SHENEHON
BUSINESS & REAL ESTATE VALUATIONS

Valuation Viewpoint

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Waving, not Drowning

by Brock Boatman

Physical retail is not dead, and it is not dying. Online retailing is not so much a killer of the mall as we know it, but more like a personal trainer: it's pushing existing product to adapt, and the owners and locations that are willing to do the work will emerge stronger than before. Major retail closures – Toys R Us, Sears, and recently Payless Shoes – tend to grab headlines and make it appear that retail and malls are dying, but in many cases those closures allow retail centers to revamp to better accommodate the 21st century customer. It's been well noted how the various classes of malls have responded during the current economic cycle: Class A/Fortress Malls have thrived, leaving lower class properties to die. A brief analysis of what we consider the true Class A mall REITs supports this. Additionally, the relatively recent acquisitions of General Growth Properties by Brookfield and the acquisition of Westfield by the Paris-based Unibail-Rodamco leads one to believe that there is some smart (re: BIG) money that sees the value in these types of assets.

Overview
(1/31/19 FTSE)

Number of REITs	Total Market Cap ($M)
36	$173,212
YTD Total Return	**January Total Return**
11.06%	11.06%

Source: NAREIT, FTSE Russell

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Market Trends and Value Indicators

Office Buildings—Downtown	→	0.0%
Office Buildings—Suburban	→	0.0%
Retail Centers	→	2.0%
Industrial Buildings	↑	3.0%
Apartments	→	2.0%
New Housing Starts—Midwest*	↓	26.5%
Productivity**	↑	1.3%
US Unemployment***	↓	4.4%
Consumer Confidence Index***	↓	131.4%

Statistics reflect year-over-year value change from:
* YoY December 2018 ** YoY 3Q 2018 *** January 2019

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Market Trends and Indicators

Economic Indicator

New Housing Starts— Midwest Yearly Totals	2012	2013	2014	2015	2016	2017	2018
	127,900	149,600	165,200	152,600	182,300	179,600	171,800

Source: United States Census Bureau

P/E Ratios in Select Industries

Industry (by year)	2010	2011	2012	2013	2014	2015	2016	2017	2018
Basic Materials	8.9	18.1	10.3	7.3	11.5	6.9	6.1	10.6	4.8
Construction	2.8	3.1	4.8	4.1	3.3	3.7	3.3	3.7	4.0
Manufacturing	8.3	9.9	8.3	8.1	8.3	7.4	8.1	7.6	5.7
Wholesale Trade	3.9	5.0	5.2	4.8	6.9	7.3	6.5	5.9	4.0
Retail Trade	2.9	3.5	2.9	3.1	3.5	3.6	3.5	3.7	3.5
Transportation & Warehousing	3.1	3.1	2.7	3.3	3.3	3.7	4.3	3.8	2.8
Information	10.7	14.4	11.3	9.8	10.7	10.8	15.7	16.7	11.7
Finance & Insurance	6.2	5.1	5.7	8.5	8.2	10.0	14.5	16.6	11.1
Professional Services	6.9	11.2	4.5	4.9	6.3	8.4	5.7	6.6	3.3
Healthcare	4.5	6.4	2.8	4.6	4.4	3.7	4.4	3.8	3.4

Data Current as of March 1, 2019

Economic Indicators

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2018
Inflation	1.6%	3.2%	2.3%	1.5%	1.6%	0.1%	1.3%	2.1%	2.4% *
Labor Productivity	3.3%	0.0%	0.9%	0.5%	0.8%	1.3%	0.2%	1.1%	1.3% *
GDP	3.0%	1.7%	2.2%	1.9%	2.4%	2.4%	1.6%	2.2%	2.9% **
Consumer Confidence	62.0	70.8	72.2	78.1	92.6	115.3	113.7	122.1	128.1 ***

Source: Bureau of Labor Statistics, Bureau of Economic Analysis, The Conference Board
* Annual Average ** Annual Increase from 2017 Annual Level ***December 2018

