Korpacz Realty Advisors, Inc.
Litigation, Valuation & Counseling

REGIONAL MALL CLASSIFICATION METHODOLOGY 2017

Mall Classification Methodology

Determining an appropriate classification for a regional mall is a two-step process. The first step is to compare the inline mall sales generated by the mall (in stores less than 10,000 square feet as defined below) to the classification survey results for the appropriate time frame. The second step is to consider adjusting the classification for other subject property attributes.

Step 1 –

By way of example, if a regional mall had inline retail store sales declining from a high of $350 per square foot in 2013 to $322 per square foot in 2016, it would be classified based on Step 1 as follows according to the Korpacz Realty Advisors, Inc. Mall Classification Survey.

Year	Sales Per Sq. Ft.	Mall Class
2013	$350	B
2017	$322	C+

REGIONAL MALL CLASSIFICATION CONCLUSIONS
In-line Retail Sales Per Square Foot

Mall Classification	As of 1/1/13	As of 1/1/14	As of 1/1/15	As of 1/1/16	As of 1/1/17
Trophy		$800	$800 and up	$825 and up	$850 and up
A+	$625 and up	$650 and up	$650 and up	$690 to $824	$685 to $849
A	$475 to $624	$500 to $649	$500 to $649	$530 to $689	$520 to $684
B+	$400 to $474	$425 to $499	$425 to $499	$440 to $529	$440 to $519
B	$325 to $399	$325 to $424	$325 to $424	$350 to $439	$365 to $439
C+	$275 to $324	$275 to $324	$275 to $324	$285 to $349	$300 to $364
C	$250 to $274	$250 to $274	$250 to $274	$250 to $284	$260 to $299
D	Less than $250	Less than $250	Less than $250	Less than $250	Less than $260

Retail sales are for reporting inline tenants that were in occupancy for an entire year on a rolling 12-month basis divided by the GLA for those tenants. Inline mall stores include stores less than 10,000 square feet (including restaurants), but excludes temporary tenants, restaurants over 10,000 square feet, and Apple stores.

Source: Korpacz Realty Advisors, Inc. survey personally conducted by Peter F. Korpacz, MAI, CRE, FRICS

Step 2 -

In certain situations, the mall classification in Step 1 may be adjusted for both positive and negative subject property attributes. Although all property characteristics are reflected in retail sales levels, some attributes are so important in investors' minds that an adjustment to the Step 1 conclusion may be appropriate.

A partial list of reasons for increasing the mall classification include –

1. Only mall in the region and has a good performance history
2. Dominant mall with high occupancy and consistent growth in retail sales, market rents, and NOI
3. Cost of occupancy below acceptable industry ratios
4. Anchor department stores with sales above their chain-wide average
5. Inline, permanent tenant occupancy in excess of 95.0%
6. Strong, growth-oriented trade area demographics and economics, most importantly in households and average/median household income
7. Recent renovations and/or expansions with minimal near-term capital expenditures needed
8. Tenancy by Apple, a major draw of foot traffic
9. Relatively new construction

A partial list of reasons for decreasing the mall classification include –

1. One or more dark anchors
2. Consistent decline in one or more of the following
    a. Occupancy
    b. Inline store retail sales
    c. Market rent
    d. Net operating income
3. Cost of occupancy above acceptable industry ratios
4. Older mall, usually built before 1970, with original HVAC and other building systems, requiring near-term, substantial repairs and replacements and/or renovations and higher maintenance costs
5. Not dominant mall within the trade area/region
6. Anchor department stores with sales below their chain-wide average
7. Inline permanent tenant occupancy below 85%
8. High level of temporary, short-term tenant or those whose rents are determined solely as a percentage of sales
9. Occupancy near a level that threatens to trip co-tenancy clauses
10. High level of tenant concessions
11. Locations exhibiting weak trade area demographics, most importantly in households and average household income
12. Alternative non-retail uses occupying portions of the property (such as a school or office use)
13. A reluctance of national retailers to locate to the mall

After consideration of the property's attributes in Step 2, a final decision can be made as to an appropriate mall classification. It is a subjective decision, one that mirrors market behavior.