



A Survey from FTI Consulting *Retail Real Estate Beat*

Final data analysis prepared by Oxford Economics

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Executive Summary and Key Findings

The *FTI Consulting Retail Real Estate Beat* survey reveals a significant gap in the perceptions of mall and shopping center landlords and their retail tenants about the role of brick-and-mortar in the future of retail. Respondents demonstrated a disconnect about such priorities as location, store design and configuration, as well as conflicting views of the impact of online shopping on the retail industry's brick-and-mortar needs.

The survey results also demonstrated divergent views of landlords and retailers about business issues such as competitive pricing and advertising and marketing support, as well as the impact of evolving consumer demographics and the shift to shopping online.

Key Findings include:

- While 93% of landlords agree or strongly agree that new stores are critical to retail sales growth, just 61% of retailers agree or strongly agree.
- Owners believe being near other high-traffic retailers (87%) and a compelling architectural design and physical environment (73%) are the two most important benefits a landlord could offer a retail tenant. Fewer retailers (66%) say high-traffic locations are most important and cite convenient parking (52%) as the second most important benefit.
- One of the biggest disconnects between landlords and retailers is the concern about evolving consumer demographics and preferences: 70% of landlords cite this concern; while only 40% of retailers raise this issue.
- Only 33% of landlords agree that shoppers require a more personalized in-store experience compared to 73% of retailers.
- Landlords (60%) agree or strongly agree that customers are shopping in stores less often, while only 37% of retailers agree or strongly agree.

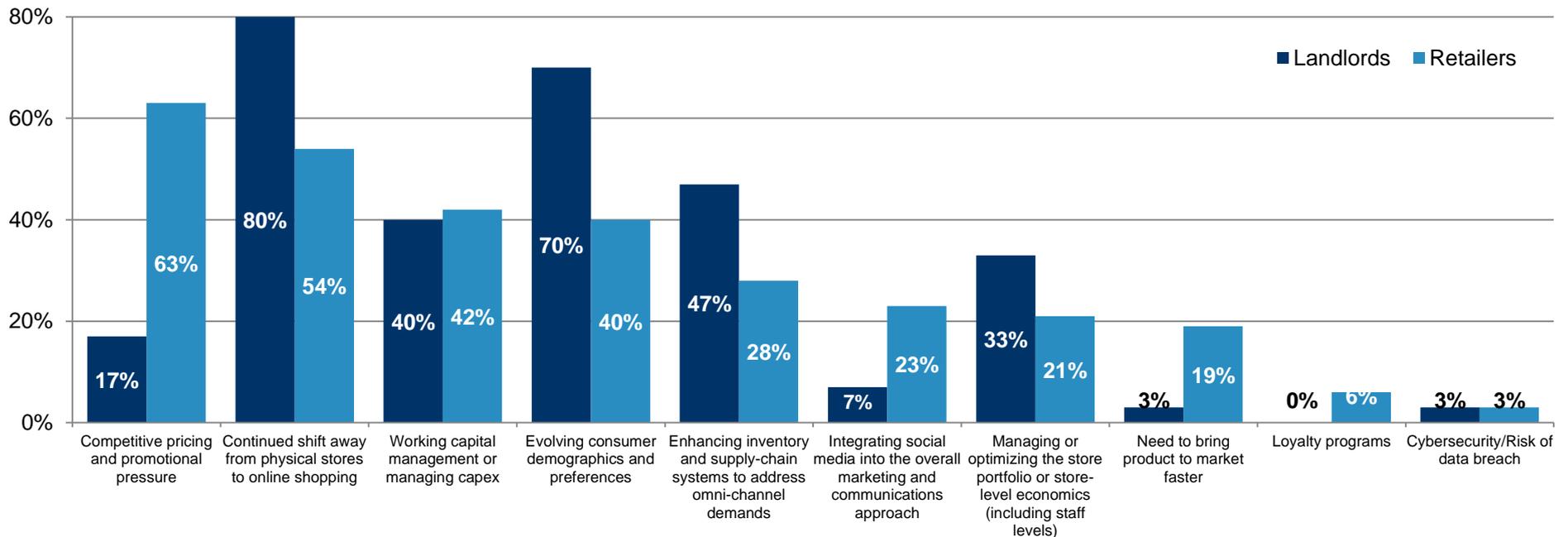
The results of the *Retail Real Estate Beat* survey of the 30 biggest retail REITs, mall and shopping center landlords and 90 U.S.-based retailers demonstrate the need for landlords and retailers to develop a better understanding of each other's needs and how the evolving nature of retail will impact them both.

Question-by-question results

Shopping patterns top the list of business concerns

Landlords/Retailers: Which of the following business and technology trends do you expect to have the greatest impact on your tenants/your company over the next three years?

Top-three ranked responses

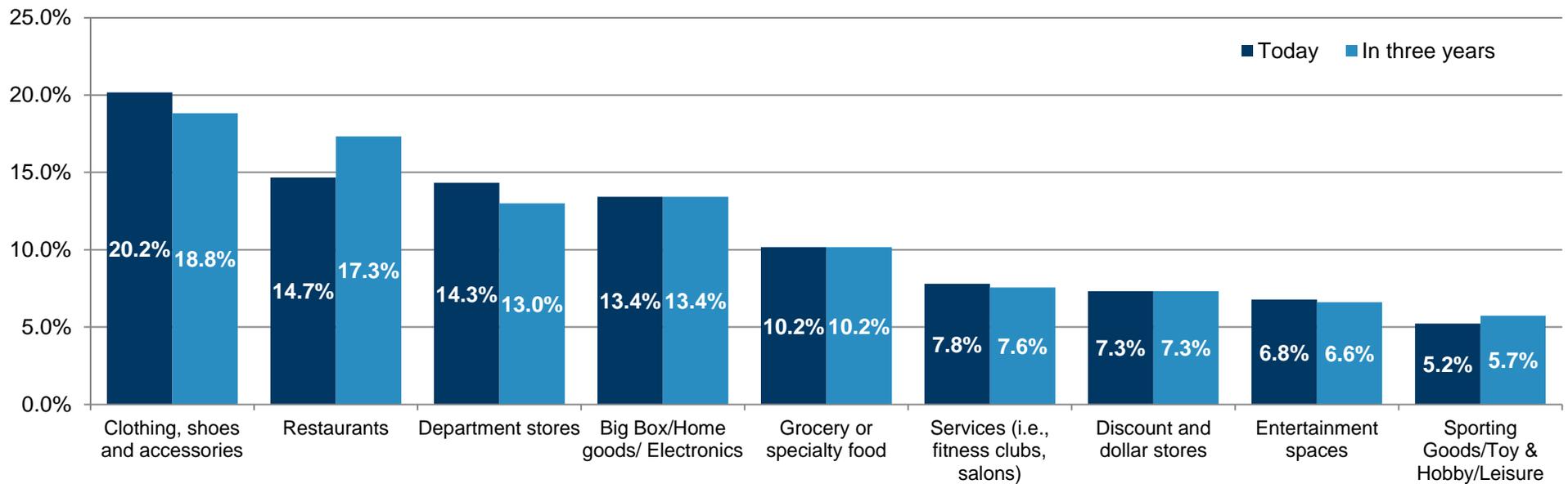


- Landlords are far more concerned than retailers about the shift to online shopping and changing consumer preferences, perhaps because e-commerce threatens their own business model.
- They appear to underestimate the threat of competitive pricing to their tenants.
- Surprisingly few property owners or tenants see an urgent need to bring products to market faster.

Landlords expect the store mix to stay fairly steady

Landlords: Approximately what percentage of your shopping centers' square footage comes from the following types of tenants, now and in three years?

