WHITE PAPER

The Shopping Center Opportunity

2024 Retail Investing Outlook

EXECUTIVE SUMMARY

Economic, capital market, retail fundamentals, and property market conditions are ripe for retail real estate investment opportunities.

Both consumers and retailers have proved resilient through the disruption of a global pandemic. Now, in Q3 2024, inflation is drifting down, unemployment remains low, and consumers continue to drive economic growth. Retail sales growth year-to-date is still healthy, notwithstanding the long-term trend, and the composition of growth across categories is still in flux.

The resilience of consumer spending and retailer recognition of the need for omnichannel distribution has pushed shopping center visits back in-line with pre-pandemic levels and open-air centers are benefiting the most. In addition, with occupancy exceeding pre pandemic levels, the composition of store openings and closings by store category indicate stronger performance ahead for strip centers.

The high interest rate environment has curbed property investment across property types and reset property values. Retail investment, however, is outperforming other primary property types with more transaction activity at relatively attractive pricing. Private investors remain active retail buyers while institutional investors remain on the sidelines.

Retail property market fundamentals are healthy with limited availability, continual low levels of new construction, protracted entitlement periods for new construction and vibrant tenant demand. This newfound scarcity of quality retail space to lease (especially in higher growth markets) creates a favorable environment for retail property rent growth and returns.

[1] U.S. Treasury, as of July 30, 2024.

ECONOMIC CONDITIONS

The U.S. economy has avoided a recession since 2020 despite an inflation spike, the Federal Reserve hiking interest rates by 525 basis points (bps), and 25 months with an inverted yield curve. American consumers are the primary driver of this success.

The Fed acted quickly to quell inflation with 11 federal funds rate hikes between March 2022 and August 2023. The federal funds rate has held in the 5.25%-to-5.50% range through July 2024. As a result, the Fed's preferred inflation measure, based on personal consumption expenditures has drifted down to 2.3% over the year ending in June 2024, from a year-over-year peak of 7.1% in June 2022.

The U.S. labor market is having an incredibly good run, which is always a positive for real estate demand. The unemployment rate, at 4.1% in June 2024, has held below 4.5% for 32 months, for the longest period of low unemployment since the 1960s. In addition, employers have added an average of 222,300 jobs per month through the first half of 2024.

Given labor market's resilience since 2022, the Fed may have been successful in securing a "soft landing" for the U.S. economy. However, the lagged impact of rate hikes could become more pronounced the longer that rates stay elevated. Unemployment, while historically low, is up by 50 bps year-over-year in June 2024. This plus inflation drifting closer to the Fed's 2% target increases the likelihood of a federal funds rate cut before year end.

Whether the interest rate easing cycle starts in late 2024 or early 2025, the Fed has room for rate cuts as signs of labor market weakness emerge, bolstering continued hiring and consumer spending going forward.

U.S. Economic Growth

Real gross domestic product (GDP) growth continues to exceed expectations in the second quarter of 2024. The first quarter of 2024 saw a drag on growth from trade and inventories, which can signal healthy underlying consumer demand.

GDP Component	3Q 2022	4Q 2022	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2Q 2024
Personal Consumption	1.1	0.8	2.5	0.6	2.1	2.2	1.0	1.6
Residential Investment	-1.4	-1.2	-0.2	-0.1	0.3	0.1	0.6	-0.1
Business Investment	0.6	0.2	0.8	1.0	0.2	0.5	0.6	0.7
Change in Inventories	-0.7	1.6	-2.2	0.0	1.3	-0.5	-0.4	0.8
Trade	2.6	0.3	0.6	0.0	0.0	0.3	-0.7	-0.7
Government	0.5	0.9	0.8	0.6	1.0	0.8	0.3	0.5
Real GDP Growth	**2.7**	**2.6**	**2.2**	**2.1**	**4.9**	**3.4**	**1.4**	**2.8**

Source: U.S. Bureau of Economic Analysis, SRR Consulting, July 2024.

Within the trade component, export growth adds to GDP and import growth subtracts from GDP. In the first half of 2024, imports expanded more than exports for a negative contribution from trade. The negative first quarter contribution from inventories reflects the typical post-holiday drawdown, which more than reversed in the second quarter of 2024 with inventories rising for summer and back-to-school shopping. This combination of strong import growth and first quarter inventory reduction indicate that consumers are willing to keep spending, and they have.

Consumer spending growth accelerated in the second quarter of 2024, contributing 1.6% to annualized real GDP growth. As a result, real GDP growth in the second quarter of 2024 was 2.8%, doubling first quarter 2024 growth and outpacing 2.1% growth in the same quarter a year ago.

