

Appraisal Institute - DC Chapter Retail Real Estate Market Update

Retail Real Estate Market Update

CBRE
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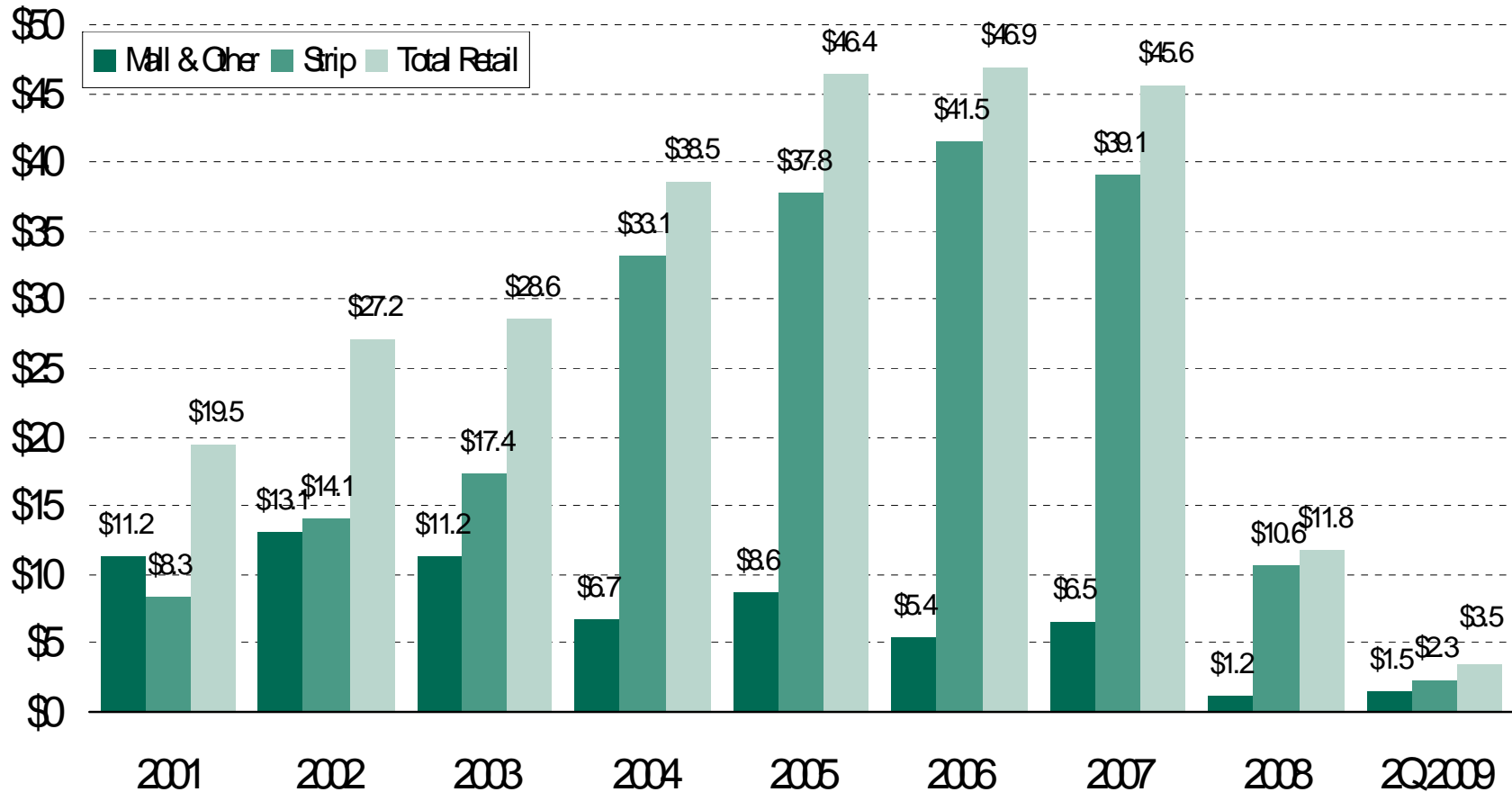
National Retail Investment Group: Washington, DC

