2021 Industry Observations

What a difference a year makes. As was the case across many segments of the economy, the rebound from early 2020 to 2021 was nothing short of remarkable within the retail real estate sector. Many of the themes that we discussed in last year's letter, including the accelerated separation between retailer winners and losers, the strength of open-air centers versus malls and the importance of owning high quality within the shopping center investment universe, continued to play out over the past twelve months. And the result of those themes played to our portfolio's strengths, resulting in exceptional operating results we believe will continue for the foreseeable future.

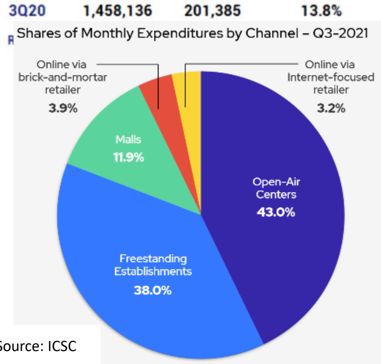
Current State of Retail

We have discussed in years past the primarily media-driven narrative about the death of retail versus the reality of what we were seeing on the ground. This year we saw this narrative start to shift. Despite the increase in e-commerce sales as a percentage of total retail sales during the heart of Covid, that number has come back down to 13.0% (as of Q3, 2021) as e-commerce sales growth did not keep pace with overall retail sales growth (Figure 1). Retailers capitalized on increased sales and reduced competition to expand their store footprints (we will discuss the impact of this on our portfolio later in this letter), while many traditional online-only retailers continued to open stores, including Wayfair and others that opened their first physical stores in 2021. Through the first three quarters of 2021, the number of store openings nearly doubled the number of closings and the amount of space retailers planned to close was on pace to be the lowest annual total in more than a decade, according to a report by Colliers. And some of the more high-profile store closing announcements, such as CVS' announcement that they would close 900 stores, were more representative of a culling of lower performing stores, which we believe is healthy for any retailer, rather than a mass closure (as an example, the 900 stores that CVS plans to close over the next three years represents only 9% of their total store count). In addition to store expansion and limited mass closures, retailer balance sheets and operating metrics improved considerably. Margins across most of retail grew to near or above record levels, according to Creditntell, with "many sectors like sporting goods seeing rates double or more." And, as seen in Figure 2, retailers are using their space more efficiently than ever, with sales per square foot increasing to record levels.

Figure 1

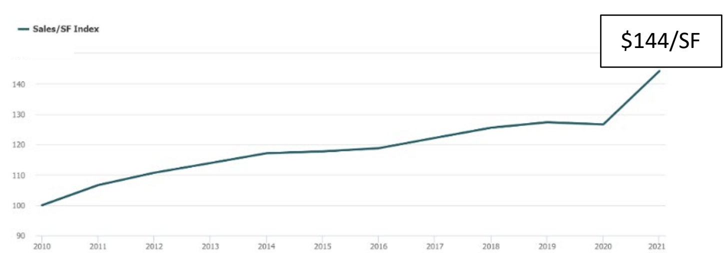
Quarterly U.S. Retail Sales; Total and E-commerce
Source: U.S. Census

Quarter	Retail Sales ($ millions) Total	Retail Sales ($ millions) E-comm	E-commerce % of Total	% Change from Same Quarter a Year Ago Total	% Change from Same Quarter a Year Ago E-comm
3Q21	1,648,619	214,586	13.0%	13.1%	6.6%
2Q21	1,667,438	221,951	13.3%	28.2%	8.9%
1Q21	1,584,491	215,290	13.6%	17.0%	39.3%
4Q20	1,466,118	199,665	13.6%	6.9%	32.0%
3Q20	1,458,136	201,385	13.8%	7.0%	36.1%



