



Lunch and Learn

# **RETAIL TRENDS**

November 24, 2014

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Commercial Property Associates, Inc.

# Retail Trends

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**COMMERCIAL ▲ PROPERTY**  
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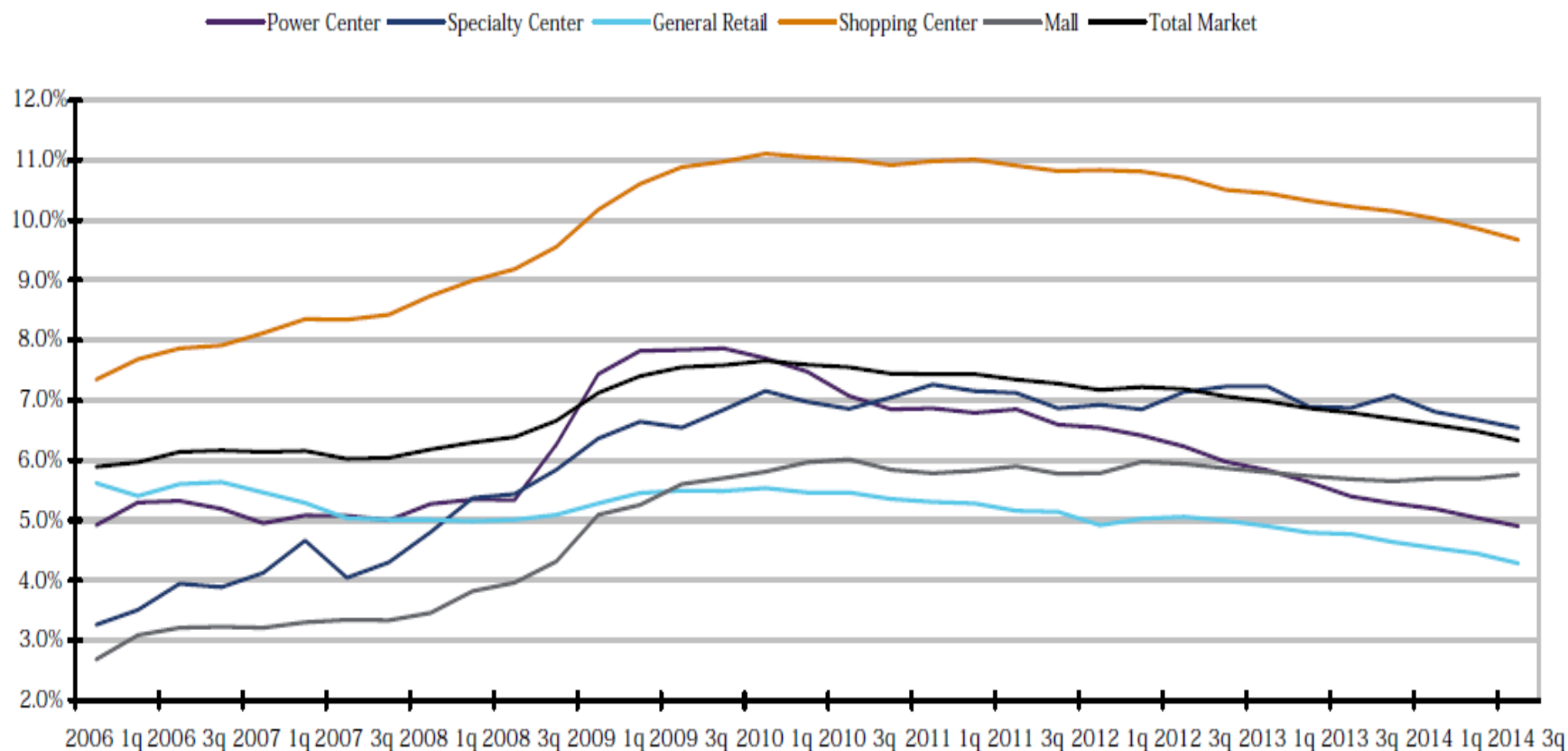
# Current Snapshot of National Retail Market



- US vacancy rate decreased from 6.4% in Q2 to 6.3% in Q3.
- Vacancy rate has crept down gradually from 6.6% Q4 of 2013.

# Vacancy Rates by Building Type\*

2006-2014

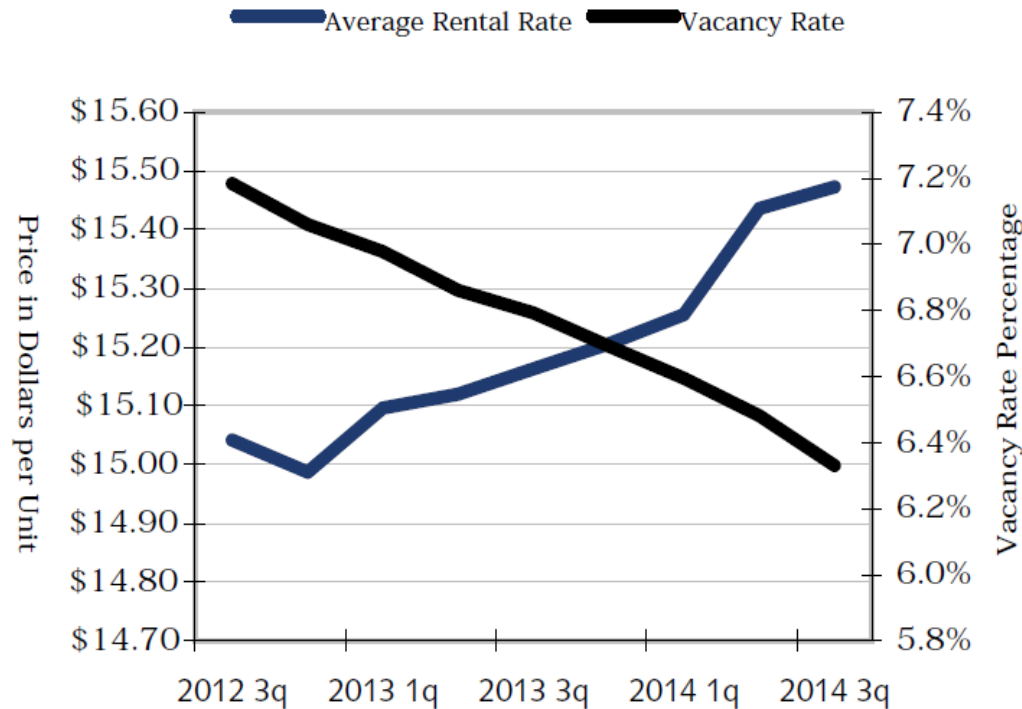


# Absorption and New Construction

- Net absorption in Q3 was 26,476,900 sf vs. 22,537,412 sf in Q2.
  - 542 retail buildings totaling 13,906,075 sf were delivered to the market in Q3 and another 53,000,000+ sf is currently under construction.
- \* 12,543,939,753 sf in 1,076,090 properties are tracked

# U.S. Vacancy Comparison\*

Past 9 Quarters



Quoted rental rates rose to an average of \$14.84/sf, up from \$14.81/sf in Q2.

