

**RETAIL HIGHLIGHTS**

The 2008 retail real estate environment and retail consumer market have experienced unprecedented economic challenges including store closings, diminishing consumer confidence, and daily downbeat headlines. Never before have so many factors created such a uniquely troubled retail climate.

Following the feeble 2007 holiday season, 2008 was marked by pessimism and lackluster performance by many national and regional retailers. This group, which includes Kohl's, JCPenney's, Wal-Mart, Home Depot, and Macy's, represents the measuring stick many industry experts use to predict future performance. The combined result of reductions in housing starts and increased foreclosures in the residential markets, along with the consequences of a larger global credit crisis, offered a clear indicator that "recession" was not just a speculative headline. This environment, coupled with declining sales numbers and waning consumer confidence, led many retailers to announce store closures.

Retailers have seen very little growth in same-store sales compared to 2007. While most retailers are reporting steady consumer traffic levels in their stores, there is a clear shift in consumer spending from what is "wanted" to what is "needed". When a purchase is necessary, consumers desire to find "good deals" has influenced overall sales. Reduced revenue and lagging pressure from 2007's increased operating costs have created a heavy burden on retailers ability to meet rental obligations in their leases. As a result,

many tenants are seeking rent reductions; Pier 1 Imports and Barnes & Noble recently announced a national strategy and action plan for an across-the-board rent reduction to help their bottom line.

During the second half of 2008, the retail real estate market transitioned fully from a landlord to a tenant market. Most retailers who had been previously active in new store openings have suspended plans for any new stores in 2009. Local vacancies have increased as a result of small, entrepreneurial shop owners closing their doors. New retail projects delivered in 2008 are struggling to find tenants. Many well-capitalized retailers, specifically those in the discount categories, are taking full advantage of these conditions. Their resistance to the current climate is helping to stabilize both rents and sales prices of retail real estate.

The outlook for 2009 is dependent upon many factors, but it is clear that success in this new environment will require creativity. Just as global and national changes triggered the retail industry's current slow down, it will take dramatic and positive changes at these levels to reinvigorate the local market. Much of retail's future success hinges upon the restoration of consumer confidence. Once customers trust that banking and credit markets are stabilized, they will spend. This renewed cash flow will encourage retailers to open new stores, expand concepts, and pursue new ventures. As a result, the retail real estate industry will be bolstered as vacant spaces are leased and new stores are built.

**NOTABLE RETAIL TRANSACTIONS | leasing**

LOCATION	SUBMARKET	TENANT	AMOUNT LEASED (SF)
QUARTERFIELD CROSSING	I-97 CORRIDOR	LA-Z-BOY	16,500
COLUMBIA MARKETPLACE	COLUMBIA	RETRO FITNESS	11,951
SEVERNA PARK MARKETPLACE	ROUTE 2 CORRIDOR	CHIPOTLE	6,000
FESTIVAL AT BEL AIR	BEL AIR	CONTE'S BIKE AND FITNESS	5,206
THE AVENUE AT WHITE MARSH	WHITE MARSH	MEN'S WEARHOUSE	4,765
RIVER HILL VILLAGE CENTER	COLUMBIA	MASSAGE ENVY	4,172

**NOTABLE RETAIL TRANSACTIONS | sales**

LOCATION	SUBMARKET	PRICE	PSF	BUILDING SIZE (SF)
METRO SQUARE	OWINGS MILLS	\$15,250,000	\$209.87	72,665
2310 W. PATAPSCO AVE	BALTIMORE CITY	\$4,662,500	\$308.37	15,120
206 W. PRATT ST	CITY CENTER	\$2,000,000	\$170.94	11,700