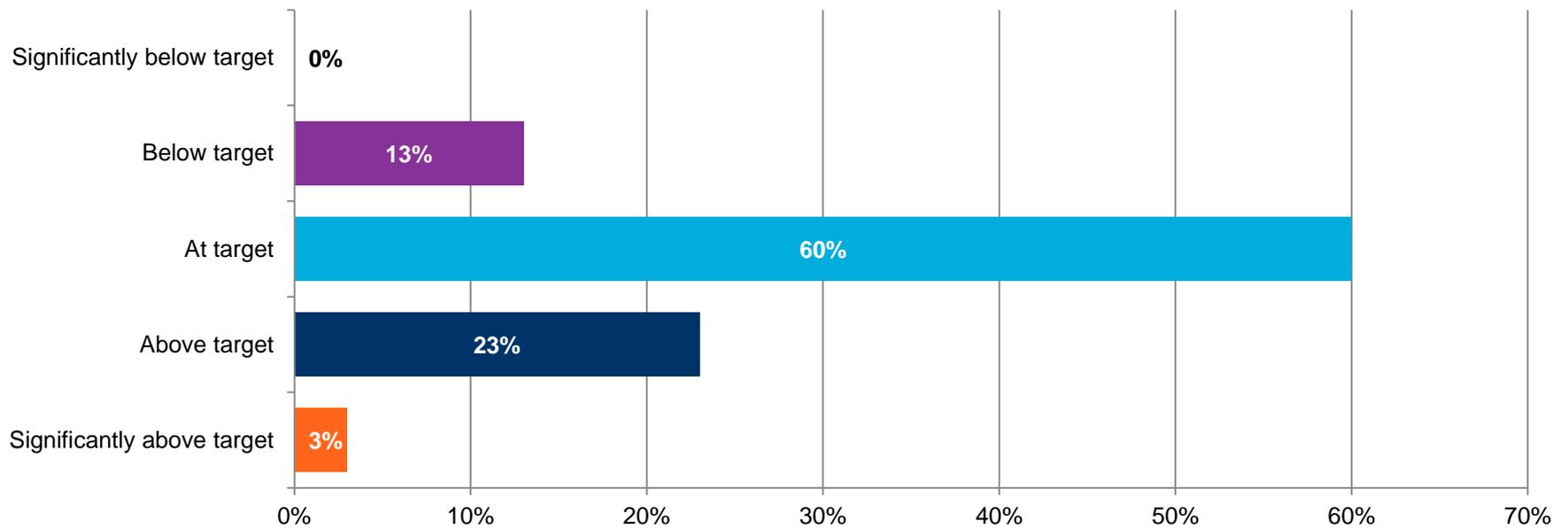
Mean scores



- An increase in restaurant square footage is expected to offset the decrease in clothing/shoe/accessory and department stores over the next three years.
- Most respondents anticipate little or no change in occupancy by other categories of retailers.

Most landlords' occupancy rates are at target or better

Landlords: Which of the following best describes your occupancy rates today?

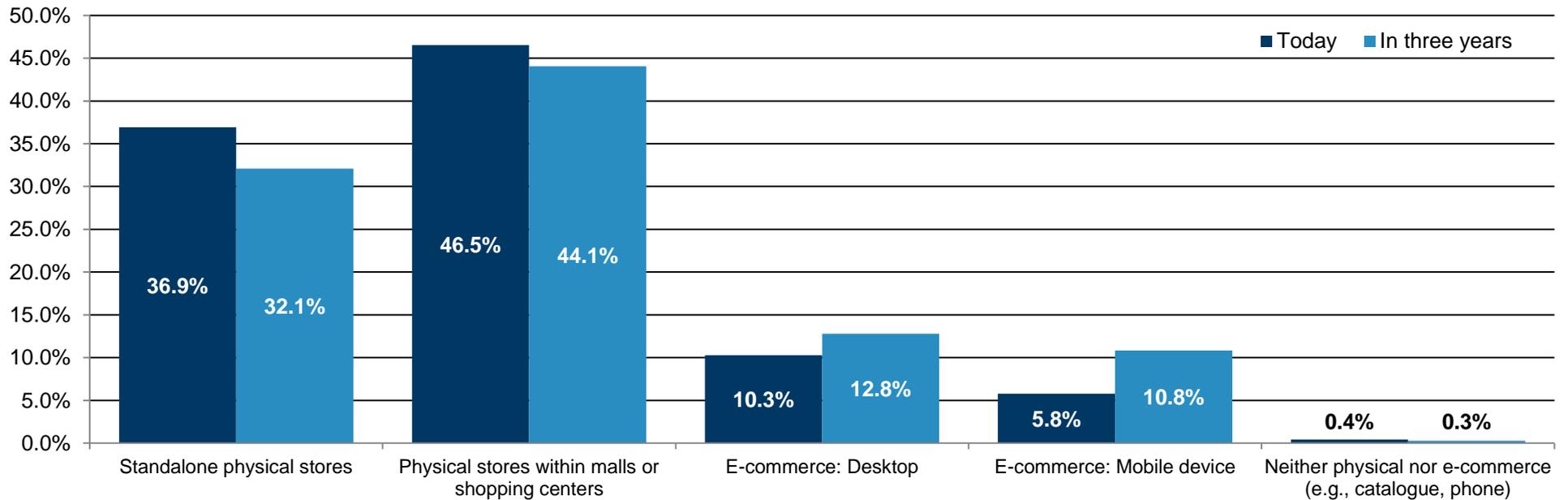


- Nearly one-quarter of mall owners say their occupancy rates are above target, and only 13% are below target.

Retailers predict a sharp rise in e-commerce

Retailers: Approximately what percentage of your company's revenue nationwide comes from the following channels, now and in three years?

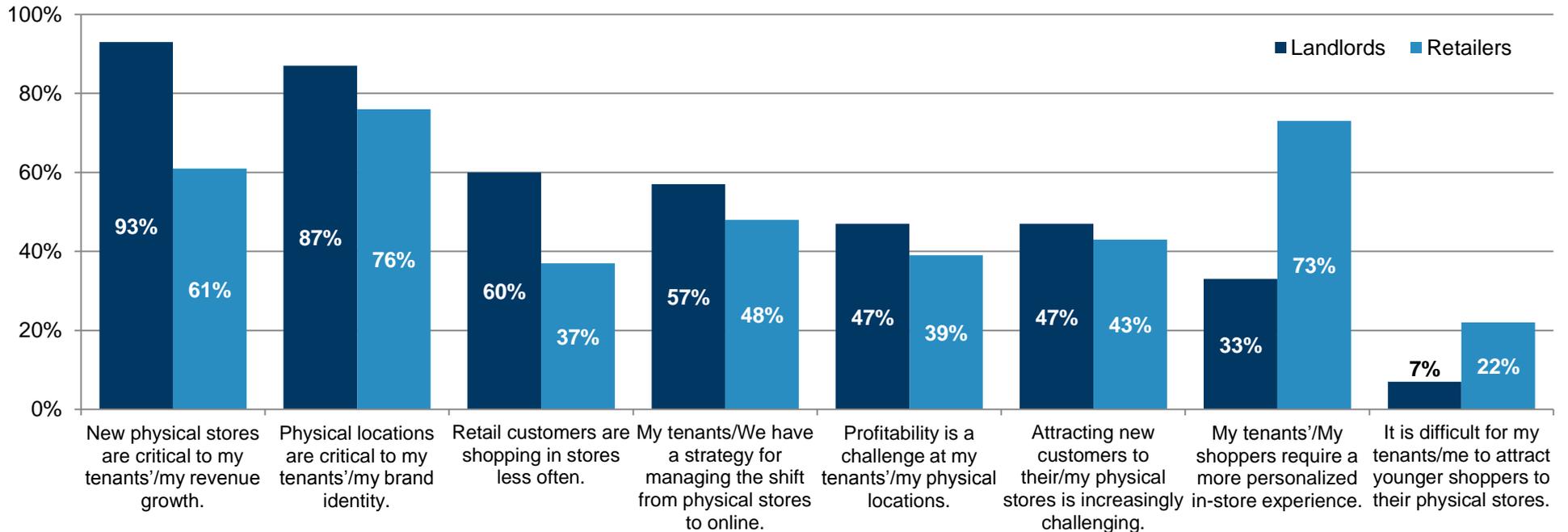
Mean scores



- Retailers expect e-commerce to account for 23.6% of their sales in three years, up from 16.1% today.
- Meanwhile, they expect in-store sales to decline to 76.1% of sales in three years from 83.4% today.

