

Woolbright's 2010 Annual Broward Publix Retail Market Report

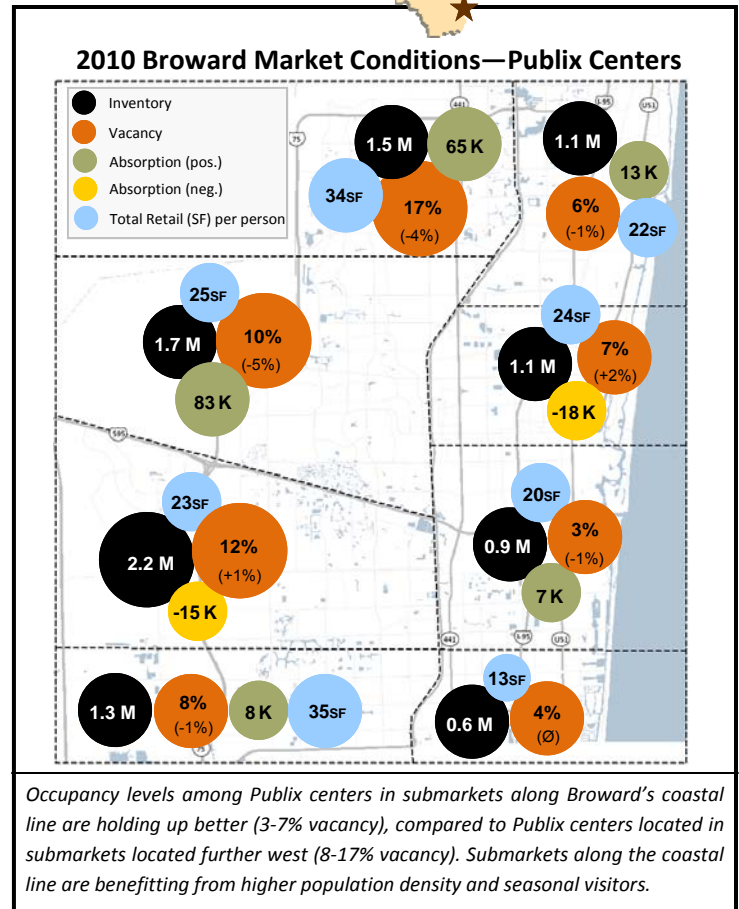
Vacancy rates decreased by 130 basis points and base rents stabilized at \$24 NNN in the Broward market from December 2009 to August 2010

Woolbright Development continues its 20-year tradition of surveying all retail projects in Florida's major metro areas to provide decision makers real time market updates. In this annual market report, we discuss the findings of our recent site visit in August 2010 to all 80 Publix centers located in Broward County among Publix-anchored shopping centers.

The Recovery has Begun

It has been three (long) years since the credit crisis began in 2007, but, finally, vacancy and base rent at Publix centers in the Broward market have stabilized and signal the start of a recovery. Unfortunately, a "V-shaped recovery" is highly doubtful given the significant amount of vacant space among Publix centers in Broward County (almost 1.0 million square feet as of August 2010). More likely, what Woolbright's latest market research indicates is that the worst is in the rearview mirrors of shopping center owners and that a gradual turnaround in the retail industry has at last begun.

Broward County Publix shopping centers (80 stores comprising 10.4 million square feet), prior to the near collapse of our financial system, had been favored with low vacancy rates in the 4-6% range for several years. However, as a result of the housing market and financial crises, vacancy rates more than doubled—from a low of 4.4% in 2004 to a high of 10.7% in 2009—as consumers were left with less disposable income, credit channels were all but frozen, and poorly capitalized retailers were forced to close their doors. Vacancy among Publix shopping centers, as of August 2010, saw its first rebound as vacancy declined 130 basis points (10.7% in December 2009; 9.4% in August 2010). During this period, retailers filled over 140,000 square feet, bringing total vacancy to 1.0 million square feet. Based on the



current absorption and the relatively little new retail space slated to hit the market, vacancy rates will continue to drop, albeit at a slower pace.