Retail Sales Trends

Total retail sales growth has eased to a healthy year-to-date pace of 3.2% through June 2024. Retail sales endured a roller coaster of activity through the pandemic with consumers first favoring goods over services, then shifting back to services when in-person activities resumed. Growth year-to-date is below the long-term annualized trend of 5.4% per year and the composition across categories is still in flux.

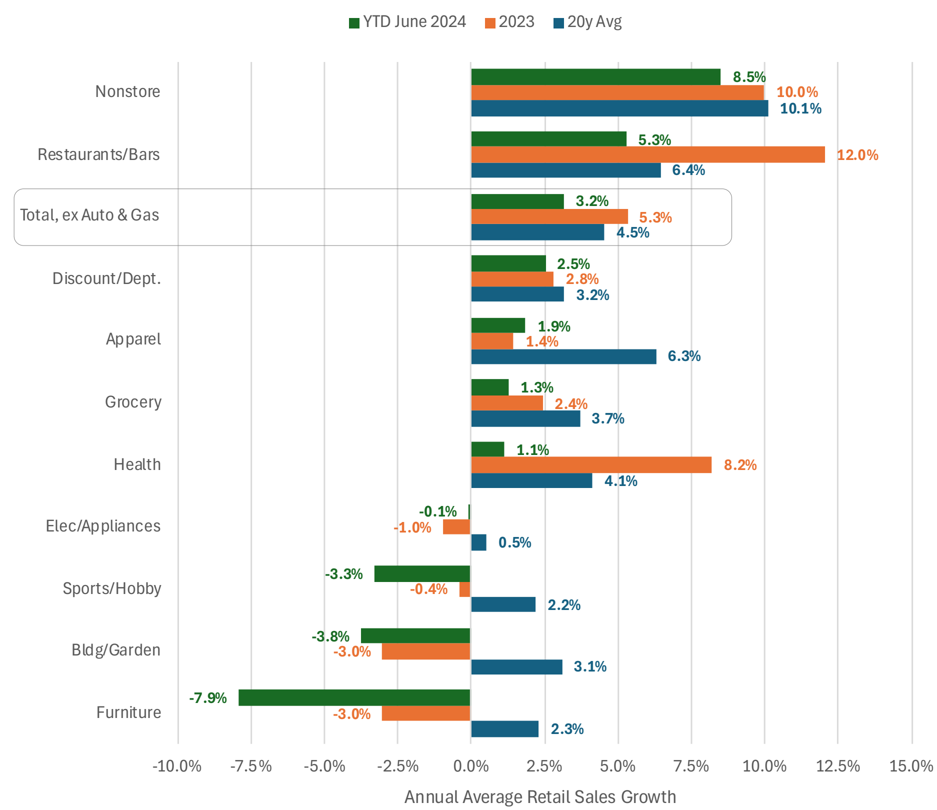
After a 2020 growth spike, e-commerce sales growth has returned to trend with year-to-date e-commerce growth continuing to lead retail sales by category. Sales growth at restaurants and bars also remain strong, benefiting from consumers' focus on experiential retail destinations.

Over the past 18 months, housing-related goods and services have led to compositional shifts in retail sales growth. Furniture and building/garden stores have seen the largest correction in activity with electronics/appliance stores also facing weaker sales. The pandemic was a significant boost to goods retailers as spending shifted away from dining, entertainment, and travel and the U.S. experienced a mini housing boom.

[2] The PCE Price Index measures prices paid by consumers for goods and services tracked by the U.S. Bureau of Economic Advisors for gross domestic product accounting.
The Consumer Price Index (CPI) from the U.S. Bureau of Labor Statistics measures prices changes for a set basket of goods and services over time. Utilizing the PCE provides the Fed with an inflation measure that moves in real-time with consumer preferences.

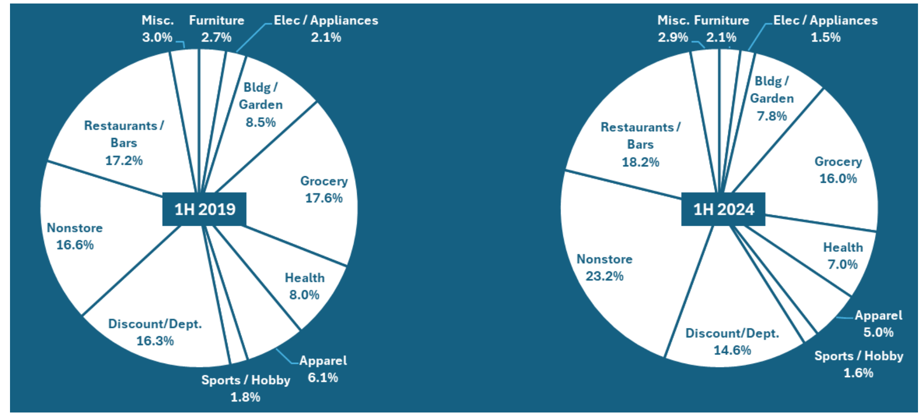
Unlike the temporary shift from services to goods during the pandemic, the long-term expansion in e-commerce sales has taken market share from most brick-and-mortar store formats. Restaurants and bars, however, are the lone exception.

