

NATIONAL RETAIL MARKET OVERVIEW



Retail Property Type Overview

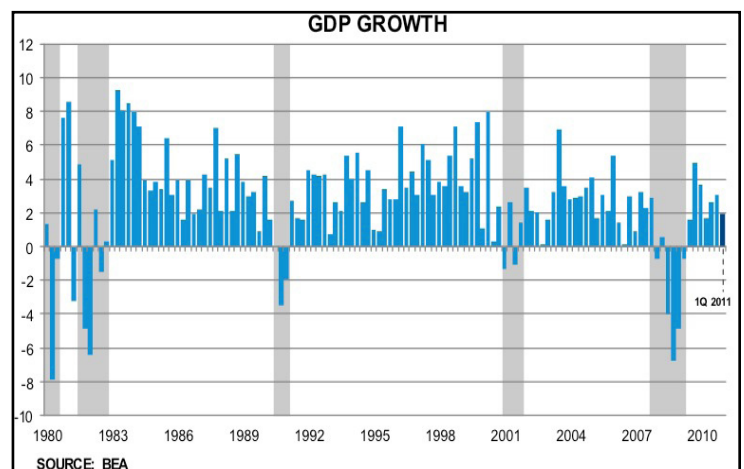
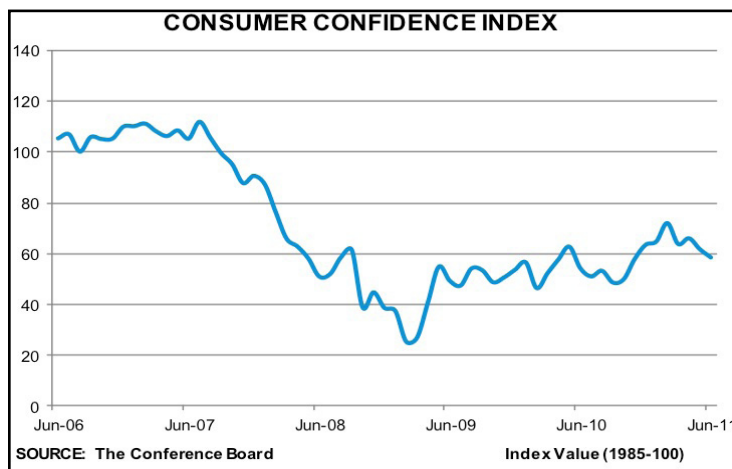
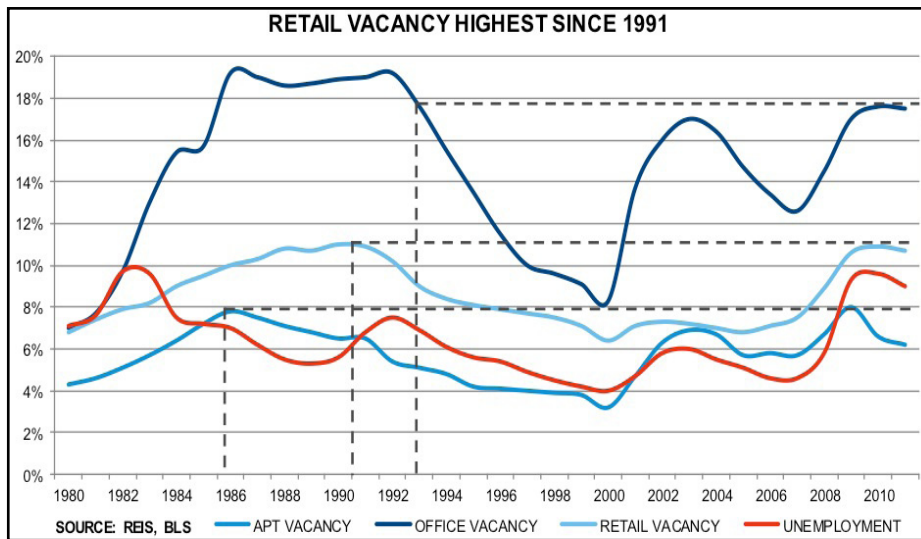
K.C. Conway, MAI, CRE, CIVAS Market Analytics

What happened?

