Strip Center Sector

July 12, 2016

DJIA: **18,348** | RMZ: **1,250** | 10-Year T-Note: **1.53%**

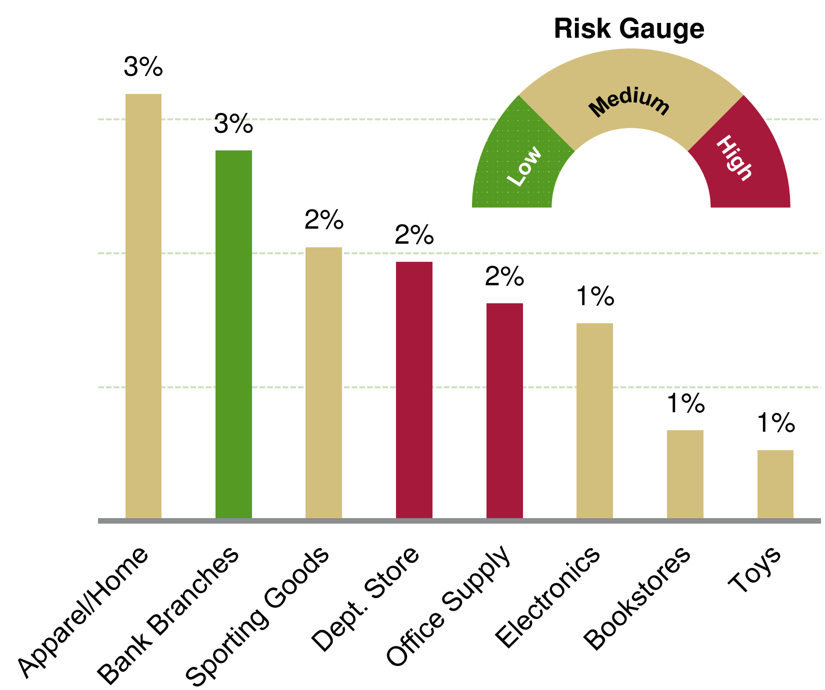
Green Street Advisors

Retailers: Survival of the Fittest

Overview

- Changing consumer preferences & ecommerce impacts retailer health
- Landlords are constantly churning tenants – retail is Darwinian
- Identifying at-risk tenants/categories is critical for landlords and investors
- This report frames the strip center REIT exposure to eight categories
- A single category's demise is manageable, but it would be disruptive
- REITs with a lot of anchor space are more exposed to these categories
- But small shops could be most challenged in a downturn
- This report is a resource guide with a detailed review of each category
- Recommendations are unchanged in this report

Industry Category Exposure
*(weighted average of strip center REITs' ABR)



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Important disclosure on page 17

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Executive Summary

Overview

The weakest links

- Strip center owners have been battling shifting consumer shopping patterns and growth in ecommerce
- Landlords are constantly churning tenants - the strong usually replace the weak
- Pruning weak tenants before store closures/bankruptcies is good defense for property owners
- Identifying at-risk tenants early is also helpful for REIT investors to make better stock picks
- This report frames the REIT exposure to eight categories, some worth monitoring closer than others
- Green Street surveyed 11 strip center REITs to provide broader information than top tenant lists
- Tenant data can be found in Green Street's recently refreshed strip center database
- Grocers were excluded from this analysis; and small shops are too fragmented to analyze by category

Category Survey

Manageable risks, but worth monitoring

- Select retailers were grouped into eight categories representing roughly 15% of REIT annual base rent
- Most categories are made of anchor tenants
- As such, REITs with a higher percentage of anchors are more exposed to the studied tenants
- A single category's demise would not severely impact the strip center sector, but it would be disruptive
- Apparel/home and bank branches have the highest concentration of rent in this survey
- Department stores, Sporting Goods and Office Supply will likely feel the most near-term pain
- DDR, RPAI and KIM screened unfavorably, largely due to a higher concentration of NOI from anchors
- AKR and ROIC have the highest small shop exposure - which can come under pressure in tough times

Recommendations

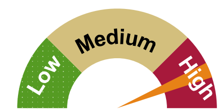
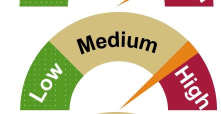
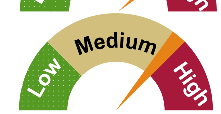
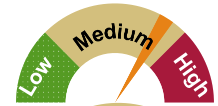
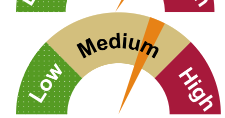
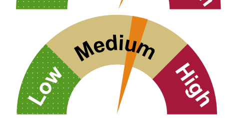
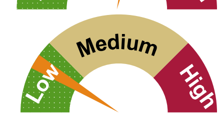
- Investment recommendations are unchanged herein

Recommendations:

BUYs:	AAT	FRT	RPAI
SELLs:	KIM	ROIC	UE

Categories to Watch

Risky Business: Strip center landlords are constantly churning their tenants - the strong usually replace the weak. This report explores tenant categories where retailers have a more challenging profitability and growth environment. The exact exposure to each retailer was surveyed among the strip center REITs* to capture a broader picture than what is available from their top tenant disclosure. Some retailers on the list are struggling while many are thriving, but retailer health can change course quickly.

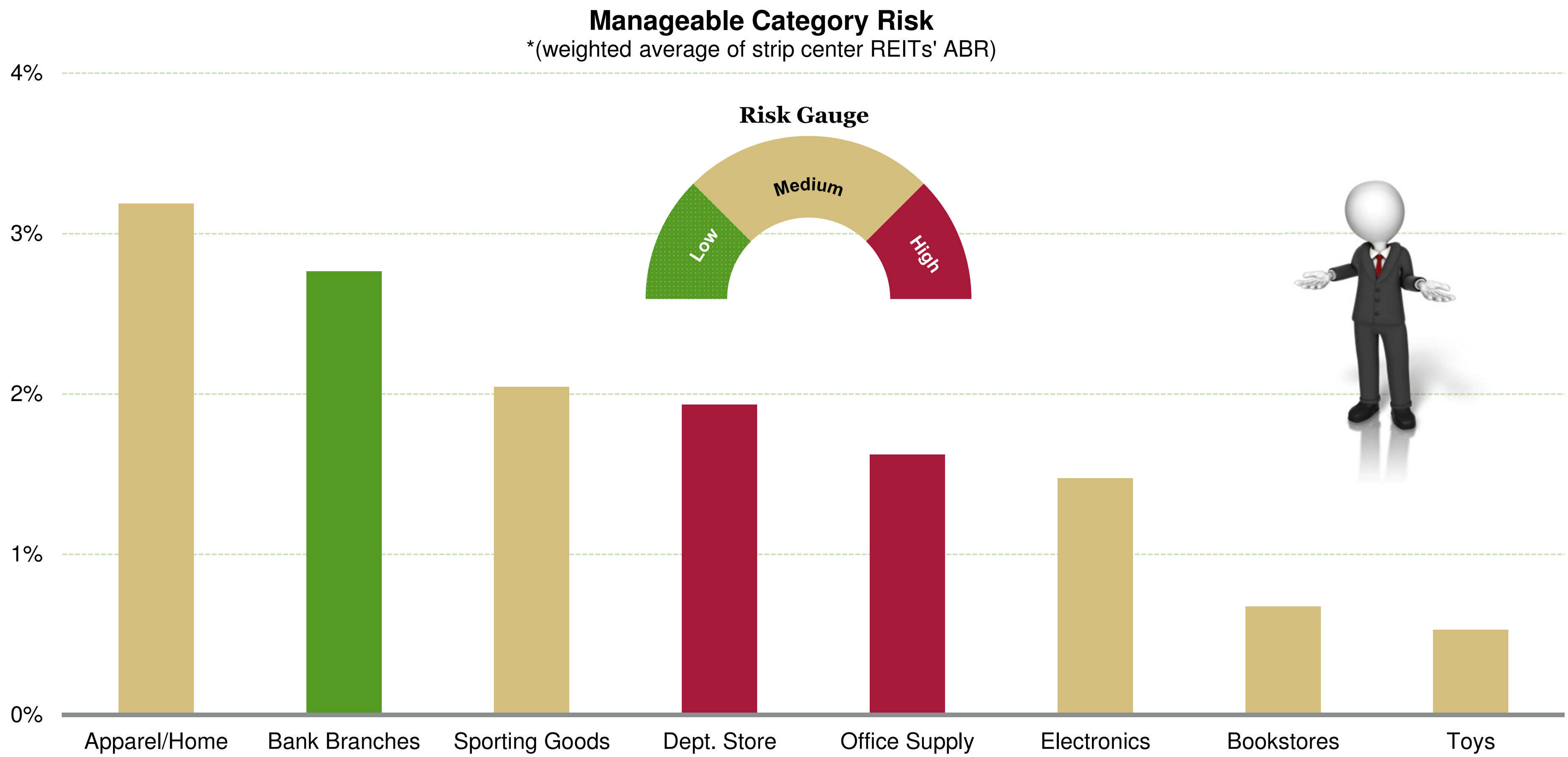
Category	Retailers	Comments	Risk Gauge
Office Supply	STAPLES that was easy. · Office DEPOT	• The failed merger will likely result in accelerated store closures from both tenants	
Department Stores	sears · macy's · KOHL'S expect great things · JCPenney	• Department stores in general are losing share to online, mass merchants and off-price	
Electronics	BEST BUY · hhgregg appliances & electronics	• Online continues to be the biggest threat and hhgregg's struggles highlight this difficult category	
Toys	Toys R Us	• The lack of new entrants and mass merchants' continued growth in toy sales makes this a challenged area	
Sporting Goods	EVERY SEASON STARTS AT DICK'S SPORTING GOODS · BIG 5 SPORTING GOODS · HIBBETT SPORTS · SPORTS AUTHORITY · MODELL'S SPORTING GOODS · Academy SPORTS+OUTDOORS	• Bankruptcy filings at The Sports Authority, Sports Chalet, and City Sports raises concerns	
Apparel/Home	BED BATH & BEYOND · Pier 1 imports · GAP	• Share gains to better retailers, online competition from Wayfair, and mass merchants have all taken share	
Bookstores	BARNES & NOBLE BOOKSELLERS · BOOKS-A-MILLION	• Bookstore performance has stabilized but are these viable concepts longer term?	
Banks	Bank of America · WELLS FARGO · citi · CHASE	• Do we need that many bank branches given the public's embrace of online banking?	

