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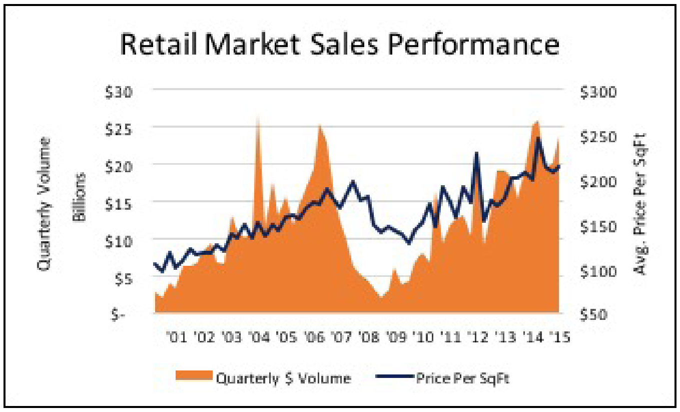
RETAIL
Market Outlook

DISCOVERING A NEW NORMAL

The retail real estate market continues to face some of the most difficult challenges as the basic business model of many retailers changes from physical storefront to online sales with direct to consumer delivery. Simultaneously, the broad macro economic recovery has created more employed consumers with large disposable incomes available to spend at retail merchants than ever in history. This dichotomy will make certain retail properties excel while rendering others nearly obsolete in 2016 and beyond.

Investment sales of retail real estate scored another record year in 2015 with $89.4 billion in transactions, up just 3% over 2014 which held the prior volume record. Cap rates averaged 6.5% according to Real Capital Analytics; however, the results vary substantially by sub-category. Unanchored retail was up 27% year over year while anchored was down -10% and, perhaps more interestingly, unanchored traded at an average cap rate of 7.0% versus 7.1% for anchored, implying that having an anchor was actually an increasing risk factor. Major gainers in sales volume include urban/storefront (22% YoY gain with an average 5.0% cap rate), single tenant (19% YoY gain with an average 6.1% cap rate), and grocery (7% YoY gain with an average 6.9% cap rate). Major losers in sales volume included lifestyle/power center (-34% YoY loss with an average 6.9% cap rate), big box (-13% YoY loss with an average 6.7% cap rate), and drug store (-8% YoY loss with an average 5.8% cap rate). Malls actually increased in sales volume by 23% with an average cap rate of 6.4%, however their volume is still significantly reduced from peak levels.

Sales trends indicate that investors are following the trends of urbanization as urban/storefront was the major winner with a trend that started after the recession; further, they traded at a cap rate nearly 100 basis points lower than other competitive retail investments. This will no doubt be a hot sector in 2016 and for years to come.



Source: Real Capital Analytics®, Lakemont Group

MARKETS TO WATCH

- AUSTIN
- CHARLOTTE
- LAS VEGAS
- MIAMI
- NASHVILLE
- ORLANDO
- PORTLAND
- SAN DIEGO
- SAN FRANCISCO
- SPOKANE

Economic Projections - Retail		Real Estate Market Projections - Retail	
GDP Growth	Unemployment	Rental Rates	New Construction
Retail Sales	Residential Invst.	Occupancy	Net Absorbtion
Personal Inc.	Interest Rates	Prices	Transaction Vol.

Retail Market Statistics

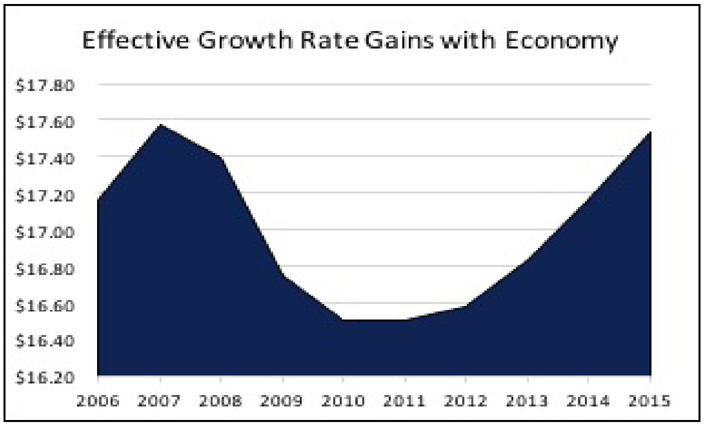
HIGH VACANCIES RESTRICT NEED FOR NEW SUPPLY

