Americas Retail ViewPoint

Q4 2013

THIS REPORT REFLECTS CURRENT OBSERVATIONS AND SENTIMENTS FROM MORE THAN 450 CBRE RETAIL BROKERAGE AND RETAIL CAPITAL MARKET PROFESSIONALS IN THE AMERICAS.

SUMMARY **The retail sector continues to improve, while the majority of markets in the Americas benefit from a return to pre-recession rates. As retailers rush for new locations with an unending urgency for space, absorption is depleting inventories, allowing new development to resurface. Entering the fourth quarter of 2013, we can focus on three recurring themes:**

- **2013 has been a year of "flight to quality" for many retailers. Expect this to continue throughout the fourth quarter until all opportunities are exhausted. This will play a major role in development, as developers reconsider and return to projects put on "ice" in 2008.**
- **Same-store sales and retail holiday spending forecasts are positive; even if marginal, a gain is expected.**
- **The growing use of e-commerce retail as a stand-alone force or something to augment and optimize brick and mortar offerings is significant. At present, e-commerce retail is growing by 15% annually, equating to 3% of all retail sales. Expect this to be the beginning of a trend that will continue well into the future.**

By all accounts, the Americas survived the prevailing economic concerns of yesteryear and retail sales growth will continue as we enter 2014.

NATIONAL TENANT/USER PERSPECTIVES

- Consumer confidence took a dip during the third quarter as Washington gridlock and government closure became a reality. Both the Consumer Confidence Index and the Michigan Consumer Sentiment Index have dropped from the second quarter due to rising mortgage rates, flat employment growth and flat wage growth.
- Big box retailing continues to evolve. Canada is the big story with Saks' recent acquisition by Canada-based Hudson's Bay Company being the most prominent headline. In addition, Nordstrom has ambitions to open in Calgary in 2014, and Target continues to tweak their inventory as the Canadian consumer hasn't been enamored with product mix and pricing.
- Grocery in the mid-box level has multiple players with commitments to expand. Plum Market (Chicago) and Fresh Thyme Farmers Market (Midwest) are new players to the niche, organic grocery sub-industry. Look for these players to take market share equally from legacy grocers such as Safeway, Kroger and Publix, as well as specialty grocers, including Whole Foods, Fresh Market and others.
- Fast fashion continues to grow with Forever 21, Zara, Uniqlo and H&M in hot demand in every major and secondary lifestyle project. Other niche players such as Joe Fresh and Fresh Produce are increasing growth plans as fast, affordable fashion goes from fad to norm. Gap is back, a true testament to the importance of design over pure pricing.
- Retailers in consumer electronics and books continue to lose market share to the Internet (see Amazon). Reports suggest that over 50% of holiday shopping in these two categories will take place via the internet.

NATIONAL LANDLORD/OWNER PERSPECTIVES

- New development is back, albeit in a different form and at a different pace than pre-recession.
- Continued development in the outlet center format, and the emergence of transit-oriented developments will remain robust in the coming years.
- Mixed-use development, defined as projects with a blend of residential, commercial, cultural, office and hospitality components, will continue to be an attractive and efficient format for the foreseeable future, particularly with the New Urbanism movement.
- The complexion of ownership is changing on the Americas' "High Streets," where once these locations were owned primarily by private individuals, the trend is moving toward more institutional and foreign ownership.
- Expect increased activity in non-gateway, secondary markets as supply cannot keep pace with demand for retailer expansion.

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CAPITAL MARKETS PERSPECTIVES

