REGIONAL MALL CLASSIFICATION METHODOLOGY 2023

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. Please note that retail sales generated by Apple stores are not considered in Step 1. The existence of an Apple store at a mall is considered in Step 2 of the process and usually leads to an increase in the mall classification determined in the Step 1 process. This is consistent with how mall buyers and sellers reflect the impact of an Apple store in the mall classification process. 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 $400 per square foot as of 1/1/2019 to $350 per square foot as of 1/1/2023, it would be classified based on Step 1 as follows according to the Kor*p*acz Realty Advisors, Inc. Mall Classification Survey.

Year	Sales Per Sq. Ft.	Mall Class
2019	$400	B
2023	$350	C+

KOR*P*ACZ REALTY ADVISORS, INC.
REGIONAL MALL CLASSIFICATION SURVEY CONCLUSIONS

Mall Classification	Inline Retail Sales Per Square Foot As of 1/1/2019	As of 1/1/2020	As of 1/1/2021[(1)]	As of 1/1/2022	As of 1/1/2023
Trophy	$900 and up	$925 and up	$925 and up	$925 and up	$935 and up
A+	$715 to $899	$735 to $924	$735 to $924	$760 to $924	$775 to $934
A	$550 to $714	$575 to $734	$575 to $734	$600 to $759	$600 to $774
B+	$460 to $549	$460 to $574	$460 to $574	$480 to $599	$480 to $599
B	$390 to $459	$390 to $459	$390 to $459	$400 to $479	$400 to $479
C+	$325 to $389	$325 to $389	$325 to $389	$325 to $399	$325 to $399
C	$275 to $324	$275 to $324	$275 to $324	$280 to $324	$275 to $324
D	Less than $275	Less than $275	Less than $275	Less than $280	Less than $275

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 and excludes Apple stores. The presence of an Apple store is considered in Step 2 of the mall classification process.

(1) Due to the impact of COVID-19 on regional mall store closures, some temporary (due to country-wide shutdowns) and some permanent (due to bankruptcies and national chain store reductions), which caused a reduction of retail sales, the 2021 survey was not published. Our recommendation for those who need to classify regional malls, as of January 1, 2021, is to base the Step 1 procedure (retail sales levels) on the January 1, 2020 survey (pre-COVID-19) and follow the Step 2 process in the normal way. Mall characteristics that result in long-term or permanent impact of the pandemic, such as permanent anchors and inline store closures (bankruptcies, etc.) among other factors, would be the best foundation for adjusting the Step 1 mall classification to a reasonable conclusion.

Source: Kor*p*acz 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. Recently completed 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 tenants or those whose rents are determined solely as a percentage of retail sales
9. Department store vacancies and/or 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. A reluctance of national retailers to locate to the mall
13. High number of tenants with cost of occupancy in excess of 20%
14. Expense recoveries well below 100.0%
15. Excessive move outs of national tenants

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 should mirror market behavior.