FIGURE 2: RETAIL SALES GROWTH TRENDS BY STORE TYPE



The pandemic accelerated the consumer adoption of e-commerce with the nonstore share of retail sales expanding from 16.6% in 2019 to 23.2% in the first half of 2024. The only brick-and-mortar store

FIGURE 3: SHARE OF U.S. RETAIL SALES BY STORE TYPE, PRE- AND POST-PANDEMIC



Note: Retail sales base excludes gasoline stations and motor vehicles & parts stores. Shares reflect the average monthly retail sales share for store type from January to June. Source: U.S. Census Bureau, SRR Consulting, July 2024.

category to experience an increase in its share of retail sales since 2019 is restaurants and bars. The increase relative to 2019 is modest with one percentage point gained but reflects the sharp post-pandemic recovery plus growth in consumer spending on experiential retail.

Grocery stores' share of retail sales edged down between 2019 and 2024 due to impacts from both structural and cyclical trends. In economic recoveries, consumers typically trade up to more meals outside the home in lieu of grocery store spending. Restaurant and bar sales bounced back sharply when in-person dining became available again and has endured with the structural shift toward experiential retail.

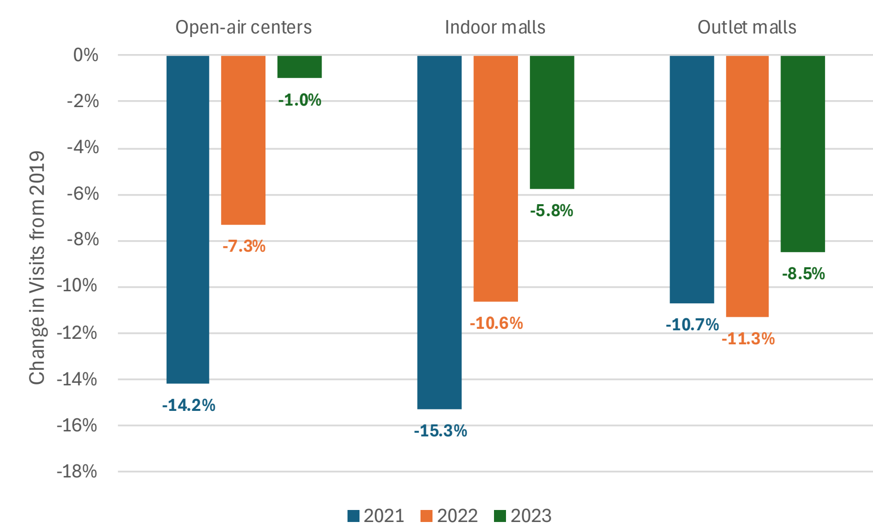
Source: U.S. Census Bureau, SRR Consulting, July 2024.

Retailer Trends

Consumer spending resilience has allowed shopping center traffic to move back in line with pre-pandemic levels. Open-air shopping centers have seen the strongest rebound with 2023 visits only 1.0% below the total for 2019, according to data from Placer.ai. Given the expansion of e-commerce as a share of retail sales, the rebound to 99% of pre-pandemic visitor traffic is a significant improvement.

Malls have lagged in the recovery with outlet mall visits still down 8.5% from 2019. With essential retailers and proximity to residential areas, open-air centers have been able to maintain an edge over indoor malls and outlet centers .

FIGURE 4: OPEN-AIR CENTERS NEARING 2019 LEVELS



Source: Placer.ai, iREOC Connect Q2 2024, SRR Consulting, July 2024.

Another key factor driving traffic back to physical retail is experience. Experiential retail – entertainment, restaurants,bars, fitness,wellness, and outdoor spaces –drive traffic to a retail property and those retailers and offerings extend the duration of the visit. Strip centers, power centers, and even malls are seeing more leasing from experiential retail.

