CASSIDY TURLEY 2014

Retail Forecast

Cassidy Turley

Shopping Center Outlook 2014

National Overview

As of the close of Q3 2013, shopping center vacancy across the 60 major markets that we track in the United States stood at 8.7%. This compares to a vacancy rate of 8.8% at the midyear point of 2013 and a vacancy rate of 9.6% one year ago. This is the lowest level of vacancy that the market has recorded since the Great Recession—retail shopping center vacancy in the United States peaked at 10.8% in Q2 2009. But while we are entering into the fourth year of consecutive occupancy gains, recovery in the overall retail sector has lagged behind that of most other commercial real estate property types.

The centers that we track accounted for over 42.2 million square feet of occupancy growth over the past twelve months. Deliveries are also at their highest level since the Great Recession. We have tracked nearly 18 million square feet of new shopping center product that has come online over the past year. For the most part, these numbers have directly translated into growth. As little new construction is taking place on a speculative basis (and virtually no anchor or box space is being built at all without commitments in place before construction), we estimate that roughly 85% of that total—or about 15.3 million square feet--consisted of space that was accounted for immediately upon delivery. Meanwhile, second generation space saw its occupancy levels increase by approximately 26.9 million square feet during the same period.

U.S. Shopping Center Statistics

Region	Total Gross Leasable Area	Total Vacant SF	Vacancy %	Last 12 Months		Under Const.
				Net Absorption	Deliveries	
Pacific	935,617,213	65,870,018	7.0%	7,171,157	2,735,839	3,430,094
Mountain	481,232,546	48,245,654	10.0%	7,226,206	2,225,325	1,923,450
Great Plains	293,561,866	27,815,954	9.5%	1,845,339	893,342	509,967
Great Lakes	726,221,168	79,558,885	11.0%	5,603,014	2,125,878	377,120
Texas South Central	671,216,332	60,016,840	8.9%	6,992,374	2,925,033	931,877
Southern US	193,742,090	22,882,282	11.8%	1,232,022	274,663	7,700
Southeast	1,186,563,516	104,272,110	8.8%	7,787,178	4,728,968	4,664,727
Northeast	777,640,354	49,782,019	6.4%	4,422,923	2,057,594	2,540,313
National	5,265,795,085	458,443,762	8.7%	42,280,213	17,966,642	14,385,248

Source: Cassidy Turley Research/Costar

Neighborhoods On the Rebound

Of course, not all shopping center types have performed the same. The biggest gains over the past year have come from community, neighborhood and strip centers. Vacancy for this product type now stands at 10.1%. This product type was hardest hit during the recession. Many markets entered the downturn with a glut of unanchored strip product to begin with and this particular subtype of shopping center is most dependent upon mom-and-pop retailers—who largely went missing in action during the recession and who are only now slowly starting to drive modest levels of demand in the nation's strongest trade areas. Yet, the community/neighborhood/strip sector has seen occupancy levels increase by over 27.8 million square feet in the past year. Deliveries accounted for nearly 10.4 million square feet of new product over the last twelve months and about 8.8 million square feet of this space was occupied upon delivery. Meanwhile, second-generation space accounted for the remaining 19 million square feet of occupancy gains that we tracked over the past four quarters.

Community / Neighborhood / Strip Center Statistics

Region	Total Gross Leasable Area	Total Vacant SF	Vacancy %	Last 12 Months		Under Const.
				Net Absorption	Deliveries	
Pacific	637,576,599	52,082,014	8.2%	4,069,478	1,764,279	2,238,167
Mountain	323,619,598	37,813,038	11.7%	4,629,078	769,723	158,006
Great Plains	189,778,773	19,340,926	10.2%	1,512,079	234,180	58,528
Great Lakes	474,378,875	60,279,406	12.7%	3,993,432	1,517,181	318,825
Texas South Central	468,709,951	49,167,976	10.5%	4,998,628	2,143,312	393,746
Southern US	134,853,488	15,591,382	11.6%	1,093,908	138,663	2,400
Southeast	812,083,857	84,787,610	10.4%	4,479,826	2,400,019	2,573,235
Northeast	484,516,124	38,151,698	7.9%	3,058,895	1,398,701	1,067,813
National	3,525,517,265	357,214,050	10.1%	27,835,324	10,366,058	6,810,720

Source: Cassidy Turley Research/Costar

Part of the resurgence of this property type has been the fact that food and service related retailers are driving demand currently. While there is some consolidation occurring in the grocery world, new smaller format concepts are more than making up for those losses and neighborhood centers are overwhelmingly where they land. The traditional tenant mix of the neighborhood and community centers have always been grocery or drug anchors, with a mix of restaurants and local services and generally fewer hard goods or big box retailers—which is where much of the contraction in the industry is still taking place. This will only strengthen in the coming year as demand trends will continue to shift towards retailers that don't compete with the Internet. Meanwhile, the return of new home development in the United States will mean more development—most of it in the form of new neighborhood or strip centers—as retailers return to following rooftops.

