

RETAIL – What is Next?

- **Outline:**

- **Changing in Formula for Success**
- **Before COVID – 4 Trends**
- **COVID – The Great Accelerator (*)**
- **Trending - Capital**
- **Trending – General, Consumers, Retailers and Buildings**
- **Market Intel for Appraisers**
- **Follow the Money**
- **Q & A**

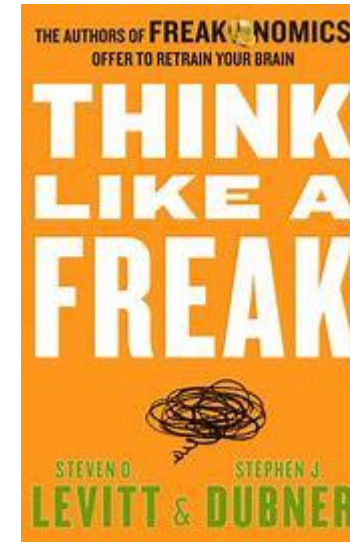


HARDEST PHRASE IN ENGLISH LANGUAGE

- **“I Am Sorry”**
- **“Please Forgive Me”**
- **“I Don’t Know”**

HARDEST PHRASE IN ENGLISH LANGUAGE

- “I Am Sorry”
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CHANGING FORMULA FOR SUCCESS



CHANGING FORMULA FOR SUCCESS

- **Historic Definition**
 - **Location, Location, Location**



CHANGING FORMULA FOR SUCCESS

- Pre-Covid Definition
- Location



CHANGING FORMULA FOR SUCCESS

- Pre - Covid Definition
- Location, Concept



CHANGING FORMULA FOR SUCCESS

- **Pre Covid Definition**
- **Location, Concept, Operator**
- **Experience**
- **Legal Entity**
- **Support**

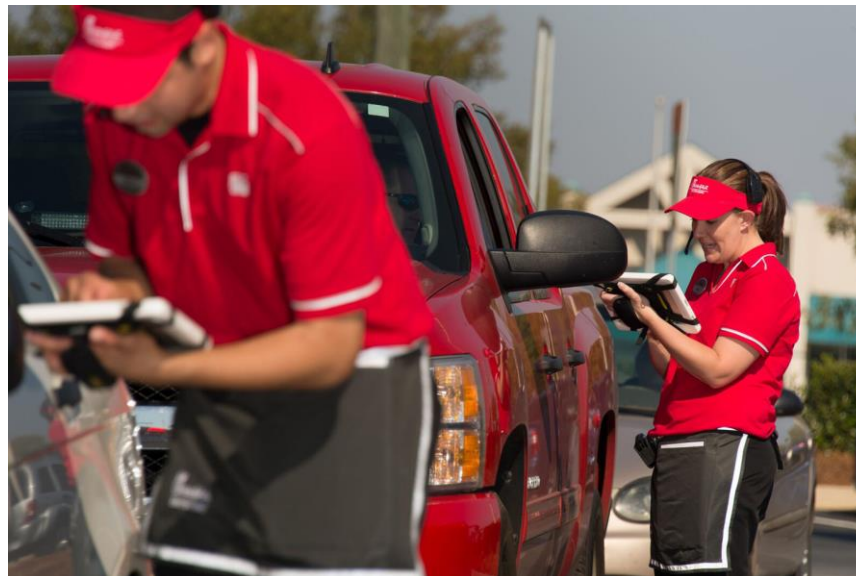
CHANGING FORMULA FOR SUCCESS

- **Pre-Covid Definition**
- **Location, Concept, Operator, Capital**
- **Liquidity**
- **Net Worth**
- **Bank Relationship**
- **Concept Burn Rate**



CHANGING FORMULA FOR SUCCESS

- Post Covid Definition
- Location, Concept, Operator, Capital & Technology
- SEO
- Mobile Ordering
- Drive Up/Pick Up
- Drive Thru(s)



