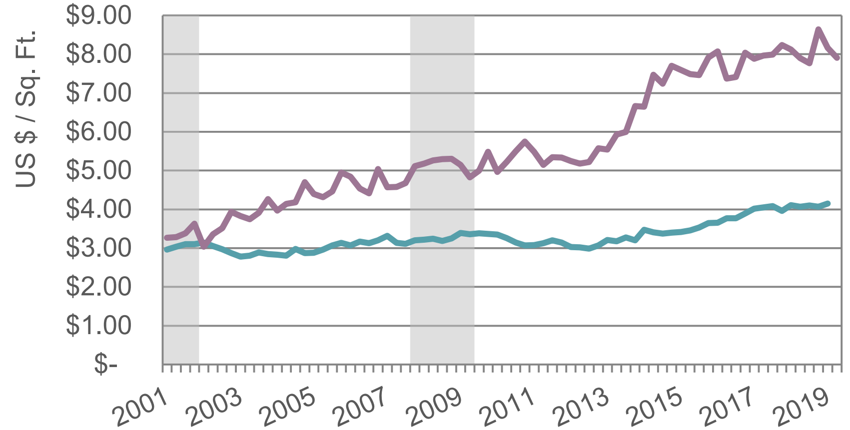
Performance Metrics Strong

Malls
Open-Air Centers

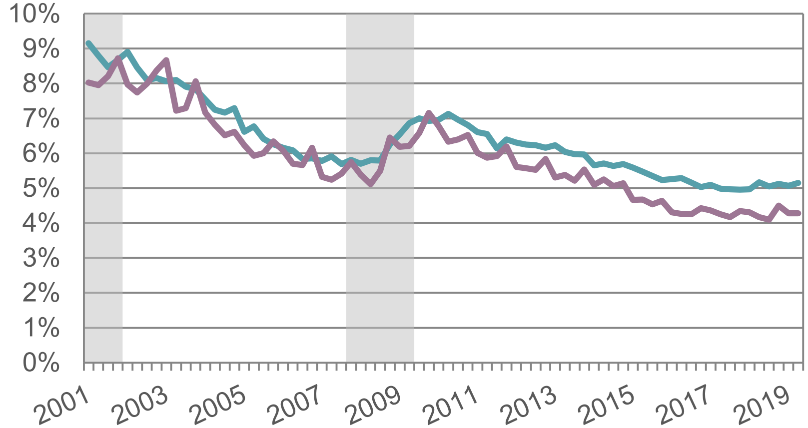
Occupancy Rate



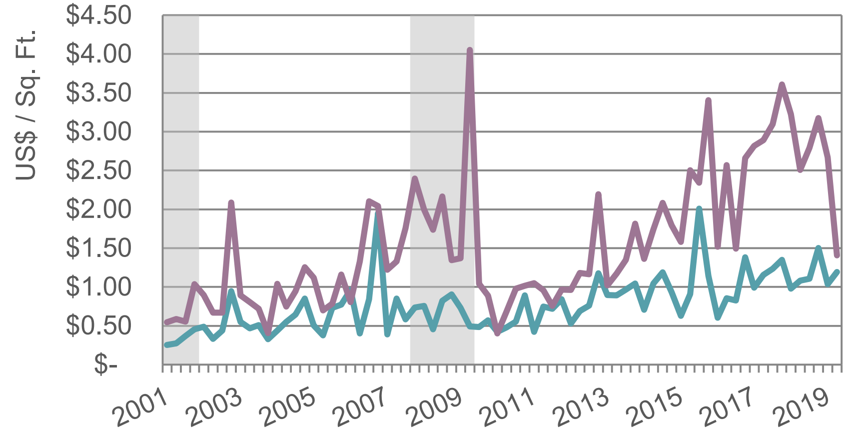
Net Operating Income



Cap Rate



Capital Expenditures



Source: NCREIF

E-Commerce

The Prime Disruptor?

The Internet & E-Commerce

Los Angeles Times

The Internet is mauling America's malls. Is your favorite retailer closing its doors?

Forbes

ECONOMICS & FINANCE

The Shopping Malls Really Are Being Killed By Online Shopping

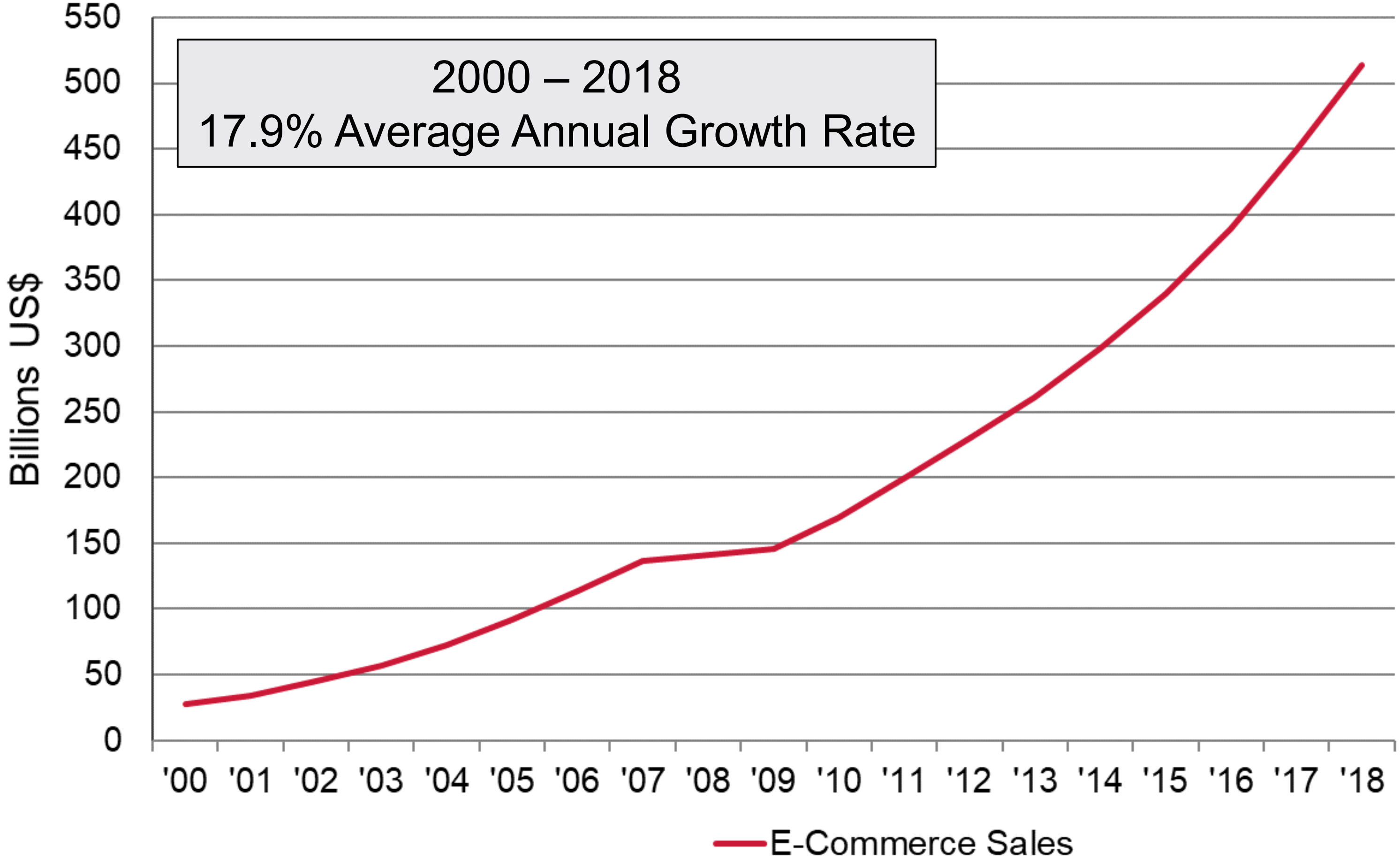
THE WALL STREET JOURNAL.

BUSINESS

Malls Reel as Web Roars

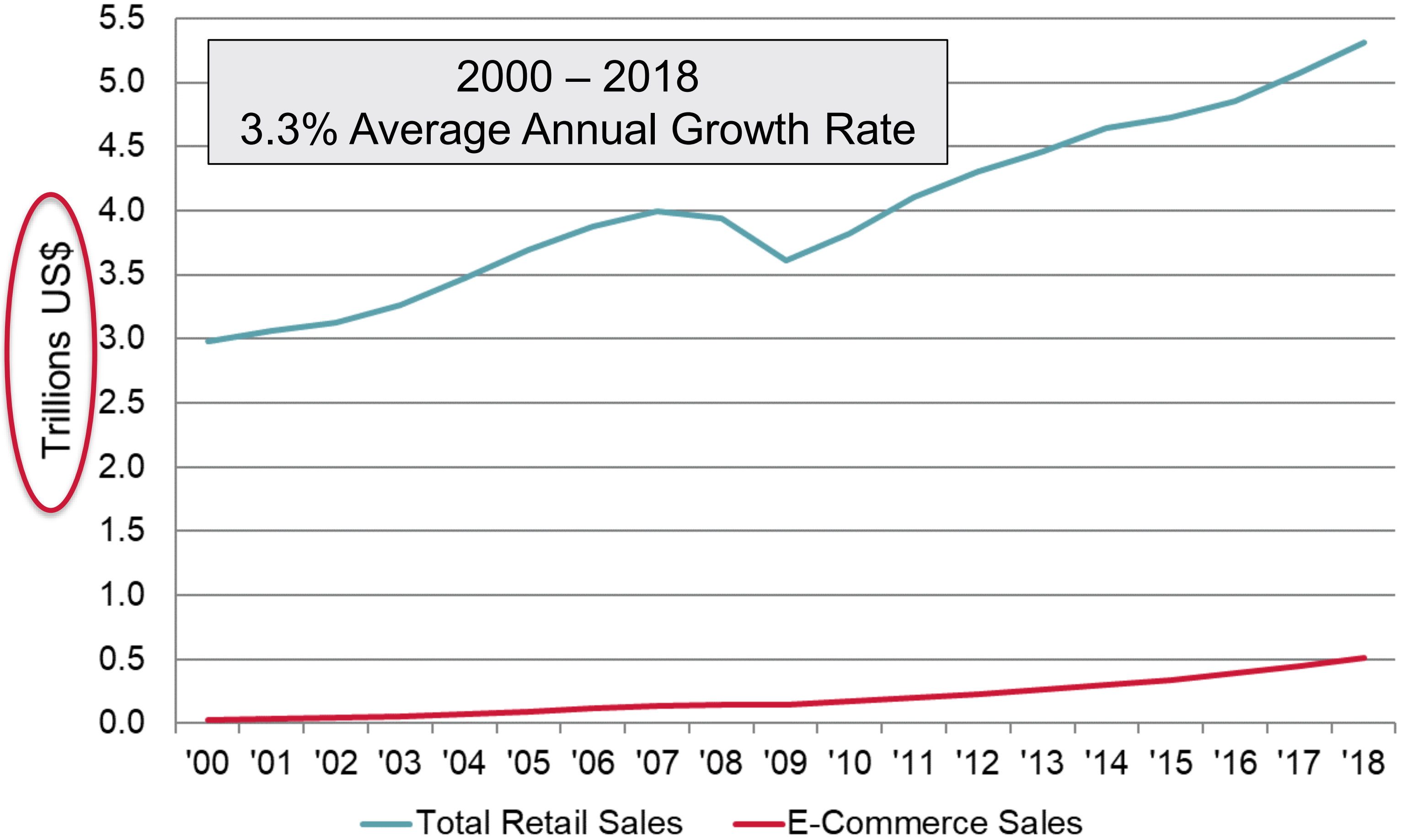
Sources: Time Magazine: August 3, 1998; Los Angeles Times: June 13, 2017; Forbes: January 4, 2015; The Wall Street Journal: December 23, 2015

Unpacking E-Commerce Sales



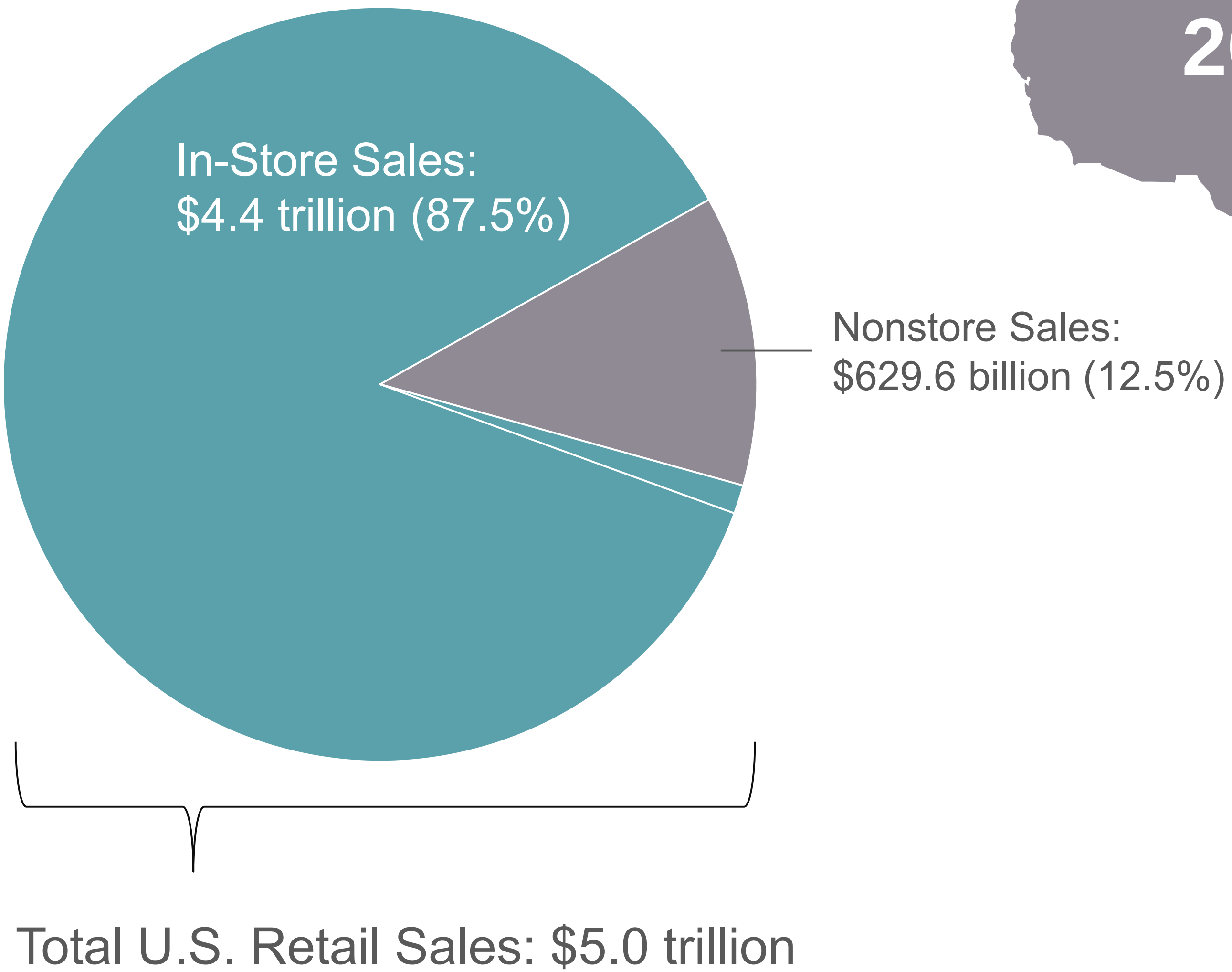
Source: U.S. Census Bureau: Quarterly E-Commerce Report; ICSC Research