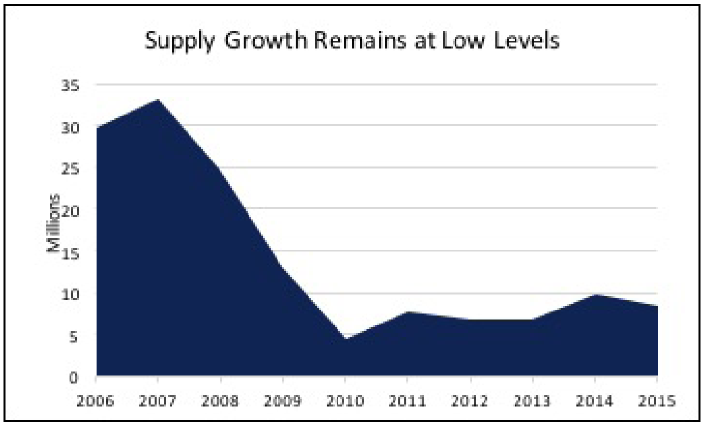
Overall nationwide effective rents in retail grew by 2.2% in 2015 according to REIS®. Rent growth is expected to remain above 2% in coming years, however this is likely to vary substantially market to market and sub-type to sub-type. Nonetheless, national retail effective rents of $17.53 per square foot are now nearly tied with the all-time high of $17.57 in 2007. Interestingly, asking rents are at an all-time high of $20.09 per square foot, but concessions and the negotiating power of tenants indicate that the market is still less stable than before the recession.

Overall vacancy remains fairly high at 10.0% but has improved from the 11.0% peak in 2011. This presents the biggest challenge to retail real estate; tenants are opening new locations but are using smaller footprints to save costs and improve operating margins. The net effect will likely be large amounts of vacant space in markets for years to come. Expect to see more old malls and shopping centers be demolished and rebuilt as mixed use town centers featuring less retail square footage with mixes of multifamily units and office space instead.

In fact, 2015 only saw 8.3 million square feet of new retail space delivered, which is up from the low point in 2010 of 4.5 million square feet but markedly less than the 25.1 million square feet built in 1999 for comparison. New additions of retail space are forecast by REIS® to increase over the next several years; however, this will likely mostly occur in new "greenfield" parts of cities where new housing and other development is being added. Retail space is likely to be removed from the market in infill and downtown locations due to lack of demand.

Thus, landlords with high levels of vacant space may need to seriously consider redevelopment and/or repurposing their properties. Many markets are seeing office and medical users lease long-vacant retail space for cost reasons. Further, retail properties have parking and other amenities desired by such users.





