CBRE

NAIOP-MID YEAR RETAIL FORECAST

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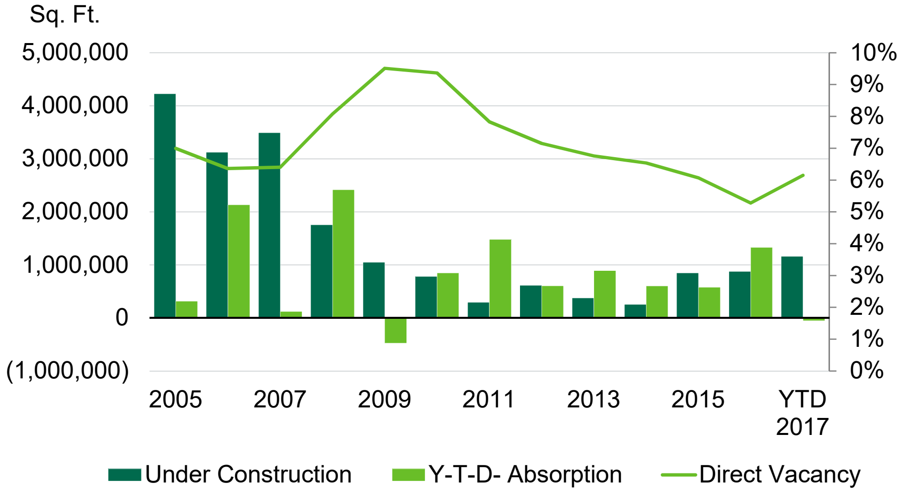
What’s really happening in the retail market?

DENVER RETAIL SUPPLY AND DEMAND

Denver's Strong Retail Fundamentals



Source: CBRE Research, 2017; Econometric Advisors, 2017.

RETAIL CLOSURES & BANKRUPTCIES

WHY SO MANY CLOSURES AND BANKRUPTCIES?

- Reduced consumer spending since recession
- Consumers less attached to "brand"
- Crowded categories (many players with insufficient differentiation in value proposition; ie: American Eagle vs. Aeropostale)
- Retailers must go omnichannel to compete; but not all players had the $ or strategy to shoulder the high costs…
- And in order to invest in e-comms, retailers are looking to cut costs elsewhere…(real estate)

IS THIS REALLY NEW?

- Retail as a structurally cyclical business: "The question is not *if* a retailer will fail; it's *when*!"
- Much less room for mediocrity today than ever before (in business models, strategy, financials, and value proposition/differentiation)
- Who will survive?
  - Those with a differentiated product offer
  - Those who figure out how to do omnichannel **profitably**

NEW FACES TO DENVER RETAIL

FITNESS
CHUZE FITNESS, PELOTON, barre3, CYCLEBAR, CRUNCH, VASA

RESTAURANTS
SOL, PUBLIC SCHOOL ON TAP, Oregano's Pizza Bistro, Death & Co, Tupelo Honey Cafe, 801 CHOPHOUSE, Chuy's, R TACO, Dion's

ENTERTAINMENT
Jump Craze, The Wild Game, WHIRLYBALL, DAGAR, AXE THROWING

APPAREL
EVO FITNESS, FABLETICS, ARC'TERYX, PETER MILLAR, FRYE, UNIQLO

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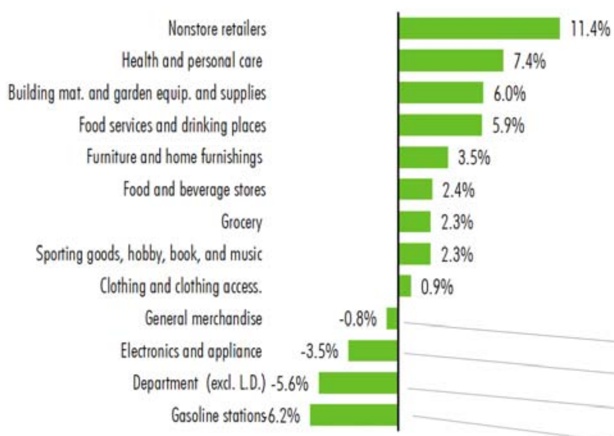
Source: CBRE Research, 2017.

