HOLIDAY SEASON 2018 RECAP

Friends, Colleagues and Clients – A very Happy New Year to you all. Somebody asked me just last week, "When do you stop saying Happy New Year to people?" Well, God willing, this will be my last time for 2019! As we launch into the New Year, with hope and energy, we also need to reflect upon and try to make sense of 2018.

There are a number of typical and well-worn narratives affecting the retail marketplace:

1. Amazon.com will destroy all retail eventually.
2. Due to the premise of broader Amazon destroying all retail, the market's overall appetite for retail capital, retail lending and retail investment has softened.
3. Cap rates and interest rates for retail are rising. No big surprise there. But this is not true in all sectors of retail (i.e. well-located, strong branded grocery/drug anchored centers with local neighborhood goods and services). It is also not true in all geographic areas (high barriers to entry in coastal California fares much better than areas with abundant land and low hurdles for entitlements).

Don't get me wrong - the Amazon phenomenon has got to be respected as a game-changing force to be reckoned with. It is also dynamic and continues to evolve (what will they get into next that might negatively affect our tenants and our shopping culture?). But as Lee Corso on ESPN College Football always says, "Not so fast, Mister." Not so fast because there are a few worthy and well capitalized competitors such as Walmart, with substantial financial capabilities and a massive brick and mortar footprint that are not just going to give up their hard earned retail mantle to the "new" kid on the block.

Walmart, like most retailers, are feeling their way along this new road. But they have something that Amazon does not have (despite the Whole Foods acquisition) – a place to actually go to shop, pick-up online orders, touch and actually try on

their clothing, get a good look at a product before purchasing it, and avoiding the cost and hassle of returning items. AND possibly the most critical feature of all – customers shopping for items they had not expected to purchase when they entered the store – gravy for Walmart and Retail 101.

Sure there are retailers that cannot compete, or are in a particular sector of the business (toys, office supplies and sporting goods come to mind) that are particularly vulnerable to online shopping. There are others that do not have the financial capability to re-tool or pivot, and still others that don't have the corporate culture or willingness to experiment – those retailers are definitely in jeopardy. And some have already gone down.

But take a look at the attached feedback for the Pre-Holiday Shopping Season from ICSC (International Council of Shopping Centers) – it might surprise you – I know it did me!

Here's to having a most interesting and prosperous 2019 – looking forward to seeing you along the way.

Best personal regards –

Steve

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Holiday Shoppers Utilize All Available Purchasing Channels

Percentages of Shoppers

Retail format	Holiday Season Intentions		Thanksgiving Day/ Black Friday		Super Saturday		Post-Holiday	
Physical stores	**88%**	**95%**	**71%**	**88%**	**85%**	**92%**	**87%**	**93%**
Online from retailers with stores	**57%**		**42%**		**47%**		**53%**	
Ship to home/office	42%		29%		33%		41%	
Pick up in store	40%		27%		39%		36%	
Pure online retailers	**60%**		**39%**		**43%**		**62%**	
Amazon	58%		34%		41%		58%	
All other pure online retailers	16%		16%		15%		22%	
Other sources	**17%**		**9%**		**17%**		**13%**	

86%
of "click-and-collect" shoppers made additional purchases when picking up their order.

Shares of Expenditures

Retail format	Holiday Season Intentions		Thanksgiving Day/ Black Friday		Super Saturday		Post-Holiday	
Physical stores	**45%**	**70%**	**48%**	**78%**	**49%**	**78%**	**44%**	**68%**
Online from retailers with stores	**25%**		**30%**		**29%**		**24%**	
Ship to home/office	13%		15%		13%		13%	
Pick up in store	12%		15%		16%		11%	
Pure online retailers	**25%**		**21%**		**16%**		**28%**	
Amazon	22%		16%		13%		24%	
All other pure online retailers	3%		6%		3%		4%	
Other sources	**5%**		**1%**		**6%**		**3%**	

