The Lee Retail Brief

Reurbanization Drives Rent Growth in Q1

Q1 2015

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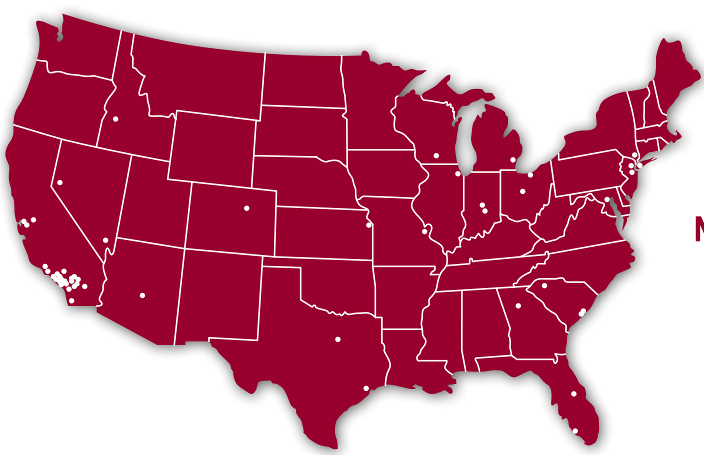

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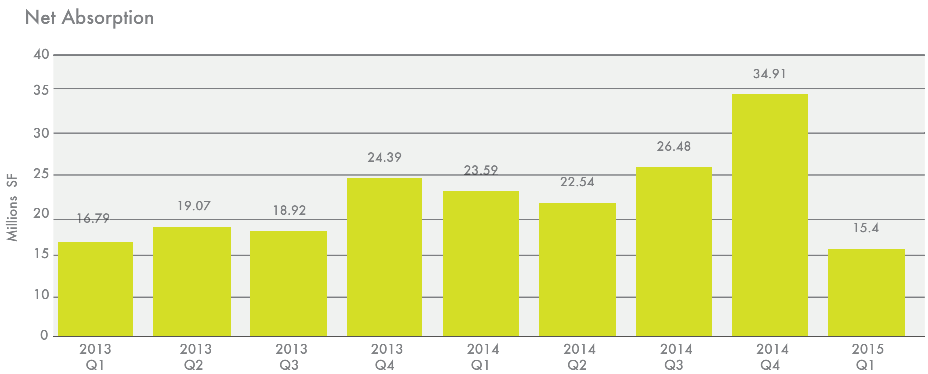
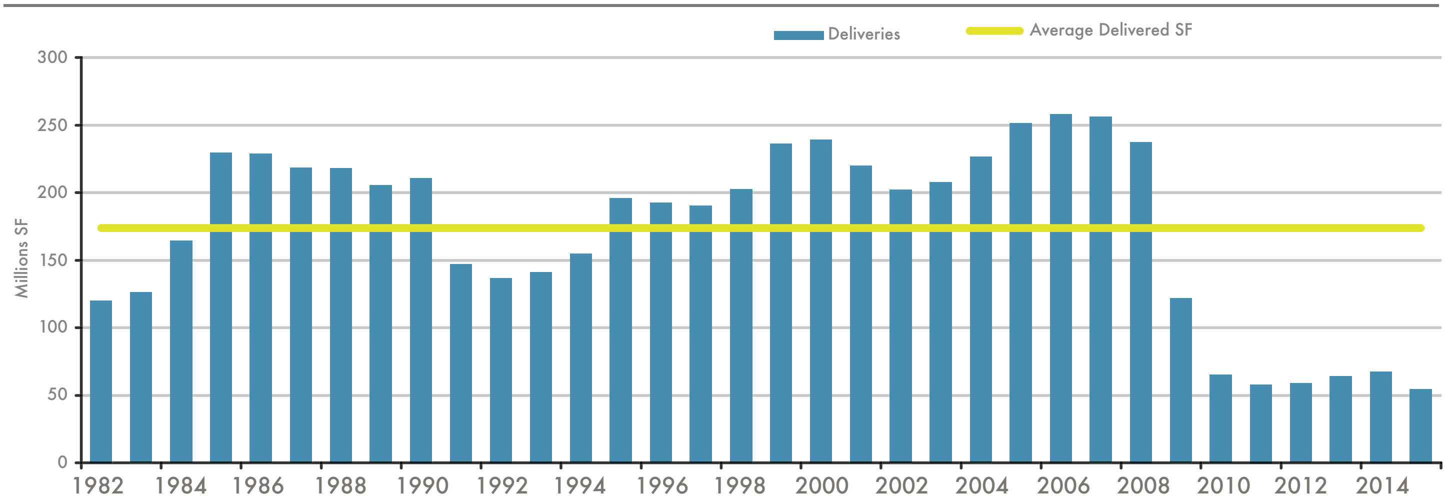
TRENDING NOW

The US retail property sector moved forward in Q1, but made only modest improvement over a very strong fourth quarter of 2014. Of the 13.2 billion square feet of retail space across the country, only 6% of it remained vacant as Q1 came to a close. That represents another 10 basis point decline for the period and continues the consistent decline in vacancy that began back in 2010. However, trade areas furthest from urban cores still account for the biggest share of unoccupied space. Positive net absorption moved lower, finishing the quarter at 15.4 million square feet compared to 34.9 million square feet in Q4. However, the net gain in occupied space over the past four quarters was just over 105 million square feet. With that much market activity, average asking rental rates have been on the rise. By the end of Q1, the overall asking rate rose $.06 to $14.96 per square foot to continue the four year-long trend of modest rent growth.



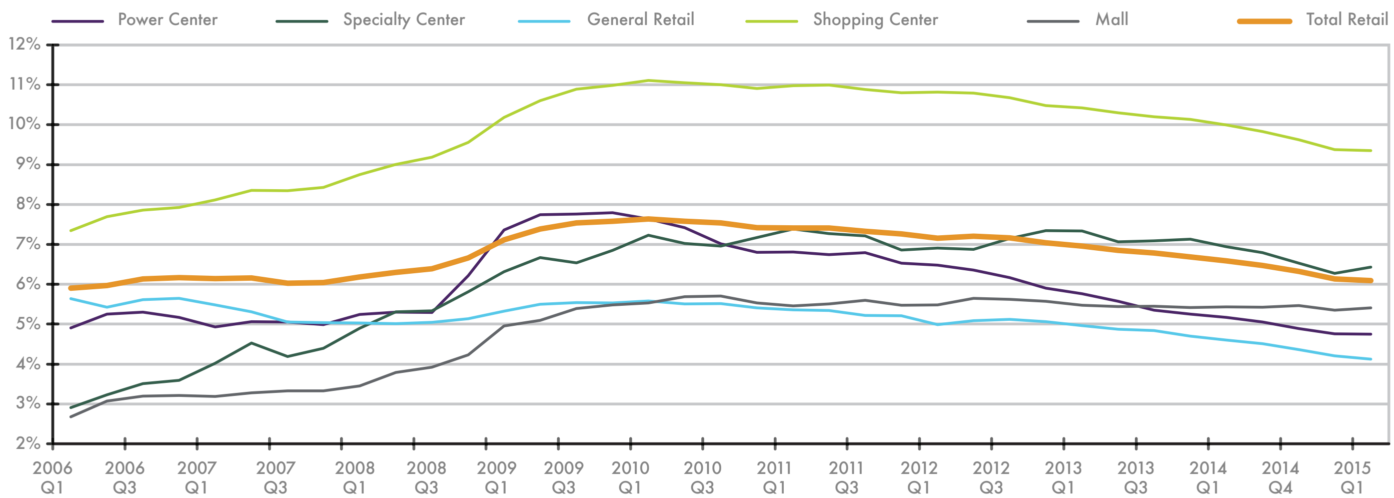
New deliveries for the quarter totaled 13.3 million square feet. In the past four quarters, nearly 65 million square feet of new retail space has been constructed and square footage under construction held steady at 49.5 million square feet. Densely populated areas, rich in amenities, continue to be favored locations for retail development. Cities looking to mitigate traffic congestion and retailers looking to get closer to more shoppers and diners are making more mixed-use projects become a reality, mostly in Central Business District (CBD) and suburban core locations with ready access to public transportation. This phenomenon is not restricted to the largest metro areas, as the millennial workforce that is expanding in markets big and small, is changing the face of the retail marketplace. Double-digit rent growth for retail space in prime mixed-use projects is becoming more common. In some high profile submarkets like Fifth Avenue in New York, ground floor office space is being converted to retail use to take capitalize on the willingness of luxury retailers to pay a substantial rent premium in areas with high demographic profiles.

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. Just as major online retailers launch physical locations, the big traditional player double-down on an expanded online presence to appeal to the largest possible 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 for retail products, but online sellers know that internet shopping still accounts for less than 10% of retail sales. It may take years to find the right balance, but those who do will emerge on top.

Vacancy Rates by Building Type 2006-2015



ECONOMIC DRIVERS

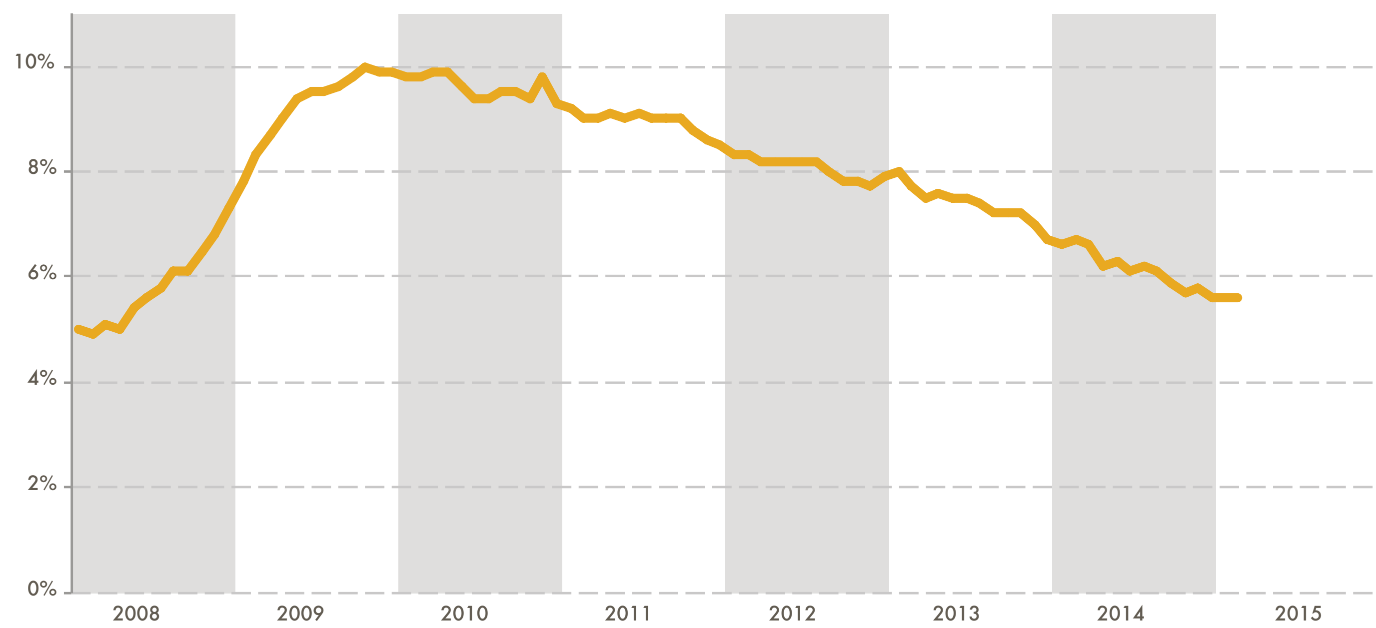
The nation's total output of goods and services showed significant improvement in 2014. GDP grew at an annual rate approaching 3%, but lower than anticipated due to a disappointing fourth quarter after back-to-back quarters in the 4% to 5% range that had everybody talking about better times ahead. Unfortunately, preliminary estimates for Q1 GDP growth are not optimistic. Another cold winter for most of the country is expected to negatively impact Q1 performance. Bad weather was blamed for a 2.1% decline in the first quarter of last year. With circumstances being so similar, poor Q1 performance will not come as much of a surprise. The Congressional Budget Office recently released its annual economic forecast, and it calls for GDP growth of 3% for the year.

