



# Necessity-Based Retail Market Update

*Certain statements made herein reflect the subjective views and opinions of Lincoln. Such statements cannot be independently verified and are subject to change. See Appendix A for Important Disclosures & Risk Factors.*

Lincoln Property Company



# Necessity Retail

Necessity or essential retail refers to conveniently located businesses and stores that provide goods and services considered necessary for daily life such as food, healthcare, and household essentials. While certain subsets of retail have faced substantial headwinds, Necessity Retail continues to stand out as a winner, outperforming the broader sector.<sup>(1)</sup>

Necessity Retail	Necessity Retail has demonstrated income durability + ability to deliver relative value notwithstanding capital market fluctuation, the “retail apocalypse” mall narrative, and a global pandemic. <sup>(2)</sup>
Distribution Ecosystems	Retail boxes in irreplaceable locations provide last-mile distribution allowing for efficient delivery of goods and services to consumers.
Retailer Expansions	The pandemic exacerbated the death of declining retailers and facilitated the expansion of successful retailers—providing active market participants with strong tenant relationships and a path to alpha generation. <sup>(3)</sup>

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(1)(2)(3) Private Market Total Return (NCREIF) 2Q23.



# Durability Tests

- Necessity Retail has performed across market cycles<sup>(4)</sup> — providing sustainable, reliable returns.  
It has re-emerged as a fundamental component of a well-diversified real estate investment portfolio.
- Retail boxes in irreplaceable locations provide last-mile distribution and consumer connectivity through:
  - Hub-and-spoke supply chain connectivity
  - Fulfillment & distribution (e.g., buy online & pick-up in stores)
  - Immediate satisfaction of consumer demands (purchases & returns)

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(4) Private Market Total Return (NCREIF) 2Q23.

## Private Market Total Return (NCREIF) Retail

SEGMENT	YR/YR	SINCE 2019
Neighborhood Center	0.0%	13.1%
Community Center	1.0%	11.4%
Power Center	1.2%	9.8%
Fashion/Specialty Center	1.8%	-0.5%
Single Tenant	-6.5%	-6.9%
Super-Regional Center	-1.7%	-7.2%
Regional Center	-3.6%	-12.2%
Theme/Festival Center	-10.5%	-14.9%
Total Retail	-0.9%	-0.6%

# The Retail “Moat”

Necessity Retail assets have innate barriers to entry, making them a challenging asset class to assemble and scale.

## Necessity Retail Barriers to Entry

Barrier	Potential Mitigants
Lack of private, sophisticated retail platforms with historical track record	<ul style="list-style-type: none"><li>• Strong track record, national platform, proprietary market information</li></ul>
Size of neighborhood centers makes efficient capital deployment difficult	<ul style="list-style-type: none"><li>• In-house retail expertise / vertically integrated team</li></ul>
Retailer relationships	<ul style="list-style-type: none"><li>• Singularly focused on a single asset class (not generalists)</li></ul>
Operational pitfalls	<ul style="list-style-type: none"><li>• Significant experience owning &amp; operating Necessity Retail</li><li>• National retail property management business</li></ul>

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(5) As defined by expansion plans. Northmarq 2Q23 Research.

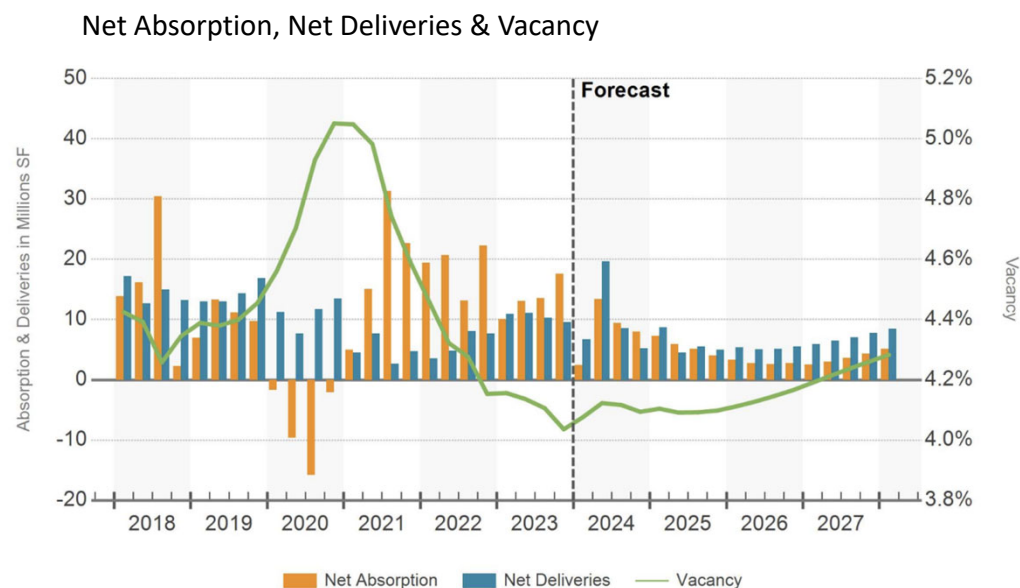
## Select Necessity Retail Winners<sup>(5)</sup>