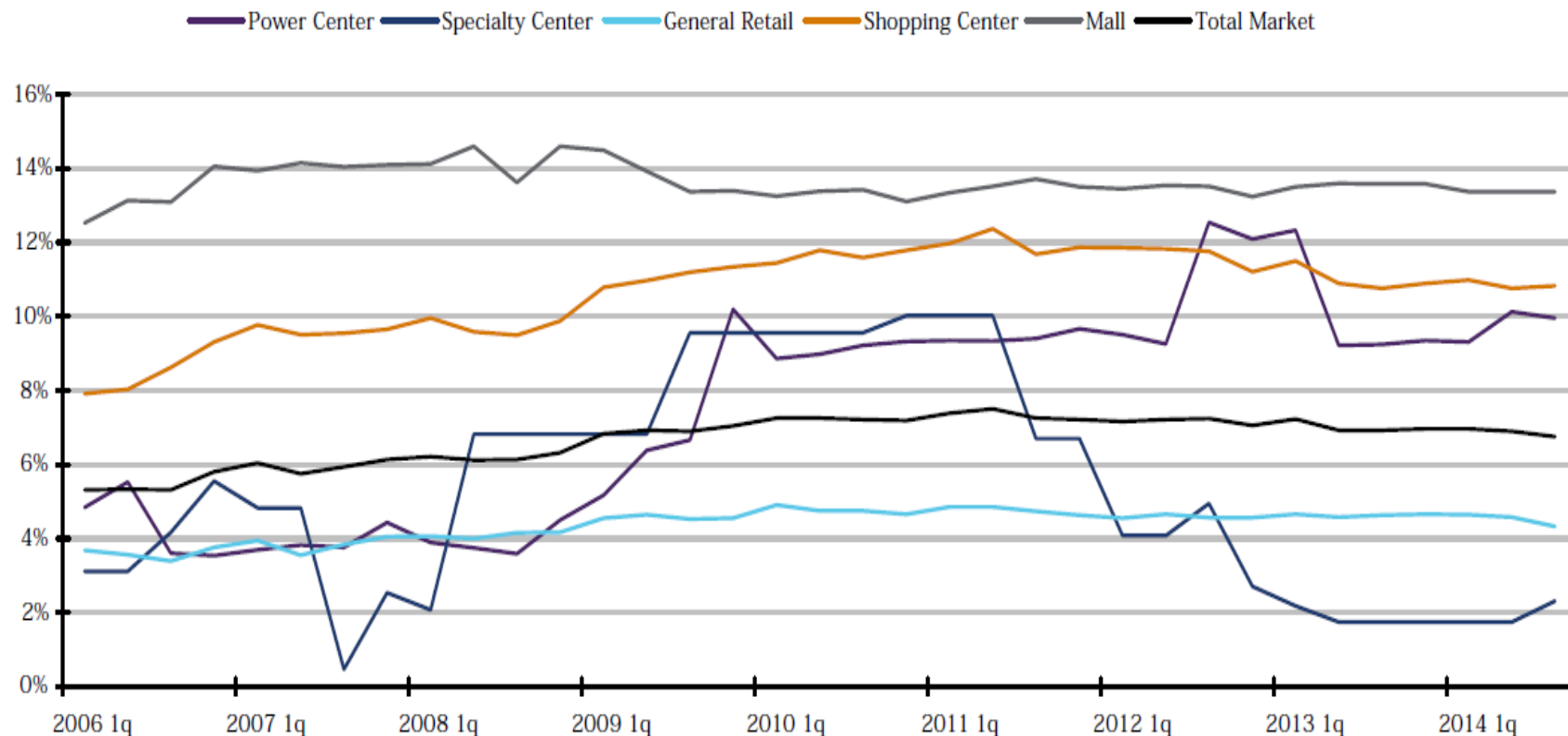
# Current Snapshot of MKE Market



- Metro Milwaukee vacancy rate decreased from 6.9% in Q2 to 6.7% in Q3.
- Vacancy rate has crept down gradually from 7% Q4 of 2013.

# Vacancy Rates by Building Type

2006-2014



Source: CoStar Property®

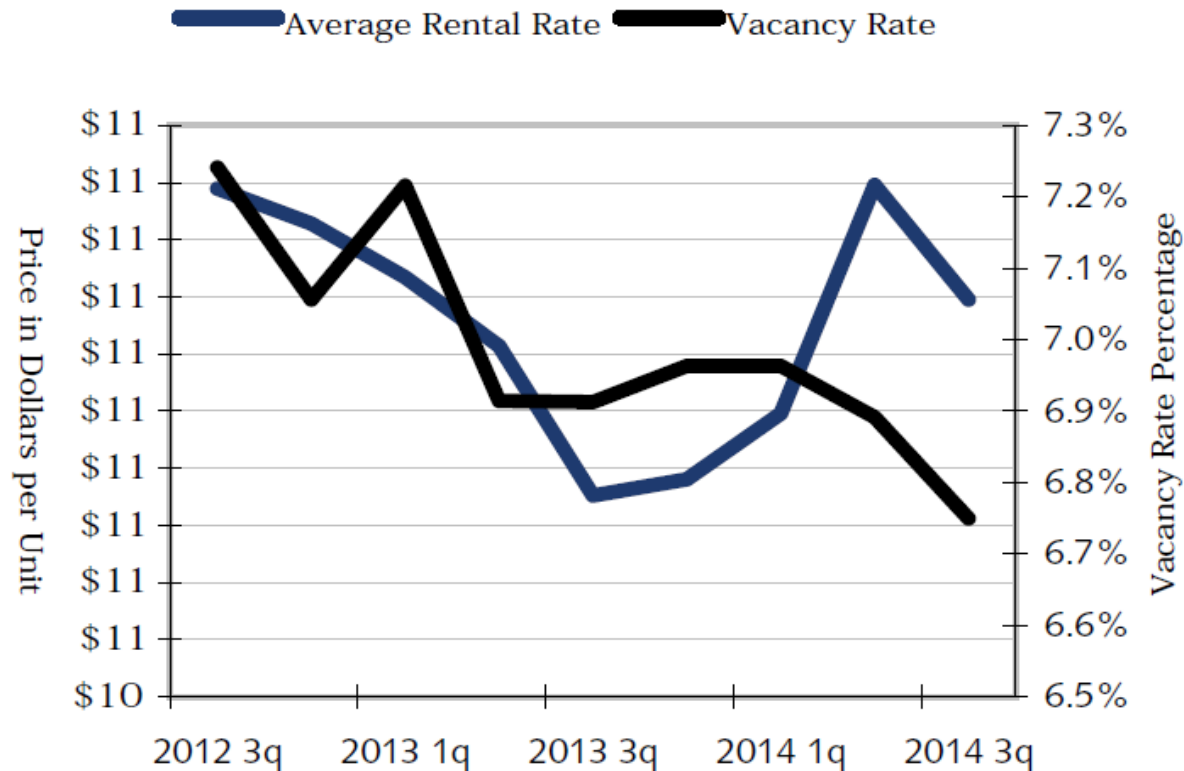


# Absorption and New Construction

- Net absorption was 194,652 sf vs. 434,582 sf in Q2.
  - No new space delivered to the market in Q3 although 536,971 sf of space is currently under construction.
- \* 137,389,961 sf in 13,000+ properties are tracked

# VACANCY & RENT

## Past 9 Quarters



Quoted rental rates decreased to an average of \$10.80/sf, down slightly from \$10.90/sf in Q2.

# Current Snapshot of MKE Market cont'd.

- Largest retail closing of the year is American TV and Appliance vacating 110,000 sf at NEC of I-94 and Hwy F in Waukesha.
- Largest openings of the year include Hobby Lobby (61,000 sf) at Crossroads SC in Menomonee Falls, Dick's Sporting Goods (45,697 sf) and Nordstrom Rack (36,312 sf) at Mayfair Collection.
- Largest recent lease signings include Festival Foods in Racine (57,560 sf) and Whole Foods at Mayfair Collection Phase 2 (45,150 sf).

# Holiday Sales Outlook – Naughty or Nice?



- Origin of term “Black Friday”.
- Consumer spending comprises 2/3 of our economy.
- Most important time of the year for retailers. Black Friday sales alone can make up to 40% of their annual sales. Some retailers, like Target and Macy’s, opening for Black Friday as early as 6 p.m. on Thanksgiving.

# Holiday Sales Outlook – Naughty or Nice?



- In contrast, there is a growing trend amongst retailers, like Costco, not to be open for business on Thanksgiving.
- According to JLL, total holiday sales for 2014 anticipated to reach \$986 billion.
- \$489 billion will be spent in a shopping center setting.

# Holiday Sales Outlook – Naughty or Nice? cont'd.



- Retailers will be stressing convenience, customer service (800,000 seasonal workers will be hired, 2% above last year and highest since 2000), and order online/pickup in-store (accounts for up 15% of sales currently).
- Experts are predicting 2.5% to 4.5% same store sales growth over last year.

# Holiday Sales Outlook – Naughty or Nice? cont'd.



- NRF is projecting 4.1% growth.
- Many are leaning to the higher end of that range due to increased consumer confidence and lower energy costs.
- Holiday sales for 2014 will set the tone for retailers' appetite for expansion in 2015!

# Constantly Evolving Grocery Landscape



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- Pick N Save's market dominance in SE WI has been eroding consistently – currently at 93 stores total.
- There are 25 Copps stores, mostly in Madison and Fox Valley, and 3 Metro Market stores.
- Recently announced closure of 3 metro Milwaukee locations as well as Steven's Point distribution facility.



- Sold or closed 27 Rainbow Foods stores in MN this year.
- Has opened 17 Mariano's Fresh Market stores in metro Chicago since 2010, some with sales double MKE stores.
- Market share has dropped from 60% to 45% since mid 2000s according to David Livingston. Share prices have been dismal due to heavy debt and decreasing sales.