Unpacking E-Commerce Sales



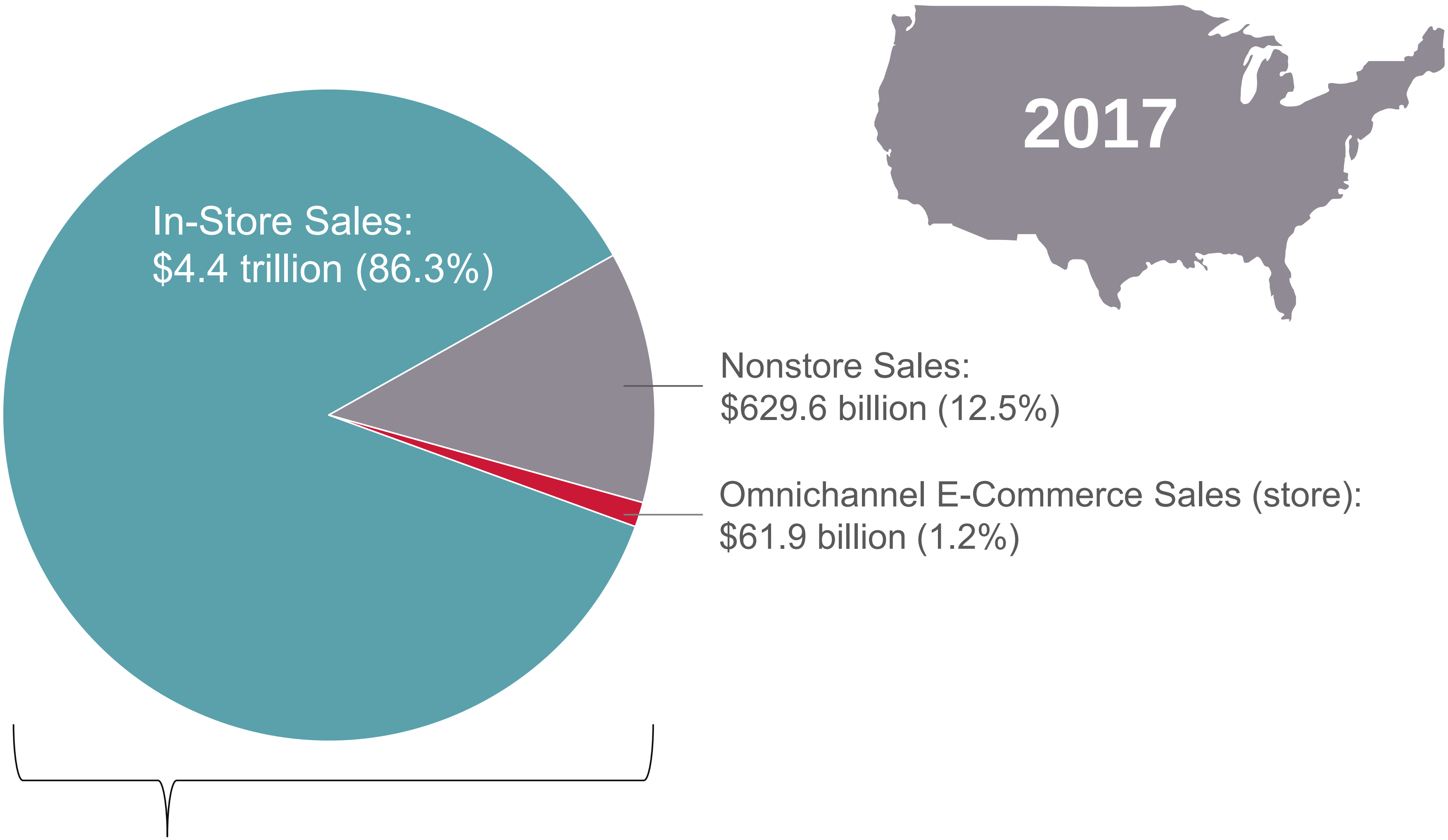
Source: U.S. Census Bureau: Quarterly E-Commerce Report; ICSC Research

Unpacking E-Commerce Sales



Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research

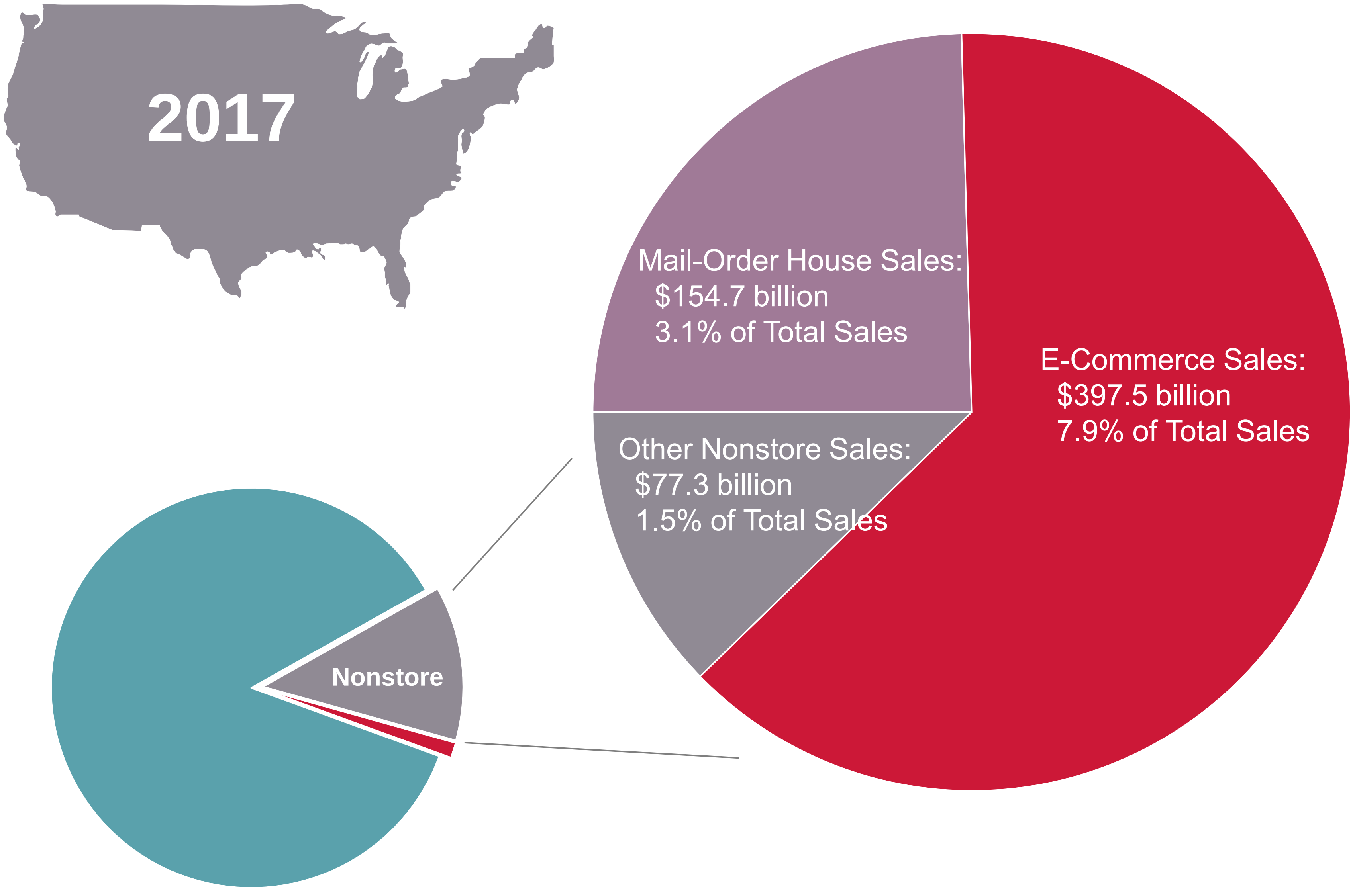
Unpacking E-Commerce Sales



Total U.S. Retail Sales: $5.0 trillion

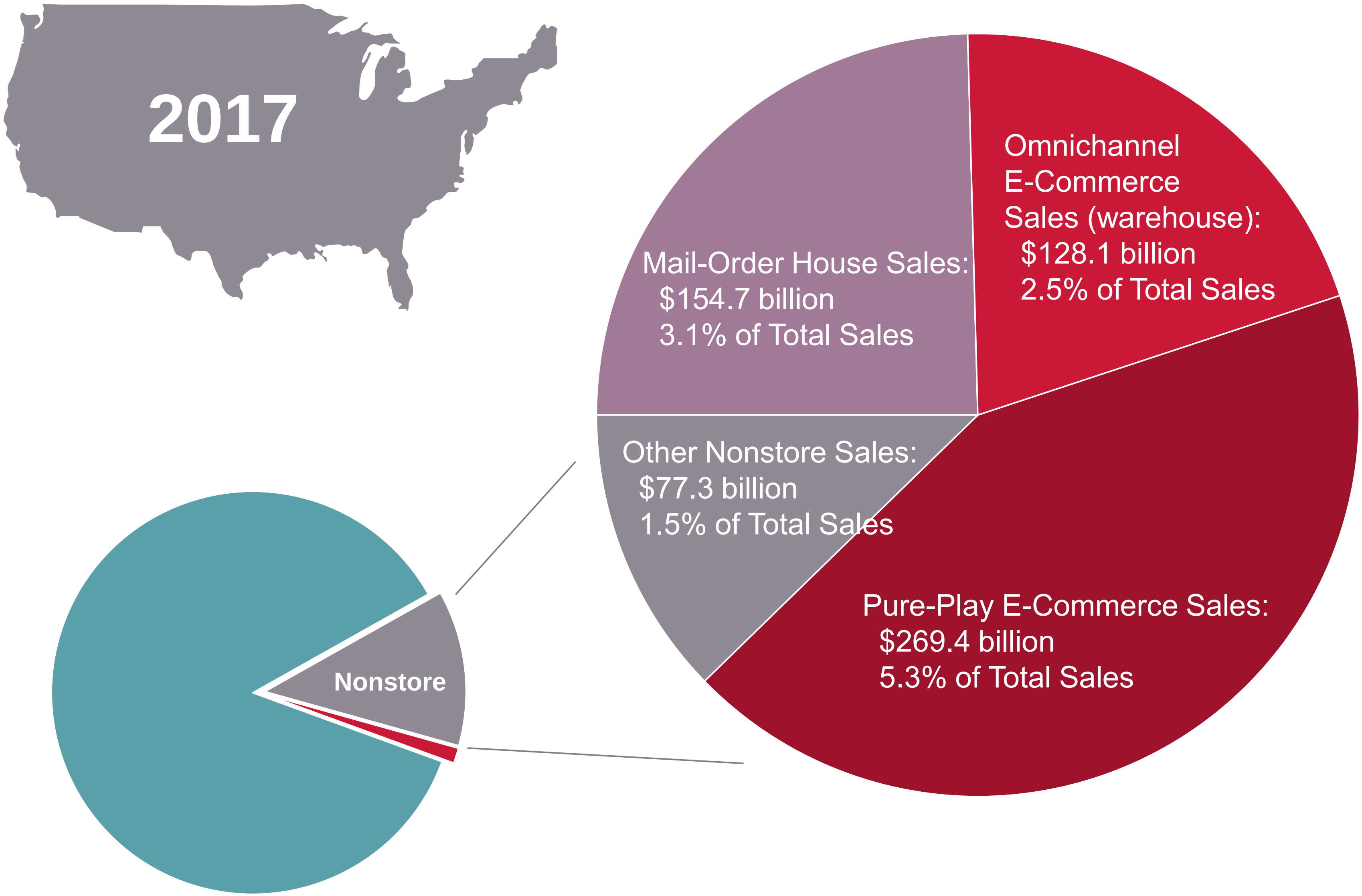
Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research

Unpacking E-Commerce Sales



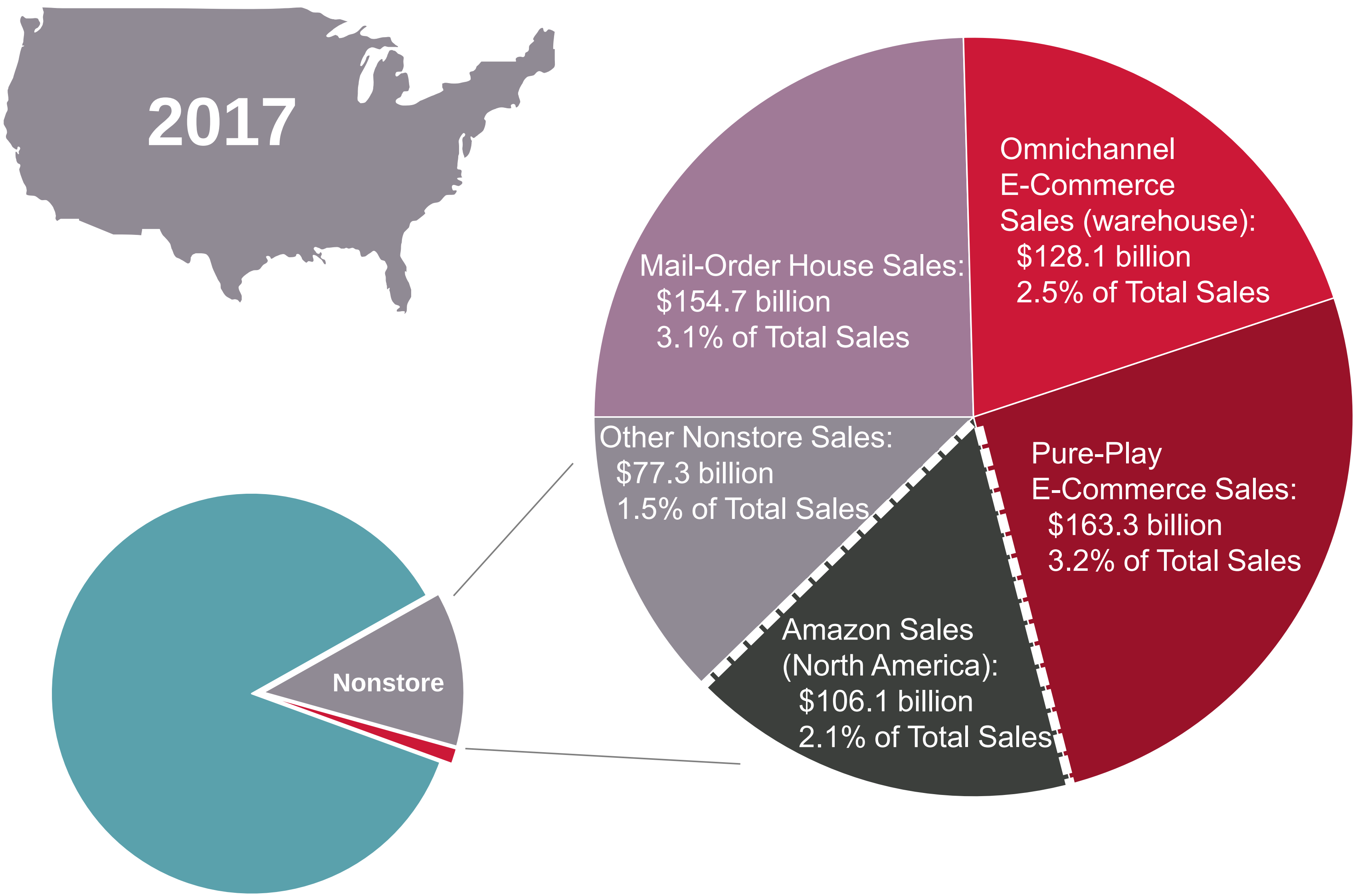
Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research