The logos reflected above do not represent any Lincoln investments and instead are illustrative examples of the themes described herein.

# Supply vs. Demand Imbalance

- With the exception of 2020, net absorption has outpaced new retail construction over the past decade.
- Less shopping center space available for lease than any time since before the 2008 Recession<sup>(6)</sup>
- Retail deliveries of ~50MSF over the past year— represent a 35% decrease compared to the 10-year average<sup>(7)</sup>
- 150M+ SF of retail space removed from the market since 2017— including 16M SF in the past year<sup>(8)</sup>
- Only 11.9M SF of construction over the past year— the lowest level since 2005<sup>(9)</sup>
- Vacancy rate at 4.1% is substantially lower than the 7.1% peak in 2010



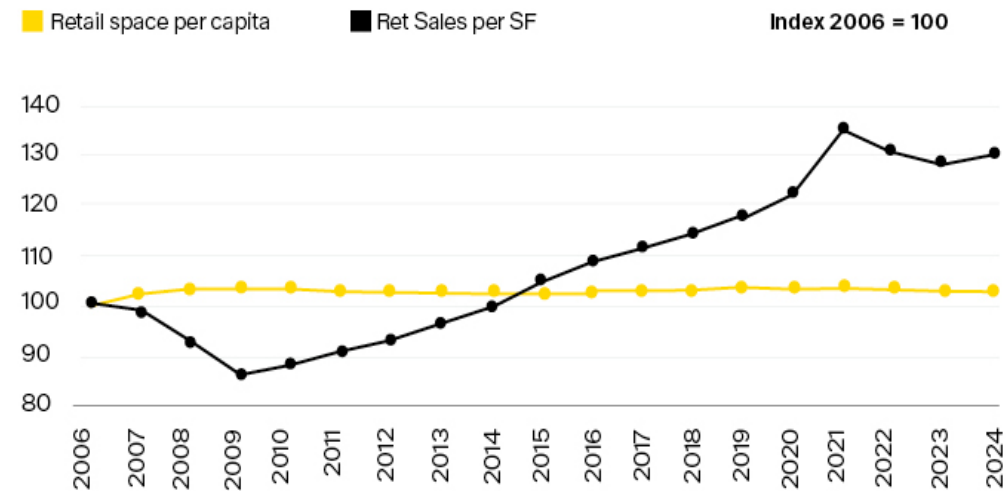
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(6)(8) JLL "Retail Market Outlook 2Q23; (7)(9) Costar 4Q2023 US Retail Report.

# Availability ↓ Demand ↑

- U.S. Retail market experiencing tightest conditions ever recorded with ~4.8% available<sup>(10)</sup>
- Availability decreased 50 bps over past year—nearly 200 bps lower than 6.8% historical average<sup>(11)</sup>
- Available grocery space is extremely sparse<sup>(12)</sup>
  - Consumers’ prioritization of necessity goods is backing strong property fundamentals
  - Grocery vacancy is at 2.2% (as of June 2023)—lowest since 2003
  - Tenants absorbed a net of ~4.1M SF over past 9-month period (mirroring prior three-quarter period)
- Retail expansion plans fueled by sales growth has created a scarcity premium as new construction continues to lag. Additionally, retail sales per SF have risen to historical levels as the existing inventory has not increased at a comparable pace.

## Retail Sales per SF & Retail Space per Capita



Source: CBRE US Real Estate Market Outlook 2023.

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(10)(11)(12) CBRE US Real Estate Market Outlook 2023.



