



U.S. Retail Market Snapshot Third Quarter 2016

- **Consumer Confidence declined in October** after two consecutive months of increases according to the Confidence Board¹. The index retreated from the 103.5 reading in September to 98.6 in October. At the same time, the University of Michigan final index of sentiment fell to 87.2 in October from 91.2 in September. This reading is the lowest level recorded since October 2015².
- **US personal income growth in September grew 3.2%** year-over-year. Income gains are being driven by a tightening labor market, modestly rising wages, and a 0.3% increase in "other income"³.
- **Sales at non-store retailers (catalog and online merchants) gained momentum in September**. The category is up 10.6% from a year earlier. We expected this segment to accelerate further in 4Q16 on the back of a rising share of holiday e-commerce sales⁴.
- **Consumer spending increased in September**, due to an uptick in auto sales, eating out and at gas stations. Department store sales suffered a 0.7% decline in September from the prior month, and a 6.4% decline year-over-year. Apparel sales were steady compared to August, and expanded 0.7% from last year⁵.
- **Shoppers are finding more value at discount chains than at department stores**. Discount concepts emerged from the recession on stronger footing than their full-price mall counterparts. Their expansion continues to produce strong productivity numbers despite store fleet growth.

Sources: U.S. Commerce Department, University of Michigan, the Confidence Board. As of September 2016.

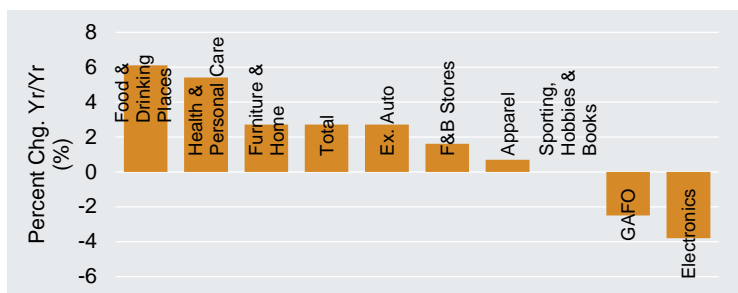
Discount Retail Store Expansions⁶

Retailer	Existing Store Count	2016 Store Openings	Square Feet (Min- Max)	Average Sales/ SF
Burlington Stores	563	25	40,000 – 70,000 SF	\$117
T.J. Maxx	1,165	30-60	25,000- 50,000 SF	\$395
Marshall's	1,013	30-60	25,000- 35,000 SF	\$395
Nordstrom Rack	110	35	35,000- 40,000 SF	\$487
Ross Dress for Less	1,295	70	22,000- 30,000 SF	\$383
Saks Off Fifth	55	35	28,000- 42,000 SF	\$436
Neiman Marcus Last Call	28	3	15,000- 30,000 SF	\$466

Sources: Company filings and press releases, Cushman & Wakefield, Chainlinks, and Retail Maxim. As of October 2016.

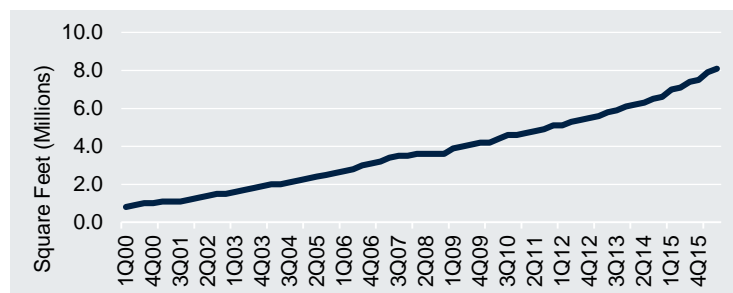
U.S. Retail Demand Indicators

Retail Sales by Category



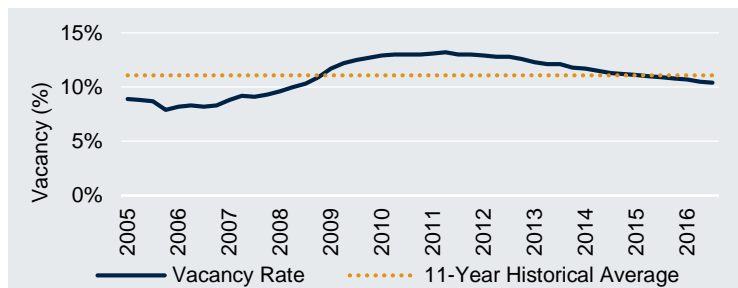
Sources: US Commerce Department and Deutsche AM. As of September 2016

eCommerce as a % of Total Retail Sales



Sources: CBRE Econometric Associates (CBRE-EA,) and Deutsche AM. As of September 2016.

