The Lee Retail Brief

Q3 2015

Click below. Interactive tabs

LEE & ASSOCIATES®
COMMERCIAL REAL ESTATE SERVICES

104%
increase
in transaction volume over 5 years

$10 billion
transaction volume
2014

800
agents
and growing nationwide

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Our agents understand real estate and accountability. They provide an integrated approach to leasing, operational efficiencies, capital markets, property management, valuation, disposition, development, research and consulting.

We are creative strategists who provide value and custom solutions, enabling our clients to make profitable decisions.

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- RETAIL
- INVESTMENT
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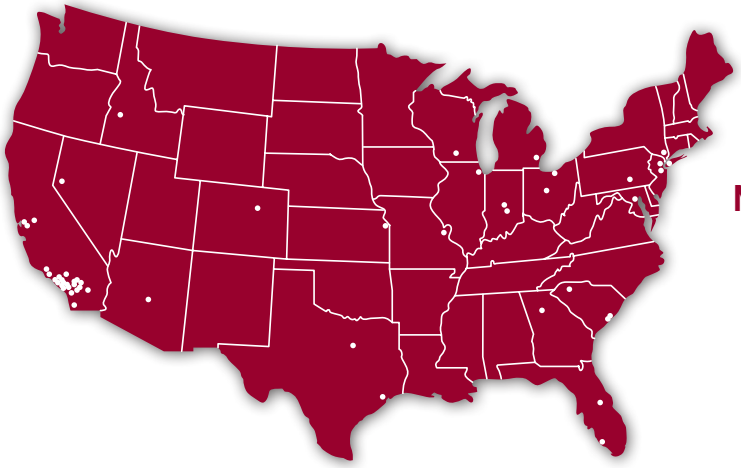
- MULTI-FAMILY
- LAND
- PROPERTY MANAGEMENT
- FACILITY SERVICES
- VALUATION & CONSULTING



NATIONWIDE LOCATIONS

Eastern Pennsylvania, PA • Columbus, OH • Houston, TX • Denver, CO • Cleveland, OH • Long Island-Queens, NY • Chesapeake Region , MD • Charleston, SC • Edison, NJ • Orlando, FL • Fort Myers, FL • Kansas City, KS • Manhattan, NY • Greenville, SC • Atlanta, GA • Greenwood, IN • Indianapolis, IN • Long Beach, CA • Elmwood, NJ • Boise, ID • Palm Desert, CA • Santa Barbara, CA • Antelope Valley, CA • Dallas, TX • Madison, WI • Oakland, CA • Reno, NV • San Diego, CA • Ventura, CA • San Luis Obispo, CA • Southfield, MI • Santa Maria, CA • Calabasas, CA • St. Louis, MO • Chicago, IL • Victorville, CA • Temecula Valley, CA • Central LA, CA • Sherman Oaks, CA • West LA, CA • Pleasanton, CA • Stockton, CA • Phoenix, AZ • Carlsbad, CA • Industry, CA • Los Angeles, CA • Riverside, CA • Ontario, CA • Newport Beach, CA • Orange, CA • Irvine, CA

RETAIL MARKET STAYS ON COURSE IN Q3

The real estate metrics for the US retail property sector improved again in Q3. Vacancy moved lower, net absorption was higher and rental rates kept moving up, despite several months of disappointing retail sales performance. US retail sales edged up by just .1% in September, equaling the latest revised estimate for August. Of the 13 major retail categories, gains in the automotive sector continue to lead the way, while lower service station revenue, which declined by .3% in September. In all, 7 of the 13 retail categories that make up the index posted declines for September, including food and beverage stores and electronic and appliance stores. Yet, even though overall retails sales growth remains spotty, the retail property sector has found a way to keep moving forward.

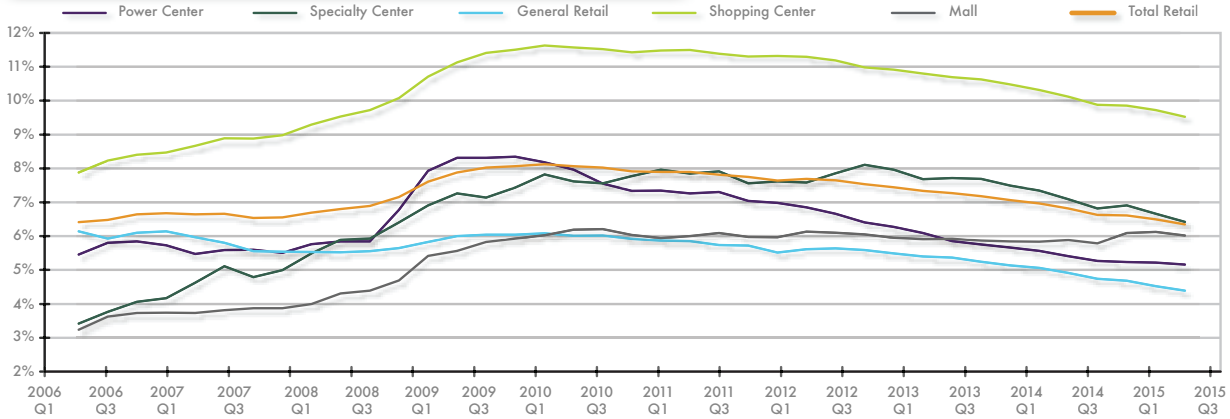
ECONOMIC DRIVERS

Click below for info on...

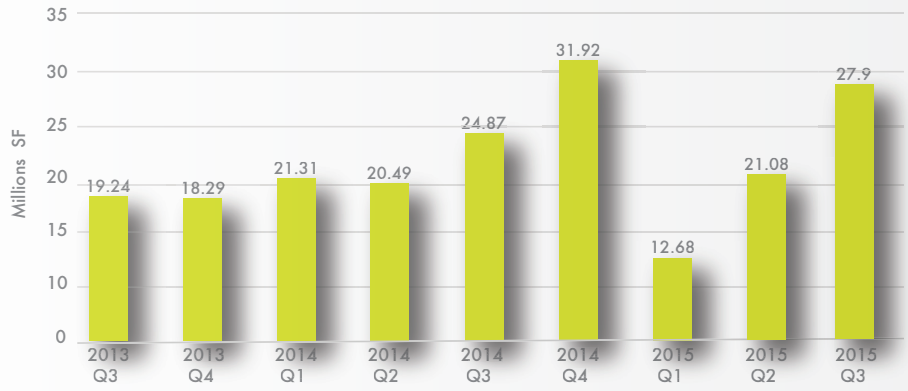
GDP GROWTH
EMPLOYMENT
MONETARY POLICY

SKIP AHEAD TO MARKET SNAPSHOTS

VACANCY RATES BY BUILDING TYPE 2006-2015



NET ABSORPTION



Vacancy declined by another 20 basis points for the period to 5.7%. Since the beginning of 2015, the vacancy rate has shed 30 basis points. Large move-ins in Q3 that contributed significantly to the lower rate included LIFETIME and Bass Pro Shops, each moving into new 120,000-square-foot facilities.

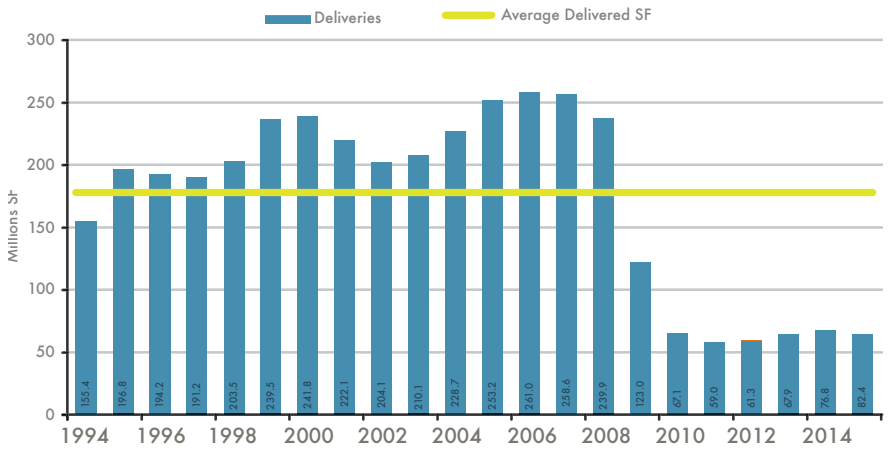
More urbanized areas are seeing most of the action in terms of absorption, as more retailers are catering to younger spenders who prefer to live, work and play in amenity-rich locales. Positive net absorption moved up again in Q3, finishing the quarter at 34.7 million square feet, besting Q2 by 7.5 million square feet. In the past four quarters, over 117 million square feet of net absorption has been recorded, a strong number considering the lackluster retail sales numbers and nominal wage growth.

National Economic Overview

The overall average asking rate moved up a dime to $15.10 per square foot in Q3, keeping the more than four-year-long streak of rent growth going. However, a disproportionate amount of the rent growth is being recorded in prime locations, especially in urban mixed-use projects. Rents in suburban markets, especially for mid-block strip centers are moving up slower or not at all. In general, the further away a property is to an urban core, the more of a challenge it is to push rates higher. This ongoing trend is mainly due to the demographic shift that has retailers catering more to the tastes and lifestyle of millennials who now outnumber baby boomers in the workforce.

New deliveries for the quarter totaled 18.7 million square feet, bringing the total of completed inventory over the past year to 77.5 million square feet. As Q3 came to a close, 61.6 million square feet of retail space was still under construction. Densely populated, urban locales is where the action is in terms of new construction and redevelopment. Retailers are willing to pay more CBD and suburban core locations because that's where the millennials prefer to live, work and play. Areas like Denver's LoDo and Atlanta's Buckhead are prime examples of where today's expanding retailers want and need to be to be.