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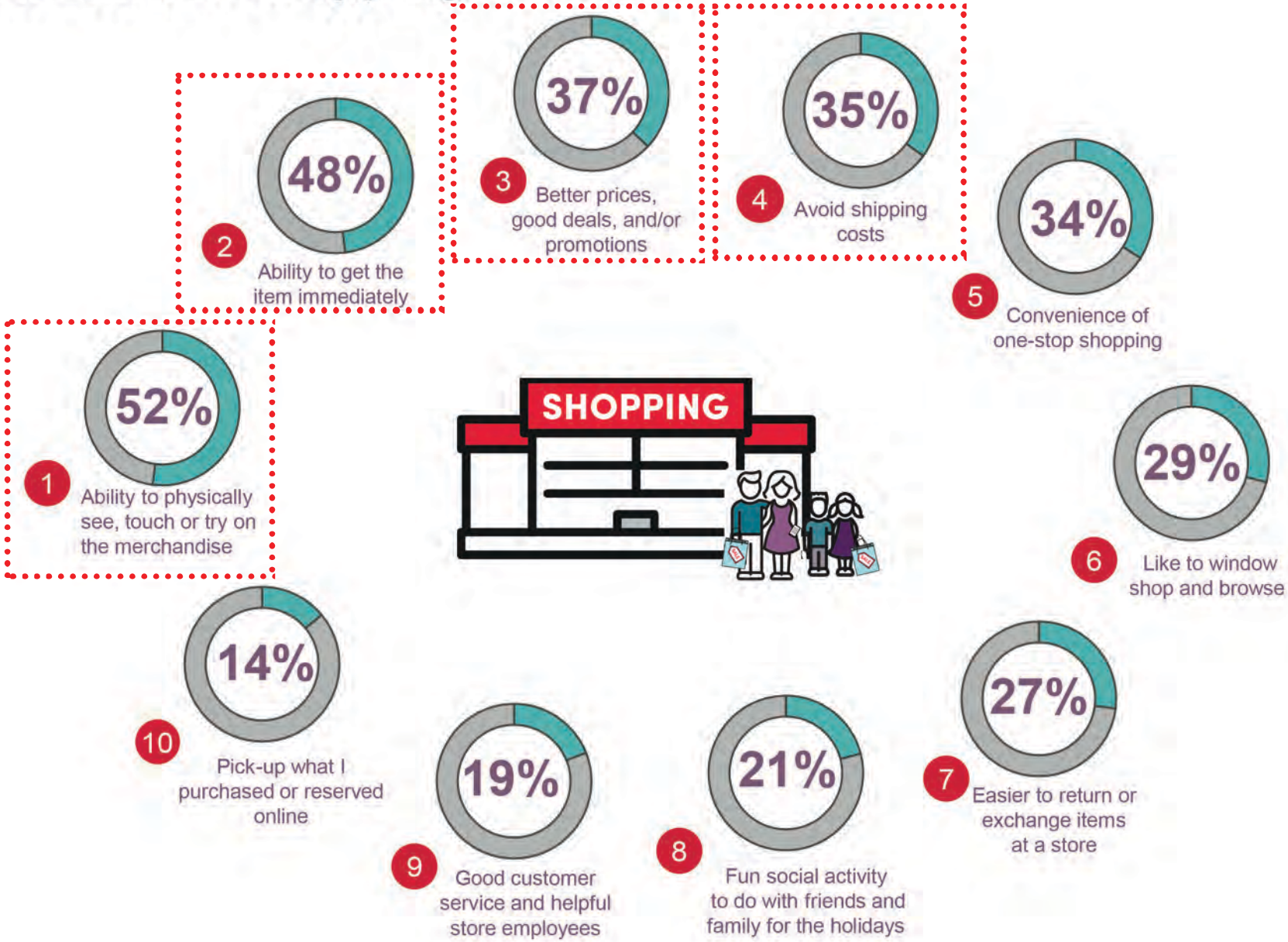
Reasons for Shopping in Stores



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Holiday Season Expenditures

	All		Millennials (20-37 years old)		Generation X (38-53 years old)		Baby Boomers (54-72 years old)	
	Average Spend	Share of Total Spend	Average Spend	Share of Total Spend	Average Spend	Share of Total Spend	Average Spend	Share of Total Spend
Total	**$1,015.80**	–	**$1,053.00**	–	**$1,119.30**	–	**$1,038.30**	–
Holiday Gifts	$571.80	56%	$544.90	52%	$647.10	58%	$628.60	61%
Other Holiday Items	$142.00	14%	$143.60	14%	$165.50	15%	$138.90	13%
Dining	$177.70	17%	$205.50	20%	$170.30	15%	$177.20	17%
Entertainment	$67.70	7%	$96.20	9%	$71.50	6%	$43.40	4%
Personal Services	$56.70	6%	$62.80	6%	$64.90	6%	$50.20	5%

Note: Spending on dining, entertainment and personal services occurred from November 1st to December 25th.

