Jones Lang LaSalle

Real value in a changing world

Retail Outlook

United States . Q2 2013

A tale of two centers: the yawning chasm between competitive and non-competitive retail

Polarization has hit retail real estate hard; it is a tale of two very different retail centers: competitive centers (with occupancy above 80 percent) and non-competitive centers (which retailers are spurning in favor of building new space).

Metros where population growth will outpace the national average stand to reap the rewards, especially for categories like food, beverage, clothing and healthcare retailers.

The little supply that is under way now consists mainly of big-box single-tenant stores, anchored by discount retailers.

- 3D printing will be valued at $3.1 billion worldwide by 2016 and $5.2 billion by 2020. The rise of me-tail and experiential shopping will be even more prominent as consumers truly have a hand in designing and/or customizing their own goods

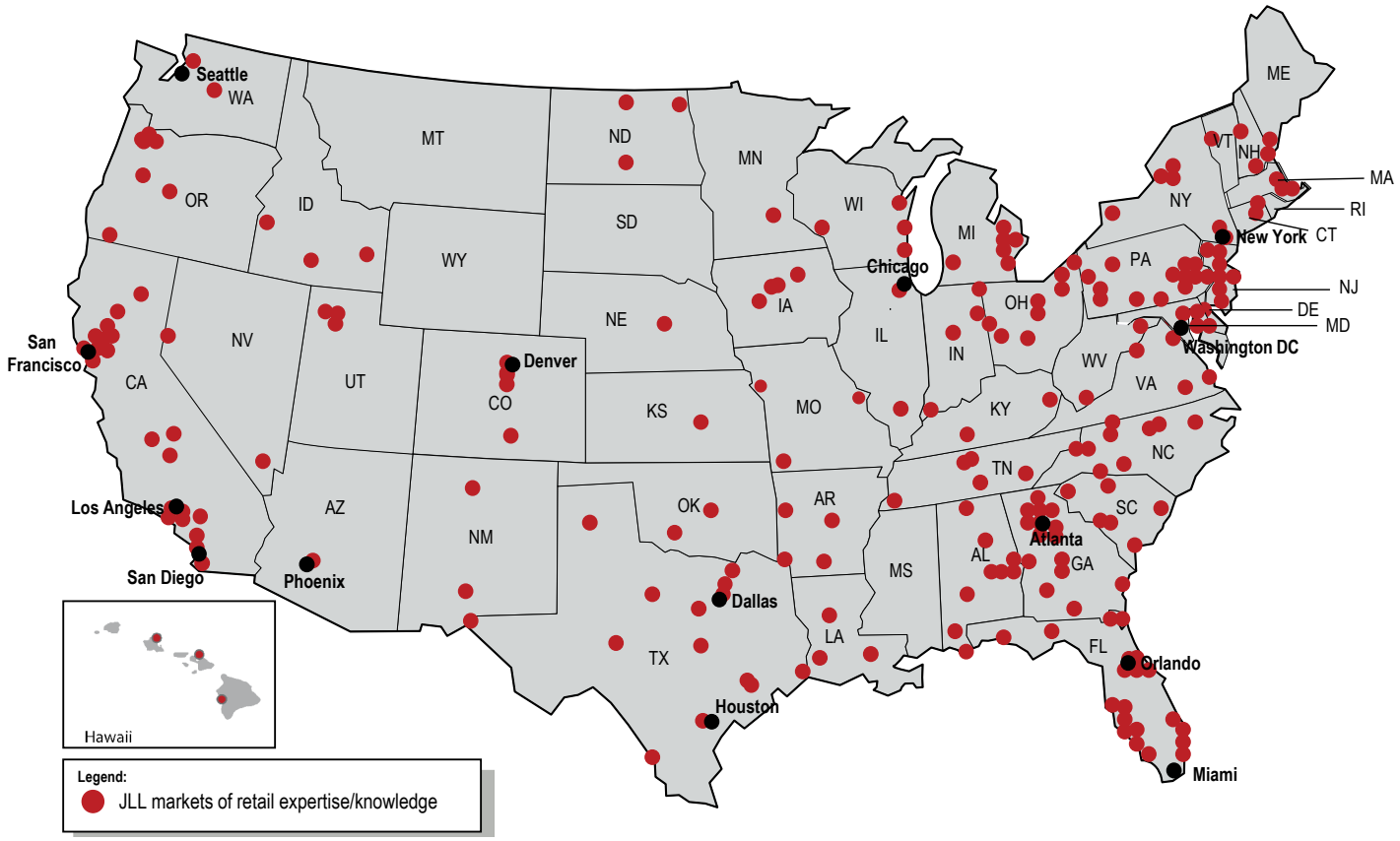
In this report

This report provides an overview of supply and demand conditions as well as detailed statistics and brief analyses of select retail markets in the United States. Our professional research department is dedicated to producing information and insights that help our clients understand dynamic real estate market trends and guide critical decision making for investors and occupiers.

Overview of Jones Lang LaSalle retail services

About Jones Lang LaSalle Retail

Jones Lang LaSalle offers comprehensive retail services to meet the expanding needs of investors and occupiers of real estate. Our full array of retail services includes property management, agency leasing, tenant representation, portfolio optimization, corporate transaction management, specialty leasing, marketing, research, financial reporting, development, project management, tenant coordination, capital markets, receivership and due diligence. As the leading retail service provider, Jones Lang LaSalle manages a portfolio of 94 million square feet of retail centers within the United States and delivers service offerings to 90+ retailers – locally and nationally. We serve a diverse client base and our portfolio is comprised of a broad range of retail properties including regional malls, lifestyle centers, grocery-anchored centers, power centers, central business districts, transportation facilities and mixed-use projects. For more information on Jones Lang LaSalle Retail, visit www.jllretail.com.



United States economy

Recovery progresses

The U.S. economy started 2013 weakly because of the fiscal drag and political wrangling, but should end somewhat better given the mounting housing recovery and reviving export and business investment growth. Real GDP is expected to expand by a little over 2 percent – about the same as last year.

Hiring plays hide and seek

The economy added 195,000 jobs in June, and April and May numbers were both revised higher. Private hiring gains for June totaled 202,000 jobs. Three-month payroll gains averaged 196,000. The unemployment rate stayed flat at 7.6 percent, while labor force participation inched down slightly. Prospects for the long-term unemployed remain the direst. Those who have been unemployed for more than 27 weeks account for 36.7 percent of the unemployed, and the average duration of unemployment is currently 35.6 weeks.

Despite some stumbles, housing advances

Housing demand is strong relative to supply. Rising house prices are bringing more underwater homeowners back in the money, enabling them to profit from a home sale and become trade-up buyers. Although inventories are rising, they remain on the low side, at about the same level as in 2003. Pent-up demand will also help drive housing. Many consumers delayed purchasing a home over the past few years as they waited for house prices to turn. Moody's Analytics expects new home sales to rise to approximately 500,000 units this year. Housing will transition from being a drag on the U.S. economy to being a growth driver.

Consumer confidence yo-yos

The Conference Board's Consumer Confidence index rose another 7.1 in June to 81.4 points after rising 5.3 points in May. The increase was a result of improvements in both components: the present conditions component rose 4.4 points to 69.2; expectations rose 8.9 points to 89.5. Additionally, consumers' outlook on business conditions was more upbeat. Consumers on the whole are benefiting from higher stock and house values, falling gasoline prices, and lower debt levels, but they are still dealing with high unemployment and slow income growth as they adjust to tax hikes and a downshift in the pace of hiring.

National retail market

A tale of two centers

Retail net absorption was moderate in the second quarter, totaling over 23 million square feet. Vacancy stayed flat at 6.7 percent. Although the rate is some 80 basis points below the peak of the cycle during the first half of 2010, it is still well above its 10-year average.

Polarization has hit retail real estate hard; it is a tale of two very different retail centers. Competitive centers (with occupancy rates comfortably above 80 percent) have vacancy rates close to 4 percent. In non-competitive centers, it is becoming increasingly hard to fill space. So much so that retailers are often building new space rather than signing leases at high-vacancy properties.

Nationally, quoted retail rents fell only 0.1 percent year-over-year and rose 0.2 percent since the last quarter. This year, virtually all markets are expected to see rent growth.

