



As we have done for the past five years, the Retail Group of Cox, Castle & Nicholson LLP has, once again, taken on the daunting task of forecasting what to expect in the forthcoming year in four critical segments that affect the retail industry. In doing so, we analyzed the social, political and economic events of 2013, reviewed various economic data and projections and have come to certain opinions relating to the retail industry and where it is heading in 2014. Below is the product of our thinking, in the form of four articles of interest addressing such topics as capital markets, retailing, retail development and the impacts of residential development on retail.

also in this issue:

RETAIL DEVELOPMENT
– COMING AROUND
THE BEND?

By: Dan Villalpando
Page # 2

HOUSING MARKET –
SMOOTH OR BUMPY
ROAD TO RECOVERY IN 2014?

By: Bob Sykes
Page # 3

CAPITAL FOR RETAIL MARKETS IN 2014 –
FINALLY MORE TAILWINDS
THAN HEADWINDS

By: Gary Glick

Although this past year our politicians in Washington once again did their best to derail the continuing strength of the economy - this time with a government shutdown - many sectors of the economy thrived. The housing market had, by far, its best year since before 2008, the stock market indices continued to record historical highs, and the nation's gross domestic product (GDP) ticked up. Despite the hiring slowdown in December, for the first time since the Great Recession, economists are finally predicting more than a small incremental uptick in the economy in 2014. As a result, the Federal Reserve has announced that it will finally be tapering off its substantial bond purchasing program. Although this will lead to slightly higher interest rates, most see this move by the Federal Reserve as a very positive sign that the economy is finally strong enough to absorb these higher rates. As further evidence of a rosier, but guarded, outlook for the economy in 2014, Federal Reserve Chairman Ben Bernanke, at the annual meeting of the American Economic Association on January 3, 2014,

continued on page 4

RETAIL IMPROVING IN 2014 –
FUNDAMENTALS TAKING ROOT

By: Scott Grossfeld

For most of the past several years since the “Great Recession”, we predicted cautious or modest optimism in the retail market due to many counter forces then at play. Last year (2013), the fundamentals of a recovery started to germinate in earnest. It is the belief of many commentators that those fundamentals have begun to develop strong roots leading to the foundation of a strong base for a sustainable retail recovery.

The foundation for any recovery in the U.S. retail industry will be the improvement of the U.S. economy in general. According to many, the U.S. economy is well on its way to improvement. According to then Federal Reserve Chairman, Ben Bernanke, in his final speech as Chairman, he said “the forces that contributed to the recession are abating, which should produce faster growth in the U.S. economy in 2014. The combination of financial healing, greater balance in the housing market, less fiscal restraint and, of course, continued monetary policy accommodation bodes well for U.S. economic growth in coming quarters.”

continued on page 5

RETAIL DEVELOPMENT - COMING AROUND THE BEND?

By: Dan Villalpando

The retail industry welcomed 2014 with cautious optimism, not unlike the sentiment from the previous year. After years of relative stagnation commencing in 2008, experts believe that retail development took a step forward in 2013. Based on some positive news regarding the housing market, the potential for an influx of capital, and more favorable financing opportunities, it appears as if there may be reason to expect continued improvement in retail development this coming year.

One sector of the economy which has a major influence on retail development, and which has been relatively sluggish for the last several years, is housing. The latest data from the National Association of Realtors shows pricing gains in the overwhelming majority of the U.S. markets, with some up 10% or more over the past year. It also appears that sales activity is on the rise, as existing inventories are at near record lows, and new home starts are at their highest levels since before the start of the "Great Recession". In fact, the UCLA Anderson Forecast anticipates an increase in housing starts to 1.25 million units in 2014 (and 1.44 million units in 2015), up from an estimated 913,000 units this past year. It is commonly understood within the industry that if new housing developments are built, new shopping centers will follow. In addition, the continued resolution of residential foreclosures, the influx of institutional investment and the force of the expanding population may all contribute to a continued uptick in the housing market in 2014 with the retail market to follow.

Another positive sign in retail development is the fact that the development pipeline appears to be filling up, albeit at a modest pace. Evidence suggests that developers and investors are finally starting to come out of pocket to make payments to move projects along. These payments include fees paid to consultants, architects and land use experts, as some retail developers prepare for the commencement of new projects when their permits and approvals are obtained, probably in the next 12 to 24 months.