Sources: Green Street Advisors

*Urban Edge (UE) chose not to participate in the survey

Sector Exposure

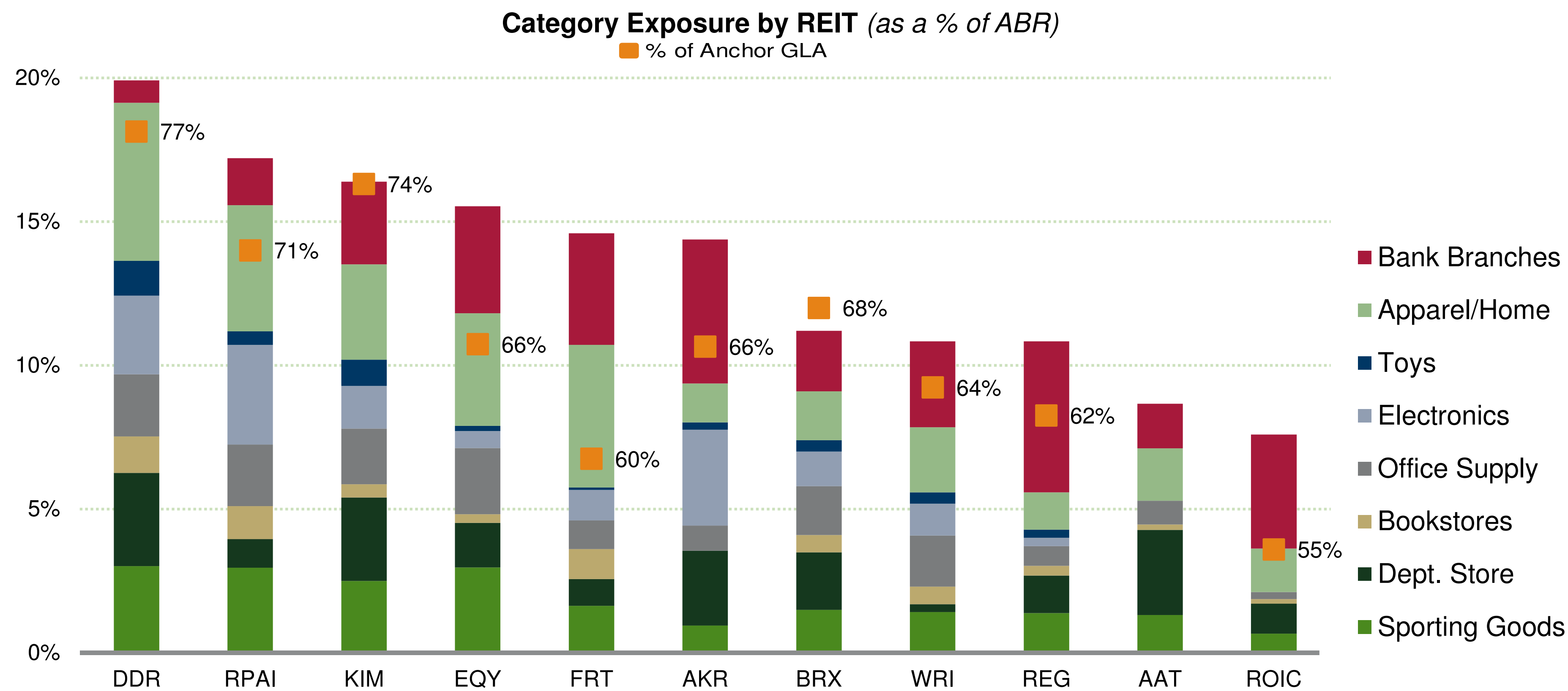
Eggs in Different Baskets: With the exception of apparel/home, the tenants included in this survey generally represent the lion's share of each category's retailers and rent from the category for the REITs. Even the broad demise of one category would not severely impact the strip REITs given the fragmented nature of their tenancy, but it would be disruptive.



Sources: Company disclosure, Green Street Advisors

Category Breakdown

REIT Exposure: REIT concentration by category and tenant varies meaningfully. For the group of tenants studied, the disparity is mainly due to a given REIT's NOI percentage derived from anchors. Grocers were not studied, and small shops are too fragmented to study by tenant category. This report is intended as a reference piece for when (more than if) tenant bankruptcy concerns arise in the named categories.



