

This premier edition spotlights Retail Conditions in 2009 – we caution our readers to study their retailers well! We also present a brief portrait of the national *Off-Price Apparel* category of retailing. We provide an example of the detailed retail data available for valuation professionals working on problems of mortgage and equity analysis. Finally, just for fun, we present the results of our *walk-in price survey of the leading grocers* in Des Moines. Who has the best prices [at least back in April]?

## Retail Conditions 2009

The ICSC-Goldman Sachs weekly US retail chain store index - as of December 27, 2008 –was down 1.8% from the prior year. This data is **VALID**. Unlike reports of total retail sales, these numbers strip out the influence of sales that don't normally occur in shopping centers [such as automobile and gasoline sales]. The index is also based on **COMPARABLE** sales and thus excludes the boosting effect of opening new stores – an influence that often hides weakening sales. So it is reasonably **RELIABLE**.

The predicted annual change in retail sales for the crucial November-December period is forecast to be from **FLAT to NEGATIVE**.

What does this mean for retail commercial real estate? It means that the crucial profit-making period for most retailers is going to be **BAD**. Several crucial links underlie this observation.

First, many retailers make most of their money during this period of time because of the percentage of sales concentrated in the holiday shopping season. Second, profit margins for most retail firms are normally only a few percentage points of gross sales. Third, if Wal-Mart is removed from the ICSC-Goldman Sachs index then the decline is about 7.7% for the same period – the impact on the majority of retailers is much worse than the averages portray.

The magnitude of these declines will affect the supply of capital for new store openings, renovations and will cause significant store closures as chains liquidate and/or down-size to profitable locations. The main impact will be on traditional department stores and apparel chain stores but upscale and luxury retailers will be affected too – unlike the prior recession. The magnitude of the change in annual numbers has been heightened by the high price of gas for most of the year and the negative influence of the stock market collapse in the autumn, and consumer worry about job changes in a recessionary economy.



## **Off-Price Apparel**

The Off-Price Apparel category includes a series of retailers who focus on providing discount pricing on apparel goods. An example of the type of data available in our full retail report is summarized below and provided in its full context in the following pages.

### **III Marshalls and TJ Maxx dominate off-price apparel category**

Marshalls and TJ Maxx [TJX] heavily dominates this segment of the retail world. The chain's \$11.9 billion in sales constitute 27% of the total volume for this competitive segment. Other large players are Old Navy, Burlington Coats and Ross Dress for Less stores. A variety of smaller stores specialized into specific lines of apparel are also active: Payless Shoes, Charming Shoppes, Men's Wearhouse, Children's Place.

However, this remains a very competitive segment with acquisitions and Chapter 11 bankruptcy filings weeding out competing firms. Drop outs [since 2004] include some familiar names: L Loehmann's, Filene's Basement, Bob's Stores, Kids R Us.

### **III Big Box retailers dominate off-price apparel category**

The top 4 chains account for about 60% of sales in this category. They are national retailers competing in most states. They usually will open stores either as freestanding stores or within shopping centers with average store formats ranging from 20,000 to 30,000 SF [Burlington – as the notable exception – has pursued a much larger format – 70,000 SF] with sales averaging from \$240-315/sf [again Burlington is the exception with a much lower average sales/SF level - \$107].

### **III Credit weakness in this segment of retail**

Only TJX and Ross remain investment grade. Ross stores rating is marginal with Moody's commentary indicating that it is at the bottom end of the metrics for its current rating.

### **III Mixed sales performance - TJ Maxx [up 1%] and Ross [up 1%] comparable sales – most other chains are down**

Most retailers in this category reported a downward trend in comparable sales – a key metric used to track the performance of a chain's mature stores. This metric eliminates the influence of sales growth due solely to opening new stores and measures how well the existing store base is doing.

Maurice's [up 6.9%] and Dress Barn [up 3.8%] are a stellar exception to weak sales performance for this category both reporting strong increases in FY2007. This is one of the few chains to report sales growth above the rate of inflation.



## Walk-in Price Survey

A walk-in price survey conducted by our staff in April, 2008, revealed the following price points for some of the major traditional grocery stores in Des Moines versus their discount, super-center competition. The same survey of products – conducted by a national publication in Chicago – showed much larger differences with Dominick and Jewell Osco being about \$13.00 off Wal-Mart pricing for the same basket of grocery items.