The availability of financing is another shift in the marketplace that may result in more ground up development, as well as more money being available for re-development and re-structuring of retail assets. Over the past few years, there were few banks willing to make loans secured by real estate projects (and not just retail). However, it appears as if commercial banks and other lending institutions are now looking favorably at real estate again. In addition, many experts predict a continued resurgence in commercial mortgage-backed securities which should result in more money "getting into the game". According to data from the Urban Land Institute, issuance of CMBS loans was expected to reach \$90 billion in 2013 and should climb to \$100 billion in 2014. The comparatively weak return from Treasuries has also made real estate a more attractive investment option.

While there are some positive signs, one issue that will likely continue to have an effect on the retail industry, as well as consumers in general, is political unrest in Washington. Squabbling by politicians in our nation's capital resulted in a government shut down from October 1st to October 16th, the first such cessation in activity since 1995-96. Notwithstanding the Bipartisan Budget Act of 2013, the budget sequestration which began in 2013 is likely to have a lasting effect, as budget cuts begin to impact various segments of the population. Since consumers drive the retail industry, any lack of confidence in our governmental may result in a reluctance of consumers to part with hard earned dollars. In fact, some experts believe that the biggest factor in a resurgence in retail development may be what transpires in Washington in the coming year and beyond.

Of the different types of retail projects, grocery anchored neighborhood centers appear to be most on the rebound, as space in those projects seems to fill up quickest. According to CBRE, the percentage of existing space that landlords of such centers are actively marketing for tenant build-out will decline to 10.6% in the fourth quarter of 2013, down from 12.3% in the third quarter and from 12.7% at the end of 2012. Analysts predict that a relatively low amount of new neighborhood centers will open in 2014, creating additional demand for existing space at those types of projects. In addition, grocery stores remain one of the sectors of retail that have felt less of a sting from e-commerce as people continue to want to shop for their groceries, rather than have them delivered. Only time will tell whether the paradigm shifts for delivery of groceries and other perishables, as companies like Amazon.com begin to experiment with home delivery of these items.

In addition to neighborhood centers, traditional malls appear to be maintaining occupancy rates despite the wobbly economy. Statistics show a current national vacancy rate of 4.8%, compared to 5.8% one year ago. One reason for the relatively strong numbers in the mall category is that mall properties account for the majority of the "trophy assets" in the United States, with retailers willing to pay more in rent to locate themselves in well performing projects with a lot of foot traffic.

As in the last few years, retail developers who are not willing to take the risk on new development will likely remain focused on what some in the industry call the "Five Rs": renovation, rehabilitation, repositioning, releasing and refinancing.

continued on page 7

HOUSING MARKET – SMOOTH OR BUMPY ROAD TO RECOVERY IN 2014?

By: Bob Sykes

The nation's housing market continued a steady recovery in 2013. Nationally, construction of new housing units increased and prices reached their highest levels since the Great Recession. The recovery was fueled by relatively low interest rates, which helped buyers afford new home purchases. Perhaps more importantly, housing price increases in 2013 resulted in less properties being "under water" (i.e., worth less than their outstanding mortgages), which gave homeowners the ability to sell their homes and move-up or downsize. The question now, however, is whether the recovery seen in 2013 will continue through 2014, or whether the expected increase in interest rates and the tepid economic climate will slow down the housing market recovery in 2014.

Slower Growth in 2014

According to David M. Blitzer, Chairman of the Index Committee at S&P Dow Jones Indices, "The key economic question facing housing is the [Federal Reserve]'s future course to scale back quantitative easing and how this will affect mortgage rates. Other housing data paint a mixed picture suggesting that we may be close to the peak gains in prices. However, other economic data point to somewhat faster growth in the new year. Most forecasts for home prices point to single digit growth in 2014."

Last month, the Federal Reserve announced that it will begin cutting back on its \$85 billion-a-month bond-buying program. Even prior to the Fed's announcement, it was clear that, at least for the foreseeable future, the days of 3.5% 30-year fixed mortgages are over as interest rates increased, at least, a full percentage point in 2013. As Federal Reserve begins to cut back on its bond-buying program, rates will likely go even higher. Although higher interest rates will reduce home affordability, the effect of a rise in interest rates on home sales may depend more on the overall economy, particularly job and wage growth, because by historical standards, interest rates are still relatively low.

