The Lee Retail Brief

Q2 2015

Click below. Interactive tabs

Lee & Associates®
COMMERCIAL REAL ESTATE SERVICES

104%
increase
in transaction volume over 5 years

$10 billion
transaction volume
2014

800
agents
and growing nationwide

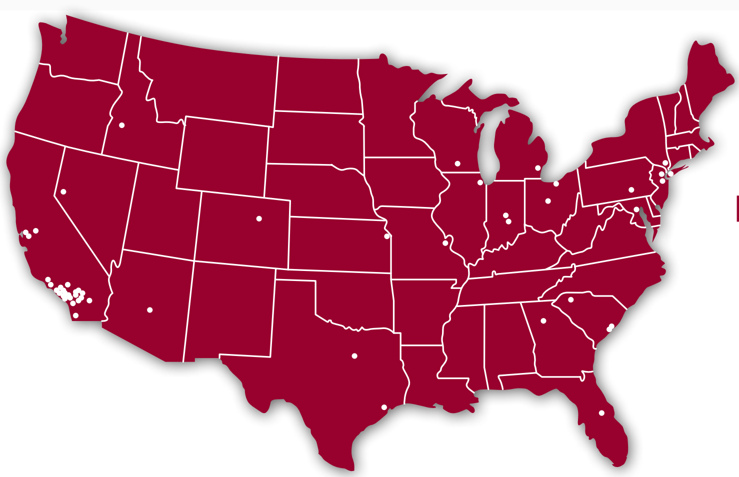
LOCAL EXPERTISE. NATIONAL REACH. WORLD CLASS.

At Lee & Associates® our reach is national but our expertise is local market implementation. This translates into seamless, consistent execution and value driven market-to-market services.

Our agents understand real estate and accountability. They provide an integrated approach to leasing, operational efficiencies, capital markets, property management, valuation, disposition, development, research and consulting.

We are creative strategists who provide value and custom solutions, enabling our clients to make profitable decisions.

OFFICE
INDUSTRIAL
RETAIL
INVESTMENT
APPRAISAL
MULTI-FAMILY
LAND
PROPERTY MANAGEMENT
FACILITY SERVICES
VALUATION & CONSULTING



NATIONWIDE LOCATIONS

Eastern Pennsylvania, PA • Cleveland, OH • Columbus, OH • Houston, TX • Denver, CO • Cleveland, OH • Long Island-Queens, NY • Chesapeake Region , MD • Charleston, SC • Edison, NJ • Orlando, FL • Fort Myers, FL • Kansas City, KS • Manhattan, NY • Greenville, SC • Atlanta, GA • Greenwood, IN • Indianapolis, IN • Long Beach, CA • Elmwood, NJ • Boise, ID • Palm Desert, CA • Santa Barbara, CA • Antelope Valley, CA • Dallas, TX • Madison, WI • Oakland, CA • Reno, NV • San Diego, CA • Ventura, CA • San Luis Obispo, CA • Southfield, MI • Santa Maria, CA • Calabasas, CA • St. Louis, MO • Chicago, IL • Victorville, CA • Temecula Valley, CA • Central LA, CA • Sherman Oaks, CA • West LA, CA • Pleasanton, CA • Stockton, CA • Phoenix, AZ • Carlsbad, CA • Industry, CA • Los Angeles, CA • Riverside, CA • Ontario, CA • Newport Beach, CA • Orange, CA • Irvine, CA

National Economic Overview

STEADY AS SHE GOES IN Q2

The US retail property sector continued its moderate but steady improvement in the second quarter. The vacancy rate fell another 10 basis points for the period, settling at 5.9%. Since the third quarter of 2014, vacancy has declined by 30 basis points despite the fact that growth in consumer spending in general, and retail sales in particular, have been spotty over the past year. Retail sales fell .3% in June after moving up 1% in May.

ECONOMIC DRIVERS

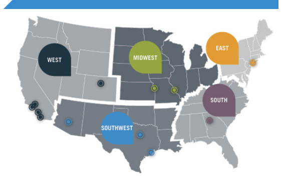
Click below for info on...

GDP GROWTH

EMPLOYMENT

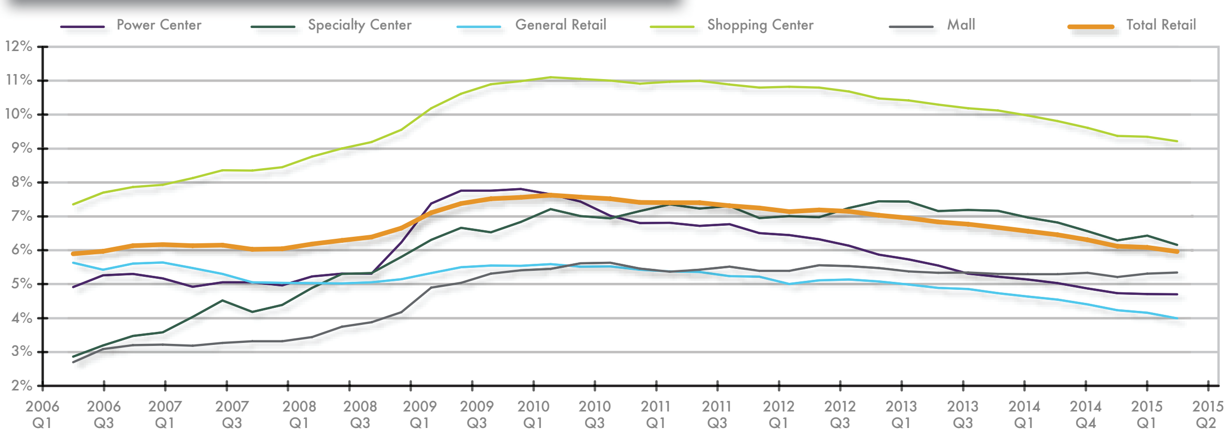
MONETARY POLICY

GLOBAL ECONOMY

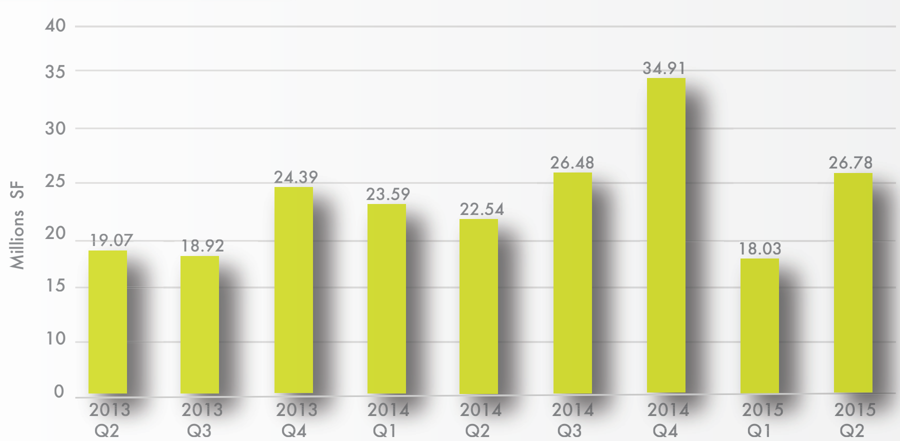


SKIP AHEAD TO MARKET SNAPSHOTS

VACANCY RATES BY BUILDING TYPE 2006-2015



NET ABSORPTION

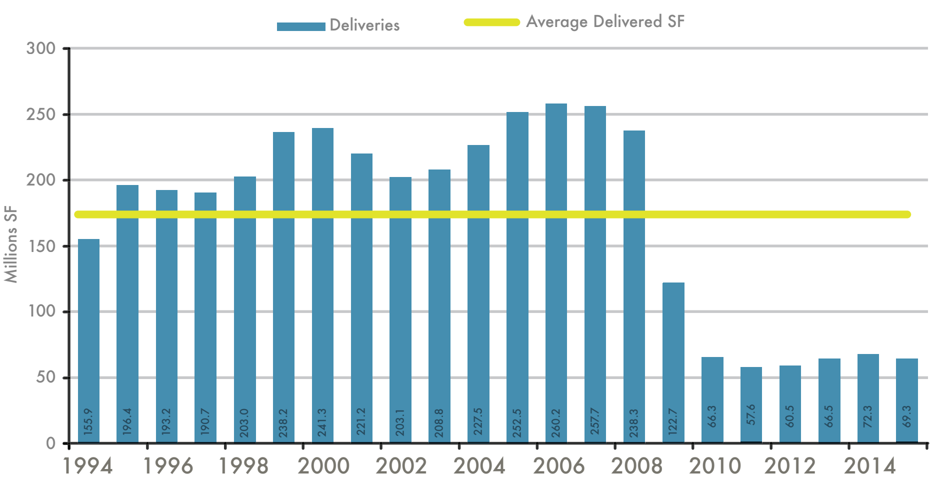


The up and down spending pattern has been ongoing, but there is just enough activity to keep the retail property sector moving in the right direction. More urbanized areas are seeing most of the action in terms of absorption and rent growth, as more retailers are catering to younger spenders who prefer to live, work and play in amenity-rich locales. Positive net absorption moved up again In Q2, finishing the quarter at 26.8 million square feet, splitting the difference between Q1's 18 million square feet and Q4 of 2014's 38 million square feet. In the past four quarters, over 112 million square feet of net absorption has been recorded, a phenomenal performance considering the uneven economic recovery and lingering consumer uncertainty.

