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National Real Estate Investor & Retail Traffic

Time to Sell?

Premium pricing weighs heavily in owners' decisions to sell.

For anyone who believes the old adage about buying low and selling high, now would appear to be an ideal time to put retail properties on the market.

"If you are inclined to sell, now is a great time. Cap rates are historically low, and there is a lot of capital chasing retail real estate," says Brad Hutensky, manager of Hutensky Capital Partners LLC in Hartford, Conn. "It's hard to imagine that these dynamics will get any better."

Owners appear to agree. In an exclusive survey of 592 shopping center owners conducted by Retail Traffic and Hutensky Capital Partners, more than half of respondents reported that they were at least somewhat likely to sell one or more properties in the next 12 months, with 22% "very likely," 12% "likely" and 19% "somewhat likely" to sell. Forty-seven percent reported that they were not at all likely to sell. (See charts)

Retail properties — along with commercial real estate in general — continue to be a hot commodity among investors. Sale prices for retail strip centers have jumped 60% in the past four years to average $160 per sq. ft. in the third quarter 2005, while cap rates have dropped 200 basis points to 7.5% during the same period, according to New York-based Real Capital Analytics.

Such premium pricing is certainly fueling record retail transaction volume. Nearly $32.3 billion in retail properties traded hands during the first three quarters of 2005 - a 13% increase compared to the $28.5 billion that traded hands during the same period last year, according to RCA, which only tracks those transactions valued higher than $5 million.

Cashing in

The strong demand for retail investment properties is creating enticing opportunities for owners to sell all or part of their portfolios. "It's a good time to recycle capital from non-core assets to stronger acquisitions that will enhance the quality of the overall portfolio," says Alan Merkur, a senior vice president and director of transactions at Equity One in North Miami Beach, Fla. As of October, Equity One had sold four shopping centers in 2005, and is currently marketing three other properties.

The majority of respondents expect the value of retail real estate to increase, with 51% expecting property values to increase somewhat and 5% anticipating values to increase significantly in the next 12 months.

DIVESTING CASE STUDY:
Waterlick Plaza

Asset: Located in Lynchburg, Va., the 98,694 sq. ft. shopping center is anchored by Kroger and was 96% occupied at the time of the sale.

Sale: Equity One sold the property in August for $8.9 million or $90.18 per sq. ft.

Motivation: Equity One had inherited Waterlick Plaza as part of its 2003 merger with IRT Property Co. The property was not in line with the REIT's overall strategy to focus on high growth markets in the southern U.S. and Boston.

"We think now is the time to sell," says Alan Merkur, a senior vice president and director of transactions at Equity One in North Miami Beach, Fla. Waterlick Plaza is one of four shopping centers Equity One has sold in 2005, and the firm is currently marketing three additional properties for sale. "Clearly, these properties were on our radar screen to sell, but the market itself provided an opportunity to get out and get it done at prices that were probably in excess of what we had initially anticipated," Merkur says.

THINKING ABOUT SELLING?

Five Reasons Why You Should Consider Selling Your Center Now

1. **Prices Can't Get Higher, Can They?** Will today's historically low retail cap rates stay at these levels forever? Hard to imagine, so sell while the selling is good.

2. **The Retailers They Are A-Changin':** With apologies to Bob Dylan, retailers they are a-changin' — their formats, their locations and their solvency. All that change can play havoc on occupancy rates and eventually on the owner's basis. Sell now before retailers start a-changin' in your center.

3. **Retail Romance on the Rocks:** Retail real estate has been the darling of investors for as long as anyone can remember. But love does not last forever in the all-too-fickle investment world. Don't be left brokenhearted: Be the one to leave.

4. **Supermarket Instability:** Supermarket-anchored centers were once prized for their stable sales and value. In a world of dramatic realignment in the supermarket sector, it may be time to sell a supermarket-anchored center, before it loses its anchor, its stability, and its value.

5. **The Status Quo is not a Strategy.** Doing nothing is a recipe for disaster. Shopping centers require constant redevelopment and repositioning just to remain competitive. Any owner without the skill and capital to stay current can either sell or go down with the ship. Which sounds better to you?

Five Things To Do Before You Sell

1. **Hit the Books:** The rent roll sure tells you a lot. When do leases expire? How do rents compare to market rents? What is sales performance? An honest read on your tenants will go a long way to understanding the strengths and weaknesses of a center.

2. **Look at the Warts:** Everyone else will. Identify any potential problems in your property: most buyers will find all of these in due diligence. Do you need a new roof or new parking lot? Environmental issues? Weak tenancies or shaky market positioning?

3. **Know What's Fair:** Get an honest sense of the value of your property. If you don't have the skills to do this yourself, ask a broker or someone else who knows how to value retail property.