BEFORE COVID

- **4 Major Trends**

BEFORE COVID

- **Worker Shortages**



BEFORE COVID

- Worker Shortages
- **Higher Costs**



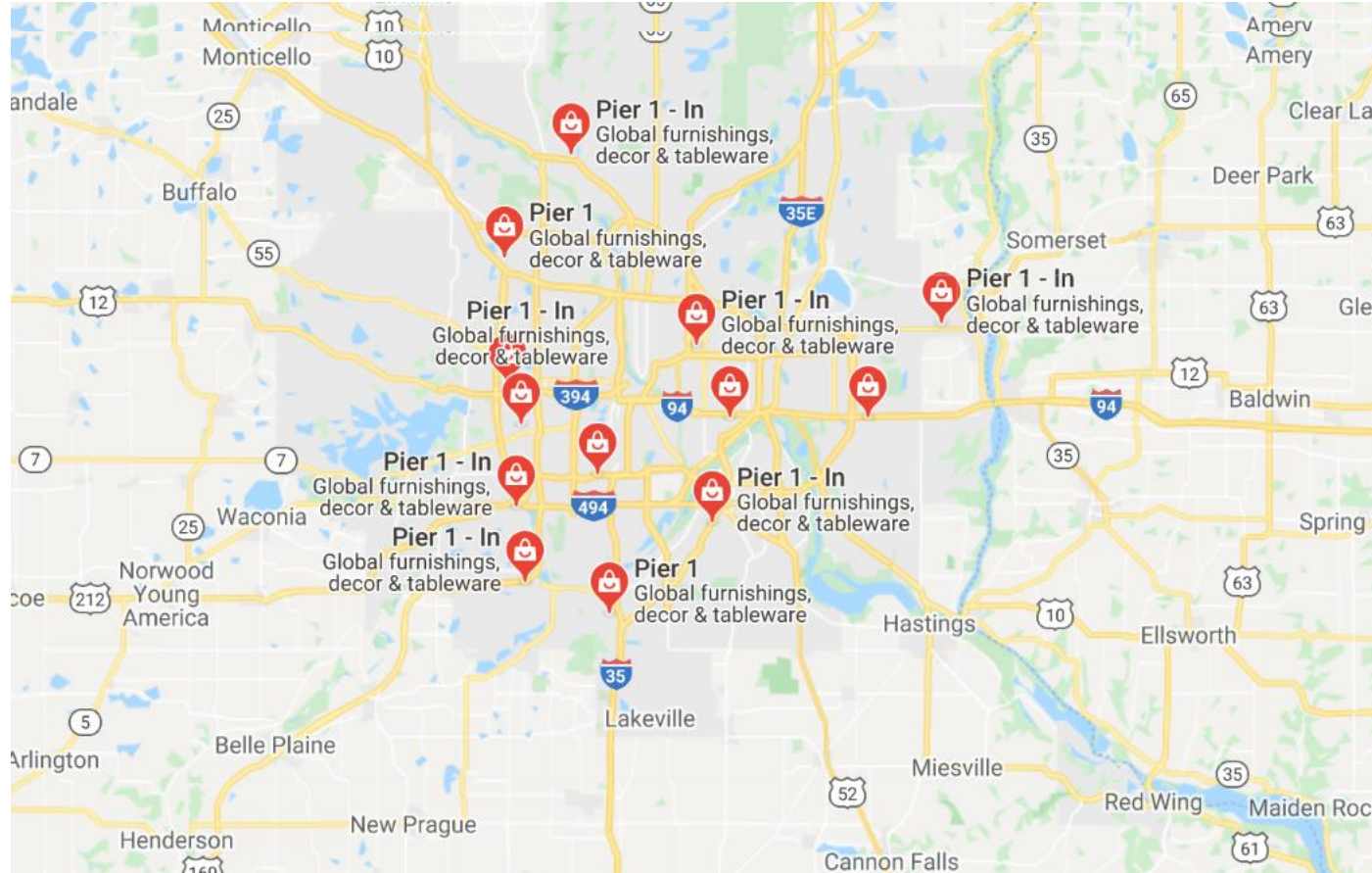
BEFORE COVID

- Worker Shortages
- Higher Cost
- **Struggling Concepts**



BY-GONE CONCEPTS

• 13 to 0



RETAIL – Before Covid 19

- Worker Shortages
- Higher Cost
- Struggling Concepts
- **Innovation**



COVID – The Great Accelerator (*)

