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Rising oil prices have been a background theme of our analysis of the U.S. retail market since early 2003; this quarter, with the gasoline pump looking more and more like a one-armed bandit, oil prices move to the foreground as an obvious siphon of discretionary dollars that might otherwise have been spent in the nation's retail stores. The International Council of Shopping Centers' Chain Store Sales Trends Report cites gasoline prices—along with an earlier Easter and the coldest March in four years—as the culprit that has recently curtailed consumer spending. Year-over-year chain store sales increases for January, February, and March were 3.6%, 4.7%, and 4.1%, respectively, with discounters and drug stores bringing the average up, and those retailers who depend on significant amounts of discretionary income and a weather-inspired taste for spring clothing—furniture and department stores—bringing up the rear.

And yet shopping center landlords—whose long-term leases partially insulate them from short-term swings in the economy, and who continue to benefit from a reasonable pace

of new construction that has added no more than 27.0 million square feet per year so far this decade—have yet to feel the pinch that is being suffered by their tenants. Throughout the downturn this sector has recorded performance that can be characterized as enviably stable when compared to that of the office and apartment sectors. During the first quarter of the year this pattered continued. Among the top 62 markets tracked by Reis, the average vacancy rate edged up ten basis points on relatively thin national positive absorption of 3.2 million square feet; but landlords were still able to win average asking and effective increases of 0.6% for the quarter.

The Reis Recovery Index			
Number of Top 62 Retail Markets Experiencing Positive Symptoms			
	Positive Absorption	Falling Vacancy	Rising Effective Rent
Q1 2005	43	29	52
Q4 2004	49	40	52
Q3 2004	47	41	56

A glance at the Reis Recovery Index shows that slightly fewer than half of the top 62 markets recorded falling vacancy rates while 43 logged positive absorption and all but eight recorded rising or at least stable effective rents. Only four metropolitan markets

experienced negative results in all three indicators: Birmingham, Columbus, Dallas, and New Orleans. By contrast, 30 metropolitan markets recorded positive results in all three. Ft. Lauderdale was the place to be this winter, not just for sunbathers but apparently also for retail landlords: this metropolitan market led the nation in all three Recovery Index measures.

Leaders in positive absorption included (of course) Ft. Lauderdale (433,000 square feet), Sacramento (357,000), Central New Jersey (337,000), Boston (298,000), and Phoenix (256,000). Dallas, Columbus, and San Jose were the worst performers in this category, logging -379,000, -244,000, and -159,000, respectively.

Eleven markets recorded vacancy declines of at least 0.5 percentage points, with Ft. Lauderdale (down 0.9 percentage points) leading the way, followed by Charlotte, Sacramento, Cleveland, and Detroit. Kansas City, Pittsburgh, Denver, and Columbus saw this indicator move in the opposite direction, registering vacancy increases of between 1.0 and 1.4 percentage points.

Thirteen markets recorded effective rent increases of at least 1.0%. Ft. Lauderdale (2.1%) more than doubled that, followed by Chicago (1.5%), Charlotte (1.3%), San Antonio

(1.2%), and Raleigh-Durham (1.2%).

Reis is tracking planned and proposed projects due to introduce 29.8 million square feet to the nation's neighborhood and community shopping center market during 2005, and 30.8 million square feet in 2006. While this figure hardly indicates reckless abandon on the part of lenders and developers, it does represent an approximately 20.0% increase over the annual pace recorded so far this decade. Newly constructed space will exceed net absorption by an average of 3.7 million feet over the next four years, a gap that will exert upward pressure on vacancy rates, which will finish 2005 at 7.1%, 2006 at 7.2%, and 2007 and 2008 at 7.3%, before beginning to drift downward once again. At the same time, however, premium prices associated with newly constructed space should be sufficient to boost the national average effective rent by 2.6% in 2005, followed by gains of 2.7%, 2.9%, and 3.1% in 2006, 2007, and 2008.

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