The State of Retail in D.C.

Presented By:
Delta Associates

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Washington Area Retail Outlook

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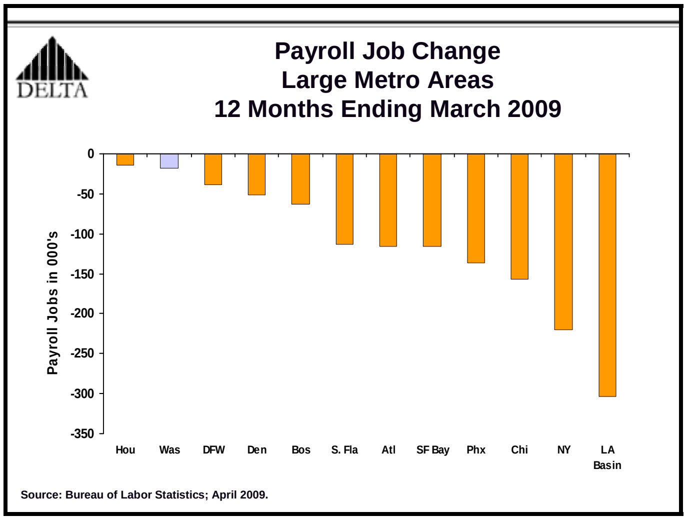
A SUMMARY AT SPRING 2009

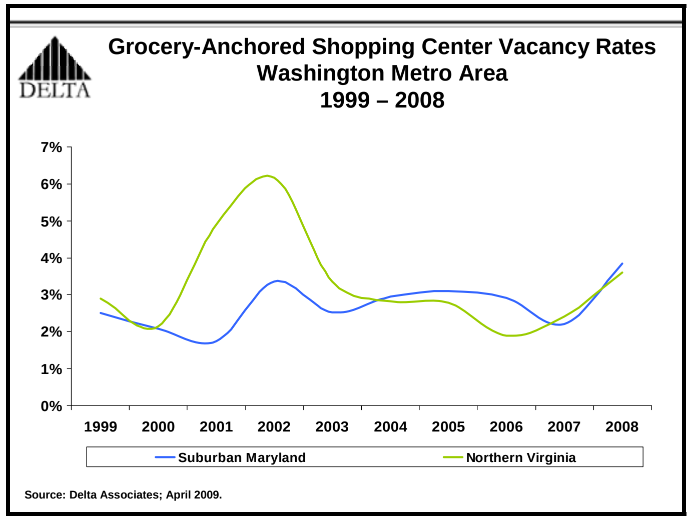
Washington Area Economy Snapshot

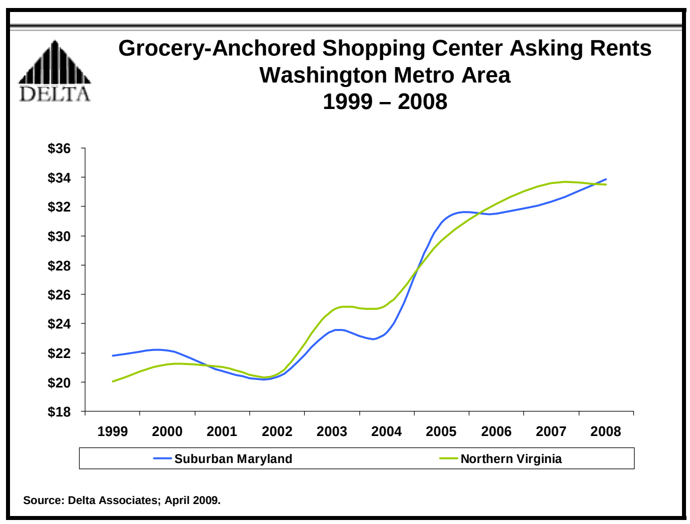
- 12-Month Job Change through March 2009: -18,300
- Unemployment Rate at February 2009: 6.1%

Washington Area Retail Market Snapshot

- Vacancy: 3.7% at year-end 2008
- Rents: Increased 1.7% in 2008







Washington Area Job Change Projections	
2009:	9,800 jobs created
2010:	34,100 jobs created
2011:	42,400 jobs created
15-year historic average:	28,800 per year

Source: Delta Associates; April 2009.

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THE WASHINGTON AREA ECONOMY AND RETAIL MARKET AT SPRING 2009

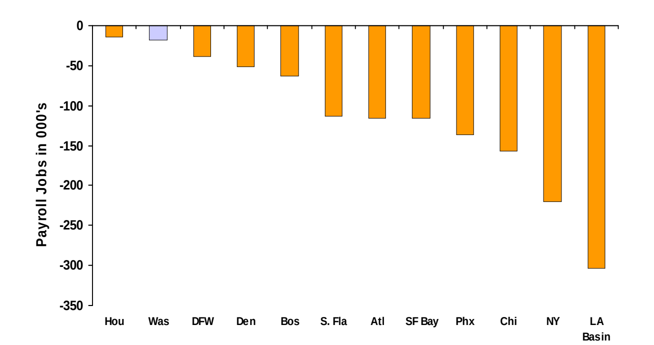
Economy and Outlook

The Washington metro area economy is feeling the pinch of the national recession, which started in December 2007 according to the National Bureau of Economic Research (NBER). Job growth turned negative during the past 12 months. Although local economic conditions are moderating, it does not compare to the deterioration seen at the national level.