4. **Capital is King:** Understand your current capital structure. Is your debt pre-payable or must it be assumed by the buyer? Do your equity partners want to sell to the highest bidder or is it more important that they go to contract with a buyer with a high probability of closing? All of these can impact value.

5. **Set Some Goals:** Decide what your goals of the sale are: quick, certain execution vs. maximum price? It's tempting to say "both," but what's really more important? Are you willing to except an offer at your target price or is it important to go through a multi-bid auction that could take much longer to assure that the property has been widely exposed?

Twenty-six percent expect values to remain the same, and 17% say prices are likely to decrease.

"It's hard to imagine prices getting any stronger," says George Good, executive vice president in the Oakbrook, Ill. office of CB Richard Ellis. "That being said, there is so much capital that — for the well leased properties — I'm not sure that is necessarily the case." Most of the owners surveyed expect cap rates to remain the same or increase in the next 12 months with 46% of respondents expecting cap rates to increase and 36.9% expecting caps to remain the same.

An owner of an aging shopping center may opt to sell before the property's value begins to decline, while another owner may opt to bring in higher quality tenants before putting a property on the market.

Current pricing was certainly an incentive in Ramco-Gershenson's decision to sell some of its non-core assets, says Dennis Gershenson, president and CEO of the Farmington Hills, Mich.-based REIT. Seven months ago when high quality shopping centers were selling for caps between 6 and 6.5%, Gershenson thought for sure market pricing had peaked. But now the same types of centers are selling for cap rates below 6%.

The firm announced in September that it will sell at least seven of its shopping centers. The properties are located in secondary and tertiary markets and include Cox Creek in Florence, Ala. and Cumberland Gallery in New Tazewell, Tenn. "Another reason we are selling these assets, is that we are always in need of capital," Gershenson says. The company plans to use funds from these sales for additional acquisitions, development and repositioning of existing properties.

Weighing the pros and cons

While today's high prices are enticing, deciding whether to sell a property is not a simple decision-many factors, in addition to price, play a role. According to survey respondents, the top factors affecting the decision to sell include local market conditions (47%); other investment opportunities (47%); performance of a specific property (44%); and overall market conditions (29%).

"I believe that selling your property has a lot to do with the specific dynamics of your property," Hutensky says. "Owners need to weigh factors unique to their shopping center, such as net operating income, tenant mix and customer traffic. For example, an owner of an aging shopping center may opt to sell before the property's value begins to decline, while another owner may opt to bring in higher quality tenants before putting a property on the market," he adds.

Retail owner-operators with a long-term hold strategy may be reluctant to sell, particularly when they have enjoyed low vacancies and stable rents. Unlike office, industrial and apartment sectors, retail fundamentals remained solid throughout the economic downturn of the early 2000s. Vacancy

REPOSITIONING CASE STUDY:
Jackson Crossing

Asset: Located in Jackson, Mich., the 376,672 sq. ft. shopping center features more than 60 retailers including anchors such as Sears, Target, Kohl's and Best Buy. Renovation: Owner Ramco-Gershenson is adding a 30,545 sq. ft. TJ Maxx store to the center. A number of small retailers will be relocated or terminated to make room for the new store, which is set to open in spring 2006. The REIT made a similar move last year when several small stores were removed to clear space for the addition of Bed Bath and Beyond.

Result: In both instances, the shopping center was more than 90% leased, and tenants were relocated or terminated to make room for the larger box tenants. The incentive is to use the national brands to draw more traffic to the center, as well as to boost the stability of the center by signing good credit tenants. Currently, the center is more than 95% leased. In addition, Ramco-Gershenson has been contacted by two other mid-size box retailers that are interested in locating in that center. It's always a good time to reposition and bring added value to existing shopping centers, notes Dennis Gershenson, president and CEO of Farmington Hills, Mich.-based Ramco-Gershenson. The REIT typically spends between $15 million and $20 million a year on repositioning existing shopping centers. In most cases, these are not "troubled" properties. In fact, among the seven shopping centers Ramco-Gershenson is currently repositioning, all of them are more than 90% occupied.

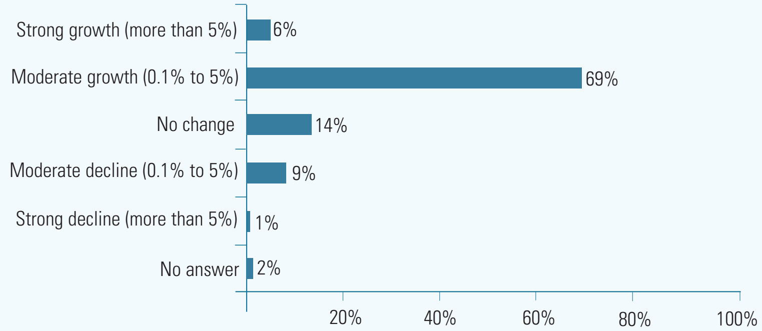
"We have been fortunate to have the key location in (Jackson), so these anchors have come to us," Gershenson says. "We continue to explore opportunities to reconfigure or buy additional land to accommodate tenants."

