Inland Institutional Capital Partners Corporation

Demographics Impact Retail Property Investment and Management

Much has been written about demographics and the differences between Baby Boomers, Gen X and Gen Y (now commonly referred to as Millennials). As experienced leaders in retail property investment and management, we at Inland Institutional Capital Partners Corporation ("ICAP") want to take the discussion a step further and look at how generational and demographic differences influence shopping behaviors.

The following table shows the major generational cohorts[1] and their key behavioral characteristics for retailers.

Age	Percent of US Population	Nickname	Key Characteristics
< 15	20%	Gen Z, Gen Next	Shop with a parent or friend, wants to fit in
15 - 32	25%	Gen Y, Millennials	Wired, experience oriented, driving the retail marketplace long term
33 - 45	17%	Gen X	Parents, independent, peak spending years
46 - 66	25%	Baby Boomer	Still acquisitive, health care spending pressures
67 +	13%	Depression Babies, War Babies, Greatest Generation	Waning consumption, segmented by activity level, downsizing, traveling (if capable)

Source: Urban Land Institute

Racial Diversity

The role of racial "minorities" in America is another extremely important variable effecting economic vitality and retail shopping trends. The US Census Bureau projects that minorities in America will become the majority in 2043. Furthermore, by 2020 a majority of those under 18 will be minorities. To highlight the pace of America's growing ethnic diversity, the fastest growing self-identified racial group is "multi-racial." Interesting trends also emerge for retailers as diversity is considered across generations. For instance, Asian Baby Boomers tend to purchase more luxury goods such as jewelry, electronics and automobiles than their peers, while Gen X Hispanics tend to outspend their peers overall.

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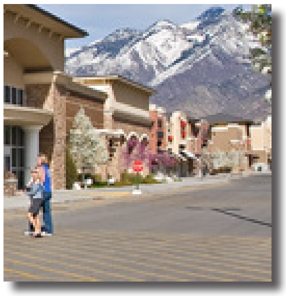
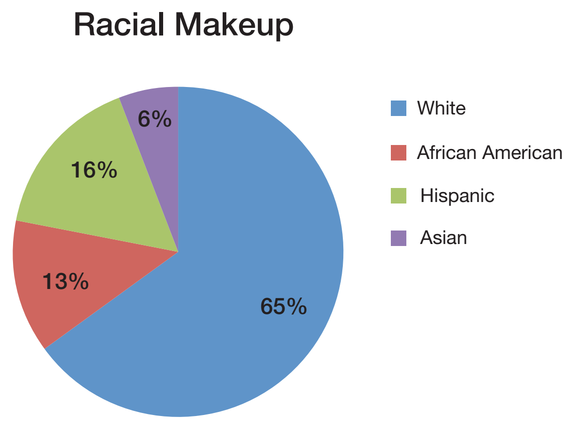


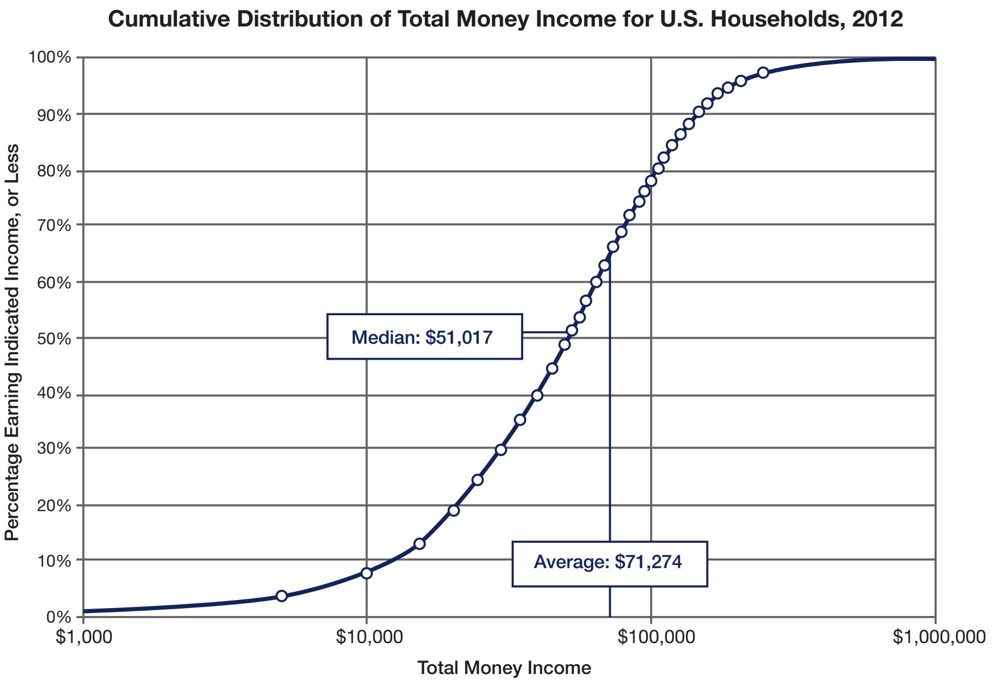

One major component of growing ethnic diversity is the nation's Hispanic population. Nearly half of the Hispanic population is under 25, and their rate of household formation is four times that of non-Hispanics. National retailers are increasingly focused on delivering a differentiated shopping experience to Latinos.