- The retail sector may have a difficult time hitting the $55 billion in transaction activity seen in 2012, but this is due to a few large portfolio sales last year, rather than recent market turmoil. For 2013, expect total activity of about $50 billion.
- Interest rates moved up in Q3, as did spreads for non-core assets, but the relatively slow growth and Fed tapering has mitigated interest rates so spreads are coming in again. At this time, banks have materialized as highly active lenders, versus CMBS and insurance companies.
- Steady job growth and a recovering economy are expected to eventually drive new investment by households and corporations, increasing the demand for debt and driving up interest rates. Further increases in the 10-year Treasury should not come as a surprise given the ongoing improvement in the U.S. economy.
- Investor risk tolerance is visible in the spreads between cap rates and the interest rates of relatively safe bond instruments. There is no evidence to suggest any narrowing underway with investors remaining in a risk-intolerant stance.
- Despite the positive trends in recent jobs reports, including the report issued in October, the Fed is expecting only a modest recovery in GDP and jobs through the end of 2014.
- Cap rates on all tiers of commercial real estate compressed when the market was booming, but there is a larger gap between tier 1 and tier 2 assets. This disparity is remains entrenched.
- The neighborhood and community center segments posted an overall decline of 20 basis points in availability rates from last year. New supply is developing at a fraction of existing inventory in recent quarters, compared to 2.5% per year growth during the boom period of 2006 and 2007, and steady demand is helping stabilize existing properties.
- High Streets weathered the economic downturn better than commodity suburban markets, while the challenge of ownership continues to be the very limited transaction volume. Historically low cap rates dipping below 4.0% for flagship space, "pound-for-pound" today are regarded as the most expensive real estate.

REGIONAL PERSPECTIVES

Northeastern United States

- New York continues to lead the country in asking lease rates as witnessed by a doubling in rents. Madison Avenue, which traded at $650-$950 psf a year ago, is seeing rents in the $1,800-$2,000 psf range; Times Square is edging closer to $3,000 psf, and Fifth Avenue, north of 50th Street, has surpassed that level in asking rents.
- Lately, the overall theme of Manhattan is food, fitness and pharmacy.
- In the fitness category, both boutique and mainstream operators are at the forefront. These include Equinox, Blink and LA Sports for full size, and Soul Cycle and Flywheel in the boutique category.
- In the grocery sector, Fairway Market and Whole Foods are active, along with several regional Amish markets.
- Restaurant activity continues to thrive.
- In the pharmacy category, CVS and Duane Reade are vying for additional locations. As well, the market is witnessing a heightened interest from the medical salon sector (i.e. laser hair removal and Blow Dry bars).
- The financial sector is seeing a shift in size from traditional banks, moving toward footprints smaller than 3,000 square feet.
- Boston remains a strong market for restaurant and fitness operators, with a new flood of urban restaurants and retail opening locations in well-heeled suburban markets. These include Del Frisco's, Shake Shack, Equinox and Sports Club LA opening in Chestnut Hill; Davio's, opening in Lynnfield; and Strega Italian, opening in Woburn.

Southeastern United States

- Availability in the region is tight, as the majority of quality second-generation surplus space has been absorbed.
- The grocery sector continues to thrive in Florida, fueled by several non-traditional grocers looking throughout the market. Publix remains the category leader in Florida, with additional activity coming from Aldi, Trader Joe's, Earth Fare, Gordon Food Service, Winn Dixie, Whole Foods, and Sprouts, who is in the early stages of looking in Orlando and Tampa.

- Publix is also active throughout the southeast, but has more formidable completion with Kroger and Harris Teeter in the Carolina's and, to a lesser extent, with Bi Lo and Food Lion. The organic grocers and specialty grocers are also expanding throughout the southeast.
- Big box activity is limited as Home Depot, Lowes and Target remain quiet. Meanwhile, Walmart is on fire as the most active retailer in Florida and the southeast, expanding both their Super Centers and Neighborhood Markets.
- Auto-related uses, including tire stores, auto parts stores, gas stations and convenience store operators, are strong. These include Wawa, Thornton Oil, 7 Eleven, Murphy Oil and Circle K.
- Quick service restaurant expansion continues, including almost every major national chain, as well as high-end burger concepts such as Five Guys and Burger Fi, among others, and a new chicken concept, PDQ.
- Bank activity has slowed dramatically, with JP Morgan Chase the most active.
- Specialty retailers, including Bass Pro, Hobby Lobby, Gander Mountain, The Container Store and 2nd & Charles are among the newer retail concepts to expand in Florida.
- Other sporting goods chains are active throughout the southeast; most notably Academy Sports, Dick's Sporting Goods, Dunham and Hibbett Sports.
- Tampa has three large new developments on the radar, and one of the country's only enclosed regional malls is under construction in Sarasota.
- South Florida is very active with several developments planned. Rents in Miami Beach are now over $135.00 psf.