Recent inflation and the likelihood of slower economic growth in the short term are increasing consumer price sensitivity. Discount and off-price stores often benefit from trading down at this stage of the business cycle, as well as retailers that shift toward discounts. It is already noteworthy that younger consumers are deemphasizing the importance of sustainability due to renewed focus on pricing. This environment also tends to shift spending toward essential goods and services, such as groceries, pharmacies, and healthcare.

Retailers are adapting to the emergence of more price-sensitive consumers with discounts and promotions while also looking longer term by introducing new concepts. Shop-in-shops are one such innovation wherein a retail brand opens a smaller shop with another retailer's larger store, such as Sephora shops inside Kohl's and Macy's and Ulta within Target. In 2024, Kohl's expects Sephora to account for 10% of its annual revenue and announced plans to bring Babies R Us into 200 stores[5].

[3] Cushman & Wakefield, Beyond the Storefront: Evolving Dynamics in Retail Space Occupancy, May 2024.

[4] McKinsey & Company, State of the Consumer 2024: What's now and what's next, June 2024.

RETAIL CAPITAL MARKETS

The sharp increase in the federal funds rate curbed property investment in general and required a resetting of property values to adapt to debt costs and buyer expectations.

Pricing and Volume

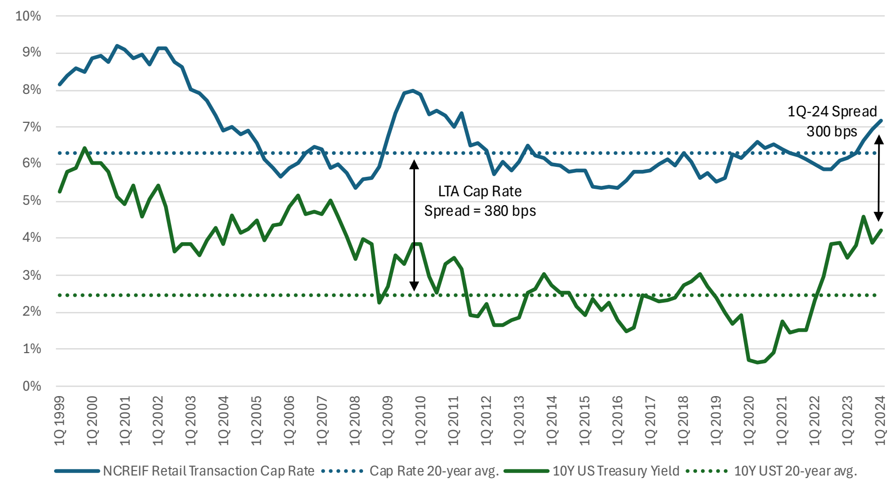
According to Green Street Advisors, real estate market prices hit a post-pandemic peak in the first quarter of 2022 and dropped 28% through the fourth quarter of 2023. The Green Street Commercial Property Price Index (CPPI) has flattened in the first half of 2024 with market prices up 2% since year-end 2023. Office property led the decline with a 37% decline from peak, followed by peak-to-current price declines of 20% or more for self-storage, multifamily, and healthcare properties.

Strip retail and mall prices have declined by 16% and 14%, respectively, from their prior peaks, per the Green Street CPPI. Over the past year, malls and strip centers have been top performers with values up 5% for malls and down only 2% for strip centers.

Retail transaction cap rates from the National Council of Real Estate Fiduciaries (NCREIF) averaged 7.2% over the year ending in the first quarter of 2024, up 100 bps from a year ago. However, the spread to the risk-free rate, or 10-year U.S. Treasury yield, remains relatively narrow as light transaction activity delayed the reaction of cap rates to rising interest rates.

The $118 billion of retail properties tracked by NCREIF reflect institutional quality assets, keeping cap rates below broader market averages. JLL reports trailing year cap rates for strip centers at 7.2%

FIGURE 5: NCREIF RETAIL CAP RATE SPREAD TO 10-YEAR U.S. TREASURY YIELD



Source: NCREIF, Board of Governors of the U.S. Federal Reserve System, SRR Consulting, July 2024.

(anchored) and 6.8% (unanchored) with power centers trading at a 100-bps additional spread to traditional strip centers.