Some experts are bullish on housing in 2014. For instance, the Urban Land Institute/Price Waterhouse Coopers' Emerging Trends in Real Estate® 2014 (which is based upon a survey of over 1,000 real estate professionals) states, "The real estate recovery will gain momentum in 2014. This should be good news to an industry that has experienced a recovery of fundamentals that has been much slower than it is used to after a recession. In fact, the pace of the recovery can make it difficult to spot the signs of improvement until they are in full swing. At first glance, many of the trends identified for 2014 are similar to those identified in previous years. These trends were relevant when originally identified, but the slower pace of this economic recovery prevented them from coming to fruition in the expected time frame. The difference for 2014 is that the market has progressed further through the economic and real estate cycles and we are now seeing real evidence that the trends have the momentum to finally make an impact on the real estate market."

UCLA Anderson Forecast Senior Economist, David Shulman, writes that as long as the federal government does no harm, growth in the U.S. economy will be sparked by strength in the housing and automobile sectors, combined with increased business spending and an end to the dramatic drop in federal purchases. Taken together, these factors are expected to put the economy on track to a 3% growth path by midyear 2014, and bring the unemployment rate down to about 6% by year-end 2015. Mr. Shulman predicts that interest rates will stay low throughout 2014, but with inflation rising to slightly above 2% (due to rising housing and health care costs, some of it coming from the implementation of ObamaCare), he expects that the zero interest rate policy of the Fed will come to an end in the spring of 2015.

Nonetheless, other experts are less optimistic about the economy and housing in 2014. The Chapman University Economic Forecast model points to another year of weak economic growth in 2014, with real GDP forecasted to grow at a 2.2% annual rate. Although this is an increase from the 1.7% growth currently estimated for 2013, it represents no change from the 2.2% average annual growth rate recorded during the first four years of the recovery from 2010 through 2013. For 2014, Chapman University is forecasting 1,088,000 housing starts, which represents an increase of 17.1%, or 159,000 units. Declining housing affordability due to an expected rise in interest rates is expected to lead to a slowdown in housing appreciation in 2014. After peaking at 11.2% in 2013, housing price appreciation is forecasted by Chapman University to drop sharply to 3.1% in 2014.

Moderate- and high-income apartment development prospects, as well as moderate-income investment prospects, remain among the strongest of all sectors rated for 2014, according to the ULI/PWC Emerging Trends in Real Estate® 2014. But, unlike 2013, when apartment prospects outshone the prospects of all other sectors, these apartment ratings are slightly lower for 2014.

continued on page 8

CAPITAL FOR RETAIL MARKETS IN 2014 – FINALLY MORE TAILWINDS THAN HEADWINDS

By: Gary Glick

continued from page 1

stated the following: “Near-term fiscal policy at the federal level remains restrictive, but the degree of restraint on economic growth seems likely to lessen somewhat in 2014 and even more so in 2015; meanwhile, the budgetary situations of state and local governments have improved, reducing the need for further sharp cuts. The after effects of the housing bust also appear to have waned. For example, notwithstanding the effects of somewhat higher mortgage rates, house prices have rebounded, with one consequence being that the number of homeowners with ‘underwater’ mortgages has dropped significantly, as have foreclosures and mortgage delinquencies. Household balance sheets have strengthened considerably, with wealth and income rising and the household debt-service burden at its lowest level in decades. Partly as a result of households’ improved finances, lending standards to households are showing signs of easing, though potential mortgage borrowers still face impediments. Businesses, especially larger ones, are also in good financial shape. The combination of financial healing, greater balance in the housing market, less fiscal restraint, and, of course, continued monetary policy accommodation bodes well for U.S. economic growth in coming quarters. But, of course, if the experience of the past few years teaches us anything, it is that we should be cautious in our forecasts.”