Source: REIS®, Lakemont Group

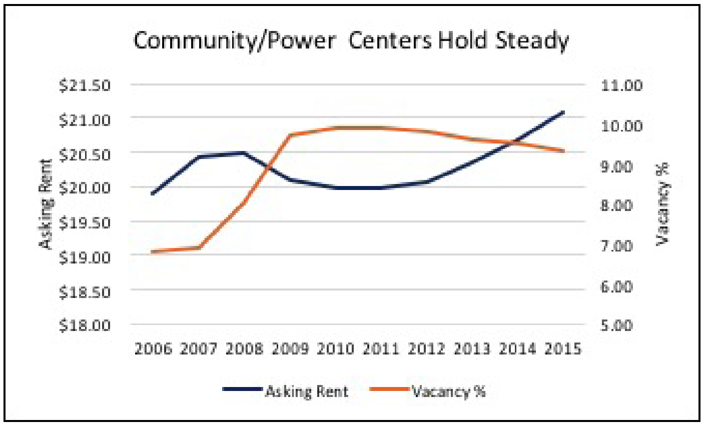
Retail Market Statistics

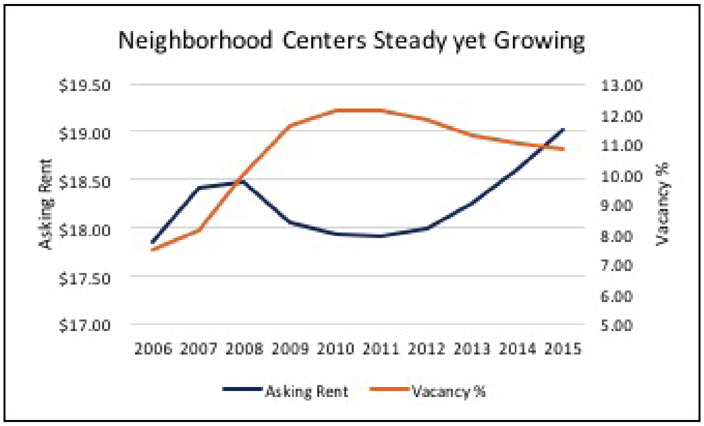
NEIGHBORHOOD CENTERS MAKE GAINS ON POWER CENTERS

Retail market dynamics can vary greatly based on format /sub-type and, thus, the type of tenants likely to locate within each property can also vary greatly. REIS® keeps statistics for community/power centers (generally 100 thousand square feet and larger featuring multiple major anchor-type tenants) and neighborhood centers (generally from 30 to 100 thousand square feet with a single anchor tenant such as a grocery or drug store). These sub-types reveal that the larger community/power centers are slightly ahead in terms of vacancy, 9.3% compared to 10.8%, and effective rent, $18.41 compared to $16.58 per square foot. However, these spreads have actually narrowed considerably over time as community/power centers have lost some relative appeal. In fact, neighborhood centers have outpaced community/power centers in terms of square feet absorbed every year since 2012.

This is perhaps easier to understand by the nature of neighborhood centers; they offer convenience and life necessities such as groceries and pharmacy goods, along with local services such as dry cleaning and quick service restaurants. These activities are not easily routed to online merchants. By contrast, community/power centers feature many big boxes and national boutiques; all of whom can be easily shopped online from home. Thus, it should be expected for neighborhood retail to continue to gain relative advantages.

While still a relatively small part of total retail square footage, urban/storefront is the type of retail that is experiencing some of the most aggressive expansion and hot new store and restaurant concepts. Consumers are choosing to visit smaller, "mom and pop" styled retailers and locally owned restaurants when they leave home. These may be the best investment opportunities in retail real estate.





Source: REIS®, Lakemont Group

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Retail Economic Statistics

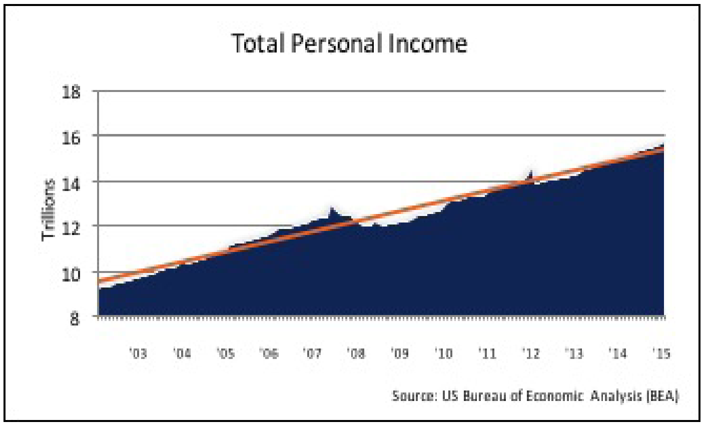
CONSUMER SEGMENT CONTINUES TO GROW

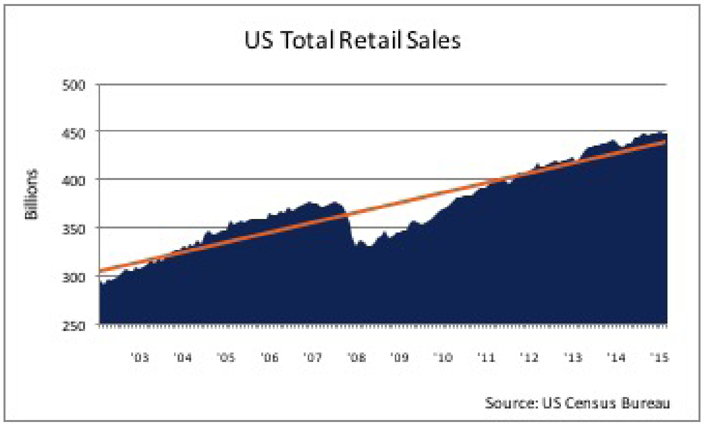
The consumer is the largest segment of the economy in the United States and the success of retail establishments largely depends on their health and spending power being sufficient and growing. Thankfully, the consumer segment has been improving since approximately late 2011 when the current recovery/growth cycle began. As of mid 2014, more Americans are employed than ever and the unemployment rate sits below 5% (4.9% in February '16) indicating approximate, hypothetical full employment for the nation, according to the Bureau of Labor Statistics.

Interestingly, and somewhat to the contrary of media reports, personal income is higher than ever both in total and per capita terms, even after various inflation adjustments are made. Thus, consumers have jobs and are more capable of spending than ever. Further, low mortgage and auto loan rates have helped discretionary monthly budgets remain larger than ever as well (of course, the last recession did encourage deleveraging, sometimes painfully). While economic times could change, the consumer appears substantially better off than pre-recession '07 with considerably less debt and more manageable housing expenses.

