Inland Institutional Capital Partners Corporation

Grocery Trends Roundup

Executive Summary

As industry competition grows, grocers are quickly and efficiently innovating to gain and keep loyal customers. The savviest grocers are entering high-barrier markets, offering incentives, and expanding product offerings and services that complement their target customers' price points. Inland Institutional Capital Partners Corporation's ("ICAP") portfolio management team is incorporating the following grocery trends into their strategy and outlook for necessity retail real estate.

- Grocers are catering to both affluent shoppers as well as value-oriented consumers, requiring retail real estate investment managers to thoroughly analyze each center's value proposition.
- Consumer access through technology is critical to supporting customer loyalty and encouraging consistent and frequent shopping center visits.
- Shopping center investors must take into account a shift in grocery store formats, with growth in both very large and small-scale store types, in order to create a complementary tenant profile that reflects the community and encourages additional customer traffic.
- Inland[1] analyzes the grocery business through its network of industry relationships and ownership of hundreds of shopping centers nationwide. Accordingly, Inland is in a position to spot trends in service, formats, and technology that ultimately drive supply and demand for grocery anchored real estate.

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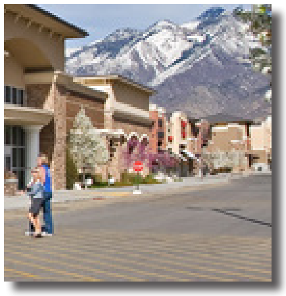
    

Market Dynamics – The New Normal

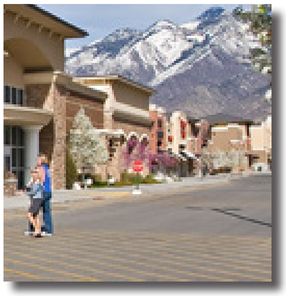
Over the past several years, the grocery industry has experienced growth in both its higher-end offerings as well as in its value-oriented brands and products. While consumer grocery spending grew by more than 2.3% a year between 2007 and 2010 in both the top 20% and bottom 40% of households measured by income, growth in spending by the middle class was relatively flat at 0.2%.[2] These trends have brought success to retailers who cater to either end of the market, such as Whole Foods and Trader Joe's at the high end and Aldi and Dollar General at the other end.

Upscale grocery companies like Whole Foods Market and regional vendors such as Mariano's Fresh Market, a part of Roundy's Supermarkets in Chicago, and Sprout's in the Southwest lure upmarket consumers to their stores with more fresh food offerings and higher quality products than most traditional grocers. A variety of fresh produce, including extensive organic options, finer meat and seafood selections, and elaborate cheese and deli products drive traffic to these upscale leaders in the grocery business. These specialty chains offer a host of unique dining options such as sushi bars, in-store cafes, wine bars, cooking classrooms, and myriad fresh, ready-to-eat meals. The result has been growth for higher end grocery chains like Whole Foods that target affluent shoppers.

Despite the strengthening economy, many consumers continue to shop for groceries with heightened economic sensitivity and price awareness. Even three years after the recession officially ended, many consumers still seek greater discounts and are living with less. They are also trading time for savings, making trips to multiple stores or traveling farther to access the lowest cost products.[3] In response to this trend, grocery retailers like Aldi and Trader Joe's have been successful by promoting private labeled goods. The store-sponsored brands are traditionally cheaper than comparable name brands and are increasingly popular among value-seeking shoppers. In addition to the 64 percent of consumers who already bought private labels prior to the recession, 31 million new households began purchasing store brands during the recession. Notably, 16 million of those households plan to continue purchasing private label brands in the future.[4]

Chains that specialize in lower price points, like Dollar General, have also performed well. With over 10,000 stores, Dollar General has succeeded by offering off-brand goods and overstock merchandise. The rise of the value-oriented consumer is an important trend in the grocery business and retailers that focus on lower price points continue to prosper in the current economic environment.

Large grocery companies like Kroger and Safeway are adapting to these new industry trends by leveraging their significant market position: both companies are broadening their fresh offerings to lure high-end customers while simultaneously using private brands to also meet the needs of its more value-oriented consumers. Safeway, for example, launched its Open Nature line of antibiotic-free meat and O Organics brand products within the past two years to highly receptive consumers: the company's store brand sales growth is outpacing that of national brands threefold. Kroger has had similar success with its private label strategy. Since revamping its in-house brands and introducing the Private Selection line of frozen pizzas, Kroger has seen store brand sales as a portion of total grocery sales increase to 27 percent, up from 23 percent in 2003.[5]


Technological Innovation

Retailers are integrating technology into the store experience, blurring the line between e-commerce and traditional "brick-and-mortar" retailing. Currently, more than half of consumers use technology in their grocery shopping. In the era of smart phones and ubiquitous high-speed Internet, grocers are finding unique ways to tap into shoppers' always-plugged-in lifestyles to make the grocery experience more interactive and personalized.[6]

