

Woolbright's 2009 Annual Jacksonville Retail Market Report

“Occupancy levels and rental rates continue to contract in Florida. In the first half of 2009, vacancy rates in Jacksonville climbed 80 basis points to 10.9%, and rental rates fell 7% to \$20.40 NNN/SF.”

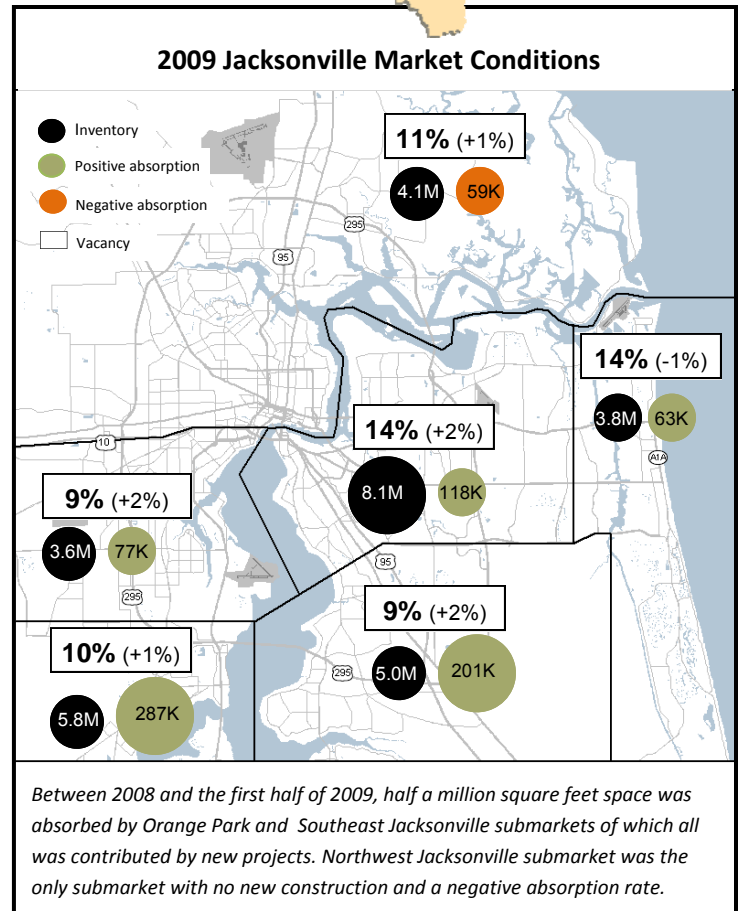
In this annual retail market report, Woolbright Development discusses the results of our July 2009 site visit to all retail centers in the Jacksonville market.

Jacksonville All Centers

Jacksonville is the smallest retail market among Florida's major metro markets with 217 centers totaling 30.1 million square feet of retail space. Since 2008, Jacksonville added 1.0 million square feet of new retail space to its inventory of which 80% was anchor space. This may seem like a lot of new space coming on line in a recession, but all new projects were initiated prior to 2008's credit crisis. Furthermore, these new centers opened with an average occupancy rate of 90%.

Vacancy rates in Jacksonville increased by 80 basis points, rising from 10.1% in 2008 to 10.9% in the first half of 2009. Jacksonville now has 3.3 million square feet of vacant space, an increase of 360,000 square feet. Centers with weak occupancy continued to deteriorate into 2009 while strong performing centers remained resilient in the recession. There were 36 centers (17% of all centers) with a vacancy rate exceeding 20%, and 70% of these centers were challenged by high vacancy last year too. In contrast, during the last two years over half of all Jacksonville's centers are operating with a low vacancy rate of only 0-5%.

The graph above illustrates that all submarkets in Jacksonville saw an increase by 1-2 percentage points in vacancy. The one exception was the Jacksonville Beach submarket which improved by 1 percentage point to 14%. Yet, despite the recent improvement, the Jacksonville Beach submarket remains among the submarkets with the highest vacancy.