Given the above facts of record employment and personal income, it should be no surprise that retail sales are near all-time highs (December '15 is the current record holder per Census Bureau records) and forecast to grow. Thus, retailers and other consumer-focused industries should be expecting higher sales of goods and services. Still, retailers face rising costs of goods sold and labor expenses, thus their ability to pay rent may not be as substantially improved as macro economic indicators may suggest.

Finally, it is necessary to note that consumer health is also substantially psychological. Shocks such as terrorist attacks, or even caustic presidential battles, can unease shoppers, causing them to save as they embrace fear. This is an all too present risk in 2016.

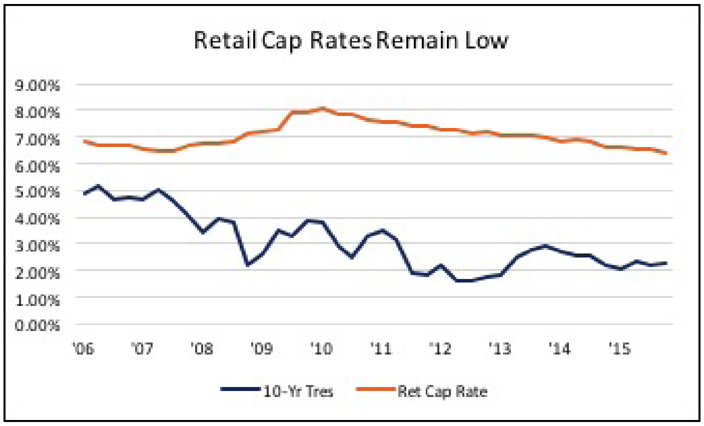




Retail Capital Markets Outlook

OPPORTUNITIES FOR MISPRICED ASSETS EXIST

Overall retail cap rates have fallen over the last several years as retail properties have become targets of institutional buyers once more. This trend began in 2014, has persisted through 2015, and is likely to continue in 2016 and for the near-term and beyond. Retail properties with "trophy" characteristics are trading at cap rates as low as sub-5% in many major markets. By contrast, shaky credit anchored centers can go for above 8% cap rates depending on lease structures. Herein lies an excellent opportunity for savvy buyers who can discern the well-located properties in growing markets and buy at prices relatively low for the risk return trade- off presented. Overall, the spreads between retail cap rates and ten year treasuries do not indicate significant risk of a pricing bubble at this time.



Source: Real Capital Analytics®, Lakemont Group

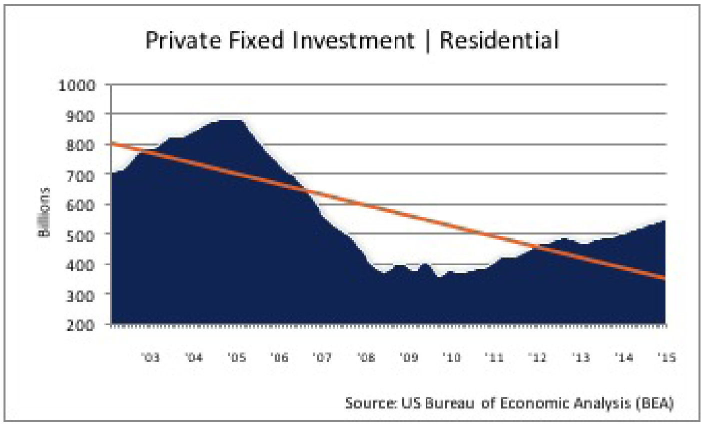
Retail Trend Watch

HOUSING CONSTRUCTION TO SPUR RETAIL DEMAND

The national stock of housing, both single family homes and apartments, is beginning to exhibit signs of undersupply, sometimes quite severe in certain markets. This is both logical and predictable given the continuous rate of population growth and new household formation and still relatively low rate of new housing supply. 2016 is likely to be a year that supply additions resume more earnestly, especially if interest rates remain low.

This will have two pronounced, positive effects on retailers and retail real estate. First, new occupants will need goods, furnishings, appliances, and electronics to fill their new housing units. While some can be purchased online, much will be directed to big box and other nearby retailers, thus increasing their sales and demand. Second, new homes will mean urban boundary expansions and increases of urban densities in many cities across the country.

This will mean new opportunities for convenience and neighborhood retail to open to serve these new residents.