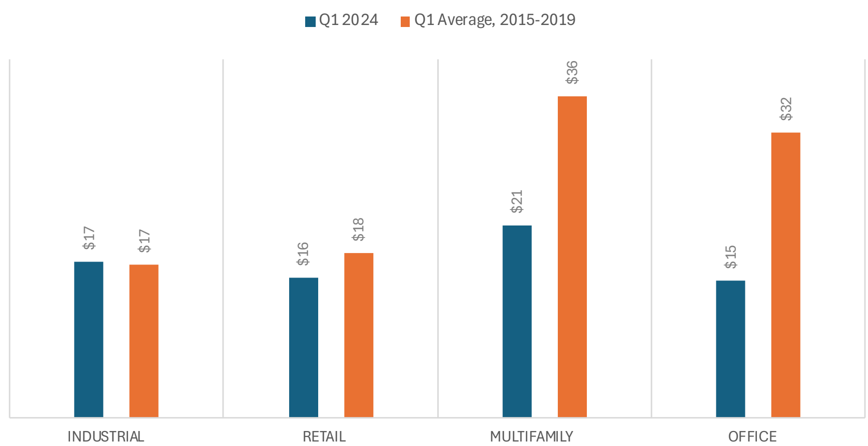
This pricing correction due to higher interest rates has limited commercial real estate transaction activity since 2022. Trailing year transaction volume through the first quarter of 2024 totaled $340 billion for all properties and $56 billion for retail properties.

Although this trailing year volume reflects a 36% decline in retail activity, retail volume held up better than the other primary property types – industrial, multifamily, and office – with multifamily experiencing the steepest decline in activity, down 56% year-over-year.

Retail transaction volume in the first quarter of 2024 also holds up well relative to pre-pandemic transaction activity. Quarterly industrial and

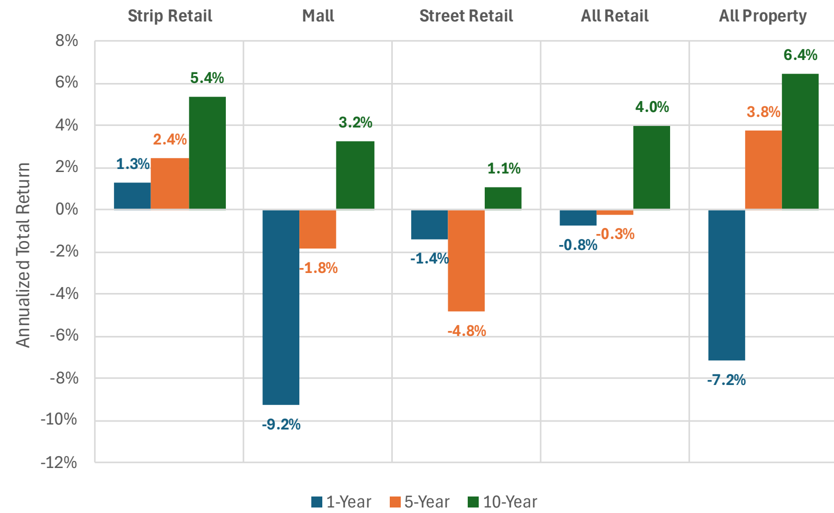
[5] JLL Q1 2024 U.S. Retail Market Dynamics, May 2024. [6] Green Street Commercial Property Price Index, July 5, 2024. [7] NCREIF retail property market value as of Q1 2024. [8] JLL Q1 2024 U.S. Retail Market Dynamics, May 2024.
[9] CBRE U.S. Capital Markets Q1 2024, May 2024. [10] Oxford Economics Research Briefing, US: Industrial and retail outperform over the next five years, July 24, 2024.

FIGURE 6: Q1 REAL ESTATE TRANSACTION VOLUME BY PROPERTY TYPE ($BILLIONS)



Source: Oxford Economics/MSCI, SRR Consulting, July 2024.

FIGURE 7: NCREIF RETAIL PROPERTT INDEX RETURN TRENDS, AS OF Q1 2024



retail volume significantly outperformed office and multifamily with first quarter of 2024 volume for both in-line with average first quarter activity between 2015 and 2019.

INSTITUTIONAL INVESTMENT PERFORMANCE

Prior to and through much of COVID, retail has been out of favor among institutional investors due to challenges facing the sector amid its structural adaptation to e-commerce.

As shown in Figure 7, NCREIF Property Index (NPI) returns for all retail property have lagged the overall property index over the past 10 years. The NPI includes core and non-core properties held by institutional investors, but core exposures – particularly to malls – are elevated because their universe of properties includes those in 25 of the largest U.S. core funds.

The U.S. institutional core fund benchmark, or NCREIF Fund Index – Open-end Diversified Core Equity (ODCE), was 14% allocated to retail at inception in the first quarter of 2000, rose to a peak of 20% in 2017, and is only 11% as of the first quarter of 2024. The reduced allocation to retail among core institutional investors reflects the shift toward industrial, multifamily, and alternative property types, such as self-storage and senior housing.

