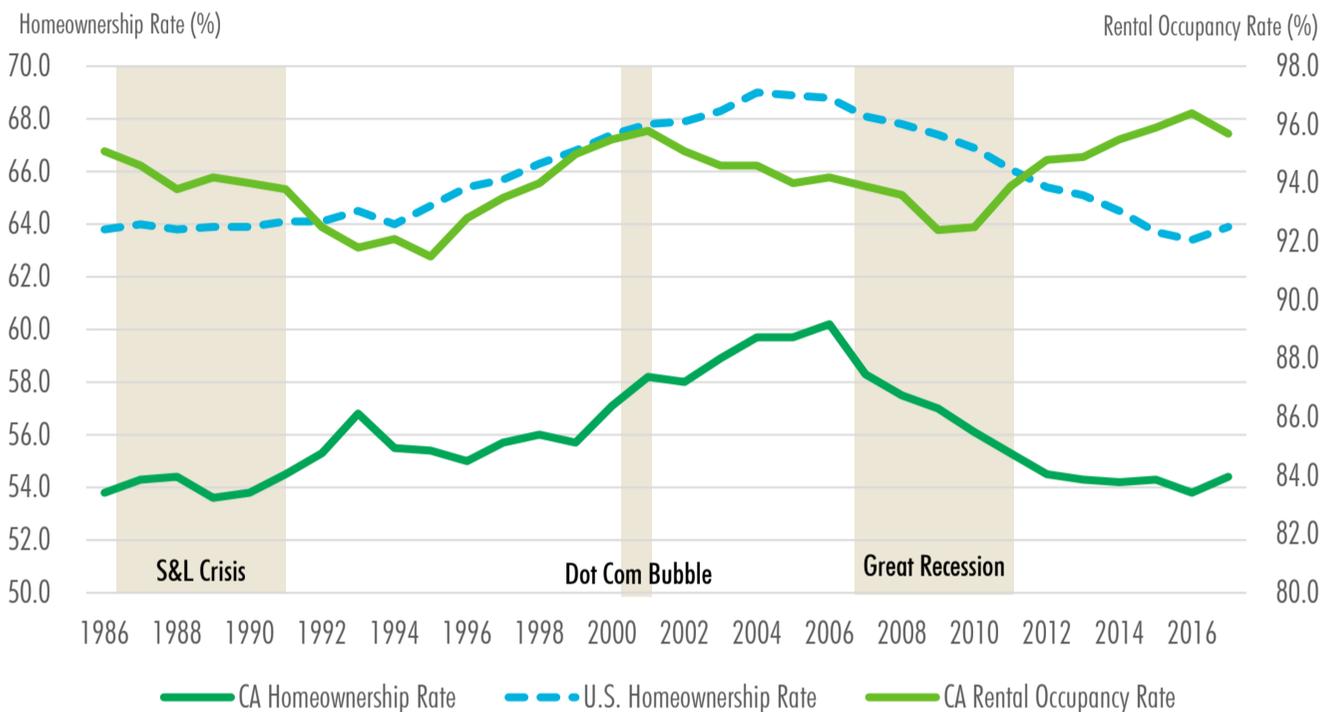


Lack of homeowners created perfect market for discount furniture stores

With the recession well in the past, furniture retailers are once again on the upswing with sales growing 4.4% in the U.S. over the previous year. Furniture retailers act as an economic barometer, typically the first to suffer during a downturn and the first to recover when consumer confidence returns. A subset of furniture retailers, namely wholesale, discount, and rent-to-own, have gained considerable traction in SoCal, so much so that they outnumber mid- to high-range stores 3 to 1. As Figure 1 illustrates, the cause may be due to more residents becoming renters instead of homeowners.