Landlords value physical stores more than their tenants do

Landlords/Retailers: To what extent do you agree with the following statements?
"Agree" and "strongly agree" responses

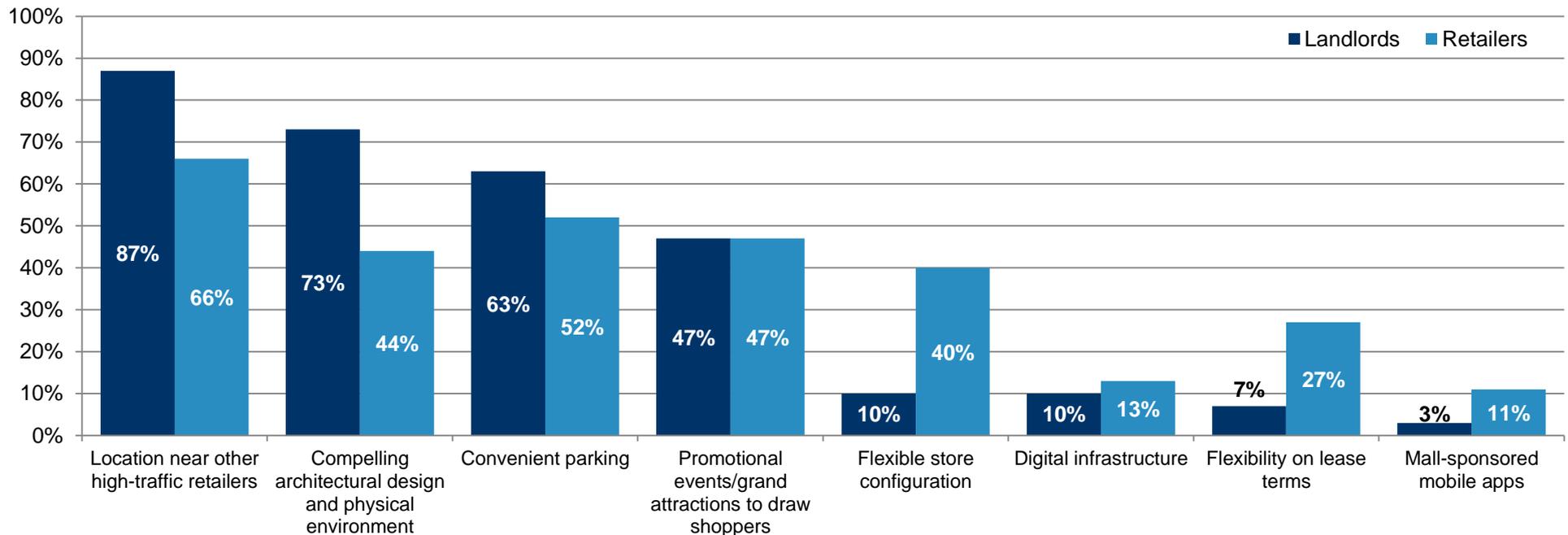


- Property owners may overestimate retailers' reliance on physical locations for growth and brand identity.
- Yet they appear far more attuned than their tenants to the shift to online shopping.
- Retailers' focus on personalized experiences suggests they are betting on omnichannel for growth.

A disconnect on retailer priorities?

Landlords/Retailers: Which of the following are most important for your retail tenants/brick-and-mortar locations?

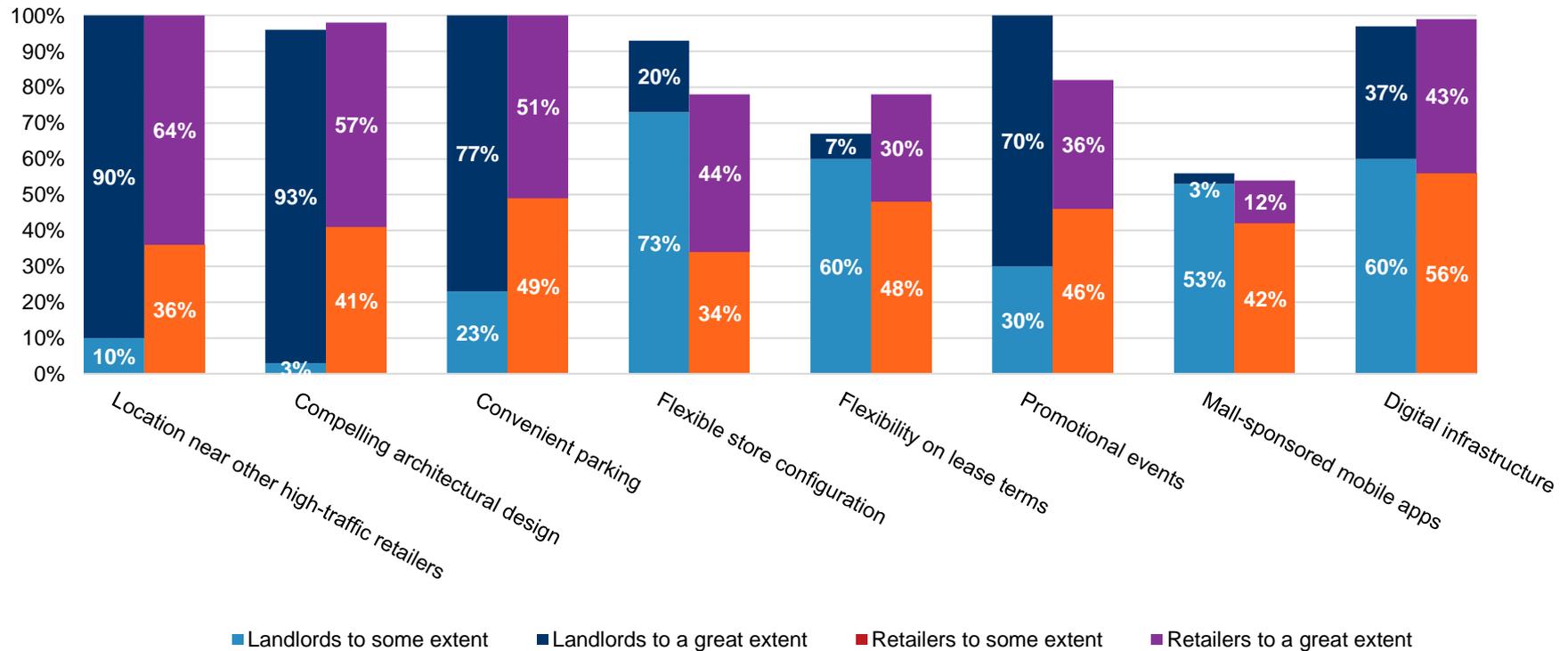
Top-three ranked responses



- Landlords and retailers have similar top priorities for brick-and-mortar stores: location, design, and parking.
- However, landlords overestimate the importance of these basics to their tenants—while underestimating the importance of flexible store configuration and lease terms.
- Retailers' interest in flexible store configuration may reflect their focus on offering a more personalized in-store shopping experience.

Owners and tenants see real estate amenities differently

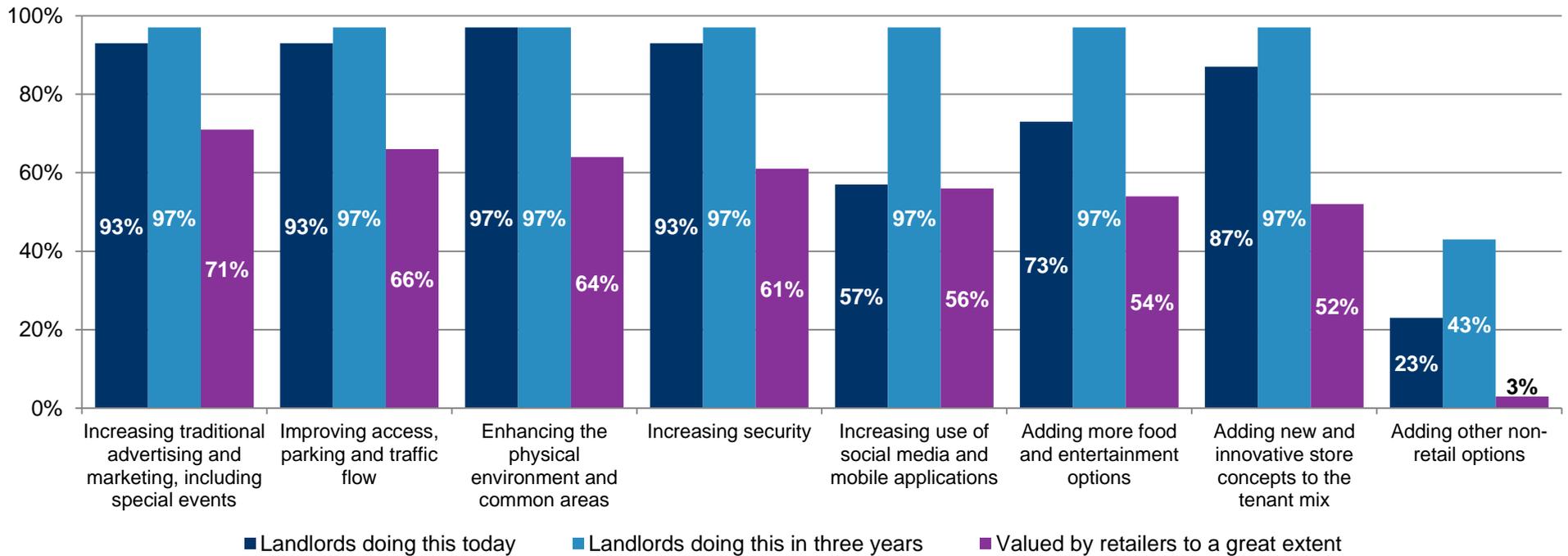
Landlords/Retailers: To what degree do your landlords provide these benefits/do you provide these benefits for your tenants?



