



OUTLOOK FOR THE REAL ESTATE MARKET & RETAIL TREND OVERVIEW

RCLCO Monthly Webinar

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TODAY'S PANELISTS



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AGENDA

- ▶ **Heard on the Floor – ICSC Takeaways**
- ▶ **Macroeconomic Update**
- ▶ **Retail Conversion & Redevelopment**
- ▶ **Q&A**

ICSC TAKEAWAYS

FROM THE FLOOR OF ICSC

Not necessarily our views, but some of what we heard from the tradeshow floor:

▶ **There has been a shift to retail, particularly neighbor and grocery-anchored retail.**

Heard anecdotal stories from many who sold multifamily over the past few years at peak prices and shifted that capital to retail.

▶ **Unique and alternate uses are the talk of the town.**

Concepts like VEG (Veterinary Emergency Group), The Learning Experience (schooling/daycare), and Chicken N' Pickle were all featured and examples of up-and-coming concepts (with pickleball, in particular, being frequently discussed).

▶ **Mixed-use continues to dominate.**

Significant number of developers at the conference were seeking solutions and targets for leasing ground-floor spaces.

▶ **E-commerce likely requires a physical presence.**

You can take retail out of the store, but you can't take the store out of retail.

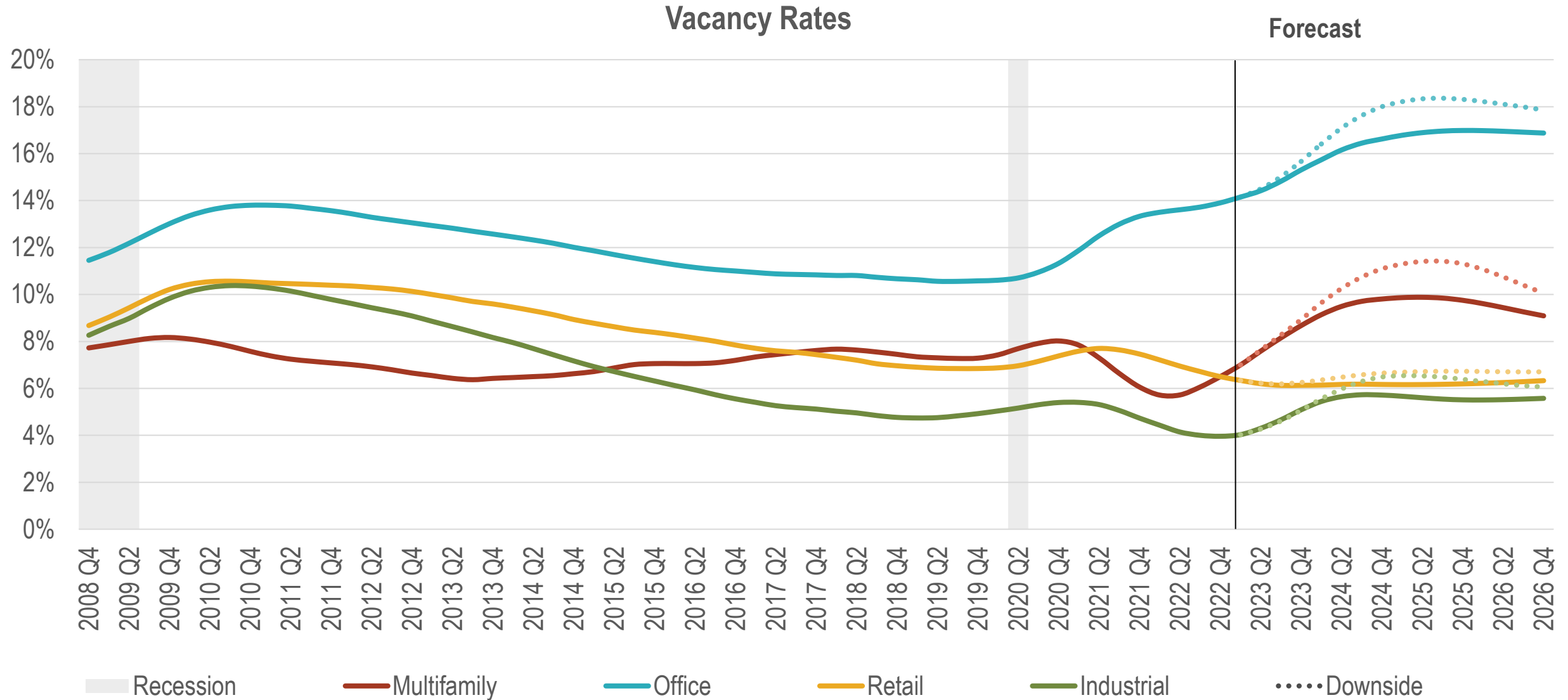
▶ **Retail occupancy at historic highs.**

General sense from the broker, tenant, and development communities highlighted less new development/supply means less competition for existing spaces.

ECONOMIC UPDATE

VACANCY INCREASES EXPECTED IN MOST PROPERTY TYPES

Apartment Vacancies to Increase Sharply in Downturn; Office Vacancies Remain Elevated



Data as of 2023 Q1.

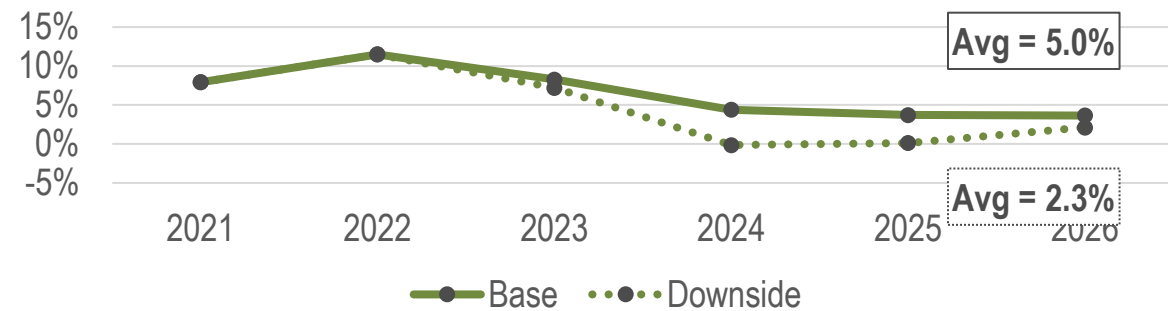
Notes: Vacancy rates are rolling four-quarter averages; retail data refer to neighborhood centers; office and apartment data are filtered for Class A & B.

Source: CoStar

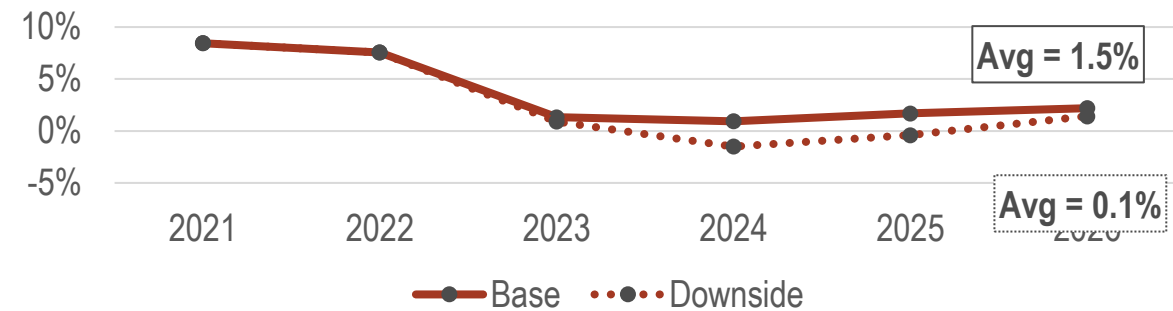
RENT GROWTH TO MODERATE IN MID-TERM WITH INDUSTRIAL STILL ABOVE AVERAGE

Office Rents to Contract in Downturn; Other Property Types Expected to Remain Resilient