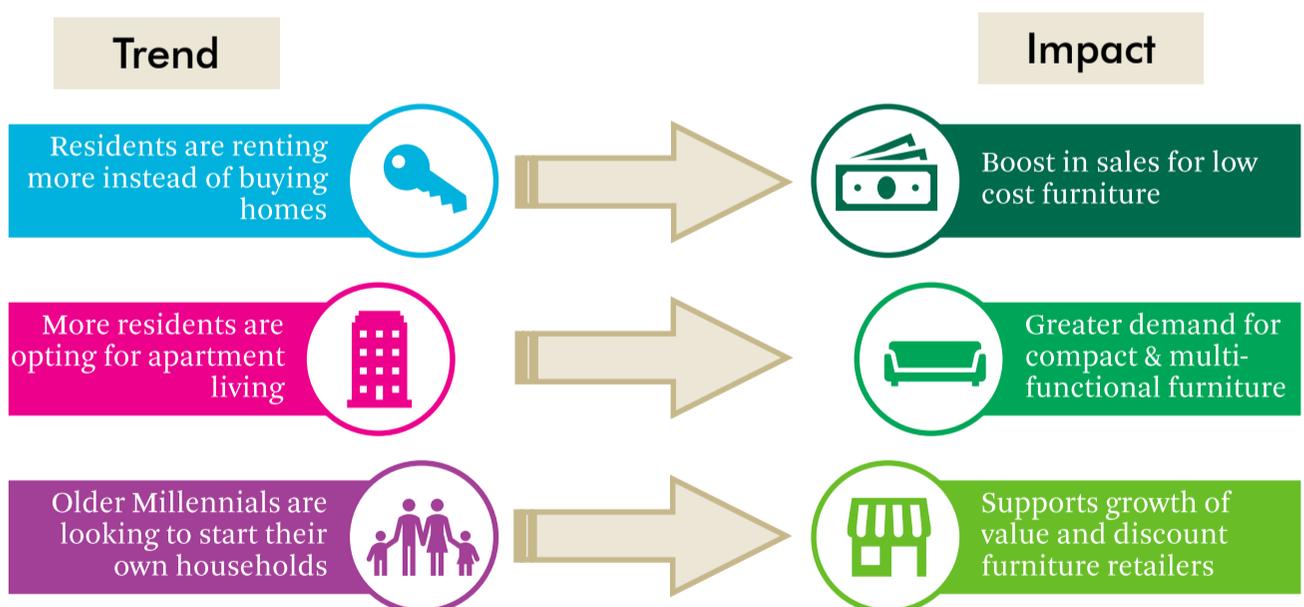
Figure 1: CA & U.S. Homeownership & Rental Rates



Source: US Census Bureau, July 2018.

The rate of homeownership decreased on average by 1.0% annually in California since the end of the Great Recession. As of 2017, only 54.4% of CA residents own homes compared with the national average of 63.9%. More residents are opting to rent either due to a lack of affordable housing or as a cost saving measure. The current housing dilemma, coupled with money-conscious Millennials starting families, has created the perfect environment for discount furniture retailers to thrive and compete against mid to high-tier retailers in the same category.

Figure 2: Current Trends & Potential Impact on Furniture Retail Industry



Source: Coresight Research "US Furniture Market 2017: Preferences and Trends".

Notable examples of active tenants include Jerome's and Bob's Discount Furniture, both of which have expanded in the GLA/OC/IE region and are even eyeing space recently vacated by Kmart and Toys "R" Us, an appealing prospect for landlords looking to backfill 20,000-50,000 sq. ft. of vacant big box space. The rent-to-own concept, which allows consumers to lease designer and brand name furniture, has also risen in popularity among shoppers unable to spend hundreds on furniture upfront.

The commonality between furniture stores on both ends of the cost spectrum is their appeal as an experiential retailer. The showroom format allows customers to see and touch products in a mock living or bedroom environment, something e-commerce has yet to replicate. So long as current conditions prevail, and some economic kryptonite isn't thrown into the mix, furniture retailers of all types will stay a member of SoCal's 'Fantastic Five' for the foreseeable future. Who among these vaunted retailers will be revealed next? Stay tuned...