Despite softening conditions, Washington maintains the lowest unemployment rate and one of the strongest economic bases, as the metro area remains one of the top economic centers in the nation, even during recessionary periods.

Payroll employment declined 18,300 in the Washington metro area over the 12 months ending March 2009. This represents a decline of 0.6%, compared to the national decline of 3.6% during this period.

Although the Washington metro area is starting to feel the impact of the national recession, the area is holding up well compared to other large metro areas, which have experienced notable declines. Over the past year, the LA Basin and New York metros shed 523,800 jobs combined – 4.4% and 2.6% of their work forces, respectively.



Source: Bureau of Labor Statistics; April 2009.

The service-providing sector produced 2,700 new jobs in the Washington metro area during the 12 months ending March 2009, a 0.1% rate of growth. However, the goods-producing sector shed 21,000 jobs, an 8.9% decline, as consumers have reduced spending on non-essential items.

The Professional and Business Services sector was the front-runner in employment gains over the last 12 months, creating 12,300 new jobs. This compares to the Retail and Construction sectors, which shed 13,500 and 18,400 jobs, respectively.

The Washington area unemployment rate rose 280 basis points during the past year to 6.1% in February 2009. The Washington metro area has the lowest unemployment rate among comparable metros and compares favorably to the national rate of 8.1% in February 2009. The national rate increased to 8.5% in March 2009.

We expect gross regional product (GRP) in the metro area to grow by 1.3% during 2009, down from 4.8% at the peak of the cycle in 2004. This compares favorably to our projection of the national gross domestic product change of negative 3.3% in 2009.

Even during past national recessionary periods, the Washington metro area economy has grown. During the last four periods of national gross domestic product contraction, ranging six to sixteen months, the Washington metro area GRP grew 0.2% to 3.1%.

National Recession	Washington Metro Area GRP Change
3/01 - 11/01	2.5%
7/90 - 3/91	0.2%
7/81 - 11/82	3.1%
1/80 - 7/80	2.3%

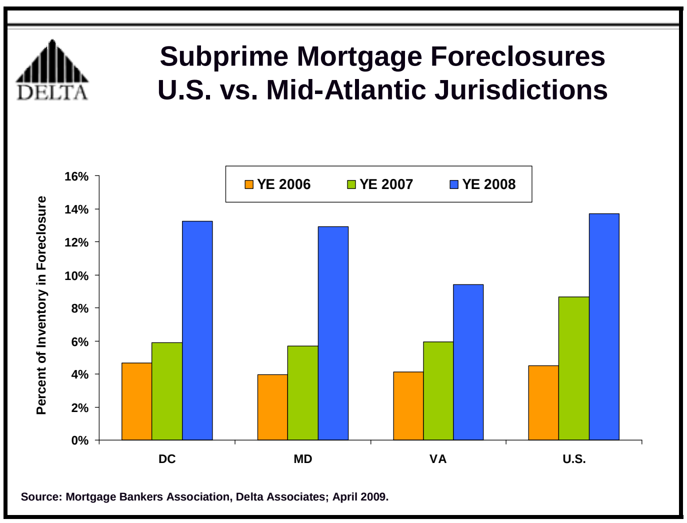
Source: BEA, Dr. Stephen Fuller; April 2009.

Incomes in the Washington metro area grew by 27.5% from 2000 to 2008, compared to 19.9% nationally. By 2013, the Washington metro area's average household income is projected to rise 15.2%, compared to a rise of 11.6% nationally.

Average Household Income			
Jurisdiction	**2000 (Actual)**	**2008 (Est.)**	**2013 (Proj.)**
Washington Metro Area	$80,600	$102,800	$118,400
U.S.	$56,600	$67,900	$75,800

Source: Claritas Inc; April 2009.

Despite a solid employment base and high salaries, the Washington metro area has not been immune to subprime mortgage foreclosures, as defaults on these mortgages have risen over the past few years. However, rates of foreclosure for each jurisdiction remain below the national rate.



Due primarily to job losses and rising defaults on mortgages, consumer sentiment declined to 57.3 in March 2009, from 69.5 one year ago. Given these conditions, national retail sales declined 9.4% during the 12 months ending March 2009.