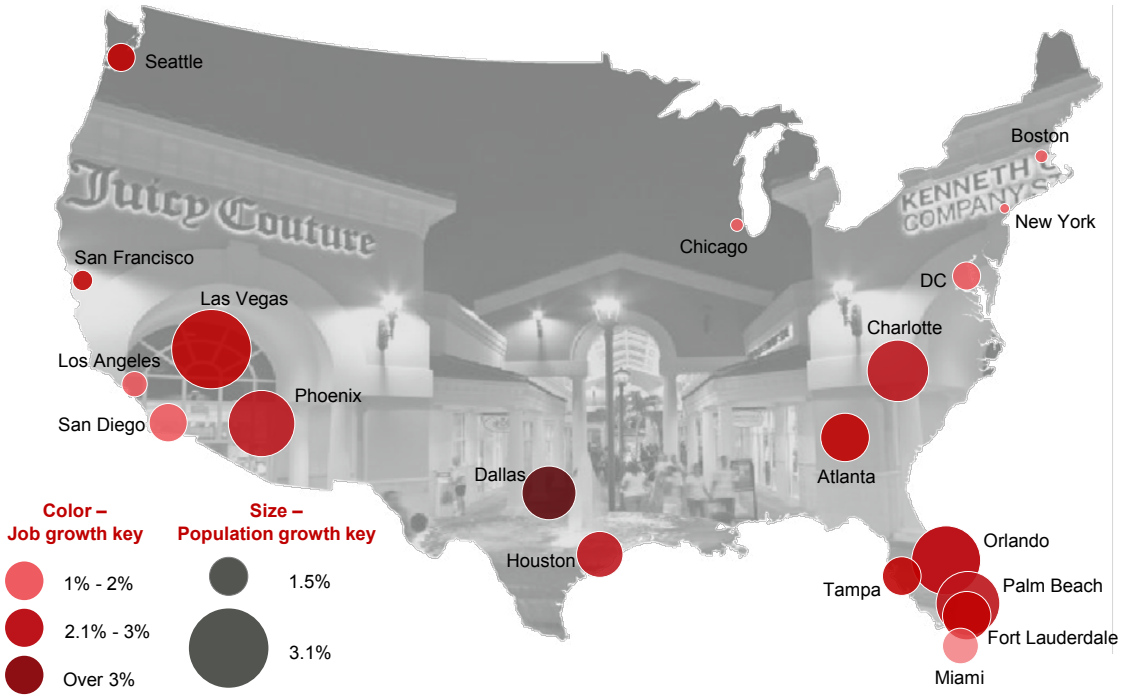
The U.S. population has grown by about 10 million residents since the start of the recession, which will continue to boost retail demand.

Metros where population growth will outpace the national average stand to reap the rewards, especially for categories like food, beverage, clothing and healthcare retailers.

Markets year-over-year rent change

Rent growth	Rent decline/flat
Boston	Washington D.C.
Fort Lauderdale/Broward	Chicago
San Francisco	Philadelphia
Palm Beach	Atlanta
San Diego	Hawaii
New York	Seattle
Miami	Orlando
Houston	
Dallas	
Orange County	
Tampa	
Los Angeles	

A question of cash flow. Except rent growth in the markets with the greatest growth in population over the next three years



- As long as additions to retail supply remain low, demographics will continue to be a strong indicator of market growth. Markets with the strongest population growth and job creation will rise like cream in this current environment.
- Look for Dallas, Orlando, Las Vegas and Phoenix to show some of the strongest rent growth rates in the nation during the next few years, despite – and, perhaps, because of – the fact that the latter two suffered some of the worst fallouts from the housing bust.

TRENDS AFFECTING LEASING, MARKETING AND RETAILER PERFORMANCE

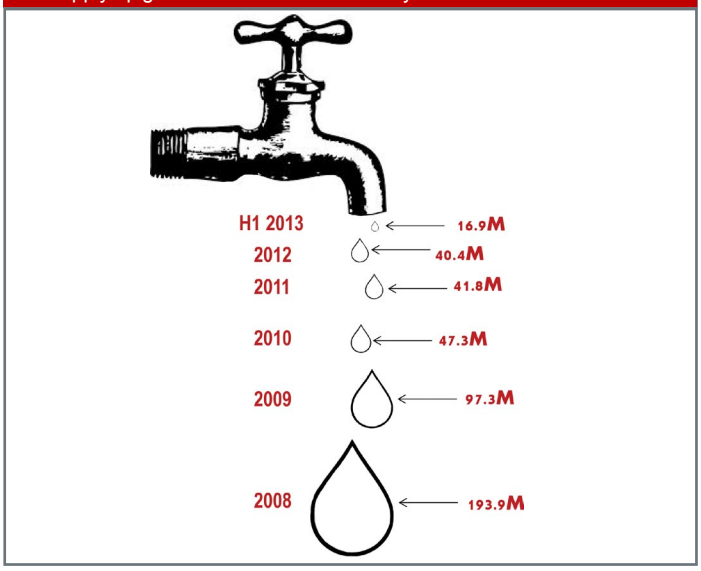
Composition of shopping centers

Since the recession, the composition of shopping centers has shifted – from an emphasis on regional and super-regional centers to lifestyle and power centers.

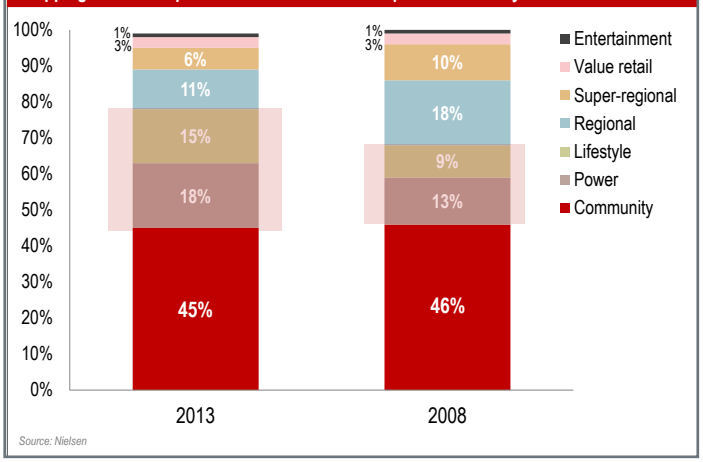
The supply pipeline spigot is turned to its lowest flow in decades. Furthermore, the little supply that is under way now consists mainly of big-box single-tenant stores, anchored by discount retailers such as Target, Walmart and Costco.

As supply begins to ramp up in coming months, most multitenant development will be focused on urban cores, which are already enjoying outsized rent growth.

The supply spigot is the lowest it's been in years



Shopping center composition has shifted towards power and lifestyle centers



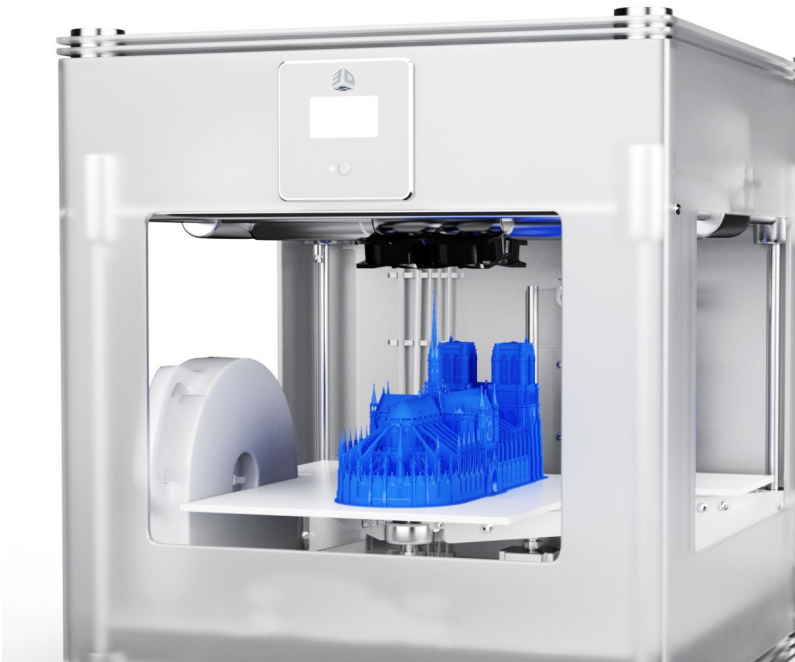
Source: Nielsen

3D Printers make their way to retail

Microsoft recently announced that it will be making the MakerBot Replicator 2 Desktop 3D Printers available in select stores as well as on its website. Staples is also marketing the Cube 3D printer through its website. Also, in a strategic move, UPS is testing 3D design and printing services in its San Diego retail stores. Small business owners will be offered a complete package – from designing prototypes to printing the actual product.

The flurry of activity in offering 3D printers and/or services through retail poses questions regarding the long-term potential of this technology to revolutionize the retail landscape. Here are just a few considerations and possibilities:

- If UPS manages to successfully harness the technology and roll out the service nationwide, this has very real implications for same-day delivery of certain goods, given the sophisticated network UPS already controls.
- 3D printing, as it evolves on a consumer scale, will empower shoppers, giving them alternatives to buying products either in-store or online. A shift will take place, where raw materials and designs are sold versus products.
- Small businesses can also be empowered by possessing superior intellectual capital (i.e. designs), which will act as a differentiating factor to consumers.
- The rise of me-tail and experiential shopping will be even more prominent as consumers truly have a hand in designing and/or customizing their own goods



Wohlers Associates already predicts the additive manufacturing industry (3D printing) will be valued at $3.1 billion worldwide by 2016 and $5.2 billion by 2020

Indeed the future is here, and it will be expedient to keep a close eye on 3D technology, as it becomes more mainstream, to anticipate the effects on retail space and how we shop and sell.

Back-to-school shopping

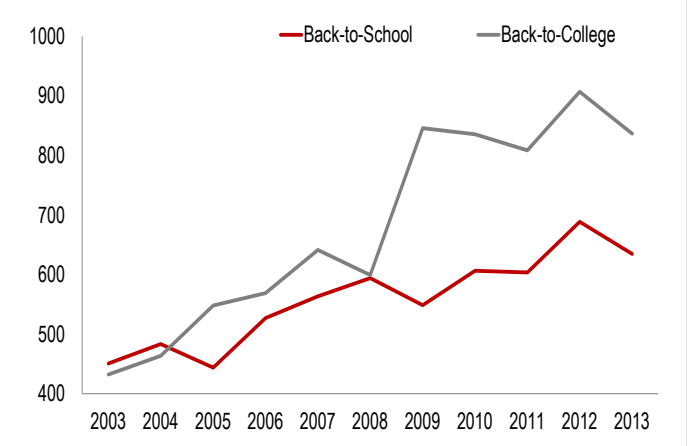
Parents are dialing back on their back-to-school shopping plans this year, according to NRF. Consumers will spend an average of $634.78 per family this year, down from $688.62 last year. Total spending this year is estimated to be approximately $26.7 billion. Most shoppers are adjusting spending plans because of the economy.

