Americas Retail ViewPoint

THIS REPORT REFLECTS THE OBSERVATIONS OF MORE THAN 450 CBRE RETAIL BROKERAGE AND RETAIL INVESTMENT PROFESSIONALS IN THE AMERICAS.

SUMMARY **With the first quarter of 2013 behind us, we are able to identify current trends and themes. Some are an extension of activities seen in 2012, while others are emerging as retail continues to evolve. The dominant themes and trends in today's retail market are:**

- **A continued focus on gateway cities**
- **Urban revitalization**
- **Value and luxury retail both gaining market share**
- **Medical users choosing class A retail space**
- **A shortage of quality retail real estate supply**
- **Rent rates returning to pre-recession levels**

Our perspective also identified two big questions on nearly everyone's mind: What is the future of JCPenney? And what is the final say on Fresh & Easy?

NATIONAL TENANT/USER PERSPECTIVES

- Value retail continues to take space at an aggressive pace: TJ Maxx, Ross Dress for Less, Conn's, Dollar General, Academy Sports and Walmart all have aggressive plans for 2013. As legacy retailers serving the middle class continue to struggle with determining their true business course, value retailers are attracting shoppers with aggressive pricing, increased focus on merchandise diversity and inventory management efficiency.
- Luxury retail continues to pioneer retail growth plans. Luxury retailers will pay rents that are impossible for non-luxury retailers; essentially creating two rent markets.
- Grocery is getting competitive with Fresh Market, Sprouts, Earth Fare and Aldi all taking aim at aspirational grocery leader Whole Foods, as well as legacy grocers like Kroger, HEB, Jewel Osco, Safeway and Publix.
- Medical users—urgent care, dialysis, physical therapy, dental, eye care, chiropractic and massage—are all chasing Class A retail space. Landlords find themselves balancing the demands of these uses against the resistance of traditional retailers.
- There are a shrinking number of fashion users willing to pay competitive rents in today's fragmented retailing environment.

NATIONAL LANDLORD/OWNER PERSPECTIVES

- Urban core markets in gateway cities are seeing rents match and exceed pre-recession levels. Vacancy rates in Class A retail properties in these urban, high-street markets are at pre-recession lows.
- A lack of retail development, across the board, has created a frenzied "race for space" that hasn't been seen since the retail activity peak of 2006-2007.
- The Office Depot and Office Max merger will bring site optimization to the forefront; bringing quality space to the market and, ultimately, creating another sense of urgency to capture space.
- Retail development completions are at their lowest level since 1980, and the forecast for 2013 is lower than 2012.
- Grocery-anchored retail development is driving activity, especially in energy-based suburban markets like Texas, Oklahoma, Pittsburgh and Denver.
- Midwestern "Rust Belt" markets such as Cincinnati, Columbus and Cleveland are witnessing development planning activity at pre-recession levels, as recovery expands beyond gateway and energy markets.
- Private equity is picking up much of the REO bank assets for the arbitrage play, with rapid plans for disposition.
- The housing recovery and new housing in markets like Phoenix and Southern California hold promise for the hardest-hit markets returning to health. Las Vegas and central Florida continue to suffer.
- Multifamily development is driving retail opportunity in infill and urban redevelopment projects. The new "mixed use" is primarily multifamily and retail with less focus on office/retail or hospitality/retail.

CAPITAL MARKETS PERSPECTIVES

- Grocery-anchored shopping centers are the most desirable, though investors are increasingly wary of shadow space vacancy risk.
- As competitive grocery, drug and dollar store concepts take market share from the legacy grocery and drug retailers, the capital markets are much more critical about the true long-term viability of grocery-anchored retail development investment, thus looking to secondary markets for opportunity.

- Israeli and European funds are looking at secondary markets because they offer superior cash-on-cash returns to major markets, and the cost of debt capital is driving this interest.
- The books for value-add secondary market product is still thin.
- Year-on-year appreciation returns for retail investment (5.16%) were only exceeded by multi-family (5.64%).
- The U.S. Federal Reserve's emphasis on low interest rates will mitigate cap rate escalation.
- Private equity investment in retail/consumer goods, from a deal value perspective, was up 590% from Q1 2012. From a volume perspective, it was up 59% in Q1 2013 versus Q1 2012.

REGIONAL PERSPECTIVES

Northeastern United States

- Manhattan rents broke through previous highs during Q1 2012, with Coach and L'Oreal leading the way in Hudson Yards. Rents in Soho continue to climb, at the expense of the Meatpacking district, which is suffering from speculative retail development that has not been absorbed at projected rates or timelines.
- Long Island rents are at or above pre-recession levels: active tenants include Fresh Market and LA Fitness. 7 Eleven remains a strong player in Long Island and boroughs. TD Bank leads the financial sector.
- Boston retail activity is robust with the grocery, drug and financial sectors all aggressive in urban, as well as suburban, Boston. Petsmart, Hobby Lobby and Michaels are all actively pursuing space in metro Boston. Nordstom Rack is looking for locations away from the full service Nordstom department stores. Whole Foods is active throughout region. Suburban rental rates are exceeding urban rates in certain areas.
- Baltimore tenant activity is led by value mid-box retailers. Big Lots, Dollar General and Ashley Furniture are all looking for space. Over 4 million sq. ft. of retail space is currently under construction with nearly 100% pre-leased.
- Pittsburgh retail activity is outpacing the country with supply becoming an issue. Active tenants range from Ross Dress for Less and Dicks Sporting Goods, to quick-service restaurants.