Jacksonville Publix Centers

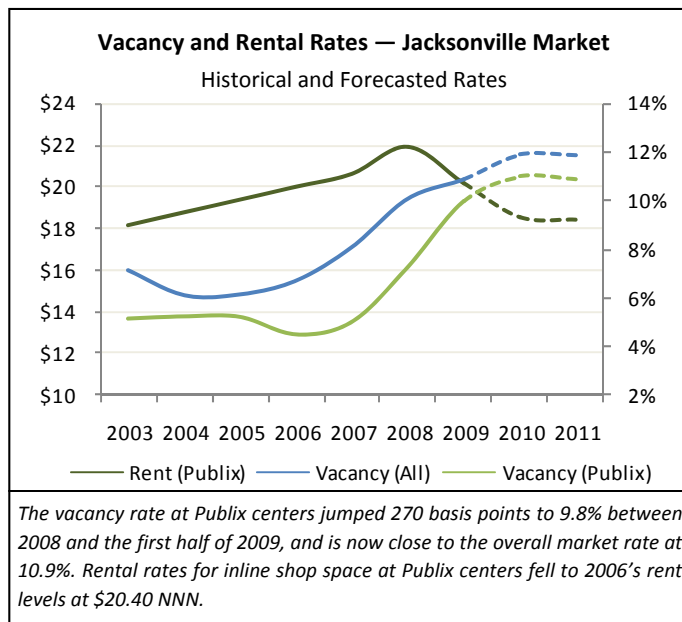
Publix Supermarket is the largest grocery chain in Jacksonville with a market share of 17%, closely followed by Winn Dixie at 14%. The Jacksonville market is home to 38 Publix stores totaling 5.3 million square feet of retail space. Since 2008, only two new Publix centers opened adding 85,000 square feet of retail space to the market.

Publix centers in Jacksonville have historically performed with a 2-3 percentage point higher occupancy rate than the overall market. In 2009, the vacancy rate at Publix centers jumped more than three times the vacancy for the overall market, rising 270 basis points, from 7.1% in 2008 to 9.8% in first half of 2009. Publix centers are now close to the double-digit vacancy rate that the overall market has experienced during the last two years in Jacksonville. The increase in Publix center vacancy is mainly due to falling occupancy at six centers including one renovation project, Gateway Town Center on 44th Street and Norwood Avenue. At these six centers two junior anchors closed and shop vacancy increased drastically.

Jacksonville Publix Centers Market Rents

Rent concessions from landlords are increasing, and base rents at Publix centers in Jacksonville are down to \$20.40 NNN per square foot in the first half of 2009, a decrease of 7% or \$1.50 since 2008. Landlords are not only offering lower rents to new tenants, but they are also trying to retain their current tenants in their centers by offering lower rents at renewal, to avoid further declines in occupancy.

Since 2003, rents at Publix centers grew conservatively at an annual compounded growth rate of 3%. After the credit crisis began, rents stopped growing, and in the first half of 2009 they had fallen back to the 2006 rent levels. Given the current economic conditions, Woolbright expects rents to continue declining until late 2010, when they should bottom out at about \$18 to \$19 NNN returning to the 2004-2005 rent levels.



Jacksonville New Projects

Over the last 10 years, Jacksonville has on average added 1.1 million square feet of new space annually, an average construction growth rate of 4.7%. In 2010, ground-up developments in Jacksonville, as everywhere else in the Nation, came to an abrupt halt. Publix Supermarkets do not have any announced expansion plans for new centers in Jacksonville; however, they will relocate one store into Shoppes of San Jose on St. Augustine Road and University Boulevard, taking over a former Albertson's store.

Outlook

The recession has forced retail chains to close underperforming stores, and some retailers have even faced store liquidations. In the past 15 months, the Jacksonville market lost 3 Linens 'N Things stores, 2 Circuit City stores, and 2 Sound Advice stores. Healthy retail chains have put their expansion plans on hold until they see a rebound in retail sales. As vacancy rates continue to climb in the double-digit range to 10.9% in Jacksonville, vacancy is the highest it has been in the last two decades, but it is still only half the vacancy level seen after the S&L crisis in the early 1990's. Historically Publix centers in Jacksonville have continuously performed better than the average center with a 2-3% higher occupancy rate. Now the spread between the vacancy rate at Publix centers and the other centers is negligible. Thus, even grocery centers are not immune from this recession. Given the continued absence of consumer demand, Woolbright projects occupancy levels among centers in Jacksonville to keep deteriorating, with vacancy plateauing at 11-12% in late 2010. With the expected rise in vacancy, Woolbright forecasts rents to continue to fall, declining another 7-8% at Publix centers in the next year and bottoming in late 2010 at about \$18-19 NNN per square foot. Any additional supply of new centers in Jacksonville is currently on hold, and Woolbright forecasts the activity of new developments to remain very low over the next five years. Finally, Jacksonville is over-retailed with 29 square feet of retail per person, well above the 23 square feet found in Florida's other major metro markets.

About this study

Data was collected in April 2008 and July 2009 through on-site inspection by Woolbright Development and includes all centers in Jacksonville with a GLA of 45,000 square feet or greater, 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.