

The New Shopping Center Normal: It's all about Experience

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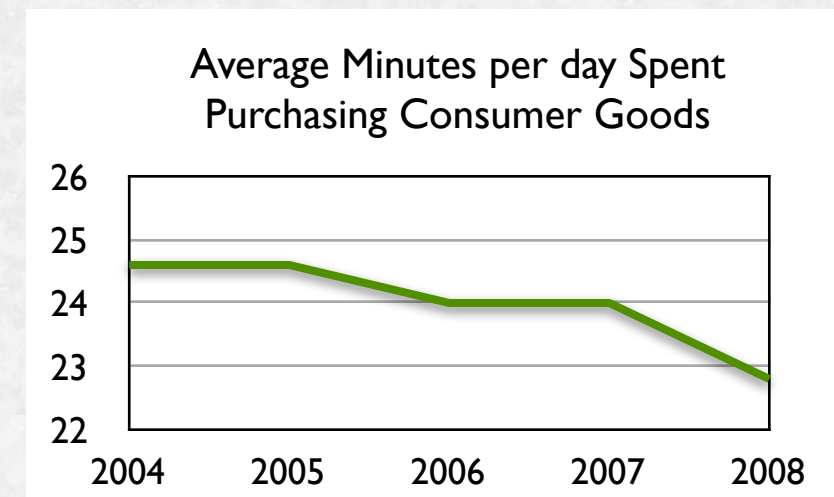
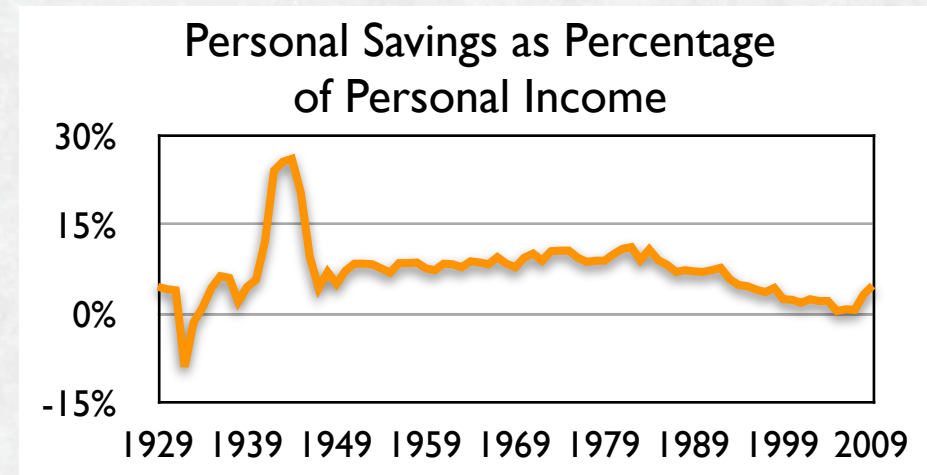
Randy White

CEO, White Hutchinson Leisure & Learning Group

ICSC Heartland States Idea Exchange
January 20, 2010

Today

- ✦ Unemployment 10%
- ✦ Underemployment 17.3%
- ✦ Savings rate 4.7%
- ✦ Continuing drop in consumer revolving credit -18.5% November 2009
- ✦ Excess retail space
 - 23 SF shopping center & total of 46 SF of retail GLA per capita
 - Europe averages 2.3 SF of shopping center GLA
 - 2008 per capita retail expenditures - \$6,500 - \$133 per SF of retail
- ✦ Department stores driving 25%-30% of mall traffic, down from 70% in 1980s
- ✦ Time spent shopping for consumer goods down 7%
- ✦ 80% - 85% consumers personally effected by recession
- ✦ Research shows that even one really tough financial year for age 18 to 25 can fundamentally change peoples core values and behaviors



There is no return to normal when the economy recovers

Adapt to the new paradigm or face extinction

“Our retail culture is undergoing a fundamental reordering...Consumer shopping patterns will change more in the next 3 years than they have in the previous 50.”

Paco Underhill - Environsell

Zogby International has been tracking the movement away from conspicuous consumption since 1998:

Secular Spiritualists, who want a simpler life with greater emphasis on family, leisure, volunteerism and spiritual quests now 37% vs. *Traditional Materialists* (27%)

“The recession has accelerated and strengthened a long-term trend toward more conscientious spending.”