- Over 41 million square feet of retail properties sold valued at over \$6 billion nationwide with a focus in the Mid-Atlantic region
- CBRE Retail Investment Sales is the #1 investment sales broker nationwide and the market leader in the Mid-Atlantic region
- Team of six retail investment, underwriting and marketing specialists based in Washington, DC

Introduction

- Retail Capital Markets Overview
 - Transactions
 - Underwriting
 - Debt
- Cap Rates
- Where We're Headed

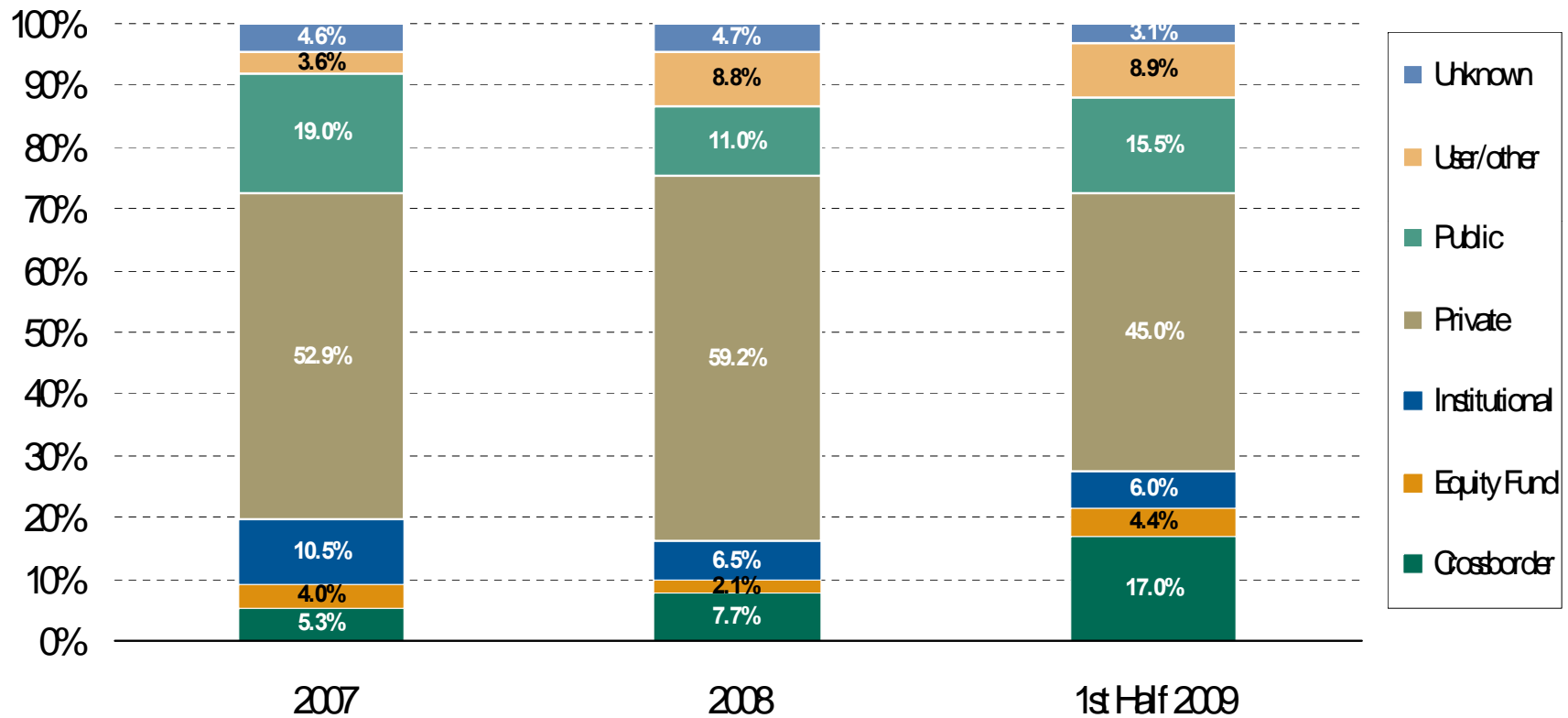
Retail Transaction Volume Billions (\$) Properties – National Data



