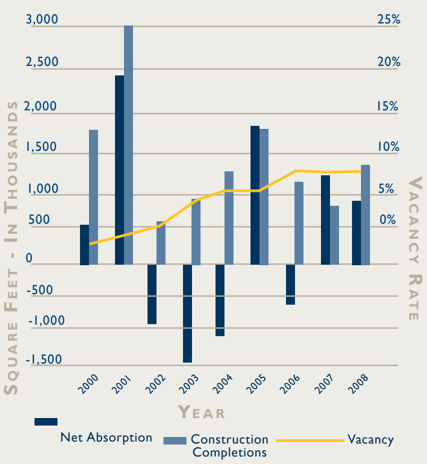
Retail Market

MARKET RESEARCH | JANUARY | 2009

MARKET INDICATORS
TREND SINCE LAST QUARTER

- VACANCY RATE ↑
- NET ABSORPTION ↓
- CONSTRUCTION ↓
- RENTAL RATE ↔

UPDATE
NEW SUPPLY, ABSORPTION AND VACANCY RATES



HIGHLIGHTS

- Easton Town Center and Polaris Fashion Place continue to lead the market.
- Retailers are only seeking new deals for 2010 and beyond.

Retailers must be patient, plan for future

The Columbus retail market, like many other Midwestern markets, is feeling the blows from a national economic storm. Despite negative conditions nationally, closings in 2008 were historically low and "new to market" openings continued to be strong. As seen in the past, Easton Town Center and the Polaris Fashion Place are leading the way for the Columbus retail market. Tiffany & Co. opened a 6,200 square foot store at Easton, helping the lifestyle center land other luxury retailers such as Burberry and Coldwater Creek, both scheduled to open in 2009. Keeping in step, 2008 brought the addition of an outdoor shopping area to the Polaris Fashion Place. Openings at the 160,000 square foot lifestyle center include a Cheesecake Factory and a relocated Barnes & Noble. The Miami based restaurant Benihana is scheduled to open on January 23rd adding a new dynamic to Polaris's food lineup.

Unfortunately for developers, most retailers are halting or curtailing expansion plans. In the coming year, retailers will focus on existing store improvements as well as plan for expansion in developments opening in 2010 and 2011. New development has come to a halt as construction loans are very scarce. Do to the lack of new construction in the coming year, as thing begin to rebound in late 2009 or early 2010 demand will outpace supply which should help ease the currently increasing vacancy rates.

At the end of 2008, consumer confidence reached record lows as unemployment rose, foreclosures hit an all-time high, energy costs climbed, and retirement savings fell. Consumers were forced to cut back on non-necessity spending, which lead to one of the worst holiday shopping season since the 1990's. Amidst poor holiday sales, bankruptcy announcements came from Linens-and-Things, Steve & Berry's, and Value City among others.

For retailers and owners, 2009 is a year to plan for 2010 and 2011 and keep existing tenants happy. Nobody wants to be wrong in 2009 as retail turns "high risk". Government bailouts will try and pump money back into the economy to create jobs and bolster consumer confidence. The months ahead in 2009 will continue to be troublesome with more retail closures and struggles. However, with new leadership and a slow climb to normalcy in the financial markets, stability could be on the horizon towards the end of the year and into 2010.

Inventory

Colliers Turley Martin Tucker (CTMT) surveyed more than 83 million square feet of retail space, comprised of 2,297 superstores, strip centers, drug stores, restaurants, regional malls and neighborhood centers that are 5,000 square feet or larger. Inventory is spread over six submarkets: Northwest, North-Northeast, Southeast, Southwest, Downtown and Out of County. Along with the market as a whole, a big box subset of the retail market was also surveyed this quarter. This survey tracks shopping centers of 57,000 square feet or more in gross leasable area.

The largest submarket is the Out-of-County, which consists of 478 buildings totaling 18.8 million square feet outside of Franklin County. The second largest submarket is the North-Northeast, which includes the New Albany and Westerville suburbs. This submarket has 598 buildings and more than 18 million square feet of space. The Northwest submarket follows in size with 16.5 million square feet contained in 516 buildings. The Southeast submarket, an emerging market, follows with 13.7 million square feet in 390 retail properties. The once thriving Downtown submarket is comprised of 10 million square feet, located mainly on the first floor of mixed-use buildings. The smallest submarket in tracked retail space is the Southwest with 5.6 million square feet in only 128 buildings.

New Construction

New retail development in the Columbus Market is on hold. There is currently just over 187,000 square feet of new retail space under construction throughout the region, with over two thirds coming in the Out-of-County submarket. Only 75,000 square feet of this space has an anchor tenant, which is Kroger at the Sunbury Mills Plaza. The other 72,000 square feet is made up of pharmacy and strip center development that received financing before the money markets froze. The only new developments in the foreseeable future will occur in prime infill areas, where top retail chains can draw in necessity shoppers.