Loyalty programs are an increasingly popular way for consumers and grocers alike to reap the benefits of technology. Safeway's new "just for U" loyalty program tracks shoppers' preferences and delivers personalized, Web-based coupons that can be downloaded onto a customer's account via a loyalty card and automatically deducted at checkout.[7]

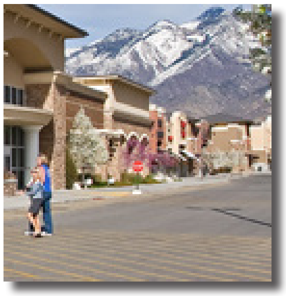
Mobile applications are becoming a key component of grocers' marketing tactics. Shoppers can instantly download grocery shopping companion "apps", including shopping list aids, product locators and barcode scanners, as well as proprietary grocer apps providing special offers. Meijer, a Midwestern warehouse-style grocer, uses an app called Point Inside that can detect when a shopper is near an item on their shopping list and automatically provide a coupon.[8]

These and other technological innovations allow retailers to better capture consumer preferences and offer shoppers a grocery shopping experience that builds loyalty and encourages frequent visits.

Store Formats

Many grocers are opting for smaller-format stores to accommodate shoppers' time constraints and demand for personalized service. These specialty formats offer product assortments tailored to specific demographic niches, such as ethnic packaged goods or products for those with special diet restrictions. Small-format grocers can better detect shopping behaviors and more readily offer new goods and services. Furthermore, small stores allow grocers that historically occupy large-format stores to access urban markets where space is limited.[9] Wal-Mart's Market chain, for example, offers a full line of groceries in a store layout that is typically a quarter of the size of the company's supercenters.

Opposite from small formats, supercenters are rapidly expanding their grocery offerings to compete with traditional supermarkets. Wal-Mart and Target run their own grocery distribution operations through which they offer a wide array of perishable and non-perishable goods. Supercenter grocery areas leverage shopper spillover from general merchandise departments and increase overall shopper visit frequency. Stepping into a Target or Wal-Mart for a quart of milk on the way home presents the shopper with thousands of additional purchase opportunities. The benefits of stocking food products for the general merchandiser are sizeable: Wal-Mart Stores accounted for 33 percent of total grocery industry sales ($140 billion) in 2011 with its closest competitor, Kroger, holding only a 13 percent market share.[10,11]

Inland's Grocery Strategy

Inland pays very close attention to the changes in the grocery industry. Staying informed of new trends and competitive strategy helps Inland to evaluate the health of its current tenant portfolio as well as in underwriting the retailers that anchor new shopping center investments. "When underwriting grocery anchored centers, you need to focus on the grocer sales as well as the location of the grocer within the trade area and its market share within that region" according to Mark Cosenza, Vice President and Acquisitions Officer of Inland Institutional Capital Partners Corporation.

Inland has strong principal-to-principal relationships with many national and regional grocers, including Publix, Kroger, Whole Foods and Trader Joe's. Inland also owns and manages a large number of shopping centers that are anchored or shadow-anchored by Wal-Mart, Target, and other general merchandise-grocery retailers. "Inland managers meet directly with large retailers on a continuous basis. It's really the best way to learn about new trends in the industry to plan our investment and asset management strategies," according to George Pandaleon, President of Inland Institutional Capital Partners Corporation.

About The Inland Real Estate Group of Companies, Inc.

The Inland Retail Property Fund, LP[12] ("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 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,[13] and manage assets of approximately $20.2 billion.[14]

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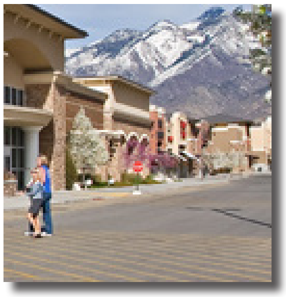
[1] "Inland" refers to some or all of the entities that are a part of The Inland Real Estate Group of Companies, Inc., which is comprised of independent legal entities some of which may be affiliates, share some common ownership or have been sponsored and managed by Inland Real Estate Investment Corporation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

[2] Progressive Grocer, Battling to Win in an Hourglass Economy, January 4, 2013.

[3] Food Marketing Institute, U.S. Grocery Shopper Trends 2012 Executive Summary.


[4] Ibid.

[5] Bloomberg, Why Grocers are Boosting Private Labels, November 23, 2011.

[6] Food Marketing Institute, U.S. Grocery Shopper Trends 2012 Executive Summary.

[7] Progressive Grocer, Safeway Sees Strong Q4 Gains on Loyalty Programs.

[8] Stagnito Media, Retail Leader, July/August 2012.

[9] Booz and Co., Big Impact in a Small Format: A New Wave in Retail.

[10] University of Minnesota, Current Trends in Food Retailing.

[11] Seeking Alpha, Supervalu Feels The Heat From Wal-Mart.

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

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

[14] Statistics as of December 31, 2013.

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