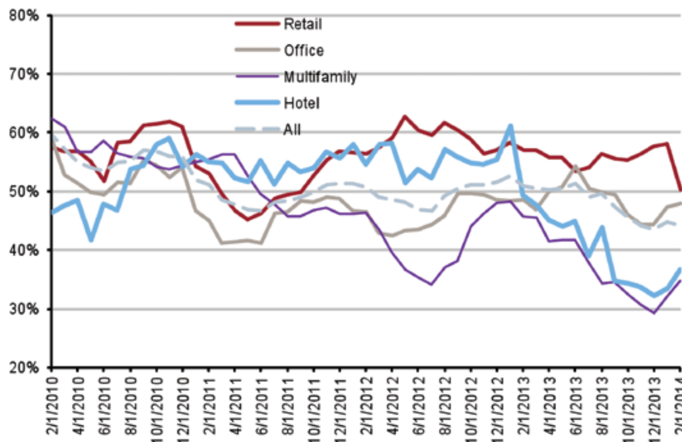
Challenges Confronting US Retail Properties

Stewart Rubin
Director
New York Life Real Estate Investors

Losses on US Mall properties in CMBS have been substantial. Granite Run Mall in Media, PA liquidated with a $104.7 million loss or 85.8% based on original loan balance, The Promenade Shops at Dos Lagos, Corona, CA liquidated with a $135.4 million loss or 108.2%, Silver City Galleria in Taunton, MA liquidated with a 108.2 million loss or 78.7%, and Highland Mall, Austin, TX liquidated with a 73.2 million loss or 103.8%.

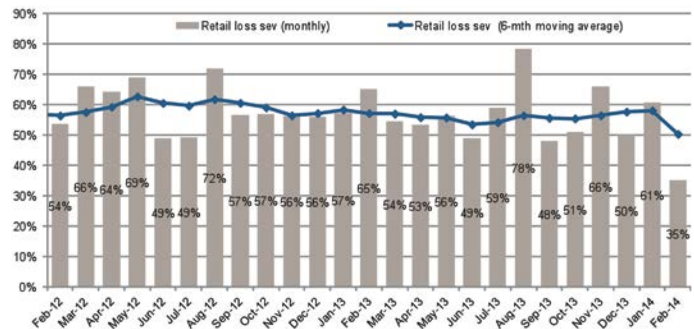
According to Moody's, losses for loans backed by malls have an average loss severity of approximately 90% for 2013[1]. In fact, loans collateralized by retail properties exhibited a 58% loss as compared to 47% for office, 32% for multi-family, 34% for hotel and 45% for all other property types as of January 1, 2014[2]. Although the loss severity rate for retail declined to 50% as of February 1, 2014[3], it has averaged 58% percent from January 1, 2012 to January 1, 2014.

Chart 1
Loss Severity by Property Type (Six Month Moving Average)



Loss severities are based on original loan balance.
Source: Credit Suisse, Trepp

Chart 2
Retail Loss Severity Monthly and with Six Month Moving Average



Source: Credit Suisse, Trepp

What is behind these astronomical losses? Many involve an older mall losing anchors and eventually closing as a result of newer competition. Yet these immediate causes are spawned by important macro factors.

Among the macro factors confronting US retail properties three stand out:

(1) the reduced income of most segments of US society and the associated impact on middle-income focused retail;

(2) the oversupply and destabilization of non-dominant class B and C malls; and

(3) the growing impact of e-commerce on physical retail.

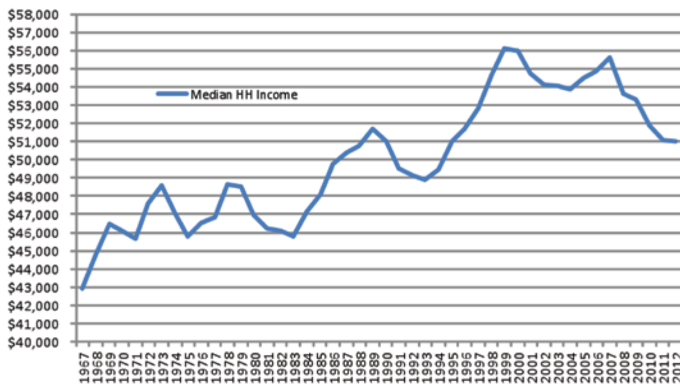
These factors have not fully manifested themselves and will accelerate over the next decade. This will place significant pressure on class B and C malls and on power centers. `

I –Reduced Income of Most Segments of US Society

The reduced income of most segments of US society and the corresponding concentration of income in the wealthiest decile and centile of the US population is revealed by several metrics; including declining median household income, the employment/population ratio, the rising Gini Ratio (Coefficient), increasing top decile pre-tax income share in the US, increasing top centile pre-tax income share in the US, and personal consumption.

