U.S. Retail, Q4 2016

Year-end 2016 marks highest rent levels in seven years

Availability Rate	Net Absorption	Completions	Net Asking Rent
7.1%	12.5 MSF	12.8 MSF	$16.59 PSF

Arrows indicate change from previous quarter.

ECONOMIC TRENDS

CONSUMER SENTIMENT REBOUNDS FROM PRE-ELECTION UNCERTAINTY

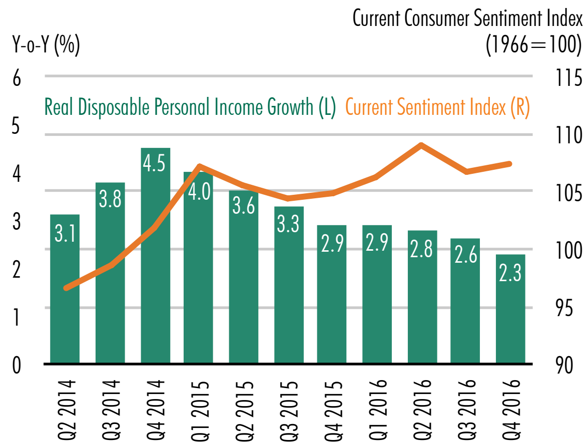
Consumer sentiment rebounded in Q4 2016 after a small dip in Q3. A stable economy is expected to provide solid footing for continued growth in 2017. GDP payrolls and real disposable personal income have grown for nearly three years. Though the growth rates are showing a slight deceleration, continued gains reflect a healthy economic environment.

RETAIL SALES

NON-STORE RETAILERS AND HEALTH & PERSONAL CARE STORES LEAD Q4 SALES GAINS

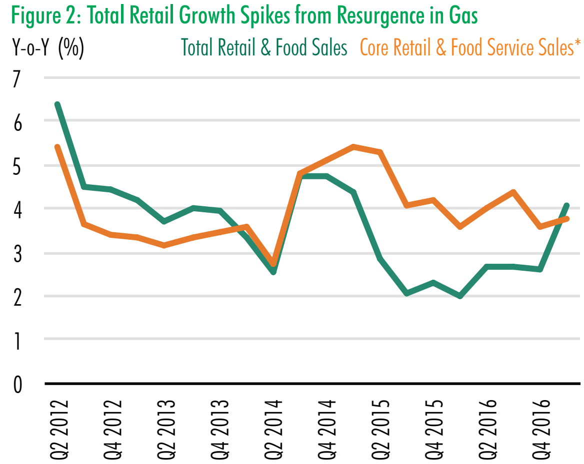
Total retail and food service sales increased by 4.1% year-over-year in Q4 2016. Recent increases in oil prices boosted gas station sales and provided a considerable boost to total growth in Q4. Core sales, which exclude gas stations and motor vehicle & parts dealers, grew at a slightly lower but still strong rate of 3.8%. As in the previous four quarters, year-over-year growth remained strong in both the health & personal care and food services & drinking places (restaurants) categories. Non-store retailers again topped the charts in Q4, as holiday spending pushed annual sales 11.4% above 2015's level. In

Figure 1: Consumer Sentiment Rebounds After Election



Source: University of Michigan, U.S. Bureau of Economic Analysis, Q4 2016.

Figure 2: Total Retail Growth Spikes from Resurgence in Gas



Note: Sales figures are seasonally adjusted.
*Core Retail and Food Service Sales excludes gasoline stations and motor vehicle & parts dealers.
Source: U.S. Census Bureau, Q4 2016.

Q4 alone, non-store retailer sales rose nearly 13% compared with Q4 2015. Conversely, department stores saw deeper and accelerating losses from prior-year levels.