Although the retail industry should continue to incrementally improve in 2014, the construction of new retail sites will remain substantially dormant but for new construction in certain core markets and in in-fill locations. However, the good news is that as new housing continues to expand, opportunities for new retail centers will follow. As has been the case each year since 2008, investment sales were strong in 2013 due to historically low interest rates and the lack of opportunity for new retail construction. As opposed to past years, more capital flowed to B and C+ properties, not just the A properties of the past. Even with modest interest rate increases in 2014, investment sales will continue to remain strong. Retail sales continue to experience the “hourglass” effect; strong performance by luxury retailers and higher end restaurants on one end, and, on the other end, discounters and lower-priced restaurants. Those retailers in the mid-price range will continue to languish until consumer spending accelerates. Although e-commerce continues to create a challenge to traditional retailing, retailers are adapting through downsizing and creating their own e-commerce channels, the so called “bricks and clicks” experience. In addition, those retailers that cannot be easily duplicated through the internet, such as grocery stores, movie theaters, health clubs and restaurants are not overly impacted by e-commerce.

As the U.S. economy continues to recover, the interest of lenders and investors in commercial real estate increases. Participants in the real estate capital markets are now willing to consider investments and mortgage loans with increased risks as compared to last year. This has created a situation where lenders and investors – finding fewer and fewer opportunities in the primary markets – return to previously ignored secondary markets and less than perfectly positioned assets. 2014 should be a year in which debt, equity and foreign capital will be on the rise.

In another emerging trend, expected higher interest rates should incentivize banks to pursue more loans with the expectation that lending could become more profitable at higher rates. In addition, real estate loan delinquencies for banks are declining and as loans mature, they will free up room on their balance sheets to make new loans now that they believe risk has been reduced. Bank underwriting standards have become less rigorous, but they continue to require strong sponsorship.

Much like in 2013, typical loan to value ratios for bank permanent loans will range from 50% to 70%. Terms will be short – typically in the 5 to 10 year range with amortization over 30 years, and interest rates will be in the vicinity of 1.5 to 2 basis points over the 10 year treasury yield. Banks will also make construction loans to preferred sponsors with development deals in primary and select secondary markets. However, significant pre-leasing will be required. These loans will be short term (i.e., 3 to 5 years), will require significant equity (20 to 40%), will be recourse, and will typically have interest rates in the vicinity of LIBOR plus 3%, with a “floor” in the neighborhood of 5%.

As in 2012, life insurance companies remained extremely active in 2013, and will continue to be active in 2014, especially if the new “Dodd Frank” rules constrain bank lending. As has been the case in the last few years, the underwriting of life insurance companies will remain very strict. They will continue to originate record volumes, usually with high-credit clients, and with loan-to-value ratios of around 65%. The life insurance companies are not as concerned about values as they are cash flows. Life company loans will continue to be predominantly permanent loans with terms between 5 and 10 years. They will be non-recourse loans with fixed interest rates between 4% and 6%, and with amortizations between 25 to 30 years. It is anticipated that life companies will continue to confine their lending to Class A assets.

CAPITAL FOR RETAIL MARKETS IN 2014 – FINALLY MORE TAILWINDS THAN HEADWINDS

By: Gary Glick

continued from page 4

CMBS originations in 2013 continued their upward trend and moderately increased over 2012. However, 2014 Emerging Trends in Real Estate (published by the Urban Land Institute and pwc) (“Emerging Trends”), predicts a CMBS revival in 2014. Emerging Trends states that “an increasing number of CMBS issuers will be available to pick up the slack if commercial banks, insurance companies, private equity players, and mortgage real estate trusts (REITs) cannot keep pace with new demand for debt capital. While this segment of the U.S. fixed-income market is not expected to return to its pre-crisis peak, it is still expected to stabilize at a healthy level and remain steady going forward. CMBS is an important and needed piece of the capital structure for commercial real estate. This could be even more necessary if commercial banks find their ability to lend influenced by Dodd-Frank guidelines that could set limits on real estate lending.” It is expected that in 2014 CMBS will be an important component for real estate to meet the capital needs of developers and investors.

As in 2013, mezzanine debt and preferred equity will remain plentiful because of the amount of capital sitting on the sidelines. The risks to these investors are considerably greater than that of conventional lenders, but the returns justify such risks. This money is necessary for borrowers to meet the stricter equity requirements of lenders and for refinancing or restructuring existing debt. However, this capital will continue to come at a high cost – projected “equity-like returns” in the 9 to 14 % range.

The demand for debt capital could remain strong enough for opportunities to proliferate in the so-called “shadow” banking industry. Shadow banking is the commercial lending market outside of the regulated universe of banks and life insurance companies. Shadow banking is considered an inevitable response to concerted efforts by regulators to constrain a wide range of operations by financial institutions. While its size is difficult to estimate, the shadow banking market will serve to direct borrowers who need capital away from traditional lenders and toward the growing number of private equity funds, REITs, and other entities that will increasingly step forward to meet the demand for capital that is expected to grow in 2014.

