Market Research

RETAIL | SECOND QUARTER | 2008

MARKET INDICATORS

	CHANGES FROM SAME QUARTER ONE YEAR AGO	CHANGES FROM LAST QUARTER
Vacancy %	↑	↑
Net Absorption	↓	↓
Construction/ Deliveries	↓	↓
Asking Rates	↑	↑

PEGGY SELLLS
Retail Division Leader

"Due to the current economic environment and lack of consumer confidence, retail vacancies are rising. Landlords are granting concessions to entice tenants to lease space."

COLLIERS INTERNATIONAL TURLEY MARTIN TUCKER

Commercial Real Estate Services

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NATIONAL RETAIL MARKET TRENDS

Retail spending continues at the National level, despite decreasing automobile sales. The Advance Monthly Sales for Retail Trade and Food Services report, published by the Census Bureau in July 2008, has estimates of U.S. retail and food services sales for June increasing 0.1 percent (±0.5%)* from the previous month and 3.0 percent (±0.7%) above June 2007. Total sales for April through June 2008 were up 2.6 percent from the same period a year ago. The April to May 2008 percent change was +0.8 percent.

LOCAL OUTLOOK

The Nashville retail market is alive and well! Recently, the retail sector has received reams of press; some forecasting its eminent demise, some placing it on life support. Some report the market to be doing well in some areas but impacted in others because of rising fuel costs, financial sector problems, and problems associated with the housing markets. This report will provide additional perspectives on the retail sector at the national, state, and local levels.

TENNESSEE DEPARTMENT OF REVENUE ANALYSIS OF MAY 2008 COLLECTIONS

May 2008 collections of the Tennessee Department of Revenue were $825,213,535, an increase of $33,071,505 or 4.2 percent from May 2007 collections. Sales and use tax collections totaled $555,081,206, an increase of $6,605,652 or 1.2 percent from May 2007 collections. Collections from the retail trade group decreased 0.7 percent.

Items with significant changes include
Apparel & accessory stores: up 19.5 percent
Miscellaneous retail stores: up 4.4 percent
Eating & drinking places: up 2.4 percent
Motor vehicle dealers and service stations: down 4.6 percent (with a 9.1 percent decline in the new, used motor vehicle sub-category item)
Food stores: down 4.2 percent
Building materials: down 3.4 percent

STATISTICS (COSTAR)

Statistics from CoStar have the Nashville retail market with a vacancy rate of 5.7 percent for second quarter 2008. This rate is up from the first quarter rate of 5.5 percent and the second quarter 2007 rate of 5.1 percent. Malls and shopping centers have the highest vacancy rates of 8.9 percent, while General Retail (single tenant, freestanding, general purpose) has the lowest at 2.9 percent.

Submarkets with vacancy rates lower than the Nashville average include: Vanderbilt-West End, 1.5 percent; Brentwood, 3.9 percent; Cool Springs, 3.2 percent; Charlotte Pike, 3.5 percent; Green Hills and Rivergate, 3.8 percent; and Hendersonville, 4.3.

HOLLY BUCHANAN
Retail Sales & Leasing

"Uncertainties concerning the economy, banking, and housing market, whether perceived or media driven, have put a damper on retail activity. Activity will remain sluggish for the next few months leading up to the election."

VIEWS AND OPINIONS

Below are excerpts from recent articles applicable to retail markets. These excerpts address some of the current market conditions.

Lifestyle Centers Lose Cachet Among Mall Developers, **Angela Pruitt, DOW Jones Newswires, June 3, 2008:** Lifestyle shopping centers were once considered the doom of the suburban mall. Now, these upscale retail properties are falling out of fashion among mall developers with a slow economy making them somewhat less sustainable. Given their tilt towards luxury goods and services, lifestyle centers will likely bear the brunt of a pullback in discretionary spending, as cash-strapped consumers continue to feel the sting of high gas prices and home foreclosures.

Returns on lifestyle centers vary widely depending on the location of the property. The best-performing centers generate handsome returns because developers don't have to subsidize anchor tenants with low rents.

Jeff Gunning, an architect and vice president at RTKL, a Baltimore-based design company, said a correction was afoot in lifestyle centers even before the economy soured. "There's a realization they are not as sustainable as other building types that have more than one use. I wouldn't be surprised if maybe...some of those lifestyle centers don't actually add other uses in order to make an environment that has more staying power," he said.

Indeed, so-called mixed-use projects featuring office, retail and residential space are becoming the new "it" developments, industry experts say. "Even though there is a residential crisis right now... office (space) over retail is very viable. I think you may find that developers look at office as a second use rather than residential for a while," Gunning said.

Retail Roller Coaster, Investors hang on for what may be a wild ride this year, **Beth Mattson-Teig, Commercial Investment Real Estate, May-June, 2008:** Investors are maneuvering quickly to catch up with a retail property market that has done a 180-degree turn in the past year. This once-hot sector has cooled considerably in the wake of the capital markets crisis, the residential real estate slump, and a floundering economy. While investors and brokers are working harder to locate deals amid a more cautious environment, many are finding that ample opportunities still exist.

The down market undoubtedly will focus attention on value-add opportunities — whether that involves squeezing more income from existing properties through renovation or re-tenanting or pursuing opportunities to purchase and reposition struggling properties. The retail sector will undoubtedly take a hit from slower economic growth and fears of waning consumer spending. The most immediate impact of slower retail growth will be on the development side. Developers and retailers are expected to proceed with projects already in the pipeline, but many retailers are putting additional store expansions on hold — at least for the short term.

Although 2008 may have gotten off to a slow start, many industry observers expect that investment activity will pick up later in the year. The most difficult time for brokers is when there is a pause in the market and pricing is not moving up or down. This occurred in the last half of 2007. Now that prices are beginning to move, deal flow is likely to accelerate.

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