



Skip Seward Commercial Market Update: Retail

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Today's Presentation

I. Market Overview – The # # #'s

Past Performance

Trends in Leasing/Absorption

Local Issues

Cap Rates – Recent Trends

II. National Retail – Where Are We?

2011 Performance

Consumer Confidence

The New Consumer Emerges

Retailer Concerns

III. Forecast – Possible Recovery or Market Adjustment?

Who to Watch

What to Expect

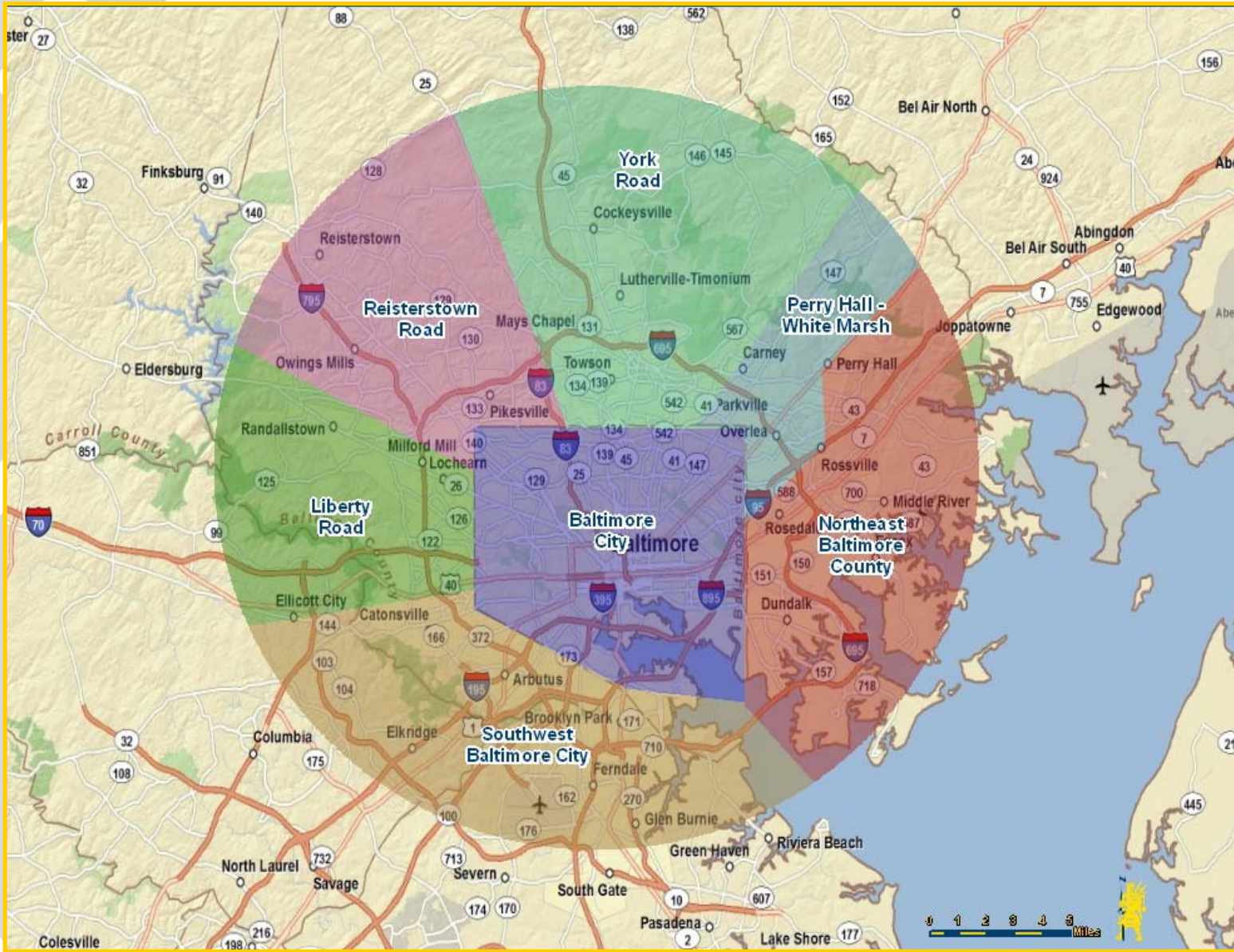
Projects of Interest

Baltimore Metropolitan Retail Market

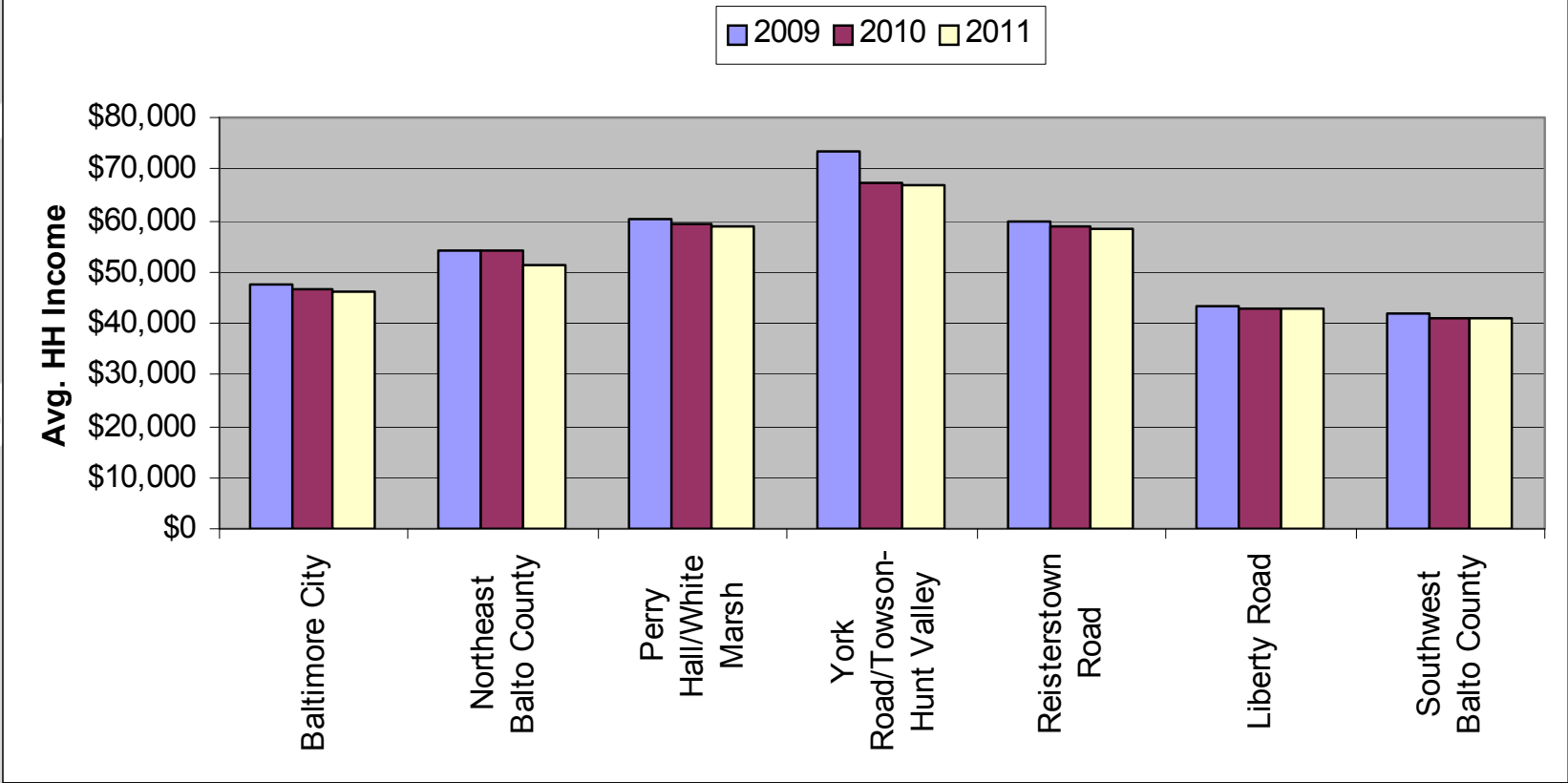
The # # #'s

- Approximately 15.88 million square feet of “retail” space
- Increase of 19.8% over 2000 (*120,000 to 140,000 sf/year*)
- “Spoke & Hub” Analysis (Submarkets)
 - Baltimore City
 - NE Baltimore County
 - Perry Hall/White Marsh
 - York Road Corridor
 - Reisterstown Road Corridor
 - Liberty Road Corridor
 - SW Baltimore County