- **Back to March, 2020**
 - **Spanish Flu Circa WWI?**
 - **Duration**
 - **Executive Order #1**
 - **Hunker Down & Wait**



COVID – The Great Accelerator

- **New Language:**
 - “Flatten The Curve”
 - “PPE”
 - “N 95”
 - “Shelter in Place”
 - Forbearance
 - Force Majeure

- “Essential vs Non-Essential”



COVID – The Great Accelerator

- ESSENTIAL



COVID – The Great Accelerator

- **Lender Cooperation**

- **Remembering E. W. & Great Recession**

- **Options**

- **Forbearance**

- **IO**

- **Other**



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COVID – The Great Accelerator

- **Federal Programs**
 - **PPP (Round 1)**
 - **PPP (Round 2)**
 - **Restaurant Restoration Act**



COVID – The Great Accelerator

- **Municipal Help**
 - **Patio's**
 - **Sidewalk Use**
 - **Small Grants**



COVID – The Great Accelerator

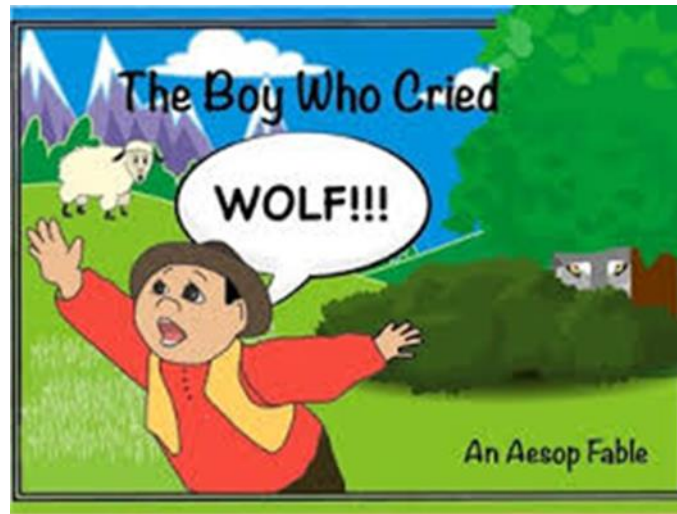
- **Landlord Tenant Relations**
 - **Honesty about sales decline**



COVID – 19 – “To Good to Not Share”

- **“The force majeure clause in our lease covers extreme and unforeseen conditions.”**
- **“we are unable to pay our rent throughout our portfolio.”**
- **“ we are struggling to pay May rent”**

COVID – 19 – “To Good to Not Share”



COVID – 19 – The Boy Who Cried Wolf

- “The force majeure clause in our lease covers extreme and unforeseen conditions.” **CLAUSE NOT IN LEASE**
- “We are unable to pay our rent throughout our portfolio.”
\$100ml CASH
- “We are struggling to pay May rent”
SALES WERE UP 2% (on 2.6% Health Ratio)

COVID – The Great Accelerator

- **Landlord Tenant Relations**
 - **Honesty about sales decline**
 - **Lease Language**
 - **PPP & Other Funds**
 - **Change in Relationship**



COVID – The Great Accelerator

- **Sales:**
 - **Restaurant**
 - **Coffee – Drive Thru**
 - **Membership Fitness**
 - **Women's Hair**
 - **Nails**
 - **Liquor & Tobacco**



COVID – The Great Accelerator

- **Retail Sales – Restaurant**
 - **Shut Down 3/20 – 7/20**
 - **Shut down 11/20 – 1/21**
 - **Added Take Out, Pick Up, Patio+**
 - **Sales off 40% 2019 vs 2020**
 - **Consumer is Coming Back**