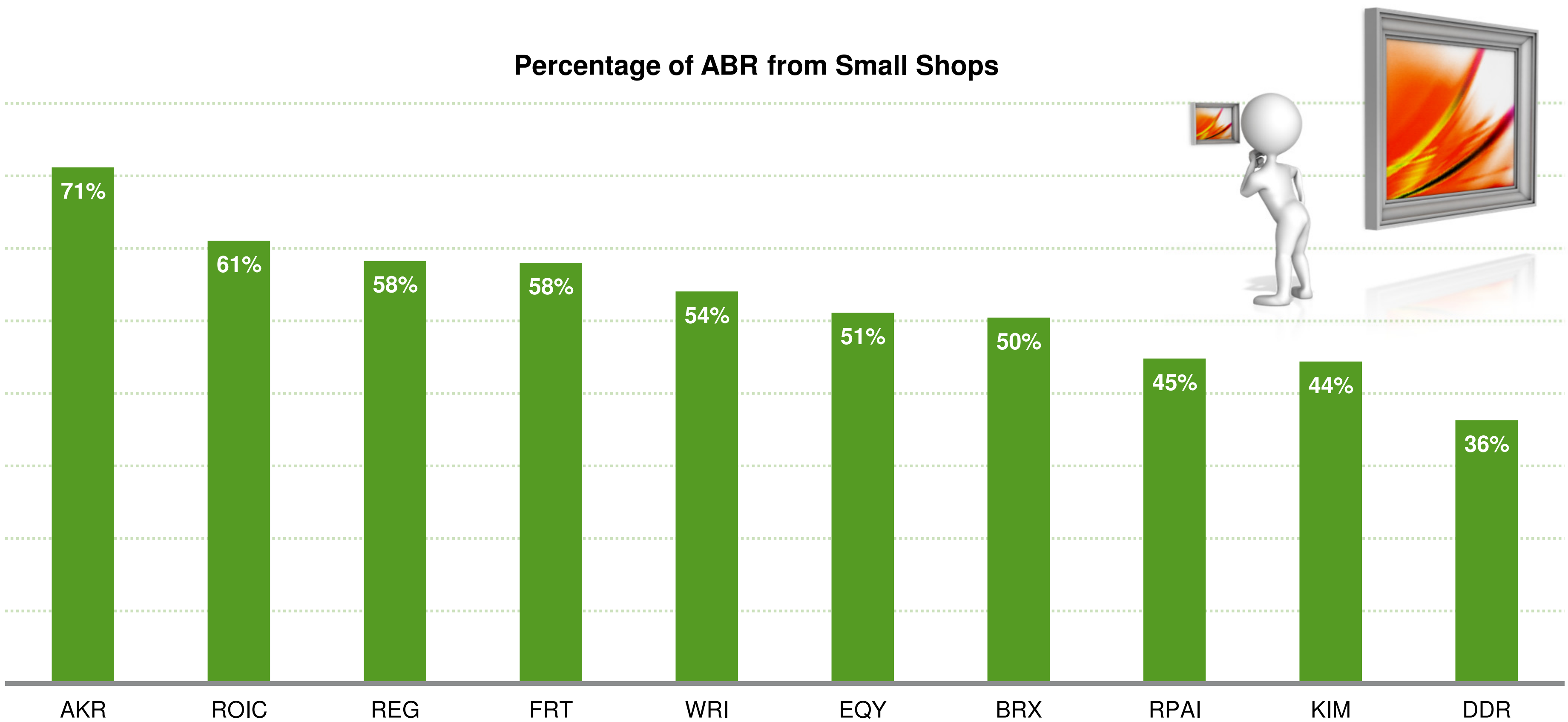
Sources: Company disclosure, Green Street Advisors

*Federal's Bank Branch exposure includes an estimate for "other" based on peer averages because it was not provided.

Small Shop Caveat

Don't Forget the Big Picture: REITs with the highest concentration of studied tenants do not necessarily have more tenant risk. Small shops can be one of the most at-risk portions of strip center portfolios when things turn sour. While many of the REITs screen well on the concerning category analysis, they generally have more exposure to smaller regional and local tenants. In an adverse economic environment these tenants may find themselves more challenged given they may not be as well capitalized.

Percentage of ABR from Small Shops

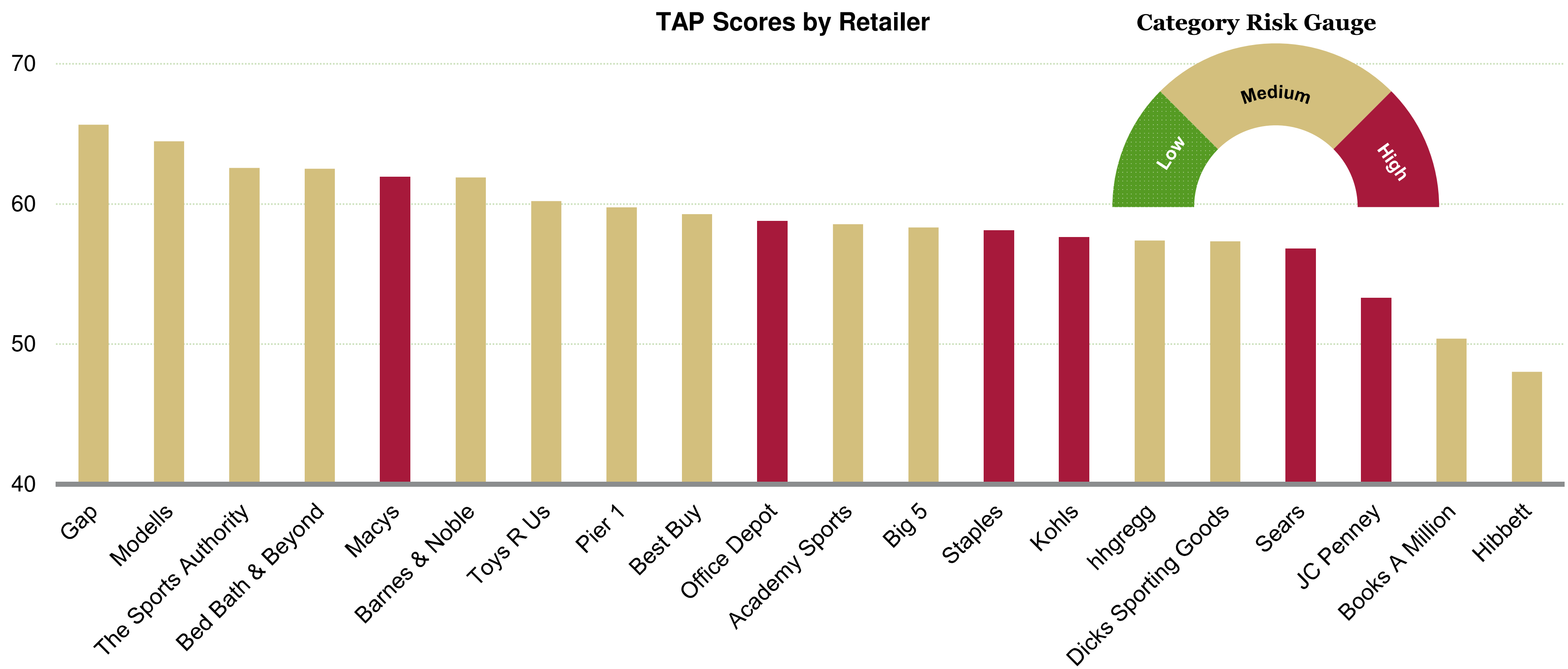


Sources: Company disclosure, Green Street Advisors

Note: Acadia's estimate includes small shops and street retail

TAP Scores

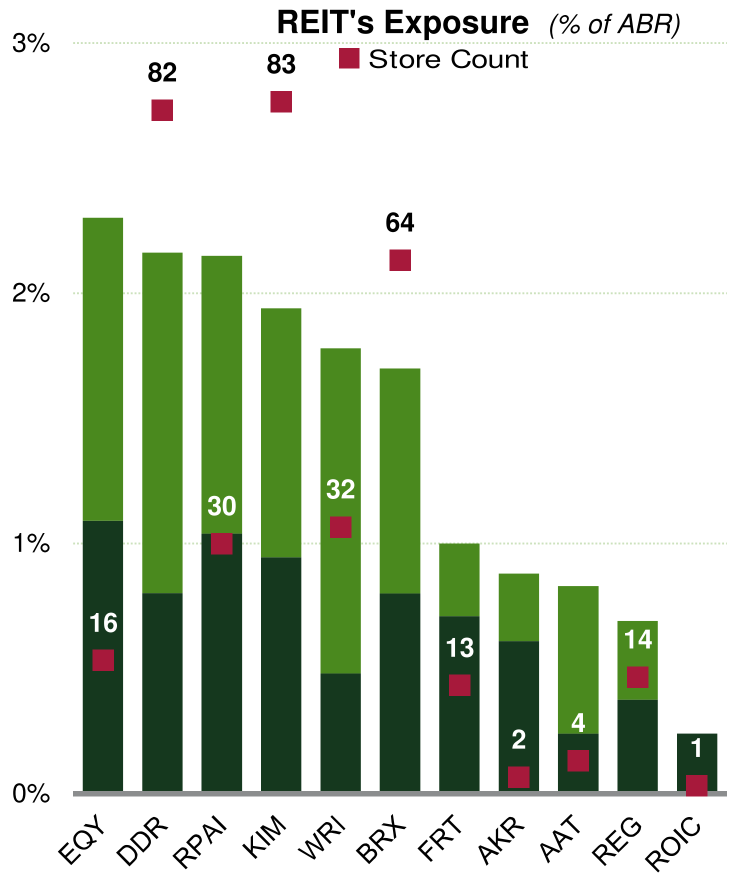
Demographics Matter: Green Street's Trade Area Power ("TAP") Scores rank each REIT property's trade area on a 1 to 100 scale. The score reflects the strength of the surrounding trade area on a basis that is comparable across the country. Tenants with higher TAP scores may prove to be easier to backfill.