Institutional interest in retail remains strong for anchored and unanchored strip centers, particularly in high-income areas of primary markets. Considering the resilience of strip retail, this approach is warranted. In the current market, however, this is reflected by core funds holding on to their high-quality retail assets, rather than increased acquisitions as institutional investors have largely remained on the sidelines in early 2024.

RETAIL PROPERTY MARKET

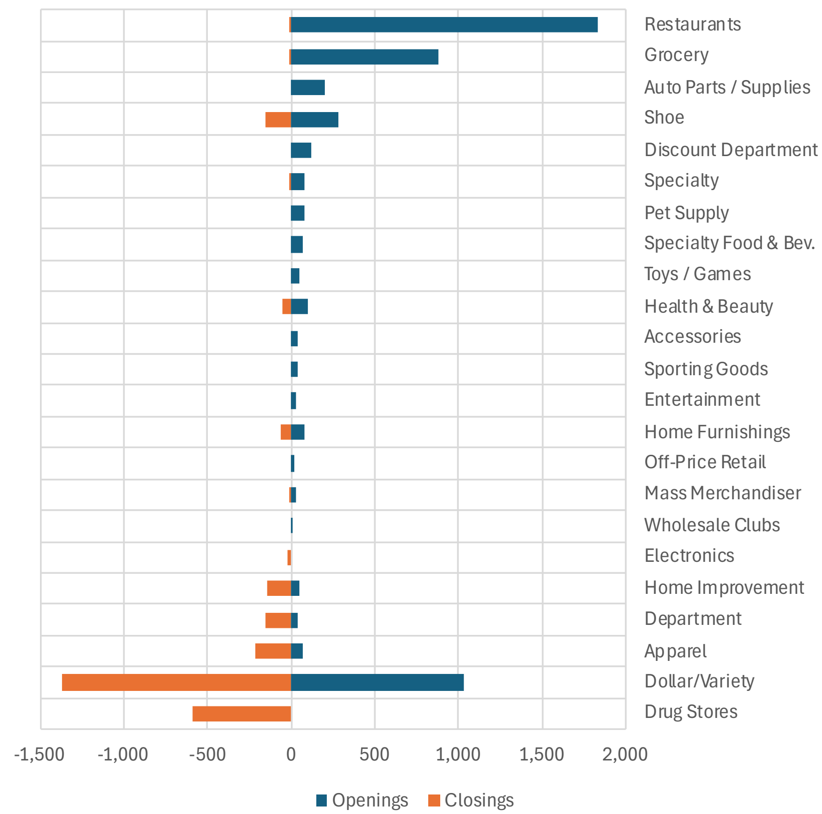
Retailer demand for shop space is strong, but highly targeted to quality locations and property characteristics. Expanding retailers including those that historically primarily or exclusively operated in malls are looking for off-mall locations and centers with experiential attributes, including outdoor space. Available space that meets this criteria, however, is in short supply. Strip center vacancy rates are low, and supply has been slow to catch-up since the pandemic.

Store Openings and Closings

U.S. retailers are expanding in aggregate with more openings than closings in 2024. JLL reports that 2024 store openings are set to outpace closings by two-to-one and Cushman & Wakefield anticipates a net gain of 851 retail stores for the year.

Quick-serve restaurants, discounters, and strong retail brands account for much of the expansion. In 2023, JLL reports that restaurants accounted for 20% of all retail leasing and, in 2024, there are plans for more than 1,800 restaurant openings, primarily from quick-service brands like Shake Shack, Wingstop, and Chipotle.

FIGURE 8: STORE OPENING AND CLOSING ANNOUNCEMENTS IN 2024, CHANGE



The largest announcement of store closures in 2024 is from Family Dollar, at 970 stores, followed by CVS Health with 300 store closures and Walgreens with 235 closures . Despite the large closure announcement from Family Dollar, the dollar store category is seeing expansions from Dollar General and Five Below.

Macy's is closing 19% of its stores with 50 closures in 2024 and 100 more over the following two years. The second largest department store closure announcement for 2024 is from Ross Stores, which is closing 10 to 15 locations, but with 75 to 80 net new stores through the opening of 90 new locations.

The composition of store openings and closings by store category indicate stronger performance ahead for strip centers, anchored or unanchored. Open-air centers will likely fare best given a combination of daily, essential needs anchors and consumer shopping trends.

JLL Q1 2024 U.S. Retail Market Dynamics, May 2024.
Cushman & Wakefield, Beyond the Storefront: Evolving Dynamics in Retail Space Occupancy, May 2024.
retailstat, Retail Real Estate Store Activity & Retailer Health Analysis, May 2024.