Top Malls Continue to Strengthen

Despite the fact that many traditional mall tenants are not currently in growth mode, malls continue to enjoy the lowest vacancy levels of any shopping center product type. We are currently tracking a national vacancy rate of just 4.8%. This is down from Q2's reading of 4.9% and reflects a reduction from 5.8% one year ago. Malls have accounted for just under 1.8 million square feet of net absorption over the past year, while deliveries have added just under 900,000 square feet of new space to the marketplace.

Mall properties still account for the lion's share of the nation's retail trophy assets and continue to benefit from a marketplace in which Class A space is seeing the highest levels of tenant interest and activity. However, these numbers don't tell the whole story. Most of the major markets that we track have reported the same trend across the board; Class A space availability is extremely tight and Class B malls are faring well in all but the weakest economies. However, Class B space still faces some challenges in some marketplaces and Class C mall properties in virtually every trade area (including those with the strongest local economies) are where the overwhelming majority of vacancy resides today. Our estimate is that vacancy for Class C malls throughout the United States is closer to the 8% range, while Class A vacancy is now just below the 2% mark.

Returns by Property Type

Source: Cassidy Turley Research, NCREIF

Perhaps a more telling statistic on mall performance comes not from the leasing side of the equation, but from the investment world. The National Council of Real Estate Investment Fiduciaries (NCREIF) recently released a report that showed that retail properties have performed better than any other commercial real estate property type in terms of return on investment. They reported at the close of Q3 that (on an unleveraged basis) retail properties had averaged a 13.2% rate of return over the previous year and had yielded an average of 10.5% over the past decade.

U.S. Mall Statistics

Region	Total Gross Leasable Area	Total Vacant SF	Vacancy %	Last 12 Months		Under Const.
				Net Absorption	Deliveries	
Pacific	113,370,244	2,905,056	2.6%	724,221	345,838	154,408
Mountain	57,015,445	2,883,647	5.1%	321,096	38,331	1,514,000
Great Plains	41,593,229	2,575,383	6.2%	134,006	56,410	29,789
Great Lakes	95,688,878	7,583,729	7.9%	(77,801)	6,500	-
Texas South Central	75,423,970	3,565,354	4.7%	324,805	6,200	-
Southern US	18,957,974	2,886,430	15.2%	(226,842)	-	-
Southeast	148,052,408	6,097,252	4.1%	343,397	194,987	-
Northeast	117,021,531	3,312,614	2.8%	242,214	227,260	747,500
National	667,123,679	31,809,465	4.8%	1,785,096	875,526	2,445,697

Source: Cassidy Turley Research/Costar

However, it is critical to note that NCREIF only tracks institutional grade properties—in other words, the cream of the crop. So these numbers are almost entirely driven by core trophy assets—mostly malls. Unfortunately, once you step outside the realm of Class A and Class B+ assets in most markets is where you begin to see the challenges facing the retail landscape. Retailer demand remains all about Class A and, in some markets, Class B space. Beyond that is where most of the nation's retail shopping center vacancy remains. It is where rental rate growth has largely remained flat or is still actually posting modest declines in some of the countries' weakest marketplaces. It is where nearly all of the weaknesses for the entire sector are concentrated.

Specialty Centers; All About the Outlets

National specialty center vacancy as of the end of Q3 2013 stood at 7.6%. This product classification also includes lifestyle centers, outlet centers and theme retail projects. Vacancy has remained in essentially the same place for the past six months. One year ago, it stood at 8.0%. Over the past year, we have tracked just under 4.8 million square feet of occupancy growth for this property type as roughly 4.5 million square feet of new product (nearly all of it in the form of outlet centers) was delivered to the marketplace.