Projected shopping visits by store category

Category	% of consumers
Discount stores	67.1%
Department stores	61.7%
Clothing stores	51.5%
Office supply stores	40.6%
Online	37.3%
Electronics stores	25.9%
Drug stores	19.6%
Thrift/Resale stores	13.7%

Source: NRF

Back-to-college spending far exceeds back-to-school spending



Source: NRF

Consumers' plans to whip out their mobile phones to compare prices this back-to-school season. Two-thirds of shoppers (66 percent) plan to use their phones to get price information, while 60 percent plan to find discounts, coupons or sale information.

While back-to-college spending is also projected to fall to $836.83 (down from $907.22 last year), more money will be spent on dorm and apartment furnishings. Consumers, particularly millennials, are turning to Pinterest for style and decorating ideas, and this has translated to higher demand in aesthetic products. Back-to-school and back-to-college spending combined will total approximately $72.5 billion, according to NRF.

5 trends to look for this holiday season

It's never too early, it seems, to start preparing for the holidays. The Shop.org Pre-Holiday Retailer Survey uncovered the following five trends for this coming holiday season:

1. Mobile prevalence will continue to grow. More than half of retailers surveyed are being savvy by investing more dollars into a mobile-optimized website – a key factor in winning over smartphone-obsessed consumers.
2. Search and email marketing will be big. Approximately 46 percent of retailers are investing in Google Product Listing Ads, and 38 percent plan to send personalized emails to customers.
3. Free shipping is the gift that keeps on giving. Building on the discovery that half of consumers will abandon a site if it doesn't offer free shipping, 38 percent of retailers surveyed are exploring free shipping offers that involve a minimum purchase requirement.
4. More information sells more products. Retailers are focusing more on: cross-selling on their product pages, customer ratings and reviews and suggested items.
5. A video is worth 1,000 words? 70 percent of retailers are looking at short-format video sites like Vine and Video by Instagram to showcase their products.

Grocery performance

Competition within the grocery arena continues to be razor sharp. Polarization continues to erode traditional mid-range supermarkets that don't have strong regional market share. Smaller, more specialized upscale grocers such as Trader Joe's or The Fresh Market are seeing strong growth, and discounters also continue to perform well. Trader Joe's plans to open 30 stores in the next 12 months. While sales information isn't available, its rank as America's favorite grocery store based on customer satisfaction (according to a survey by Market Force Information) makes it clear that performance is heading in the right direction.

Whole Foods, Harris Teeter, The Fresh Market, Stripes, Publix and Kroger seem to have all struck a balance between strong store openings plans and healthy year-over-year sales growth.

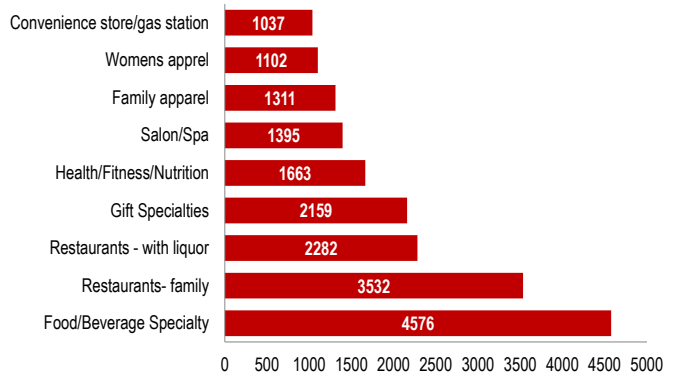
While many of the grocery chains with aggressive store opening plans have healthy year-over-year sales growth, this is not always the case – as shown by SuperValu. Despite the fact that the grocer has lost sales revenue over the last year, it still plans to open more than 60 stores in the next 12 months. A possible explanation for this is that the company is focusing more on its Save-a-lot brand, while consolidating many of its other stores. Time will tell if these aggressive opening plans come to fruition, as the grocery market becomes increasingly fragmented.

Summary

Absorption is doing significantly better, year-to-date, than 2011 or 2012. PPR posits that average absorption for the first half of 2013 is 14 million square feet, compared to 8.5 million square feet and 6 million square feet for 2012 and 2011, respectively. The main reason for this is that there are fewer mass store closures this year (e.g., Borders, Sears, Blockbuster), compared to previous years, and openings are also ramping up. Categories with the highest store openings mainly center around food.

While absorption is improving as demand for space strengthens, there are still several issues that will keep the former from seeing pre-recession growth. E-commerce market share continues to expand at the expense of physical stores; the fast-growth retail model is not performing as well on Wall Street as it did before the recession; and Boomers are reaching retirement age, where spending habits are significantly altered.

Retail categories with the greatest number of planned openings in the next 12 months



Source: RBC Capital Markets

Sales performance is not a perfect indicator of store growth plans

Year over year sales growth (x.x%) vs. number of planned store openings

United States retail market statistics

Total United States						
Type	Total (s.f.)	Total Vacancy	YTD Net Absorption	Q2 2013 Avg Rent	Q-Q% Chg	Y-Y % Chg*
Total Retail*	9,908,803,043	6.8%	37,519,873	$15.11	0.2%	0.3%
Malls*	1,016,332,410	5.9%	2,335,271	$18.28	-3.4%	-1.4%
Power centers*	618,324,583	5.7%	2,813,969	$17.15	-0.3%	0.6%
Shopping Center*	3,442,598,280	10.3%	11,778,033	$14.48	-0.1%	-1.7%
General Retail*	476,656,342	4.7%	19,937,795	$15.70	1.6%	4.2%

* Major markets only

Local market statistics by property type

Total retail							
Type	Total s.f.	Total Vacancy	Q2 2013 Net Absorption	YTD Net Absorption	Q2 2013 Avg rent	Q-Q% Chg	Y-Y % Chg
Atlanta	347,965,105	9.7%	989,288	1,203,493	$12.91	-0.7%	-1.1%
Boston	308,497,350	4.4%	604,530	1,004,995	$16.05	1.3%	1.1%
Broward County	103,518,615	6.9%	310,303	664,127	$17.83	0.5%	3.4%
Chicago	496,734,488	8.3%	1,137,931	2,281,077	$15.77	-0.7%	-0.2%
Dallas	374,175,442	7.7%	1,597,828	2,503,331	$13.52	0.4%	0.4%
Hawaii	55,151,177	2.7%	117,055	170,736	$30.62	-4.0%	-2.1%
Houston	335,155,331	6.5%	980,185	1,691,649	$14.36	0.7%	0.7%
Los Angeles	447,480,830	5.4%	817,537	813,244	$24.19	-1.0%	0.3%
Miami-Dade County	121,645,258	4.0%	287,225	354,797	$27.69	-3.4%	1.4%
New York City	56,344,056	2.6%	9,311	-35,893	$86.19	0.9%	1.8%
Orange County	136,387,405	5.5%	229,340	276,609	$22.44	0.6%	0.3%
Orlando	157,265,025	7.8%	182,061	473,117	$14.28	-0.2%	-4.3%
Palm Beach County	75,585,471	7.4%	-49,299	498,740	$17.84	1.0%	2.0%
Philadelphia	484,125,274	6.4%	131,211	266,718	$13.75	-0.2%	-0.3%
San Diego	133,668,498	4.7%	-135,087	109,036	$21.42	1.4%	1.9%
San Francisco	80,228,636	2.7%	189,009	144,373	$30.11	2.3%	2.7%
Seattle	173,482,210	5.3%	121,330	401,919	$17.29	0.1%	-3.1%
South FL	300,749,344	5.9%	548,229	1,517,661	$20.69	-1.1%	2.4%
Tampa	213,168,060	7.2%	256,609	144,252	$13.70	-0.2%	0.3%
Washington DC	219,924,467	4.9%	227,627	166,919	$23.53	1.4%	0.0%

Total Retail	All retail building types in both single-tenant and multitenant buildings, including owner-occupied buildings
Malls	Includes Lifestyle Centers, Regional Malls and Super Regional Malls
Power Centers	Consists of several freestanding anchors with minimal small tenants generally totaling 250,000 – 600,000 s.f.
Shopping Centers	Includes Community Centers, Neighborhood Centers and Strip Centers
General Retail	Consists of single-tenant freestanding general purpose commercial buildings with parking