| Items                | Super Target    | Super Wal-Mart  | Hy-Vee          | Dahl's          |
|----------------------|-----------------|-----------------|-----------------|-----------------|
| 2-Liter Pepsi        | \$ 1.59         | \$ 1.38         | \$ 1.49         | \$ 1.59         |
| Dorito's Chips       | \$ 3.50         | \$ 3.00         | \$ 3.00         | \$ 3.69         |
| Cherrio's Cereal     | \$ 2.49         | \$ 2.36         | \$ 2.50         | \$ 2.39         |
| Folger's Coffee      | \$ 9.04         | \$ 7.64         | \$ 8.49         | \$ 8.99         |
| Oscar Mayer Wieners  | \$ 1.99         | \$ 1.50         | \$ 1.99         | \$ 2.50         |
| Kraft Cheese Slices  | \$ 3.09         | \$ 2.98         | \$ 3.29         | \$ 3.99         |
| Sara Lee White Bread | \$ 1.98         | \$ 2.48         | \$ 1.49         | \$ 1.99         |
| Oreo Cookies         | \$ 2.50         | \$ 2.77         | \$ 2.50         | \$ 3.29         |
| Spaghetti            | \$ 1.17         | \$ 0.88         | \$ 0.88         | \$ 1.09         |
| Gallon of Milk       | \$ 3.59         | \$ 3.09         | \$ 3.49         | \$ 3.45         |
| One Dozen Eggs       | \$ 1.87         | \$ 1.86         | \$ 1.38         | \$ 1.73         |
| <b>Total Basket</b>  | <b>\$ 32.81</b> | <b>\$ 29.94</b> | <b>\$ 30.50</b> | <b>\$ 34.70</b> |

## Retail Sales Report Subscription

Making sense of retail sales requires more than a single number. You need trends, benchmarks and reliable data. Nelsen Appraisal provides excellent retail research for mortgage underwriting and equity analysis. For a modest annual fee, you can receive an annual report summarizing annual **sales**, domestic **store counts**, average **store sizes**, and annual **comparable sales growth** [up or down] for the major retail groups.

- III You can size up a retailer's place in the pecking order of the industry group and see its trend in sales and recent acquisition or dispositions involving the chain. The same fee includes quarterly updates of comparable sales for these retail groups. It also provides you with complimentary access to Nelsen Appraisal's proprietary database of retailers in the Des Moines area. This database incorporates sales data from Trade Dimensions© and thus provides the leading edge in store level sales information.



- With this data-set you can look at a specific retail store and benchmark it against its competition. You can see how the store stacks up with its own chain. You can quickly look at the performance of that chain over time.
- Moreover, this data is valid and reliable. It has already been checked to make sure it represents domestic [excluding international segments and unrelated retail operations] sales, accurate [excluding store counts of franchisees paying only royalties] store counts, and valid statistics [adjusted or noted for the difference between selling versus gross leasable area].

Our annual report includes the following retail groups: discount department stores, super-centers, department stores, home improvement stores, off price apparel, home chains, office supply, mid-tier department stores, consumer electronics, books, party, music & entertainment, toys & pets, sporting goods, single price retailers, crafts, clubs, auto chains, restaurants, and theaters.