With sluggish consumer spending, the retail sector cut 13,500 retail jobs in the Washington metro area, a decline of 5.1%, during the 12 months ending March 2009. This compares to a national decline of 4.0%. The Washington decline is greater than the national decline due to above-average retail hiring in the area during 2004 and 2005.

Retail Employment Washington Metro Area		
Year	**Retail Employment**	**Change**
2001	254,800	(1,700)
2002	255,500	700
2003	256,600	1,100
2004	263,500	6,900
2005	268,500	5,000
2006	270,200	1,700
2007	270,400	200
2008	265,700	(4,700)
2009*	249,800	(13,500)
*Employment total at March 2009; change reflects growth during the 12 months ending March 2009.		

Source: Bureau of Labor Statistics; April 2009.

We expect the Washington metro area economy to moderate in 2009, with few employment gains and a rising unemployment rate. Consumer confidence should remain low, as uncertainty of the Federal bailout/stimulus effectiveness remains.

Although we expect slowing conditions, the local economy should grow 1.3% in 2009, as the metro area benefits from being the seat where national economic recovery is managed. Conditions should further stabilize in 2010, as the national economy regains its footing.

The Government and Professional and Business Services sectors should continue to grow jobs, as Federal funding targets both sectors. The Construction and Retail sectors should continue to experience declines, as groundbreakings have ceased and consumerism has declined.

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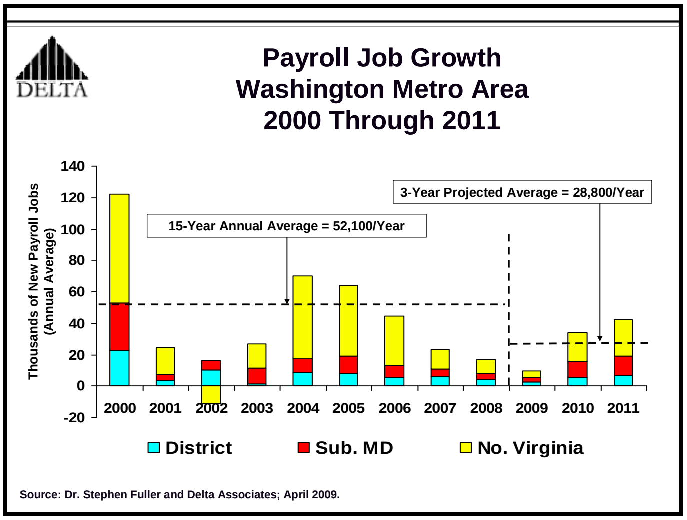
In consultation with Dr. Stephen Fuller of George Mason University, **we project that 9,800 new payroll jobs will be created in the Washington area in 2009**. Job growth will rise in 2010, with 34,100 new jobs, and gain steam in 2011 with 42,400 new jobs.

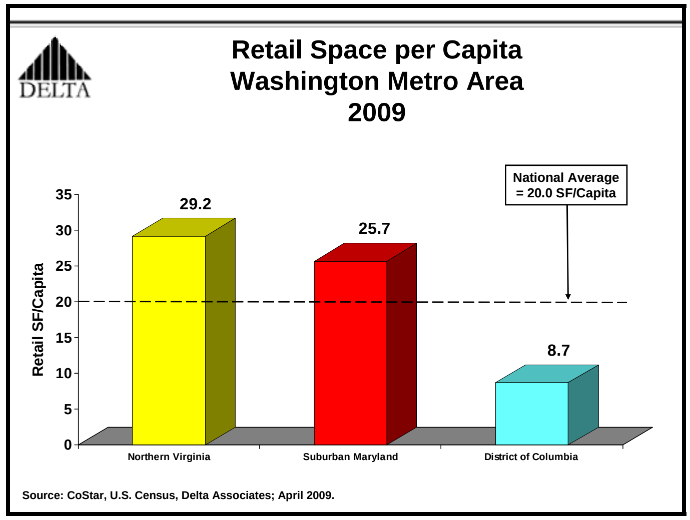


Retail Inventory

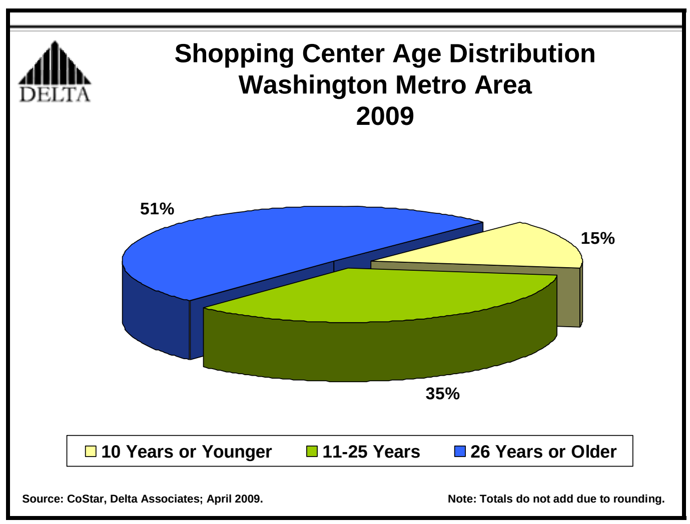
The Washington metro area has over 117 million SF of retail space, inclusive of all types of retail, in over 1,000 shopping centers. Northern Virginia is home to over half of the total metro retail inventory.

