RETAIL MARKET REPORT:2Q2012

Last quarter's optimism was short-lived. New data suggests continued struggles for the retail sector.

- **KEY INDICATORS:** Key retail market indicators showed signs of softening in 2Q2012 after positive trends in the first quarter. Monthly retail sales (excluding motor vehicles and parts) gains were weak with 1.7% and 1.9% gains YOY in June and July. The consumer sentiment index as measured by Thomson Reuters-University of Michigan showed strength early, but fell in June by 7.7% and again in July by 1.2%.
- VACANCY: Vacancy rates remained relatively flat across all segments in 2Q2012. Malls continue to lead the sector at 5.9% vacancy with a slight increase of 10 bps over last quarter. Shopping Centers (community, neighborhood, and strip centers) continue to report the highest vacancy at 10.8% with no change over the previous quarter. Despite store closures, the Power Center segment posted the only reduction in vacancy for the quarter.
- **SUPPLY:** New retail deliveries notched slightly higher in the first quarter. Approximately 7.3 million sf of retail space was delivered in 2Q2012, a 13.0% increase over the previous quarter but a 2.0% decline over 2Q2011 levels. Last quarter's spike in starts was short-lived as they declined once again in 2Q2012 to 5.5 million sf or down 6.4% for the quarter and -44.3% YOY.
- **RENTAL RATES:** Retail rental rates did not reach bottom last quarter as declines were reported yet again in 2Q2012. Average rental rates decreased slightly across all segment types by 0.5% for the quarter and 1.6% YOY. Average rates for malls took the biggest hit this quarter with reductions of 3.5% over the previous quarter and 3.4% over last year.
- MALL SEGMENT: Despite strong average occupancies, concern is growing around lower quality malls. Fortress properties with strong anchors and attractive trade area demographics continue to perform well in spite of a soft economy. B/C properties are struggling to drive sales and maintain tenants in order to survive in a highly competitive environment. As the slow economy continues, the divergence between assets will continue to grow.
- CAPITALIZATION RATES: On average, retail cap rates were basically unchanged this quarter. Strips decreased slightly by 6 bps to an average of 7.26%, the highest among the subtypes. The average mall cap rate is the lowest at 6.78%. Retail investment totaled \$10.6B this quarter, slightly below last quarter and a 32% decrease YOY.

Prepared by:



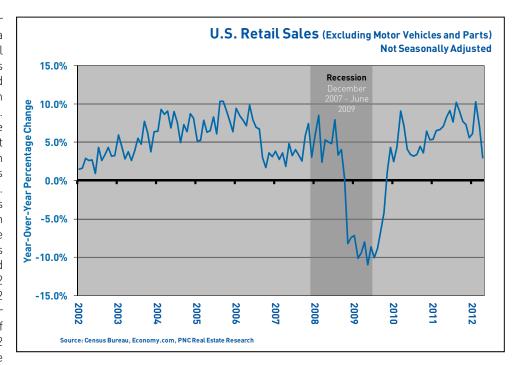
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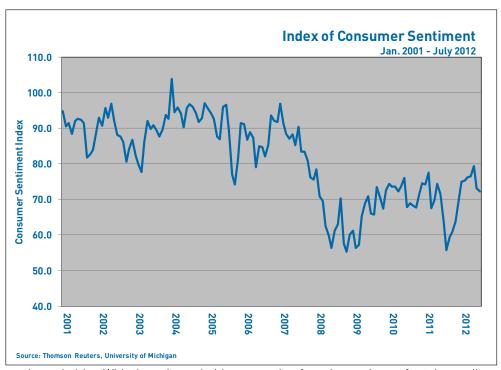
KEY RETAIL INDICATORS

