



## U.S. Retail Market Snapshot Fourth Quarter 2016

Marketing Material

- **Consumer Confidence rose sharply after the election.** The surge was based on optimism for better job, income, and economic prospects. In December, the Consumer Confidence Index hit a 15-year high at 113.7.<sup>1</sup> At the same time, the University of Michigan's Sentiment Index's December reading of 98.2 reached its highest level since 2004.<sup>2</sup>
- **Wages for U.S. workers expanded 3.5% on average in 2016.** This was an increase of 3.1% from 2015 and almost double the low of 1.8% measured in 2010, according to the Atlanta Fed Wage Growth Tracker.<sup>3</sup> In another measure recorded by the BLS, average hourly earnings in the private sector increased over 2015 by 2.9% in December - the fastest pace since 2009.<sup>4</sup>
- **Consumer spending rose 4% in December** due to an uptick in auto sales, higher gas prices, and online sales. Excluding autos and gas, retail sales overall were flat yr/yr. The electronics, GAFO (merchandise typically sold in a department store such as general merchandise, apparel, and furniture), and apparel segments recorded declines from 2015 levels.<sup>5</sup>
- **First quarter is typically the most active period for store closure announcements** and so far a handful of closures have hit the headlines. Department stores, general merchandise, and apparel companies top the list of bankruptcies and planned closures.
- **Declining mall traffic and shifts to increased spending online** are putting pressure on department store sales, which fell 8.4% from 2015 despite a stronger holiday season in 2016.<sup>6</sup>

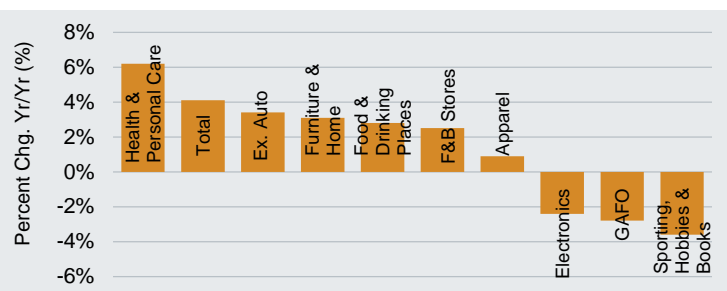
### 2017 Store Closure Announcements

Retailer	2016 Store Count	2017 Closures	Category/Center Type	Typical Store Size (SF)
Macy's	730	100	Department Store/Mall	180,000
Kmart	934	108	General Merchandise/R egional Center	95,000
Sears	700	42	Department Store/Mall/ Stand Alone	138,000
CVS	9,600	70	Drug Store/ Neighborhood & Community/ Stand Alone	10,000
The Limited	250	250	Apparel/Mall	1,500 - 3,500
BCBG	175	120	Apparel/Mall	3,000 - 4,500
Wet Seal	171	171	Apparel/Mall	1,800 - 4,000

Sources: Company filings and press releases, C&W, and Retail Maxim. As of January 2017.

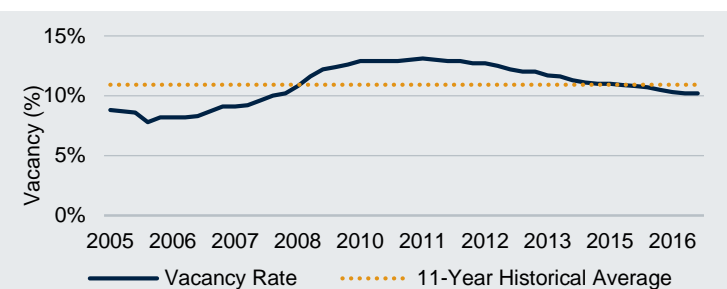
### U.S. Retail Demand Indicators

#### Retail Sales by Category



Sources: US Commerce Department and Deutsche AM. As of December 2016

### U.S. Neighborhood & Community Center Vacancy Trends

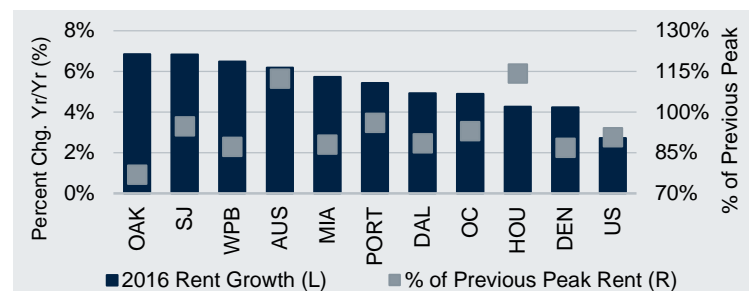


Sources: CBRE-EA and Deutsche AM. As of December 2016.

Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect.