The metro area has 25.1 SF of retail space per capita, compared to the national average of 20.0. The area remains underserved as the growing population continues to demand retail services, particularly in the District of Columbia where there is just 8.7 SF of retail space per capita.

Although retail demand will remain weak during the balance of the year due to the national recession, we expect demand to rise upon recovery, as the population is projected to grow by 265,000 people over the next five years, a growth rate of 5.6%. This compares to the national population growth rate of 4.9%.



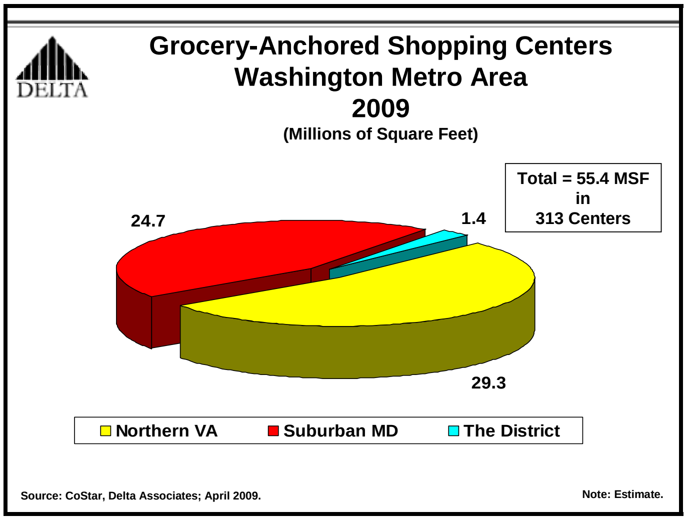
Just over half of the Washington area shopping centers are over 25 years old, while only 15% are aged ten years or less. Although new retail projects, such as Potomac Yard Market Square, have entered the market, older centers remain the bulk of retail space – providing opportunity for renovation and upgrade.



Grocery-Anchored Shopping Center Market Conditions

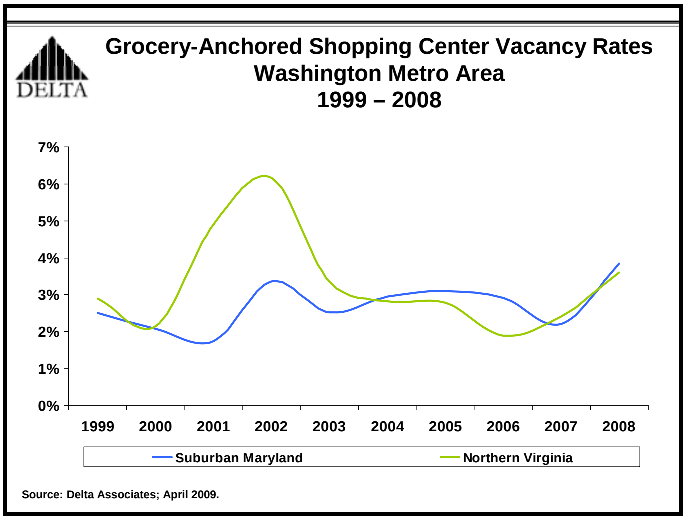
Given the demand for groceries at all points of the economic cycle, grocery-anchored shopping centers maintain the greatest stability compared to other retail property types. Therefore, our analysis in this report is focused on grocery-anchored shopping centers.

Of the total retail inventory in the Washington metro area, 55.4 million SF is located in 313 grocery-anchored shopping centers, which is almost half of the total retail inventory in the metro area.



We perform an annual survey of over 300 Washington area grocery-anchored shopping centers, and tabulate vacancy and rent data. The charts following summarize trends from 1999-2008.

The metro-wide vacancy rate edged up over the past year to 3.7% at year-end 2008, from 2.3% one year ago. The Suburban Maryland vacancy rate at year-end 2008 was 3.8%, a rise of 163 basis points over the past year. The Northern Virginia vacancy rate was 3.6%, a rise of 119 basis points since year-end 2007.



Although the metro area vacancy rate inched up in 2008, it remains below the peak vacancy of 4.8% at year-end 2002, experienced during the last economic slowdown in 2001-2002.

Rental rates at grocery-anchored centers increased 1.7% in 2008, after rising by 3.9% in 2007. Although vacancy ticked up in 2008, it remains low enough to support rent increases. Metro-wide average in-line tenant rents were $33.71/SF at year-end 2008. Suburban Maryland rents at year-end 2008 were $33.89/SF, compared to Northern Virginia at $33.51/SF.

