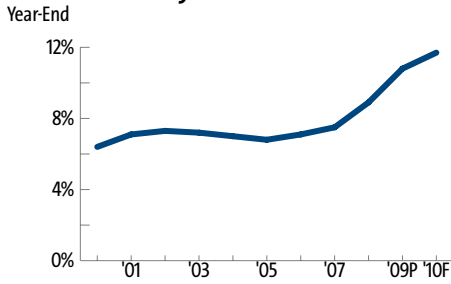
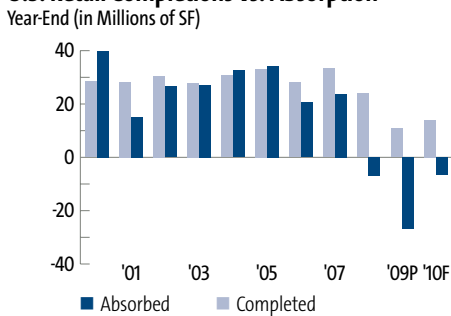


U.S. Retail Vacancy Rate*



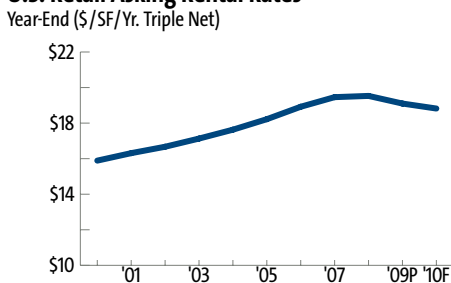
*Neighborhood and community centers
Source: Reis, Grubb & Ellis

U.S. Retail Completions vs. Absorption*



*Neighborhood and community centers
Source: Reis, Grubb & Ellis

U.S. Retail Asking Rental Rates*



*Neighborhood and community centers
Source: Reis, Grubb & Ellis

The retail market was hit hard by the consumer-led recession.

Retail sales appear to have bottomed out and even increased slightly late in 2009, but they are unlikely to bounce back quickly. The credit crisis and ensuing recession dealt crippling blows to all three supports to retail sales – home equity, investment portfolios and the labor market. The unemployment rate, 10.0 percent in November, understates the degree of pain being inflicted by layoffs and the sharp decline in hiring. The U-6 rate, which includes discouraged job seekers who have given up the search as well as part-time workers who would like to work full-time, was 17.2 percent in November, although this was down slightly from the recent peak of 17.5 percent in October. Even people with jobs were more frugal in an effort to pay down debt or rebuild their nest eggs, which took a bite out of retail sales and, by extension, tenant and owner-user demand for retail space.

Data provider Reis reported that the average vacancy rate for neighborhood and community centers increased to 10.8 percent at year-end, up from 8.9 percent at the beginning of the year. Vacancy for regional malls ended the third quarter at 8.6 percent, the highest rate of the decade. Grocery-anchored neighborhood centers are the best performers in the retail pantheon, particularly those in mature trade areas. Fortress malls with stable national tenant rosters fit this profile, too. Community centers anchored by discounters also performed admirably as consumers aggressively searched out the biggest bargains. Wal-Mart, which had trouble keeping up during the boom

years, has found its footing again in the past couple of years as the economy drove consumers through its front doors. At the other end of the product spectrum are unanchored strip centers on the urban fringe where housing construction has stopped and trade areas are only partially built out. These centers are where the financial distress is concentrated and, conversely, where the best investment deals may be available for aggressive buyers willing to accept the risk of waiting out the downturn.

Tenants vacated a net total of 27 million square feet of space in neighborhood and community centers in 2009, by far the greatest annual negative absorption total since 1980 when Reis began tracking this statistic. The construction pipeline delivered 10.8 million square feet of new space into an already saturated market. Asking rents declined by 2.2 percent in 2009 while effective rents were off by 3.9 percent.