Once again, early optimism for the year has turned into a summer slump for the retail sector. In April, retail sales (excluding motor vehicles and parts) registered a 2.9% gain April over 2011 sales. Subsequent months have shown sales increases YOY, but at lower rates. Retail sales in June were up just 1.7% versus increases of 9.2% one year ago. Monthly retail sales increases during 2Q2012 ranged from 1.7% to 5.3% which are generally below growth levels seen since the recession ended in 2009. In total dollars, 2Q2012 retail sales reached \$862.2 billion, an increase of 3.3% over 1Q2012 with retail sales of \$834.4 billion. Early 3Q2012 retail sales results indicate



modest gains YOY. July 2012 retail sales, while positive, were up only 1.9% YOY. Excluding June, this represents the lowest YOY growth since the recession ended in 2009. Some economic reports have indicated much stronger retail sales gains, but may be masking retail challenges by including motor vehicle sales. Auto sales have been one bright spot in the retail sector, registering 7.5% higher than last year.

The adjacent chart illustrates the index of consumer sentiment as measured by Thomson Reuters and the University of Michigan. At the 2Q2012, beginning of consumers showed continued index confidence as the increased slightly to 76.4 in April. By May, the confidence index reached 79.3, up 6.7% over the previous Although consumer sentiment started off strong this quarter, recent reports indicate waning confidence as of late. In June, the index slipped by 7.7% to 73.2. In July, the index took a further hit and fell 1.2% to 72.3. According Thomson to Reuters/U. of Michigan, a troubling sign regarding recent reports is the decline in



confidence reported by upper income households. With these households accounting for a large share of total spending, confidence will be closely monitored in coming months for possible impact on retail sales.

Positive retail indicators reported during last quarter have quickly eroded in 2Q2012. Strong retail sales gains last quarter have been replaced by modest YOY gains in the second quarter. A strong back-to-school season will be critical for retailers looking to offset recent weak sales. The consumer sentiment index, while still solid in the 70+ range, has sustained continued declines over the last three months. It appears as though continued economic woes are leading to a "wait and see" attitude among many consumers.

RETAIL MARKET TRENDS

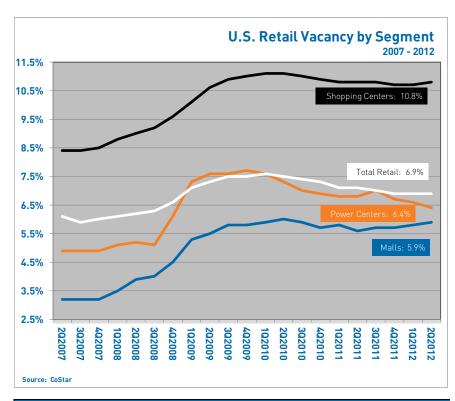
Vacancy

Overall, there was little change in national retail vacancy compared to last quarter. According to CoStar, total retail vacancy was reported at 6.9% for the quarter, the same rate as in the previous quarter and down slightly from 7.1% one year ago. Similar flat trends were apparent across most retail segments tracked. Shopping Center segment (combined categories of Community, Neighborhood, and Strip centers) remains the retail sector with the highest average vacancy at 10.8% as of 2Q2012, up 0.1% over the previous quarter and unchanged over the same period one year ago.

The Power Center segment reported the only reduction in vacancy out of the three retail segments in 2Q2012. Vacancy fell to 6.4% or a reduction of 20 bps over the previous quarter and down 40 bps YOY. Vacancy for the segment has now declined over the past four consecutive quarters. Despite the closure of hundreds of locations by typical Power Center tenants such as Border's, Linens 'n Things, Circuit City, and Best Buy in recent years, this segment continues to demonstrate tightening vacancy.

Vacancy rates for the Mall segment (including Regional, Super Regional, & Lifestyle Center) increased in 2Q2012, but only marginally so. At 5.9% for the quarter, vacancy is up 10 bps over the previous quarter and flat in comparison to one year ago. This segment continues to outperform other retail segments with sub-6.0% vacancy rates. While the segment has maintained strong occupancy overall, there is growing concern over lower quality assets in the sector. See Spotlight section on Page 6 for additional details on the Mall segment.