Although rents were slow to climb in 2008, the rate of growth was stronger compared to the last economic slowdown in 2001 and 2002 when rents declined 4.0% and 2.1% per year, respectively. Of course, if lackluster consumer spending continues for long in this cycle, rents could flatten or even edge down for a short period.

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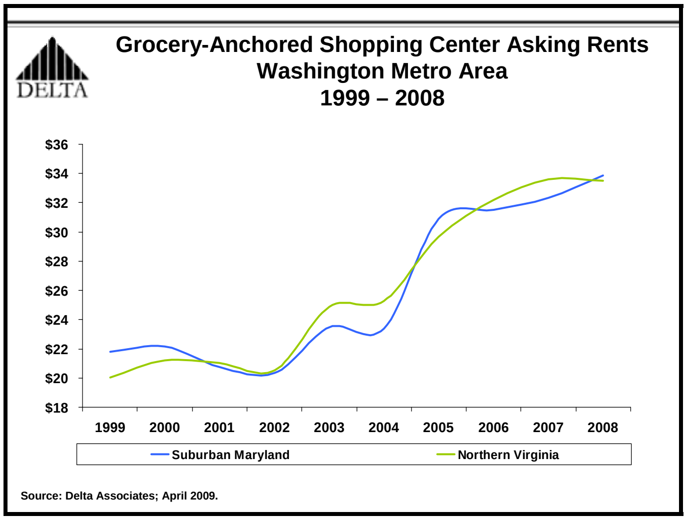


There are 12 notable grocery-anchored shopping centers, totaling 3.6 million SF, under construction or renovation in the metro area at spring 2009. Three of the 12 projects are creating or renovating shopping centers around existing grocery stores.

There are additional stores in the planning stages that are not included in the adjacent table, some of which may deliver as late as 2013.

Notable Grocery-Anchored Shopping Centers Under Construction or Under Renovation Washington Metro Area – Spring 2009

Shopping Center	RBA	Anchor
Dulles Landing	700,000	Super Wal-Mart
Potomac Town Center	550,000	Wegmans [1]
Woodmore Towne Center	685,000	Wegmans
Village at Leesburg	464,000	Wegmans
Wisconsin Place	305,000	Whole Foods
North Bethesda Market	230,000	Whole Foods [2]
Eastgate Marketplace	155,000	Harris Teeter
Moorefield Village	150,000	Harris Teeter [1]
Hastings Marketplace	130,000	Harris Teeter
Urbana Village Center	94,000	TBA
Goose Creek Village	73,000	Harris Teeter [3]
Adams Square Shopping Center	60,000	Giant [1]
Total:	**3,596,000**	

1/ Building/renovating, using existing grocery store as an anchor.
2/ Relocating from existing store at Congressional Plaza.
3/ Phase 1 only.

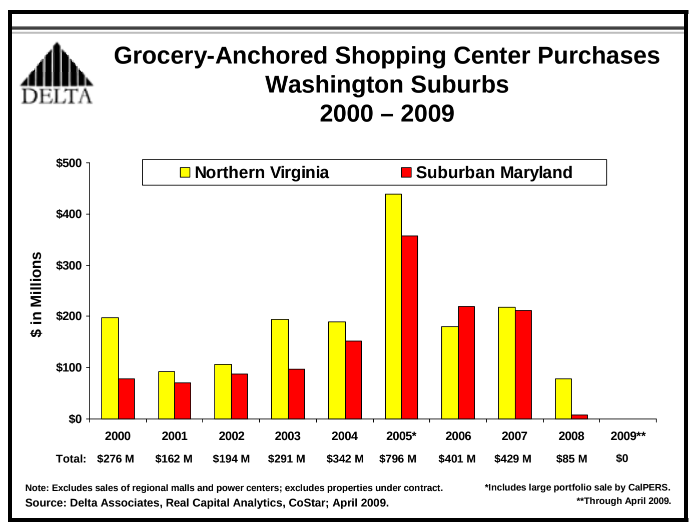
Source: CoStar, *WBJ,* Delta Associates; April 2009.

Investment sales of grocery-anchored shopping centers in the Washington metro area suburbs have halted. No notable transactions have occurred since the start of 2009, as property owners and banks are hesitant during this economic downturn. During 2008, the sales volume totaled $85 million on five notable transactions.

The April 2009 sale of the 270 Center, a 232,717 SF shopping center in Gaithersburg, is notable for its major tenants such as Home Depot and Best Buy. However, this center is not grocery-anchored.

Even with record-low interest rates, borrowing is difficult, simply because risk is being re-priced. We believe values will continue to decline during the balance of 2009 as cap rates rise. Buyers with cash can be successful in purchasing assets with low price tags.

