CUSHMAN & WAKEFIELD

February 2022

AN OVERVIEW OF

THE U.S. GROCERY/ NECESSITY RETAIL & SELF-STORAGE SECTORS

INCLUDING A COMPREHENSIVE ASSESSMENT OF MARKET CHARACTERISTICS, TRENDS & DRIVERS

PREPARED FOR

Perpetual

Independent Market Report
By Cushman & Wakefield
February 2022

U.S. GROCERY/NECESSITY RETAIL & SELF-STORAGE SECTORS
MARKET RESEARCH REPORT

EXECUTIVE SUMMARY

Key Findings & General Conclusions

Grocery-Anchored & Necessity Retail

- Consumer Shopping Behavior Evolves – COVID converted many dedicated in-store shoppers to fans of BOPIS, curbside pickup, and same-day delivery service. Of the $8.6 billion in online food sales in August 2021, $6.6 billion consisted of orders placed for pickup or home delivery by nearby retailers. Some of the largest retail chains are even drawing more foot traffic to their physical stores than prior to the pandemic. Curbside pick-up is one of many consumer behaviors that will endure after the pandemic. Much of this foot traffic is from curbside and BOPIS order fulfillment[1]. Target, Walmart, Best Buy, and Lowe's all embraced omnichannel in high profile ways, and all reported strong online and physical store sales growth in 2021[2].

- Omnichannel Benefits from Micro-fulfillment – Micro-fulfillment emerged as an essential component of omnichannel, providing scalable and flexible solutions for both retailers and consumers. Though the practice originated in the grocery sector, all types of retailers have deployed micro-fulfillment strategies. Micro-fulfillment centers typically are created within existing retail space and operate as a dedicated space to fill online and in-store orders that will be picked up via curbside, BOPIS, or delivery. Micro-fulfillment provides convenience to consumers and efficiency/cost savings to retailers. Target was one of many retailers that benefitted from implementing micro-fulfillment processes. When online orders are shipping from a Target store, fulfillment costs are 40% cheaper than orders shipping from a warehouse.

- Grocery's Crucial Role in Retail's Recovery – Grocery stores were among the first retailers to adopt omnichannel strategies even prior to the pandemic. Grocery-anchored shopping centers provide a substantially more integrated, streamlined shopping experience for consumers, compared to standalone grocery stores. As retail rebounded throughout 2021, investors have responded accordingly by targeting grocery- and necessity-anchored retail centers, especially those with discount retailers and off-price apparel tenants.

[1] Digital Commerce 360; *US Online Food Report*; data as of October 2021
[2] Digital Commerce 360; *Omnichannel Report*; data as of March 2021

- Essential Retailers Lead the Way – Grocery & Necessity tenants provided stability to existing shopping centers, and their resilience has fueled much of the recovery's leasing activity. Grocers, discount retailers and off-price apparel (Dollar General, Family Dollar, Ross Dress for Less, Marshalls) drove the majority of shopping center leasing activity nationally, making 2021 the best year for retail leasing since 2017.

- Omnichannel Helps Physical Stores Maintain Dominance, Thrive and Expand – The role of physical space in delivering convenience and anchoring destinations is clearer now than it was prior to the pandemic. Brick-and-mortar stores are expected to play a growing role in cementing Amazon's dominance in convenience to consumers. Amazon operates 100+ physical locations throughout the U.S. in varying formats. Amazon Fresh stores are the most rapidly growing format, reflecting the ecommerce giant's bid to compete with traditional supermarkets (Stop & Shop, Publix) and big box retailers with major grocery components (Target and Walmart).

- Curbside Pick-up Is Here to Stay – Curbside pick-up is one of several consumer behaviors that will endure after the pandemic. Among Top 1000 retailers, the option of curbside pick-up fulfillment increased from 6.6% in early 2020 to 50.7% in early 2021[2]. Among retail categories, food/beverage retailers are the most likely to offer curbside pick-up with 70.0% of retailers in this category offering this omnichannel option, followed by toys/hobbies retailers (66.7%), sporting goods (60.0%) and health/beauty (57.1%)[2].

- Retailers Adapt to the Present and Prepare for the Future – The pandemic forced retailers to innovate solutions, adapt and refine their fulfillment strategies to accommodate consumer demand for a flexible, omnichannel shopping experience. Many retailers are emerging from the pandemic stronger than they were before it. COVID-19's shock to retail brought overdue changes that will bolster the sector's resilience, such as major investments in technology, artificial intelligence, omnichannel expansion, new methods to connect with consumers, and optimizing online delivery.

- Ecommerce Sales Activity Peaks – The plateauing of e-commerce's portion of overall retail sales in 2021 suggests a renewed balance between online and brick & mortar sales. As a result of the pandemic, e-commerce will retain a permanently larger share of overall sales, but the line between brick & mortar and pure online retail will continue to blur. Instead, these channels will emerge as powerful complements rather than substitutes in a retail space where consumers desire increasing flexibility.

- Retail Foot Traffic Rebounds – In-store sales and foot traffic rebounded across all retail segments in 2021; according to Placer.ai, foot traffic at major discount stores like Burlington Coat Factory and Marshalls was up 3-8% from 2019 levels during Black Friday weekend. Even indoor malls, which experienced some of the sharpest decreases in foot traffic during the pandemic, were within 5% of 2019 levels[3].

- Shopping Center Reconfiguration Is Part of the New Normal – Shopping center design and configurations are shifting to accommodate the post-COVID world, adapting to the lingering consumer habits developed over the past several years. Many big box essential retailers like Walmart are seeking additional space on-site for fulfillment and expansion into health and wellness

[3] "148 Million Americans Plan to Shop Super Saturday." National Retail Federation, 14 Dec. 2021.

offerings such as primary and urgent care centers. Pharmacies and drug stores, many of which are already located within grocery stores, have been expanding their service offerings to include more healthcare services such as doctor's appointments and lab work.

- The New Economy – The pandemic accelerated many trends, particularly the increasing value in digital platforms and intangible investments. Today, the new economy refers to different aspects of technology that have emerged since the tech boom of the 1990s, such as the sharing economy, the streaming economy, the gig economy, the ecommerce economy, cloud computing, and artificial intelligence. More recently, the new economy has been used to refer to redesigning and reconfiguring existing systems and business models around sustainability and ESG considerations. Retailers' agility and consolidation of space helped it recover, and more diverse and compelling tenant mixes that will drive more resilient and sustainable shopping centers. Grocery- and necessity-anchored retail are more driven by demographics than economic growth, reducing volatility over typical business cycles.

Self-Storage Sector Trends

- The Five D's are Primary Drivers of Self-Storage Demand – Self-storage real estate benefits from broad-based demand, due to the ubiquitous need to store goods, particularly during major life events. The primary drivers of residential self-storage demand are often referred to as the Five D's and include Death, Divorce, Downsizing, Dislocation and Decluttering.

- Small Businesses Emerge as Target Demographic – Small businesses, especially residential contractors and subcontractors, experienced widespread supply chain disruptions that adversely impacted construction operations. Delays in one building component can cause entire projects to be put on hiatus, and many small businesses relied on self-storage to store materials in the interim. Month-to-month flexibility, short lease terms, and convenience of access made self-storage an attractive and financially feasible alternative to leasing warehouse space.

- Self-Storage Fueled by Increased Homeownership Rates – Suburban migration trends, especially increased homeownership rates, have boosted self-storage utilization rates. More than 60% of all self-storage users have access to storage space in their own home (garage, basement, crawlspace, attic), and approximately 70% of self-storage users own single-family homes.

- Working from Home Enhances Self-Storage Demand – With work-from-home and remote working trends becoming entrenched in corporate America, employees now have additional flexibility on when and where to work, motivating many to move, seeking cheaper rents and more space, which has energized suburban markets. The surge in remote work caused homeowners to increase the amount of dedicated space for home offices and home gyms in their residences, driving massive demand for self-storage.

- Self-Storage Inventory Increases Expected to Be Modest – New self-storage deliveries are expected to be muted over the next three years through 2024. Construction delays, materials and labor shortages, and backlogs in permitting have constricted supply and will hinder near-term development of new inventory. Green Street forecasts a 3.0% overall growth in supply for 2022, a modest decrease from inventory growth in 2021.

- Move-In Rates Surpass In-Place Rents – Historically, move-in rates have trailed in-place rates. However, strong demand, all-time high occupancy levels, and limited new supply to meet the surge in demand caused move-in rates to exceed in-place rents.

U.S. Economy

- Nearing Full Employment – Through December 2021, the U.S. labor market recovered almost 19 million of the 22 million jobs lost in March and April 2020 due to the pandemic. Unemployment is declining nationwide; by November 2021, unemployment rates in every metro area of the U.S. were lower than a year earlier.

- Strong GDP Growth Projected – GDP growth for 2021 showed the strongest increase in nearly 40 years. Forecasts for 2022 are positive and GDP growth is projected to be strong but steadily slowing, though still above the U.S. economy's long-term average. Higher wages, high savings rates, increased business investment and homebuilding are major factors driving near-term growth. In 2022, real GDP is expected to grow from 4.0% to 5.0%.

