

Woolbright's 2009 Annual Palm Beach Retail Market Report

"In 2009, vacancy rates in the Palm Beach market increased by 220 basis points to 12.8% and rental rates fell by 13% to \$23.40 NNN/SF."

Woolbright Development is pleased to present our annual Palm Beach Retail Market Report. The field survey was conducted by Woolbright site visits during November 2009.

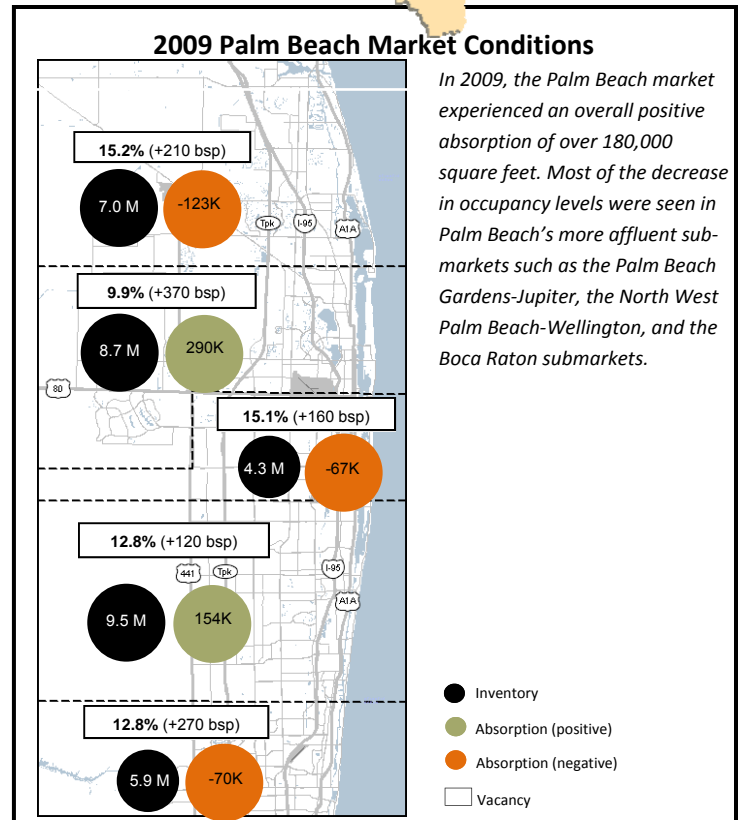
Palm Beach All Centers

The Palm Beach retail market contains 35.4 million square feet of retail space amongst 266 centers supporting a population of 1.2 million people. Palm Beach's retail inventory is about 80% the size of the Broward market and 90% of the Dade market. Since the third quarter of 2008, about 1.1 million square feet of new retail space was added to Palm Beach County.

After a weak 2008, the retail market in Palm Beach continued to slow during 2009 as the average vacancy rate in Palm Beach increased by 220 basis points, rising to 12.8% in the fourth quarter of 2009. Palm Beach now has 4.5 million square feet of vacant space, an increase of 900,000 square feet over the prior year.

Most observers would guess that the large increase in vacancies during 2009 came from widely publicized store closings by large anchor tenants. Yet, during 2009, Palm Beach County's anchor vacancy remained unchanged because the new store closings were offset by new leases with anchors from the following retail categories: discount retailers, health clubs, and retailers selling necessities.

Two factors accounted for the 900,000 feet of additional vacant space in Palm Beach County. First, the economic downturn and the lack of new credit, took its toll on small business operators. The resulting small shop closings created nearly 750,000 square feet of new vacancy. During 2009, a typical shopping center in Palm Beach County lost 3,000 square feet of occupancy. Secondly, the new projects that opened in 2009, struggled to fill up their small shop space. At the end of 2009,



these new projects contained 150,000 square feet of vacant area and their occupancy level stood at only 83% on average. This is a stark contrast to just two years ago when new centers opened with nearly 95% occupancy.