The Boston Consulting Group

“The Great Recession has changed the future of retail. It wasn’t the beginning of a behavior shift, it was the conclusion.”

WLS Strategic

Retail

“Their [consumers’] value system is shifting from aspiring to material wealth to aspiring to a life better lived.”

John Lansing - Scripps Network Interactive

“Consumers are putting a greater value on time spent with family and friends than on money.”

The Boston Consulting Group

“The importance of owning is slowly turning into the importance of experiencing.”

David Report , April 2008

Survival in the future

Research shows:

- Shared experiences offer greater value than material purchases
- Experiential purchases [dining out, going to movies, bowling, etc.] make people happier than possessions
- People fulfill their need for social bonding while having experiences

Reasons people go to malls & shopping center besides to acquire stuff:

- People watching
- Social experience with family or friends
- Entertainment
- To learn
- 'Mindless vacation'
- Dining
- Entertainment/experiential value in common areas and stores

The longer the consumer remains in a store or shopping center, the more they will spend.

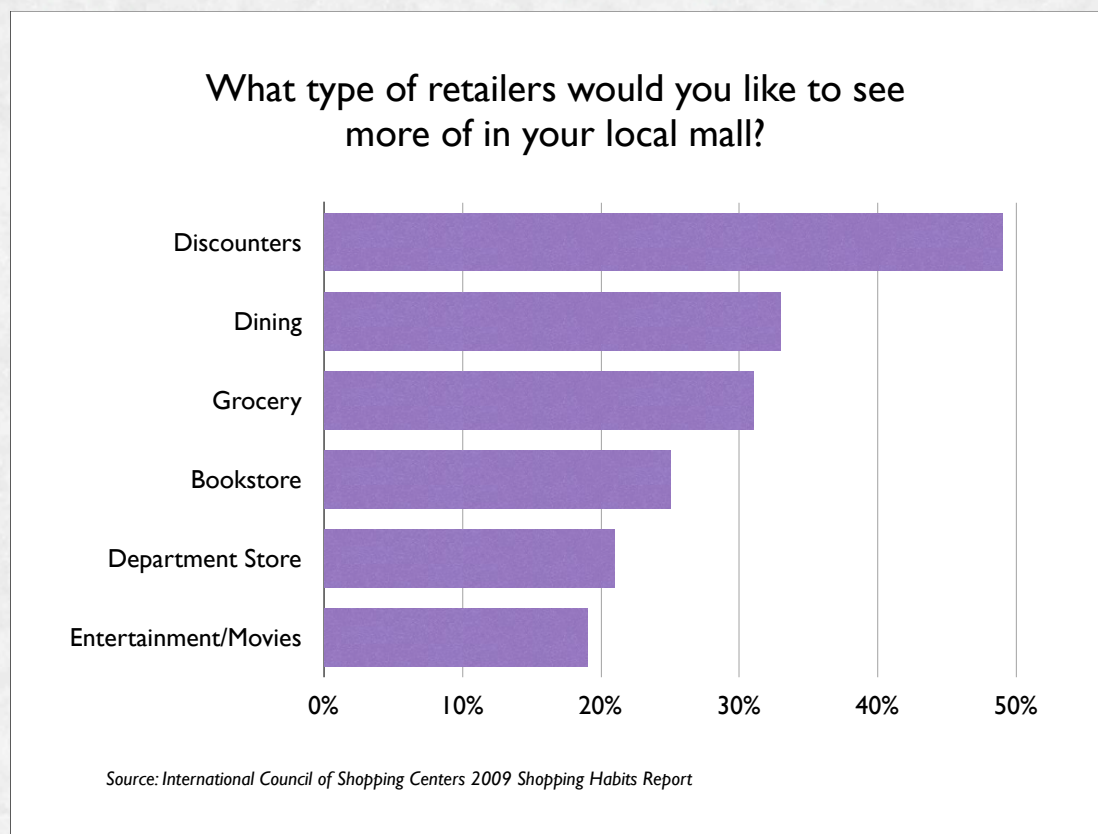
“In order to get people to buy, you have to get them there, and the entertainment coefficient in a mall is something that builds traffic – pure and simple.”

Paco Underhill - Environsell

2009 attendance has increased at many 'entertainment' venues including movies, zoos, museums and many types of family attractions.

