A Summary at Year-End 2011

Washington Area Economy Snapshot
- Job Growth: 5,900 new jobs during the 12 months ending October 2011.
- Unemployment Rate: 6.1% at September 2011, compared to the U.S. rate of 9.1%.
- Job Growth 2011-2015: to average 37,300 per annum.

Washington Area Retail Market Snapshot
- Vacancy Rate: 5.5% for grocery-anchored shopping centers at year-end 2011, down from 5.6% one year ago.
- Rents: up 2.1% for grocery-anchored shopping centers during 2011.
- Retail Jobs: shed 1,200 jobs during the 12 months ending October 2011.
- Average Household Income: $102,600 in 2010, 46% higher than the U.S. average.
- Neighborhood Shopping Center Development: 1.4 million SF under construction or renovation at December 2011.

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Payroll employment increased by 5,900 during the 12 months ending October 2011, as companies await a clearer picture on the Federal budget.

Economy and Outlook

The Washington metro area economy experienced a modest rise in jobs over the past year. Payroll employment increased by 5,900 during the 12 months ending October 2011, as companies await a clearer picture on the Federal budget. The service-providing industries continued to grow, adding 11,600 new positions during the past year. This compares to the goods-producing sectors, which shed 5,700 positions.

We believe a few factors explain the limited job growth during the past 12 months:

- We have reached the part of the year when, in 2010, the Washington economy was gaining traction ahead of other markets. The 12-month change is more modest compared to other metro areas given the higher base in October of 2010.
- Employment numbers may be affected by anomalous factors. Last year at this time Federal government employment was inflated due to Census jobs.
- Some softness from reduced Federal hiring may be setting in, but anticipated private-sector growth should overcome Federal austerity measures.

The Washington area unemployment rate was 6.1% at September 2011, up from 5.9% one year ago. This compares to the national rate of 9.1% at September 2011. The Washington metro area has the lowest unemployment rate among the nation’s largest metro areas.

The Professional/Business Services sector added the greatest share of jobs to the metro area, adding 8,700 new jobs during the past 12 months. We expect this trend to continue. This sector generates high-wage, office-using jobs – the type that spend retail dollars, occupy office space, buy homes, and rent Class A apartments.

The retail sector shed 1,200 jobs in the Washington metro area, a decline of 0.5%, during the 12 months ending October 2011. This compares to a national rise of 1.1%. The Washington metro area made gains in hiring during 2010 compared to the United States, which shed retail jobs.
Although we believe the local economy is in the expansion phase of the economic cycle, we expect the speed to be slower than seen in previous expansion cycles, as consumers and companies remain cautious and the Federal government institutes austerity.

Incomes in the Washington metro area grew by 27.3% from 2000 to 2010, compared to just 24.0% nationally. By 2015, the Washington metro area’s average household income is projected to rise 14.2%, compared to a rise of 13.0% nationally.

We expect the Washington metro area economy to progress through 2012. Although we believe the local economy is in the expansion phase of the economic cycle, we expect the speed to be slower than seen in previous expansion cycles, as consumers and companies remain cautious and the Federal government institutes austerity.

In consultation with Dr. Stephen Fuller of George Mason University, we project that 23,600 payroll jobs will be added to the Washington metro area economy during 2011, when the numbers are finalized. We expect the Northern Virginia substate area to be the leader in job growth with 15,700 new jobs in 2011. The Suburban Maryland and District substate areas should produce 4,600 and 3,300 new jobs, respectively.

We expect job growth in the Washington metro area will continue during 2012 and 2013 – adding 30,300 and 39,500, respectively.
Grocery-Anchored Shopping Center Market Conditions

Given the demand for groceries at all points of the economic cycle, grocery-anchored shopping centers maintain the greatest stability compared to other retail property types. Therefore, the bulk of our analysis in this report is focused on grocery-anchored shopping centers.

Of the total retail inventory in the Washington metro area, 57.6 million SF is located in 340 grocery-anchored shopping centers, which is almost half of the total retail inventory in the metro area.

We perform an annual year-end survey of over 300 Washington area grocery-anchored shopping centers, and tabulate vacancy and rent data. The charts following summarize trends from 1999-2011.

