The Advantages of Investing with Retail Real Estate Property Operators

The operational capability of a real estate investment organization can make the difference between success and failure, and nowhere is this more important than with retail properties. Retail property owners who operate their properties with in-house staff have several distinct advantages over more passive owners who utilize third-party property managers and leasing agents. This article explores several of the important benefits of being an owner-operator in the necessity retail property sector.

Principal-to-Principal Relationships with Retailers

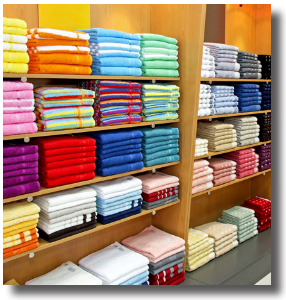
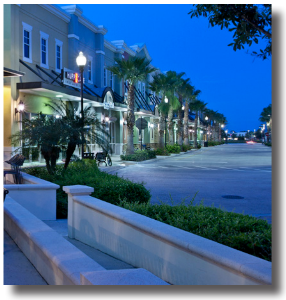
Most of the owner-operators' advantages stem from their "principal-to-principal" relationships that foster positive business partnerships with retail tenants. These landlord-tenant partnerships create efficiencies for both parties and help drive decision making in marketing, acquisitions, dispositions, lease negotiation and operations.

Marketing

The most sophisticated retail owner-operators implement strategic marketing programs at their shopping centers, developing a close working relationship with retailers and the local community. By using seasonal community events, direct mail coupon campaigns and social media, the landlord proactively generates additional traffic to increase sales at its properties. This is particularly helpful to small shop tenants who would not be able to execute such programs on their own. In one shopping center, the property management team convinced the small shop tenants to purchase a short distance paging system for use by another tenant, a busy medical clinic. Upon checking in at the clinic, patients receive a pager and coupon package for use in the shopping center. The patients are now able to shop while they wait for their appointment, increasing patient satisfaction while providing added sales to the center's retailers. With retail rents being closely linked to tenant sales volume, it behooves the property owner to make every effort to create traffic at their centers. Non-specialized retail property owners typically operate at a scale that makes developing this kind of expertise uneconomical. Landlord-driven traffic generation efforts increase sales (and therefore rents), reduce tenant turnover and support high occupancy.

Acquisitions and Dispositions

Close working relationships with senior executives of national retailers provide critical advantages in sourcing properties for purchase. It is not unusual for retailers to identify off-market acquisition opportunities for their preferred landlords. Moreover, during due diligence the tenant can often be relied upon to provide candid assessments of property strengths and weaknesses, as well as sales volume information which would otherwise not be available. As retailers' store performance and formats evolve over time, sharing of long term strategic information between the owner and the retailer benefits both parties. For example, impending format changes that cannot be accommodated by a particular property can be a signal for the tenant to relocate, or for the owner to sell.


Leasing

Many retailers are public companies with a Wall Street-imposed growth imperative. Geographic expansion is typically the most efficient way to generate that growth. Owners with a large national footprint and significant market share in major metropolitan areas can facilitate that growth, helping their shopping centers to attract and retain these expanding businesses. Recently, a national discount clothing retailer entered the Chicago market with plans to open twenty-four stores within eighteen months. Faced with this huge task and tight timeframe, their head of real estate made an immediate call to Inland Real Estate Corporation (NYSE: IRC) and the other largest shopping center owners in the market. By leveraging an existing relationship with an owner with whom he already had thirty stores across the US, he was able to negotiate leases for six of the new locations in a single transaction with IRC, using a lease document with which both parties were very familiar.

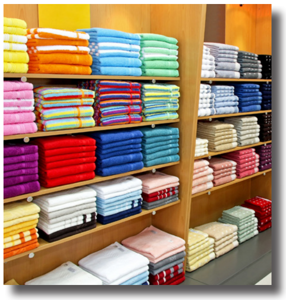
Because of situations like this, regularly scheduled corporate planning meetings between major retailers and their major landlords are common. Key information about changes in sales volumes at a store can trigger decisions to expand, relocate or close. Having frequent retailer input on these trends is critical to successfully manage a retail portfolio. Brokers and agents rarely have such access.

Operations

Operating at the national level through a closely coordinated business platform provides significant advantages in purchasing, tenant health monitoring, and risk management. Bulk purchasing of goods, services and capital items reduces costs and promotes efficiency through standardization. Additionally, the best owner-operators typically employ specialized retailer financial health and credit analysis teams, analyzing economic and other trends to detect risks. In one example, the credit team from a large national owner-operator placed the nation's largest movie rental retailer on its "watch list" in 2000 – a decade before they filed for bankruptcy – after noting Netflix's growth and increased consumer access to streaming content online. Finally, large owner-operators often create "captive" property insurance entities that greatly reduce insurance costs at the property level. This "captive insurer" approach also creates incentives to follow best practices in property operations to reduce insurance losses and property downtime after casualties.

Conclusion

The current preference of institutional real estate investors to invest with specialized business operators and investment managers is borne of experience. We believe that this approach is particularly valuable when investing in necessity retail properties. These investors have had the opportunity over the past cycle to evaluate the performance of dedicated retail owner-operators versus generalist investment managers operating through third party agents. Investors should weigh the factors reviewed in this article when considering the benefits of the owner-operator model in the shopping center sector.





About The Inland Real Estate Group of Companies, Inc.

The Inland Retail Property Fund, LP[1] ("IRPF"), sponsored and advised by Inland Institutional Capital Partners Corporation ("ICAP"), will be supported by the Inland[2] 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 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,[3] and manage assets of approximately $20.2 billion.[4]

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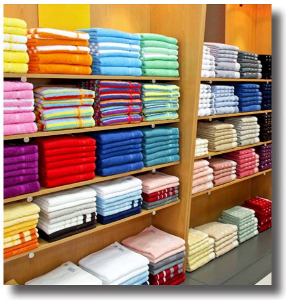
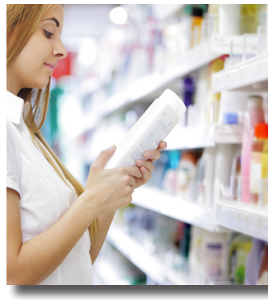
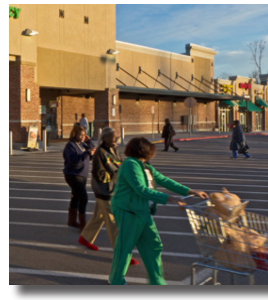
[1] Additional information regarding the Inland Retail Property Fund, L.P. would be made available to qualified accredited investors upon request.

[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] Includes all property types, not solely retail.

[4] Statistics as of December 31, 2013.

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