Research has found:

- ☑ 40% of mall shoppers attended special event or activity in shopping center during past 12 months. Another 25% are interested in these type activities.
- ☑ 10% to 25% of mall visitors come for primary purpose of visiting entertainment venues or cinemas
- ☑ 60% of entertainment visitors also shopped in stores and spent 35% to 75% as much as shopping-only visitors.
- ☑ Entertainment visitors will travel further than shopping-only visitors



**Experiences
drive
traffic & fill space!**

It's All About Experience

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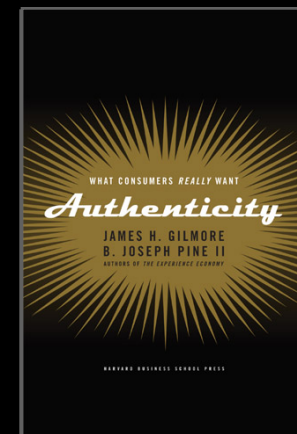
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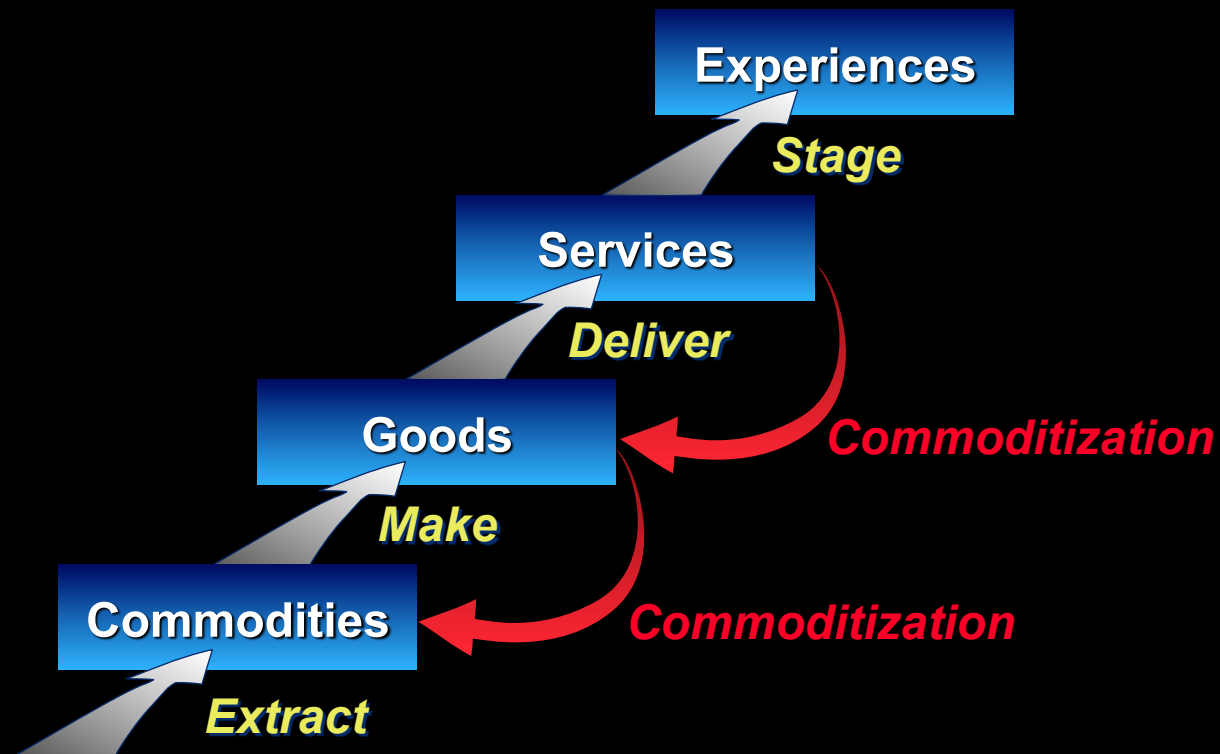
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The Progression of Economic Value