Specialty Center Statistics

Region	Total Gross Leasable Area	Total Vacant SF	Vacancy %	Last 12 Months		Under Const.
				Net Absorption	Deliveries	
Pacific	33,988,970	2,578,496	7.6%	558,964	567,795	922,422
Mountain	13,404,050	1,094,960	8.2%	1,050,051	1,083,867	245,585
Great Plains	10,170,540	1,302,454	12.8%	405,028	588,183	421,650
Great Lakes	22,144,834	1,189,997	5.4%	131,379	4,500	3,895
Texas South Central	20,783,225	1,409,055	6.8%	682,444	397,345	-
Southern US	6,360,546	1,170,785	18.4%	(160,986)	-	-
Southeast	41,593,928	2,918,281	7.0%	1,472,487	1,456,387	1,243,081
Northeast	19,802,872	1,098,340	5.5%	632,264	409,000	330,000
National	168,248,965	12,762,368	7.6%	4,771,631	4,507,077	3,166,633

Source: Cassidy Turley Research/Costar

Higher end lifestyle centers continue to do well and hold their own competing against Class A mall projects. However, there is no question that this product type was overbuilt in some trade areas. For years there has been a running joke in development circles that if you aren't sure how to position your new project, just throw in a fountain and you can call it a lifestyle center. And this may illustrate one of the challenges that this product type faces. The highest end product accounts for some of the nation's best performing trophy centers, but this sector of the marketplace was overbuilt heading into the downturn. As a result, some weaker projects have taken a lot longer to rebound. Thanks to the growing impact of e-commerce, many of the apparel and hard goods retailers who traditionally make up the tenant mix for lifestyle centers have slowed or reversed growth. Most absorption for this product type now is coming from dining or food related concepts (higher end grocers like Whole Foods are increasingly part of the standard tenant mixes at these centers). But if performance for lifestyle centers has been a mixed bag, demand remains white-hot for outlet center space. This is one of the few product types where we have seen developers build speculatively. In general, most of these projects lease-up before construction is done. Discount and outlet concepts are one of the few areas where we are seeing a lot of apparel players who are otherwise in no or slow growth mode looking to grow. For example, while Nordstrom will likely build no more than one full service department store over the next year, they are looking to expand their off-price Nordstrom Rack concept by as many as 60 stores over the next two years. Likewise, the recent acquisition of Nieman Marcus will probably result in increased expansion—not necessarily for the chain's namesake concept but for its off-price Last Call stores.

Adaptation Keeping the Power in Power Centers

If you look at it from a demand perspective, it would appear that power centers would be the product type in greatest peril. Power centers are all about big box retail, but nearly every single category big box user type is shrinking. This includes categories that are in sharp consolidation mode due to competition with the Internet (bookstores, consumer electronics, office supplies, etc.). Most of these chains are not only closing stores but also slashing footprints. But it also includes some strong categories like pet supplies—where most chains are generally in modest growth mode—but more are experimenting with smaller concepts of 10,000 square feet or less. The fact is that retailers are shrinking their box presence overall, whether we are talking about grocery stores, home improvement or just about any other category. This is the twilight of the big box age.

Power Center Statistics

Region	Total Gross Leasable Area	Total Vacant SF	Vacancy %	Last 12 Months		Under Const.
				Net Absorption	Deliveries	
Pacific	150,681,400	8,304,452	5.5%	1,818,494		115,097
Mountain	87,193,453	6,454,009	7.4%	1,225,981	333,404	5,859
Great Plains	52,019,324	4,597,191	8.8%	(205,774)	14,569	-
Great Lakes	134,008,581	10,505,753	7.8%	1,556,004	597,697	54,400
Texas South Central	106,299,186	5,874,455	5.5%	986,497	378,176	538,131
Southern US	33,570,082	3,233,685	9.6%	525,942	136,000	5,300
Southeast	184,833,323	10,468,967	5.7%	1,491,468	677,575	848,411
Northeast	156,299,827	7,219,367	4.6%	489,550	22,633	395,000
National	904,905,176	56,657,879	6.3%	7,888,162	2,217,981	1,962,198

Source: Cassidy Turley Research/Costar

The only exception to the rule would be sporting goods—which remains robustly in growth mode both in terms of units and footprints—due largely to a mix of successful experiential retail and limited competition from online sales (particularly when it comes to firearms). One could also argue that health clubs fit in here as well. Larger concepts have backfilled a substantial amount of vacant mid-size boxes (and larger), though due to the cost of converting space for this use, there is an equally strong argument that this is more about adaptive re-use.

Regardless, against this backdrop, one would assume that power centers were taking it on the chin. But they are holding up well. And this isn't just because the best operators have taken creative approaches to leasing and have been willing to invest in expensive demising and upgrades of their space (which they have). But it is also because the very nature of power center space has changed. Call them power neighborhood centers or regional neighborhood centers or whatever you like. The fact is that the old paradigm of just throwing up some boxes, leasing to a few regional players and hoping for a strong 10-mile trade area is dead. The new paradigm for power centers is about straddling both the power and community/neighborhood center worlds.