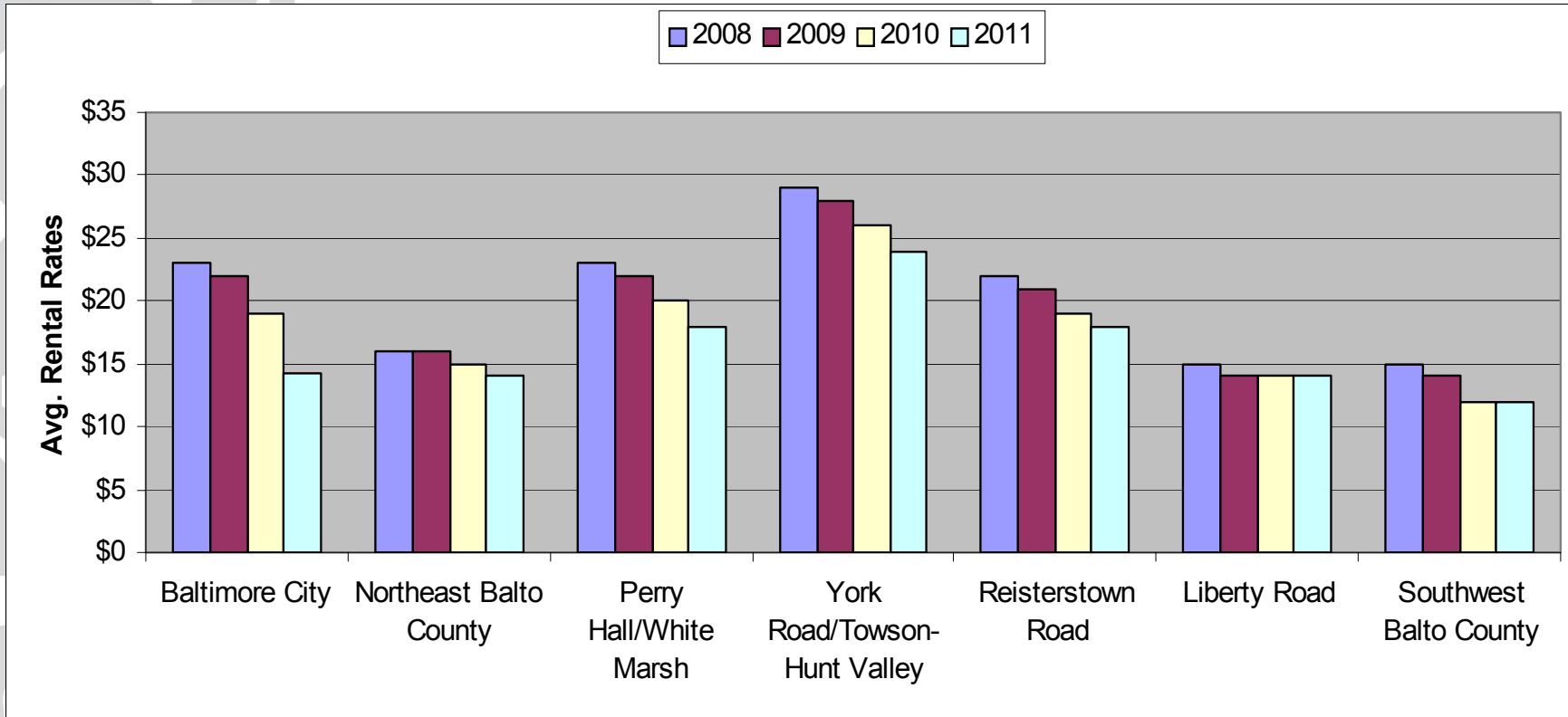
“Spoke & Hub” Analysis (Submarkets)