Unpacking E-Commerce Sales



Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research

Unpacking E-Commerce Sales

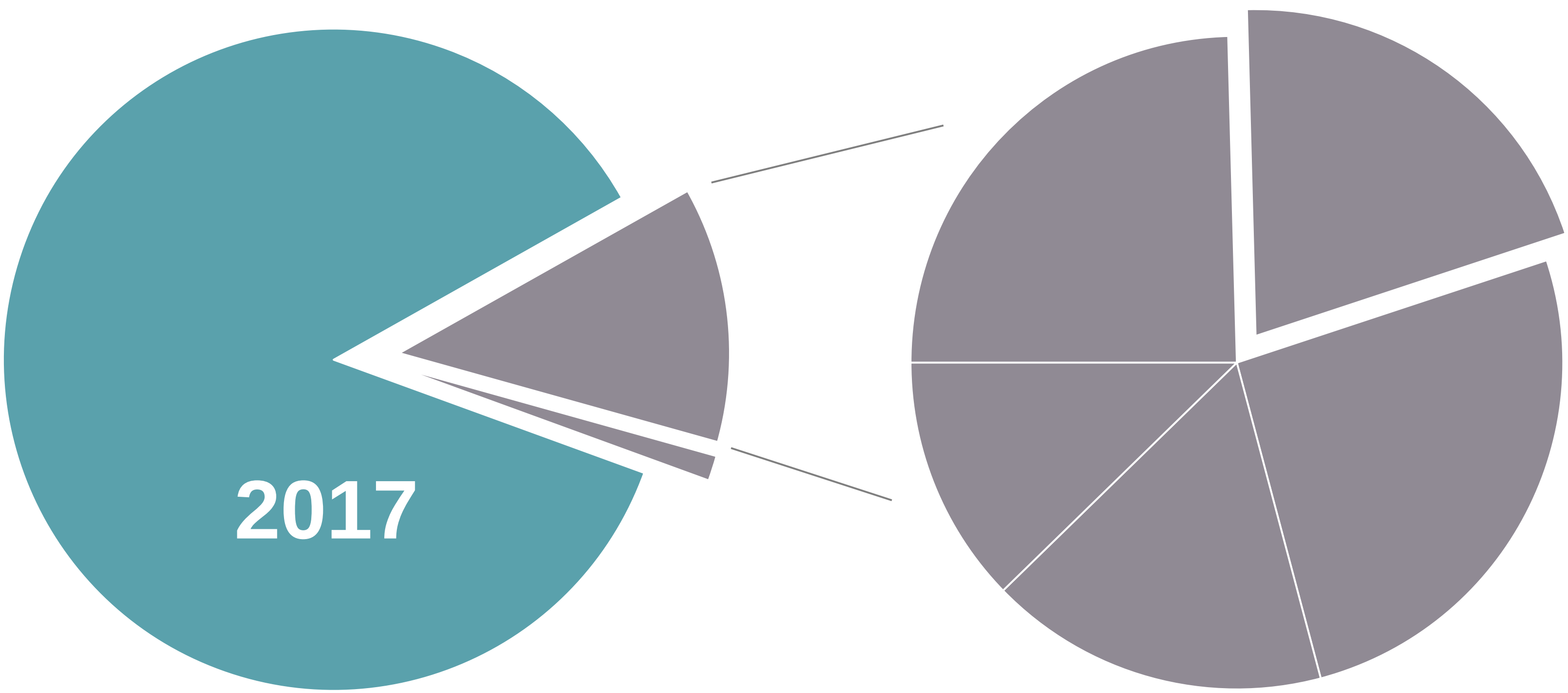


Sources: U.S. Census Bureau: Annual Retail Trade Survey; Amazon.com 2017 Annual Report; ICSC Research

Unpacking E-Commerce Sales

Physical retailers generate 90.1% of all retail sales, either from in-store or online activity:

$\underbrace{86.3\%}_{\text{In-Store Sales}}$ + 1.2% + 2.5% = 90.1%



Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research

Unpacking E-Commerce Sales

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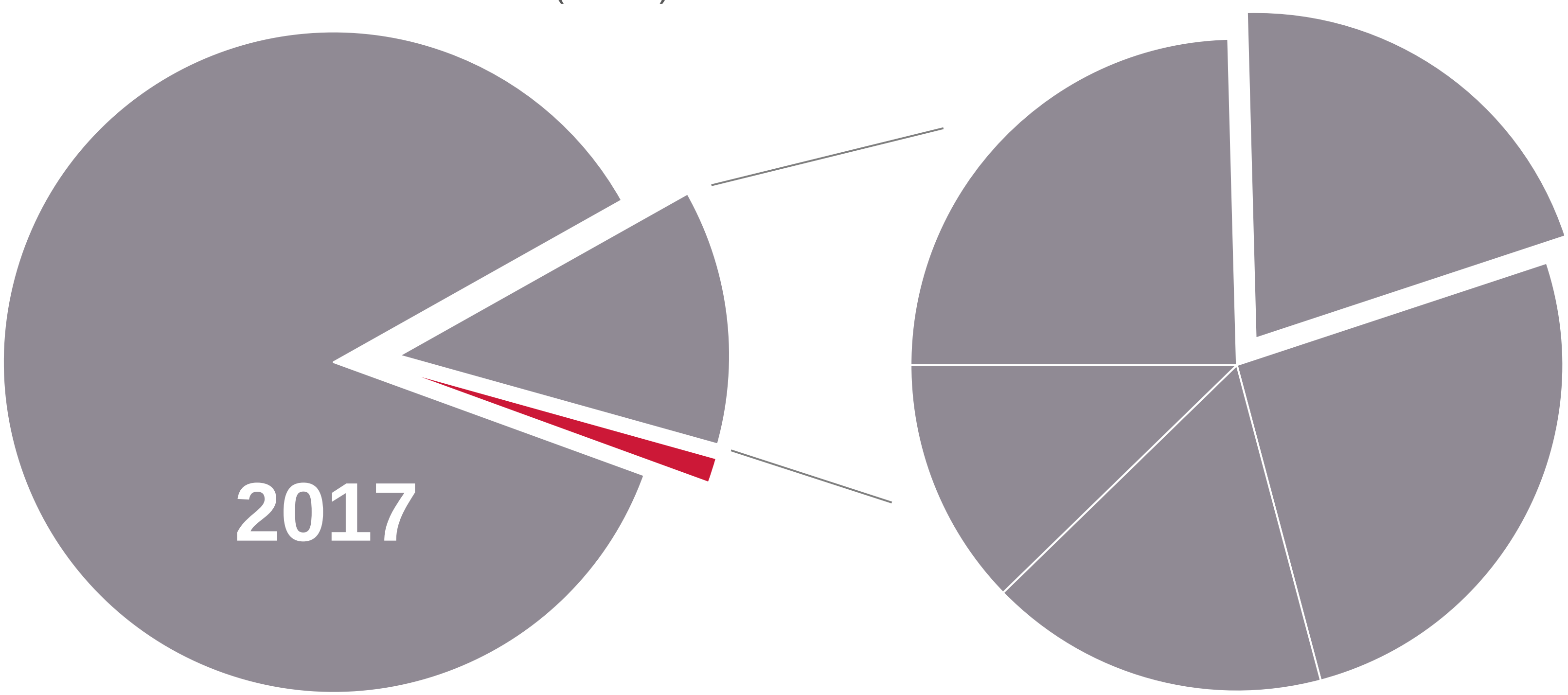
Omnichannel
E-Commerce Sales
(store)



Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research

Unpacking E-Commerce Sales

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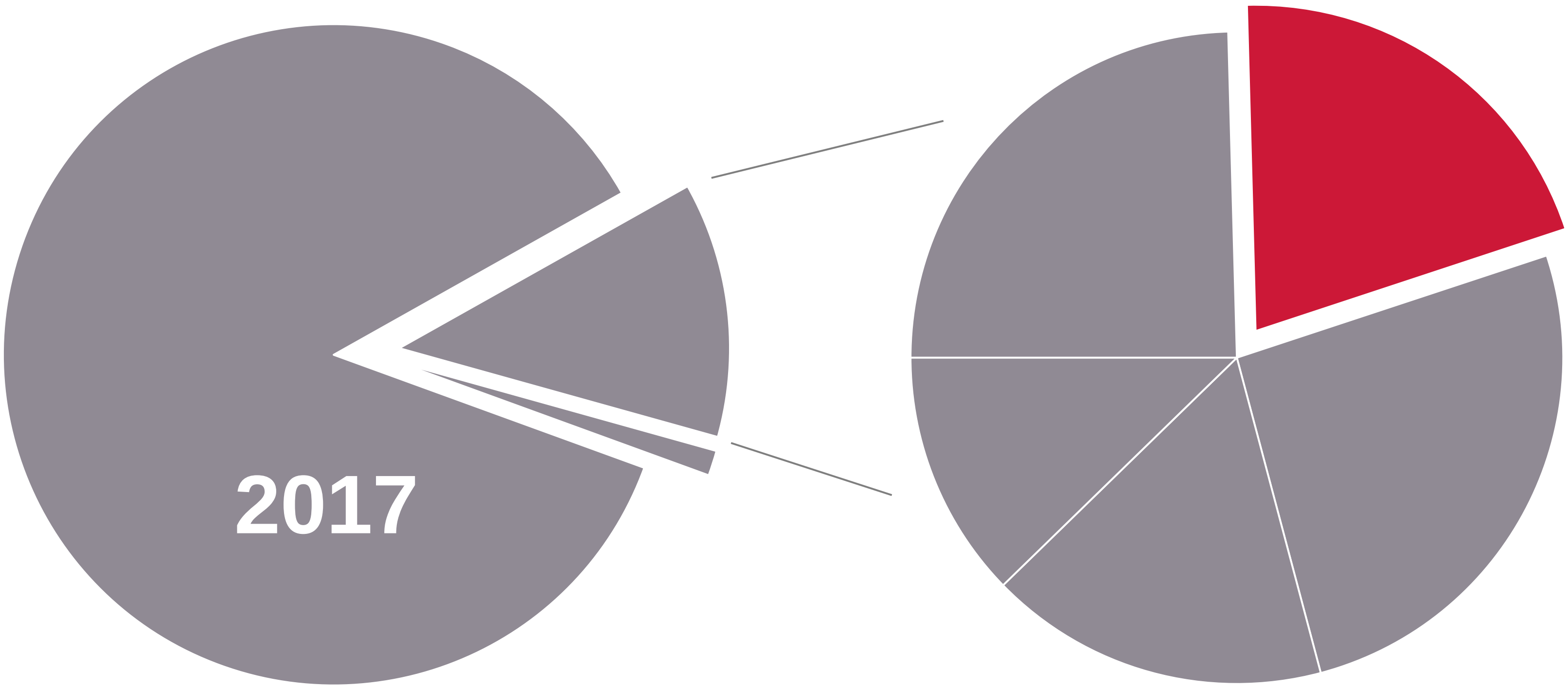
86.3% + 1.2% + 2.5% = 90.1%

Omnichannel E-Commerce Sales (warehouse)



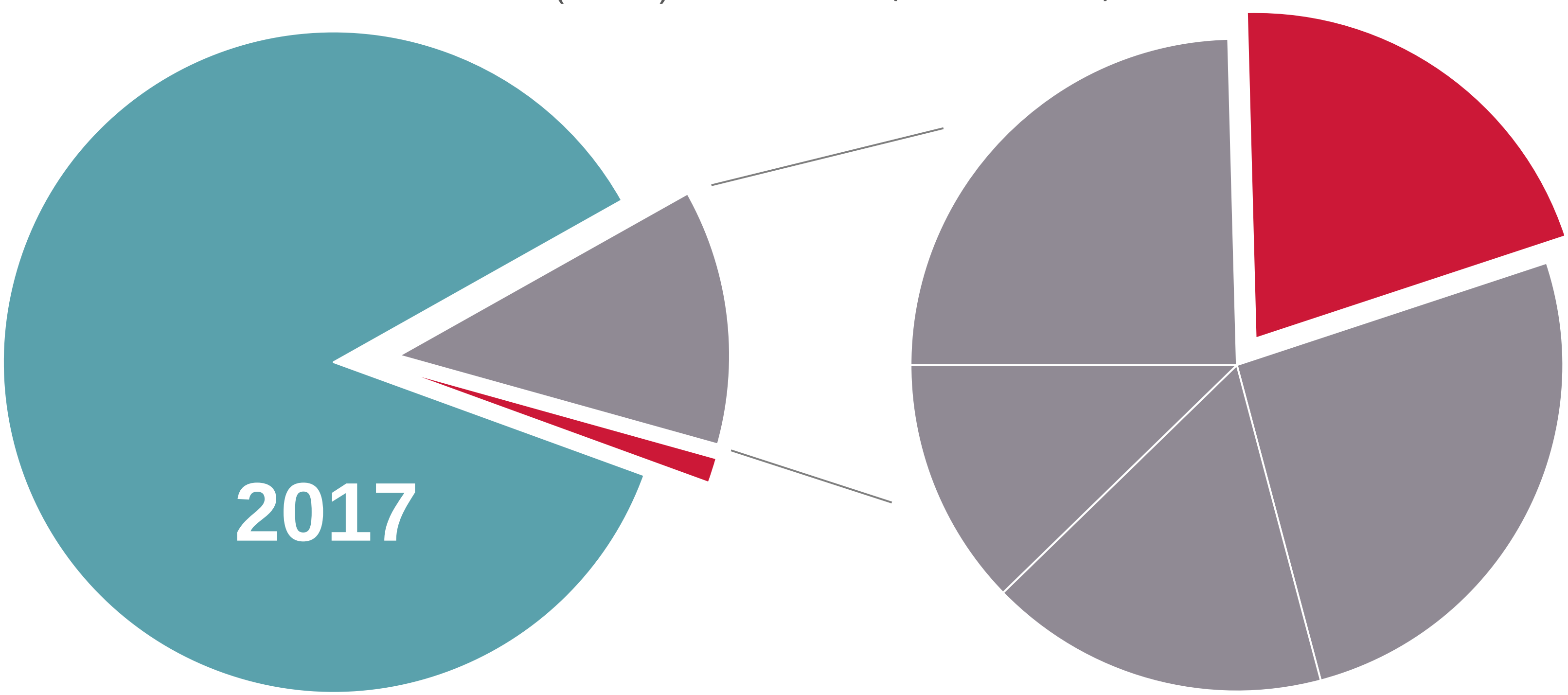
Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research

Unpacking E-Commerce Sales

Physical retailers generate 90.1% of all retail sales, either from in-store or online activity:

86.3% + 1.2% + 2.5% = 90.1%

86.3%	1.2%	2.5%
In-Store Sales	Omnichannel E-Commerce Sales (store)	Omnichannel E-Commerce Sales (warehouse)