Unemployment

	2010	2011	2012	2013	2014	2015	2016	2017	2018	Feb 2019
US	**9.6%**	**8.9%**	**8.1%**	**7.4%**	**6.2%**	**5.3%**	**4.9%**	**4.4%**	**3.9%**	**4.1%**
Northeast	8.7%	8.2%	8.1%	7.5%	6.2%	5.3%	4.8%	4.5%	4.0%	4.1%
Midwest	9.5%	8.4%	7.4%	7.2%	5.8%	4.8%	4.7%	4.1%	3.7%	4.0%
South	9.3%	8.8%	7.7%	7.0%	6.0%	5.3%	4.9%	4.3%	3.8%	3.8%
West	11.0%	10.3%	9.2%	8.0%	6.7%	4.7%	5.1%	4.5%	4.2%	4.4%
Minnesota	**7.4%**	**6.5%**	**5.6%**	**5.0%**	**4.2%**	**3.7%**	**3.9%**	**3.4%**	**2.9%**	**3.9%**

Source: Bureau of Labor Statistics

Rates of Return and Risk Hierarchy

Investment	
30 Year Treasury	3.07%
Aaa Bond	3.96%
Bbb Bond	4.37%
Commercial Mortgage	4.75–5.5%
Institutional Real Estate	6.0–7.0%
Non-Institutional Real Estate	8.0–10.0%

Investment	
S & P Equity (Duff & Phelps)	10.03%
Equipment Finance Rates	10.0–12.0%
Speculative Real Estate	11.0–16.0%
NYSE/OTC Equity (Duff & Phelps)	13.70%
Land Development	12.0–25.0%
NYSE Sm Cap. Equity (Duff & Phelps)	16.73%

As of March 1, 2019

Sources: United States Census Bureau, Pratt's Stats®, Bureau of Labor Statistics, Bureau of Economic Analysis, The Conference Board, Yahoo Finance, Duff & Phelps. Shenehon Company makes every effort to ensure the accuracy of the information published in *Valuation Viewpoint*. Shenehon Company uses only those sources it determines are accurate and reliable, but makes no guarantee with regard to the information presented.

Bitcoin, Blockchain, and Banks

by Cody Lindman

Like Dutch Tulip Mania during the 17th century, the price of a single Bitcoin increased astronomically during 2017, starting the year at $998 per Bitcoin before eventually peaking at $19,666. However, in 2018, Bitcoin's luck ran out, with the price of a single Bitcoin declining to $3,747 as of January 1, 2019, an approximately 81% decrease from the all-time high. Despite becoming a popular buzzword after its impressive price growth during 2017, many people still do not have a firm grasp of what Bitcoin is. In simplified terms, Bitcoin is a digital medium of exchange. However, Bitcoin has no intrinsic value and its value is not pegged to another currency. Instead, Bitcoin has value because of its sought-after characteristics, namely security and anonymity. The technology behind Bitcoin and other cryptocurrencies that provides security and anonymity for transactions is called blockchain.

With ... blockchain technology, banks could process transactions immediately, regardless of when the transaction occurred.

Although a cryptographically secured chain of blocks was originally described by Stuart Haber and W. Scott Stornetta in 1991, blockchain (and Bitcoin) was invented by Satoshi Nakamoto in 2008. At its core, blockchain is a distributed ledger or a growing list of records (known as "blocks") that are linked using cryptography. Blockchain allows unfamiliar parties to agree on a common history without the use of an intermediary. Anyone can view the blockchain; however, the information identifying users involved in a transaction is limited to online aliases.

Every computer in a blockchain network has its own copy of the blockchain that is updated automatically whenever a new block is added, resulting in potentially thousands of copies of the same blockchain. Since each copy of the blockchain is identical, the information contained within the blockchain is difficult to alter, as there is not a single, definitive account of events. Instead, there are thousands of copies of the same chain of events, requiring someone to modify every copy of the blockchain in the network to alter data. As a result, it is significantly more difficult to alter data stored on a blockchain compared to a traditional database.