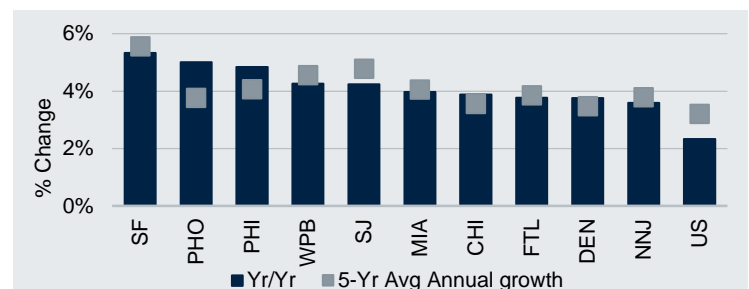
Past performance is not indicative of future returns.

### Top Metro Rent Growth



Sources: CBRE-EA and Deutsche AM. As of December 2016.

### Median Household Income Growth by Metro



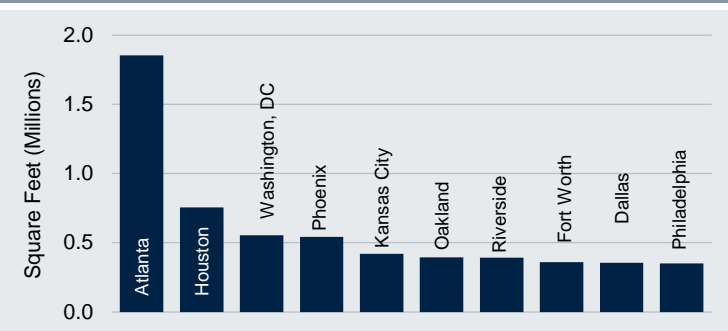
Sources: Moody's and Deutsche AM. As of December 2016.

## The Fundamentals

- **Retail's current recovery has been markedly different from previous cycles.** While economic indicators remain supportive of consumer spending, changing consumer tastes and shopping patterns have roiled retailers. In the near term, the effects of these dynamics may impact the retail landscape through store closures, retailer investment in omni-channel logistics versus store fleet growth, and re-tooling of the in-store experience. We expected these dynamics to produce a subdued recovery for retail in this cycle going forward.
- **Supply:** Year-to-date completions of neighborhood and community centers through 4Q16 totaled 16.4 MSF. Completion levels remain unchanged from 2015 and represent 0.5% of total inventory. There is currently 11.8 MSF under construction expected to deliver between 2017-2018, per CBRE-EA. We expect historically low levels of new supply to persist through the forecast period.<sup>8</sup>
- **Demand:** Net absorption in 2016 totaled 29.2 MSF or 1% of stock. Demand may be partially offset by store closures and bankruptcies. However, new grocery concepts, quick-service restaurants, health and wellness concepts, and services are continuing to absorb vacancies at neighborhood and community centers. Over the last 11 years, absorption averaged approximately 21.8 MSF (0.7% of stock) annually.<sup>9</sup>
- **Availability:** The availability rate for neighborhood & community centers across the U.S. remain unchanged from 3Q16 but fell 50 bps year-over-year to 10.2%. Availability currently sits 30 bps above its 25-year average of 9.9%. Out of the 62 metros that compose CBRE-EA's sum of markets, 82% of the markets tracked recorded declines in availability from year-end 2015.<sup>10</sup>
- **Rent:** According to CBRE-EA's rent index, rents across the U.S. grew 2.7% year-over-year and averaged \$19.50 PSF NNN, and remains 10% shy of its previous peak. Rents in Oakland, San Jose, West Palm Beach, and Austin realized the most growth in 2016.<sup>11</sup>

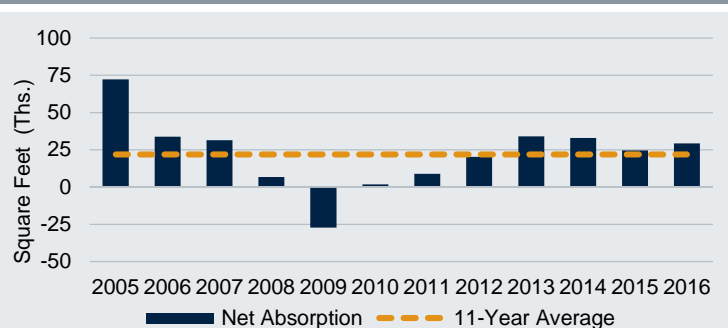
### U.S. Retail Demand Indicators

#### U.S. Neighborhood & Community Center Pipeline



Sources: CBRE-EA, and Deutsche AM. As of December 2016.

