ICSC Background

ICSC serves the global retail real estate industry. We provide our 70,000+ member network in over 100 countries with invaluable resources, connections and industry insights and actively work together to shape public policy. For more information about ICSC visit www.icsc.com.

ICSC’s mission is to ensure the retail real estate industry is broadly recognized for the integral role it plays in the social, civic and economic vibrancy of communities across the globe.
ICSC Research

Data & Statistics
- QuickStats
  - Operational Benchmarks
  - Mall Sales Performance
  - Economic Impact Statistics

Analysis & Insights
- Industry Insights
- Special Studies
- Consumer Surveys

Resources & Networking
- Research Conference
- Global Advisory Groups
- Industry Definitions
Discussion Roadmap

Performance Metrics
Unpacking E-Commerce
Consumer Trends
The Halo Effect
Retail Real Estate 2.0
Retail Real Estate Performance

By Traditional Metrics
Moderate Supply Growth

GLA Growth: Open-Air Centers

GLA Growth: Malls

Source: CoStar Group; ICSC Research
Construction Spending Growth

Value of Construction Put in Place: Open-Air Centers

Value of Construction Put in Place: Malls

Source: US Census Bureau
Performance Metrics Strong

Occupancy Rate

Net Operating Income

Cap Rate

Capital Expenditures

Source: NCREIF
E-Commerce

The Prime Disruptor?
The Internet & E-Commerce

Los Angeles Times
The Internet is mauling America's malls. Is your favorite retailer closing its doors?

Forbes
The Shopping Malls Really Are Being Killed By Online Shopping

The Wall Street Journal
Malls Reel as Web Roars

Unpacking E-Commerce Sales

2000 – 2018
17.9% Average Annual Growth Rate

Source: U.S. Census Bureau: Quarterly E-Commerce Report; ICSC Research
Unpacking E-Commerce Sales

2000 – 2018
3.3% Average Annual Growth Rate

Source: U.S. Census Bureau: Quarterly E-Commerce Report; ICSC Research
Unpacking E-Commerce Sales

In-Store Sales: $4.4 trillion (87.5%)

Nonstore Sales: $629.6 billion (12.5%)

Total U.S. Retail Sales: $5.0 trillion

Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research
Total U.S. Retail Sales: $5.0 trillion

- In-Store Sales: $4.4 trillion (86.3%)
- Nonstore Sales: $629.6 billion (12.5%)
- Omnichannel E-Commerce Sales (store): $61.9 billion (1.2%)

Unpacking E-Commerce Sales

Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research
Unpacking E-Commerce Sales

2017

E-Commerce Sales: $397.5 billion
7.9% of Total Sales

Mail-Order House Sales:
$154.7 billion
3.1% of Total Sales

Other Nonstore Sales:
$77.3 billion
1.5% of Total Sales

Other Nonstore Sales:
$77.3 billion
1.5% of Total Sales

Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research
Unpacking E-Commerce Sales

2017

Omnichannel E-Commerce Sales (warehouse): $128.1 billion
2.5% of Total Sales

Mail-Order House Sales: $154.7 billion
3.1% of Total Sales

Other Nonstore Sales: $77.3 billion
1.5% of Total Sales

Pure-Play E-Commerce Sales: $269.4 billion
5.3% of Total Sales

Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research
Unpacking E-Commerce Sales

Omnichannel E-Commerce Sales (warehouse):
$128.1 billion
2.5% of Total Sales

Mail-Order House Sales:
$154.7 billion
3.1% of Total Sales

Other Nonstore Sales:
$77.3 billion
1.5% of Total Sales

Pure-Play E-Commerce Sales:
$163.3 billion
3.2% of Total Sales

Amazon Sales (North America):
$106.1 billion
2.1% of Total Sales

Sources: U.S. Census Bureau: Annual Retail Trade Survey; Amazon.com 2017 Annual Report; ICSC Research
Unpacking E-Commerce Sales

Physical retailers generate 90.1% of all retail sales, either from in-store or online activity:

\[
86.3\% + 1.2\% + 2.5\% = 90.1\%
\]

In-Store Sales

Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research
Unpacking E-Commerce Sales