Median household income in the US actually declined over the past five years. The real median household income was $55,627 in 2007 (2012 dollars) compared to $51,017 in 2012. The real median household income is back to 1995 levels.

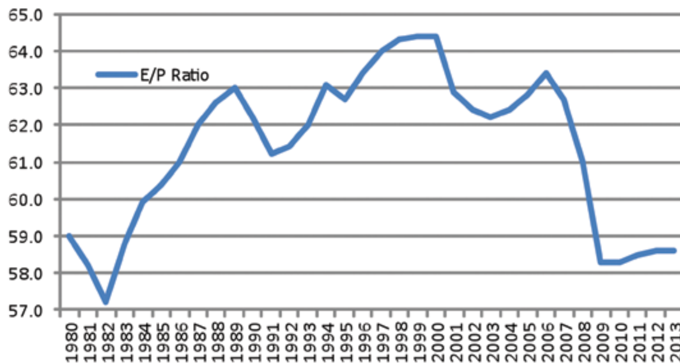
Chart 3
Real Median Household Income 1967–2012



Source: U.S. Census Bureau, Current Population Survey, Historical Income Tables, Table H-5.

The employment to population (E/P) ratio peaked in 1999 at 64.4%. In tandem with the great recession E/P dropped to 58.3% and as of year-end 2013 it remained at 58.6%. Prior to the great recession, the E/P ratio was not this low since 1982 (57.2%). This number is particularly disquieting considering that in 1982; women still did not participate fully in the workforce.

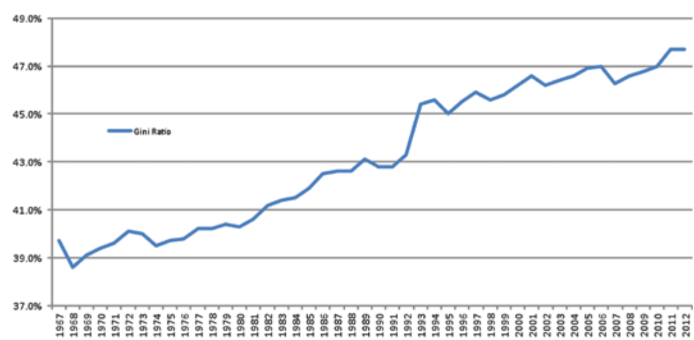
Chart 4
Employment/Population Ratio 1980–2013



Source: US Bureau of Labor Statistics

The Gini Ratio is a measure of income inequality. The higher the Gini Ratio number, the greater the financial concentration. The US has become a significantly less equal society over the past 45 years. The US Gini Ratio rose from 38.6% in 1968 to 47.7% in 2012.

Chart 5
Gini Ratio



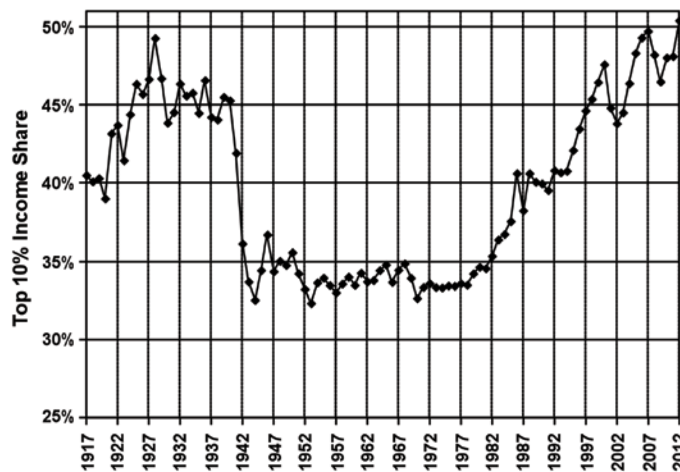
Source: US Census Bureau

As the US has become a more unequal society, income and its corresponding spending power have shifted away from the shrinking middle income and growing lower income brackets in favor of a smaller upper income segment.

The Top 10% share of total income was 50.42% in 2012. This is the highest it has ever been and surpasses previous highs in 2007 (49.74%), 2006 (49.32%) and 1928 (49.29%), the year before the Great Depression. Although it dipped in 2008, it has resumed its ascent[4].