In Q1 2011, the retail outlook conclusion was: key retail indicators suggest that retail real estate is finding a foothold from which to build a recovery.

In Q1 2011, the trend was improving for retail real estate. Q4 2010 GDP was 3.3%, up from -2.0% in 2009 and -4.0% in 2008. Retail sales for CY 2010 were +6.5%, compared to -6.5% in 2009. Consumer confidence had increased to an 8-month high, according to the Conference Board's Consumer Confidence Index. As we close the books on Q2 2011, the outlook for retail real estate is 180 degrees different for 2H2011. GDP has fallen to less than 2.0%.

The latest and third revision by the Commerce Department released in June was 1.9% for Q1 2011 GDP. The year-over-year rate of change in retail sales (excluding food and gasoline) has slowed from +8.0% in Q1 to +6.0% in Q2. Consumer confidence has succumbed to the worries of rising unemployment (up for the second month in a row to 9.2% in the June BLS jobs report) and elevated gasoline prices (up roughly 25% over summer 2010 despite decline in oil prices below \$100 per barrel). In June, consumer confidence declined to an index reading of below 60 - its lowest level since November 2010.



CURRENT DEMAND PERSPECTIVE

The appropriate starting point with respect to demand is answering the question: What happened?

What happened was a series of events ranging from the March earthquake in Sendai, Japan which disrupted manufacturing supply chains globally, to a steep rise in oil and gasoline prices. Additionally, the downward trend in weekly jobless claims that had fallen below the 400,000 threshold level has reversed. Weekly jobless claims have remained above 400,000 since the week ending April 9th. The U-3 (official unemployment rate) has risen twice in Q2 2011 to the 9.2% level reported in the June jobs report by the U.S. Department of Labor.

States and municipal governments struggling to balance their budgets lead all employer categories in job cuts. Financial services and temporary work have seen the next highest levels of job loss in Q2 2011.

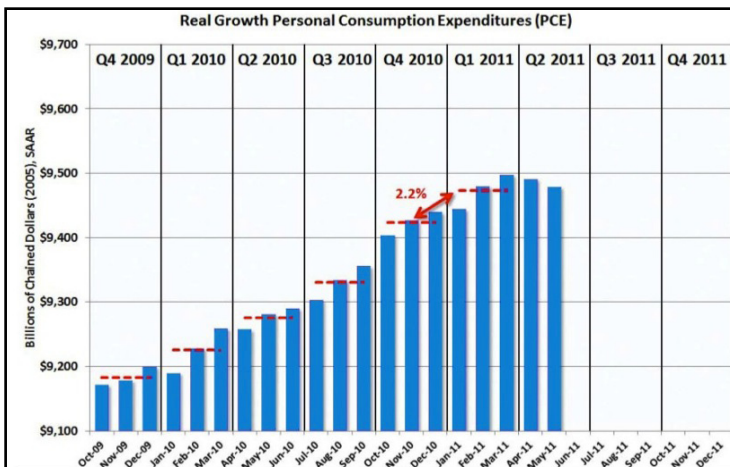
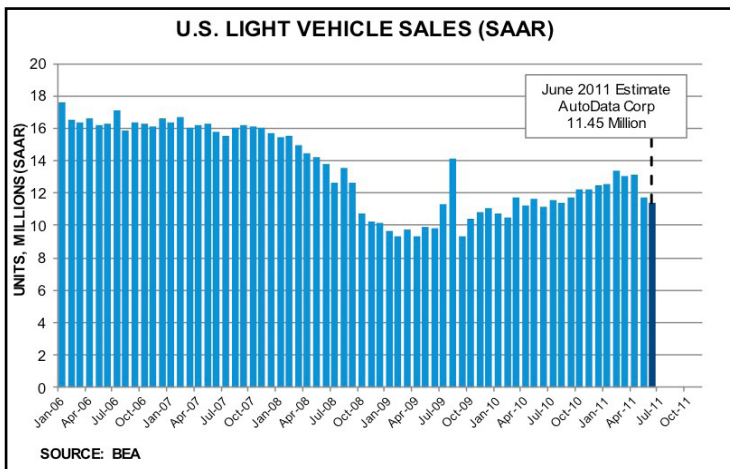
Manufacturing layoffs, supply-chain disruptions, elevated energy costs, elevated weekly jobless claims, and worries about employment have converged to send the consumer back into a savings versus spending mode.