Physical retailers generate 90.1% of all retail sales, either from in-store or online activity:

\[86.3\% + 1.2\% + 2.5\% = 90.1\%\]

Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research
Unpacking E-Commerce Sales

Physical retailers generate 90.1% of all retail sales, either from in-store or online activity:

86.3% + 1.2% + 2.5% = 90.1%

Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research
Unpacking E-Commerce Sales

Physical retailers generate 90.1% of all retail sales, either from in-store or online activity:

- In-Store Sales: 86.3%
- Omnichannel E-Commerce Sales (store): 1.2%
- Omnichannel E-Commerce Sales (warehouse): 2.5%

\[86.3\% + 1.2\% + 2.5\% = 90.1\%\]

Source: U.S. Census Bureau: Annual Retail Trade Survey; ICSC Research
A Consumer-Led Disruption

Enabled by Technology
Restocking Prime Consumers

Sources: U.S. Census Bureau; ICSC Research
Restocking Prime Consumers

In 2017, 35-54 year-olds accounted for 41% of the annual aggregate expenditures while only accounting for 25% of the population.

Sources: U.S. Bureau of Labor Statistics; ICSC Research
Delayed Family Formation

Percent of 18-34 Year-Olds Living At Home

- **1960**: 23%
- **1990**: 27%
- **2018**: 32%

Median Age at First Marriage

Mean Age at First Child

Sources: U.S. Census Bureau; Centers for Disease Control and Prevention; ICSC Research
Convenience, Value and Experience

Average Hours Per Day Spent Purchasing Consumer Goods

-20% ~5 min

Why does Gen Z shop in stores?

To get the item immediately 53%

Sources: U.S. Bureau of Labor Statistics; ICSC Research
Convenience, **Value** and Experience

Mobile Device Use In Store:
- Compare prices (54%)
- Get digital coupons to use in store (39%)

What factors influence Gen Z purchases?

- **Price**: 73%
- **Quality**: 51%

Conducted Research Online Before Shopping

- 84%
- 77%
- 61%

Source: ICSC Research
Convenience, Value and Experience

Most popular mall activities among Gen Z:

- Shop: 76%
- Dine: 76%
- Socialize: 59%
- See Movies: 44%

Why does Gen Z shop in stores?

- Socialize with family & friends: 58%

“Physical stores provide a better shopping experience than online.”
- Gen Z

Source: ICSC Research
Omni-Channel Retail: Consumer Expectations
Omni-Channel Retail: Infinite Complexity

**Discovery/Trial & Test/Purchase**
- Take home from store
- Pick up in store – ship from another store
- Pick up in store – ship from distribution center
- Ship from store to home/office/3rd location
- Ship from another store to home/office/3rd location
- Ship from distribution center to home/office/3rd location

**Fulfillment**

**Return/Exchange**
- In store
- In another store
- Online – to store
- Online – to distribution center

(feedback loop)
The Halo Effect

Convergence of Bricks & Clicks
Measuring the Value of Physical Retail

Halo Effect (Part I) measures the rise in a retailer’s web traffic following the opening of a store in a market – or drop in web traffic following a store closure.

Halo Effect (Part II) quantifies the incremental spending that occurs in a store in the days immediately following an online purchase, and vice versa.
Halo I Methodology

The web traffic analysis included both established and emerging retailer brands that opened or closed a total of 804 stores in 145 U.S. markets in 2017.

The brand perception analysis, based on approximately 4,200 respondents, compared consumer survey results of a national benchmark to a select markets were retailers maintained at least one brick-and-mortar store.
Halo I: Web Traffic Lift Following Store Opening

**Web Traffic - Level**

- Store Opening: 37%

**Web Traffic - Share**

- Store Opening: 27%

**Established Retailers**

- 36%

**Emerging Retailers**

- 45%

- 27%

- 32%
Halo I: Web Traffic Drop Following Store Closure

The greater the proportion of stores closed in a market, the greater the decline in the share of web traffic in the markets where the retailer operates stores.
Halo I: Stores Critical for Brand Marketing