- Inflation on the Horizon – Elevated inflation is being driven by both demand (stimulus, re-opening, excess savings, shifts in spending patterns) and supply-side factors (labor shortages, supply chain disruptions). These factors may keep inflation uncomfortably high in the coming quarters, but the underlying pressures will fade as pandemic-related disruption fades and as the supply-side of the economy rushes to meet demand.

- Temporary Problems, Permanent Solutions – The supply chain disruptions contributing to inflation are unlikely to be permanent, but the outsized supply chain stress of 2021 will likely lead to permanent changes in how companies manage their supplier relationships and how they manage inventory levels. Inflation is expected to persist in driving above-trend inflation in the coming quarters, and likely into 2023 before stabilizing thereafter.

- Elevated Savings Rates and Pent-Up Consumer Demand – Savings rates, although below peak levels recorded during the height of the pandemic, remain elevated (approximately 10%) compared to historic averages of approximately 7% (1991-2019). U.S. consumers have a tremendous amount of buying power and pent-up demand heading into 2022.

- Real Estate Fundamentals Are Solid – Real estate fundamentals for retail on a national basis have been strong with absorption and rents growing and vacancy continuing to fall. Consumers have shown strong demand to return to stores, and they are well situated to resume that trend as the effects of the pandemic recede.

STATE OF THE U.S. ECONOMY & CONSUMER

U.S. Economy and Macroeconomic Trends

a) GDP growth for all of 2021 reflected the strongest increase in nearly 40 years. Forecasts for 2022 are positive, and GDP growth is projected to be strong and slowing steadily though still above the U.S. economy's long-term average. Higher wages, high savings rates, increased business investment and homebuilding will drive near-term growth. Real GDP is expected to grow from 4.0% to 5.0% in 2022.

b) Through December 2021, the labor market has recovered almost 19 million of the 22 million jobs lost in March and April 2020 due to the pandemic. Steady declines in unemployment rates and strong wage growth indicate that the job market is rapidly approaching full employment. Additionally, the pandemic may have triggered 2.5 million excess retirements. The COVID recession was abnormal in that despite sharp decreases in employment and general economic activity, the values of assets (e.g., housing and stocks) rose substantially. There is some evidence that changes to asset values during a recession have an impact on labor force participation rates, especially for those closest to retirement.

c) Elevated inflation is being driven by both demand (stimulus, re-opening, excess savings, shifts in spending patterns) and supply-side factors (labor shortages, supply chain disruptions). These factors may keep inflation uncomfortably high in the coming quarters, but the underlying pressures will fade as pandemic-related disruption fades and as the supply-side of the economy rushes to meet demand. Although inflation has weighed on consumer confidence, it did not weaken consumer spending activity.

d) Savings rates, although below peak levels recorded during the height of the pandemic, remain elevated compared to historic averages (1991-2019). Current savings rates are almost at 10% and peaked at 26% during the pandemic, compared to the historical average at approximately 7%[4]. U.S. consumers have a tremendous amount of buying power and pent-up demand heading into 2022.

e) The success of COVID-19 vaccine rollouts helped fuel GDP growth during the recovery, a trend that is expected to continue throughout 2022, though not as dramatically as the growth in 2021. The Omicron variant presents potential risk to the current economic rebound; as of February 2022, COVID-19 cases nationwide are high but declining. However, increasing vaccination rates and implementation of public health measures that reduce virus transmissibility (social distancing, mask-wearing, etc.) should help mitigate the risk of another major lockdown.

Retail Sales Trends

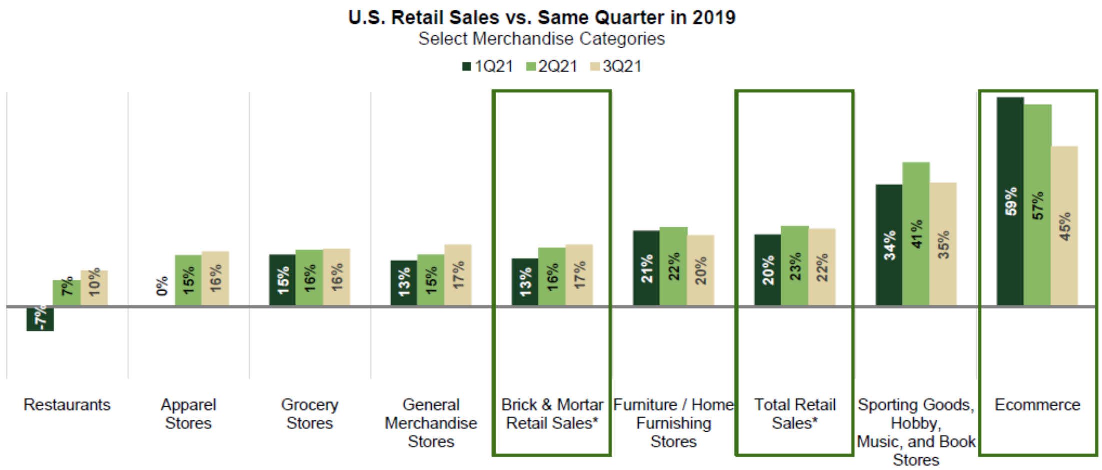
a) Retail sales in 2021 increased 19.3% year-over-year to $7.4 trillion; retail sales excluding autos and gas were up 16.5%; retail sales excluding food services were up 17.9% over the same period[5]. Despite challenges posed by the Omicron COVID-19 variant and supply-chain constraints to conventional shopping habits, consumer demand during the holiday season was the strongest it has been in years. Holiday sales (retail excluding autos) for November 1 through December 24 rose 8.5% year-over-year – the fastest pace in 17 years.

[4] Cushman & Wakefield, 10 Things to Watch in 2022 (Published Jan. 25, 2022)

[5] Cushman & Wakefield National Retail Analysis, Valuation & Advisory Research (February 2022)

b) Moody's Analytics estimates that sales at retail stores and restaurants jumped from $1.63 trillion in the fourth quarter of 2020 to $1.92 trillion in the fourth quarter of 2021, an annual growth rate of 18.4%. While e-commerce's portion of total retail sales rose dramatically during 2020, there has been a notable plateauing of this share in the following year. E-commerce accounted for about 21% of total holiday sales, only marginally higher than in 2020, but up substantially from the 14.6% share in 2019, according to Mastercard SpendingPulse[6]. When compared to third quarter 2019, e-commerce sales in third quarter 2021 grew by 45%. E-commerce penetration accounted for 13% of total retail sales in third quarter 2021, compared to just 10.9% in third quarter 2019, but appears to plateau in the 13% watermarks for five consecutive quarters[7].

c) U.S retail sales in 2021 vs. same quarter in 2019 for various retail categories are summarized as follows[8]:



*Excluding restaurants, motor vehicles and parts, and gas.
Source: U.S. Census Bureau

d) A notable consumer behavior trend that has developed is a wider shopping window that began in late September, compared to previous years. Many consumers did in-person and online shopping earlier than in previous years, anticipating logistics and delivery challenges. This wider time frame allowed logistics and warehousing firms to alleviate delays[3]. Retailers prepared for the holiday season months in advance by offering their seasonal inventory earlier than previous years and taking proactive measures to avoid supply-chain challenges.

e) Additionally, a National Retail Federation survey reported that 65% of consumers planned to shop the week after Christmas[3], widening the holiday shopping window even further. For many consumers, this led to a more enjoyable and less stressful shopping experience. This trend is likely to continue in the post-pandemic retail landscape.

<u>Consumer Income & Spending Trends</u>

a) Although the stimulus impacts have already materialized, households have been accumulating savings during the past two years which will support retail growth and expansion in 2022. Particularly, travel, dining and entertainment sectors are expected to recover thanks to strong wage

[6] Mastercard SpendingPulse: "U.S. Retail Sales Grew 8.5% This Holiday Season" (December 26, 2021)
[7] Fahey, Ashley. "How Will Property Owners and Cities Fill in the Holes Left behind by Malls?" *The Business Journals*, 22 Nov. 2021
[8] Green Street REIT Strip Center Sector Update (December 3, 2021)

growth and favorable job market that empowers consumers. Robust consumer spending has driven much of 2021's economic growth[4].

b) Throughout most of the pandemic, service-industry based consumer spending decreased while spending for durable goods skyrocketed. Changes to the U.S. economy's wage, stimulus-fueled consumer spending, and price dynamics led to outsized increases inflation as labor shortages and supply-chain disruptions strained production and sales of goods and services demanded by consumers[9]. Real spending on durable goods was nearly 20% higher than it was pre-pandemic, while spending on services was down 2%[10].

c) Historically, consumer spending on durable goods contracts during recessionary periods; consumer spending under the recessionary conditions caused by the pandemic were an anomaly. The increased demand for durable goods was not expected based on historical behavioral trends. The cost of services has increased over the pandemic, but they have simply returned to pre-pandemic levels. The cost of durable and non-durable goods, however, has increased to the highest levels in 40 years[10].

d) Consumers continue to shift spending to digital, in part due to concerns about in store shopping and store closures related to the pandemic, but also because of the increased convenience due to multiple fulfillment options and a better consumer experience.

e) Savings rates, although below peak levels recorded during the height of the pandemic, remain elevated compared to historic averages (1991-2019). U.S. consumers have a tremendous amount of buying power and pent-up demand heading into 2022[4].