Southeastern United States

- Florida is in recovery mode, with South Florida leading the charge. Central Florida is not at the same pace for rent growth or occupancy levels.
- Active tenants in Miami include Party City and Hobby Lobby. Also witnessing new entry to the market with National Lumber and Hardware. 24 Hour Fitness remains engaged from Orlando to Miami. Walmart, Ulta, DSW and Shoe Carnival are all active.
- Orlando to Tampa activity boosted by the Wawa surge into central Florida. Banks are in disposition mode, led by Fifth Third. The fast-casual food category remains hot at the moment, led by East Coast Wings and Marilyn Monroe Café. Gander Mountain is in open search. In the grocery category, Publix and Whole Foods rule, but Earth Fare and Sprouts are expected by 2014-2015. Aldi also threatens to take market share from legacy grocers.
- The Carolinas are showing box and mid-box activity with Garden Ridge, Gander Mountain, Publix, Harris Teeter, Academy Sports and Outdoors, Bass Pro and Dunham's Sports and Conn's.
- Tennessee is active with Dunham's Sports, Conn's, Kroger and ABC Supply to name a few. Rents are not at peak, but trending upward.

Central United States

- The grocery industry is in the midst of an evolution. Footprints are getting smaller with higher price points. Whole Foods is very focused on growth throughout the Midwest. Fresh Thyme Market, Plum Market and Heinan's are making a Chicago entry. Walmart is heavily invested in greater Chicago for their market store format, as well as urban growth.
- Steinmart is expanding throughout Midwest, starting with Chicago.
- Minneapolis is showing robust retail activity with quick-service restaurants of all kinds. LA Fitness and H&M are also active. The fitness category continues to expand, with interest from Snap Fitness and Planet Fitness. Medical retail uses are prevalent as well.
- In Ohio, from Cleveland to Cincinnati to Columbus, retail activity is in recovery mode. Rents are still not reaching pre-recession peaks, but activity is up from 2012, year-over-year. Value and legacy retail are leading the way with Kroger and Walmart shoring up their consumer base with remodeling and "refresh" programs.
- Missouri is showing active grocery activity. Aldi, Walmart's Neighborhood Market, Fresh Market and Sprouts are all searching for opportunities. Main Event, a new entry from Australia, with a concept similar to the Dave and Buster's model, is exploring the market for a 50,000 sq. ft. location. Fitness and medical uses continue to be very active in retail space.
- Louisville reports more active today than they have seen since 2007-2008. Many major mid-box retailers are very active with Ross Dress for Less, Joann's, Petsmart, Bed Bath & Beyond, Academy Sports, Dick's Sporting

Goods, Field & Stream (a division of Dick's Sporting Goods) all in pursuit of limited supply. Quick-service restaurants and food uses continue to pursue new opportunities.

Southwestern United States

- Texas retail activity is now exceeding 2007-2008 levels on rental rates and occupancy.
- Houston is seeing an active contest between Aldi, Sprouts and incoming Fresh Market for the mid-box grocery space.
- Walmart continues to grow. Meanwhile, there is contraction in the plans for Best Buy and Sports Authority.
- HEB Grocery is aggressive and will land-bank to secure future market opportunities.
- Multi-family development is out-pacing retail, office and industrial. They are the "top payers,"driving land prices higher.
- Dallas is seeing a liquor war between Specs and Total Wine. There is a severe shortage of Class A space in major submarkets throughout DFW. Fashion retail continues to enter Texas via Dallas, with Highland Park Village, the leading lifestyle center in the Texas market, as the gateway.
- Active tenants in DFW are Conn's, Aldi, Gander Mountain, Comerica, Bank of America, Walmart, Big Lots and Dollar General to name a few. Fresh Market has entered the grocery market in DFW, going up against Whole Foods.
- The Austin market is very tight with limited opportunities, as the development process has been slowed through a combination of the lending environment and stricter development regulations. A unique retail concept currently underway in Austin is Link Coworking (www.linkcoworking.com). This concept was developed to provide people who want a flexible work environment, from home or remote, with shared services.
- San Antonio active tenants include: Gander Mountain, Gold's Gym, Conn's, Chef's Table, 99 Cent's Only, Urban Mattress, and First Choice ER. While rents are not back to pre-recession levels, they are expected to get there by year-end as demand outstrips supply.
- Oklahoma is benefitting from energy demand and related investment. Walmart, Hobby Lobby, Michaels, LA Fitness, Lifetime Fitness and AMC Theaters are all active. Quick-service and full-service restaurants are high in demand.
- Denver: Conn's, Save-A-Lot and H Mart are all expanding. Safeway is contracting. Kroger's activity is more aggressive than in previous years. The local economy is healthy, with rents stable statewide and rising in major sub-markets.