According to CoStar, coastal markets such as New York City, San Francisco, Miami, and Boston continue to report very tight retail market fundamentals. Nearly all of the top 10 markets with the lowest overall retail vacancy rates reported flat or declining rates YOY. Markets with the highest retail vacancy continue to be clustered in western and central markets. Phoenix, Las Vegas, Detroit, and Atlanta continue to report double digit retail vacancy rates. On a positive note, the majority of these high retail vacancy markets have seen rates decline in comparison to average 2Q2011 rates.



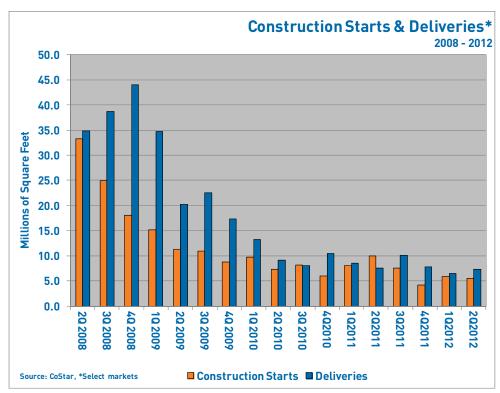
TOTAL RETAIL VACANCY RATES - 2Q2012						
75 Largest U.S. Retail Markets						
		bp Change over			bp Change over	
LEADING MARKETS	Vacancy	2Q2011	LAGGING MARKETS	Vacancy	2Q2011	
New York City	2.2%	0	Phoenix	11.8%	-40	
San Francisco	2.8%	-30	Las Vegas	10.8%	-30	
Hawaii	3.1%	-10	Detroit	10.2%	10	
Miami-Dade Co.	4.0%	-40	Atlanta	10.1%	-30	
Boston	4.4%	-50	Sacramento	10.1%	-10	
Washington, D.C.	4.7%	-30	Kansas City	9.5%	-20	
Albany	4.7%	-20	Cincinnati	9.1%	-10	
Long Island	4.8%	20	Memphis	9.1%	-20	
Salt Lake City	4.9%	-50	Dayton	9.0%	0	
East Bay/Oakland	4.9%	-10	Buffalo	8.9%	-20	
Source: CoStar; PNC Real Estate Market Research						

TOTAL RETAIL VACANCY RATES - 202012 PNC Footprint Markets - presented alphabetically						
		bp Change over			bp Change over	
MARKET	Vacancy	2Q2011	MARKET	Vacancy	2Q2011	
Atlanta	10.1%	-30	Indianapolis	7.6%	-50	
Baltimore	5.7%	-10	Louisville	7.6%	-30	
Birmingham	8.9%	-10	Milwaukee	6.8%	-40	
Central New Jersey	7.5%	10	Mobile	6.7%	-120	
Charlotte	8.0%	10	Nashville	7.2%	60	
Chicago	8.4%	-30	N. New Jersey	6.5%	10	
Cincinnati	9.1%	-10	Philadelphia	6.2%	-40	
Cleveland	8.2%	-80	Pittsburgh	5.1%	-30	
Columbus	7.9%	-70	Raleigh/Durham	6.0%	-20	
Dayton	9.0%	0	St. Louis	8.0%	10	
Detroit	10.2%	10	Washington, D.C.	4.7%	-30	
Source: CoStar; PNC Real Estate Market Research						

PNC REAL ESTATE

Supply

As shown in the adjacent chart, retail construction new deliveries notched slightly higher in 2Q2012. Deliveries rose to 7.3 million sf for the quarter, up from 6.5 million sf over the previous quarter and flat against the 1Q2011 level. Despite the slight uptick this guarter. new retail space delivered remains well below the average of 25 million sf added quarterly between 1982 and 2009. New retail construction starts saw a slight decrease in 2Q2012 and remain at historically low levels. During the quarter, starts totaled 5.5 million sf or a decrease of 6.4% over the previous quarter. Compared to the same period one year ago, construction starts down 44.3%. were Construction starts and deliveries have remained at