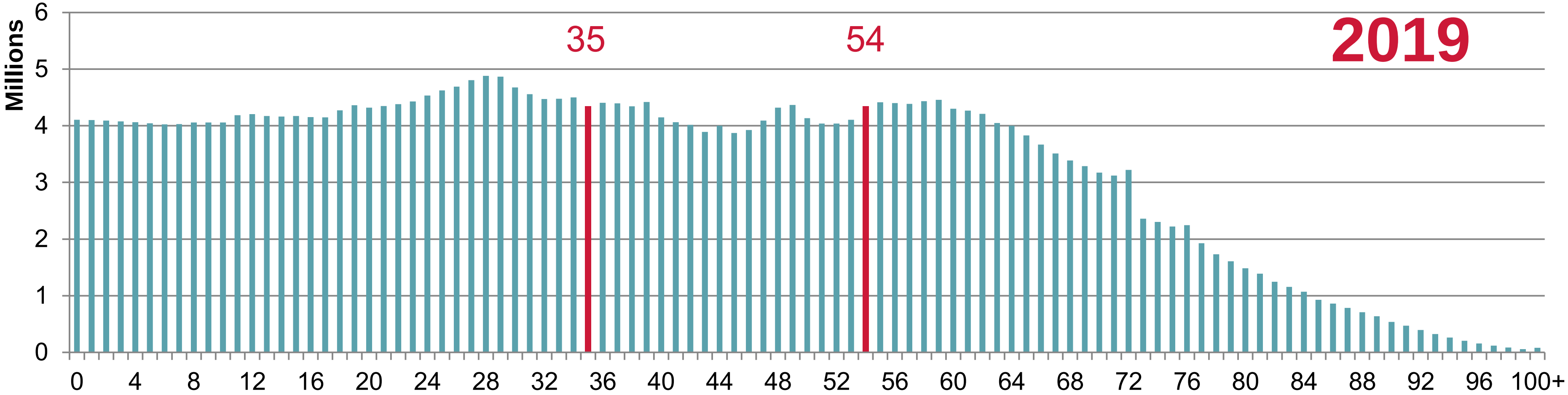


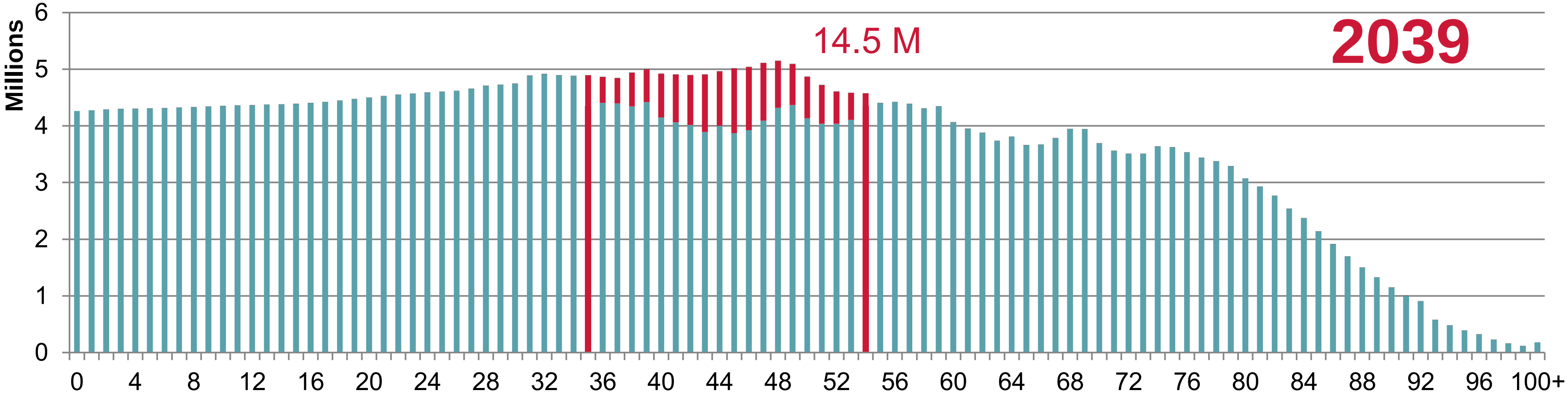
Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research

A Consumer-Led Disruption

Enabled by Technology

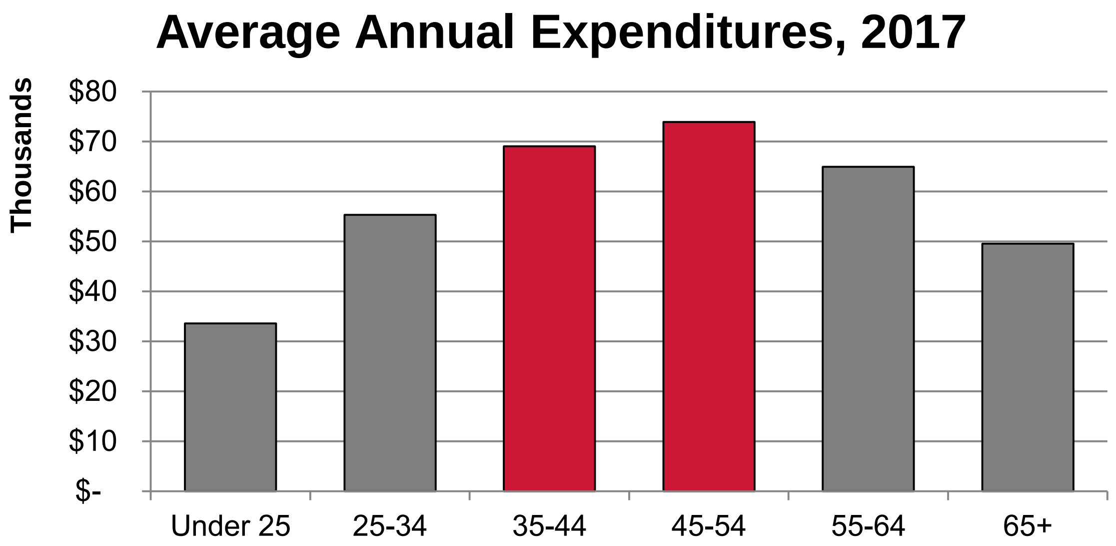
Restocking Prime Consumers





Sources: U.S. Census Bureau; ICSC Research

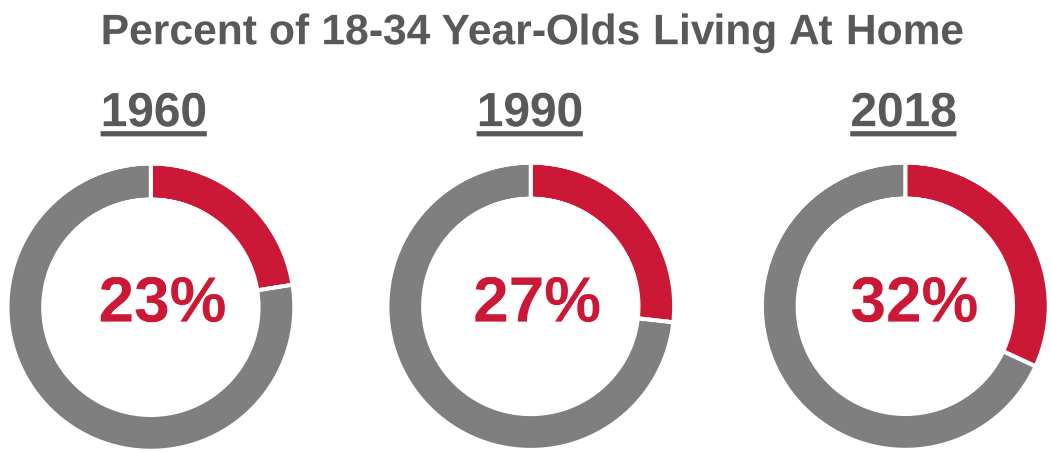
Restocking Prime Consumers

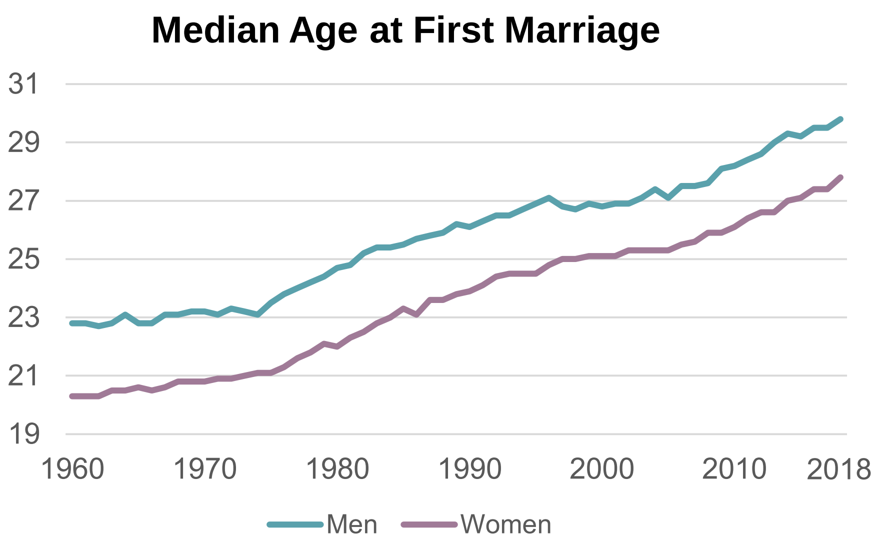


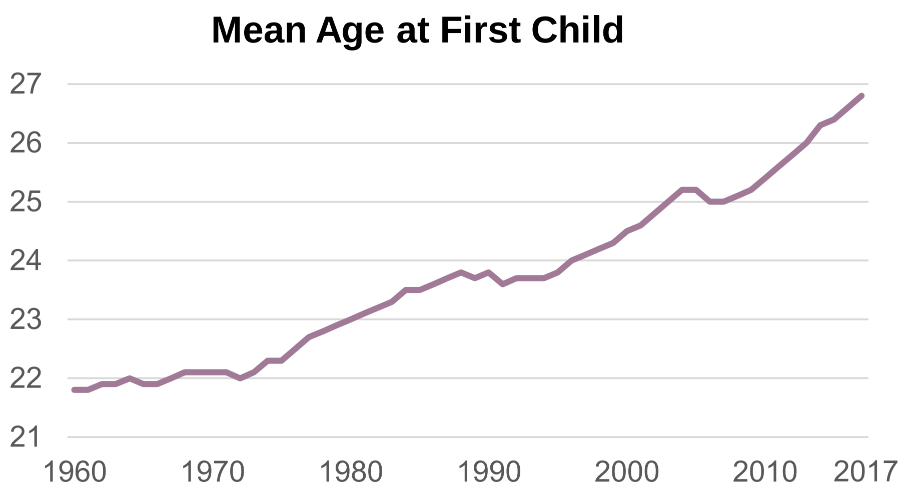
In 2017, 35-54 year-olds accounted for 41% of the annual aggregate expenditures while only accounting for 25% of the population.

Sources: U.S. Bureau of Labor Statistics; ICSC Research

Delayed Family Formation

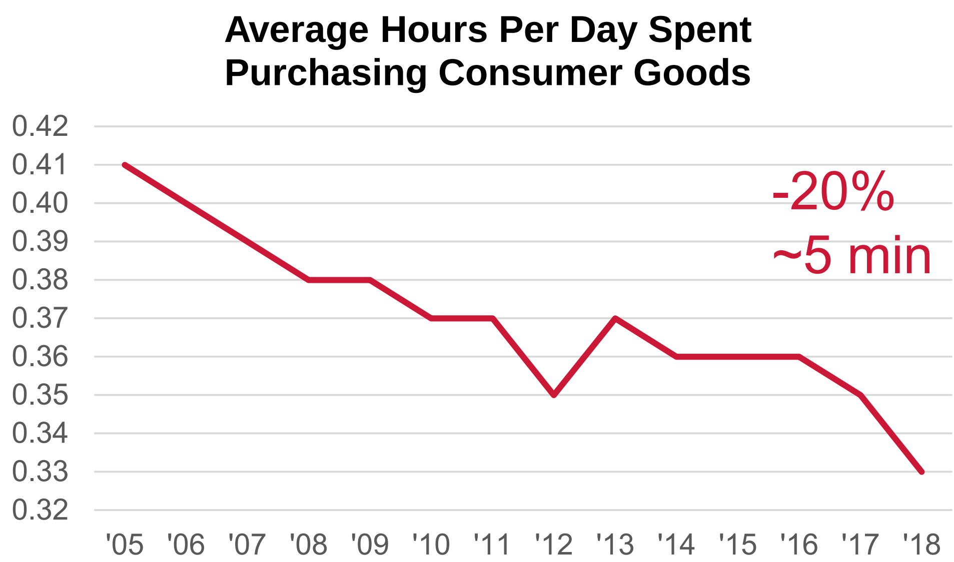


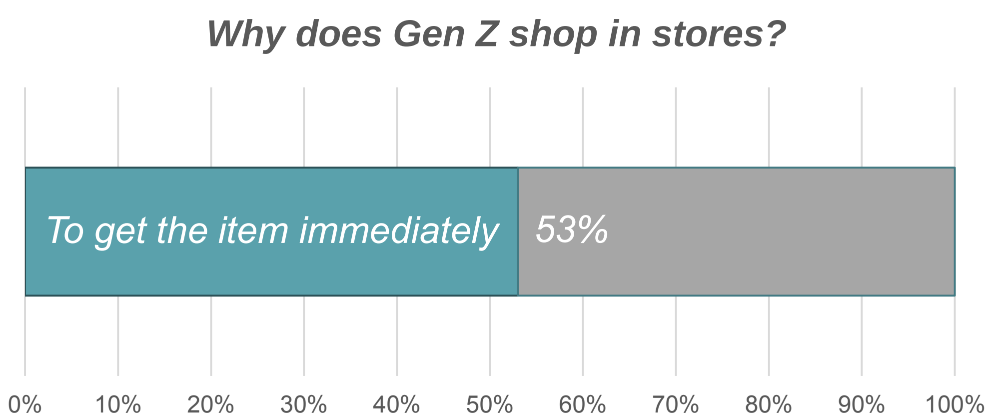


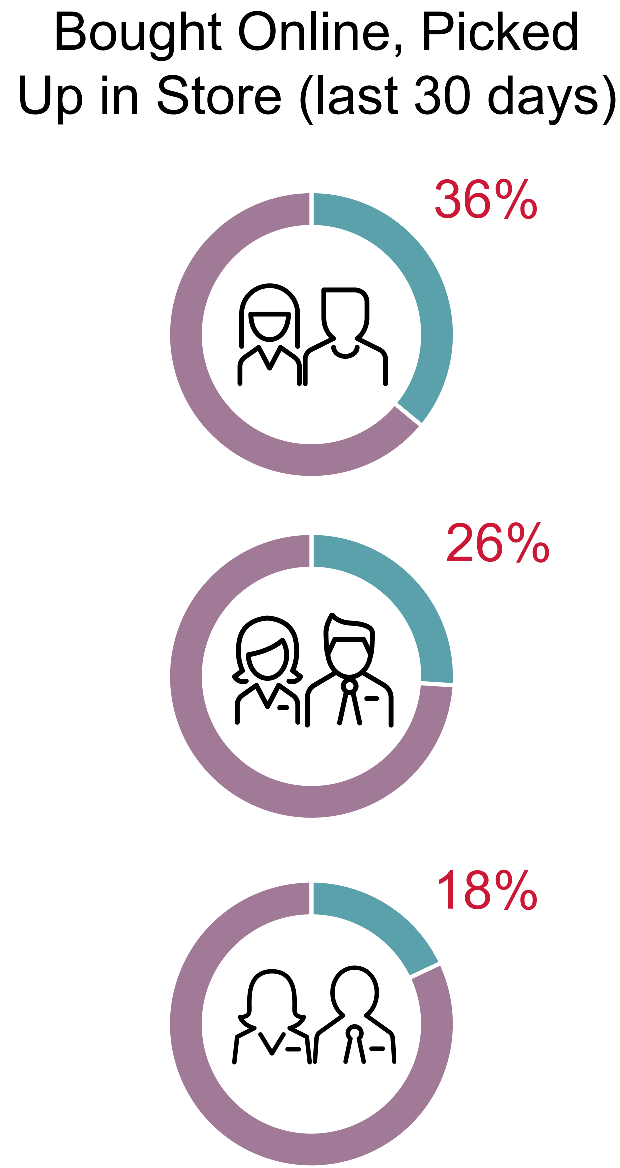


Sources: U.S. Census Bureau; Centers for Disease Control and Prevention; ICSC Research