COVID – The Great Accelerator

- **Retail Sales – Coffee Drive Thru**
 - **Shut down for 3 months**
 - **Drive Thru Only**
 - **Did 85% of 2019 Sales in 2020**
 - **Open Dine In Open - June, 2021**

COVID – The Great Accelerator

- **Retail Sales – Membership Fitness**
 - **Shut down for 3 months**
 - **Created On-Line Class**
 - **Did 66% of sales in 2020 vs 2019**
 - **Sales are back to 85%**

COVID – The Great Accelerator

- **Retail Sales – Women’s Hair**
 - **Shut down 3/20 – 6/20**
 - **Change in customer patterns**
 - **Sales were 66% 2020 vs 2019**
 - **Not quite back yet.**



COVID – The Great Accelerator

- **Retail Sales – Nails**
 - **Shut down for three months**
 - **“She” had no place to go.**
 - **Sales down 60% in 2020**
 - **Sales remain down 30%**

COVID – The Great Accelerator

- **Retail Sales – Liquor & Tobacco**
 - **Neither were shut down.**
 - **Sales increased 50%+ for 9 months.**
 - **Sales are back to normal**

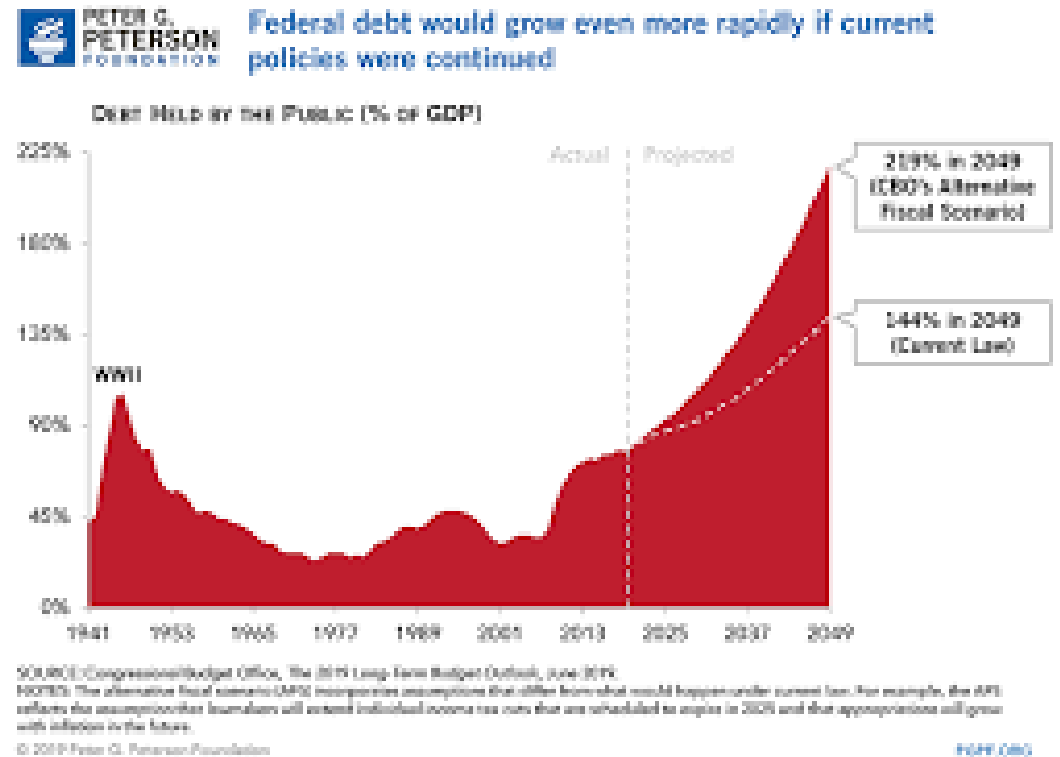


TRENDING - CAPITAL



TRENDING - Capital

- US Debt



TRENDING - Capital

- Equities



TRENDING - Capital

- Yields & Interest Rates

US 10-year yield



Source: FactSet - Created with Datawrapper

TRENDING - Capital

- **Payments**

- **Crypto**

- **Venmo**



venmo

TRENDING - Capital

- **Most Favored Assets**

- **Distribution – Logistics**