- Landlords' and retailers' different perceptions of amenities largely mirror their priorities.
- However, landlords are much more likely to say they offer promotional events than retailers.

Not all retailers value owners' traffic-boosting plans

Landlords: What are you doing to increase traffic to your retailers today? In three years?
 Retailers: To what extent do you value these landlord initiatives to increase mall traffic?

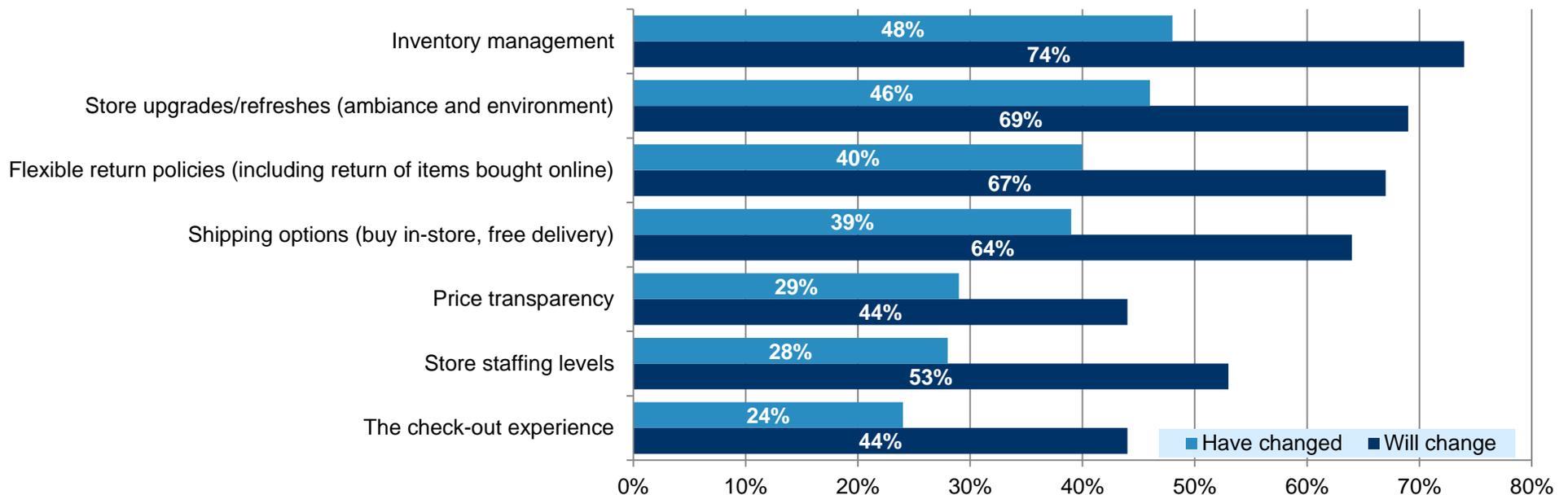


- Overall, landlords are already improving the things their tenants value most: marketing, physical access and environment, and security.
- Nearly half (43%) of property owners expect to be adding more non-retail options to increase mall traffic in three years.

Retailers see an omnichannel future

Retailers: To what extent, if at all, have you changed the following in your brick and mortar stores to meet new customer demands in the online era? What will you have changed in three years?

"Substantial" and "transformative change" responses

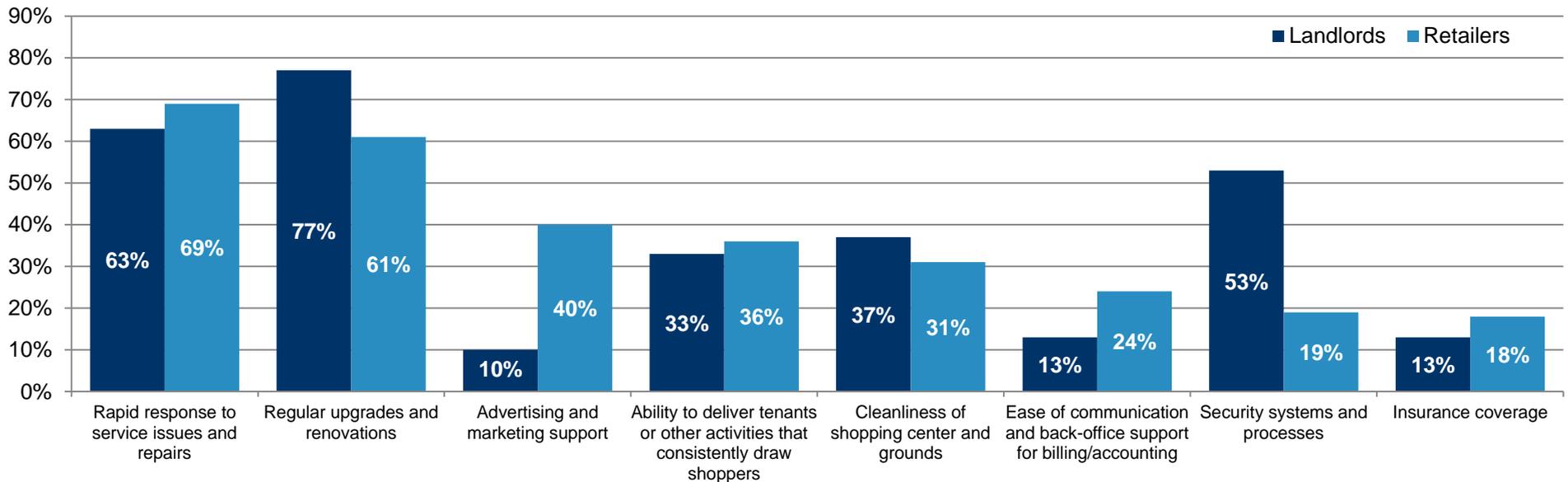


- Nearly half have already altered their store inventory management, and three-quarters plan to do so in three years.
- Return and shipping options will continue expanding to reflect changing customer expectations.
- Nearly half (44%) of retailers plan to improve price transparency and checkout in three years, and more than half (53%) will adjust store staffing levels.

Landlords don't always see what matters to retailers

Landlords/Retailers: Which of the following qualities do your tenants value the most?
Which of the following are most important to you in a landlord?

Top-three ranked responses



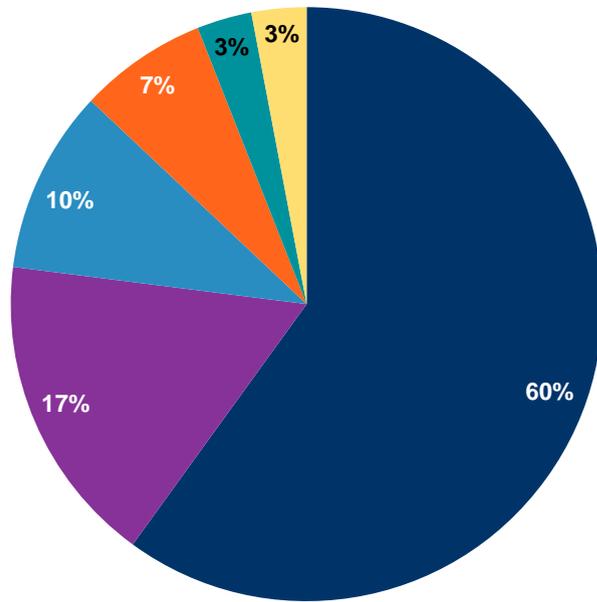
- A wide gap between landlord and retailer perceptions on security suggests tenants take it for granted.
- Conversely, retailers are far more interested in marketing support than landlords appreciate.

Respondent Demographics

Landlords: Shopping center formats and properties owned

What is your primary shopping center format?