HISTORICAL DELIVERIES 1982-2015



Traditional, brick and mortar and online retailers continue to move toward one another in terms of strategy. Just as major online retailers are adding physical locations, traditional retailers are boosting their online presence to appeal to capture more market share. The dual presence becomes the platform for omni-channel retailing, the euphemism for an integrated online/in-store experience that maximizes brand value and customer loyalty. The growth in online sales is undeniable and those traditional retailers who don't respond accordingly will suffer the consequences of inaction. Conversely, online sellers recognize that the in-store experience is still a key element of the buying decision.

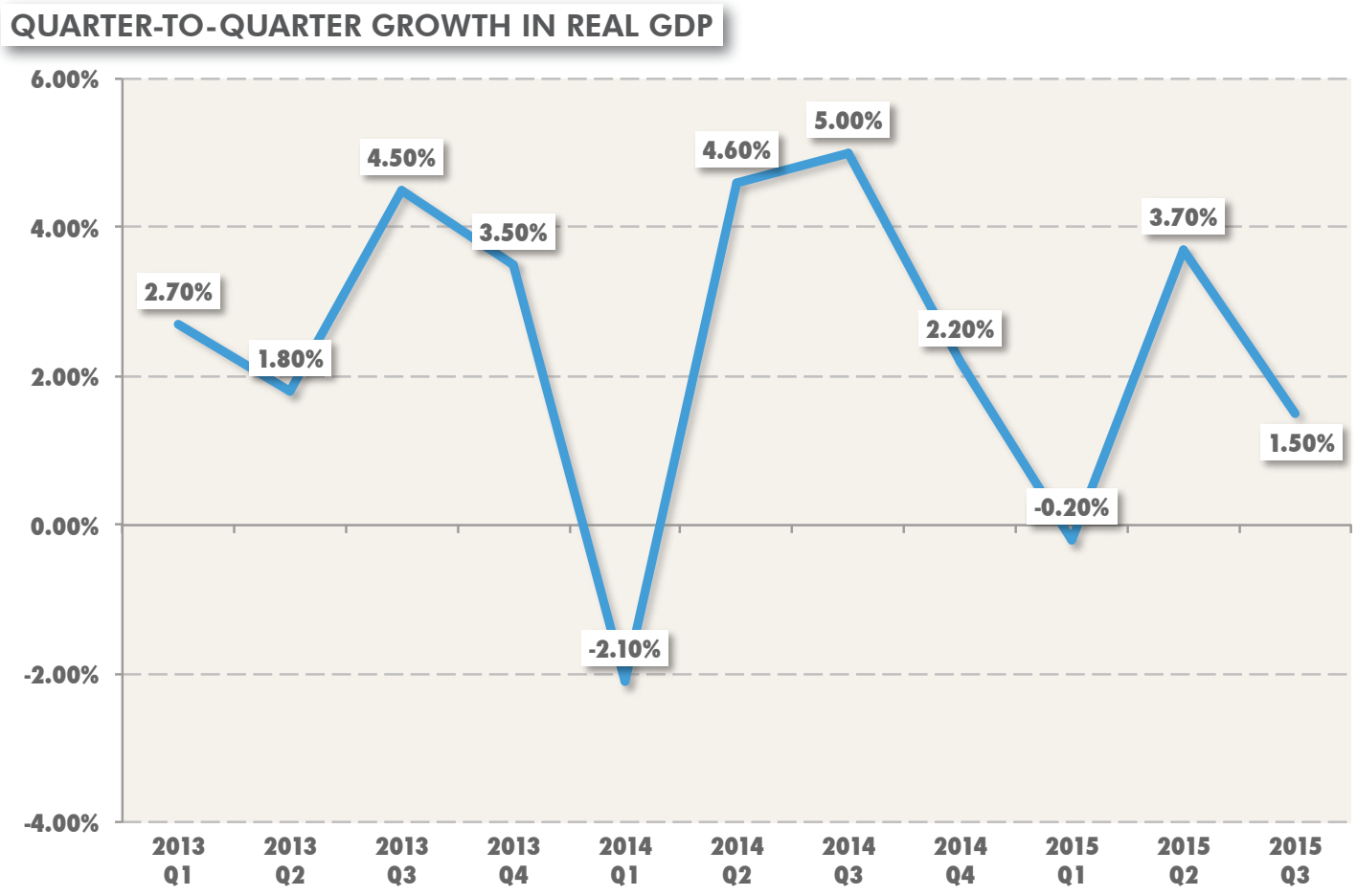
A LOOK AHEAD. The US retail market should continue at its current pace through the next several quarters, unless retail sales growth weakens further. Domestic GDP and wage growth numbers have been disappointing of late and that could put additional downward pressure on retail sales volume. But, the strong dollar is making imported goods less expensive, and that should stimulate more spending. The price of imported goods fell 1.3% in August and the dollar keeps getting stronger.

Low oil prices should be with us for the foreseeable future and the extra dollars in the pockets of consumers should continue to impact retail sales for the good. But, significant layoffs in the energy sector are bound to negatively impact local retail sales in energy-based local economies. Over 70,000 jobs in the energy sector have been lost since the collapse of oil prices last year. It remains to be seen whether employment and wage gains in other sectors can keep the retail property market moving ahead.

Vacancy rates will continue to decline and net absorption will remain at least at current levels. However, prime submarkets with the lowest vacancy will see lighter absorption due to low supply. Cap rates will remain compressed due to record high demand for investment property, while foreign investors, looking to mitigate risk, continue their pursuit of stabilized retail assets.

GDP GROWTH

The nation's total output of goods and services has been and remains choppy and that has investors taking a cautionary stance. Concerns over a variety of issues that could negatively impact GDP rattled the equities markets into a big selloff early in Q3, though the major indexes recovered most of the losses by the end of the quarter. Volatility has been on the rise, as investors scrutinize and react quickly to a wide variety of economic indicators, and GDP is front and center. After dismal first quarter growth, the economy bounced back in Q2,

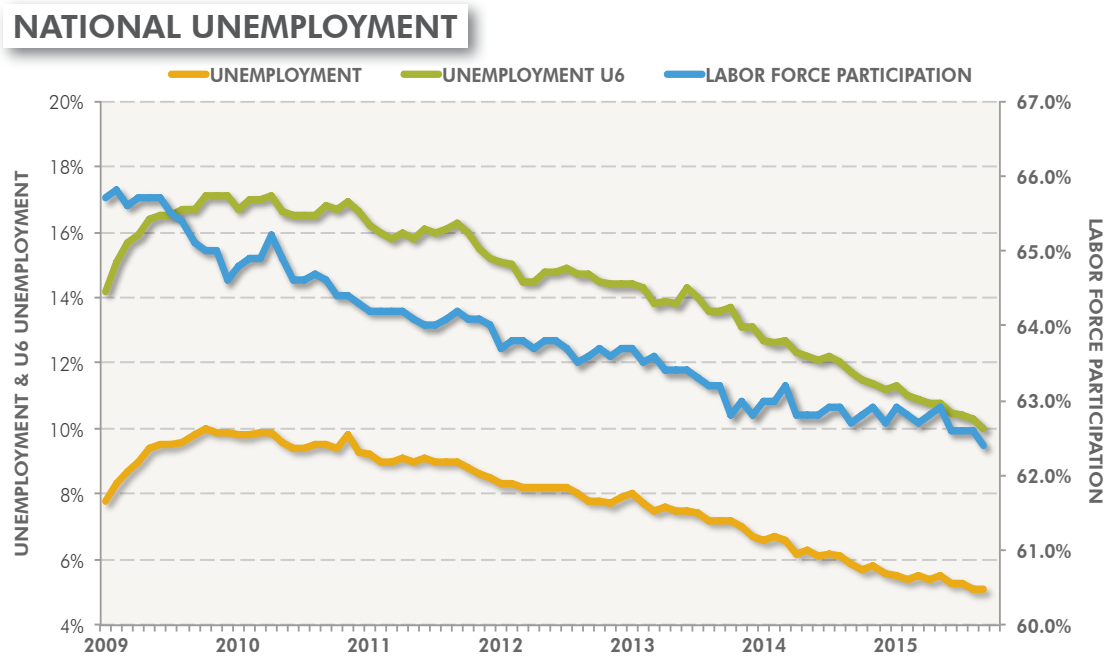


much as it did for the same period in 2014. But that bounce was not as big as it was last year, and the first estimate for Q3 of 2015, released on October 29th, came in at just 1.5%, well below the 5.0% rise in US output we saw in Q3 of 2014. There is just no denying that the economy is still struggling to keep momentum. Consumer spending, which accounts for roughly 70% of GDP, did improve in Q3, but not enough to offset a drastic drop in inventories, which were less than half of the total reported last quarter. Exports fell in Q3, which is no surprise given the strength of the US Dollar against the world's other currencies. US goods are services are more expensive abroad and conversely, goods imported to the US are getting cheaper. The most recent report on import prices showed a 1.3% decline. Yet, despite lower prices, imports also fell in Q3, neutralizing the effect of lower exports on GDP performance.

EMPLOYMENT

Through the first half of the year, the news regarding job creation was looking good, with the US adding an average of well over 200,000 jobs per month. Unfortunately, August's total dipped to 136,000 and September came in at just 142,000. The dip was largely unexpected and it has wary investors wondering whether or not the recovery will stall out. The unemployment rate held steady at 5.1% in September and the number of unemployed persons was little changed at 7.9 million. The biggest job gains were seen in the healthcare, information and business services sectors. However, changes wages remained stagnant in September, losing a penny to $25.09.

The proportion of part time positions remains a problem, as well. Businesses uncertain about the economy in the near term have been hiring part time and temporary workers to enable a quicker response to changing markets. The U-6 Unemployment Rate, which includes those workers who are working part time but would prefer full time employment, stood at 10.8% by end of September, down 10 basis points since the end of Q2. Over 6 million workers still fall into this category.