Employment/Unemployment Trends

a) Through December 2021, the labor market has recovered nearly 19 million of the 22 million jobs lost in March and April 2020 due to the COVID-19 pandemic. Labor force participation was at 61.9% as of December 2021, only slightly lower than pre-pandemic labor force participation rate at 63.0%[11]. Employment figures surveyed from households rather than employers in November 2021 showed the largest increase since October 2020[11]. Additionally, monthly job growth revisions have been higher than normal – revised job growth for October 2021 increased by more than 100,000[11]. Revised job numbers for December 2021 likewise may be significantly higher than initially reported.

b) Retail employment increased substantially month-over-month in October 2021 (+50.6%) before dipping slightly in November (-13.3%) and December (-2.1%). Within retail, warehouse clubs and supercenters (Costco, BJ's, Walmart, Target) posted the highest month-over-month employment increases in December 2021 at 15.0%. Miscellaneous store retailers posted a 5.8% increase, and non-store retailers posted the most modest increase at 0.5%[12].

c) Food service employment rebounded significantly year-over-year (+16.6%) and month-over-month (+42.6%) in December 2021[13]. This segment of the accommodations industry struggled throughout

[9] *Inflation Remains Wild Card in U.S. GDP Outlook for 2022*. Federal Reserve Bank of St. Louis, 13 Jan. 2022.

[10] Cushman & Wakefield Research; Inflation Spotlight (November 2021)

[11] PNC Financial Services, Global Economic Highlights (January 2022)

[12] U.S. Bureau of Labor Statistics, "The Employment Situation" (December 2021)

[13] Alison Auginbaugh and Donna S. Rothstein, "How did employment change during the COVID-19 pandemic? Evidence from a new BLS survey supplement," Beyond the Numbers: Employment and Unemployment, vol. 11, no. 1 (U.S. Bureau of Labor Statistics, January 2022), https://www.bls.gov/opub/btn/volume-11/how-did-employment-change-during-the-covid-19-pandemic.htm

the pandemic, but experienced steady gains and increased job stability throughout 2021 despite the economic impacts of the Delta and Omicron COVID-19 variants.

d) Average weekly hours worked in the retail trade sector have rebounded[13], another positive sign for employment and evidence that increased retail economic activity and consumer spending enabled retailers to hire and rehire employees to work at least 30 hours per week on average.

e) All nonfarm industry sectors showed year-over-year stability in hours worked[13]. Most jobs held by workers with only a high school diploma are concentrated in the hospitality and retail industries, which experienced some of the most pronounced employment volatility during the pandemic. BLS data indicates a strong correlation between education levels and reported employment changes due to reduction in hours. The stabilization of hours worked in the service industries coincides with the positive employment growth in this sector; although there is still progress to be made, the majority of jobs in the service industry have returned.

Inflation Trends

a) Inflation, and even consumer price inflation, has been substantial over the past year; the consumer price index for all urban consumers (who represent 93% of the total U.S. population[14]) increased 7.0%[15].

b) The strong rebound in real GDP growth in 2021 has been accompanied by high inflation, a development that was not anticipated by most forecasters[9]. The primary driver of inflation in the U.S. and globally has been supply-chain disruptions[10].

c) Supply-chain disruptions depressed consumer purchases of durable goods, homebuilding, business fixed investments and business inventory accumulation. Vaccine-fueled openings along with federal aid led to a surge in spending in Spring 2021[16].

d) The consumer price index rose to a near 40-year high of 7.1% in December, as clogged U.S. ports as well as a shortage of truck drivers and other labor caused major delays in moving products across the country resulting in a shortage of goods[5].

e) Much of the inflation occurring is demand-pull, which occurs when consumers have more money and want to spend it, but in an environment with too few goods and services available to purchase[14].

f) The resulting price increases in early 2021 were limited to specific consumer segments, such as new and used cars, rental cars (many of which were sold at the onset of the pandemic), and airfare. However, prices are increasing more rapidly for many more items due to supply and demand mismatches, higher input prices, and higher labor costs[16].

g) Inflation remains a wild card and is on track to be the highest it has been in 30 years. Rising inflation expectations may mean that households, organizations and financial market participants expect inflation to persist for longer than Fed policymakers expect. Measures that the Fed has signaled they will be taking to curb inflation include ending asset purchases and potentially raising interest rates.

[14] *A Dollar's Worth: Inflation Is Real.* Federal Reserve Bank of St. Louis (October 2021)
[15] U.S. Bureau of Labor Statistics, Consumer Price Index Report – December 2021 (January 2022)
[16] PNC Financial Services, National Economic Outlook (December 2021)

Overall Consumer Outlook

a) Repeated surges in demand for durable goods are unlikely; households do not require multiples of most durable goods. As consumer spending gradually shifts back towards services rather than durable goods, supply chain pressures will ease, and rapidly increasing prices caused by surges in demand for these goods should abate.

b) The near-term outlook is cautiously optimistic; higher wages will support consumer spending and GDP growth[9], as increases in labor costs generally benefit households who will spend more freely in their local and regional economies.

c) Real estate fundamentals for retail on a national basis have been strong with absorption and rents growing and vacancy continuing to fall. Consumers have shown strong demand to return to stores, and they are well situated to resume that trend as the effects of the pandemic recede. As cases eventually decline, consumers will be armed with spending power in the form of rising incomes and wealth, improved confidence and excess savings[17].

POST-COVID OUTLOOK & IMPACT

COVID Variants and Impact

After several false starts to the recovery, the economy rebounded in earnest throughout 2021. There will not be a return to normal – and this is not a bad thing. Flexibility and convenience will drive the shape of things to come for at least the next decade, which will better prepare every property sector for future disruption.

There is now much greater understanding of the coronavirus than at the onset of the pandemic – how it is transmitted, how it can be controlled, and how to carry on despite its presence. The latest wave of Omicron cases did not shake retail as much as the Delta variant did during summer of 2021[18]. Consumer spending held up remarkably well even as infections from the Delta variant surged this summer, and spending continued to revert from goods to more normal levels of services like travel and spas – very positive signs for the economy. But rising infection levels risked triggering another pullback in consumer spending, but consumer spending surged to record levels throughout the holiday shopping season.

While future mandatory lockdowns remain unlikely, travel restrictions and capacity constraints could remain for a long time and negatively affect retail performance. Better knowledge of the virus has reduced but by no means eliminated the uncertainty. Global supply chain disruptions remain a material risk, especially due to its impact on inflation. Companies will need to reconfigure and be strategic with their vendor relationships to prevent supply-chain bottlenecks that can potentially depress consumption of durable and non-durable goods.

New business formations are at their highest level in two decades, with a large share in retailing. This spike in entrepreneurship has been one of the lesser known but critical drivers of the economic recovery, particularly for the retail sector. Multiple factors account for this spike, which is highly unusual during recessions, but generally involve the highly unusual nature of this recession. Wealth and savings increased, for example, providing capital for budding entrepreneurs. Moreover, large portions of the economy

[17] Cushman & Wakefield U.S. Shopping Centers MarketBeat Report (4Q 2021)
[18] Green Street US Strip Center Sector Outlook (January 2022)

remained strong throughout the pandemic while income rose, providing a solid base of demand for new businesses.

As retail continues through a stage of evolution, new concepts, technologies, and distribution strategies are radically changing the way Americans consume, and will continue to do so as new innovations emerge. Consumers continue shifting to digital, partly due to public health concerns but also because of the increased convenience options and better consumer experience. To survive, the best and most agile brands will embrace these changes and adapt with new omnichannel strategies. The winners will be quality concepts and projects that blend convenience with experience as the gap in performance between Class A retail real estate and other retail products widens. Necessity-based retail including good grocery anchored neighborhood centers are expected to remain the investment of choice. Investors look for credit and term and are very attracted to retailers deemed essential.

The pandemic has widened the delta between the "haves" and "have-nots" and this trend will continue to persist in the foreseeable future. Unkept class B/C properties in older, lower income neighborhoods will continue to struggle, while newer "destination" type properties will reap the benefits of a populous excited to get out of their homes, socialize, and spend. After being on a downtrend since 2016, employment in the retail sector is projected to rise to new record levels over the next few years. Stronger consumer spending will drive retail business expansion and new concepts, creating more jobs and higher demand for retail space. Post-pandemic, consumers will be spending more than ever at brick-and-mortar stores.