DEMAND TRENDS

NET ABSORPTION SEES SLIGHT PAUSE IN Q4

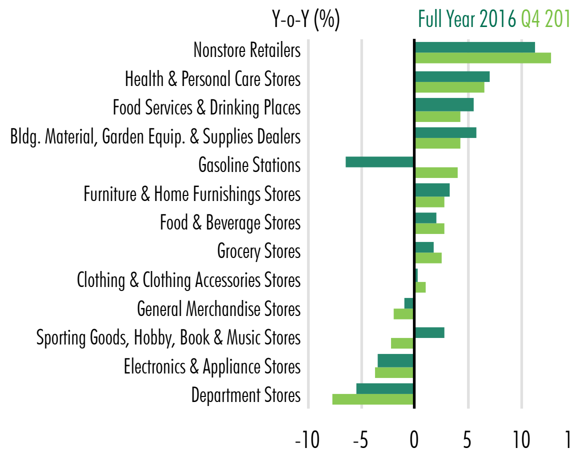
Demand for retail space nationally remained steady in Q4, with 12.5 million sq. ft. of positive net absorption. For full-year 2016, absorption totaled 74.8 million sq. ft. —10% lower than in 2015. The market has now recorded an average of nearly 20 million sq. ft. of quarterly positive net absorption for almost six consecutive years dating back to Q2 2011. The most consistent demand is in the neighborhood, community & strip center category, which absorbed 5 million sq. ft. in Q4—almost half of total national absorption. Though this segment experienced a decrease in positive net absorption when compared with Q4 2015, year-over-year absorption increased by 25%. Conversely, both power centers and lifestyle & malls saw declines in absorption on a year-over-year basis, driven primarily by challenges among Class B and C centers most affected by recent retail vacancies. Both the power centers and lifestyle & malls categories recorded negative net absorption for the year. Retail demand was strongest in Atlanta, Houston, Dallas, Boston and Detroit in 2016. Compared with the same period in 2015, net absorption strengthened in Boston and Detroit.

SUPPLY TRENDS

RETAIL COMPLETIONS REMAIN AT LONG-TERM LOWS

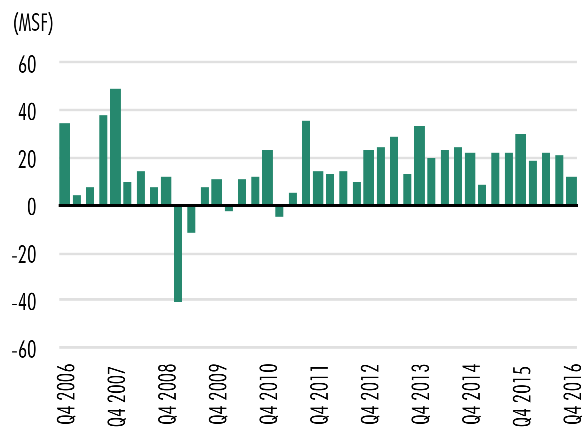
Retail completions have remained subdued since the recession nearly eight years ago. Though quarterly completions were relatively consistent throughout 2016, the yearly total of 51.5 million sq. ft. was down approximately 9.5% from 2015. This is the first significant decline for a rolling 12-month total since Q1 2011. Some markets are

Figure 3: Retail Sales Leaders and Laggards



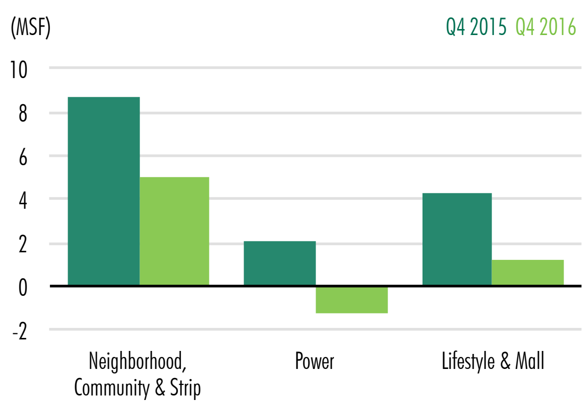
Source: U.S. Census Bureau, Q4 2016.