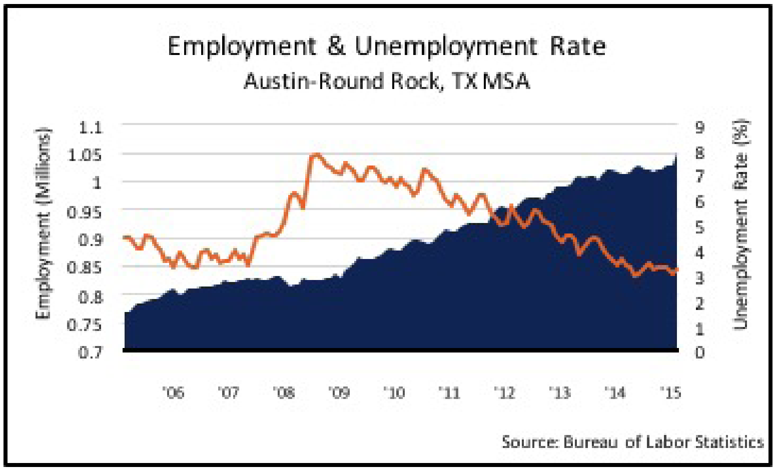


MARKETS TO WATCH

Not the largest or the most actively contested markets, the 2016 Retail Markets to Watch are each at an important juncture that presents unique opportunities for investment. Together, they reflect the diversity of trends that is driving the economy and commercial real estate performance in markets across the country.

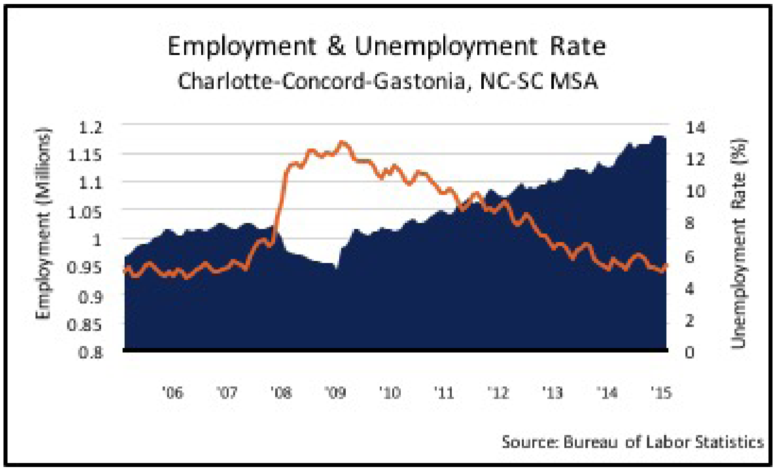
AUSTIN, TX

Retail real estate should perform well in Austin in 2016 and beyond, as this dynamic economy continues to grow and diversify. According to the Census Bureau, the population of Austin has grown 12.5% from 2010 to 2014. Not surprisingly, the economy looks stellar with a 3.2% unemployment rate as of January '16 and jobs are growing at 4.7% annually, according to the Bureau of Labor Statistics. The best sectors for job growth are Mining, Logging, and Construction and Leisure and Hospitality, growing at 11.0% and 9.2% annualized rates, respectively. These forces will keep new residents locating in the metro region and businesses expanding. Retail demand will follow the population and should continue expanding in 2016 with ever-increasing fundamentals.