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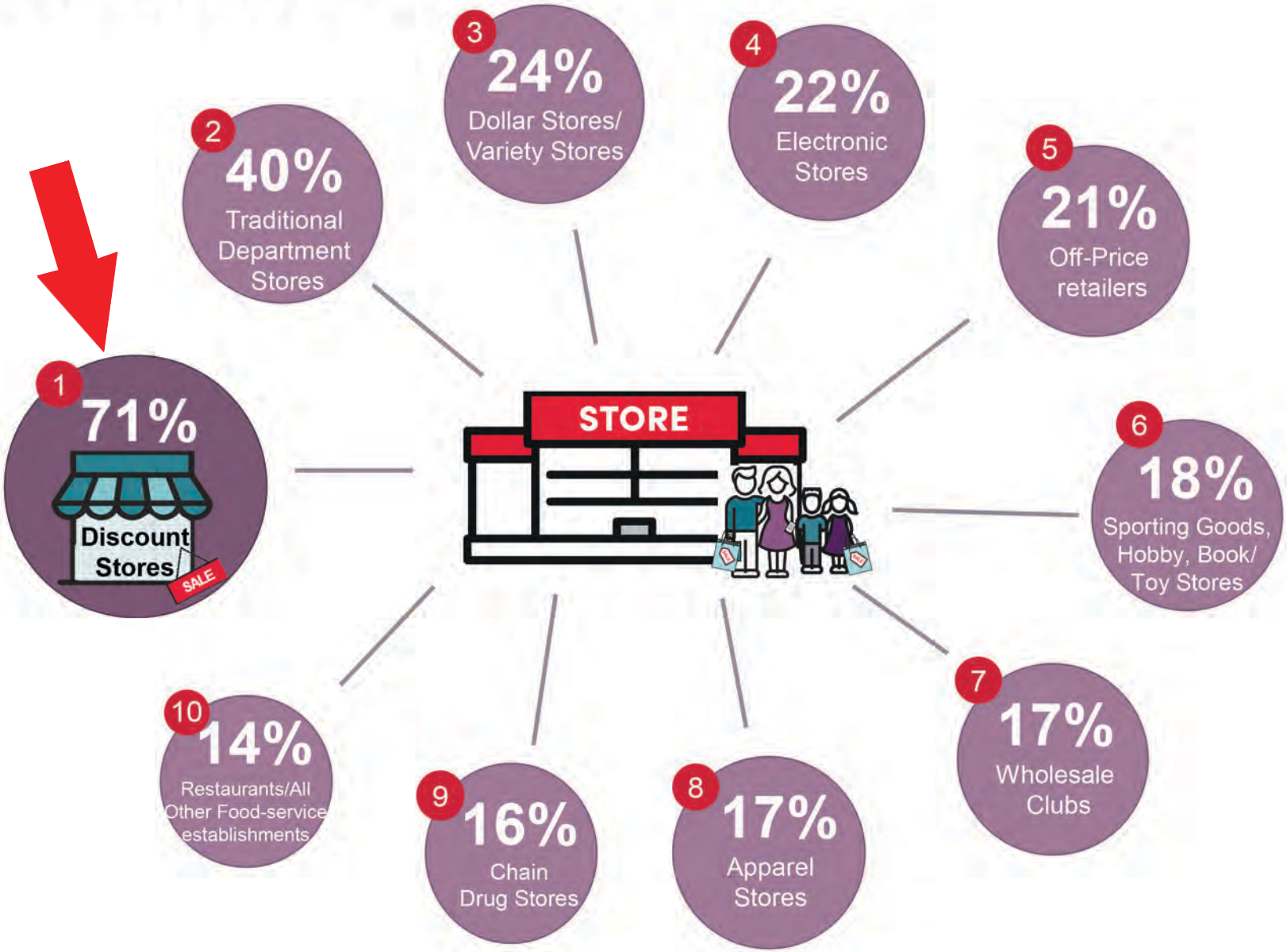
Top 10 Types of Stores to Shop for Gifts and Holiday-Related Items