CATEGORY PERFORMANCE

U.S. RETAIL SALES GROWTH BY CATEGORY
(2016 VS. 2015)



COMMENTARY
- Primarily e-commerce
- "Growth of selfies" + expansion of men's personal care
- Boosted by recovery in housing market
- Restaurants & bars – continue to do well
- Boosted by recovery in housing market
- This includes grocery
- Price wars; pressure for discount; arrival of Aldi + Lidl
- Major industry concerns over declining apparel spend; consumer push towards value is driving down prices
- Includes department stores
- Major shift to e-commerce
- Major concerns! See Dept Store slide
- Declines are due to drop in oil price

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RETAILERS: WINNING VS. CHALLENGED CATEGORIES

CHALLENGED

DEPARTMENT STORES

MID-RANGE BRANDS
WHY: consumers trading up and/or down in value
PLAYERS: Aeropostale, Macy's/JCP/Sears, Abercrombie, etc.

LUXURY
WHY: Strong USD; millennials (no $, less into luxury logos, prefer experience over goods)
DISRUPTION: delayed rise of online, rise in consignment + off-price

APPAREL
WHY: consumers buying less clothes; consumers pushing towards value and discount; high e-comms penetration is squeezing profit margins (see e-commerce slide)
DISRUPTORS: rise of renting (Rent the Runway) and consignment (ThredUp, Real Real)

WINNERS

OFF-PRICE & DISCOUNT
WHY: consumer shift to bargains & value since recession; here to stay
PLAYERS: TJX, Ulta Beauty, Ross, Dollar General, etc.

HEALTH & BEAUTY
WHY: expansion of men's & women's personal care + rise of the selfie?
PLAYERS: Ulta Beauty, Sephora, (Barnes & Noble adding make-up!)

FOOD & BEVERAGE (BUT…)
WHY: consumer shift towards eating out; rise of fast-casual
BUT…definite crowding in the fast casual and casual dining space; competition increasing
AND…big role of private equity

SPOTLIGHT ON TWO KEY CATEGORIES

DEPARTMENT STORES…WHAT HAPPENED!?

- Rise of **discount and off-price** retailing (ie, T.J.Maxx, Target)
- **Lack of agility** in business models + leadership; waited too late to adapt to changing consumer tastes
- **Weak financial/operational** structures (in some cases) inhibited ability to re-invest
- **E-commerce** = the straw that broke the camel's back…

GROCERY STORES

- **Low-margin** business (this is key!)
- **Price wars**: consumer flight to value is putting pressure on grocers to reduce prices (ie, Whole Foods 365)
- **E-commerce** has been low…but likely to rise with order online/pick-up in-store
- **Winners**: Sprouts, Krogers; Wal-Mart
- **Disruptors**:
  - Arrival of international, discount entrants (LIDL + Aldi)
  - Amazon (Amazon Go)

E-COMMERCE & OMNICHANNEL

NOT EXACTLY THE E-POCALYPSE…

- Ecomms = 8.5% of total retail sales
- But 51% of online sales go to brick-and-mortar brands…
- …so pure-play e-tailers account for <4% of total retail sales
- Internet sales are an increasing source of brick and mortar brands' revenues

CONSUMERS WANT OMNICHANNEL

- Consumers prefer shopping *across* channels for a single transaction
- So even if they don't make the purchase in the store, the store plays a critical role in the shopping decision
- Several retailers have reported online sales in a market will drop if they close a store

THE REAL CHALLENGE IS FULFILLMENT COSTS

- High cost of delivery
- Even higher cost of returns (online return rate > in-store)
- Traditional retailer logistics not built for online fulfillment
- So retailers are having to make significant investments to adjust
- This is the main reason profit margins are declining
- Very few players do e-commerce profitably
- Note: Amazon LOSES money on its retail business

THANK YOU

FOR MORE INFORMATION, PLEASE CONTACT

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