The overall average asking rate moved up 8 cents to $15.04 per square foot in Q2, adding another quarter to its four-year-long streak of rent growth. Average rent increases don't tell the whole story, however, as rents in prime locations, especially in urban mixed-use projects, are seeing a much faster rise in rental rates. Traditional suburban markets are not faring as well, as those areas have fallen out of favor with recent shifts in the workforce that has millennials outnumbering the baby boomers who are retiring in ever larger numbers.

New deliveries for the quarter totaled 15.05 million square feet, bringing the total of completed inventory over the past year to 72.5 million square feet. As Q2 came to a close, Over 54 million square feet of new retail space was underway. Densely populated areas, rich in amenities, continue to see the bulk of development activity. Retailers looking to be closer to the action are competing aggressively to secure space in CBD and suburban core locations where the demographics are improving. Millennials continue to change the face of retailing in all markets and product segments.

HISTORICAL DELIVERIES 1982-2015



Traditional, brick and mortar and online retailers continue to move toward one another in terms of structure and long-term strategy. Major online retailers are adding physical locations, while traditional expand their online presence to appeal to a larger cross-section of retail consumers. The dual presence becomes the platform for omni-channel retailing, the euphemism for an integrated online/in-store experience that maximizes brand value and customer loyalty. Traditional retailers recognize the growth in online spending, but online sellers now recognize that most shoppers still prefer the in-store experience when it comes to making buying decisions.

A LOOK AHEAD. The US retail market should continue at its current pace through the end of 2015. Domestic GDP and job growth numbers are still up and down, but even at current levels, the retail property market should remain relatively healthy. The strong dollar and increasing flow of foreign capital will also help boost retail property sales, as investors recognize the stability and safety of the US retail market relative to the rest of the world.

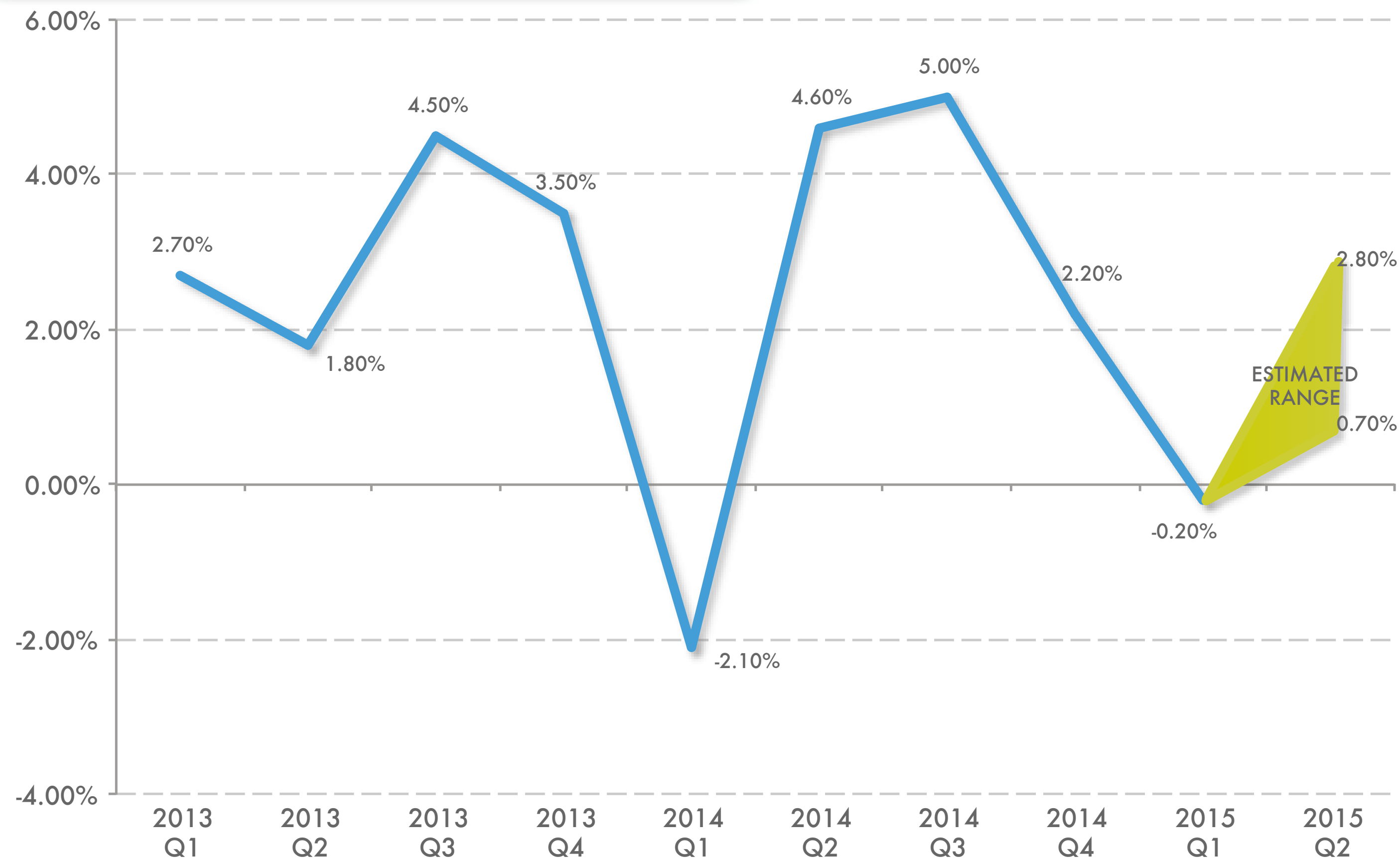
Low oil prices should be with us for the foreseeable future and the extra dollars in the pockets of consumers will continue to impact retail sales to the good. More consumer spending leads to more jobs, as production increases to meet new demand. Energy dependent states will not fare as well. Recent layoffs in the energy sector are bound to negatively impact local retail sales, but that will turn around just as soon as fossil fuel prices stabilize at higher levels. So, more layoffs in high-paying energy job categories should be anticipated and the slowdown in domestic production will continue in the short term. Hopefully, employment gains in other sectors, even in the energy states, will remain strong enough to keep momentum the retail property market moving ahead.

Vacancy rates will continue to decline and net absorption will remain at least at current levels. However, prime submarkets with the lowest vacancy will see lighter absorption due to low supply. Cap rates will remain compressed due to record high demand, but could change direction when the Fed finally makes a move on interest rates. Retail development will remain focused in mixed-use projects with residential and office components, where the opportunity for rent growth will be strongest.

GDP GROWTH

The nation's total output of goods and services picked up the pace in 2014, approaching 3% for the year. Unfortunately, the first quarter of 2015 turned into another disappointment, as the third and final estimate of GDP growth came in at -.2%, and estimates for Q2 growth are not optimistic. The more bearish prognostications run as low .7%, while more optimistic predictions run as high as 2.8%. By the time this report is posted, the first official numbers will have been released, subject to two more revisions in the following 30 day period. Even if

QUARTER-TO-QUARTER GROWTH IN REAL GDP



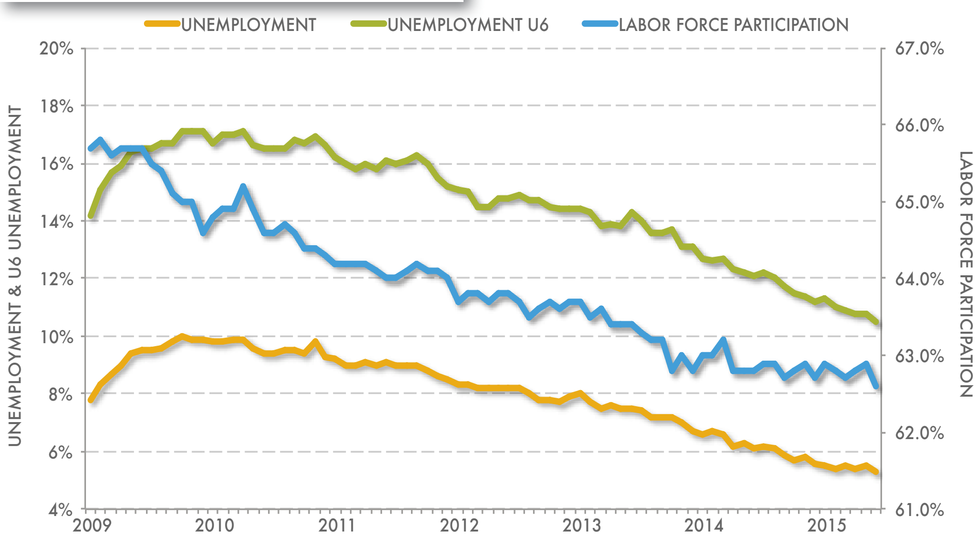
the actuals meet higher estimates, growth for the first half of the year will be lackluster. Weather was blamed for a poor first quarter, just as it was in Q1 of 2014. Consumer spending and wage growth are sluggish and even though US businesses are expanding, they are doing so cautiously, keeping trillions in cash on the sidelines as a hedge against another economic stall. The Federal Reserve Bank's recent Beige Book estimates call for moderate growth in total output and the Congressional Budget Office's annual economic forecast is calling for GDP growth of 3% for the year. However, last year, Q2 and Q3 did the heavy lifting with 4.6% and 5.0% growth respectively, and no one is predicting that kind of performance for the same periods this year. Nearly 70% of GDP comes from consumer spending. So, until that picks up, we can expect more of the same in terms of overall economic growth.

