Cassidy Turley / Commercial Real Estate Services

U.S. Retail Report

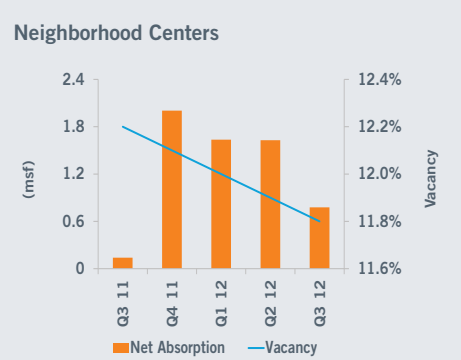
November 2012

Retail Sector: Cautious Optimism

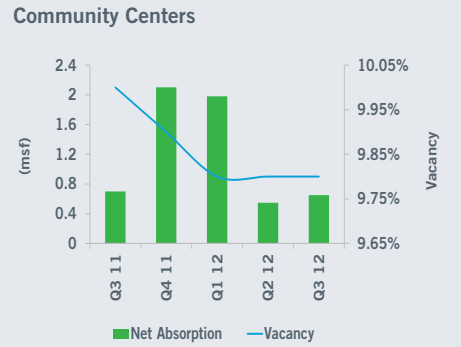
- Q3 numbers flat, but Q4 tracking much better
- Consumer confidence rebounding into the Holiday Season
- Retail sales turning stronger
- Gas prices likely to fall
- Rising home values are a game-changer

Q3 Recap

Much like other sectors of the U.S. economy, the retail recovery took a pause over the summer. On the heels of a paltry second-quarter GDP growth figure of 1.3% and a pullback in consumer spending over the summer, retailers experienced very little in terms of net expansion. In the third quarter of 2012, retail vacancy was unchanged from the second quarter at 10.8% and rents remained basically flat from the prior quarter. Behind the headline numbers, the trends continue to point to a highly bifurcated market. Low end/discount retailers continue to perform extremely well in this recovery. For instance, Family Dollar is planning on opening up 500 new stores in 2013, similar to the number of new openings this year. Likewise, high-end luxury and organic grocers also remain in expansion mode. Whole Foods Market is on the path to open 70 new stores nationwide within the next two years that will occupy about 2.8 million square feet (msf). However, most of the growth at the high and low ends has been at the expense of mid-price retailers, where performance has been slightly negative. Despite the inconsistencies across the sector, the retail recovery is generally making solid progress. Even with a shaky third quarter, net demand for neighborhood and community center retail space will end the year at around 15 msf, meaning that 2012 will easily be the strongest year in this recovery. It is also worth noting that since the third quarter came to a close, the economic data that correlates well with the retail sector has turned decidedly more upbeat.



Source: Reis; Cassidy Turley Research



Source: Reis; Cassidy Turley Research

Encouraging Signs

There is a growing list of encouraging signs pointing to better retail growth in the near term. First, consumers don't appear terribly concerned about the state of the economy. After slumping over the summer, retail sales have posted healthy gains for three straight months through September. Sales of motor vehicles, clothing and accessories, electronics and appliances have all registered steady gains since July. Sales are on pace to finish 2012 up almost 5.5% compared to the prior year. Recent survey data on consumer confidence also points to growing optimism. The Conference Board's Consumer Confidence Index jumped from 68.4 in September to 72.2 in October – its highest level in nearly five years. The National Retail Federation is predicting that holiday sales will increase 4.1% from the levels reported one-year ago, levels which were already strong. Consumer spending will also

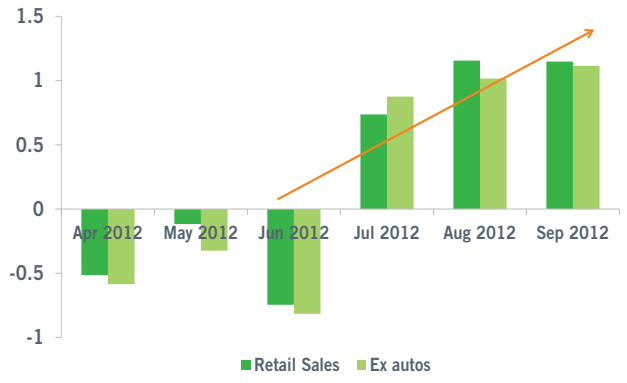
get a boost from declining gas prices. The price of unleaded gas is down almost 20 cents per gallon after peaking at nearly $3.90 in early September. Given the recent softening in the world economy coupled with oil production levels which are near record-highs, gas prices are likely to trend down for the remainder of the year. Throughout this recovery, the correlation between gas prices and retail sales has been an astonishing, 0.85.