EXPECTED PERFORMANCE OF RETAIL BUSINESS

The majority of respondents expect the retail business to grow.

More than two-thirds of respondents (69%) expect moderate growth, while 6% expect to see a strong growth in sales per foot.
In fact, 57% of respondents who expect the value of retail real estate to decrease expect to see an increase in retail sales per square foot.

In the coming 12 months, how do you expect the retail business (as measured in sales per square foot) perform?



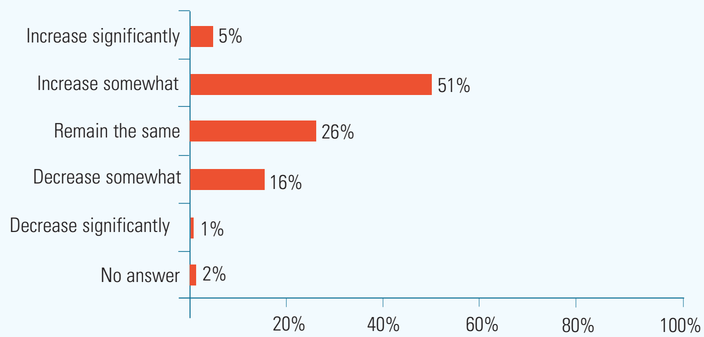
Base= respondents who currently own retail space, 592.

EXPECTED CHANGE IN VALUE OF RETAIL REAL ESTATE

The majority of respondents expect the value of retail real estate to increase.

Even though today's values are historically high, 56% believe they will increase even more.

In the coming 12 months, how do you expect the value of retail real estate in general to change?



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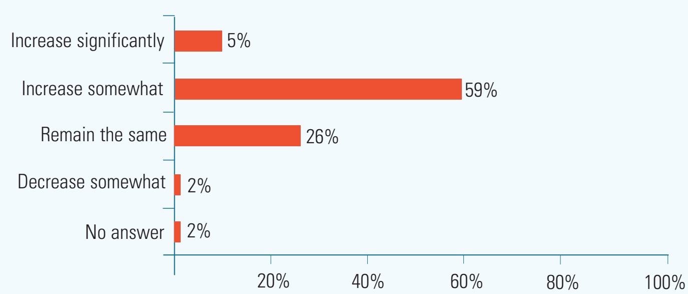
ROI EXPECTATIONS

Respondents are optimistic about future ROI.

Overall, 69% of respondents expect to see an increase in ROI from their properties in the next 12 months. In fact, even respondents who are pessimistic about the value of retail real estate in general have a good outlook for their own properties; 57% of these respondents anticipate ROI from their properties will increase.

In the coming 12 months, how do you expect ROI from your properties to change?



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rates at community and neighborhood centers reached 6.7% at mid-year, down 40 basis points compared to a year ago. During the same period, effective triple net rents rose 3% to $16.52 per sq. ft., according to Reis Inc.

And retail property owners remain bullish: 69% of respondents expect to see an increase in ROI from their properties in the next 12 months. Even respondents who expect the value of retail real estate to stagnate or fall maintain a positive outlook for their own properties; 57% of these respondents anticipate the ROI from their properties will increase.

Adding value

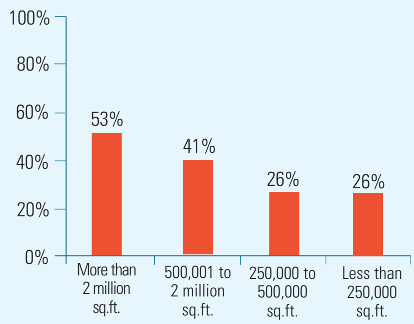
Another factor that may be encouraging owners to hold on to properties is intense competition to reinvest capital. Simply put, prices are so high that finding better operating returns in a new purchase is not likely. Nearly 60% of respondents agree that high prices make acquisitions tough.