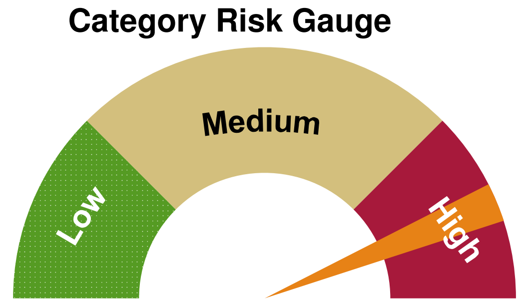


Sources: Company disclosure, Green Street Advisors Note: Bank locations were note screened

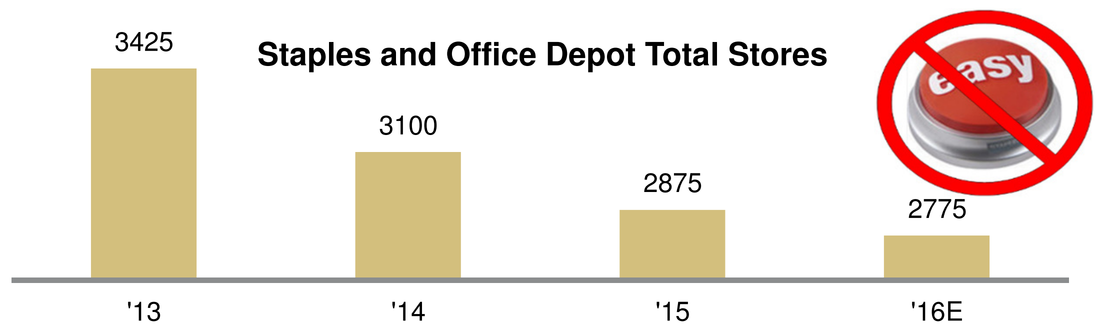
The Details: Office Supply

That Wasn't Easy: Struggles in the brick and mortar office supply category have been well documented given the majority of growth has been in the enterprise segment (business) where most orders are placed online. Strip center REITs have had contingency plans for the troubled category for some time. The FTC's decision to block the merger of the two largest players essentially removes the life support option and will accelerate store-closure plans.





Retailer	'15 SSS [1]	Total Stores	Strip REIT Exposure [2]	S&P Credit Ratings	Average Store Size
Office Depot	-8.0%	1,564	12%	B-	20k
Staples	-3.0%	1,302	11%	BBB-	20k

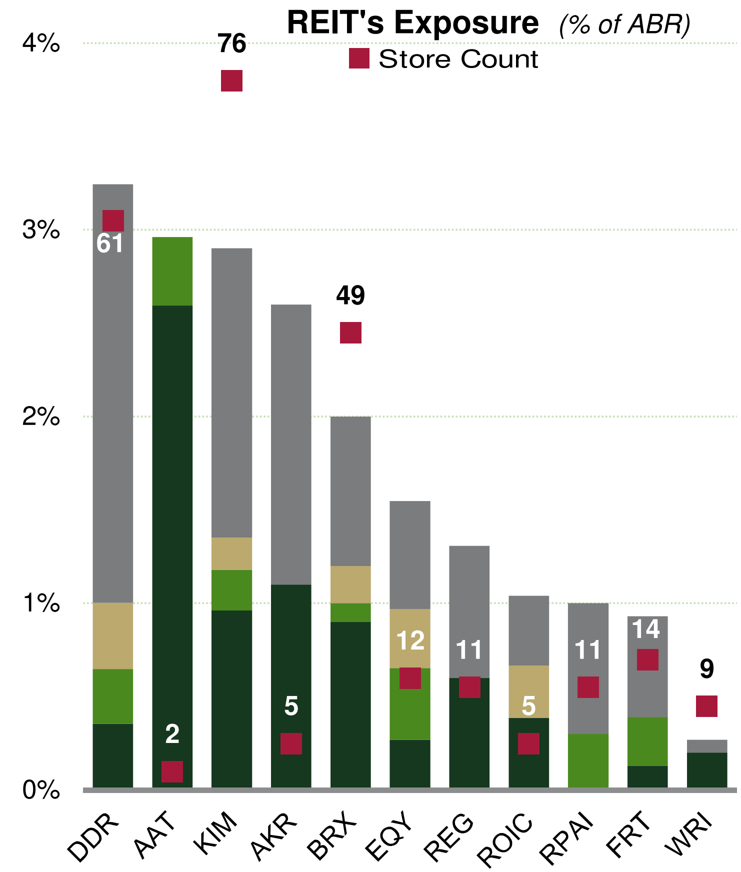


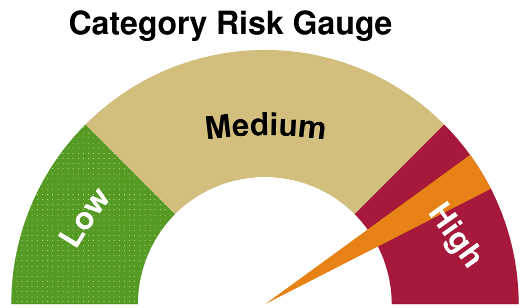
Note: Office Depot's comparable store sales were not reported for '15. Change in total sales is used instead.

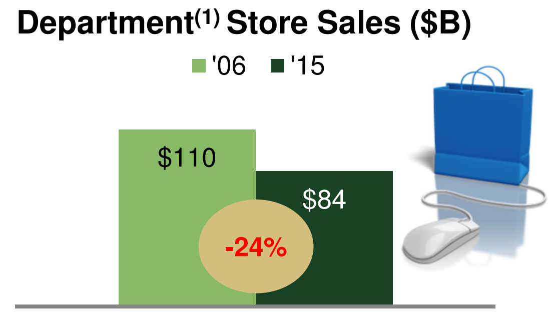
Sources: Company disclosure, Green Street Advisors (1) SSS = same store sales (2) Represents total retailer stores in REIT portfolios/total number of a retailer's stores.

The Details: Department Stores

A Secular Decline: Several department store chains have been under pressure for nearly a decade. Market share is being captured by a variety of different retail apparel formats: ecommerce, off-price, mass merchant, and brand flagship stores. Sears/Kmart's struggles have been well documented and landlords have been aggressively attempting to recapture these leases over the past decade. While Kohl's isn't at death's door, underwhelming recent results is noteworthy given its meaningful concentration in REIT portfolios.







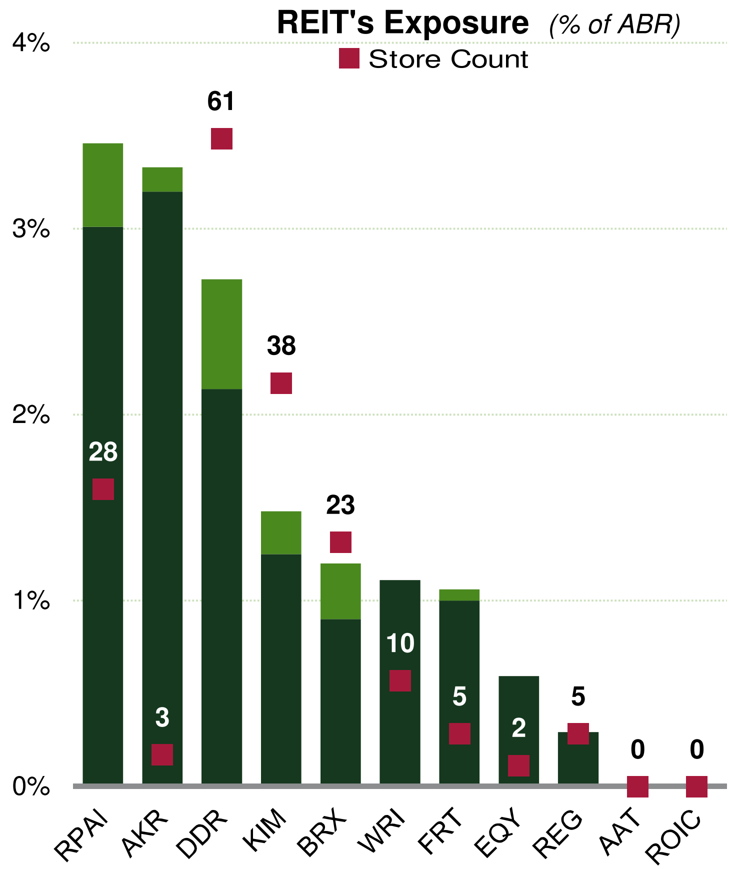
Retailer	'15 SSS	Total Stores	Strip REIT Exposure	S&P Credit Ratings	Average Store Size
Kohl's	-0.7%	1,167	8%	BBB	70k
JC Penney	4.5%	1,014	2%	B	100k
Macy's	-2.5%	870	3%	BBB	160k
Sears Holdings	-9.2%	1,646	16%	CCC+	115k
	Kmart	941		Kmart	95k
	Sears	705		Sears	138k