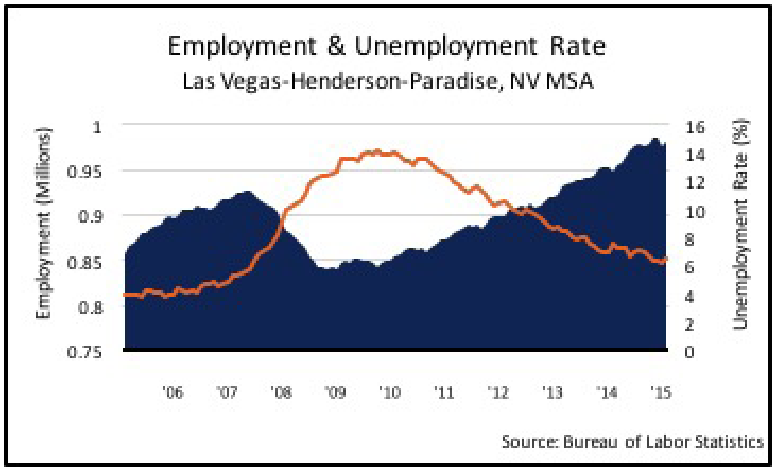
CHARLOTTE, NC

Charlotte has expanded its employment base steadily since the recession bottomed in 2010 and currently has a relatively low 5.3% unemployment rate, as of January '16, and 2.8% annualized growth of new jobs, according to the Bureau of Labor Statistics. The region has also grown population by 10.1% from 2010 to 2014 according to the Census Bureau, making it prime for expansion and development of retail real estate. Major growing employment segments include Mining, Logging, and Construction, Financial Activities, and Leisure and Hospitality with 6.4%, 4.8%, and 4.6% annualized growth, respectively. As Charlotte continues to be a popular place to work and live, more firms are likely to enter the market, including those seeking to establish corporate headquarters. Despite these positive forces, North Carolina's recently enacted "bathroom law" threatens to reverse economic growth as businesses and consumers look elsewhere to avoid the perceived discriminatory law; this could cause pain to the retail sector for the rest of 2016 and beyond if not fixed.



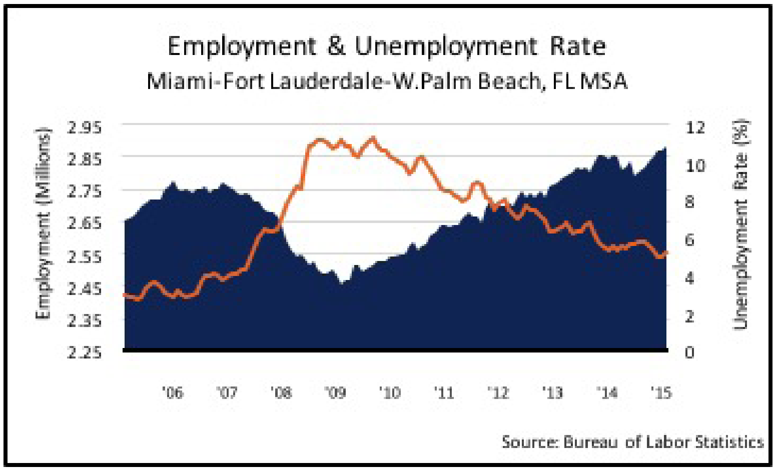
LAS VEGAS, NV

As tourism growth has once again led Las Vegas to new heights in overall employment, the unemployment rate is still falling as it sits at 6.5% as of January '16 while jobs are being added at a 2.5% annualized rate, according to the Bureau of Labor Statistics. Construction is the fastest growing employment sector at an 11.0% annualized rate followed by Education and Health Services at 8.1%. Las Vegas took a pause in population growth due to the recession but the pace is likely to grow in 2016 and beyond; still, the city grew by 5.0% from 2010 to 2014, according to the Census Bureau. Growth in tourism will spur the need for tourist-focused retail in popular locations like The Strip; however, overall growth will also increase demand for retail to service the local population. Over time, Las Vegas is likely to diversify from tourism and become a more balanced economy.



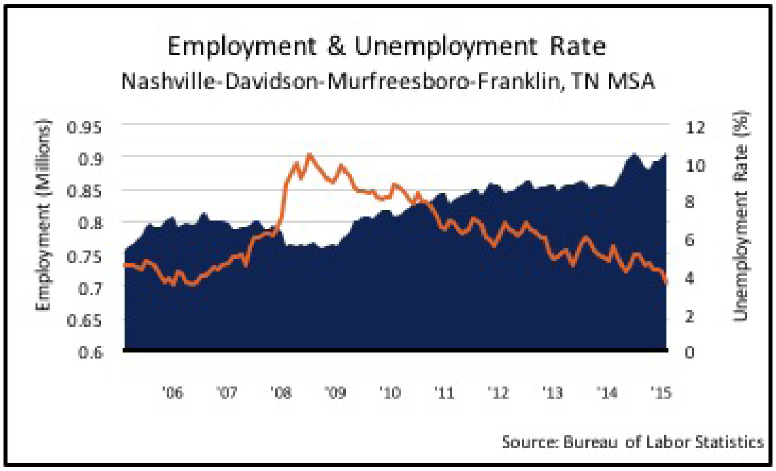
MIAMI, FL

After facing a deep real estate and economic recession, Miami has fully recovered, has more employment than ever, and continues to grow at a 2.9% annualized pace, while unemployment remains stable at 5.2% as of January '16, according to the Bureau of Labor Statistics. This growth has been led by a new construction boom fed by foreign investment that has construction jobs growing at a 10.5% annualized rate, making it the far and away fastest growing sector. Population has also grown by 7.8% from 2010 to 2015, according to the Census Bureau, and is expected to continue growing, fueling the need for more retail development. Miami's joint tourism, retirement, and business growth should force rental rates up and vacancies down in the retail real estate sector for 2016 and beyond.