- **Multi-Family – State/Local Issues**



TRENDING - Capital

- **Least Favored Assets**

- **Office (Hybrid)**

- 154 ML SF Sublease



- **Retail – Regional & Other**



TRENDING

- **General (2)**

- **Retailers (3)**

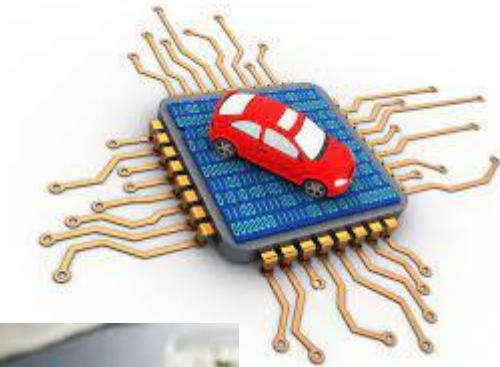
- **Consumer (6)**

- **Buildings (2)**

TRENDING - General

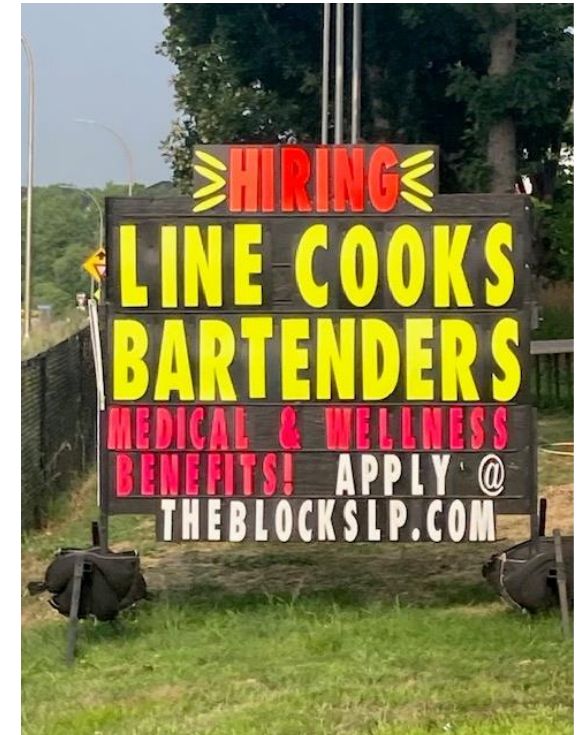
- Shortages

- Wood
- Steel
- Resin
- Chips
- Chicken Wings



TRENDING - General

- Employment Issues
 - Increasing Wages
 - Flexibility
 - Demographic Trends



TRENDING - General

- 15% Charge Allocation



- \$16 (FOH) & \$18 (BOH)
- 5% DRS
- PTO
- Dental and 70% Health
- 2 Hours Month Volunteering
- Bi-Lingual & Mental Health

TRENDING - Consumer

- **Urban vs Suburban vs Exurban vs Cabin/Mountain**
 - **Bar vs Elementary School**
 - **Concrete vs Grass**
 - **Hybrid Work Models**
 - **Unrest & Safety**



TRENDING - Consumer

- **Change in Consumer Preference**

- **Shop Local**

- **Know your service provider**

- **Difference between corporate, franchisee and owner**



TRENDING - Consumer

- Cost of Convenience

- Shypt/Instacart

- Door Dash & Others

- Legal Fights



TRENDING - Consumer

- **Who is this Person?**



TRENDING - Consumer

- **Marie Kondo**
 - **Promoter of Minimalism**
 - **Books, Podcasts, Etc**
 - **Impact**