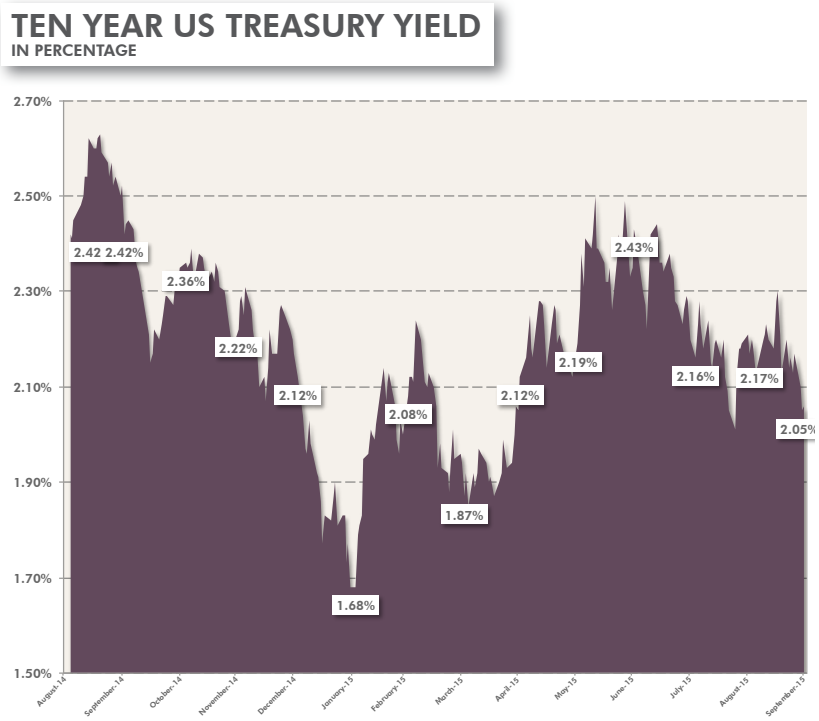


The Labor Participation Rate, which many believe is a more accurate indicator of the true state of the job market, was down again in Q3. This metric measures the percentage of those eligible for employment between the ages of 16 and 64 who are currently working. The lack of new jobs and the early exit of Baby Boomers from the workforce have combined to drop this key metric to a four decade low of 62.4% in September a decline of 30 basis points since June.

Wage growth has become a growing concern over the past year. Even though, net job gains have lowered the unemployment rate to a post-recession low of 5.1%, wage growth has been stagnant, barely keeping pace with the rise in the consumer price index. This is largely due to the mix of jobs being created and too many of them have been in lower-paying categories. Sluggish wage growth is directly related to lackluster consumer spending, the main driver of GDP. Many of the jobs are in hospitality, retail and restaurant service, which can disappear just as quickly as they appear. Also, there have been substantial layoffs in the energy sector, which, until early this year, had been a main source of full-time, higher-paying positions.

MONETARY POLICY

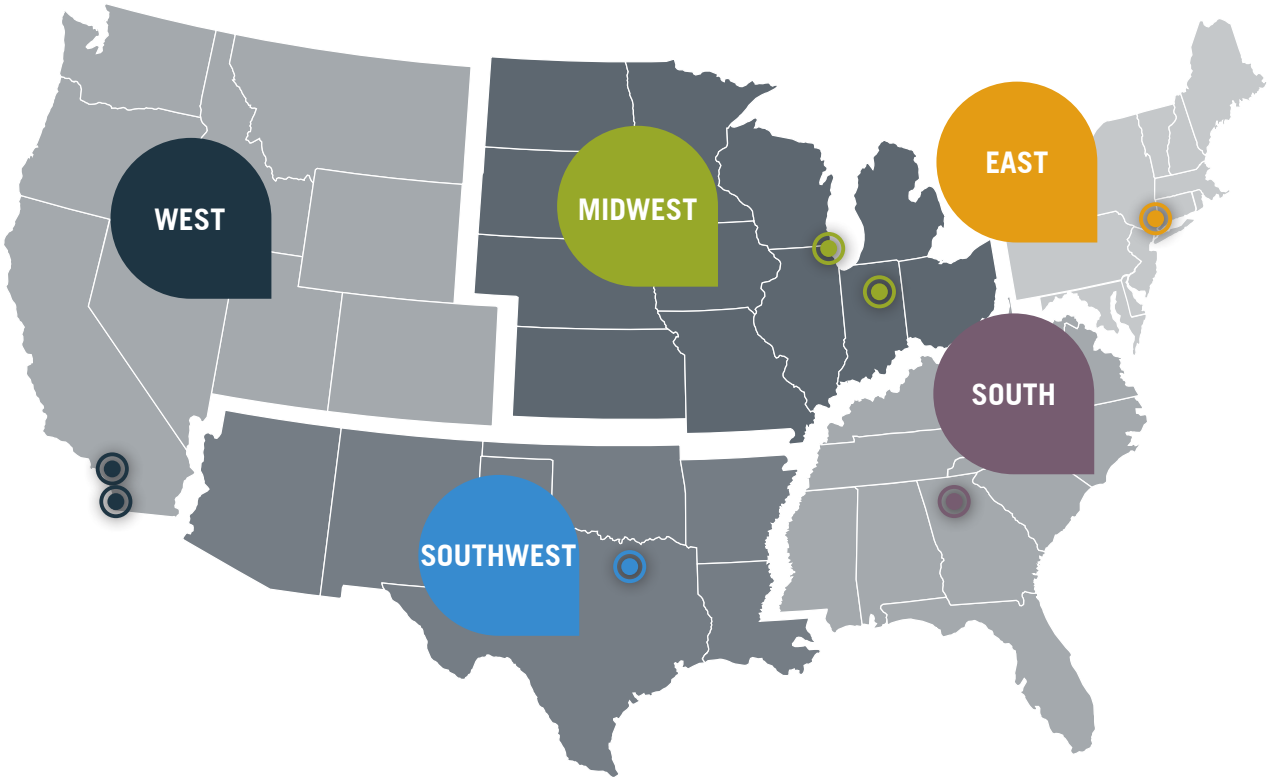
Fed Chairperson, Janet Yellen and her Board of Governors, have been repeatedly threatening to raise interests rates to signal a reversal of the Fed's aggressive efforts to stimulate economic growth. Yet, they have failed to do so, citing one economic indicator or another for sticking with the status quo and frustrating investors who are looking for guidance on how to move forward. While most experts were sure that the first rate hike would come in September, the Fed, citing concerns over China and other emerging market economies, held off yet again. Now many of those same experts are not forecasting a move on rates until next year.



Until recently, the Fed was focused mainly on unemployment rate and inflation targets to trigger action. But now, global economic issues and wage growth concerns are entering into the mix. With so many variables figuring into the equation, predicting Fed actions are becoming even more difficult. So, savers continue to be pounded and yields in other asset classes remain at record low levels.

Real estate borrowers continue to be major beneficiaries of the current Fed stance. Long term financing is still cheap and that has fueled intense demand to acquire commercial real estate. Low rates have also contributed to cap rate compression in primary and secondary markets from coast to coast. That has raised concerns with some investors that cap rates will decompress when rates finally do move up. Even a nominal increase in cap rates could lead to a significant reduction in property values.

The yield on 10-Year Treasuries has also remained low due to the current interest rate environment's impact on yields across all asset classes. In Q3, the yield on the 10-Year moved back down into the low 2% range after moving higher earlier in the year. Many attribute that change, in large part, to an increase in foreign investor demand precipitated by shaky economic conditions around the globe.



To view a key market snapshot either click on a section of the interactive map above or on the cities below.

ORANGE COUNTY
SAN DIEGO

DALLAS / FORT WORTH

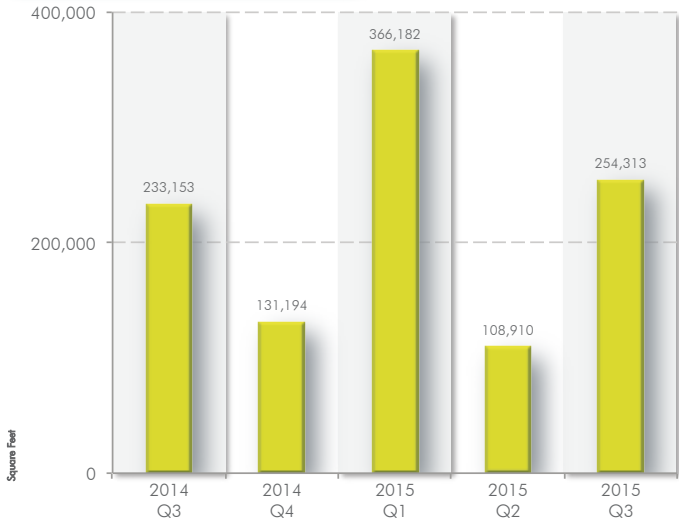
CHICAGO
INDIANAPOLIS

ATLANTA

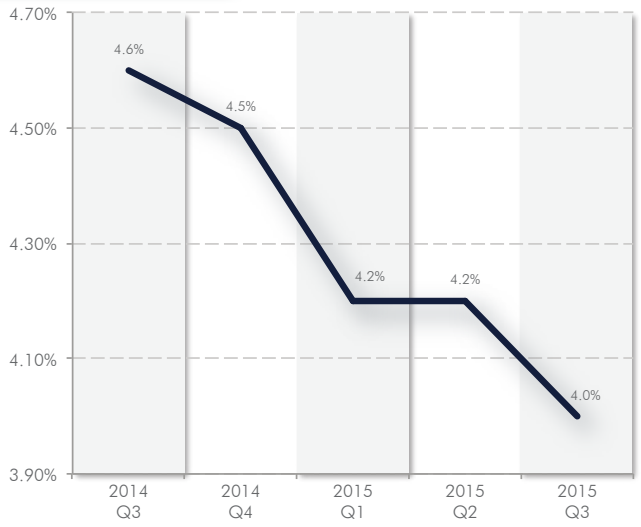
MANHATTAN

ORANGE COUNTY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The economic growth rate of Orange County outpaces all but a few of the state's 58 counties. The OC is tracking to create 47,000 new jobs in 2015, many of them higher-paying in the tech and health services sector. The unemployment rate keeps moving lower, finishing Q3 at just 4.0%, well ahead of the national rate of 5.1%. Housing prices have rebounded, which has homeowners spending again on household goods and services. Despite the shortage of housing inventory, home sales have been on the rise. July and August totals were up over the same period last year.