MARKET FUNDAMENTALS

Retail property market fundamentals are healthy with limited availability, low levels of new construction, and renewed tenant demand. Leasing demand for new space has been concentrated in anchored and unanchored shopping centers, while malls continue to lag.

Neighborhood, community, and power center vacancy rates have returned to pre-pandemic levels. As shown in Figure 9, the neighborhood and community center vacancy rate has continued to fall in the first quarter of 2024.

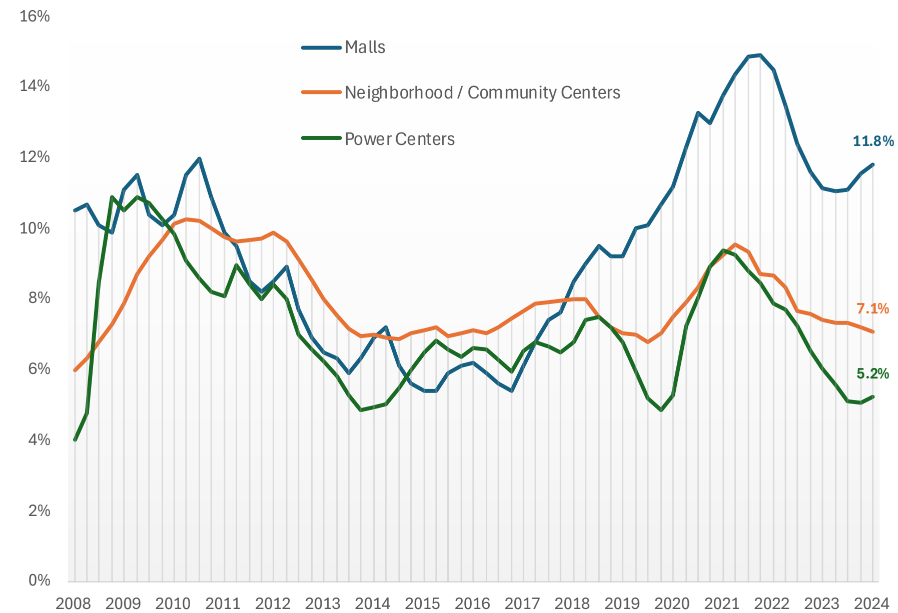
The mall vacancy rate began to rise steadily in 2017, hitting a pandemic-era peak of nearly 15% in 2021. When consumers returned to in-person shopping, the mall vacancy rate fell back to the 11%-range but has edged up since the fourth quarter of 2023.

Leasing is being led by food and beverage tenants – especially quick-serve restaurants – discounters, and experiential tenants. As a result, strip and lifestyle centers are experiencing the most net absorption and lifestyle centers are achieving higher rents than traditional malls. Malls continue to experience negative net absorption as healthy tenants like Lululemon and Banana Republic opt for open-air centers with higher foot traffic to meet growth targets and consumer demand.

To gauge the strength of leasing activity relative to space availability, JLL reports on space leased as a percentage of all space available for lease. Available space is defined broadly in this measure as any marketed space, even if it is still occupied or under construction. A high percentage of available space leased is an indicator of strong demand, even when net absorption is muted by limited supply.

In a sign of strong demand across all shopping center subtypes, leasing for each has amounted to 30% or more of available space over the past year. Roughly half (49%) of all strip center space marketed for lease over the year ending in the first quarter of 2024 was leased, as shown in Figure 10, while strip center net absorption totaled 400,000 square feet for the year. Power center leasing activity over the past year amounted to 43% of available space.