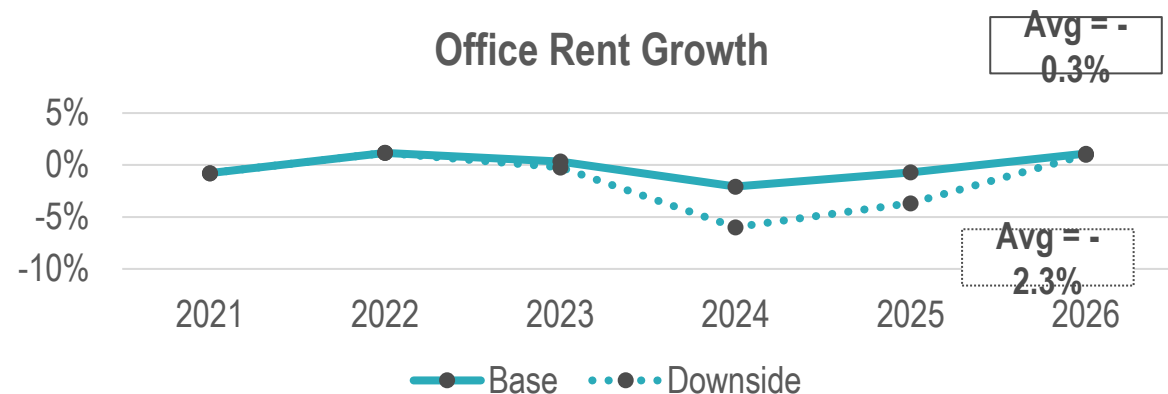
Industrial Rent Growth



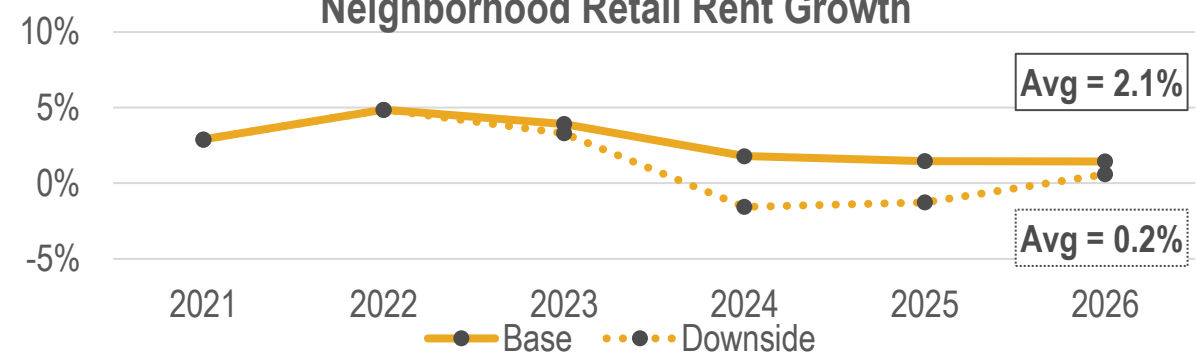
Multifamily Rent Growth



Office Rent Growth



Neighborhood Retail Rent Growth



Data as of 2023 Q1.

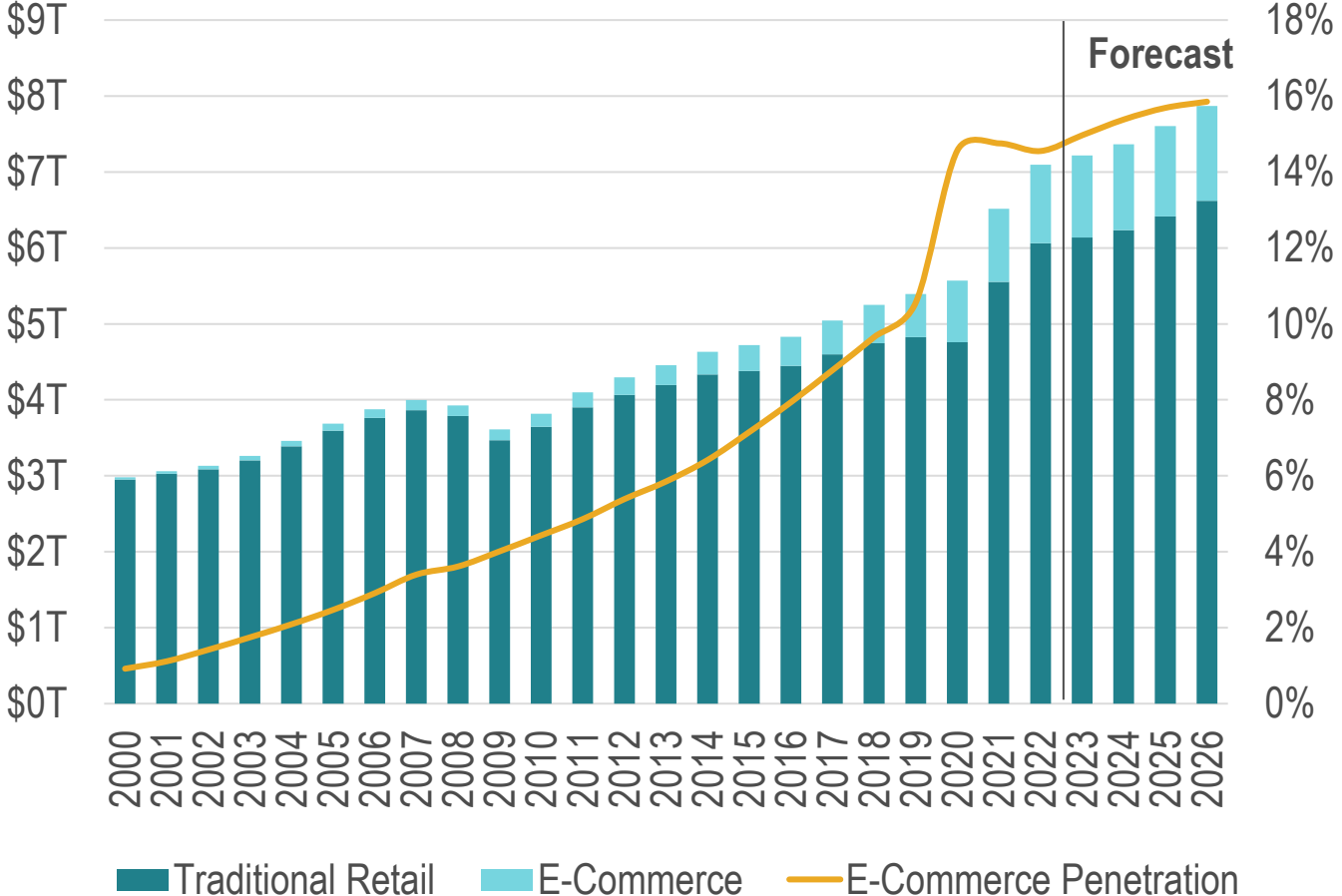
Notes: Rent growth rates are rolling four-quarter averages; retail data refer to neighborhood centers; office and apartment data are filtered for Class A & B.