Job growth picked up the pace in 2014, which showed up in the net absorption gains for the year. Job creation ranged from 200,000 to 300,000 per month in 2014, topping out at 353,000 in November. Then 2015 got off to a strong start. January and February hit 257,000 and 295,000 in new job creation respectively, but March was another story altogether, adding a meager 126,000 jobs for the month. Many didn't see it coming, and the reasons are not clear, but it is cause for concern, and it will put all eyes on April's report along with preliminary GDP estimates for the quarter. However, the poor job numbers gave the stock markets a boost, as investor concerns over a near-term move by the Fed to raise rates were softened.

Wage growth is perhaps as much a concern as job growth. Since the last recession, real wage growth has been disappointing, with many of the jobs being created in the unskilled and semi-skilled categories. The increase in the number of part-time jobs is also a drag on wage growth. Without more disposable income, GDP growth will be negatively impacted since consumer spending makes up roughly 70% of GDP. The slowdown in the energy sector is also affecting wage growth, as jobs in that sector tend to be higher paying and full time. Layoffs in energy have become commonplace again, and it will certainly curtail job creation in the energy states. Fortunately, job gains in technology, professional services and the TAMI sector have been strong and are expected to remain so. While these sectors offer more of a benefit to the office market, any net gain in jobs and income helps the economy at all levels.

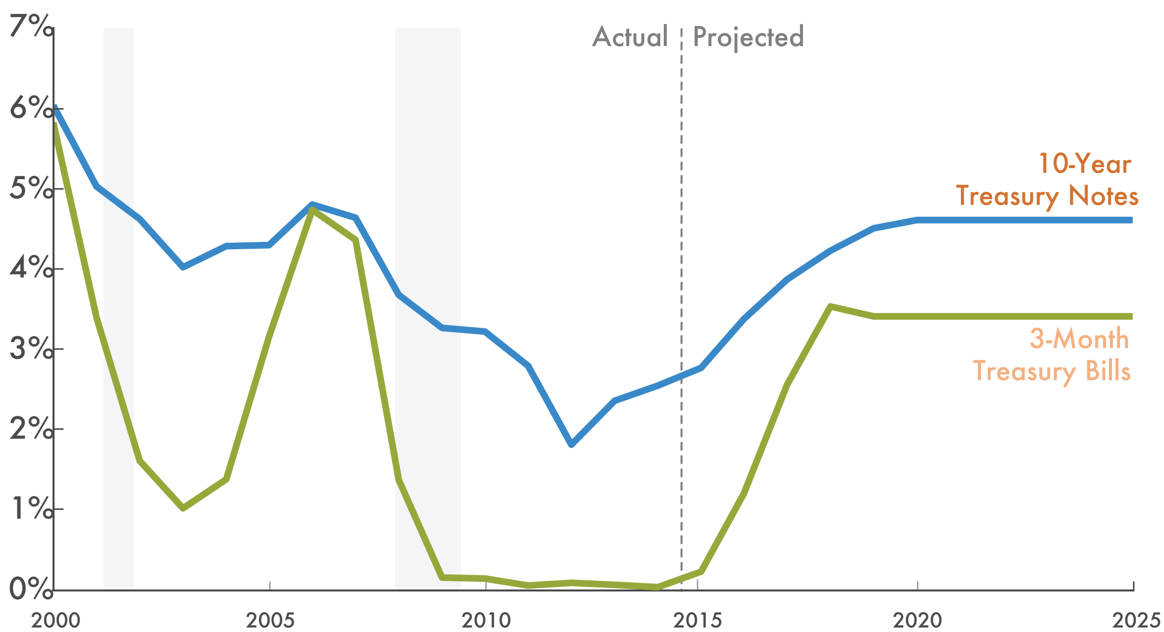
The unemployment rate has been moving down for several years, and is now fluctuating in the mid-five percent range. The national unemployment rate through February remained at 5.5%, but tends to fluctuate by a tenth or two each month, as the impact of new jobs is balanced against the change in the number of unemployed workers rejoining or exiting the work force. Part-time positions remain a problem, and may be giving a false sense of improvement to the economy, as these jobs yield less spendable income to boost GDP. The Labor Participation Rate, which measures the number of people eligible to work compared to those who are gainfully employed, is stuck at 62.7%, lowest in four decades. This is partly due to retiring Baby Boomers, but more importantly, it is indicative of a lack of quality jobs at rates of pay that motivate more participation in the work force. However, recent increases in the number of workers quitting existing jobs indicates greater confidence amongst workers that better positions are on offer.

National Unemployment



While job and GDP growth are closely watched, attention to Fed action is keener still. Our central bank has taken unprecedented steps over the past six years to stimulate economic growth, which seems to receive more attention than the economic drivers it seeks to influence. By holding interest rates to near zero for over five years, yields on investments of all kinds have been negatively affected. Savers have been punished, as yields on cash deposits fall well short of what little inflation we have, and investors have been forced to take on more risk to get even nominal yields on their capital.

The equities market has soared for the past five years as result, as it is offers a chance at a reasonable yield without giving up liquidity. Real estate borrowers have also benefited from Fed actions. Long-term financing is still available at historically low rates. Low cost of capital has also contributed to cap rate compression in markets around the country. Positive leverage is still a possibility, even with cap rates as low as 4% for prime properties. But, that is still double the yield of the 10-Year T-Bill, which, in mid-April stood at 1.9%. When treasury yields finally go up as the Fed moves interest rates higher, cap rate decompression to maintain that spread becomes a real possibility. Investors will have to focus on markets where rent growth is strongest to make up the difference. Exit cap rate estimates will have to go up, which will bring IRR's down accordingly.



Source: Congressional Budget Office

Thankfully, quantitative easing (QE) is finally behind us, so now it becomes a question of when the Fed makes a move on interest rates. While many believe that will occur in Q2, others think no rate hike will occur until GDP and core inflation become more predictable.

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. With growth either at zero or in negative territory in the Eurozone, it may not be a good time for our central bank to make things more difficult domestically. Several central banks in Europe even have moved core rates into negative territory in their attempt to avoid a potential deflationary cycle that would stall out the chances for economic growth in the region.

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 US dollars, but it also has a negative impact on US companies with revenues generated from their customers who pay in other currencies.

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 tens of billions back in the pockets of US consumers, but they have also hurt job growth in energy states and reduced the level of exploration and extraction activities across the country. Excess supply is to blame, and that is due to increased productivity in the US and anemic worldwide economic growth, which has reduced demand for fossil fuel products. OPEC has thus far refused to cut production in response, which many believe is a strategic move to slow US production by pushing prices low enough to make US oil and gas extraction unprofitable. At the moment, that strategy seems to be working.

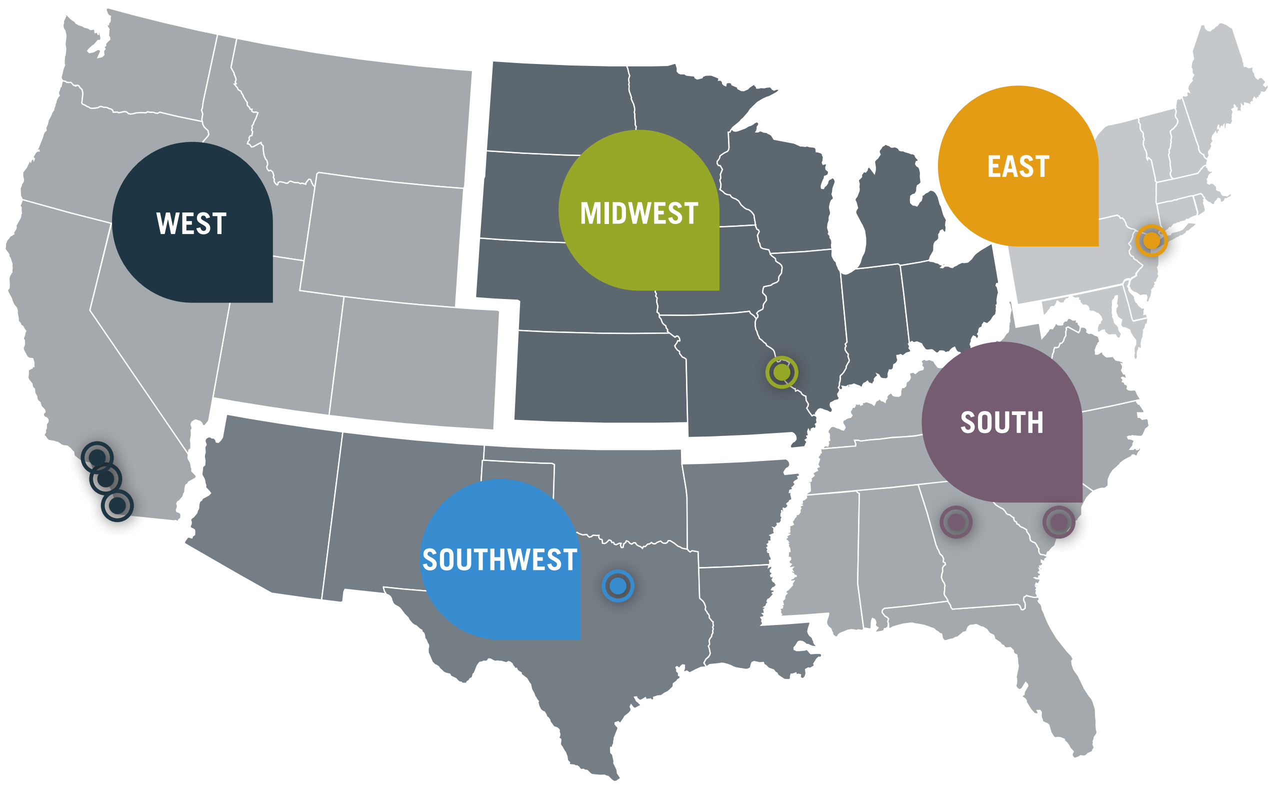
A LOOK AHEAD. The US retail market should remain strong through the end of 2015. Domestic GDP and job growth should be healthy enough to offset a sluggish global economy. The strong dollar and influx of foreign capital make clear the perception that the US economy is once again the strongest and healthiest in the world. The dollar is still the world's reserve currency and US Treasuries are still considered the safest investment alternative.

