HOUSTON RETAIL MARKET

RESEARCH & FORECAST REPORT

MARKET INDICATORS

3Q-09	3Q-10
QUARTERLY NET ABSORPTION	
875,767 SF	505,048 SF
YEAR-TO-DATE NET ABSORPTION	
1,500,817 SF	2,428,459
CITYWIDE AVERAGE QUOTED RENTAL RATE NNN	
$15.35/SF	$14.93/SF
CITYWIDE AVERAGE RETAIL VACANCY	
9.9%	8.6%
YEAR-TO-DATE DELIVERIES	
1,920,174	343,923 SF
UNDER CONSTRUCTION	
1,440,157	127,698 SF

JOB GROWTH & UNEMPLOYMENT

	08/09	08/10
HOUSTON		-0.4% job growth 900 jobs lost
UNEMPLOYMENT	8.2%	8.7%
TEXAS		1.3% job growth 129,000 jobs gained
UNEMPLOYMENT	8.0%	8.3%
U.S.		-0.1% job growth 183,000 jobs lost
UNEMPLOYMENT	9.7%	9.6%

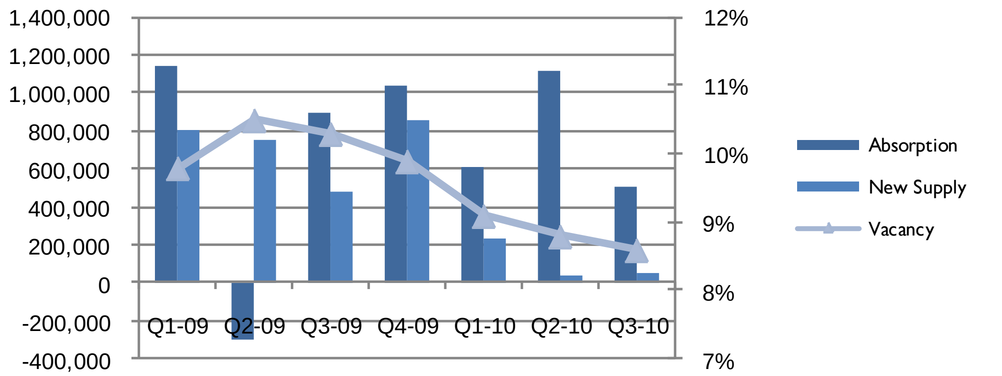
Houston Retail Market Welcomes New Formats

Houston's retail market continued to demonstrate resiliency through the third quarter of 2010 with positive net absorption and stronger occupancy. For the past five quarters Houston's retail market has posted positive net absorption, and retail occupancy for all product types stood at 91.5%, up from 90.1% at this time last year. Developers have all but shut down, delivering less than 55,476 SF of new retail space in the third quarter – compared to over 438,443 SF in the third quarter last year – and kept the construction pipeline nearly empty with less than 136,720 SF in retail projects under construction, compared to 1.4M SF underway one year ago. Overall, the local market is performing well under less than optimal economic conditions, namely sluggish job growth and low consumer spending levels.

According to the Texas Labor Market Review, Texas MSA's have experienced job gains in six out of eight months so far this year. Although Houston isn't the top performing MSA in Texas, Houston continues to be recognized as one of the strongest metros in the U.S. for business activity, with the employment sector reporting marked improvement from this time last year. In the 12 months ending in August 2010, Houston's job loss totaled 18,300, significantly below the 100,000 jobs lost in 2009, with the local MSA projected to end 2010 with positive job growth. The area's above-average population growth spurring the need for increased services is also a positive contributing factor in Houston's strong long-term outlook.

Houston's above-average population growth is expected to reach 9.5 million by 2035, led by strong growth in suburban Fort Bend and Montgomery counties. Houston's diverse population spanning all economic brackets continues to be a strong draw for retailers, particularly grocers, who continue to choose the area as testing ground for new prototypes. In 2009, Kroger's introduced its newest upscale format Marketplace – featuring gourmet foods, an extensive wine selection, and food specialists on site – opening new stores in the two fastest-growing sections of Fort Bend county. Following its new concept Mercado, catering to the Houston's expanding Hispanic population, H.E.B. this year introduced Joe V's Smart Shop – targeting value-conscious shoppers – opening its first store in Willowbrook. Houston's strong long-term outlook is expected to continue attracting retailers seeking to expand market share in one of the fastest growing metros in the U.S.