Source: Real Capital Analytics

Updated July 31, 2009

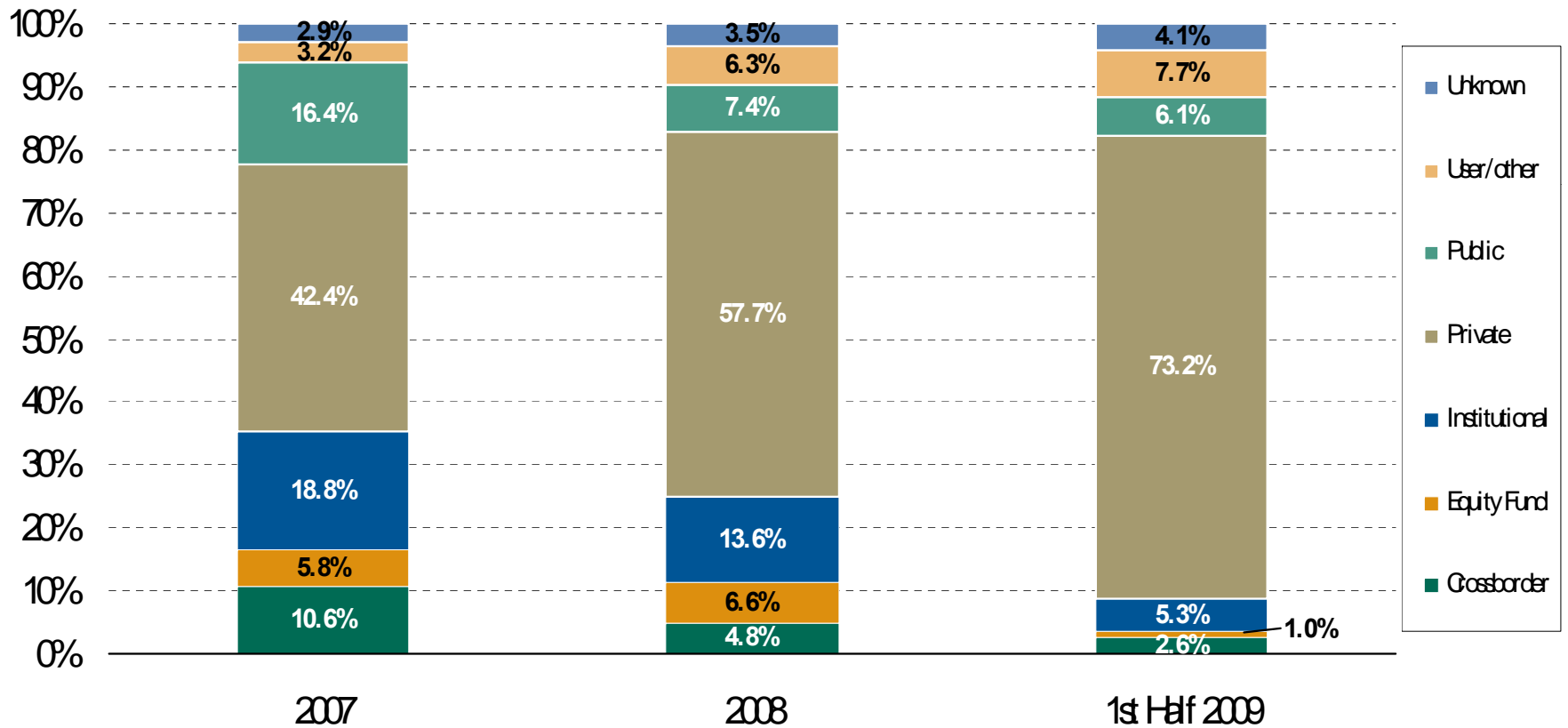
Retail Seller Composition



Source: Real Capital Analytics, August 2009 Net Retail Investment

Updated August 4, 2009

Retail Buyer Composition



Source: Real Capital Analytics, August 2009 Net Retail Investment

Updated August 4, 2009

Current Retail Underwriting

- Actual Year 1 NOI
 - No new leasing
 - Subtract tenants in bankruptcy
 - Subtract tenants with low sales and/or high A/R outstanding
 - Credit for pending leases if tenant is open for business by closing date
- Market Rents