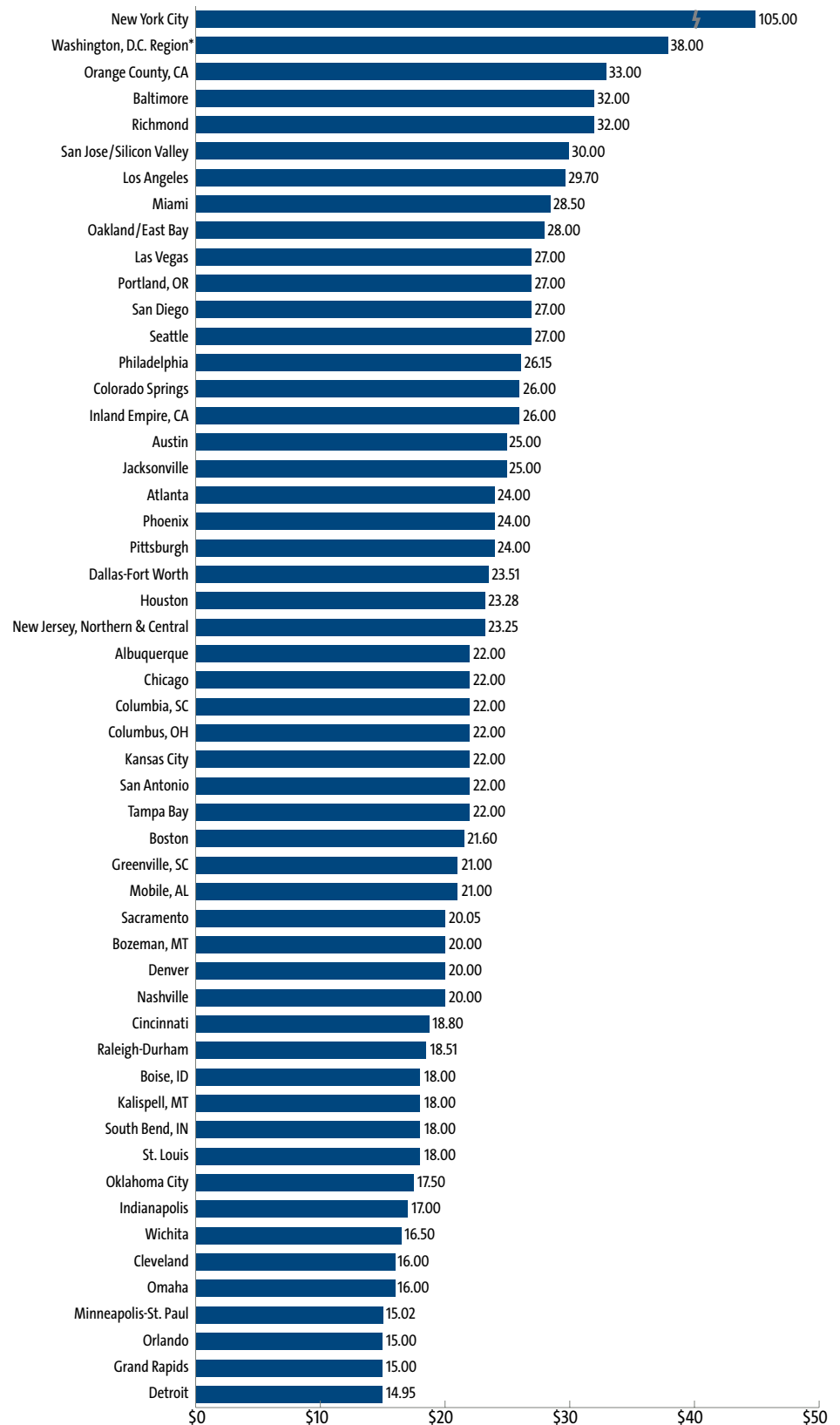
Forecast

Consumer spending has found a bottom as the fear that gripped the economy and financial markets in the first few months of 2009 has receded. The question is how quickly spending will come back. During the depth of the crisis, some analysts suggested that an entire generation coming of age might be jolted into permanent frugality like the generation growing up during the Great Depression. That may be extreme. A more plausible scenario is that consumers will increase their spending when the labor market improves,

including purchases to satisfy pent-up demand accumulating during the recent months of belt-tightening. Even so, the days of blowout spending associated with the housing boom and easy consumer credit will not return anytime soon. Some of this newfound conservatism and attention to value on the part of consumers will be permanent, particularly the increase in the saving rate from near zero in recent years back to around 5 percent or more. These changes may be part of the wallpaper in a couple of years after the recession has ended, that is, part of the “new normal” operating environment for retailers and their customers.

Expect the vacancy rate to end 2010 at 11.7 percent before embarking on a sustained recovery in 2011. Landlords will have to endure one more year of negative absorption with occupied space falling by about 7 million square feet, which would be a significant improvement from the market’s performance in 2009. Asking and effective rental rates are likely to decline a bit further, by 1.5 percent and 2.4 percent, respectively, before bottoming out and beginning a slow recovery in 2011. Overall, the retail market recovery will be less than robust in 2010 because the labor market will remain challenged, but retail leasing should be more active than in 2009. The coming year will be a transition to a more vigorous retail market and economy in 2011.

In-line Shop Space Rental Rates \$/SF/Yr. Triple Net



* District of Columbia, Northern Virginia, Suburban Maryland
Typical asking rental rates for in-line shop space in a grocery-anchored center, 3,000-square-foot national credit tenant, newly developing suburban trade area, first-generation space, white-box build out, available on the market at the end of 2009. Rates are per square foot, quoted on an annual, triple net basis.