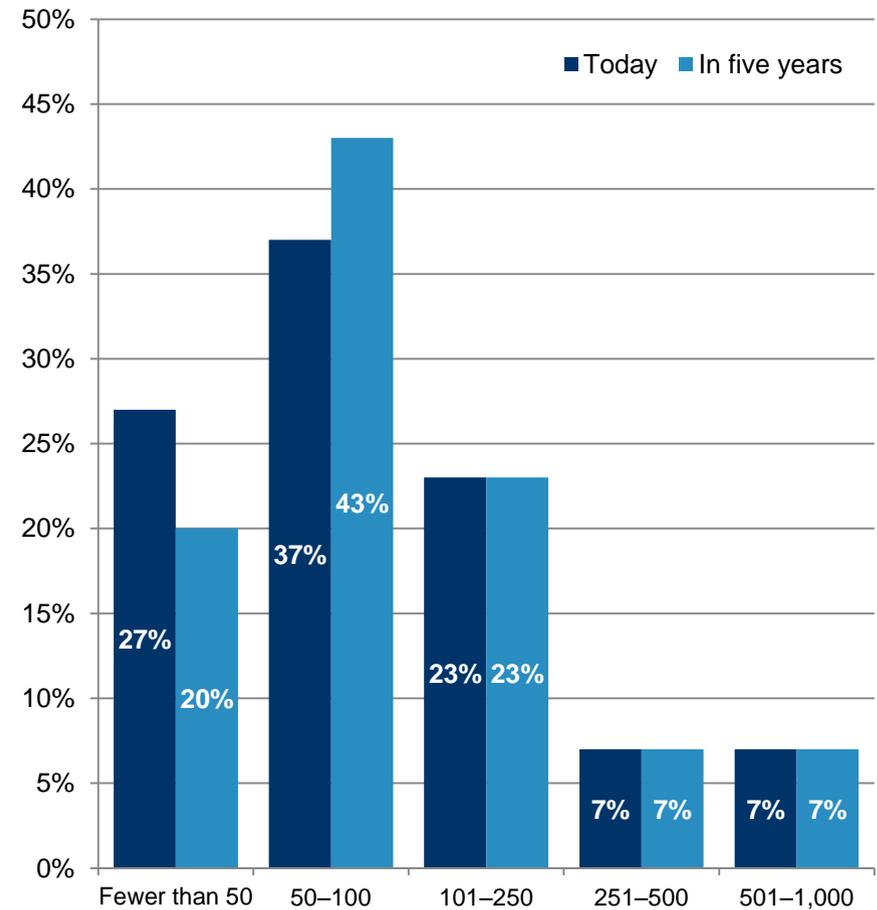
Landlords



- Mix of regional and other shopping centers
- Class A super regional malls
- Class B or C regional malls
- Power centers
- Lifestyle centers
- Outlet malls

How many properties do you own or manage today?
How many will you have in five years?

Landlords



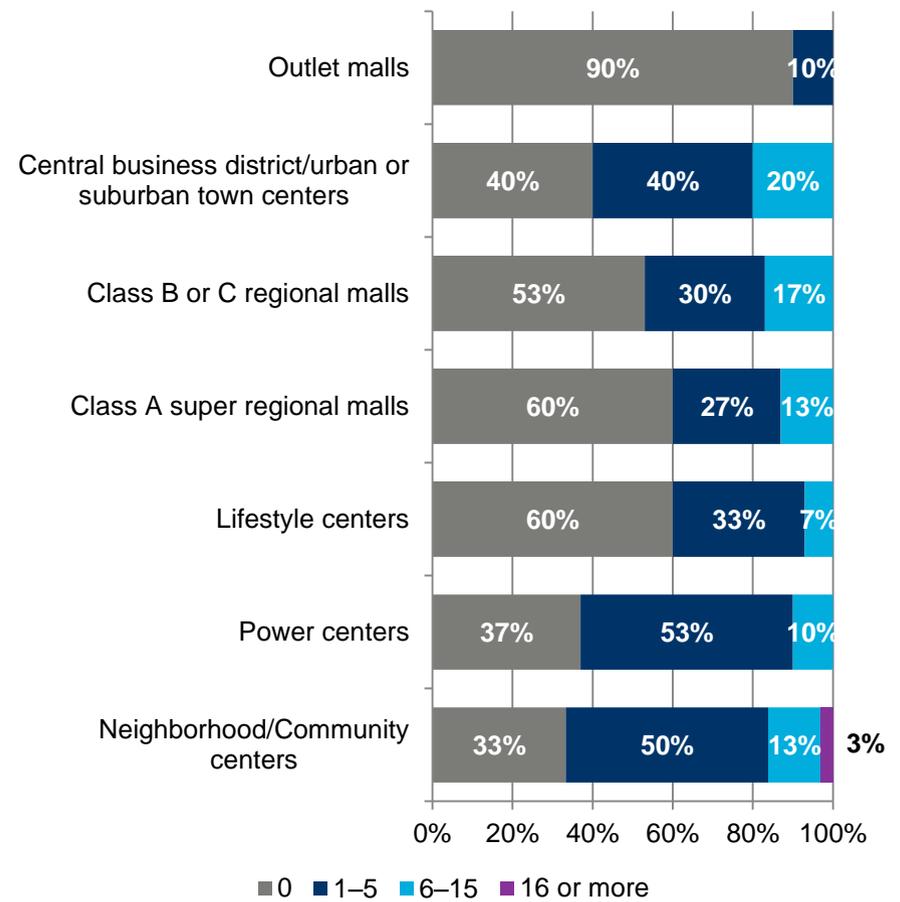
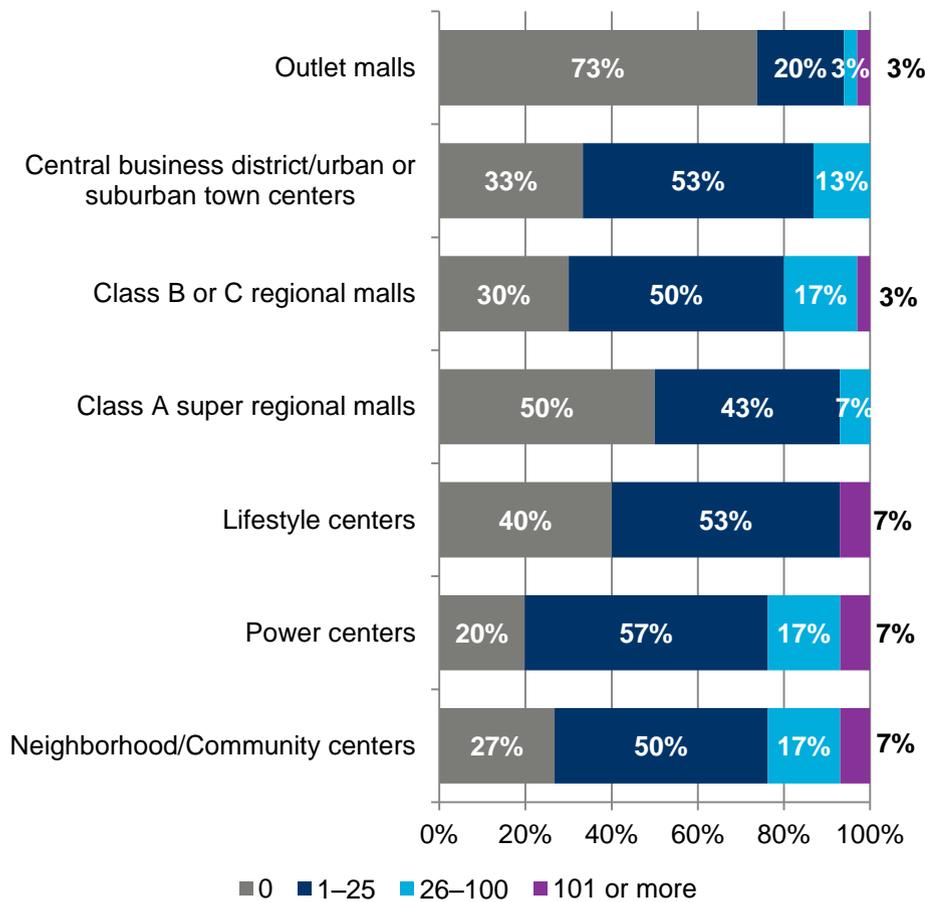
Landlords: Property types today and added in 2 to 3 years

How many of the following types of properties do you own or manage today?

Landlords

Approximately how many properties will you redevelop, develop, or acquire in the following formats over the next 2–3 years?