REIS's senior economist Ryan Severino best summarized the change in consumer behavior and its impact on retail real estate:

"Even though we've been out of a recession for two years, there aren't a lot of jobs out there, and people are still risk adverse. That's depressing demand for both retail goods and retail space. In addition to weak demand from consumers, landlords are grappling with competition from online sales, which reduces demand for physical stores. Halfway through 2011, it is difficult to feel optimistic about retail properties. Expect continued difficulties for the retail sector in the latter half of 2011."

The Q2 2011 data pertaining to real growth in Personal Consumption Expenditures and Light Vehicle Sales corroborates this retrenchment in consumer behavior and sentiment expressed by REIS's senior economist.

Two other valuable metrics in assessing the health of retail real estate are retail store closings and the National Restaurant Association's Restaurant Performance Index. Both these metrics portray a picture of contracting retail locations across a broad array of retail categories (apparel, department, discount, drug, grocery, office supply, and restaurant), and a pull-back in dining outside the home. The Restaurant Performance Index has moved back into contraction territory for the first time since the official end of the recession. This index has historically had a near perfect correlation for predicting recessions and recoveries.



NEW SUPPLY PERSPECTIVE

With the demand perspective for retail real estate established, it's important to examine what is happening on the supply side of the equation. The following table was developed using the Dodge Pipeline construction data. It highlights several important trends, but the most important trend is that delivery of new retail space has slowed by approximately 80% since Q4 2008.

This reduction in new supply is a key step in the rebalancing process for retail real estate. Three other key observations from the Dodge Pipeline Completions data are:

- 20 markets have accounted for between 25% and 45% of all new additions to supply since Q4 2008. Chicago, San Antonio, Washington D.C. and Atlanta reported in excess of 1.0 million square feet of new supply delivered to their respective markets at the end of 2008, and still rank among the top-20 MSAs for new deliveries in 2011.
- Only 5 MSAs had 500,000 square feet or more of Completions in Q1 2011. Those markets included Minneapolis, Denver, New York, San Antonio and Atlanta.
- Only Washington D.C. will have more than 700,000 square feet of new Completions in Q2 2011.

The logical follow-up question to new supply after this view on completions is: What is still underway?

The next table addresses this concern for investors in retail properties. Unfortunately, the decline in retail space underway has not slowed as dramatically as completions. Space still underway has slowed approximately 50% from Q4 2008 compared with an 80% reduction in completions. This observation should not be too surprising as the natural instinct by developers and lenders in a recession is to slow the pace of development in hopes the market will come back. The interest-reserve in the construction loan is sufficient to carry the project over a longer construction period. As a result, it's not uncommon during periods like this to see completions slow more dramatically than projects underway.

RETAILERS WITH THE MOST STORE CLOSINGS		
RANK	RETAILER	CLOSINGS
1	Blockbuster	405
2	Borders	228
3	Gamestop	200
4	f.y.e	160
5	Anchor Blue	117
6	Foot Locker	117
7	Talbot's	100
8	A.J. Wright	71
9	Metropark	69
10	Rite Aid	60
11	Aberc & Fitch	50
12	Hot Topic	50
13	Big Lots	45
14	Family Dollar	45
15	Denny's	35
16	Great A & P	32
17	Ultimate Elect.	30
18	Dominos	28
19	Superfresh	25
20	Dest. Maternity	21
21	Sears	19
22	Stride Rite Sperry	15
23	Sony Style	11
24	Donut Connection	10
25	Staples	10
26	Express Inc	9
27	Conn's	7
28	Kenneth Cole	7
29	Pier One	7
30	Acme	6
31	Albertson's	6
32	Loehman's	6
33	Popeye's	6
34	Select Comfort	6
35	Shaw's	6
36	JC Penny	5
37	Sixth Ave. Elect.	5
38	BJ's Brewery	5
39	Dollar Tree	3
40	Macy's	3