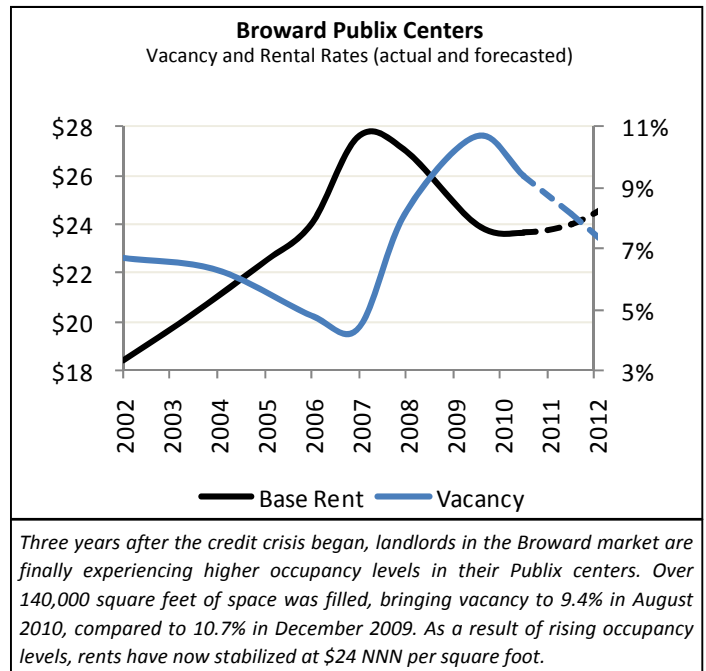
At the point in time when positive absorption occurs in a market, landlords begin to feel power shift back into their corner as it relates to determining a tenant's base rent. That time is now, as Publix centers in Broward County experienced a significant positive absorption of over 140,000 square feet from December 2009 to August 2010. As a result, landlords, while not holding all the cards in their hands as in years past, have stopped lowering rents and a figurative line in the sand has been drawn. Base rents among Publix centers in Broward County held steady at \$24 NNN (December 2009 base rent was \$23.99 NNN and August 2010 base rent was \$23.64 NNN), only dropping \$0.35 in the last eight months, compared to a \$3.00 rent cut during 2009. As more vacant space is absorbed and no new construction enters the supply, base rents will continue to increase over the next few years as they move toward historical levels (\$27.60 NNN in 2007).

Turning Point—Improvement in Vacancy

Vacancy has fallen 130 basis points from December 2009 to August 2010, 10.7% to 9.4%, respectively.

Broward County has historically had low vacancy rates in the 4-6% range among Publix centers. However, after the credit crisis, vacancy rates spiked to almost 11% and significant space became available as some retailers sought economic and legal protection through filing bankruptcy while others simply closed their doors and walked away from their dreams. Vacancy among the 80 Publix shopping centers in Broward County has risen to nearly 1.0 million square feet—nearly 80% being shop space.

Yet, there is cause for optimism as one looks to the future of the retail industry in Broward County. The vacancy rate has decreased 130 basis points from December 2009 to August 2010. Retailers have begun returning to the Broward market over the last year and have filled 140,000 square feet of space (60% by large box tenants and 40% by small shop tenants). Much of that space filled by large box tenants was done by Publix, which opened two new stores formerly occupied by Albertsons: 1) Office Max Plaza on University Drive and Peters Road; and 2) Publix Supermarket Royal Palm on University Drive and Royal Palm Boulevard. In addition, Publix has one new store in the pipeline: SIKON Construction Company is building a 31,000 square foot Publix store across the street from Galleria Mall on Sunrise Boulevard. As a result, with little new space proposed for the next two years, both retailers and investors should have a bullish outlook on the Broward Publix market.



Result of Positive Absorption—Rebounding Rents

Base rents in Broward County have returned to their 2006 levels (near \$24 NNN) after falling from their peak in 2007 of \$27.58 NNN.

There has been considerable discussion about the “significant decrease” in the base rents that owners of shopping centers have received since 2007. In Broward County, landlords had experienced 6-7% annual growth in base rents from 2002 to 2006 (from 2006 to 2007 the increase in base rents was almost 15%). This positive growth came to an end with the housing and financial crises, which eventually caused rents to fall over 14% from the peak in 2007 of \$27.58 NNN to \$23.64 NNN in August 2010. However, when looking at the base rent in 2002 (\$18.44 NNN) compared to that of August 2010 (\$23.64 NNN), base rents have actually increased nearly 30% over this 8-year window, which speaks to the long-term potential for retail in this market.

Recovery—Occurring, But Slowly

The recession has run its course in Broward County and the worst is behind; now begins the drawn out recovery, which will bring vacancy levels back to historical levels between 4-6% and base rents back to 6-7% annual growth among Publix shopping centers. The Broward market has demonstrated all the positive indicators of recovery: 1) Decreased vacancy; 2) Stabilized rents; and 3) Positive absorption. Retailers, by leasing space in this market, have already demonstrated that they have moved past indecision and uncertainty regarding the future of retail in Broward County and see the long-term potential that exists due to favorable demographics and a growing population (Broward County will grow by 200,000 people by 2035, according to a recent study by The University of Florida). Property fundamentals among Publix centers in the Broward market will continue to recover; vacancy will reach 7-8% and rents will climb to \$25-26 NNN per square foot in late 2012. Bottom line, the sun is *still* shining in Florida.

About this study

Data was collected in December 2009 and August 2010 through on-site inspection by Woolbright Development and includes all Publix centers in Broward County, and is the exclusive property of Woolbright Development, Inc. For more information about Woolbright's research please send an email to lhoyer@woolbright.net or call Liz Hoyer, Research Director at 561-989-2247.

Woolbright Development

Woolbright Development Inc., a real estate investment firm based in Boca Raton, Florida, acquires and develops retail grocery and basic needs shopping centers throughout the state of Florida. Founded 22 years ago, Woolbright is now one of Florida's largest investors in Florida shopping centers and is partnered with some of the US's largest real estate investors. The keys to our success are extensive area research, industry knowledge, client commitment, and vision. Woolbright currently maintains a retail portfolio of 3.5 million square feet all of which is located in Florida's major metro markets. Information about the firm, recent research studies and a complete listing of our portfolio can be found on our website www.woolbright.net.