Chart 6

Top 10% Pre-Tax Income Share in the US, 1917–2012

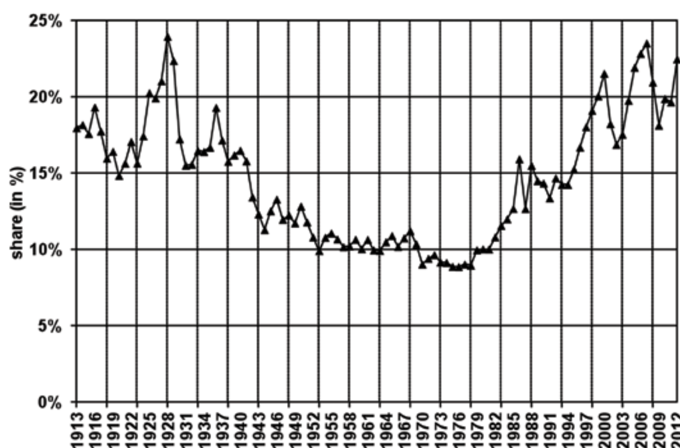


Source: Piketty and Saez, 2003 updated to 2012. Series based on pre-tax cash market income including realized capital gains and excluding government transfers. 2012 data based on preliminary statistics.

The Top 1% share of total income including capital gains was 22.46% as of 2012. This is almost back to its peak in 2007 at 23.50%. The 2007 level of income concentration was not experienced in the United States since 1928.

Chart 7

Top 1% Share of U.S. Income (Capital Gains Fully Included)



Source: Piketty and Saez, 2003 updated to 2012. Series based on pre-tax cash market income including realized capital gains and excluding government transfers. 2012 data based on preliminary statistics.

In terms of personal consumption, the numbers have also changed in an unfavorable way for most Americans. According to a recent paper published by the Institute for New Economic Thinking, the bottom 95%[5] accounted for 60% of personal consumption in 2012, down from 73% in 1992. Spending by the top 5% increased by 17% between 2008 and 2012. In contrast real consumption among the Bottom 95% category in 2012 remains below its 2008 level[6]. This is a more direct demonstration of the diminished buying power of lower- and middle-income America.

Decline of Middle Class Retailers

As a corollary to the concentration of US income distribution in the upper decile, there has been a decline in the fortunes of retailers that cater to the middle class. The most prominent retailers impacted by this trend are JC Penney and Sears.

With the exception of the most recent quarter[7], J.C. Penney has experienced negative same-store sales and earnings every quarter since Q3 2011. On January 15, 2014, J.C. Penney announced plans to close 33 underperforming stores (total J.C. Penney stores is 1,100 stores) and lay off 2,000 employees.

On January 9, 2014, Sears Holdings announced the closing of its flagship downtown Chicago store. This is in addition to the approximately 300 stores closed since 2010. Sears US same-store sales declined 7.4% year over year for the nine weeks ended Jan. 4 and 6.4% for the quarter ended February 1. The decline for the Sears Domestic component was 9.2% and 7.8% respectively while the decline for K-Mart component was 5.7% and 5.1%, respectively. On an annual basis, domestic comparable store sales declined 3.8%, reflecting decreases of 3.6% at Kmart and 4.1% at Sears Domestic. Same store sales have not been positive since mid 2007.

Other middle-income retailers reporting poor results and declining stock prices include Abercrombie & Fitch, American Eagle Outfitters and Aeropostale. Loehmans is being liquidated with all 39 stores closing.

Darden Restaurants reported an 18% decrease in earnings year over year ending February 23, 2014[8]. Darden Restaurants owns Red Lobster, Olive Garden, LongHorn Steakhouse, Bahama Breeze, Capital Grille and Seasons 52. Red Lobster same-restaurant sales for the quarter were 8.8% lower than last year, and Olive Garden's were 5.4% lower[9].

These restaurants serve middle-income Americans. In a New York Times article[10] detailing business perceptions of declining middle

America, John Glass, a restaurant industry analyst at Morgan Stanley is quoted as saying that "Foot traffic at midtier, casual dining properties like Red Lobster and Olive Garden has dropped in every quarter but one since 2005". Red Lobster and Olive Garden are at a middle class price point. In contrast, Capital Grille, a higher end Darden restaurant, experienced an average five percent annual sales increase over the past three years[11]. Darden Restaurants recently announced plans to separate Red Lobster's 705 locations from the rest of its portfolio with the possibility that it could be sold off[12].

Wal-Mart, the largest US retailer has experienced four straight quarters of negative comparable store sales[13]. Wal-Mart serves a wide swath of the American market ranging primarily from middle income to lower income. Some middle income consumers are shopping at dollar stores and other discount retailers.

