

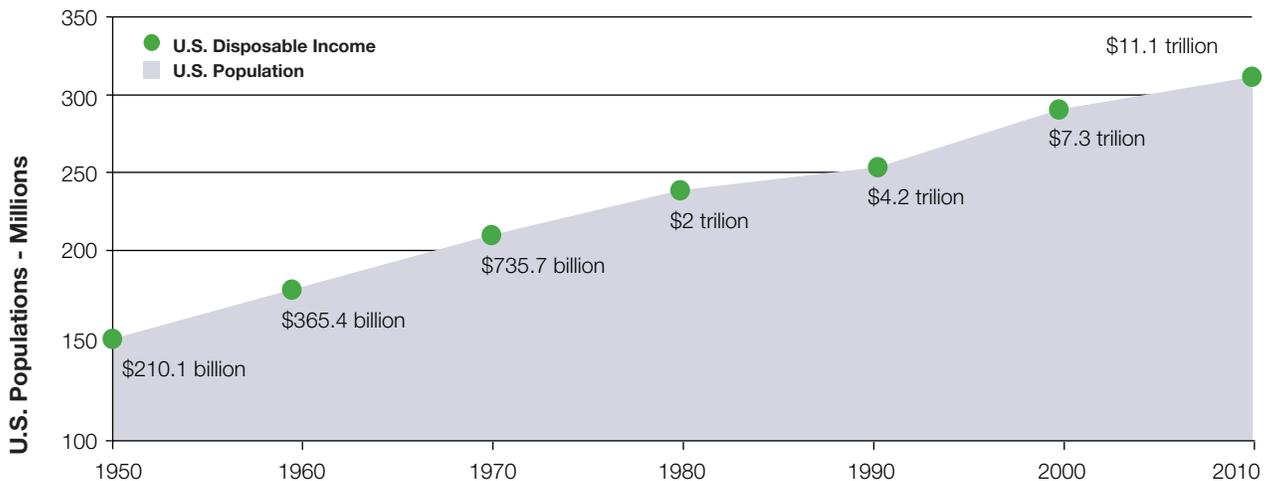
# Inland Insights

## Necessity-Based Retail Property: Everyday Needs, Investment Opportunities

A slower growing economy and low-yield environment have left investors looking for income to augment their portfolios. Yet, despite the lackluster economic climate, American consumers remain resilient. Solid population growth and consumer spending continue to drive investment returns on multi-tenant necessity-based retail real estate, which provides essential, everyday goods and services and is less affected by economic downturns and shifts in consumer spending.

On January 1, 2013, the United States' population hit 315 million<sup>1</sup> and is projected to increase by 50 million over the next 20 years.<sup>2</sup> While the weakened economy has affected growth somewhat, the fact remains that hundreds of millions of people need, and will continue to need food, clothing, diapers, appliances, medicine and much more – essential everyday goods and services.

**U.S. Population Growth & Disposable Income**



U.S. Census Bureau. Historical National Population Estimates: July 1, 1990 to July 1, 1999.

U.S. Census Bureau. National Intercensal Estimates (2000-2010).

United States Department of Agriculture: Food expenditures by families and individuals as a share of disposable personal income. Table 7.

As the U.S. population has increased, so has disposable personal income - even during times of recession. The recession that started in 2007 and lasted over 20 months is believed to be the worst financial crisis since the Great Depression. Even so, in 2007, disposable personal income totaled about \$10.4 trillion and has increased every year through 2011 when it totaled approximately \$11.6 trillion.<sup>3</sup> Of that \$11.6 trillion, nearly 10 percent was spent on the most basic necessity: food, including in-home (bought from a grocery store or other retail outlet) and away from home.<sup>4</sup>

These increases, while slight, give real estate investors good reason to look toward multi-tenant necessity-based retail properties. As the economy starts to strengthen, leading retailers are evolving and expanding to keep up with increased demand and changing consumer tastes.

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## Retailer Expansion

Retailers are looking for a “sure thing” when it comes to their measured expansion plans this year, according to ChainLinks Retail Advisors’ U.S. National Retail Report 2013 Forecast.<sup>5</sup> According to this forecast, retailers are looking for premium locations in stable markets supported by strong demographics.

Even with the exit of some prominent names in the last few years, retailers in the current market are generally viewed as best-in-class and are positioned for sustainable growth. Discounters, restaurants and a number of different grocery concepts (smaller format and niche grocers for example) lead expansion plans this year. This is not surprising given the shift in consumer preference toward value. The table below reflects the projected expansion plans of various retailers.<sup>6</sup>

Retailer	Units Planned	Timeframe
Costco	20	2013
Dick’s Sporting Goods	40	2013
Dollar General	625	2013
Kohl’s	30	2013
TJ Maxx	75	2013
Whole Foods	27	2013

As retailers look to expand, they are faced with a fixed supply of available space, since new construction slowed dramatically over the last few years. This should help to stabilize the market. With more retailers competing for a limited amount of high-quality space, occupancy rates and rents are expected to continue to go up, resulting in increasing returns for investors and owners of necessity-based retail real estate.

## Investing in Retail Real Estate Through Non-Traded REITs

As the U.S. population and consumer spending continue to grow, investing in a non-traded real estate investment trust (REIT) that is actively acquiring a core portfolio of assets including necessity-based retail is one way for individuals to participate in this type of commercial real estate. This type of investment may help achieve the following objectives over time:

- **Portfolio Diversification:** Allocating a portion of an investment portfolio to a long-term investment in commercial real estate can help diversify a portfolio of stocks and bonds.
- **Have the Goal of Providing a Consistent Stream of Income:** Since REITs must pay at least 90% of their REIT taxable income to stockholders in the form of distributions on an annual basis, they potentially provide a consistent stream of income. Distributions are typically paid on a monthly or quarterly basis. The actual amount and timing of distributions is not guaranteed and depends on the amount of funds available.
- **Potential Hedge Against Inflation and Opportunity for Growth:** Multi-tenant necessity-based retail real estate often provides opportunities for growth, as well as the potential to hedge against inflation. Long-term leases with anchor tenants generally provide stability, while a mix of medium- and short-term leases signed with mid-sized regional and small local tenants can give the property potential for income growth. There is no assurance that rental increases will occur or that a recurring income stream will continue.

It is important to note that non-traded REITs are suitable only for investors who have adequate financial means, desire a relatively long-term investment and will not need immediate liquidity. There can be no guarantee that these objectives can be achieved or maintained.

1 “US Population Tops 315M in January 2013 As Americans Get Older, More Divers.” International Business Times. January 10, 2013.

2 “Demographics and Real Estate Demand.” National Real Estate Investor. January 7, 2013.

3 United States Department of Agriculture. Food expenditures by families and individuals as a share of disposable personal income. Table 7. (2011 most current data available.)

4 Id.

5 U.S. National Retail Report 2013 Forecast. ChainLinks Retail Advisors. December 2012.

6 Id.

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