Sector spotlight: Service-oriented retail

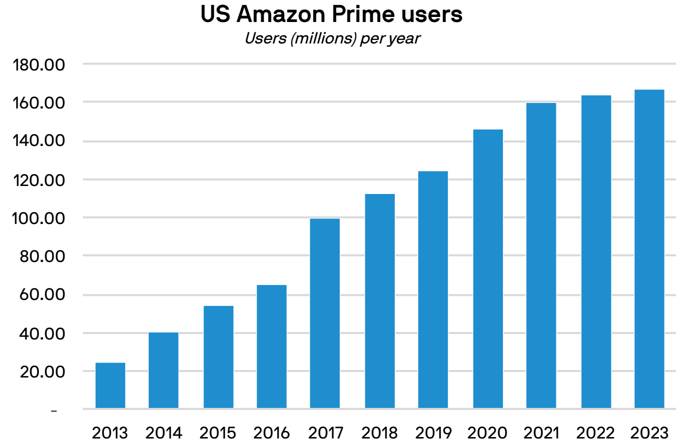
The emergence of E-Commerce was a well-telegraphed threat to retail but its impact really didn't start to be felt by landlords until 2013 when Amazon Prime began its explosive growth. At that time, retail rents continued to grow, despite the fact that consumers were shifting their purchases to online channels.[1] The problem was particularly acute across the mall sectors but was also felt in "big box" power centers and, to a lesser extent, neighborhood shopping centers (also called strip centers). What followed was declining rents and consequently, rising cap rates.[2] By the time COVID hit in 2020, very few investors had retail on their target list.

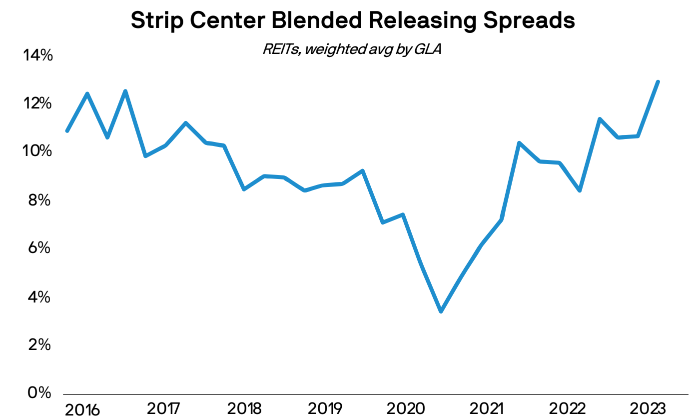
Mall failures in the run-up to the COVID era gave the word retail a bad name and both equity investors and lenders withdrew support for new construction. E-Commerce was disrupting the industry, forcing many goods retailers into bankruptcy. However, it became clear in 2018 and 2019 that occupancy levels in strip centers weren't actually declining.[3] Instead, service tenants began to backfill the suites. Health and beauty, fitness, restaurants and bars, financial services and increasingly doctors' offices and surgery centers were replacing the goods-selling retailers. And strips were thriving.

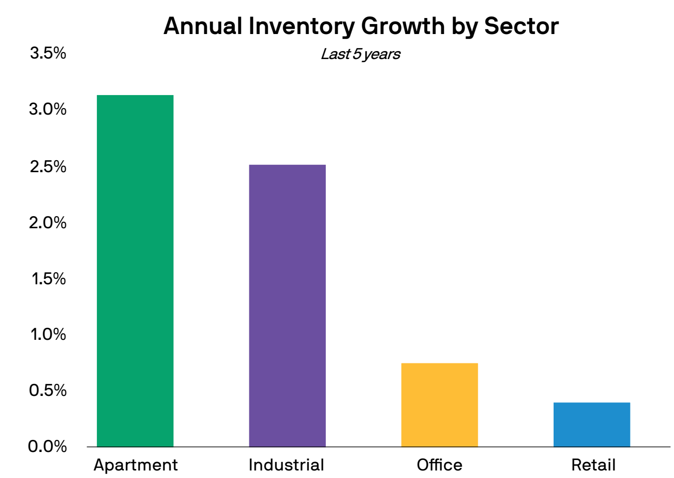
The COVID lock downs were a major problem for retail landlords, but the strip center sector bounced back quickly, with steady occupancies and rising rents. Meantime, all of that negative investor sentiment over the prior 10 years had led to remarkably low construction levels. Populations were rising, consumer spending was rising, service spending as a percentage of consumer spending was rising, all leading to stronger sales productivity at strip centers, which culminated in landlords having more pricing power to increase rents. Today strip centers are one of the strongest property types. Vacancy across the sector is down 110 basis points over the last two years,[4] while releasing spreads (the change in rent between new and expiring leases) among the strip center REITs are the highest they have been since 2016.[5]

Traditional fundamentals still determine the relative success across the strip center universe. Clearly customers prefer open-air formats.[6] Population and income densities remain important. And, as always, the centers with the most convenient access, visibility and parking continue to dominate. We expect E-Commerce's penetration of total consumer spending to continue to increase, and the orientation of strip centers towards necessity and service orientated retailers makes them less susceptible to competition from online channels. In fact, their proximity to the consumer and physical layout, which allows customers to pull up directly to stores, makes them well-suited for retailers offering buy online pick-up in store.

