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RETAIL REAL ESTATE SPECIAL REPORT

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WHAT IS RETAIL REAL ESTATE?

Retail Real Estate is part of one the oldest professions in the world. No, not that profession! What we are talking about is people trading with other people. Retail Real Estate which includes Shopping Centers and Single-Tenant Net-Lease properties are one of the most efficient ways to distribute goods and services.

Human beings are social creatures. Part of our social nature is that we trade. We trade goods for money; we trade services for money. Before that, we bartered goods for other goods. In the future, we may trade goods and use Bitcoin or some other store of value to convert our ideas or labor into food, health, and recreation.

Malls in one form or another have been around since men (and women) began to trade. Starting with gathering at a city gate, then a grouping of stalls within walled cities to the Persian Bazaar (Bāzār), Greek Agora, Roman Forum, African Souq, English Arcades and Italian Gallerias.

Retail Real Estate is a vital part of any community. People need to shop, go out to eat, get entertained, work out, visit the doctor, get their hair cut, nails done, and treat themselves or the kids to an ice cream cone. Retail Real Estate is a desirable amenity to nearby residential property and improves housing values along with higher apartment rents.

Malls, shopping centers, restaurants, and retail real estate are also cross-border cultural icons. Think of the countless movies that have a mall food court, store or restaurant interior. Retail Real Estate architecture and design have had a tremendous influence on culture, both good and bad. Shopping Centers also provide community gathering places to buy merchandise and food, obtain services, as well as meet and eat.

Types of Retail Real Estate include Shopping Centers; from small strip centers all the way up to super Regional Malls. For more information on types of shopping centers visit our website to see:
http://www.concordiarealty.com/resources/real-estate-learning-cr002/

Another popular retail real estate investment is the Net-Lease Single-Tenant retail property lease to a national credit chain store (think Walgreens, CVS, Advance Auto, and Dollar General, etc.); restaurants: including Quick Service Restaurants (QSR or Fast Food) through fine dining; bank branches (Chase, PNC or Bank of America); medical (dialysis, dental and emergency care); health clubs and many more options. Single-tenant retail properties can be stand-alone or actually located within a shopping center on an out-parcel or out-lot in the parking lot of the shopping center. For more information on types of Net-Lease Single-Tenant retail properties visit our website to see:
http://www.concordiarealty.com/resources/real-estate-learning-cr005/

A rare form of Net Lease is called the Absolute Net Lease in which the tenant pays all the NNN items, plus the costs of maintaining and replacing the building including roof, walls, HVAC systems, and structural components. An investor will more commonly find an Absolute Net Lease in the form of a Ground Lease. For example, we have had a number of shopping centers where we had excess land in the parking lot. We chose to do a Ground Lease with restaurants, car washes, and even a supermarket because you as the property owner take on less risk. There is no construction risk; there is no risk of paying for special use equipment; and again, the tenant pays for maintaining the building, grounds, utilities, taxes and any other expenses plus pays you monthly.

A type of retail real estate growing in popularity is urban street front retail (sometimes known as High Street Retail on the best shopping streets in gateway cities). Street front retail typically does not have parking but can be one to a cluster of stores extending a city block. Many street front retail properties are the commercial condominium portion of a larger residential or office building located in an urban center or neighborhood.

WHO IS CONCORDIA REALTY CORPORATION?

Concordia Realty Corporation has been successfully investing at the corner of Main & Main since 1989. We are a premier private real estate investment and management firm that creates value for our Investors, Tenants and the Communities where our properties are located.

Shopping centers and retail real estate are usually the most visible parts of cities and communities. Through the transformation of struggling and dated shopping centers, Concordia Realty has been instrumental in reviving neighborhoods, increasing surrounding property values and sales tax receipts, and evening reducing crime.

Our wide range of experience across a spectrum of real estate investments has consistently delivered superior returns. This experience has built a unique set of skills that help to add value to all of our real estate ventures. We deliver increased returns to our investors, higher sales for our retail tenants, better living for our multifamily tenants, safer neighborhoods and higher valuations for our properties.

