Retail eVolution:
A New Beginning, Not the End as We Know It
Core, Retail Sales At All-Time High
28% Above 2008 Peak Nominal – 12% Inflation-Adjusted

* Through April
Trailing 12-month average; adjusted for inflation using core PCE
Core retail sales excludes auto and gasoline sales
Sources: Marcus & Millichap Research Services, U.S. Census Bureau, BEA
Recovery Has Added 16.3 Million Jobs
Total Employment at All-Time High and Growing 2M/Yr.

Quarterly Job Growth (Millions)

2016 Total: 2,240,000
2017 Forecast: 2,000,000

79 Months of Continuous Gains**
Monthly Average: 199,000 Jobs

* Through 1Q
** Through April 2017
Sources: Marcus & Millichap Research Services, BLS
Housing Market Recovery Finally a Driver of Growth

* Through March

Increase in consumer spending from housing wealth increase over 18-month period

Sources: Marcus & Millichap Research Services, National Association of Realtors

$1 increase in housing wealth generates 5 cents in spending

Each home sale creates $5,200 in retail sales
“Shift Happens”, Marcus & Millichap Retail Trends 2000

Share of Core Retail Sales

- eCommerce
- Department Stores

*Through March
Excludes auto and gasoline sales
Sources: Marcus & Millichap Research Services, U.S. Census Bureau
Notable Examples of Displaced Retailers

**BORDERS**
Filed for Chapter 11 Bankruptcy
Liquidated and closed 226 stores

**SEARS**
Sears Holdings restructuring program has closed 150 Kmart and Sears locations with plans to close more

**SPORTS AUTHORITY**
Filed for Chapter 11 Bankruptcy
Liquidated and closed all 450 stores

**CIRCUIT CITY**
Filed Chapter 11 and later Chapter 7 Bankruptcy
Liquidated and closed all locations

**RADIOSHACK**
Filed 2nd bankruptcy in 2 years
Expected to close 550 stores
eCommerce is Fastest Growing Sector of Retail Sales

Online Shopping

* Trailing 12 month through March
Excludes auto and gas sales
Sources: Marcus & Millichap Research Services, U.S. Census Bureau
eCommerce One Part of a Much Larger Retail Picture

* Trailing 12 month through March
Excludes auto and gas sales
Sources: Marcus & Millichap Research Services, U.S. Census Bureau
Successful Retailers in the eCommerce Age: Value, Nimble/Fast, Market and Consumer-Aligned

- T.J. Maxx: Off-Price Department Store
- Dollar General: Discount Stores
- LA Fitness: Fitness
- Costco: Warehouse Club
- Five Guys: Quick-Serve Restaurant
- The Home Depot: Home Improvement
- Ulta Beauty: Health and Beauty
- Sprouts Farmers Market: Grocery
- Zara: Fast Fashion
- Massage Envy: Wellness
Omnichannel Strategies Drive Convergence of Physical and Online

8 out of the top 10 online retailers are traditional

Apple, Amazon & Microsoft collectively operate 400+ physical stores

Sources: Marcus & Millichap Research Services, eMarketer, Amazon, Microsoft Corporation, Apple Inc.
Demographics Trends Provide Triple Wave of Opportunity

20 to 34 Year Olds

35 to 54 Year Olds

55+ Year Olds

10-Year Forecast
+630 Thousand

10-Year Forecast
+4.2 Million

10-Year Forecast
+17.6 Million

* Forecast

Sources: Marcus & Millichap Research Services, U.S. Census Bureau
“Experience” and “Re-tailtainment” Major Forces in the E-Volution

As of 2015
Sources: Marcus & Millichap Research Services, JPMorgan Chase
Consumers Spend More on Dining Out Than on Groceries for the First Time Ever

Grocery Stores
Bars and Restaurants

Eat Out at Least Once Per Week:

- Millennials: 49%
- Gen X: 43%
- Boomers: 35%

* Through April

Unprecedented Wealth Transfer, Quest For Yield = CRE Capital Flows
U.S. 2016 Population by Age

$30+ Trillion Wealth Transfer Over the Next 3 Decades

Sources: Marcus & Millichap Research Services, U.S. Census Bureau
Excess Retail Space in the U.S. Compounding Demand Shifts (Retail Space / Capita)