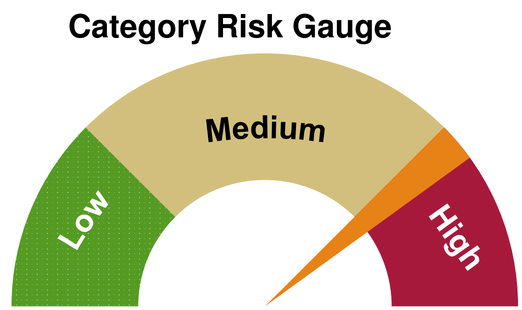
Sources: Company disclosure, Green Street Advisors

(1) Includes sales of Kohl's, JC Penney, Macy's and Sears (including Kmart)

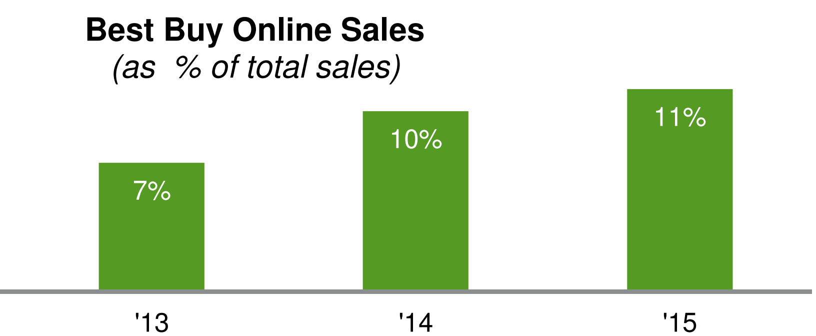
The Details: Electronic Stores

You've Got Questions, We've Got...: The retailer graveyard is littered with electronic store players (Circuit City, Radio Shack, Comp USA, etc.) that fell victim to better competition and ecommerce. The category appears to have hit an equilibrium as ecommerce share growth has slowed, but Walmart continues to be an aggressive competitor. Best Buy appears healthy for now, but hhgregg is bleeding market share. While there are limited players that have weathered the initial storm, the firm headwind of ecommerce remains.





Retailer	'15 SSS	Total Stores	Strip REIT Exposure	Locations	Average Store Size
hhgregg	-7.7%	226	19%	Eastern U.S.	30k
Best Buy	0.5%	1,037	9%	National	40k



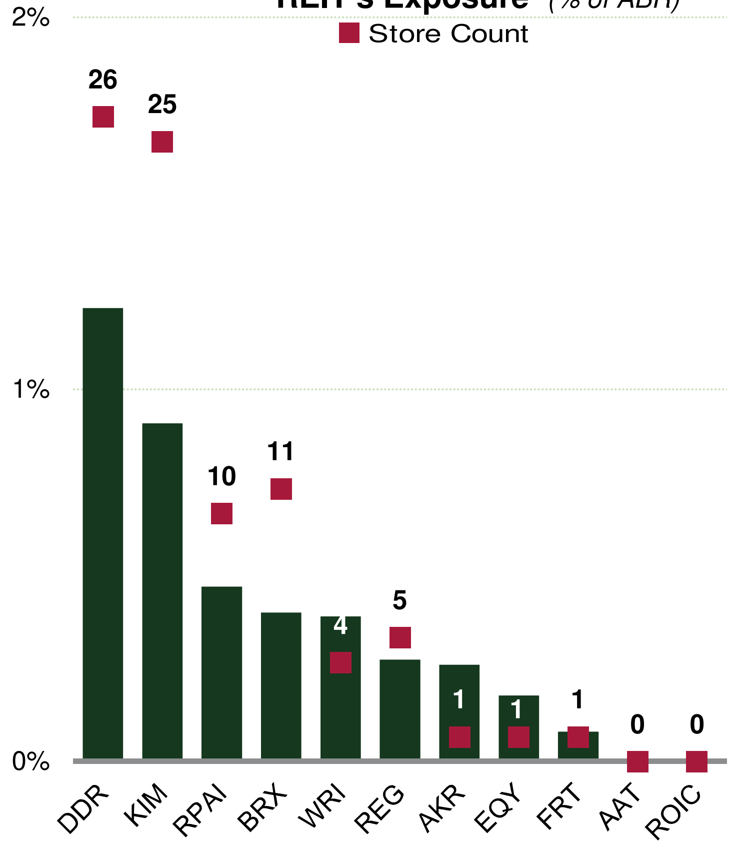
Sources: Company disclosure, Green Street Advisors

Note: Fry's electronics was polled but the strip center REITs had zero exposure

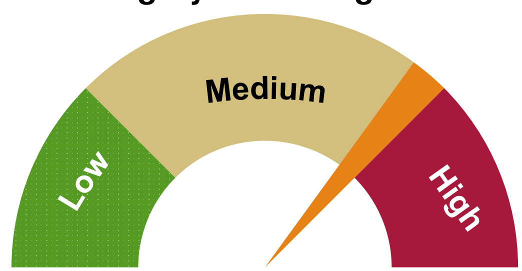
The Details: Toy Stores

Losing Ground: Toy stores have struggled to gain market share over the last decade, under pressure from mass merchant players such as Walmart and Target, as well as ecommerce. The largest player, Toys "R" Us, was taken private in '05 by KKR, Bain Capital and office REIT Vornado. Despite multiple turnaround initiatives, the company's same-store sales results have been weak. That said, rents at most locations are likely below market and represent an attractive mark-to-market opportunity if REITs recapture some of these boxes.

REIT's Exposure *(% of ABR)*

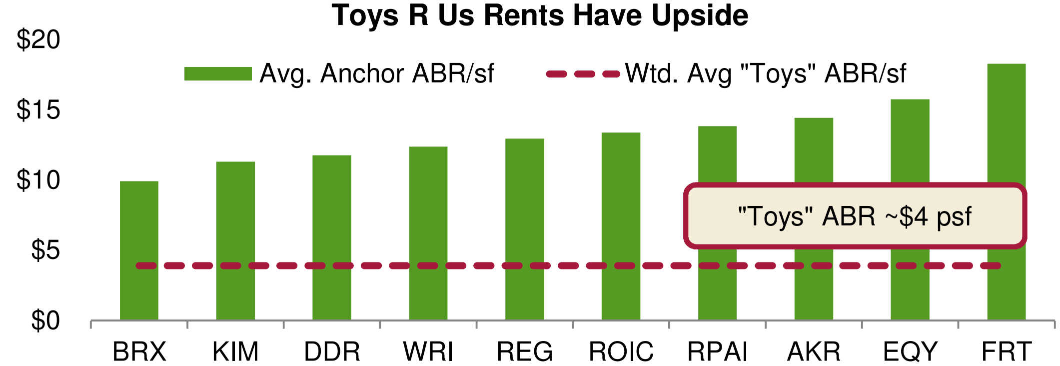


Category Risk Gauge



Retailer	'15 SSS	Total Stores	Strip REIT Exposure	S&P Credit Ratings	Average Store Size
Toys R Us	0.9%	864	10%	B-	40k