With the economy in a position where the tailwinds are now stronger than the prevailing headwinds, 2014 should be a year where we see the most robust real estate recovery since the Great Recession. As housing continues to improve and retailers consolidate and adapt to the new world of e-commerce, the last pieces of the puzzle of a full real estate recovery remain in the form of greater employment with solid paying jobs, increased consumer confidence and spending, and a lack of political dysfunction in Washington - a tall order, to say the least. However, it is hoped that more of these pieces of the puzzle will come together in 2014 and 2015, and we will start to see something closer to a full real estate recovery.

RETAIL IMPROVING IN 2014 - FUNDAMENTALS TAKING ROOT

By: Scott Grossfeld

continued from page 1

Bernanke’s conclusions are supported by recent statistics put out by the National Association of Realtors (“NAR”). According to the NAR, the U.S. gross domestic product rose from 2.5% in the second quarter of 2013 to 2.9% in the third quarter. In addition, according to the NAR, commercial real estate leasing patterns have been showing steady but modest growth. Though not record-breaking, a 2.9% GDP going into the third quarter of 2013 is a comfortable statistic for retail, especially when retail makes up such a large percentage of the U.S. economy.

Turning to retail more specifically, according to a recent Real Time Economics article, many large retailers did not have to wait until Black Friday to turn a profit in 2013. Profits at these large retailers were up almost 10% through the first nine months of the year according to U.S. Commerce Department data. This is the strongest increase in profits through the first three quarters of the year since 2010. Obviously, such strong profit growth reflects healthy and robust revenue gains for a major segment of the retail industry.

In addition, although the calculations are not yet final, there is positive momentum in the retail industry coming out of the 2013 holiday selling season. Some commentators label the holiday season as “flat”. However, it should be noted that the 2013 holiday season was short (6 fewer days than 2012). In addition, the holiday season suffered through many days where weather

RETAIL IMPROVING IN 2014 - FUNDAMENTALS TAKING ROOT

By: Scott Grossfeld

continued from page 5

kept shoppers away from the malls. That said, according to a recent Terranomics Retail Newline, same store sales comps for November show a 2.1% overall increase. According to Shopping Centers Today, December same store sales grew by 3.7%. When excluding the impact of gasoline, the sales pace was an even stronger 4.7%. Also according to Shopping Centers Today, the November to December period same store sales rose by 3.2%, versus a 1.8% gain for the previous year. The 2013 increase was the strongest since 2011. Finally, according to MasterCard's SpendingPulse, holiday sales increased by 3.5% overall.

E-commerce jumped on the bandwagon, by increasing its sales by 16% to 17% this past year. In addition, according to a recent UPI Business News article, the International Council of Shopping Centers – Goldman Sachs Weekly Retail Tracking Report Survey showed that “the consumer’s average share of total holiday spending that was in the form of gift cards rose [this holiday season] to a record 23.7% in 2013”. According to Michael Niemira, ICSC Vice President of Research and Chief Economist, “this is good news as it means that the extended season – the weeks after Christmas and into January – will play an important role in the final tally of the season’s performance”. Generally, retailers welcome gift cards because gift cards translate into post-holiday sales and create opportunities for additional sales by generating store traffic.

As in past years, the relatively strong momentum coming out of the 2013 holiday season, combined with the strong gift card season, should help retail get off to a good start in 2014.

Core fundamentals have been key (and are key) to the resurgence of the retail industry.

First and foremost, millions of jobs have returned to the economy since the commencement of the “Great Recession”. The most recent statistics indicate that unemployment is down to 6.7% nationally. Although these statistics may, in part, be due to workers leaving the pool of individuals searching for work, it cannot be disputed that millions of individuals have found work in the past year(s). This has resulted in more people with disposable income and more demand on retail services. Although January, 2014 saw an unexpected reduction in the growth of new jobs, it is the hope that this is a temporary setback in what has been a series of progressively positive months.

