



MadisonMarquette
A Capital Guidance Company



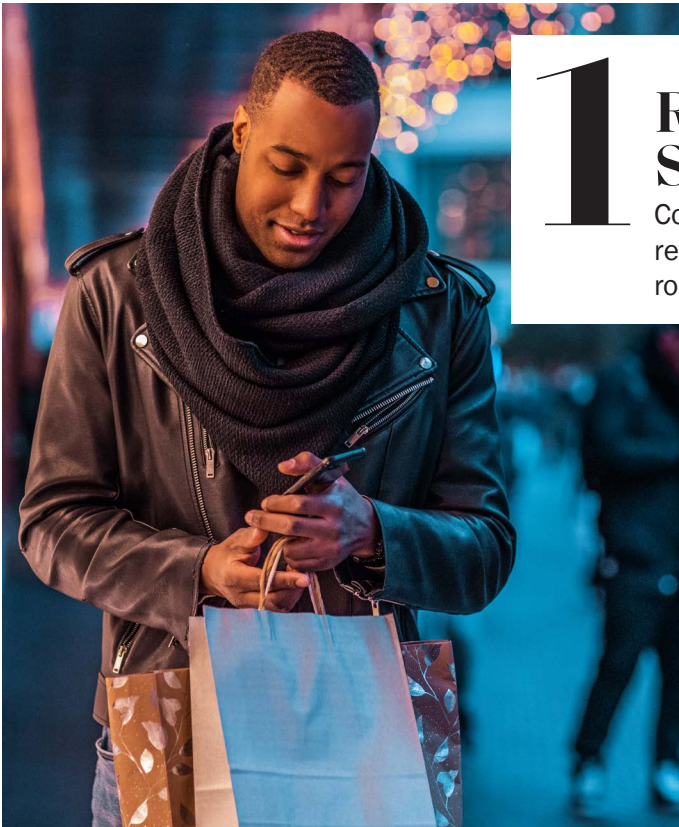
2021 HOLIDAY TRENDS: Opportunities & Headwinds

Introduction *to* **REPORT**

Madison Marquette's inaugural Holiday Trends Report combines a range of 2021 forecasts and our own trends analysis to provide an inclusive outlook for the upcoming holiday season.

This holiday season is one of opportunities and headwinds. Supply chain risks will challenge the optimistic outlook for spending in stores and online. Retailers are working diligently to overcome product shortages to meet consumer demand and maximize sales. At the same time, consumers are shopping early and seeking in-store experiences complemented by digital discovery blurring the lines between physical and digital purchases.





1 ROBUST RETAIL SALES OUTLOOK

Consumer momentum and a desire to reclaim the holiday season are driving a robust outlook for holiday retail sales in 2021.



2 SUPPLY CHAIN THREATS TO SALES GROWTH

High consumer demand is fueling an optimistic outlook for the holiday season, but several potential wildcards threaten retail sales, including persistent supply chain challenges, lack of products, and delivery delays.



3 SHOPPING EARLY & IN-STORE

Consumers are shopping early to buy products amid uncertain supplies while returning to the in-store experience after an accelerated digital migration during the pandemic.



4 DIGITAL DISCOVERY: THE HYBRID REALITY

Digital discovery is key to captivating consumers on the path to purchase across all channels.

1 ROBUST RETAIL SALES OUTLOOK

★ Consumer spending momentum and their desire to celebrate the holiday season after last year's lockdowns and missed milestones are driving a bullish retail sales outlook heading into the peak shopping season.

Consumer spending fueled the U.S. economic recovery throughout 2021, even as the summer spike in the Delta variant and rising price inflation dampened consumer sentiment in August and September. According to forecasts from Deloitte, Bain, and Mastercard, the momentum will continue with holiday retail sales (excluding auto and gas) expected to grow a minimum of 7% to more than \$1.2 trillion compared to 2020. Alix Partners forecasts sales could increase as much as 13% compared to last year, which would be the strongest holiday season since 1999.

The U.S. economy faces headwinds from labor shortages, inflation and the ongoing public health crises, but consumers are also eager to recover the joy and spirit of the season by gathering with family and friends, resuming festive

in-store shopping, and attending events previously restricted by social distancing measures.

As a result, spending by category will shift from last year's homebody lifestyle purchases of athleisure wear, kitchen, home accessories, and electronics to more discretionary and impulse purchases on apparel, jewelry, handbags, accessories, and luxury items. Mastercard SpendingPulse predicts apparel and luxury sales (excluding jewelry) will increase by 45.9% and 92.8% over 2020 and 17.8% and 55.8%, over 2019, respectively. Retailers are also catering to more value-conscious consumers by featuring more box sets and private label collections.