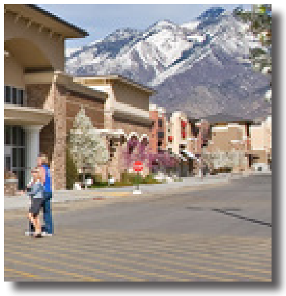
The Hispanic population is highly concentrated in ten states, and Inland[2] has experienced the impact of tenant mix on shopping center operations in these locations. For example, Inland American Real Estate Trust, Inc. owns many properties in Texas. These centers include 26 properties with dollar store tenants and three centers with HEB grocery stores. Dollar stores tend to target markets with below median income levels. HEB is a grocer known for its excellent service to the Hispanic population.

Income Distribution

The fastest growing economic cohort since 2000 is the group that earns more than $100,000 per year. Although one of the primary messages of the Occupy Wall Street movement was: "don't forget about the 99 percent," those earning over $100,000 per year actually represent approximately 20% of US households. The following chart shows the distribution of Household Income.



Source: U.S. Census, Current Population Survey, 2013

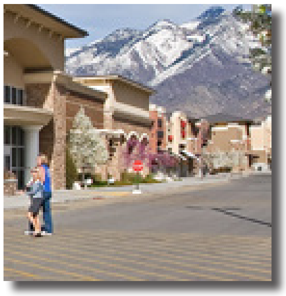

Income distribution, and its fluctuation, is a key factor in retail property investment. The income distribution of a shopping center's market area has a large impact on the tenant turnover and the appropriate tenant mix. Inland focuses on anticipating income trends and operating shopping centers to meet those trends. This promotes above-average occupancy and rental income. For example, Inland Real Estate Corporation (NYSE: IRC) owns the Woodland Commons Shopping Center in Buffalo Grove, IL. Dominick's Finer Foods, a Safeway brand, announced that it was closing the store as part of its exit from the Chicago market. Mariano's, a Roundy's brand (NYSE: RNDY), agreed to take over the store before the Dominick's closed its doors. The average household income in the 1-mile radius of the center is approximately $176,000, nearly three times the national median. Replacing the "middle-brow" Dominick's with the "high-brow" Mariano's greatly enhances the attractiveness of the center to the local population, and quickly led to additional leases with higher quality merchants.

Generational Trends

Those over 66 years of age are often referred to as "depression babies," the "greatest generation" and the "silent generation." From a retail perspective, this cohort is often subdivided into two groups: those that are active, and those that have slowed down. Even though this generation has had a very high incidence of home ownership, they are now selling their homes and downsizing. Some are moving back into the city to live in condominiums and apartments, while others are moving to be closer to their children. This group tends to spend heavily on travel and eating out, but other areas of consumption tend to drop off significantly as health-care costs increase.

The Baby Boomers are now well into middle age, ranging from 45 – 70. Baby Boomers continue to have and spend money. They tend to continue working well past the retirement age of the prior generation. This group is also beginning to sell their homes, but are often purchasing new homes rather than moving to apartments and condominiums. Location, convenience to work and lifestyle are driving these decisions. Many are actually increasing their living costs, even when downsizing. The Baby Boomer has been comfortable shopping at department stores and in malls and continues to shop in these types of store formats. Generally, they prefer to shop and be served face-to-face. E-commerce, while widespread, is somewhat more limited among this cohort.

Generation X, often referred to as the MTV Generation, is now entering their peak earning years. Compared with previous generations, Generation X represents a more apparently heterogeneous generation, openly acknowledging and embracing social diversity in terms of race, class, religion, ethnicity, language, gender identity and sexual orientation. They are also in the throes of parenting and professional life, making them quite busy and a relatively hard group for marketers to target and reach. A high value is placed on being techno-savvy in this cohort. However, there are fewer Gen X'ers than Baby Boomers, so as a group they will tend to have less purchasing power than their predecessors.

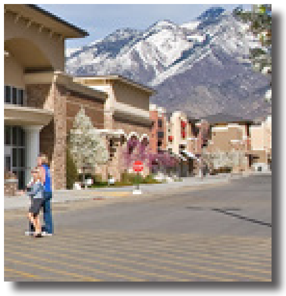
    

Generation Y (the “Millennials”) are the children of the Baby Boomers. They are driving a great deal of cultural change as they generally accept a multi-cultural, multi-racial, multi-sexual orientation way of life as the norm. This generation grew up with the internet and smart phones, making interconnectivity a way of life. Retailers are rapidly learning how to market to this generation. They seem to prefer specialty stores over the department stores frequented by their Baby Boomer parents. Malls are seen as a “third space,” following home as “space one” and work as “space two.” Starbucks, for instance, embraced the Third Space concept, making their stores inviting with comfortable chairs, free wi-fi and clean washrooms. Successful shopping centers catering to the Millennials tend to offer theaters, restaurants, music, coffee, seating and free wi-fi. They are kept fresh with consistent improvements. Millennials tire of their third space quickly and move on to something new, shortening the life cycle of restaurants and other entertainment venues catering to this group. Inland property managers have found that special event programming, such as community health fares, antique car shows and art fairs are successful means of attracting Millennial shoppers.