Low oil prices will be with us for the near term and that will give consumers more buying power and lower operating costs for US businesses. This will increase consumer spending in the short term and stimulate additional job growth across the country. Energy dependent states will have a rougher time until prices stabilize at much higher levels. Expect more layoffs in high-paying energy job categories and a significant slowdown in domestic production until the price of oil makes sense to extract and refine again. Fortunately, gains in employment, even in the energy states, are broad-based enough to stay in positive territory overall.

Vacancy rates will continue to decline and net absorption will remain at least at current levels. However, markets with the lowest vacancy will see absorption and leasing activity moderate due to lack of supply. Cap rates will remain compressed due to record high demand, but they could begin to move in the other direction once the Fed makes a move on interest rates. Higher interest rates means higher yields on alternative investments, which could hurt the equities market and pricier real estate markets in the short term. Retail development will remain at modest levels and be focused in mixed use projects with residential and office components, where the opportunity for rent growth will be strongest.

A wild card issue of Q2 may be the Supreme Court ruling on the challenge to health care subsidies offered through Healthecare.gov. If the plaintiffs in the case prevail, the viability of the entire program will be called into question, and uncertainty over the healthcare for millions of workers would be back in play.

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
LA NORTH
SAN DIEGO

DALLAS / FORT WORTH

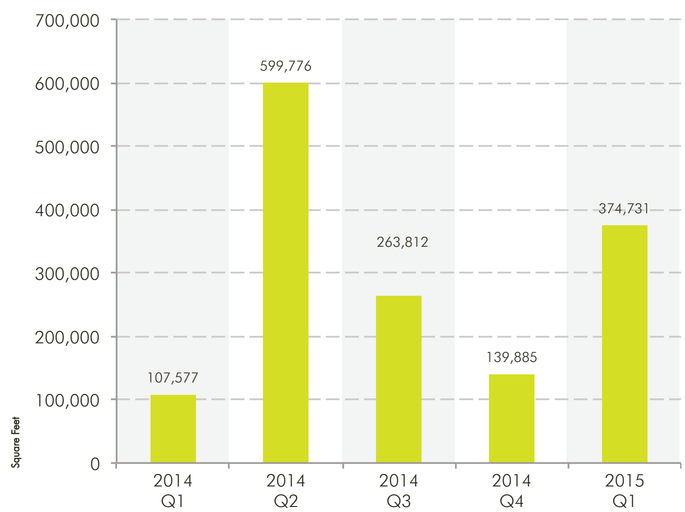
ST. LOUIS

ATLANTA
CHARLESTON

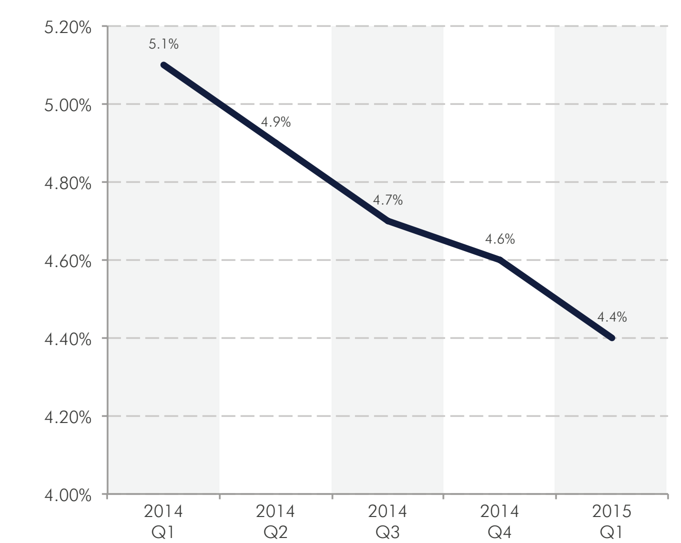
MANHATTAN

ORANGE COUNTY

Net Absorption



Vacancy Rate



TRENDING NOW

Orange County's economy continues on a robust path of growth. By the end of Q1, 55,200 new jobs were created on a year-over-year basis, many of them higher paying positions in the tech, business services and healthcare sectors. The mortgage industry is growing again, as well. That is significant in the fact that the financial services sector was the hardest hit during the last recession. The housing market has rebounded nicely, which has homeowners spending again on furniture, appliances and other household goods and services. The unemployment rate dipped to 4.6% during the quarter, which kept it running much lower than the statewide and national rates, settling at 7.1% and 5.9% in the same period.

Vacancy continued its decline, ending the quarter at 4.4%. However, 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 higher, gaining $.14 to $23.15 on a triple net basis.

Net absorption stayed positive in Q1, adding another 374,731 square feet to the total of occupied space.

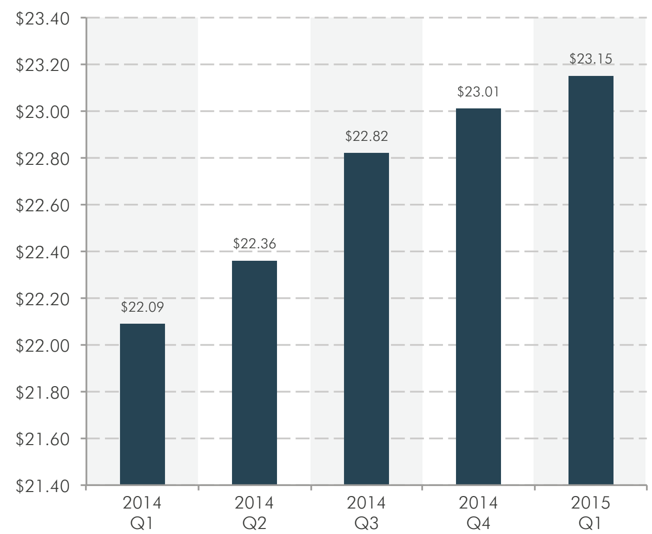
4.4%	$23.15	374,731	140,833,474	1,045,910
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION

ORANGE COUNTY - TRENDING NOW (continued)

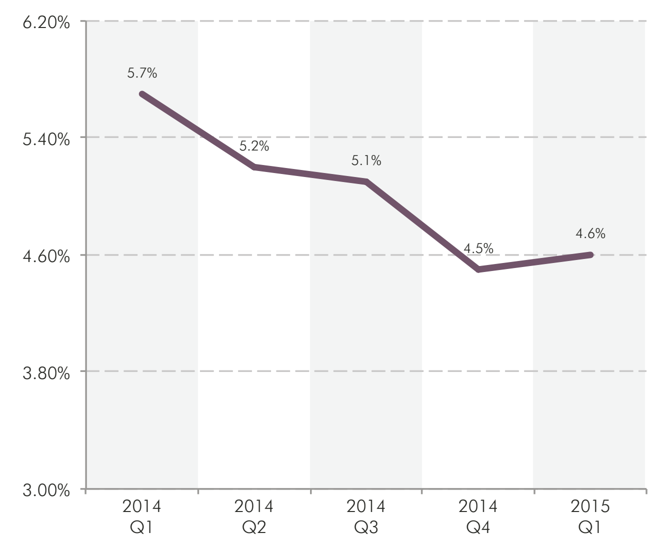
The restaurant industry is fueling a significant amount of tenant demand. Landlords of well-located centers have a choice of multiple offers to consider and aggressive competition is driving rates up faster than the overall market. Hispanic grocery stores are also in expansion mode, as population gains are highest in the Hispanic communities. Other grocers like Sprouts, which are also making moves to enlarge its footprint throughout the county, were also big contributors to net growth in occupied space for the year. Regional malls are enjoying higher occupancy, though there has been some anchor tenant movement from big players like Sears. But, other national chains like Forever 21 are adding locations. Other tenants in growth mode include Chipotle, Habit Burger, Raising Canes, Starbucks Coffee Bean Hoby Lobby and Smart and Final.

Cap rates keep moving lower, much to the chagrin of investors looking to retail for more yield than office and industrial properties. However, the continuing low cost of capital has more buyers in the marketplace than there are properties to buy, and there's little hope that the imbalance will change soon. Single tenant net lease investors are looking elsewhere for product, as inventory has dried up throughout California.

Average SF Rental Rate



County Unemployment Rate

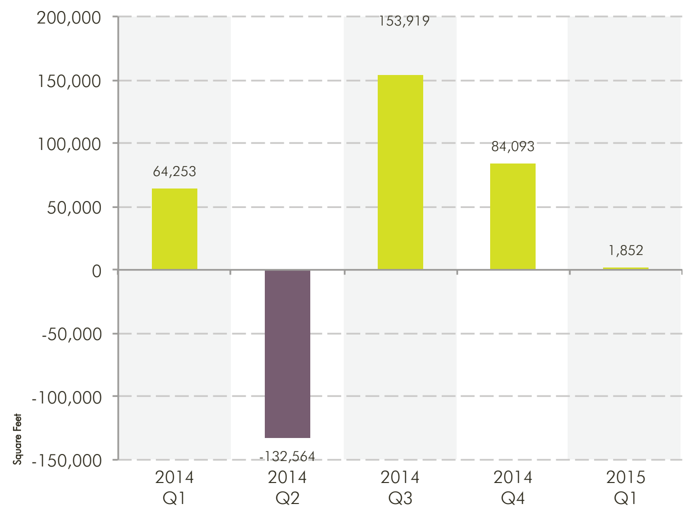


A LOOK AHEAD.