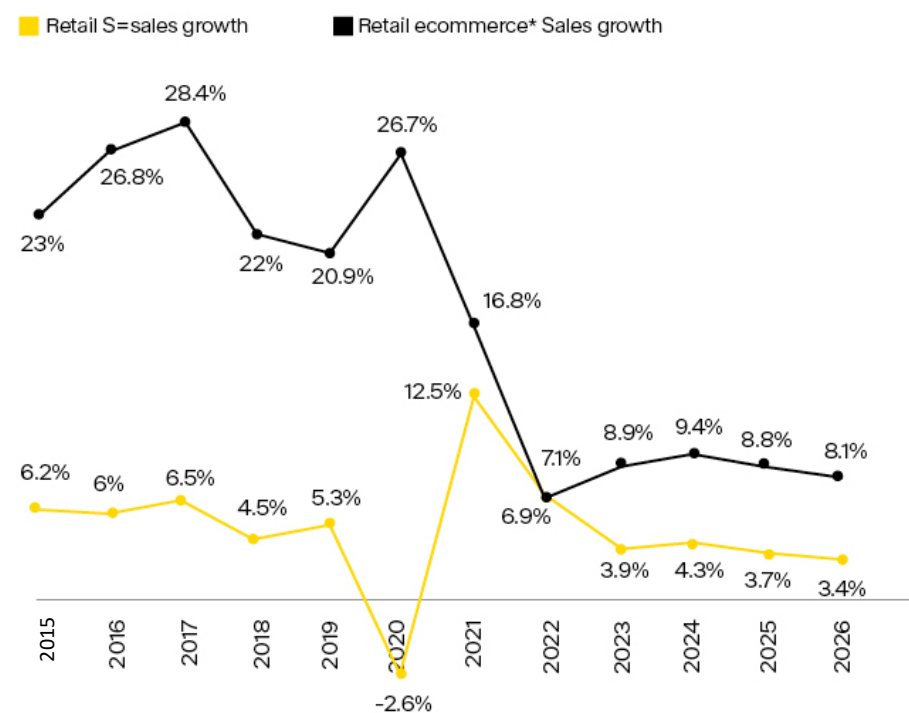
# Omnichannel Equilibrium

- After several years of e-commerce growth averaging ~24%, its growth has significantly moderated over the past 3 years.
- Future growth is projected to stabilize and achieve an equilibrium with brick-and-mortar sales.
- The in-person experience proved to be necessary and symbiotic with online sales.<sup>(13)</sup>
  - Consumers prefer to return the majority of online orders in store
  - The ability to buy online and pick-up in store adds 11% to store sales on average
  - Grocery stores fulfill 84% of online sales in physical stores (versus distribution warehouses)
  - On average, online sales increase 6.9% when retailer opens a new store (“halo effect”)

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(13) eMarketer, December 2022; CBRE, Retail’s Virtuous Cycle, February 2024.

**Retail & Retail E-Commerce Global Sales Growth  
Year-over-Year % Change (2015-2026)**



Source: eMarketer, December 2022.