1 ROBUST RETAIL SALES OUTLOOK

The rapid growth of e-commerce sales has leveled off in 2021 as consumers increasingly return to in-store shopping, dining, services, and entertainment. However, e-commerce sales remain elevated because of lingering online shopping habits adopted during shutdowns, rising prices across categories, higher conversion rates, and improved retailer omnichannel experiences. Adobe Analytics' Digital Economy Index Report forecasts consumers will have spent more online before the official kick-off to the holiday shopping season on November 1st than in all of 2019, which netted \$575 billion in online sales. Deloitte projects holiday e-commerce sales to grow between 11% to 15% in addition to the 35.4% year-over-year growth in 2020.



“Madison Marquette is excited to bring the holiday magic back to our shopping centers, support our retailers to drive traffic and sales, and launch new ways to engage our shoppers on-site through the use of digital discovery, QR codes, and social media.”

— GAVIN FARNAM, PRESIDENT RETAIL SERVICES, MADISON MARQUETTE

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SUPPLY CHAIN THREATS TO SALES GROWTH

Retailers top concern this holiday season is the fallout from the global supply chain bottleneck of 2020 brought on by diminished output, factory closures, and surging e-commerce sales.



**CARGO SHIPS
AWAITING ENTRY TO
CALIFORNIA PORTS
IN SEPTEMBER¹**



Rolling factory closures throughout Asia amid waves of COVID-19, ongoing port congestion, and temporary weather-related port closures in the U.S. compounded the problem this year. The lack of container and cargo capacity, dock and transportation labor shortages, and rising costs also are crippling manufacturers, shipping companies, and retailers. All of this is happening during the busiest shopping season.

These challenges have forced retailers to enhance stopgap manufacturing, inventory, and distribution measures to meet consumer demand. Retailers are hitting sales targets by drastically increasing spending on suppliers, logistics, freight, and labor costs. Brands such as Dick's Sporting Goods are hiring record numbers of seasonal associates in an already tight labor market alongside rising wages. Retailers are trying to absorb most of the burden, but consumers should expect upward pressure on prices.

Product shortages include chips for electronics, toys, cotton for apparel, food and household staples, even Christmas trees, and décor. Gift cards and spending on experiences could grow more than expected with limited product availability. Retailers are tapping into otherwise outdated safety stock, re-shoring production, and sourcing domestic suppliers to stock store shelves and warehouses as early as possible. In the September earning's call, Steve Madden reported that it moved about 50% of the production of its women's line from China to Brazil and Mexico to shorten delivery times.

Source: Port of Los Angeles

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SUPPLY CHAIN THREATS TO SALES GROWTH

Big box and chain stores are better equipped to secure more inventory, charter transportation, and negotiate better rates, which will take market share from smaller businesses unable to bear the costs to compete for mass product. American Eagle Outfitters and Lululemon are relying more on air freight to secure goods. Target, Walmart, Costco, and Home Depot announced they chartered their own container ships, giving the companies greater control over the shipping process and hopefully avoiding product delays.

In addition to longer shipping times and scarce inventory, shoppers should expect fewer deep discounts and higher prices. Retailers must make up lost margins from these added logistics costs by limiting price reductions and relying on consumers motivated to pay full price or risk stockout. Adidas, Nike, and Crocs have warned consumers of inventory shortages and encouraged them to shop early. In addition, Mattel and Hasbro announced they would increase toy prices in Q4 to offset rising freight and commodities prices.



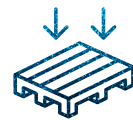
\$223B

YEAR-OVER-YEAR ESTIMATED INCREASE IN THE COST OF GOODS SOLD FOR U.S. RETAILERS¹



10X

RISE IN SHIPPING PRICES IN 2020²



82%

OF RETAIL EXECUTIVES CONCERNED ABOUT INVENTORY SHORTAGES³

Sources: ¹Salesforce; ²Bloomberg; ³KMPG Retail Executive Survey

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SHOPPING EARLY & IN-STORE

Historically, consumers expect the best deals of the year, during the holiday season. They also expect fast and free shipping, and an abundance of products on the shelf.

I CSC's 2021 Holiday Intentions Survey revealed the U.S. consumer is eager to shop with 78% planning to spend the same or more money on gifts and entertainment this year and 75% planning to shop in-store. However, some retailers simply will not have enough inventory to meet all consumer demands. Consumers must prepare to shop early, pay higher prices, have multiple alternate gift ideas, and anticipate longer delivery windows.

Retailers must find ways to manage through these challenges to retain customers. They will need to prepare their employees to help customers navigate the inevitable frustrations that come when consumers find it difficult to buy what they want. Communication is key this year. Retailers are warning consumers early about the lack of product, earlier ship dates and suggesting substitutions for original gift ideas if sold out or unable to fulfill in time. Everlane began warning of supply chain bottlenecks and limited merchandise as early as August. Target, Pottery Barn, Ulta, and PacSun joined the "Christmas Creep" by starting holiday décor and gift promotions in mid-September.