# ROUNDY'S®

- ❖ According to Retail Leader, Roundy's is a \$3.86 billion company, #37 in the US based on 2013 sales.

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## DEBT LOADS FOR ROUNDY'S AND COMPETITORS

COMPANY	DEBT (thousands)	SHAREHOLDER 'S EQUITY (thousands)	DEBT-TO- EQUITY RATIO
Whole Foods	\$27,000	\$3,878,000	0.007
Publix	\$162,154	\$10,267,796	0.016
Safeway	\$4,193,000	\$5,875,000	0.66
Kroger	\$9,654,000	\$5,395,000	1.79
Roundy's	\$742,643	\$226,427	3.28

**Source:** 10-K statements

Luxury is...



VON MAUR®



NORDSTROM  
rack

NORDSTROM

# Big Box Bonanza



# Food Fight



FOUNDED BY FIREMEN<sup>SM</sup>





# Please Buckle Up, We Are Experiencing Turbulence...



RadioShack.

Pick 'n Save  
New every day

OfficeMax

BARNES & NOBLE  
BOOKSELLERS

STAPLES

GameStop®

FAMOUS  
footwear™

jcpenny

Sears

Office  
DEPOT.

BEST  
BUY

COST  
CUTTERS  
FAMILY HAIR SALON

# New or Proposed Retail Developments

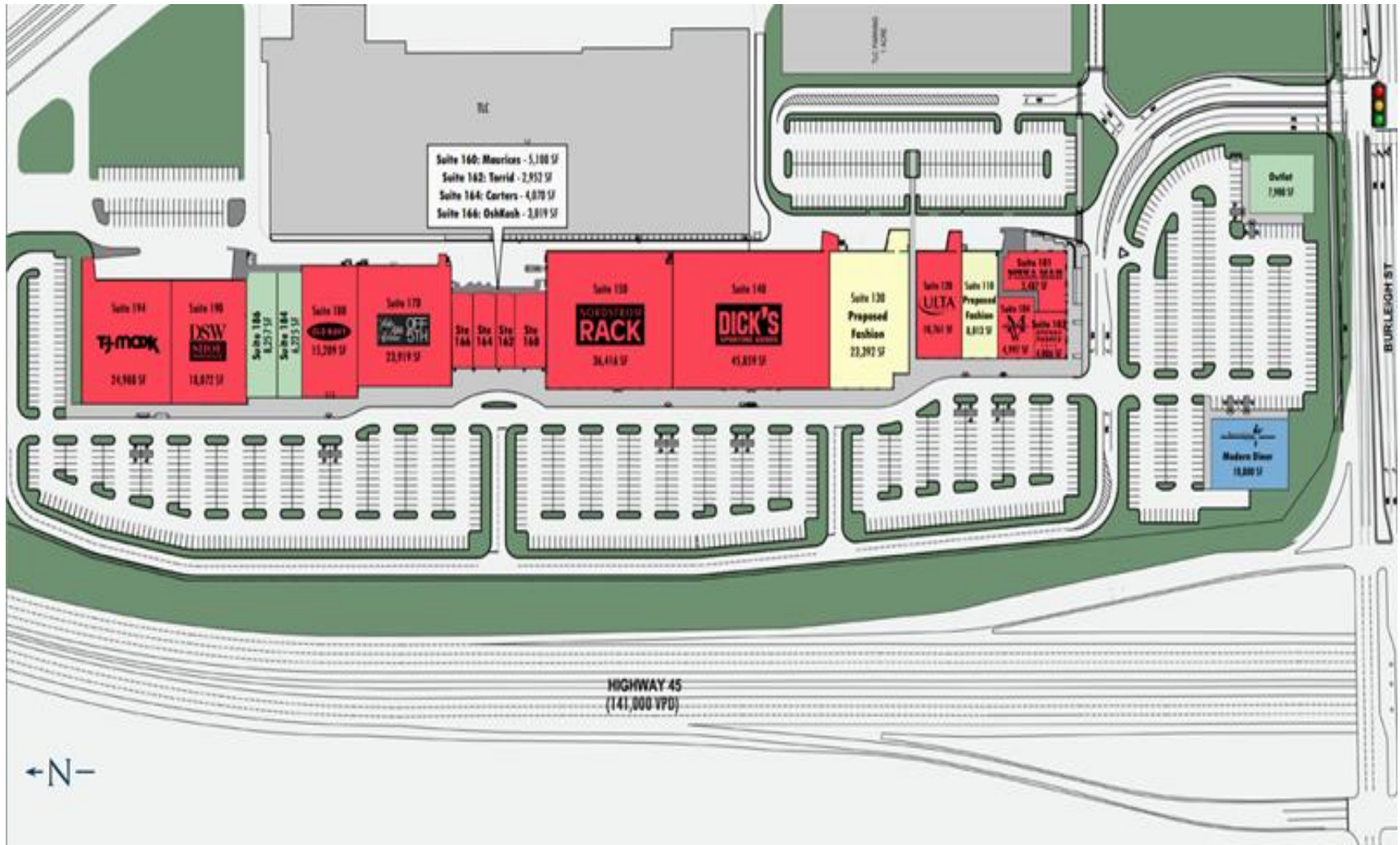


## Nordstrom at Mayfair Mall in Wauwatosa

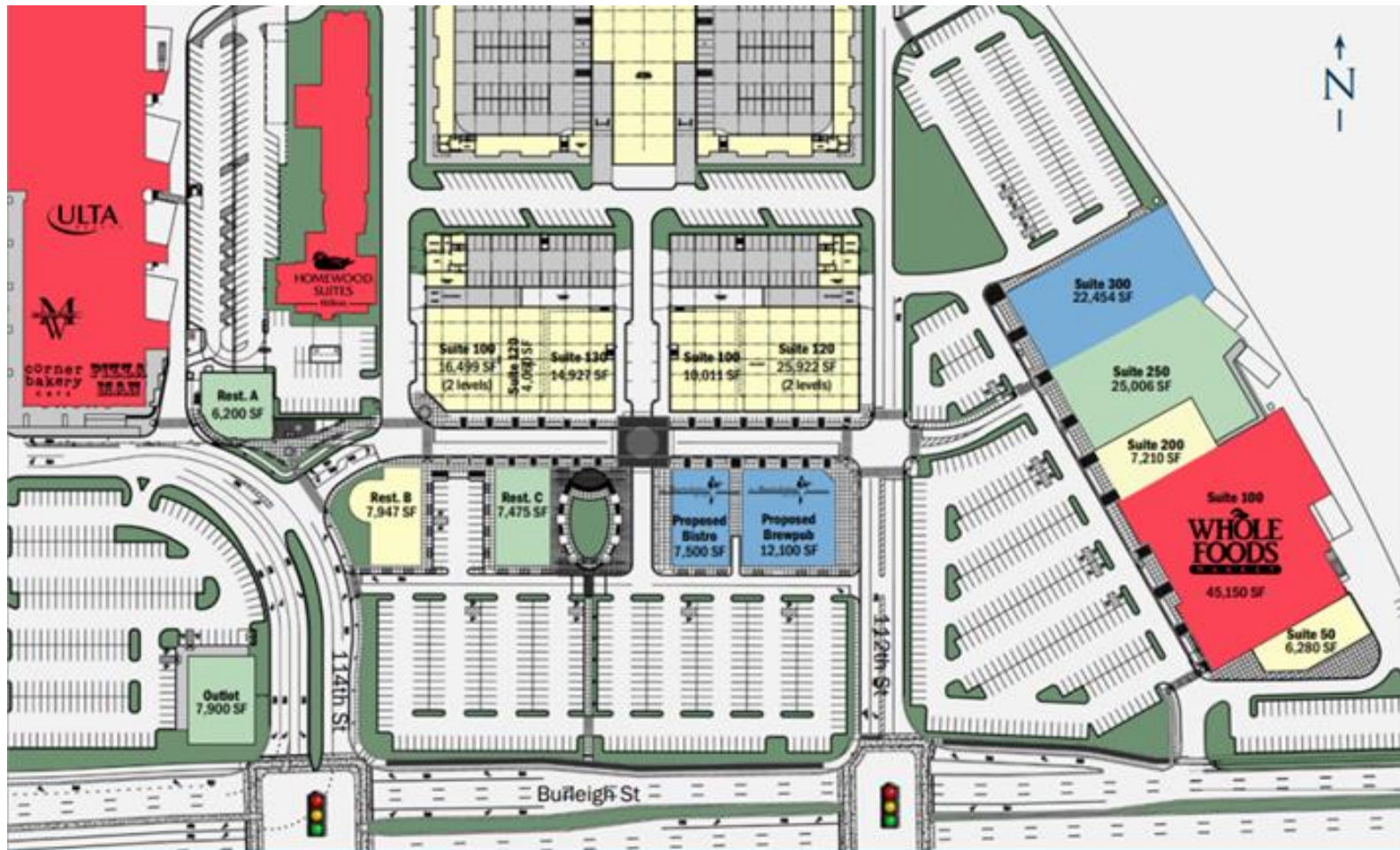
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# Mayfair Collection Phase I in Wauwatosa