Despite this, the power centers that we track are reporting vacancy (as of Q3 2013) of just 6.3%. This is down from a reading of 6.4% in Q2 and 7.0% a year ago. We've tracked just under 7.9 million square feet of occupancy growth for this product type over the past twelve months. During that same time, developers added nearly 900,000 square feet of new product to the marketplace.

The question, of course, is with big box demand shrinking (both in terms of retailer demand for locations and actual footprint), why are power centers continuing to perform so well? Adaptation is the answer. While there remain disparities in performance within this sector that are nearly all based on class, there are a few common threads that we have seen with the best performing power centers. The first is that these landlords were not afraid to spend money to demise larger, vacant boxes a few years back when big box vacancy became a major issue. Those who made the investment were able to chop up larger space and land new, more nimble junior box users. The second major trend has to do with embracing food users, particularly grocery tenants. The addition of grocery components makes perfect sense—small format grocery players have proven to be excellent tenants for power centers looking to backfill vacant Circuit City locations. But this play isn't just about getting empty space filled—it is about repositioning. The idea is simple; power centers used to be all about big box retailers with regional draws. Add some grocery components and now you have hedged your bets with both regional and local draws.

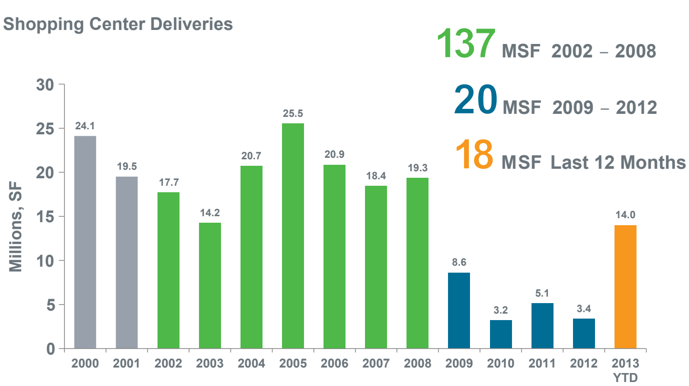
The new power center is really a hybrid neighborhood center. Nearly all of the new development that we are tracking for this product type includes significant commitments in place from food anchors, as opposed to the old host of big box users. Target and Walmart Superstores, in particular, have proven to be extremely attractive tenants to land. Both offer strong neighborhood and regional draws in terms of shoppers, but they both also prove to be attractive anchors for inline tenants to follow.

Construction Returning to Marketplace

From 2002 to 2008 developers added nearly 140 million square feet of new shopping center space to the marketplace. Those numbers dropped precipitously during the Great Recession. From 2009 to 2012 we tracked just 23.2 million square feet of new product that was delivered. Mostly this was in the form of additional pad buildings at existing shopping centers, though outlet centers saw strong growth and there were a couple of regional malls—long in the works from before the downturn—that were delivered as well. Yet, in the past year, we have tracked nearly 18 million square feet of new shopping space that was delivered to the marketplace. The development pipeline, so far, has overwhelmingly been about infill urban projects (whether new or redevelopment). But with the return of the nation's housing market and new home construction expected to pick up significantly in 2014, we anticipate that new construction levels will pick up further next year.

Of the roughly 18 million square feet of new product delivered over the past year, nearly 60% of that has been at existing centers where expansions or redevelopment took place. In terms of product types, community/neighborhood/strip centers accounted for the lion's share of activity. We tracked just under 10.4 million square feet of product that has been delivered over the past year, accounting for just under 30% of all new construction. Specialty centers accounted for just over 4.5 million square feet of new product—nearly all of which was in the form of outlet centers—which remain white hot. Malls accounted for just under 2.5 million square feet of new space, while the nation's power center inventory grew by just under two million square feet.