Vacancy ended Q3 at 4.0%, down 20 basis points compared to Q2. Most of the vacancy is still concentrated in secondary locations and mid-block strip centers. Prime locations, especially in coastal submarkets, are nearing 100% occupancy, while B and C centers are not faring as well. Mom and pop retailers, the typical tenants for those centers are struggling to compete with regional and national tenants who are building more online presence to remain competitive with e-commerce powerhouses like Amazon.com. Even with those challenges, the average asking lease rate county-wide jumped $1.13 in Q3 to $24.71, a 4.8% increase in just three months. Year-over-year the increase in asking rents stands at 7.04%.

Net absorption for Q3 stayed in positive territory, boosting occupied space by another 254,313 square feet. Aggressive restaurant operators are competing with one another for space in well-located centers. Hispanic grocery stores continue to expand to meet the need of the fastest growing ethnic group in the county. Other grocers like Haggen's, took over several Von's locations this year, but abruptly pulled the plug

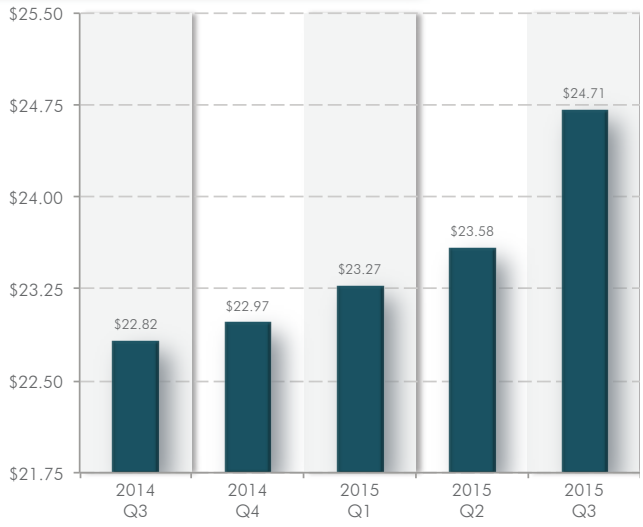
4.0%	$24.71	254,313	141,051,821	1,177,521
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION

ORANGE COUNTY - TRENDING NOW (continued)

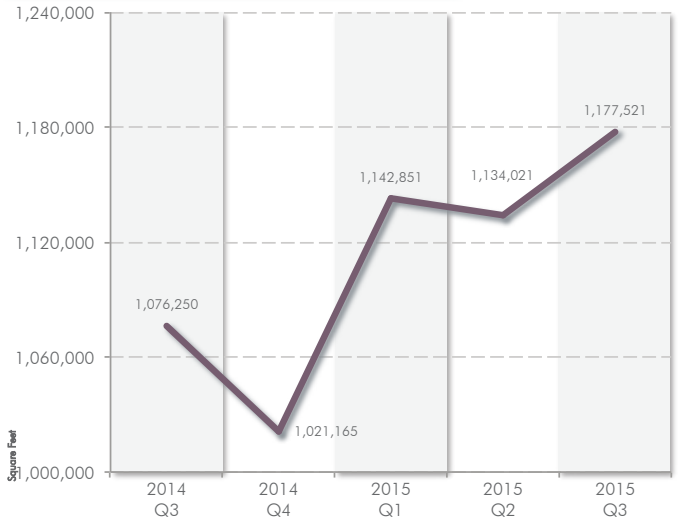
on those new locations. Aldi and Smart & Final are also making big expansion moves. Smart & Final Extra just opened a new location in the Tustin Heights Shopping center in Tustin, occupying space recently vacated by Ralph's. Other major players in expansion mode include Chipotle, Habit Burger, Raising Canes, Starbucks, Coffee Bean and Hobby Lobby. Health & Wellness centers are also becoming more active.

Cap rates are still compressing, as investors have looked to retail for better yields than offered on office and industrial properties. Owners of well-located centers are pushing hard on rents and reducing concessions for an added boost to net income and even higher values. Neighborhood center owners are also taking advantage of every square foot by signing cell tower and drive through leases for both ATM's and coffee. Squeezing more NOI out of each property will help mitigate a potential cap rate decompression that many believe will accompany the rise in mortgage rates certain to follow the Fed action on its benchmark Fed Funds Rate. Rents may not move up fast enough to offset higher cap rates, and higher capital costs could affect the pace of retail expansion. Owner/users are pursuing more sale/leaseback opportunities, as they see the current low cost of capital as a means for buyers to pay them a premium for their properties, and free up needed operating capital at the same time.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

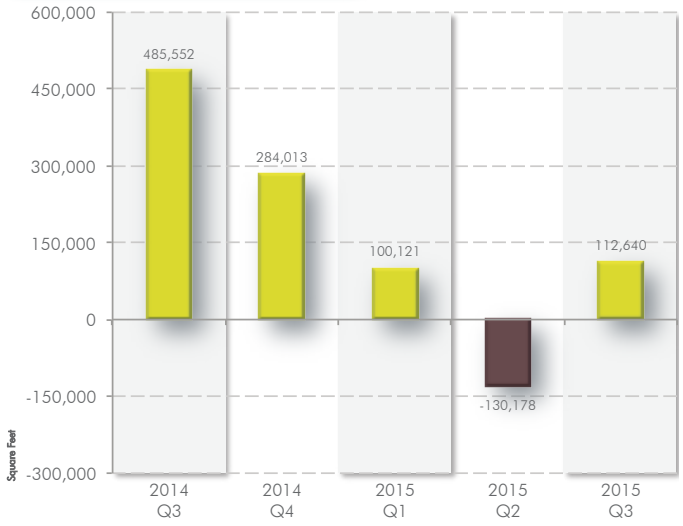


A LOOK AHEAD.

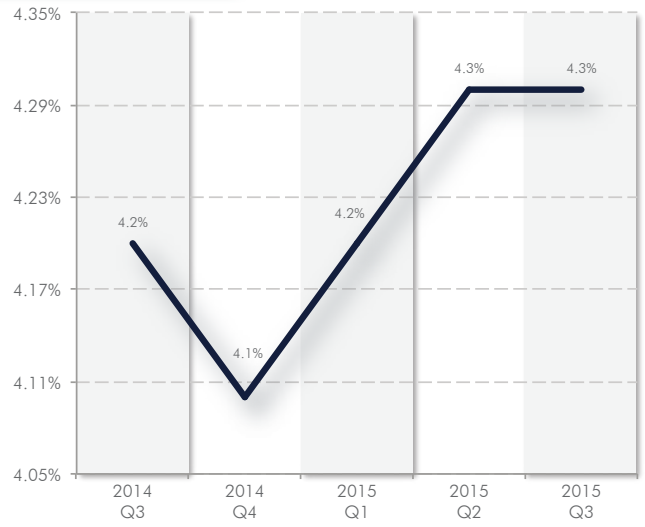
- Supply of good quality product is reaching critically low levels
- Overall vacancy for the county will continue to move down
- Net absorption will be restricted by a shortage of prime space
- Overall lease rates will rise another 10% over the next year
- Cap rates could move up quickly as soon as the Fed commits to higher rates
- Good job growth will provide confidence for stronger retailers to continue their expansion plans
- Construction will be limited to mixed-use projects in prime locations

SAN DIEGO

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The San Diego retail market remains bifurcated with most of the vacancy found in class B and C strip centers. A large percentage of tenant interest is directed toward the highest quality locations. National and regional chain retailers are competing for quality space and remain willing to pay a premium to get it. Overall average asking lease rates moved up steadily from 2012 to the middle of 2014, but by the end of Q3 2015, the year-over-year average asking lease rate fell by $.90 to $21.64, mostly due to a big drop-off in Q3. This decline points to the bifurcated nature of the market whereby prime locations are experiencing rise in rents, while secondary suburban are still struggling to fully recover from the last recession.

Net absorption for Q3 bounced back into positive territory, posting a gain in occupied space of 112,640 square feet, after a negative 130,000-square-foot decline in Q2. North County has posted modest year-to-date positive absorption, increasing confidence level that the recovery is on a firm foundation of job growth and consumer confidence. The area has largely progressed since the last recession as retail construction rose sharply to meet the demand of a housing market that fell on hard times starting in 2008.

The overall vacancy rate in Q3 remained steady at 4.3%, and is now up 10 basis points year-over-year. North County posted the highest rate at 6.3%. Central County's vacancy of 3.2% remained lowest in the region. With construction holding steady at very low levels, vacancy should continue moving downward, which is welcomed news to owners of centers in secondary locations.

4.3%	$21.64	112,640	134,269,252	310,562
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION

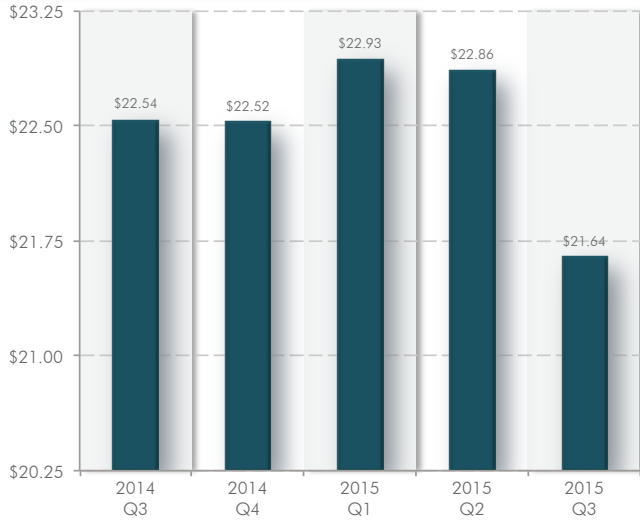
SAN DIEGO - TRENDING NOW (continued)

Construction is limited to the remodeling and repositioning of existing retail projects. As reported last quarter, Westfield has two projects underway including the ongoing expansion of its UTC regional mall and the transformation of Plaza Camino Real from an indoor to open-air center. Palma De La Reina, a mixed-use retail/office/residential project is underway in upscale Rancho Santa Fe. This new center will capture premium rents from trendy retailers looking to locate near customers with more disposable income.