The metro-wide vacancy rate for grocery-anchored shopping centers edged down to 5.5% at year-end 2011, from 5.6% at year-end 2010. At 5.5% vacant, grocery-anchored shopping centers are on par with the overall shopping center market at 5.5% vacant at year-end 2011. The vacancy rate in Suburban Maryland declined to 5.6% at year-end 2011, from 6.0% one year ago. Northern Virginia vacancy was 5.5% at year-end 2011, up from 5.3% one year ago.

The core submarkets experienced no change in vacancy compared to one year ago. The inner ring experienced a slight decline during 2011, at 30 basis points. This compares to the outer ring experiencing a 50 basis point rise in vacancy. Newer, closer to the core centers have performed well, as tenants have traded up in quality during the past year.

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>2011</th>
<th>2010</th>
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<tbody>
<tr>
<td>Core</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Inner Ring</td>
<td>4.8%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Outer Ring</td>
<td>7.9%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Washington Metro</td>
<td>5.5%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

Source: Delta Associates; December 2011.
Overall, newer grocery-anchored shopping centers outperformed market averages during 2011. Centers built after 1999 in the Washington metro area held a 6.5% vacancy rate at year-end 2011, a 70 basis point decline during the past year.

Rental rates at grocery-anchored centers increased 2.1% in 2011, after declining 2.4% in 2010. Metro-wide average in-line tenant rents were $31.65/SF at year-end 2011. Suburban Maryland rents were $31.86/SF, a 3.8% rise from year-end 2010. Northern Virginia rents were $31.15/SF, up 1.0% from year-end 2010.

The core submarkets experienced a healthy rise in asking rates at 6.8% during 2011, as tenants sought to lease and remain in the core. Also, this area has limited availability, with just over 200,000 SF of available space on the market. The inner and outer rings experienced rent increases at a less robust pace, 2.1% and 0.5%, respectively, as these submarkets have less demand and a greater amount of available inventory.

Overall, newer grocery-anchored shopping centers outperformed market averages during 2011. Centers built after 1999 in the Washington metro area hold a 6.5% vacancy rate at year-end 2011, a 70 basis point decline during the past year. Centers built in 1999 or older held a 5.2% vacancy rate at year-end 2011, remaining unchanged compared to one year ago.

Centers built after 1999 in the Washington metro area experienced a 4.3% rise in asking rates during 2011. Centers built in 1999 or older experienced a 1.1% rise during 2011.
New Development

There are seven notable grocery-anchored shopping centers, totaling 1.4 million SF, under construction or renovation in the metro area at December 2011.

There are additional grocery-anchored shopping centers in the planning stages that are not included in the adjacent table, some of which may deliver by early to mid-2014.

<table>
<thead>
<tr>
<th>Shopping Center</th>
<th>RBA</th>
<th>Anchor</th>
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<tbody>
<tr>
<td>CityCenter DC</td>
<td>325,000</td>
<td>TBD</td>
</tr>
<tr>
<td>Hilltop Village Center</td>
<td>250,000</td>
<td>Wegmans</td>
</tr>
<tr>
<td>Tysons West Promenade</td>
<td>247,000</td>
<td>Walmart</td>
</tr>
<tr>
<td>Shops at Seneca Meadows</td>
<td>200,000</td>
<td>Wegmans</td>
</tr>
<tr>
<td>Shops at Moorefield Village</td>
<td>150,000</td>
<td>Harris Teeter</td>
</tr>
<tr>
<td>Purcellville Gateway</td>
<td>110,000</td>
<td>Harris Teeter</td>
</tr>
<tr>
<td>CityMarket at O Street</td>
<td>88,000</td>
<td>Giant</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>1,370,000</strong></td>
<td></td>
</tr>
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</table>

The District of Columbia could add more grocery-anchored shopping centers to its mix in the near-term, as the Supermarket Tax Credit was overhauled last year by the FEED DC Act of 2010, which now matches boundary lines to income levels.

Since this overhaul, a handful of new grocers have taken advantage of this credit. For instance, Harris Teeter at 1350 Potomac Avenue, SE and Yes! Organic at 3100 Georgia Avenue, NW seized this opportunity.

To qualify for the tax benefit, supermarkets must be located within the priority development area, as noted in the adjacent map. These areas could experience a rise in grocery-anchored developments.

