



RETAIL MARKET INVESTOR SURVEY

New Market Real Estate Group (NMREG) surveyed several active market participants in an attempt to capture a consensus regarding current market conditions for grocery-anchored neighborhood, community, and power shopping centers. This survey (see Table 1) was conducted by personal telephone interview in January and February of 2009.

OVERVIEW

The clear message from the respondents is that the shakeout in retail that began in 2008 will continue well into 2009. Tenants are seeking rent relief, closing stores, and preparing for bankruptcy. Neither the participants nor retailers have a strong sense of just how bad things will get, and do not know if the market reaction to date is enough, too little, or too much. Sellers know that the buyers are all wary and will only pursue deals that involve prime properties offered at pricing levels reflective of the current market environment.

All participants reported that values could decrease further if the economy continues on its downward slide and the efforts of the new administration to stabilize the financial markets are ineffective.

Preferred Property Type

The most desirable product type is the grocery-anchored neighborhood center, assuming that (1) the center contains the dominant grocer in the area, (2) it is located in an area with good demographics and not too much competitive space, (3) the center is not too large, and (4) there are barriers to entry for new competition. A center adhering to the requirements is considered the “safest” since people will continue to shop at the supermarkets; thus, insuring constant consumer traffic. The limited size of the center translates into a price point that is affordable, financeable, does not unduly concentrate assets, and limits the in-line space that must remain leased and occupied for profitability. While some tenant turnover is expected in these centers, the vacancies are expected to be short lived as healthy businesses in less healthy centers are expected to gravitate to stronger centers with the most consumer traffic.

The survey respondents indicated that there is little or no appetite for power centers. They believe that this product type has too much concentration on the big box tenants, which have recently proven that they can be quite risky. Furthermore, many big-box stores are not readily adapted to other tenants or to redevelopment to in-line space. Only those power centers occupied by big-box stores that are considered to be creditworthy and are dominant in their merchandise lines are even considered by some investors. Others have no interest at all.

MARKET TRENDS

The consensus is that the changes in the market for retail properties began to occur in mid-year 2008. Prior to that time, retail property fundamentals and retail sales were holding fairly constant. However, by mid-year, the fundamentals began to deteriorate rapidly. By the middle of September 2008, consumers began to change their spending patterns and retail fundamentals began a free fall that led to a disastrous holiday shopping season. During the beginning of the First Quarter of 2009, consumers are maintaining tight control of their spending and avoiding credit. The decline in retail sales has resulted in some store closures and has caused many other tenants to explore the possibility of rent relief.

Some market areas that experienced rapid expansion during better times are now faced with a retail-space-per-capita ratio that is too high to support all of the existing space. As a result, most survey participants are not expecting any dramatic recovery in retail property markets. The consensus is that an

Table 1
National Retail Market Investor Survey (1)
Neighborhood and Community Shopping Centers, and Power Centers

Item	Participant Number											Range		Average
	1	2	3	4	5	6	7	8	9	10	11	Low	High	
Neighborhood and Community Shopping Centers (Grocery-Anchored) - Class-A														
Discount Rate														
Low	7.50%	8.50%	--	9.00%	8.00%	8.00%	8.00%	9.50%	9.00%	9.00%	8.00%	7.50%	9.50%	8.45%
High	8.50%	8.50%	--	10.00%	9.50%	9.00%	12.00%	9.50%	10.00%	11.00%	8.50%	8.50%	12.00%	9.65%
Average	--	--	--	--	--	--	--	--	--	--	--	--	--	9.05%
Residual Capitalization Rate														
Low	6.50%	7.00%	8.00%	8.00%	8.00%	8.25%	7.25%	7.00%	8.00%	9.50%	6.50%	6.50%	9.50%	7.64%
High	7.00%	7.50%	9.00%	9.25%	10.75%	9.25%	8.50%	8.00%	8.50%	9.50%	8.00%	7.00%	10.75%	8.66%
Average	--	--	--	--	--	--	--	--	--	--	--	--	--	8.15%
Overall Capitalization Rate														
Low	7.00%	6.50%	7.00%	8.00%	7.50%	8.00%	7.00%	7.00%	8.00%	8.00%	7.00%	6.50%	8.00%	7.36%
High	7.50%	7.00%	8.00%	9.00%	10.00%	9.00%	8.00%	8.00%	8.00%	8.50%	7.50%	7.00%	10.00%	8.23%
Average	--	--	--	--	--	--	--	--	--	--	--	--	--	7.80%
Growth Rates														
Market Rent														
Current Trend (2)	Down	Down	Down \$2.00 per Sq. Ft.	Down	Down	Down	Down	-10.00%	Down	-25.00%	--	--	--	--
Annual Change														
Year 1 to 2	0.00%	Negative	Negative	0.00%	Negative to 0.00%	Negative to 0.00%	Negative to 0.00%	-10.00%	0.00%	Negative to 0.00%	0.00%	Negative	0.00%	--
Year 2 to 3	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-5.00%	1.00%	0.00%	--	-5.00%	1.00%	-0.30%
Year 3 to 4	2.00%	3.00%	3.00%	1.50%	2.00%	3.50%	3.00%	0.00%	2.00%	0.00%	--	0.00%	3.50%	2.00%
Thereafter	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	2.50%	--	2.50%	3.00%	2.95%
Expenses	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