Retailers Adapt, Recover and Thrive

Many retailers are emerging from the pandemic stronger than they were before it. COVID-19's shock to retail brought overdue changes that will bolster the sector's resilience, such as major investments in technology, artificial intelligence, omnichannel expansion, new methods to connect with consumers, and optimizing online delivery[19].

Challenges for retail remain, but the sector is evolving. The role of physical space in delivering convenience and anchoring destinations is clearer now than it was prior to the pandemic. The retail market recovery will be polarized, but necessity-anchored assets will continue performing well. The recovery of tenants adjacent to these necessity-focused retailers will also benefit these grocery and necessity-anchored spaces by generating additional foot traffic from customers and nearby businesses that depend on their goods and services.

E-commerce remained a driving force of retail sales activity and has emerged as a powerful complement to in-store shopping rather than a competitor. The pandemic forced retailers to innovate solutions, adapt and refine their fulfillment strategies to accommodate consumer demand for a flexible, omnichannel shopping experience. Retailers who have outperformed in omnichannel offerings are likely to continue to gain market share and expand their store footprints. Many of these strategic solutions have become the new normal. Consumers have benefited immensely from the time saved by shopping online and picking up in-store or curbside, and they are likely to maintain their preferences even after the pandemic has subsided due to the time and energy savings.

The plateauing of e-commerce's portion of overall retail sales in 2021 suggests a renewed balance between online and brick & mortar sales. As a result of the pandemic, e-commerce will retain a permanently larger share of overall sales, but the line between brick & mortar and pure online retail will continue to blur. Instead, these channels will emerge as powerful complements rather than substitutes in a retail space where

[19] Townsend, Matthew. "Retail's Battle With Covid Actually Saved Its Stores." Bloomberg, 21 Dec. 2021.

consumers desire increasing flexibility. Traditional retail centers should continue to experience strong foot traffic. According to Placer.ai, foot traffic at leading discount stores during Q4 2021 was up between 3-8% from 2019 levels during Black Friday weekend. Indoor malls were only 5% below 2019 levels for foot traffic[17].

GROCERY & NECESSITY RETAIL

Grocery-Anchored and Necessity Retail Trends

a) Throughout the pandemic, grocery- and necessity-anchored properties remained the investment of choice. Essential retailers like grocers, warehouse clubs and sellers of discount durable and non-durable goods outperformed during lockdowns and provided stability as retail overall underwent major contractions and changes.

b) Robust sales drove increased demand for retail space throughout 2021, accelerating retail rent growth and occupancy rates. Occupancy has generally returned to pre-pandemic levels due to the mass of consumers returning to their normal shopping habits; neighborhood shopping center occupancy was at approximately 94.0% in the first quarter of 2020, dropped to approximately 92.0.% in the second quarter of 2021, and by the third quarter of 2021 rose to 93.0%[18]. Shopping centers saw the highest demand for space and the highest year-over-year rent increases at 3.4% and 3.2%, respectively[20].

c) Certain types of retail have understandably struggled to survive the pandemic, while other segments such as food & beverage, big-box stores, digitally native brands and medical retail have thrived amid shifting consumer demand. On net, there are more positive than negative demand drivers for retail real estate leasing. Store openings at last surpassed store closings after a net loss of more than 15,900 stores in 2020. By the end of December 2021, major retailers had announced 5,083 store openings as opposed to 5,079 store closures according to Coresight Research[17]. Brand identity, consumer experience, and the physical store have proven essential to profitability and even digitally native brands are opening brick-and-mortar shops.

Malls vs. Shopping Centers

a) Shopping centers are unenclosed, open-air spaces that are easier to navigate, with a tenant base that is more relevant to the everyday needs of consumers. The essential retail composition of the UHREIT's shopping center assets is reflected in the assets' high occupancy levels, as essential retailers have not been forced to vacate/close. In many cases, these tenants are expanding throughout the country and opening new stores, whereas tenants commonly found in enclosed malls such as department stores are shrinking their store footprints and operations.

b) Malls are shopping destinations rather than centers of convenience, with hundreds of tenants but few if any essential retailers. Neighborhood, community and power shopping centers have a convenience component lacking in malls and serve smaller trade areas of 3 to 10 miles, while regional and super-regional enclosed malls rely on much larger trade areas of 10+ miles.

c) During periods of market disruption, consumers would not drive 10+ miles for non-essential goods from a mall, and certainly not for essential goods that are available from a neighborhood shopping center less than 5 miles away. The convenience and essential business composition of

[20] Matthews Real Estate Investment Services, Retail End of Year Report: 2021

neighborhood and community shopping centers allow consumers to buy essentials and non-essentials within just a few miles of home, saving time and mitigating risk during the pandemic.

d) Retail sales at large discount stores (warehouse clubs and superstores like BJ's Wholesale, Walmart, and Sam's Club) have more than tripled while sales at traditional department stores (which do not sell essential goods like groceries and household basics, and in which the UHREIT has no exposure) have declined.[21]

MALL AND SHOPPING CENTER TYPES

	Neighborhood Center	Community Center	Power Center	Mall
Typical building size and site area	30,000 to 150,000 square feet of GLA on 3 to 5 acres	100,000 to 350,000 square feet of GLA on 10 to 40 acres	250,000 to 600,000 square feet of GLA on 25 to 80 acres	400,000 to 1,000,000+ square feet of GLA on 40 to 120 acres
Building layout	Unenclosed	Unenclosed	Unenclosed	Enclosed
Anchor/tenant alignment	One or more anchor tenants, including a supermarket/grocery store	Two or more anchors, such as a discount retailer, supermarket, drug store, home imp.	Tenants are category-dominant anchors with at least 3 anchors (home imp., discount dept. store, warehouse club)	Two to three (or more) department store anchors
Anchor tenant ratio	30% – 50%	60% – 80%	70% – 90%	50% – 70%
Primary trade area served	3 miles	3 to 6 miles	5 to 10 miles	5 to 25 miles

Source: ICSC

<u>Physical Store Remains Epicenter of Consumer's Shopping Experience</u>

a) The physical store remains the anchor of consumers' shopping experience. Of the $8.6 billion in online food sales in August 2021, $6.6 billion consisted of orders placed for pickup or home delivery by nearby retailers. As mask mandates receded, pre-pandemic shopping behavior for groceries still did not resume – BOPIS and curbside omnichannel methods remained the method of choice for most shoppers who had been using them during lockdowns[1].

b) Retailers like Dollar General, TJX Companies, and major grocers powered an outsized share of leasing activity in 2021. Overall brick and mortar retail sales reached historic numbers with discount retailers, grocers, and off-price apparel stores were among the best-performing retailers[20]. Digitally native brands, including Warby Parker, Glossier, Brooklinen, Birchbox, and Allbirds, are adding brick-and-mortar locations. The physical store, especially in open-air shopping centers, remains an essential part of retailers' real estate strategies for maximizing market penetration.

c) The challenges facing retail are now structural, not cyclical and the acceleration of online retail sales is one catalyst for the disruption. While some retail sectors are already operating at 40% online penetration, it is unlikely that total e-commerce penetration for all retail will surpass the 20% mark in the next decade. Digital channels will not replace bricks and mortar, but most retail categories will not need as many stores[5].

d) The pandemic changed the way we shop, and many of these changes involve improvements to the in-store shopping experience. Some of the largest retail chains are even drawing more foot traffic

[21] Superstores like Walmart remained open for the duration of lockdowns, providing daily essentials for households; Walmart accounted for 31% of the online grocery market in the U.S. in 2019; 90% of U.S. consumers live within 10 miles of a Walmart store.

to their physical stores than prior to the pandemic. Much of this foot traffic is from curbside and BOPIS order fulfillment[1].

e) Brick-and-mortar stores are expected to play a growing role in cementing Amazon's dominance in convenience to consumers. Amazon operates 100+ physical locations throughout the U.S. in varying formats. Amazon Fresh stores are the most rapidly growing format, reflecting the ecommerce giant's bid to compete with traditional supermarkets (Stop & Shop, Publix) and big box retailers with major grocery components (Target and Walmart)[22].

Omnichannel and Micro-Fulfillment

a) The pandemic accelerated what has been a steady increase in consumer demand for contact-free and omnichannel shopping options. COVID converted many dedicated in-store shoppers to fans of BOPIS, curbside pickup, and same-day delivery service. The physical store plays a critical role in the sustainability of these new shopping preferences and plays an essential role in successful ecommerce growth for retailers. Target, Walmart, Best Buy, and Lowe's all embraced omnichannel in high profile ways, and all reported online and physical store sales growth in 2021[2].

b) Micro-fulfillment emerged as an essential component of omnichannel, providing scalable and flexible solutions for both retailers and consumers. Though the practice originated in the grocery sector, all types of retailers have deployed micro-fulfillment strategies. Micro-fulfillment centers typically are created within existing retail space and operate as a dedicated space to fill online and in-store orders that will be picked up via curbside, BOPIS, or delivery.

c) Micro-fulfillment provides convenience to consumers and efficiency/cost savings to retailers. Increased digital sales can adversely impact profitability, since shipping costs shrink overall profit margins. Target, which saw 145.0% web sales growth in 2020, was one of many retailers that benefitted from implementing micro-fulfillment processes. When online orders are shipping from a Target store, fulfillment costs are 40% cheaper than orders shipping from a warehouse. Fulfilling same-day orders through Shipt, a third-party delivery service, costs 90% less than shipping from a warehouse[23].