At year-end 2011, to construct a shopping center in the Washington metro area, the minimum rent needed was $22.00/SF, on a triple net basis. The current average asking rent at year-end in the metro area is $31.65/SF, indicating rents can be met at newly constructed centers. In fact, the average rent in each surveyed jurisdiction currently exceeds this $22.00/SF threshold.
Cash-on-cost return requirements for shopping centers declined to 9.1% in 2011, from 9.5% one year ago, as investors have a renewed confidence in the Washington area market. In addition to the increased demand for Washington metro real estate assets, low mortgage rates allow investors to accept lower rates of return.

We expect few spec projects to move forward in the near-term. Rather, projects with notable pre-leasing and financing in place will be the norm. However, given the long-term demand for goods in the metro area, we believe developers will look to deliver new product by 2013/2014, as the market transitions to landlord conditions.

**Protypical Development Economics For A Shopping Center**

**Washington Metro Area**

**Year-End 2011**

<table>
<thead>
<tr>
<th>Per Rentable SF</th>
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<tbody>
<tr>
<td><strong>A. Hard Costs</strong></td>
<td>$153</td>
</tr>
<tr>
<td><strong>B. Soft Costs</strong></td>
<td>$35</td>
</tr>
<tr>
<td><strong>C. Sub-Total, Development Costs (Excluding Land)</strong></td>
<td><strong>$188</strong></td>
</tr>
<tr>
<td><strong>D. Land Costs (Per FAR)</strong></td>
<td><strong>$44</strong></td>
</tr>
<tr>
<td><strong>E. Total, All-In Development Costs</strong></td>
<td><strong>$232</strong></td>
</tr>
<tr>
<td><strong>F. Required Rents (NNN) Needed to Support New Development</strong></td>
<td><strong>$22</strong></td>
</tr>
</tbody>
</table>

**Pro Forma Rent Calculations**

| A. Cash on Cost Return Requirement (%) | **9.1%** |
| B. Cash on Cost Return Requirement ($) | **$21.11** |
| C. Divided by Occupancy Rate | **95%** |
| D. Equals Required Rent (NNN) | **$22.22** |

Source: Delta Associates’ Market Maker Survey; December 2011.

**Investment Sales**

There were nine notable investment sales of grocery-anchored shopping centers in the Washington metro area suburbs during 2011. Sales volume totaled $454 million ($276/SF) during 2011, compared to $178 million ($212/SF) during 2010.

Most recently, Bentall Kennedy purchased Woodlawn Park Crossing in Herndon for $62.4 million ($462/SF). This center is anchored by Harris Teeter. In addition, this company purchased Penn Mar Shopping Center in District Heights for $60.2 million ($158/SF).
Our Market Maker Survey respondents noted that cap rates for Class A grocery-anchored shopping centers have declined to 6.4% at October 2011, from 7.1% one year ago. Consumers are starting to spend money again, albeit slowly. Well-located Class A neighborhood shopping centers with a dominant grocery anchor have managed well during the recent downturn, as these centers have been able to keep tenants and also lure quality tenants from Class B centers.

The Bottom Line

We expect the retail market in the Washington metro area to gradually recover during 2012. Companies have restrained hiring in the metro area, given economic uncertainty. However, hiring remains focused on high-skilled positions, particularly within the Professional/Business Services sector. This sector generates high-wage jobs – the type that spend retail dollars, occupy office space, buy homes, and rent Class A apartments.

Despite healthy retail demand, consumer spending will be muted compared to past robust economic times. We expect consumers to focus spending at wholesale merchants, as economic uncertainty persists. However, luxury retailers should continue to experience steady demand, as consumers with cash are showing eagerness to spend. Given the high incomes of consumers in the Washington metro area, we expect this retail type to perform well.

We expect the vacancy rate for grocery-anchored shopping centers to decline steadily during 2012, as new retailers enter the Washington metro market and existing retailers look to expand.

We expect the core and inner ring submarkets to rebound at a faster clip, compared to the outer ring submarkets, as these centers have been able to keep and lure quality tenants from Class B centers.
Given demand for Class A space, we believe property owners will continue to invest, where the cash is available, in repositioning existing underperforming assets – either upgrading or transforming shopping centers into a grocery-anchored format.

Shopping centers with notable vacancies will have a hard time attracting new tenants, unless the center is located in a top-performing submarket. If these centers fail to attract tenants over the next year or two, redevelopment could occur.