(1) Personal survey conducted by New Market Real Estate Group in January and February 2009

(2) Change in market rent since mid 2008

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Item	Participant Number											Range		Average
	1	2	3	4	5	6	7	8	9	10	11	Low	High	
Neighborhood and Community Shopping Centers (Grocery-Anchored) - Class-B														
Discount Rate														
Low	8.50%	9.50%	--	11.00%	8.50%	9.00%	10.00%	10.50%	10.00%	12.00%	--	8.50%	12.00%	9.89%
High	9.00%	9.50%	--	12.00%	10.50%	10.00%	13.00%	10.50%	11.00%	15.00%	--	9.00%	15.00%	11.17%
Average	--	--	--	--	--	--	--	--	--	--	--	--	--	10.53%
Residual Capitalization Rate														
Low	7.00%	8.00%	8.50%	9.50%	8.50%	9.25%	7.75%	8.00%	9.00%	10.00%	--	7.00%	10.00%	8.55%
High	7.50%	8.50%	10.50%	10.00%	11.75%	10.25%	9.50%	9.00%	9.50%	12.00%	--	7.50%	12.00%	9.85%
Average	--	--	--	--	--	--	--	--	--	--	--	--	--	9.20%
Overall Capitalization Rate														
Low	8.00%	7.50%	8.00%	9.00%	8.00%	9.00%	7.50%	8.00%	9.00%	9.50%	--	7.50%	9.50%	8.35%
High	8.50%	8.00%	10.00%	10.00%	11.00%	10.00%	9.00%	9.00%	9.00%	12.50%	--	8.00%	12.50%	9.70%
Average	--	--	--	--	--	--	--	--	--	--	--	--	--	9.03%
Growth Rates														
Market Rent														
Current Trend (2)	Down	Down	Down \$3.00 per Sq. Ft.	Down	Down	Down	Down	-15.00%	Down	Down 25%	--	--	--	--
Annual Change														
Year 1 to 2	0.00%	Negative	Negative	0.00%	Negative to 0.00%	Negative to 0.00%	Negative to 0.00%	-15.00%	0.00%	Negative to 0.00%	--	Negative	0.00%	--
Year 2 to 3	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-10.00%	1.00%	0.00%	--	-10.00%	1.00%	-0.80%
Year 3 to 4	2.00%	3.00%	1.50%	1.50%	2.00%	3.50%	3.00%	0.00%	2.00%	0.00%	--	0.00%	3.50%	1.85%
Thereafter	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	2.50%	--	2.50%	3.00%	2.95%
Expenses	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	--	3.00%	3.00%	3.00%

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(2) Change in market rent since mid 2008

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Item	Participant Number											Range		Average
	1	2	3	4	5	6	7	8	9	10	11	Low	High	
Power Centers - Class-A														
Discount Rate														
Low	7.50%	--	--	10.00%	9.00%	--	8.00%	10.00%	9.25%	12.00%	--	7.50%	12.00%	9.39%
High	8.50%	--	--	12.00%	11.50%	--	9.00%	10.00%	10.50%	15.00%	--	8.50%	15.00%	10.93%
Average	--	--	--	--	--	--	--	--	--	--	--	--	--	10.16%
Residual Capitalization Rate														
Low	7.50%	--	--	9.00%	9.00%	--	6.75%	7.50%	8.00%	10.00%	--	6.75%	10.00%	8.25%
High	8.00%	--	--	11.50%	12.75%	--	7.50%	8.50%	9.00%	12.00%	--	7.50%	12.75%	9.89%
Average	--	--	--	--	--	--	--	--	--	--	--	--	--	9.07%
Overall Capitalization Rate														
Low	8.00%	--	--	9.00%	8.50%	--	6.50%	7.50%	8.00%	9.50%	--	6.50%	9.50%	8.14%
High	9.00%	--	--	11.00%	12.00%	--	7.00%	8.50%	8.00%	12.50%	--	7.00%	12.50%	9.71%
Average	--	--	--	--	--	--	--	--	--	--	--	--	--	8.93%
Growth Rates														
Market Rent														
Current Trend (2)	Down	--	--	--	Down	--	Down	-15.00%	Down	Down 25%	--	--	--	--
Annual Change														
Year 1 to 2	0.00%	--	--	--	Negative to 0.00%	--	--	-10.00%	0.00%	Negative to 0.00%	--	Negative	0.00%	--
Year 2 to 3	1.00%	--	--	--	0.00%	--	--	-5.00%	1.00%	0.00%	--	-5.00%	1.00%	-0.60%
Year 3 to 4	2.00%	--	--	--	2.00%	--	--	0.00%	2.00%	0.00%	--	0.00%	2.00%	1.20%
Thereafter	3.00%	--	--	--	3.00%	--	--	3.00%	3.00%	2.50%	--	2.50%	3.00%	2.90%
Expenses	3.00%	--	--	--	3.00%	--	--	3.00%	3.00%	3.00%	--	3.00%	3.00%	3.00%