Source: ICSC

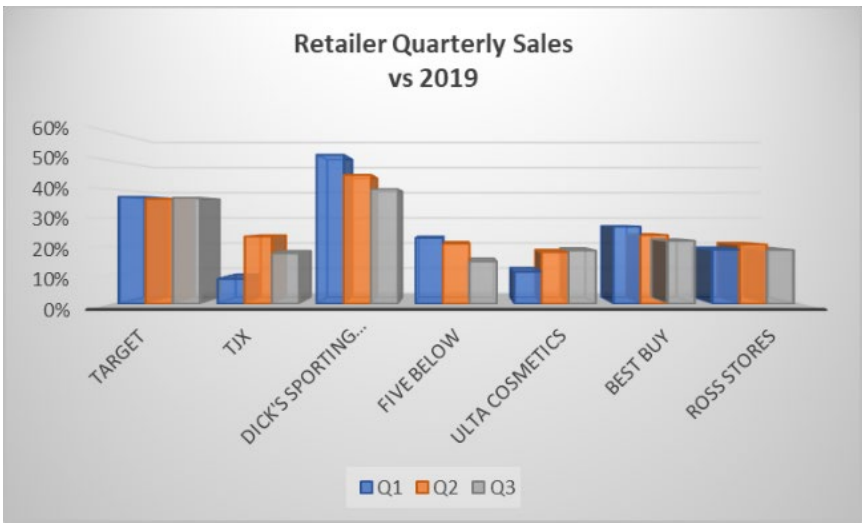
Figure 2



Shifts within Retail

This past year saw a resurgence of brick and mortar retail, the benefits of which skewed heavily to those retailers that were able to gain strength throughout the pandemic. Retailers such as Target, Walmart, Best Buy and Ulta Cosmetics, as well as many others, invested in their brick and mortar presence and their omni-channel capabilities during the pandemic and those investments paid off over the past year. Sales at these retailers, as shown in the Figure 3, improved significantly over 2019 levels as customers with disposable income and increased "excess" savings returned to in-store shopping for the majority of their shopping needs. Customers were able to take advantage of improved integration between online and physical stores for these and many other retailers who had the ability during Covid to focus on customer convenience. In fact, in 2019, only 6.9% of the top 500 U.S. retailers had Buy Online, Pickup in Store ("BOPIS") services, according to a report by Digital Commerce 360. That number increased to nearly 44% by the end of 2020. And according to a study by Colliers, a national brokerage firm, approximately 31% of all digital transactions will be fulfilled by a physical store by 2025. The focus on customer convenience caused retailers to invest not just in in-store pickup options but also in using stores as fulfillment centers for local delivery. These changes to customer convenience and increased fulfillment options have led many retailers to accelerate their relocation plans from malls to open-air centers, where the open-air format lends itself better to curbside pickup, in-store pickup and local delivery access. While we have been seeing the benefits of this for years, we saw an increase in retailers over the past twelve months who made the decision to accelerate their shift from malls into our properties. We have had discussions with or have recently completed leases with retailers relocating out of malls, such as The Buckle, Bath & Body Works, American Eagle and Old Navy, and the feedback we have received from retailers that have opened in our properties after leaving the local mall is that their stores are generating significantly higher sales volumes than what they had achieved in the mall. Beyond the shift from malls to open-air centers, we also continued to see the importance of owning high quality properties. Over the past year, we have seen retailers moving out of lower quality shopping centers into our properties so they can be surrounded by quality retailers in a first-class shopping environment. One example of this is our shopping center in Houma, Louisiana. In early 2021, we signed a lease with Ulta Cosmetics to relocate from a "C" quality shopping center just down the street into our property, which further solidified our property as the dominant center in the market.

