

Retail 24/7.

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National Retail Investment Group –
West focusing on Retail - Western
United States.

- 128 shopping centers
- Over 1.6 million square feet of
GLA
- An aggregate value in excess of
\$3.3 billion

The retail investment market in Southern California continues to display signs of strength and is accelerating.

Highlights include:

- Historically low yields in Treasuries = low rates (currently 3.5-4% for lifeco loans (10-year) and 4-4.5% for CMBS (10-year); partial and/or full-term I/O
- Investors have flooded the market with capital.
- Lack of product yields more capital than investment opportunities.
- Unlike the past cycle where the focus was on capital placement and financial engineering regardless of asset quality (causing spreads for A, B and C quality assets to compress significantly), investors in the current market environment are focused on specific assets with defined spreads for A, B and C quality properties.
- This spread, although still in existence, is once again beginning to compress.

Fallbrook Center



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Property name: Fallbrook Center

Location: West Hills, CA

Sale price: \$210,000,000 (\$265 per sq. ft.)

Size: 793,193 sq. ft.

Anchors: Sprouts, Trader Joe's, Walmart, Kohl's,
TJ Maxx, Ross, Target, Home Depot, Ralphs

Buyer: Retail Opportunity Investors (Public REIT)

Seller: General Growth Properties (Public REIT)

Cap rate: 4.9% at 98% occupancy

Rancho Temecula Town Center



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Property name: Rancho Temecula Town Center

Location: Temecula, CA

Sale price: \$60,000,000 (\$363 per sq. ft.)

Size: 165,486 sq. ft.

Anchors: Sprouts, Rite Aid, LA Fitness, Bevmo!

Buyer: LaSalle Investment Management
(Pension Fund Advisor – Private REIT vehicle)

Seller: Walton Street Capital (Private Equity Fund)

Cap rate: 5.68% at 96% occupancy

Towngate Center



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Property name: Towngate Center

Location: Moreno Valley, CA

Sale price: \$41,971,000 (\$147 per sq. ft.)

Size: 285,775 sq. ft.

Anchors: TJ Maxx, Ross, Bevmo!, ULTA

Buyer: Brixton Capital (Family Office)

Seller: Walton Street Capital (Private Equity Fund)

Cap rate: 6.9% at 91% occupancy

Sean Crosby, MAI

Senior Vice President

Member Retail Valuation Group

Appraised \$ Billion+ Retail

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Sean Crosby



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Retail Market Trends

Retail Financing Market Trends

Retail Investment Trends

Store Closings / Openings

Retail Market Trends and Stats

Retail Financing Markets: Opportunities and Trends

Lender Underwriting

- General Considerations
 - Positive tone overall: Virtually all lenders seeking to increase production
 - Fundamentals are influencing asset pricing more than capital markets
 - In other words, interest rates still important, but less so than 12-18 months ago
 - Highly liquid, but:
 - Great deal of inefficiency in lenders' pricing of the risk – not all retail is created equal.
 - More scrutiny on credit risk (e.g. OfficeMax, TGI Fridays, etc.) that near term rollover
 - Sales reports and trending are critical to attracting more lenders to a deal

- Sub-product Types

- Grocery-anchored

- Still the best terms, most competitive results from lenders
 - Lenders are creative on structure for anchor rollover
 - Try to limit exposure to small-store space
 - Expansion of Whole Foods & Wegmans (and similar grocers) will attract the most aggressive debt

- Power Centers

- Greatest losses (and growing concern) for lenders
 - Low Internet resistance
 - Averse to same big boxes as equity investors
 - Deal size and leverage will influence ability to effectively finance
 - Urban power centers will get better treatment



– Strip Centers

- Hit hard in the last cycle but recovering nicely
- Internet resistant with restaurants, services and light medical/dental uses
- Smaller assets in general, less than \$8 million in size

– High Street/Urban

- Performed well during the last cycle
- Addresses increasing affluence amongst the elite
- Very supply constrained, easily defined
- Very low yield (sub-4% cap rates out west, sub-2% cap rates in NYC)