ABSORPTION, NEW SUPPLY & VACANCY RATES



YTD 2010 TOP RETAIL LEASES

Kohl's
Atascocita Commons
July-10 88,827 SF

Joe V's Smart Shop
12035 Antoine Drive Retail
Mar-10 54,690 SF

Academy Sports & Outdoors
Pecan Park Plaza
Mar-10 50,300 SF

Second Baptist Church
12008 Shadow Creek Parkway
August-10 50,000 SF

Office Depot
Cypress Pointe
Mar-10 48,000 SF

All Harvest Trading
Lion Square
Feb-10 42,205 SF

Payless Shoe Source
9960 Kleckley Drive
July-10 40,320 SF

Nordstrom Rack
Market at Town Center
July-10 35,455 SF

Big Lots
Montgomery Plaza
Mar-10 31,502 SF

Sam Moon Trading Company
Village Plaza at Bunker Hill
Aug-10 30,000 SF

Occupancy & Availability

Houston's retail occupancy increased to 91.5% in the first quarter, up from 90.1% at this time last year. By product type, neighborhood centers posted the largest increase of 210 basis points (bps) to 88.7% occupancy, followed by community and power centers both higher by 180 basis points to 90.3% and 94.3%, respectively. Malls and lifestyle centers followed closely with occupancy at 93.2% and 91.2%, respectively both increasing by 170 bps.

Only one retail property type recorded a decrease, with theme/entertainment centers posting a decline of 170 bps to 85.5% from 87.2% one year ago.

Houston's retail occupancy has remained relatively stable over the past five consecutive quarters, with only one quarter - Q3 2009 - dipping below the 90% mark. Following the nearly 100,000 jobs lost in 2009, Houston is expected to resume positive job growth by the end of 2010. Although job projections of 2,000 to 5,000 jobs are well below previous expansion periods, the retail market will benefit from a stronger local economy.

Limited new supply will also help the market stabilize over the coming twelve months. Year-to-date retail deliveries totaled 228,447 SF, compared to 800,677 SF of retail space added at this time last year. Four retail projects in the construction pipeline at the end of the first quarter totaled a combined 136,720 SF, compared to 1.4M SF of new retail space under construction in the first quarter last year, with developers not likely to begin any significant new projects until improved economic conditions return.

Absorption & Demand

For the fifth straight quarter, retail net absorption was positive, adding 505,048 SF of positive net absorption to the year-to-date total of 2.4M SF. On a year-over-year basis, absorption declined from the 875,767 SF recorded in third quarter 2009.

By property type, grocery-anchored neighborhood centers led the market in the third quarter with 342,585 SF in positive net absorption, followed by community centers with 175,116 SF in gains. Power centers, strip centers, and lifestyle centers also posted positive net absorption of 58,661 SF, 22,996 SF, and 7,452 SF, respectively. In contrast, mall space took the largest loss with (63,515) SF, followed by single tenant (30,021) SF, theme/entertainment (5,626) SF, and outlet centers (2,600) SF.

Rental Rates

Against the backdrop of low consumer spending and prolonged job market weakness, landlords once again lowered their quoted rental rates for most property types in the third quarter. The citywide average quoted rental rate of $14.93 per SF NNN decreased 0.8% from $15.05 in the previous quarter, and 2.7% from $15.35 in the first quarter last year. In addition to lower rental rates, tenants in the market benefited from increased lease concessions, including free rent and generous tenant improvement packages.

On a year-over-year basis, community centers average quoted rental rates fell 6.9% to $14.07 per SF NNN (from $15.11), while neighborhood centers rental rates dropped 2.1% to $13.52 per SF NNN (from $13.81). In contrast, single tenant buildings posted an increase with quoted rental rates at $10.87 per SF NNN, representing a 2.2% increase from $10.63 per SF NNN at this time last year.

Atascocita Commons
6635 FM 1960 Rd E
Kingwood Submarket

RBA: 306,890 SF
Built: 2006
Buyer: Cole Real Estate Investment
Seller: Trammel Crow Company
Sale Date: July 2010
Sales Price: $56.5M

Walgreens
16185 Space Center Blvd
NASA/Clear Lake Submarket

RBA: 14,490 SF
Built: 2002
Buyer: Partners Development
Seller: Bonino Space Ctr Wal LLC
Sale Date: July 2010
Sales Price: $4.7M

Sales Activity

Investment sales for Houston's retail properties remain sluggish, with the limited availability of credit hampering activity. Transactions in the third quarter totaled 81 with a total dollar volume of $178M, averaging $218.41 per SF with an average 7.9% capitalization rate.