EMPLOYMENT

Job growth remained positive through the first half of the year, and that has helped fuel net absorption in all product types. Monthly job creation has averaged 250,000 over the past twelve months, but June fell short at 223,000. Paradoxically, poor job numbers tend to give the equities markets a boost, as investor concerns over a near-term move by the Fed to raise rates are softened. The unemployment rate fell 20 basis to 5.3% in June, but most of the drop was due to workers falling out of the calculation because they were not actively pursuing new employment. Conversely, a healthy monthly increase in jobs is often accompanied by a rise in the overall unemployment rate, as more workers rejoin those counted in the report by resuming their search for work

The proportion of part time positions remains a problem, as well. Too many businesses remain uncertain about the economy in the near term and opt to hire part time and temporary workers to enable a quicker response to changing markets. At mid-year, over 6.5 million people who prefer full time employment, were working part time because full time positions were unavailable. The U-6 Unemployment Rate, which includes those workers, stood at 10.9% by end of June.

NATIONAL UNEMPLOYMENT



The Labor Participation Rate, which many believe is a more accurate indicator of the true state of the job market, was down again in Q2. This metric measures the percentage of those eligible for employment between the ages of 16 and 64 who are currently working. The lack of new jobs and the early exit of Baby Boomers from the workforce have combined to drop this key metric to a four decade low of 62.6% after June's 10 basis point decline.

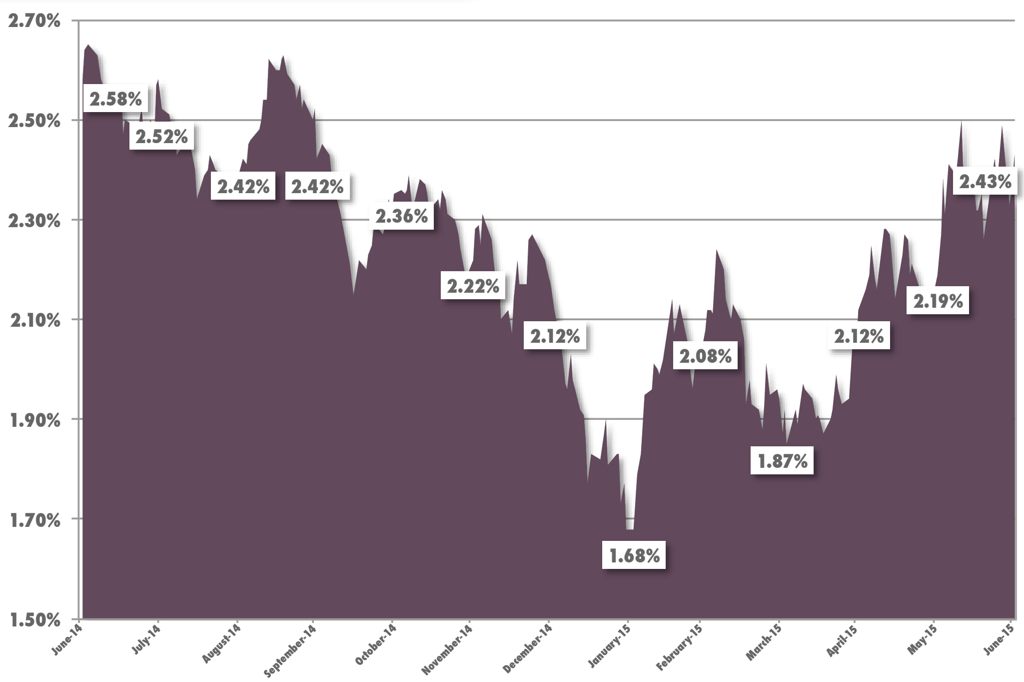
Wage growth is becoming as much a concern as job growth. Gains in real wages have been both hard fought and disappointing. Too many of the jobs being created just don't pay enough to increase consumer spending to the degree that improves GDP growth. Many of the jobs are in hospitality, retail and restaurant service, which can disappear just as quickly as they appear. So, a significant chunk of the US populations still feels like the recession never ended, and spending habits have been influenced as a result.

The pullback in the energy sector is also affecting job and wage growth, as jobs in energy-related industries generally pay well. Layoffs in the field are now common. Schlumberger, one the largest oil field services firms in the US, has already laid off 10,000 workers, and others like Halliburton and Baker Hughes have made similar moves as oil exploration and extraction activities have been scaled back. Fortunately, the TAMI (technology, advertising, media and information) and healthcare services sectors have been expanding its workforces, which has mitigated job losses in energy states. Financial services firms are also getting back into the hiring phase.

MONETARY POLICY

As the economy continues its uneven recovery, more and more attention is being paid to the actions of our nation's central bankers. Fed Chairperson, Janet Yellen and her Board of Governors, have been repeatedly warning the markets of an upcoming move to raise interests rates and a move away from the Fed's aggressive efforts to stimulate economic growth. In fact, many experts warn that more emphasis is being put on the Fed's actions than on actual market activity, which could lead to asset bubbles. At mid-year, the US economy is sputtering despite unprecedented and prolonged central bank intervention. By holding interest rates near zero for the past six years, yields on investments of all kinds have also been kept low. Savers have been punished and investors have been forced to take on more risk in their quest for yield.

TEN YEAR US TREASURY YIELD
IN PERCENTAGE



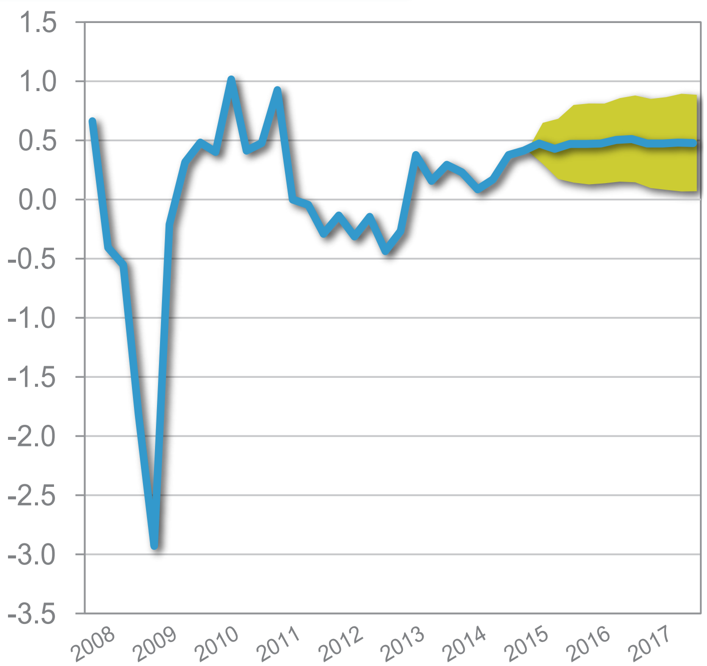
The equities markets have soared as a result, as it offers at least a chance for a reasonable return without giving up liquidity. However, the Dow has leveled off of late, moving just under or over the 18,000 mark, reacting daily to a variety of domestic and international issues that give investors the jitters, including the fact that gains in corporate profitability have flattened out.

Real estate borrowers have also benefited from Fed actions. Long term financing is still available at historically low rates. Low cost of capital contributed to cap rate compression in markets around the country. Positive leverage is still a possibility, even with cap rates as low as 4%. But, yields of 10-Year Treasuries have moved higher in recent months, up by approximately 40 basis points since April. When the Fed finally makes its move on interest rates, the yield on the 10-year Treasury, the benchmark for most real estate loan underwriters, will certainly move higher. That could cause a cap rate decompression to maintain that historic spread, and rent growth will have to remain strong to offset the negative impact on values. IRR's will take a hit, as savvy buyers will be assuming higher cap rates on exit.

GLOBAL ECONOMY

The global economy is another variable for our central bank to consider before bumping our interest rates. The European Central Bank announced an aggressive QE program just as we ended ours in the US. Many believe that nominal GDP growth throughout the Eurozone will delay the Fed's move on domestic interest rates, as the US is still a potent influence on the world economy. To avoid a deflationary spiral, several central banks in Europe have even moved core rates into negative territory.