Toys R Us Rents Have Upside

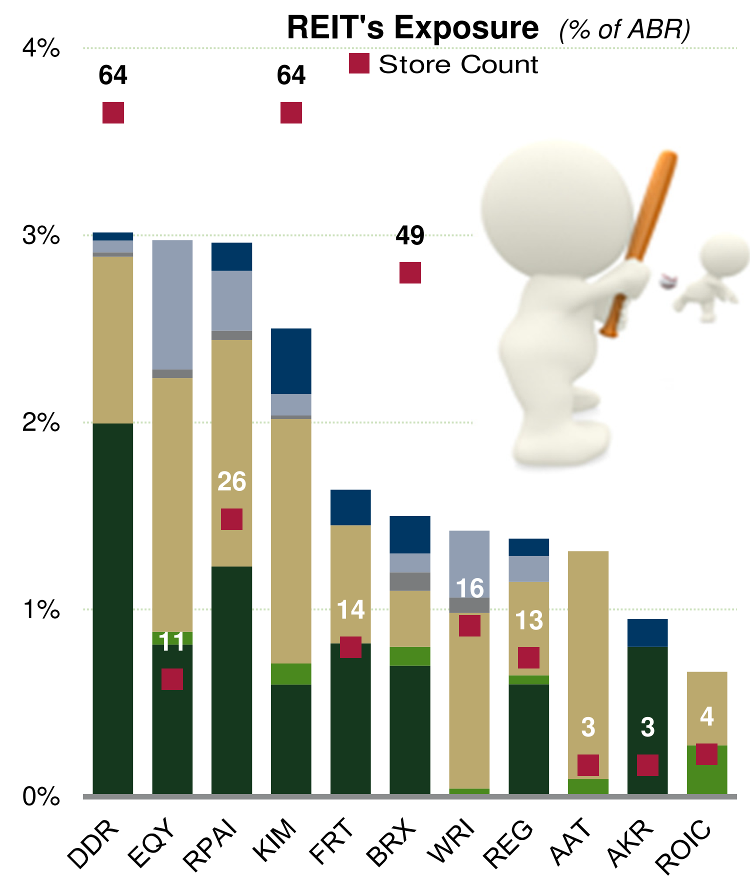


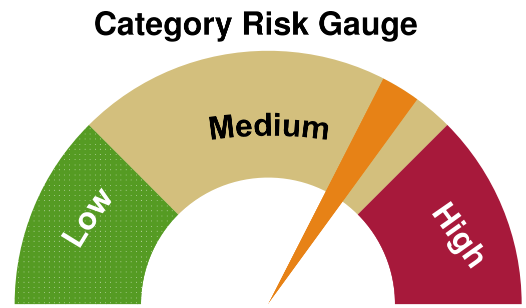
Sources: Company disclosure, Green Street Advisors

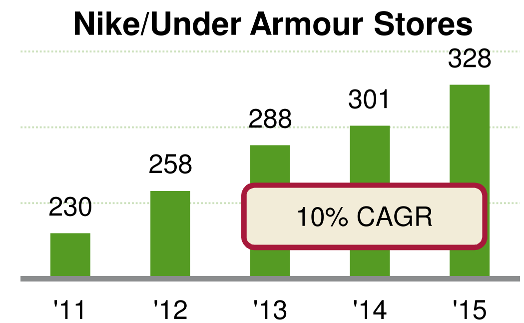
Note: Includes "Babies R Us" banner.

The Details: Sporting Goods

Warm Up the Bus: The recent wave of sporting goods bankruptcies (City Sports, Eastern Mountain, The Sports Authority) over a short amount of time has shined a spotlight on the longer-term viability of the category. With Nike, Under Armour and other brands opening their own stores, look for this category to remain under pressure. That said, Dick's Sporting Goods is healthy and expanding its presence, so it's not all doom and gloom.





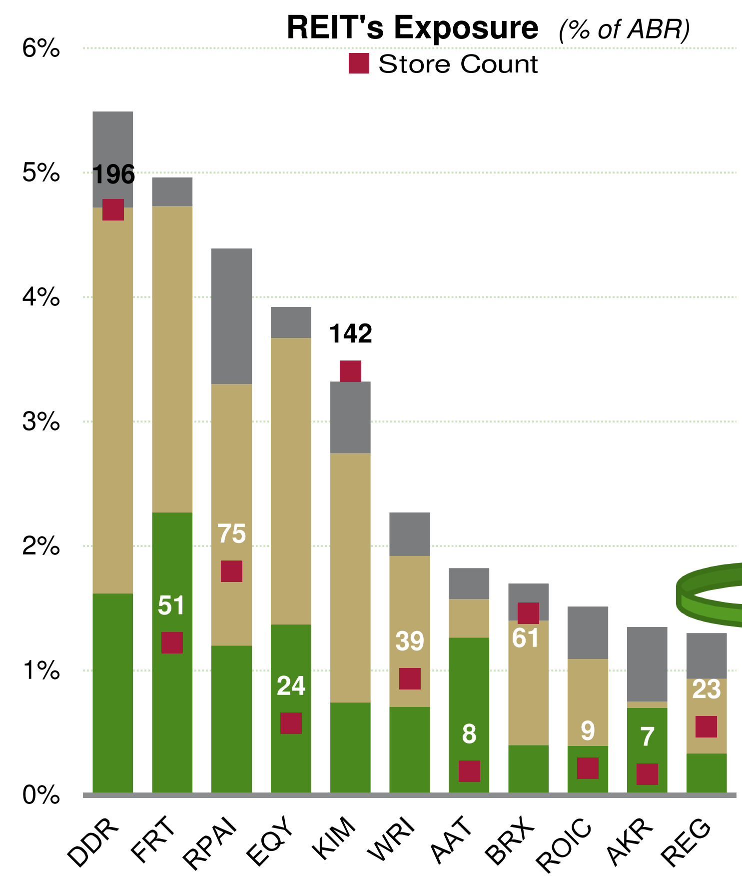


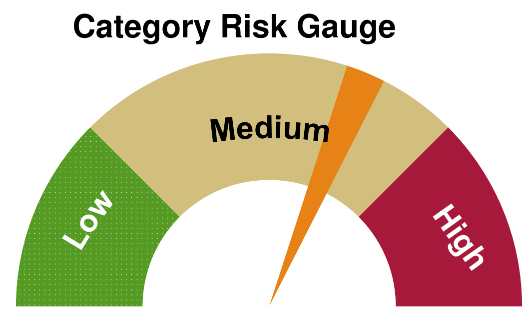
Retailer	'15 SSS (1)	Total Stores	Strip REIT Exposure (2)	Locations	Average Store Size
Modells	Private	150	17%	NE & Atlantic	20k
Academy	Private	200	9%	SE & SW	65k
Hibbett Sports	-0.4%	1,046	4%	SE & MW	5k
Sports Authority	NA	450	16%	National	40k
Big 5	1.3%	438	6%	West Coast	11k
Dicks Sports	-0.2%	746	12%	National	50k

Sources: Company disclosure, Green Street Advisors (1) SSS = same store sales (2) Represents total retailer stores in REIT portfolios/total number of a retailer's stores.

The Details: Apparel/Home Goods

Winners and Losers: The apparel/home goods category is diverse and includes successful players such as TJ Maxx, Ross Stores, and Burlington. These retailers are excluded given their solid health and future growth prospects. On the other end of the health spectrum are Pier 1, Bed Bath, and Gap, which have lost share to better retailers, online competition, and mass merchants. While the risk of store closings may not be near-term, it's worth acknowledging that these three retailers represent more rent than any other category in this report.