Retail Investment Trends

- **Luxury Retail:** The rocket ship of retail. Rents, sales per square foot and sales prices of spaces for luxury retailers have exceeded all other commercial real estate asset types including multifamily
- **Malls:** Broad interest not only in the “A” mall space, but also in the best located “B”s with a tremendous amount of private equity capital pursuing this space
- **Grocery-anchored Retail:** The retail investment class of choice for most dedicated retail investors. Limited internet encroachment to date may change with burst of new building of distribution centers near high population centers.
- **Power Centers/Net Lease Retail:** Strong demand, but disproportionately dedicated (REITs and Net Lease funds) and private wealth. Backfilling dark big-box stores has been stronger than expected.

National Investment Sales

	APARTMENT	HOTEL	INDUSTRIAL	OFFICE	RETAIL	TOTAL	%CHANGE
2003	\$30.3	\$1.5	\$14.0	\$49.1	\$28.9	\$123.8	n/a
2004	\$50.2	\$12.0	\$21.2	\$75.2	\$42.9	\$201.5	62.8%
2005	\$85.1	\$23.9	\$35.6	\$101.4	\$46.8	\$292.7	45.3%
2006	\$86.7	\$29.1	\$41.1	\$123.8	\$44.7	\$325.4	11.2%
2007	\$75.6	\$29.5	\$48.4	\$155.7	\$49.2	\$358.5	10.2%
2008	\$36.6	\$9.9	\$21.3	\$53.7	\$19.2	\$140.7	-60.7%
2009	\$15.1	\$2.3	\$7.7	\$16.6	\$13.2	\$54.9	-61.0%
2010	\$35.8	\$9.1	\$16.6	\$48.4	\$19.8	\$129.7	136.3%
2011	\$54.9	\$19.5	\$23.3	\$75.3	\$33.6	\$206.5	59.2%
2012	\$72.7	\$16.0	\$32.3	\$79.0	\$51.6	\$251.7	21.9%
2013	\$92.7	\$22.5	\$34.5	\$104.4	\$52.6	\$306.7	21.9%
2014	\$36.8	\$11.5	\$16.8	\$53.2	\$26.8	\$145.1	-52.7%

Note: 2014 is YTD

Retail Store Closings

- 14 Macy's
- 39 J.C. Penney
- 235 Sears/Kmart
- 60 Abercrombie & Fitch
- 75 Aeropostale
- 150 American Eagle
- 338 Wet Seal

Retail Store Openings

- 700 Dollar General
- 525 Family Dollar
- 300 Walmart Express & Neighborhood Market
- 223 Dollar Tree
- 130 ALDI
- 120 Nordstrom Rack
- 115 Walmart (Large Format)