U.S. Neighborhood & Community Center Vacancy Trends



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

Median Household Income Growth by Metro



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

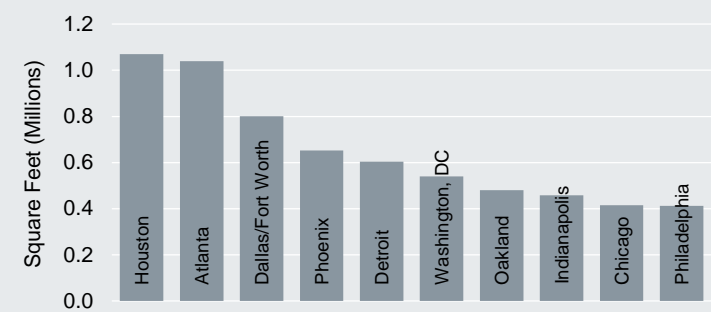
The Fundamentals

- **Economic indicators remained supportive of consumer spending and retail demand in the third quarter.** Consumer sentiment reached new highs this quarter, but volatility also led to some low points. Tailwinds from savings at the pump, a stronger employment market, and modest increases in personal incomes are being trumped by rising healthcare costs and shelter rents. Additionally, personal debt levels remain well below previous peaks and savings rates continue to trend above historical norms. These indicators point to a restrained consumer compared to previous economic cycles.
- **Supply:** Over the last 11 years, on average 30 MSF of new supply was added to the retail market annually, which represents 1% of today's inventory level. In the peak years of 2005-2008 annual deliveries averaged 42 MSF, and 16.3 MSF during the recovery years. Year-to-date completions through 3Q16 totaled 10.6 MSF. There is currently 13.4 MSF under construction expected to deliver between 2016-2018.
- **Demand:** Absorption levels through the first three quarters of the year totaled 56.6 MSF. Demand is likely being partially offset by store closures and bankruptcies. Over the last 11 years, absorption rates averaged approximately 70 MSF annually.
- **Availability:** The availability rate for neighborhood & community center across the U.S. continued to decline, and fell 20 bps since 2Q16 and 50 bps year-over-year to 10.4%. Availability currently sits 60 bps below its historic average. Out of the 62 metros that compose CBRE-EA's sum of markets, 77% of the markets tracked are continuing to see declining vacancy rates from 3Q15.
- **Rent:** According to CBRE-EA's rent index, 3Q16 rents averaged \$19.35 PSF NNN, which represents 90% of previous peak rents reached in 1Q08. Rents in Oakland, Austin, San Jose, West Palm Beach, Dallas and Denver realized the most rent growth YTD.