This does not mean that all middle-income retailers are suffering. Macy's has focused on local consumer needs and on utilizing its large stores for e-commerce fulfillment. Macy's sales were up 3.6% during the holiday shopping season compared to the same time the previous year. Macy's also has a diversified appeal as its Bloomingdales stores are geared to upper income consumers. Upscale retailers such as Tiffany and Michael Kors are doing well. Tiffany stores have the second highest retail sales per square foot for mall tenants at $3,017/SF, while Michael Kors stores have the fifth highest retail sales per square foot at $1,431/SF[14]. Michael Kors Holdings Ltd. (KORS) stock price increased 75% in one year (ending 3.12.14).

The divergent fortunes of luxury retailers, middle income, and lower bracket retailers come in to sharp contrast when viewed over the five year period ending March 11, 2014. During that time period the DJIA Index and the S&P 500 Index rose 126% and 147% respectively. The Tiffany (TIF) and Nordstrom[15] (JWN) stock prices grew 362% and 303% respectively during the five year period. This contrasts to the performance of Sears Holdings (SHLD) of +17%, JC Penney JCP -47%, Kohls (KSS) +44%, and Walmart (WMT) +52% during the same time period. As many middle income Americans traded down, Dollar Stores, stock prices increased. Over the five year period[16] Dollar General (DG), Family Dollar (FDO), and Dollar Tree (DLTR) stock prices were up 161%, 98%, and 296% respectively[17]. The bifurcation of US retail between the "haves" and the "have nots" comes in to especially sharp contrast when considering that Tiffany and Nordstrom's stock growth came during a period when median household income declined 2.1% (2009-2012 real dollars).

Retailers that serve middle income shoppers have experienced declining sales, store closures, and falling or relatively underperforming stock prices. It is specifically the aforementioned merchants that typically lease space in weaker non-dominant Class B and C malls.

"Older less desirable class B and C malls...are particularly vulnerable to the impact of declining household incomes and income inequality as they have been catering to middle and lower income Americans."

II – Too Much Class B and C Retail

"I don't think we're overbuilt, I think we're under-demolished", said Daniel Hurwitz, president and CEO of DDR Corp., a Cleveland-based REIT, during ICSC's recent Western States conference in San Diego[18]. This is a reference to the oversupply of class B and C malls. The concern is that quite a bit of that underdemolished product found its way in to CMBS. Many of the malls that liquidated with high severities may be considered to be in the underdemolished category.

At 23.8 square feet per person, The United States has more retail square feet per person than any other nation[19]. It was not always this way. In 1986 GLA per capita in the United States was 14.7 increasing to 20.2 in 2003[20]. The increase was fueled by the addition of new malls, outlet centers, and other retail formats including power centers with very large "big box" tenants.

In October 2012, Green Street Advisors forecast that 10% of the nation's 1,000 enclosed malls would fail by 2022, eventually converting to uses other than retail. CoStar Group data maintained that there are more than 200 malls and large U.S. shopping centers with 250,000 rentable square feet or higher that are impacted by vacancy rates of 35% or higher. Fully 86.5% of those retail facilities were built before 2000. "Of these distressed regional mall, power center and community center properties, 43.5% were built in the 1970s and '80s, another one-quarter were built in the 1990s, and 17.5% were

built in the 1960s and prior. The average center in the distressed group was built in 1983 and had a vacancy rate of 50.6%"[21].

As noted by Moody's[22] and REIS[23], the gap between strong and weak malls has grown. Dominant malls serving an affluent demographic profile are thriving, while those in weak trade areas with poor population density and/or low household income are suffering. Moreover, it is precisely the weaker class B and C malls that are oversupplied and have higher vacancy rates.

Large mall REITS recognize the divergence and began spinning off or selling lower producing class B malls in 2012. In early 2012 General Growth Properties (GGP) spun off 30 such malls in to the Rouse Properties REIT. In April, 2012 Westfield Group began selling partial or full stakes in class B mall properties to Starwood Capital Group and O'Connor Capital Partners. In September 2013, Westfield Group agreed to the sale of seven more malls to an affiliate of Starwood Capital Group LLC[24]. In December 2012 Macerich put 17 "non-core" malls up for sale[25]. On December 13, 2013; Simon Property Group announced that it plans to spin off stakes in 44 smaller enclosed malls and 54 strip centers in to a new REIT. Simon will focus on large, regional malls that serve wealthier consumers[26].