Our forecast article last year focused on the comeback of residential development and its effect on retail development. The return of residential development has really taken shape in 2013 and is expected to continue and improve in 2014. With the comeback of residential, so too should the increase in construction jobs and the demand for retail related to residential development. Further related has been the increase in residential home values. Many metropolitan areas have been seeing large percentage increases in the values of their homes over the past year. Many forecast this to continue into 2014. As home values increase, consumers will have more access to equity in their homes and liquid funds. Historically, this has resulted in a greater demand on retail.

In contrast to the recent past (shortly following the “Great Recession”), the capital markets are freeing up and lenders are loaning money. Interest rates are still low, and money is relatively reasonable to come by. The free(er) flow of money is enabling retail (and other industries) to once again be able to more easily conduct business and take risks.

In addition, the general availability of funds has been available to consumers, enabling them to refinance and obtain equity lines, resulting in more money finding its way into the retail market.

Finally, consumer confidence levels have been improving. Although they are not at their highest points, consumer confidence has rebounded to reasonable levels. According to the 2014 Cassidy Turley Retail Forecast, Consumer Confidence levels do drop following political squabbles and negative world events, but almost always fully rebound within short periods of time thereafter. This rebounding effect should continue to the extent the economy experiences moderate levels of disturbances (caused by politics and natural disasters) in the near future.

With the retail industry coming out of a reasonably moderate to decent holiday period, facing reasonable levels of consumer confidence, expected reductions in unemployment, improving capital markets and a continued busy residential market, it is our expectation, along with many commentators, that retail in 2014 should continue to progress at a reasonably moderate rate, and at a potentially better clip than the immediately previous years. Of course, as with most other industries, retail will remain vulnerable to major negative world events and internal political struggles and stalemates. However, even with those potential pitfalls, the retail industry should be able to continue to rebound.

RETAIL DEVELOPMENT – COMING AROUND THE BEND?

By: Dan Villalpando

continued from page 2

As has been the case in recent years, shopping center owners with existing product that they want to retain are spending money on renovation and rehabilitation. Such work includes common area and building improvements, in addition to upgrades to accommodate the savvy shopper who requires instant access to his or her mobile device. Other shopping center owners may work to reposition their portfolios by shedding under performing assets, while attempting to acquire Type A properties which boast higher rents and require less maintenance.

The ability to re-lease existing product remains an important component of shopping center ownership. As in recent years, there continues to be a significant amount of second generation space hitting the market due to the downsizing of “mid-box” or “junior anchor” tenants like PetSmart and Old Navy. Retail developers with downsizing tenants in their portfolios who are able to re-demise the affected space may find willing takers in some of retail’s growth sectors. For example, so called “fast-fashion” tenants like Forever 21, H&M and Uniqlo are actively growing and scooping up second generation space. Likewise, discount and dollar stores such as Dollar General, Family Dollar and Dollar Tree are also in the market for residual space, often in the 5,000 to 10,000 square foot range. Creative use of existing space is not limited to retail developers however, as some larger tenants have begun leasing showroom space in their stores. For example, Samsung is expected to open “ministores” measuring approximately 500 square feet inside some Best Buy stores this coming year. Microsoft also plans to work with Best Buy to create demo space in its stores. Such subleasing is a way for larger retailers to offset occupancy costs without giving space back to their landlords.

In addition to space created by retailers who are looking to shrink their footprints, there continues to be some second generation space on the market resulting from the closings of retailers like Linens ‘N Things, Circuit City and Borders. Fortunately for retail landlords, specialty grocers like Whole Foods, Trader Joe’s and Sprouts have been willing to absorb some of the vacant space, and that trend is expected to continue in 2014. However, the struggles of some of the “big box” tenants has caused concern among developers who count department stores as their tenants. Indeed, some department stores are relying on deep discounting on some of their merchandise just to remain competitive. Similarly, the venerable department store, Nordstrom, has chosen to focus on the growth of its off-price concept, Nordstrom Rack, rather than opening new full department stores. In addition, one report states that more than half of all Saks stores are now Saks Off 5th stores, which is Saks’ outlet concept, and that 13 of the 15 planned stores for the next two years will reportedly also be of the outlet variety. It will be interesting to see how other department stores, such as Macy’s and J.C. Penney, continue to adapt to a market that appears to favor a smaller footprint.