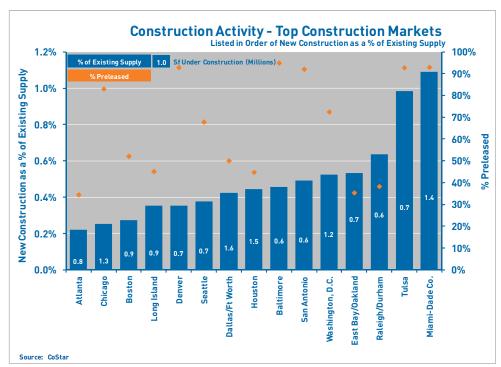


historically low levels for two years but have likely reached bottom. While these low levels may linger for a period of time pending improved economic conditions, current levels appear sustainable in the near term.

Markets

While new retail construction remains low nationally, select metro areas are reporting notable additions to supply. New construction in the top 15 markets in 2Q2012 represented a total of 14.0 million square feet or approximately 48.0% of the 29.1 million square feet of space currently under construction nationwide. According Marcus to Millichap, retailers will continue to focus on new formats. renovation of existing stores, and modest new store additions moving forward.

The Miami-Dade Co. market reported the most space under construction as a percentage of existing supply at 1.1% as of 2Q2012. Any concerns about



overbuilding are mitigated by the average preleasing rate of 93.0% for the space currently under construction. Tulsa followed with 704,000 sf of retail space under construction or 1.0% of the market's current retail supply. CoStar reports that this space is approximately 93.0% preleased. Once again, the Dallas/Ft. Worth market led in total retail construction with 1.6 million sf underway which equates to 0.4% of current retail supply. A large portion of this square footage comes from the 500,000 sf Paragon Outlets Grand Prairie currently under construction with delivery expected in 3Q2012. Much of the new construction currently underway in the 15 top markets is significantly preleased which will help keep vacancy rates stable in light of new deliveries.

Rental Rates

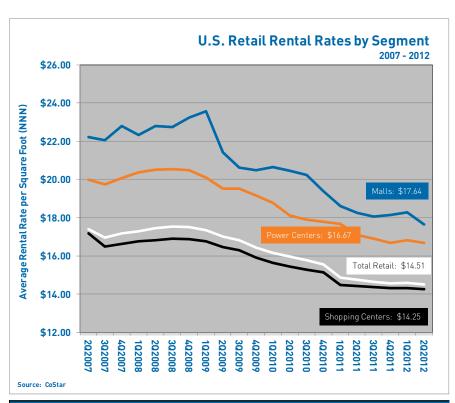
Average retail rental rates decreased slightly across all asset types in 2Q2012. For total retail, the quarter saw a return to rental rate declines seen every quarter for the past three years until 1Q2012. Average rental rates decreased to \$14.51 per square foot for all sectors in 2Q2012. This represents a slight 0.5% decrease over 1Q2012 and a 1.6% decline from 2Q2011.

In 2Q2012, average Power Center rental rates were reported at \$16.67 per square foot, a decrease of 1.0% over 1Q2012 and a reduction of 2.5% YOY. At \$14.25 per square foot, average rates for Shopping Centers were down by a slight margin of 0.5% over the previous quarter and down 1.2% YOY. Mall rental rates decreased to \$17.64 per square foot, down 3.5% over the previous quarter and down 3.4% YOY. The 3.5% decrease over last quarter represents the largest decrease of the three retail sectors.