Retail Market Trends & Stats

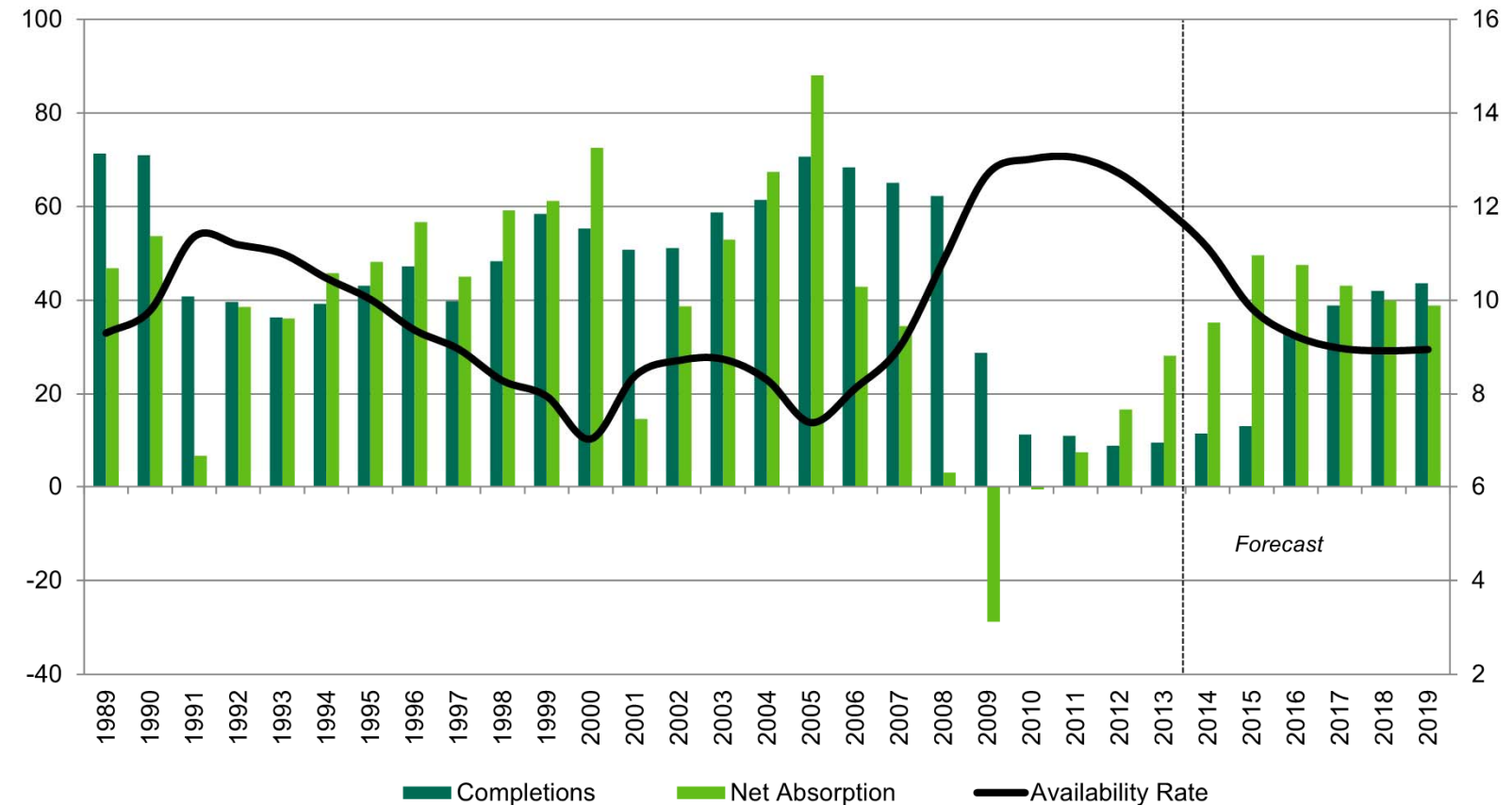
Vacancy and Availability Rates

Property Type	Rate Type	Q2 2014	Past Cyclic High	"Natural Rate"	Year Back to "Natural Rate"
Office	Vacancy Rate	14.5%	16.8% / 2010	13% - 15%	2013
Industrial	Availability Rate	10.8%	14.5% / 2010	9% - 10%	2015
Retail	Availability Rate	11.7%	13.2% / 2011	9% - 10%	2017
Multifamily	Vacancy Rate	4.4%	7.4% / 2009	5% - 6%	2010
Full Service Hotels	Vacancy Rate	23.4%	43.0% / 2009	34% - 38%	2010

