Woolbright Development Research

Orlando Retail Market Summary and Outlook

2010 June

Woolbright's 2010 Annual Orlando Retail Market Report

In June 2010, vacancy rates in the Orlando market rose by 180 basis points to 12.4% and rental rates fell by 7% to $21.55 NNN.

Woolbright Development is pleased to present our annual Orlando retail market report. Over the last 20 years, Woolbright has physically visited all centers with a GLA of 45,000 square feet or greater in Florida's major markets. Last on-site survey in the Orlando market was conducted in June 2010.

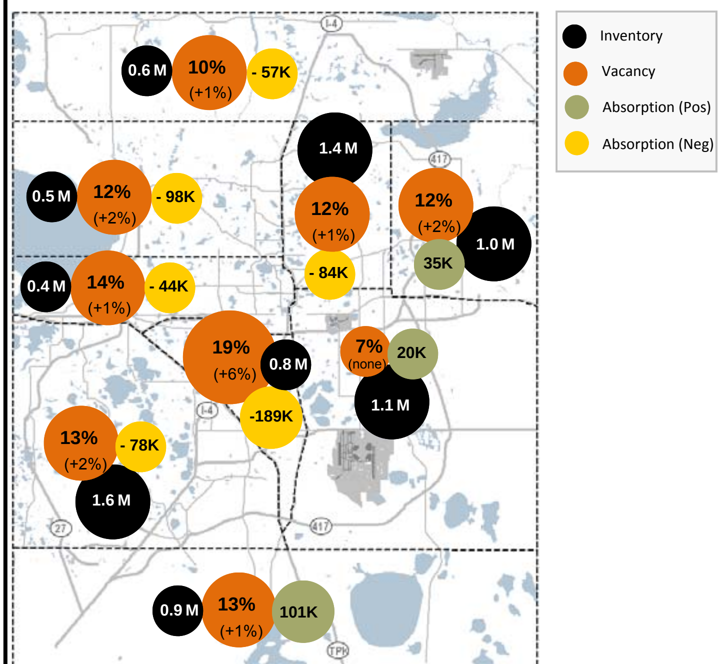
All Centers

Orlando's retail market grew by 1% in 2009 (close to 600,000 square feet of new retail space) bringing Orlando's retail open-air center inventory to 50.2 million square feet among 370 centers. The Orlando retail area supported 1.7 million residents and 46.6 million visitors during 2009. Fewer people visited the Orlando area last year (down 5% compared to 2008), but population grew slightly—gaining 20,000 people, an increase of 1%.

However, despite the lower than average retail growth last year, the Orlando market continued to experience rising vacancy rates. As of June 2010, vacancy stood at 12.4%, an increase of 180 basis points from 10.6% in February 2009. Seven out of Orlando's nine submarkets performed with a vacancy rate between 10-13% (see chart above). The Southeast Orlando submarket is the most efficient submarket, which performed with a vacancy rate of 7.4%. The recession cut into Florida's tourism business last year, and the Orlo Vista-Pine submarket, which includes retail centers in the resort area along the International Drive corridor, had the highest vacancy rate of 19%

Small shop space continued to account for the majority of the increase in vacant space in the Orlando market. In the last 16 months, an additional 1.0 million square feet became vacant, of which 60% - or 600,000 square feet - was a result of small business operators closing doors at underperforming locations. The net 400,000 square feet of large box closings was caused mainly by Albertsons, which closed six stores, and Circuit City, which closed four stores. Nevertheless, the economic downturn has been a boon for discount retailers such as Save-A-lot, Aldi, Goodwill and dollar stores, all of which expanded their networks in the past eight months in the Orlando market.

2010 Orlando Market Conditions



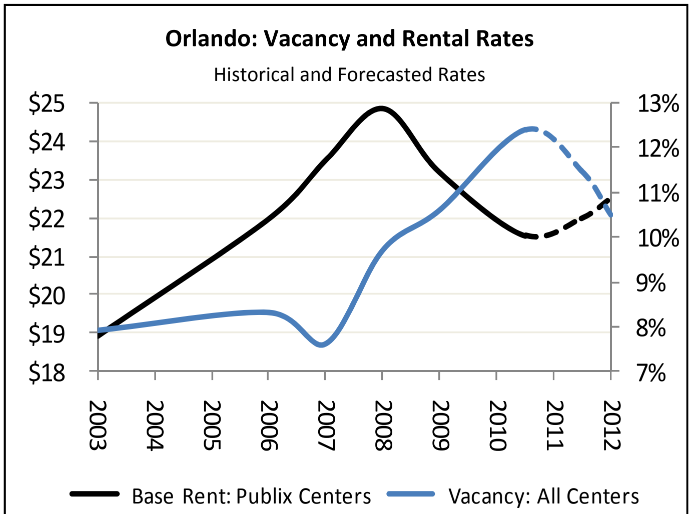
The Orlo Vista-Pine submarket, which includes retail centers along the International Drive corridor, has the highest vacancy rate (19%), in the Orlando market, reflecting the decline in Florida's tourism industry.