Concordia Realty shopping centers have also had an influence on pop culture when they were used as locations for shooting blockbuster movies such as Wayne's World (Mike Myers & Dana Carvey), Wanted (Angelina Jolie & Morgan Freeman), and the hit television show The Sopranos. Some of our properties have become major roadside attractions or known for their innovative architecture—which drives traffic and merchant sales. Artwork that we have installed in various shopping centers over the years has also been featured on the BBC, local television news stations, and even in a Japanese cable television show.

For the majority of our years in business, Concordia Realty has worked with major institutional investors such as banks, insurance companies, hedge funds, family offices, international investment funds and publicly traded REITs. Now we are opening up our investment opportunities to Accredited Investors so that they can get the advantage of Concordia Realty's knowledge and experience for their portfolio.

Concordia Realty has operated hundreds of properties in more than 20 states which have provided our investors with geographic diversity and lower risk of exposure from oversaturation in one particular market or region. How do we do it? Retail Real Estate, with its reliance on national/regional chain stores, is based on relationships with those tenants. The key factor is focusing on the best location in the market and knowing what tenants would want to be at that location. That type of knowledge and tenant relationships only comes with experience and knowing how to use the proper analysis tools.

WHY INVEST IN RETAIL REAL ESTATE?

Retail Real Estate can be an excellent way to generate cash flow and wealth either full-time or as an addition to any investment portfolio. Retail Real Estate as an investment combines financial security, long-term stability, inflation hedging, and tenant paid expenses along with the opportunity to be involved with food, fashion, capitalism, and community development. Over the past five years, retail real estate assets have produced an annualized total return to investors of 10.4%, compared to 10% for non-retail assets, according to MSCI Retail Real Estate mirroring similar results found in the National Council of Real Estate Investment Fiduciaries (NCREIF) Index.

Retail Real Estate has produced higher average annual returns over the past 20 years than the average returns produced by apartment buildings, industrial properties, and office buildings.

Despite a recent theme from the media about a brick and mortar retail apocalypse, Retail properties have a track record of delivering solid, stable investment returns. As a matter of fact, Retail Real Estate is the asset class that has secured some of the highest prices per square foot of any type of commercial real estate (one notable deal is $31,000 per square foot – $2880 per square meter in 2014 by Chanel in New York City). Additionally, Retail Real Estate has produced some of the highest rents in the world, including New York City's 5th Avenue with annual rents that average of $3,000 per square foot, Hong Kong's Causeway Bay with average annual rents around $2,725 per square foot, and London's New Bond Street with average annual rents in 2017 around $1,720 per square foot.

Retail Real Estate has produced some of the highest rents in the world. In excess of $3,500 per square foot!

Retail Real Estate is influenced by the state of the national economy, tracking with indicators such as corporate income and productivity increases, employment growth, and consumer confidence levels. Local factors include state and local tax policies, regulatory regimes, and pro-growth sentiment. Lastly, property specific factors include the property location, traffic flow, trade area population demographics, disposable household incomes, and buying patterns. Retail Real Estate is 100% location, location, location on behalf of the property owner and 100% merchandising, merchandising, merchandising on behalf of the tenant.

Retail Real Estate provides for investment stability with leases of 5, 10, and even 20 years.

Retail Real Estate provides for investment stability with leases of 5, 10, and even 20 years. The income is consistent and known for longer periods of time than the typical apartment or self-storage lease. Retail Real Estate leases are usually with "Chain Stores" or sometimes referred to as "National" or "Credit" tenants even though they can be a strong regional retailer or even a dominant local retailer with 10 – 20 stores in a metropolitan area. A lot of these tenants are publicly traded and/or "Investment Grade" with credit ratings at least BBB- or higher by Fitch and Standard & Poor or Baa3 or higher by Moody's. Since the rent is guaranteed by a financially strong tenant, you have a higher expectation of the rent being paid at the beginning of the month, each and every month of the lease. You won't have the opportunity to take advantage of major swings in rental rates because they are locked in by the lease. However, most leases adjust upwards at regular intervals, and some are tied to the Consumer Price Index (CPI) for inflation protection.