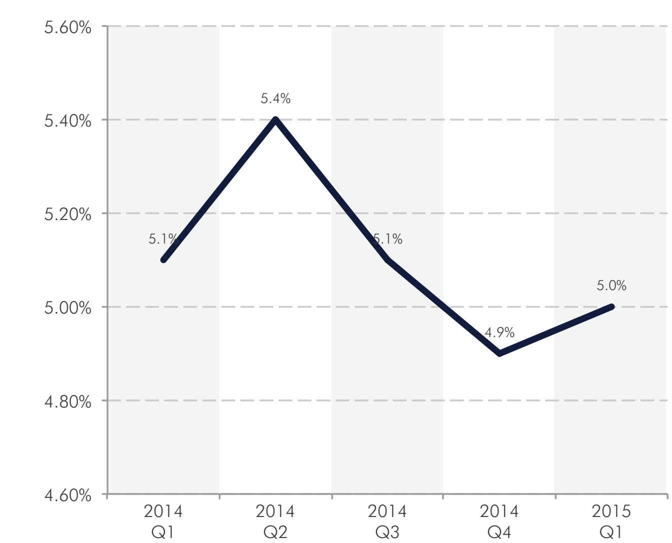
- Vacancy will continue its slow decline, as supply of good quality product is very low
- Net absorption will be slightly positive, restricted by short supply of class A product
- Lease rates overall will rise another 2% to 5% through the end of the year, but will go much higher in prime centers
- Cap rates will still move slightly lower, but sales activity will decline due to lack of supply

LA NORTH

Net Absorption



Vacancy Rate



TRENDING NOW

The North Los Angeles retail market includes the San Fernando Valley, Conejo and Santa Clarita Valleys, an area that stretches from Glendale at the eastern end to Westlake Village on the west and from Mulholland Drive at the southern end through the Santa Clarita Valley to the north. Like other markets in Southern California, the retail sector is in growth mode with vacancy on the decline as net absorption remains consistently in positive territory. North Los Angeles is a mature market with little land remaining for ground-up development, which has larger landlords strategizing on how to properly reposition their retail assets to accommodate a changing retail landscape.

Redevelopment is a definite trend. IMT Capital has plans to redevelop an 8.5-acre site, formerly the Sunkist office headquarters with 360,000 square feet of retail and commercial space, along with 298 apartment units. There have also been several major retail closures including the Sears store at Westfield Topanga in Woodland Hills and the Macy's at Westfield Promenade, both at the San Fernando Valley's west end. This is giving Westfield, the owner of both properties, the opportunity to reposition its properties for higher performance.

In the case of the Promenade, it may move to

*tables and data represent only the San Fernando Valley

5.0%	$23.41	1,852	48,709,337	561,793
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION

LA NORTH - TRENDING NOW (continued)

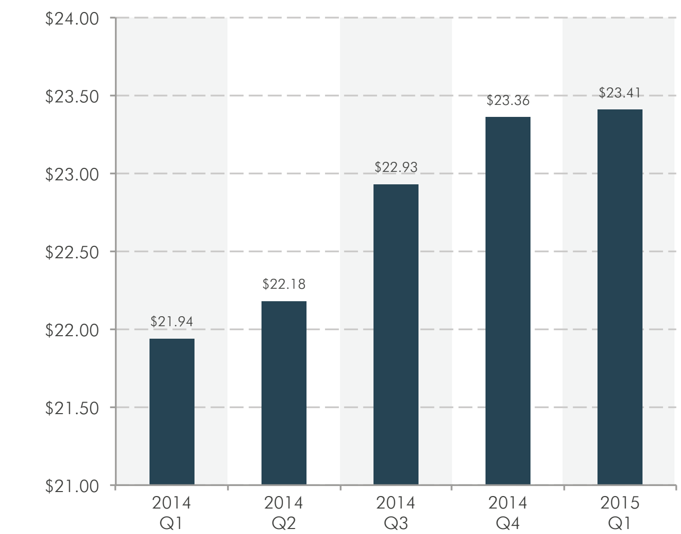
restructure the entire center to accommodate new, higher performing retailers and concepts. The vacancy of larger blocks of space is also giving other large retailers a chance to locate in the West Valley and take advantage of its strong demographic profile. Similarly, the closing of Radio Shack stores, which are typically in strong locations, will provide an opportunity for growing retailers to expand into quality space.

Spinoffs of international and national credit tenants have also become more active. Forever 21 launched F21 Red near downtown LA, Gap's Athleta and Ann Taylor's Lou & Grey are all securing locations in the Los Angeles area. Landlords are enjoying the increase in leasing activity from these credit tenants, as they are generating additional interest and leasing activity from other retailers to nearby centers. Conversely, big box and grocery expansions have slowed because of a lack of large available spaces, but food users and banks are finding new opportunities in mixed-use projects with ground floor retail below office space or multifamily units.

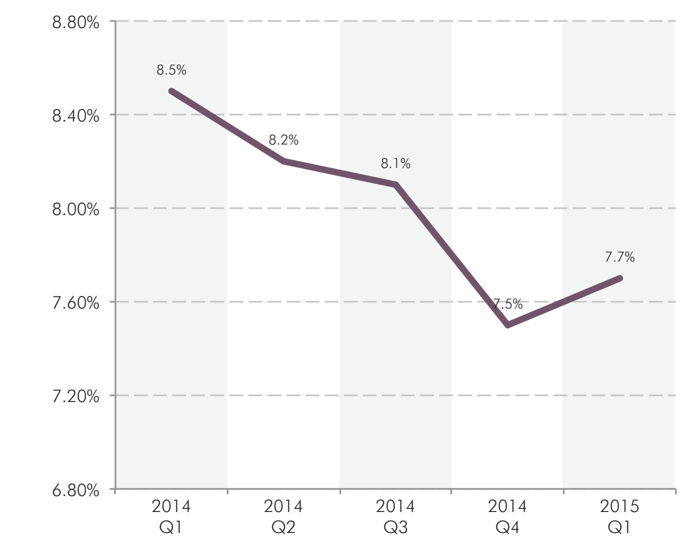
Other tenants in the hunt for new locations include food user Chipotle, Subway, Jersey Mike's and Which Wich. As has been the case for several years, discount retailers continue to secure new locations throughout the region.

With the multifamily investment market overheated, investors are turning to retail for better yields. However, supply is still coming up well short of demand, causing cap rate compression for retail properties, as well.

Average SF Rental Rate



County Unemployment Rate

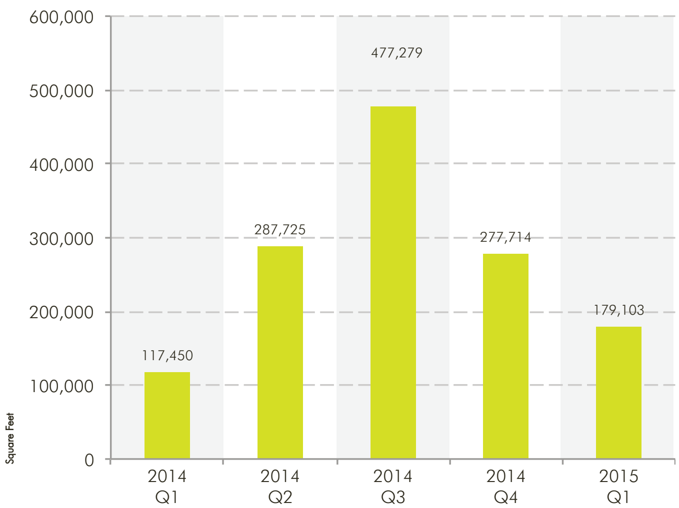


A LOOK AHEAD.

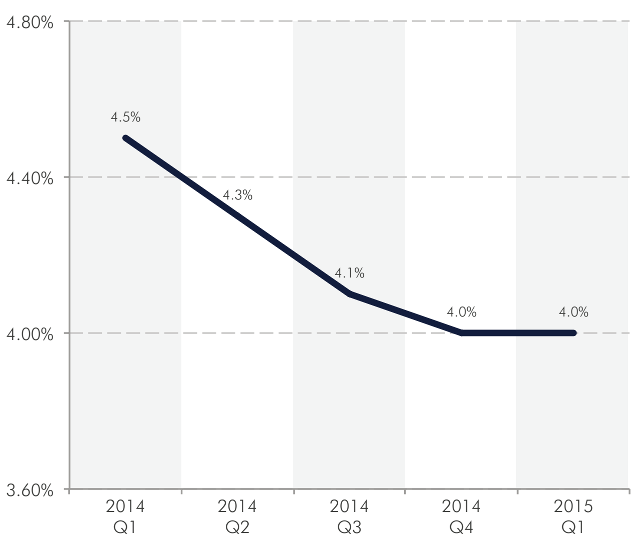
- Areas with strong demographic profiles will continue to see very strong leasing activity
- Investment activity will increase, as low cap rates turn more owners into sellers
- The supply of quality retail centers offered for sale will remain in decline
- Net absorption may dip in the short run as large retailers execute repositioning strategies, but vacancies will be absorbed quickly
- Rates will move up, but only by 2% to 4%, as retailers are not reporting major sales increases
- Vacancy will decline at a steady and moderate pace

SAN DIEGO

Net Absorption



Vacancy Rate



TRENDING NOW

The San Diego retail market has been steadily tightening up for the last several years. While there has been no major spike in rents, construction or activity, the direction of the market is not in doubt. Like other markets around the country, activity is bifurcated, with most of the vacancy in suburban strip centers and most of the tenant interest in more densely populated, better located space. National and regional chain retailers are showing a willingness to pay a premium to optimize their locations, while local tenants and start-ups are often forced into more affordable secondary locations. Overall average asking lease rates keep moving up. In Q1, rates rose another $.41 over Q4 of last year and 2.66% in the last four quarters.

Net absorption for the quarter hit a positive 179,703 square feet, continuing the trend of slow but steady net gains in occupied space. In the past twelve months, just over 1,221,000 square feet of positive absorption occurred throughout the county. The North County area, which was hit hard during the last recession, contributed approximately just under 30% of that total, indicating that area's return to good health. Vacancy remained low in Q1, holding steady at 3.9%, but still varies widely by type of center and location. North County posted a 6.0% rate while

4.0%	$22.92	179,103	134,225,302	222,535
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION

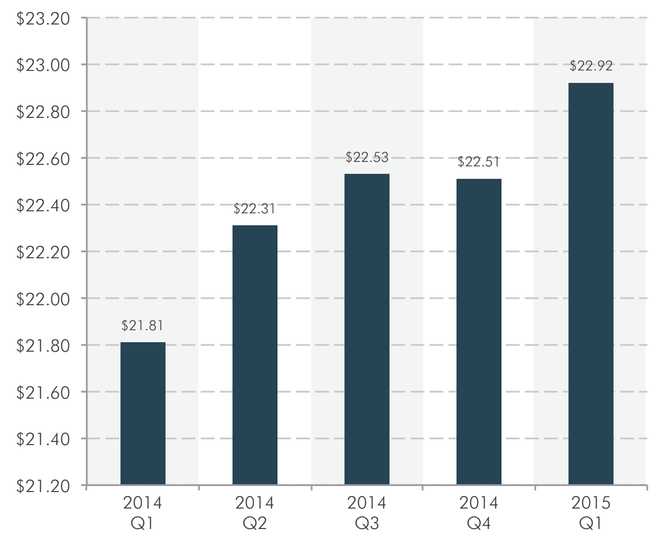
SAN DIEGO - TRENDING NOW (continued)

Central County posted a countywide low of 3.1%. With construction at very low levels, vacancy should continue its decline across the board, and secondary locations will benefit from tightening supply.