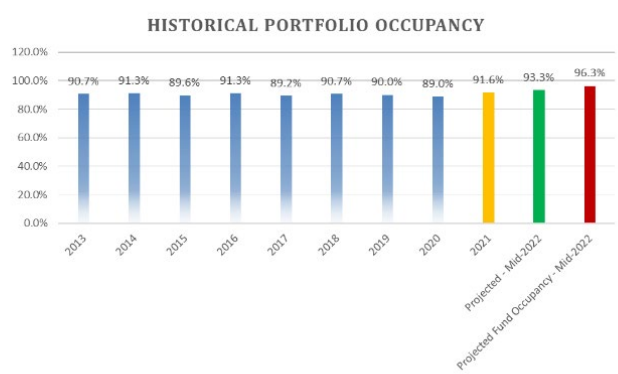
Figure 3



Chase Properties' Strategy

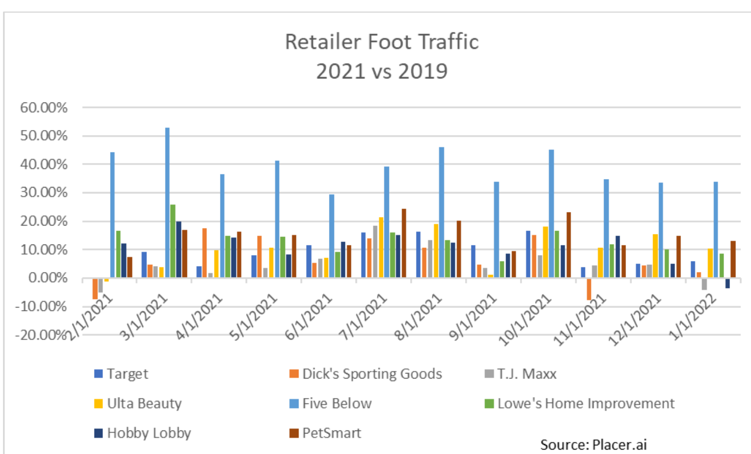
Our strategy for nearly 50 years has been to own high quality open-air shopping centers in secondary and tertiary markets. The shifts within retail over the past several years have proven to be a benefit to our strategy. Within our own portfolio in 2021, we saw exceptionally strong leasing activity, tenants continuing to renew and increased tenants sales and foot traffic. As can be seen in Figure 4, our occupancy is currently the highest it has been in ten years and is projected by the middle of this year (based on current tenant negotiations) to be significantly higher. In fact, over the past year, we have leased nearly as much space as we leased in the prior three years *combined*, including 83% of the square footage we lost to tenant bankruptcies during 2020 (as we indicated in last year's letter, this represented 11 tenants out of our portfolio of nearly 450 tenants). This has been driven by retailers relocating from malls and inferior open-air centers, expanding retail concepts and established national retailers focusing their entire real estate strategy on expanding their presence in smaller markets because of the profitability of operating within those markets. And we continued to see tenants renewing, with 95% of our expiring square footage choosing to renew.

Figure 4



The strength of our portfolio was not just reflected in leasing activity, but also in the performance of our tenants. As discussed previously, customers returned to stores over the past year, with average reported tenant sales increasing 12.6% over 2019 and overall foot traffic across our portfolio (this is something we track using technology that monitors mobile phone data) increasing 3% over 2019. Many of our largest tenants saw significant increases in foot traffic across their entire chains, as can be seen in Figure 5.

Figure 5



This past year was one of the most active in our company's history. We closed 15 transactions (acquisitions and dispositions) and 12 financings. Several of the dispositions over the past year were of single and multi-tenant outparcels we were able to sell at very attractive and accretive cap rates relative to our acquisition prices (this is a strategy we continue to execute on with our new acquisitions) and the acquisitions included two new shopping centers within our fourth fund (Grand Rapids, Michigan and Omaha, Nebraska). We also closed out our first fund, resulting in an overall net IRR of 13.7%, and we sold three properties from our second fund.

We expect this pace to continue in 2022, with several additional acquisitions, dispositions and refinancings currently in different stages of negotiations. We have continued to expand our team, including two new additions to our executive team, and we have continued to invest in new technology, including improved mobile traffic data and new business intelligence software. And, most importantly, we have continued to invest in and support our people, who form the basis for everything we are able to accomplish.

We believe very strongly in creating a culture in which everyone has the confidence to offer new ideas and respectfully challenge each other. We value everyone's independence and autonomy and trust that we are all working towards a shared purpose and goal, which has allowed us over the past year to institute a new flexible remote work policy and the elimination of a PTO policy. And we believe strongly that we can have some fun and give back to the community while working hard to get the job done. We are very fortunate to have an exceptional team of people at Chase Properties and we remain excited about the opportunities to grow and manage our retail business.

Members of the Chase Properties team volunteering with the Greater Cleveland FoodBank to distribute food in September 2021