EURO AREA REAL GDP²
(QUARTER-ON-QUARTER PERCENTAGE CHANGES)

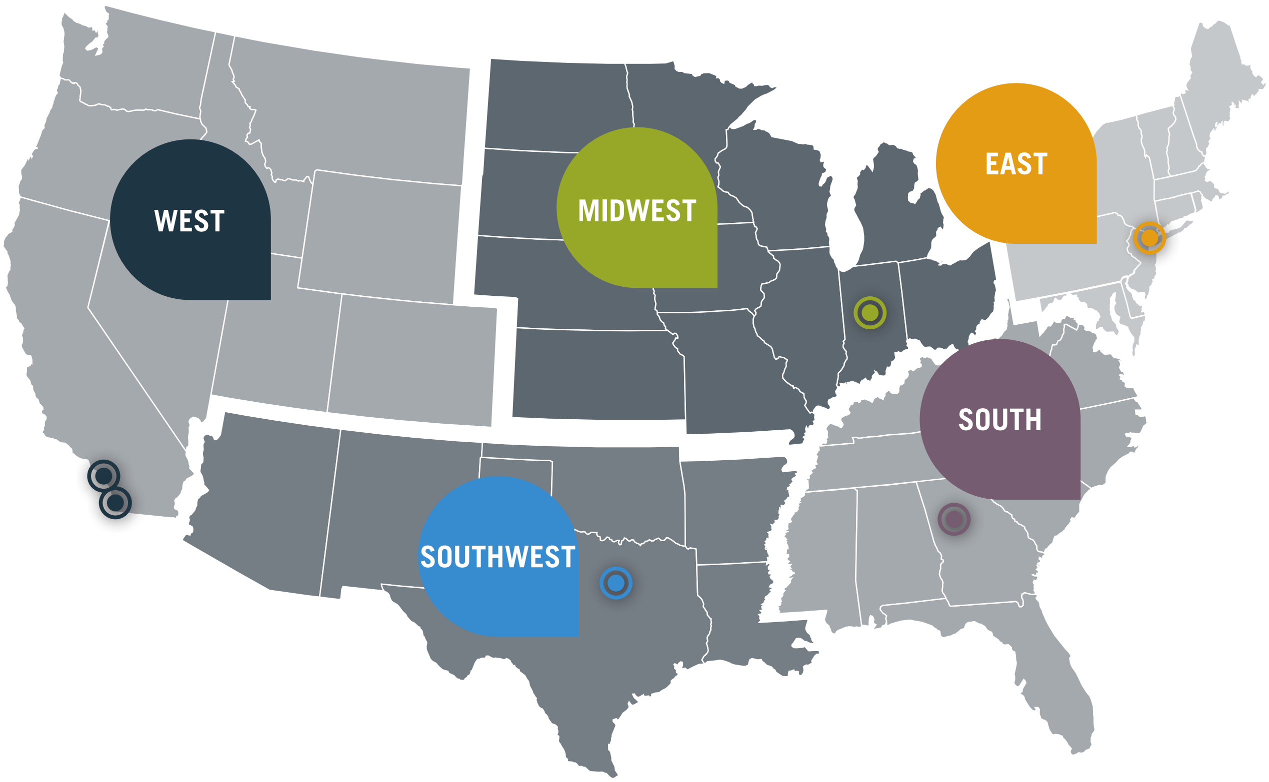


The recent threat of "Grexit", the potential of Greece leaving the euro, has been resolved, at least for the moment. By agreeing to a restructuring of Greece's long-term sovereign debt and an additional emergency bailout in return for further fiscal austerity measures, the Eurozone once again averted disaster, but may have compounded its long term troubles in the process. Germany wore the black hat in the negotiations, but looking back on the crisis makes one wonder whether the key players knew from the beginning how things would turn out. All that attention paid to 2% of the Eurozone's GDP does raise concerns over the ramifications of a bigger player facing the same conditions, which is a near certainty under the current system.

Changes in currency valuation are also impacting economic growth domestically. The US Dollar has moved to all-time highs against the Yen and the Euro. That means additional buying power when purchasing foreign goods and services with dollars, but it also has a negative impact on US companies with revenues generated from customers paying in other currencies, as the Fed recently pointed out. Share values of publicly traded companies with substantial revenues from overseas have been negatively impacted, as investors see the strong dollar as a threat to those businesses going forward.

Oil prices remain in the $50 per barrel range after plummeting from $107 per barrel in June of 2014. Industry experts are all over the board in terms of predicting an end to the decline. Here again, the good news is also bad news. Lower energy prices have put billions of dollars per month back in the pockets of US consumers, but job growth has been hurt in energy states, which have been producing a substantial portion of the higher-paying, full-time positions. Excess supply is to blame, and that is due to increased output in the US and slow worldwide economic growth. OPEC has refused to cut production in response, which many see as a strategic move to slow US production, which has indeed fallen dramatically in 2015.

Key Market Snapshots



To view a key market snapshot either click on a section of the interactive map above or on the cities below.

ORANGE COUNTY
SAN DIEGO

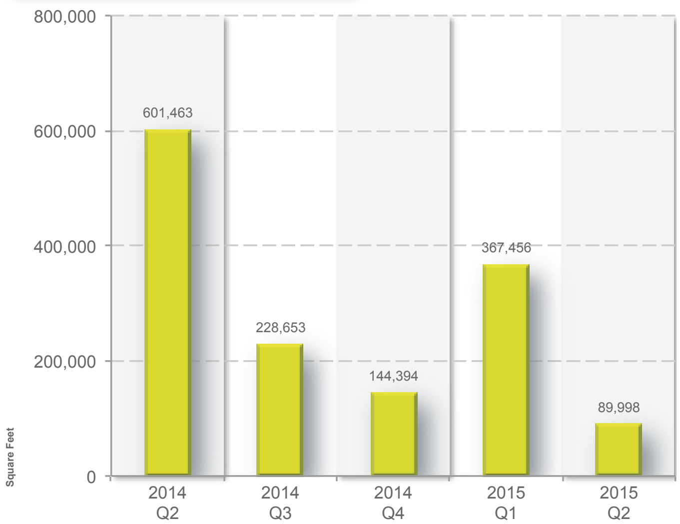
DALLAS / FORT WORTH

INDIANAPOLIS

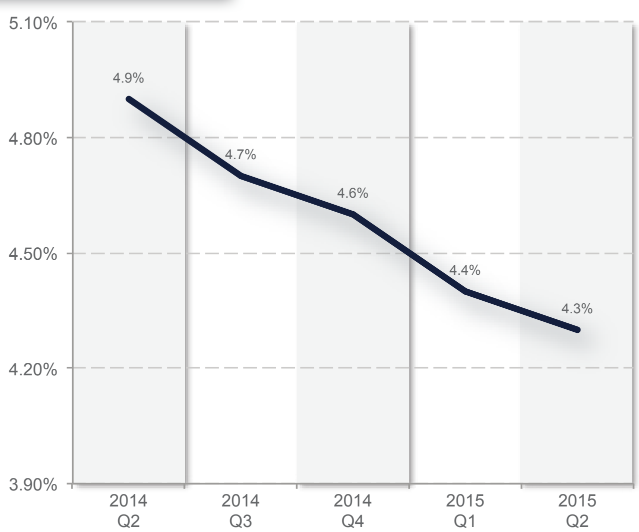
ATLANTA

ORANGE COUNTY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Orange County's economy growth rate outpaces all but a few of the state's 58 counties. Another 13,000 new jobs were created in Q2, many of them higher-paying in the tech and health services sector. In the past year, over 50,700 jobs were created in the county. Even the mortgage industry, hardest hit in the last recession, is growing again. The housing market has rebounded nicely, which has homeowners spending again on household goods and services. Home sales were up in April and May over last year. Unemployment keeps moving lower, settling at 4.2 % in May.

Vacancy ended Q2 at 4.3%, down 10 basis points for the quarter. Most of the vacancy remains concentrated in secondary locations and mid-block strip centers. Prime locations, especially in coastal submarkets, are nearing 100% occupancy, while B and C centers are still wrestling with prolonged vacancy. Countywide, the average asking lease rate moved up, gaining $.30 to $23.47 NNN, as good job creation and consumer confidence fueled a positive outlook.

Net absorption for Q2 was positive, adding 89,998 square feet to the total of occupied space. The restaurant industry is still leading the retail expansion. Well-located centers have multiple offers to consider and aggressive restaurant operators are bidding up

4.3%	$23.47	89,998	140,747,315	1,116,359
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION
▼	▲	▼	▲	▲

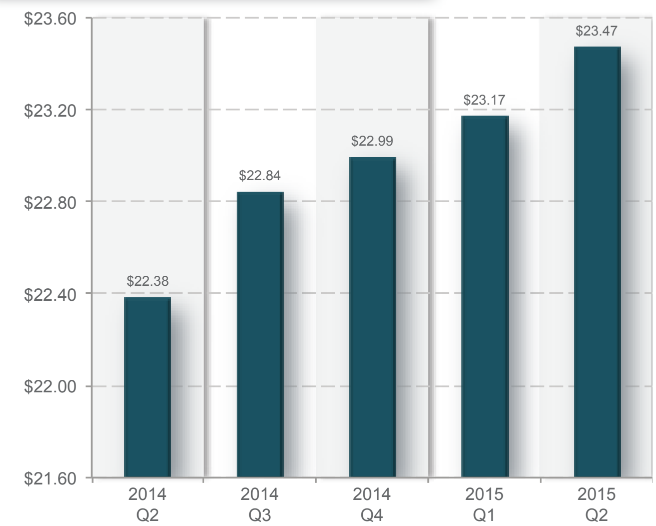
ORANGE COUNTY - TRENDING NOW (continued)

rents for Class A locations. Hispanic grocery stores remain in expansion mode, as Hispanics lead the way in population growth. Other grocers like Haggen's, with its wider organic selection are adding locations. Aldi and Smart & Final are also making big expansion moves. Regional malls are enjoying higher occupancy and higher quality food courts, but big players like Sears are exiting under-performing locations to remain viable. Chipotle, Habit Burger, Raising Canes, Starbucks, Coffee Bean and Hobby Lobby continue their rapid expansions, and all this activity has landlords tightening up on concessions, especially in prime centers where vacancy is lowest.