**Brand awareness**

- Consumer perceptions of the brand
- Willingness to consider purchasing from the brand
- Developing consumers who believe that the brand says something about them and their values
- Consumer willingness to speak positively about the brand and recommend to others

**Potential Customers**

- Awareness
- Impression
- Consideration
- Identification
- NPS

**Loyal Customers**
Halo I: Stores Critical for Brand Marketing

Results for emerging brands were even more robust – particularly for Consideration, Identification and NPS.
Halo II Methodology

Analysis covers:
→ 42 retailers spanning 7 categories
→ $31.2 billion in total transactions
→ 41.2 million credit/debit card records
→ 3-year period (2016-2018)

Core results were reported for a 15-day period:
• There are 10.5 million “online to in-store” halo events (online transactions: returns and purchases) that triggered 21.9 million in-store transactions.
• There are 13.1 million “in-store to online” halo events (in-store transactions: returns and purchases) that triggered 17.7 million online transactions.
For the retailers and consumers included in this sample, between 2016 and 2018, approximately 91% of total spending ($28.3B) occurred in a store.

Discount Department Stores had the highest share of in-store spending at 96% ($18.4B) for the total three-year period.

Emerging retailers had the lowest share of in-store spending at around 60%.

<table>
<thead>
<tr>
<th>Sample Set Spending by Channel by Retail Type</th>
<th>2016-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>91%</td>
</tr>
<tr>
<td><strong>Home</strong></td>
<td>85%</td>
</tr>
<tr>
<td><strong>Large Format</strong></td>
<td>86%</td>
</tr>
<tr>
<td><strong>Discount Department Store</strong></td>
<td>96%</td>
</tr>
<tr>
<td><strong>Apparel</strong></td>
<td>79%</td>
</tr>
<tr>
<td><strong>Cosmetics</strong></td>
<td>83%</td>
</tr>
<tr>
<td><strong>Department Stores</strong></td>
<td>72%</td>
</tr>
<tr>
<td><strong>Emerging</strong></td>
<td>59%</td>
</tr>
</tbody>
</table>
For this sample, omnichannel consumers account for 34% of total spending but only 17% of customers over the three-year period. That is, they spend proportionally more than single-channel shoppers.

Disparity has been growing:
- 15 pp differential in 2016
- 20 pp differential in 2018

### Omnichannel Spending as a % of Total Spending

<table>
<thead>
<tr>
<th>Category</th>
<th>2016-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home</td>
<td>29%</td>
</tr>
<tr>
<td>Large Format</td>
<td>22%</td>
</tr>
<tr>
<td>Discount Department Stores</td>
<td>39%</td>
</tr>
<tr>
<td>Apparel</td>
<td>28%</td>
</tr>
<tr>
<td>Cosmetics</td>
<td>25%</td>
</tr>
<tr>
<td>Department Stores</td>
<td>30%</td>
</tr>
<tr>
<td>Emerging</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34%</strong></td>
</tr>
</tbody>
</table>

### Omnichannel Customers as a % of Total Customers

<table>
<thead>
<tr>
<th>Category</th>
<th>2016-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home</td>
<td>12%</td>
</tr>
<tr>
<td>Large Format</td>
<td>10%</td>
</tr>
<tr>
<td>Discount Department Stores</td>
<td>29%</td>
</tr>
<tr>
<td>Apparel</td>
<td>17%</td>
</tr>
<tr>
<td>Cosmetics</td>
<td>11%</td>
</tr>
<tr>
<td>Department Stores</td>
<td>17%</td>
</tr>
<tr>
<td>Emerging</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17%</strong></td>
</tr>
</tbody>
</table>
## Online to In-Store: 15-Day Halo Effects
### By Retail Categories

<table>
<thead>
<tr>
<th>Online to In-Store Halo Effect: 15-Days</th>
<th>2016-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>231%</td>
</tr>
<tr>
<td>Home</td>
<td>175%</td>
</tr>
<tr>
<td>Large Format</td>
<td>156%</td>
</tr>
<tr>
<td>Discount Department Stores</td>
<td>325%</td>
</tr>
<tr>
<td>Apparel</td>
<td>164%</td>
</tr>
<tr>
<td>Cosmetics</td>
<td>162%</td>
</tr>
<tr>
<td>Department Stores</td>
<td>55%</td>
</tr>
<tr>
<td>Emerging</td>
<td>333%</td>
</tr>
</tbody>
</table>