We observed that strong fundamentals, such as high occupancies, rising rents and low construction are luring investors back to retail – specifically the strip center space - with the expectation of net operating incomes to grow faster than those of other sectors. We have already seen cap rates adjust downward in reaction to these changes and we expect further cap rate compression in the space, as the health of the strip center industry continues to improve.







J.P.Morgan
ASSET MANAGEMENT

Chart source: Top – eMarketer, Statista and CIRP; Middle - Green Street; Bottom – CoStar;
Footnotes: (1) CoStar and Bureau of Census. (2) Cap rate is defined as property net income divided by its value. (3) CoStar from 1Q 2014 to 1Q 2024. (4) Costar. (5) Refer to middle chart, Green Street. (6) Placer.ai from January 2020 to November 2023.

Summary of Risk Factors

An investment in shares of common stock of J.P. Morgan Real Estate Income Trust, Inc. ("JPMREIT") involves a high degree of risk. These securities should only be purchased if you can afford to lose your complete investment. Please read the prospectus for a description of the material risks associated with JPMREIT. These risks include but are not limited to the following:

- We have a limited operating history and there is no assurance that we will be able to successfully achieve our investment objectives.
- This is a "blind pool" offering. You will not have the opportunity to evaluate our future investments before we make them.
- Since there is no public trading market for shares of our common stock, repurchase of shares by us will likely be the only way to dispose of your shares. Our share repurchase plan provides stockholders with the opportunity to request that we repurchase their shares on a monthly basis, but we are not obligated to repurchase any shares and may choose to repurchase only some, or even none, of the shares that have been requested to be repurchased in any month. In addition, repurchases will be subject to available liquidity and other significant restrictions. Further, our board of directors may make exceptions to, modify or suspend our share repurchase plan if in its reasonable judgment it deems such action to be in our best interest and the best interest of our stockholders. Our board of directors cannot terminate our share repurchase plan absent a liquidity event which results in stockholders receiving cash or securities listed on a national securities exchange or where otherwise required by law. As a result, our shares should be considered as having only limited liquidity and at times may be illiquid.
- Distributions are not guaranteed and may be funded from sources other than cash flow from operations, including, without limitation, the sale of or repayments under our assets, borrowings, return of capital, offering proceeds and advances or the deferral of fees and expense reimbursements, and we have no limits on the amounts we may pay from such sources.
- The purchase price and repurchase price for shares of our common stock are generally based on our prior month's NAV (subject to material changes as described in the prospectus) and are not based on any public trading market. While there may be independent valuations of our properties from time to time, the valuation of properties is inherently subjective, and our NAV may not accurately reflect the actual price at which our investments could be liquidated on any given day.
- We are dependent on the Adviser, as well as persons and firms the Adviser retains to provide services on our behalf, to conduct our operations. The Adviser will face conflicts of interest as a result of, among other things, the allocation of investment opportunities among us and Other J.P. Morgan Accounts (as defined in the prospectus), the allocation of time of its investment professionals and the substantial fees that we will pay to the Adviser.
- This is a "best efforts" offering. If we are not able to raise a substantial amount of capital in the near term, our ability to achieve our investment objectives could be adversely affected. In addition, we are not required to call all of the commitments for our private offering and cannot guarantee that any capital commitments requested thereunder will be funded.
- Principal and interest payments on any borrowings will reduce the amount of funds available for distribution or investment in additional real estate assets.
- There are limits on the ownership and transferability of our shares.
- If we fail to qualify as a REIT and no relief provisions apply, our NAV and cash available for distribution to our stockholders could materially decrease.

Forward Looking Statements

This material contains forward-looking statements about the real estate market and the service-oriented retail sub-sector within the real estate market. These forward-looking statements can be identified by the use of forward-looking terminology such as "expect," "continue," "may," "will," "should," "anticipate," "intend" or other similar words or the negatives thereof. These may include statements about plans, objectives, intentions, and expectations with respect to positioning within the real estate market, including the impact of macroeconomic trends and market forces. Such forward-looking statements are inherently uncertain and there are or may be important factors that could cause actual outcomes or results to differ materially from those indicated in such statements. We believe these factors include but are not limited to those described under the section entitled "Risk Factors" in JPMREIT's annual report for the most recent fiscal year, and any such updated factors included in JPMREIT's periodic filings with the SEC, which are accessible on the SEC's website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in JPMREIT's public filings. Except as otherwise required by federal securities laws, JPMREIT undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

J.P. Morgan Institutional Investments Inc., Dealer Manager / Member FINRA.

Material ID: 09e0232212213728, 09wz242105174226.