Although we expect distressed sales to increase throughout 2009 and into 2010, with commercial mortgage payments coming due and refinancing difficult, there will be limited deals in the Washington metro area retail sector. Only 5.3% of national retail properties in distress are located in the Washington metro area. Of all distressed assets in the Washington metro area, retail accounts for only 10.9%.



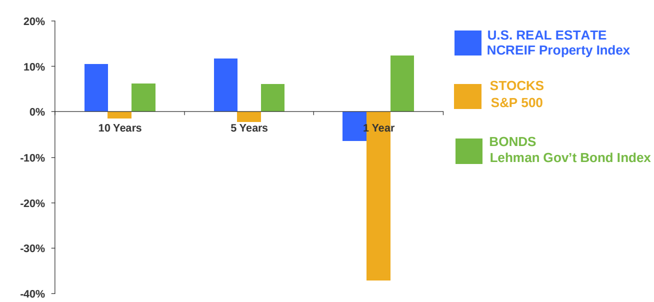
NCREIF Returns for Retail Properties

Real estate will remain an attractive option compared to stocks and commodities, for its tangible value and lower volatility index. The S&P 500 Index declined 37% in 2008. The NCREIF Property Index declined 6.5%, for all property types. Bonds performed best in 2008, not surprising given the security they offer.

Over the longer term (five-year and ten-year periods), real estate outperformed stocks and bonds by significant margins. In 2009, real estate may lose value, but it is likely to offer more upside, less volatility, and greater current year yield than bonds and stocks.

We think real estate will continue this track record in the period ahead and therefore will attract investment capital and institutional allocations consistent with the recent past. With low interest rates and lenders wanting to offload foreclosed property, today is a good time to invest in real estate. However, investment attention should focus, of course, on product types that will excel.

Investment Alternatives
Commercial Real Estate vs. Stocks vs. Bonds
12 Months Ending December 2008



Source: NCREIF, Delta Associates; April 2009.

Total returns (cash flow plus appreciation) realized in the Washington retail market were negative 3.24% for 2008. Returns have declined for all major metro areas. The Washington area return compares to the national return of negative 4.11%.

Although Washington area retail property performance has suffered due the national recession, the decline in investor value for Washington assets is less severe compared with other metro areas.

We expect the Washington metro area to remain a desirable destination for investors' cash in the long-run. However, transactions will be very limited in 2009 due to the credit crisis.

NCREIF Return Index[1] – Retail Properties
Select Metro Areas

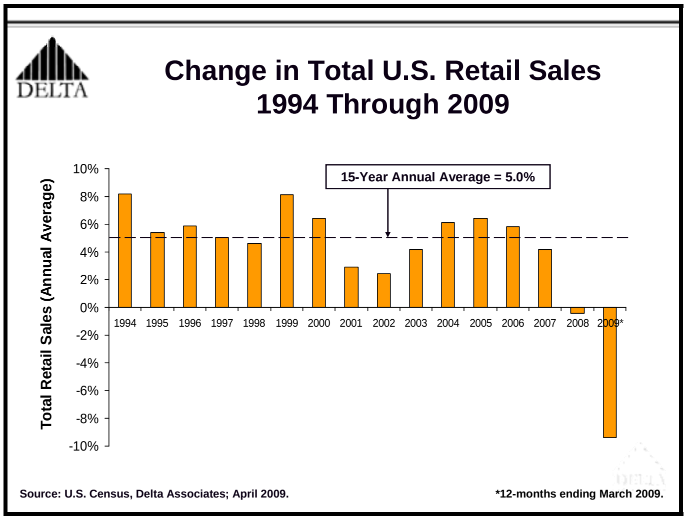
Metro Area	12-Month Total Return at 4th Quarter 2008[1]
Washington	**-3.24%**
Dallas	-3.61%
Minneapolis	-3.91%
National Average	**-4.11%**
Los Angeles	-5.47%
Chicago	-6.52%
Atlanta	-8.00%
Phoenix	-8.37%

[1] NCREIF compiles return based on its members' $62.9 billion retail portfolios. The index includes both current income and capital appreciation returns.

Source: Delta Associates, based on data in NCREIF's 4th Quarter 2008 *Real Estate Performance Report;* April 2009.

National Retail Sales Decline

National retail sales declined 9.4% during the 12 months ending March 2009. This compares to the 15-year annual average rise of 5.0%.



The health/personal care and food/beverage industries experienced positive sales growth, as consumers continue to purchase these items during slow times.

Notably, motor vehicles have taken a hit over the past year, as consumers have limited purchases on big-ticket non-essential items. Gas stations have taken a hit in sales volume, as more consumers opt to take public transportation and gas prices have declined notably since summer of 2008.