Malls

Type	Total s.f.	Total Vacancy	Q2 2013 Net Absorption	YTD Net Absorption	Q2 2013 Avg rent	Q-Q% Chg	Y-Y % Chg
Atlanta	33,838,806	6.5%	307,091	392,513	$21.47	-3.4%	5.3%
Boston	28,970,930	3.2%	16,968	21,178	$24.06	0.0%	-4.9%
Broward County	11,267,172	10.4%	-25,170	-30,509	$13.98	-8.8%	-8.6%
Chicago	40,122,442	4.1%	36,787	70,446	$21.20	0.0%	5.2%
Dallas	38,584,026	5.2%	-40,891	6,409	$20.29	-0.9%	-4.8%
Hawaii	8,716,766	2.2%	6,628	11,091	$39.62	-18.2%	-17.2%
Houston	33,991,064	5.9%	93,438	96,640	$21.49	-1.5%	4.8%
Los Angeles	47,038,256	3.2%	187,093	180,475	$43.70	-0.5%	19.6%
Miami-Dade County	16,011,103	2.6%	11,665	-25,670	$46.36	-24.9%	-15.0%
New York City	475,000	16.6%	-4,705	-12,030	$0.00	-	-
Orange County	18,855,549	4.8%	29,033	9,597	$26.86	-23.5%	-19.5%
Orlando	20,698,682	4.9%	-225,096	-217,862	$17.44	-25.5%	-26.7%
Palm Beach County	832,552	3.0%	-13,140	309,102	$33.19	-4.7%	-10.0%
Philadelphia	54,697,472	5.5%	-31,435	-48,639	$18.24	-0.7%	3.3%
San Diego	15,922,021	1.8%	-21,847	-23,149	$25.88	0.0%	11.4%
San Francisco	5,120,477	1.6%	1,116	-3,597	$30.00	0.0%	0.0%
Seattle	18,449,525	3.7%	-10,256	31,910	$27.74	2.0%	-5.8%
South FL	35,607,827	5.2%	-26,645	252,923	$24.70	-14.9%	-17.7%
Tampa	16,062,128	5.1%	-94,951	-110,213	$26.31	-0.4%	-0.6%
Washington DC	39,490,548	3.0%	17,368	75,971	$23.07	-2.2%	-3.6%

Power centers

Type	Total s.f.	Total Vacancy	Q2 2013 Net Absorption	YTD Net Absorption	Q2 2013 Avg rent	Q-Q% Chg	Y-Y % Chg
Atlanta	27,129,274	6.1%	55,281	105,110	$13.57	-3.8%	-4.4%
Boston	15,391,948	4.0%	35,865	-40,181	$11.38	0.0%	-6.0%
Broward County	4,405,359	2.6%	16,612	8,334	$28.39	1.2%	27.8%
Chicago	33,490,191	6.4%	88,684	94,560	$15.59	-0.1%	-5.1%
Dallas	23,557,597	5.4%	142,192	149,257	$19.05	1.4%	0.8%
Hawaii	1,870,423	2.4%	0	0	$45.09	0.0%	-9.7%
Houston	21,796,925	5.2%	43,690	46,347	$16.27	-9.2%	-4.7%
Los Angeles	21,784,590	4.6%	26,926	38,703	$18.79	-5.4%	-17.5%
Miami-Dade County	2,792,469	0.8%	83	1,730	$32.85	-17.0%	-16.8%
New York City	655,541	0.0%	0	0	$0.00	-	-
Orange County	9,701,358	6.4%	-8,058	-82,022	$28.12	-4.7%	-2.7%
Orlando	8,819,088	6.4%	32,320	-12,871	$18.93	-9.0%	4.0%
Palm Beach County	3,376,236	6.0%	8,877	8,877	$14.68	-4.7%	-0.4%
Philadelphia	34,795,841	4.6%	-95,543	-86,574	$12.90	-1.8%	-3.7%
San Diego	8,948,558	2.8%	-6,178	6,884	$27.95	14.6%	13.1%
San Francisco	2,406,475	2.5%	22,313	28,347	$29.99	17.3%	13.4%
Seattle	5,760,144	4.7%	-5,031	-4,692	$22.48	0.4%	3.6%
South FL	10,574,064	3.2%	25,572	18,941	$24.17	4.9%	25.4%
Tampa	10,225,316	4.7%	15,915	-14,130	$18.91	-1.4%	3.4%
Washington DC	16,996,461	2.1%	-9,090	24,980	$25.12	8.5%	-0.7%

Shopping centers

Type	Total s.f.	Total Vacancy	Q2 2013 Net Absorption	YTD Net Absorption	Q213 Avg rent	Q-Q% Chg	Y-Y % Chg
Atlanta	143,377,873	14.5%	411,143	211,473	$12.79	-0.5%	-0.7%
Boston	88,637,858	6.3%	185,216	146,465	$15.52	-0.5%	-4.4%
Broward County	48,395,290	9.3%	39,515	5,639,603	$17.78	1.0%	3.2%
Chicago	160,312,712	11.9%	409,687	962,640	$15.31	-0.8%	-1.9%
Dallas	151,334,059	12.4%	469,912	678,988	$13.20	0.8%	-0.1%
Hawaii	16,334,531	4.1%	59,454	84,310	$30.74	-4.2%	-10.2%
Houston	151,147,940	9.5%	188,267	578,900	$14.10	0.9%	0.8%
Los Angeles	155,442,654	7.0%	328,385	488,029	$22.07	-0.5%	-1.4%
Miami-Dade County	46,998,660	4.9%	87,727	53,411	$23.36	-0.1%	0.3%
New York City	1,280,006	1.6%	0	-1,250	$0.00	-	-
Orange County	66,218,668	6.8%	21,935	119,333	$22.65	0.8%	-1.4%
Orlando	63,439,698	11.9%	61,930	189,261	$13.91	1.5%	-5.6%
Palm Beach County	35,453,783	9.3%	-42,228	92,989	$16.49	-0.1%	-2.3%
Philadelphia	152,442,990	9.7%	255,469	209,498	$14.29	0.5%	-1.8%
San Diego	54,105,333	7.4%	-134,330	-26,429	$20.77	0.4%	-1.2%
San Francisco	9,212,197	4.0%	11,355	-6,126	$27.20	0.4%	-3.4%
Seattle	58,328,462	8.8%	97,754	222,127	$17.66	0.3%	-3.3%
South FL	130,847,733	7.7%	85,014	242,003	$18.64	0.3%	0.8%
Tampa	87,419,217	11.0%	120,450	-280,176	$12.97	-0.7%	-3.7%
Washington DC	82,096,974	7.4%	-25,430	-2,281,339	$21.92	0.9%	-4.9%

General retail

Type	Total s.f.	Total vacancy	Q2 2013 Net Absorption	YTD Net Absorption	Q2 2013 Average rent	Q-Q% change	Y-Y % change
Atlanta	141,301,242	6.3%	211,509	487,677	$12.55	0.5%	-1.4%
Boston	173,567,387	3.6%	364,238	885,290	$16.78	3.1%	6.9%
Broward County	39,137,646	3.6%	279,346	588,504	$18.86	0.8%	6.6%
Chicago	259,554,546	7.0%	603,015	1,220,991	$16.20	-0.7%	2.3%
Dallas	158,669,196	4.2%	1,010,715	1,656,441	$12.66	-0.6%	5.9%
Hawaii	27,574,256	1.7%	52,528	76,713	$28.74	0.7%	21.3%
Houston	125,854,426	3.1%	662,213	976,185	$13.26	3.8%	2.4%
Los Angeles	219,306,748	4.8%	279,317	153,692	$26.34	-0.3%	2.1%
Miami-Dade County	55,378,740	3.8%	191,998	308,931	$31.55	-1.2%	10.5%
New York City	53,563,509	2.6%	14,016	-22,613	$86.19	0.9%	1.8%
Orange County	39,756,857	3.7%	187,139	230,025	$21.06	3.0%	7.1%
Orlando	61,486,079	4.6%	299,949	499,814	$14.14	0.1%	4.6%
Palm Beach County	28,425,900	6.4%	-2,808	87,769	$21.37	3.7%	8.4%
Philadelphia	237,896,949	4.8%	2,720	180,133	$13.15	-0.5%	2.2%
San Diego	53,184,512	3.3%	31,757	111,813	$22.41	3.3%	9.3%
San Francisco	62,005,241	2.6%	135,468	105,124	$30.78	2.5%	3.6%
Seattle	89,803,007	3.4%	38,650	116,804	$15.97	0.8%	-0.8%
South FL	122,942,286	4.3%	468,536	985,204	$24.87	-1.2%	6.9%
Tampa	98,349,522	4.4%	215,195	547,640	$14.09	0.5%	8.9%
Washington DC	80,172,478	3.8%	244,779	317,657	$25.66	0.7%	7.5%

Sources: CoStar, Real Capital Analytics

Retail capital markets

Sales of significant retail properties totaled $13.5 billion in the second quarter of 2013, up 9 percent, year-over-year – and a 50 percent increase over the first quarter. Portfolio transactions, on the other hand, only totaled $3.4 billion for the second quarter. For the first half of 2013, retail transaction volume totaled $22.5 billion, which is 11 percent lower than the same period last year. Cap rates remain largely unchanged. Interestingly, capital is shifting from core properties and top markets to non-major metros. Prices for the latter have increased at twice the rate of the six major metros over the past year. Moreover, sales of unanchored centers have posted the largest gains in both volume and price.