Older less desirable class B and C malls have a high degree of physical, functional, and economic obsolescence. These malls are particularly vulnerable to the impact of declining household incomes and income inequality as they have been catering to middle and lower income Americans. They are now facing an additional threat in the form of e-commerce.

III – E-Commerce

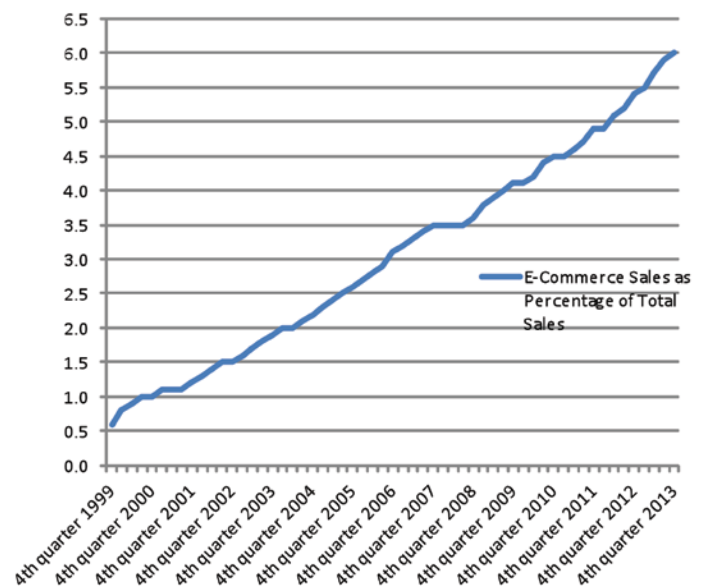
Retail formats evolve over time in response to changes in technology, lifestyle, and other disruptive trends. Post World War II suburbanization and the proliferation of the automobile shifted US shopping patterns away from center city department stores that had been dominant in US cities for decades. Suburban malls replaced downtown department stores in urban centers. Wal-Mart emptied small towns of their general stores. E-commerce will likewise reshape shopping patterns.

E-commerce started slowly with people ordering items from their home or office computers. Sales grew as home computers became more commonplace and consumers became comfortable with online purchases. The release of the iPhone in 2007, the iPad in 2010, and other hand held devices accelerated the trend. The ability to shop while using a physical retailer as a showroom and ordering a product for less money from a hand-held device or shopping from one's couch has made e-commerce more compelling.

The share of total sales attributable to e-commerce has surged to 6.0%[27] from approximately 0.5% at the end of 1999.[28] E-commerce sales increased 16% year over year in Q4 2013 compared to 4% growth for total sales. Online sales account for almost 8% of the total ex-auto sales.

Chart 8

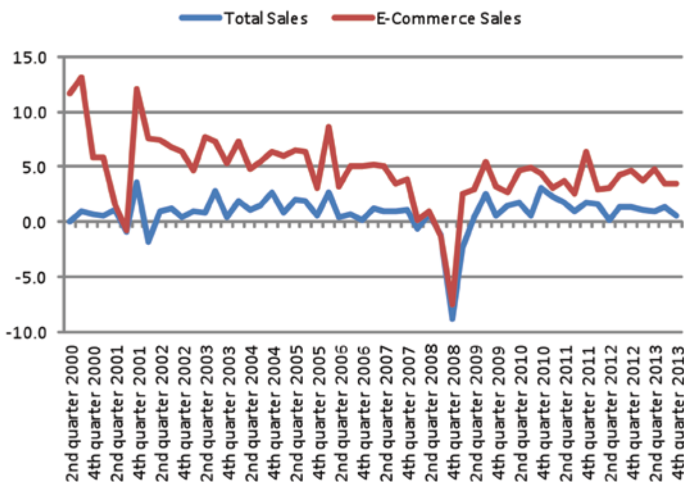
E-Commerce Sales as Percentage of Total Sales



Source: Retail Indicators Branch, U.S. Census Bureau

The growth rate of e-commerce sales has far outstripped total retail sales since 2000. Both total sales and e-commerce sales growth turned negative briefly during the Great Recession but they resumed growth in 2009. Average year over year sales growth reported on a quarterly basis since Q4 2009 was 16.37% for e-commerce retail sales and 5.43% for total retail sales. Howard Esaki of S&P estimated that if web sales grow at an annual rate of 15% over the next 10 years, while brick-and-mortar sales grow at 3% a year, the e-commerce share of total sales will rise from 6% to 16%[29].