Figure 4: Total Retail Net Absorption



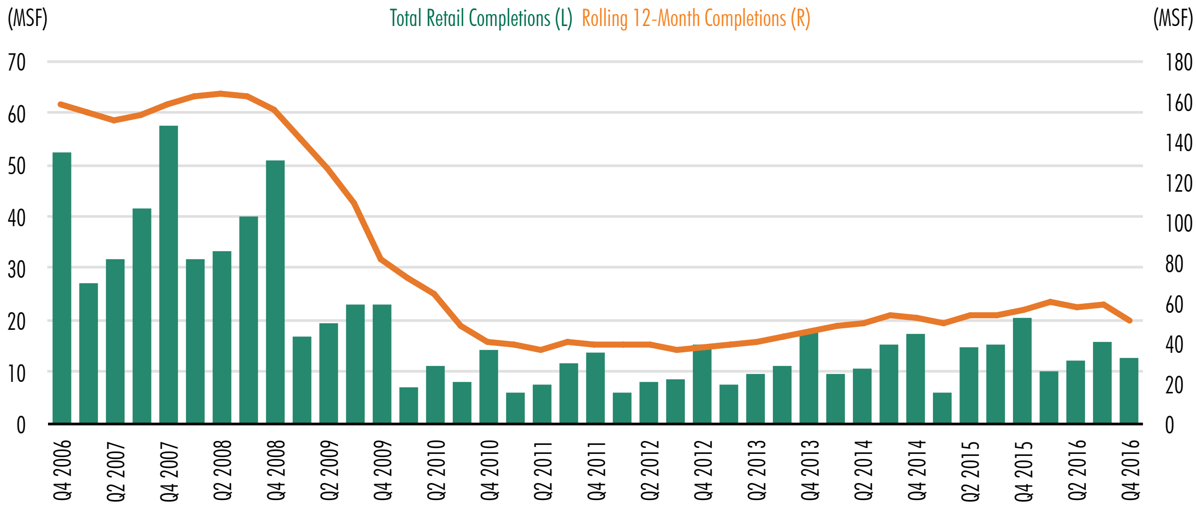
Source: CBRE Econometric Advisors, Q4 2016.

Figure 5: Net Absorption by Center Type



Source: CBRE Econometric Advisors, Q4 2016.

Figure 6: Total Retail Completions



Source: CBRE Econometric Advisors, Q4 2016.

still seeing significant activity. Houston topped the charts on both a quarterly and yearly basis with nearly 4.4 million sq. ft. of retail space completed. Chicago came in second with 3.4 million sq. ft. and Dallas and New York tied for third with more than 2 million sq. ft. each.

AVAILABILITY TRENDS

AVAILABILITY RATE UNCHANGED FROM Q3 AT 7.1%

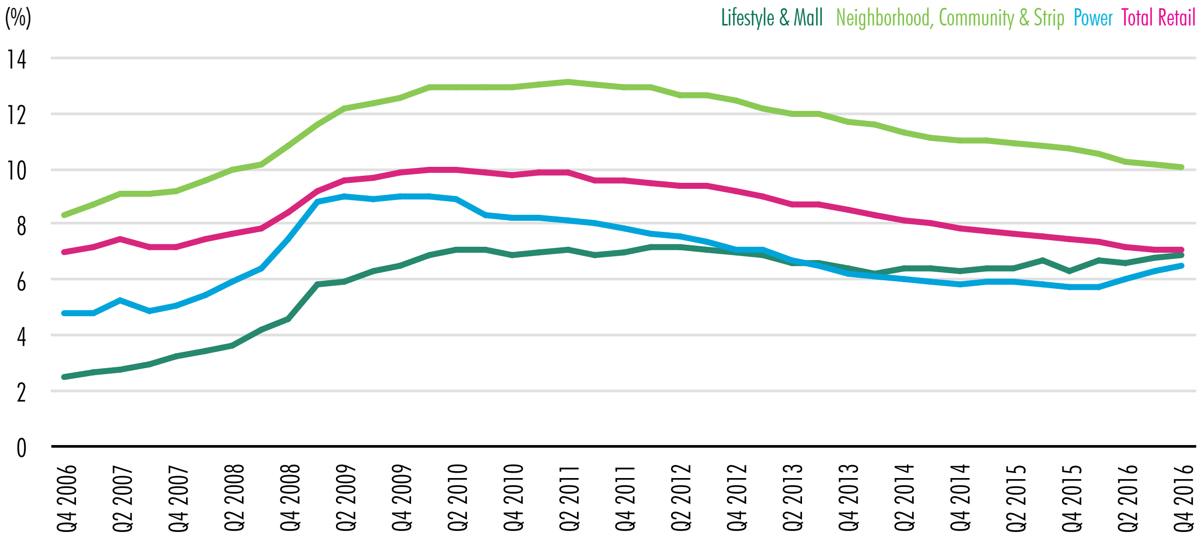
The overall U.S. retail market has seen quarterly availability either drop or stay the same for six consecutive years. Since peaking at 10% in Q1 2011, the market has mimicked the trend exhibited by its largest segment—neighborhood, community & strip centers. This segment saw the highest availabilities at the height of the last recession, but has been the driving force behind declining availability since then, with significant positive net absorption. However, recent negative trends in net absorption for power centers and lifestyle & malls, coupled with modest completions, have started to increase availability in these two segments. The overall market availability remained the same quarter-over-quarter at 7.1%. This is still 40 basis points (bps) lower than Q4 2015, but it could be an indication that the national rate has seen availability bottom out.