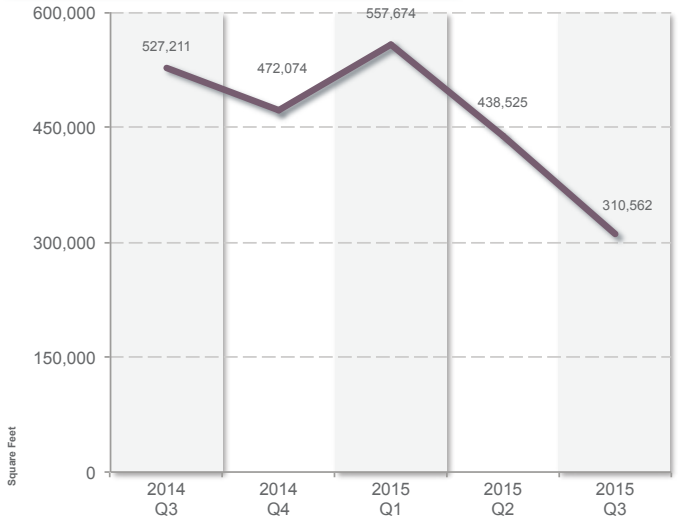
In Q3, active tenants included AAmco Transmission, Curacao, The Walking Company Rx and The Halal Guys. Fast casual restaurants, beer tasting rooms and fitness centers remained active, as well. The "bid-to-ask" gap continues to slow down negotiations, as tenants and landlords wrestle over rental rates that vary significantly by location and shopping center type.

Investors are still willing to pay a premium for quality retail assets, but signs of hesitation from buyers have surfaced in the last few months, especially for centers in less-than-prime locations. The much-anticipated rise in interest rates remains uncertain, but when rates do finally move up, there is a strong possibility of a corresponding rise in cap rates to maintain the spread to the benchmark 10 year US Treasury.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

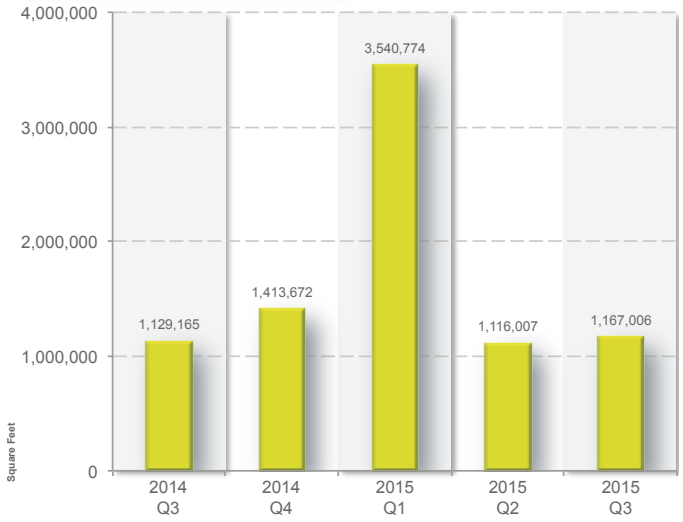


A LOOK AHEAD.

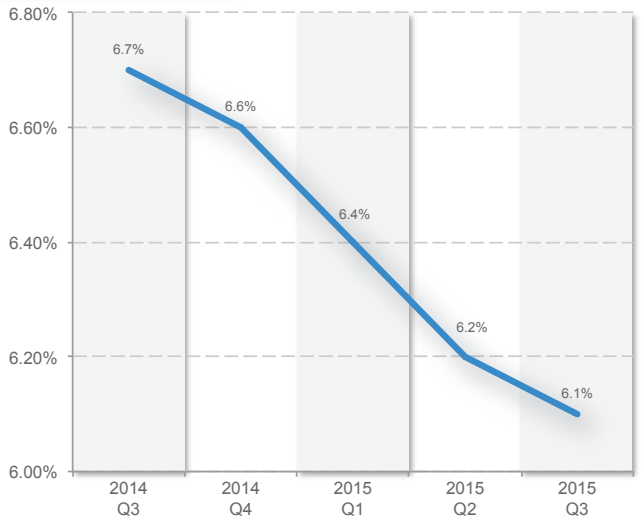
- Gross and Net absorption should remain at current levels
- Vacancy could move up slightly due to significant store closures and downsizing
- Average asking rental rates will hold at current levels except for prime locations
- Construction activity will be confined to redevelopment of existing centers
- Jitters over a rise in interest rates could cause a temporary slowdown in sale and lease activity

DALLAS / FORT WORTH

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

New technologies for extracting fossil fuels have swelled the population, spurred new job creation and boosted the demand for housing and all commercial real estate product types in the State of Texas. However, the energy industry has taken a hit and the negative impact is undeniable, especially in parts of Texas and other energy states. The pullback in energy exploration and extraction has negatively impacted job growth, which drives retail sales. That said, the overall health of the Texas economy, in general, and DFW in particular, is still improving in other sectors, and the state continues to attract more growing businesses. State and local governments remain aggressive by offering incentives to major employers to relocate to Texas, and further economic expansion is expected to mitigate what is hoped to be a temporary setback in the energy sector. Wild swings in oil prices are nothing new to Texans, and the state has faced the challenge and bounced back each time to achieve new levels of economic growth.

Retail vacancy continued its decline again in Q3, falling to a post-recession low of 6.1%. Year-to-date positive absorption topped 5.8 million square feet after another gain of 1,167,000 square feet in Q3. Average asking lease rates moved up $.17 during the quarter to $14.36. Tenants moving into larger spaces this year include Kroger's 123,000-square-foot location at Castle Hills Marketplace and WinCo Foots 62,230-square-foot deal at Old Orchard Village East. Upcoming move-ins include Walmart's 91,532-square-foot deal on Coit Road and Plaza Broadway's new lease for 74,315 square feet at 3161 Broadway.

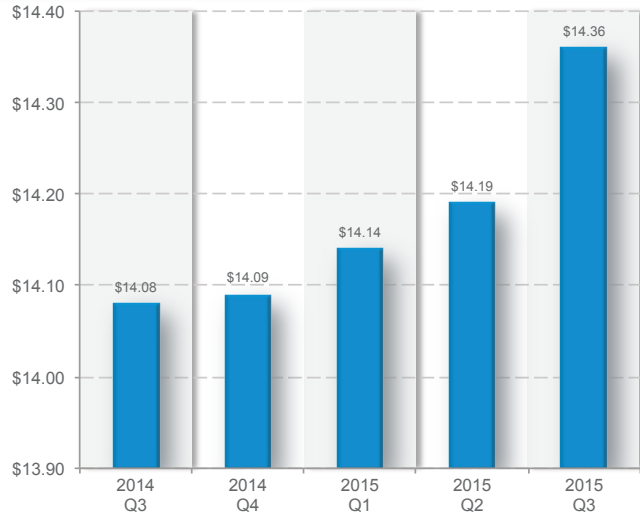
6.1%	$14.36	1,167,006	401,087,645	2,502,879
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION

DALLAS / FORT WORTH - TRENDING NOW (continued)

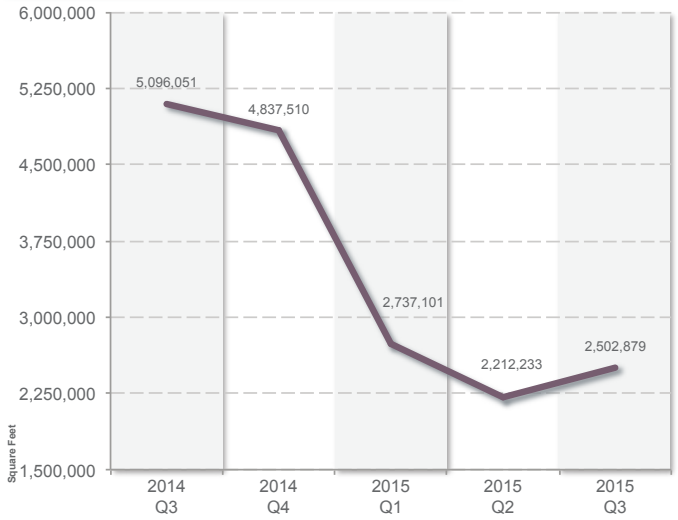
Development activity kept pace in Q3. Twenty-seven new retail properties were delivered totaling 615,525 square feet. Another 2.5 million square feet is still under construction. In the past four quarters over 5.3 million square feet of retail space has been added to the inventory, bringing the total retail base up to 401 million square feet. Construction is concentrated in the North Central Dallas as well as Mid Cities and remains a mix of pre-leased and spec space. Land and construction costs continue to move higher, which will drive higher rents in new projects.