National Retail Sales
12 Months Ending March 2009

Industry	Percent Change
Health/Personal Care	4.4%
Food/Beverage	1.6%
Clothing	-5.1%
General Department Stores	-5.5%
Building Supplies	-9.2%
Electronics	-9.5%
Home Furnishing	-13.1%
Motor Vehicle	-23.5%
Gas Stations	-34.0%
Total Retail	**-9.4%**

Source: U.S. Census, Delta Associates; April 2009.

As Some Retailers Close, Others Open

As retailers experience reduced foot traffic and slower sales, struggling companies are shutting stores with low profit margin. The ICSC expects 73,000 stores to close in the United States during the 1st half of 2009, after 148,000 stores closed in 2008.

The retailers darkening stores typically sell higher-end, non-essential goods. The most notable store closing was Circuit City, which liquidated all stores and eliminated 30,000 jobs nationwide. This impacted the Washington metro area with 23 vacant stores to back-fill.

Notable Store Closings
2008 – 2009

Company	Total Stores	Store Closures	Store Closures in Wash Metro
Circuit City	567	567	23
Ritz Camera	700	300	19
Starbucks	11,600	900	14
Linens N Things	571	571	10
KB Toys	381	381	6
Sharper Image	86	86	4
Expo Design Centers	34	34	2
Cost Plus, Inc.	296	26	2
Balducci's	10	4	1
Macy's	840	11	0
Sears/K-mart	3,900	24	0

Source: *Washington Post, Washington Business Journal*; April 2009.

Companies liquidating all stores will have a greater impact on the Washington metro area than those shuttering only a handful of stores. For instance, Macy's plans to close 11 stores, of which none are located in the Washington metro area.

The decline in retail spending is having less of an impact on the Washington metro area, given this area continues to grow high-income jobs in the Professional/Business Services sector. Notably, the consumer price index edged up 0.4% in the metro area during the 12 months ending March 2009, compared to a national decline of 0.4%, indicating stronger demand for goods in the metro area.

Discount and non-essential stores continue to experience gains, as consumers prefer less expensive essential items. Despite the national recession, companies focused on providing lower-cost goods are looking to expand. We expect the following types of retailers to increase their presence during 2009 and 2010:

- Fast food
- Discount/warehouse stores
- Auto parts stores
- Convenience stores
- Lower end clothing stores
- Drugstores

We expect these types of stores to back-fill some of the space vacated by tenants exiting the market. Notably, Kohl’s recently agreed to back-fill some of Mervyn’s vacated space.

U.S. Notable Planned Store Openings 2009	
Company	**Store Openings**
McDonald's	1,000
Dollar General	400
Family Dollar	200
Panera Bread	80
Aldi Supermarkets	75
Lowe's	60
Kohl's	55
Noodles & Company	35
Target	27

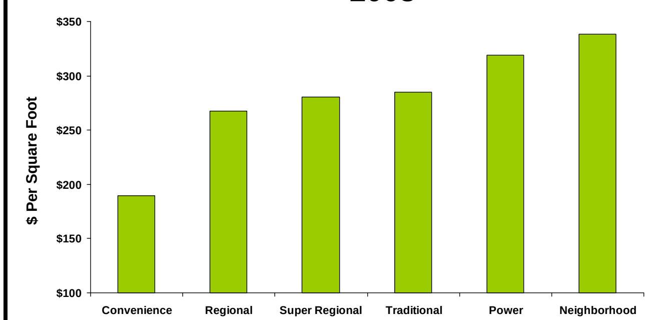
Source: *ICSC, Retail Forward*; April 2009.

Success of Open-Air Neighborhood Centers

Of all types of shopping centers, neighborhood centers experienced the highest sales at $339/SF during 2008, a 23% rise from 2006, according to the International Council of Shopping Centers (ICSC). The lowest sales were from convenience centers at $190/SF, a 6% decline from 2006.

Both neighborhood and convenience centers provide convenience goods and personal services. However, a supermarket anchors neighborhood centers and a personal or convenience store anchors a convenience center.

U.S. Shopping Centers Median Sales 2008



Source: ICSC, *Dollars & Cents of Shopping Centers*, Delta Associates; April 2009.

Open-air centers outperformed enclosed centers, with median sales at $288/SF, up 6% from 2006. This compares to enclosed centers at $277/SF, up 9% from 2006. Notably, median sales at open-air neighborhood centers totaled $339/SF – boosted by supermarket anchors achieving sales at $430/SF.

Open-air centers experience fewer expenses compared to enclosed centers. Notably, open-air centers spend less for utilities and common area maintenance. However, open-air center rents climbed 11% from 2006, compared to rising only 6% for enclosed centers.

U.S. Shopping Center Expenses 2008		
Center Type	**Rent/SF**	**CAM/SF***
Open-air	$11.74	$1.26
Enclosed	$27.53	$5.76
*CAM is Common Area Maintenance		

Source: ICSC, Delta Associates; April 2009.