SOURCE: ICSC & About.com

RETAIL CONSTRUCTION COMPLETED EXCLUDING MALLS & <30,000SF ('000'S)								
MARKET	Q4 - 08	Q4 - 09	Q1 - 10	Q2 - 10	Q3 - 10	Q4 - 10	Q1 - 11	QTD Q2 - 11
Minneapolis	254	42	112	51	84	232	659	33
Denver	409	12	176	433	155	0	604	0
New York	494	505	206	223	0	513	508	224
San Antonio	1,253	91	0	96	408	95	498	24
Atlanta	1,075	757	318	72	377	73	496	77
Cincinnati	506	64	399	0	16	14	345	0
Boston	512	624	979	616	321	392	323	179
Houston	826	147	174	0	289	87	313	21
Tampa	66	65	38	75	82	285	254	165
Wash., DC	1,136	821	638	141	1,065	157	250	720
Columbus	418	16	12	0	8	0	200	0
Richmond	280	53	600	225	91	93	185	0
Chicago	1,469	374	227	322	337	831	160	262
New Orleans	57	460	13	115	14	48	160	0
Philadelphia	709	171	279	555	77	120	158	255
Tucson	46	216	0	72	0	0	148	11
Stamford	16	0	119	0	0	7	144	99
Oakland	0	395	15	0	0	0	140	0
Dallas	461	197	346	86	261	9	131	180
Louisville	185	153	31	87	114	0	128	47
TOP 20 MSAs	10,172	5,163	4,682	3,169	3,699	2,956	5,804	2,297
% OF NATION	25%	29%	33%	23%	18%	25%	45%	27%
TOP 75 MSAs	24,173	11,432	9,014	6,755	11,668	6,817	7,767	4,587
% OF NATION	59%	63%	63%	48%	58%	57%	61%	53%
NATION	40,678	18,092	14,377	14,064	20,150	11,998	12,813	8,615

SOURCE: ICSC & About.com

Slowing the pace of construction for existing projects has been part of the “extend” strategy by lenders and the regulatory community to cushion the pace of classified and nonperforming loans. The following table delineates where retail space still underway is of most concern. A couple of additional key takeaways for investors from this table include:

- Unlike other commercial real estate property types where the construction underway is primarily concentrated in the top 20 to 50 MSAs, retail construction underway is more widely dispersed. Two-thirds of the remaining retail construction is dispersed in second-tier and tertiary markets. This makes sense when one considers that larger scale projects in primary markets, like regional malls, are much more difficult to finance since 2008 and retailers have been targeting niches for expansion in non-core MSAs where overbuilding was less prevalent due to the pre-2007 housing boom.

- Overbuilt MSAs with significant housing and labor imbalances, like Atlanta, Chicago, Dallas, and Houston, are among the list of the 20 markets with the most remaining retail construction still underway.

From both the retail completions and construction still underway tables, it’s clear new supply is still a material concern for retail real estate. Overbuilding risk is elevated. Vacancy has probably not yet peaked with weakening consumer demand and additions to supply still running at nearly half the pace as they were at the end of 2008 before the financial crisis. Because all markets are local and the housing and labor imbalances vary widely between, for example, Atlanta and Denver, or Boston and Chicago, robust market analyses are key to defining the cure periods for retail across markets and regions of the U.S. The additions to supply are much less of a problem in “education center” markets where job growth is re-establishing, such as Boston, Raleigh and Denver, than they are for distressed housing markets with elevated unemployment, like Atlanta, Chicago, Milwaukee and Sacramento and the interior regions of California (Central Valley in Northern California and Inland Empire in Southern California).