# Mayfair Collection Phase 2 in Wauwatosa





# Shoppes at Fox River Phase 3 in Waukesha



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# Whitestone Station in Menomonee Falls



# Drexel Town Square in Oak Creek



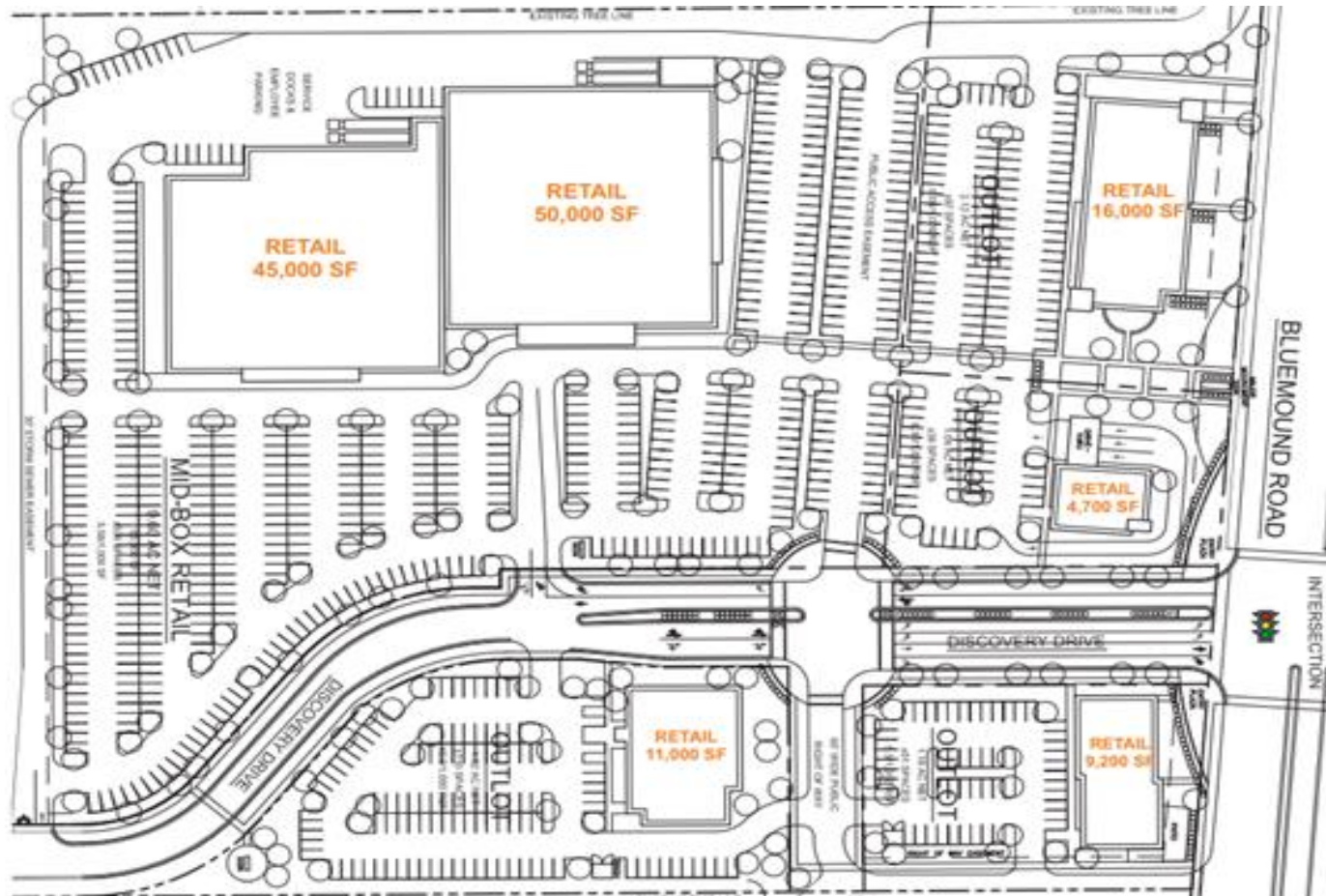


# Freshwater Plaza in Walker's Point



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# The Corridor in Brookfield



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# Brookfield Square and The Corners



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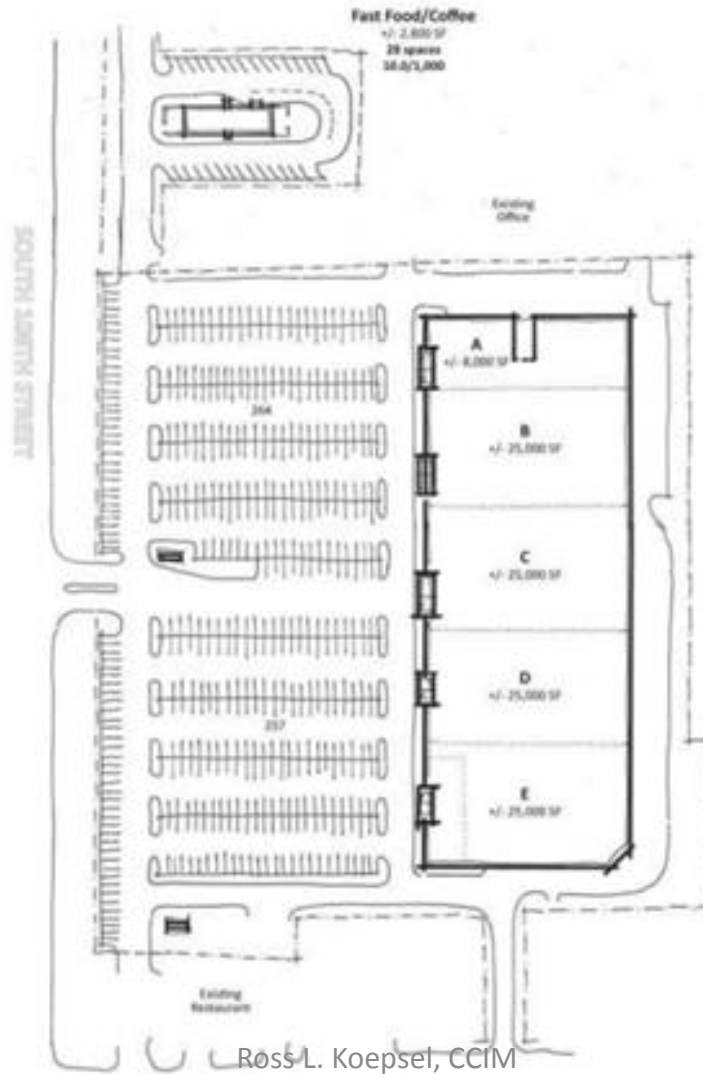
# Plaza 173 in Brookfield



