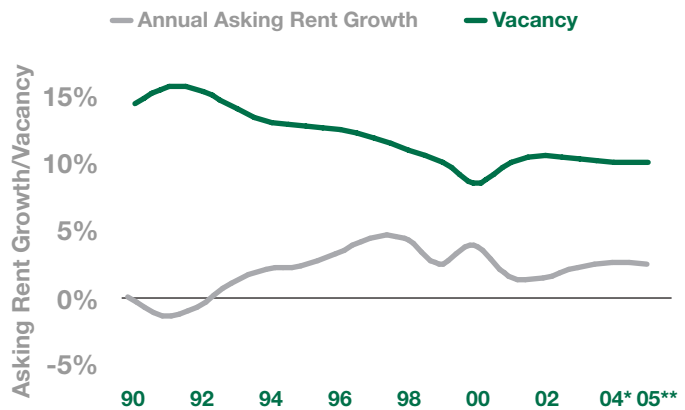


- **Tenant-Driven Construction.** Retail stability can be attributed largely to controlled levels of speculative construction in the sector. Construction has remained tenant driven, as many of the major chains have shown a strong preference for build-to-suit space.
- ▼ **Development Rises Moderately.** In 2004, 25 million square feet of neighborhood and community center space was completed, up from 23 million the previous year. Mall construction totaled 4 million square feet last year, compared to 3 million in 2003.
- ▲ **Asking Rent Growth Reported.** Asking rents kept pace with inflation in 2004, rising 2.4 percent. Effective rents posted a similar gain for the year.
- ▲ **Vacancy Posts Minor Decline.** Overall vacancy declined by an estimated 20 basis points in 2004 as healthy retailers maintained somewhat aggressive expansion plans.

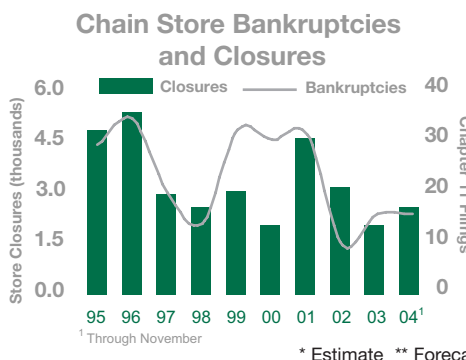
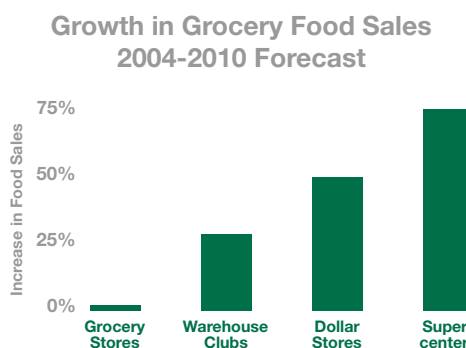
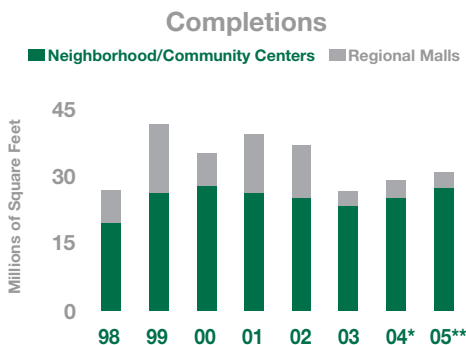
Retail Asking Rent and Vacancy



Retail Overview: Steady as She Goes, Even with Some Bumps

During the past few years, several retailer bankruptcies and closures have taken place, yet vacancy has remained relatively stable and rents have posted steady gains. As weaker players bow out, healthy retailers have been able to gain market share, picking up well-located spaces in close-in centers while benefitting from high levels of spending. Some closures or relocations due to obsolescence have proven problematic, however, particularly in less-prosperous locales where large spaces are often difficult to re-tenant. As of late 2004, Wal-Mart alone had 160 vacant stores on its books. Going forward, the potential Sears/Kmart merger is likely to create some challenges, and repositioning opportunities, for mall owners as underperforming department stores are shuttered.

Nationwide, one of the most talked about issues is the state of the grocery industry. Wal-Mart is rapidly gaining marketshare as it opens new supercenters across the nation, and consumers now have several other options as to where they purchase food and household goods, such as warehouse clubs, dollar stores and even drugstores. It is estimated that by 2008, traditional grocers will capture less than 50 percent of food sales. Already, some grocers are pulling out of regions where Wal-Mart has a significant presence – such as Texas and various markets in the Southeast. Overall, however, vacancy for community centers, which typically are anchored by grocers and other general merchandise retailers, such as discounters, is at a healthy 7.2 percent, up only 110 basis points since 2000. While big-box opponents have been successful in keeping Wal-Mart supercenters out of many markets in the Northeast and California, the retail giant also has its Neighborhood Market, which at 40,000 square feet could fit into traditional grocery space.



Forecast

- ▼ **Construction Rising.** Developers are forecast to deliver 27 million square feet of neighborhood and community center space. Mall construction will ease slightly, to 3.8 million square feet. In addition to new construction, several aging regional malls are currently being renovated/re-tenanted.
- ▲ **Vacancy to Post Mild Decline.** With construction driven primarily by demand, vacancy is forecast to post a minor 20 basis point decrease, to 9.9 percent.
- ▲ **Rent Growth Stable.** Both asking and effective rents will post similar growth rates of approximately 2.5 percent in 2005, keeping pace with inflation.