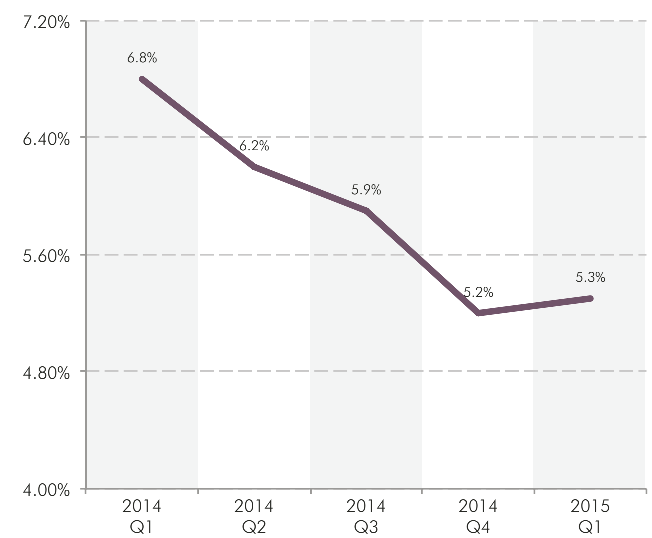
Little land is left for ground-up development. Thus, construction is limited to the remodeling and repositioning of existing retail projects. Westfield has two projects underway including the ongoing expansion of its UTC regional mall and the transformation of Plaza Camino Real from an indoor to open-air center. In all, just 222,535 square feet of retail remained under construction as the quarter ended. For all of 2014, just 459,000 square feet of new space was delivered. Lack of new space is welcome news to landlords with substantial vacancy, as they are likely to see an increase in interest from tenants unable to find suitable space in prime locations.

Restaurant users are the most active retail category, including Rita's Ice, Burger Lounge, Phenix Salon, Waba Grill, Firehouse Subs and Jersey Mike's. However, there's still a substantial gap between bid and ask, as tenants still perceive the market to be softer than landlords do.

Average SF Rental Rate



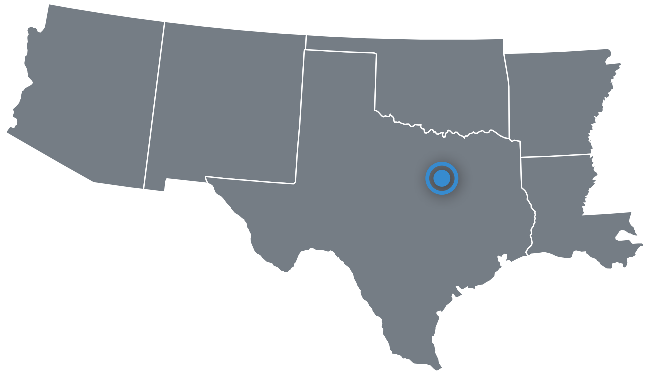
County Unemployment Rate



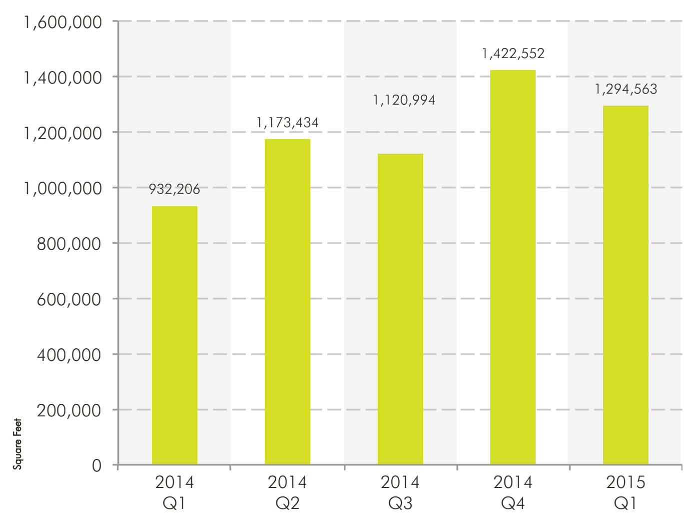
A LOOK AHEAD.

- General activity should remain at its current pace for the balance of the year
- Vacancy will fall another 50 basis points by the end of 2015
- Asking rates will move up 3% to 7% in better locations
- Construction activity will remain low due to a lack of available land in prime submarkets
- Total employment will increase by over 2%, with a substantial portion of that in full time positions in defense, tech and biotech

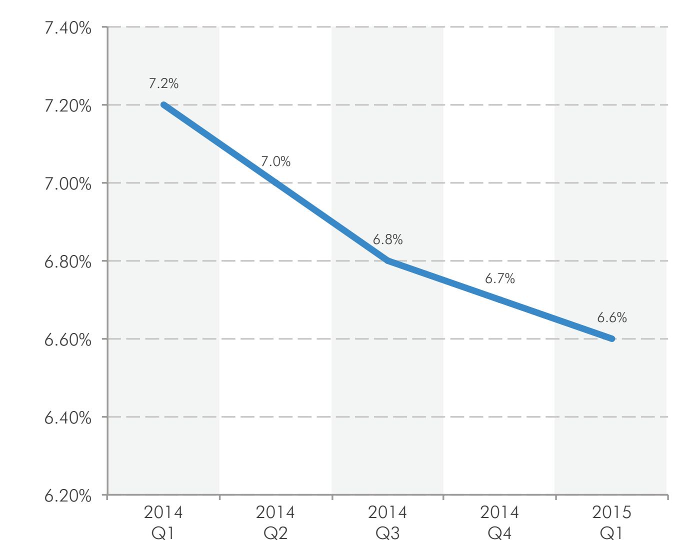
DALLAS / FORT WORTH



Net Absorption



Vacancy Rate



TRENDING NOW

The Dallas/Fort Worth (DFW) retail market has been steadily improving for the past several years. New technologies for extracting previously hard-to-get fossil fuels have created a boom in population growth, job creation, housing and all commercial real estate product types. However, the energy industry has taken a hit since oil and gas prices have taken a post-recession peak 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 in Q1, falling to a post-recession low of 6.6%. Positive net absorption hit 4.3 million square feet in 2014. Q1 added another 1,294,563 square-foot gain in occupied space. Average asking lease rates moved up another $0.39 during the quarter to $14.19, as compared to $13.80

6.6%	$14.19	1,294,563	389,652,139	3,484,073
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION
▼	▲	▼	▲	▼

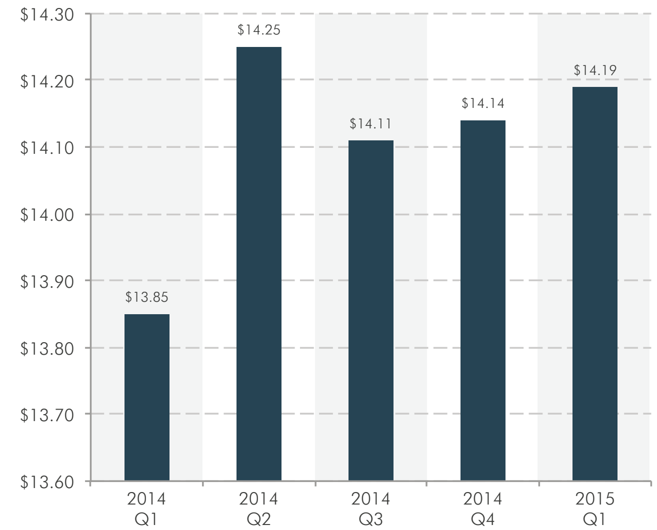
DALLAS / FORT WORTH - TRENDING NOW (continued)

in Q1 of 2014. Leasing activity topped 1,294,563 square feet for the quarter, a year-over-year 63%. Restaurants and home goods retailers continue to lead the way in terms of market activity. Nebraska Furniture Mart's decision to go vertical in its new location in the northern sector has boosted activity in that area. Other significant signings during the quarter included Hobby Lobby who leased 55,125 square feet and Burks Outlet who leased 23,405.

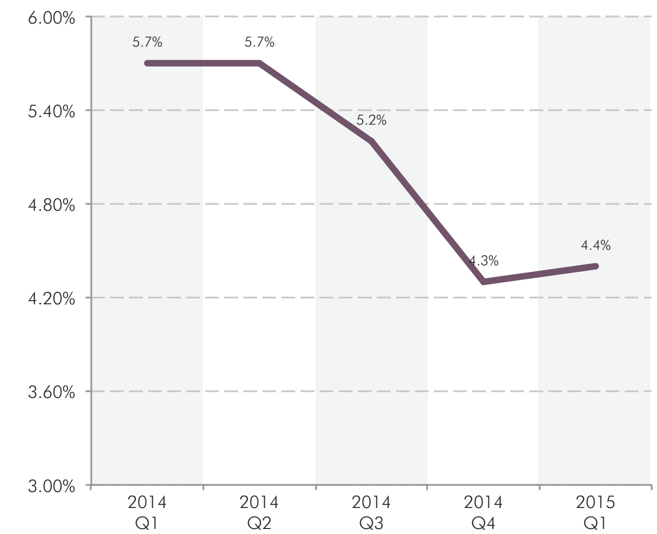
Development activity remains relatively light. A total of 3,484,074 square feet of retail space was under construction in Q1 and 947,892 square feet was delivered. Construction is concentrated in the North Central Dallas as well as Mid Cities and remains a combination of pre-leased and speculative space. Land and construction costs are moving higher, which will put upward pressure on rents for new product.

Favorable market metrics have driven cap rates at pre-recession lows, but other major markets have gone even lower, making the DFW region a target for investment activity. Domestic institutions and foreign investors have a healthy appetite for more acquisitions and the energy sector slowdown doesn't seem to have affected investor interest. Recent retail sales activity, as reported through Q4 of 2014, totaled 4,879,706 square feet in 74 transactions, well ahead of the previous quarter's 3,185,000 square foot total in 65 transactions. These numbers would likely be higher if supplies were not so short. With the Fed holding off on plans to move interest rates higher for the time being, the cost of capital remains low and lenders are aggressively pursuing new opportunities to provide debt for retail acquisitions.