Coffee Progression

Commodities



Goods



Services



Experiences



Competing Against the World

- Time: Limited
- Attention: Scarce
- Money: Consumable

**The Experience
IS
the Marketing**

Authenticity

Economic Changes

**Economic
Output**

**Business
Imperative**

**Consumer
Sensitivity**

Experiences

Render

**Authenticit
y**

Services

Improve

Quality

Goods

Control

Cost

Commodities

Supply

Availability

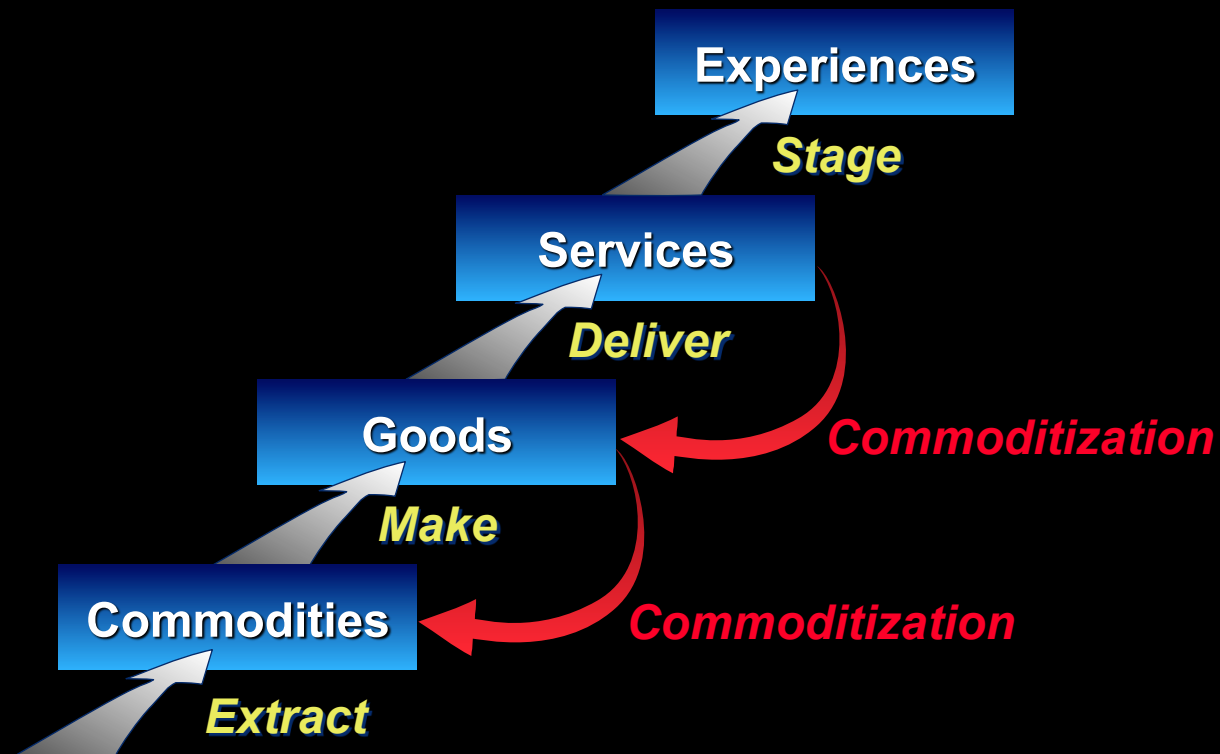
Being True to Self

Heritage = Origin + History

Being What It Says It Is

Place = Venue + Event

The Progression of Economic Value



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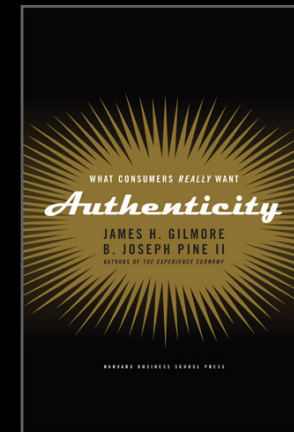
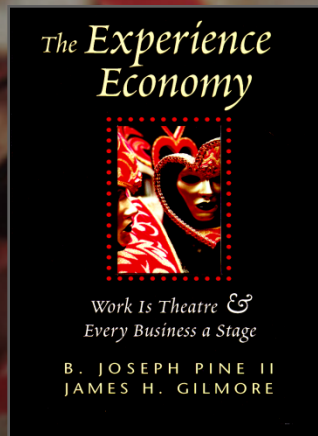
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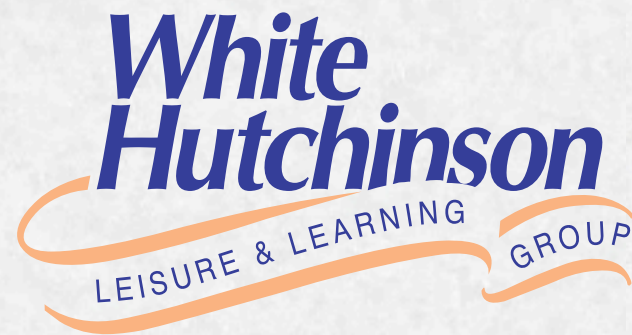
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Entertainment & Experiential Examples