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

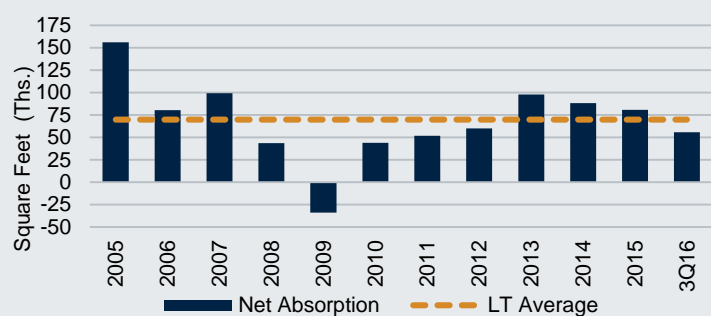
U.S. Retail Demand Indicators

U.S. Neighborhood & Community Center Pipeline



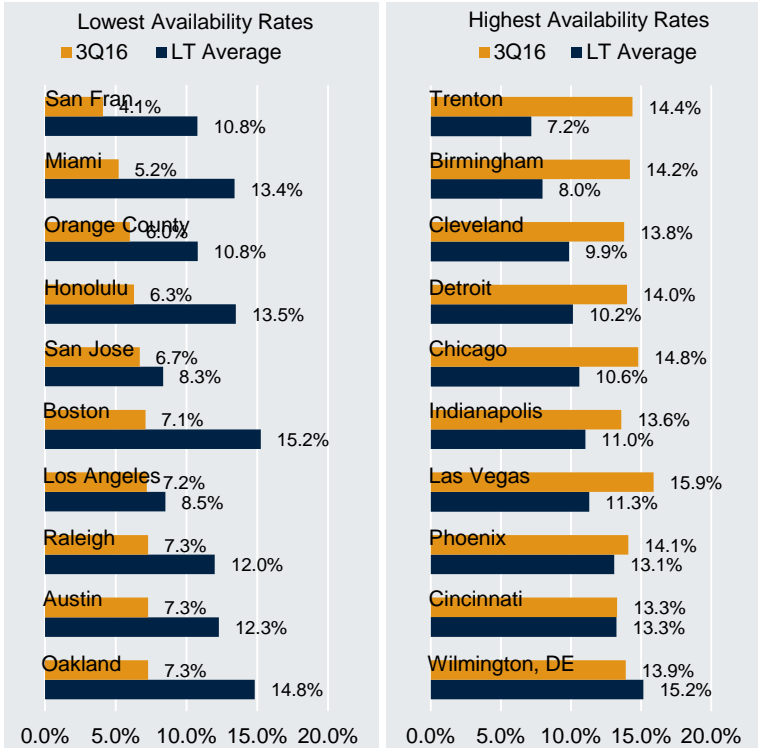
Sources: CBRE-EA, and Deutsche AM. As of September 2016.

U.S. Net Absorption



Sources: Deutsche AM. As of September 2016.

3Q16 Ranking Tables



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

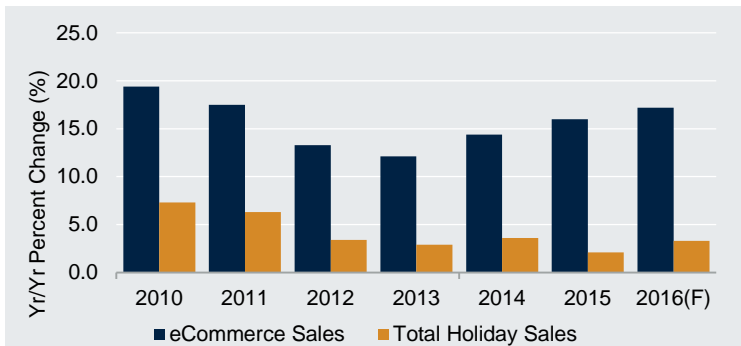
eCommerce Corner

- eCommerce sales made up 8.1% of total retail sales in 2Q16. In comparison, eCommerce as a percentage of retail sales totaled 2.1% ten years ago, according to the US Census Bureau⁷.
- eMarketer estimates 2016 holiday online sales will increase to \$94.7 billion, a 17.2% increase from 2015. In comparison, total holiday sales are forecast to grow 3.3% from last year⁸.
- These estimates suggest online shopping will represent 10.7% of total holiday retail sales—the largest portion ever⁹.
- Amazon shattered 2015 holiday sales records on several fronts—total volume, sales on mobile devices, number of new prime members added, and number of packages shipped worldwide¹⁰. This year Amazon started Black Friday deals November 1st¹¹.

Sources: Amazon press releases, eMarketer.com & Deutsche AM. As of September 2016.

Past performance is not indicative of future results. No assurance can be given that any forecasts or targets will be achieved.

U.S. Holiday Sales Growth Ecommerce vs. Total Holiday Sales



Sources: eMarketer.com. As of September 2016.

¹ University of Michigan, 9/16/2016

² The Confidence Board, 9/27/2016

³ United States Commerce Department, 9/14/2016

⁴ United States Commerce Department, 9/14/2016

⁵ International Council of Shopping Centers Research, 7/1/2016

⁶ International Council of Shopping Centers Research, 7/1/2016

⁷ International Council of Shopping Centers Research, 7/1/2016

⁸ International Council of Shopping Centers Research, 7/1/2016

⁹ Macy's company filings, 8/11/2016

¹⁰ Sears company filings/Fitch Ratings

<http://www.d.com/business-news/business-features/fitch-ratings-retail-bankruptcies-identifies-7-at-risk-debt-creditor-secured-liens-10568243/>, 9/28/2016

¹¹ JC Penney company filings- 10Q, 8/12/2016

¹² Simon press release, 9/16/2016

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