Average SF Rental Rate



County Unemployment Rate

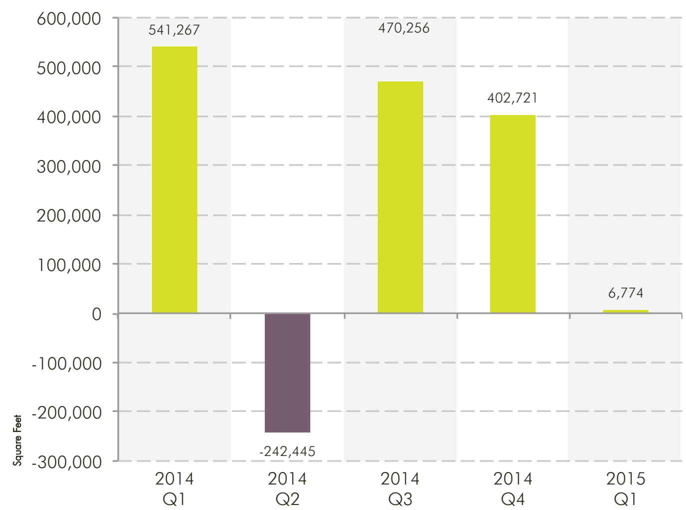


A LOOK AHEAD.

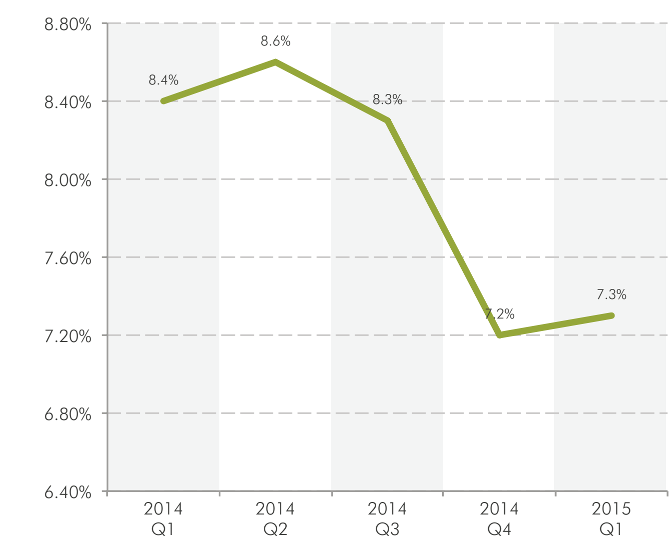
- Gross sale and lease activity should remain strong for the next 12 to 24 months
- The energy sector slowdown will have little impact on retail activity in 2015
- Net absorption will maintain current pace for the balance of the year
- Vacancy will move down slowly due to new deliveries
- Average asking lease rates will keep moving
- Property taxes will go up due to increase occupancy
- Cap rates are likely to compress further as demand remains strong

ST. LOUIS

Net Absorption



Vacancy Rate



TRENDING NOW

The St. Louis retail market continued to improve on the modest gains realized in 2014. Improving population growth has retailers focusing more on the region, with IKEA making big news with the opening of its new Midtown location. This has sparked additional development in the immediate area and more interest from other big retailers like Walmart, Gander Mountain, Total Wine & More, Pet Supplies Plus, Fresh Thyme Market, The Fresh Market and others, who are all aggressively pursuing new locations. Competition in the home improvement category has also heated up. Menards has opened five new stores in the last 18 months, as they plan to go toe-to-toe with Lowes and The Home Depot. All this activity has developers moving fast to bring new product to the market. At the end of Q1, over 86,320 square feet was under construction, on the heels of 341,669 square feet of new space delivered in 2014.

The St Louis region's retail base is over 154,207,970 square feet of retail space, 11,257,182 square feet of which remained unoccupied at the end of Q1, resulting in a vacancy rate of 7.3%. Year-over-year the rate has declined by .01 basis point. Net absorption was a positive 6,744 square feet for the quarter, with activity concentrated in south & west St. Louis county.

7.3%	$11.93	6,774	154,207,970	652,632
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION
▲	▼	▼	▲	▲

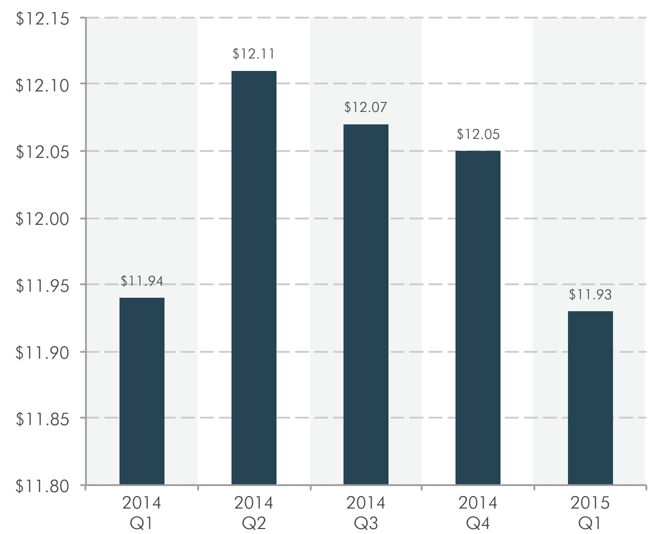
ST. LOUIS - TRENDING NOW (continued)

Upscale retailers and discounters continue to thrive, but mid-priced and hard-goods players still face a challenge due to sluggish wage growth. The average asking rental rate for the region ended the quarter at $11.93, a year-over-year loss of $.0.13. Rents range from $35.00 up to $50.00 for prime locations.

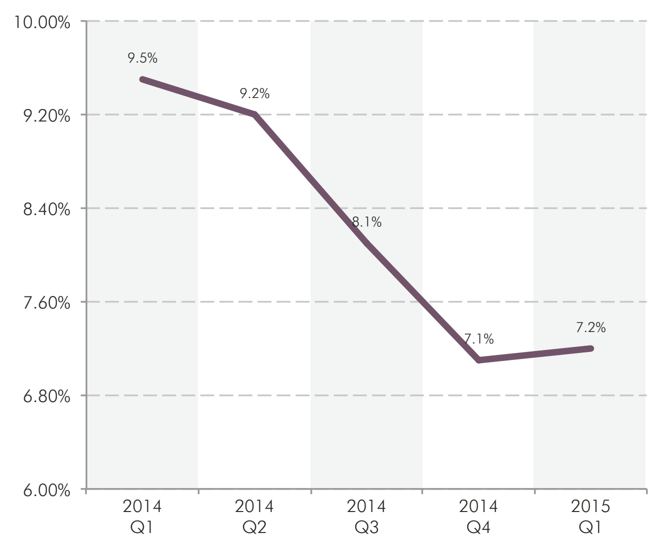
Net absorption was flat for the quarter.

Investors, especially those interested in acquiring single-tenant, net-leased properties, are coming to the Midwest in general, and St. Louis, in particular, to acquire quality properties with good credit at cap rates well below those in prime metro markets.

Average SF Rental Rate



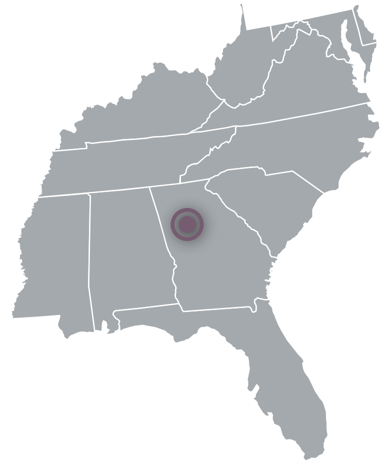
County Unemployment Rate



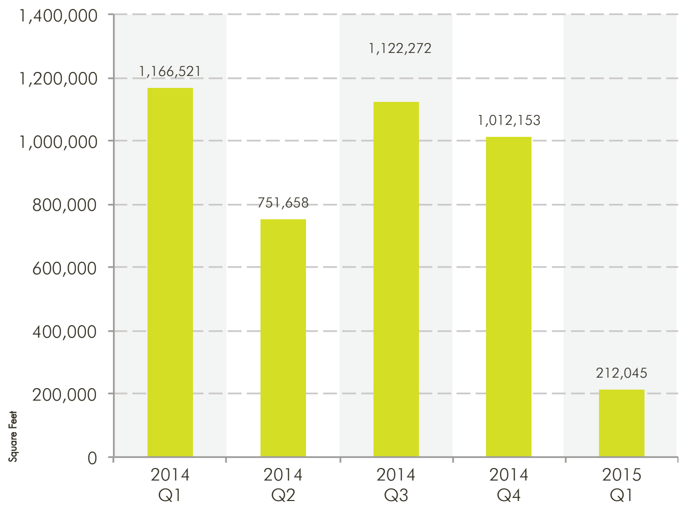
A LOOK AHEAD.

- Another one million square feet of new space is on the way, along with another 250K square feet of new grocery space
- Net absorption will remain moderate and steady for the balance of the year
- The overall vacancy rate will continue to decline
- Average asking rental rates will rise modestly for the next several quarters
- The pace of new deliveries will accelerate due to strong demand from major retail players
- The battle of the grocers will continue

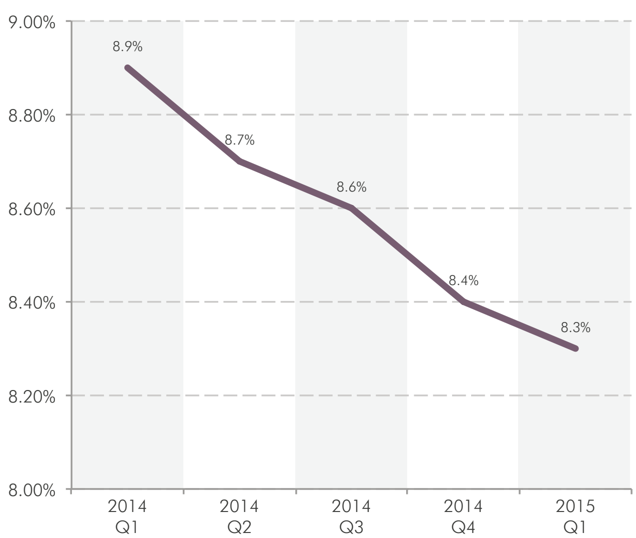
ATLANTA



Net Absorption



Vacancy Rate



TRENDING NOW

In Q1, the Atlanta retail sector continued to build on last year's momentum. The local economy remains in expansion mode, job growth is strong and consistent, and developers are moving plans for new projects onto the front burner again. Positive net absorption for the quarter topped 212,000 square feet, adding to 2014's total of 4 million square feet. Leasing activity is gaining strength, which is keeping absorption in positive territory. New lease signed by major retailers in Q1 included Sprouts Farmers Market and Planet Fitness, further indicating the aggressive expansion in the grocery and fitness sectors.