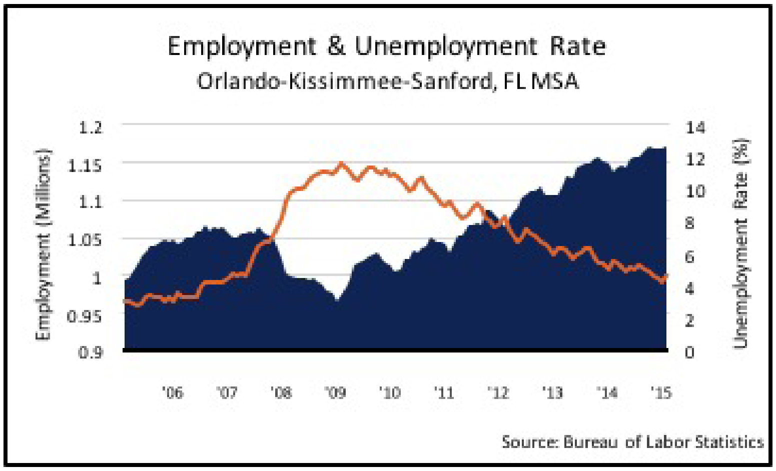
NASHVILLE, TN

Nashville's economy continues to boom, as employment sets new record highs with continued 4.0% annualized growth that has brought the unemployment rate to a low of 3.7% as of January '16, according to the Bureau of Labor Statistics. This corresponds with a 6.7% increase in population from 2010 to 2014, according to the Census Bureau. This growth is putting pressure on retail real estate as fundamentals improve in face of steady growth; a trend expected to persist in 2016 and beyond. The fastest growing employment sector is Mining, Logging, and Construction followed by Professional and Business Services, then Financial Activities and Information, with annualized growth rates of 9.4%, 8.7%, 4.5%, and 4.4%, respectively. This type of broad based job growth is sure to boost all real estate sectors including retail.



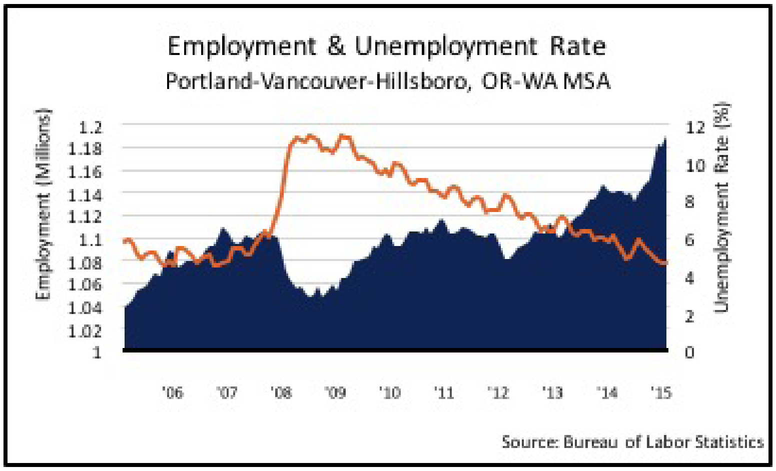
ORLANDO, FL

Orlando continues to be one of the fastest growing markets in the nation, fueled by record tourism and new business openings and relocations. Unemployment remains stable at 4.7% as new jobs are being created at a 4.9% annualized rate, according to the Bureau of Labor Statistics. Population has also boomed by 9.9% from 2010 to 2014, according to the Census Bureau, creating the demand for more retail real estate. Top employment sectors include Construction, Professional and Business Services, Manufacturing, Educational and Health Services, and Leisure and Hospitality, with annualized growth rates of 14.5%, 8.6%, 7.3%, 4.6%, and 4.4%, respectively. This broad based growth will enhance the health of the retail real estate sector in 2016 and beyond for both tourist-focused and resident-focused establishments.