# Former K-Mart in Waukesha



# Former K-Mart in Hales Corners



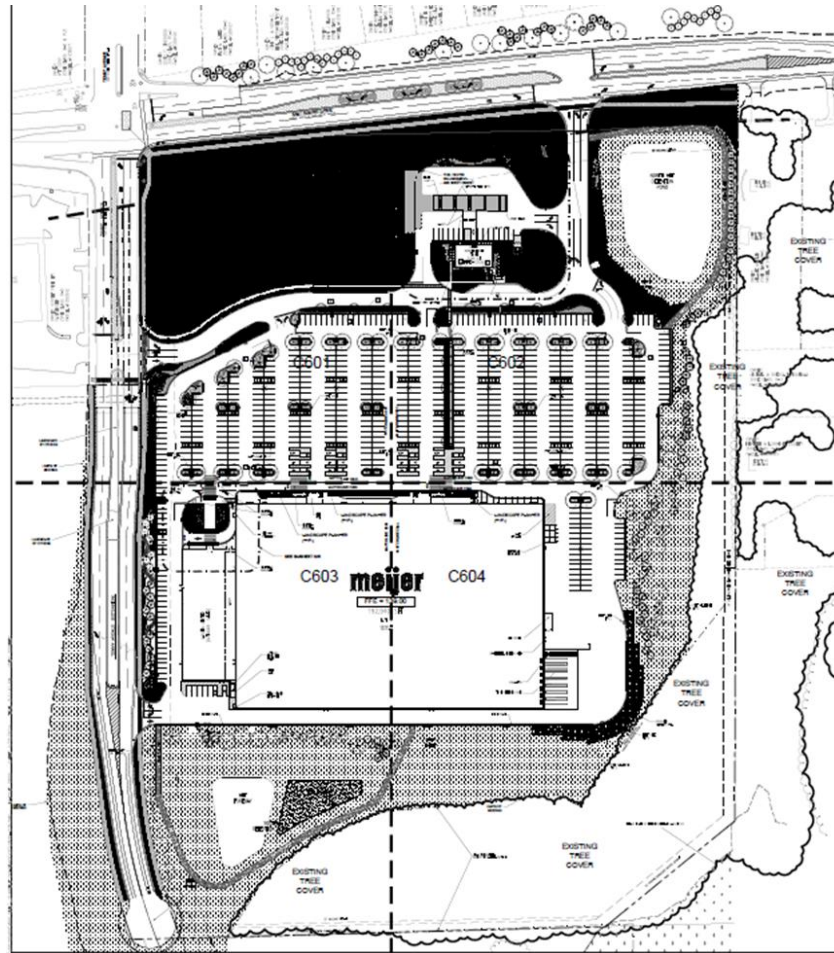
# Greenfield Developments

- Chapman School parcel  
10 acres at NWQ of 84<sup>th</sup> St. and Layton Ave.  
Cobalt Partners  
Mixed Use - live, work, shop, and play
- Loomis Park N Ride  
25 acres at Loomis and I-43/894  
T-Wall Properties  
Mixed Use – multi-family, retail, and office  
Could involve use of TIF for site work



- Meijer currently operates in Midwest 6 states.
- Typically 180,000-200,000 sf.
- First stores will open in 2015 in Wauwatosa, Oak Creek, Grafton, and Kenosha. Proposed stores with 2016 openings include Sussex, Waukesha, and Greenfield. Rumored to have been considering Janesville.
- Owns distribution facility in Pleasant Prairie.
- Future expansion could include Madison, Green Bay and the Fox Valley, Wausau, LaCrosse, Eau Claire, and other secondary markets.

# Proposed Meijer Waukesha



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- Ended fiscal year 2013 with 648 stores, 461 are in 43 US states, Washington D.C. and Puerto Rico. The rest are in Canada, Japan, Mexico, UK, Taiwan, Korea, and Australia.
- Currently operates WI locations in Grafton and Pewaukee.
- Stores rumored to have sales volumes around \$140 million annually. New stores have 156,000 sf footprint.
- Planning stores in New Berlin and Menomonee Falls.
- Paid \$3.81 million for 17.5 ac. in Pleasant Prairie
- Stores projected to open August of 2015.
- Major anchor in established retail areas or catalyst for development in growing areas.

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# Expanding/New To Market Retailers

Christopher  
& Banks

THE JOINT<sup>®</sup>  
...the chiropractic place

  
Jamba Juice.

**five BELOW**  
hot stuff. cool prices.

**SHOE**  
**CARNIVAL<sup>®</sup>**

**The Container Store<sup>®</sup>**

**Jason's deli<sup>®</sup>**

**dressbarn**

20 OR  
**MOD PIZZA**  
SUPER FAST

**Pier 1 imports<sup>®</sup>**

  
**PIZANO'S**  
PIZZA & PASTA

**KIRKLAND'S<sup>®</sup>**

FEED THE DAY  
**corner**  
**bakery**  
CAFE

  
**SLEEPY'S**  
The Mattress Professionals<sup>®</sup>

**Gordmans**  
something unexpected<sup>®</sup>

**OLD NAVY**

**rue21<sup>®</sup>**  
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**ZALES**  
THE DIAMOND STORE<sup>®</sup>

# Cap Rate Compression

- Single Tenant Net Leased Assets are on FIRE!



*Walgreens*



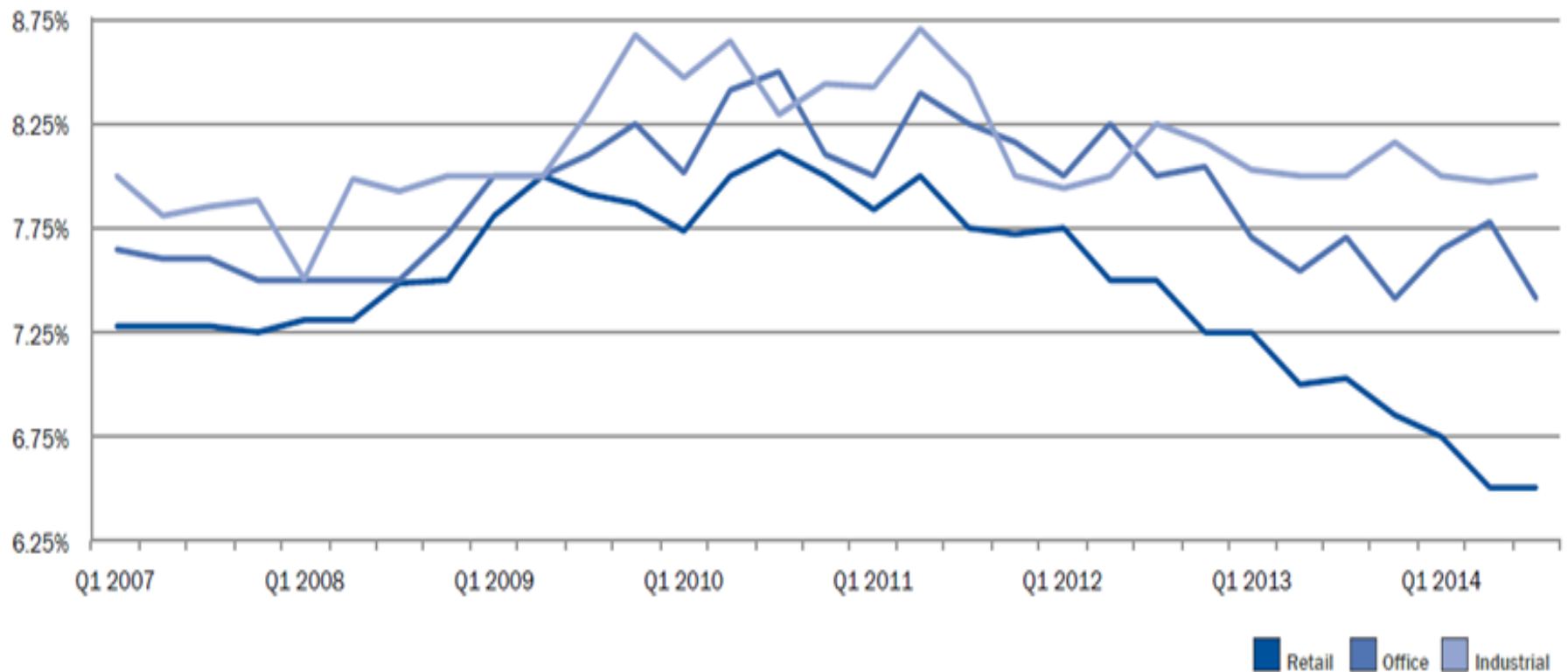
**CHASE**



- According to the Boulder Group, asking Cap Rates for Q3 remained at their previous historic low for retail – 6.5%.
- Both supply and demand remain relatively unchanged from Q2 due to lack of new construction.



## NET LEASED CAP RATE TRENDS





## Cap Rate Compression cont'd.



- Demand throughout the net lease market will continue as investors remain attracted to the stable cash flows this asset class generates.



## Cap Rate Compression cont'd.



- With steady capital markets, market participant expectations are for cap rates to hold steady or rise slightly by the end of the year.



## Cap Rate Compression cont'd.



- While some investors wait on the sidelines as the changing dollar store sector takes shape, investor demand for other new construction properties in the \$1-3 million dollar range (quick service restaurants, casual dining restaurants and auto part stores) will grow.