Demand Continues to Accelerate in 2014

Absorption and Completions, Sq. Ft. x 1MM

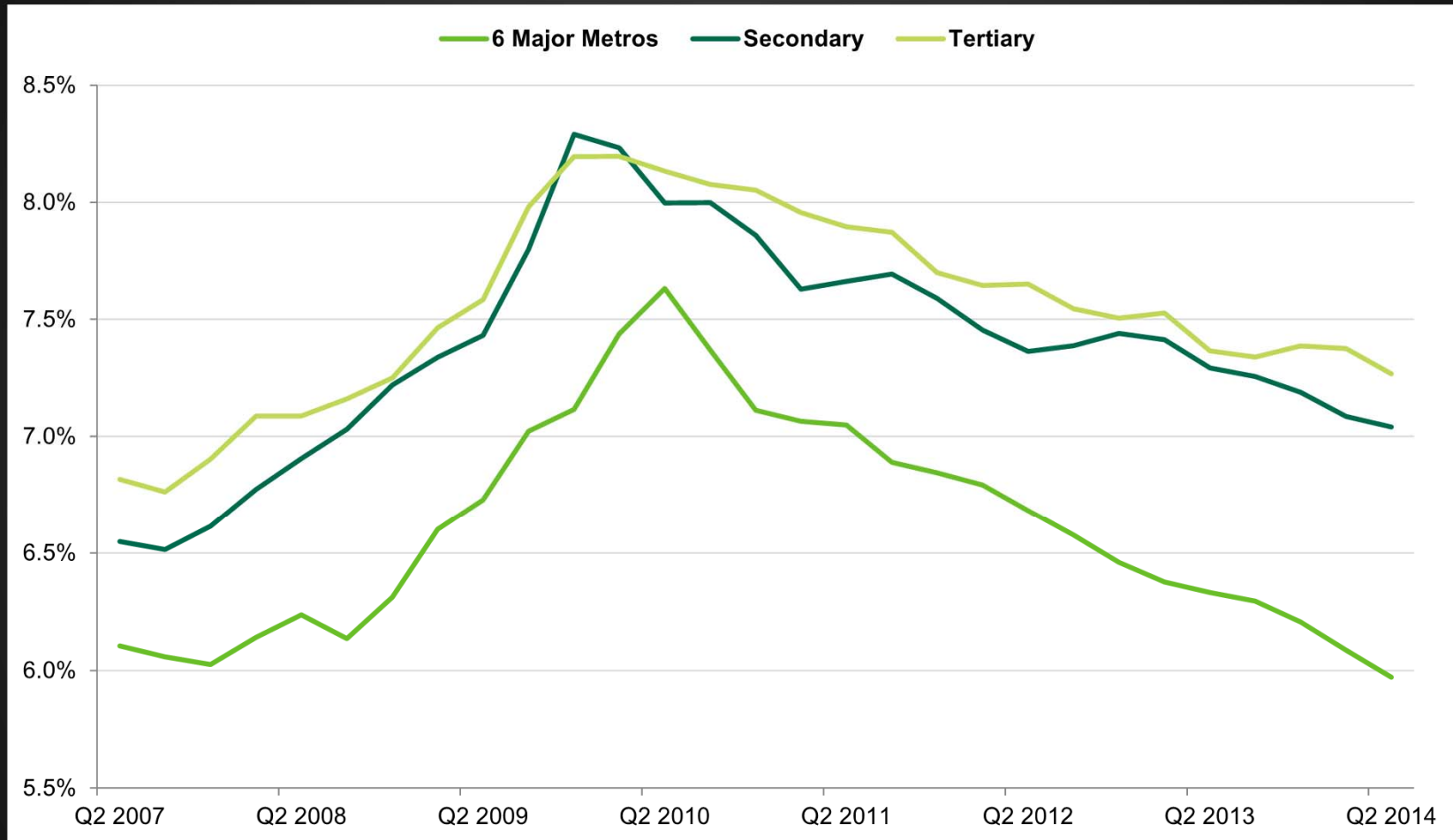
Availability Rate, %