Convenience, Value and Experience





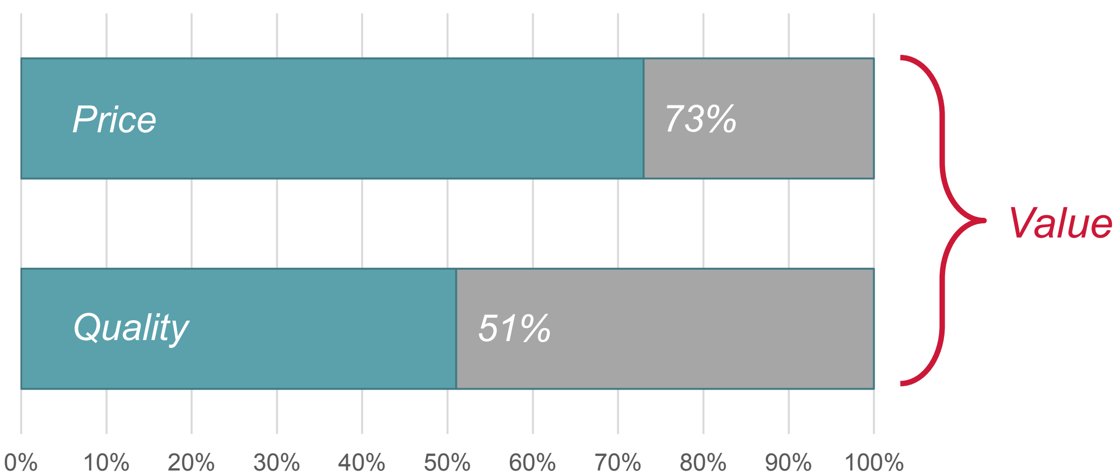


Sources: U.S. Bureau of Labor Statistics; ICSC Research

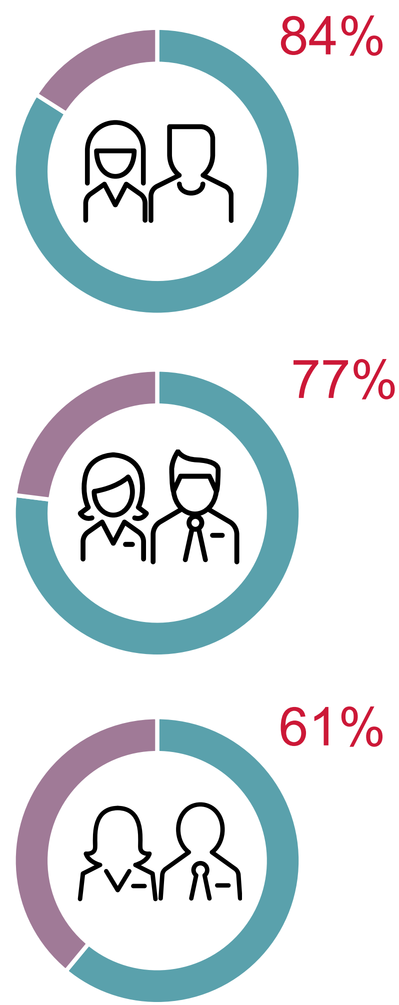
Convenience, Value and Experience

Mobile Device Use In Store:
- → Compare prices (54%)
- → Get digital coupons to use in store (39%)

What factors influence Gen Z purchases?



Conducted Research Online Before Shopping



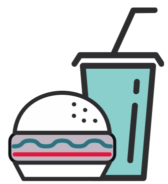
Source: ICSC Research

Convenience, Value and Experience

Most popular mall activities among Gen Z:

Shop: 76%

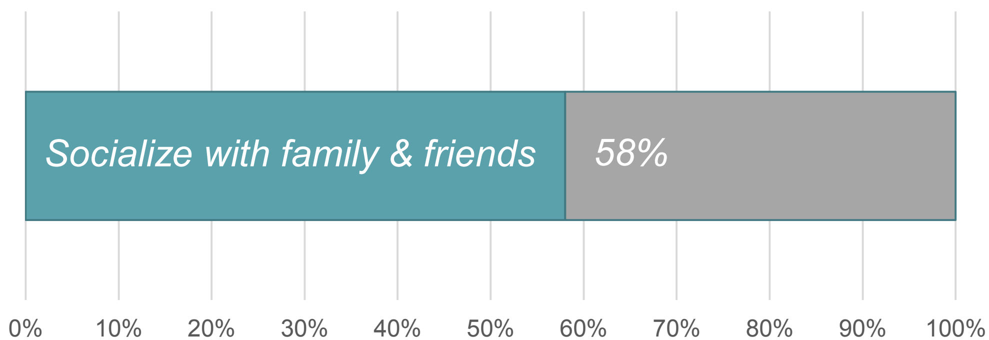
Dine: 76%



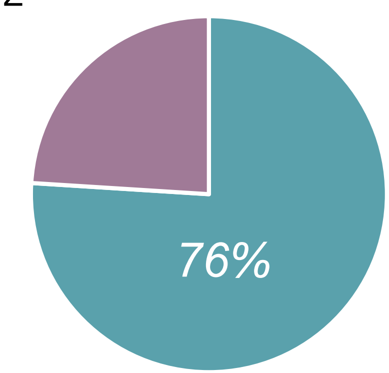
Socialize: 59%

See Movies: 44%

Why does Gen Z shop in stores?



"Physical stores provide a better shopping experience than online."
- Gen Z



Source: ICSC Research

Omni-Channel Retail: Consumer Expectations

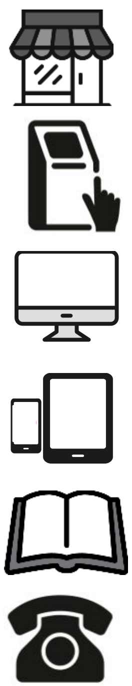
Omni-Channel Retail: Infinite Complexity

(feedback loop)

Discovery/ Trial & Test/ Purchase

Fulfillment

Return/Exchange



- Take home from store
- Pick up in store – ship from another store
- Pick up in store – ship from distribution center
- Ship from store to home/office/3rd location
- Ship from another store to home/office/3rd location
- Ship from distribution center to home/office/3rd location

- In store
- In another store
- Online – to store
- Online – to distribution center

The Halo Effect

Convergence of Bricks & Clicks

Measuring the Value of Physical Retail

- Store Value
  - Brand Awareness
  - Showcase
  - Point of Sale
  - Fulfillment
  - “Halo Effect”

Halo Effect (Part I) measures the rise in a retailer’s web traffic following the opening of a store in a market – or drop in web traffic following a store closure.

Halo Effect (Part II) quantifies the incremental spending that occurs in a store in the days immediately following an online purchase, and vice versa.

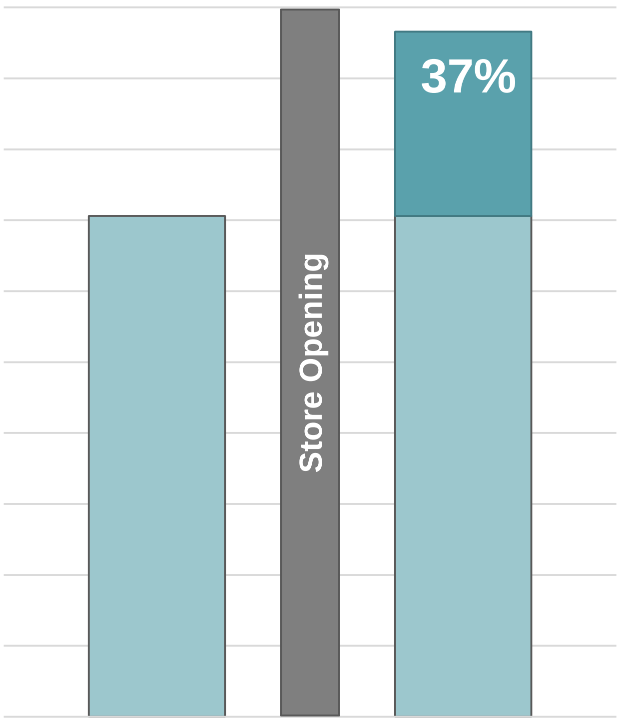
Halo I Methodology

The web traffic analysis included both established and emerging retailer brands that opened or closed a total of 804 stores in 145 U.S. markets in 2017.

The brand perception analysis, based on approximately 4,200 respondents, compared consumer survey results of a national benchmark to a select markets were retailers maintained at least one brick-and-mortar store.

Halo I: Web Traffic Lift Following Store Opening

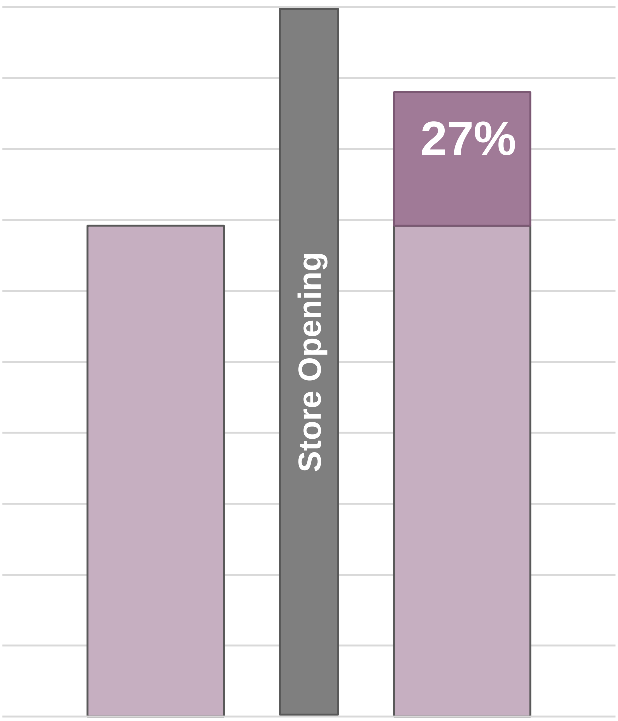
Web Traffic - Level



Established Retailers: 36%

Emerging Retailers: 45%

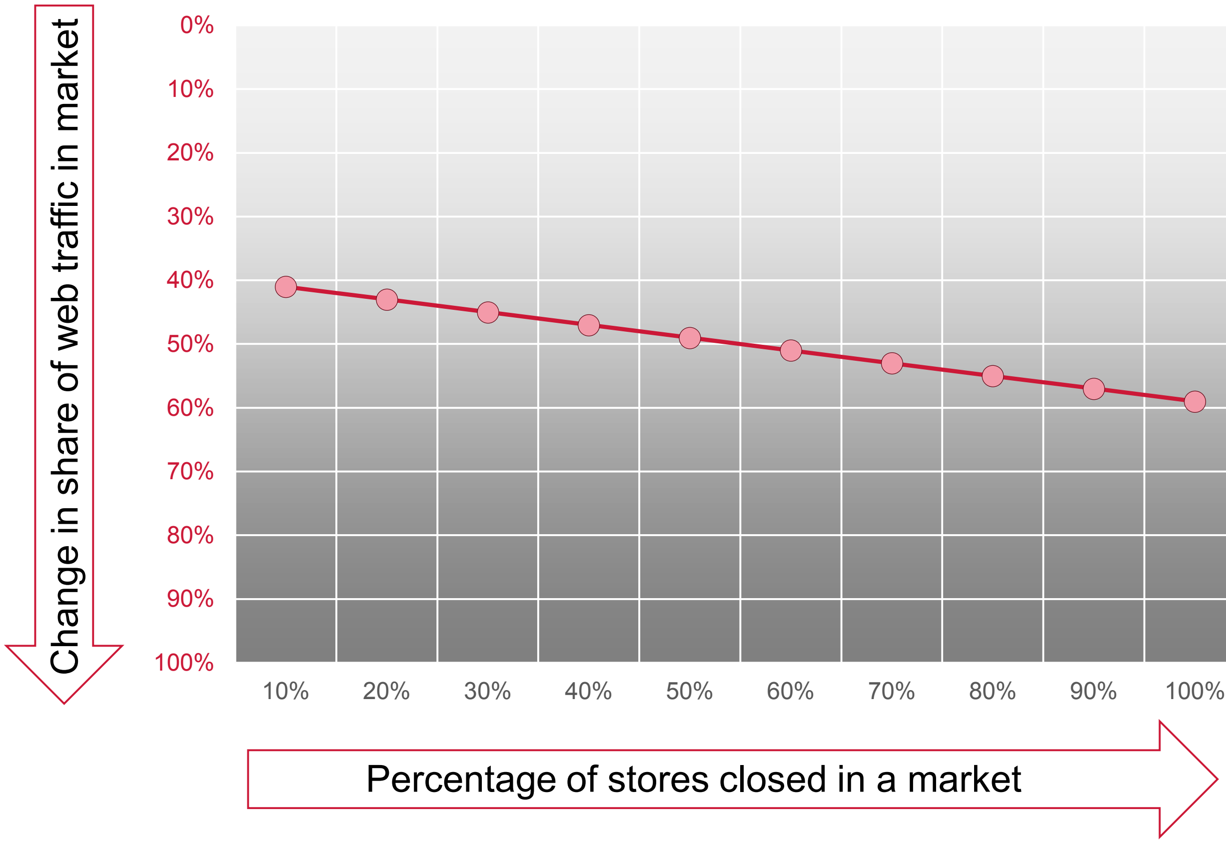
Web Traffic - Share

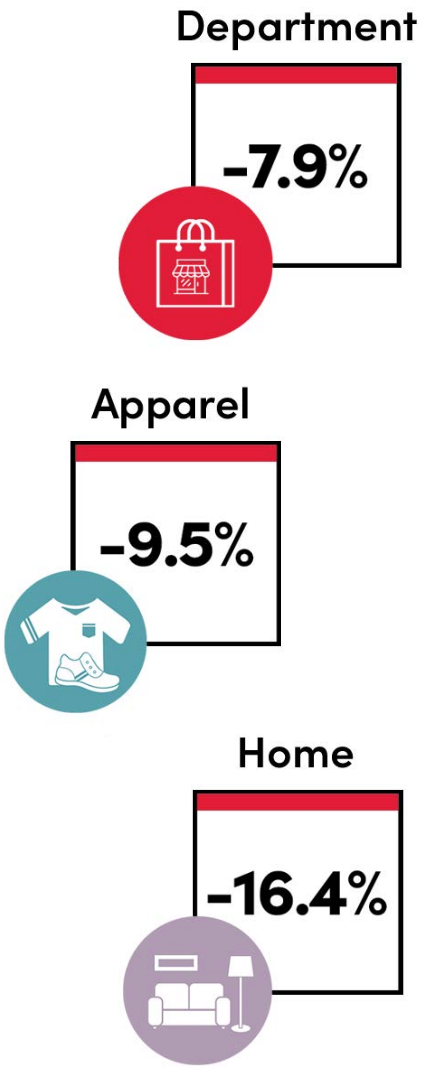


Established Retailers: 27%

Emerging Retailers: 32%

Halo I: Web Traffic Drop Following Store Closure

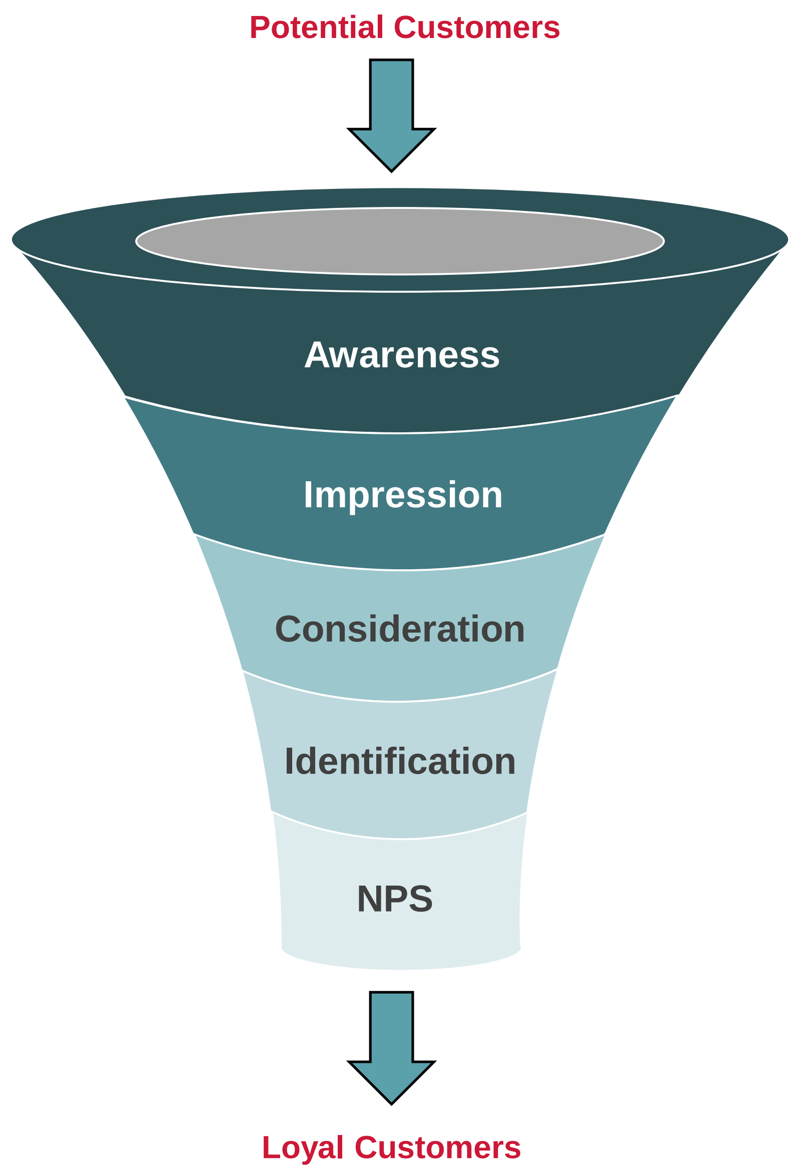




The greater the proportion of stores closed in a market, the greater the decline in the share of web traffic in the markets where the retailer operates stores.