Southern California/Arizona

- Southern California is a very healthy environment, with vacancy levels in major markets between 5% and 7%. The Inland Empire lags the region with vacancy rates above 8%. The tightest market is San Diego, with vacancy rate of less than 5%. While vacancy rates have declined, they remain off 2007 levels. Rents are below 2007 levels as well. Several projects are scheduled to come on-line in 2014, but new construction will continue well below the annual historical norm.
- Active tenants in Southern California include Nordstrom Rack, Ross Dress for Less, TJMaxx, Marshalls, Home Goods, Bed Bath & Beyond, buybuy BABY, Dick's Sporting Goods, Total Wine, Hobby Lobby, LA Fitness, Whole Foods and Walmart Neighborhood Market.
- In San Diego, active tenants include West Marine, Floor & Décor and Rubio's, to name a few.
- Downtown Los Angeles is witnessing an increase in activity, with the redevelopments of 7th & Fig and Macy's Plaza, and over 500,000 sq. ft. in new hotel activity and a growing apartment/condo market, boosting retail activity.
- Arizona is active in Phoenix with new users 2nd & Charles and Seattle's Best Coffee. Gordman's is entering the market.

Northern California

- New development opportunities are limited to those that can be anchored by mid-box users, due to lack of large box activity. In-fill and retrofit sites in are in high demand by developers.
- Downsizing continues to be the trend, with many tenants reducing size by as much as half of their former prototype (i.e.: Staples, Petsmart, Office Depot, Best Buy, etc.).
- Active tenants in the Valley include Petco, Petsmart, JoAnn's, Michaels, Hobby Lobby, Dicks Sporting Goods, Walmart, Ross Dress for Less, Staples, Party City, Sportsman's Warehouse, Ashley Furniture, TJ Maxx / Marshalls, fast-casual restaurant concepts, EWC, The Joint, Total Wine and Bev Mo.
- Dollar Tree, Family Dollar, and 99 Cents Only continue to expand aggressively.
- Medical and personal service uses are now seeking retail locations to a greater degree. These include: The Joint, EWC, Quest Diagnostics, and various dental companies and urgent care facilities.

- Fast-casual restaurants remain active (Noodles, Chipotle, Five Guys, Panera, Freebirds, etc.), but have been held back by lack of opportunities.
- Lack of new development and availability of good existing space is slowing new deal activity dramatically with a two-to-four-year lag period before new space comes on line.

Canada

- Shopping centers across Canada are undergoing expansion and renovation. With a general scarcity in zoned retail land, especially in urban boundaries, intensification of existing centers is a way to create more space. Canadian developers are now in high-gear, looking south-of-the-border for new development opportunities.
- Retailers focusing on turning bricks-and-mortar retail formats into "Retail Labs" – e.g., Sport Check, Staples - to solidify the trend of customer-centric value creation, especially as internet sales put pressure on excess space in the mid–box sector. The mid-box run/shopping center is at risk.
- The U.S. retail invasion continues in the fashion and outdoor sectors. This is likely attributed to U.S. retailers finding renewed opportunity in their own backyard as the U.S. economy springs back to life. Traditional Canadian retailers, especially sporting goods retailers, are rushing to complete their market in-fill strategies to shore up against potential U.S. entrants.
- Loblaws is currently forming a REIT, while other large-format retailers, as well as smaller retailers with a large number of locations, are considering doing the same.
- Sears Canada has stated publicly that in 19 of 24 locations near Target stores, Sears has seen positive growth in sales. That said, expect some serious churn in Class A malls as remaining department stores right-size and sell stores to shore up against the impeding dual Target/Nordstrom threat.
- Retailers have initiated downsizing programs, reducing their traditional retail footprint – Staples, Best Buy, RONA.
- Retailers are launching smaller community-focused formats (e.g., RONA's proximity and satellite stores), as other national retailers are looking to do something similar, including Canadian Tire's Urban Express 10,000 sq. ft. format. There is further pressure on the mid- and big-box formats as retailers rush to be closer to the customer base.
- There is an evolution of stores that focus on customer experience and engagement – Lowe's Canada has launched the Build-It-Yourself Learning Centers (BiY) – a hands-on skills training program for its customers. Banks are looking to do the same and new formats are expected.
- The development of outlet centers is in high-gear across Canada – Simons and Tanger (RioCan) have partnered with Canadian developers. Others are giving suit… the race is on.
- High streets are also in high gear across Canada (primarily Toronto and Vancouver), with many luxury brands opening flagship locations (e.g., Louis Vuitton, Dolce & Gabbana, Kate Spade, etc). With 130 cranes swinging in the city of Toronto, condo developers are being challenged to deliver higher ceiling heights and open spaces to allow traditional retailers to penetrate urban cores.

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