While data suggested that retail rental rates had reached bottom last quarter. declines continued in 2Q2012. Limited supply additions are helping to maintain or increase rates at well-located centers with strong neighborhood demographics, but Class B/C properties in inferior locations continue to face an uphill climb to increase or even maintain current rental rates. With retail spending stalled and consumers attempting to save, tangible income growth will be necessary to get consumers back into stores in strong numbers again. Thus, weakened demand at traditional retail will continue to place downward pressure on retail rental rates until economic conditions show marked improvement.

Markets

Twenty five out of the 75 largest retail markets in the U.S. saw an increase in total retail rental rates YOY or the same number reporting an increase last quarter (New York City excluded due to data inconsistencies). Miami-Dade led with a 13.7% increase in rates YOY, followed by South Bay/San Jose at 6.7%. footprint markets Dayton and Pittsburgh saw solid increases of 4.3% and 2.1% YOY respectively. Lagging markets continued to be clustered in western and central The Knoxville market saw the greatest decline in retail rental rates with a drop of 9.2% YOY followed by Las Vegas at 8.0% and Columbus at 7.8% YOY.



TOTAL RETAIL RENTAL RATES - 2Q2012					
	75 Larg	jest U.S.	Retail Markets		
LEADING MARKETS	Rental Rate (NNN)	Pct. Chg. Over 202011	LAGGING MARKETS	Rental Rate (NNN)	Pct. Chg. Over 2Q2011
Miami-Dade County	\$27.41	13.7%	Knoxville	\$11.14	-9.2%
South Bay/San Jose	\$26.31	6.7%	Las Vegas	\$16.41	-8.0%
New Orleans	\$13.85	6.7%	Columbus	\$11.40	-7.8%
Oklahoma City	\$11.11	5.8%	Toledo	\$7.83	-7.4%
Dayton	\$9.45	4.3%	Columbia	\$12.09	-6.9%
East Bay/Oakland	\$21.41	4.1%	Cincinnati	\$10.14	-6.5%
Albany	\$11.88	3.6%	Sacramento	\$16.23	-6.1%
Richmond	\$13.70	3.0%	San Francisco	\$29.39	-5.9%
Austin	\$18.75	2.3%	Phoenix	\$14.61	-5.1%
Pittsburgh	\$12.19	2.1%	Portland	\$15.77	-4.9%
Source: CoStar; PNC Real	Estate Mark	et Research			

TOTAL RETAIL RENTAL RATES - 2Q2012					
PNC Foo	otprint M	arkets -	presented alphabe	etically	
MARKET	Rental Rate (NNN)	Pct. Chg. Over 2Q2011	MARKET	Rental Rate (NNN)	Pct. Chg. Over 2Q2011
Atlanta	\$13.00	-3.1%	Indianapolis	\$11.92	-2.3%
Baltimore	\$17.87	0.2%	Louisville	\$11.34	1.1%
Birmingham	\$9.25	-3.5%	Milwaukee	\$10.82	-3.7%
Central New Jersey	\$17.65	-3.2%	Mobile	\$12.04	-2.5%
Charlotte	\$13.19	-3.0%	Nashville	\$13.37	-1.6%
Chicago	\$15.88	-1.5%	N. New Jersey	\$20.25	-2.9%
Cincinnati	\$10.14	-6.5%	Philadelphia	\$13.86	-1.8%
Cleveland	\$10.34	-2.6%	Pittsburgh	\$12.19	2.1%
Columbus	\$11.40	-7.8%	Raleigh/Durham	\$14.22	-2.0%
Dayton	\$9.45	4.3%	St. Louis	\$12.41	0.7%
Detroit	\$12.05	-0.3%	Washington, D.C.	\$23.54	1.5%
Source: CoStar; PNC Real Estate Market Research					

SPOTLIGHT: MALL SECTOR TRENDS

Growing Concerns Around Lower Quality Malls

The divide between strong and weak malls in their ability to attract tenants and capital has widened, given the sluggish economy and increased pressures within the retail industry. Lower tier malls continue to lag as most retailers remain skeptical about reversing course on low productivity centers, particularly with a strong focus on more profitable expansion in the outlet segment and internationally. The growing split will hasten the repositioning or closure of sub-performing properties. The losses on these malls tend to be greater than on other property types.