Retail Real Estate income streams are consistent and known for longer periods of time.

Retail tenants typically pay all expenses including real estate taxes, insurance, and maintenance for the property.

Most retail leases are also Triple Net (NNN) meaning the tenant pays in addition to rent the real estate taxes, building and liability insurance, and maintenance of the parking lot, sidewalks, landscaping, and other items that would be considered “common areas” or areas utilized by customers. With NNN leases, the tenant also usually pays for all their own utilities and maintains the interior of their premises plus regularly scheduled maintenance (not replacement) of HVAC systems. The acronym TIM (Taxes, Insurance, Maintenance) is used to remember NNN.

Retail Real Estate rents are guaranteed by well known, financially strong tenants.

In addition to the tenant paying rent and expenses, some leases have a Percentage Rent Clause where a tenant pays a percentage of their gross sales. Percentage Rent creates alignment between the tenant and the landlord in a shopping center because the landlord is incentivized to create the best collection of retailers to produce higher sales volumes for all the tenants. The Percentage Rent is usually structured to kick in after a tenant achieves a specified amount of sales.

Once the tenant’s sales exceed the “Break Point,” the tenant will pay the extra Percentage Rent on a monthly basis or at the end of the year. This creates extra income for the property owner and is another important hedge against inflation. If the retailer raises prices, it shows up in the percentage rent.

Retail Real Estate can either be Shopping Centers or Single-Tenant properties. In either case, you will typically see both types of properties clustered at intersections or along major arterial streets. Retail Real Estate thrives on traffic, access, and visibility.

Retail Real Estate is the asset class that has secured some of the highest purchase prices per square foot of any type of commercial real estate. Saks 5th Avenue’s New York flagship store is worth $3.7 billion.

As an investor in Retail Real Estate, you will own a hard asset which unlike other investments you can see, touch, and use. You can sit, drink, and eat in one of our exciting new restaurant tenants that are paying you rent. You can attend a screening at the moving theater, play a game at the bowling alley, grab an apple from the supermarket. Very few other investments allow you to participate in your actual investment the way you can with Retail Real Estate.

WILL THE INTERNET ELIMINATE RETAIL REAL ESTATE?

Health and wealth communities are dependent on local shopping and access to services and entertainment. Single-family residential homes are also in some respects tied to the vitality of the shopping options in the immediate area.

Physical retail ("bricks and sticks" or "bricks and mortar") is not going away and in certain situations is even growing. Retail has continuously evolved in the United States and has seen a rather cyclical development. From the local general store, which was upended by the Sears catalog, who in turn started opening department stores, only to be replaced by Walmart and finally Amazon. Amazon, however, went full circle to buy Whole Foods and even open smaller bookstores marking an entrance into traditional retail for online sellers.

The U.S. Census Bureau in February 2018 reported total 2017 e-commerce retail sales of $454 billion, thus making online sales about 10% of retail spending. At the same time, Brick & Mortar stores sales saw a rise of 3.4% in 2017 showing an overall growth of omnichannel retailing. To further put those numbers in perspective, the warehouse club sector, which includes well-known retailers such as Costco, Sam's, and BJ's generated $191 billion in 2017 and has had an annual compound growth rate of 6.2 percent since 2001.

Why are shopping centers performing better than the general public thinks they are? Here are several explanations:

- Consumer spending is not a zero-sum game. Every additional dollar of online spending does not equate to a dollar less spent in stores. In many cases, online returns at physical stores drive additional purchases.
- Bankruptcies and closures generate more press coverage than plans for expansion. This leads to far more attention being given to a very small segment of the market.
- Expanding retailers operate in thriving segments, while closures tend to be concentrated in segments with declining profitability. Think about it, when was the last time you went into a Sears or Kmart? How many more trips are being made for coffee, Chipotle, and items at your conveniently located drug store?
- The growth of omnichannel strategies—where retailers adapt their online and offline strategies to complement each other.