#### U.S. Net Absorption



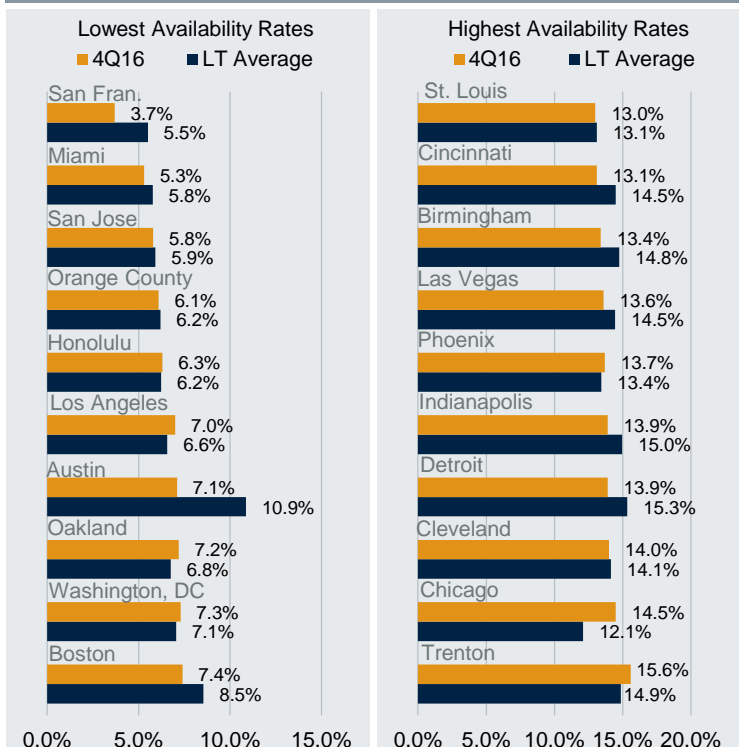
Sources: CBRE-EA, and Deutsche AM. As of December 2016.

## eCommerce Corner

- Sales at non-store retailers continued to gain share over traditional retail. This change is highlighted by the shift in wallet-share from department stores to internet retailers.
- U.S. online sales generated from desktops and laptops during the 2016 holiday season totaled \$91.7B, up from 10.5% from \$83B<sup>12</sup>. Sales on mobile devices generated \$28.4B in revenue, a 23% yr/yr increase, according to Adobe<sup>13</sup>.
- Buy online and pick-up in store models are generating in-store sales. Among shoppers who bought items online and picked up in store, 61% bought additional goods, while 75% of Millennial shoppers who used in-store pickup services made an additional purchase in the store, according to the ICSC survey<sup>14</sup>.

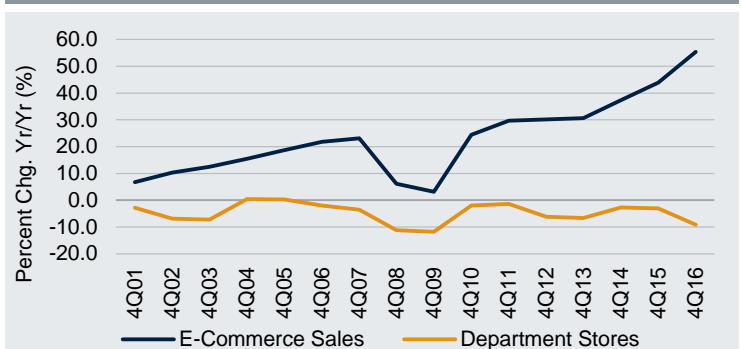
Sources: comScore, Adobe, internetretailer, ICSC & Deutsche AM. As of December 2016. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. Past performance is not indicative of future returns.

### 4Q16 Ranking Tables



Sources: CBRE-EA, and Deutsche AM. As of December 2016.

### eCommerce vs. Department Store Sales Growth



Sources: Moody's and Deutsche AM. As of December 2016. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect.

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<sup>1</sup> The Confidence Board, The Conference Board **Consumer Confidence Index**<sup>®</sup>, 12/27/2016

<sup>2</sup> University of Michigan, The University of **Michigan Consumer Sentiment Index**, 12/23/2016

<sup>3</sup> Federal Reserve Bank of Atlanta, Wage Growth Tracker, 1/19/2017

<sup>4</sup> Bureau of Labor Statistics, 1/18/2017

<sup>5</sup> United States Census Bureau, Advance Monthly Retail Trade Survey, January 13, 2017

<sup>6</sup> United States Census Bureau, Advance Monthly Retail Trade Survey, January 13, 2017

<sup>7</sup> United States Commerce Department, 1/17/2016

<sup>8</sup> CBRE Econometric Associates (CBRE-EA), Fourth Quarter 2016

<sup>9</sup> CBRE Econometric Associates (CBRE-EA), Fourth Quarter 2016

<sup>10</sup> CBRE Econometric Associates (CBRE-EA), Fourth Quarter 2016

<sup>11</sup> CBRE Econometric Associates (CBRE-EA), Fourth Quarter 2016

<sup>12</sup> comScore.com, Press Release, **Final 2016 Desktop Online Holiday Sales Reach \$63.1 Billion, Up 12 Percent vs. Year Ago**, January 5, 2017

<sup>13</sup> Adobe Digital Insights, <http://www.cmo.com/adobe-digital-insights/articles/2017/1/13/adi-holiday-2016-recap-report.html#gs.k1Sh5Ug>, January 2017

<sup>14</sup> International Council of Shopping Centers, Post-Holiday Shopping Survey, January 2017

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