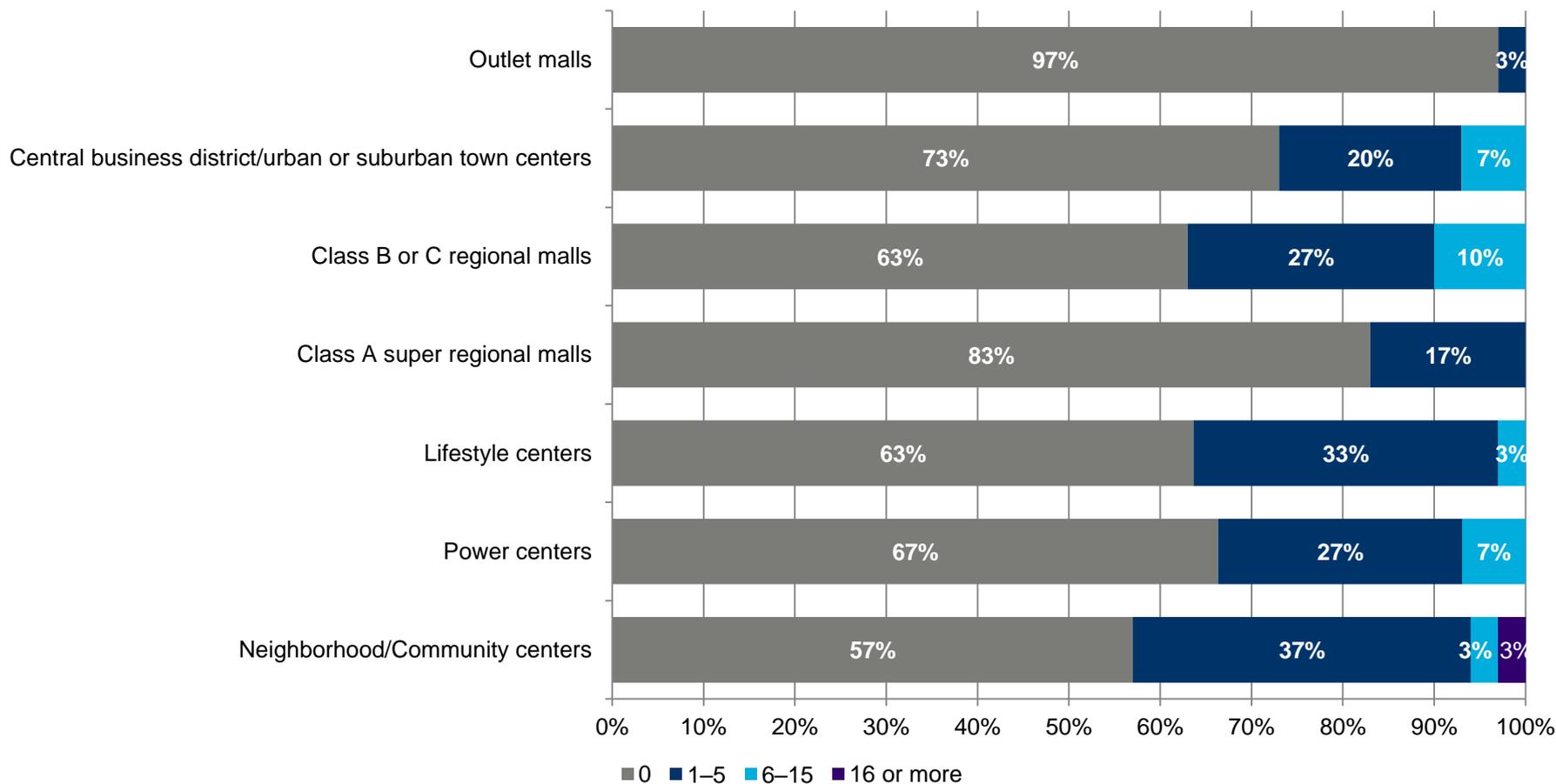
Landlords



Landlords: Property types closed in 2 to 3 years

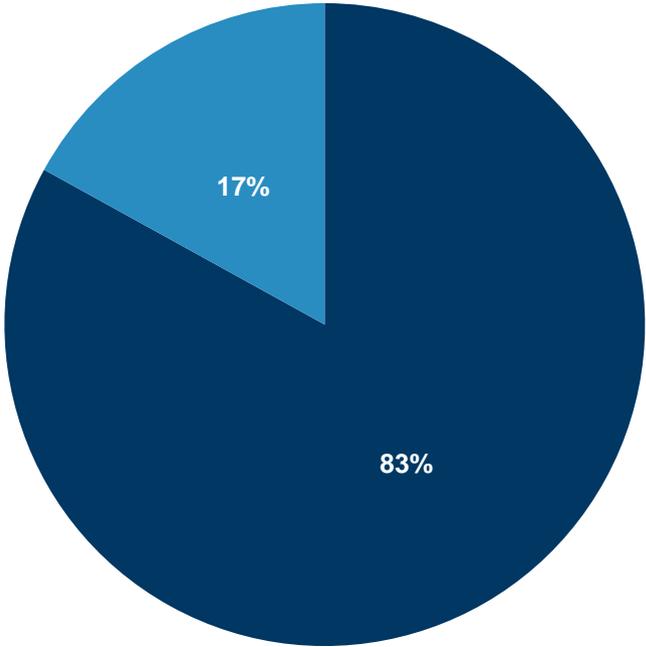
How many properties will you sell, close or otherwise dispose of in the following formats over the next 2–3 years?

Landlords



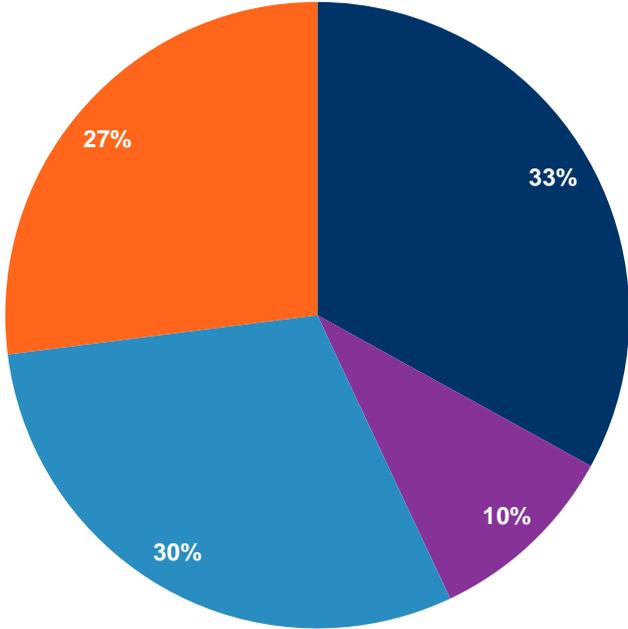
Landlords: REIT status and recent revenue

Are you structured as a REIT?
Landlords



■ Yes ■ No

What was your company's revenue for the last fiscal year?
Landlords

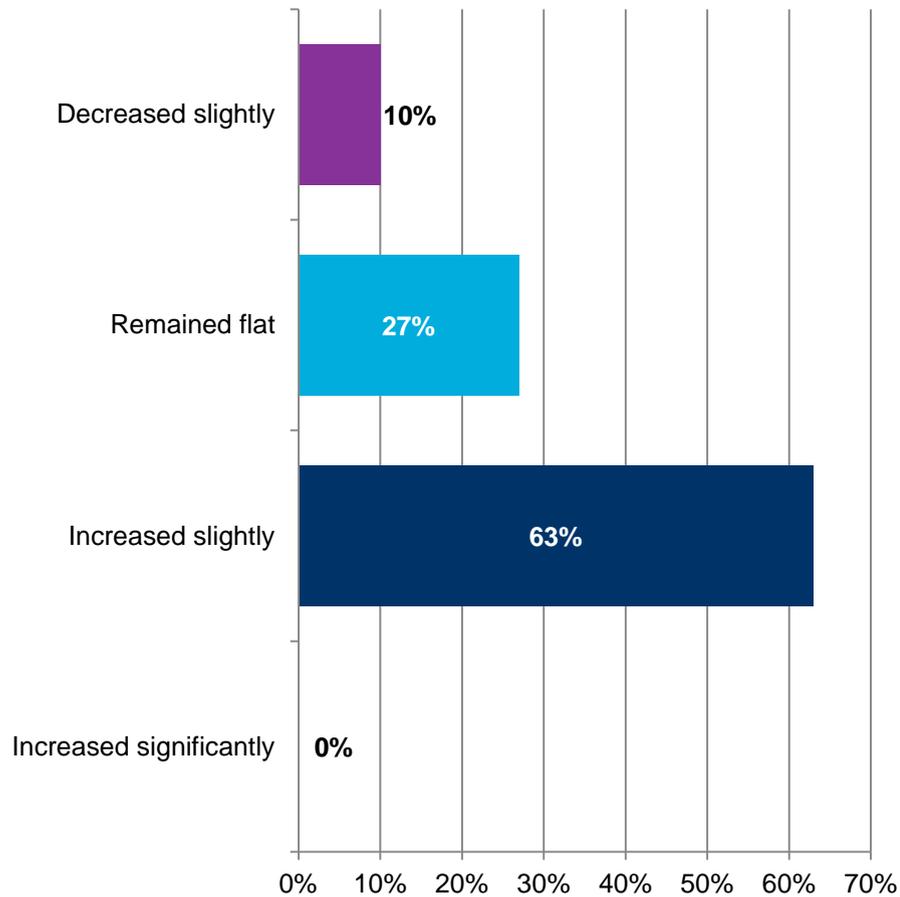


■ \$50 million-\$299 million ■ \$300 million-\$499 million
■ \$500 million-\$1 billion ■ \$1 billion-\$5 billion

