



TRISTAR

REAL ESTATE INVESTMENT

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June 1, 2014

TriStar just returned from a trip to Las Vegas for the 2014 International Council of Shopping Centers Conference. The major issue of discussion was the impact of e-commerce on conventional retailing (shopping at the mall). The US Department of Commerce determined that in 2013, e-commerce accounted for just 6% of all retail sales in the country. This is a far cry from the death of the mall. However, retail investors and owners are understanding that shopping is a social and interactive experience. There is a need to touch, see and feel the products the consumer is buying. In addition, many shoppers have a need for immediate gratification that can't yet be solve with the current logistics platform and delivery. Nonetheless, retailers are making changes to their platforms by taking note of the impact on where the money is being spent. To date, super-regional malls (like Lenox Square or Atlantic Station) had a record increase in profits of 33.4% in the first quarter. Likewise, there was a fall in profits to the regional malls (like Northlake or South DeKalb Mall) of 13.8% with power centers and neighbor center doing just fine at around 4% growth. Conclusion: being in the middle is not the best place to be. It seems the bigger will get bigger and the small players will do well in a niche driven by location and the needs of the neighborhood.

Key Points on E-Commerce vs. Bricks and Mortar

Trends seen at this year's convention:

- **Big Box retailers are shrinking their footprint:** they are embracing the need to do more business on line and using their brick and mortar locations to help in sales fulfillment. Developers are engaged in the redevelopment of malls to meet the new footprint.

- **Malls are embracing entertainment as a way to attract consumers** and increase sales at their centers. The malls must attract the buyer and the buyer wants an experience.
- **Social Media is a key to reaching your consumer** - Many centers have hired full time digital media strategists to monitor the experience of the shopper. The need to get out in front of the consumer and address issues head on has never been more important.
- **Legislative Push for taxing E-commerce** -retailers want to level the playing field for bricks and mortar sales. The online shopping solution currently has an unfair advantage by allowing the consumer to avoid sales taxes. Lobbyists are pushing for change.
- **Safety and growth in the neighborhood center**

Becky Quick said it best in her article in the recent addition of Forbes entitled ***Retailing 2.0: The Humble Strip Mall is Bouncing Back.*** Neighborhood centers rely on those items and services that can't be bought on line - restaurants, gyms, salons, pet care centers, and day care. Fifty Subway stores are opening every week, Five guys, 7-Eleven, TJ Maxx and Ross Stores are in expansion mode. In addition, these neighborhood strip centers are finding tremendous success in conversion to "doc in the box" medical centers as the medical community reaches out away from hospitals to get closer to their patients.

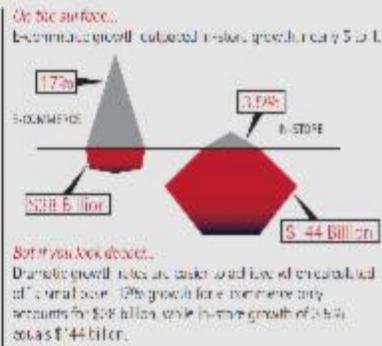
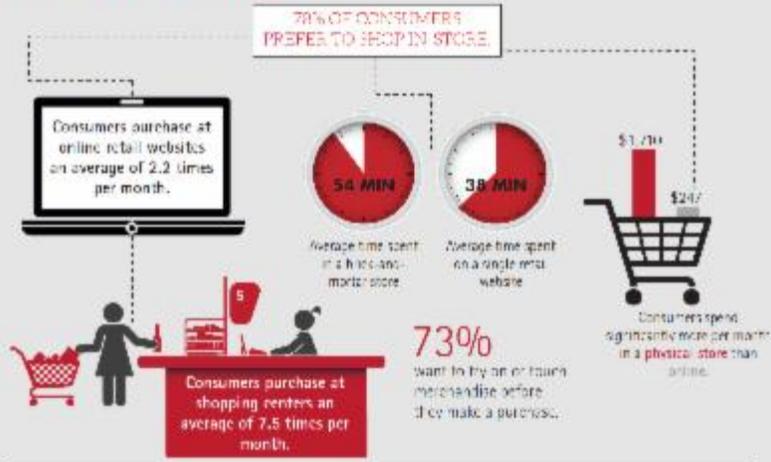
Finally, during the great recession, while retailers stopped building shopping venues, the American population grew by 2 million people a year. Conservatively that is 10 million new reasons to purchase, shop, dine, teach and care for this new population. This doesn't even begin to touch on the buying potential being created every day as the millennial generation begins entering into the workforce, dwarfing the baby boomer's generation in size.

In Store vs. Online

Click here is graphic below is difficult to read:
http://www.icsc.org/uploads/press/WSJ_AD.pdf

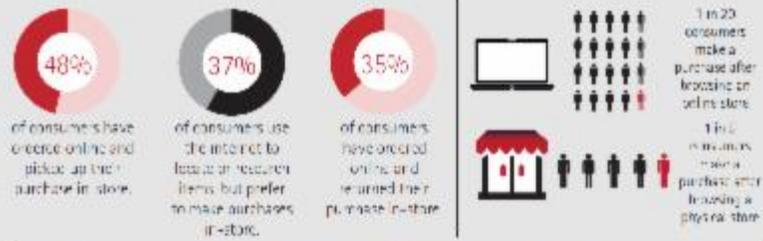
In-store vs. Online Not quite the battle you might think.

Brick & Mortar is the dominant format.



Source: U.S. Census Bureau

What I Want, Where, and When I Want It. Consumers are blurring the boundaries between online and in-store purchases. Omni-channel retailing is actually an enhancement to brick-and-mortar stores.



Omni-channel and ads: Higher net sales - online retailers with free delivery/returns only realize a 77% net sale. Retailers that provide an in-store return option from online purchases can expect a 89% net sale.



How is TriStar acting on these trends?

- We have a \$10 million value add fund targeting well located neighborhood centers in the Southeast. We will use modest leverage for \$25-30 million in purchasing power.
- Ideal tenant mix includes restaurants, medical centers and national service companies
- Asset Range of \$3-8 million per center.
- Potential returns in excess of 15% IRR to our limited partners with 5 years.

SAMPLE SHOPPING CENTER



We hope you will contact us or visit our website to learn more about investing with us. Go to www.tristarinvest.com or call at 404-698-3535

Sincerely,

TriStar Real Estate Partners

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