Like any new technology, blockchain has received a considerable amount of lip service from business leaders attempting to appear forward-thinking. Blockchain differs from most new technologies, however, because it has the potential to radically impact a wide variety of industries. One of the industries that stands to benefit the most from the implementation of blockchain technology is banking. Banks currently only process transactions during business hours, Monday through Friday. However, with the implementation of blockchain technology, banks could process transactions immediately, regardless of when the transaction occurred, reducing settlement time.

J.P. Morgan seized the first-mover advantage when it became the first U.S. bank to create a digital coin representing a fiat currency in February 2019. J.P. Morgan's digital coin (called JPM Coin) is designed to make instantaneous payments using blockchain technology. Despite both utilizing blockchain technology, JPM Coin differs from Bitcoin due to JPM Coin being a digital coin representing U.S. dollars held in accounts at J.P. Morgan. Therefore, a JPM Coin is collateralized and always has a value equivalent to one U.S. dollar. When one client sends money to another over the blockchain, JPM Coins are transferred and instantaneously redeemed for the equivalent amount of U.S. dollars. It will be interesting to see if, how, and when banks decide to implement blockchain technology into their operations.

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Waving, not Drowning *continued from page 1*

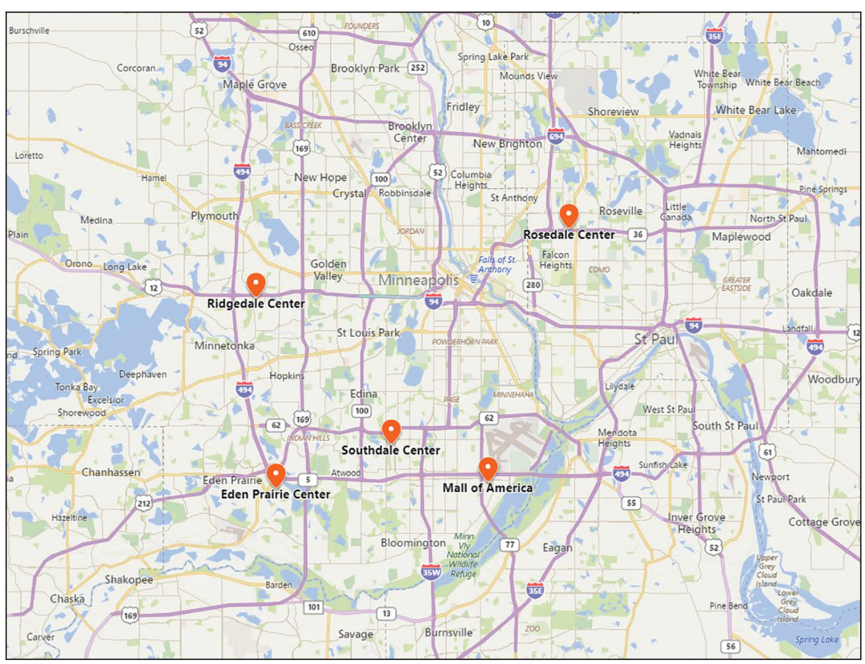
3Q 2018 Data	Simon Property Group (SPG)	Taubman Centers (TCO)	Macerich (MAC)	Mall Owners	All Retail REITs	Retail REITs excluding Malls
Total Market Cap (millions)	$54,650.0	$3,649.0	$7,799.0	$66,098.0	$173,361.4	$107,263.4
Annualized FFO*	$3,774.4	$704.4	$598.4	$5,077.2	$15,024.0	$9,946.8
Multiple	14.48	5.18	13.03	13.02	11.54	10.78

Sources: 3rd quarter 10-Qs, NAREIT, market capitalization provided by ycharts.com
**Annualized FFO based on trailing 3-months results*

The table above shows 3rd quarter data (most year-end filings were not completed as of the date of this writing) for the three most prominent national owners of Class A malls compared to retail REITs as a whole.

Two of the three mall REITs trade well above the average for all other retail REITs, and even factoring in the lagging Taubman Centers REIT, the three are valued at a premium compared to all other retail REITs. Investors recognize that these quality assets, generally in prime national locations and operated by best in class asset and property management, are excelling in the current retail climate.