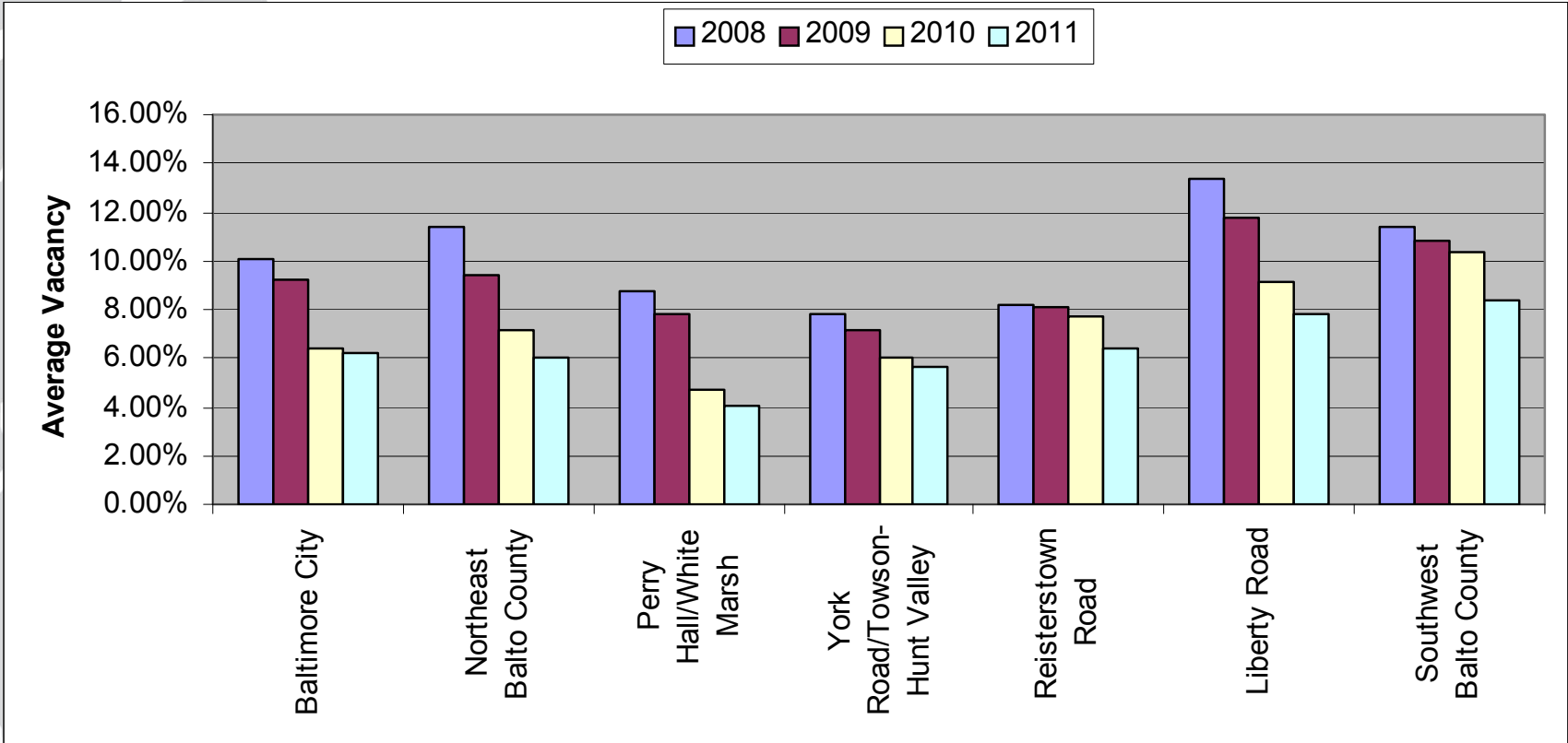
Demographic Profile



2011 Rental Rates



2011 Vacancy Rates



Trends in Leasing/Absorption

Rental Reduction

- Requests stable in 1st-2nd quarter of 2011, up into 4th quarter
- Landlords are more aggressive with their tenants and prospects

Return of Percentage Rent

- Prominence in recent deals and deal criteria
- National breakpoints are not the norm

Rent Offset/Cap on Expenses

- Impact to lenders and owners

Increased Leasing Incentives

- Free rent
- Tenant improvement dollars
- Increases are capped or stepped rent
- Fixed rent

Timeline for Commitments to Openings

- 2012 – 2013 – 2014

Baltimore Metropolitan Retail Market

Increased Development Costs

- Plan Maryland proposed legislation
- SWM quality and quantity control – *New Regulations*
- Offsite remediation – *County & State Budgets!*
- SHA Work – *State Budgets*
- Community obligations/commitments – *Local Demands*

Redevelopment Initiatives/Incentives – Our Future?

- *“Reuse” at lower value*

Demographic Profile – What’s Changing

- Maryland area’s diverse economy/industries
- BRAC: Next 2 – 3 years – Anne Arundel, Harford, & Howard Counties
- We’re better off than other markets!