Cap rates keep moving lower, but remain higher than in other major markets around the country. So, the DFW region is still a primary target for investment activity. Domestic institutions are still willing to pour money into the retail property market in Dallas, despite the slowdown in state job growth brought on by the energy sector slowdown. Retail sales activity for 2015 is down compared to 2014, but that is more due to lack of supply than demand. By mid-year, the latest reporting period, 22 retail sale transactions were closed with an aggregate consideration of $307 million, as compared to 40 transactions totaling $361 million for the same period last year. It remains to be seen what impact a rise in interest rates will have on cap rates. The answer to that will have to wait, as the US central bank balked again on bumping up their benchmark Fed Fund Rates. A rate hike this year was seen as inevitable by most market experts, but the Fed keeps moving the targets that will trigger their action on rates. Global economic turmoil was the latest excuse given for leaving rates at their historic lows.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

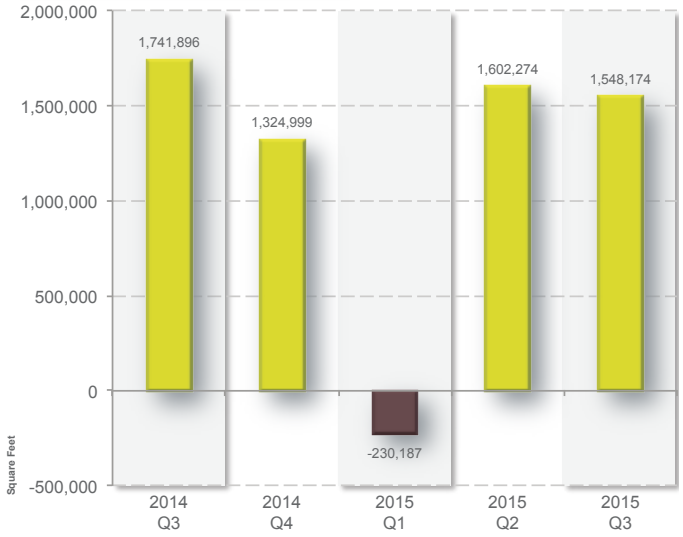


A LOOK AHEAD.

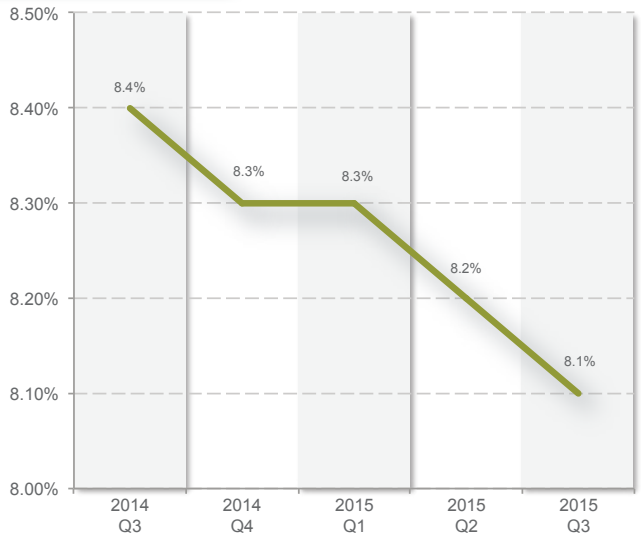
- Gross sale and lease activity should remain strong for the next 12 to 24 months
- The energy sector slowdown will have little impact on retail activity in 2015
- Net absorption should remain steady for the balance of the year
- Vacancy will move down slowly due to new deliveries
- Average asking lease rates will keep moving
- Property taxes will go up due to increase occupancy
- Cap rates compression will slow as the market adjusts to the expected rise in the cost of capital

CHICAGO

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Chicago retail property market is making modest gains overall. In the aggregate, the retail property market can best be described as stable and improving. Vacancy is falling at a moderate but steady pace, average asking lease rates have risen modestly and net absorption is positive, but less than robust. Consumer spending, a key driver of retail activity, is also moving up as new jobs are being created. All these indicators point toward further improvement to the market going forward, but to really understand the current dynamics of this 518-million-square-foot market, it's important to be mindful of the significant differences that exist between the region's 32 submarkets.

For example, average asking lease rates for the entire market stood at $15.81 at the end of the third quarter, but they range from a low $10.07 to a high of nearly $75 in the North Michigan Avenue area. Similarly, the spread in vacancy rates ranges from 1.8% to 32%. So, it is clear that retailers, owners and potential investors have to focus on local market metrics to make informed decisions.

In the past year, there has definitely been a sharp rise in the number of start-up retail businesses. At the same time, national retailers continue to experiment with smaller or non-traditional formats, particularly within the more urban trade areas. Examples include Walmart's Express concept and Target's experiment with multi-level locations that offer alcohol consumption and small plate offerings. Both of these changes represent attempts to adjust business models to accommodate the preferences of the millennial generation.

Other major retailers making big moves are fitness

8.1%	$15.81	1,548,174	525,727,632	1,881,294
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION

CHICAGO - TRENDING NOW (continued)

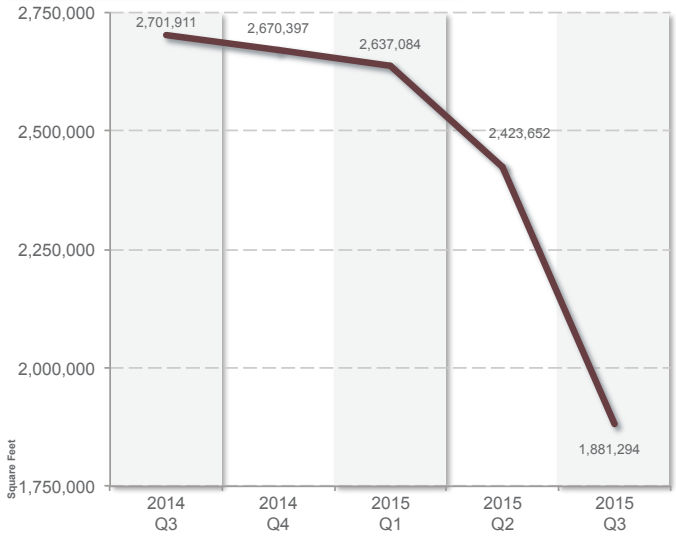
centers like Charter Fitness, Workout Anytime, Anytime Fitness and Snap Fitness. Bedding stores like Sleepy's and Bedding Experts are also in expansion mode. Within the Loop and close-in neighborhoods, a number of smaller food users are growing to capitalize on the enormous daytime population. They include Chipotle, Potbelly, Noodles, Panda Express, Red Robin Burger Works and a large number of local and start-up quick serve restaurants. Grocery operators are also making moves, including Mariano's and newcomer, Fresh Thyme.

As densely populated areas in and near the city have become the most sought after locations, suburban shopping center owners have been forced to backfill vacated anchor space with non-traditional users at lower rates. While that may negatively impact property values, it does lower the barrier to entry for these retailers who would otherwise be priced out of the market.

Construction activity is mainly confined to small strip buildings or single use structures on smaller parcels of land. By the end of Q3, 1,882,294 square feet of new space was still underway and just over 2.5 million square feet has been delivered year-to-date. Unless there is a significant improvement in job and wage growth, construction activity is likely to remain at current levels. Though, areas undergoing the gentrification process will also contribute to future increases in development activity.

AVERAGE SF RENTAL RATES

SF UNDER CONSTRUCTION

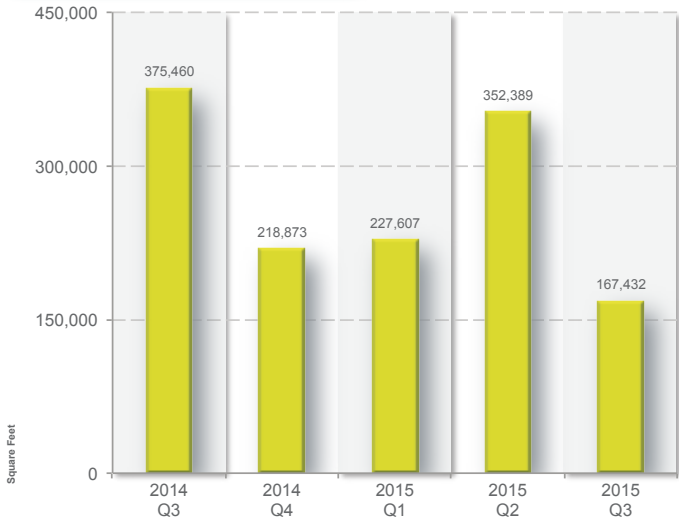


A LOOK AHEAD.

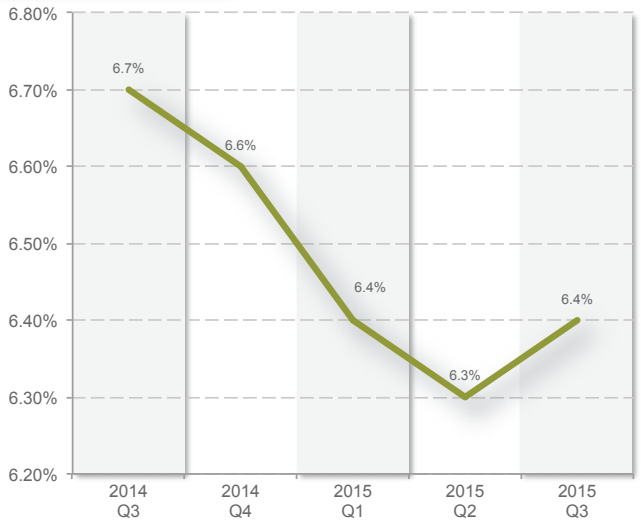
- Leasing activity will continue at current levels
- New retailers will keep introducing new concepts to the market
- Competition in the quick serve restaurant category will intensify as new concepts are created to woo millennials
- Vacancy will edge lower
- Chicago's older neighborhoods will continue to gentrify as more people move back into urban areas
- Lease rates will move up fast in 'hot' areas, while suburban rent growth will remain sluggish
- Net absorption will remain in positive territory

INDIANAPOLIS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Indianapolis retail sector continues to improve overall. Leasing activity remains strong across the region. Multi-family development downtown has motivated retailers and restaurants to secure locations nearby to meet the demand from millennials who prefer the convenience associated with an urban lifestyle. This reflects a nationwide trend to accommodate a population segment that now outnumbers baby boomers in the workforce.

Vacancy moved up by 10 basis points in Q3 to 6.4%, but is still down 30 basis points since the end of the third quarter of last year. However, the increase in activity for preferred locations has tenants competing for space, which has sent the message to landlords that there is still plenty of room for rent growth. The average asking rental rate moved up $.16 to $12.29 per square foot in Q3, but that is still five cents lower than it was a year ago. However, the average rate is doesn't reflect the fact that rents have moved much higher for quality space in prime submarkets.