In-Store Shopping

a) Pricing and merchandising strategies have historically fueled the success of discount and off-price retailers (Ollie's, Beall's, Ross Dress for Less). These strategies pre-date the pandemic and have helped them remain e-commerce resistant while appealing to a broad base of consumers with curated, rotating inventory.

b) Retailers in this category made having fun a priority for their in-store shopping experiences by stocking unique, dynamic products from hundreds of vendors at affordable prices. The "treasure hunt" style of shopping experience ensures that consumers will almost always find something new and interesting, resulting in repeat trips to the store.

[22] Digital Commerce 360; *The Amazon Report*; data as of September 2021
[23] Digital Commerce 360; *Top 500 Report*; data as of April 2021

Curbside Pick-up

a) Curbside pick-up is one of several consumer behaviors that will endure after the pandemic. Of the 210 retail chains within the top 1000 retailers, the number of retailers offering of curbside pick-up fulfillment increased from 6.6% in early 2020 to 50.7% in early 2021[2]. Among retail categories, food/beverage retailers are the most likely to offer curbside pick-up with 70.0% of retailers in this category offering this omnichannel option, followed by toys/hobbies retailers (66.7%), sporting goods (60.0%) and health/beauty (57.1%)[2]. Research by GlobalData suggests that 68% of U.S. shoppers plan to use curbside pickup at stores more in the future and roughly 60% say they will collect more of their online purchases from inside stores[5].

b) Curbside pick-up helped retailers mitigate store sales losses due to lockdown mandates. Mass merchants like Target and Walmart, home goods chain Bed Bath & Beyond, and crafts retailer Michaels launched curbside pick-up service in March 2020. Cosmetics chain Ulta Beauty introduced curbside pick-up at 70 stores in April 2020, and expanded this service offering to more than 800 locations – or two-thirds of the retailers' total locations[2].

BOPIS (Buy Online, Pick-up in Store)

a) 31% of shoppers surveyed reported using BOPIS for non-grocery items and 22% had used BOPIS for groceries. Comparatively, 19% of respondents ordered groceries via home delivery, a shopping method that is expected to see incremental growth going forward due to its convenience and largely positive customer experiences[2].

Delivery & Third-Party Shopping Services

a) A notable trend that emerged during the pandemic was the increase of on-demand delivery service for more than groceries. Consumers began purchasing apparel/accessories, consumer electronics, housewares, health/beauty goods and goods form mass merchants through these third-party shopping apps that relied on physical stores for micro-fulfillment.

b) To reach customers who cannot or do not want to drive to physical stores, may retailers expanded or created on-demand local delivery service. Many of these retailers utilized third-party on-demand platforms like Instacart, Postmates, DoorDash and Shipt to interact with and deliver goods to customers. Consumers have also shown interest in same-day delivery; 26% use same-day delivery with Amazon, 20% with store-based retailers, and 8% with web-only merchants[2].

Grocery/Necessity Anchored Shopping Centers Lead the Retail Recovery

Tenancy Strengths & Challenges

a) Necessity and grocery tenants provided stability to existing shopping centers, and their resilience has fueled much of the recovery's leasing activity. Grocers, discount retailers and off-price apparel (Dollar General, Family Dollar, Ross Dress for Less), Marshalls drove the majority of shopping center leasing activity nationally, making 2021 the best year for retail leasing since 2017[20].

b) Tenancy challenges in 2021 were predominantly limited to retailers that were slower to adopt and implement omnichannel options for consumers, non-essential retailers of durable and non-durable goods, and service-based tenants whose businesses were adversely impacted by pandemic-related lockdowns and mandates. Going forward, a challenge facing retail tenants will be strong demand for junior anchor box spaces with few availabilities.

c) Omicron will indeed have a near-term impact on retail markets, but not nearly to the extent that was seen in 2020. Markets with UHREIT portfolio properties have not been adversely affected by the Omicron variant, although some major markets in the U.S. have re-introduced mask mandates and other "soft" restrictions, leading to reduced traffic for restaurants and some retailers. According to OpenTable, the occupied percentage of restaurant seats compared to 2019 values fell from near 100% for Q2 and Q3 2021 to around 90% in December. However, Omicron's effects on retail will likely be limited and temporary, as a higher number of vaccinated Americans should keep hospitalization rates manageable[17].

Innovation and Reinvention in the Retail Sector

a) Shopping center design and configurations are shifting to accommodate the post-COVID world, adapting to the lingering consumer habits developed over the past several years. Retail reconfigurations are trending toward incorporating mixed-use elements, new amenities and on-site services, and offerings that draw foot traffic to retailers. Investors continue targeting mixed-use projects that incorporate culture, community, and retail in one location, with increasing interest in how sustainability, wellbeing and healthcare offerings can be integrated[20].

b) Many big box essential retailers like Walmart are seeking additional space on-site for fulfillment and expansion into health and wellness offerings such as primary and urgent care centers. Pharmacies and drug stores, many of which are already located within grocery stores, have been expanding their service offerings to include more healthcare services such as doctor's appointments and lab work.

c) Some retailers have considered developing or opening micro-fulfillment centers in locations close to customers but that are removed from their retail footprints. Other retailers have explored the possibility of converting back-room storage in some stores into fulfillment areas that function as a last-mile distribution center for customers. However, fulfillment operations are labor-intensive, and persistent labor challenges in retail may not make these options feasible[7].

d) Other innovative trends in retail include the implementation of robots and artificial intelligence. Walmart and Amazon are two major retailers deploying robotics in their business operations. Walmart has tested helicopter-style drones to deliver grocery and household essentials and has announced plans to test long-range drones that can deliver within a 50-mile radius of a store[24]. In addition to groceries, these drones will make on-demand deliveries of health and wellness products, with the potential to expand to general merchandise.

e) Robotic delivery technology is also an opportunity for retailers to expand omnichannel options for consumers, reduce waste and environmental damage and align with ESG initiatives. Lightweight, battery-powered bots can fulfill orders with lower environmental impact and for less money than cars with human delivery drivers[24].

f) This technology has been slower to adopt than other types of robotics; government regulations for drone delivery flights are not yet complete, and widespread drone deliveries could still be years away due to regulatory hurdles. Though they will be more cost-effective to utilize in the long term,

[24] Digital Commerce 360; *Fulfillment Report*; data as of August 2021

manufacturing of robotic delivery vehicles are still expensive to manufacture. Another challenge facing robotics is integrating delivery bot services into online retail ordering platforms[24].

g) Approximately 37.5% of consumer goods/retail industry respondents surveyed by McKinsey indicated their business operations relied on AI for at least one business function[25]. AI and machine learning have played a major role in studying retail foot traffic data. Placer.ai foot traffic data is based on geolocation and proximity data collected from 30 million mobile devices in the U.S. This data is used to make foot traffic estimates about overall visits to any location. Sensormatic is a company that tracks store visitors using traffic county devices at entrances and throughout the store to provide insight into consumer behaviors[26].

h) Foot traffic data gathered via artificial intelligence in 2021 is likely to shape retailers' holiday shopping season in the future. Consumers are shopping more throughout the month rather than concentrating on Black Friday[26]. This trend is likely to continue, as shoppers and retailers both benefited from the increase in flexibility and more manageable consumer demand.