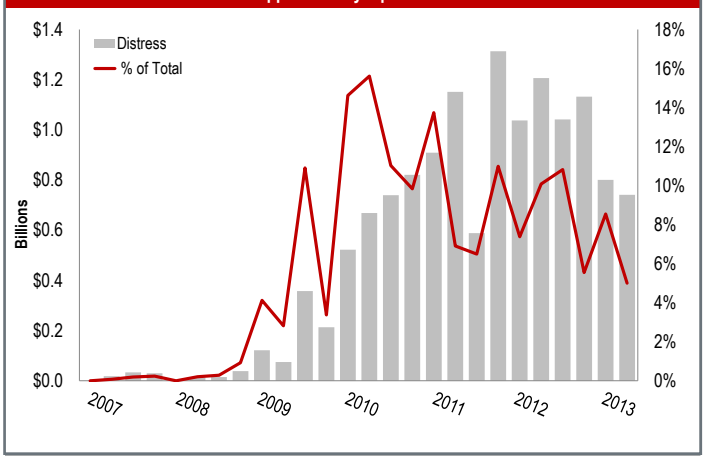
Markets with the highest transaction volumes for the first half of 2013 include Los Angeles ($947 million), Las Vegas (907 million), Manhattan ($719 million), Chicago ($694 million) and Dallas ($619 million).

Distressed assets

Distressed property sales accounted for 5 percent of total retail sales volume in the second quarter, down from 9 percent in the first quarter of the year. Inflows to distress totaled only $485 million in the second quarter – the lowest level it has been in years. However, workouts of distressed loans were also anemic, declining to just $1.4 billion.

The greatest proportion of outstanding distress lies with CMBS servicers, representing 63 percent of outstanding distress. CMBS servicers have simply been much more conservative with liquidating troubled assets than regional and local banks. Markets that still have over $1 billion in outstanding distress include Chicago, Atlanta, Phoenix, Las Vegas and Inland Empire.

Distressed sales now account for approximately 5 percent of total sales



Comparison of retail property sales volume by market

Retail market	Volume ($mil)	# of properties	Avg $/p.s.f.	Avg cap rate	Volume ($mil)	# of properties	Avg $/p.s.f.	Avg cap rate
	H1 2013				Q1 2013			
Los Angeles	$1,432.5	112	316	6.4%	$497.2	60		
South Florida	$2,459.8	207			$969.4	33		
Broward	$481.9	25	255	6.8%	$122.5	11		
Miami	$418.2	41	260	7.1%	$214.1	13		
Palm Beach	$207.5	20	129	-	$135.7	9		
Chicago	$1,002.2	109	172	7.0%	$488.2	60		
Tampa	$811.1	42	168	7.8%	$121.1	17		
Dallas	$646.5	56	230	7.3%	$360.1	24		
Washington DC	$530.7	76			$289.3	21		
DC VA Suburbs	$422.6	27	152	6.9%	$378.9	11		
DC MD Suburbs	$132.9	18	106	7.3%	$27.9	7		
DC	74.6	10	820		$38.2	3		
Atlanta	$530.7	76	126	7.9%	$289.3	38		
Houston	$414.5	47	109	7.3%	$239.2	23		
Seattle	$392.8	33	200	6.5%	$46.7	9		
NYC Boroughs	$378.7	56	554	6.0%	$112.2	17		
Boston	$345.6	40	109	6.6%	$149.0	21		
Orlando	$298.2	31	75	8.3%	$124.9	11		
San Diego	$238.2	24	212	6.5%	$212.5	14		
Orange County	$237.1	21	183	5.6%	$39.4	10		
San Francisco	$184.8	16	438	6.0%	$149.4	8		

Comparison of retail property sales volume by market

Retail market	Volume ($mil)	# of properties	Avg $/p.s.f.	Avg cap rate	Volume ($mil)	# of properties	Avg $/p.s.f.	Avg cap rate
	All 2012 (Mall & Other)				All 2012 (Strip)			
Chicago	$480.7	65	228	6.9%	$521.5	44	120	7.3%
Los Angeles	$884.1	72	414	5.9%	$548.4	40	261	6.6%
Dallas	$239.1	25	358	7.1%	$407.4	31	173	7.7%
South Florida	$110.3	34						
Miami	$268.1	24	465	6.6%	$150.1	17	141	7.5%
Broward	$365.1	15	431	5.5%	$116.8	10	130	7.6%
Palm Beach	$19.9	7	291		$187.7	13	120	
Atlanta	$110.3	34	138	6.5%	$420.4	42	124	8.4%
San Francisco	$152.7	15	438	6.0%	$32.1	1		
Boston	$253.6	30	113	6.8%	$92.1	10	102	5.9%
NYC Boroughs	$341.9	51	621	5.8%	$36.8	5	303	6.4%
Orlando	$124.3	12	61	7.8%	$173.9	19	87	8.5%
Tampa	$682.9	31	177	7.5%	$128.2	11	147	8.2%
Washington DC	$61.1	14						
DC	$70.7	9	844		$4.0	1		
DC VA Suburbs	$61.9	12	488	7.0%	$360.7	15	104	
DC MD Suburbs	$33.7	9	205		$99.1	9	78	
Houston	$61.1	14	304	7.2%	$353.4	33	105	7.4%
Seattle	$252.7	17	225	6.4%	$140.0	16	171	
Orange County	$157.5	11	159	5.4%	$79.5	10	283	5.7%
San Diego	$32.4	7	308	6.4%	$205.9	17	205	6.6%

Performance by retail property subtype

Retail Property type	Volume ($mil)	# of properties	Avg $/p.s.f.	Avg cap rate	Volume ($mil)	# of properties	Avg $/p.s.f.	Avg cap rate
	Q2 2013				Q1 2013			
Regional Malls/ Shopping Ctrs.	$3,389.1	33	$139	7.0%	$766.7	13	$129	7.9
Single Tenant Retail	$2,089.1	479	$268	7.0%	$1,943.4	431	$235	6.9
Grocery strips	$2,042.1	150	$145	7.4%	$1,653.9	109	$147	7.10%
Freestanding & Other	$1,433.0	328	$249	7.0%	$1,525.5	353	$196	6.90%
Urban Retail/High Street	$1,310.9	159	$623	6.5%	$764.2	47	$598	5.20%
Unanchored Strips	$1,145.3	216	$141	8.0%	$510.3	67	$159	7.90%
Power centers/Retail Park	$967.4	21	$171	7.2%	$969.3	23	$152	7.50%
Drug stores	$638.0	116	$394	7.0%	$490.3	122	$481	6.50%
Outlet	$159.7	2	$268	-	$67.6	1	-	-
Big Box	$157.9	15	$107	7.0%	$238.8	20	$83	9.00%

Top 10 retail buyers and sellers - 2012

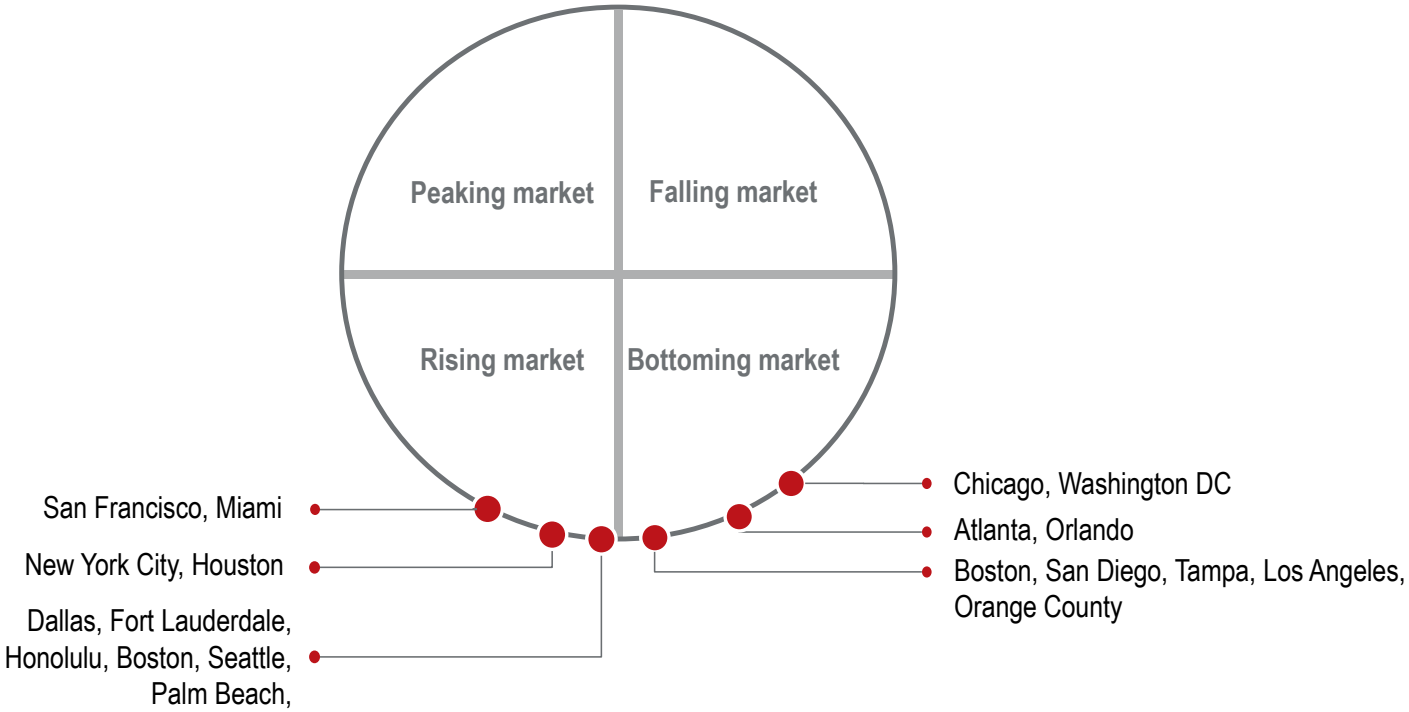
Top 10 buyers by volume	$ bil	Top 10 sellers by volume	$ bil
TIAA-CREF	$725.0	Inland Real Estate Group	$729.0
O'Connor Capital Partners	$605.9	Westfield Group	$605.9
Simon Property Group	$568.0	Blackstone	$571.6
Starwood Capital Group	$464.9	Inland Real Estate Group	$539.3
Cole RE Investments	$421.4	Macerich	$440.6
Cypress Equities	$370.0	Glimcher Realty Trust	$422.6
Inland Real Estate Corp	$295.1	CIM Group	$347.3
PGGM	$270.0	Vornado Realty Trust	$278.4
National Retail Properties	$261.5	NYSTRS	$197.8
Jeffrey R. Anderson	$188.0	Duke Realty	$188.0