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We believe Washington metro area retail will remain successful, even through economic downturns, if the center is:

- Located within mixed-use or neighborhood centers in a submarket with solid supply/ demand fundamentals.
- Close to transit and jobs.
- Focused on everyday necessities and amenities, such as groceries, banking, and entertainment.

The Bottom Line: When Will Retail Recover?

The Washington metro area retail market is currently in the contraction phase of the cycle, as conditions are slowing. The lack of consumer spending certainly has impacted the retail market, as consumers limit goods to essential items.

Changes in Shopping Behaviors During U.S. Recession

Behavior	%
Buying only things I truly need	65%
Buying fewer things	55%
Shopping less often	54%
Buying fewer luxury items	51%
Postponing purchases	47%
Buying only items needed in the near term	40%
Using/keeping items longer before buying	35%

Source: *Retail Forward - ShopperScape*, April 2009.

According to our 2008 annual Market Maker survey, of those focused on the retail industry, specifically grocery-anchored shopping centers, 69% believe business conditions in the metro area will worsen this year, compared to 2008 conditions.

We believe retail is poised for a stronger recovery in the metro area given the limited amount of retail space in this underserved area. However, we believe retail sales will remain softer through most of 2009, with a slight rise late in the year.

Notably, 65% of our survey respondents believe conditions in the metro area will improve in the year 2010. Specifically, most of those respondents believe conditions will start to improve during the second quarter of 2010. However, a meaningful rebound will not be felt until 2011.

Developers and investors should take the time during this economic downturn to tune-up existing assets and start planning during 2009 for the next expansion phase.

Tenants will control the market during 2009 – a period of increased competition. Owners who have the cash to make substantial upgrades, particularly at strong locations, should consider doing so. Renovating is likely to attract higher-caliber tenants and generate additional cash flow.

Since market conditions will start to transition during 2010 for retail, developers should:

- Start planning for the next expansion now.
- Start site assembly in 2009-2010.
- Start construction in 2010.
- Deliver product in 2011 when the market shifts towards the landlord's favor.

To subscribe to this semi-annual Retail Outlook **free via e-mail,** please contact Delta Associates or The Rappaport Companies. Our contact information is on the last page of this report. Thank you for your interest.

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Delta Associates

Delta Associates, the research affiliate of Transwestern, is a firm of experienced professionals offering consulting, valuation, and data services to the commercial real estate industry for over 25 years. The firm's practice is organized in four related areas:

- ***Valuation*** services for partial interests in commercial real estate assets.
- ***Consulting***, research and advisory services for commercial real estate projects, including market studies, market entry strategies, asset performance enhancement studies, pre-acquisition due diligence, and financial and fiscal impact analyses.
- ***Distressed asset recovery services*** to include property performance analyses and enhancement studies, debt structuring evaluation and note valuations, portfolio assembly due diligence, valuations, and litigation support.
- ***Subscription data*** for selected metro regions for office, industrial, retail, condominium, and apartment markets.

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For more information on Delta Associates, please visit **DeltaAssociates.com**. Delta's Retail Practice Team includes: David Parham, Senior Vice President; Alexander (Sandy) Paul, National Research Director; and Elizabeth F. Norton, Mid-Atlantic Research Director.

 Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, Center for Real Estate Analysis, Claritas, CoStar, Delta Associates, *Dollars & Cents*, ICSC, NCREIF, Mortgage Banker Association, Real Capital Analytics, *Retail Forward*, University of Michigan, *Washington Business Journal, Washington Post*.

The Rappaport Companies

For 25 years, The Rappaport Companies has provided the Washington, D.C. area with professional real estate services centered exclusively on the retail segment. Founded in 1984 by Gary D. Rappaport, SCSM/SCMD/SCLS/CDP, The Rappaport Companies owns and develops shopping centers and provides retail leasing, tenant representation, property management, construction management and development services for retail space in shopping center and mixed-use properties throughout the Washington, D.C./Baltimore area. The Rappaport portfolio totals some 13 million square feet of retail space in urban and suburban locations.

Mr. Rappaport is a past Chairman and current Trustee of the International Council of Shopping Centers and was named in the "Power 50" of The Most Influential People in Washington, D.C. Commercial Real Estate in 2008 by the Bisnow on Business Real Estate newsletter.

A division of The Rappaport Companies, **Rappaport Retail Brokerage** provides all facets of retail representation, including both Landlord and Tenant representation services for some of the Washington, D.C. area's most prominent developers and retailers.

Led by Executive Vice President Henry S. Fonvielle, the Rappaport Retail Brokerage team includes the region's top experts in retail representation with demonstrated success in all types of transaction across all retail property types, including mixed-use, lifestyle, neighborhood, as well as development and redevelopment projects. Bill Dickinson, Michael Howard, Melissa Webb, John Hayden, Will Collins, Kristin Off, Fraser Schaufele, and Pat O'Meara are members of the Rappaport Retail Brokerage team.

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