Publix Centers

Throughout the Orlando market, Publix has a total of 76 stores and anchor 8.3 million square feet of retail space. It is the largest grocery distributor in the Orlando market followed by Winn Dixie with 26 stores. Publix centers account for 20% of all centers in the entire Orlando market and Publix continues to expand its network. In 2010, a total of 170,000 square feet of new ground-up retail space anchored by Publix was developed: 1) Publix @ Summer Bay on US 27 and Golden Eagle Boulevard; and 2) Aloma Walk on SR 417 and Aloma Avenue.

In June 2010, vacancy at Publix centers in the Orlando market stood at 13.8%, increasing 210 basis points from 11.7% in February 2009. Publix centers added 200,000 square feet of vacant space of which all was small shop space. The two new developments added a total of 50,000 square feet of unleased, first-generation space, and the remaining 150,000 square feet was the result of small business operators closing underperforming stores in existing centers. In contrast to the overall Orlando market, Publix centers did not add any new anchor vacancy in the last 16 months. In June 2010, an average center in the Orlando market had two more small bays vacant compared to February 2009.

Publix Centers Market Rents



In June 2010, rents stood at 21.55 NNN, falling 13% or $3.30 from its peak in 2008 at $24.85 NNN. From Orlando's "historical-low" vacancy at 7.6% in 2007, vacancy rates have climbed 60% to 12.4% in June 2010.

According to The National Bureau of Economic Research, the recession ended last year, but the Orlando retail market is still feeling the effects of the economic downturn. With today's 6.2 million square feet of vacant retail space in the Orlando market, landlords continue to sacrifice higher rents in hopes of getting deals done and vacancies filled. For the second year in a row, rents at Publix centers in the Orlando market fell by 7%. In June 2010, rents stood at $21.55 NNN, down $3.30 from its peak in 2008 at $24.85 NNN. In the last two years, the trend throughout Florida has been that of retailers taking advantage of lower rents to position themselves in quality locations. Discounted rates have granted some retailers access to locations that were previously not accessible.

Comparing Orlando to the Southeast Florida retail market, during 2010, the Southeast Florida market started to see an uptick in occupancy and rental rates among Publix centers. By late 2011, occupancy levels in the Orlando market will contract near 11% and rental rates at Publix centers will stabilize at $21-22 NNN per square foot.

New Projects

Since 2009, developers added 600,000 square feet of new space in the Orlando market at the following new centers: 1) Dellagio on Sand Lake Road and Della Drive, a 130,000 square foot unanchored center; 2) Rolling Oak Commons on US 192 and Western Beltway, a 140,000 square foot center anchored by Target ; 3) Millenia Crossing on Conroy Road and Eastgate Drive, a 100,000 square foot center anchored by Nordstom Rack and Party City; 4) Publix @ Summer Bay on US 27 and Golden Eagle Boulevard, an 81,000 square foot Publix anchored center; 5) Aloma Walk on SR 417 and Aloma Avenue, an 88,000 square foot Publix anchored center; and 6) Aldi on Alafaya Trail and Alexandria Road, a free-standing 17,000 square foot store.

As an effect of the frozen lending market and current supply of excess space, new retail developments in the Orlando market have come to a halt. The credit crisis truly dealt a heart stopping blow to the development industry in Orlando, which historically, over the last two decades, has added 1.5 million square feet of retail space annually.

Outlook—The Recovery is Now Underway

While some of Florida's retail markets have started to see signs of recovery, especially among Publix centers in Southeast Florida, the recovery in the Orlando market is near, but has not yet fully materialized. In June 2010, the vacancy rate in the Orlando market stood at 12.4%, increasing 180 basis points from 10.6% in February 2009. In the last 16 months, the Orlando market added 1.0 million square feet of vacant space, which, hypothetically, can be explained by two factors: 1) Albertson's and Circuit City together closed 500,000 square feet of retail space in the Orlando market; and 2) Developers added 600,000 square feet of new space during a soft economy. The effect of the oversupply of space in the Orlando market continued to put a downward pressure on rental rates. In June 2010, rental rates at Publix centers stood at $21.55 NNN, falling 7% from $23.20 in February 2009.

The rebound of the Orlando retail market will be helped by the near cessation of new construction. As current vacant space is absorbed, vacancy levels in the Orlando market will reach about 11% in late 2011 and rental rates at Publix centers will stabilize at $21-22 NNN per square foot.

About this study

Data was collected in February 2009 and June 2010 through on-site inspection by Woolbright Development and includes all centers in the Orlando market 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.