Source: CoStar

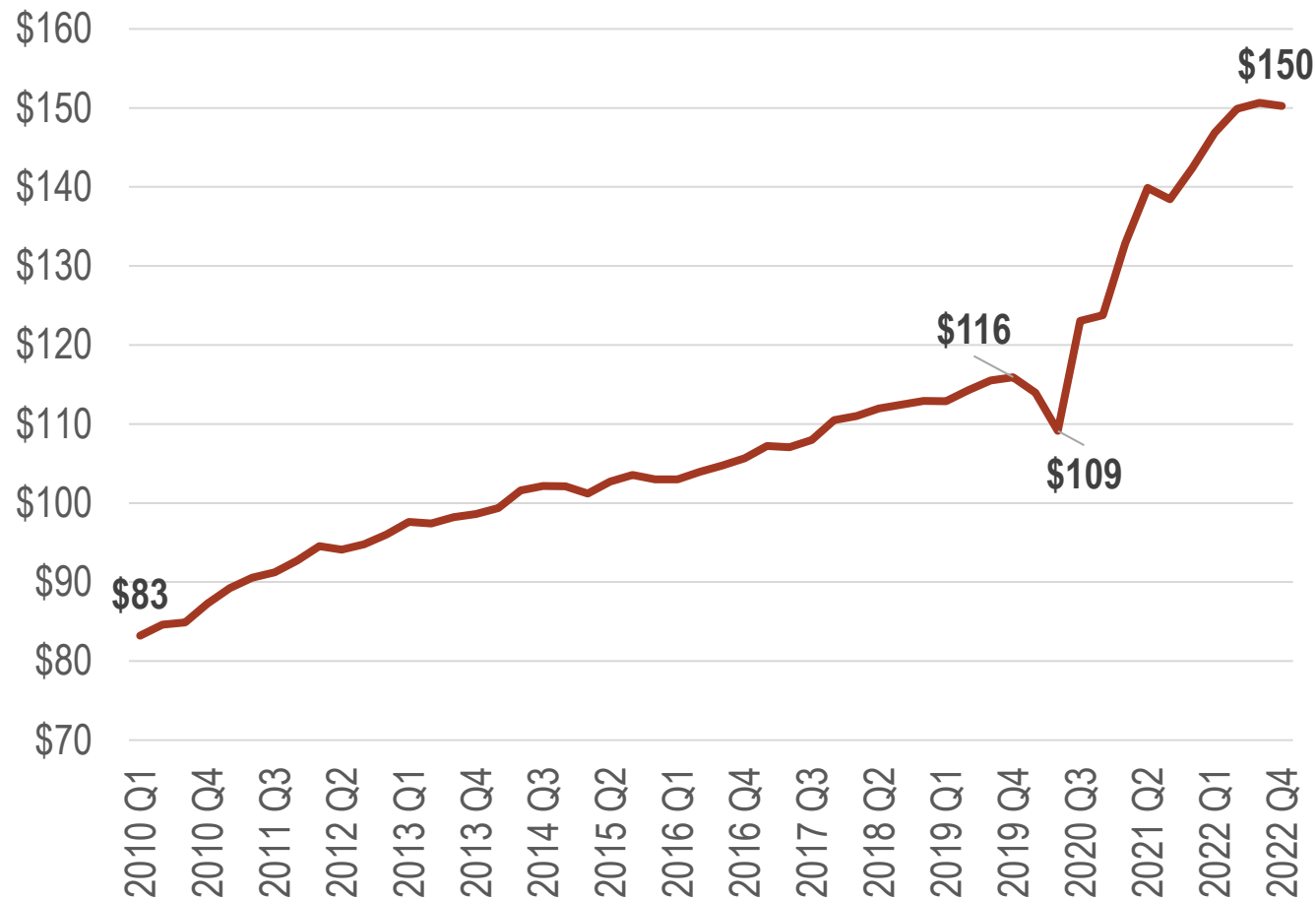
DESPITE GROWTH IN E-COMMERCE, TRADITIONAL RETAIL SALES REMAIN STRONG

Retail Productivity Up, Sales Rise, and New Supply At Record Lows

Retail Sales

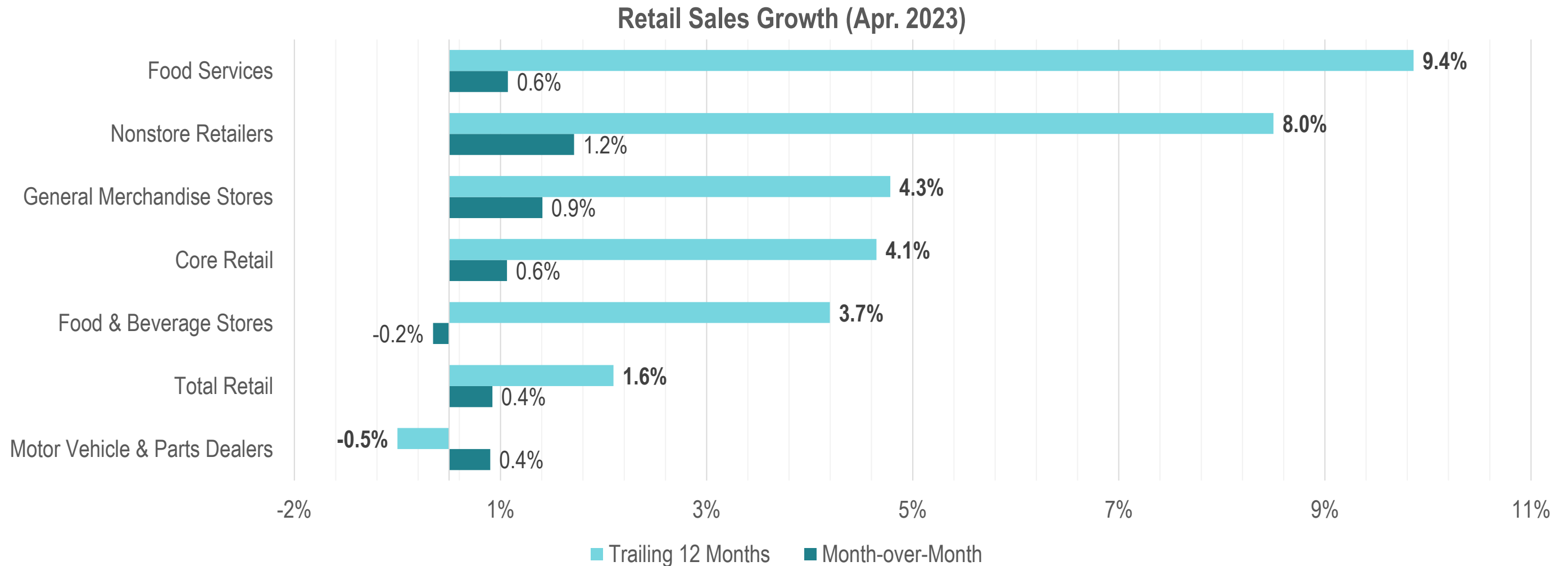


Total Retail Sales per SF of Retail Space



TOTAL RETAIL SALES GREW 0.4% IN APRIL, UP 1.6% OVER THE LAST YEAR