Online retail is less profitable than Bricks & Mortar stores. Profitability and lower online pricing will not be helped by the recent US Supreme Court decision in South Dakota v. Wayfair, Inc. which held that states can charge sales tax on purchases made from out-of-state sellers. The largest player in the online retail space, Amazon.com, has invested $13.7 Billion to get a physical presence with Whole Foods. They are also experimenting with Amazon Go checkout-free stores.

According to the Council of Supply Chain Management Professionals – logistics costs rose to a record $1.5 trillion in 2017. Retail Real Estate and shopping centers, in particular, are well positioned to be the "last mile delivery" solution. Vacant anchor tenants and Big-Box stores can easily be repurposed to convenience warehouse/distribution centers in densely populated urban/suburban areas.

All that spending on logistics and having to pay sales taxes on purchases is a leading indicator that consumers will be paying more in the near future for the convenience of delivery. Furthermore, Amazon's in-house delivery skills have grown to be horrendous with more missed delivery windows for Prime service and calling it a delivery. Amazon has raised the rates for Prime membership while at the same time there is evidence that customer satisfaction is decreasing. The future of e-commerce will be both expensive and could include many more late or missed deliveries, thus being less convenient for the purchaser.

Another headwind facing e-commerce is the cost of customer acquisition through ads on Google and Facebook. While Facebook user growth has stalled, their ad rates have more than doubled from early 2017. Estimates from Happy Returns Inc., a company that handles returns for retailers and manufacturers, estimates that the rate of return for online purchases is close to four times higher than the rate for physical-store sales. Profit margins on e-commerce sales have always been less than Brick & Mortar physical stores.

According to a recently published report from IHL Group, retailers opened 4,080 more stores in 2017 than they were closing and plan to open over 5,500 more in 2018.

Other highlights from the report "Debunking The Retail Apocalypse" include:

- 42% of retailers have a net increase in stores, only 15% have a net decrease, and 43% report no change.
- The three fastest growing core retail segments are mass merchandisers such as off-price retailers and dollar stores (+1,905 stores), convenience stores (+1,700 stores), and grocery retailers (+674 stores).
- When it comes to chains shuttering stores, only 16 chains account for 48.5% of a total number of stores closing. Five of these chains (Radio Shack, Payless Shoesource, Rue21, Ascena Retail, and Sears Holdings) represent 28.1% of the total stores closing.
- When you examine the Toys 'R' Us debacle, it becomes apparent that the company struggled with a crushing debt load that had accumulated prior to 2005 and which prevented them from improving stores. Additionally, they had a wide array of products yet no opportunity for sales to help service customers. The biggest two blows to Toys "R" Us were Walmart and Target. It should be noted that Target's toy sales have grown each quarter for the past four years.

For a more recent comparison, Amazon said that it shipped more than 100 million products in the first 24 hours of its 2018 Amazon Prime Day. Kroger sells about 110 million items at its almost 2,800 stores on an average day, pulling in about $340 million in revenue. Walmart produces around $36,750,000 of sales per hour.

These facts can be seen as a positive trend for Retail Real Estate investment and shopping center locations for tenants.

HOW CAN YOU INVEST IN RETAIL REAL ESTATE?

Retail Real Estate can be an excellent addition to your portfolio for generating CASH FLOW and CREATING WEALTH. Shopping Centers and Single-Tenant Net-Lease Retail have been reliable generators of PASSIVE INCOME for thousands of investors.

Retail Real Estate offers investors the ability to generate high absolute returns. The absolute return takes into account appreciation, depreciation, and cash flows to measure the amount of money your investment earns over time. As an investor in a shopping center investment, you will generally receive a profit from annual cash flow and the profit at sale. These profits are taxable income. Concordia Realty structures our investments to comply with the tax advantages written into law including (a) depreciation benefits, (b) accelerated depreciation using cost segregation, (c) bonus depreciation, and (d) capital gains tax at sale. This provides investors with the long-term benefits of substantial cash flow and minimizes your tax burden.