The major sea change in the recovery this year is due to housing. Housing's rebound has been one of key missing links behind a stronger retail sector. Single-family homes prices have risen in 100 out of 134 metros tracked since the beginning of 2012, according to the National Association of REALTORS. In some markets such Phoenix, home prices are up a whopping 29% compared to a year-ago. It is well established that rising home values creates a wealth effect that leads to stronger consumer spending. For every $1 increase in home values, consumer spending typically rises by 5 cents.

While there is momentum in the near term, the outlook for 2013 is far less clear and fraught with downside risk. The U.S. economy faces a myriad of fiscal issues that need to be addressed, including the ballooning federal deficit, tax policies, healthcare and financial regulatory reforms, and of course, the fiscal cliff. Businesses are already getting anxious about how these fiscal issues will impact bottom-line profits. Job creation in the last six months has fallen off by 50% from levels observed earlier in the year. While it is difficult to quantify, at least some of that is due to policy uncertainty. With the recent re-election of President Obama perhaps businesses will finally receive some visibility into how these fiscal issues will be addressed. That said, the fiscal cliff looms large, and if policymakers do not reach consensus quickly, then the anxiety felt by businesses will inevitably spread to the consumer. Moreover, there are still significant headwinds from abroad. Global growth has clearly slowed, and peripheral countries in the euro-zone including Greece, Italy and Spain are still largely in a deep recession.

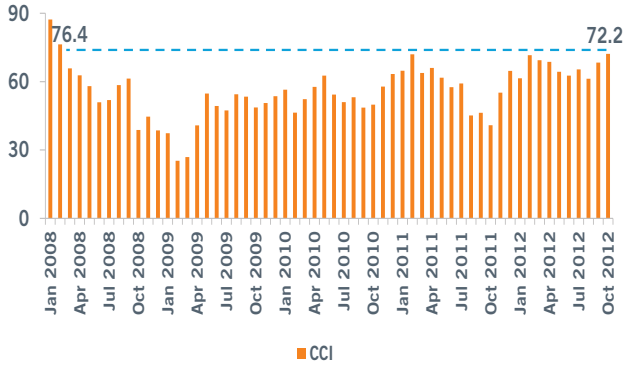
On the upside, the fundamentals in the U.S. economy are holding up extremely well. Most notably for the retail sector, company and household balance sheets look incredibly healthy. Cash balances of the Standard and Poor's 500 are nearing historic highs of $1.5 trillion, according to JP Morgan. Based on the debt service ratio, household financials look as good as they have since 1993. In other words, if policymakers can come through and provide a healthy dose of transparency, then the stage is set for a much stronger rebound in the retail sector.