RETAIL CONSTRUCTION UNDERWAY EXCLUDING MALLS & <30,000SF ('000'S)								
MARKET	Q4 - 08	Q4 - 09	Q1 - 10	Q2 - 10	Q3 - 10	Q4 - 10	Q1 - 11	QTD Q2 - 11
New York	2,316	1,360	1,335	1,616	1,616	1,798	1,439	1,499
Boston	2,450	1,622	1,082	783	1,069	1,204	1,187	1,183
Chicago	2,380	803	878	1,199	1,723	1,129	1,074	1,080
Dallas	951	987	658	572	599	934	1,903	913
Philadelphia	1,514	634	678	261	341	523	468	755
Ventura	99	410	400	544	400	548	566	723
Wash., D.C.	2,424	1,023	1,040	1,069	989	1,360	1,182	642
Sacramento	1,179	769	635	798	668	635	635	635
Long Island	351	129	147	33	72	72	186	580
Atlanta	3,181	473	738	1,215	847	655	211	541
Denver	741	724	768	1,050	1,069	1,133	529	529
Richmond	893	775	423	199	124	46	492	514
Houston	1,449	297	256	426	405	322	447	494
Los Angeles	2,259	1,300	1,360	1,435	373	172	484	490
Baltimore	123	198	629	571	260	395	340	475
Minneapolis	315	314	495	665	799	836	405	452
Pittsburgh	556	45	12	174	593	533	469	427
Oklahoma City	439	109	95	12	383	501	506	411
Edison	335	210	206	111	103	130	281	369
Milwaukee	666	480	703	688	115	234	292	357
TOP 20 MSAs	24,441	12,662	12,538	13,421	12,548	13,160	12,286	13,069
% OF NATION	27%	30%	33%	34%	34%	36%	35%	35%
TOP 75 MSAs	53,642	24,140	22,754	24,047	22,047	21,821	20,789	21,489
% OF NATION	59%	57%	59%	61%	61%	60%	59%	58%
NATION	90,499	42,010	38,869	39,366	36,829	36,616	35,059	37,168

SOURCE: Dodge Pipeline

TRANSACTION PERSPECTIVE

Recognizing the imbalance between supply and demand for retail real estate, the next logical question is:

How is the retail imbalance between supply and demand impacting investor behavior? Unlike multifamily and office real estate, debt refinance transactions for retail properties are more prevalent than acquisition transactions. Retail property owners with leased assets or shopping centers in stabilizing markets are not willing to sell assets or portfolios at 50% discounts to value-enhancement or opportunity buyers.

Rather, retail owners are opting to raise an additional 20% to 30% equity and refinance maturing debt in the capital markets which have expanded their risk appetite to include under-performing retail. Two of the most recent CMBS issuances averaged 90% LTVs and only 1.20 DSCRs with retail constituting the largest asset type in the pool of properties. Therefore, refinancing is a more prevalent option in response to maturing debt by retail property owners than disposition at opportunity fund prices.

This trend commenced with the first new CMBS 2.0 issuance in Q4 2009 with the Developer Diversified Realty retail portfolio it has continued with subsequent retail portfolio refinancing, such as Vornado Realty Trust and General Growth Properties (following their exit from bankruptcy earlier this year). However, some retail real estate is being bought and sold. The following table is a stratification of the 25 most active buyers and sellers over the past twelve months. Investors are not yet willing to tackle value-enhancement retail given the volume of new construction and lack of expansion by national retailers.

For these less liquid markets, cap rate derivation will require use of techniques such as "Band-of-Investment" or "Mortgage-Equity." A scarcity of

transactions will limit the applicability of the sales comparison approach. The cost approach to value can serve as a meaningful test of economic obsolescence against the value conclusion from a discounted cash flow (DCF).

Note that the 25 most active buyers account for two-thirds of all transactions. Institutional capital and REITS are the dominant market participants. There is a dearth of transaction activity for retail with some or all of the following attributes: unanchored or theme/festival centers, suburban located in secondary and tertiary markets (especially those with distressed housing markets), and centers with high vacancy/rent roll profiles in which more than 30% of the space has renewal exposure in the next five years.