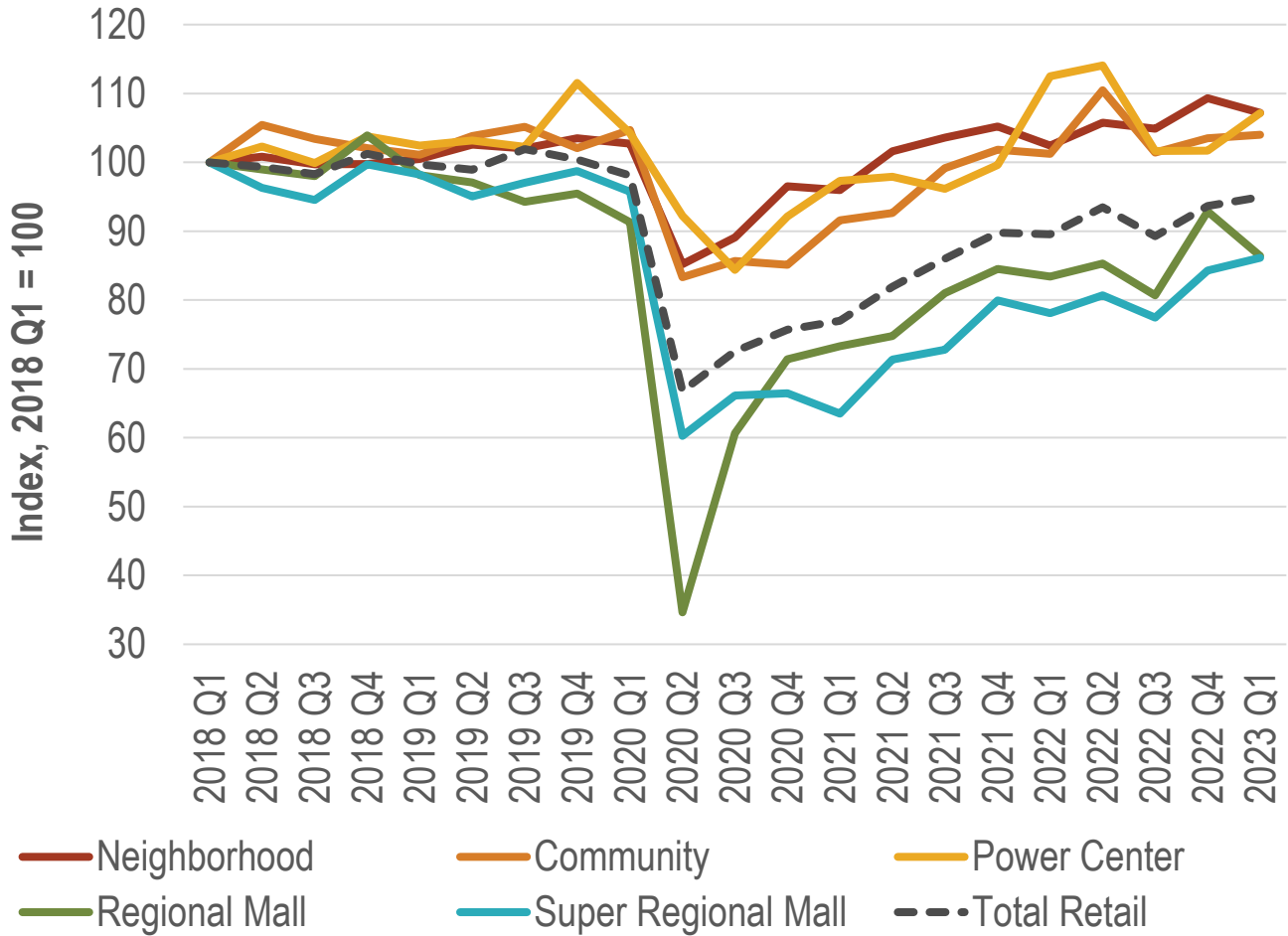
Core Retail Sales Growth Surpassed Overall Growth as Consumers Shifted Away from Discretionary Spending



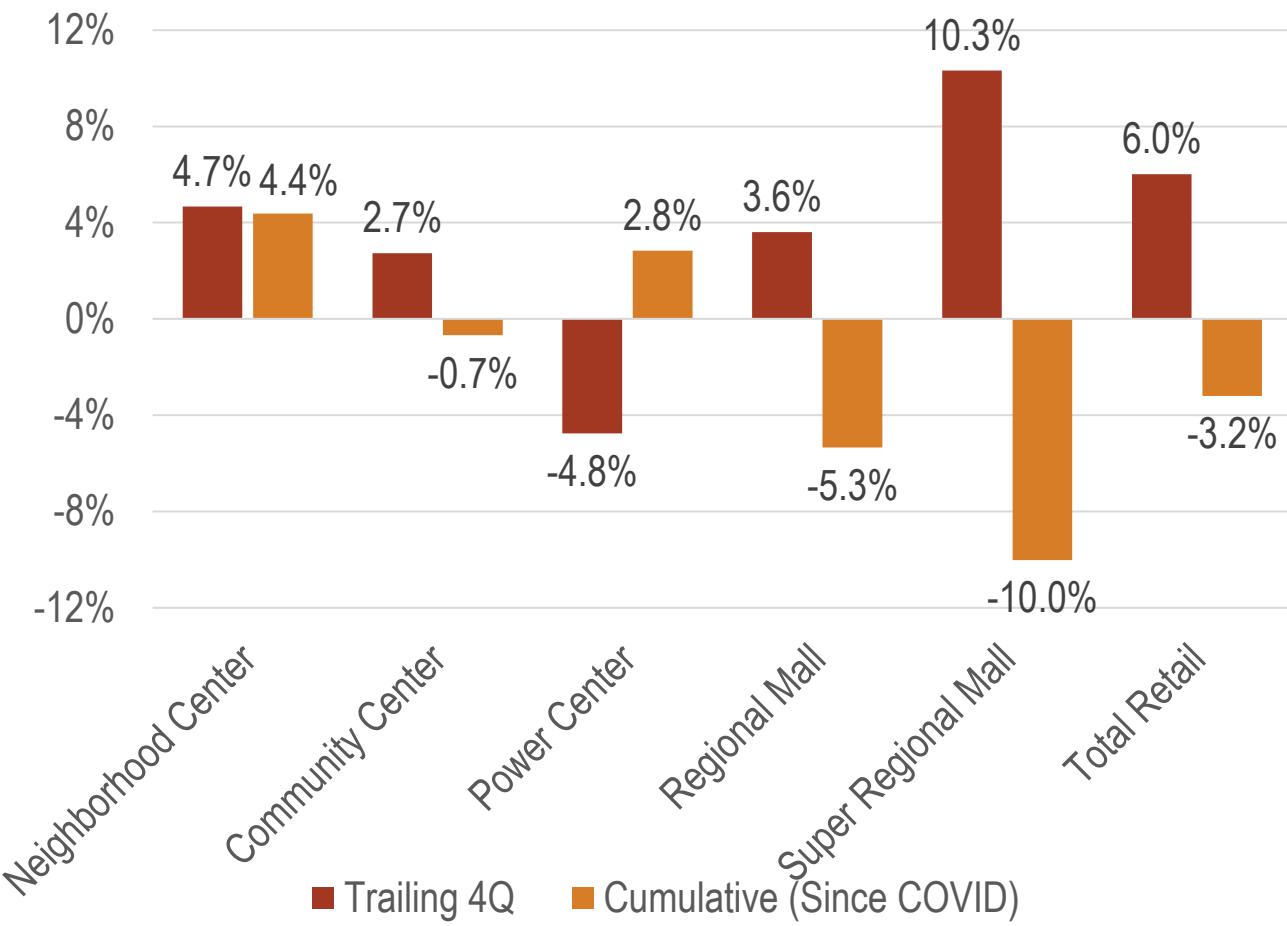
STRONGEST POST-COVID NOI GROWTH IN NEIGHBORHOOD AND POWER CENTERS

Mall NOI Growth Accelerated Over the Last Year but Remained Well Below Pre-Pandemic Levels