Central United States

- Whole Foods is exploring an urban footprint. It recently opened an 18,000-square-foot store in Chicago in a dense, demographically challenged neighborhood. It's rumored they will do another store like this in Newark.
- Grocery wars continue to dominate the Midwest. Fresh Thyme (backed by Meijer) and Whole Foods are at the forefront, along with local and regional players: Plum Market, Mariano's, Pete's Fresh Market and Tony's Finer Foods. Dominick's Finer Foods, owned by Safeway, will be closing all 72 of their remaining stores in Chicago and will be exiting the Chicago market.
- New construction and proposed projects are underway.
- Active retailers include HomeGoods, Bed Bath & Beyond, and TJ Maxx.
- The "crash" is over and second-generation space is limited. Shop space vacancy is currently 8.5%-10%.
- The fitness sector is active.
- Class A box space availability is virtually non-existent in the south central region of the country.
- Target has started work on three new deals in Texas. If executed, they will be the first new Target stores in the area in five years.
- Nebraska Furniture Market is currently under construction on over 1 million square feet in Dallas, making it the largest retail project under construction in Texas.
- Winco Foods is pursuing eight or nine redevelopment deals in secondary suburban locations.
- Walmart remains very active, as the grocery sector drives market growth. HEB is purchasing sites to "land bank.". The new Safeway concept is expanding – while "Tom Thumb" is struggling – trying to remain relevant with Urban stores. Trader Joe's is opening stores with more on the way.
- Specialty retailer Gander Mountain is aggressive. They recently secured five existing and build-to suit locations in Texas; with 25 deals per year planned for next few years throughout the Midwest and Southeast. Ownership is private and bullish.
- Fitness users, such as Fitness Connection, are absorbing vacant grocery boxes. Concept is based on a non-member model with a low monthly fee.
- Retailers are striving to leverage brands into the same properties (i.e. Bed Bath & Beyond, buy buy BABY, World Market).
- As witnessed in other areas, the battle for high-quality space is extreme.

Western United States

- San Diego remains a tight market with less than 10 big-box spaces available, none of which are considered Class A locations. The boxes that are trading involve a switch of retail class (from weak to strong). The area is also undergoing several mall repositionings.

- The Inland Empire of Southern California is active, with Walmart Neighborhood Market and a new Target that opened this month in the city of Pomona.
- Supermarket activity is significant with Stater Bros., Whole Foods, Fresh Market and Sprouts being the most active. As well, several ethnic concepts have made great strides in penetrating the category.
- Deep discounters, such as Ross and the multiple TJX concepts, boast the highest count of new "box retail" stores in Southern California.
- The home improvement sector is quiet. No activity with Home Depot or Lowes, although OSH (Orchard Supply Hardware) is starting to make a play.
- There is almost no new construction. Mall repositioning with big box anchors is a challenge due to the cost of repositioning department stores or assembling stores.
- In Southern California, the largest new development is Westfield Topanga. Also seeing repositioning of malls including,, Westfield Century City and The Bloc in Los Angeles.
- Zara and H&M have announced their intended entrance to the downtown Los Angeles market and are under construction at Brookfield's Fig & 7th mixed-use urban development.
- The fitness, food and pharmacy categories dominate Northern California and the Pacific Northwest.
- In the drugstore sector, CVS and Walgreens continue to duke it out, while land prices decline.
- Smart and Final and the Grocery Outlet remain active in the grocery category in Northern California. Traditional grocers appear to be reeling across the Pacific Northwest and Northern California from the onslaught of new grocer entries such as Sprouts, Fresh market, Whole Foods and other upscale or specialty grocers in various markets.
- Unique from the rest of the country, Walmart has scaled back on local activity with all of its concepts, including Neighborhood Market.
- Mid-box-anchored development projects are visible, as mid-box retailers continue to expand leaving projects saddled with complicated co-tenancy clauses.
- Active retailers include Petco, Ulta, Smart & Final, Grocery Outlet, Ross, TJ Maxx, Marshalls, HomeGoods, Sports Authority, Dick's Sporting Goods, Michaels, JoAnn's, Hobby Lobby and Dollar Tree.
- Bank activity and large box activity from Home Depot, Lowes, Target, Walmart is non-existent.
- The fitness sector is strong as the market experiences a surge of various fitness concepts of all sizes.