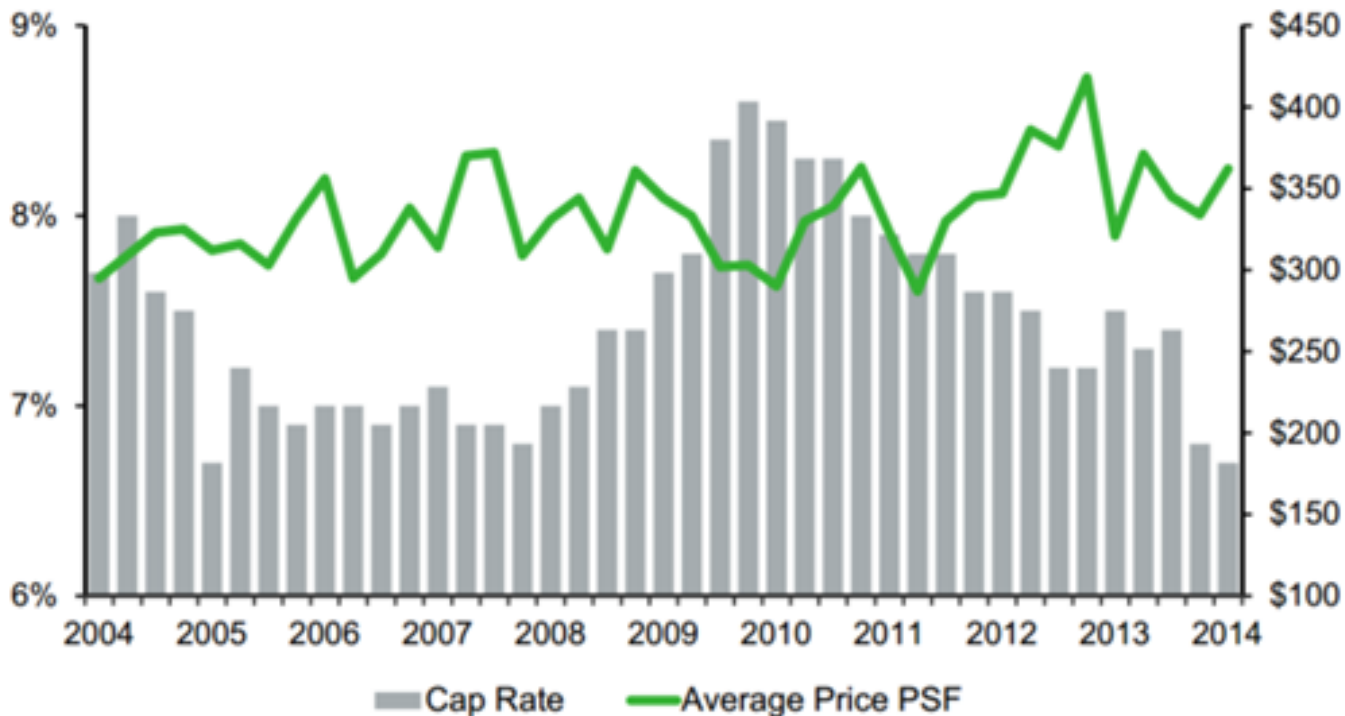
# Cap Rates By Category

- Drug Stores 5.5%-6.0%
- QSR 6.0%-6.5%
- Dollar Stores 6.5%-7.5%
- Auto Parts 6.0%-7.0%