To fill vacant space, shopping center owners are looking to those categories of tenants that have survived the past six years and are currently looking to expand. Fast food and casual restaurants continue to eat up vacant space, led by quick service tenants like Chipotle, Qdoba Mexican Grill and Five Guys Burgers. As with grocery stores, restaurant tenants remain relatively impervious to online competition and, in general, appear to be in an expansion mode. In addition, as home values continue to rise, more and more “Mom and Pop” tenants will be ready to sign leases, coupling increased equity in their homes with lenders who are more willing to grant SBA loans and home equity lines of credit. Finally, to fill the smaller spaces, retail developers continue to look to check cashing operations, shipping stores, spa concepts and hair salons, all depending on the demographics of the area in which the shopping center is located and the existing tenant mix.

As has been the case in the past several years, retail developers (whether re-leasing existing product or leasing new, ground up development) are being forced to deal with the challenges brought about by the Internet and e-commerce. More and more retailers are getting involved with so-called “click-and-collect” shopping, where the customer orders online and then picks up the goods at a store nearby. “Social curation” has become a buzzword in the retail industry, and involves the use by retailers of shopper social data from social sites such as Digg and Reddit. That information allows retailers to better merchandise and stock their stores to cater to desires of their customers, which could ultimately result in more efficient use of space and further downsizing. Other retailers are becoming more and more concerned with a “content rich” shopping experience, and are offering in-store only events and services aimed at bringing customers into the stores and keeping them there. E-commerce and the use of smart phones and tablets by customers are likely here to stay, and both retail developers and retailers alike will need to continue to adapt to the changing marketplace.

When it comes to the world of retail development, the undercurrent of optimism from the beginning of 2013 continues to swell. While ground-up shopping center development may still only be faintly visible on the horizon, a more robust housing market, coupled with stronger consumer spending and more available capital, bodes well for an improved year for retail developers in 2014.

HOUSING MARKET – SMOOTH OR BUMPY ROAD TO RECOVERY IN 2014?

By: Bob Sykes

continued from page 3

After a brief lull in the fall of 2013, many experts predict that sales activity will return to the market with more home buyers. According to CNBC, the steep jump in home prices in 2013 has brought thousands of homeowners above water on their mortgages, enabling them to sell and move. Negative equity has been one of the biggest barriers to home sales since the housing crash. Come spring, there will most likely be more sellers, more homes on the market, and therefore, more transactions. Annual gains of more than 12% in 2013, which were driven in large part by investors on the low end of the market, are not expected to continue in 2014.

Demographic Shifts

Emerging Trends in Real Estate 2014® notes that the growth of Generation Y and its impact on all sectors of real estate could be the singular most dominant trend for many years to come. This group lives, works and plays in different ways than previous generations. Their impact will be felt by all real estate sectors, including the housing market. This generation, which is more urban and less suburban, requires intown rental housing, not suburban single-family homes. On the other side of the demographic shift, the baby boomers also will drive change as they age. Many boomers will sell their homes and move to urban locations with similar amenities as those desired by Gen Y (but with the added amenity of convenient health care).

California

In California, the economic picture remains split as the gap between the coastal and inland areas widens, according to the UCLA Anderson Forecast. Along the coast — from Marin County to San Diego, including a sliver of Los Angeles County — employment gains are outpacing the nation. Over the past 12 months, Silicon Valley has created payroll employment at twice the U.S. rate. But a look inland shows a different picture: the Inland Empire and the Sacramento Delta regions are growing at a subpar rate, and the East Bay and San Joaquin Valley regions are showing little or negative growth.

Conclusion

Housing construction will continue to increase in 2014. According to the Census Bureau, housing starts are on track to surpass one million units in 2014 for the first time since 2007, after falling to about 500,000 in 2009, the lowest level since records began (in 1959). Housing prices likely will increase in 2014, albeit at a slower single-digit rate than in 2013. Developers will continue to construct apartments to meet demands for urban rental housing by members of Generation Y, and baby boomers downsizing from single-family homes. The retail industry should benefit in 2014, as the continued recovery of the housing market and economy will mean more jobs and more consumer spending.

THE TEAM

The Retail Group of Cox, Castle & Nicholson LLP has extensive experience in acquiring, developing, constructing, leasing, financing, and disposing of all types of retail projects, including regional enclosed malls, lifestyle community centers, neighborhood centers, and mixed-use projects. Members of the Retail Group include attorneys who are experts in sales and acquisitions, design, engineering, and construction contracts, reciprocal easement agreements, development and management agreements, and leasing.

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