Besides a general decline in new construction, there are two distinct development trends in the market. The first is that of delaying deliveries such as Sunbury Mills Plaza in Sunbury. The 75,000 square foot Kroger anchored power center has had multiple completion delays; most recently pushing completion from November 2008 into sometime during the first quarter of 2009. The second is the delivery of shopping centers in phases, first completing the "big box" space, followed by the inline space. A clear example of this dynamic is still playing out at Polaris, as the big box stores on Gemini Parkway like Costco, Toys "R" Us, and Babies "R" Us have almost all been completed and much of the inline stores have not. This is a direct reflection of the reduced activity from smaller users in the marketplace.

Vacancy

At the end of 2008, the direct vacancy rate in the Columbus retail market fell slightly to 8.40%, from a 2007 end of year vacancy rate of 8.68%. The bulk retail market recorded a fourth quarter vacancy of 10.09%, a slight decline over the same quarter in 2007 when vacancy was 10.66%. Despite negative press, the retail market looks to be weathering the storm; but the real story of 2008 won't come to light until the first quarter of 2009. With hopes of a healthy shopping season, store closures are normally held off until the first few months of the year. Retail in 2009 will reflect a 2008 market that struggled with limited expansion by local tenants, inflationary pressures poised by rapidly increasing fuel costs and declining activity by major retailers who are closing underperforming stores, consolidating locations or simply putting expansion plans on hold.

No matter the market uncertainty, the market still managed to record positive occupancy growth of almost 414,000 square feet of space during the year. A lot of this growth came in the form of new projects that were delivered to the marketplace with big box retailers already in place, in most cases with leases that were signed well over a year ago. The gains in occupancy from big box users like Target, Meijers, Giant Eagle and Menards have masked the losses that the market is experiencing from smaller, inline space users.

Absorption

Despite the overall sense of gloom that currently pervades the retail landscape, the Columbus market recorded positive absorption in 2008. As stated before, big box users are the biggest contributor to this increase. With the beginning of the holiday season also came new store openings, in 2008 new store opening accounted for 601,500 square feet of positive absorption in the fourth quarter. Year end absorption totaled 414,000 square feet. Over 75% of the fourth quarter's absorption came from the Out-of-County submarket, which recorded positive absorption for the first time in the last two quarters. The Southeast submarket felt the brunt of the economic downturn as it was the only submarket to record negative absorption for every quarter during the year, totaling 289,000 square feet.

The Columbus bulk retail market also experienced positive absorption in 2008. The fourth quarter had 52,000 square feet positively absorbed making up approximately a fifth of the yearly absorption total of 258,000 square feet. The Northwest submarket was the only submarket to boast positive net absorption for the year with 375,000 square feet absorbed.

Recent Sales

In 2008, 16 investment grade sale transactions took place, which marks a decrease from last year's total of 26. In total, 1.38 million square feet of retail space changed hands during the year at an average price of $62.73 a square foot. In comparison, 2007 had 2 million square feet that were sold at an average per square foot price of $121.96. The difference in price can be attributed to several things, which include investors' reluctance to sell high quality retail products at the discount expected in the current climate.
J.D.S. Properties bought the property at 650

UPDATE
COLUMBUS FOURTH QUARTER RETAIL SALES

PROPERTY NAME	SALES DATE	SALE PRICE	SIZE (SF)	PRICE/ SQ. FT.	BUYER
1212 Dublin Granville Rd.	10/1/2008	$2,000,000	81,506	$24.54	Mohammad Ashraf
224-226 E. Lafayette St.	10/20/2008	$3,000,000	46,008	$65.21	DNZ, LLC
4108 Stringtown Rd.	12/8/2008	$3,500,000	10,400	$336.54	Outlot 41, LLC
TOTAL		**$163,853,210**	**2,385,155**	**$68.70**	