The grocery chains and national discounters are still among most active retailers in the Indianapolis area. In Q3 2015, major deliveries included Giant Eagle at The Bridges in Carmel, Fresh Thyme Farmers Market at Arbor Village on 116th Street in Fishers, and Kroger Marketplace near County Line Road on the far south side. However, other major challenges are also stepping up activity, including Ross and Pet Valu.

Net absorption came in at a positive 167,432 square feet for the quarter, compared to 352,389 square feet in Q2. Year-over-year gains in occupied space have been solid at 966,301 square feet in a market that has

6.4%	$12.29	167,432	122,290,466	351,797
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION

INDIANAPOLIS - TRENDING NOW (continued)

a total of 122.2 million square feet of retail space.

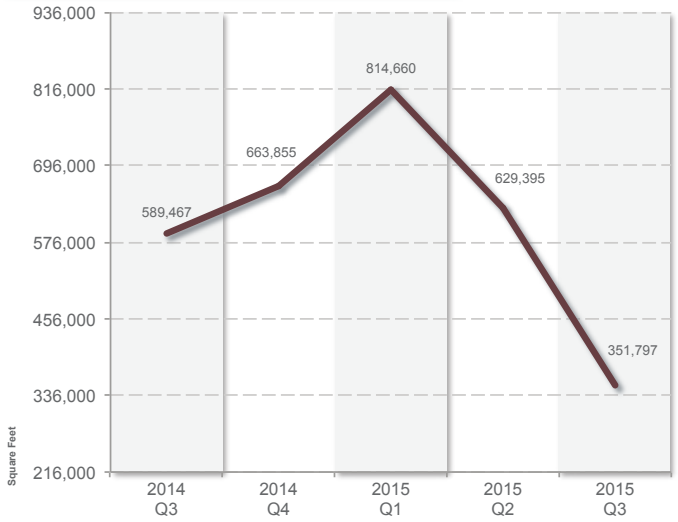
Net absorption came in at a positive 167,432 square feet for the quarter, compared to 352,389 square feet in Q2. Year-over-year gains in occupied space have been solid at 966,301 square feet in a market that has a total of 122.2 million square feet of retail space.

Demand has risen substantially for well-located and anchored retail space from national as well as local tenants, so much so that a shortage of top tier space is forcing activity into secondary centers. Owners of those properties now have their first opportunity since 2008 to increase occupancy levels that will increase the value of their assets. In terms of product type, activity is strongest in the regional and community center categories, followed by grocery-anchored projects. Among regional malls and lifestyle center, The Fashion Mall, Greenwood Park, Hamilton Town Center and Castleton continue to thrive.

A total of 306,798 square feet of retail space was delivered during the quarter, adding to the nearly 700,000 square feet total over the past four quarters. Notable projects under construction at the end of Q3 included the Kroger Marketplace store at 5325 East Thompson Road in the Beech Grove submarket, the YMCA at CityWay in the CBD, and a new Meijer store on North Keystone Avenue, just south of 56th Street.

AVERAGE SF RENTAL RATES

SF UNDER CONSTRUCTION

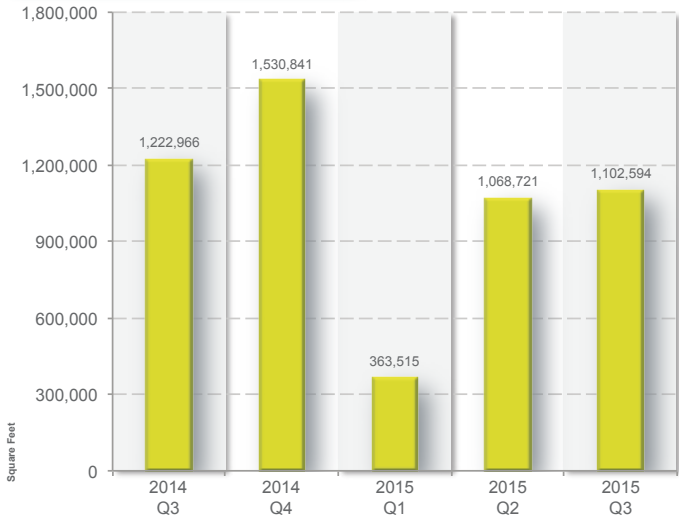


A LOOK AHEAD.

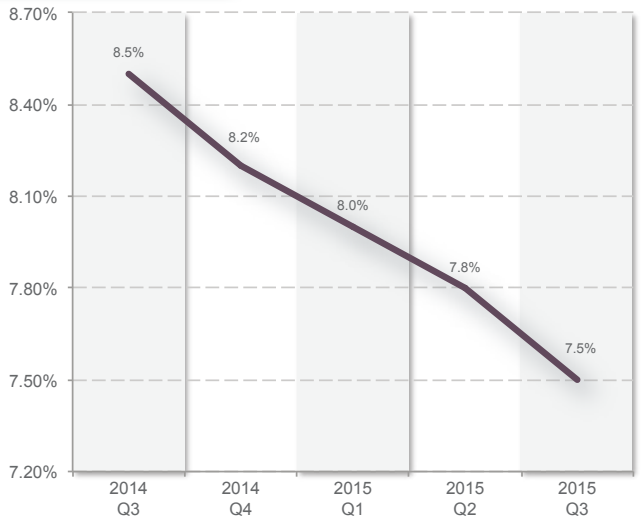
- Lease activity will remain strong for the next several quarters
- Net absorption in prime areas may peak due to lack of supply
- Asking lease rates will increase by 5% to 10% in the next year
- Construction will remain at current levels, driven by grocery sector expansion
- Spec development will pick up in 2016 due to low supply
- Cap rates may begin to decompress due to higher levels of supply from owners looking to sell while demand is strong

ATLANTA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Atlanta retail sector continued to expand in Q3. Job growth, which has been consistently strong over the past several quarters, has consumer confidence on the rise, which has developers on the move. By the end of Q3, 694,289 square feet of new space has been delivered in 2015 and another 1,043,032 square feet is still under way. Well-located, urban regional malls are being upgraded with new facades and redeveloped to accommodate new restaurants, entertainment uses and even community spaces. Neighborhood centers, anchored by grocery and drug stores, have experienced strong leasing activity. Most new development is in mixed-use projects, while older centers are being redeveloped as an adaptation to changing tenant formats

Positive net absorption of 1,102,594 square feet was recorded for the quarter, compared to 1,068,721 square feet in Q2 and 363,515 square feet in Q1. Good leasing activity is keeping absorption in positive territory. Big move-ins for Q3 included a 115,367-square-foot lease to Flight Trampoline Park on Cash Ct., a 72,640-square-foot lease to Floor and Decor and a new 59,431-square-foot location for Hobby Lobby. Vacancy fell another 40 basis points in Q3, ending the period at 7.5%

Rents still vary widely depending on location and product type, from a low of approximately $9 per square foot to as high of almost $30 per square foot for prime urban locations in submarkets like Buckhead. Overall average asking lease rates moved up $.04 to $12.52 for the quarter, but it's the urban locations that see the strongest interest. Trendy restaurants and entertainment venue operators prefer to be near public

7.5%	$12.52	1,102,594	351,954,452	1,043,032
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION

ATLANTA - TRENDING NOW (continued)

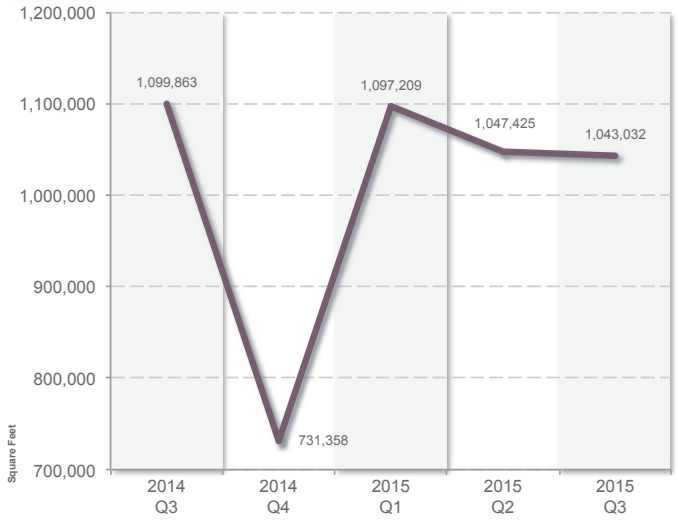
transportation hubs and multi-family housing to have access to younger consumers who are attracted to the live-work-play lifestyle offered in core areas.

Suburban shopping centers in more traditional neighborhoods are still problematic. However, landlords of well-located centers in urban locales have seen a big boost in leasing activity, which has allowed them to end concessions and push for bigger rent increases. National chains continue to adjust their business models and that has posed a challenge to major regional malls, especially those located in outlying suburban areas where high vacancy remains a persistent problem. In response, some mall owners are pursuing new entertainment venues and dining concepts to inject new energy into their properties.

Investor interest is at record levels. Mixed-use projects with a retail component get particular interest, as the big players seek to reposition capital into assets near the housing and amenities preferred by millennials, who are filling the high-paying jobs in the tech, business services and healthcare fields, while the boomers are retiring en masse. This shift in the workforce should provide the bulk of consumerism into the next decade. There is still a tremendous flow of acquisition capital into the Atlanta and cap rates have compressed as a result. But, Atlanta offers better yields than in markets like Los Angeles, San Francisco and New York, where trophy assets are trading at cap rates in the 4% range.