Among the more significant retail sales were the following transactions: Cole Real Estate Investment acquired the 306,890-SF Atascocita Commons located at 6635 FM 1960 E. The property sold for $56.5M or $184 per SF.

Partners Development purchased a 14,490-SF Walgreens located on Space Center Blvd from Bonino Space Ctr Wal LLC for $4.7M or $324 per SF.

Simon Property Group, Inc. purchased a 20% interest of The Galleria from Walton Street Capital, LLC. The 2,278,121-SF Super Regional Mall is located on Westheimer and was 82.2 percent occupied at the time of sale. The price was not disclosed; however, according to the buyer's press release, they invested about $260M. Simon Property Group, Inc. now owns a 50.4% interest in the property.

Leasing Activity

Houston's retail leasing activity reached 1.4 million SF in the third quarter, compared to 1.7 million SF in the third quarter of 2009. Overall, transactions under 20,000 SF comprised the largest group of retail leases, with the market recording only four leases over 50,000 SF year-to-date. Continuing a trend that began in 2009, discounters were among the most active tenants through September 2010, with consumers' preference for value still high given a continued weak job market.

Significant retail leases signed through the third quarter included: Kohl's 88,827 SF lease in Atascocita Commons (Kingwood); HEB's newest retail concept Joe V's Smart Shop's 54,690 SF lease at 12035 Antoine Drive (Willowbrook); Academy Sports and Outdoors' 50,300 SF lease at Pecan Park Plaza (League City); Second Baptist Church's 50,000 SF lease at 12008 Shadow Creek Pky. (Far South); Office Depot's 48,000 SF lease at Cypress Pointe (Cypress); All Harvest Trading's 42,205 SF lease at Lion Square (Alief); and Payless Shoe Source's 40,320 SF lease at 9960 Kleckley Dr. (Near Southeast).

For additional retail lease transactions signed year-to-date, please see the select list on page two.