Sources: Marcus & Millichap Research Services, ICSC Country Fact Sheet
…… Market Forces are Correcting the Space Overhang
Construction of Retail Lowest in a Recovery

Sources: Marcus & Millichap Research Services, CoStar Group, Inc.
Retail Earnings Exceed Prior Peak Thanks to Improved Inventory Management, Push Toward Efficiency

Inventory to Sales Ratio: Retailers

corporate Profits-Retail Trade

* Inventory to sales ratio through 1Q; corporate profits through 4Q 2016

Sources: Marcus & Millichap Research Services, U.S. Census Bureau, BEA
Ongoing Concerns Valid; Retail Closings Have Trended Lower

**Vulnerable Sectors in 2017**
- Department Stores
- Electronic Stores
- Interior Mall Stores

* Trailing 12-months through 3Q

Sources: Marcus & Millichap Research Services, Bureau of Labor Statistics
U.S. Retail Investment Sales Trends Have Slowed (For Now)

* Forecast
Includes sales $1 million and greater
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics
Aging Baby Boomers Seeking Low Management Yield Boost Investment Activity in Net Leased Retail

* Forecast
Includes sales $1 million and greater
Sources: Marcus & Millichap Research Services, U.S. Census Bureau, CoStar Group, Inc., Real Capital Analytics

55+ Year Olds

10-Year Forecast
+17.6 Million

Population (Millions)

Transaction Activity (000s)

Single-Tenant Transactions

+34%

+17.6 Million

01 03 05 07 09 11 13 15 17*

Transaction Activity (000s)

0 3 6 9 12

01 03 05 07 09 11 13 15 17*
Retail Cap Rate Trends
Average Cap Rates vs. 10-Year Treasury

*Through May 18
Includes sales $1 million and greater
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics
10-Year Treasury Yield Trends: “There is no reason to expect interest rates to rise dramatically”, Ben Bernanke – Retail Trends 2016

Current as of May 18
Sources: Marcus & Millichap Research Services, Federal Reserve

70-Year Avg. = 3.2%
### National 10-Year Forecast Population Growth Rank by Metro

#### Large-Sized Market Growth Leaders

<table>
<thead>
<tr>
<th>Top 5 Metros Large-sized</th>
<th>Absolute Change</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dallas-Fort Worth</td>
<td>1,489,000</td>
<td>20.5%</td>
</tr>
<tr>
<td>Houston</td>
<td>1,339,000</td>
<td>19.7%</td>
</tr>
<tr>
<td>Atlanta</td>
<td>1,252,000</td>
<td>21.6%</td>
</tr>
<tr>
<td>Phoenix</td>
<td>1,183,000</td>
<td>25.3%</td>
</tr>
<tr>
<td>Washington, D.C.</td>
<td>563,000</td>
<td>9.2%</td>
</tr>
<tr>
<td><strong>U.S. Total</strong></td>
<td><strong>23,250,000</strong></td>
<td><strong>7.2%</strong></td>
</tr>
</tbody>
</table>

#### Mid-Sized Market Growth Leaders

<table>
<thead>
<tr>
<th>Top 5 Metros Mid-sized</th>
<th>Absolute Change</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orlando</td>
<td>817,000</td>
<td>33.3%</td>
</tr>
<tr>
<td>Charlotte</td>
<td>657,000</td>
<td>26.5%</td>
</tr>
<tr>
<td>Austin</td>
<td>631,000</td>
<td>30.6%</td>
</tr>
<tr>
<td>Las Vegas</td>
<td>594,000</td>
<td>27.5%</td>
</tr>
<tr>
<td>Tampa</td>
<td>537,000</td>
<td>17.7%</td>
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Forecast: 2017-2026

Sources: Marcus & Millichap Research Services, U.S. Census Bureau
Drivers of Successful Retail Investing

1. Market and Location Still Matter and Always Will
2. Massive Performance Variation by Type of Retail
3. Nothing is Safe From Competition - Grocery Wars
4. Dislocation or Opportunity?
   ✓ Think Re-Use, Value-Add as Major Players Exit “Bs and Cs)
   ✓ Personal Services, Medical, Education, Health
5. Valuations Under Pressure – Adjustments to be Expected but Major Correction/Doomsday Pricing Unlikely
6. Huge Buyer Demand for Well-Priced Assets
7. “Wait-and-See” vs. Find and Act
The Most Informative Event Covering Real Estate Investments

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