



FOURTH QUARTER | 2009

# MacKenzie Market Report

Retail

MACKENZIE

# Overview



## Market Outlook

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During 2009, the retail real estate market suffered a “perfect storm” of negative economic impacts, ranging from a capital and credit crisis to rising operating costs due to healthcare, utilities, and insurance. Coupled with increased online purchasing and plunging consumer confidence, the retail market suffered greatly. Vacancy continues to rise as many sites go dark.

Bracing to weather this storm, local retail projects are taking a “hold on to what you’ve got” approach when it comes to lease renewals and re-trading of pending deals. Owners are investigating every dollar spent and taking advantage of opportunities to do their own cost-cutting measures where available. Leasing activity has been maintained by local retail businesses looking to capitalize on the overall reduction in rents and aggressive leasing terms offered by some property owners. In general, new lease transactions are characterized by rent offsets to cap on expenses and by shorter term leases that include kick-out options. Leasing incentives abound and include free rent, higher tenant improvement dollars, fixed or stepped rent, and even percentage rent agreements.

There has been a clear, and likely permanent shift in consumer habits toward value-based retailers that offer discounted merchandise, and this “buying down of America” is evidenced by the success of national discount retailers such as Dollar Tree, Walmart, and Sam’s Club among others. Moving forward into 2010 and beyond, traditional retailers are beginning to accept this reality and are creatively competing by offering unprecedented—if not confusing at times—discounts.

Despite these national trends, the Baltimore Retail market is expected to fare comparatively well because of the strength of the Baltimore-Washington economy, which remains strong in the areas of “meds, eds, and feds”, that is healthcare, education, and government. According to a recent Pitney Bowes national report, Baltimore fares well as a “top retail market” with higher than average projected growth in population, a lack of overbuilding, and an emphasis on redevelopment. As “the last one in”, Baltimore will no doubt be “the first one out” of the economic crisis.

## Quick Stats

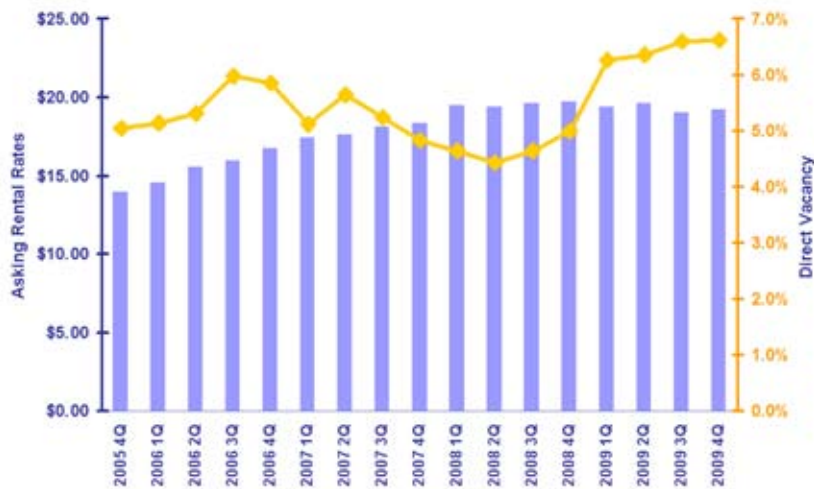
<b>Number of Buildings</b>	1,910
<b>Market Size</b>	98,308,614 sf
<b>CHANGE SINCE LAST</b>	
	<b>CURRENT    QTR    YR</b>
<b>Direct Vacancy</b>	6.38% <span style="color: red;">—</span> <span style="color: green;">▲</span>
<b>Vacancy W/ Sublet</b>	6.64% <span style="color: green;">▲</span> <span style="color: green;">▲</span>
<b>Net Absorption</b>	-64,540 <span style="color: green;">▲</span> <span style="color: red;">▼</span>
<b>Avg. Asking Rate</b>	\$19.30 <span style="color: green;">▲</span> <span style="color: red;">▼</span>