- The 15-day halo effect, as measured by total spending as a percent of original online spending, varies considerably across retail categories.
- Discount Department Stores and Emerging retailers have higher values as a result of large amounts of in-store spending following the initial online transaction.
- Department Stores have a low value as a result of high value of in-store returns that follow the initial online transaction.
Online to In-Store: 15-Day Halo Transactions per Event
By Retail Categories

As noted on previously, consumers typically make 2.1 in-store transactions within 15 days of an online transaction.

This ratio is higher for Discount Department Stores that incentivize a larger number of in-store visits – perhaps driven by the available grocery component of some of these retailers.
# In-Store to Online: 15-Day Halo Effects

## By Retail Categories

The 15-day halo effect, as measured by total spending as a percent of original online spending, varies considerably across retail categories.

### In-Store to Online Halo Effect: 15-Days

<table>
<thead>
<tr>
<th>Category</th>
<th>2016-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>267%</td>
</tr>
<tr>
<td>Home</td>
<td>355%</td>
</tr>
<tr>
<td>Large Format</td>
<td>272%</td>
</tr>
<tr>
<td>Discount Department Stores</td>
<td>239%</td>
</tr>
<tr>
<td>Apparel</td>
<td>195%</td>
</tr>
<tr>
<td>Cosmetics</td>
<td>259%</td>
</tr>
<tr>
<td>Department Stores</td>
<td>702%</td>
</tr>
<tr>
<td>Emerging</td>
<td>138%</td>
</tr>
</tbody>
</table>

Department Stores have the highest values as a result of the considerable online spending that occurs following the initial in-store transaction.

Emerging retailers have the lowest values as a result of the lower online spending following an initial in-store transaction.
In-Store to Online: 15-Day Halo Transactions per Event
By Retail Categories

As noted on previously, consumers typically make 1.3 online transactions within 15 days of an in-store transaction.

This ratio is higher for Department Stores that incentivize customers to go online to find items possibly not offered in the store during their last transaction. These consumers may also be willing to make additional online transactions given the convenience of returns should that eventually be necessary.
Convergence of Bricks and Clicks

Walmart | Amazon
---|---
Jet | Amazon Books
SHOES.COM | Amazon Go
Moosejaw | Whole Foods Market
BONOBOS | Flipkart
The Prime Disruptor?

Everything You Know About the Internet Killing Retail May Be Wrong

Forbes

Five Signs That Stores (Not E-Commerce) Are The Future Of Retail

abc News

Online shopping hasn't killed brick-and-mortar retailers

Sources: Motley Fool: April 3, 2017; Forbes: June 27, 2017; ABC News: October 12, 2017
Retail Real Estate 2.0

Convergence of Tenants & Uses
From Shopping Center to Community Center

_delivering an “experience” not “stuff”._

New “Retail” Tenants
✓ Entertainment
✓ Food & Beverage
✓ Health & Wellness
✓ Other Concepts
✓ Mixed-Use

Source: Bruce MacKinnon: 2016
Consumption Shifts by Age Cohort

U.S. Consumer Expenditures by Category: 2017-2027

- Hotels & Catering
- Housing
- Health Goods & Medical Services
- Food, Beverages & Tobacco
- Leisure & Recreation

Source: Euromonitor International; ICSC Research
Non-Retail, Non-Restaurant Share of GLA

5-Year Growth in Non-Traditional Shopping Center Tenants: 2014-2019

<table>
<thead>
<tr>
<th>Shopping Center Type</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenience Centers</td>
<td>43.9%</td>
</tr>
<tr>
<td>Neighborhood Centers</td>
<td>21.6%</td>
</tr>
<tr>
<td>Community Centers</td>
<td>14.4%</td>
</tr>
<tr>
<td>Power Centers</td>
<td>10.2%</td>
</tr>
<tr>
<td>Regional Malls</td>
<td>10.7%</td>
</tr>
<tr>
<td>Super Regional Malls</td>
<td>9.7%</td>
</tr>
<tr>
<td>Total Shopping Centers</td>
<td>19.5%</td>
</tr>
</tbody>
</table>