Digital shopping took the place of in-store browsing and purchasing in 2020. Rising vaccination rates and easing of restrictions are reversing the trend, giving consumers more confidence to return to in-store shopping. According to Placer.ai, traffic at the top 100 U.S. malls and at most of Madison Marquette's properties were back to 2019 levels by August. Mastercard's SpendingPulse forecasts in-store sales growing 6.6% year-over-year driven by luxury goods and jewelry as the top categories bringing people back into stores.



3 SHOPPING EARLY & IN-STORE

Shopping center managers and owners are equally preparing to meet early demand and recreate the immersive holiday experience through décor and resurrected events. For example, Empire Outlets on Staten Island moved up its tree lighting ceremony to November 1st to kick off the shopping season in advance of Thanksgiving weekend. The extended holiday programming at Empire Outlets will feature on-site carolers, a philanthropic partnership with The Salvation Army, and a makers' market featuring local artisans. Madison Marquette is also unveiling the first co-branded collaboration with Cherry Hill Programs featuring photo opportunities with Santa and Dr. Seuss' The Grinch at many of its shopping centers, such as Bell Tower, CityPlace Doral, Glen Eagle Square, Empire Outlets, and Pacific Place. All of this is being done with on-site and in-store safety as a priority.



“Our first co-branded holiday collaboration with Madison Marquette is an incredible opportunity for Cherry Hill Programs, and we are beyond excited to add this new holiday tradition to our portfolio of holiday photo experiences. The experience we’re designing includes something for everyone – regardless of age – from Dr. Seuss’s The Grinch to Santa himself.”

– STEVE CRAIG, CEO, CHERRY HILL PROGRAMS





DIGITAL DISCOVERY: THE HYBRID REALITY

The distinction between physical and digital shopping is blurring as consumers shop a hybrid retail reality.

The in-store experience is now more digitally engaging, while online and mobile shopping has evolved into a more immersive experience that

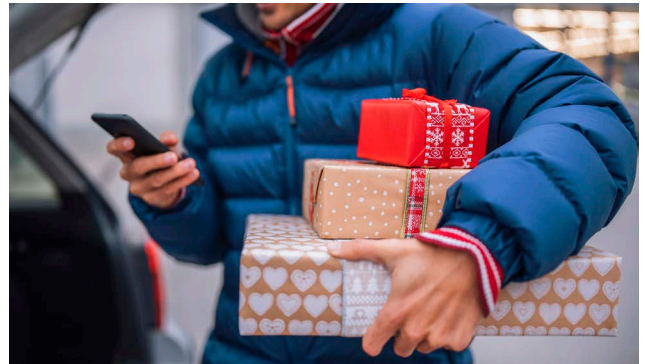
mimics the physical store as much as possible. While in-store experiences and sales tap into deep holiday traditions, e-commerce sales will continue to grow at a record pace. NRF projects e-commerce and other non-store sales will increase between 11% and 15% over 2020 to a total of between \$218.3 billion and \$226.2 billion.

The customer journey has evolved past traditional brick-and-mortar versus e-commerce channels. In an era of crowdsourcing, social commerce is now one of the fastest-growing segments of retail and a preferred method of discovery. According to a Klarna customer survey, the vast majority of younger shoppers – 78% of Gen Z and 79% of Millennials – say they have purchased a product after seeing it on social media. Products with #tiktokmademebuyit have over 5.6 billion views by customers who watch the TikTok video shorts for inspiration and reviews on products ranging from food staples to luxury handbags. Consumers also are embracing live-streamed fashion shows, influencer endorsements and styling. They are watching how-to videos with product guides and using artificial and virtual reality apps to try on cosmetics, apparel and accessories. They are also using personalized digital stylists for gifting this year.





DIGITAL DISCOVERY: THE HYBRID REALITY



94%

GROWTH IN
QR CODE
INTERACTIONS
2018 - 2020¹



Stores continue to play an essential role in the omnichannel ecosystem in engagement, fulfillment and returns of digital orders through BOPIS, BOPIL, and curbside pick-up. Retailers have an opportunity to convert in-store customers to higher basket size and upsell on impulse purchases much more effectively in stores than online. For the first time, Target kicked off Deal Days in October with offerings online, through the Target App, and at all Target stores, allowing shoppers to save across all channels. Even independent businesses are using digital shopping to enhance the in-store digital experience. Vanity House Designs, a gift and décor specialty retailer at Empire Outlets on Staten Island, launched the use of QR codes on Christmas tree displays so shoppers can scan and order from the catalog of ornaments and décor immediately through their Etsy site.

Shopping centers also are promoting digital engagement and cross-shopping at the center level. They are featuring digital gift guides and QR codes that link to an online holiday sales headquarters with discounts and promotions for all tenants at the properties.

Source: Blue Bite, 2021



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