

# WASHINGTON PRIME GROUP™



## DEPARTMENT STORE UPDATE

FEBRUARY 2018

## **DEPARTMENT STORE UPDATE**

## **LET'S LOOK AT THE FACTS**

**From an ABR perspective, traditional department stores contribute minimally equating to less than 4.0% as of DEC 31, 2017;**

**Of the ~400 Sears, Macy's and JCPenney store closures announced in 2017, there were only five in WPG's portfolio.**

- Two were natural lease expirations that we anticipated and have redevelopment plans in place;
- One was a Seritage location of which we are coordinating reciprocally beneficial redevelopment plans;
- Two were owned by Macy's: WPG acquired Cottonwood Mall location for pending redevelopment and a local developer purchased Sunland Park Mall store; and
- On NOV 4 2017, Sears announced closing of 63 stores of which none were located within WPG portfolio.

**Only two WPG locations were included as part of the most recently announced (JAN 2018) ~114 Sears and Macy's store closures.**

- Both are Sears locations expected to close in APR 2018: Sears space at Westminster Mall owned by Seritage and we will coordinate redevelopment, while the Rushmore Mall location is owned by WPG and Sears remains lease obligated through SEP 30 2019; and
- On JAN 4, Macy's announced 11 stores closing in 2018; there were none in WPG's portfolio.

**Since 2015, WPG has completed, started or approved ~15 department store repositionings at Enclosed assets.**

**WPG has ample capital available for anchor repositioning projects in conjunction with our long term strategy and recent capital transactions.**

**Total cost of repurposing department store ranges between \$5.0M and \$20.0M of which the estimated ROIC for such anchor repositioning is ~8.5%, which doesn't include incremental benefit of increased traffic or increased rental rates of adjacent space.**

**Recent anchor repositioning projects reflect an average sales volume increase of between two and three times.**

**WPG has fared as well if not better than its peers related to department store closings as a result of dominant secondary positioning and large catchments and we possess the capital, and as importantly, the tenant demand to successfully diversify these unproductive spaces which optimizes our assets while meeting our ROIC threshold.**

## DEPARTMENT STORE UPDATE

## ACTIONS NOT WORDS

Since 2015, WPG has addressed every single one of its owned anchor spaces save for three with diversified adaptive reuse which furthers our hybrid town center model.

	Property	Department Store	Replacement Tenants	Replacement Opening Date
WPG Owned	Cottonwood Mall	Macy's	New tenants include home furnishings retailer	2018
	Grand Central Mall	Elder-Beerman	First WV opening of 20,000 SF H&M	2018
	Great Lakes Mall	Dillard's	Round 1 Entertainment, Outback Steakhouse and various retail	2018
	Lima Mall	Elder-Beerman	Leasing continues to explore adaptive reuse alternatives	-
	Mall at Fairfield Commons	Elder-Beerman	Open Air lifestyle format includes three restaurants	2015
	Markland Mall	Sears	Executed leases with three national 'big box' tenants and national grocer	2018
	Morgantown Mall	Belk	WPG to announce redevelopment plans shortly	TBD
	New Towne Mall	JCPenney	Leasing continues to explore adaptive reuse alternatives	-
	New Towne Mall	Sears	Dick's Sporting Goods and Ulta Beauty	2016
	Northwoods Mall	Macy's	Round 1 Entertainment, The RoomPlace and various retail	2018
	Polaris Fashion Place	Great Indoors (Sears)	Dick's Sporting Goods including Field & Stream concept	2015
Rushmore Mall (Noncore)	Sears	Sears closing APR 2018	-	
Third Party Owned	Great Lakes Mall	Sears	Owned by Seritage	-
	Sunland Mall	Macy's	Owned by third party local developer	-
	Town West Square (Noncore)	Dillard's	Owned by third party	-
	Westminster Mall	Sears	Owned by Seritage	-

## DEPARTMENT STORE UPDATE

## PROACTIVE NOT REACTIVE STANCE

Since 2015, WPG has reduced its department store exposure by 26% including reducing Sears and Bon-Ton exposure by 33% and 26%, respectively.