Instead of selling properties, many owners are reinvesting capital to reposition or redevelop existing properties. Forty-three percent of respondents say their centers are in need of redevelopment. Some of the top

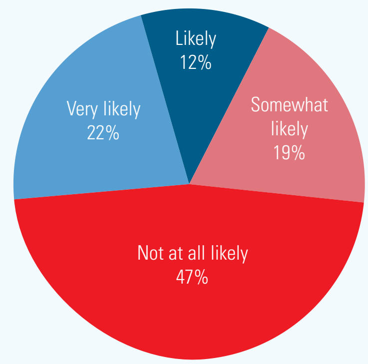
LIKELIHOOD OF SELLING CENTERS

One-third of respondents are likely or very likely to sell properties in the next 12 months.

Respondents who own 2 million or more sq.ft. of retail property are more likely to sell centers than those with small portfolios.



How likely are you to sell one or more shopping centers in the next 12 months?



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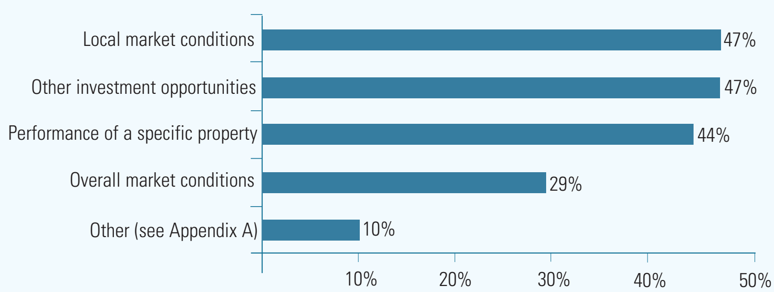
FACTORS IN DECISION TO SELL

Respondents use local market conditions and other investment opportunities when making selling decisions.

Respondents with small retail portfolios (less than 250,000 sq.ft.) are more likely than those with large retail portfolios (more than 2 million sq.ft.) to make decisions based on other investment opportunities (52% vs. 37%), local market conditions (57% vs. 46%) and overall market conditions (40% vs. 24%) into their decision to sell a property.

In the coming 12 months, how do you expect ROI from your properties to change?



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LIMITATIONS ON MAXIMIZING RETURNS

Respondents agree that returns are limited by the high price of acquiring properties.

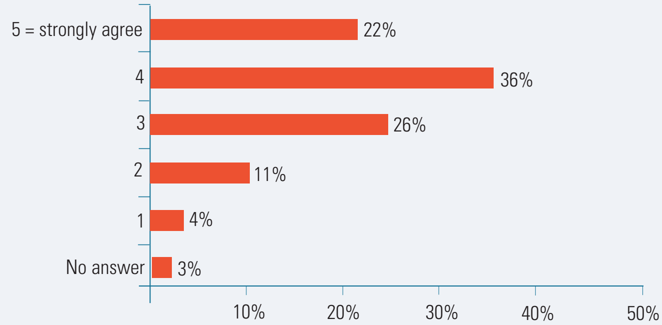
The majority of respondents (58%) rate this statement a 4 or 5 on a 5 point scale, where 5 = "strongly agree" and 1 = "strongly disagree."

Among respondents with retail portfolios of more than 2 million sq.ft., 49% rate this statement a 4 or 5.

Among respondents who expect the value of real estate in general to decrease, 72% rate this statement a 4 or 5.

To what extent do you agree or disagree with the following statement"
"My ability to maximize returns today is limited due to the high price of acquiring new properties".

Average rating on a 5 point scale, where 5 = "strongly agree" and 1 = "strongly disagree".



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factors owners consider when deciding if a center is in need of redevelopment or repositioning include having a physically outdated property (80%); anchor leases that have expired or have limited terms (48%); competing centers in the trade area (47%); a poor tenant mix (44%); and high vacancy rates (41%).

"There is a lot of money saying, 'Now is the time to redevelop, because if you can redevelop or develop core retail properties, you are going to get a little better yield than in buying property today,' " Good says. In fact, nearly half of respondents (48%) do not believe it is wise to dispose of under-performing centers.

Equity One is in the process of repositioning several properties, including the 39,640 sq. ft. Chestnut Square in Brevard, N.C. Equity One plans to add a drug store tenant to the Food Lion-anchored center before putting it up for sale. "Clearly, that's where you can create value, but you need to be in a mode where you are capable of doing that," Merkur says.

Not all owners are adept at repositioning or have the resources to reposition an existing center. Some owners might be better off selling it for the best price they can get, and letting someone else take the risk of repositioning the property, Merkur says. "You end up playing a timing game - enhancing the value versus losing tenants in the interim," he adds.

Whether an owner plans to sell a shopping center or reposition an existing property, many industry experts believe now is the time to act. "While it's hard to know what cap rates will be in a year," Hutensky says, "there's no question that ongoing trends ranging from the shake-up of the supermarket industry to the constant change among retailers will have a heavy impact on values."