ACTIVE VERSUS PASSIVE REAL ESTATE INVESTING

Active investing is when investors own and operate a property outright, either by themselves or with family, friends or business partners. They make all the decisions and might be able to take advantage of opportunistic acquisitions because they control the process. However, given the substantial capital and expertise required to acquire and operate commercial properties, there are high barriers to entry for prospective investors.

Passive Investing is when an investor chooses to outsource their real estate investments to a Sponsor and pays them a portion of the profits for sourcing, analyzing, forming the acquisition team with legal, financial, construction, and management experts. Sponsors like Concordia Realty aggregate money from numerous investors to buy larger properties and manage the day-to-day operations for these assets. Concordia Realty will acquire the properties, execute the business plans, and provide reports to investors on the progress. In this case, individuals are still direct owners in the underlying properties and receive all of the benefits. We have a team of veteran professionals who understand and have completed complex acquisitions and dispositions, legal issues, deciphering leases, tax law implications and operating multimillion-dollar properties along with supervising the employees and contractors needed to run them.

Concordia Realty Corporation specializes in finding Shopping Center investment opportunities that hit strong fundamental investment targets to provide solid returns to our investors. These investment criteria include: priced at or below replacement cost; good traffic counts; excellent access; below market rents and/or expense reimbursements; adequate parking; supply-constrained markets; stable tenants; appropriate demographics (both income and density) for the target tenants.

Concordia Realty looks for value-add properties where we can create value through leasing, repurposing or subdividing out parcels to arbitrage cap rates for Shopping Centers versus Single-Tenant Net-Leased properties. Our value-add strategies include changing tenant mix, replacing vacant or underpaying anchor stores and in some cases changing the use for all or a portion of the property. Many dated Shopping Centers are in excellent locations for multifamily, senior housing, medical offices, call centers, and even last mile distribution light industrial for ecommerce.

Concordia Realty also invests in quality anchored, stabilized properties that can benefit from our leasing, merchandising and management expertise or are located in tertiary markets which in many cases provide higher capitalization rates and cash flow.

The property fundamentals for the types of properties Concordia Realty acquires are still strong. This strategy is born out that neighborhood/community Shopping Centers have continued to boast the strongest performance of any Shopping Center type in the United States with declining or flat vacancy since the second quarter of 2011. While some segments of the retail sector such as enclosed malls and power centers have struggled, the occupancy rate for neighborhood/community Shopping Centers was close to 93 percent in the second quarter 2018, up from 92.4 percent year-over-year, according to research firm CoStar. Rents for the sector grew by 1.9 percent from 2017 to 2018.

The types of Shopping Centers Concordia Realty targets account for about one-third of all retail space, largely due to the type of tenants that typically occupy neighborhood/community Shopping Centers. In addition to grocery or drug store anchors, the other tenants for these types of Shopping Centers are typically restaurants or service concepts such as dry cleaners or fitness clubs and other e-commerce resistant tenants.

If you are an Accredited Investor (net worth exceeding $1 million or income exceeding $200,000 for the past 2 years) and are interested in investing in Retail Real Estate with Concordia Realty, please contact Michael Flight at (708) 344-9161 ext. 111 or mflight@concordiarealty.com to further discuss specific opportunities and be added to our email list.

You can also visit www.ConcordiaRealty.com for further educational information on Shopping Centers, Single-Tenant Net-Leased retail properties, and Passive Private Equity real estate investing.

SUMMARY

Concordia Realty has vast experience working with institutional investors such as Insurance Companies, Pension Funds, Family Offices, and Hedge Funds. These sophisticated investors target 10% to 30% of their portfolio to be allocated to commercial real estate investments. Retail Real Estate investments not only provide excellent, long-term, stable cash flow and wealth creation; they also improve communities by providing goods, services, entertainment, and cultural amenities. Shopping Centers and Single-Tenant Net-Lease retail properties are still one of the most efficient ways to distribute goods and services to people.

The constant drumbeat of recent negative media stories about the death of Retail Real Estate has created a significant buying opportunity for investors with the skills and experience to reposition and operate these properties successfully. You can take advantage of those opportunities by investing alongside Concordia Realty.