U.S. Shopping Center Development



Source: Cassidy Turley Research/Costar

We are now tracking 14.4 million square feet of new shopping space under construction in the United States. This is the largest amount of new space in the development pipeline that we have tracked since early 2009 when the pipeline was still emptying following the onset of the recession in September 2008. Once again, the community/neighborhood/strip category leads the pack with over 6.8 million square feet of space under development. Specialty centers follow with nearly 3.2 million square feet of product under construction, while malls account for just over 2.4 million square feet of planned deliveries. Lastly, we are tracking just under two million square feet of new power center development. These projects have varying delivery timelines over the next six quarters. The Southeast U.S. leads the way with just under 4.7 million square feet of space under development. The Pacific region follows with 3.4 million square feet. There is just over 2.5 million square feet of new development underway throughout the Northeast, while the Mountain region has roughly 1.9 million square feet of new projects in the works. The Great Lakes, Great Plains, Texas and South U.S. regions all have less than one million square feet of active construction projects in their respective pipelines.

Proposed projects are up as well. The Directory of Major Malls is now tracking 36 major projects in the planning stages throughout the U.S. that are one million square feet in size or greater. The majority of these are mall or lifestyle center projects and a substantial number of them are mixed-use in nature. But despite, the uptick in new development activity, we have yet to see many developers willing to build speculatively and we don't expect that to change anytime soon. This certainly won't be the case in terms of anchor tenancy anytime within the next few years—if not throughout the entire foreseeable future. The building pattern for the next decade is likely to be based upon secure commitments in place to anchors, minimal speculative building on inline space and delivery in phases. Retail fundamentals may be improving, and the construction pipeline growing, but don't expect much in the way of risk taking any time soon.

Class Acts Rule the Roost

Overall retail vacancy has been on a downward trajectory going on four years now, but declines in vacancy have been relatively slow with changes measured more in basis than percentage points. Of course, recovery has been uneven both geographically and across product types. But across every market that we track and across every shopping center type we have also seen sharp divisions in performance on the basis of class.

In virtually every market that we track, we found that retailer demand for Class A space was extremely robust and this held true in even the most challenged local economies. Of course, this is nothing new. Recovery started with Class A—even with a diminished pool of actively growing tenants this is where retailers look first for growth. Retailer demand has been on the upswing for four years now and though this demand has only increased incrementally each year, in a marketplace where there has been little in the way of new construction Class A options are now few and far between in most markets. Demand for quality space has now spilled over to Class B product in most major U.S. markets with vacancy for these shopping centers falling and rents finally starting to show some signs of growth (rents have been on the upswing for Class A product in most trade areas for well over two years now). But this trend has yet to spread to many secondary and tertiary markets—particularly in portions of the Midwest and South. It also hasn't, and likely won't, spread to Class C product—which will continue to remain challenged even in some of the nation's tightest vacancy marketplaces.

Directory of Major Malls – Top U.S. 20 Proposed Shopping Centers						
Project	Location	Shopping Center Type	Mixed Use?	Gross Leasable Area	Anchors	Developer
Mall at Luxury Point	Sayreville, NJ	Lifestyle Specialty	Yes	2,600,000	Bass Pro Shops	O'Neill Properties Group
Copper Ridge at Northgate	Colorado Springs, CO	Lifestyle Specialty	Yes	2,000,000	Bass Pro Shops	Northgate Properties
Berry Farms	Franklin, TN	Lifestyle Specialty	No	1,800,000		Boyle Investment Company
Okatie Crossing	Bluffton, SC	Lifestyle Specialty	No	1,600,000		Horne Properties
The Shops at East Prairie	Ames, IA	Lifestyle Specialty	No	1,500,000		Wolford Development
Konterra Town Center East	Laurel, MD	Lifestyle Specialty	Yes	1,500,000		Konterra Realty
Parkside Town Commons	Raleigh-Cary, NC	Lifestyle Specialty	Yes	1,500,000	Target, O2 Fitness, Frank Theatres	Kite Realty Group
The Falls	Bristol, VA	Lifestyle Specialty	No	1,500,000	Cabela's	Interstate Realty Advisors
Columbia Crossing	Columbia, IL	Lifestyle Specialty	Yes	1,500,000		G.J. Grewe
Seaport Square	Boston, MA	Lifestyle Specialty	No	1,500,000		WS Development
The Shops at Summerlin Centre	Las Vegas, NV	Super Regional Center	Yes	1,500,000	Dillard's, Macy's	Howard Hughes
Waller Town Center	Waller, TX	Lifestyle Specialty	No	1,400,000		Cullinan Properties
Ka Makana Ali'i	Kapolei, HI	Lifestyle Specialty	No	1,400,000		DeBartolo Development
The Commons at 7th Standard	Bakersfield, CA	Super Regional Center	Yes	1,385,000		Bidart Bros.
The Railyards	Sacramento, CA	Lifestyle Specialty	No	1,300,000		Inland American Retail Mgmt.
Estrella Falls Mall	Goodyear, AZ	Super Regional Center	Yes	1,300,000		Macerich
The Triangle	Murrieta, CA	Lifestyle Specialty	No	1,300,000		Domenigoni Barton Properties
The Pinnacle	Bristol, TN	Super Regional Center	Yes	1,300,000	Bass Pro Shops, Belk, Regal Cinemas	Johnson Commercial Development
Delta Shores	Sacramento, CA	Lifestyle Specialty	No	1,300,000		Merlone Geier
The Bridges at Mint Hill	Mint Hill, NC	Lifestyle Specialty	No	1,500,000	Belk	Howard Hughes