H1 2013 top 5 deals by volume

Location	Buyer	Price ($mil)	Size (s.f.)	Price p.s.f.
Grand Canal Shoppes/Shoppes at Palazzo*	TIAA-CREF	$725	815,587	$1,778
Westfield O'Connor FL JV Portfolio 2013*	O'Connor Capital Partners	$696	4,449,740	$288
UBS Retail Portfolio 2013*	Blackstone JV Kimco	$607	5,714,913	$158
Green Acres Mall	Macerich	$500	1,800,000	$278
Lloyd Center	Cypress Equities	$370	1,478,089	$250

**Partial interest*

Retail property clock



Reading the clock

The Jones Lang LaSalle retail property clock demonstrates where each market sits within its real estate cycle. Markets generally move clockwise around the clock, with markets on the left side of the clock generally landlord-favorable and markets on the right side generally tenant-favorable.

More than half of the markets have moved to landlord-favorable, as rents gradually head upward and vacancy continues to contract. Chicago, DC, Atlanta, Orlando, San Diego, Los Angeles, Tampa and Orange County are in a "bottoming market," evidenced by slowing rent declines and very little new construction. Dallas, Honolulu, Fort Lauderdale, Boston, Palm Beach, Seattle, Houston, Miami, New York City and San Francisco are in a rising market.

Local retail markets

Local retail markets

Atlanta

Overall vacancy	9.7%
Quoted rent	$12.91 p.s.f
Q2 2013 net absorption	989,288 s.f.

Economy

- Technology and R&D will play a major role in Atlanta's recovery. High-tech job growth over the past year clocked in at about 5 percent – more than twice the national pace. The tech industry is 27 percent more concentrated in Atlanta than in the nation as a whole.
- The recovery has become broad-based, and Atlanta has recovered about 66 percent of the 200,000 jobs lost during the recession, and conditions are continuing to improve.
- Year-over-year as of Q1 2013, Atlanta had some of the largest gains in home
- Prices (19 percent) in the S&P/Case-Shiller Index.
- In the long term, Atlanta will be boosted by recovering population growth and its strong logistics, hospitality and professional services.

Market conditions

- Retail vacancy in Atlanta, particularly for the south-side submarkets, has been extremely high. However, conditions are expected to change thanks to stronger retail sales, low construction and fewer store closures.
- Vacant space is being taken by discounters such as Shoppers World and Goodwill, as well as non-traditional tenants like Planet Fitness and American MultiCinema.
- A plus for Atlanta is projected growth in the key spending cohort (35-54). All parts of the metro are likely to experience growth but those in the north will see faster growth of consumers with the highest incomes, thereby pushing up demand in those submarkets.
- Outsized vacancy compression will push up rent, but such growth is still several quarters away. In the near term, landlords are still offering tenant-favorable concession packages and lease structures.
- Construction starts will remain sparse near term, restricting themselves to affluent areas in the northern part of the metro. The formally stalled Buckhead Atlanta development (formerly the Streets of Buckhead) is back under way.

Boston

Overall vacancy	4.4%
Quoted rent	$16.05 p.s.f.
Q2 2013 net absorption	604,530 s.f.

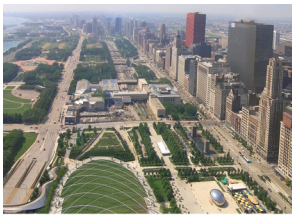
Economy

- Boston's job base is now back to prerecession levels. Job growth is outpacing that of the nation. The unemployment rate – at 5.9 percent – is well below the national rate.
- Professional/business services and technology services continue to drive local market growth. Professional, scientific and technical jobs have added approximately 11,000 jobs over the past year. Moreover, many of these high-tech jobs are also health tech jobs.
- Boston has a highly educated workforce, which has led to a higher median income – nearly 50 percent above the national average. Despite its clear employment strengths, population has been weak and out-migration will be a continuing issue. This fact, along with high living and business costs, will keep Boston from being a strong performer in the long term.

Market conditions

- Tight vacancies continue to make it hard on national retailers looking to expand into larger blocks of space.
- Thanks to several demolitions and tight vacancies, the necessity for new space is great. Development has focused around the 128 belt but activity is spreading. Also in the pipeline are new mixed-use projects which would create attractive urban retail within the market.
- Boston is on the cusp of seeing an even greater surge in grocery space. Groceries are leading the charge of space absorption, particularly for new developments that are emerging to meet Boston's growing need for space. Whole Foods, Wegmans and Market Basket are all making aggressive moves. In turn, this has marginalized some traditional grocers such as Shaw's and Star Market, which have seen market share decimate. This will put pressure on centers anchored by older grocery stores.
- Rents have turned the corner in Boston, particularly for general retail and community centers. Rents should reach their pre-recession peak by 2015.

Chicago



Overall vacancy	8.3%
Quoted rent	$15.77 p.s.f.
Q2 2013 net absorption	1,137,931 s.f.

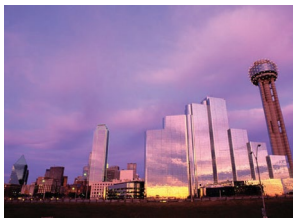
Economy

- Chicago's job growth was revised upward, nearly doubling employment gains last year to a total of 60,600. However, the unemployment rate is still relatively high at 9.2 percent.
- Gains this year have been strongest in professional and business services by a wide margin—accounting for more than half of the 55,000 jobs that have been added year-to-date.
- In the long run, its strong talent pool, vast transportation infrastructure and central location will work in Chicago's favor.

Market conditions

- The threat of economic uncertainty will continue to depress demand over the next few years, despite solid population growth and solid job gains.
- Target and Walmart will continue to expand in urban areas. Grocers are also expanding at a clip. Mariano's Fresh Markets, Whole Foods and Meijer are all taking space. Other expanding retailers include hhgregg, Ross Dress for Less and several fitness clubs.
- New leasing volume has been back in healthy territory for nearly three years. The problem is that demand has been favoring spaces smaller than 5,000 SF, representing an average of 57 percent of new leasing volume over the past year.
- In 2012, approximately 842,000 square feet of new construction was offset by nearly 535,000 square feet of demolitions or conversions, marking the fourth straight year new inventory remained at or below 0.5 percent.
- Rents are expected to improve in the near future. Once they do begin to pick up momentum, gains should proceed at a decent clip.

Dallas



Overall vacancy	7.7%
Quoted rent	$13.52 p.s.f.
Q2 2013 net absorption	1,597,828 s.f.

Economy

- Dallas is a haven for job hunters, adding more than 100,000 jobs in the past 12 months – one of the highest nominal gains in the country. Dallas' role as a location for headquarters for many companies has helped its growth. Education & health services and professional/business services have continued to drive growth. The unemployment rate is currently at 6.2 percent.
- The prevalence of job opportunities has spurred significant population growth due to in-migration. Net migration levels have surpassed 70,000 people quarterly.
- Long-term prospects are promising due to a well-educated labor force and growing population, and growing IT businesses and corporate headquarters.

Market conditions

- The retail vacancy rate in Dallas fell 100 basis points year-over-year, while rental rate inched up 0.4 percent over the same time period. We can expect vacancy compression to continue through 2013, although not beyond, thanks to equilibrium between supply and demand.
- All property subtypes in Dallas have seen healthy decreases in vacancy over the last year with shopping centers and power centers leading the pack, declining 130 basis points each. Demand is expected to exceed 3.5 million square feet annually for the next few years.
- Leasing is skewed toward newer, most-trafficked locations which has resulted in a significant imbalance in vacancy rates for strip, community and neighborhood centers.
- Rents have started to rise and will continue to, as demand gets stronger. However, it will take another two to three years for rents to return to prerecession levels.

Houston

Overall vacancy	6.5%
Quoted rent	$14.36 p.s.f.
Q2 2013 net absorption	980,185 s.f.

Economy

- Houston employment is almost four percent above its previous peak. The metro was the first metro market to regain all the jobs it lost during the recession, and has gained over 280,000 jobs since then. Job growth has been almost triple that of the nation's. One point of caution is that Houston is heavily reliant on its energy industry.
- Strong demand for experienced energy workers will continue to drive up incomes, thereby supporting the recovery of the housing market.
- Long-term prospects are promising due to above-average population growth and further expansion in healthcare, distribution and energy services.