# STNL Asset Performance

## Single Tenant Drug Store Properties

Average Cap Rate & Sale Price (PSF) Trend

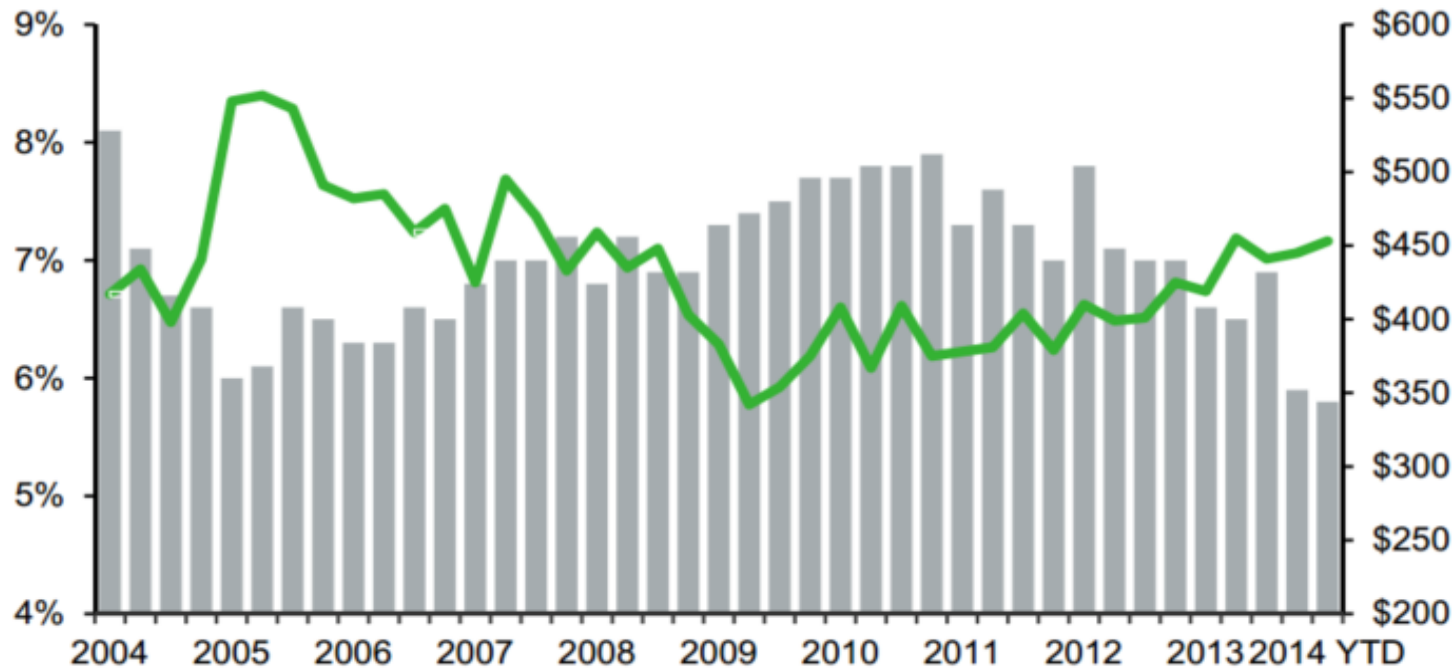




# STNL Asset Performance

## Single Tenant Fast Food Properties

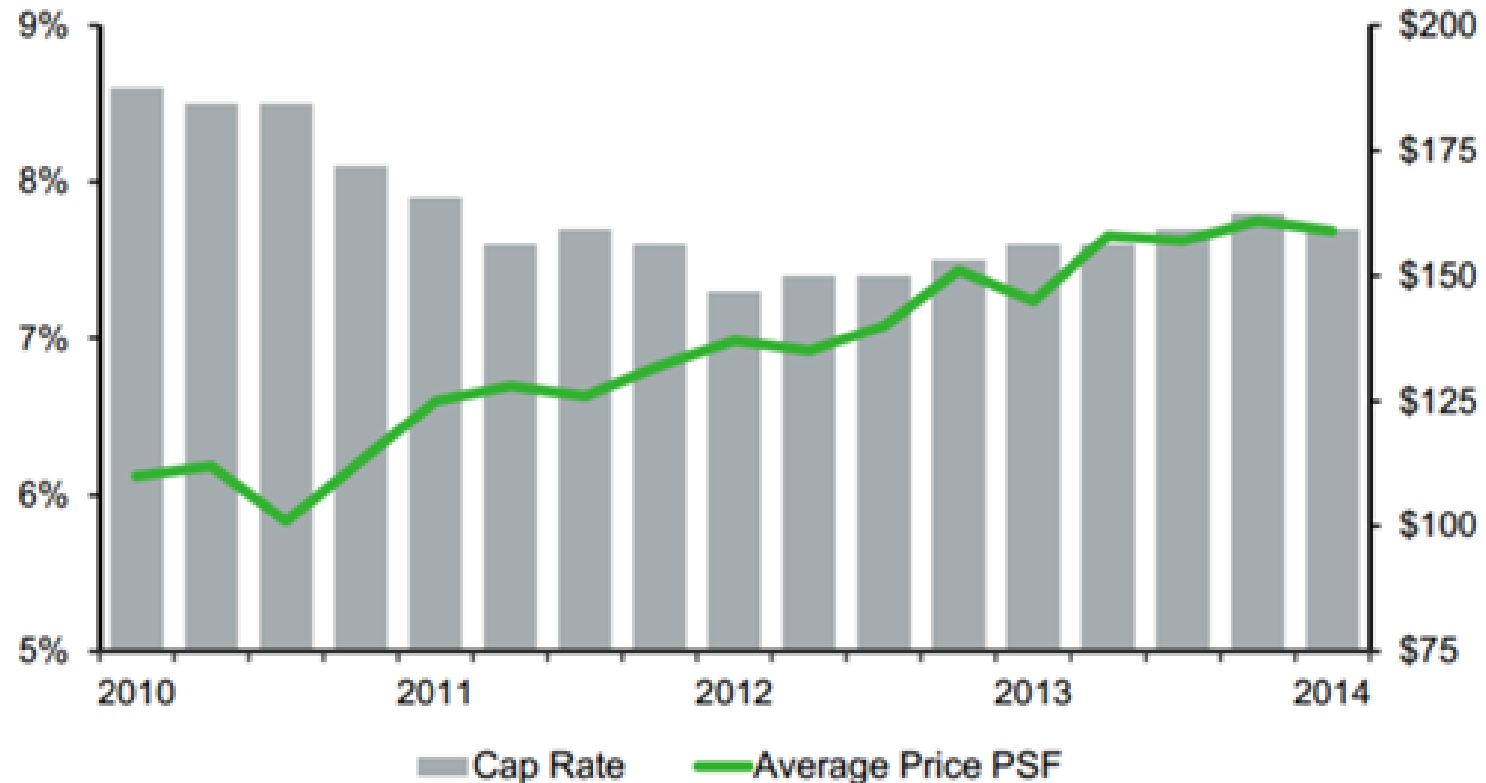
Average Cap Rate & Sale Price (PSF) Trend



# STNL Asset Performance

## Single Tenant Dollar Store Properties

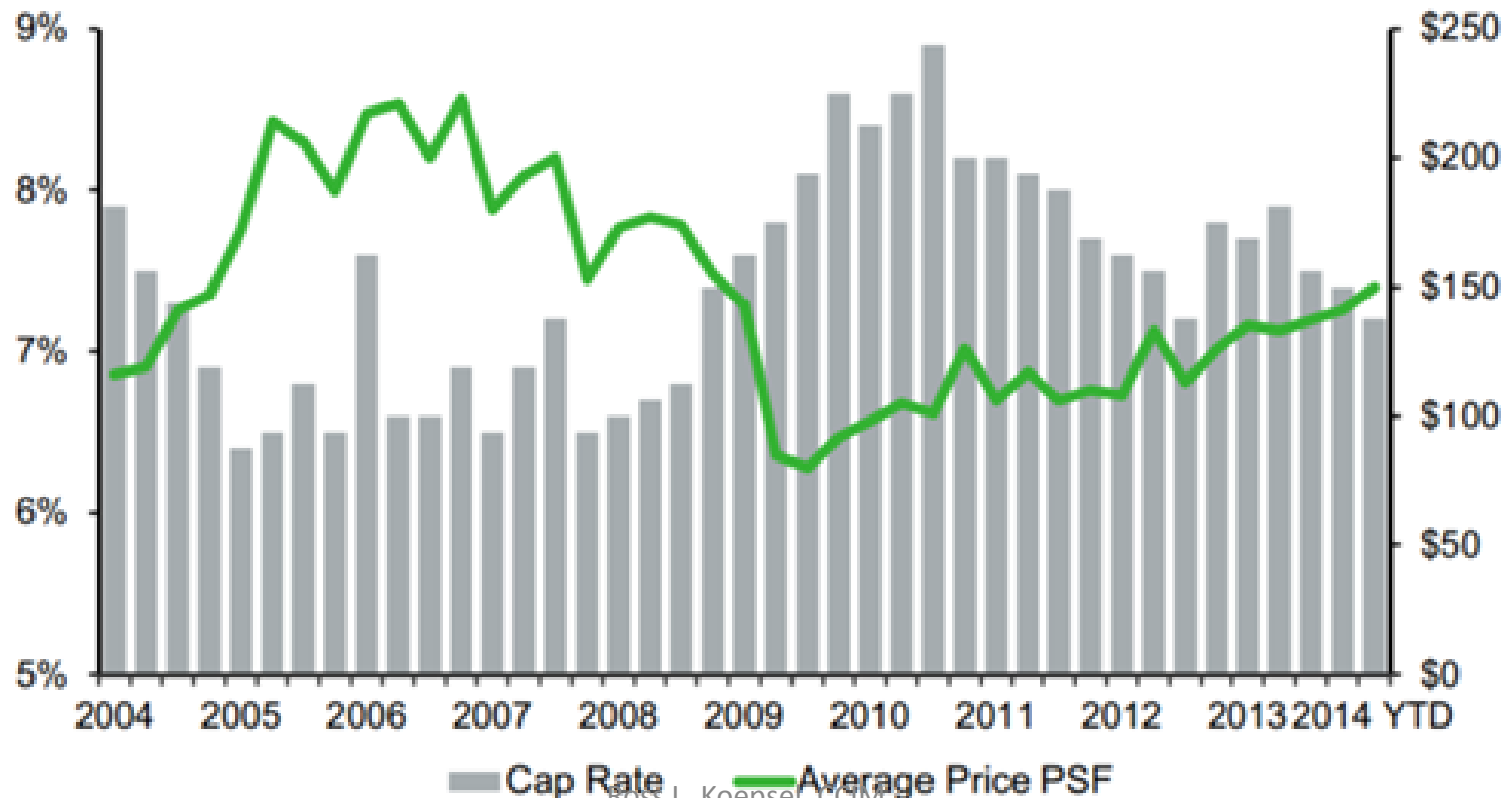
### Average Cap Rate & Sale Price (PSF) Trend



# STNL Asset Performance

## Single Tenant Automotive Properties

### Average Cap Rate & Sale Price (PSF) Trend



# Noteworthy Sale Deals of 2014

- 1/8/14 - Hartbrook Mall in Hartland sold by Anding to Devo Properties for \$3.2 million. Paved the way for new 32,000 sf Sendiks.
- 2/4/14 - Geneva Commons SC (TJ Maxx, Jo-Ann, DaVita, rue21, Kay Jewelers, and Great Clips) sold to an institutional buyer for \$10.35 million by TJJA Development LLC.
- 3/26/14 – Rose Properties acquired 4,500 sf US Cellular at 5375 S. 76<sup>th</sup> St. for \$2.35 million...or \$522/sf!

# Noteworthy Sale Deals of 2014

- 4/2/14 - Midtown Center, 408,499 sf – 92% leased, sold by Inland Western REIT to DLC Management for \$47.15 million . That's about \$6 million below where Inland bought it for in 2006.
- 4/9/14 – Shoppes of Nagawaukee Equity LLC (Wangard Partners) purchased 2 buildings in Nagawaukee Center in Delafield for \$13.75 million from Told Development. Building occupants were Best Buy/Famous Footwear and Panera/Noodles/Qdoba/Scottrade/Penzey's Spices/Forward Dental/Nail Arts.
- 7/7/14 - Bon-Ton bought Southridge Boston Store property from Anthony Palermo for \$3.9 million. Bon-Ton remodeled store in 2012 and exercised an option to purchase.

# Noteworthy Sale Deals of 2014 cont'd.

- 7/18/14 – Inland purchased Pick N Save, PNC Bank, Aspen Dental/Sport Clips/Cherry Berry, and former Check Auto at NEC of Paradise and Main in West Bend from Ascendant Holdings for \$19.1 million.
- 7/23/14 – Racine Shopping Center LLC, based out of Singapore, bought Racine Centre (135,827 sf – 93% occupied) from Regency Centres on Hwy 20, east of Hwy 31, in Racine for \$9.28 million. Group from Singapore also bought Meadowbrook Marketplace in Waukesha in late 2012 for \$10.3 million.
- 8/8/14 – Red Lobsters on Mayfair Rd. (\$4.5 million) and S. 76<sup>th</sup> St. (\$5 million) sold for \$9.5 million total as part of a sale-leaseback deal on 500 Red Lobsters from Darden to Cole Capital.