## Quarter Highlights

- The Boulevard at Box Hill, a 600,000 square foot (sf) retail, office, and entertainment center, broke ground in Abingdon, Maryland. Plans for the 40-acre project include more than 450,000 sf of premium retail space, 50,000 sf of restaurant space, and 88,000 sf of class A office space. Developed in multiple phases, phase one will include a bank site, two restaurant pad sites, and a Wegmans Food Store.
- hhgregg, a rapidly growing appliance, electronics, and mattress retailer is expanding into several spaces vacated by Circuit City earlier this year. Locations include Bel Air, Annapolis, Towson, and US 40 West in Catonsville.

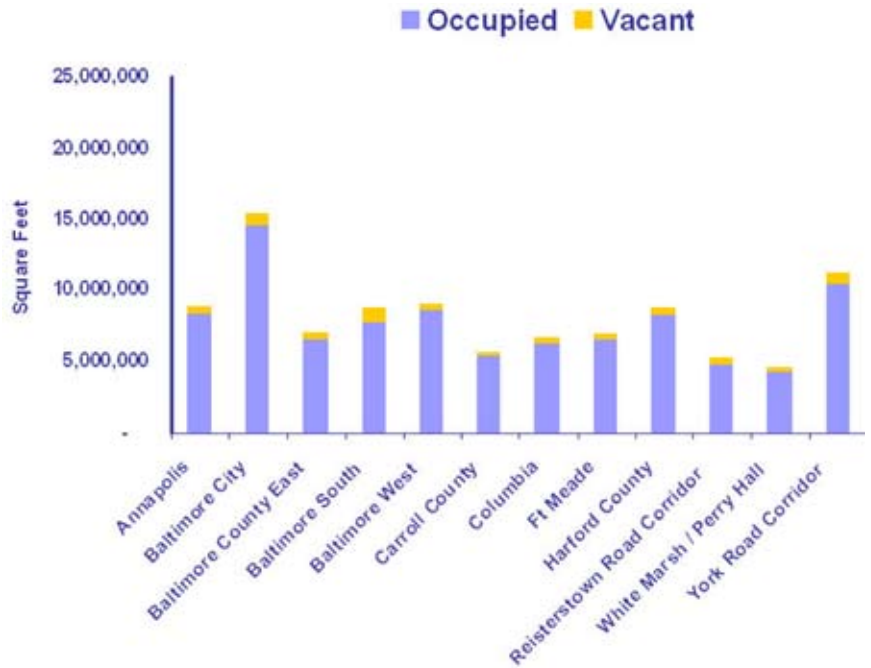
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## Historical Vacancy & Rental Rates



**Above:** Vacancy, which spiked in early 2009, continues to rise steadily, while average asking rental rates have begun to inch downward.