NPI Same Store NOI Index

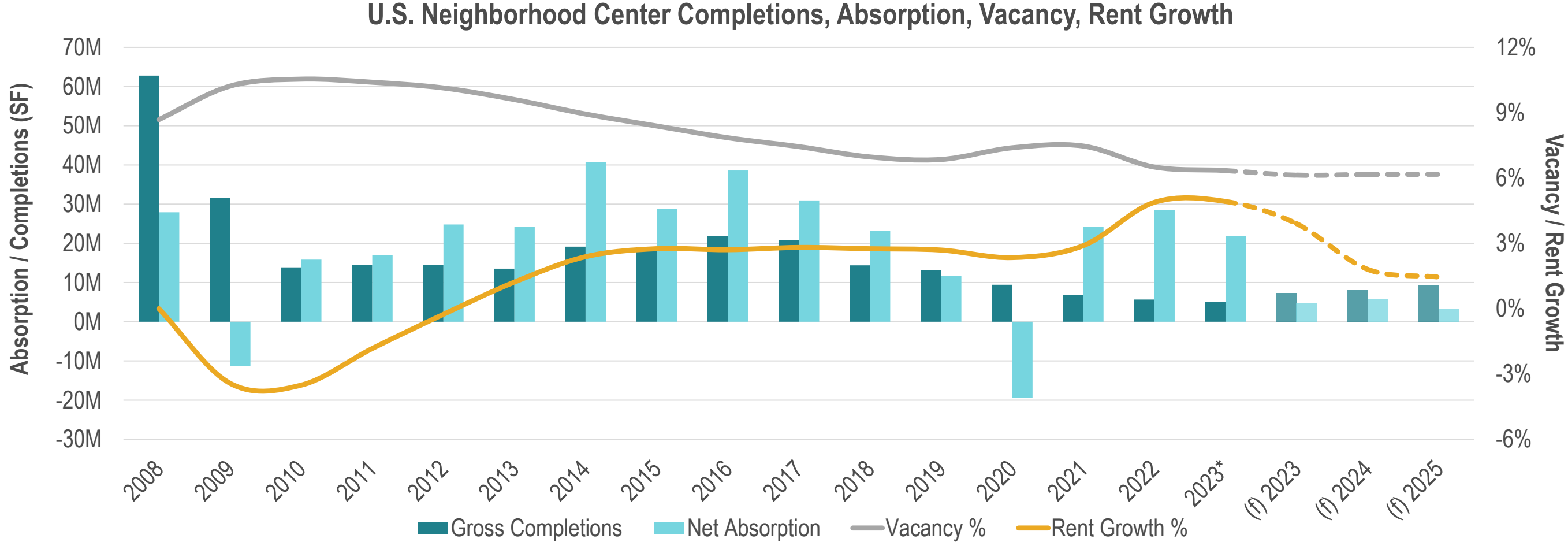


NOI Growth by Retail Sub-property Type



NEIGHBORHOOD CENTER ABSORPTION DROVE STRONG 2022 PERFORMANCE

Record Low Vacancy Projected to Persist, Rent Growth Expected to Cool as Absorption Softens

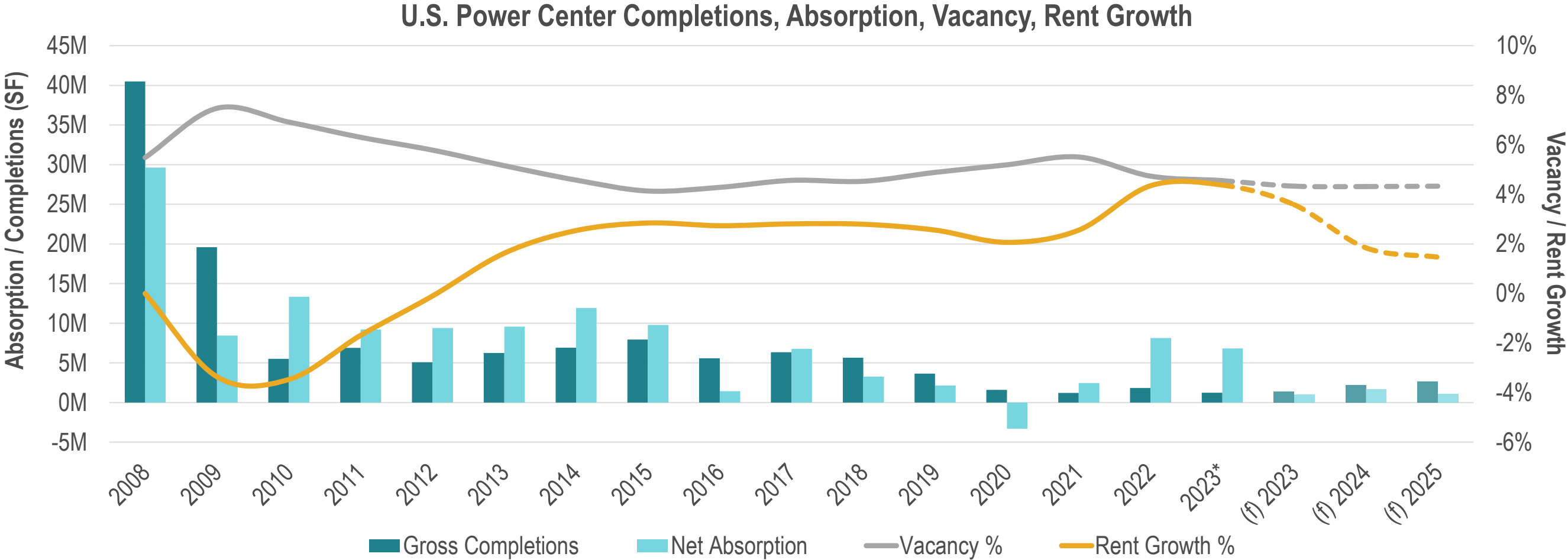


Note: Data are filtered for neighborhood centers; rent growth and vacancy are rolling four-quarter averages; absorption and completions are four-quarter totals; rent growth is based on asking market rent. Source: CoStar

* As of 2023 Q1.

POWER CENTER RENT GROWTH BEGAN TO SLOW WITH FURTHER COOLING EXPECTED

Power Center Fundamentals Expected to Moderate with Very Low Absolute Levels of Demand and New Supply



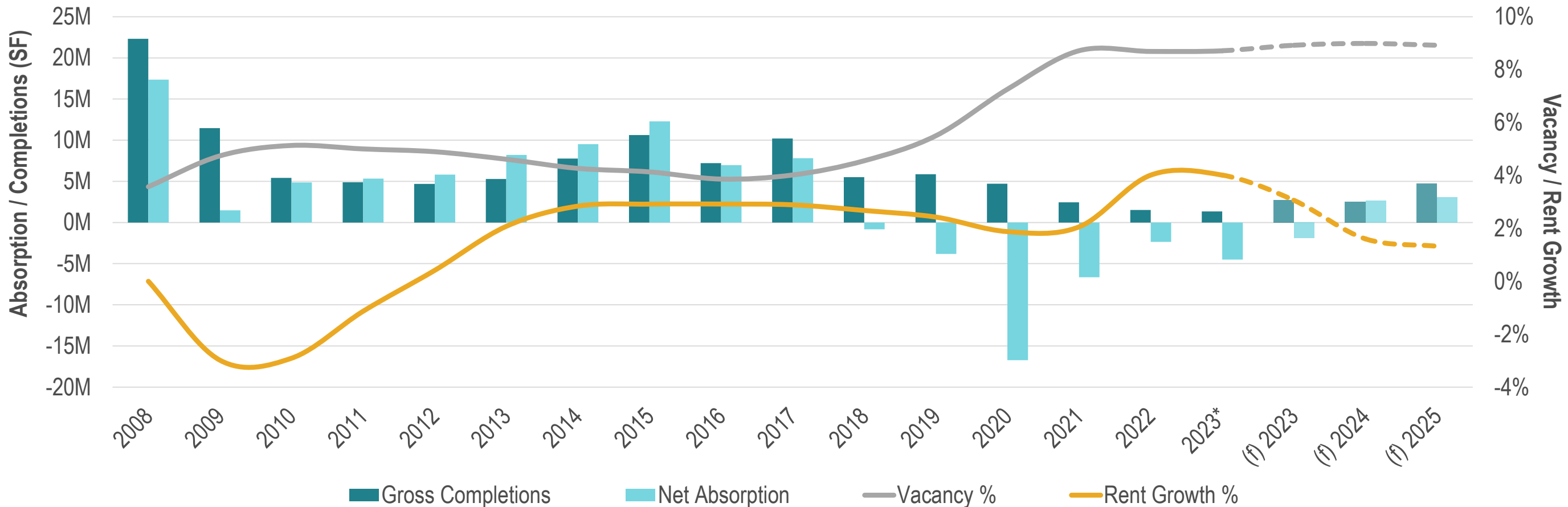
Note: Data are filtered for power centers; rent growth and vacancy are rolling four-quarter averages; absorption and completions are four-quarter totals; rent growth is based on asking market rent. Source: CoStar

* As of 2023 Q1.