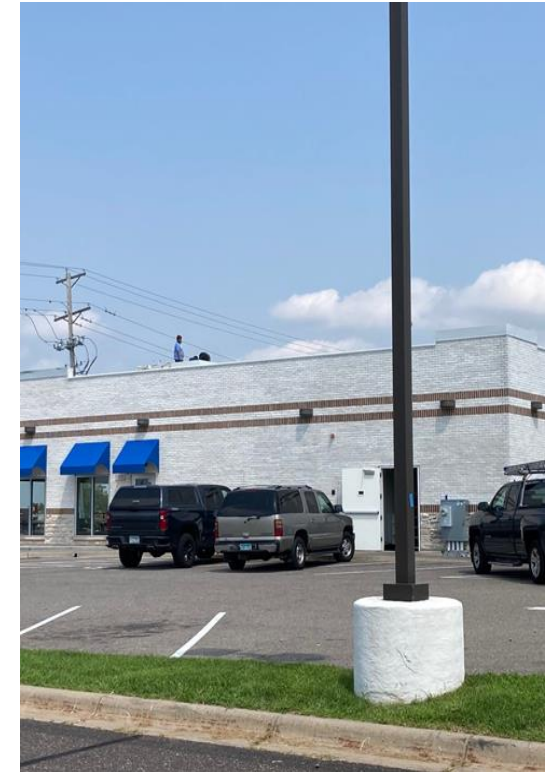
TRENDING - Consumer

- **Thrifting/Craigslist/FB Marketplace/EBay**
 - **Part Economic Necessity**
 - **Climate Sensitive**
 - **Treasure Hunting**
 - **How Big?**