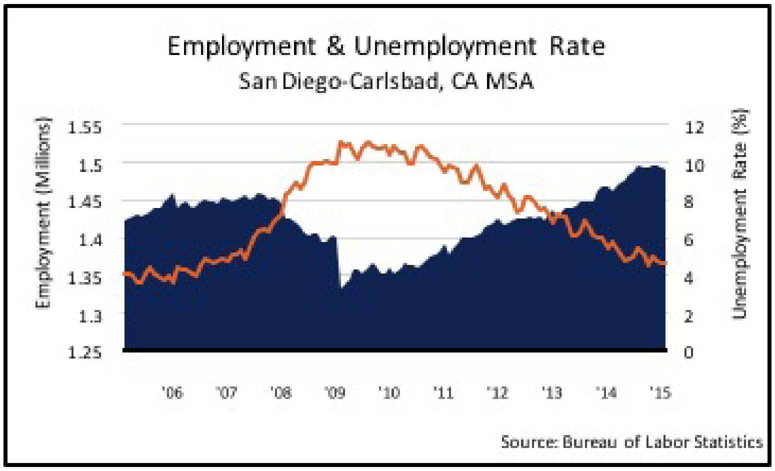
PORTLAND, OR

Portland has experienced surging new employment in 2015 that has brought the unemployment rate down to 4.7% as of January '16, while new jobs are being continually added at an annualized rate of 3.1%, according to the Bureau of Labor Statistics. This is due to a well-diversified economy and quality of life that will also fuel growth in Portland's retail real estate market. Top sectors for growth include Information, Leisure and Hospitality, Education and Health Services, and Construction, all growing at annualized rates of 9.4%, 4.6%, 4.5%, and 3.9%, respectively. As the population continues to grow as it has done by 6.1% from 2010 to 2014, according the Census Bureau, there will be greater needs for all real estate including retail establishments in 2016 and beyond.



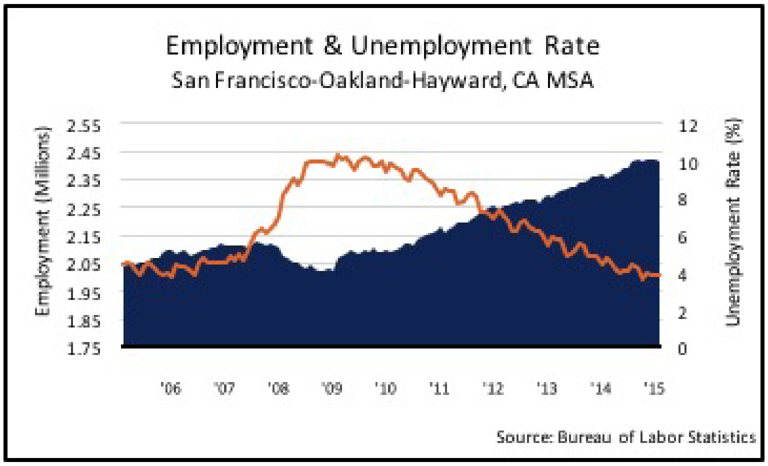
SAN DIEGO, CA

San Diego has steadily grown since the recession with now record levels of employment that have brought the unemployment rate down to 4.7% in January '16, while new jobs continue to be added at an annualized rate of 2.8%, according to the Bureau of Labor Statistics. Population has also grown 6.1% from 2010 to 2014 according to the Census Bureau, as people choose San Diego for its high quality of life and climate. Its diverse economy from military and shipping to research and finance has allowed demand and fundamentals for retail real estate to grow with a trend that should persist through 2016 and beyond. The top sectors for job gains are Construction, Education and Health Services, Professional and Business Services, and Manufacturing, with annualized growth rates of 7.4%, 3.9%, 3.6%, and 3.4%, respectively.



SAN FRANCISCO, CA

San Francisco has been the iconic American boom town for centuries and this trend continues today as technology firms have helped lead record job growth that has brought the unemployment rate down to 3.9% in January '16 as employment continues to grow at a 3.6% annualized rate, according to the Bureau of Labor Statistics. San Francisco is also a major port and tourist destination, thus the demand for retail real estate should grow strongly in 2016 and beyond. According to the Census Bureau, population has grown by 5.9% from 2010 to 2014, which is quite impressive given the limited land mass of the city and topography of the Bay Area. As rents and home prices rise, expect San Francisco retail real estate to continue gentrifying as well, causing rent spikes in many sub markets.



SPOKANE, WA

The economy of Spokane is attempting to recreate itself from a natural products producer to a more high tech and business-focused cluster but, so far, the results remain mixed. Unemployment has grown recently to 7.7% in January '16 but new job creation is occurring at a 1.7% annualized rate, according to the Bureau of Labor Statistics. Top sectors adding jobs include Information, Professional and Business Services, and Educational and Health Services, which are growing at annualized rates of 13.8%, 6.3%, and 3.6%, respectively. Population grew 4.2% from 2010 to 2015, according the Census Bureau, which means that overall demand for retail could grow. Still, sustained reductions in unemployment will need to be seen for significant growth to occur. As the tech industry grows, this is possible.