 - Major Markets: no growth 12-24 months
 - Secondary & Tertiary markets: writing down rents 5-50%
 - Landlords are trading rents for occupancy
- Tenant Fundamentals are Key!
 - Health ratios
 - Financials
 - Competition

The Debt Situation

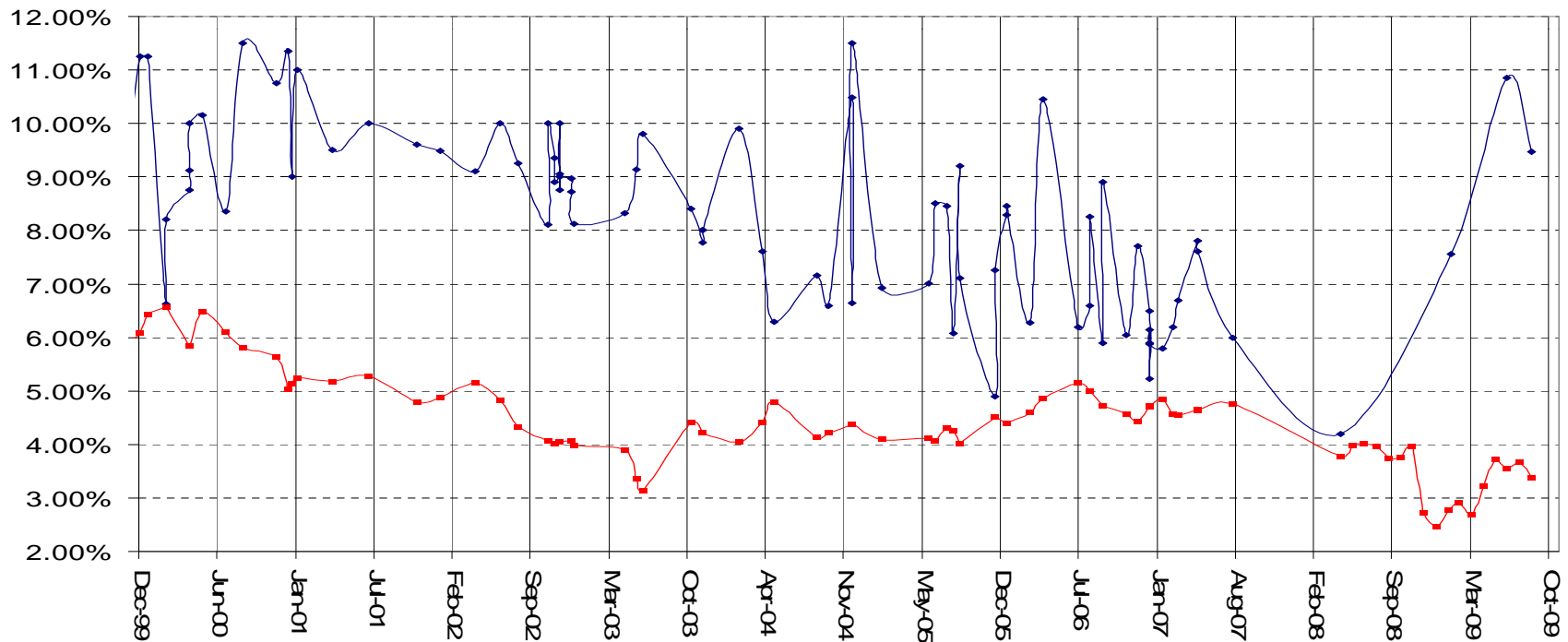
- Cap rate \geq loan constant
- Initial ROE 10% or better for non-core assets
- Non-recourse to 50% LTV
- Higher LTV & lower rates available with recourse
- Assumable debt creates more bidders & more competition if:
 - Long term (5+ years)
 - At or below market interest rate
 - Non-recourse
 - Between 60% and 70% LTV

