

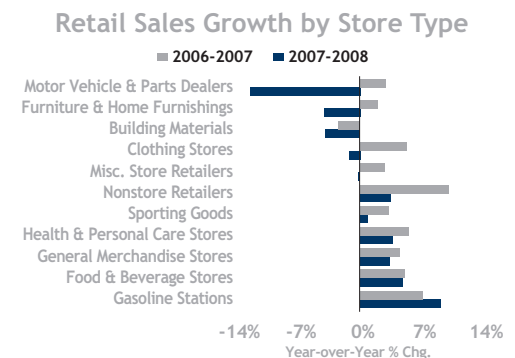
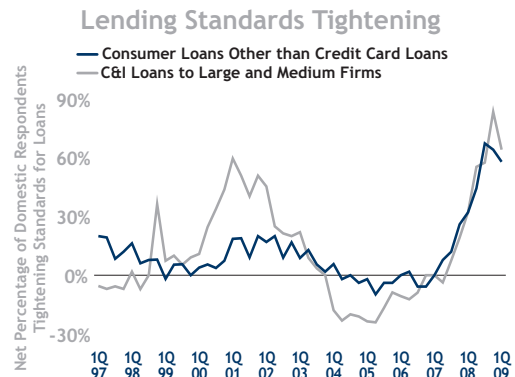
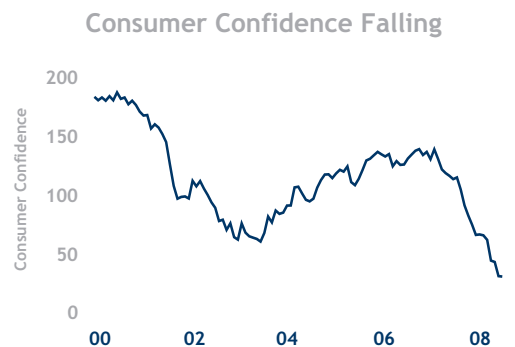
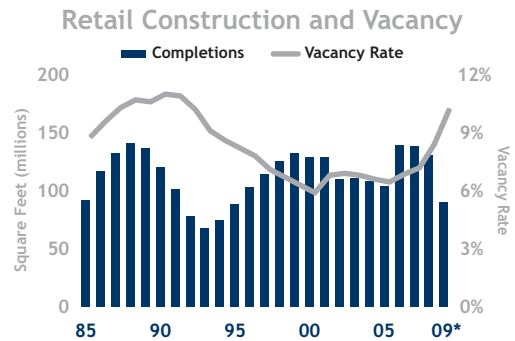
More Than a Cyclical Downturn, Recession Redefining Retail Landscape

Retail construction is expected to slide by more than 30 percent in 2009; however, the decline will not prevent vacancy from increasing substantially due to store closures and reduced retailer expansion. Major tenants are making significant efforts to renegotiate leases already in place to avoid closures. For quality tenants, many owners are ceding, aware that the loss of anchors could impact the performance of entire shopping centers. As a result, we expect the greatest decline in rents on record this year as new shopping centers come to market with vacant space and existing properties face ongoing operational challenges. Pre-leasing at properties under way suggest approximately two-thirds of the space will hit the market occupied. It is likely that more space will come to market vacant, however, as retailer bankruptcies are set to rise, leading to an increase in lease cancellations.

Closures and bankruptcies have become broad-based, ranging from department stores and electronics retailers, such as Mervyns and Circuit City, to smaller mall chains. As a result, there is not a segment of the retail property market that is immune to the current downturn, although core infill neighborhood/community centers will fare much better than the retail market as a whole. Some of the hardest-hit properties are those recently delivered in perimeter locations that relied on thousands of new homes that were either never built or now stand vacant. These properties have become difficult to lease and sell, as land values have slipped and establishing “market-rent” is nearly impossible. As fundamentals continue to weaken across the country this year, owners will need to closely monitor expenses to help preserve NOI. Many will uncover money-saving operational measures that can increase efficiencies. One of the nation’s largest mall owners already has announced plans to cut hours at some of its shopping centers following the worst holiday season in recent history, allowing retailers to save on staffing and reducing energy costs.

2009 National Retail Market Outlook

- ◆ **New Supply Declining.** Completions are forecast at 90 million square feet this year, down from 131 million square feet in 2008 and the lowest amount of space added since 1995. Reduced development will help stabilize the market in 2010 before a moderate recovery starts in 2011.
- ◆ **Mall Construction Down.** New mall development is slowing, with only 6 million square feet slated to come online nationwide this year. This figure may decline, as the majority of malls scheduled for completion in 2009 are being developed by General Growth Properties, which is facing significant debt-related issues. Many existing malls continue to struggle, but some are finding success re-tenanting vacant anchor space with non-traditional tenants, such as grocery chains or warehouse clubs.
- ◆ **Vacancy to Rise Further.** Retail vacancy is forecast to rise 180 basis points to 10.2 percent in 2009, following a 120 basis point increase last year. Much of the spike is expected to take place in the early part of this year, as many retailers will likely shutter stores after the weakest holiday season in decades.
- ◆ **Rents Declining.** Average retail center asking rents are forecast to decline by 4.5 percent in 2009, after holding steady last year. Effective rents slipped 1.1 percent in 2008 and are projected to drop 5 percent this year. Many oversupplied markets will record steeper declines.



* Forecast