FIGURE 9: RETAIL VACANCY RATES BY SUBTYPE, 6-MONTH ROLLING AVERAGE



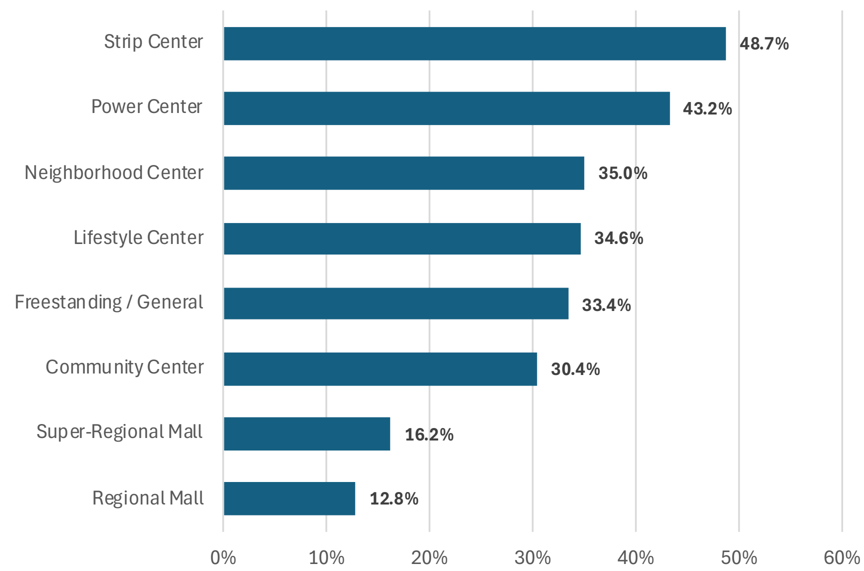
Source: Oxford Economics/MSCI, SRR Consulting, July 2024.

retailstat, Retail Real Estate Store Activity & Retailer Health Analysis, May 2024.

Oxford Economics, U.S. Retail Real Estate Report, June 25, 2024.

JLL Q1 2024 U.S. Retail Market Dynamics, May 2024.

FIGURE 10: RETAIL SPACE LEASED AS SHARE OF AVAILABILITY BY PROPERTY TYPE 12-MONTHS ENDING Q1 2024



Source: JLL, SRR Consulting, July 2024.

Malls saw more limited reductions in available space. Leasing in regional and super-regional malls has been driven by tenant flight to quality from Class B/C properties into Class A malls as well as backfilling vacant anchor spaces. Malls are filling vacant anchor spaces with popular home furnishing brands, like Arhaus and Crate & Barrel, food halls, and experiential tenants, such as Life Time and Sky Zone.

Perpetuating the tight balance between retail availability and tenant demand is the lack of new construction. Per CBRE, construction costs range from $400 to $500 per square foot, making it tough to justify development in many markets. This constraint, in addition to ever increasing entitlement obstacles, the pandemic and structural adjustment to e-commerce, has kept annual retail property completions at or below 30 million square feet since 2021. Between 2015 and 2019, annual retail completions were twice as high.

The newfound scarcity of retail space options in the most desirable centers is creating favorable conditions for rent growth. Rents for the top locations are already rising and limited supply in the pipeline bodes well for future rent growth, especially in strip centers.

CBRE U.S. Retail Q1 2024, May 2024.

CONCLUSION

Retail property fundamentals are emerging from a long restructuring around the emergence of e-commerce sales. The lack of construction activity over the past four years serves as a catalyst for performance over the near term.

The U.S. economy is likely headed for slower growth in the short term due to the lagged impact of higher interest rates on the labor market. Given the Fed's aggressive rate increases, however, there is considerable room to ease interest rates as the labor market exhibits signs of weakness. Then, lower interest rates will support real estate performance as well as increased consumer spending.

While some retailers are experiencing distress and closing stores, the net trend for U.S. retailers is expansionary. And, in the search for space to expand, there is a new element of scarcity, particularly for strip centers.

Taken together, current market conditions and ongoing trends are setting up a unique opportunity to invest in U.S. retail property.

ABOUT MCB REAL ESTATE

Vertically Integrated Owner, Operator & Developer

Founded in 2007, MCB Real Estate is a community-centric, privately held investment management firm based in Baltimore, Maryland with nationwide retail investment experience. As a vertically integrated owner, operator, and developer, MCB provides a comprehensive commercial real estate services, including acquisitions, asset management, construction and development, property management, and leasing.

Diligent Investment Delivering Opportunistic Returns

MCB leverages industry relationships and proficiency in acquisitions, development, finance, management, operations, and legal acumen to navigate complex property opportunities resulting in strong risk-adjusted returns to investors — MCB's realized deals have delivered 25% gross IRR.

The firm has $3 billion in assets under management and a portfolio of approximately 15 million square-feet of industrial, office, retail, mixed-use, multi-family and life sciences properties, with nearly four million square-feet in development.

$3B AUM
15M SF OWNED AND OPERATED
4M SF DEVELOPMENT PIPELINE

Deep Industry Knowledge & Established Relationships

MCB's extensive industry experience and partnerships translate to:

- Unparalleled access to opportunities presented directly by national, regional, and local retail operators
- Proprietary intelligence on store performance and trends that is not generally available, which provides us insight into which deals we should, and perhaps more importantly, should not pursue
- Ability to negotiate extensions, modifications, new leases and terminations where necessary
- Access to pipelines for new build stores gives ability to anticipate shifts in market dynamics and proactively explore collaboration opportunities or investments

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