Landlords: Revenue growth and profitability

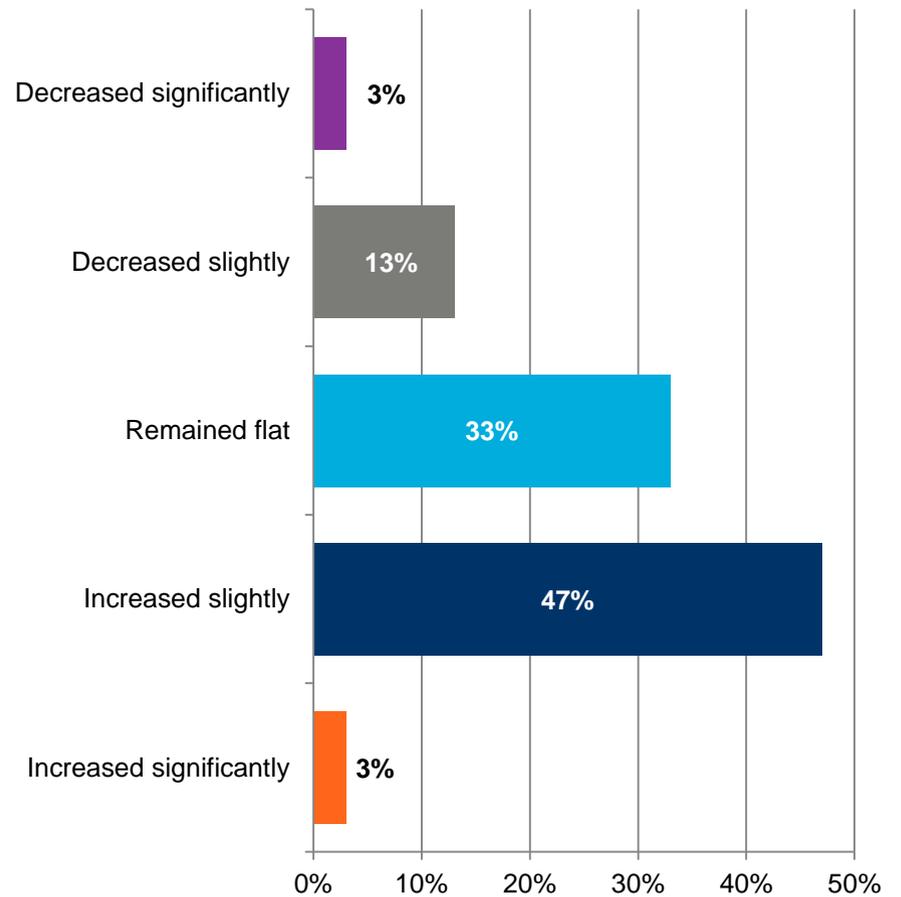
How has your company's revenue growth changed over the past three years?

Landlords



How has your company's profitability changed over the past three years?

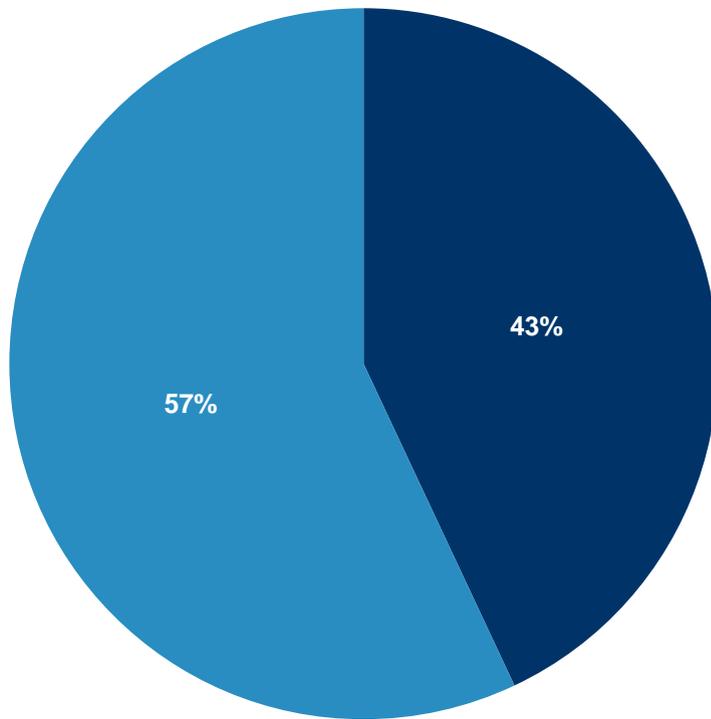
Landlords



Retailers: Decision-making authority and title

How would you characterize your decision-making authority for your company's real estate strategy and leasing decisions?

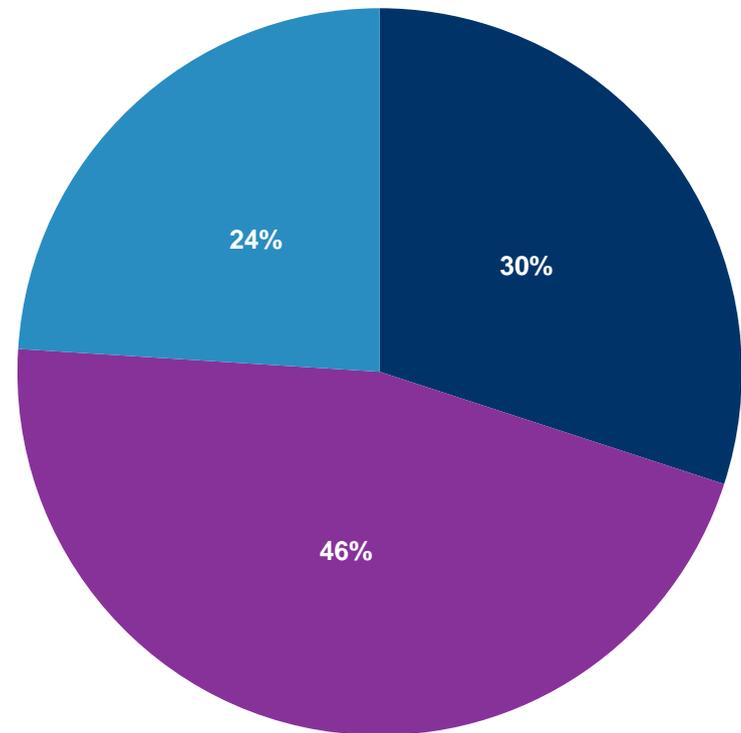
Retailers



- Corporate level (enterprise-wide)
- Regional level (Northeast, Southeast, etc.)

Which of the following best describes your title?