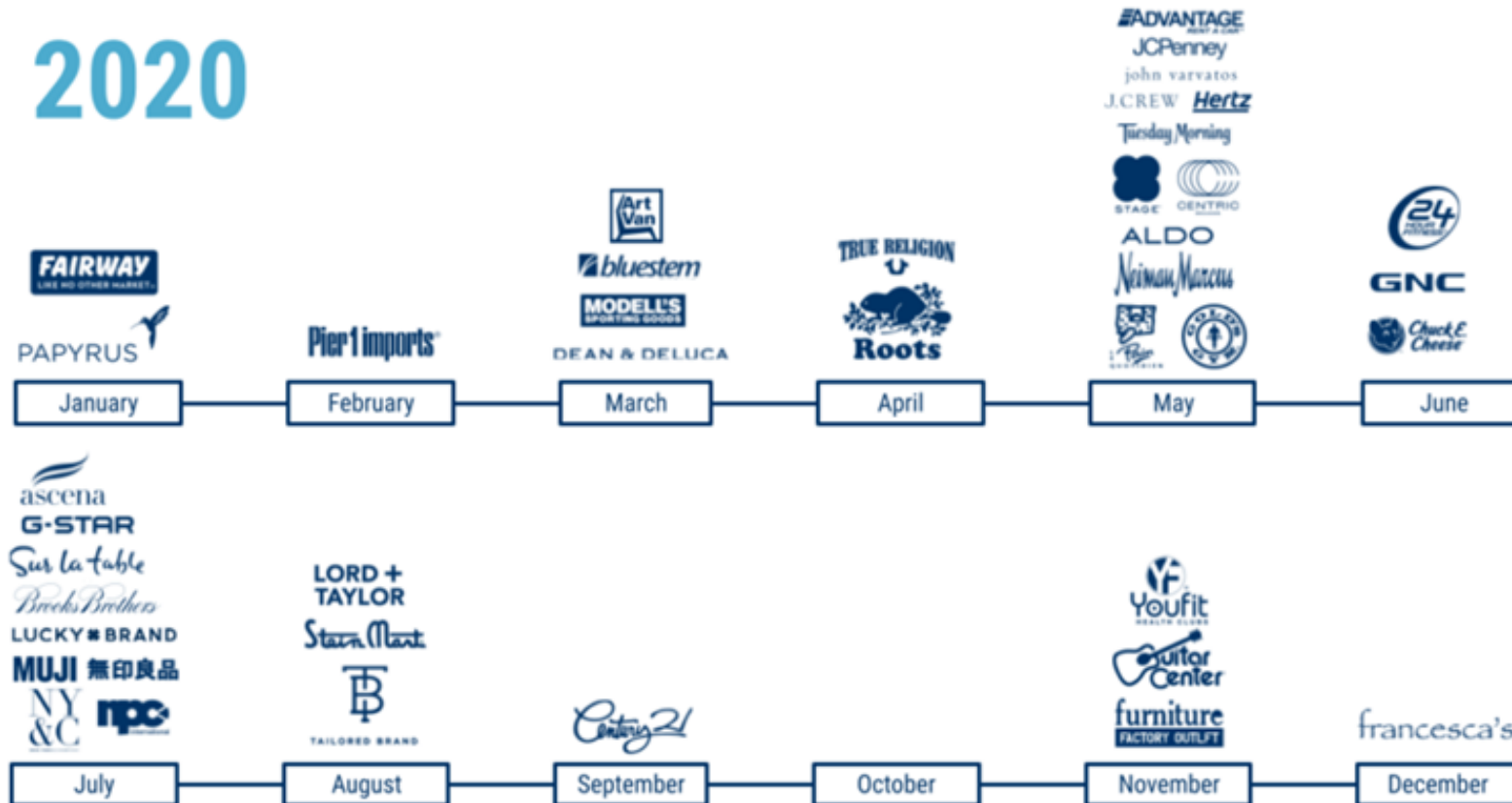
TRENDING - Retailer

- **Ownership Decisions**
 - **Transfer of Ownership**
 - **Take down the sign**
 - **MBA 101 – B/K**



TRENDING - Retailer

2020



EMERGING TREND – Buildings

- Drive Thru's
 - Requirement for New Stores
 - Fewer Seats
 - City Issues/ Congestion.
Pollution?



Closing of DUNN BROTHERS in Plymouth, MN

- Located at Vicksburg & 55
- Benefited from Pylon on Hwy 55
- Impacted by Starbucks Drive Thru
- Decreasing Sales, Increasing Labor Cost



TRENDING - Buildings

- Contraction and Expansion



MARKET INTEL FOR APPRAISERS



MARKET INTEL FOR APPRAISERS

- Typical Allocation of \$1.00
 - 35% Labor
 - 35% Supplies
 - 10% Insurance
 - 10% Rent
 - 10% Profit

MARKET INTEL FOR APPRAISERS

- Typical Allocation of \$1.00

- 35% Labor
- 35% Supplies
- 10% Insurance
- 10% Rent
- 10% Profit

- New Allocation of \$1.00

- 42% Labor (up 20%)
- 38.5% Supplies (Up 10%)
- 11.0% Insurance (Up 10%)
- Leaves 8.5% for Rent & Profit
- Need to Raise More Revenue or Cut Expenses

MARKET INTEL FOR APPRAISERS

- Raise Revenue
 - Increase Prices
 - Add Fees (Broder's)
 - Smaller Portions



MARKET INTEL FOR APPRAISERS



- Cut Expenses
 - Use Technology
 - Cut Hours
 - Reduce Offering (Menu)
 - Vertical Integration (*)
 - Combinations
 - Cut Rents