Retailer	'15 SSS	Total Stores	Strip REIT Exposure	S&P Credit Ratings	Average Store Size
Pier 1 Imports	0.7%	953	15%	B+	10k
Bed Bath & Beyond	1.0%	1,481	19%	BBB+	35k
Gap	-4.0%	2,669	8%	BB+	10k

Eating Gap's Lunch

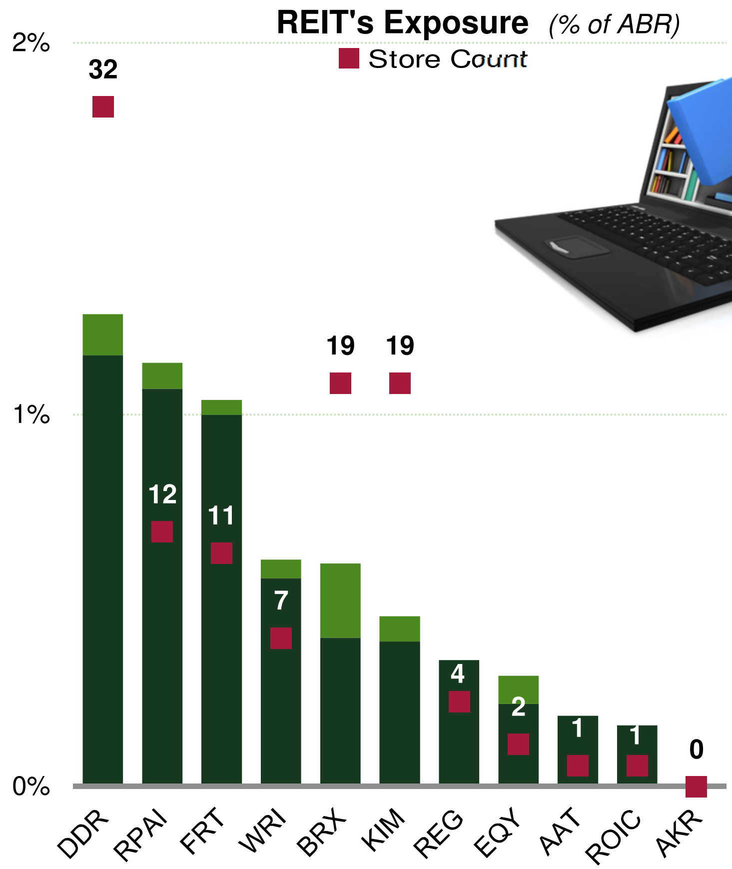
TJ Maxx	4.0%
Ross Stores	4.0%
Burlington	2.1%

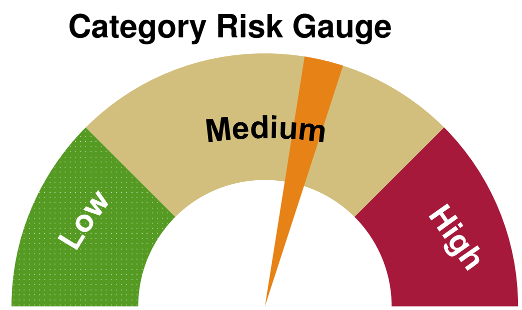
Sources: Company disclosure, Green Street Advisors

Note: BBBY includes Christmas Tree Shops, buybuy Baby, & World Market. Gap includes Old Navy, Banana Republic & other brands.

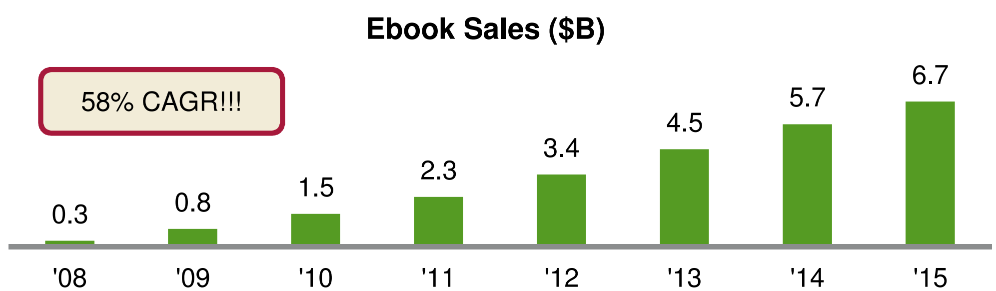
The Details: Book Stores

The Final Chapter? Books was one of the first categories to be hurt by ecommerce with Amazon's founding in '94 as an online bookstore. Faced with this new threat, Barnes & Noble has right-sized its store base and adapted its in-store experience to better compete. While store counts are declining, Barnes continues to renew leases. However, Amazon is beginning to open bookstores and e-books are growing in popularity. While the bookstore business has slowed its deterioration, there are likely more obstacles down the road.





Retailer	'15 SSS	Total Stores	Strip REIT Exposure	Locations	Average Store Size
Books A Million	-0.1%	253	9%	Eastern U.S.	15k
Barnes & Noble	flat	640	13%	National	26k

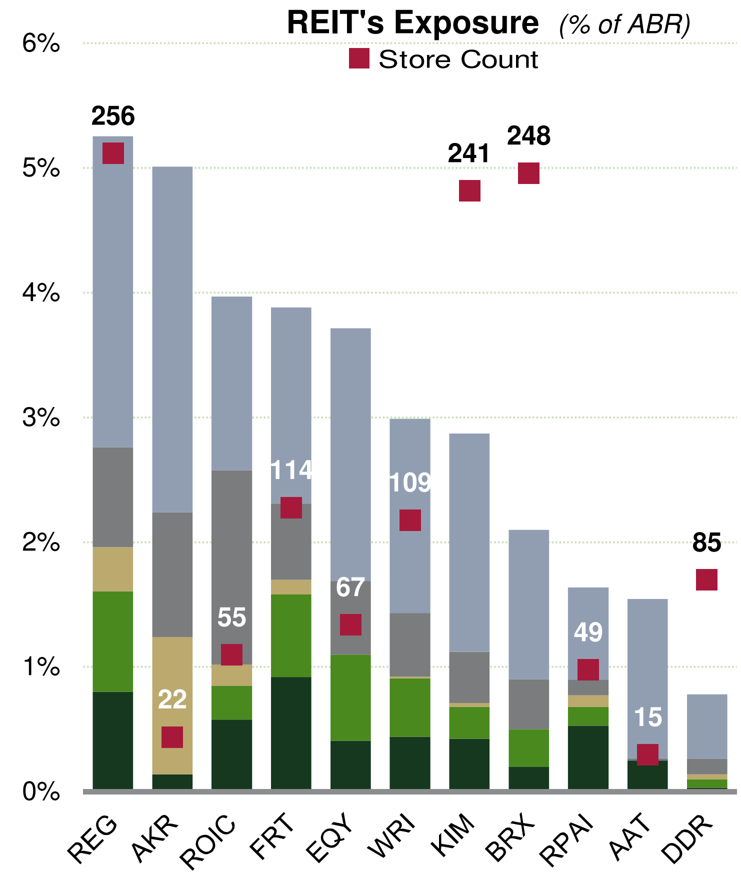


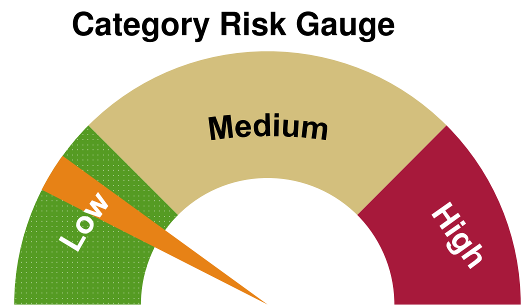
Sources: Company disclosure, Statista, Green Street Advisors

Note: Books A Million went private in Dec. '15. Figures above are as of 10/31/15 and represent the 39 week period.

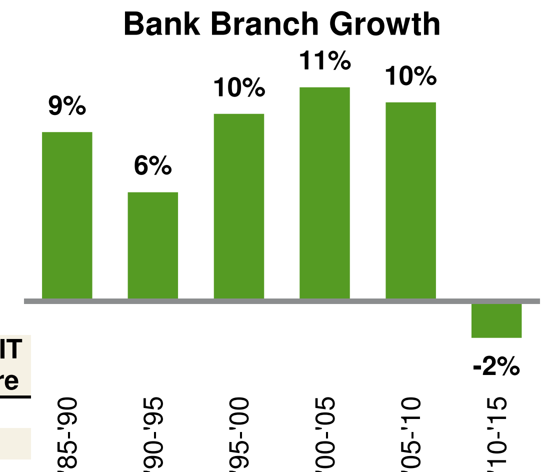
The Details: Banks

Breaking the Piggy Bank: The concept of a bank teller appears obsolete in today's increasingly virtual and mobile wallet society. While the recent decline in the total number of bank branches argues that the brick and mortar footprint is shrinking, an FDIC research paper suggested this was largely due to the ongoing densification trend. This is the least threatened category, but online disruption and innovation should increase. Additionally, banks pay some of the highest rents per square foot in retail, so backfill options would likely be at lower rents.





