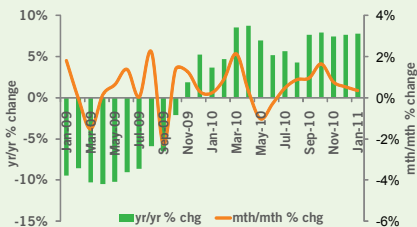


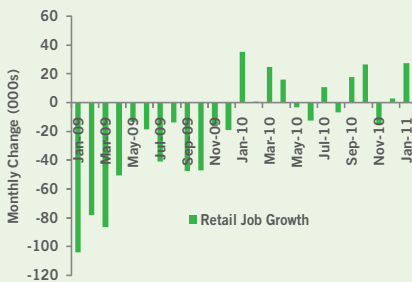
## Retail Market Slowly Stabilizing

### Retail Sales are Rising



SOURCE: US Census Bureau

### Retailers Cautiously Adding Jobs



SOURCE: BLS

### But recovery will be slow



SOURCE: Reis; BLS; Cassidy Turley Reserach

Consumers have picked up their spending. Retail sales have been steadily rising since June of 2010 capped off by a strong holiday spending season. Fourth quarter 2010 metrics suggest the retail market has begun to stabilize. However, high unemployment and low consumer confidence suggest 2011 will be another year of weak absorption, high vacancy, and low rents.

The retail market has lagged all CRE sectors in the current recovery, but strong consumer spending in the second half of 2010, and in particular a surge in retail sales during the holiday season, suggest the worst is over. Overall retail sales increased 6.5% in 2010, the strongest growth rate since pre-recession 2005. Sales of clothing and accessories, furniture, sporting goods and hobbies, and general merchandise all registered sizable increases compared to a year-ago. Moreover, early indications in 2011 suggest that momentum is continuing, as retail sales rose 0.3% in January despite a likely drag from winter weather. Likewise, employment data confirms the retail sector is improving and is slowly adding jobs again. According to the BLS, retail trade added 95,800 jobs in December of 2010 compared to a year-ago.

Given the upturn in sales and the modest improvement in the labor markets, the metrics used to measure the health of retail leasing are finally showing signs of stabilization. According to Reis, net demand for retail space registered at 315,000 square feet in the fourth quarter of 2010, marking the second straight quarter of positive demand, following two and half years of retailers shedding space. Vacancy rates registered at 10.9% - the third straight quarter where vacancy has held steady; albeit at elevated levels. With demand improving, rents are now showing signs of decelerating declines. Asking rents fell just \$0.02 to \$18.99 compared to the previous quarter. When you separate rents into building classes - class A locations in cities with lower unemployment rates are seeing rental growth, as opportunistic retailers look for first tier retail centers located in high traffic areas. On the other hand, second and third tier retail centers are still facing anemic demand and downward pressure on rents.

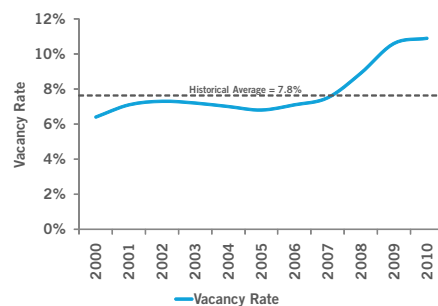
### Outlook

In addition to stronger retail sales, household financials are also improving. After deleveraging for the last 3 years, the household debt-service ratio is now inline with the historical norm (approximately 17%). This, in combination with indications that the credit spigot is beginning to open again, suggests the retail sector will see stronger leasing activity in 2011. With consumer confidence still at recessionary levels, the recovery for retail will continue to be slow. Expect mild improvement in 2011, followed by a stronger recovery in 2012.

**Notable Retail Trends**

- In January, the International Council of Shopping Centers reported that the same-store sales index increased 4.8% in monthly sales for the major retailers tracked monthly. Same-store sales have been positive since the spring of 2010.
- Look for dollar store retailers that cater to a down market to expand. Between all the major chains, an estimated 1,800 new stores are scheduled to open in the U.S. over the next 2 years.
- According to Equifax, credit card account originations are on the rise again and delinquency rates are declining – giving consumers additional buying power.
- Income is highly correlated with retail sales. In 2009 disposable income growth was minimal – increasing only 0.7%. In 2010 disposable income grew 3.1% over the year.
- Housing leads retail. Home prices rose 0.2% in 2010 according to the National Association of Realtors. Assuming home prices continue to stabilize, then new neighborhood construction is likely to follow suit. Currently retail development is at a 40 year low.
- Look for hybrid grocery store expansions to continue in 2011. Even some drugs stores are looking at adding a food component to be more competitive in the one-stop shop arena.

**U.S. Retail Vacancy**



SOURCE: Reis; Cassidy Turley Research

**Personal Income vs. Sales**  
Current Dollars



SOURCE: BEA; US Census Bureau

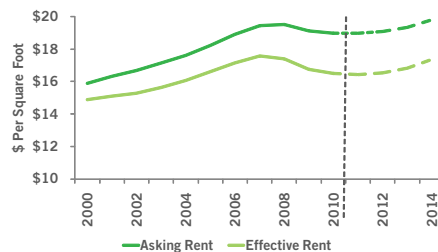
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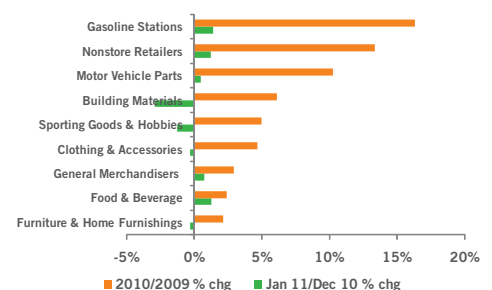
**Jennifer Edwards**  
Project Manager

**Asking vs. Effective Rent**



SOURCE: Reis; Cassidy Turley Research

**Retail Sales Components**



SOURCE: US Census Bureau