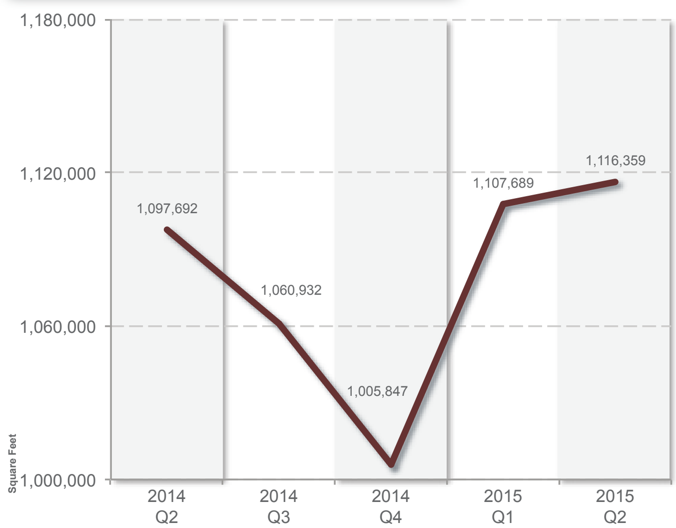
Cap rates are still compressing, as investors have looked more to retail for better yield than office and industrial properties. However, the general expectation of a move by the Fed to raise interest rates soon has investors rethinking their strategies, as a rise in the cost of capital would likely begin a period of increasing cap rates. Rents, while on the rise, may not move up fast enough to offset higher cap rates, and there's no way to predict what impact higher capital costs will have on retail expansion going forward. More owners are looking to become sellers to dispose of assets before the potential correction.

Single tenant net lease investors have been forced to look elsewhere for product, as inventory has dried up throughout California. The cap rate differential in many other markets around the country is as high as 200 basis points higher than California. So Baby Boomer era investors attracted to the lower management cost and strong credit associated with single tenant purchases, are heading to the center of the country for better yields.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

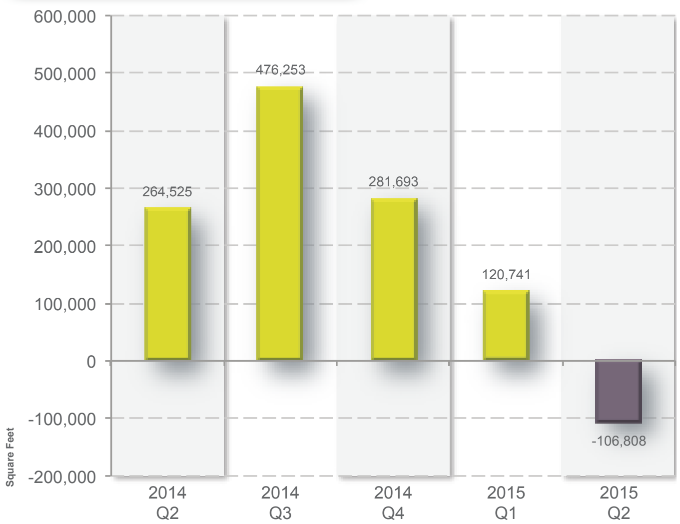


A LOOK AHEAD.

- Supply of good quality product is reaching critically low levels
- Overall vacancy for the county will continue to decline
- Net absorption will be slightly positive, restricted by short supply of class A product
- Lease rates overall will rise another 2% to 5% overall in 2015, but move even higher in prime centers
- Cap rates could move back up 50 to 75 basis points as soon as the Fed commits to higher rates
- Land sales will be virtually non-existent and building will trade in the $300 to $500 per square foot range.
- Good job growth will keep strong retailers confident enough to continue to expand

SAN DIEGO

NET SF ABSORPTION



VACANCY RATE

TRENDING NOW

The San Diego retail market continued to tighten up in Q2. In keeping with other markets around the country, it's a tale of two markets, with most of the vacancy in class B and C strip centers and most of the tenant interest in the highest quality locations, especially high-performing grocery-anchored centers like La Costa Town Square and the Village at Pacific Highlands. National and regional chain retailers are competing for the dwindling supply of quality space are they are willing to pay a premium to win. Overall average asking lease rates have been moving steadily since 2012, but slipped seven cents to $22.86 in Q2 after moving up sharply to $22.93 in Q1. Year-over-year average asking lease rates are still up $.54.

Net absorption also turned negative Q2, posting a 106,808-square-foot loss in net occupancy, but that is the first quarterly loss since Q3 of 2012. The North County area, hit hard during the last recession, has posted modest positive absorption this year, further evidence of a lasting recovery that retailers can count on in terms of job growth and the resulting impact on consumer spending.

Vacancy came in at 4.2% for the quarter, down 10

VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION
4.2%	$22.86	-106,808	133,841,127	192,007

SAN DIEGO - TRENDING NOW
(continued)

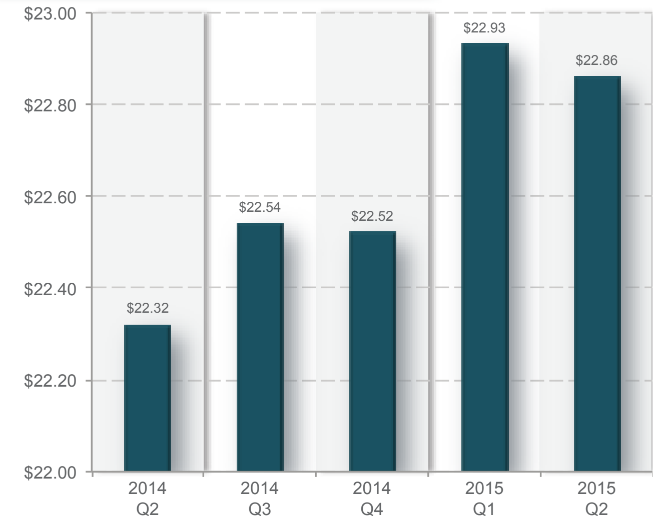
basis points from Q1. North County remained highest at 6.2%. Central County's vacancy of 3.1% is still lowest in the region. With limited construction, vacancy should keep moving down, and tight supplies will benefit owners of centers in secondary locations.

Little land is left for ground-up development. Thus, construction is limited to the remodeling and repositioning of existing retail projects. Westfield has two projects underway including the ongoing expansion of its UTC regional mall and the transformation of Plaza Camino Real from an indoor to open-air center. Palma De La Reina, a mixed-use retail/office/residential project is underway in the affluent community of Rancho Santa Fe. It is slated for completion by the end of the year. This new center is indicative of the desire for cool and trendy retailers to locate near customers with more disposable income. At the end of the quarter 192.007 square feet of retail space was under construction, virtually all of it in upscale areas

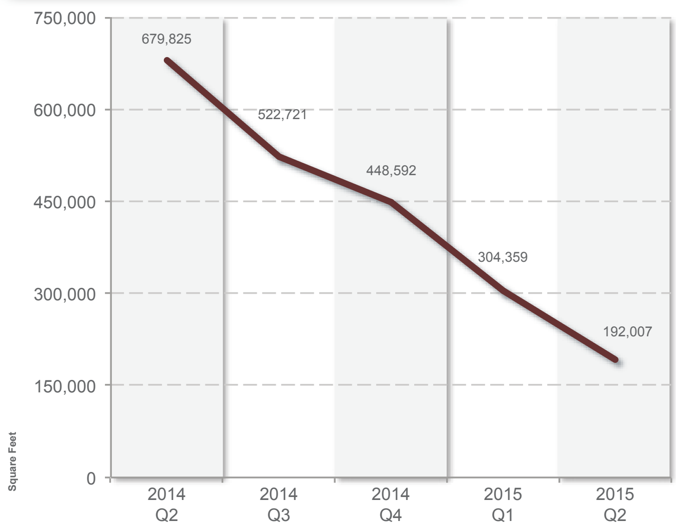
In Q2, wireless stores, fast casual restaurants, auto parts stores, beer tasting rooms and; fitness centers were active retail categories. However, there's still a substantial gap between bid and ask, as tenants still perceive the market to be softer than landlords do.

Investors are still willing to pay a premium for quality retail assets, and that has kept cap rates in steady decline for the past several years. Rent growth and lower vacancy in prime markets makes for a competitive environment, and until the Fed makes a move on interest rates, pressure on cap rates will remain in place.

AVERAGE SF RENTAL RATES



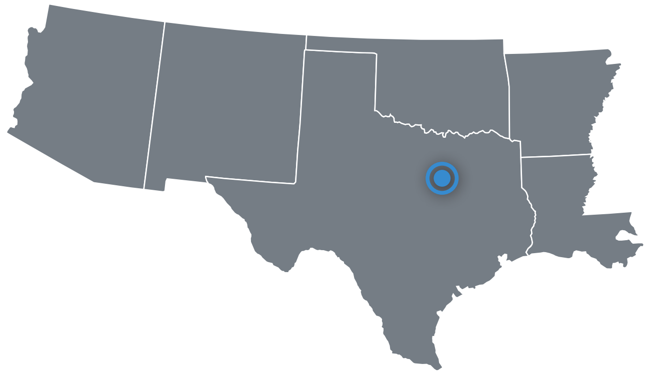
SF UNDER CONSTRUCTION



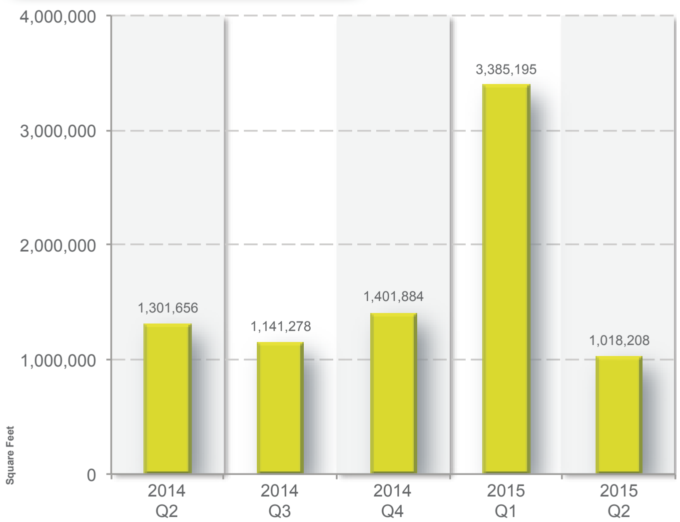
A LOOK AHEAD.