Market conditions

- While retail fundamentals hit a speed bump in 2012, improvement is expected to gather steam this year, with rising demand and limited supply. From mid-2009 to the end of 2011, vacancies dropped some two percentage points. If demand continues apace and supply is low, vacancies could fall into the mid-5 percent range by next year.
- Recent demand has come from groceries such as H-E-B, Alco, Kroger, Whole Foods, Trader Joe's and Aldi, discounters like Dollar Tree and regional retailers like Academy Sports + Outdoors. While Houston has suffered closures from the likes of Sears and Macy's, retail sales have grown in the last year, increasing 11.7 percent, according to Texas Comptroller's Office.
- Supply growth fell to 0.3 percent of inventory in 2012, the lowest level of completions in Houston in roughly 20 years. While there are few projects underway currently, the retail stock will expand by nearly 7 percent, which is one of the fastest rates in the nation.
- Long term, Houston should see one of the strongest demand recoveries in the nation, which will drive up rents through 2015, when increased construction will temper gains.

Hawaii

Overall vacancy	2.7%
Quoted rent	$30.62 p.s.f.
Q2 2013 net absorption	117,055 s.f.

Economy

- Honolulu's recovery has seen some improvement thanks to strong visitor demand from Asia. Consequently, leisure/hospitality and retail will continue to drive growth near term.
- Honolulu should also benefit as the U.S. shifts a greater share of defense spending toward the Pacific. However, there are also chances that across-the-board national defense spending cuts will hurt Honolulu's economy
- Long term, the growing challenges to the local economy and extremely high living and business costs will make Honolulu an underperformer compared to the nation.

Market conditions

- The retail vacancy rate in Hawaii fell 30 basis points year-over-year from the second quarter of 2012, while rental rate fell 2.1 percent, year-over-year. Quarter-over-quarter, vacancy inched down 10 basis points.
- Despite comparatively better demand recently, Honolulu's retail demand will be fairly mediocre in the long term, thanks to weak job growth. As a positive, supply constraints will keep vacancy tight. Recent deliveries are grocery centered: a 65,000 Safeway in Kapiolani, a 40,000 square-foot Whole Foods center in Windward and a 35,000 square-foot Foodland in West Oahu.
- Rents are experiencing a healthy recovery but are expected to trail other major markets through 2017. The exception is at higher-end centers where rental rates remain exorbitant, averaging $150-$250 per square foot.

Los Angeles

Overall vacancy	5.4%
Quoted rent	$24.19 p.s.f.
Q2 2013 net absorption	-817,537 s.f.

Economy

- LA's job growth is accelerating – particularly in education & healthcare, tourism and entertainment.
- However, LA's job count remains more than 200,000 below peak levels, and unemployment is still in double digits. Job growth is expected to average 2.0 percent per year from 2013-2015.
- Notwithstanding gradual amelioration, high business and housing costs and net domestic out-migration will dampen growth, resulting in only average performance, long term.

Market conditions

- We can expect a slow, drawn-out recovery in LA, as absorption yo-yos. Notwithstanding, positive drivers like population and personal income growth will help steer the market in the right direction in coming quarters. Fortunately supply is also anemic which should keep the vacancy rate down.
- The reason vacancies remain stubbornly high is that retailers are being selective and aggregating into the best, most profitable space. While there is plenty of vacant space, it's mostly where retailers don't want to be. The most active takers of retail space in recent quarters were health clubs, high-end grocers and discount chains.
- Spaces left vacant by the departures of big-box stores are starting to get snapped up by other retailers, particularly Walmart, which has snapped up empty shells already appropriately zoned, rather than its standard practice of ground-up construction.
- Rents are beginning to pick up, inching up 0.3 percent in the last year. Centers anchored by credit tenants will enjoy robust growth but there is enough underperforming product out there to keep aggregate rent growth mild over the near term.

New York

Overall vacancy	2.6%
Quoted rent	$86.19 p.s.f.
Q2 2013 net absorption	9,311 s.f.

Economy

- New York City's economy is recovering in leaps and bounds, especially considering its status as a mature market. The market posted a 1.5 percent growth from February 2012 to February 2013.
- Professional & business services have added 35,000 jobs and expanded a generous 3.8 percent over the past two years.
- Financial services will likely continue to face serious challenges, given its current regulatory upheaval. However, accounting, consulting and technology sectors will be strong drivers of growth.
- In the long term, New York's performance will be about average thanks to low affordability and constrained demographics.

Market conditions

- New York should remain one of the tightest markets in the country for the next few years, with one of the lowest vacancy rates. There isn't much vacant space for retailers to expand into here. However, New York's history of robust income growth helps to ensure this market's reliable base of retail demand.
- Supply risk is minimal in New York both in the near term and over the next five years. This metro has by far the highest population density in the PPR54. One of the few projects under way is the 750,000 square-foot Nanuet Mall in Rockland County expected to be completed late this year.
- Rents have shown only small gains since bottoming out, but this market will likely outperform in rent growth through 2017. Asking rents on Fifth Avenue's most high-end strip (from 49th Street to 60th) rose to over $3,000/SF at the end of 2012, up from $2,000/SF in 2009.

Orange County

Overall vacancy	5.5%
Quoted rent	$22.44 p.s.f.
Q2 2013 net absorption	229,340 s.f.

Economy

- Orange County's recovery is gaining momentum, thanks to growth in the business & professional services sector. The metro added 90,000 jobs since the end of the recession. The unemployment rate is at 5.7 percent.
- The office sector will continue to drive growth in coming years. Orange County's high concentration of highly educated workers will only boost more growth, creating some 45,000 jobs through 2017.
- Long term, the market will see growth higher than the national average.

Market conditions

- Leasing activity is projected to grow near-term thanks to strong retail sales volume and high personal income. Vacancy is expected to dip below 5 percent by mid-2014.
- Orange County boasts some world-class tourist attractions – such as Disneyland – and has an above-average concentration of employment in the leisure and hospitality sectors, giving it some unique retail demand drivers. Retail centers catering primarily to tourists are doing exceptionally well.
- Areas where density is expected to increase, such as the proposed 5,000 new homes at Great Park in Irvine, are likely to spur ground-up retail construction in the near term.
- With a strong demand forecast, rents may begin to make up some lost ground over the next year. The largest gains are likely to occur in areas with the top population growth—municipalities like Irvine and Anaheim.

Orlando

Overall vacancy	7.8%
Quoted rent	$14.28 p.s.f.
Q2 2013 net absorption	182,061 s.f.

Economy

- Orlando's economic recovery is outpacing the nation's and is the one of the fastest growing major markets in Florida. Over the past year, the metro added 16,300 jobs.
- Tourism is expected to drive growth. Moreover, Orlando leads the other markets in current & future population growth, as well as future employment growth.
- Commercial and residential construction is rising and should add 10,000 jobs in the near term. Housing affordability is its highest on record; home sales are 14 percent higher than they were last year. Housing demand has outpaced supply for the last 6 years; as a result permits have nearly tripled since 2009.
- Strong demographic trends, an educated workforce and a moderate cost of living will translate into above-average long-term growth for the market.

Market conditions

- Orlando's retail recovery is now fully under way. Retail sales have rallied in recent quarters, and vacancies are expected to fall through 2016. Demand is expected to outpace supply for several more years. Despite this, vacancy is expected to remain above prerecession levels.
- Net absorption in 2012 was 70 percent higher than in 2011. Standout retailers include Aaron's Fine Furniture, Beall's Outlet, The Big House, Publix and several dollar stores.
- Supply will only become a risk in the long run. The southeast portion of the metro and the area near the tourist corridor will likely host much of the development.
- Outstanding population growth will do much to solidify Orlando's recovery, particularly among the prime spending cohort (ages 35-54).
- Rents should gain traction by the middle of the year. Strong demand should result in very strong rent gains.

San Diego

Overall vacancy	4.7%
Quoted rent	$21.42 p.s.f.
Q2 2013 net absorption	-135,087 s.f.

Economy

- San Diego has regained momentum, thanks to growth in the business & professional services sector. The unemployment rate is at 7.0 percent.
- On a positive note, home prices and sales are improving. Near term, life science R&D will drive economic growth. Venture capitalists provide a sizable portion of the funding for this economy's growth, and consequently, venture capital flow into San Diego is a good indicator of what the future holds.
- Long term, the market will see growth in league with the national average, driven largely by military spending, education and tourism.

Market conditions

- While vacancy levels in San Diego remain elevated, healthy absorption over the last four quarters helped decrease the vacancy rate 60 basis points, year-over-year.
- With a sub-5-percent vacancy rate, retailers have been struggling to find available space, as there are fewer than five available spaces over 50,000 SF across the metro and none in the higher-income areas along the north shore.
- Absorption has been powered by two types of tenants: groceries and gyms – which have accounted for half of the top 20 leases signed this year. Zion Market and H Mart, both Korean groceries, have opened up large stores recently. Gyms have taken up roughly 175,000 square feet in the metro, with LA Fitness and Planet Fitness accounting for just about 100,000 square feet.
- Nominal rents are currently at their lowest level since 2004. While rent growth will pick up quickly, there is a lot of ground to make up. Rents are not expected to recover their previous peak until 2016.

San Francisco

Overall vacancy	2.7%
Quoted rent	$30.11 p.s.f.
Q2 2013 net absorption	189,009 s.f.

Economy

- San Francisco is creating jobs at more than twice the rate of the nation as a whole. Tech hiring has skyrocketed since the recession, almost singlehandedly lifting San Francisco's employment growth to 3.5 percent. Professional & business services leaped 5.8 percent from February 2012 to February 2013. The unemployment rate has dropped to 5.1 percent.
- Its rapidly expanding internet services will continue to be a major driving force for San Francisco's recovery during 2013. Long-term prospects will be above average.