Comparison to National Markets

	Retail Rental Rates	Vacancy
Atlanta	↓ 18%	↑ to 13%
Columbus	↓ 21%	↓ to 11.4%
Houston	↓ 17%	↓ to 14.1%
San Diego	↓ 11%	↑ to 13.8%
Charlotte	↓ 12%	↑ to 10%
Orlando	↓ 22%	↑ to 15.9%
Nashville	↓ 10%	↓ to 9.8%
Detroit	↓ 20%	↓ to 18%

CAP Rates

Increase of approximately 70 to 180 basis points over 2010

• Anchored Retail	7.2% to 9.4%		
• Un-Anchored Retail	8.8% to 13.0%		
• Freestanding	<u>2010</u>		<u>2011</u>
• Banks	6.2% to 9.1%	*5.12%	5.84% to 8.1%
• Food/Restaurants	6.3% to 9.9%	*5.89%	6.02% to 9.1%
• Pharmacies	6.3% to 8.9%	*4.81%	6.11% to 8.72%
• Big Box	7.3% to 8.8%	*5.61%	7.1% to 8.6%

Must include NE market to assemble data

Observations

- Neighborhood centers are the more stabilized retail assets
- Increased sense of optimism in investor community, yet looking for the “deal”
- Locally – lack of sale inventory has kept cap rates stable & is causing an increase in rates
- Expect continued improvement in 2012

* “At peak of the market”

National Retail – Where Are We?

2011 Holiday Season



The # # #'s

- Christmas in September (inventory orders in Aug/Sept)
- Pre-season sales (even on internet purchasing)
- Cyber Monday
 - 31% of every dollar
 - No rise in product pricing
 - Only 11% of e-retailers reported a decrease in sales versus 23% of bricks and mortar retailers
 - “SAKS to Dollar Store” holiday season
- New retail consumer profile emerges

Retailer Concerns – New Consumer Profile

- “Need” versus “want” customer
- No immediate improvement to housing and employment component of our spending
- Increased costs to rewards programs, returns, promotions, marketing, and indirect operating expenses
- Diminished loyalty by customer vs. price sensitive buyer
- Decrease in shopping trips due to internet
- Minimal, new retailing concepts (↓ 58%)
- Minimal, new franchise opportunities and increased qualifications (\$\$\$) * Source of equity (401K/retirement)
- \$.93/\$1.00 spent in Christmas season was on credit

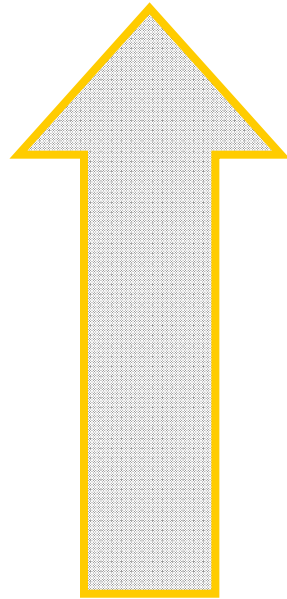
Consumer Confidence

- New low set in Fall of 2009
 - Peak of capital crisis, foreclosures, failing economy at “Main Street”
 - Emphasis on unemployment #'s
 - More closures and company downsizing
- Slight increase (2%) in Fall of 2010
 - Sense of optimism or exhaustion?
 - New local employment #'s show increase
 - Housing starts ↑ 2.4% (Nov./10)
 - Housing sales ↑ 4.5% (Oct.-Nov./10)
 - Property values ↓ 1.2% - 5.8% (Baltimore DMA)
- Sense of optimism for end of 2011

Who to Watch?

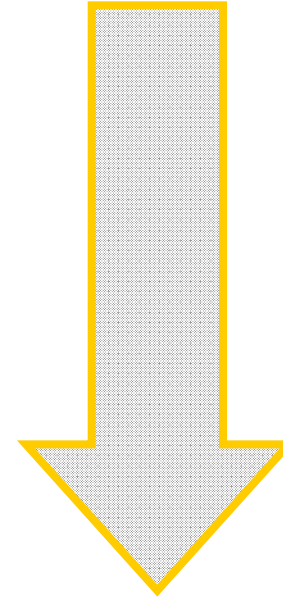
BJ's
Target
Walmart
Sam's Club
CVS
Walgreens
McDonalds
Dollar General
Dollar Tree
Yum Brands
Aldi Foods
JC Penney's
Starbucks

of Units
Same Store Sales
Earnings P.S.
Liquidity
Lack of Leverage



GAP
Old Navy
Sears
Blockbuster
Staples
Office Depot
Food Lion
Shoppers Food
Warehouse
Room Store
Best Buy
Bank Inventory

Store Closings
Declining Sales
Modernizations
Cash Constrained
High Leverage



What to Expect...