Chart 9
Quarterly Growth Rate



Source: Retail Indicators Branch, U.S. Census Bureau

E-commerce has changed US shopping patterns. According to ShopperTrak, store visitations have declined approximately 38% since 2007. The number of unique shoppers has remained relatively stable over the past decade; however, there has been a decline in the number of stores a shopper visits. In 2007, shoppers typically visited 4.5 to 5.0 stores per trip. In 2012 the number was closer to 3.0 stores per trip. This is a result of shoppers first viewing items online and then going to specific stores. Although, this results in higher conversion rates, it also results in less mall foot traffic[30]. This will impact spontaneous purchases as well as ancillary visits. For example, the decision to patronize a fast food restaurant in a mall food court often depends on the potential patron being in the mall visiting other stores.

Retailers Impacted by E-Commerce

Retail sectors impacted most decidedly by e-commerce include books, video, music, electronics, toys, and office supplies. The goods often do not require an in-person inspection prior to purchase. Accordingly, retailers such as Best Buy, Radio Shack, Toys R Us, Staples, Office Depot, and Barnes and Noble have been impacted. These commodity retailers are vulnerable to showrooming and easy price comparison.

Best Buy reported a decline in same-store sales in the U.S. of 1.2% for the quarter ended Feb. 1 2014. In contrast Best Buy's online sales rose 26% during the same time period. The firm expects negative total sales growth for the first half of 2014. This was despite focusing on price matching to compete with Amazon. Ultimately, one can price match from a mobile device and press the order button a lot easier than going to Best Buy's physical store and hoping the item they want is in stock. Pricematch will ultimately fail as a competitive tool for bricks and mortar retail[31]. Indeed 25% of electronic, computer, appliance, and office supply purchases were made online in 2013, according to Kantar Retail[32]. On March 4, 2014, RadioShack announced that it planned on closing as many as 1,100 stores or about 20% of their total. This represents another electronics retailer impacted by e-commerce.

Other retailers are trying to compete by becoming more of an e-commerce retailer themselves. Staples is the second largest online retailer after Amazon[33]. They also announced a plan to close up to 225 retail stores in North America by the end of 2015. It is conceivable that retailers such as Staples will abandon many of their physical stores and move mostly online. Indeed, as reported by Staples Chief Executive Officer Ron Sargent, nearly half of Staples sales are currently generated online. He also indicated that they would be aggressively reducing the size of their stores. Office Depot completed the purchase of Office Max in November 2013 Inc. and also plans to reduce the amount of retail space leased. Retailers will continue to operate, but the demand for retail real estate will be diminished.

Perhaps no retailer has done a better job of excelling in both online and physical store sales than Apple. Its leading in-store sales of $6,050 per square foot are twice that of the second most successful retailer and three to six times higher than the next eight[34]. At the same time Apple is the third largest online merchant after Amazon and Staples[35]. Although Apple has unique products, its success is an example of how a retailer can effectively integrate internet and high-service physical retail.

Other categories being impacted by e-commerce include home stores and pet stores. For example, showroomers are 27% more likely to visit Bed, Bath & Beyond than the average consumer[36].

Even home improvement and construction products retailers such as Home Depot are focusing on e-commerce. Home Depot online sales were up 50% year over year in 2013. Internet sales currently represent less than 5% of total sales; however, the company hopes to grow sales via capital investment in "interconnected retail." This investment would constitute 40% of its capital expenditures. They are building same-day delivery capability[37].

Clothing and Shoe Retailers

E-commerce has moved in to the clothing and shoe sectors. It was once believed that people would always want to enter a store and try on and touch clothing before purchase, all the more so for shoes. However, liberal return policies, convenience, selection, free shipping, free return shipping and showrooming have driven a significant part of fashion sales online. Online retailer Zappos[38] adopted these policies and revolutionized shoe sales.

Although Amazon has a fashion presence, it is traditional mall tenants themselves that are driving e-commerce sales. Nordstrom and Macys have made e-commerce a priority and have reaped the benefits. Indeed, struggling retailers like JC Penney and Sears have logged growth in e-commerce sales despite lackluster in-store sales. For example, JCP.com sales grew 26.3% over the past year (2013). Wal-Mart reported a 30% year over year increase in E-Commerce sales or 2% of total sales. Abercrombie & Fitch is closing more than 30% of its U.S. stores (1,000 stores at the peak) and focusing more on e-commerce. Abercrombie's is hoping that Internet sales will constitute 25% of sales from its 2013 level of 17%[39].