- Gross absorption should remain at its current pace due to consistent job growth
- Vacancy should fall to 4.0% by the end of 2015
- Asking rates will move up as high as 7% by the end of the year for prime locations
- Construction activity will be focused on mixed-use projects in high density areas
- Total employment will increase by over 2%, tech, biotech and defense-related firms leading the way
- Cap rates will remain compressed at all-time low levels until interest rates move up

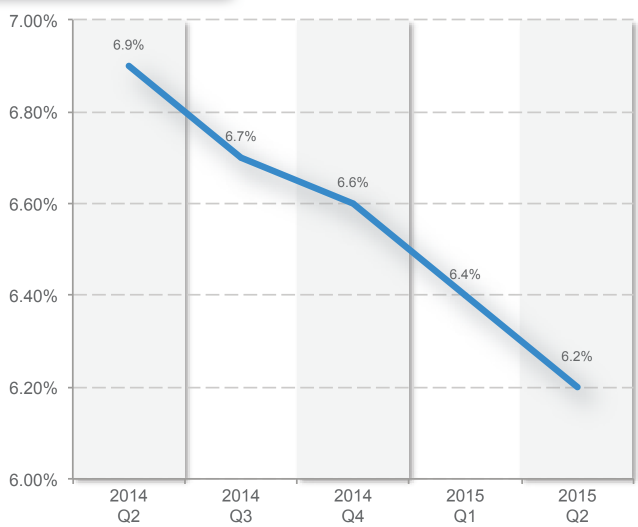
DALLAS / FORT WORTH



NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

New technologies for extracting fossil fuels have created a boom in population growth, job creation, housing and all commercial real estate product types in the State of Texas. However, the energy industry has taken a hit since oil and gas prices started to collapse back in June of 2014. The pullback in energy exploration and extraction has negatively impacted job growth, which is the key driver of retail sales growth. However, the overall health of the Texas economy, in general, and DFW in particular, is still improving in other sectors, and the state continues to attract more growing businesses. State and local governments remain aggressive by offering incentives to major employers to relocate to Texas, and further economic expansion is expected despite what many believe to be a temporary setback in the energy sector.

Retail vacancy continued its decline again in Q2, falling to a post-recession low of 6.2%. Positive net absorption hit 4.8 million square feet in 2014. Q1 added another 3,385,195 square-foot gain in occupied space and Q2 contributed a massive 1,018,208 square feet. Average asking lease rates actually moved $.04 during the quarter to $14.15. Leasing activity topped 1,294,563 square feet for the quarter. Tenants

6.2%	$14.15	1,018,208	397,979,831	1,949,450
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION
▼	▼	▼	▲	▲

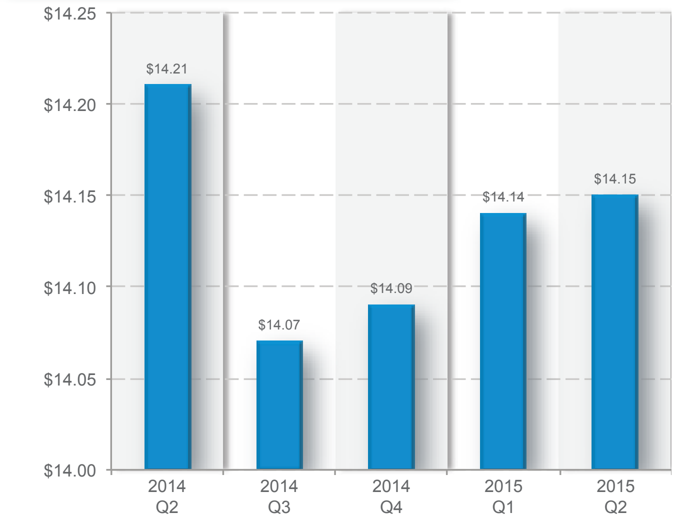
DALLAS / FORT WORTH - TRENDING NOW (continued)

moving into larger spaces this year include Kroger's 123,000 square foot location at Castle Hills Marketplace, WinCo Foots 62,230 square foot deal at Old Orchard Village East. Restaurants and home goods retailers remain big contributors to market activity, as well.

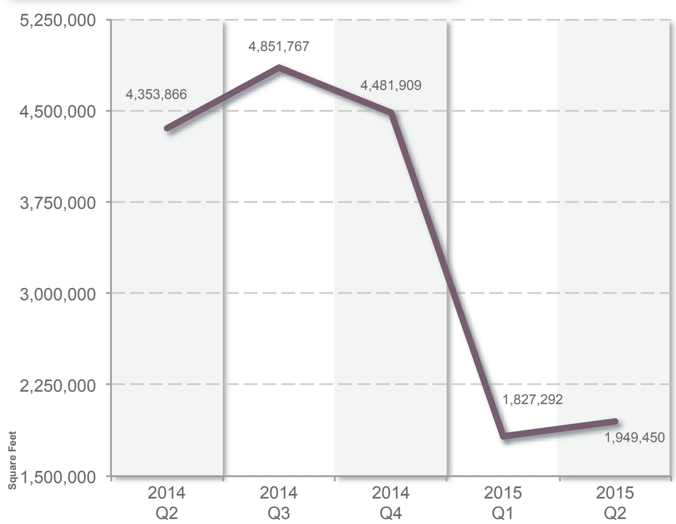
Development activity remains relatively light. A total of 1,949,450 square feet of retail space was under construction in Q2 and 296,298 square feet was delivered. Construction is concentrated in the North Central Dallas as well as Mid Cities and remains a mix of preleased and spec space. Land and construction costs continue to move higher, which will drive higher rents in new projects.

Cap rates remain at pre-recession lows, but the same is true across the country, so the DFW region is still a primary target for investment activity. Domestic institutions and foreign investors are still hungry for more acquisitions and the energy sector slowdown doesn't seem to have affected investor interest. Recent Retail sales activity for 2015, as reported through Q1, totaled 613,319 square feet in 12 transactions, for a total consideration of nearly $65 million. However, given investor interest in the region, sales activity could move much higher if more properties were made available for acquisition. While interest rates have started to move higher, the cost of capital is still near historic lows, as the Fed's threat to make a move on rates has not been implemented. Until that happens, investment activity in the retail sector will remain at least at current levels.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

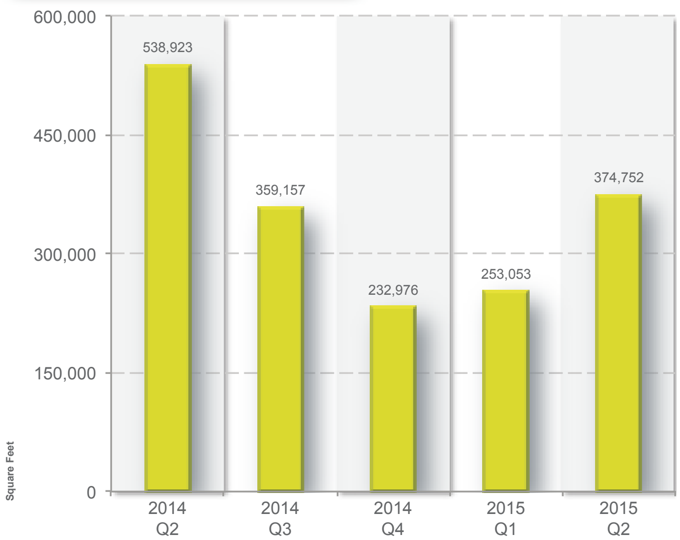


A LOOK AHEAD.

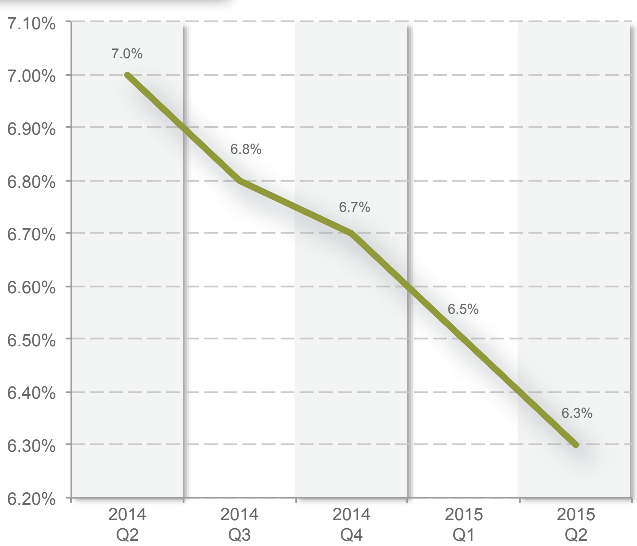
- Gross sale and lease activity should remain strong for the next 12 to 24 months
- The energy sector slowdown will have little impact on retail activity in 2015
- Net absorption should remain steady for the balance of the year
- Vacancy will move down slowly due to new deliveries
- Average asking lease rates will keep moving
- Property taxes will go up due to increase occupancy
- Cap rates compression will slow as the market adjusts to the expected rise in the cost of capital

INDIANAPOLIS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Indianapolis retail sector stayed its current course in the first half of 2015. Leasing activity continued to strengthen across the region. Multi-family development downtown has motivated retailers and restaurants to secure locations nearby to meet the demand from millennials who like a high concentration of retail and entertainment amenities near where they live. This reflects a nationwide trend to accommodate that segment of the population, which now outnumbers the baby boomers in the workforce. Rather than adhering to the traditional goal of suburban home ownership, the current generation of young people are opting for the flexibility and convenience offered in more urban environments.