Sources: CoStar Group; ICSC Research
Entertainment

Arts, Entertainment & Recreation Share of GLA

Source: CoStar Group; ICSC Research
(Bespoke) Food & Beverage

Accommodation & Food Service Share of GLA

- Malls
  - +1.2 pp

- All Centers
  - +1.2 pp

Source: CoStar Group; ICSC Research
Health & Wellness

Health Care & Social Assistance Share of GLA

+0.4 pp

+1.7 pp

Malls

All Centers

2014 Q3  2019 Q2

Source: CoStar Group; ICSC Research
Diversification of Uses at Retail Real Estate Properties

Share of Shopping Center GLA Leased by Tenant Type

<table>
<thead>
<tr>
<th>Tenant Type</th>
<th>2007</th>
<th>2017 - Q3 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Retail &amp; Apparel</td>
<td>36.1%</td>
<td>32.0%</td>
</tr>
<tr>
<td>Health &amp; Fitness</td>
<td>13.0%</td>
<td>20.8%</td>
</tr>
<tr>
<td>Discounters</td>
<td>9.9%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Restaurants &amp; Bars</td>
<td>5.5%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Other</td>
<td>35.5%</td>
<td>28.6%</td>
</tr>
<tr>
<td>Fitness &amp; Sporting Goods</td>
<td>13.0%</td>
<td></td>
</tr>
</tbody>
</table>

Source: CoStar Portfolio Strategy
Diversification of Uses at Retail Real Estate Properties

Growth in Leased GLA at Open Air Centers by Tenant Type: 2007 vs. 2018

Average growth for all open air leasing: 27.5%

Source: CoStar Portfolio Strategy
Diversification of Uses at Retail Real Estate Properties

Share of Tenants by Industry Replacing Vacated Anchor Space

2005-2009

- General Retail & Apparel: 70.0%
- Home Furnishing: 3.1%
- Grocery: 9.2%
- Health & Fitness: 3.1%
- Movies & Entertainment: 6.9%
- Discount: 6.9%
- Service: 0.8%
- Other: 2.2%
- Restaurant: 2.2%

2014-2018

- General Retail & Apparel: 36.5%
- Home Furnishing: 8.8%
- Grocery: 10.9%
- Health & Fitness: 11.7%
- Movies & Entertainment: 12.4%
- Discount: 7.3%
- Service: 2.2%
- Other: 2.2%

Source: CoStar Portfolio Strategy
Mixed-Use
Diversification of CRE Development at Retail Real Estate Sites

Retail-Led Mixed-Use Project Universe Count

- 2000: 234
- 2008: 359
- 2018: 567 total

New: 208

Source: CoStar Portfolio Strategy
Diversification of CRE Development at Retail Real Estate Sites

CRE Density On Site Of Retail-Led Mixed-Use Centers

1.7 MSF
12.3 MSF
2.2 MSF
8.7 MSF
1.4 MSF

* Delivery forecast

Source: CoStar Portfolio Strategy
# From Shopping Centers to Consumer Engagement Spaces

<table>
<thead>
<tr>
<th>Destination Centers</th>
<th>Value Centers</th>
<th>Retaildential Space</th>
<th>Innovation Centers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large regional centers, anchored by popular attractions, which draw from broad local, national, and some international audiences.</td>
<td>Hyper-curated centers specializing in related retail businesses and services, reflecting the values and preferences of the surrounding community.</td>
<td>Mixed-use, multiformat centers located where consumers live, work and travel.</td>
<td>Every &quot;store&quot; (and the center itself) is a smart, active retail environment featuring the latest in high technology.</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney
Next Generation Performance Metrics Needed

- Sales
- Visits
- Dwell Time
- Brand Engagement
- Operations Performance
- Trade Area Potential
The Great Retail Real Estate Convergence

Online & Offline Retail

Retail & Service Tenants

Retail & Non-Retail Real Estate