The overwhelming majority of shopping center vacancy that exists today throughout the United States is in Class B or C product. Even in the most economically challenged markets where the overall metrics indicate flat overall asking rents, Class A rents are climbing by as much as 5% or more annually. In mid-performing markets we have seen Class A rents climb by as much as 10% and we have seen increases of more than that in some of the hottest trade areas. Until enough new product is delivered to the marketplace to sate demand, expect this trend to continue.

The shortage of Class A space is now starting to discourage growth in some trade areas. For example, we know of a number of retailers who have slowed or postponed planned expansion in the San Francisco Bay Area as they patiently wait for quality space to become available. We have heard similar anecdotal information from multiple markets on both coasts (demand remains white hot in Texas, however, because developers never fully stopped building here during the recession space options remains plentiful). This has proven beneficial to many trade areas that came late to the recovery but that are blossoming now—particularly for a number of cities in the Mountain region. Phoenix and Las Vegas were hammered by the recession but have seen retail demand and activity radically improve in the past 18 months. Denver is white-hot in terms of demand while Salt Lake City is also seeing strong activity.

In recent years, our review of top producing trade areas (in terms of retailer demand and occupancy growth) have consistently included metros like Washington DC, New York, San Francisco, San Jose, Boston, Houston, Dallas and San Diego. But thanks to economic recovery picking up in a number of major secondary markets and the fact that retailers are now finding little room to grow in many of these markets, we have seen a number of upstart trade areas surpassing these cities in terms of actual occupancy growth.

Looking Ahead

Retailer demand next year will still be primarily about the economy or the Internet. Discounters and luxury players will be active but just as the middle class consumer will still largely be in frugality mode, mid-priced hard goods players will largely be inactive in terms of bricks and mortar growth. Meanwhile, food related users (restaurants and grocery) and service users will remain extremely active.

"The overwhelming majority of shopping center vacancy that exists today throughout the United States is in Class B or C product. Even in the most economically challenged markets where the overall metrics indicate flat overall asking rents, Class A rents are climbing by as much as 5% or more annually. In mid-performing markets we have seen Class A rents climb by as much as 10% and we have seen increases of more than that in some of the hottest trade areas. Until enough new product is delivered to the marketplace to sate demand, expect this trend to continue."

Though there will be closures and consolidations among a number of major chains, large scale bankruptcies will be fewer overall than what we saw this year or last. Space givebacks will be down slightly while demand will be up slightly. Neighborhood centers will see the greatest level of improvement; malls the least—but a rising tide will lift all boats.

"…the most important economic trend impacting mom-and-pop demand is the return of housing appreciation. Home equity lines of credit are the initial line of funding for most (an estimated 75%) of these start-ups. Though the numbers will be tepid to begin with, we will see small business creation gradually accelerating over the next 24 months."

The return of the housing market will remain the single greatest overriding economic story and the one with the most significance for retail. Rising home values will continue, though not at the whiplash pace of the past 18 months. Instead, we will begin to see housing values in most markets falling into more sustainable levels of growth. New home construction will ramp up; this will help to drive lower unemployment, greater wage growth and improved consumer spending. The real impact might not be clearly felt until 2015, but it will be felt.

