

Appraisal Institute - DC Chapter Retail Real Estate Market Update

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CBRE
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Introduction

- Where We Are
 - Retail Capital Markets Overview
 - Cap Rate Trends
- Where We are Headed
- Questions

Capital Markets Overview

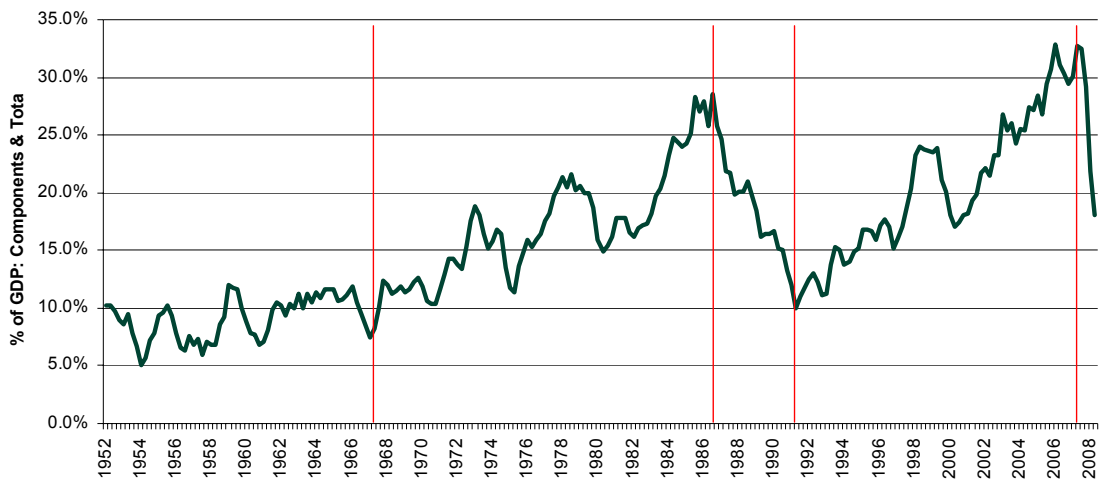
- Shopping center sales activity has declined by 75% from record 2007 levels.
- Larger transaction volume has declined even more, with over 70% of closed transactions below \$12.5 million.
- Prices market-wide are estimated to have declined 10% on closed deals but the dearth of activity lessens the relevance of that generalization.
- Equity capital is still available but in a much more limited and selective basis for retail assets.
- The majority of the price and activity decline can be attributed to the lack of debt, particularly for larger deals, and more stringent underwriting for what debt is available.

Capital Markets Overview

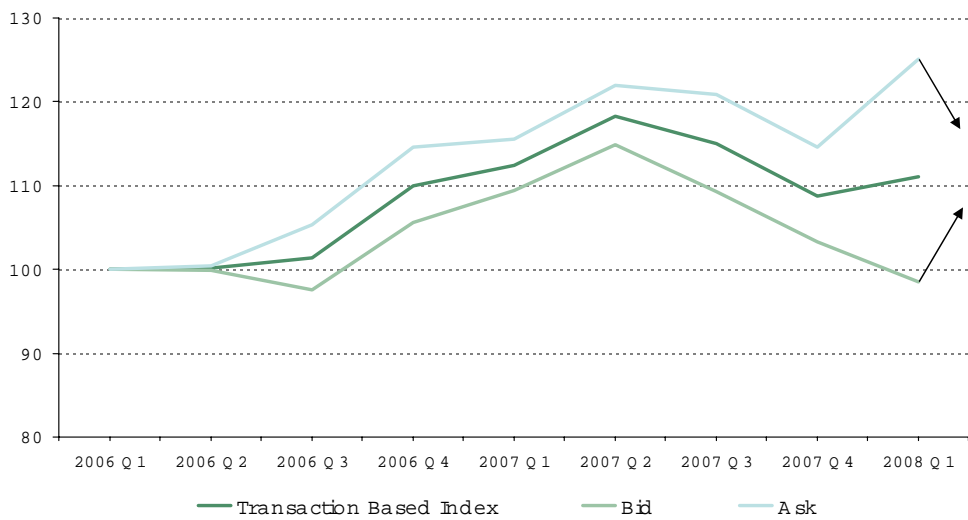
- Investors are continuing to revise underwriting criteria with little value for vacant space, and lower growth rates as well as higher yields.
- There is a strong bias for core plus and value-add opportunities as stabilized values are perceived to continue their decline
- There is a strong bias for grocery-anchored assets in top 20 metropolitan areas showing a flight to quality
- Numbers of offers received are declining, the current trend is one or two offers that are leading the pack
- There is increased buyer interest in properties with attractive, assumable debt.