## Submarket Size & Vacancy by Submarket



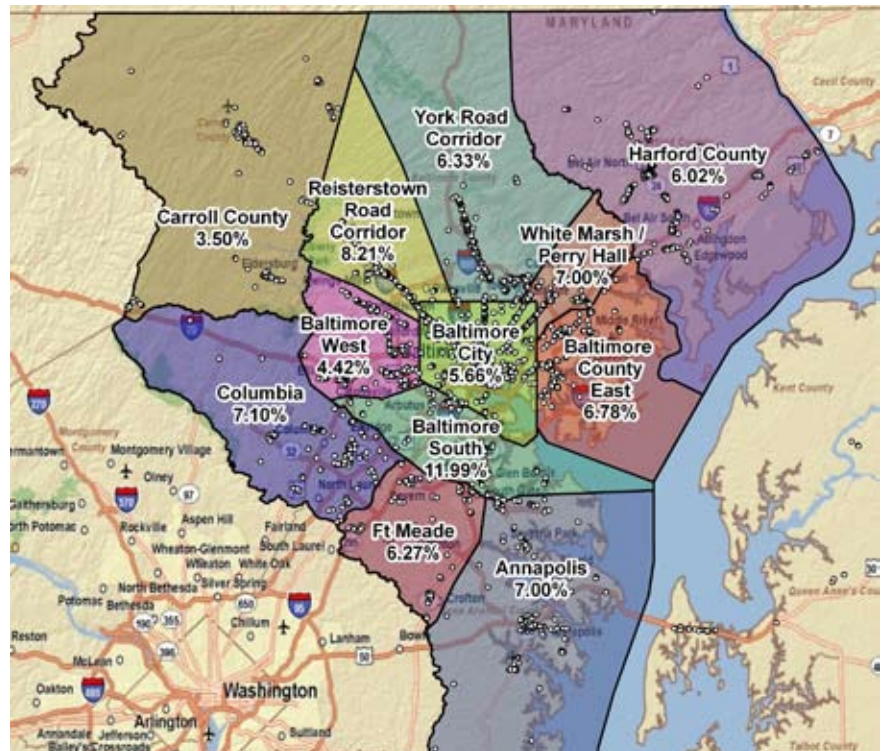
**Above:** Baltimore City and the York Road Corridor represent the largest submarkets in the region, but it is Baltimore City and Baltimore South, that contain the largest inventory of vacant space.

### Quarter Highlights

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- Penn National Gaming Inc. has begun building one of Maryland's first slots parlors in Perryville, Maryland (Cecil County). The 2,400-machine facility will cost \$97.5 million and is slated to open in late 2010. Stewart Associates, which sold Penn National its land, is planning to develop the surrounding 140 acres of land into a mixed-use project.
- Amid heavy snow during the last weekend before Christmas 2009, holiday shopping remained healthy with sales on Monday (21st) and Tuesday (22nd) surpassing even that of Black Friday. Despite this success, however, many small to mid-size retailers continue to struggle.
- There has been a marked shift towards value-based retail as consumers struggle to weather what many call "The Great Recession". This includes healthy growth of discount retailers like Dollar Tree, Walmart, and Sam's Club among others.
- Planet Fitness, a low-cost gym that focuses on the needs of occasional or first-time health club members, completed three deals during the fourth quarter of 2009 totaling more than 57,000 sf. It will be opening these new facilities in Abingdon (Harford County), Catonsville, and Landover.

## Vacancy by Submarket



**Above:** Baltimore City, though the largest submarket, maintains the lowest vacancy rate, while Baltimore County South is experiencing the highest in the region.



## Notable Transactions

\*(r) Renewal

\*\*(sub) Sublease

### Lease

Location	Submarket	Tenant	Amount Leased SF
8200 Belair Rd	White Marsh / Perry Hall	Sears	35,640
7659-7667 Arundel Mills Blvd	Ft Meade	hhgregg	33,165
150-160 Jennifer Rd	Annapolis	hhgregg	33,033
3000 Gamber Rd	Carroll County	Food Lion	32,014
5401-5457 Baltimore National Pike	Baltimore County West	Planet Fitness	21,185
2633-2659 Annapolis Rd	Ft Meade	Anytime Fitness	20,000

### Sale

Location	Submarket	Price	PSF	Building Size SF
Interstate 95 and Route 222 (Chesapeake Overlook)	Cecil County	\$14,500,000 (land)	\$402,778/acre	36 acres
1201 E Churchville Rd (Walgreens)	Harford County	\$5,838,000	\$461.54	12,649 sf
8900 Stanford Blvd (SECU)	Columbia	\$2,100,000	\$384.47	5,462 sf

\* All information furnished regarding property for sale, rent, exchange or financing is from sources deemed reliable. No representation is made as to the accuracy thereof and all such information is submitted subject to errors, omissions, or changes in conditions, prior sale, lease or withdrawal without notice. All information should be verified to the satisfaction of the person relying thereon. Portions of the base statistics are from CoStar Property data. Data as of 12/2009.