Given demand for Class A space, we believe property owners will continue to invest, where the cash is available, in repositioning existing underperforming assets – either upgrading or transforming shopping centers into a grocery-anchored format. Currently, tenants seeking space are interested in newer, Class A space with high foot traffic. Centers that focus on everyday needs, such as groceries and other necessities, remain successful during economic downturns or slow growth periods.

We expect future retail development to focus on a mixed-use format involving office or residential within a walkable urban area or close to public transit. We find these developments often have a grocery store as an anchor. Overall, people want to drive less and shop for goods close to where they reside.

We find our successful developer and investor clients are planning for the next expansion phase by:

1. Selectively accumulating assets at below replacement cost while prices and interest rates are low. The window is closing, as prices are rising.
2. Acquiring debt or recapitalizing assets.
3. Developing new projects for delivery in the 2013/2014 period in select submarkets with good supply/demand fundamentals.

Since market conditions will start to transition during 2012/2013 for retail, we recommend developers:

- Start site assembly through early 2012.
- Start construction by mid-2012.
- Deliver product by mid-2013 when the market starts to shift toward the landlord’s favor.

Tenants would be well advised to make their deals soon before the market shifts away from the current tenant-favor, to landlord conditions.

To subscribe to this quarterly Retail Outlook please contact Delta Associates. Our contact information is on page 10 of this report. Thank you for your interest.
Delta Associates is a firm of experienced professionals offering consulting, valuation, and data services to the commercial real estate industry for over 30 years. The firm’s practice is organized in four related areas:

- **Valuation** services for partial interests in commercial real estate assets.
- **Consulting**, research and advisory services for commercial real estate projects, including market studies, market entry strategies, asset performance enhancement studies, pre-acquisition due diligence, and financial and fiscal impact analyses.
- **Distressed asset recovery services** to include property performance analyses and enhancement studies, debt structuring evaluation and note valuations, portfolio assembly due diligence, valuations, and litigation support.
- **Subscription data** for selected metro regions for office, industrial, retail, condominium, and apartment markets.

For more information on Delta Associates, please visit DeltaAssociates.com. Delta’s Retail Practice Team includes: David Parham, Senior Vice President; Alexander (Sandy) Paul, National Research Director; and Elizabeth F. Norton, Mid-Atlantic Research Director.


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The Rappaport Companies

For more than 25 years, The Rappaport Companies has provided Washington, D.C., Maryland and Virginia with professional real estate services centered exclusively on the retail segment. Founded by Gary D. Rappaport, SCSM/SCLS/SCMD/SCDP, The Rappaport Companies provides the following services for some of the area’s most prominent landlords, retailers, asset managers, commercial real estate companies and financial institutions:

- Property Management
- Landlord & Tenant Representation
- Construction Management
- Consulting & Receivership Services
- Development

The Rappaport portfolio totals more than 13 million square feet of existing and planned retail space in shopping center and mixed-use properties in both urban and suburban locations.

Mr. Rappaport is a past Chairman and Trustee of the International Council of Shopping Centers (ICSC). He serves on the Washington, D.C. Economic Partnership Board and recently authored “Investing in Retail Properties,” which explains how to structure real estate partnerships for sharing capital appreciation and cash flow. The information contained in the book is the basis for classes he teaches for ICSC’s University of Shopping Centers and Executive Learning Series and as a guest instructor at Johns Hopkins, Georgetown, American and George Mason universities.

Led by Executive Vice President Henry Fonvielle, the Rappaport Retail Brokerage team of Bill Dickinson, Michael Howard, Melissa Webb, John Hayden, Susan Bourgeois, Will Collins, Kristin Perry, Pat O’Meara, Jim Farrell, Michael Kang and Jason Yanushonis includes the region’s top experts in the retail industry.

<table>
<thead>
<tr>
<th>Property Management, Consulting &amp; Receivership</th>
<th>Construction Management &amp; Development</th>
<th>Leasing &amp; Brokerage</th>
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<tr>
<td>Charlotte Strain</td>
<td>Larry Spott</td>
<td>Henry Fonvielle</td>
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<td>Senior V.P. of Asset Mgt.</td>
<td>Executive V.P. Dev.</td>
<td>Executive V.P.</td>
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<tr>
<td>571-382-1256</td>
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<td><a href="mailto:hfonvielle@rappaportco.com">hfonvielle@rappaportco.com</a></td>
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