RENT TRENDS

RENT LEVELS REACH NEW HEIGHTS FOR THE CYCLE

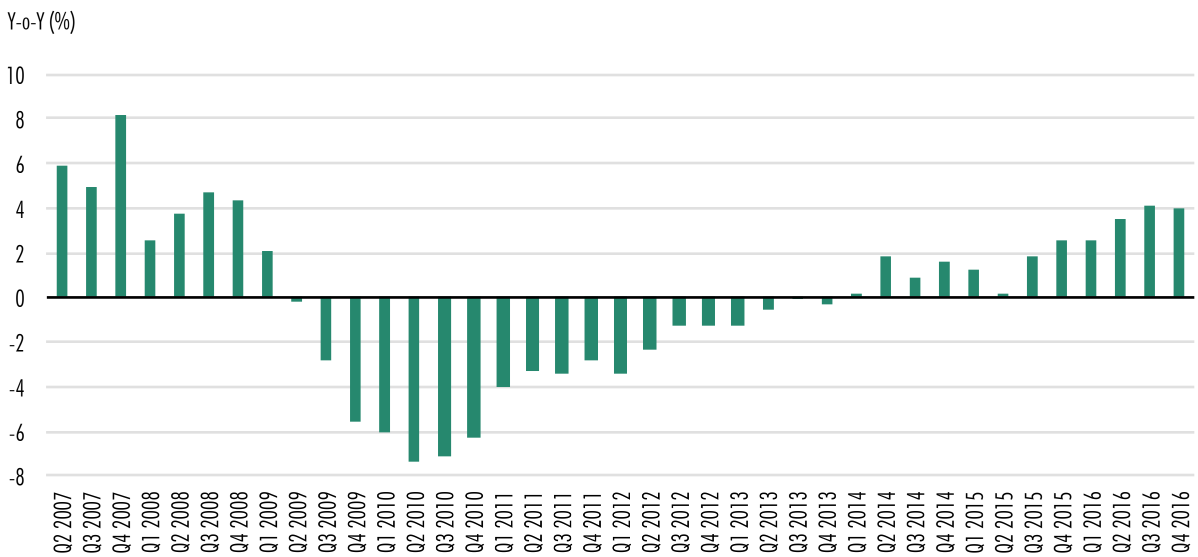
The U.S. has now experienced 12 consecutive quarters of positive year-over-year rent growth. Net asking retail rent averaged $16.59 per sq. ft. nationally in Q4—up 4.0% from Q4 2015 and 8.3% from the cycle low of $15.32 per sq. ft. in Q4 2013. Retail rents have not been this high since Q1 2010 and rent growth is near its highest level in more than eight years. Such healthy and robust rent growth is likely the driving force behind lower net absorption for the retail sector. Going into 2017, rents will likely increase, though at a slower pace. As market demand increases, this pullback in rent growth will allow the market to restore itself to equilibrium.

Figure 7: Availability Rates by Retail Segment



Source: CBRE Econometric Advisors, Q4 2016.

Figure 8: Total Retail Rent Growth



Source: CBRE Econometric Advisors, Q4 2016.

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