Having come of age during the recent recession and weak recovery, Millennials have been slow to accumulate assets. Many of them are saddled with significant student loan and credit card debts. They have also seen many of their elders become trapped in underwater homes, unable to relocate to find work. Roughly 40% of Millennials work one full-time job. Working multiple part-time jobs is common, and working a part-time job while starting their own business is very common. One-third of Millennials still get some form of parental financial support. The “sharing economy” is widely adopted and is modifying a number of traditional industries, including transportation (e.g. ZipCar) and hospitality (e.g. Airbnb). The Millennial is likely to pre-shop online, but is indifferent as to whether they purchase online or in the store. The driving factor is price, and they tend to buy where their product is offered the cheapest. Due to the large size of this group, and their approach toward their peak consumption years, Millennials will drive long-term consumer spending trends.

Retailers are learning to cater to this ever-important group in a number of ways:

- Omni-channel retailing is becoming the norm. The retailer must have a strong website, prominent social network presence and an inviting store environment.
- “Click and Collect” strategies (shop online, pick up in store) are growing rapidly. This approach gets the goods into the consumers’ hands quickly, but also gets the consumer into the store.
- Many retailers will now price match to internet pricing, preferring to accept a lower margin over losing the sale.
- In-store communication is increasing. The retailer can “sense” when a consumer that is connected via social media is in the store and send them e-coupons. QR Codes (Quick Response Codes) are becoming more common as a way to provide more information about certain products. This capitalizes on the belief that customers who prefer not to be “sold” can be sold through education.


Conclusion

The shopping experience is extremely important to get right. The shopping center owner must make sure that the tenant mix and amenities are attractive to the targeted customers and therefore the desired retailers. In a retailing world that is being re-shaped by the interaction of demographics and technology, the shopping center owner must ensure that the physical and managerial aspects of each center are flexible enough to accommodate continuous change. The partnership between the center owner and the retailers has never been more important, as "omni-channel" retailing becomes increasingly seamless and responsive to changing consumer preferences across all of the demographic groups. The experienced retail property owner will work with its tenants to best understand the demographic impacts and serve the local population.

About The Inland Real Estate Group of Companies, Inc.

The Inland Retail Property Fund, LP[3] ("IRPF"), sponsored and advised by Inland Institutional Capital Partners Corporation ("ICAP"), will be supported by the Inland integrated operating platform to create an efficient, reliable and unique investment opportunity in institutional real estate for today's investors. IRPF will seek to draw upon Inland's extensive resources, values, and expertise to build and manage its core retail portfolio.

ICAP is part of The Inland Real Estate Group of Companies, Inc. ("Inland"). Headquartered in Oak Brook, Illinois, Inland is one of the largest commercial real estate companies in the nation, representing more than 40 years of expertise and integrity in the industry. Inland is a fully integrated group of companies that is engaged in multiple facets of the real estate industry including property management, leasing, marketing, brokerage, acquisition, disposition, development, redevelopment, renovation, construction, finance, and sponsorship of investment products. Inland affiliates and related parties cumulatively have more than 1,400 employees, own property totaling over 74.6 million square feet located in 49 states,[4] and manage assets of approximately $20.2 billion.[5]

For over 40 years, Inland's primary mission has been to serve its investors. This long tradition of investor focus is manifest in a corporate infrastructure that emphasizes dedication and service to Inland's individual and institutional investors. Its commitment to investor satisfaction is one of the key reasons why Inland has been successful in creating hundreds of real estate ventures and REITs over many decades. As of December 31, 2013, Inland had raised more than $19.7 billion in capital from investment securities sales.

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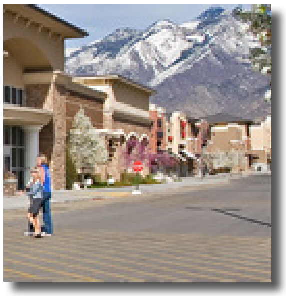
[1] The term "cohort" is a common demographic term referring to a group of people that have characteristics in common. These may be age, race, national origin, etc.

[2] "Inland" refers to some or all of the entities that are a part of The Inland Real Estate Group of Companies, Inc., which is comprised of independent legal entities some of which may be affiliates, share some common ownership or have been sponsored and managed by Inland Real Estate Investment Corporation or its subsidiaries. The Inland name and logo are registered trademarks being used under license.

[3] Additional information regarding the Inland Retail Property Fund, L.P. would be made available to qualified accredited investors upon request.

[4] Includes all property types, not solely retail.

[5] Statistics as of December 31, 2013.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