	Shopping Centers (All Types)	Vacancy Rate 3Q 2013	Vacancy Rate 2Q 2013	Vacancy Rate 3Q 2012
1.	San Francisco, CA (Includes SF Peninsula)	3.0%	3.0%	3.0%
2.	Hawaii	3.4%	3.5%	3.6%
3.	Pittsburgh, PA	4.8%	4.7%	5.5%
4.	New York Metro (NYC, Long Island, Southern CT)	4.9%	4.9%	5.1%
5.	San Jose, CA	5.3%	5.4%	5.7%
6.	**Boston, MA**	**5.5%**	**5.2%**	**5.3%**
7.	Salt Lake City, UT	5.5%	5.3%	5.9%
8.	San Diego, CA	5.6%	5.2%	5.8%
9.	**Oakland/East Bay, CA**	**5.6%**	**5.8%**	**5.8%**
10.	Orange County, CA	5.6%	5.8%	5.8%
11.	**Washington DC**	**5.7%**	**5.7%**	**5.6%**
12.	Los Angeles, CA	5.9%	5.7%	6.0%
13.	Santa Barbara, CA	6.2%	6.1%	6.2%
14.	Des Moines, IA	6.6%	6.5%	7.1%
15.	Baltimore, MD	6.7%	6.5%	7.2%
16.	Austin, TX	6.7%	6.6%	7.0%
17.	Northern New Jersey	6.8%	6.7%	7.2%
18.	Minneapolis/St. Paul, MN	7.0%	7.0%	7.6%
19.	Miami, FL	7.0%	6.9%	7.1%
20.	Seattle, WA	7.2%	7.0%	7.6%
21.	**Raleigh/Durham, NC**	**7.3%**	**7.2%**	**7.0%**
22.	**Charleston, SC**	**7.3%**	**6.9%**	**6.9%**
23.	Denver, CO	7.7%	7.6%	8.3%
24.	New Orleans, LA	7.8%	7.6%	8.8%
25.	Portland, OR	7.9%	7.7%	8.1%

Source: Cassidy Turley Research/Costar

Most importantly, the return of increasing home values will translate into stronger consumer spending, less frugality among middle-class shopper and a resurgence of small business creation. In terms of retailer demand, mom-and-pop retail has been the missing link. These are the bread-and-butter tenant type for neighborhood and strip retail centers, but they also certainly help to increase the pool of demand for all retail space. While we have only just begun to see some signs of life from this sector (after nearly six years), the action has largely been limited so far to the nation's strongest local economies. That is because that is where we see the greatest strength in home values. This is why the most important economic trend impacting mom-and-pop demand is the return of housing appreciation. Home equity lines of credit are the initial line of funding for most (an estimated 75%) of these start-ups. Though the numbers will be tepid to begin with, we will see small business creation gradually accelerating over the next 24 months.

Lowest Vacancy Markets

Look for continued incremental declines in overall shopping center vacancy heading into 2014. We anticipate that overall vacancy will fall to near the 7.9% mark by the close of next year, despite the fact that new construction will pick up considerably and 2014 will see many of the issues surrounding the shortage of Class A space alleviated.

Methodology

Disclaimer

This report and other research materials may be found on our website at www.cassidyturley.com. This is a research document of Cassidy Turley in Washington, DC. Questions related to information herein should be directed to the Research Department at 202-463-2100. Information contained herein has been obtained from sources deemed reliable and no representation is made as to the accuracy thereof. Cassidy Turley is a leading commercial real estate services provider, with 400 million square feet managed on behalf of institutional, private and corporate clients and $22 billion in completed transactions for 2012.

Methodology

Cassidy Turley's quarterly estimates are derived from a variety of data sources, including its own proprietary sample of market activity, historical inventory data from Bureau of Labor Statistics Employment data, CoStar and other third party data sources. The market statistics are calculated from a base building inventory made up of shopping center properties deemed to be competitive in the local retail markets. The inventory is subject to revisions due to resampling. Vacant space is defined as space that is available immediately or three months (90 days) after the end of the quarter. Sublet space still occupied by the tenant is not counted as available space.

The figures provided for the current quarter are preliminary, and all information contained in the report is subject to correction of errors and revisions based on additional data received.

Explanation of Terms

Total Inventory: The total amount of retail space within a shopping center.