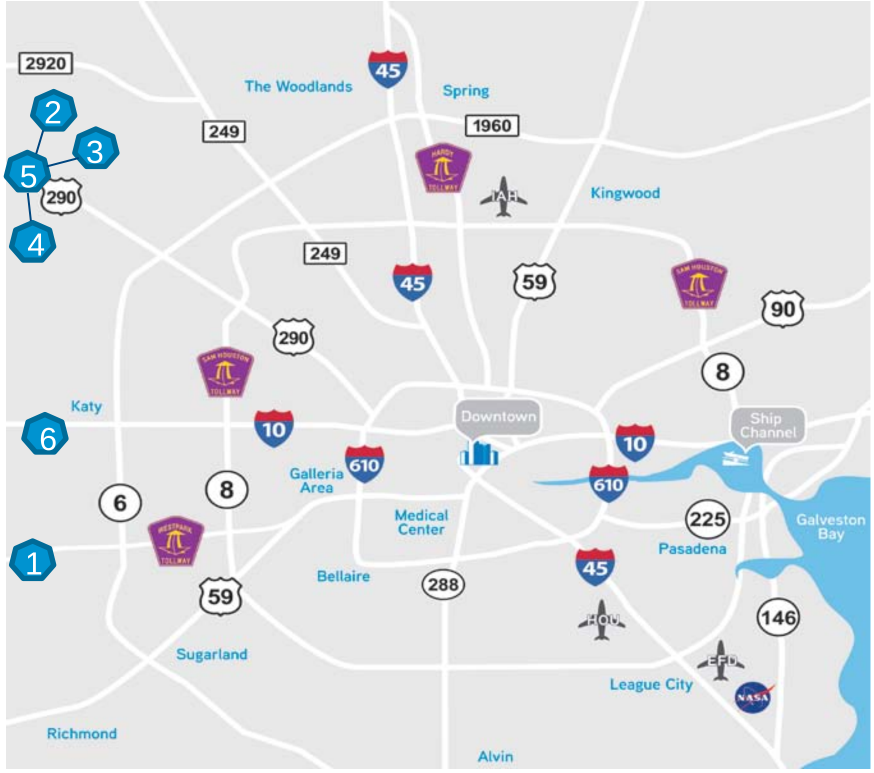
HOUSTON RETAIL MARKET SUMMARY

	Rentable Area	Direct Vacant SF	Direct Vacancy Rate	Sublet Vacant SF	Sublet Vacancy Rate	Total Vacant SF	Total Vacancy Rate	3rd Qtr Net Absorption	Year-to-Date Net Absorption	Weighted Avg. Rental Rate NNN
Strip Centers	30,470,552	3,238,598	10.6%	24,754	0.1%	3,263,352	10.7%	22,996	282,963	$15.66
Neighborhood Centers	73,249,710	8,110,837	11.1%	133,182	0.2%	8,244,019	11.3%	342,585	947,065	$13.52
Community Centers	38,601,850	3,701,686	9.6%	42,452	0.1%	3,744,138	9.7%	175,116	528,227	$14.07
Power Centers	16,834,880	885,770	5.3%	68,644	0.4%	954,414	5.7%	58,661	186,662	$18.12
Lifestyle Centers	2,362,716	207,857	8.8%	1,000	0.0%	208,857	8.8%	7,452	35,168	$27.98
Outlet Centers	1,228,700	107,217	8.7%	-	0.0%	107,217	8.7%	(2,600)	(91,137)	$13.00
Theme/Entertainment	1,934,868	281,247	14.5%	-	0.0%	281,247	14.5%	(5,626)	3,606	$40.84
Single-Tenant	40,472,313	1,287,355	3.2%	36,354	0.1%	1,323,709	3.3%	(30,021)	68,092	$10.87
Malls	29,500,789	1,951,568	6.6%	60,379	0.2%	2,011,947	6.8%	(63,515)	467,813	$18.39
Greater Houston Retail	**234,656,378**	**19,772,135**	**8.4%**	**366,765**	**0.2%**	**20,138,900**	**8.6%**	**505,048**	**2,428,459**	**$14.93**

Retail Development Pipeline

HOUSTON RETAIL PROJECTS UNDER CONSTRUCTION

Map #	Submarket	Property Name	Address	RBA	% Leased	Developer	Estimated Delivery
2-5	Cypress	Fairway Point, Bldgs. A-E	15103 Mason Rd	80,000	0	Fairfield Village Community	Jul-10
6	Far Katy South	Katy Main Street	I-10 and Pin Oak Rd	25,198	0	PC Property Management	Jun-10
1	Far Katy South	Westheimer Lakes Plaza	26440 FM 1093	22,500	0	Parkhill Investments	Dec-10
Total retail under construction				127,698			



SELECT HOUSTON YEAR-TO-DATE RETAIL DELIVERIES

Willowbrook	Joe V's Smart Shop	12035 Antoine Dr	66,690	82.0%	NewQuest (for HEB)	May-10
Memorial East	CityCentre, Bldg 13	12808 Queensbury Ln	47,584	61.3%	Midway Companies	Jan-10
Baytown	Chase Plaza Center	7599 Garth Rd	30,000	0.0%	Ed Rutledge Associate:	Feb-10
Tomball	Ross (Tomball Marketplace)	14223 FM 2920 Rd	27,689	100.0%	Weingarten Realty	Mar-10
Inner Loop River Oaks	West Ave Building C	2800 Kirby Dr	24,130	100.0%	Gables Residential	May-10
Sugar Land/Fort Bend	Mody Plaza	1611 Hwy 6	10,280	54.5%	Mihir Mody	Sep-10
Washington Boulevard	3939 Washington Retail	3939 Washington Ave	22,800	59.9%	Apex Group	Mar-10
Kingwood	Kings Harbor Waterfront Village, Bldgs. 8 & 9	1660 W Lake Houston Pky	22,200	81.7%	Midway Companies	Mar-10
Hobby	Cullen Commons II	12805 Cullen Blvd	20,000	50.0%	Cullen Commons	Apr-10
Northline	Carmel Plaza	6906 Airline Dr	16,000	62.5%	Chaleh Corporation	Mar-10
Select retail year-to-date deliveries listed above			287,373			
Total retail year-to-date deliveries 10,000 SF >			327,160			

480 Offices Worldwide

61 Countries on 6 Continents

191 AMERICAS
- 135 USA
- 39 CANADA
- 17 LATIN AMERICA

26 ASIA/PACIFIC

168 AUSTRALIA/NEW ZEALAND

95 EUROPE/MIDDLE EAST/AFRICA

$1.9 BILLION IN GLOBAL REVENUE

2.4 BILLION SQUARE FEET UNDER MANAGEMENT

15,052 PROFESSIONALS

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