Market conditions

- San Francisco retail's vacancy rate fell 30 basis points, year-over-year. Vacancies are now over one percentage point below their 2001-11 historical average of 4.3 percent. Although an uptick in supply is expected to put some upward pressure on vacancies by 2017, they should stay below the market's historical norms, thanks to solid retail demand and relatively subdued construction.
- Retailers are focusing their expansions on the urban core of San Francisco County, although limited space has hindered demand. Recent move-ins and leases include CityTarget, Trader Joe's and Uniqlo.
- Experts predict a vigorous rent recovery for the market – a product of low vacancy rates and lower construction. Rent growth should be highest from 2013 – 2015, then start to decelerate as more space is delivered.

Seattle

Overall vacancy	5.3%
Quoted rent	$17.29 p.s.f.
Q2 2013 net absorption	121,330 s.f.

Economy

- Seattle's recovery is very robust. Over the past decade, high-tech employment growth exceeded 30 percent, cumulatively, not surprising its flagship tech firms like Google, Intel and Amazon.com. Over 46,000 jobs were created in the last 12 months.
- Future gains will continue to come from cutting-edge companies. Venture capital spending surged almost 70 percent between 2011 and 2012.
- Its rapidly expanding internet services will continue to be a major driving force for Seattle's recovery during 2013. Long-term prospects will be above average.

Market conditions

- The long-run outlook for demand is solid, as above-average population expansion and employment growth in high-paying tech industries will raise retail sales in Seattle.
- The Seattle metro has over a million residents in their prime spending years (ages 35–54), and they account for almost 30 percent of the metro's population, one of the highest percentages in the nation.
- Grocery and value-oriented tenants like Walmart, Total Wine & More and Nordstrom Rack have dominated recent leasing activity. Other retailers opening new stores downtown include Whole Foods, TJ Maxx, Zara and H Mart.
- Rents are expected to start expanding this year, as vacancy continues its descent.

South Florida: Miami-Dade

Overall vacancy	4.0%
Quoted rent	$27.69 p.s.f.
Q2 2013 net absorption	287,225 s.f.

Economy

- The retail trade, professional and business services, and leisure and hospitality sectors are currently propping up Miami's economy as they have seen the strongest employment growth over the last 12 months, adding nearly 11,000 jobs in total.
- Housing is also a strong performer: homebuilding has risen to its fastest pace since 2010. However, population growth will be lower than Florida's. Latin American countries are expanding more quickly than the U.S., so much-needed immigration is slowing.
- While downside risks exist, Miami's considerable strength in services will make it one of the best-performing economies in the state. Growth will outperform the nation long term thanks to growing infrastructure, international trade and tourism.

Outlook for tenants

- The metro's vacancies are expected to fall close to the precession low by 2015, until supply additions temper improvement. Demand growth is expected to be concentrated in key areas such as Brickell, Miami Lakes and South Dade. Brickell, in particular, is a retailer's dream, filled with new construction of luxury condos and apartments.
- The Miami Lakes and South Dade submarkets will attract people priced out of the more expensive downtown submarkets. Since retail follows rooftops, demand will grow in these areas as more people establish households outside of the urban core.
- A number of mixed-use projects are under way including Brickell CitiCentre (520,000 s.f.), Gables Ponce (84,000 s.f.) and Garden Village Shopping Center (50,000 s.f.).
- Even though strong demand growth will cause vacancies to compress in the near term, this will not necessarily translate to outsized rent growth, as an approaching supply wave will push vacancies back up.

South Florida: Broward County/Fort Lauderdale

Overall vacancy	6.9%
Quoted rent	$17.83 p.s.f.
Q2 2013 net absorption	310,303 s.f.

Economy

- Fort Lauderdale is finally starting to see some sun. The metro's job base expanded by 2.1 percent from 2011-2012. Particularly strong gains were seen in leisure & hospitality. The unemployment rate has fallen from 10.1 to 5.7 percent. Fort Lauderdale has added more than 15,000 jobs in 2012.
- Recovery in homebuilding is expected to grow 12 percent this year, and prospects for income growth are among the highest in Florida.
- Fort Lauderdale's long term growth prospects are above average due to its proximity to Miami, strong tourism and international trade.

Market conditions

- Retail market vacancy declined 30 basis points year-over-year. Despite this decline, Fort Lauderdale's vacancies will remain structurally higher than they have been for more than a decade.
- Demand is expected to grow, on average, 1 percent per year through 2016 – a function of tenants taking smaller spaces (50,000 s.f. or less). Grocers are the exception to this trend, particularly Whole Foods and Publix.
- Supply is set to increase, with 600,000 square feet of construction under way, which will do no favors to the vacancy rate. One large project of note is the $1B redevelopment of the former Fashion Mall into a mixed-use center and a 275,000 square-foot Walmart Supercenter in Coral Springs.
- Rent has finally turned the corner. Rents will start to see meaningful increases near term, but growth will weaken by 2017, as construction ramps up.

South Florida: Palm Beach County

Overall vacancy	7.4%
Quoted rent	$17.84 p.s.f.
Q2 2013 net absorption	-49,299 s.f.

Economy

- Palm Beach's recovery had been better than previously estimated, showing a 1.4 percent gain in its job base in 2012.
- Growth will accelerate in the second half of the year. Palm Beach also has strong future growth projected for employment and personal income. Over the next five years, total employment growth is expected to expand by about 2. percent annually.
- Life sciences, biotechnology and energy research will all be important drivers of job growth, along with the Port of Palm Beach.
- Palm Beach will outperform the nation in the long term thanks to its growing energy and research industries combined with retiree in-migration.

Outlook for tenants

- Palm Beach county's vacancy rate fell 70 basis points, year-over-year, due to strong net absorption, which outpaced deliveries. Retail sales have grown thanks to increased tourism. As a result, cumulative demand growth should best the national average.
- While demand has inched up steadily, supply has been flat and is expected to remain so near term. Longer term, we may see some renewed activity in Boca Raton, Delray Beach and West Palm Beach.
- While rent decline was one of the worst, the turning point has arrived and rents should start to inch up. Rent growth in 2013 is expected to be the strongest the market has seen in years. This growth is expected to last through 2015.

Tampa

Overall vacancy	7.2%
Quoted rent	$13.70 p.s.f.
Q2 2013 net absorption	256,609 s.f.

Economy

- Tampa is outpacing the nation with regard to economic recovery and has been one of the stars of the Florida markets in recent quarters. The metro's job base expanded 3.0 percent in the last 12 months, thanks in particular to expanding call centers.
- Tampa's outlook has significant upside risk, since population growth may be higher than predicted.
- Tampa's long-term growth prospects are strong given its robust demographics which will pull up demand for housing and services.

Outlook for tenants

- Vacancies are expected to continue to fall, with power centers fueling a rise in demand. With consumer spending and corporate profits rebounding briskly, national retailers, and even local establishments, are beginning to reoccupy these centers.
- The bulk of recent large leases were signed by nationwide chains: Dick's Sporting Goods moved into 100,000 SF in Westshore, Hobby Lobby took 58,000 SF in Pasco County, Walmart signed 58,000 SF in East Tampa, and HomeGoods secured 32,000 SF in Westshore.
- Supply is expected to remain very moderate and rents have bottomed. Rental rates have already started to rise in power centers and malls.

Washington, DC

Overall vacancy	4.7%
Quoted rent	$23.54 p.s.f.
Q2 2013 net absorption	481,177 s.f.

Economy

- Thanks to the commercial and residential real estate building boom underway in D.C., construction employment is at its highest level since hitting its nadir in mid-2009, adding back more than 11,000 new jobs (8.5 percent) since.
- Financial services and healthcare are performing well, with the latter increasing 9 percent since 2010. Education/health and leisure/hospitality combined have contributed two-thirds of the job gains in the last four quarters.
- D.C.'s economy will continue to struggle over the next five years as federal cutbacks send a domino effect through the market. This will lead to below-average growth for the foreseeable future.

Outlook for tenants

- DC retail has done much better than other property types within the metro, thanks to the highest median income in the nation. Malls and power centers have the lowest vacancies among the retail subtypes.
- Retailer preference for walkable locations is signaled by the stronger vacancy rate recovery for Metrorail-proximate retail space.
- Absorption has been driven by retailers such as TJ Maxx, Homegoods, J. Crew, H&M, Kohls, as well as smaller service retailers such as dry cleaners and fitness centers. Restaurants have been aggressively opening, targeting affluent households. Demand for urban locations is exceptional with openings from tenants such as Target, DSW, Walmart, Neiman Marcus' Last Call, Anthropologie,and MOM's Organic Market.
- The top three tenants by demand growth in 2012 were everyday services (e.g., dry cleaners) at 46 percent, fitness centers (40 percent) and restaurants (35 percent).
- Rents have dropped 15 percent since mid-2007 but are expected to pick up this year, reaching their previous peak by the end of 2017.

As supply begins to ramp up in coming months, most multitenant development will be focused on urban cores, which are already enjoying outsized rent growth

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For more information, please contact:

Greg Maloney
President & CEO
Retail Americas
+ 1 404 995 6315
Greg.maloney@am.jll.com

Aaron Ahlburn
Industrial & Retail
Research Director, Americas
+1 424 294 3437
Aaron.Ahlburn@am.jll.com

Keisha McDonnough
Research Analyst
Retail Americas
+1 954 990 0844
Keisha.mcdonnough@am.jll.com