Interest Properties vs. Problem Properties

- Interest Properties
 - Neighborhood centers with #1 or #2 grocer in the market
 - Strong, proven sales
 - Healthy retailer corporate financials
 - Longevity and high historical occupancy
- Problem Properties
 - Increased co-tenancy concerns with big box retailers
 - Tenant failures or vulnerable tenants
 - Rents which reflect development costs more so than economics
 - Flat lease terms which compress investment yields

Grocery-Anchored Center Cap Rates

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



CBRE National Retail Investment Group

Retail Cap Rates – July 2009

| Primary Markets Major Metropolitan Areas Population ≥ 1.5 Million | Class A | Class B | Class C |
|--|----------------|----------------|----------------|
| Mid-Atlantic Average-Neighborhood Grocery Anchored | 8.00-8.50% | 9.00-9.75% | 10.00-11.00% |
| National Average-Neighborhood Grocery Anchored | 8.04-8.64% | 8.79-9.61% | 9.86-11.14% |
| Mid-Atlantic Average-Power Centers | 8.75-9.25% | 9.50-10.25% | 10.50-11.50% |
| National Average-Power Centers | 8.68-9.32% | 9.36-10.25% | 10.71-13.00% |

| Secondary Markets Population 400,000-1 Million | Class A | Class B | Class C |
|---|----------------|----------------|----------------|
| Mid-Atlantic Average-Neighborhood Grocery Anchored | 8.50-9.00% | 9.50-10.25% | 10.50-11.50% |
| National Average-Neighborhood Grocery Anchored | 8.71-9.21% | 9.43-10.32% | 10.79-13.00% |
| Mid-Atlantic Average-Power Centers | 9.25-9.75% | 10.00-10.75% | 11.00-12.00% |
| National Average-Power Centers | 9.25-10.04% | 10.04-10.96% | 11.43-13.93% |

| Tertiary Markets >75 miles from Metropolitan Areas Population 25,000-250,000 | Class A | Class B | Class C |
|--|----------------|----------------|----------------|
| Mid-Atlantic Average-Neighborhood Grocery Anchored | 9.00-9.50% | 10.00-10.75% | 11.00-13.00% |
| National Average-Neighborhood Grocery Anchored | 9.43-10.21% | 10.36-11.29% | 11.43-13.71% |
| Mid-Atlantic Average-Power Centers | 9.50-10.00% | 10.50-11.25% | 11.00-13.00% |
| National Average-Power Centers | 10.00-10.82% | 10.89-11.82% | 12.07-14.43% |

Where We're Headed...

- No commodity pricing for retail
- Smaller is better
- Regional banks & new products help fill debt void
- Life company lenders coming back
- Historical mean pricing for quality assets
- Good buying opportunities for B assets

Where We're Headed...

- Huge potential REO pipeline, but spread over 12 to 36 months
- Distressed pricing only from owners that must clear quickly
- Entity level solutions will fuel bigger deals
- Back to “normal” by 2011?