Vacancy continued its steady decline in Q2. The overall vacancy rate for the region fell to 6.3%, down 20 basis points for the period and 70 basis points year-over-year. However, the spike in activity in preferred locations has tenants competing for space, which has sent the message to landlords that there is still plenty of room for rent growth. Even with such good overall tenant interest, the average asking rental rate slipped $.07 in Q2, ending the quarter at $12.10 per square foot. After moving up as high as $12.33 in mid-2014, the average asking rental rate is back to within a penny

6.3%	$12.10	374,752	120,967,872	414,589
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**RETAIL SF INVENTORY**	**SF UNDER CONSTRUCTION**

INDIANAPOLIS - TRENDING NOW (continued)

of where it was two years ago. But, rents in prime locations have moved much higher, which, in some submarkets, have moved above the previous market peak.

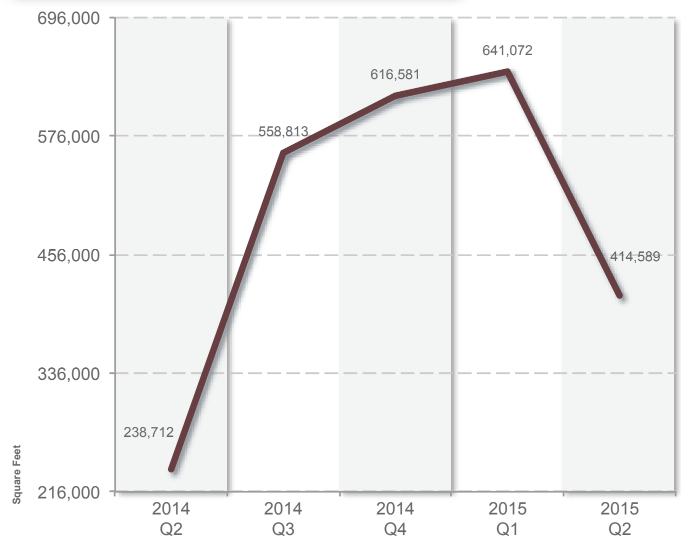
The grocery chains are still among most active retailers in the Indianapolis area. Kroger, Walmart, Fresh Thyme, Aldi and Giant Eagle are battling for territory throughout the region. However, other national chain retailers are also stepping up activity, including Ross and Pet Valu. In Q2, Major lease signings for the quarter included the 23,000-square-foot lease to TJ Maxx and the 10,343-square-foot lease to ULTA, both in the Greenwood submarket.

Net absorption came in at a positive 374,752 square feet for the quarter, adding to the Q1 tally of 253,053 square feet. In the past year, nearly 1,220,000 square feet of gains in occupied space have been recorded. Big contributors to Q2 net absorption included Weekends Only Furniture Outlet's lease of 95,216 square feet and Rural King's moving into 70,000 square feet.

Investor interest in retail has also become more intense. Frustrated by a lack of supply and low yields for properties in bigger markets, institutional and private investors have turned to Indianapolis and other mid-tier markets to acquire quality retail properties with better going-in cap rates and good rent growth potential. Until the Fed makes its big move to raise interest rates, acquisition activity should remain at least at current levels.

AVERAGE SF RENTAL RATES

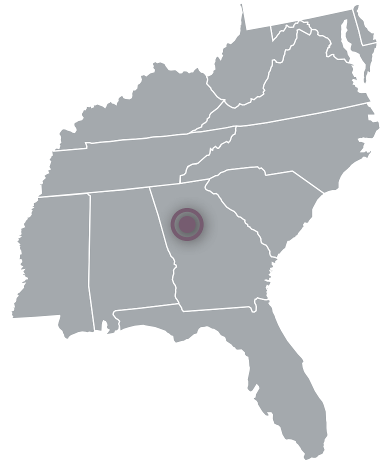
SF UNDER CONSTRUCTION



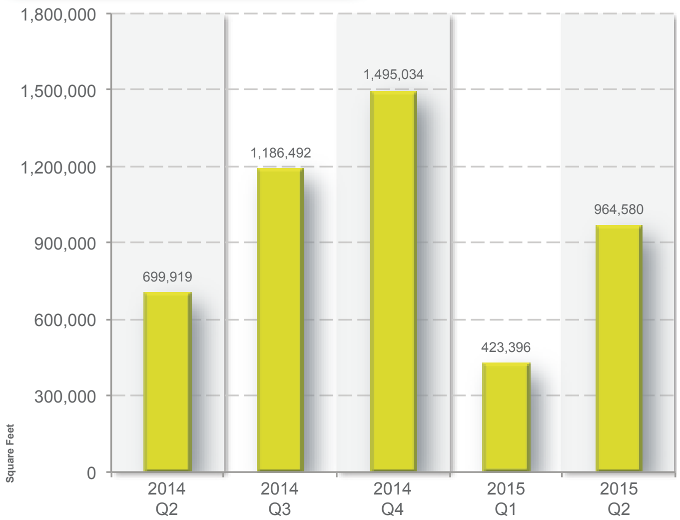
A LOOK AHEAD.

- Overall sale and lease activity will remain strong for the balance of 2015
- Net absorption will increase through the last half of the year, but may peak due to lack of supply
- Asking lease rates will increase by as much as 8% in 2015
- Construction, mainly due to grocery sector expansion, will be up substantially in the next several quarters
- Cap rates will stay at current compressed levels
- Supply is running short in prime retail locations, which will accelerate rent growth

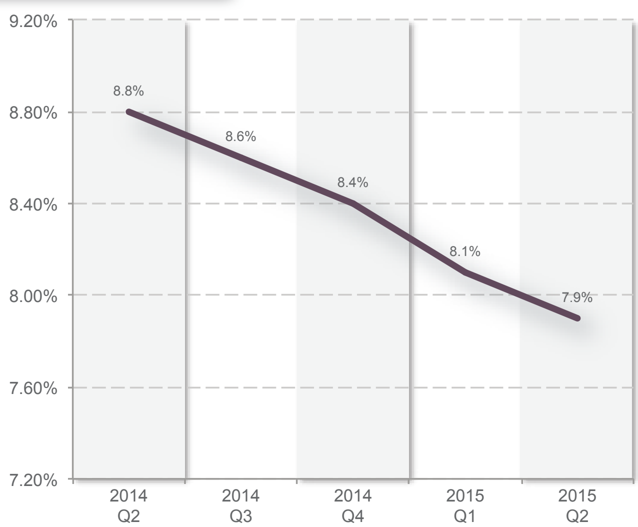
ATLANTA



NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The second quarter saw the Atlanta retail sector remain in expansion mode. Retail sales are being driven by higher incomes from new job creation, which remains strong in the region. The local economy continues to expand and developers are moving forward with new projects. By the end of Q2, 208,524 square feet of new space was delivered and another 786,992 square feet remained under construction. Positive net absorption of 964,580 square feet was recorded for the quarter, compared to 423,796 square feet in Q1. Good leasing activity is keeping absorption in positive territory and plans for new projects are in the queue. New leases signed by major retailers in Q2 included a 56,000-square-foot lease to City Farmers Market on NE Buford Hwy and another 30,000-square-foot lease to Service King on Lawrenceville Hwy. Vacancy fell another 20 basis points in Q2, settling at 7.9%, overall. However, prime locations are becoming scarce.

Rents still vary widely by shopping center type and location, ranging from a low of $10 per square foot to as high as $50 per square foot for prime urban locations in submarkets like Buckhead and Midtown. Overall average asking lease rates for all product types moved down $.12 to settle at $12.51 for the quarter, but it's

7.9%	$12.51	964,580	351,954,452	786,992
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION

ATLANTA - TRENDING NOW (continued)

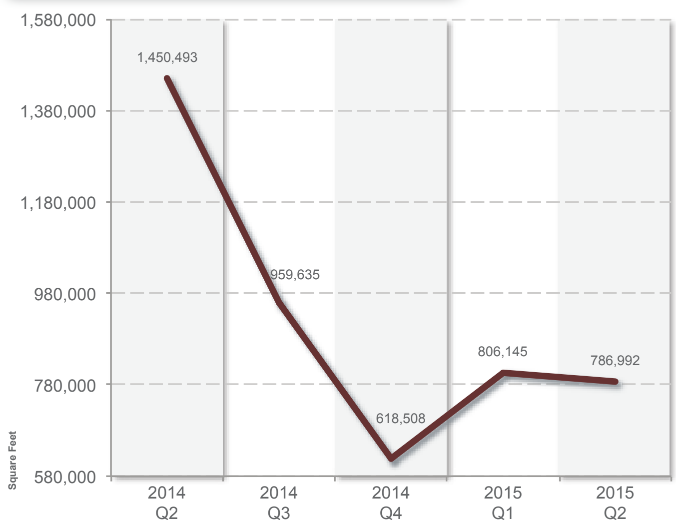
the urban locations getting most of the attention, as the younger workforce prefers to live, work and play in areas near trendy restaurants, local entertainment venues, public transportation hubs and non-traditional retailers.