Palm Beach Publix Centers

In Palm Beach, Publix Supermarkets anchor one out of four centers. Publix has 70 stores totaling 9.1 million square feet of retail space. Over the last 14 months, Publix opened two new locations. These new Publix centers added over 300,000 square feet of retail space to inventory. The new centers are: 1) Shoppes at Woolbright at Woolbright Road and Jog Road. 2) Canyon Town Center at Boynton Beach Boulevard and Lyons Road. In addition, Publix also opened one new store at Shoppes of Jonathans Landing on Alternate A1A and Indiantown Road in a former Albertson's location.

Surprisingly, Palm Beach's Publix centers were hurt more by the recession than an average center. The above average decline was due to the loss of "high-end" retailers that Publix centers attract succumbing to the shift on consumers away from luxury items. In 2009, the average vacancy rate at Publix centers increased by 320 basis points, rising from 7.8% in the third quarter of 2008 to 11.0% at the end of 2009.

Palm Beach Publix Centers Market Rents

At the start of the credit crisis in 2007, the average quoted asking rental rates at Publix centers in Palm Beach remained flat for a year at \$27.00 NNN. Then during the past two years, rents have rapidly slid by 13% or \$3.60/SF to \$23.40 NNN. Given the current record level of vacant space, we expect to see continued downward pressure on rents until the vacancy rate falls back below 10%, which should occur by late 2011. We forecast that rising rents will lag behind the drop in vacancy rates because it will take a while for the psychology to rebound from the stigma of double-digit vacancy levels. Rents will bottom out in 2011 at about \$20.00—\$21.00 NNN per square foot or about 15% below current levels and nearly 30% below their peak.

Palm Beach New Projects

Approximately 1.1 million square feet of new retail space has been delivered in the Palm Beach market since the third quarter of 2008. Palm Beach added the following six new projects: 1) Wellington Green Commons on U.S. 441 and south of Forest Hill Boulevard; 2) Shoppes at Woolbright on Woolbright Road and Jog Road; 3) Canyon Town Center on Boynton Beach Boulevard and Lyons Road; 4) Wal-Mart Supercenter on 45th Street and Military Trail; 5) The Shoppes at Southern Palms on Southern Boulevard and west of U.S. 441; 6) LA Fitness at Village Plaza at Boca Village.

Nearly all announced planned developments have fallen out of the pipeline for 2010 and 2011 due to the tight financing market and loss of anchor demand for new retail space. We do not expect to see the construction growth rate rise above 1% for the next three years, which will be the lowest supply growth in South Florida's history. While others sit on the sidelines, only Publix Supermarkets will open new stores throughout Palm Beach County in the near future: 1) Publix at Riviera Beach on Blue Heron Boulevard & Lake Shore Drive; 2) Lake Worth Publix on Dixie Highway and 2nd Avenue; 3) Freshman's Crossing on Alternate A1A and Hood Road. 4) Delray Marketplace on Atlantic Avenue and Lyons Road.

Outlook

The Palm Beach market experienced a moderate decline during 2009 with both occupancy and rental levels falling. Last year will most often be thought of as a dark year for anchor retailers with the widely publicized shutdown of Linens 'n Things and Circuit City. It looks as though this trend will continue into 2010 based on Albertson's recent announcement of their store closings. Nevertheless, stronger existing anchors including Publix, Wal-Mart Neighborhood, Western Beef Supermarket, TJ Maxx/HomeGoods, Ross, Michaels, Deal\$, Outlet World, and LA Fitness are expanding into the vacant boxes which has resulted in no net change of vacant anchor space for 2009 as compared to 2008. Perhaps this backfilling by strong retailers portends the seeds of recovery. There is lots of wood chopping that will need to be done during 2010 and 2011 to restore properties back to their pre-crisis levels. But, the market will recover and it will be helped along by the nearly nonexistent growth of new space.

About this study

Data was collected in September 2008 and November 2009 through on-site inspection by Woolbright Development and includes all centers in the Palm Beach 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.