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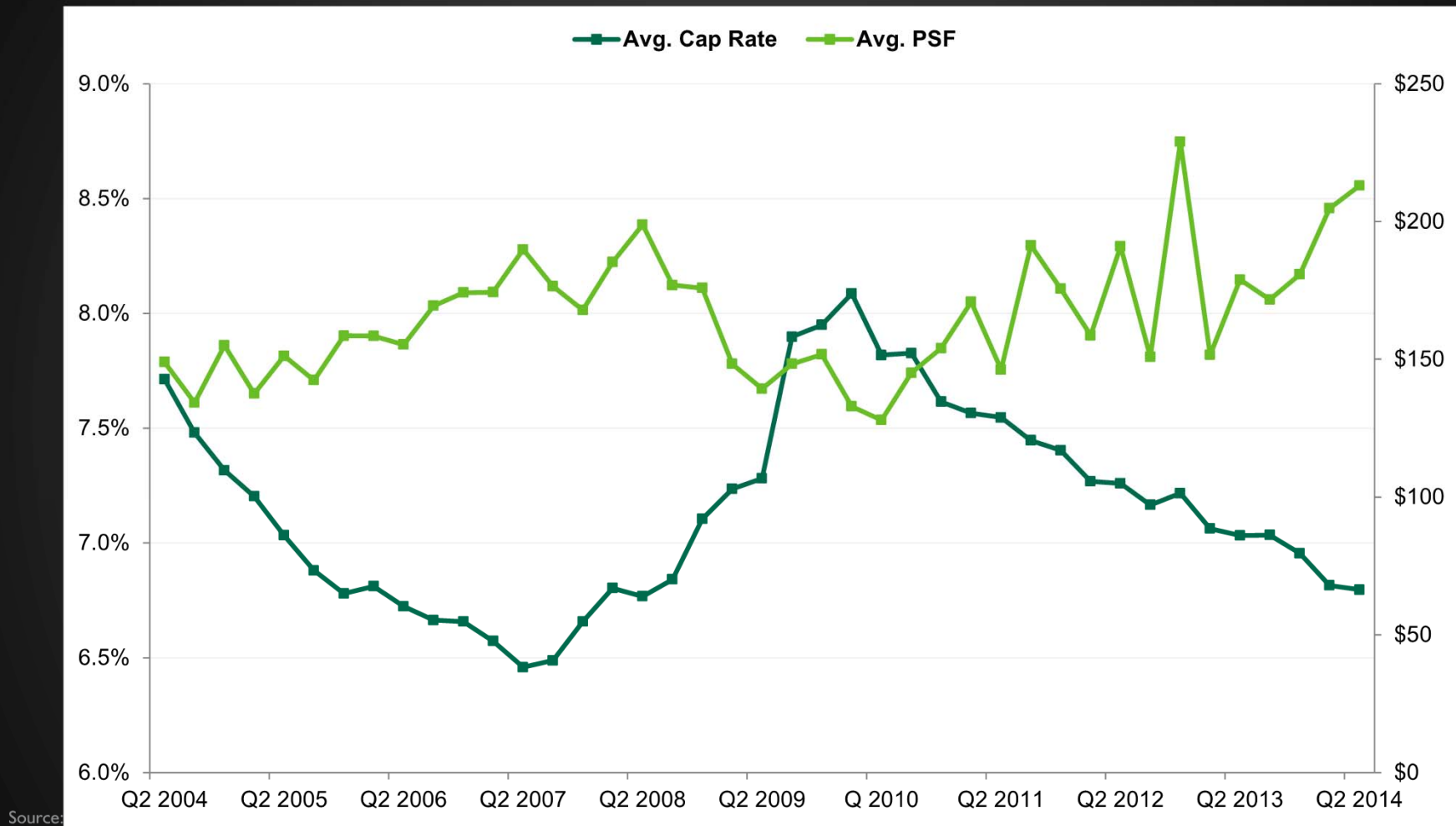
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Retail Pricing By Market Tier