Retailer	Total Stores	Strip REIT Exposure
All Other	66,400	1%
JP Morgan Chase	5,400	3%
Citibank	800	6%
Well Fargo Bank	8,700	2%
Bank of America	4,700	3%



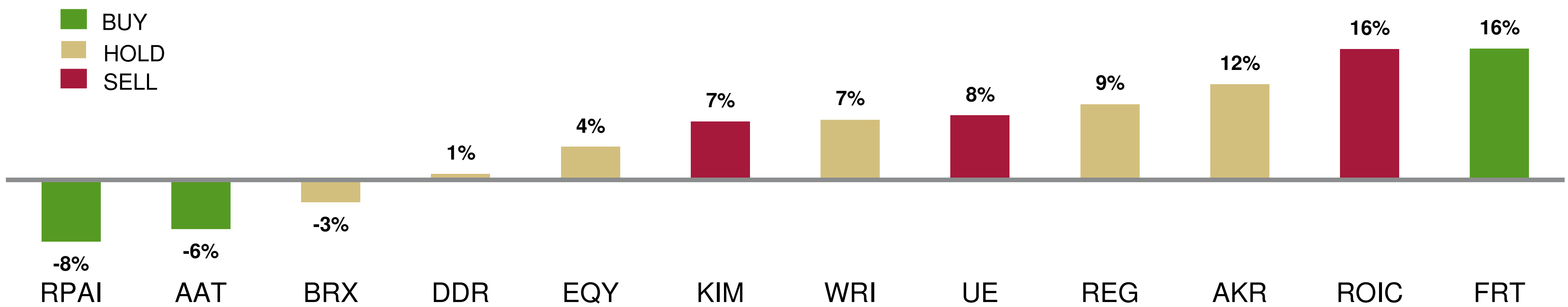
Sources: Company disclosure, FDIC, Green Street Advisors

Note: FRT's "All Other" Bank Branch exposure is a GSA estimate

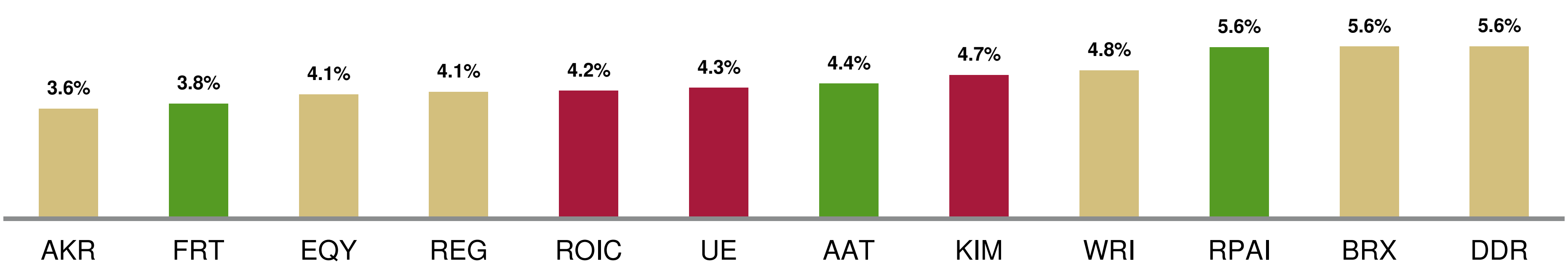
Valuation - Key Metrics

The Main Tools: The premium/discount to gross asset value at which a REIT trades is a key valuation metric for comparing sector peers. "Fully Loaded" Implied Cap Rates, which factor in overhead, capital expenditures, and near-term growth prospects into the implied nominal cap rate of each REIT creates a powerful valuation tool.

Gross Asset Value Premium/Discount



Fully Loaded Implied Cap Rates



Source: Green Street Advisors.

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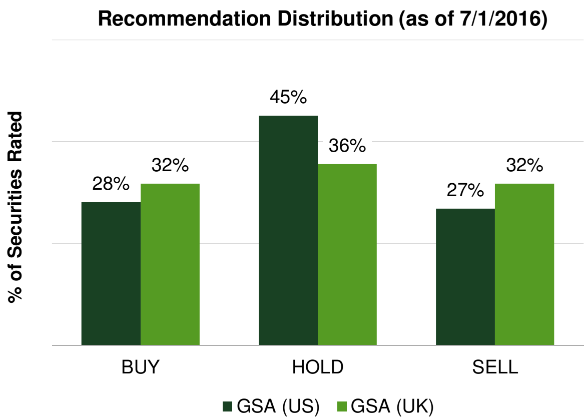

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Total Return of Green Street's Recommendations[1,2]

Year[3]	Buy	Hold	Sell	Universe[4]
2016 YTD	19.2%	15.3%	20.2%	17.8%
2015	8.3%	0.9%	-1.7%	2.4%
2014	41.6%	31.5%	27.3%	33.3%
2013	4.1%	0.6%	1.7%	2.2%
2012	24.5%	24.7%	18.9%	23.0%
2011	18.9%	7.6%	-4.7%	7.6%
2010	43.3%	32.8%	26.6%	33.8%
2009	59.0%	47.7%	6.0%	37.9%
2008	-28.1%	-30.9%	-52.6%	-37.3%
2007	-6.9%	-22.4%	-27.8%	-19.7%
2006	45.8%	29.6%	19.5%	31.6%
2005	26.3%	18.5%	-1.8%	15.9%
2004	42.8%	28.7%	16.4%	29.4%
2003	43.3%	37.4%	21.8%	34.8%
2002	17.3%	2.8%	2.6%	5.4%
2001	34.9%	19.1%	13.0%	21.1%
2000	53.4%	28.9%	5.9%	29.6%
1999	12.3%	-9.0%	-20.5%	-6.9%
1998	-1.6%	-15.1%	-15.5%	-12.1%
1997	36.7%	14.8%	7.2%	18.3%
1996	47.6%	30.7%	18.9%	32.1%
1995	22.9%	13.9%	0.5%	13.5%
1994	20.8%	-0.8%	-8.7%	3.1%
1993	27.3%	4.7%	8.1%	12.1%
Cumulative Total Return	**16469.6%**	**1176.7%**	**38.2%**	**1393.1%**
Annualized	**24.4%**	**11.5%**	**1.4%**	**12.2%**

The results shown in the table in the upper right corner are hypothetical; they do not represent the actual trading of securities. Actual performance will vary from this hypothetical performance due to, but not limited to 1) advisory fees and other expenses that one would pay; 2) transaction costs; 3) the inability to execute trades at the last published price (the hypothetical returns assume execution at the last closing price); 4) the inability to maintain an equally-weighted portfolio in size (the hypothetical returns assume an equal weighting); and 5) market and economic factors will almost certainly cause one to invest differently than projected by the model that simulated the above returns. All returns include the reinvestment of dividends. Past performance, particularly hypothetical performance, can not be used to predict future performance.

(1) Results are for recommendations made by Green Street's North American Research Team only (includes securities in the US, Canada, and Australia). Uses recommendations given in Green Street's "Real Estate Securities Monthly" from January 28, 1993 through July 1, 2016. Historical results from January 28, 1993 through January 4, 2016 were independently verified by an international "Big 4" accounting firm. The accounting firm did not verify the stated results subsequent to January 4, 2016. As of January 4, 2016, the annualized total return of Green Street's recommendations since January 28, 1993 was: Buy +24.0%, Hold +11.1%, Sell 0.6%, Universe +11.7%.

(2) Company inclusion in the calculation of total return has been based on whether the companies were listed in the primary exhibit of Green Street's "Real Estate Securities Monthly". Beginning April 28, 2000, Gaming C-Corps and Hotel C-Corps, with the exception of Starwood Hotels and Homestead Village, were no longer included in the primary exhibit and therefore no longer included in the calculation of total return. Beginning March 3, 2003, the remaining hotel companies were excluded.

(3) The returns for each year cover the period following the first "Real Estate Securities Monthly" issued in the respective year through the first "Real Estate Securities Monthly" issued in the following year and are not based on a calendar year.

(4) All securities covered by Green Street with a published rating that were included in the calculation of total return. Excludes "not rated" securities.

Green Street will furnish upon request available investment information regarding the recommendation

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