ESG Initiatives and New Economy Trends

a) Market priorities are shifting - profit and return motives are often the least-cited motivator for ESG activity and investments. Client, investor and stakeholder demand is overwhelmingly the number one driving force behind increased interest in ESG as an investment consideration. The pandemic did not dampen the importance of ESG for; enthusiasm for green assets increased. There was only a 5% decrease in occupier demand for green buildings, and only a 6% decrease from the investor side[25].

b) As a result of new user patterns and a demand for greater sustainability, reworking existing properties and building more effectively will be a priority and an opportunity, especially in core markets that have had less focus on ESG to date[27].

c) Some ESG trends also focus on the health and social equity aspects of properties, such as accessibility via public transit (which has fueled the transit-oriented development trend), property tech that supports public health and wellbeing (e.g., building certifications such as WELL/Fitwel responded to the pandemic by recommending strategies that mitigate the spread of infectious disease[28]), and strategic tenant mixes that serve a broad range of community needs. Grocery-anchored retail does more than provide integrated shopping experiences for consumers; it increases access to jobs, economic opportunity, and services for residents who may have limited time or mobility options.

d) Currently, electric vehicle owners have limited public charging options, relying heavily on overnight charging at their private residences. Big-box retailers such as Walmart, Target, or Costco, are increasingly offering a solution by integrating EV charging with consumers' errands. This option is appealing to retailers, as 89% of EV drivers typically make a purchase while charging on location and the addition of them makes comparatively little difference to a site's monthly electricity use[29]. The inclusion of EV charging stations on retail sites continues a trend of providing access to vehicle

[25] RICS World Built Environment Forum 2021 (Surveys Conducted in Q2 2021)
[26] Salois, Gretchen. "Black Friday 2021 foot traffic rebounds after last year's sharp decline." Digital Commerce 360, 2 Dec. 2021.
[27] Cushman & Wakefield: The Signal Report (January 2022)
[28] Urban Land Institute, *Health and Social Equity in Real Estate: State of the Market* (November 2020)
[29] Madeline Gilleran, Eric Bonnema, Jason Woods, Partha Mishra, Ian Doebber, Chad Hunter, Matt Mitchell, Margaret Mann, "Impact of electric vehicle charging on the power demand of retail buildings", *Advances in Applied Energy*, Volume 4, 2021.

fuel access to shoppers. The U.S. government's $1T infrastructure bill includes a $5B investment to build electric vehicle charging stations nationwide to ease dependence on gas-powered cars.

e) New, high-growth industries that proactively integrate technology into their present and future operations have been considered major driving forces behind economic growth and productivity. As technology and the Internet transformed the way that companies do business, traditional manufacturing fell out of favor, and operating models of the past became obsolete. The pandemic accelerated many trends, particularly the increasing value in digital platforms and intangible investments. REITs have increasingly focused on the sustainability of their portfolio assets, a strategy which has expanded to considering not just which property types to include but also how homogenous groups of assets have prepared for technological, environmental and social disruption.

f) Today, the new economy refers to different aspects of technology that have emerged since the tech boom of the 1990s. These aspects include the sharing economy, the streaming economy, the gig economy, the ecommerce economy, cloud computing, and artificial intelligence. More recently, the new economy has been used to refer to redesigning and reconfiguring existing systems and business models around ESG considerations.

Sustainability and Retail

a) Compared to other asset types, retail is an emerging opportunity for sustainability gains. Historically, the focus has been on large institutional buildings, but smaller commercial buildings are an untapped market for energy conservation efforts.

b) Buildings that serve businesses with lower profit margins and high energy costs, such as grocery stores and restaurants, often stand to gain the most from energy conservation. Grocery stores and fast-food restaurants, particularly freestanding locations on shopping center outparcels, have substantial opportunities for increased sustainability practices[30]. Daylighting, increased insulation, and high-efficiency upgrades are simple ways to achieve these effects. Lighting, heating and cooling loads are immediate opportunities for energy-efficient improvements.

c) Studies of building retrofit potential indicate an average of 27% savings in energy consumption and 45% for fast food restaurants. Grocery stores can increase their profits by 16% and sales per square foot by $50 with just a 10% reduction in energy costs[31]. The opportunity to directly increase business profitability, and in turn ensure that tenants are profitable enough to remain in or expand their existing footprints, is highest in these buildings[32]. These energy conservation initiatives are a major draw for tenants, especially in areas of the country with higher-than-average or volatile energy costs.

d) A large percentage of retail tenants pay for their own separately metered utilities, and energy-saving building features reduce overhead costs for tenants, strengthening their overall operating performance, resilience and long-term sustainability. Retail tenants are also attracted to centers

[30] As of January 24, 2022, retailers within the UHREIT portfolio who are part of the Environmental Protection Agency's Green Power Partnership National Top 100 include: Walmart (#4; renewable energy is 14% of total electricity use), Target (#25; renewable energy is 19% of total electricity use), and Best Buy (#47; renewable energy is 56% of total electricity use). Rankings are by annual green power usage (kWh).
[31] U.S. Department of Energy National Renewable Energy Laboratory, "Advanced Energy Retrofit Guide: Practical Ways to Improve Energy Performance – Grocery Stores" (July 2013)
[32] National Trust for Historic Preservation: Preservation Green Lab & New Buildings Institute, "Realizing the Energy Efficiency Potential of Small Buildings" (June 2013)

with electric vehicle charging stations which can increase foot traffic and shopping trip duration, as well as centers with integrated waste reduction initiatives.

Demand Drivers and Outlook

Suburban Migration Trends

a) The shift to remote work during the pandemic provided opportunities for workers to move out of dense, costly metros into lower-cost areas, and frequently within those same metros. The emergence of working from home/working from anywhere/hybrid work models shifted demand to the suburbs where housing is often less expensive and larger.

b) However, the urban/suburban distinction has become less of a competition, and investors see viable opportunities for long-term growth in both environments. Suburban areas have experienced robust recoveries, but long-term massive suburban shifts are still uncertain. Decentralized hub-and-spoke office models have yet to gain traction.

c) Cities are regaining their vibrancy and young professionals have returned to many of these gateway markets – even before office re-openings occurred. The pandemic-fueled exodus facilitated a reset for many gateway markets, making some of them more affordable and attainable to people with a wider range of incomes. Downtown locations are also still the superior option for most companies because their locations are accessible to the greatest number of workers.

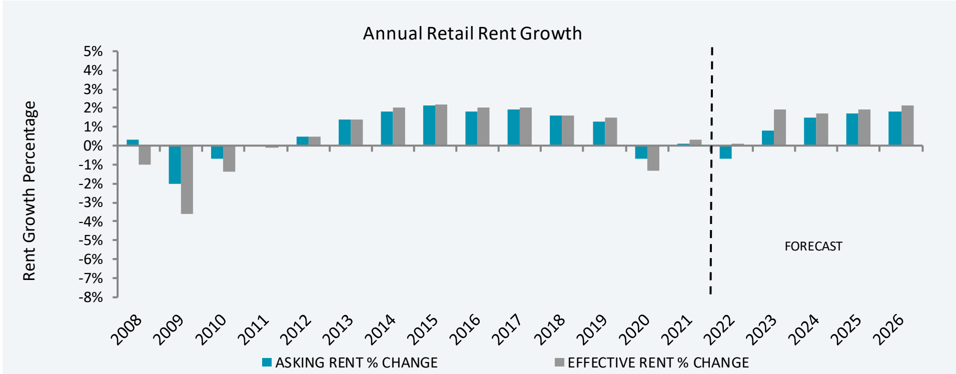
d) Younger generations are especially attracted to city life, but this is not exclusive to Millennials and Gen Z. Most people, regardless of age, want walkable, amenitized communities that enable them to live fuller, more integrated lives rather than car-dependent fragmented lifestyles.

Occupancy and Rental Growth Trends/Opportunities

a) Robust consumer spending has increased tenant demand for retail space, accelerating retail rent's growth and occupancy rates in 2021. Neighborhood centers, which are typically anchored by grocers, and shopping centers saw the largest rental increases compared to other shopping center types. Consumer activity also bolstered investor confidence in retail; mixed-use assets, open-air shopping centers, and grocery-anchored centers were the primary focus for investors[20].

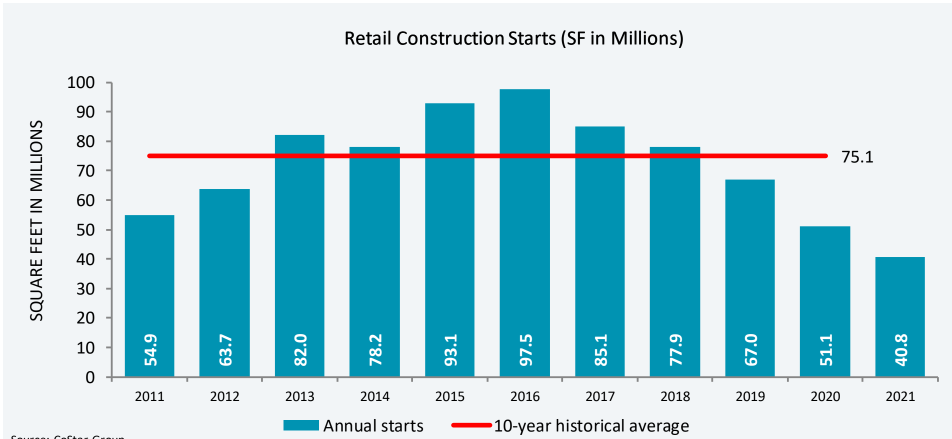
b) Demand for smaller spaces (~5,000 SF) stemming from a wide range of tenants, many of which are necessity-oriented and ecommerce-resistant, diversifies revenue streams and yields higher rents per square foot. Additionally, a higher proportion of inline tenants results in lower maintenance expenses, shorter re-leasing downtime, and smaller tenant improvement packages[18].

c) Both asking and effective rents are not expected to see meaningful growth until 2023. New construction of retail property is significantly down, which will help keep retail rents stable. The following graph shows a composite of asking and effective annual rent growth within retail markets across the U.S. (only including community and neighborhood shopping centers)[5]:



Source: Reis, Real Estate Solutions by Moody's Analytics; 80 of 190 Retail Markets

Note: Data only inlcude Community and Neighborhood Centers



Source: CoStar Group

d) Medical retail has emerged as a rent growth opportunity for owners of grocery-anchored assets. These tenants command higher rents and strengthen the overall usability of a center's offerings. As an essential aspect of living, not just shopping, proximity to medical services (urgent care, dental care, primary care) captures more consumer foot traffic and spending. The more that shopping center tenant mixes become responsive to the daily needs of the whole customer, the more competitive they will be in the future.