Some internet based fashion retailers have a physical store presence as well. Bonobos, an Internet based men's fashion retailer, has "guideshops" where customers can be fitted and touch the merchandise. Warby Parker, an internet based purveyor of eye-glasses, has shops in which customers can try on frames and also receive an eye test. Amazon, the largest internet retailer, is now benefitting from its competitors' stores that are effectively being used as showrooms; however, it is possible that at a future date Amazon will have their own showrooms. Traditional mail order retailers such as Landsend and LL Bean also have physical stores (Landsend in Sears stores). Having both a physical and online presence can be an advantage to retailers. Nevertheless, the overall effect will be a smaller number of stores and smaller store sizes.

Power Centers

Power centers were built in the late 1980s and early 1990s and include big box "category killers". These are large stores, which offer a very large selection at low prices. They are situated near each other to create a convenient shopping experience. Since these large stores dominated their category, they became known as category killers. Examples of include big box "category killers" include Toys R Us, Staples, Barnes and Noble, Bed Bath & Beyond, Best Buy, Michaels, Sports Authority and Home Depot.

E-Commerce is a potential power center killer. The selection available via the internet dwarfs even the biggest retail store and the prices are usually significantly less. The convenience of ordering merchandise while sitting on one's couch and having it delivered to the front door within two days or less is unmatched by power centers. The threat is not only from Amazon or another exclusively online retailer but also from the online versions of big box retailers themselves. Many of the big box retailers will thrive, but power centers may not.

E-Commerce Future Growth

We are only in the beginning stages of realizing e-commerce's full impact on retail. E-commerce has already made a significant impact on whole categories of retail such as books, electronics, office supplies, and housewares. It will expand further and reorient additional sectors of physical retail to the internet while impacting most others to some degree. High-end retailers with a corresponding level of personal service will be more resistant to the negative ramifications of e-commerce. As e-commerce expands deeper into fashion and grocery shopping, its impact on US malls and community shopping centers will become much more significant.

Historically, peddlers brought merchandise to frontier Americans and mail order catalogues such as Montgomery Ward and Sears were the way generations of Americans received their goods. Milk and diapers were once delivered regularly. On a partial basis — the US may be re-entering previous shopping patterns with mobile devices and package delivery companies taking the place of peddlers, catalogues, milkmen, and diaper delivery services. Nevertheless, there will always be demand for high service retail in good locations.

Conclusion

The three macro factors confronting US retail real estate are the declining fortunes of the middle and lower income sector, the oversupply of US retail real estate, and the advent of e-commerce. These factors will continue to negatively impact class B and C malls and power centers. Should income dispersion trends continue or get amplified, retailers that serve middle income Americans will suffer.

"On a partial basis – the US may be re-entering previous shopping patterns with mobile devices and package delivery companies taking the place of peddlers, catalogues, milkmen, and diaper delivery services."

Malls as an asset class will continue; however, surviving and thriving may require an increased focus on experiential uses such as restaurants, entertainment and retailers that emphasize personal service. Commodity product demand will be channeled online. Many retailers will maintain a hybrid physical store/online presence with the net result being less demand for physical space. Discount retailers will continue to prosper; although, some of their demand will shift online as well. Class A malls in good locations with barriers to entry will continue to flourish. Warehouses supporting the logistical needs of e-commerce will benefit. Many prior conduit transactions overloaded with weak malls and strip centers will suffer, and CMBS investors will cast a wary eye on the quality and nature of retail facilities in new transactions.

1 Data as reported through 12.17.13 as reported in Wesley Flamer-Binion, Tad Philipp, and Robb Paltz, Moody's Investors Service, December 17, 2013, Sector Comment: Troubled Mall Loans Weigh on US Conduit and Fusion Transaction Credit Quality.

2 As of 1. 1. 2014 and based on six month moving average and on original loan balance. Source: Credit Suisse, Trepp

3 Source: Credit Suisse, Trepp

4 Source: Charts 6 and 7 are from "Income Inequality in the United States, 1913-1998" Emmanuel Saez with Thomas Piketty, Quarterly Journal of Economics, 118(1), 2003, 1-39 (Longer updated version published in A.B. Atkinson and T. Piketty eds., Oxford University Press, 2007) (Tables and Figures Updated to 2012 in Excel Format, September 2013). The series are based on income tax statistics. Full details on the construction of the series are provided in appendix of Piketty and Saez (2006), available online at: http://emlab.berkeley.edu/users/saez/piketty-saezOUP04US.pdf

5 5% and 95% were used because that was the way the Institute for New Economic Thinking analyzed the data in their report. Using 10% and 90% would likely result in a lower contrast, while using 1% and 99% would likely result in a higher contrast

6 Barry Z. Cynamon and Steven M. Fazzari, Inequality, the Great Recession, and Slow Recovery, January 23, 2014, Institute for New Economic Thinking