PERSISTENTLY NEGATIVE MALL ABSORPTION HAS DRIVE RECORD HIGH VACANCIES

Healthy Recent Rent Growth Expected to Moderate as Mall Fundamentals Remain Weak

U.S. Mall Completions, Absorption, Vacancy, Rent Growth

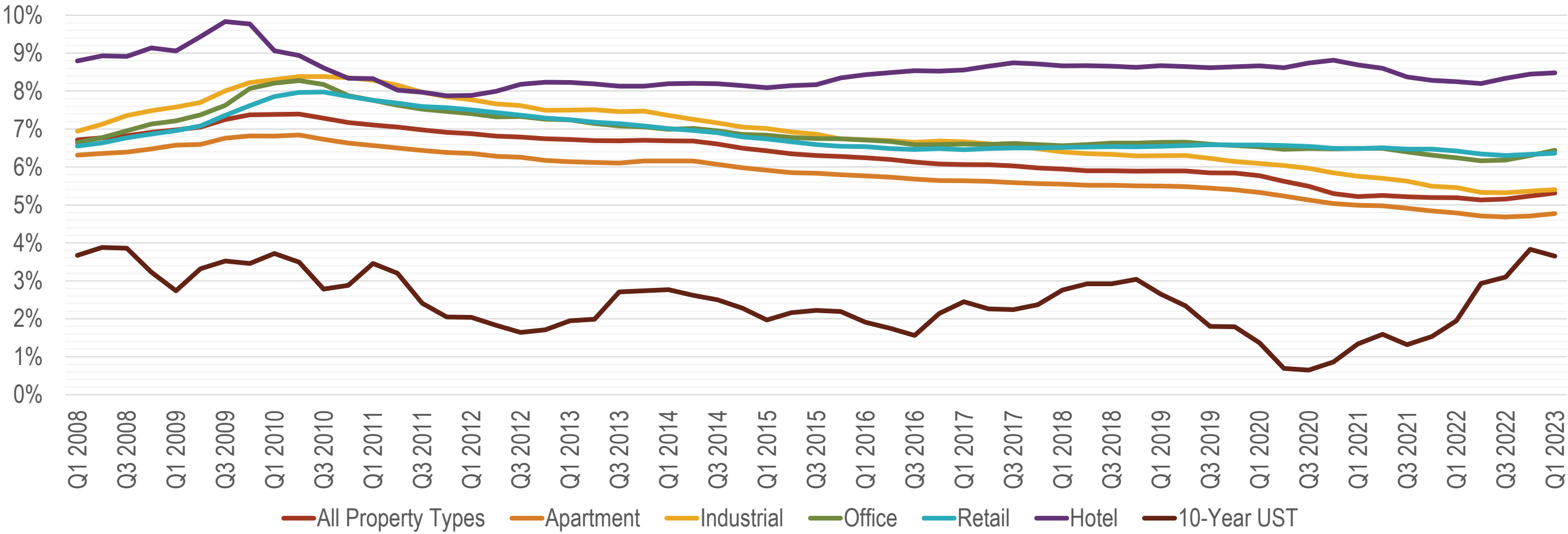


Note: Data are filtered for malls; rent growth and vacancy are rolling four-quarter averages; absorption and completions are four-quarter totals; rent growth is based on asking market rent. Source: CoStar

OFFICE AND RETAIL CAP RATES INCREASING RELATIVE TO OTHER PROPERTY TYPES

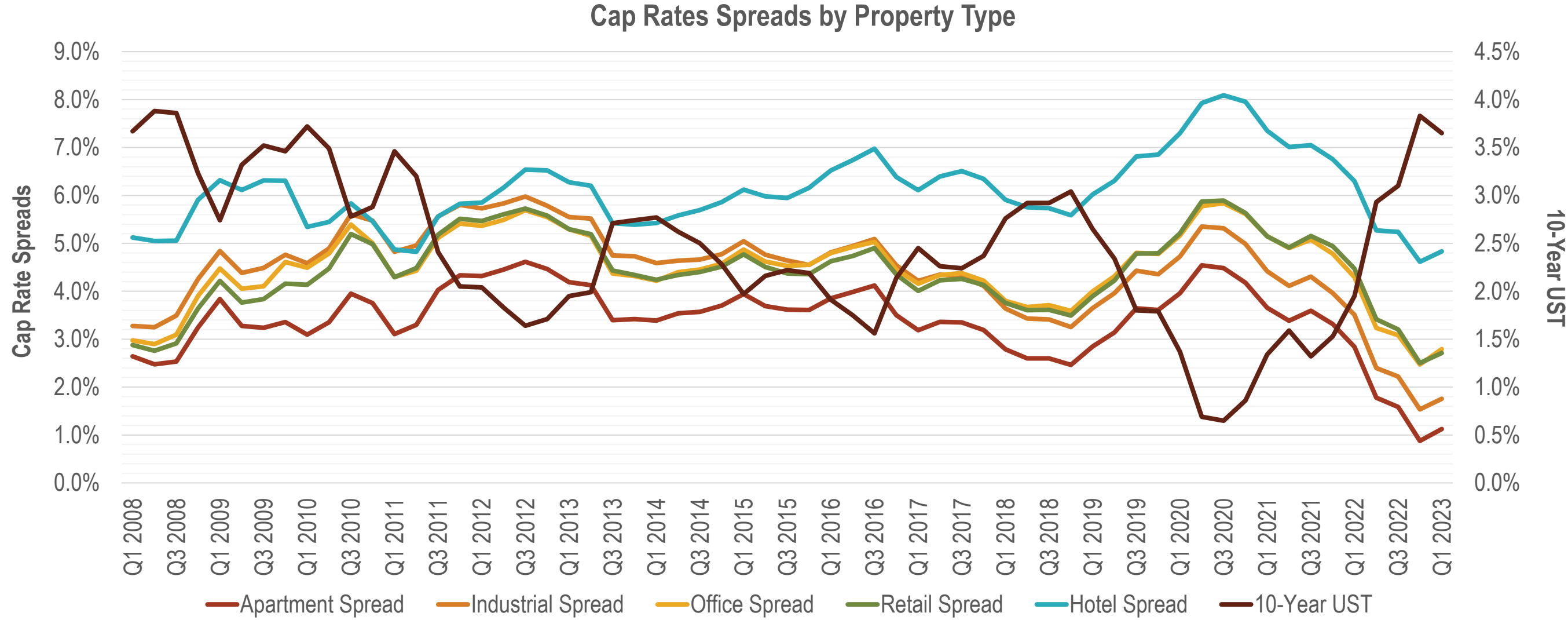
Average Commercial Real Estate Cap Rates Have Been Slow to Rise Despite Rapid 10-Year UST Increases