Suburban shopping centers in more traditional neighborhoods are not faring as well, as millennials are not as enamored with home ownership as the retiring baby boomers once were. National chains are re-scaling stores sizes and making other adjustments in their business models to remain competitive and as a result, regional malls are being challenged. Those located in outlying suburban areas are struggling with high vacancy, making mall vacancy a persistent challenge. Malls are making a push to include more entertainment and dining concepts to generate new foot traffic. Neighborhood centers are seeing a resurgence in small shop space activity, especially those in or near more urbanized locations.

Investor interest is intense and cap rates are still compressing. Institutional buyers are bullish on the long-term prospects for Atlanta, especially locations near the center of the region. Mixed-use projects with a retail component get particular interest, as the big players seek to reposition capital into assets that fit the changing demographic profile of the Atlanta market. Boomers are retiring in increasing numbers, and the buying power is shifting to millennials with higher paying jobs in technology, business services and healthcare. Atlanta's cap rates, compressed as they may be, are still considered a good value compared to other major markets on both coasts.

AVERAGE SF RENTAL RATES

SF UNDER CONSTRUCTION



A LOOK AHEAD.

- Grocery stores like Whole Foods, Sprouts and Walmart Neighborhood Market will continue its current expansion plans for the balance of the year
- Leasing activity will remain strong in response to strong job and income growth
- Major retailers will stay focused on more urbanized submarkets
- Vacancy will decline sharply in prime markets like Buckhead and Midtown, but remain high suburban areas farthest from the city.
- Average asking lease rates will hold steady or see nominal growth for the rest of the year
- Construction costs will spike due to construction of stadiums for the Falcons and Braves
- Development will be focused on mixed use projects in more urban submarkets
- Limited land availability will keep development from outpacing demand

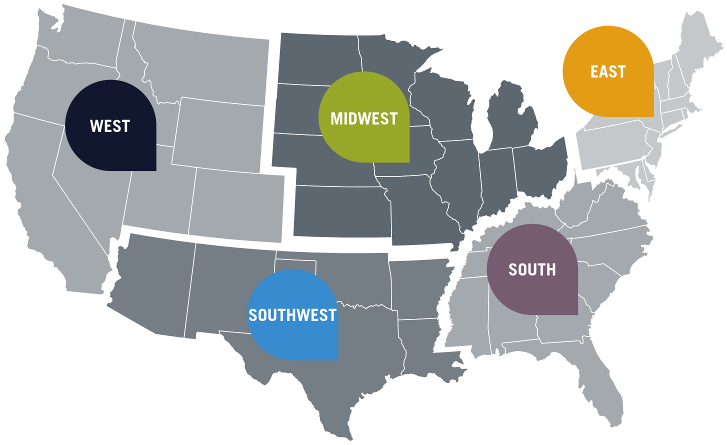
SELECT TOP RETAIL LEASES Q2 2015

BUILDING	MARKET	SF	TENANT NAME
600 NE Barry Rd	Kansas City	84,000	At Home
Bardin Place Center	Dallas/Ft Worth	65,520	WinCo Foods
The Landing at Luxury Point	Northern New Jersey	60,000	Regal Cinemas
The Club Center - Bldg B	San Bernardino Inland Empire	59,095	Big Country
Megan Crossing	St. Louis	58,800	Hobby Lobby
Kearny Plaza	Northern New Jersey	58,652	LA Fitness
1050 E Pecos Rd	Phoenix	54,375	Kids That Rip Indoor Skatepark
20600 E 13 Mile Rd	Detroit	30,000	Ollie's Bargain Outlet
2915 Lawrenceville Hwy	Atlanta	30,000	Service King
6409 Harvard Ave	Cleveland	30,000	Roses Express
North County Square	San Diego	28,799	ALDI
The Market Place at Sugar Hill	Atlanta	28,660	LA Fitness

SELECT TOP RETAIL SALES Q2 2015

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
Springfield Town Center	Washington DC	981,399	$473.81	4.1%	Pennsylvania Real Estate Investment Trust	Vornado Realty Trust
Midtown Crossing	Los Angeles	315,338	$591.75	5.3%	New Tower Trust Company	CIM Group, LP
Streets of Woodfield	Chicago	692,549	$243.30	6.4%	The Blackstone Group LP	Junius Real Estate Partners
Dallas Market Center	Dallas/Fort Worth	3,935,040	$35.58	7.44%	Crow Holdings	CNL Lifestyle Properties, Inc.

Nationwide Lee Offices



Arizona
Fred Darche
602.956.7777
Phoenix, AZ 85018

California
Clarice Clarke
805.898.4362
Santa Barbara, CA 93101
(Central Coast)

Brian Ward
760.346.2521
Palm Desert, CA 92260
(Greater Palm Springs)

John Hall
949.727.1200
Irvine, CA 92618

Mike Tingus
818.223.4380
LA North/Ventura, CA

Craig Phillips
323.720.8484
Commerce, CA 90040
(LA Central)

Robert Leveen
213.623.1305
Los Angeles, CA 90071
(LA ISG)

Greg Gill
562.354.2500
Los Angeles - Long Beach, CA

Aleks Trifunovic
310.899.2700
Santa Monica, CA 90404
(LA West)

Steve Jehorek
949.724.1000
Newport Beach, CA 92660

Craig Phillips
562.699.7500
City Of Industry, CA 91746

Craig Hagglund
510.903.7611
Oakland, CA 94607

California (contd)

Don Kazanjian
909.989.7771
Ontario, CA 91764

Bob Sattler
714.564.7166
Orange, CA 92865

Mike Furay
925.737.4140
Pleasanton, CA 94588

Dave Illsley
951.276.3626
Riverside, CA 92507

Dave Howard
760.929.9700
Carlsbad, CA 92008
(San Diego North)

Steve Malley
858.642.2354
San Diego, CA 92121
(San Diego UTC)

Tom Davis
209.983.1111
Stockton, CA 95206

Dave Illsley
951.276.3626
Murrieta, CA 92562
(Temecula Valley)

Don Brown
760.241.5211
Victorville, CA 92392

Denver
John Bitzer
303.296.8770
Denver, CO 80202

Florida
Jerry Messonnier
239.210.7610
Ft. Myers, FL 33966
(Naples)

Tom McFadden
321.281.8501
Orlando, FL 32839

Georgia
Dick Bryant
404.442.2810
Atlanta, GA 30326

Idaho
Matt Mahoney
208.343.2300
Boise, ID 83703

Illinois
Brian Tader
773.355.3050
Rosemont, IL 60018
(Chicago)

Indiana
Scot Courtney
317.218.1038
Indianapolis, IN 46240

Kansas
Nathan Anderson
913.890.2000
Overland Park, KS 66211
(Kansas City)

Maryland
J. Allan Riorda
443.741.4040
Columbia, MD 21046

Michigan
Jon Savoy
248.351.3500
Southfield, MI 48034

Missouri
Thomas Homco
314.400.4003
St. Louis, MO 63114

Nevada
Lyle Chamberlain
775.851.5300
Reno, NV 89501

New Jersey
Rick Marchiso
973.475.7055
Elmwood Park, NJ 07407

New York
Jim Wacht
212.776.1202
New York, NY 10022

Ohio
Brad Coven
216.282.0101
Pepper Pike, OH 44124
(Cleveland)

Tim Kelton
614.923.3300
Dublin, OH 43017
(Columbus)

Pennsylvania
John Van Buskirk
717.695.3840 x 1004
Camp Hill, PA 17011
(Eastern Pennsylvania)

South Carolina
Bob Nuttall
843.747.1200
Charleston, SC 29492

Randall Bentley
864.704.1040
Greenville, SC 29601

Texas
Trey Fricke
972.934.4000
Addison, TX 75001
(Dallas/Fort Worth)

Chris Lewis
713.660.1160
Houston, TX 77027

Wisconsin
Todd Waller
608.327.4000
Madison, WI 53713

***Please contact individual managers for information in specific markets**

The Lee Retail Brief

Q2

2015

lee-associates.com

The information and details contained herein have been obtained from third-party sources believed to be reliable; however, Lee & Associates has not independently verified its accuracy.

Lee & Associates makes no representations, guarantees, or express or implied warranties of any kind regarding the accuracy or completeness of the information and details provided herein, including but not limited to the implied warranty of suitability and fitness for a particular purpose. Interested parties should perform their own due diligence regarding the accuracy of the information.

The information provided herein, including any sale or lease terms, is being provided subject to errors, omissions, changes of price or conditions, prior sale or lease, and withdrawal without notice.

Third-party data sources: CoStar Group, Inc., The Economist, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Congressional Budget Office, European Central Bank, GlobeSt.com, CoStar Property and Lee Propriety Data.

Lee & Associates®

COMMERCIAL REAL ESTATE SERVICES