AVERAGE SF RENTAL RATES

SF UNDER CONSTRUCTION

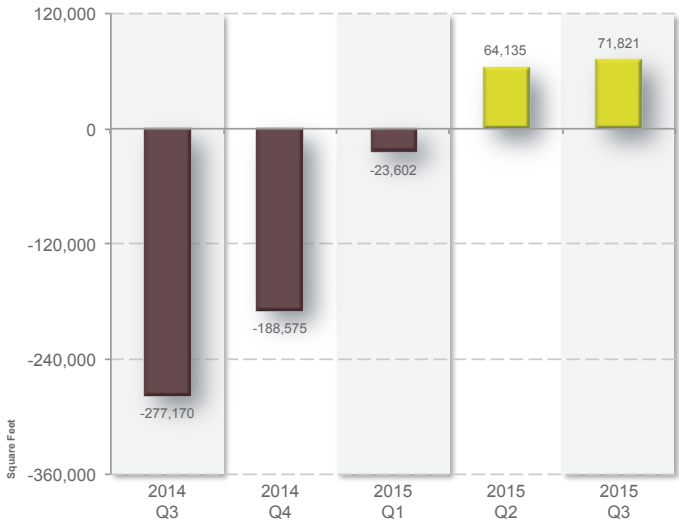


A LOOK AHEAD.

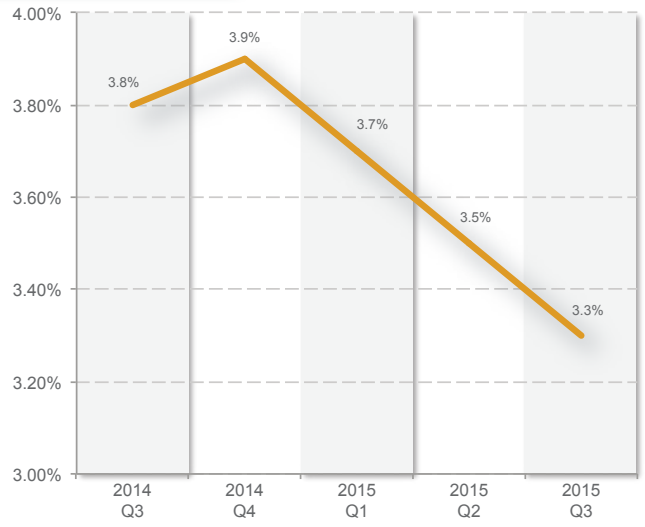
- Grocery stores like Whole Foods, Sprouts and Walmart Neighborhood Market will stay active
- Leasing activity will continue to increase
- Major retailers will stay focused on more urbanized submarkets
- Vacancy is decreasing overall, but will decline faster in prime markets
- Average asking lease rates will move up across the board, but faster in core areas
- Construction costs will keep moving higher due to labor and materials shortages
- Development will be remain focused on mixed use projects
- Limited land availability will keep development from outpacing demand

MANHATTAN

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

New York City's retail sector is still going strong, fueled by strong local job growth and improvements to the state and national economies. By the end of Q3, New York City's unemployment rate dipped to 5.2%, the lowest rate since May of 2008. Year-over-year private sector employment has increased by almost 70,000 jobs, a 2% gain in total employment for the city.

Strong job growth and wage growth means consumers have more money to spend on retail goods and Manhattan boasts some of the best retail locations in the country. That has luxury retailers from around the world focused on maintaining a strong presence in Manhattan's upscale retail areas. Major retail deals signed in Q3 included the Gap's 51,299-square-foot lease at 1530 Broadway, a 44,224-square-foot lease for Old Navy at 1530 Broadway and a 34,000-square-foot deal inked by The Yard at 246 5th Ave.

Activity is still strongest in high traffic areas and supply is still running short of demand in those locations. With new retail space coming on line in major projects like Hudson Yards, World Trade Center and South Street Seaport, that trend should continue and those landlords will achieve top dollar for that prime space.

While rents are still on the rise for space in prime locations, secondary markets are seeing an uptick in supply and some pushback from tenants on asking rental rates. Time on market has begun to increase and some landlords are pushing to get deals signed before the market changes, as many are uncertain about the economic impact of a change in Fed monetary policy. Even though rental rates to continue to rise overall, the rate of increase is slowing and some tenants are

3.3%	$94.32	71,821	51,060,211	2,362,436
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	RETAIL SF INVENTORY	SF UNDER CONSTRUCTION

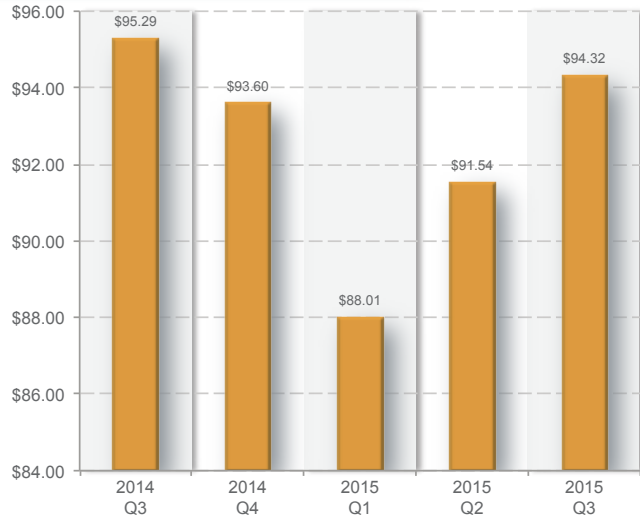
MANHATTAN - TRENDING NOW (continued)

becoming wary of signing high-priced deals.

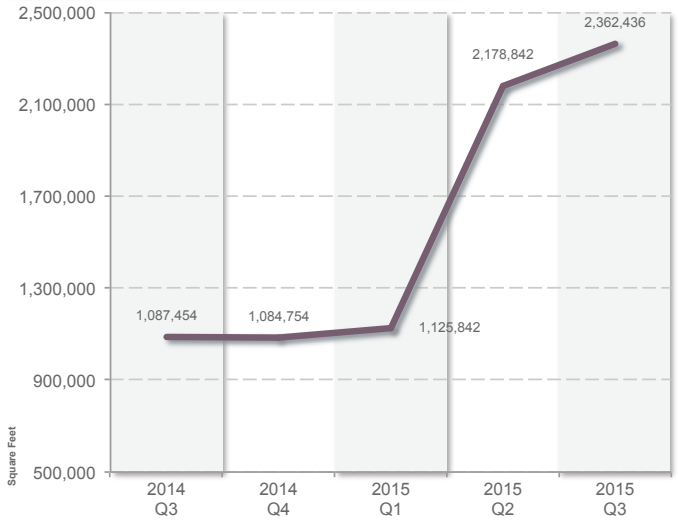
Second generation restaurant space is in great demand, and local and regional restauranteurs are committing to space as soon as it becomes available. National and international retailers continue to dominate the high end of the market, with the Gap/Old Navy deal for the former Toys R Us space in Times Square as an example.

Developers are seeking new ways to build as much retail space as is possible, especially in the tourist markets. Prime example of this new trend is the recent announcement that 666 Fifth Avenue, a prime retail/office building in Midtown, is planning to create a retail mall, spanning several floors, to take advantage of some of the highest rental rates on the island. Creative developments like this one are becoming more prevalent in a market where the vast majority of space is street retail. In Q3, just one new building of just 17,468 square feet was completed, and just 203,163 square feet of retail has been added to the inventory of retail space in the past four quarters.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD.

- Vacancy will decline in prime markets, but remain steady or rise slightly in secondary areas
- Manhattan building and land sales will continue to set records with each closing
- National tenants will be looking to reposition to the "right" location
- Presence of Mom and Pop tenants will continue to decline due to competitive forces
- Absorption will remain steady
- Tenants will be more selective on location choice and more careful with lease negotiations

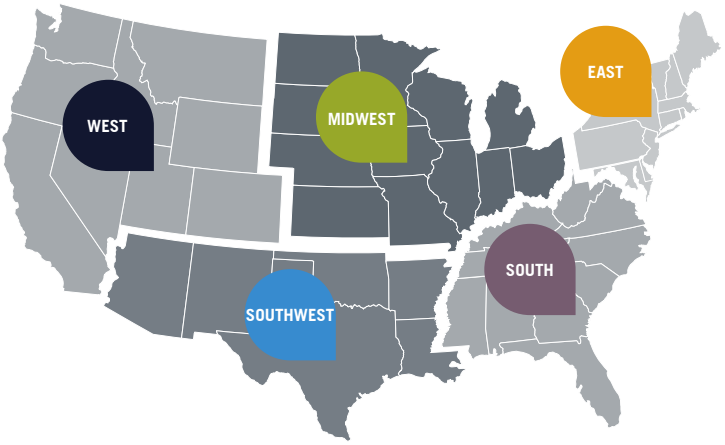
SELECT TOP RETAIL LEASES Q3 2015

BUILDING	MARKET	SF	TENANT NAME
77 Chilpancingo Pky	East Bay/Oakland	432,964	Auto Dealership-Future Development
SuperWalmart	Chicago	187,000	Wal-Mart Stores, Inc.
Mall of Georgia	Atlanta	172,000	Von Maur
American Dream Meadowlands	Northern New Jersey	131,906	Saks Fifth Avenue
American Dream Meadowlands	Northern New Jersey	119,605	Lord & Taylor
City Point	Long Island (New York)	115,421	Century 21 Department Store
University Plaza	Chicago	101,599	Marketing Card Technology
The LOOP Hudson	Northern New Jersey	88,000	BJ's
9200 Baltimore National Pike	Baltimore	88,000	Giant Food
3030 N Broadway St	Chicago	75,755	Mariano's Fresh Market
Levin Furniture	Cleveland	75,000	Levin Furniture
3161 Broadway Blvd	3161 Broadway Blvd	74,315	Plaza Broadway
Liberty Commons	Kansas City	62,917	Academy Sports+ Outdoors
18500 Outlet Blvd	St.Louis	60,000	Gander Mountain

SELECT TOP RETAIL SALES Q3 2015

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
Town Brookhaven	Atlanta	460,609	$351.71	5.25%	GLL Real Estate Partners, Inc.	The Sembler Company
Wicker Park Commons	Chicago	205,163	$461.83	4.9	Deutsche Asset & Wealth Management	Centrum Partners LLC

Nationwide Lee Offices



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The Lee Retail Brief

Q3 2015

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Third-party data sources: CoStar Group, Inc., The Economist, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Congressional Budget Office, European Central Bank, GlobeSt.com, CoStar Property and Lee Propriety Data.

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