Debt Flow

Debt Flow (Liquidity Measure)
Total Net Borrowing/Lending (flow) as % of GDP

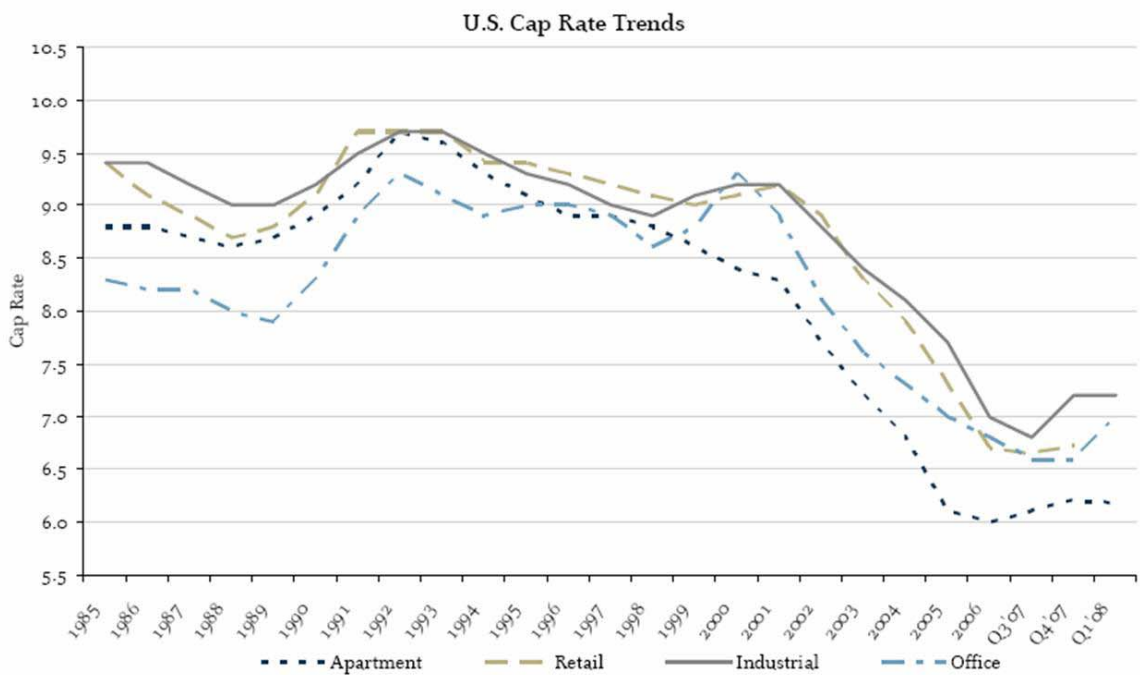


The Bid/Ask Spread



The bid has steadily declined from quarter to quarter, while the sellers' prices ("ask") have held steady.

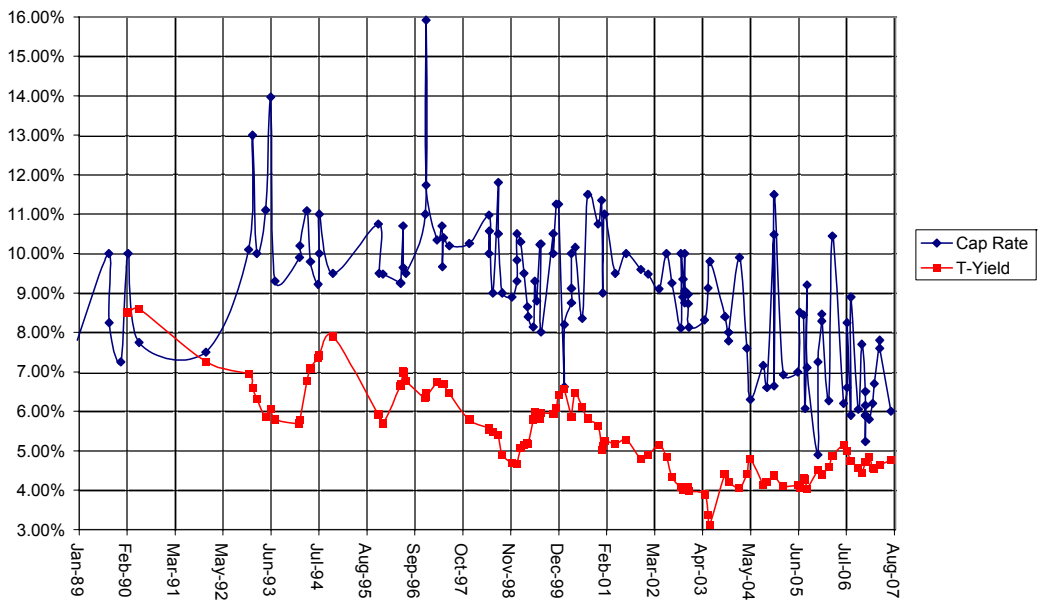
Cap Rates Moving Moderately Higher



Source: Wachovia Capital Markets

Grocery-Anchored Center Cap Rates

Washington-Baltimore Historical Cap Rates
Grocery-Anchored Shopping Centers & 10-Yr Treasury Yield



What's It All Mean?

- The US economy is "in limbo" – not a technical recession (yet) but a troubling lack of growth
- Real Estate markets begin the slow down with moderate vacancy and contained construction
- Income in most core properties will be flat to rising in the next few years
- Valuations are a story to be saved for another day, but solid fundamentals may limit value declines in stronger markets

2008: What's In & What's Out

In	Out
65-75% Leverage	90-95% Leverage
Balance Sheets	CDO 's
Balance Sheet Loans	Conduit Loans
Skin in the Game	"Option Equity"
Trailing - 12 Cash Flow	Pro Forma Cash Flow
Rising Cap Rates	Cap Rate Compression
Good Loan= Paid Back Loan	Good Loan= Sold Loan
Credit Analysis	Deal Flow
Credit Guy	Golf & Cigar Guy
Equity in the Deal	Cash Out Financing
Sponsor Equity	Syndicated Equity

The Prevailing Mantra

- Caution – investors/lenders don't want to make a mistake and need fact-based data
- Comfort – action is happening in markets investors know and with operators they have done business with
- Creativity – sellers are increasingly willing to consider "take-back paper" to facilitate a deal at a "good price"

Where We're Headed...

- Buyers stepping up for Trophies
- Look for emergence of smaller, higher priced boutique capital
- Sellers adjusting down for B's & C's
- Spread curve for asset quality/location is back
- Forget about 2008 :: Think 2009
- CMBS will come back modestly
- Those who "get" the total picture will be the winners