Halo I: Stores Critical for Brand Marketing

- Brand awareness
- Consumer perceptions of the brand
- Willingness to consider purchasing from the brand
- Developing consumers who believe that the brand says something about them and their values
- Consumer willingness to speak positively about the brand and recommend to others



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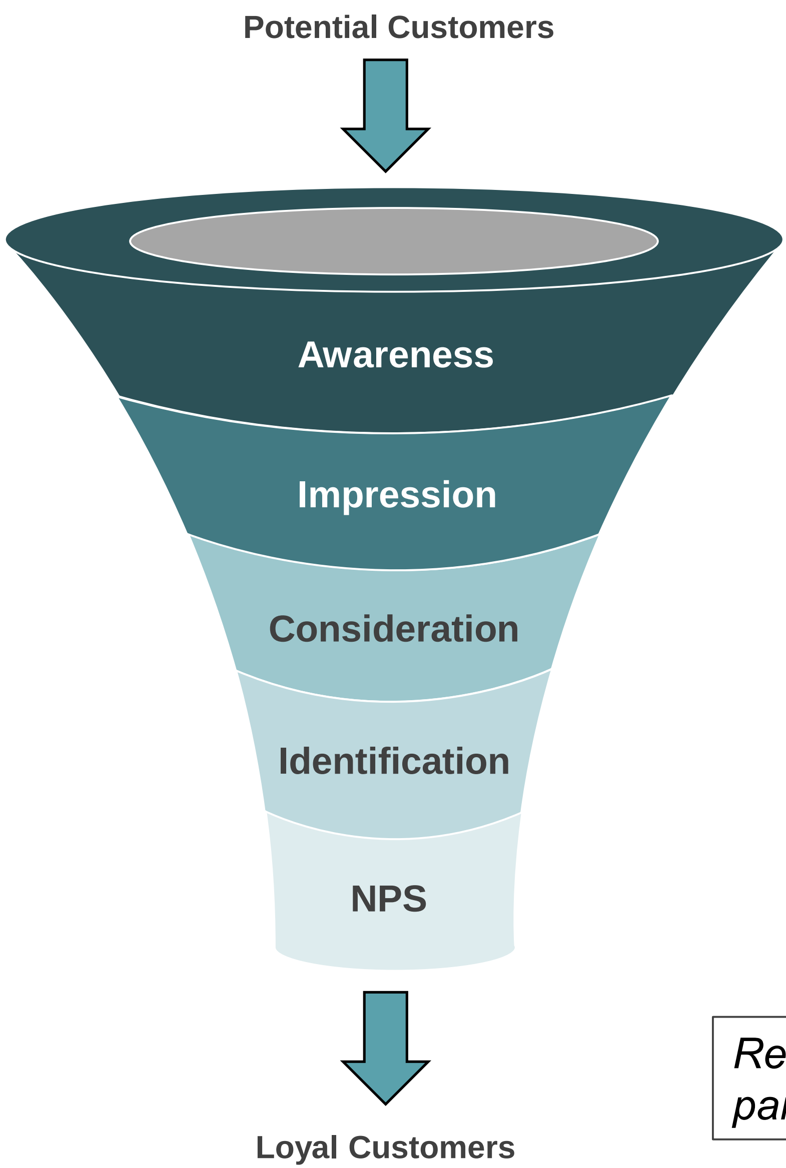


	National Benchmark	Tested Markets (w/ stores present)	Difference
Awareness	44%	48%	+4.5 pp.
Impression	56%	57%	+0.6 pp.
Consideration	62%	65%	+2.3 pp.
Identification	43%	44%	+0.7 pp.
NPS	8	12	+3.8

Results for emerging brands were even more robust – particularly for Consideration, Identification and NPS.

Halo II Methodology

Analysis covers:

→ 42 retailers spanning 7 categories
→ $31.2 billion in total transactions
→ 41.2 million credit/debit card records
→ 3-year period (2016-2018)

Core results were reported for a 15-day period:

- There are 10.5 million "*online to in-store*" halo events (online transactions: returns and purchases) that triggered 21.9 million in-store transactions.
- There are 13.1 million "*in-store to online*" halo events (in-store transactions: returns and purchases) that triggered 17.7 million online transactions.

Halo II Sample Set

Sample Set Spending by Channel by Retail Type

	2016-2018
Total	**91%**
	9%
Home	85%
	15%
Large Format	86%
	14%
Discount Department Store	96%
	4%
Apparel	79%
	21%
Cosmetics	83%
	17%
Department Stores	72%
	28%
Emerging	59%
	41%

- For the retailers and consumers included in this sample, between 2016 and 2018, approximately 91% of total spending ($28.3B) occurred in a store.
- Discount Department Stores had the highest share of in-store spending at 96% ($18.4B) for the total three-year period.
- Emerging retailers had the lowest share of in-store spending at around 60%.

Halo II Sample Set Cont.

Omnichannel Spending as a % of Total Spending

	2016-2018
Total	**34%**
Home	29%
Large Format	22%
Discount Department Stores	39%
Apparel	28%
Cosmetics	25%
Department Stores	30%
Emerging	19%

- For this sample, omnichannel consumers account for 34% of total spending but only 17% of customers over the three-year period. That is, they spend proportionally more than single-channel shoppers.

Omnichannel Customers as a % of Total Customers

	2016-2018
Total	**17%**
Home	12%
Large Format	10%
Discount Department Stores	29%
Apparel	17%
Cosmetics	11%
Department Stores	17%
Emerging	9%

- Disparity has been growing:
  - 15 pp differential in 2016
  - 20 pp differential in 2018

Online to In-Store: 15-Day Halo Effects
By Retail Categories

Online to In-Store Halo Effect: 15-Days

	2016-2018
Total	**231%**
Home	175%
Large Format	156%
Discount Department Stores	325%
Apparel	164%
Cosmetics	162%
Department Stores	55%
Emerging	333%

- The 15-day halo effect, as measured by total spending as a percent of original online spending, varies considerably across retail categories.
- Discount Department Stores and Emerging retailers have higher values as a result of large amounts of in-store spending following the initial online transaction.
- Department Stores have a low value as a result of high value of in-store returns that follow the initial online transaction.

Online to In-Store: 15-Day Halo Transactions per Event

By Retail Categories

Online to In-Store: Ratio of "Halo Transactions" to "Halo Events"

	2016-2018
Total	**2.1**
Home	**1.8**
Large Format	**1.4**
Discount Department Stores	**2.4**
Apparel	**1.3**
Cosmetics	**1.2**
Department Stores	**1.4**
Emerging	**1.2**

- As noted on previously, consumers typically make 2.1 in-store transactions within 15 days of an online transaction.
- This ratio is higher for Discount Department Stores that incentivize a larger number of in-store visits – perhaps driven by the available grocery component of some of these retailers.

In-Store to Online: 15-Day Halo Effects
By Retail Categories

In-Store to Online Halo Effect: 15-Days

	2016-2018
Total	**267%**
Home	355%
Large Format	272%
Discount Department Stores	239%
Apparel	195%
Cosmetics	259%
Department Stores	702%
Emerging	138%

- The 15-day halo effect, as measured by total spending as a percent of original online spending, varies considerably across retail categories.
- Department Stores have the highest values as a result of the considerable online spending that occurs following the initial in-store transaction.
- Emerging retailers have the lowest values as a result of the lower online spending following an initial in-store transaction.

In-Store to Online: 15-Day Halo Transactions per Event

By Retail Categories

In-Store to Online: Ratio of "Halo Transactions" to "Halo Events"

	2016-2018
Total	**1.3**
Home	**1.2**
Large Format	**1.3**
Discount Department Stores	**1.3**
Apparel	**1.4**
Cosmetics	**1.3**
Department Stores	**1.6**
Emerging	**1.4**

- As noted on previously, consumers typically make 1.3 online transactions within 15 days of an in-store transaction.

- This ratio is higher for Department Stores that incentivize customers to go online to find items possibly not offered in the store during their last transaction. These consumers may also be willing to make additional online transactions given the convenience of returns should that eventually be necessary.

Convergence of Bricks and Clicks

Walmart	amazon
jet	amazon books
SHOES.COM	amazon go
Moosejaw	WHOLE FOODS MARKET
BONOBOS	
Flipkart	

The Prime Disruptor?

The Motley Fool

Everything You Know About the Internet Killing Retail May Be Wrong

Forbes

Five Signs That Stores (Not E-Commerce) Are The Future Of Retail

abc NEWS

Online shopping hasn't killed brick-and-mortar retailers

Sources: Motley Fool: April 3, 2017; Forbes: June 27, 2017; ABC News: October 12, 2017

Retail Real Estate 2.0

Convergence of Tenants & Uses

From Shopping Center to Community Center

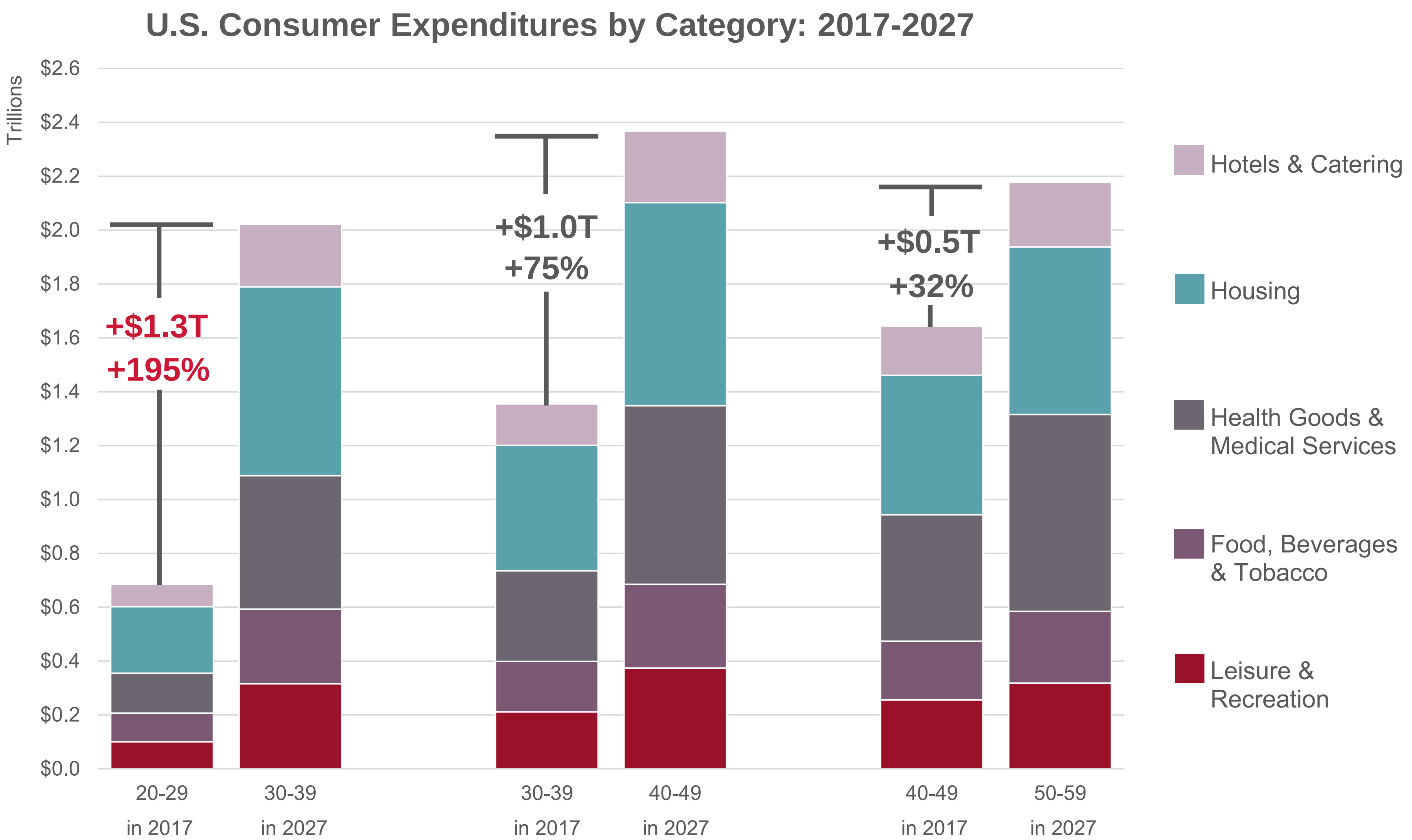
Delivering an “experience” not “stuff”.