Rents still vary widely by submarket and shopping center type, ranging from a low of $10 per square foot to a high of $50 per square foot for prime urban locations in submarkets like Buckhead and Midtown. Overall average asking lease rates for all product types settled at $12.63 for the quarter. But the big story is in the more urban locations that have been experiencing a resurgence due to changing lifestyles of a younger workforce that prefers to live, work and play in the same area. Millennials are less inclined to buy homes, preferring instead to locate near trendy restaurants, local entertainment venues, public transportation hubs and non-traditional retailers.

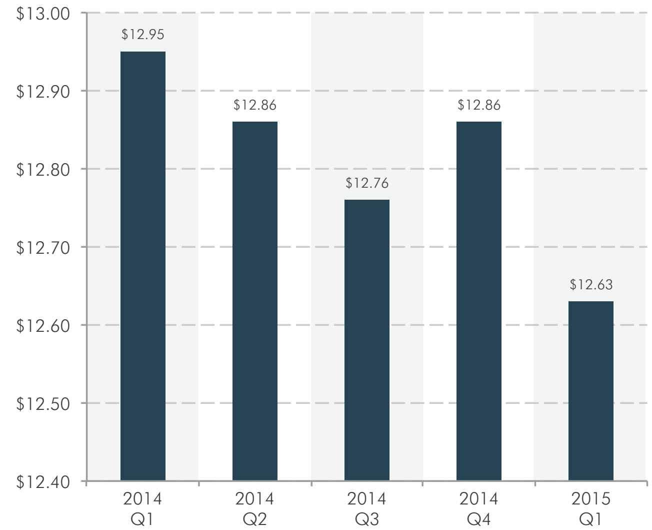
8.3%	$12.63	212,045	349,588,959	531,807
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION
▼	▼	▼	▼	▲

ATLANTA - TRENDING NOW (continued)

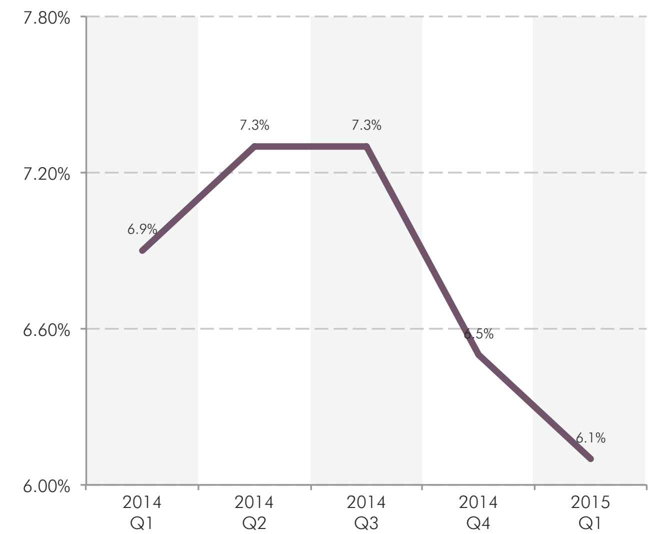
Suburban shopping centers in more traditional neighborhoods are not faring as well. National chains are re-scaling stores sizes and making other adjustments in their business models to cater to changing demographics. Regional malls are facing similar challenges. Those located in outlying suburban areas are struggling with high vacancy. Until anchor tenants show renewed interest, mall vacancy will be a persistent challenge. Although, more shop tenants are coming back into the picture with dual locations in malls and neighborhood centers.

Investor interest is on the rise, especially from institutional buyers who see the potential for strong rent growth in projects closer to the center of the region. Cap rates are compressing, as they have been throughout the country, but retail projects, and in particular, mixed-use projects with a retail component are attracting the most attention.

Average SF Rental Rate



Metropolitan Statistical Area Unemployment Rate

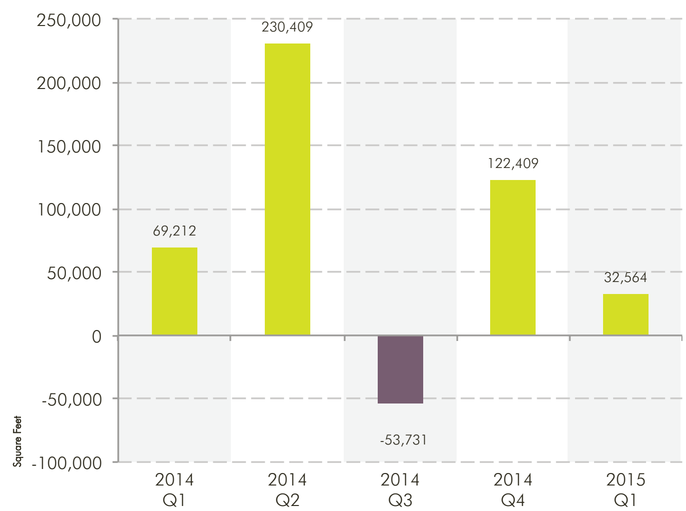


A LOOK AHEAD.

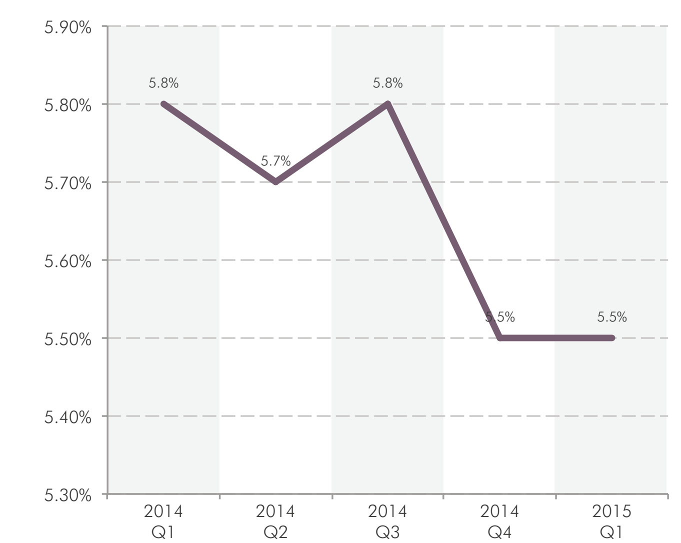
- Grocery stores like Sprouts and Walmart Neighborhood Market will remain very active in 2015
- Leasing activity will accelerate as the improved economy boosts consumer confidence
- Absorption will be moderate and steady, as major retailers focus only on more urbanized submarkets
- Vacancy will decline sharply in prime markets like Buckhead and Midtown, but remain stubbornly high in outlying suburban areas
- Average asking lease rates will remain on the upswing, but vary widely according to submarket
- Investors will see property values rise due to stronger rent growth
- Development will increase, but will be limited by a lack of quality sites

CHARLESTON

Net Absorption



Vacancy Rate



TRENDING NOW

The City of Charleston is the oldest and second largest city in South Carolina. Its deep heritage and historic downtown make it one of America's most visited cities. With a growing regional population of over 700,000 and one of the most active seaports on the Atlantic Coast, the area is experiencing an era of economic growth, which has the retail market in expansion mode. Vacancy is moving down, new centers are going up and older centers are being re-created to accommodate an expanding retail base. The area continues to draw national attention with new upgrades to the port and big employers like Boeing choosing Charleston for major facilities.

Limited land availability and new projects in high profile submarkets has fueled lease rate increases of up to double than the rates from just two years ago. Mt. Pleasant, N. Main Street in Summerville and especially the King Street area of downtown Charleston are leading that charge, and rents have risen so high that some local retailers are being forced out. National retailers, anxious to capitalize on the hot market, are willing to pay more for these prime locations. Investors love these submarkets enough to drive cap rates into 4% range for quality assets.

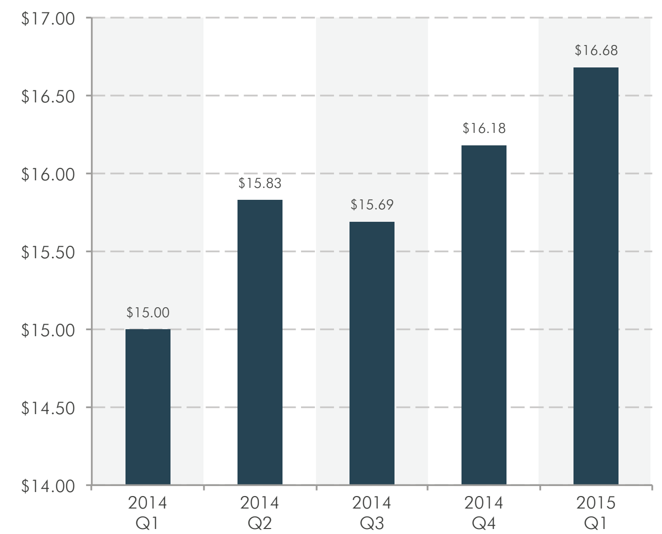
5.5%	$16.68	32,564	42,299,745	235,092
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION

CHARLESTON - TRENDING NOW (continued)

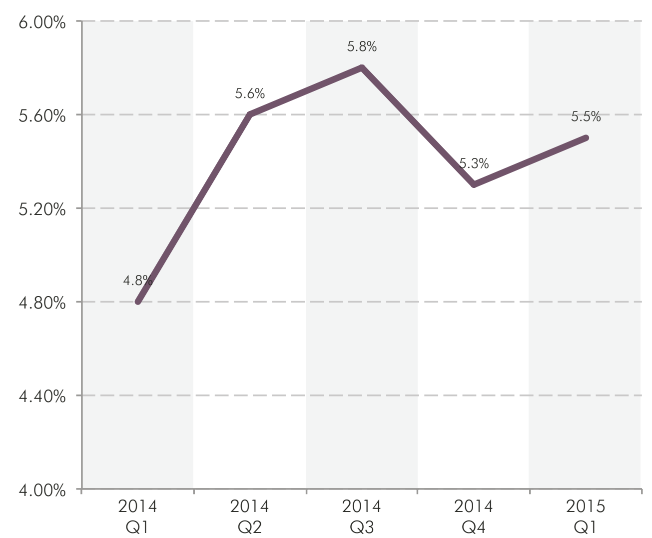
Developers are facing substantial challenges, mainly with municipalities that remain understaffed from the last recession and concerns over increased congestion and protection of wetland areas. This has protracted the entitlement process and driven up project costs, which are manifested in the form of higher rents for retail space. Grocery-anchored neighborhood centers and well-located strip centers are faring best in terms of leasing activity, while enclosed malls continue to fall out of favor with retailers. Vacancy held steady in Q1 holding at a post-recession low of 5.5%. Downtown has the lowest vacancy rate at 1.7%, but all other submarkets have current vacancy rates under 7%, which speaks to the overall health of the Charleston economy.