UPDATE
RETAIL CONSTRUCTION IN 2008

PROPERTY NAME/ADDRESS	SF	SUB-MARKET	COMP. DATE	TYPE	% LEASED
The Shops at Tremont- 3219-3241 Tremont Rd.	19,659	NW	1Q 2008	Storefront	90%
The Shops III at Westar - 400-438 Polaris Pkwy	12,500	N/NE	1Q 2008	Strip Ctr.	100%
5477-5515 New Albany R. W.	19,000	N/NE	1Q 2008	Strip Ctr.	100%
1612-1626 N. Memorial Dr.	7,783	Out of Cty	1Q 2008	Strip Ctr.	100%
Shoppes at the Crossing - 643-695 Coleman's Crossing Blvd.	18,915	Out of Cty	1Q 2008	Power Ctr.	74%
8 on the Square - 2-4 E. Broad St.	40,760	Downtown	1Q 2008	Storefront	43%
The Shops at Park Center Circle - 6090-6124Park Center Cr.	22,140	NW	2Q 2008	Freestanding	100%
The Market at Stelzer - 2900 Stelzer Rd.	1,115,000	N/NE	3Q 2008	Cmty. Ctr.	74%
2134-2170 Polaris Pkwy.	25,000	Out of Cty	3Q 2008	Freestanding	33%
8369-8393 N. High St.	12,000	N/NE	3Q 2008	Freestanding	0%
918 N. High St.	11,000	Downtown	3Q 2008	Drug Store	100%
4765 W. Broad St.	14,820	Northwest	1Q 2009	Drug Store	100%
Smith and High - 1246 N. HIgh St.	30,000	Downtown	1Q 2009	Storefront	78%
Highway 36/37 & SR 3 - Sunbury Mills Plaza	114,300	Out of Cty.	1Q 2009	Power Ctr.	100%
Sawmill Pkwy and Powell Rd.	12,570	Out of Cty.	1Q 2009	Nbrhd. Ctr.	77%
7600 Diley Rd. - Shoppes on Diley	15,454	Out of Cty	3Q 2009	Strip Ctr.	0%

North State Street for $16 million. The transaction for the Northridge Crossing Center was the second largest in 2008. The center's anchor tenant, Giant Eagle, will remain in the shopping plaza. The largest transaction took place in the first quarter as Wal-Mart RE Business Trust bought 3657 East Main Street from Wal-Mart Stores East LP for $22.7 million. This sale was the highest grossing sale for 2008.

Outlook

Landlords are in store for a tough year as competition for tenants intensifies and lenders become even more stringent, pointing towards 2009 being a year that will get worse before it can get better. Vacancy rates will continue to rise as retailers put their expansion plans on hold and some are forced to close their doors. However, for investors who specialize in turning around distressed properties, 2009 should offer ample opportunities. The next year will have a majority of developers, investors, and retailers planning for 2010 and 2011 as they wait to see what 2009 brings.

UPDATE
COLUMBUS RETAIL MARKET STATISTICS

	Existing Properties							Absorption		Construction		Rent
Submarket	Buildings	Total Inventory SF	Total Vacant SF	Direct Vacancy Rate Last Q	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacancy Rate Current Quarter	Net Absorption Current Q - SF	Net Absorption YTD - SF	Completions Current Q - SF	Under Const. - SF	Asking NNN $/SF
Northwest	516	16,587,695	1,592,146	9.29%	9.12%	0.48%	9.60%	(54,317)	(34,179)	9,000	64,829	$13.78
North - NE	598	18,136,335	1,727,117	9.84%	9.27%	0.25%	9.52%	44,560	140,271	57,818	50,524	$12.69
Southeast	390	13,726,346	1,660.020	11.87%	11.52%	0.57%	12.09%	(25,762)	(289,467)	0	338,194	$9.10
Southwest	128	5,637,993	698,293	14.58%	11.46%	0.93%	12.39%	174,535	251,221	0	14,820	$9.77
Downtown	187	10,269,371	239,705	2.37%	2.33%	0.00%	2.33%	3,596	(16,009)	0	0	$12.79
Out of County	478	18,819,360	1,334,035	6.75%	7.02%	0.06%	7.09%	458,917	362,269	693,891	491,942	$12.10
Total	2,297	83,177,100	7,251,316	8.76%	8.40%	0.32%	8.72%	601,529	414,106	760,709	960,309	$12.00

UPDATE
COLUMBUS RETAIL BULK RETAIL MARKET STATISTICS

	Existing Properties							Absorption		Construction		Rent
Submarket	Buildings	Total Inventory SF	Total Vacant SF	Direct Vacancy Rate Last Q	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacancy Rate Current Quarter	Net Absorption Current Q - SF	Net Absorption YTD - SF	Completions Current Q - SF	Under Const. - SF	Asking Full Service $/SF
Northwest	53	10,754,721	1,061,335	9.92%	9.77%	0.10%	9.87%	16,920	375,120	0	0	$12.73
North-Northeast	54	12,819,580	846,427	6.87%	6.54%	0.07%	6.60%	42,337	(86,867)	0	0	$11.10
Southeast	43	8,516,035	992,798	11.83%	11.61%	0.05%	11.66%	18,455	(3,937)	0	338,194	$8.40
Southwest	26	5,655,321	746,563	5.31%	5.32%	0.06%	5.38%	(920)	(12,583)	0	0	$9.32
Out of County	38	7,471,109	947,610	12.35%	12.68%	0.00%	12.68%	(25,030)	(13,608)	655,000	250,000	$10.16
Total	214	45,216,766	4,594,733	10.21%	10.09%	0.07%	10.16%	51,762	258,125	655,000	588,194	$10.26