# Retail Expansion

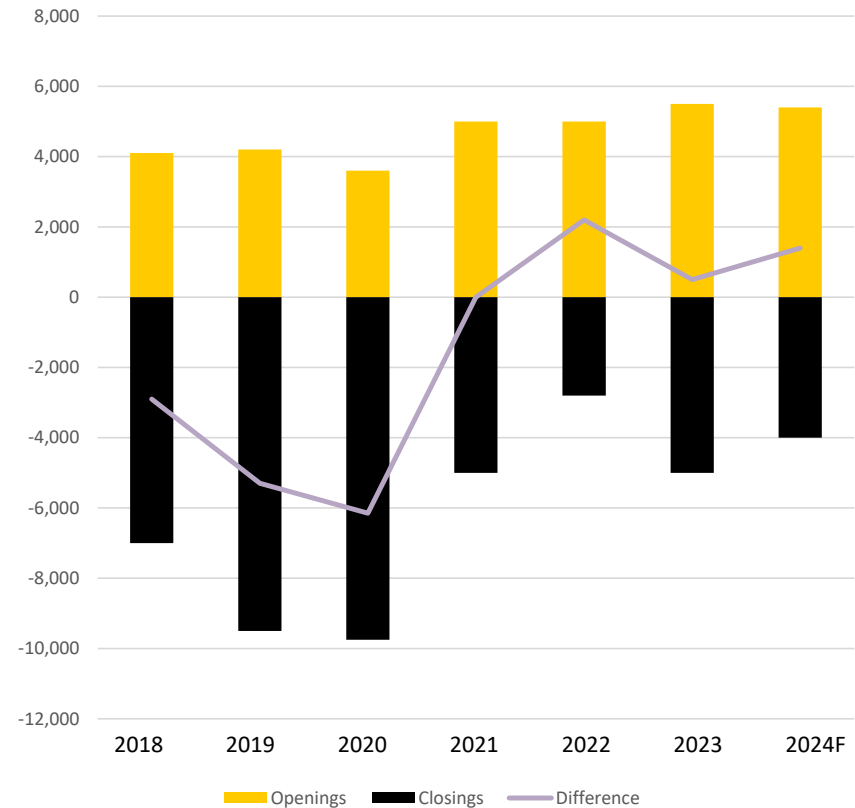
- Retail “winners” that emerged from the pandemic have already built successful omnichannel platforms<sup>(14)</sup>:
- Require a balance between e-commerce and bricks-and-mortar to maximize sales and minimize costs
- Will require physical retail space — especially for Necessity Retail
- Retailers continue to expand:
  - Nearly 49% of retailers plan to expand their footprint over the next five years — far higher than the 28.5% planning to reduce space <sup>(15)</sup>



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(14) Northmarq 2Q23 Research. (15) Colliers 2023 Fall Retail Report; CBRE, Retail's Virtuous Cycle, February 2024.

**Retail Openings vs. Closing**  
Historical and Forecast, In Total Stores <sup>(21)</sup>





# First Mover Advantage

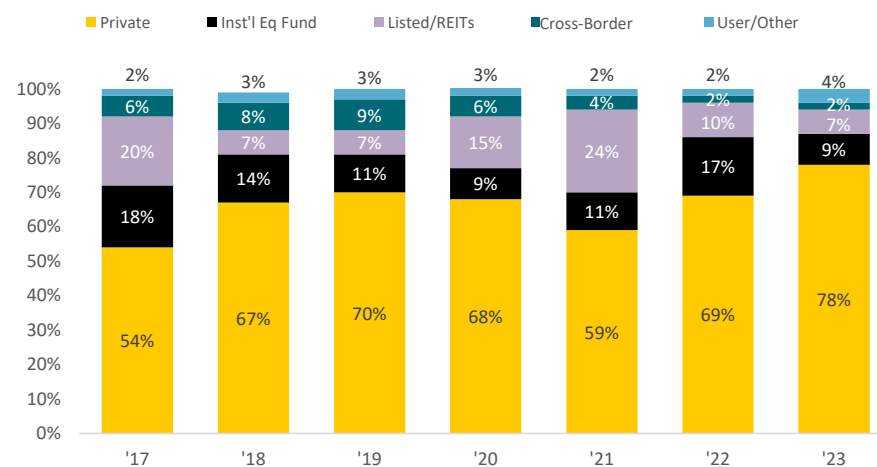
- The capital markets mirage is creating a massive first mover advantage
- Protracted capital markets seizure is creating a generational portfolio assemblage opportunity:
  - Acquire high-performing, durable Necessity Retail assets with accretive leverage
  - Pricing due to broken capital structures — not broken real estate<sup>(16)</sup>
- Existing management teams with capital and expertise may grow market share and scale before new market participants
- Nimble investors with the ability to navigate capital market noise may be rewarded

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(16) Source: JLL “US Retail 2023 Year End Transaction Summary Report”.

## Acquisition Volume by Investor

Due to the pandemic and the rapid expansion of interest rates, institutional share of retail transaction volume has fallen from a historical average of 27% to 16% in 2023, which creates acquisition opportunities for thematic investors to target high performing assets with reduced institutional competition.



The background is a solid dark gray. It features several large, light gray abstract shapes. On the left, there is a large, rounded rectangular shape. To its right, there is a circular shape. Further right, there are two more rounded rectangular shapes, one of which is partially obscured by the circular shape. The word "Appendix" is written in a black, sans-serif font, positioned to the left of the large rounded rectangle.

# Appendix



## Appendix A: Important Disclosures & Risk Factors

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