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Family Entertainment Centers

25,000 - 80,000 sf

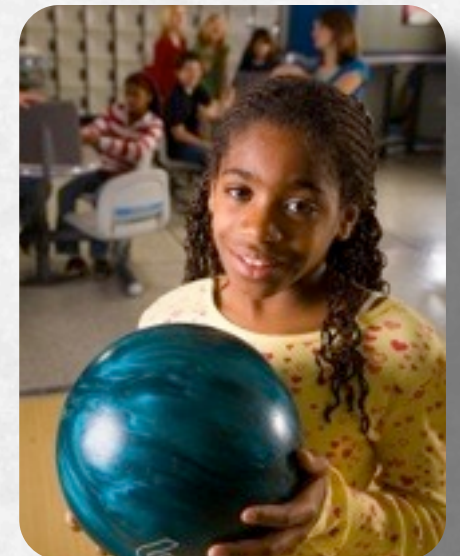


Children's Edutainment Centers (play & discovery centers) 20,000 - 30,000 sf



Hybrid-Bowling Centers

(bowling-based family entertainment centers)
45,000 - 60,000 sf



Bowling Lounges

25,000 - 40,000 sf





Adult Entertainment Centers

17,000 - 70,000 sf



Eatertainment Centers

(family pizza buffet-entertainment centers)
40,000 - 80,000 sf



Sports-oriented Entertainment Center

23,000 - 36,000 sf



Children's Enrichment Center

2,000 - 8,000 sf



Children's Activity Center

4,000 - 20,000 sf



Play Café

4,000 - 8,000 sf



Dining/Bar-Movie-Entertainment Center

25,000 - 80,000 sf



Children's Mega-Role Play Centers

50,000 - 100,000 sf



Children's Play Areas



Experiential Retail (retail-tainment)

Mega Recreation Stores



Experiential Retail (retail-tainment)

Adrenalina



California Pets



Experiential Brand Store

House of Barbie



Theatrical Dining



Enhanced Common Area Experience



Additional Entertainment Venues

Dinner Theater

Birthday Party Centers

Sea Life Aquarium

Trampoline Centers

Performance/Community Theaters

Lego Discovery Centre

Laser Tag Centers

Traveling Exhibits

4D Theaters

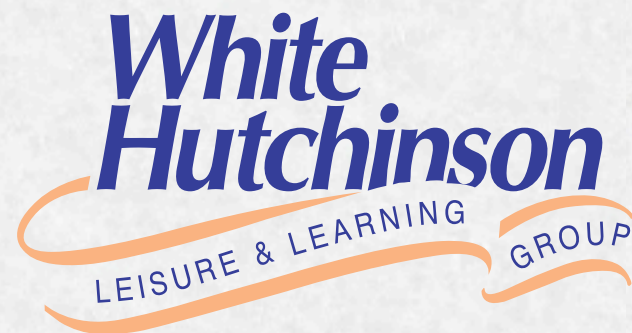


Some Trends

- * Increased percentage of GLA devoted to restaurants and entertainment venues
- * Search for uniqueness
- * Vertical integration with entertainment venue ownership
- * Increased # of shopping center entertainment events
- * Increasing consumer expectations for quality and value

It's all about the Experience!!!

Randy White, CEO



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Rick Worner

- Managing Director-Oppenheimer & Company, Inc.
- Clients you will recognize:
 - Nebraska Furniture Mart
 - Cabela's
 - Cerner
 - Wizards
 - T Bones
 - Great Wolf Lodge
 - Kansas Speedway
 - Penn Gaming-newly approved Casino in KC Kansas
 - Schlitterbahn

Show Me the Money !!!!

- Everyone wants to create a Unique Experience
- The Key Question is: How do I pay for it ?
- The Answer: Very Carefully

Show Me the Money !!!!