Cap Rates by Property Type



CAP RATE SPREADS HAVE FALLEN TO LOWEST LEVELS SINCE 2008

Apartment and Industrial Cap Rate Spreads Compressed to Below 200 bps

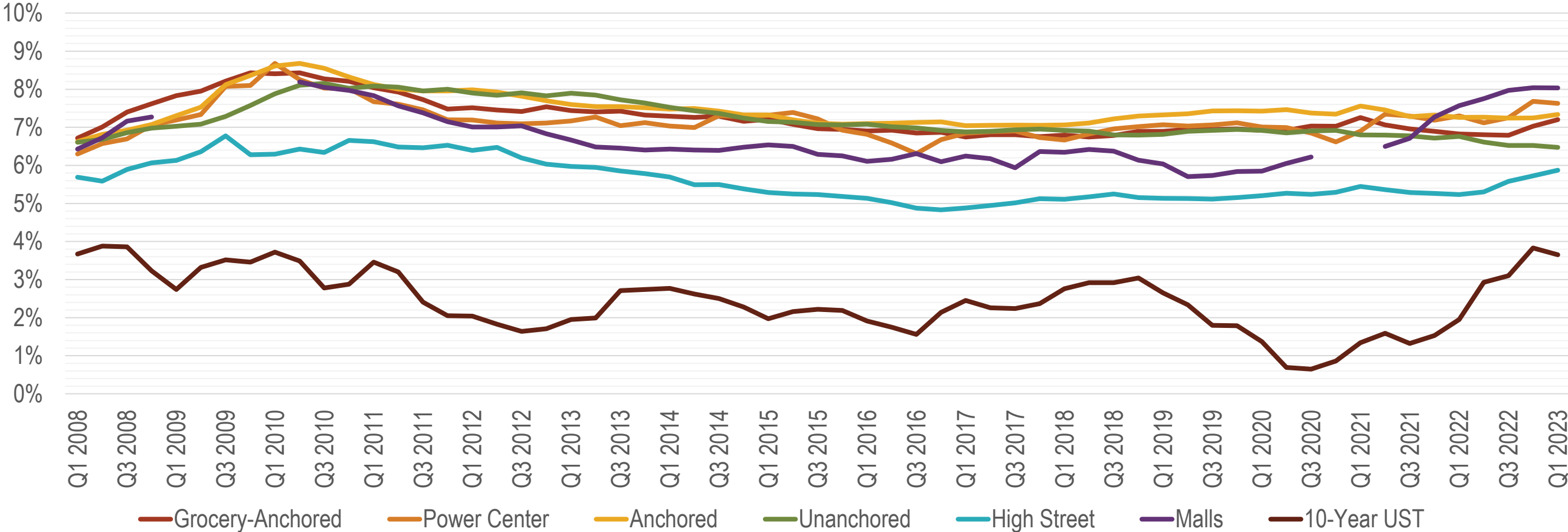


Data are as of 2023 Q1.
Source: Federal Reserve; MSCI

MALL CAP RATES ROSE 47 BPS YOY TO 8.03%, ABOVE OTHER RETAIL SUBSECTORS

High Street Cap Rates Have Consistently Been the Lowest of Retail Subsectors but Also Rose 64 bps YoY to 5.87%

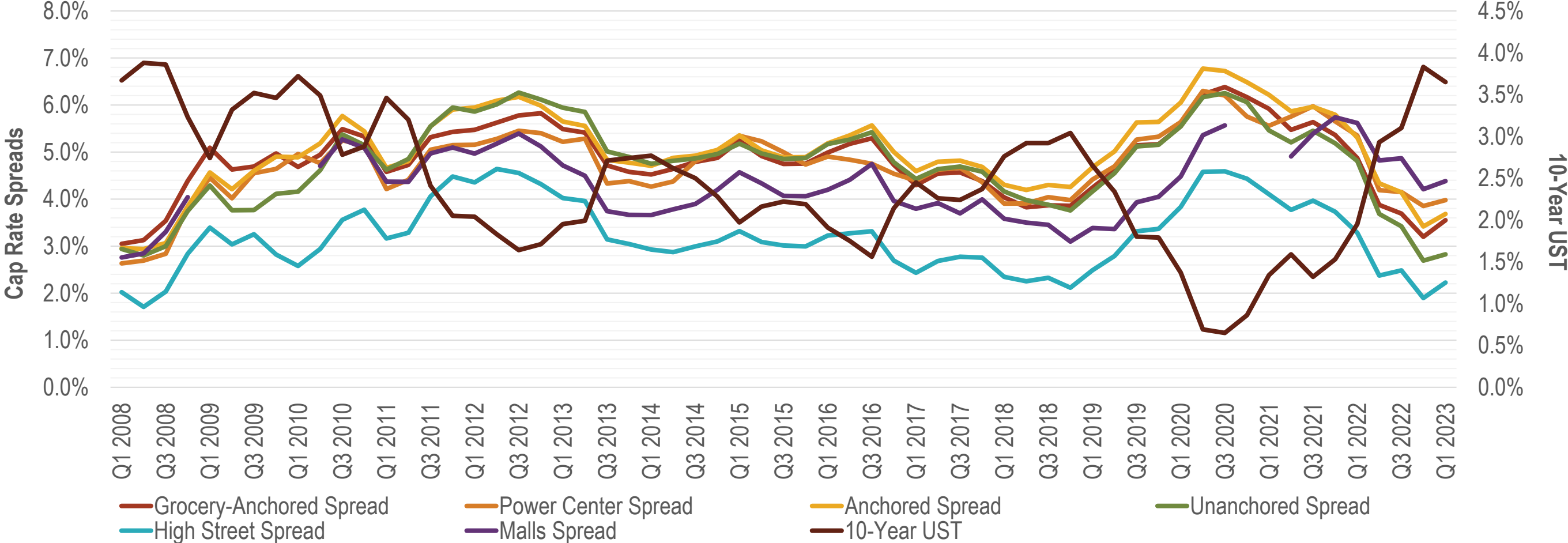
Cap Rates by Retail Subsector



RETAIL SUBSECTOR CAP RATE SPREADS TRENDING DOWNWARD SINCE 2020

Mall Cap Rate Spreads Moderately Above Other Subsectors

Cap Rate Spreads by Retail Subsector



RETAIL HOT TOPICS

- ▶ STNL alternatives still pricing favorably overall
- ▶ Grocery anchored still darling of the subset
- ▶ Power centers have come into more favor with weaker retailers being squeezed out through pandemic and giving retailers more confidence in credit, combined with demalling and tenants moving to power centers
- ▶ Malls still suffer if anything lower than A class
- ▶ Ecommerce growing but at slower pace as online retailers moving into brick and mortar
- ▶ High street retail: high end stores saw surge during covid with excess cash to spend, but asset class as whole still struggling as it reinvents itself and utility of flagship stores
- ▶ Dining and experiential retail even more important coming out of pandemic than it was going in
- ▶ Capital markets adjusting based on interest rate volatility, but at less extreme given already wider spread that existed between retail cap rates and interest rates before hikes started to occur
- ▶ Retail appears to be becoming a favorable asset class for lenders