These national trends hold true locally. A map of the major malls in the Twin Cities – the Mall of America, Eden Prairie Center, and The Dales (Rosedale, Southdale, and Ridgedale) – reveals their locations as some of the most desirable real estate in the metropolitan area, due largely to locational advantages provided by highway system access and strong demographics. For those reasons, these sites are also public transportation hubs, either for bus-only (Rosedale and the proposed Ridgedale improvements), or bus and light rail (blue line to the Mall of America, and proposed stops for the Southwest Extension through Southdale and Eden Prairie).

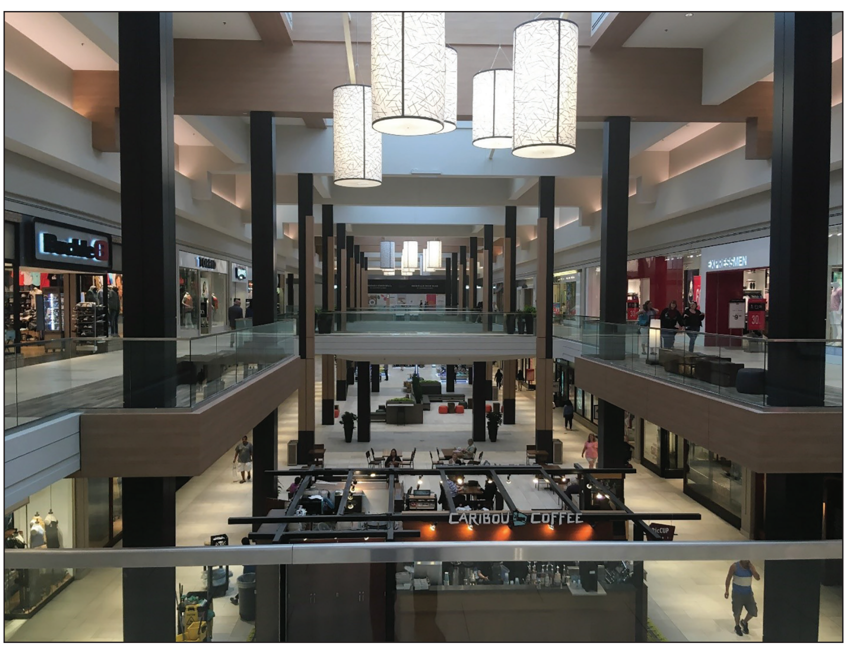


While there is inherent risk in any retail concept becoming obsolete due to changes in consumer tastes and trends, technology, logistics, new concepts and trends rise to take their place, and our local malls offer an excellent study in different ways in which owners are able to adapt and maximize value.

- Southdale Center is in the process of reinventing itself as a mixed-use development. Recently, One Southdale Place delivered over 200 Class A multifamily units, and a Homewood Suites by Hilton provides a hotel component. The shuttering of the J.C. Penney at Southdale Center is being redeveloped into a flagship Lifetime Fitness, creating a new concept that is less a gym and more a “fitness lifestyle” destination, keeping in accordance with the demographic profile of the local area;

- Rosedale Center recently repurposed the former Borders bookstore into a 30,000 square foot food hall, as part of the mall’s broader renovations to create a more welcoming aesthetic, encouraging shoppers to spend more time (and money) at the center. The recent closing of Herberger’s will create a challenge, although the addition of the second Von Maur location in the metro gives evidence that consumers still have an appetite for department stores. Additionally, the mall is planning a new aquarium concept, again attempting to make the center more than a “soft goods only” destination, and even plans for office and/or residential development are being contemplated;
- Ridgedale Center recently lost its Sears and has yet to name a replacement. This site will likely be a more lengthy and challenging development for the mall ownership, Brookfield Properties, compared to the other centers in the market as the competitive centers have been able to execute their strategies first. Part of any immediate redevelopment will also have to take place concurrently with the recently approved plans to improve infrastructure in the immediate area for both vehicular access and pedestrian utility, as well as the creation of a new urban park at the center;
- Eden Prairie Center has taken a more traditional approach to replacing an anchor by reconfiguring the former Sears space for outdoor goods seller Scheels, giving the massive retailer its first location within the Twin Cities metropolitan area proper, and;
- The Mall of America continues to threaten expansion, with the eventual Phase II set to create a more mixed-use style development with more shopping, hotel, office, and entertainment attractions to what is already a one-of-a-kind destination in North America.