The Invincible Mall and Deadmalls.com

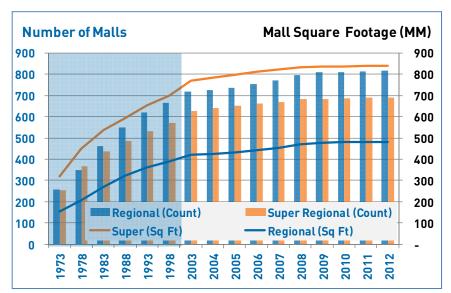
Over the years, the perceived viability of the mall concept has moved from one extreme to the other. In its purest form. the mall provides positives that define the retail experience for a large segment of Americans. Even with e-Commerce inroads, fortress malls continue to define destination shopping. The facilities are properly positioned with excellent demographics in high barrier-to-entry locations. B/C-Malls often lack one or more of these elements and will have driving sales, maintaining difficulty tenants, physical plant and the viability of the project. While these projects can reposition themselves, this process is often drawn out, expensive and rarely succeeds. While slightly dated, a quick visit to Deadmalls.com will illustrate this point.

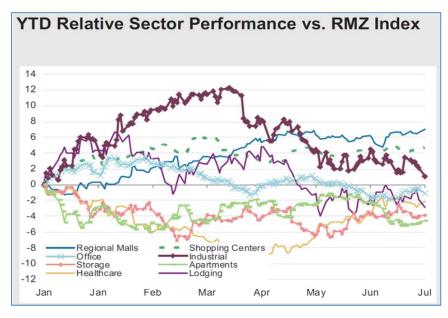
Performance and Valuation

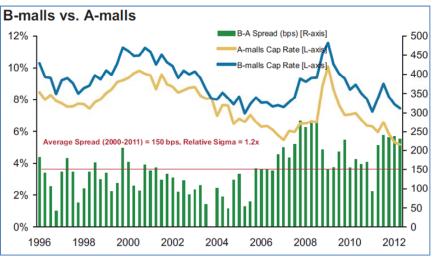
Within the REIT space, mall product has been doing well. As of July 2012, total returns for malls against the RMZ (Morgan Stanley REIT Index) lead all commercial property comparisons. While valuations generally move in a fairly tight range dictated by economic and broader real estate favor, there are clear differences in mall classes. Currently, the gap between A and B quality malls is widening. However, we maintain that the B- product is overvalued in the current economy and the gap should be wider.

Future State

The divergence should grow as the slow economy continues. Slower retailer expansion and a reserved consumer will add to the divide.







RETAIL CAPITALIZATION RATE TRENDS

RETAIL CAP RATES						
Average	Quarterly	Annual				
Mall	1 4	↓ 51	bps Δ			
6.78%	1 0.5%	1 7.5%	Value Δ			
Strip	↓ 6	↓ 16	bps Δ			
7.26%	1 0.8%	1 2.2%	Value Δ			
7.26% Power	↑0.8% ↑3	↑ 2.2%	Value Δ bps Δ Value Δ			

On average, retail cap rates were basically unchanged this quarter. Among the 3 retail subtypes, the average mall cap rate (6.78%) is the lowest, and has also posted the largest YOY decline.

Retail investment totaled \$10.6B this quarter, slightly

below levels posted last quarter, and 32% off YOY. Sales of regional malls were strong this quarter, posting \$5.8B and up 56% YOY. RCA also notes that single tenant and urban retail formats are trading



readily. As seen in other property types, investor focus has moved towards lower quality retail assets in core markets. Additionally, increasing retail investment has been recorded in markets previously out of favor, such as Baltimore, Cleveland, Kansas City, and Charlotte.