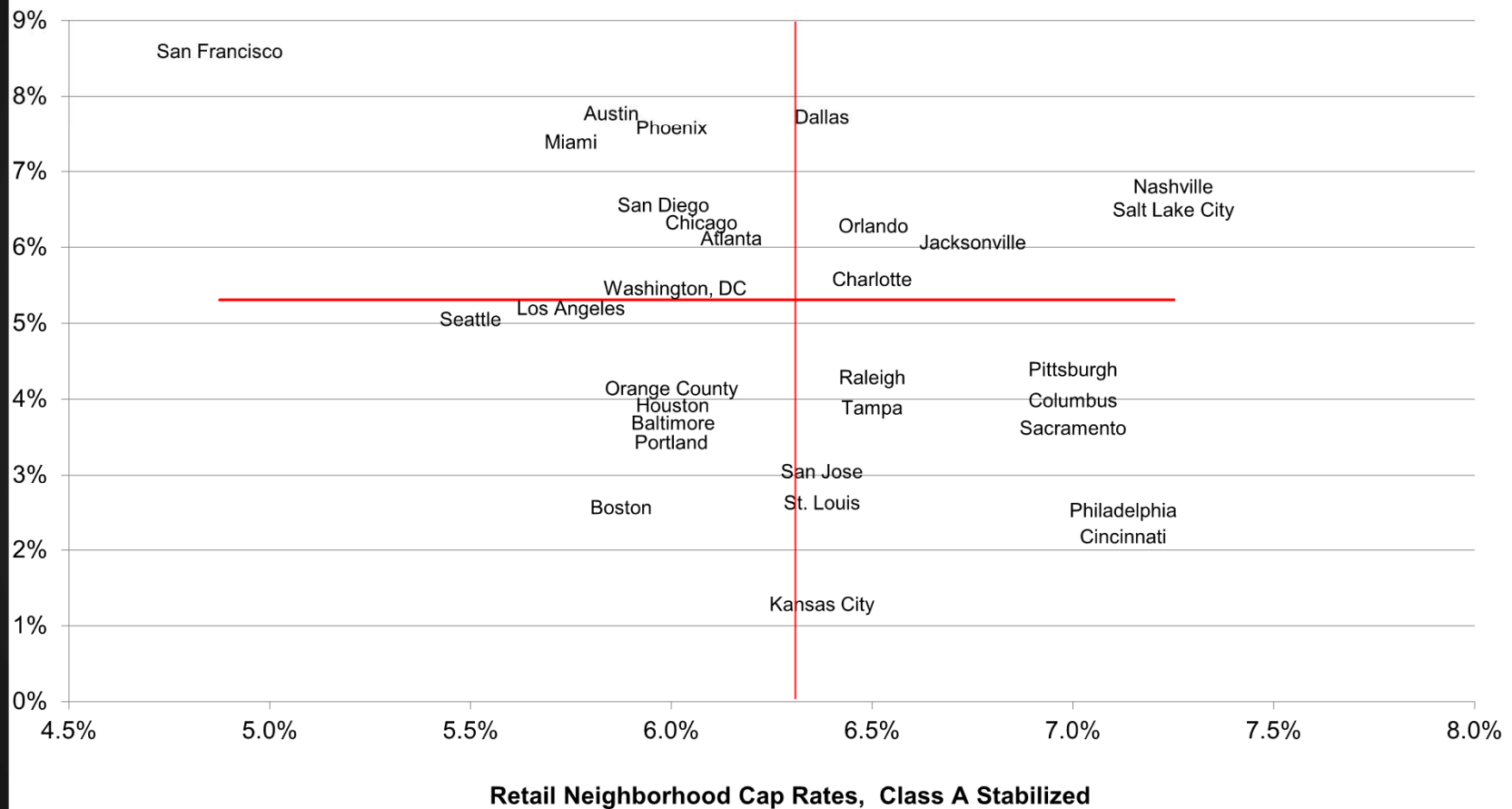
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Cap Rate and Average Price PSF Trends