CUSHMAN & WAKEFIELD

Retail Valuation Trends

a) Grocery-anchored retail saw a 71% year-over-year increase in transaction volume at $16.2B in 2021 and comprising approximately 21.1% of all retail deals. Single-tenant net lease properties emerged as the primary investment of choice in the early stages of the pandemic, but investor risk tolerance improved enough to include multi-tenant assets.

b) Despite the rapid spread of the Omicron variant over the final weeks of 2021, retail property fundamentals continued to recover. For Q4 2021, asking rents for shopping centers rose broadly nationwide while vacancy fell close to its pre-pandemic level and net absorption neared the previous quarter's high watermark[17]. With healthy NOI gains, retail asset values are expected to rise over the next several years.

Weighted Average Cap Rate*

	Market Category			
Property Type	*Gateway*	*Primary*	*Secondary*	*Tertiary*
Grocery-Anchored Neighborhood Center (15% of REIT Assets)	4.7%	4.9%	5.2%	5.5%
Grocery-Anchored Community Center (25% of REIT Assets)	5.1%	5.3%	5.7%	6.6%
Power Center (35% of REIT Assets)	5.6%	6.0%	6.8%	7.8%

**Cap rates are indicative of "B /B+" quality assets.*

Gateway Markets = Boston, D.C. Metro, Los Angeles, New York, San Francisco, Seattle

Primary Markets = Austin, Chicago, Dallas, Denver, Hawaii, Houston, Long Island, Northern NJ, Oakland, Orange County, Portland, San Diego, San Jose, South Florida

Secondary Markets = The remaining markets within Green Street's top 50 U.S. markets

Tertiary Markets = Assets not located within Green Street's top 50 U.S. markets, or an hour or more drive outside of a CBD

Source: Green Street US Strip Center Outlook Report - January 28, 2022

Trade Areas / Regions Where Assets are Located – Data and Key Highlights

a) Stabilized grocery-anchored centers in the trade areas/regions where these open-air retail assets are located serve affluent communities and boast high occupancy rates. As of January 2022, grocery-anchored retail centers in the New York metro, Northern New Jersey and Central New Jersey averaged occupancy rates of 94%[33].

b) Strip center M-RevPAF[34] growth forecasts, which combine changes in occupancy and market rents into a single metric, for 2021-2025 have increased substantially as the outlook for this retail sector is markedly healthier than it was in early 2021[35]. Of the top 50 strip center markets tracked by Green Street, Northern New Jersey has the third-highest projected M-RevPAF growth rates for 2022 at 7.2%; annualized growth projections for 2022-2026 are 2.6%[18].

SELF-STORAGE

Self-Storage Overview

The Five D's of Self-Storage Demand

It is estimated that over three-quarters of the tenant base for self-storage come from residential users, and thus the industry generally tends to follow population growth patterns. The primary drivers of residential self-storage demand are often referred to as the Five D's and represent some of life's most dramatic challenges. These Five D's include Death, Divorce, Downsizing, Dislocation and Decluttering.

[33] Green Street data as of February 2022; survey of 69 grocery-anchored shopping centers
[34] M-RevPAF: Market Revenue per Available Foot
[35] Green Street US Strip Center Sector Outlook (January 2022); in January 2021, M-RevPAF growth for 2021-2025 was expected to be 0.0%. As of January 2022, growth was projected at 2.3%.

While self-storage demand is generally driven by life-changing events, they aren't all necessarily negative ones. Demand is also created by moves or "upgrades" in housing, marriage or a job change from one city to another. While not always tied to moving residences, demand is sometimes generated by the simple need for an extra closet or bedroom, or the need to create a separate area within the home for work or family activities. Nonetheless, the life-changing events that necessitate storage frequently fall under the category of moving.

In addition to 'life event' demand drivers (e.g., moving, divorce, home ownership, etc.), the storage industry continues to benefit from Covid-related needs, including: 1) businesses storing inventory; 2) decluttering for home offices; and 3) storage of apartment furnishings for those who moved temporarily. As such, storage rates continue to rise, notably moving in lock step with apartment rents, the closest substitute for storage space nationally[36]. Suburban migration trends, especially increased homeownership rates, have boosted self-storage utilization rates. More than 60% of all self-storage users have access to storage space in their own home (garage, basement, crawlspace, attic), and approximately 70%[36] of self-storage users own single-family homes.

Another new major demand driver is from small businesses who have been impacted by supply chain disruptions. Businesses are increasingly reliant on self-storage for stockpiling inventory and materials to avoid inflated future costs in the near or mid-term, and to protect themselves from supply-chain disruptions. Contractors and subcontractors for housing construction are a key player in this trend[37]; when one component of building is delayed, entire projects can be put on hold until windows, doors, or other crucial building materials are acquired. According to ENR, 52% of 1,489 AGC member contractors have reported a project delay due to a shortage of construction materials, parts or equipment[38].

A key driver for small business users is the flexibility of self-storage versus short- and mid-term leases of industrial space. Month-to-month flexibility of self-storage affords small businesses the option to store materials for what will be a shorter period than a typical lease. Additionally, small businesses do not typically require the amount of space in an industrial or office-warehouse property. The dwindling availability of industrial tenant spaces suited for small businesses makes self-storage an attractive, flexible and financially feasible alternative.

The pandemic was an unexpected short-term force that is now shaping long-term self-storage demand. COVID-related demand materially increased storage utilization rates, and much of this demand is likely to become sticky consumer behavior. The surge in remote work caused homeowners to increase the amount of dedicated space for home offices and home gyms in their residences, driving massive demand for self-storage. Green Street forecasts that 70% of U.S. employees will work from home at least one day per week in the near future, a substantial increase from a 12% projection prior to the pandemic[37].

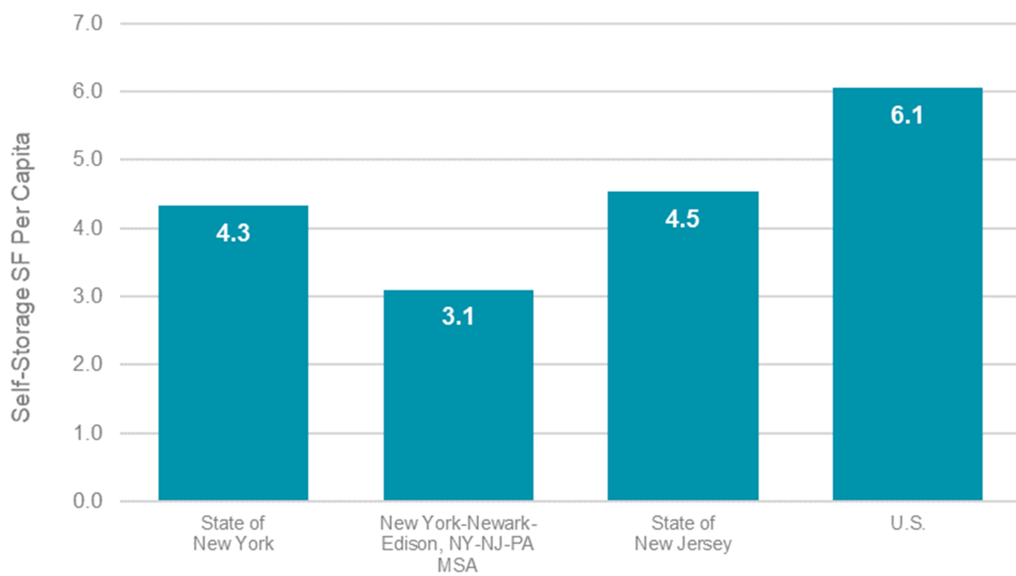
[36] Green Street U.S. Self-Storage Outlook (January 2022)
[37] Green Street Real Estate Alert (Dec. 14, 2021)
[38] Cushman & Wakefield, Commodities Volatility Report (June 2021)

Self-Storage Sector Characteristics, Occupancy and Rent Growth Trends

Supply Trends

According to Cushman & Wakefield's Self-Storage Data Services, as of Q4 2021 the New York-Newark-Edison, NY-NJ-PA metro area has 3.09 rentable SF per person compared to 6.05 nationally, making it an undersupplied region. This is based on a sample size of approximately 50% of facilities in the metro. Of the top 20 supply-heavy self-storage markets, Green Street predicts that although supply in New York will increase by 5% (2022-2026 CAGR), New York is still significantly lower than less populated metros. At 24 msf, supply in the New York metro area amounts to less than half of supply in Dallas Fort-Worth (56 msf) and Houston (52 msf)[36].