7 Q4 2013 Nov, Dec, Jan

8 Ben Fox Rubin, "Darden Restaurants Reports 18% Earnings Decline Weakness at Olive Garden, Red Lobster Continues to Hurt Restaurant Operator", Wall Street Journal, March 21, 2014

9 IBID

10 Nelson Schwartz, "The Middle Class Is Steadily Eroding. Just Ask the Business World", New York Times, February 2, 2014

11 IBID

12 Samantha Sharf, "Darden Plans Red Lobster Spinoff", Forbes, December 19, 2013

13 Wal-Mart Stores, Inc. Comparable Store/Club Sales http://stock.walmart.com/financial-reporting/comparable-store-sales/ Fourteen weeks ending January 31, 2014, Thirteen weeks ending October 25, 2013, Thirteen weeks ending July 26, 2013, Thirteen weeks ending April 26, 2013

14 Source: RetailSails, data is based mostly on 2012 performance

15 Nordstrom serves the upper income bracket with an emphasis on personal service.

16 Since March 2009 for Dollar General and Dollar Tree and November 2009 for Family Dollar

17 Even Dollar Stores have recently experienced turmoil as a result of low income consumers being impacted by government spending cuts. A small cut to the Supplemental Nutrition Assistance Program (SNAP) and expiration of extended long term unemployment benefits for many Americans impacted sales. In addition, the sector over expanded and has too many stores. See Walter Loeb, “Do We Really Need 40,000 Dollar Stores?”, Forbes, July 13, 2013. Family Dollar recently announced the closing of 370 of its 8,100 stores.

18 Randyl Drummer, “The De-Malling of America: What’s Next for Hundreds of Outmoded Malls?”, costar.com, October 3, 2012

19 Source: ICSC, Cushman & Wakefield Retail Research

20 The National Research Bureau (NRB) as quoted by Andy Serwer, The Malling of America Unabated—and Frenzied—growth in retail space is a trend that might end badly, Fortune Magazine, October 13, 2003

21 Randyl Drummer, “The De-Malling of America: What’s Next for Hundreds of Outmoded Malls?”, costar.com, October 3, 2012

22 Robb Paltz , Tad Philipp, and Nick Levidy, Moody’s Investors Service, June 7, 2012, Special Report : US CMBS: Growing Gap Between Strong and Weak Malls

23 Ryan Severino, Retail First Glance 2013 Quarter 4, REIS

24 Nichola Saminather, Westfield Sells 7 U.S. Malls to Starwood for $1.6 Billion, Bloomberg, September 16, 2013

25 Ilaina Jonas, Macerich seeks to sell malls with lower sales rating, Reuters, December 7, 2012

26 Robbie Whelan, Simon Property to Spin Off Strip Malls, Smaller Malls, Wall Street Journal, December 13, 2013

27 On a not adjusted basis, e-commerce sales in the fourth quarter of 2013 accounted for 7.0 percent of total sales.

28 Source: Retail Indicators Branch, U.S. Census Bureau

29 Howard Esaki, Outlook and Week in Review: Rates, Regulation, and Retail, Standard and Poors, December 29, 2013

30 Correspondence with ShopperTrak on February 18, 2014

31 Pricematching also thins margins for bricks and mortar retailers weakening their ability to pay rent.

32 Drew FitzGerald and Emily Glazer, RadioShack to Close Up to 1,100 Stores, Wall Street Journal, March 4, 2014

33 Interview with Shira Goodman, Staples Executive Vice President of Global Growth by TheStreet’s Jill Malandrino on Jan 10, 2014 available at http://www.nasdaq.com/video/staples-is-now-the-second-largest-global-online-retailer-518081302

34 Source: RetailSails, data is based mostly on 2012 performance

35 As reported by http://netonomy.net/2013/01/30/top-5-largest-online-retailers-who-companies-how-did-they-make-it . Ultimate source is Internet Retailers top 500 online retailers and figures are based on 2011 sales.

36 http://techcrunch.com/2013/02/27/its-not-just-best-buy-study-finds-most-at-risk-retailers-from-shoppers-showrooming-behaviors-are-home-toy-and-pet-stores

37 Shelly Banjo, Wall Street Journal, Home Depot Looks to Offer Same-Day Shipping Home Improvement Retailer Plans to Spend $300 Million on Technology, Fulfillment Centers, December 11,2013

38 Owned by Amazon since July 2009

39 Barney Jopson, Financial Times, US bricks-and-mortar retailers seek online success, December 27, 2013