	Store Count after Announced Closings <sup>1</sup>	Q1 2015 Number of Stores	% Change	ABR % as of DEC 31, 2017	WPG Owned Number of Stores*	WPG Owned % of Total Exposure
Sears <sup>2</sup>	40	60	-33%	0.7%	14	35%
JCPenney	38	49	-22%	1.1%	21	55%
Macy's	26	36	-28%	0.2%	5	19%
Dillard's	23	28	-18%	0.0%	1	4%
Bon-Ton Stores	14	19	-26%	0.9%	13	93%
Belk	11	13	-15%	0.4%	7	64%
Total	152	205	-26%	3.3%	61	40%

### Remaining lease expirations\*:

Macy's		Sears		JC Penney		Bon-Ton Stores	
2018 Total	0	2018 Total	2	2018 Total	4	2018 Total	0
2019 Total	1	2019 Total	2	2019 Total	2	2019 Total	3
2020 Total	1	2020 Total	2	2020 Total	2	2020 Total	1
2021 Total	1	2021 Total	2	2021 Total	3	2021 Total	3
Beyond 2021	2	Beyond 2021	6	Beyond 2021	10	Beyond 2021	6
Grand Total	5	Grand Total	14	Grand Total	21	Grand Total	13

1. Store counts exclude announced closings since JAN 2018: Sears at Rushmore and Westminster Malls; Elder Beerman (Bon-Ton) at Grand Central Mall; Belk at Morgantown Mall; Lease expirations do not include extension options. Store counts also exclude Dillard's, Herberger's (Bon-Ton) and JCPenney at Southgate Mall.

2. As of DEC 31 2017 there were 11 Seritage owned Sears spaces in WPG's portfolio.

## DEPARTMENT STORE UPDATE

## PROVIDING VISIBILITY TO BON-TON EXPOSURE

On JAN 31 2018, Bon-Ton Stores announced the closing and specific locations of 42 stores in early 2018. None of these are in WPG's portfolio.

At DEC 31 2017, WPG had 15 Bon-Ton stores in the portfolio as follows:

- In NOV 2017, Bon-Ton announced that Elder Beerman will close at Grand Central Mall in MAR 2018 which will be replaced by a 20,000 SF H&M, the first location in WV;
- Following this planned closure, WPG will have 14 Bon-Ton stores within the portfolio;
- Seven Enclosed assets have exposure to both Bon-Ton and Sears; and
- Two Enclosed assets have a Bon-Ton and a Seritage owned Sears.

	Bon-Ton Stores Exposure					Sears Exposure		
	Elder Beerman	Carson's	Herbergers	Younkers	Bon-Ton	WPG Owned	Sears Owned	Seritage Owned
Dayton Mall	X							X
Indian Mound Mall	X						X	
Mall at Fairfield Commons	X					X		
Morgantown Mall*	X							
New Towne Mall	X							
Lincolnwood Town Center		X						
Markland Mall		X						
Muncie Mall		X				X		
Mesa Mall			X			X		
Northtown Mall			X					
Rushmore Mall*			X			X		
Lindale Mall				X				X
Southern Hills Mall				X			X	
Chautauqua Mall					X	X		

\*The Belk at Morgantown Mall closes MAR 2018; Sears at Rushmore Mall closes APR 2018; as of JAN 2018, there are no other anchor vacancies at assets with exposure to Bon-Ton.

We have forecasted what the potential need would be, if required, to address all of the Sears and Bon-Ton spaces in our portfolio. Assuming Seritage takes care of their 11 locations and we bring in partners to assist in any mixed-use components, we are estimating our share of capital investment to be ~\$300M to reposition these locations within our Tier One and Open Air assets. With a 3 to 5 year investment time horizon, we are comfortable that we will have the necessary capital to address these opportunities.

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