<u>New “Retail” Tenants</u>

- ✓ Entertainment
- ✓ Food & Beverage
- ✓ Health & Wellness
- ✓ Other Concepts
- ✓ *Mixed-Use*

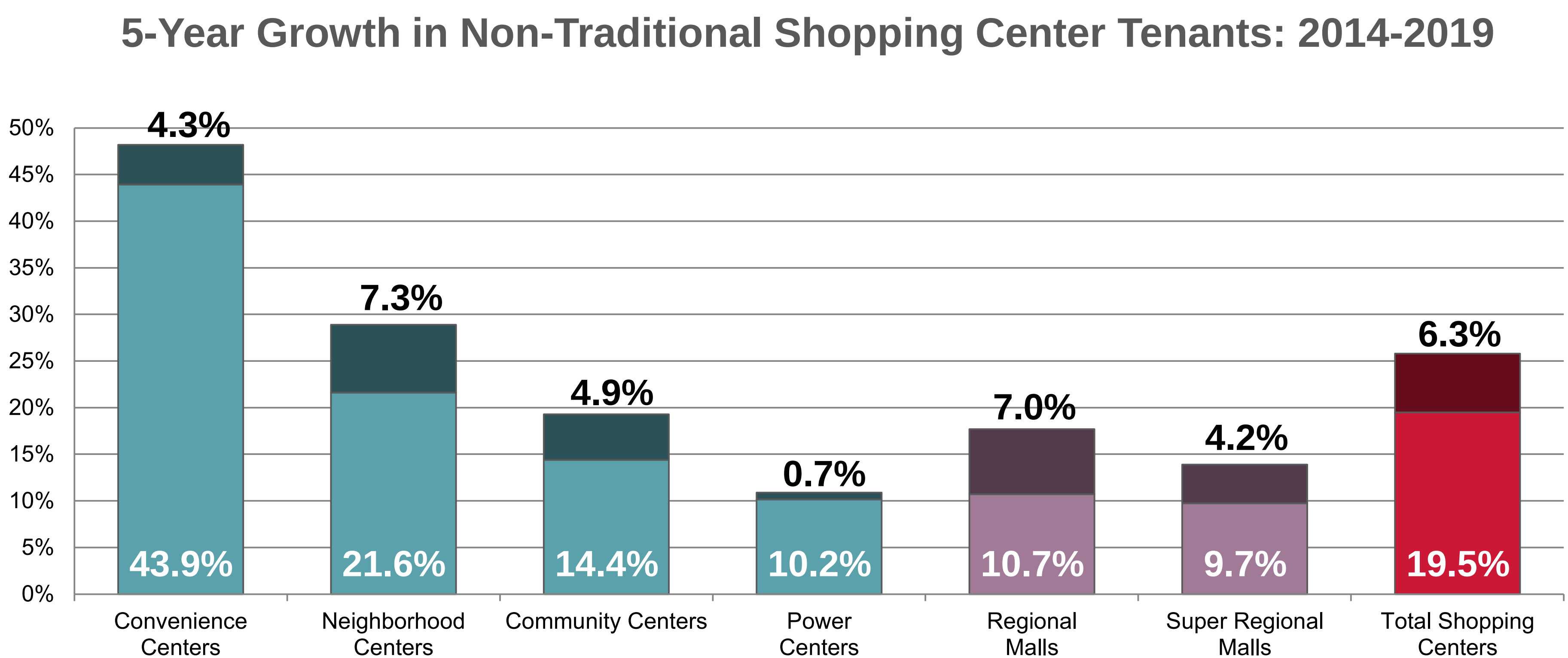
Source: Bruce MacKinnon: 2016

Consumption Shifts by Age Cohort



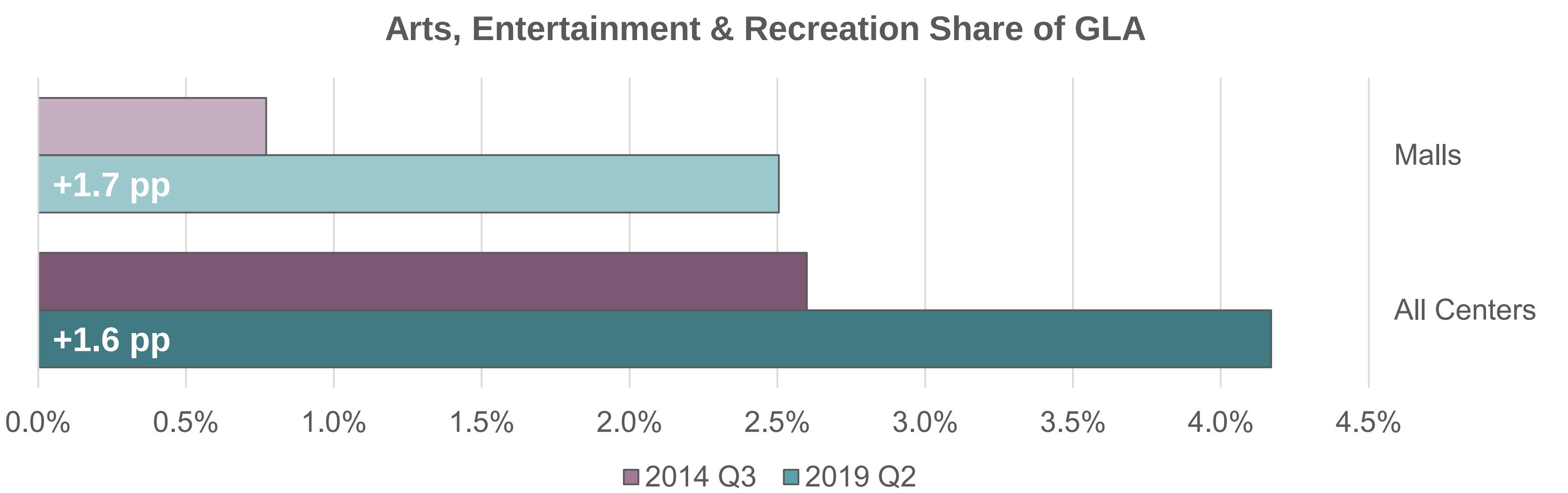
Source: Euromonitor International; ICSC Research

Non-Retail, Non-Restaurant Share of GLA



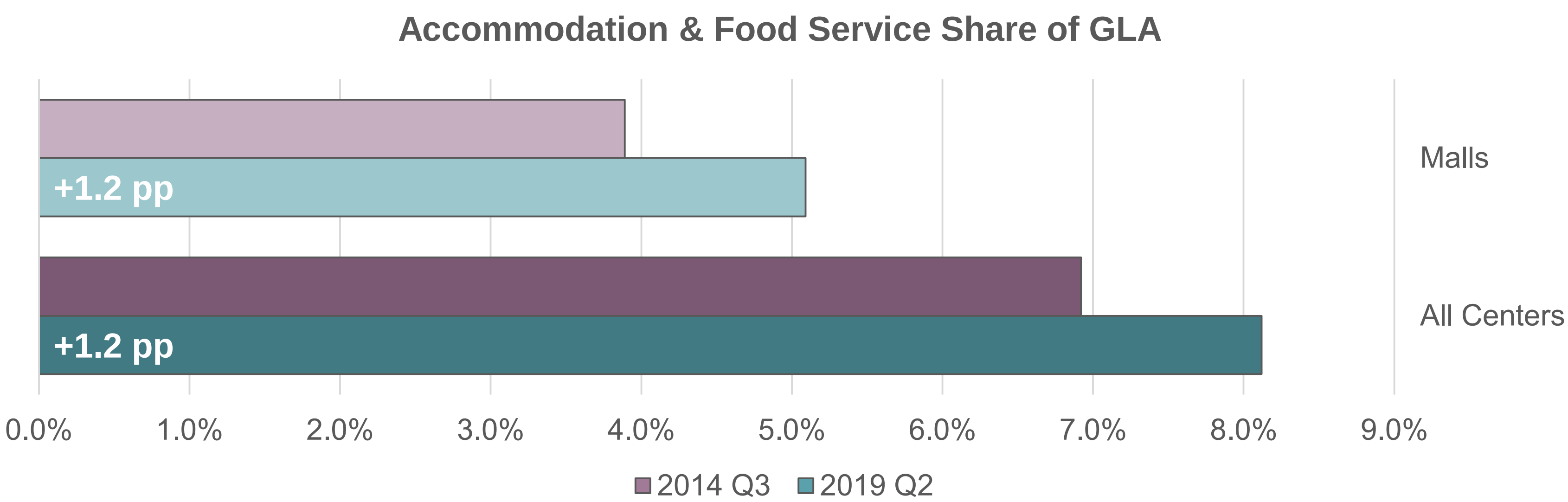
Sources: CoStar Group; ICSC Research

Entertainment



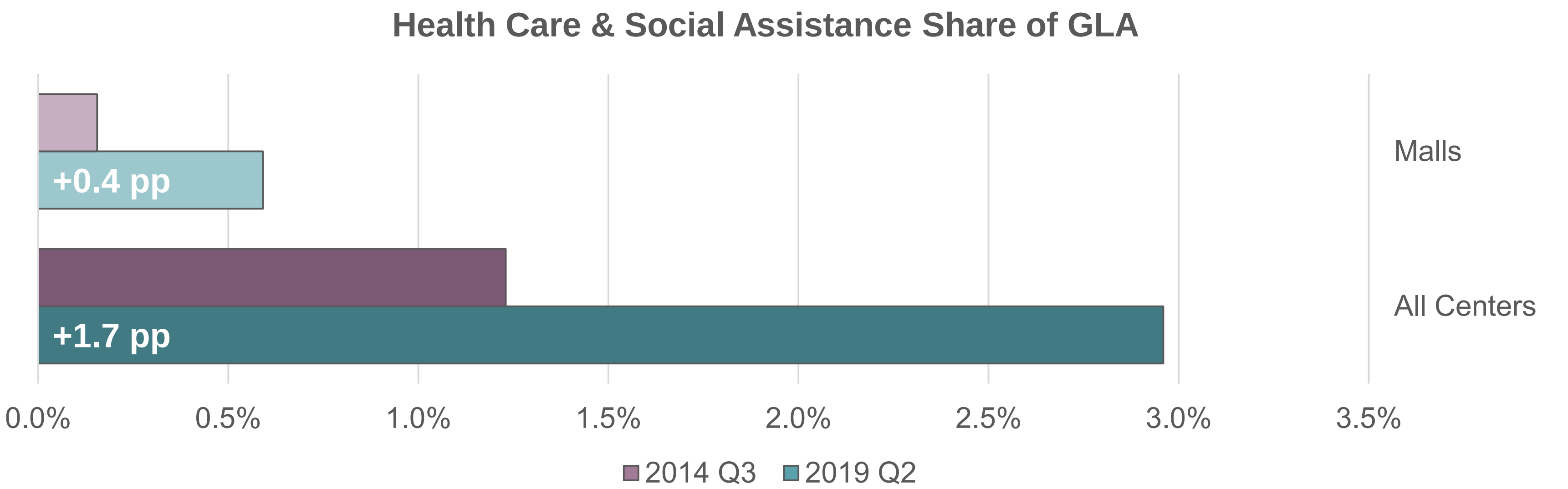
Source: CoStar Group; ICSC Research

(Bespoke) Food & Beverage



Source: CoStar Group; ICSC Research

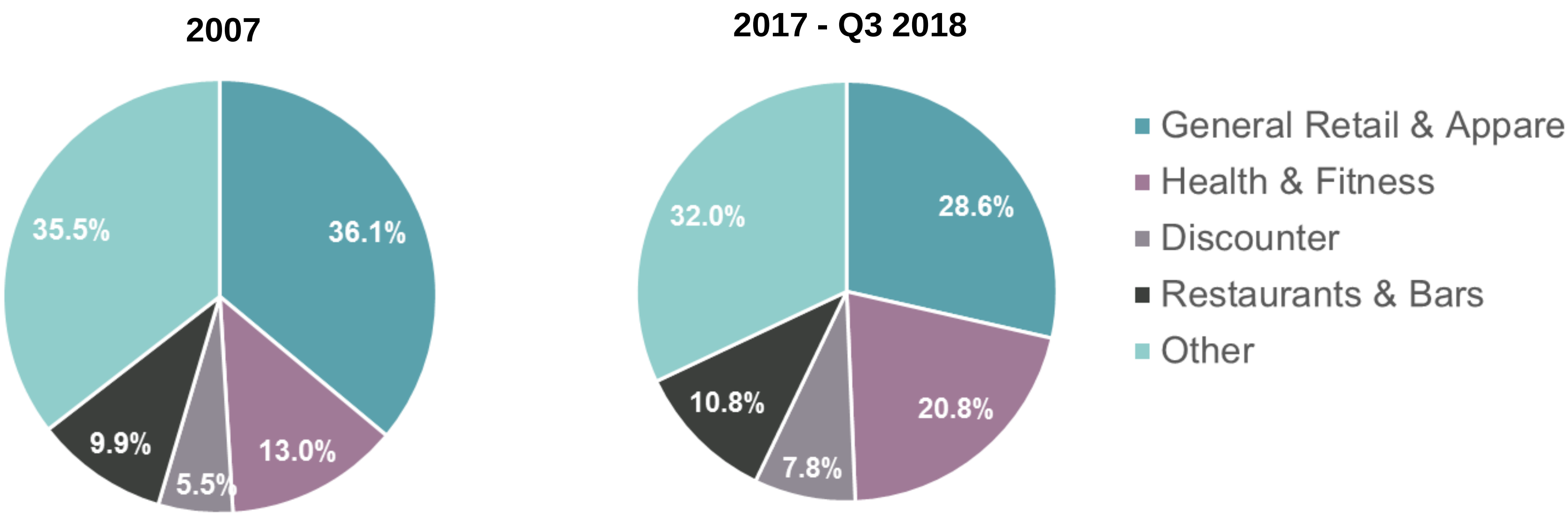
Health & Wellness



Source: CoStar Group; ICSC Research

Diversification of Uses at Retail Real Estate Properties

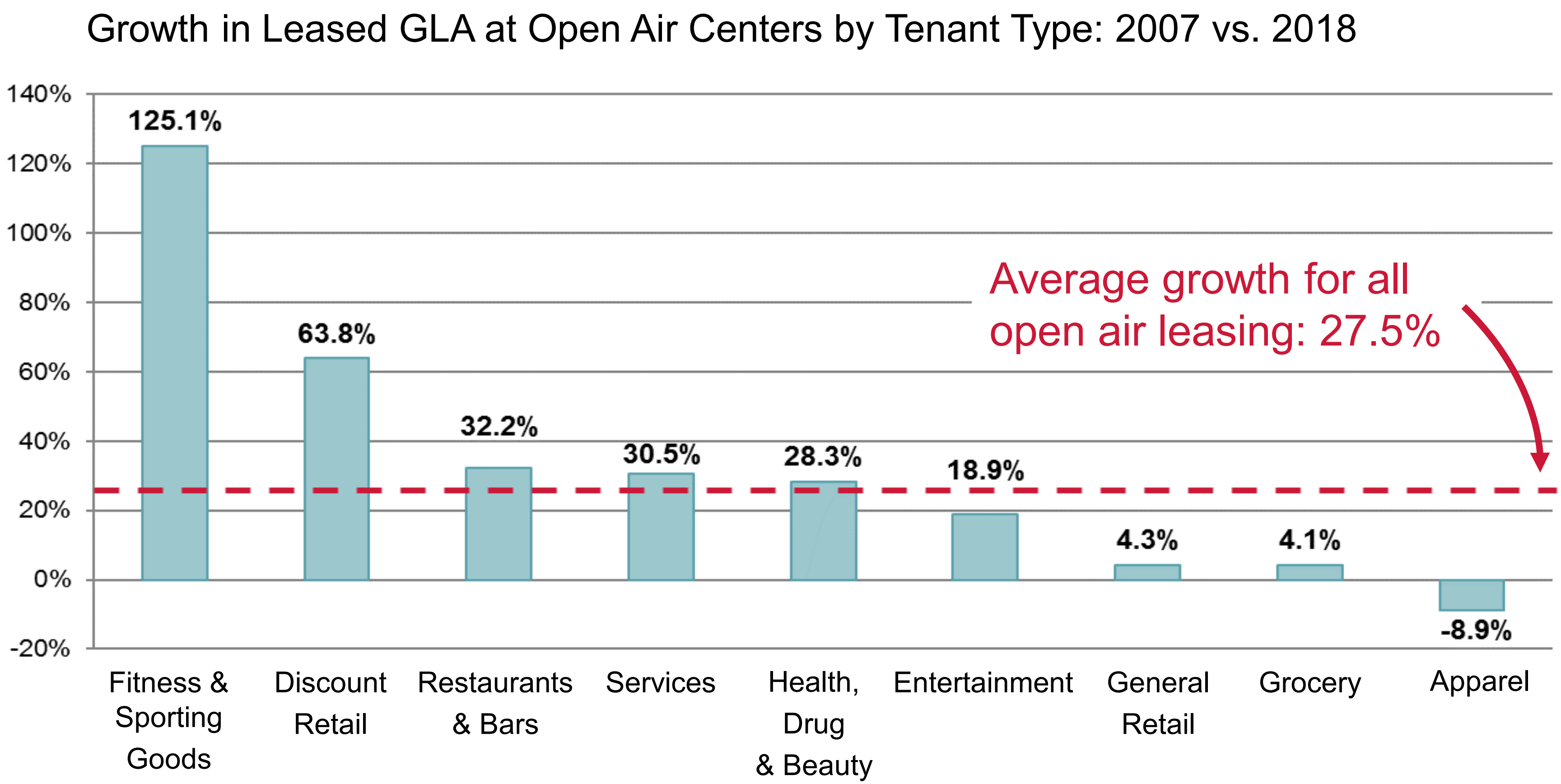
Share of Shopping Center GLA Leased by Tenant Type