# Noteworthy Sale Deals of 2014 cont'd.

- 8/20/14 - Nordstrom acquires 1.74 ac. parcel at Mayfair for \$1.17 million from GGP for 150,000 sf store opening Fall of 2015.
- 10/1/14 - Pick N Save in Kenosha sold for \$9.25 million, which was a 6.78% cap (\$163/sf), with 13 years left on lease
- 10/3/14 – Waukesha Gander Mountain (6 ac. – former Marcus Theatre) on Hwy 18 sold for \$18.3 million by Inland to American Realty Capital Properties. Property was assessed at \$6.6 million.



# Noteworthy Sale Deals of 2014 cont'd.

- 10/21/14 - Phillips Edison (who owns Sendik's Towne Center in Brookfield) acquired Point Loomis SC at S. 27<sup>th</sup> St. and Loomis Ave. from DDR for \$10.35 million. Sale included Pick N Save, Kohls, and Chase Bank on an outlot.
- 10/31/14 – JC Penney at Regency Mall in Racine purchased for \$2.2 by Lears & Co. JC Penney is closing their 150,000 sf store Q1 2015. The plan is to subdivide the building into 15,000-25,000 sf spaces. Sears closed in January of this year.
- 11/19/14 – Grand Avenue Mall, which is 293,596 sf plus a parking structure with 1750 spots, acquired via auction for \$16.5 million by Alliance Capital.

# A Mixed Bag For Our Local Malls

## Strong Malls

Mayfair

Bayshore

Southridge

Mayfair Collection

Outlet Centers

## In Transition

Brookfield Sq.

## Struggling

Grand Avenue

Regency Mall



According NREI online, strong Class A malls are leasing 2-3 years out. Occupancy percentages are in the high 90s and retailers sales are 40% over the previous peak of 2007. Demand will stay strong as virtually no new malls are anticipated to be developed in the next 10 years.

# Sears at Bayshore – What's in Store?



- Bayshore is elated that Sears is finally leaving!
- Steiner wanted the Sears parcel at the time of the redevelopment.
- Opinions differ from high-end dept. store, to two-story Target, to additional area for restaurants and small shop space.
- Sears considering forming a REIT with sale-leaseback of 200-300 stores.

# Grand Ave. Mall – Will It Be Grand Again?



- Successful components consist of food court, parking structure, and non-retail including fitness, education, office, residential, and temporary/incubator tenants.
- Mixed results include retailers such as Office Max and TJ Maxx.
- Failed component consists mainly of retailers such as Borders and Linens N Things.

# Adaptive Re-Use

- Entertainment
- Fitness/Recreation
- Community Gathering (i.e. movie, concert, theatre, park/splash pad, etc.)
- Educational
- Medical
- Office
- Residential
- Hotel

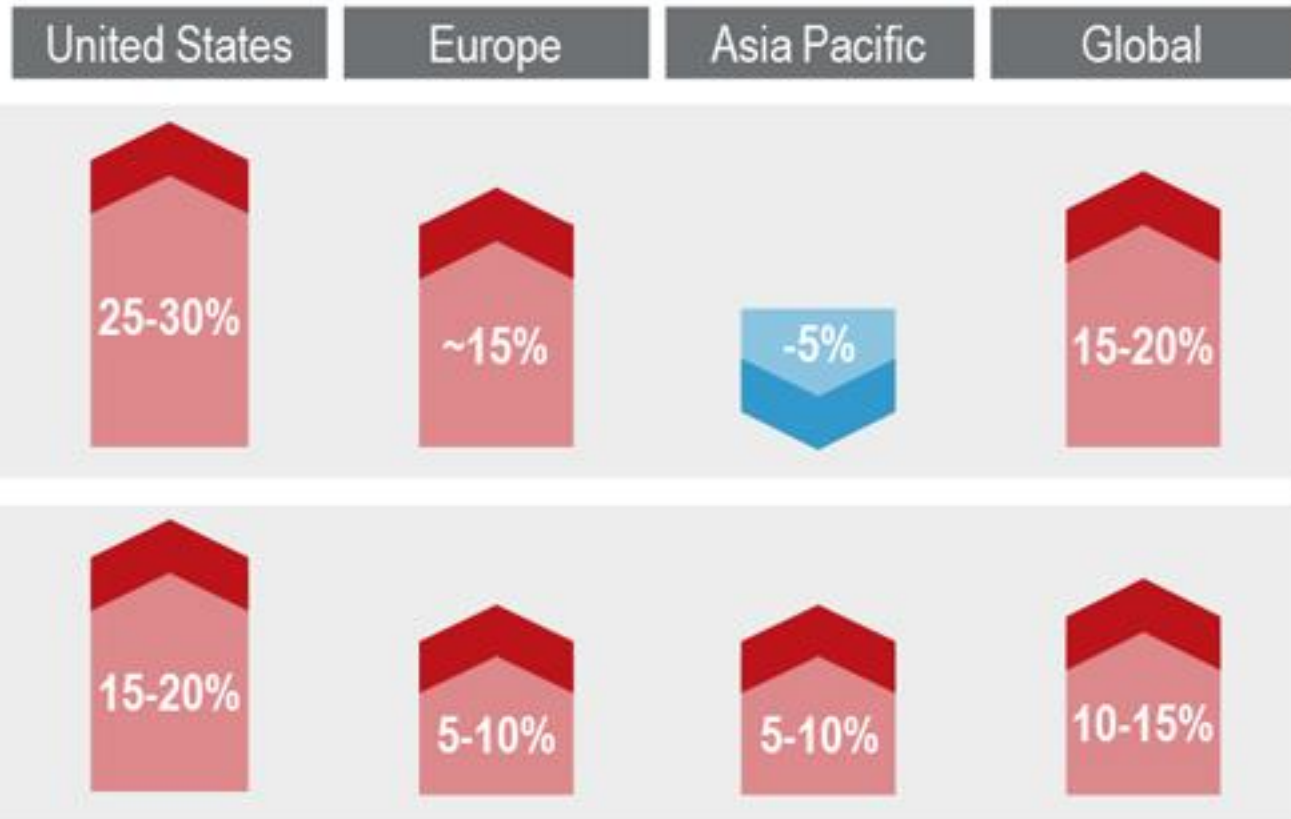


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# Overseas \$\$\$ Pouring in to USA

- The US is the preferred market for real estate investment originating overseas.
- Deloitte predicts that continued economic improvement will continue to bolster foreign interest in America's CRE.
- Geopolitical instability and access to capital, both traditional and non-traditional forms, domestically and internationally, will continue to make our country the top choice amongst investors.

# Commercial Real Estate Investment





# Overseas \$\$\$ Pouring in to USA cont'd.

- Platforms such as EB-5, crowdfunding, increasing REIT activity and earnings, are increasing demand, and therefore, prices of retail assets. Conversely, other than hotels, construction of retail properties remains flat ensuring asset prices will continue to climb.
- Volume in US for Q3 exceeded \$70 billion for only 2<sup>nd</sup> time in the past 7 years. YTD is \$208 billion.
- Pricing increases in primary markets will trickle down as investors turn to secondary and tertiary markets for better returns.



## **Omni Channel Presence**

- According to JLL, e-commerce will grow three times faster than overall sales during the next four years, and it will rise from 6 percent of total sales to 12 percent by 2017.
- Walmart is investing between \$1.2 billion and \$1.5 billion into its e-commerce and digital operations in the next fiscal year, which is up from about \$1 billion this year.
- Walmart also plans to build two new online fulfillment centers in Georgia and Pennsylvania that are each over 1 million square feet.



- Wal-Mart will be price matching Amazon and other online retailers this year.
- Showrooming is when a consumer looks at a product in brick-and-mortar stores and buys it online at lower prices. 50% of customers plan to showroom this Holiday season.
- Sometimes consumers use their mobile devices to compare prices online while visiting brick-and-mortar stores and purchase the products from there if the price is the same or less.



- Impact of Millennials - according to Shopping Centers Today, 89% of millennials will purchase their holiday gifts at a mall this year. 76% of millennials have made purchases at a mall after browsing the retailer's website. One in 5 millennials plans to shop at retail center on Christmas Eve.
- Online Sales Tax - Marketplace Fairness Act gives states the ability to charge sales tax to in-state residents on purchases. Passed the Senate last year but has been stalled in the House. Proponents contend it will level the playing field between bricks and mortar and e-commerce.

# That's A Wrap

Thank You for Attending!



Have a *Happy* and *Healthy*  
Holiday Season!