Retail Sales Strengthening



Source: U.S. Bureau of Economic Analysis (BEA), Moody's

Confidence Highest in 5 Years

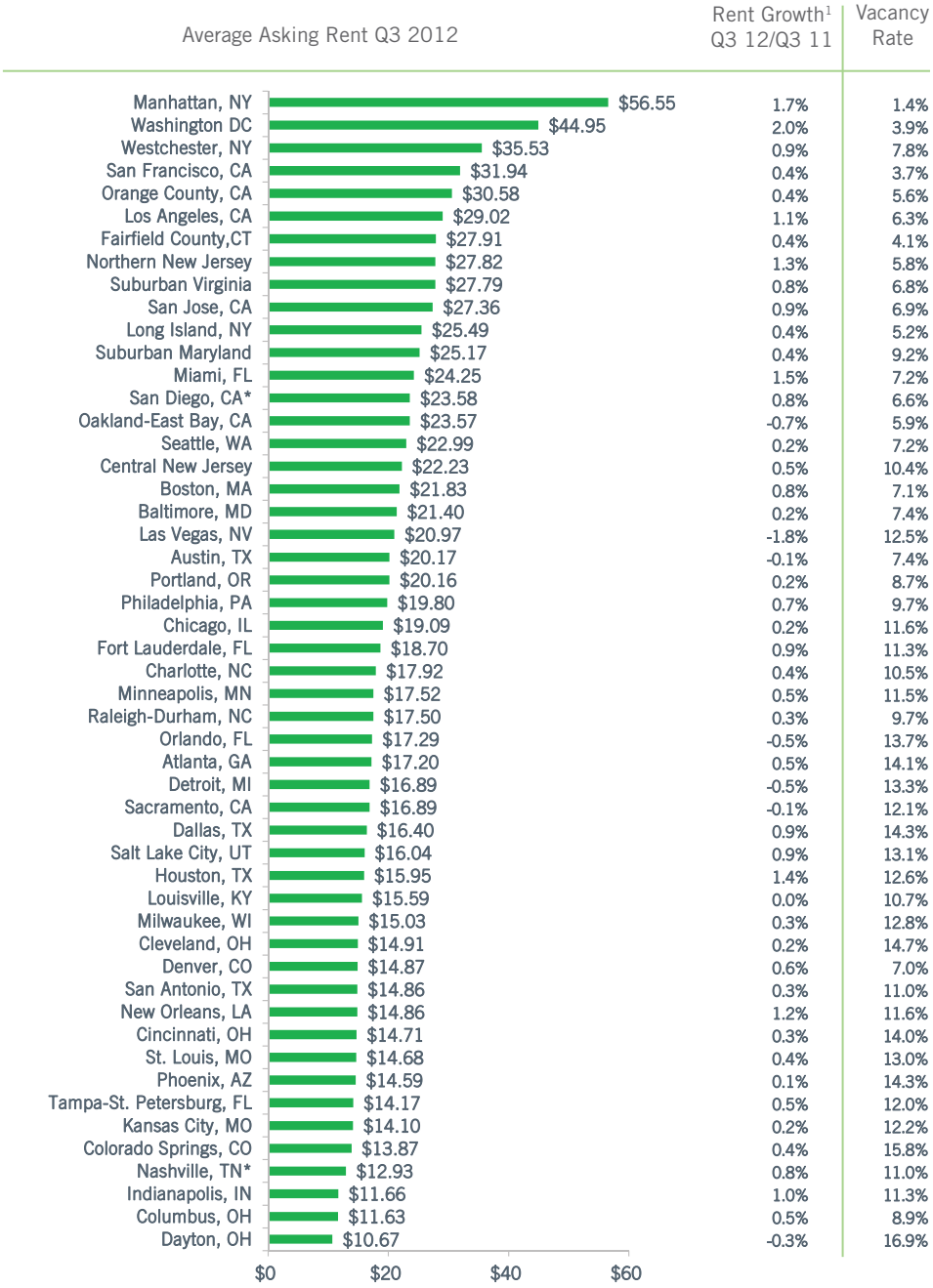


Source: The Conference Board

Cassidy Turley / Commercial Real Estate Services

U.S. Retail Report

November 2012



SOURCE: Reis, CoStar, Cassidy Turley Research
[1]Year over Year % change
NNN Asking Rent
**1st Half 2012 statistics*

Cassidy Turley is a leading commercial real estate services provider with more than 3,700 professionals in more than 60 offices nationwide. The company represents a wide range of clients—from small businesses to Fortune 500 companies, from local non-profits to major institutions. The firm completed transactions valued at $22 billion in 2011, manages 455 million square feet on behalf of institutional, corporate and private clients and supports more than 28,000 domestic corporate services locations. Cassidy Turley serves owners, investors and tenants with a full spectrum of integrated commercial real estate services—including capital markets, tenant representation, corporate services, project leasing, property management, project and development services, and research and consulting. Cassidy Turley enhances its global service delivery outside of North America through a partnership with GVA, giving clients access to commercial real estate professionals in 65 international markets.

U.S. Research

Cassidy Turley
2101 L Street, NW
Suite 700
Washington, DC 20037
Tel: 202-463-2100

Kevin Thorpe
Chief Economist

Jennifer Edwards
Project Manager

Elena Bondarenko
Economist