SPECIAL REPORT

Marcus & Millichap

GEOFENCING

MAY 2019

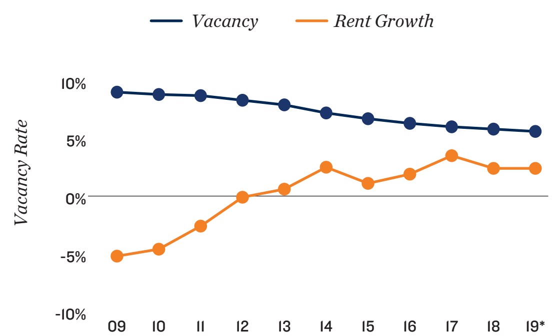
Geofencing Helping Retail Investors Optimize Performance; Data from Brick-and-Mortar Stores Proving Invaluable

Investors drill deeper to understand client base. Retail continues to evolve as consumer data becomes more readily available, making it easier for investors to maximize property performance. Advanced technologies are providing retail owners a foundation for longer-term success, particularly as competitive dynamics become increasingly complex. Geofencing offers investors a way to track customer behavior by creating a virtual boundary around a retail property and recording movement in the area by pinging smartphones. Through this, owners are able to extract meaningful insight from behavior patterns, supporting better decisions about their assets and helping investors refine their tenant mix. While consumer data about online shopping has become quite sophisticated, trends captured at brick-and-mortar settings are beginning to evolve rapidly and these insights will play a larger role in the retail sector. Many investors are beginning to capitalize on the benefits of geofencing, setting the stage for increased efficiency and performance results.

Perfecting Tenant Mix Becoming More Crucial

Geofencing helps investors refine tenant blends. Bracing a retail center with strong traffic drivers remains key for owners as they look for ways to increase footfall. Some investors use geofencing as a tool to discover the movement of customers before and after they visit retailers within their centers as it can shed light on missing aspects of a tenant mix. If customers visit a coffee shop several miles away before arriving at a shopping center, the retail owner may re-evaluate the current pool of tenants to help fill the void and increase overall traffic. While anchor tenants can draw a sizable share of the footfall, junior anchors and other supplementary vendors are crucial to the integrity of the tenant blend. Finding a sustainable group of tenants that support each other is proving more challenging as the retail sector remains in a transformative stage. Though retail center vacancy sits at nearly the lowest rate in more than a decade, outdated retail business models continue to weigh on property performance for some owners, forcing them to be increasingly creative to keep their centers full.

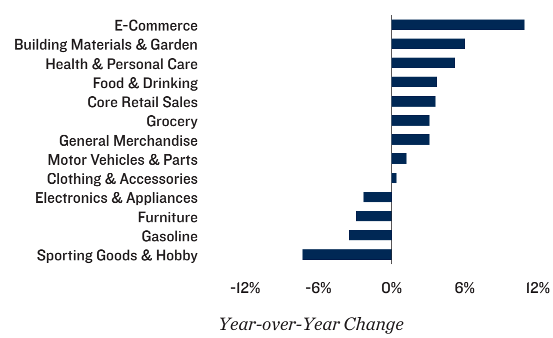
Shopping Center Performance Metrics



Owners Seek Firm Grip on Local Trade Area

Finding new tenants made easier for investors with in-depth market knowledge. Fully knowing a trade area can greatly benefit investors as it better equips them to sell prospective tenants on available space in their retail centers. Demographic analysis and foot traffic obtained through geofencing allow property owners to hold fact-based conversations with retailers looking to open new locations. Both parties can benefit from this as owners are able make better decisions when restructuring their tenant mix and retailers can mitigate the potential for an unprofitable store through advanced analytics. Proliferation of geofencing will support increased pressure on shopping center demand as it takes some of the guesswork out of the equation for operators and prospective lessees. Adoption of the technology may be accelerated by the 5G network, which will be widely introduced in the near future. A more advanced wireless system should enable geofencing to be more precise, giving investors greater ability to make well-informed business decisions.

Retail Sales Growth **



** Forecast*
*** Through April*
Core retail sales exclude auto and gasoline sales.
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; U.S. Census Bureau

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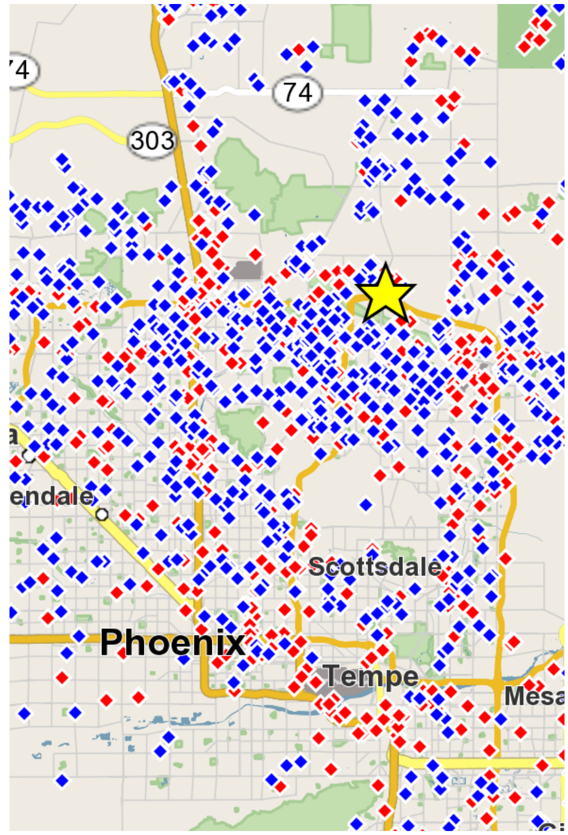
Geofencing Offers Influx of Data to Break Down Client Base; Owners Take Next Step by Geofencing Competitors

Customer segmentation supported by knowing actual draw range. Understanding where retail center patrons live and work can help investors fully understand their clientele. These data points can be used to calculate draw range, which allows investors to plot travel nuances and demographic trends associated with customers. Having a better understanding of who customers are enables investors to refine their tenant mix and service offering. A map illustrating a collection of locations allows owners to see which parts of a market or region have been penetrated as well as highlighting areas where market share can be extended by bringing in new tenants that will cater to that consumer group. This helps retail investors bolster operations as tenant mix and property dynamics are molded around precise data points.

Know your competition — a blueprint for success. While many owners choose to geofence their own shopping centers, others are geofencing competitor retail properties to help gain more insight. This gives a better idea of the demographic groups frequenting that retail center and identifies its primary traffic drivers. Analyzing a competitor may also encourage owners to refine their own operations by adding key tenants to fill gaps. Additionally, by understanding the nuances of each retail center's draw range and demographic profile, owners can optimize their operations. Geofencing can increase the longevity of shopping centers, particularly as the retail sector continues to evolve and the use of analytics becomes more essential.



National Retail Group

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Price: $250

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Intalytics; Google Maps; U.S. Census Bureau