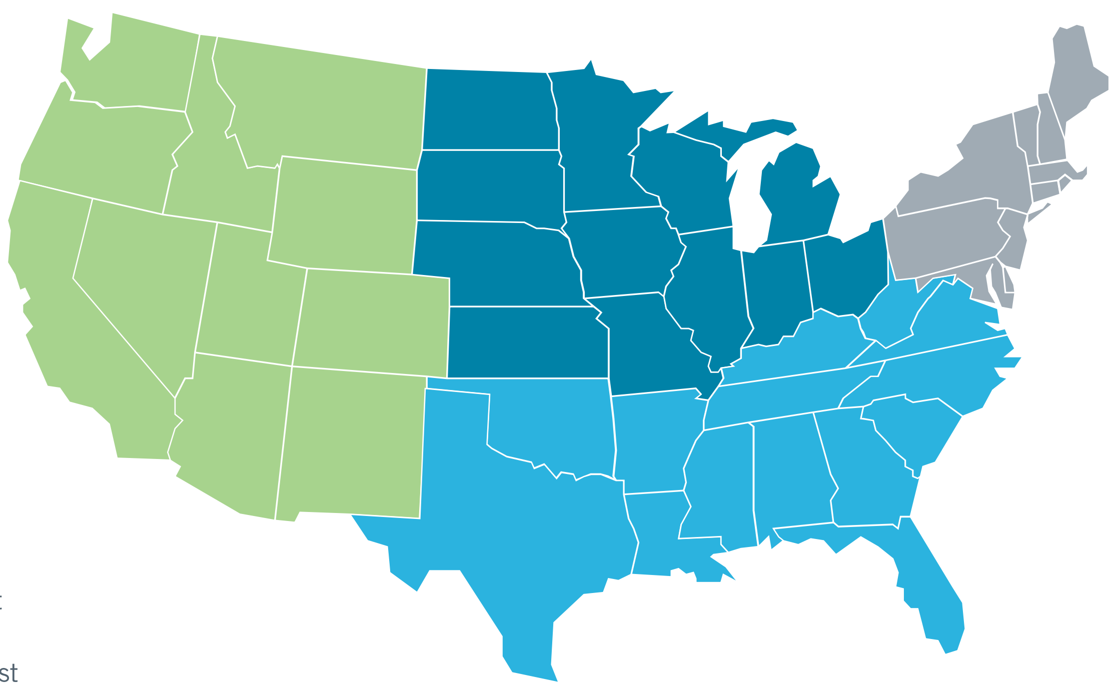
Total Space Available: The sums of new, relet and sublet space that is unoccupied and being actively marketed.

Vacancy Rate: The amount of unoccupied space (new, relet and sublet) expressed as a percentage of total inventory.

Absorption: The net change in occupied space between two points in time. (Total occupied space in the present quarter minus total occupied space from the previous quarter, quoted on a net, not gross, basis.)

Asking Rents: Triple net average asking rents.

Regional Map



- West
- Midwest
- South
- Northeast

Key Cassidy Turley Statistics

A Leader in Commercial Real Estate Services

At Cassidy Turley, we are market leaders, industry leaders and community leaders. Nationwide, clients recognize us for the creative sophistication of our real estate advice as well as for the discipline and accuracy of our service delivery. We are a trusted partner and advocate, supporting our clients' overall business performance. In markets across the country, we are respected as a leading provider of commercial real estate services as well as for our community engagement. Our thorough understanding of local business practices and market dynamics, combined with our customer focus and service commitment, give our clients a distinct edge in commercial real estate across the globe.

Key Statistics

- More than 60 U.S. offices
- 65 international offices*
- More than 3,800 professionals
- More than 970 brokers
- 2012 transactions
  - – Gross transaction volume $22 billion
  - – Gross capital markets volume $9.2 billion
- 400 million sf managed portfolio on behalf of institutional, corporate and private clients
- More than 23,000 client locations served

*Through GVA Partnership

Local Market Leaders, Nationwide

- Our professionals have deep ties to our communities and our industry, and a thorough understanding of local business leaders and practices, giving Cassidy Turley and our clients an edge.
- Our in-depth, local market knowledge provides a comprehensive understanding of market dynamics and enables us to effectively forecast market trends – providing insight to clients and helping them make informed real estate decisions.
- Our leadership position is recognized in the communities we serve. We are often rated in local business journals as a "Best Place to Work," and are honored for our many local philanthropic efforts.

Industry Leadership

- Named to Leaders List of 2013 Global Outsourcing 100
- Over 80% of real estate executives familiar with our brand ranked it Very Good or Excellent – *Wall Street Journal survey*
- Ranked a Top 5 Brand – Lipsey's 2013 Commercial Real Estate Brandy Survey
- Ranked in the Top 5 in Best Practices Index – *Commercial Property Executive*
- 2012 Greenest Company Index – *Commercial Property Executive*
- Named by the EPA a 2013 ENERGY STAR® Partner of the Year

World-Class Expertise

- Many of our associates have honed their skills in their respective markets for years – even decades – gaining an understanding of industry best practices and serving as thought leaders.
- Cassidy Turley has served clients' needs outside of the United States since 1985. In order to better serve our clients in Europe and Asia-Pacific, Cassidy Turley is proud to partner with GVA, the founder and majority shareholder of GVA Worldwide, which serves key markets in over 25 countries.