(1) Personal survey conducted by New Market Real Estate Group in January and February 2009

(2) Change in market rent since mid 2008

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Item	Participant Number											Range		Average
	1	2	3	4	5	6	7	8	9	10	11	Low	High	
Power Centers - Less Desirable														
Discount Rate														
Low	9.00%	--	--	--	--	--	--	10.50%	--	--	--	9.00%	10.50%	9.75%
High	10.00%	--	--	--	--	--	--	10.50%	--	--	--	10.00%	10.50%	10.25%
Average	--	--	--	--	--	--	--	--	--	--	--	--	--	10.00%
Residual Capitalization Rate														
Low	9.00%	--	--	--	--	--	--	8.50%	--	--	--	8.50%	9.00%	8.75%
High	10.00%	--	--	--	--	--	--	9.50%	--	--	--	9.50%	10.00%	9.75%
Average	--	--	--	--	--	--	--	--	--	--	--	--	--	9.25%
Overall Capitalization Rate														
Low	9.00%	--	--	--	--	--	--	8.50%	--	--	--	8.50%	9.00%	8.75%
High	10.00%	--	--	--	--	--	--	9.50%	--	--	--	9.50%	10.00%	9.75%
Average	--	--	--	--	--	--	--	--	--	--	--	--	--	9.25%
Growth Rates														
Market Rent														
Current Trend (2)	Down	--	--	--	--	--	--	-20.00%	--	--	--	--	--	--
Annual Change														
Year 1 to 2	0.00%	--	--	--	--	--	--	-15.00%	--	--	--	-15.00%	0.00%	-7.50%
Year 2 to 3	1.00%	--	--	--	--	--	--	-10.00%	--	--	--	-10.00%	1.00%	-4.50%
Year 3 to 4	2.00%	--	--	--	--	--	--	0.00%	--	--	--	0.00%	2.00%	1.00%
Thereafter	3.00%	--	--	--	--	--	--	3.00%	--	--	--	3.00%	3.00%	3.00%
Expenses	3.00%	--	--	--	--	--	--	3.00%	--	--	--	3.00%	3.00%	3.00%

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adjustment is underway and some retailers will disappear and some centers will fail. Those centers anchored by the dominant supermarket chain in the area will likely survive with reasonable occupancy levels and rental rates, and will continue to be sought by investors.

Rental Rates

All survey participants recognize that rental rates have decreased; however, most were hesitant to generalize since market rents are property and market specific. One participant indicated that market rental rates were down by 25%. Most expected further declines in market rent during 2009 followed by little or no growth for 2010. Market rent growth is expected to return to inflationary increases gradually after 2010, achieving inflation by 2012. No participants indicated the application of rent spikes.

TRANSACTION CHARACTERISTICS

Available capital, willing sellers, the quality of properties offered, and transaction time - these issues are all related. All market participants are aware that the current market is in a contraction phase and that any properties offered for sale are going to command prices that are low compared to historical peak levels.

There are indications that some properties are being offered by owners that are not under pressure to sell. However, the “ask-to-offer” gap is too great and properties are not trading or are withdrawn. Only those sellers who are motivated by the need to raise cash to cover redemptions, loan maturities, debt service, or need to improve portfolio loan-to-value ratios are offering properties at prices that buyers are willing to consider. The more desperate the seller is to raise cash, the better the quality of the properties offered for sale.

The time necessary to complete a transaction has lengthened considerably for any sales that require debt. Transactions that previously took 45 days are taking 135 to 180 days or longer. During better times, due diligence work was abbreviated in a rush to get deals done before the markets changed. Today, purchasers are “analyzing deals to death” and in some cases taking a close look at every tenant. Lenders also have elongated review periods. Even those that make it through committee are usually re-priced at least once before closing.

Some participants reported that there is little or no capital available; however, most claim that there is significant capital available “sitting on the sidelines” waiting to see how the market performs.

Generally, the participants believe that the smaller deals in the \$10.0 million to \$50.0 million range are possible while larger deals simply cannot be done today. As a result, transaction velocity is low. Reportedly, a major portfolio transaction is underway at surprisingly high yield and capitalization rates.

VALUE TRENDS

Most survey participants indicate increases in discount rates from 150 to 200 basis points for the truly Class-A properties, with greater changes for the sub-standard properties. Overall capitalization rates (OARs) have also increased by roughly the same magnitude. All but one participant indicated similar increases in residual capitalization rates. The consensus is that values are down anywhere from 15% to 30%.

Most survey participants are expecting continued, but more modest (another 10% to 20%), deterioration in the retail property market for the remainder of 2009.