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| Off Price Apparel         | 07 Sales<br>(millions) | 06 Sales<br>(millions) | 05 Sales<br>(millions) | 04 Sales<br>(millions) | 07 Stores | 06 Stores | 05 Stores | 04 Stores | Average<br>Store SF<br>(thousands) | 2007<br>Average<br>Sales/SF | 2006<br>Average<br>Sales/SF | 2005<br>Average<br>Sales/SF | 2004<br>Average<br>Sales/SF | Comments   |
|---------------------------|------------------------|------------------------|------------------------|------------------------|-----------|-----------|-----------|-----------|------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|--|
| Marshalls/TJ Maxx         | \$ 11,967              | \$ 11,532              | \$ 10,957              | \$ 10,490              | 1,623     | 1,569     | 1,514     | 1,468     | 31                                 | \$ 240                      | \$239                       | \$ 235                      | \$ 232                      | Comparable sales for 2007 up 1%  |
| Old Navy                  | \$ 6,665               | \$ 6,361               | \$ 6,588               | \$ 6,511               | 1,059     | 1,012     | 959       | 889       | 20                                 | \$ 315                      | \$314                       | \$ 343                      | \$ 366                      | Comparable sales for 2007 down 7%  |
| Ross Stores               | \$ 5,975               | \$ 5,570               | \$ 4,944               | \$ 4,240               | 890       | 797       | 734       | 649       | 24                                 | \$ 283                      | \$295                       | \$ 284                      | \$ 276                      | Comparable sales for 2007 up 1%  |
| Burlington                | \$ 3,393               | \$ 3,449               | \$ 3,171               | \$ 2,846               | 397       | 367       | 361       | 349       | 80                                 | \$ 107                      | \$117                       | \$ 110                      | \$ 102                      | Comparables sles for 2007 down 5.2%  |
| Charming Shoppes          | \$ 2,601               | \$ 2,640               | \$ 2,453               | \$ 2,332               | 2,409     | 2,378     | 2,236     | 2,221     | 7                                  | \$ 157                      | \$162                       | \$ 160                      | \$ 153                      | Excludes Crosstown Traders Catalogue sales; Corp down 5%   |
| Babies R Us               | \$ 2,495               | \$ 2,376               | \$ 2,088               | \$ 1,863               | 260       | 251       | 230       | 217       |                                    |                             |                             |                             |                             | 2007 comparable sales up 2.0%  |
| Payless Shoes             | \$ 2,298               | \$ 2,395               | \$ 2,306               |                        | 3,954     | 3,986     | 4,027     | 4,071     | 3                                  | \$ 182                      | \$188                       | \$ 179                      | \$ -                        | Includes Shopko stores; excludes Payless Intl & Stride Rite; comparable sales down 2%  |
| Children's Place          | \$ 2,127               | \$ 2,018               | \$ 1,669               | \$ 1,158               | 1,239     | 1,192     | 1,119     | 740       | 5                                  | \$ 377                      | \$372                       | \$ 327                      | \$ 343                      | Childrens Stores and Disney Store; Comp sales up 2% in 2007  |
| Men's Wearhouse           | \$ 2,112               | \$ 1,882               | \$ 1,767               | \$ 1,547               | 1,273     | 752       | 719       | 707       | 7                                  | See notes                   | \$358                       | \$ 351                      | \$ 313                      | Acquired MWTux [489 stores]; Men's Wearhouse \$478/sf,comps down .4%; KG \$220/sf comps down 10.9%; Moores 440/sf, comps up 1.5%. Size [selling area]: |
| Stein Mart                | \$ 1,457               | \$ 1,501               | \$ 1,482               | \$ 1,460               | 280       | 268       | 262       | 261       | 37                                 | \$ 141                      | \$151                       | \$ 153                      | \$ 151                      | Wearhouse 5,600sf;KG 23,132 sf, Moore 6,205sf  |
| DSW Shoe Warehouse        | \$ 1,405               | \$ 1,279               | \$ 1,144               | \$ 937                 | 266       | 223       | 199       | 172       | 25                                 | \$ 211                      | \$229                       | \$ 230                      | \$ 218                      | Comparable sales for 2007 down 0.8%  |
| Goody's                   | \$ 1,000               | \$ 1,286               | \$ 1,279               | \$ 1,267               | 355       | 383       | 381       | 357       | 28                                 | \$ 102                      | \$122                       | \$ 122                      | \$ 129                      | Chapter 11 bankruptcy - June, 2008- store closings in KS, MO, OK & ILL - remergence Oct 2008   |
| Dress Barn                | \$ 935                 | \$ 1,300               | \$ 1,000               | \$ 755                 | 1,073     | 1,339     | 1,272     | 826       | 6                                  | \$ 137                      | \$153                       | \$ 124                      | \$ 144                      | Dress Barn FY7/2007 sales up 3.8%  |
| CATO Corp.                | \$ 846                 | \$ 862                 | \$ 836                 | \$ 790                 | 1,318     | 1,276     | 1,244     | 1,177     | 5                                  | \$ 123                      | \$130                       | \$ 129                      | \$ 129                      | Est GLA, Comparable sales for 2007 down 4.0%   |
| Dress Barn-Maurices segmt | \$ 492                 |                        |                        |                        | 607       |           |           |           | 6                                  | \$ 128                      |                             |                             |                             | Maurice's FY7/2007 sales up 6.9%   |
| Casual Male/Big & Tall    | \$ 464                 | \$ 468                 | \$ 421                 | \$ 365                 | 488       | 508       | 518       | 527       | 4                                  | \$ 257                      | \$248                       | \$ 219                      | \$ 187                      |  |
| Syms                      | \$ 267                 | \$ 281                 | \$ 271                 | \$ 284                 | 33        | 34        | 37        | 37        | 48                                 | \$ 169                      | \$172                       | \$ 153                      | \$ 160                      | Est. GLA based on adjusted Selling areas; Comp sales down <0.9%  |
| S & K Brands              | \$ 156                 | \$ 183                 | \$ 193                 | \$ 189                 | 218       |           | 236       | 239       | 6                                  | \$ 119                      |                             | \$ 136                      | \$ 132                      |  |
| Loehmann's                |                        |                        |                        | \$ 379                 |           |           |           | 47        | 21                                 |                             |                             |                             | \$ 384                      | Chapter 11 bankruptcy - 11 stores closed Acquired by Istithmar PJSC in 2006  |
| Filene's Basement         |                        |                        |                        | \$ 372                 |           |           |           | 26        | 24                                 |                             |                             |                             | \$ 596                      | Acquired by Value City   |
| Bob's Stores              |                        |                        |                        | \$ 291                 |           |           |           | 32        | 36                                 |                             |                             |                             | \$ 253                      | Acquired by TJX  |
| Factory 2-U               |                        |                        |                        | \$ 247                 |           |           |           | 0         | 11                                 |                             |                             |                             |                             |  |
| Kids R Us                 |                        |                        |                        | \$ 28                  |           |           |           | 146       |                                    |                             |                             |                             |                             | closed by end of 2004  |