RETAIL CONVERSION & REDEVELOPMENT

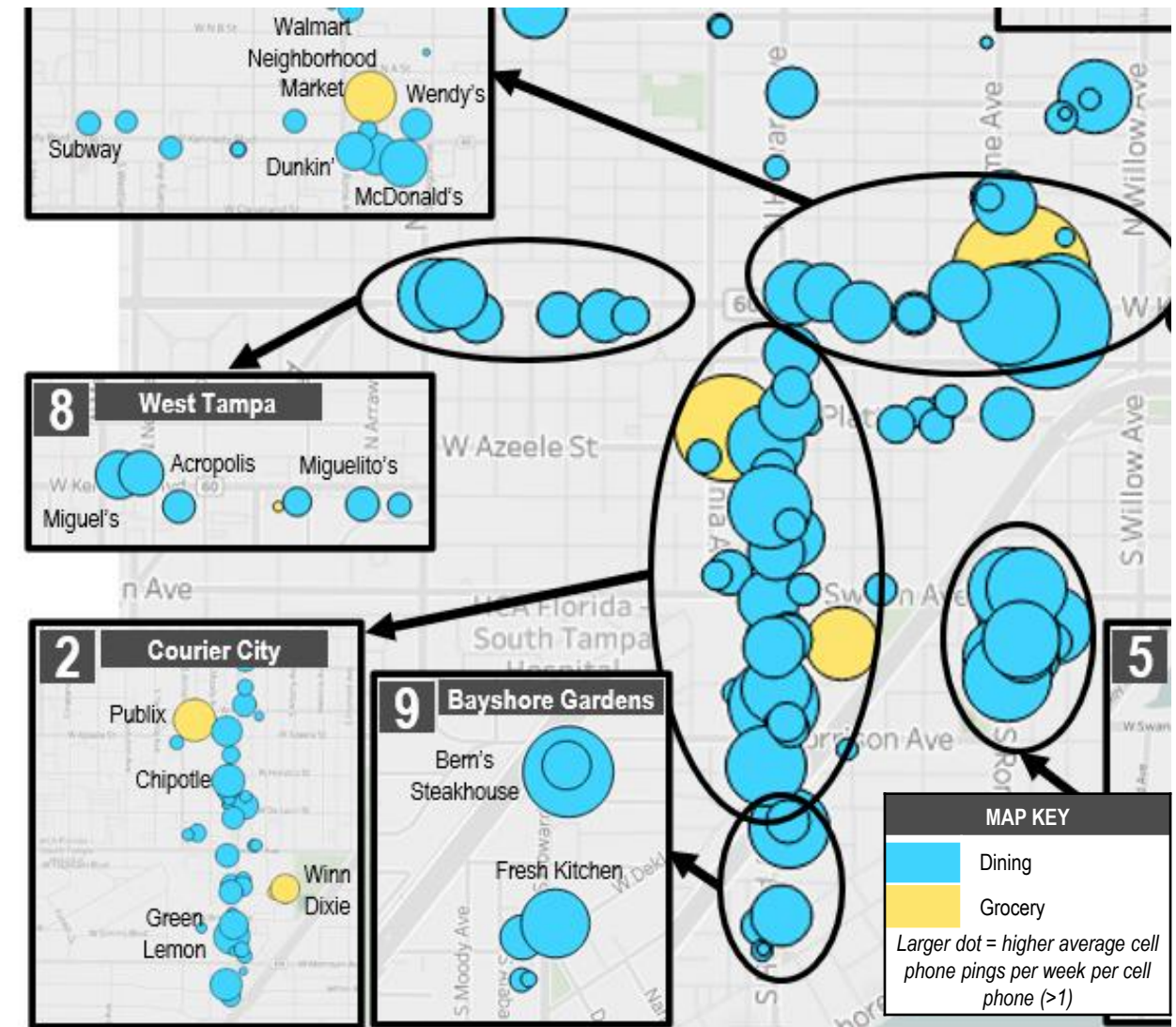
1. RETAIL CONVERSIONS

Converting Existing Spaces & Adding Additional Density/Uses



2. BIG DATA AND RETAIL

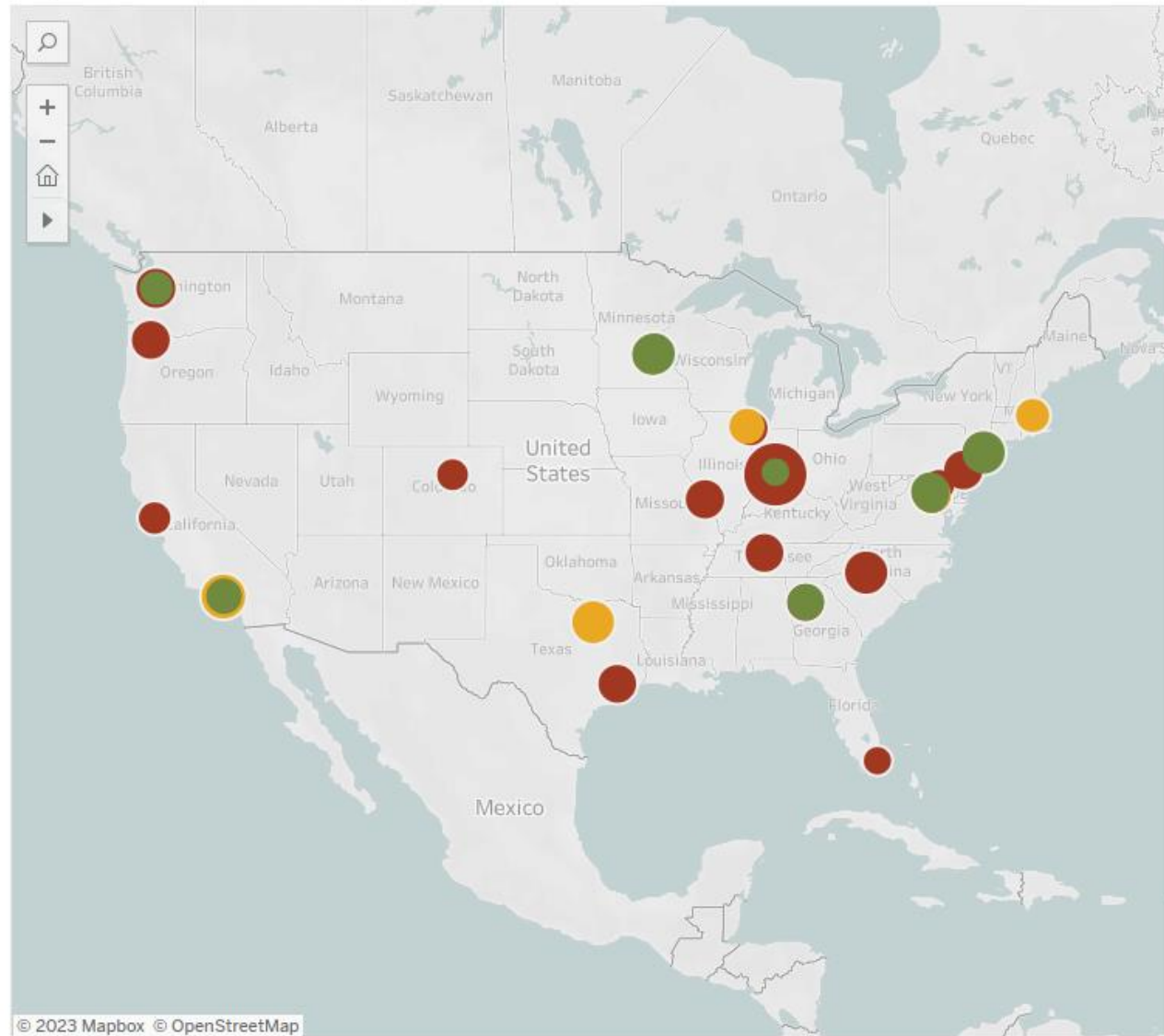
SafeGraph Data Provides Detailed Foot Traffic Insights



Note: map and results are sample visualizations provided for illustrative purposes only

3. GROCERY STORES

Whole Foods & Trader Joes Earn 5.8% Premium, Other Premium Grocers 3.3% Premium



Findings from RCLCO's 2020 Advisory 'Which Grocery Store Anchor Drives the Strongest Apartment Performance? An Updated Look at the "Whole Foods Effect" Post-Amazon Acquisition' (<https://www.rclco.com/publication/which-grocery-store-anchor-drives-the-strongest-apartment-performance-an-updated-look-at-the-whole-foods-effect-post-amazon-acquisition/>)

Source: RCLCO, Axiometrics, CoStar 2020 Data.

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4. EXPERIENTIAL RETAIL

Immersive and Memorable Experience



5. FITNESS / SPORTS

Gym as Community, Gym/Coworking Hybrid



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The charts depicted within this presentation are for illustrative purposes only and are not indicative of future performance.

THANK YOU! – QUESTIONS?



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