MOST ACTIVE RETAIL BUYERS MAY 2010 - MAY 2011			
RANK	BUYER	VOL.(\$M)	TOTAL
1	Blackstone	9,592	555
2	Simon Property Group	2,234	24
3	Cole Real Estate Inv.	1,210	115
4	TIAA - CREF	1,188	6
5	Inland R.E. Group	1,150	65
6	Morgan Stanley	1,147	2
7	Related Companies	1,124	11
8	Bain Capital	1,047	10
9	Oaktree	1,047	10
10	Network World Market Center	1,047	10
11	RioCan REIT	875	31
12	Bassett Furniture	772	9
13	Equity One	598	16
14	Ceder Shopping Centers Inc.	463	17
15	Excel Trust Inc.	433	9
16	Retail Opportunity Inv. Corp.	363	25
17	Rockwood Capital	360	3
18	Vestar Development	360	3
19	Tanger Factory Outlet	334	3
20	Inditex	324	1
21	Kimco Realty Corp	320	9
22	Vornado Realty Corp.	318	3
23	Weingarten Realty	302	10
24	Realty Income Corp.	293	20
25	DESCO Associates	289	34
25 Most Active U.S. Retail Buyers		27,187	1,031
% of May 2010 - May 2011 Sales		67%	66%
Retail Purchases May 2010 - May 2011		40,669	1,556

Source: Real Capital Analytics

MOST ACTIVE RETAIL SELLERS MAY 2010 - MAY 2011			
RANK	SELLERS	VOL.(\$M)	TOTAL
1	Centro Property Groups	9,998	614
2	Lightstone group	2,186	20
3	CBL & Associates	1,251	7
4	Morgan Stanley	1,227	3
5	Carlyle Group	489	2
6	Crown Acquisitions	459	2
7	General Growth Properties	406	9
8	Developers Diversified Realty	404	18
9	Charter Hall	391	43
10	Albertson's Inc.	374	38
11	Regency Centers	373	39
12	Equity One	330	7
13	Macquarie Group	316	36
14	Credit Suisse	280	1
15	Bassett Furniture	275	1
16	ProLogis	259	4
17	Inland Real Estate Group	247	14
18	Northwestern Mutual Life	245	1
19	Kimco Realty Corp.	223	9
20	Prudential RE Investors	215	7
21	AIG Baker	212	6
22	Levine Investments LP	203	2
23	Pennsylvania REIT	201	7
24	Cordish Company	200	2
25	Continental Development	195	1
25 Most Active U.S. Retail Sellers		20,958	893
% of May 2010 - May 2011 Sales		59%	58%
Retail Dispositions May 2010 - May 2011		35,665	1,537

Source: Real Capital Analytics

HISTORICAL DISCUSSION

With the current retail demand as well as supply and transaction activity perspectives on the market, the following historical statistical analysis will have more meaning. The data is compiled primarily from REIS – a widely recognized retail data source with a large U.S. market coverage that aligns with the Colliers footprint. This decade-in-review compilation highlights how net absorption and vacancy have behaved in response to both additions to new supply and periods of economic contraction.

Over the past ten years the United States retail market inventory substantially increased by 13.2% while employment contracted by -1.7%. Although 1.7% does not seem like a significant figure, it's much more significant when one recognizes the U.S. has not experienced a decade of less than 20% job growth – yet alone one with job loss – in a post World War II era.

These trends have resulted in soft market conditions where there is a supply and demand imbalance as previously detailed. Analysis of the data indicates the United States retail market has gone through three distinctive trends over the past ten years as summarized in the table below.

As a result, vacancy remained in a range of 6.5% to 7.5% and did not rise above 10% as some had forecasted. The most recent five year period from 2006 to 2010 was marked by a return to the beginning of the decade – or more overbuilding and substantial job loss due to the financial crisis. The decade ended with an elevated vacancy rate of more than 10%, anemic absorption due to -3.4% job growth, and declining rents.