- Various Government Programs Exist that may assist you in financing your “Experience”.
- Programs Exist at all 3 Levels of Government
 - Federal
 - State
 - Local

Federal Programs

- New Market Tax Credits
- Historic Preservation Tax Credits
- Low Income Housing Tax Credits
- 221 D 4 Housing Financing
- Energy Tax Credits
- SBA Loan Guaranty Program
- FHLB Letters of Credit
- USDA Loan Guaranty Program
- Build America Bonds
- Stimulus Act Appropriations

New Market Tax Credits

- \$ 11.5 Billion of unused Tax Credits are available
- Benefit: can provide approximately 20% equity to the project
- Eligible Areas are defined by Census tracts
- Kansas City Example of New Market Tax Credits: J E Dunn Headquarters Bldg

SBA Loan Guaranty Program

- Project Limit \$ 2,000,000
- Renewal expected shortly
- Fees have been recently waived by the Government as well

USDA Loan Guaranty Program

- Eligible Areas defined by Census Tracts
- Guaranty amounts vary by size of project
- \$ 5,000,000 project size is the sweet spot of the program

State Programs - Kansas

- STAR Bond Financing
- Tax Increment Financing (“TIF”)
- Transportation Development District Financing (“TDD”)
- Community Improvement District Financing (“CID”)

State Programs - Kansas

- STAR Bond Financing:
 - Available for unique “destination” projects
 - Allows for capture of State and local sales tax
 - Can be used in combination with other Federal, State & Local Programs
 - Monetized through issuance of STAR Bonds

State Programs - Kansas

- TIF
 - Allows for capture of local sales tax and property tax “increment,” meaning property taxes generated on property as developed compared to previous taxes as undeveloped
 - Can be monetized through the issuance of bonds, or pay-as-you-go dedicated account to defray costs over time (especially beneficial in current market)

State Programs – Kansas

- TDD/CID
 - Additional tax imposed on district voluntarily by property owners – sales tax or special assessments
 - Used to pay for public/private infrastructure and improvements and ongoing operating costs
 - Like TIF: bonds or pay-as-you-go
 - Unlike STAR Bond Financing/TIF: no redirection of public revenues so politically easier to establish and generate revenue for project

State Programs - Missouri

- Programs comparable to Kansas
 - State TIF-Also called SUPER TIF Bonds
 - Local TIF
 - TDD Financing
 - CID Financing
 - NID Financing
 - Sales Tax Reimbursement Agreements
 - MODESA-Mo. Downtown Economic Stimulus Act

Other States are considering new Legislation

- In the last 12 months Three States actively pursued STAR Bond Legislation:

Alabama

Iowa

Illinois

Local Programs

- Local Government generally must be a PARTNER with the State Government on all State Programs
- Expedited Approvals & Inspections
- Waiver of Building & Inspection Fees
- Virtual Local Sales Tax TIF
- Economic Development Grants

Private Sector Programs

- Pension Fund Financing from Organized Labor Unions

Several Unions have funding available

- Life Insurance Companies

ULICO will fund projects that use UNION Labor on projects

Combine Programs

- Common for public financing tools at all levels to be used in conjunction to bring most value to project
- Example: Parts of Village West in KC Kansas utilized STAR Bonds & TDD Bonds

Historical Treatment by Lenders

- Government Subsidy viewed as additional Equity if the repayment source does NOT have a lien on the Property
 - i.e. Sales Taxes are viewed as independent revenue streams

Even with Incentives Can I get Financing ????

- Large Project Financings are rare
- Lenders willing to participate in Large Loans have disappeared
- The unknown has replaced the known amongst Lenders
- Lenders don't want the FDIC as a Partner if an original Participating Lender Fails

Current Assessment by Lenders

- Lenders now require CASH Equity-not just Government Subsidy
- Lenders want smaller Loans
- \$ 10,000,000.00 deals are getting done
- Breaking up Projects into multiple loans may be an alternative

Obstacles/Benefits

- Obstacles in Pursuing Experience:
 - Political/Politics
 - Pursuit Costs
 - Levels of Complication
 - Tax
 - Creating Deal Focused Team (consultants/attorneys/etc.)
- Benefits in Pursuing Experience
 - Increased ROI
 - Increased Long Term Value

Summary

- Projects are more difficult to finance
- Many Government Programs are available to help fund UNIQUE Tenants
- Local Government generally opens up its minds to unique “EXPERIENCES”
- Questions can be e-mailed to:
Rick.Worner@OPCO.com