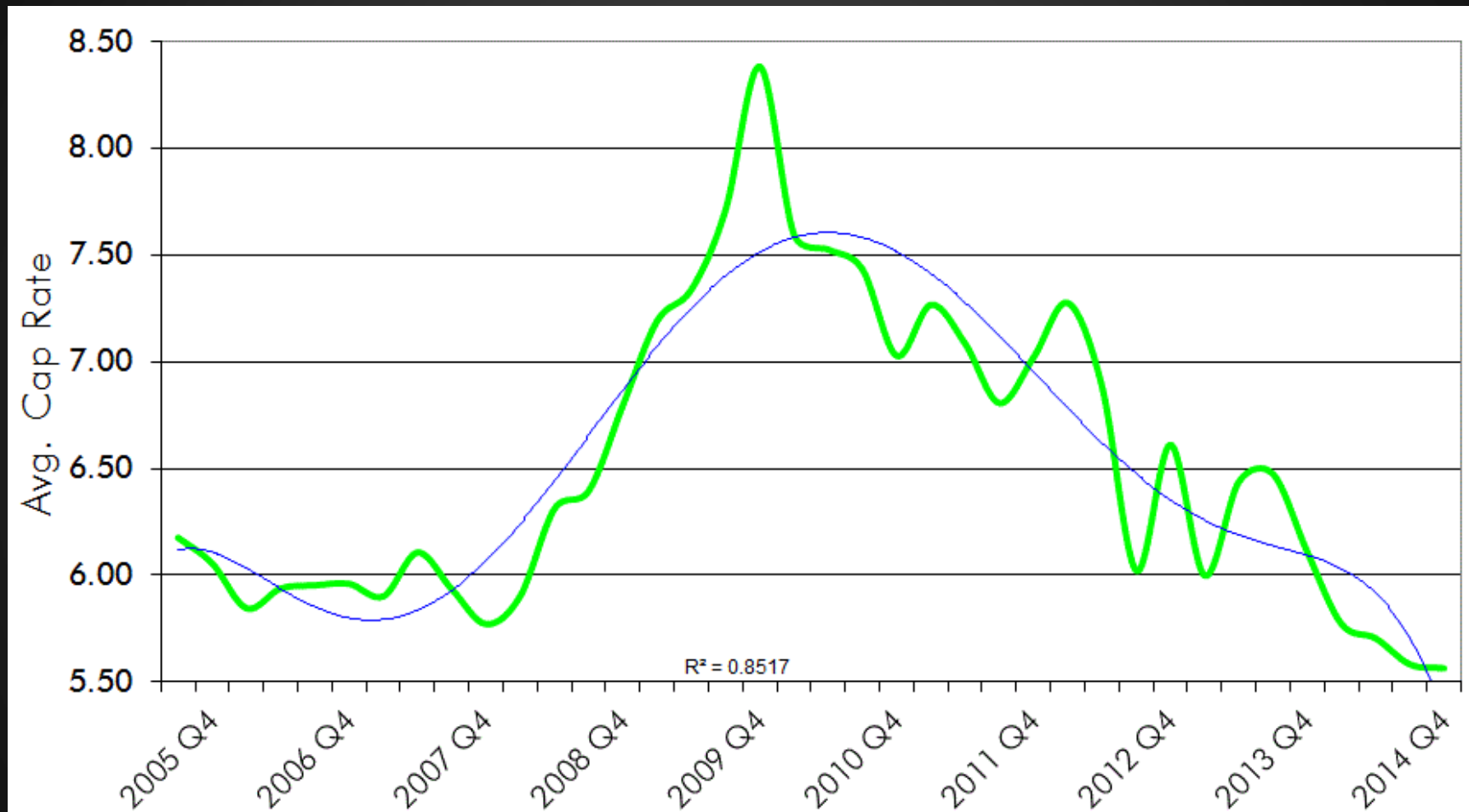
Average Annual Revenue Growth - Retail

Avg Annual Top Line Revenue Growth 5Yr Forecast



Source:

So Cal Retail Cap Rates



So Cal Retail Cap Rates

SOUTHERN CALIFORNIA RETAIL									
Avg. Cap Rate - Quarter									
County	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3
Los Angeles	5.65	6.84	5.72	6.50	6.37	6.21	5.02	5.71	5.44
Orange	5.73	6.17	5.73	5.83	5.82	5.31	4.91	4.94	5.08
Riverside	7.02	7.09	6.68	6.74	6.91	6.33	6.77	6.11	6.01
San Bernardino	6.71	7.15	6.66	6.55	7.59	6.08	7.27	5.77	6.10
San Diego	5.43	6.45	6.47	6.09	5.46	6.32	5.00	6.12	5.86
Grand Total	6.02	6.61	6.00	6.44	6.47	6.11	5.77	5.70	5.58
Change	-0.86	0.59	-0.61	0.44	0.04	-0.37	-0.34	-0.07	-0.12
Source: CBRE									