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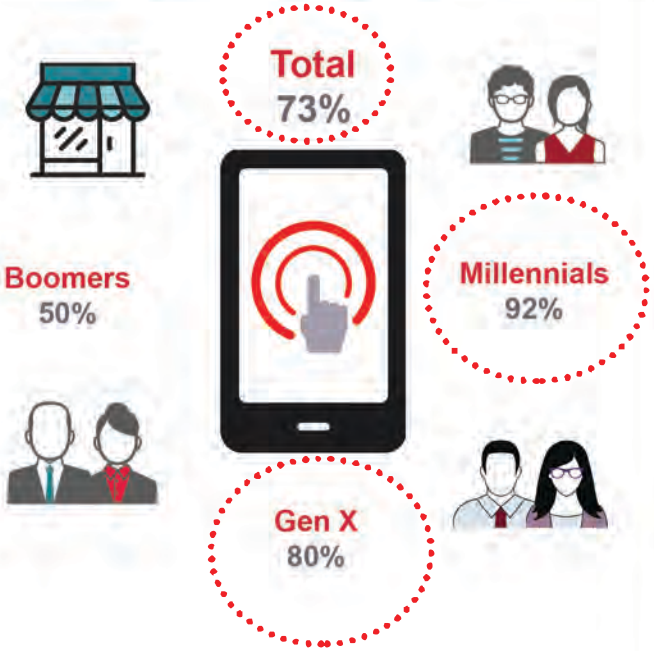
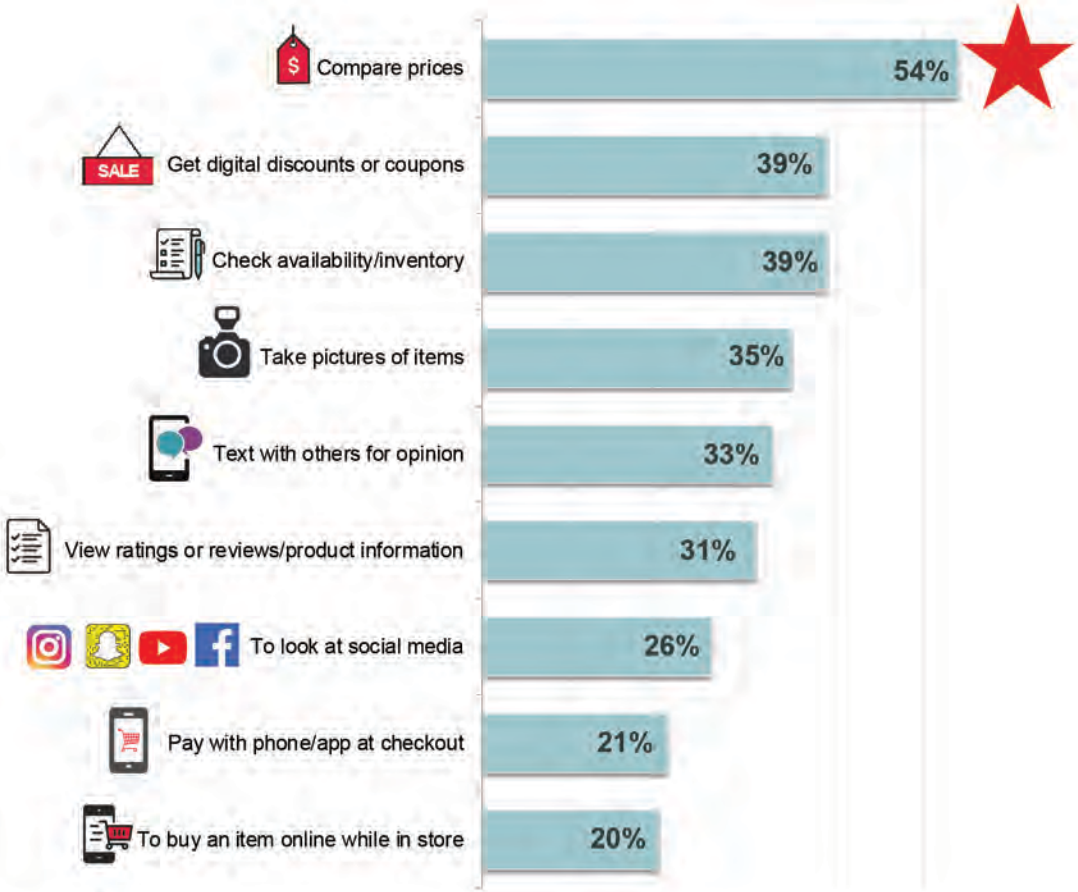
Holiday Shoppers Stay Connected While Making Purchases in Stores

In-Store Mobile Device Users



✓ In **2017**, *66% of holiday shoppers* said they used mobile devices in stores. Those shoppers cited the same reasons as this year for using the devices once in store.

Mobile Device Uses



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Holiday Season Purchases

68%
Gift cards/certificates

51%
Apparel and footwear

46%
Toys and games

34%
Men's/women's accessories/fragrances/cosmetics

34%
Food such as chocolates, popcorn and food baskets and beverages/alcohol

31%
Any electronics and/or digital services

25%
Household appliances or merchandise

20%
Sporting goods/hobby/crafts

17%
Jewelry and watches

16%
Books and magazines subscriptions

14%
Tickets to movies, events, museums, travel or other entertainment

12%
Hardware or tools

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Additional Holiday Shopping Behaviors

Holiday shoppers say…

When shopping for holiday items in a *store*, I tend to also buy items in the *same store unrelated* to the holidays
72%

Buying holiday items in store at a discount encourages me to buy more because I feel I am getting a lot for my money
64%

When buying online during the holidays, it is important for that company to also have a physical store presence
54%

After shopping at a retailer's store, I also went to that same retailer's *website* to browsing and/or make purchases
49%

Searching for promotions during the holiday season encourages me to make more trips to physical stores
46%

During the holiday season, I was more likely to use click-and-collect option than any other times of the year
40%

Note: Percentages include "agree" and "strongly agree" responses.

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