Net absorption remained positive in Q1, posting an increase in occupied space of 32,786 square feet to add to the 438,246 square feet that was absorbed in all of 2014. Average asking lease rates currently stand at $16.68, up $.50 in just one quarter and $1.68 year-over-year, but rates can run much higher in prime submarkets. Major retailers that are active in the area include Dick's Sporting Goods, Walmart Neighborhood Grocery stores and Hobby Lobby, among others.

Average SF Rental Rate



County Unemployment Rate



A LOOK AHEAD.

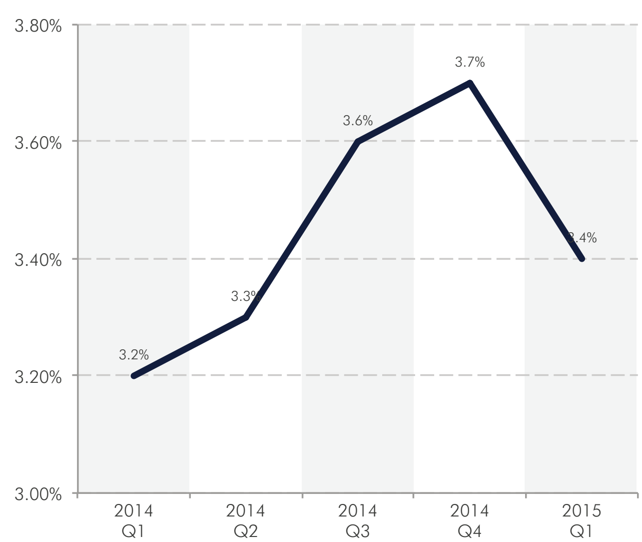
- Competition for quality space will intensify as vacancy continues its decline
- Positive absorption will continue, but will moderate due to short supply of quality space
- Vacancy will fall to 5% in 2015, and move even lower in some submarkets
- Rents, currently ranging from $13 to $40+ will continue to rise throughout the year
- Increase in tourism will drive growth in the Downtown area
- Strong employment growth will boost retail sales throughout the region

MANHATTAN

TRENDING NOW

Over 50 million people visit Manhattan each year. That alone makes the area a priority for retailers of all kinds, but especially major national and international brands eager to take advantage of the exposure, notoriety and prestige that goes with a good location on one of the world's most famous islands. As one of the world's premiere business centers, the demographic profile of the local population attracts upscale retailers. As a tourist destination for affluent travelers from around the world, Manhattan is a must-have location for retailers looking to build international brand awareness.

Vacancy Rate



Unlike other retail markets throughout the US, Manhattan does not have the usual mix of strip, neighborhood, power and regional centers for retailers to choose from. The region is characterized by a system of corridors that run along popular streets and avenues that have developed over time relative to their proximity to major tourist attractions, business districts, civic centers and entertainment venues. Much of the retail space is located in mixed-use properties along these corridors and in its immediate vicinities. Perhaps the most famous of these areas is 5th Avenue from 49th to 59th, where luxury retailers pay more than $3,400 per square foot. On Madison Avenue, between 57th and 72nd, rents now exceed $1,700 per square foot. Other areas have rents ranging below $100 per square foot. Thus, using averages when it comes to asking rents, is misleading at best, especially when taking secondary market areas off the main corridors into account.

3.4%
VACANCY

958,913
SF UNDER CONSTRUCTION

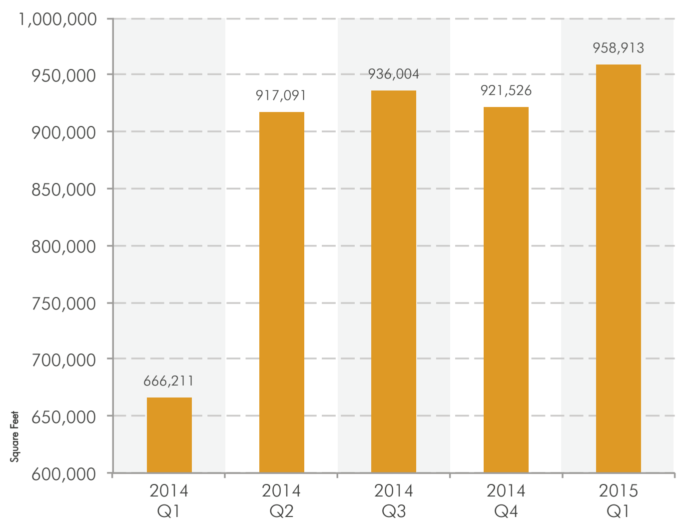
Retail activity throughout Manhattan has been and continues to be very strong. Job growth on the island exceeded 100,000 over the past year, and many of those jobs are full-time, high-paying assignments that create more disposable income available for retail

MANHATTAN - TRENDING NOW (continued)

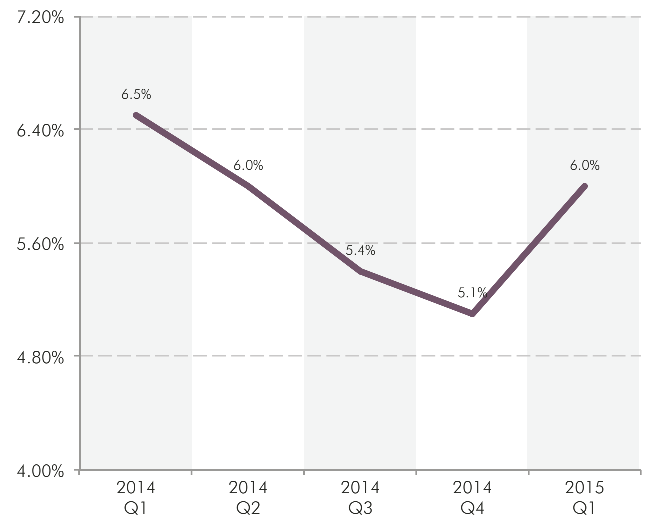
Manhattan a boost. It has also contributed to the re-urbanization of the New York area, as the younger workers employed in those industries prefer the amenities and lifestyle choices offered in Manhattan.

Large department stores are also making new Manhattan locations a priority. Nordstrom, Neiman Marcus and Saks have all made major new commitments to the area. Neiman will open its first Manhattan store at Hudson Yards and Nordstrom will be building a new store on West 57th Street. Building owners are responding to the retail surge, as well. Many are making major renovations to reposition their properties in a tight market, and have decided to dedicate more space to retail uses to take advantage of skyrocketing rents in prime retail corridors. Multi-level retail spaces are also becoming more common, as the availability of prime space is getting thin.

Under Construction



County Unemployment Rate



A LOOK AHEAD.

- Absorption will remain strong, availability permitting
- Vacancy will decline further and asking rents in prime areas will rise accordingly
- Construction will increase to meet demand and to take advantage of soon to expire tax abatement programs
- Sales prices for the rare user building opportunities will rise further
- Restaurants and mid-tier retailers like Nike, Diesel and Zara will increase overall leasing activity
- The completion of the Second Ave subway on the Upper East Side will be a game-changer that boosts retail activity there
- The Garment Center, with its central location and loft-style buildings will be redeveloped for more retail uses as more industrial users leave Manhattan

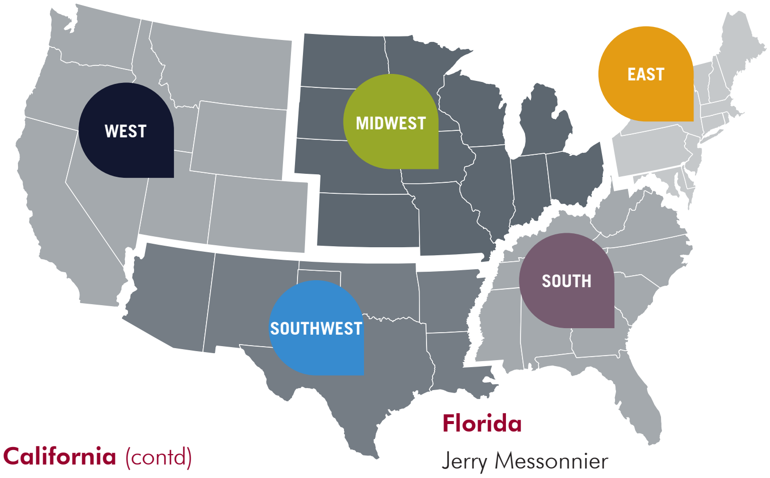
SELECT TOP RETAIL LEASES Q1 2015

BUILDING	MARKET	SF	TENANT NAME
2601 PORT COVINGTON DR	BALTIMORE	130,595	UNDER ARMOUR
WHITE BEAR MARKETPLACE	MINNEAPOLIS	73,000	CUB FOODS
ELK GROVE TOWN CENTER	CHICAGO	72,385	JOE CAPUTO & SONS FRUIT MARKET IGA
GREEN ACRES MALL	LONG ISLAND	72,266	CENTURY 21 DEPARTMENT STORE
THE FIELDS - RETAIL	CHICAGO	68,000	CERMAK FRESH MARKET
160 SW MALABAR RD	ORLANDO	60,000	ROSES DEPARTMENT STORE
AIRPORT PLAZA	LONG ISLAND	60,000	STEW LEONARD'S INC
15470-15500 W BELOIT RD	MILWAUKEE	48,739	DUNHAM'S SPORTS
FESTIVAL CENTRE	CHARLESTON	40,704	SEARS OUTLET
WAVERLY	CHARLOTTE	40,000	WHOLE FOODS MARKET
12128 IMPERIAL HWY	ORANGE COUNTY	37,247	WHOLE FOODS MARKET
750 N GILBERT RD	PHOENIX	35,959	SMART & FINAL

SELECT TOP RETAIL SALES Q1 2015

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
THE EPICENTERE	CHARLOTTE	305,147	$427.66	7.2%	ASHKENAZY ACQUISITION CO	GENERAL GROWTH PROPERTIES, INC
FOOTHILL CROSSING	INLAND EMPIRE	312,733	$172.67	6.72%	MILLAN CAPITAL MANAGEMENT	O & S HOLDINGS LLC
CREEKSIDE PLAZA	SAN DIEGO	128,852	$341.28	5.7%	RETAIL OPPORTUNITY INVESTMENTS, CORP	AMERICAN REALTY ADVISORS
BIG V TOWN CENTER	NORTHERN NJ	241,720	$173.75	7%	PREFERRED PROPERTIES	BIG V PROPERTIES, LLC

Nationwide Lee Offices



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The Lee Retail Brief

lee-associates.com

Q1 2015

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