MARKET INTEL FOR APPRAISERS

- **How Do Trends Impact Values ?**

- **Tech plays a bigger role**

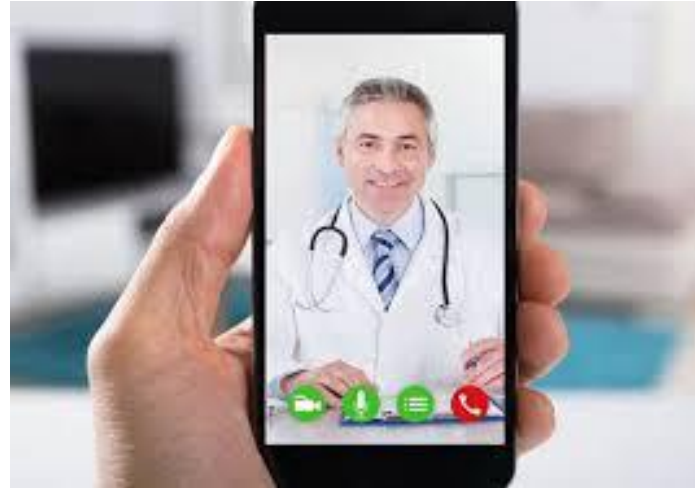
- **Tech cost \$ - need capital**



MARKET INTEL FOR APPRAISERS

- **Technology**

- **Medical**
- **Education**
- **Meetings**



- **RETAIL?**



MARKET INTEL FOR APPRAISERS

Delivery - Human & Robots



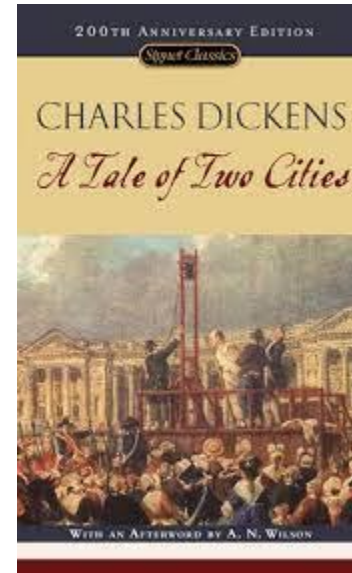
MARKET INTEL FOR APPRAISERS

- **How Do Trends Impact Values?**
 - Tech plays a bigger role
 - Labor will cost more



MARKET INTEL FOR APPRAISERS

- **How Do Trends Impact Values?**
 - **Tech plays a bigger role**
 - **Labor will cost more**
 - **Tale of Two Cities (Assets)**



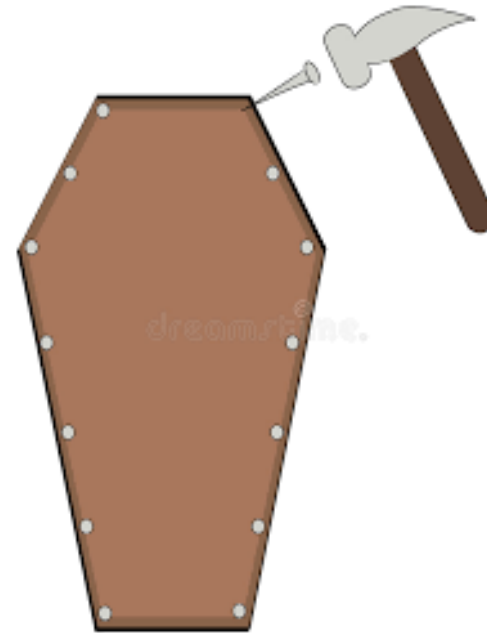
MARKET INTEL FOR APPRAISERS

- **How Do Trends Impact Values?**
 - Tech plays a bigger role
 - Labor will cost more
 - Tale of Two Cities
 - Highest and Best Use?



MARKET INTEL FOR APPRAISERS

Marginal retailers have failed – Covid-19 accelerated their demise



- **Who is the weakest user? (4 Expls)**

FOLLOW THE MONEY



FOLLOW THE MONEY

- Three Largest Retailers (*)

- WMT:



- HD:

- COST:



- Total:



FOLLOW THE MONEY

- Three Largest Retailers (*)

- WMT: \$403 BL

- HD: \$353 BL

- COST: \$193 BL

- Total: \$949 BL



FOLLOW THE MONEY

- **Three Largest Tech Companies**
(*)

- **GOOG:**

- **FACE:**

- **MSOFT:**

- **Total:**



FOLLOW THE MONEY

- **Three Largest Tech Companies**
(*)

- **GOOG: \$1.7 TR**

- **FACE: \$1 TR**

- **MSOFT: \$2 TR**

- **Total: \$4.7 TR**



FOLLOW THE MONEY

- **Bridge Between – Amazon**
 - **Three Retailers \$949 BL**
 - **Amazon: \$1.7 TR**



PARTING THOUGHT

- Emerging from a Global Pandemic (Maybe)