Retailers



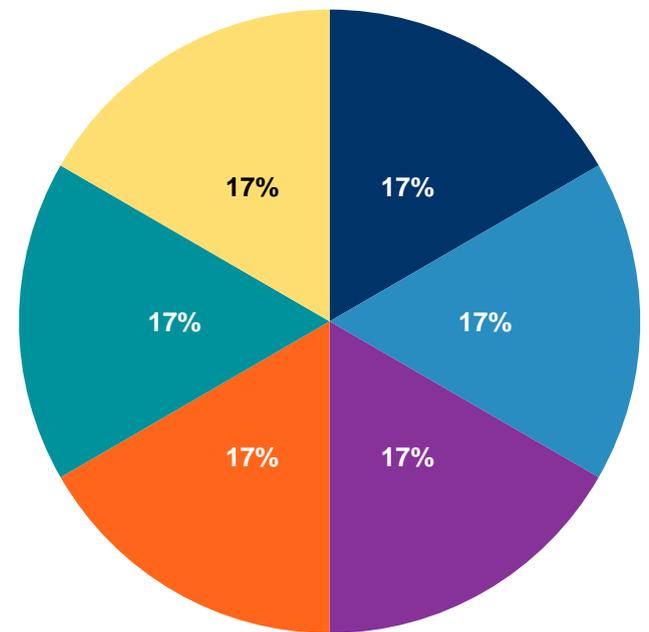
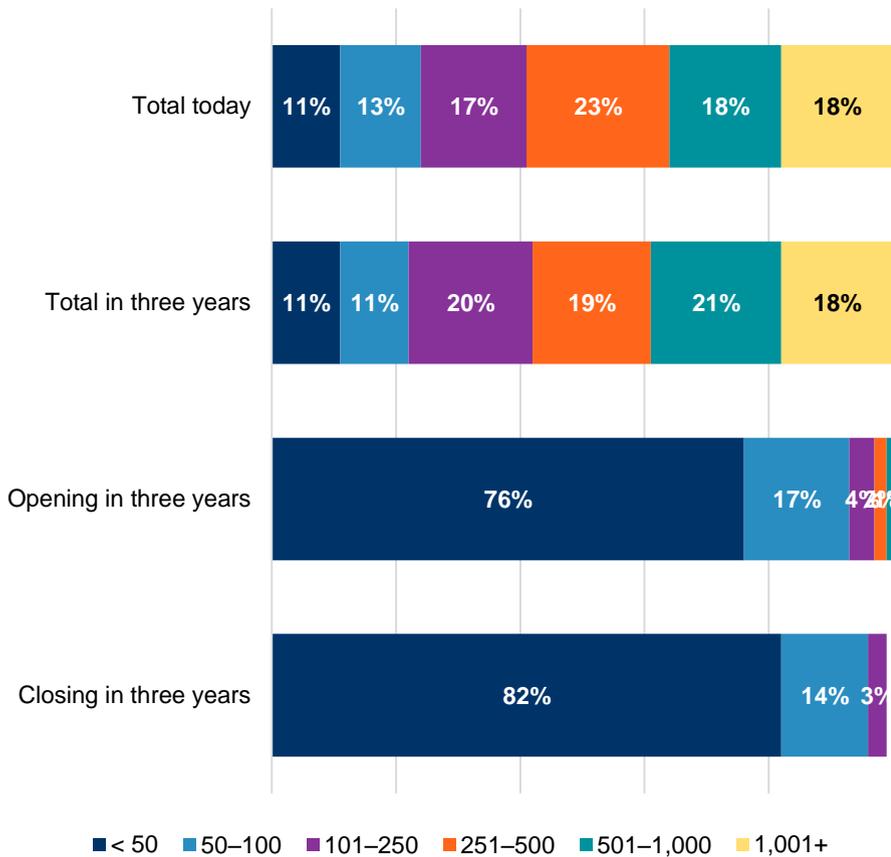
- C-level executive
- Direct report to a C-level executive
- Mid-level manager

Retailers: Number of stores and industry segment

Approximately how many physical stores does your company operate today, nationwide? Approximately how many do you expect to have in three years?

Total

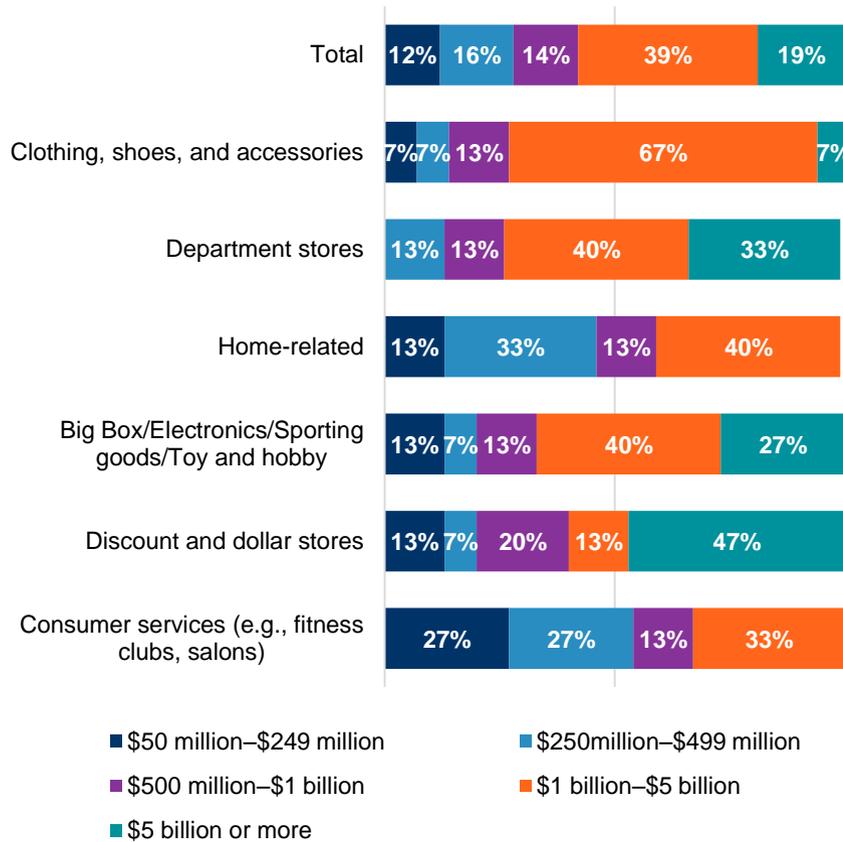
What is your industry segment?
Retailers



- Clothing, shoes, and accessories
- Department stores
- Home-related
- Big Box/Electronics/Sporting goods/Toy and hobby
- Discount and dollar stores
- Consumer services (e.g., fitness clubs, salons)

Retailers: Overall recent revenue and same-store sales

What was your company's annual revenue for the last fiscal year?

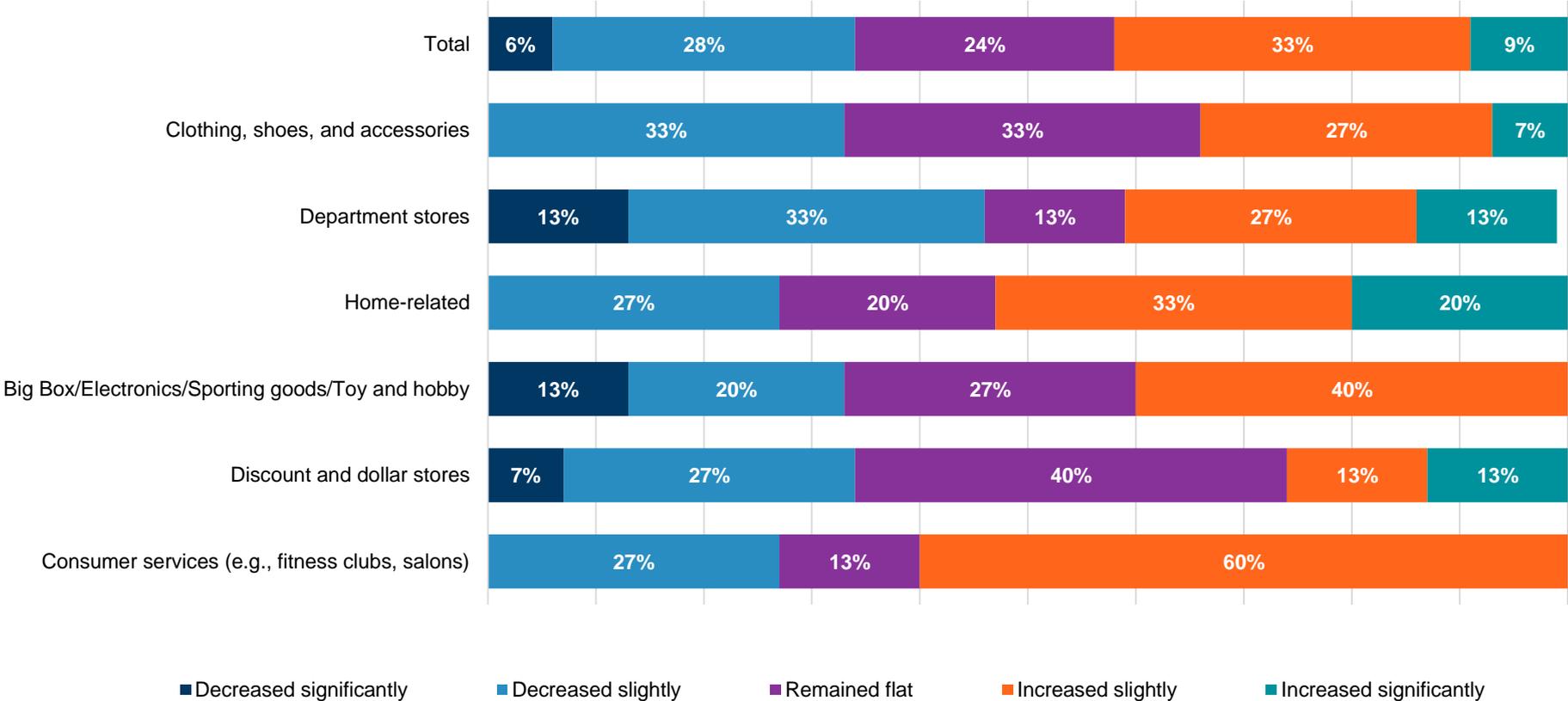


How has your company's average revenue per store (i.e., same-store sales) changed over the past three years?



Retailers: Profitability

How has your company's profitability changed over the past three years?





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