Fitness & Sporting Goods:	+6.6%	Apparel:	-4.0%
Discounters:	+2.2%	General Retail:	-3.5%

Source: CoStar Portfolio Strategy

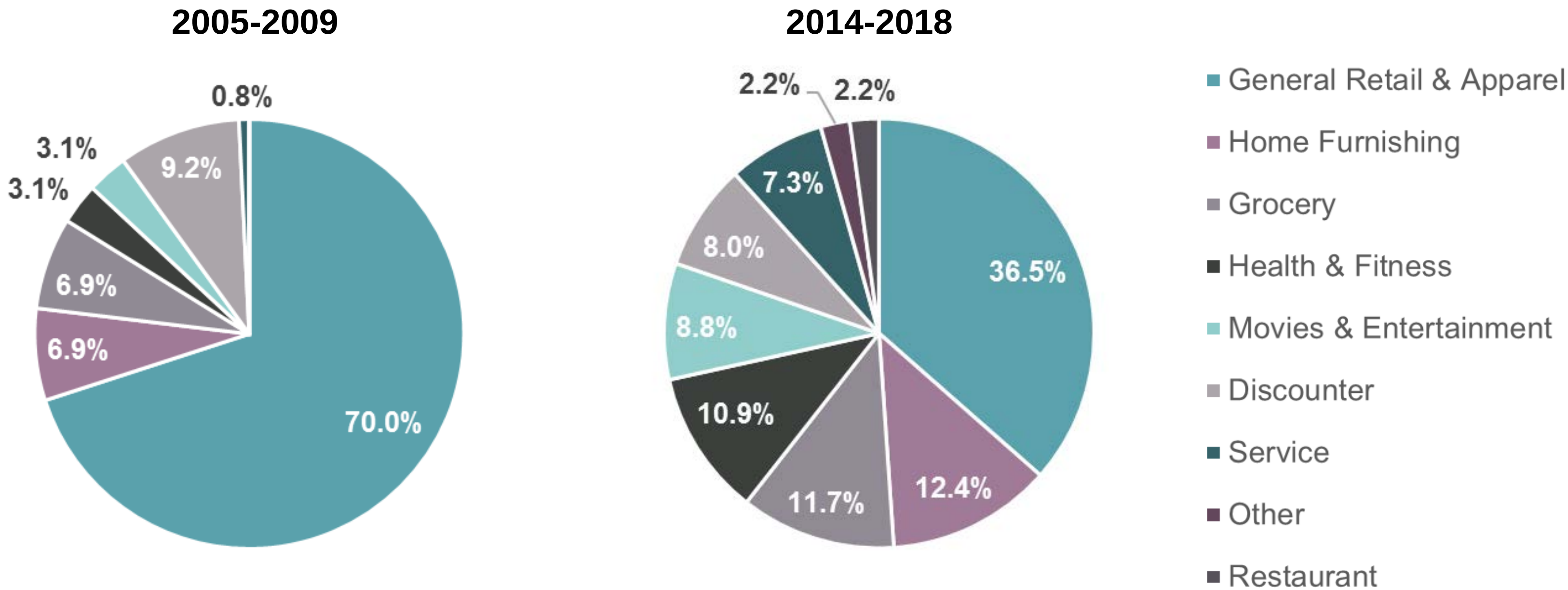
Diversification of Uses at Retail Real Estate Properties



Source: CoStar Portfolio Strategy

Diversification of Uses at Retail Real Estate Properties

Share of Tenants by Industry Replacing Vacated Anchor Space



Source: CoStar Portfolio Strategy

Mixed-Use

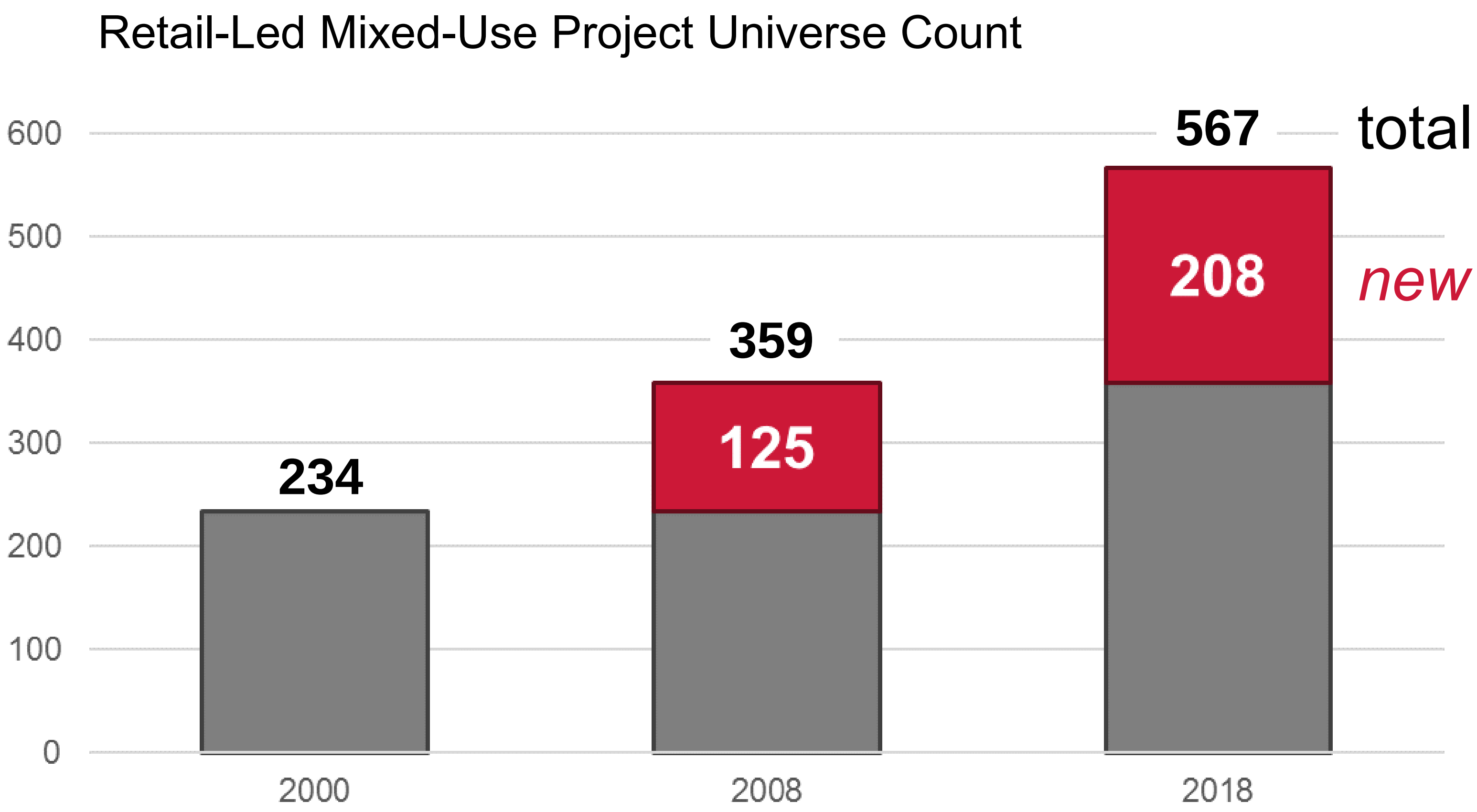

PONCE CITY MARKET


WE WORK
better
TOGETHER


The NEW YORK

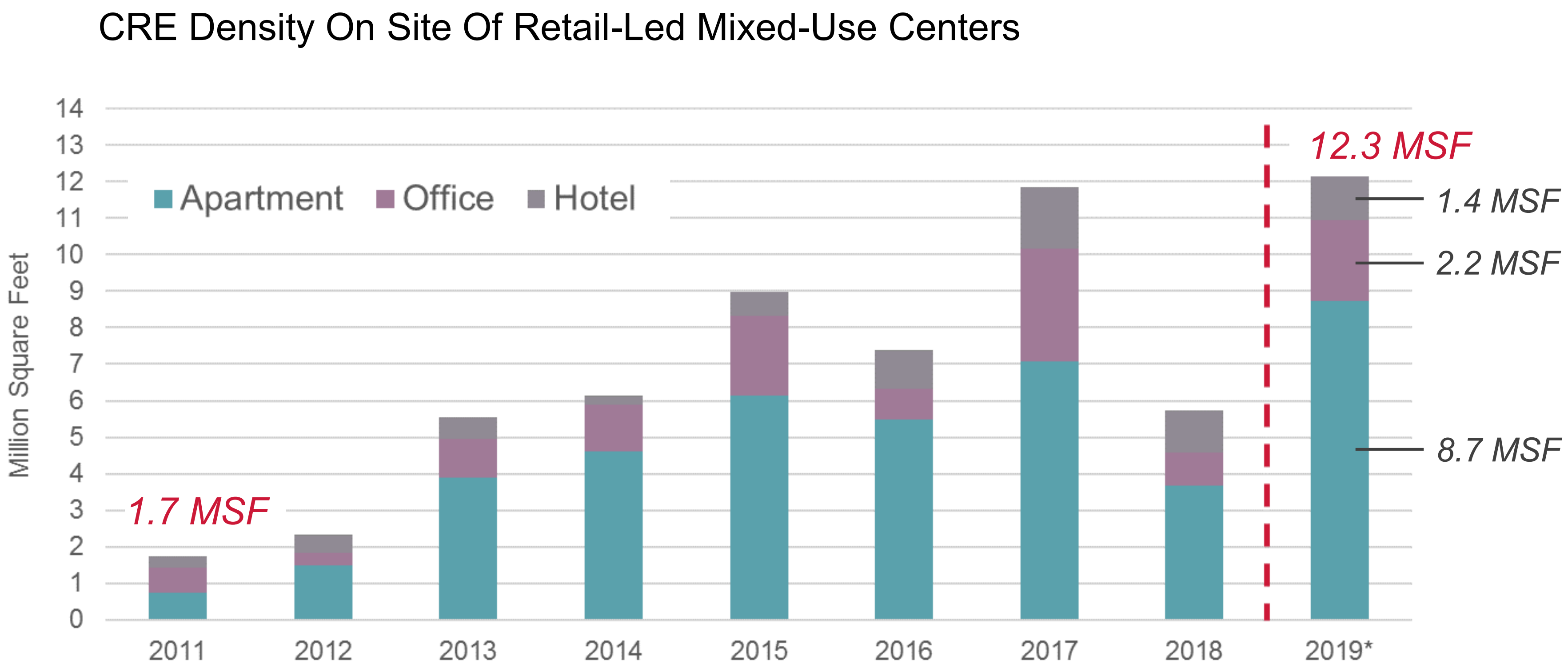

Résidences
QUÉBEC.CA

Diversification of CRE Development at Retail Real Estate Sites



Source: CoStar Portfolio Strategy

Diversification of CRE Development at Retail Real Estate Sites



** Delivery forecast*

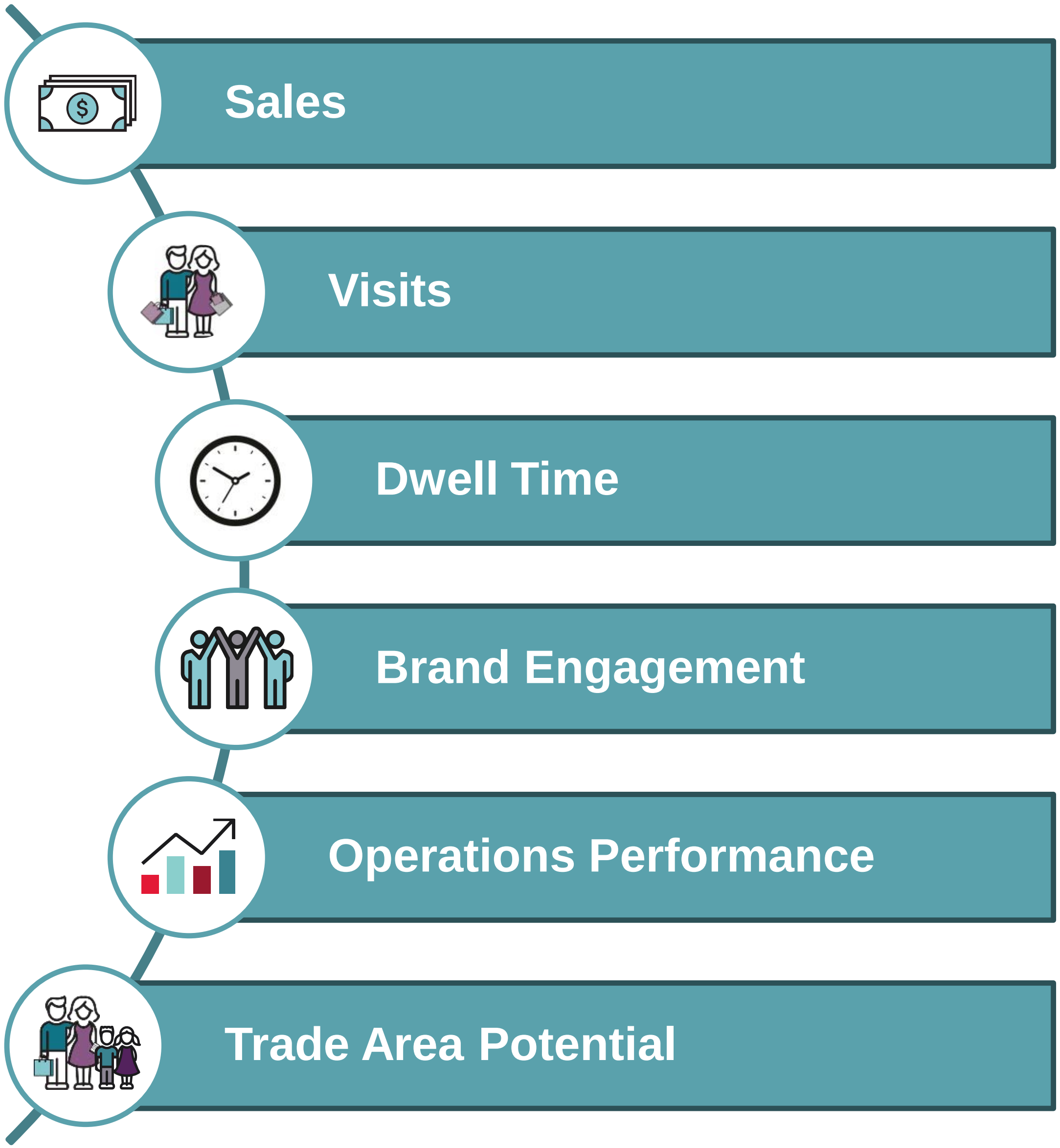
Source: CoStar Portfolio Strategy

From Shopping Centers to Consumer Engagement Spaces

Destination Centers	Large regional centers, anchored by popular attractions, which draw from broad local, national, and some international audiences.
Value Centers	Hyper-curated centers specializing in related retail businesses and services, reflecting the values and preferences of the surrounding community.
Retaildential Space	Mixed-use, multiformat centers located where consumers live, work and travel.
Innovation Centers	Every "store" (and the center itself) is a smart, active retail environment featuring the latest in high technology.

Source: A.T. Kearney

Next Generation Performance Metrics Needed



The Great Retail Real Estate Convergence

ICSC

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