Treating these locations not just as shopping malls but as local centers for uses that run the gamut of development, and seeing these locations not just as a stronghold of private commerce but as potential civic investments, lends credence that these places are more than just monuments to consumerism, and the public investment in and around these centers will only help these destinations maintain the status that they enjoy. Victor Gruen designed Southdale Center in Edina, the nation’s first enclosed shopping mall, in 1956. In the 1960 treatise *Shopping Towns USA: The Planning of Shopping Centers* he wrote, along with Larry Smith, that “The shopping center which can do more than fulfill practical shopping needs, the one that will afford an opportunity for cultural, social, civic and recreational activities will reap the greatest benefits,” and as we see 60 years later this is still holding true.



Rosedale Center (Photo: Shenehon Company)

Sale of Five Automotive Properties

by Wendy Cell

Seller: Bloomer Properties, LLC
Buyer: EFN Wayzata Properties, LLC
Sale Date: February 25, 2019
Total Real Estate Sale Price: $43,700,000

Bloomer Properties, LLC sold five automotive properties to EFN Wayzata Properties, LLC. The sale included the automotive businesses as well as the real estate. Both the buyer and seller had appraisals. The market value of each property is tied to the brand sold.

The Maplewood property is a Lexus automotive dealership, service center, and inventory lot. Each use is on a separate tax parcel, although they operate as one integral unit. The service center and inventory lot have steep topography, limiting the usable land area. The sale price of the real estate is reported at $9,405,600.

The Village Chevrolet dealership has wetlands in the rear limiting the usable land area of the property. Pre-owned car sales are sold in an adjacent property called the Bargain Lot in conjunction with the Wayzata of Lexus dealership. The sale price of the real estate is reported at $11,000,000.

The Lexus of Wayzata dealership has a berm delineating the useable site from the wetlands in the rear. Low-mileage, newer Lexus vehicles are sold onsite. Other, pre-owned cars are sold at an adjacent property called the Bargain Lot in conjunction with the Village Chevrolet dealership. The sale price of the real estate is reported at $19,594,400.

The Auto Center Bargain Lot is a used car dealership. The owner sold pre-owned cars received as trade-ins from the other automotive dealerships it owned. There are two buildings on the site: a showroom and a metal building used to store cars. The property may have a different highest and best use. The sale price of the real estate is reported at $1,900,000.

The Wayzata Auto Center Collision Repair is currently a body shop. The highest and best use of the property may change in the near future. The sale price of the real estate is reported at $1,800,000.

Village Chevrolet was one of the five automotive properties included in the sale. (Photo: Chevrolet of Wayzata)

TCF and Chemical Financial to Merge

by Victoria Mercer

Announced: January 28, 2019
Assets: $45 billion
Deposits: $34 billion
Branches: 500+

On January 28, TCF and Chemical Financial announced an all-stock merger of equals. Valued at $3.6 billion, this will be the largest bank merger of equals in over a decade and is expected to close in the 3rd or 4th quarter. The combined entity will take TCF's name and have more than $45 billion in assets and over 500 branches.

The combined entity will headquarter in a new 20-story building that is currently under construction in downtown Detroit. The building is expected to open in two years and employ about 500 people. Chemical Financial's decision to locate its headquarters in downtown Detroit reflects a recent trend of companies reinvesting in "Motor City," bringing more jobs and growing the tax base.

The banking industry is abuzz with consolidations and mergers, as smaller players try to keep up with big banks and new nonbank competitors. The TCF and Chemical Financial merger of equals is projected to reduce expenses by approximately 13% ($180 million) annually, primarily through greater efficiency in administration and IT spending. The combined entities' deposits will be around $34 billion, making it the 9th largest Midwestern bank by deposits.

Architectural rendering of planned headquarters (Source: Chemical Bank)

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