Canada

- A looming trend in Canada will be a churn in the department store sector. Hudson's Bay continues to strengthen its position, as up to seven full-line Saks department stores may occupy space in existing Hudson Bay department stores. Holt Renfrew continues to expand its existing stores across Canada, as La Maison Simons continues with its Western Canada expansion. Simons will continue to open new department stores across Canada in the coming years.
- Charming Charlie is looking to open its first wave of Canadian stores in 2014, with a full rollout of potentially 60-70 stores nationwide.
- Big Lots continues to seek locations across Canada – both new build opportunities and taking over existing retail spaces (e.g., Zellers boxes).
- It is reported that Douglas Campbell, the new CEO of Sears Canada Inc., would consider selling additional leases across Canada – including the coveted Sears location at the Toronto Eaton Centre.
- New entry, Chico's, will open their first three Canadian "White House | Black Market" locations in the Toronto market \during the fourth quarter of 2013 – Yorkdale, Square One and Upper Canada Mall. A fourth location, in Mapleview Mall, Burlington, Ontario (Toronto suburb), is slated for spring 2014, followed by their first Chico's branded store (Mapleview Mall), in fall 2014.
- Patrick Thomas, Hermès co-CEO, recently stated that Canada is the brand's fastest growing market, at about 20% per year.
- Simons Premium Outlet is performing exceptionally well in Halton Hills, and they are now under construction north of Montreal in Mirabel.
- Target will have opened its first wave of 124 stores by the end of 2013, with locations in all provinces across Canada.

Latin America

- The Brazilian shopping centre GLA is expected to grow by 11% in 2013, with the majority located in the southeast region, followed by the northeast and south regions. The southeast region represents 60% of shopping center GLA.
- Forever 21, GAP, Apple Store and Desigual are expected entrants to Brazil by the end of 2013.
- New entries to Brazil include Lavazza Espression coffee and Ducati.
- The attractive range of incentives provided by the Mexican government continues to draw significant foreign investment to the country, providing an engine of economic growth. Carmakers have been particularly active in this regard, with the latest manufacturer to establish a plant being Audi, which will open a huge new factory in Puebla in the coming months.
- In Mexico, structures known as Fideicomiso de Infraestructura y Bienes Raíces – or FIBRAs – have opened up property asset ownership to retail investors through their stock market offerings. The first to be launched, and the most important in the market today, is Fibra Uno, which currently has nearly US$5.2 billion worth of property in its portfolio.
- The combination of international investors and local FIBRAs are stimulating the development sector. In greater Mexico City alone, there is 500,000 square meters of new shopping centre GLA space under construction, most of which is due for delivery within the next 12 months.
- International fashion brands continue to target the Mexican market. In 2013, American Eagle Outfitters opened their first store, with plans for up to 10 additional locations within the next 12 months.
- The Spanish brand October (from Europe), is targeting up to 50 Mexican stores, while Marks & Spencer is also known to be exploring options for market entry.
- Of the retailers to arrive in Mexico over the past year, good activity has been from Gap, Aeropostale, Brooks Brothers, Express, Forever21 and H&M.
- Most fashion brands tend to seek a joint-venture partner when entering the market; in the F&B sector a franchise model is more common.
- The U.S. home improvement chain Lowe's is one example, having created a new smaller-format store of between 2,000 and 5,000 square meters (compared to its standard 8,000-10,000 square meter box).
- The dominant location in Mexican luxury retailing has long been Avenida Presidente Masaryk. With rents of US$80 to US$100 per square meter per month, the area is all but closed to everyone but the highest echelon of retailers. With this in mind, the market is watching a new expansion development nearby with great interest. The retailing group and department store El Palacio de Hierro has acquired a block in Polanco, a few streets from Masaryk, where it is creating a new high-end retail location named Molière 222.
- In Masaryk itself, two development projects are going to bring an unusually large volume of available space to the market for around 4,000 square meters of new space.

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