So Cal Retail Snapshot

SOUTHERN CALIFORNIA RETAIL SNAPSHOT								
Rank	Market	Stock	Completions		Availability		Net Absorption	TW Rent Index
		Current (SF x 1000)	Level (SF x 1000)	Rate (%)	Level (SF x 1000)	Rate (%)	Level (SF x 1000)	Level (\$)
1	Bakersfield	11,241	13	0.1	1,394	12.4	-34	18.65
2	Los Angeles	138,810	10	0.0	10,550	7.6	203	28.47
3	Orange County	68,314	26	0.0	4,714	6.9	296	28.64
4	Riverside	80,474	17	0.0	10,784	13.4	-17	26.14
5	San Diego	61,176	0	0.0	5,139	8.4	394	23.70
6	Ventura	18,511	0	0.0	1,833	9.9	92	26.82

Source: Baseline Outlook data as of 3Q-2014

Los Angeles Retail Forecast

LOS ANGELES COUNTY RETAIL MARKET						
Year	Stock	Completions (SF x 1,000)	Availability Rate	Net Absorption (SF x 1,000)	Rent Index - \$/ SF/ Mo	Rent Inflation - %
1990	104,787	4,055	1.4%	3,183	\$1.65	4.5%
1991	108,166	3,379	2.9%	1,777	\$1.68	1.7%
1992	110,561	2,395	4.7%	341	\$1.66	-1.3%
1993	112,060	1,499	6.0%	(81)	\$1.57	-5.1%
1994	113,247	1,187	5.2%	2,031	\$1.49	-5.2%
1995	114,530	1,283	5.5%	908	\$1.46	-2.0%
1996	115,954	1,424	4.7%	2,283	\$1.45	-0.7%
1997	117,574	1,620	5.1%	1,017	\$1.53	5.4%
1998	118,597	1,023	4.3%	1,928	\$1.62	6.0%
1999	120,832	2,235	3.9%	2,682	\$1.73	6.6%
2000	122,122	1,290	4.0%	1,130	\$1.84	6.3%
2001	124,684	2,562	5.2%	893	\$1.88	2.2%
2002	125,633	949	5.3%	787	\$1.95	3.6%
2003	128,234	2,601	5.1%	2,694	\$2.07	6.2%
2004	129,754	1,520	5.2%	1,325	\$2.11	1.9%
2005	131,052	1,298	3.1%	4,013	\$2.32	9.9%
2006	133,042	1,990	3.3%	1,627	\$2.49	7.4%
2007	134,236	1,194	3.8%	375	\$2.87	15.4%
2008	136,144	1,908	6.4%	(1,647)	\$2.71	-5.6%
2009	136,920	776	8.4%	(1,987)	\$2.55	-6.1%
2010	137,523	603	8.4%	486	\$2.32	-8.9%
2011	137,988	465	8.7%	(33)	\$2.31	-0.2%
2012	138,224	236	8.7%	280	\$2.34	1.0%
2013	138,598	374	7.9%	1,357	\$2.34	0.3%
2014	138,984	386	7.4%	1,082	\$2.39	1.8%
2015	139,280	296	5.8%	2,385	\$2.47	3.7%
2016	139,903	623	4.5%	2,432	\$2.61	5.5%
2017	140,850	947	3.7%	2,083	\$2.78	6.5%
2018	142,213	1,363	3.4%	1,654	\$2.94	5.7%
2019	143,886	1,673	3.6%	1,447	\$3.06	4.2%

Source: CBRE EA Outlook 3Q 2014

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Questions?

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