Self-Storage Supply
Square Feet per Capita



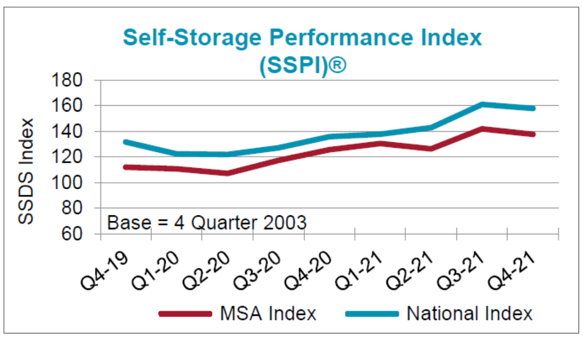
Source: Cushman & Wakefield Self-Storage Data Services,

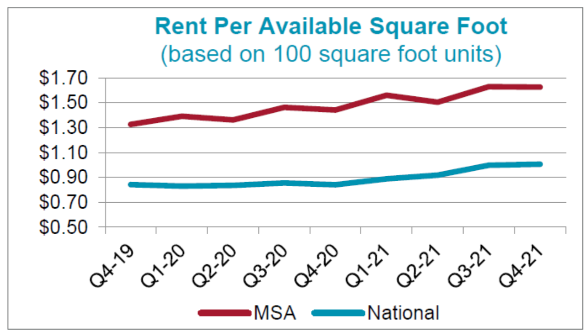
From 2022 to 2026, Green Street projects that storage square footage per capita on a nationwide basis will steadily increase. Currently, self-storage square feet per capita is at 6.0, and Green Street estimates that this will grow to approximately 7.5 square feet by 2026[36]. Of the self-storage development currently under construction, only 15% is attributable to the conversion of retail space[36]. Most empty strip center boxes are in central locations of commercial corridors and are often the ideal size for storage development (between 45,000 and 100,000 square feet). New self-storage deliveries are expected to be muted over the next three years through 2024 (less than 15% of existing supply). Construction delays, materials and labor shortages, and backlogs in permitting have constricted supply and will hinder near-term development of new inventory. Green Street forecasts a 3.0% overall growth in supply for 2022, a modest decrease from 2021[36].

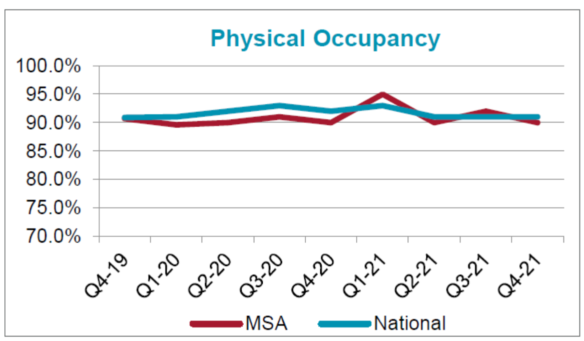
Occupancy & Rent Growth Trends

Operating fundamentals exceeded even the most optimistic forecasts for self-storage in 2021. The pricing power that accompanied 95% and above occupancy surpassed expectations, causing cumulative rent growth estimates through 2025 at 45% higher than forecast for 2025 one year earlier[36]. Move-in rates have historically trailed in-place rates. However, strong demand, all-time high occupancy levels, and limited new supply have caused overall move-in rates to surpass in-place rents[39]. Non-coastal markets have outperformed due to favorable in-migration away from coastal markets. Coastal markets have higher barriers to entry and barriers to supply growth. Though coastal market assets lag on recent move-in rate growth, they will also likely experience less rate volatility[36].

According to Cushman & Wakefield's Self-Storage Data Services, self-storage asking rental rates as of Q4 2021 for the New York-Newark-Edison, NY-NJ-PA were up 2.1% from Q3 2021, and up 12.4% from Q4 2020. Physical occupancy has been relatively stable over these same periods, decreasing slightly from Q3 2021 but unchanged compared to a year earlier.







Source: Cushman & Wakefield Self-Storage Data Services

[39] Green Street U.S. Self-Storage Outlook (November 2021)

Self-Storage Valuation and Capital Market Trends

Self-storage is a niche asset that has seen occupancy gains and massive rent growth due to structural and lifestyle changes stemming from the pandemic. Historically, self-storage has performed well, but recent demand drivers may become long-term demand drivers.

Regionally, nominal cap rates for self-storage are lowest in coastal markets with New York boasting the lowest average nominal cap rate at 4.2%, a 50 bps decrease year-over-year (2Q 2020 to 2Q 2021)[40]. Rent growth in this market is somewhat limited due to existing high in-place and move-in rents; New York has the second-highest market rent per square foot at $3.10[40].

Sales of self-storage properties skyrocketed in 2021 and strong investor demand for self-storage assets compressed cap rates. The NYC metro experienced the highest volume of self-storage asset sales in 2021, with $3.78B in sales compared to $945M in 2020 and $565M in 2019. Self-storage valuations increased by 66% in 2021 – a sharper increase than in any other real estate sector[36].

Market Snapshot

	Last Four Quarters	YOY Change	Q4 '21	YOY Change	Q1 '22 to Date & Pending
Volume ($m)					
Individual Property Volume	$7,699.1	119.6%	$2,734.4	63.2%	$85.6
Portfolio Volume	$13,700.8	191.1%	$8,568.1	144.8%	n/a
Total Volume	$21,399.9	160.6%	$11,302.6	118.4%	$85.6
# Props	1,585	77.7%	603	31.7%	5
Square Feet	116,901,746	99.4%	50,589,863	59.0%	381,223
Pricing					
Avg Price Per sf	$175	31.5%	$236	51.4%	$229
Avg Cap Rate	5.5%	-54 bps	5.3%	-38 bps	

Source: Real Capital Analytics

Another factor driving investor demand is the increased emphasis on ESG. Self-storage properties by design have limited adverse impact on the environment and many facilities are ahead of the curve regarding green building features. Installing solar panels on the rooftops of self-storage properties has become commonplace, along with the transition to LED lighting and addition of electric vehicle charging stations.

While it is still too early to fully measure the long-term impact COVID will have on self-storage asset values, one thing is clear. Investor appetite remains strong due to stable property fundamentals and the predictability of the asset class. Its low costs and lower yield on operating results as compared to other commercial real estate investments continue to attract capital. For example, the break-even occupancy rate for a self-storage facility is approximately 40.0% to 45.0%, compared to 60.0% or more for apartments. Consequently, self-storage facilities tend to hold value better and weather real estate market volatility better than other assets.[41] In an analysis of the total annual returns of the five core property sectors from 1995 to 2019, self-storage had the highest returns over the ten- and fifteen-year averages. While its returns continue to lead the market, the sector maintains the lowest default rate of all asset classes.

[40] Green Street U.S. Storage Sector Snapshot (September 2021)
[41] National Association of Real Estate Investment Trusts (NAREIT), Cushman & Wakefield Valuation & Advisory

Trade Areas / Regions Where Assets are Located – Data and Key Highlights (Northern New Jersey Supply & Demand Trends)

The four self-storage assets in the UHREIT portfolio are located within Essex, Middlesex and Union Counties in Northern and Central New Jersey. The region is aptly named the “gateway region” for its close proximity to Manhattan with access via several transportation portals including a bridge, two auto tunnels, two rail systems and several ferry operations. Newark, considered a cultural, financial and transportation hub, is the largest city in the State of New Jersey and the closest large city to UHREIT’s self-storage assets.

Northern and Central New Jersey combined have a total population of nearly 6.4 million. The region’s growth rate has lagged the U.S. for many years, yet its sheer size and diversity drive a formidable economic engine. Proximity to the nation's business capital has benefited Northern New Jersey, especially during a pandemic that catalyzed urban flight. New Jersey passed a 7-year, $14B tax incentive (NJ Economic Recovery Act 2020) to encourage businesses to stay in or move to the state. While this should increase economic activity, a concerning fiscal health environment looms. The growing state debt burden exceeds $200B and unfunded pensions have risen to approximately $100B[42]. Recovery in the Northern New Jersey market may lag other top markets, but it should recover quicker than larger gateway markets and its population is expected to remain generally stable.

Notwithstanding the fiscal health issues, the market boasts a well-educated and high-income population. Life sciences, notably biopharma, continue to be growth drivers for the market with clusters along the waterfront. The region overall has high spending power and dense population that supports intermediate-term shopping center rent growth, and it remains a more affordable alternative to New York City. Hiring has picked up in the region’s financial and professional & business services sectors, both of which continue to support the region’s above-average earnings. The area’s highly educated population could help attract additional investment in these areas. Additionally, given the region’s convenient access to shipping infrastructure, transportation and warehouse-using industries will drive much of the region’s economy through the near term, and construction will rise with long-term infrastructure and development projects.

[42] Green Street Northern New Jersey Market Snapshot (January 2022)