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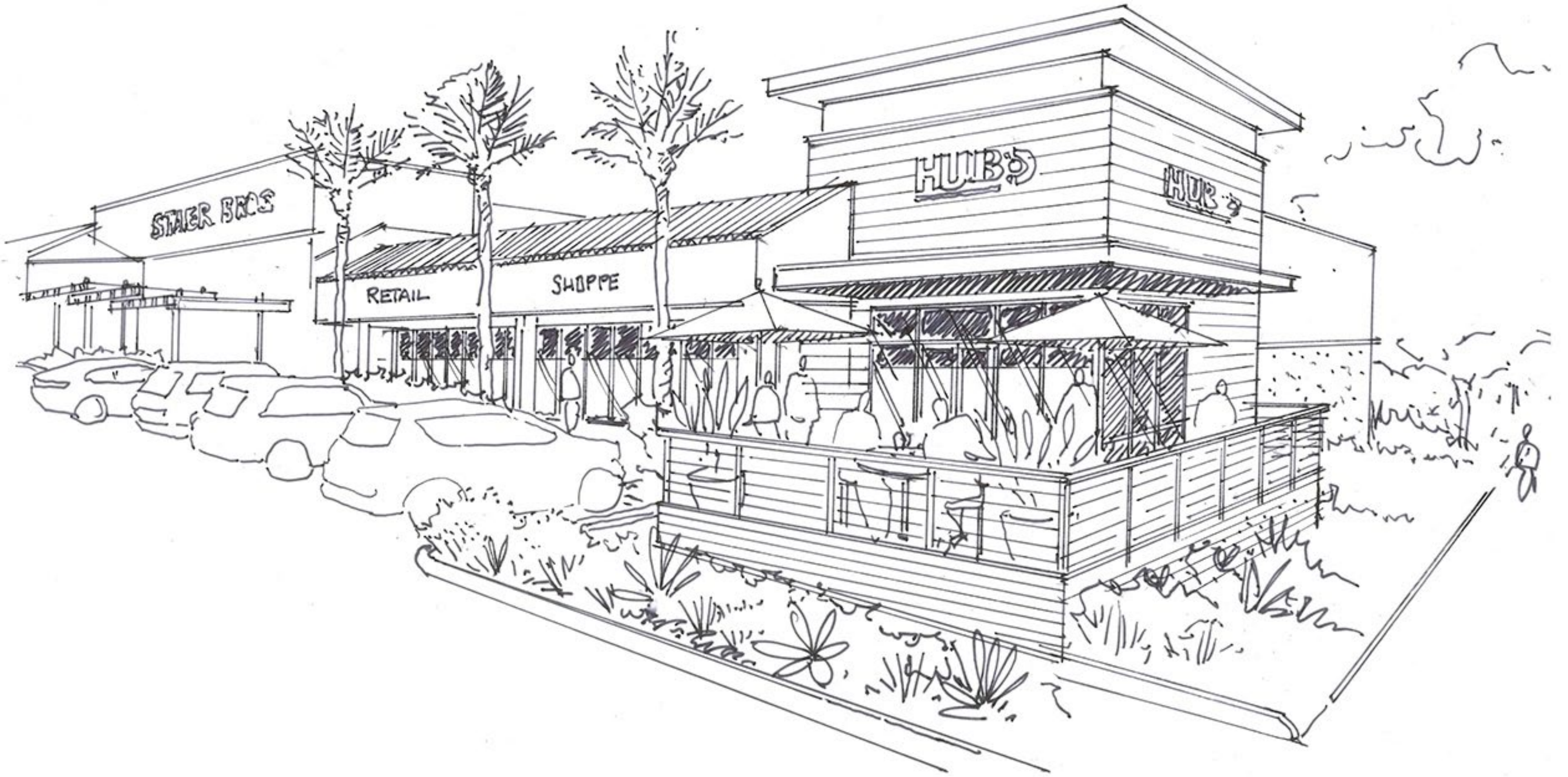

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