- Lack luster demand for small shop retailers and local operators
- Increase in average rents to reflect incentives and reduced vacancy
- Property values stabilized to reflect market and development costs
- Slight increase in local bank financing
- Continued bank facility sublet/available inventory
- Increase in non-retail uses (medical/office) in retail centers
- More calls from appraisers – increasing 20% - 30% over 2011

Project of Interest: Village South



Project of Interest: Boulevard at Box Hill



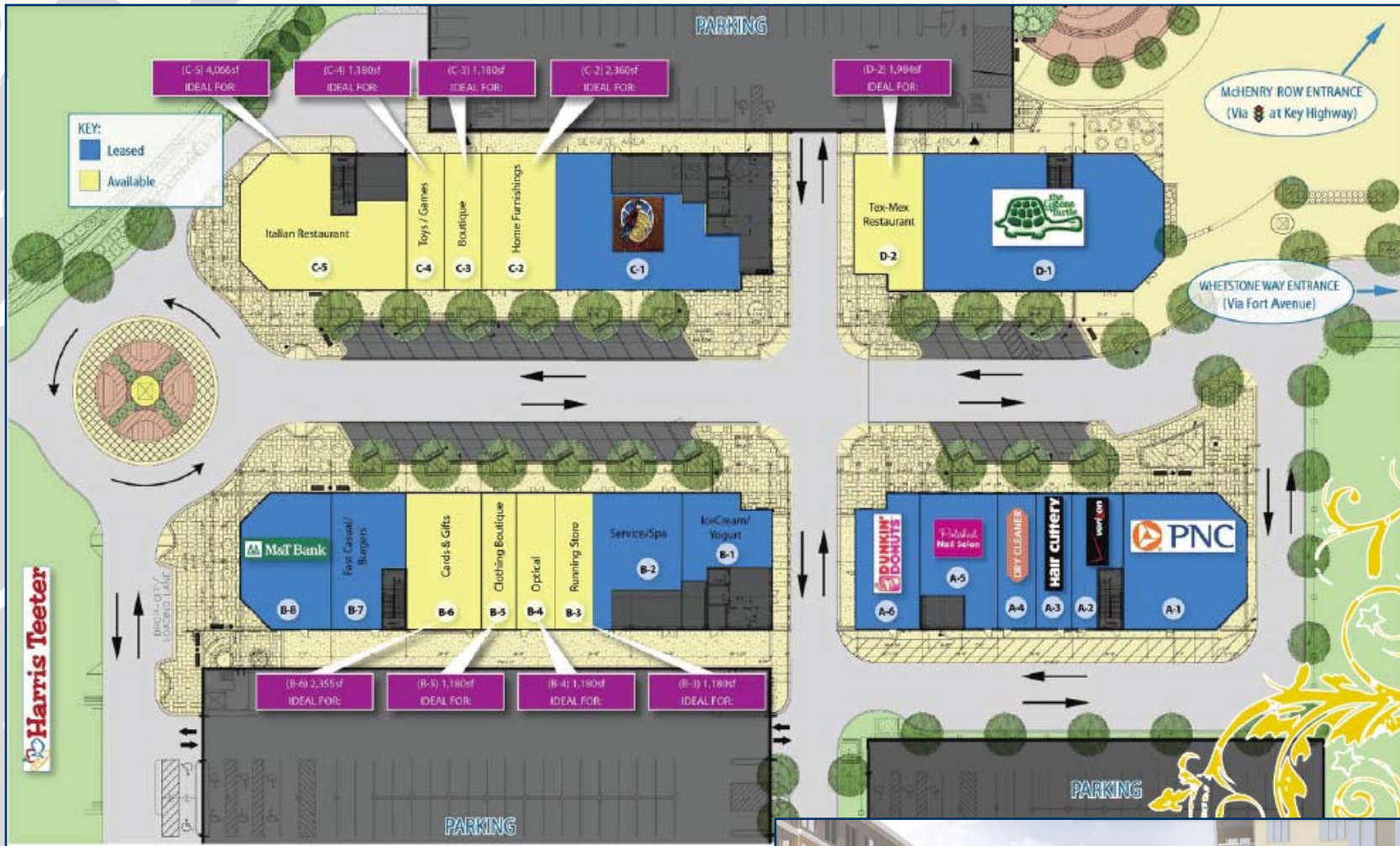
Projects of Interest: Owings Mills



Project of Interest: 25th Street Station



Project of Interest: McHenry Row



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Project of Interest: Canton Crossing





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