U.S. HISTORICAL STATISTICS (LAST TEN YEARS)							
PERIOD	SUPPLY (\$M)	ADDED SUPPLY (\$M)	NET ABSORPTION (\$M)	VACANCY	ASKING RENT (\$/SF)	ACTUAL RENT (\$/SF)	EMPL
2001	1,789	5,286	19,469	7.1%	16.31	15.10	-1.3%
2002	1,821	32,232	27,432	7.3%	16.68	15.27	-0.4%
2003	1,851	29,416	28,597	7.2%	17.14	15.62	-0.2%
2004	1,881	30,596	32,545	7.0%	17.62	16.08	1.7%
2005	1,946	34,438	35,390	6.8%	18.22	16.60	1.9%
2006	1,945	29,627	22,108	7.1%	18.92	17.16	1.8%
2007	1,979	33,254	23,735	7.5%	19.46	17.57	1.0%
2008	2,003	24,545	(-6,749)	8.9%	19.52	17.39	-2.0%
2009	2,016	12,770	(-21,907)	10.6%	19.13	16.75	-4.7%
2010	2,020	4,361	(-3,153)	10.9%	18.99	16.51	0.5%
CAGR	1.4%	-	-	-	1.7	1.0%	-0.1%

Source: REIS®

U.S. HISTORICAL STATISTICS (LAST TEN YEARS)						
PERIOD	ADDED SUPPLY ('000s)	NET ABSORPTION ('000s)	VACANCY	ASKING RENT (\$/SF)	ACTUAL RENT (\$/SF)	EMPL
2001-2010 10 Yrs	235,525 SF 13.2%	157,467 SF 8.8%	7.1%>10.9% 3.8%	16.31 > 18.99 16.4%	15.10 > 16.51 9.3%	-1.7%
2001-2002 2 Yrs	37,518 SF 2.1%	46,901 SF 2.6%	7.1%>7.3% 0.2%	16.31 > 16.68 2.3%	15.10 > 15.27 1.1%	-1.7%
2003-2005 3 Yrs	94,450 SF 5.1%	96,532 SF 5.2%	7.3%>6.8% -0.5%	16.68 > 18.22 9.2%	15.27 > 16.60 8.7%	3.5%
2006-2010 5 Yrs	104,557 SF 5.4%	14,034 SF 0.7%	6.8%>10.9% 4.1%	18.22 > 18.99 4.2%	16.60 > 16.51 -0.5%	-3.4%

Source: REIS®

“A cost approach to value can serve as a reasonable test for a discounted cash flow analysis to explain the amount of economic obsolescence resulting from a decade of over-building and negative job growth.”

CONCLUSION

Finally, some forward-looking perspective on what lies ahead in 2H2011 is necessary. Unlike multifamily and office real estate, the supply and demand imbalances in retail are more substantial. Vacancy elevated above 10%, declining rents, less than 1.0% job growth, and 27.86 million square feet of new retail center space still underway are not metrics that are conducive to attracting capital or encouraging retailers to expand. At the end of Q2 2011, retail space under construction in the U.S. was approximately \$2.665 billion in hard costs. These figures translate to a cost of \$96 per square foot.

The debt capital markets have opened up to retail real estate at 70% plus leverage based on today’s re-adjusted values. However, the buy-sell spread between existing developers and owners and the limited population of buyers is wide. As a result, transaction activity will be limited. Extracting a cap rate from the market will be a challenge and likely require other techniques, such as “Band of Investment” and “Mortgage Equity.”

U.S. TRAILING FOUR QUARTER PERFORMANCE							
Period	Supply ('000s)	Added Supply ('000s)	Net Absorption ('000s)	Vacancy	Asking Rent (\$/SF)	Actual Rent (\$/SF)	EMPL
Q2 - 2010	2,017,822 SF	653,000 SF	(1,926,000) SF	10.9%	19.01	16.53	0.5%
Q3 - 2010	2,019,627 SF	1,805,000 SF	611,000 SF	10.9%	19.01	16.53	-0.1%
Q4 - 2010	2,020,286 SF	659,000 SF	380,000 SF	10.9%	18.99	16.51	0.1%
Q1 - 2011	2,020,369 SF	83,000 SF	746,000 SF	10.9%	18.98	16.50	0.2%

Source: REIS®

512 offices in 61 countries on 6 continents

United States: 125
 Canada: 38
 Latin America: 18
 Asia Pacific: 214
 EMEA: 117

- \$1.5 billion in annual revenue
- 979 million square feet under management
- Over 12,500 professionals

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