NEWS RELEASE

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TIGHT RETAIL REAL ESTATE INVESTMENT MARKET FUELS ADVISORY ACTIVITY

Strong Demand Continues for Both Off-Market and Broker-Marketed Shopping Centers

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August 9, 2013 – The supply/demand imbalance for institutional-quality retail real estate in the Northeast continues to exist, with hundreds of millions of dollars of capital chasing an extremely limited number of acquisition opportunities. For landlord-focused retail real estate services specialists, this is fueling a notable increase in advisory activity for both the broker-listed shopping centers as well as for off-market shopping center acquisition opportunities.

While their acquisition criteria and "sweet spots" vary somewhat, most institutional investors and fund managers today are still looking for Class-A, dominant grocery-anchored shopping centers located in gateway markets. At the height of the commercial real estate market in 2007, these centers were trading at very low cap rates and we are seeing those pricing levels once again in 2013 for true institutional quality retail centers.

The recent sale of a 100,000-square-foot, Whole Foods-anchored center in Pennsylvania is a great example. When this asset came on the market, demand was fierce and dozens of offers were received. The center ultimately traded far above the initial pricing expectations at a low five percent cap rate.

When investors make the decision to "reach for a property" with very tight spreads, they need to be absolutely certain as to the strength of the center and market trade area, as well as the strength of the tenants in the center. While institutions and fund managers have their own talented in-house acquisitions teams, they are often acquiring many of the various property types, including office, multifamily, and industrial as well as niche property types. In addition, they may be responsible for covering very large geographic areas of the U.S. Because of these challenges, they will often seek a trusted retail advisor who is landlord-focused and knows the local markets on a granular level.

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Some retail real estate services firms have been serving that niche by helping investors better understand market-specific retail fundamentals. Such advice may include providing market lease rates and other terms, demographic profiles for tenants, specific property nuances, including potential tenants at risk and property deficiencies, the center's position in relation to competing and proposed shopping centers, capital and expense budgeting information, and other underwriting assumptions. In the case of the Whole Foods-anchored center mentioned previously, Levin, for example, received multiple inquiries from potential buyers looking for this type of guidance.

The Market for Off-market

To an even greater degree, a few real estate services companies have been getting more involved in sourcing off-market shopping center investment opportunities. Many sophisticated owners may wish to avoid the open-market process. They know what their properties are worth and they know that in today's climate, they can get top dollar regardless of how the center is marketed. At Levin, sourcing off-market opportunities for investors often leads to long-term, third-party property management and leasing assignments – the bread-and-butter of a landlord-focused retail real estate services firm. Because a regional company is in the market working with owners, brokers and investors every day, it is frequently the first to hear that an owner is ready to sell and can proactively work with owners to source off-market acquisition opportunities.

Moving Targets

Institutional investors and fund managers today are targeting high-quality, dominant grocery-anchored centers. They are looking for credit tenancy with longer term leases and solid retail sales. They prefer dense, infill locations in higher barrier to entry markets and strong demographics. Shopping centers in which you can "check most of the boxes" are not easy to come by – whether broker-listed or off-market. Because the demand for these centers has been so intense, some investors are starting to consider strong, dominant centers located in secondary markets, in search of greater opportunity and better yield. Also, there are more funds today seeking value-added and opportunistic retail properties due to improving retail fundamentals.

Additionally, investors are becoming much more selective when it comes to which grocers anchor a center. This is because the "retail food/necessity-oriented segment" has been going through a rapid transformation with both the higher end, and extreme-value grocers performing well while the middle-market grocers continue to lose market share, with a few exceptions. Many of these mid-level brands are losing market share to a growing list of aggressive competitors, such as Wal-Mart, Target, various dollar store and discounter brands, as well as Amazon and other online retailers. Unless there are several good back-fill options, most investors will not consider buying a center anchored by a grocer brand that has continued to underperform.

This industry shift has created investor uncertainty and the process of vetting a shopping center is more critical now than in the past. Furthermore, demand will likely continue to outweigh supply for years to come. As a result, institutional investors and

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fund managers are more challenged than at any time in the recent past to identify sound retail real estate investment opportunities. Investors are now routinely turning to "landlord-focused," trusted third-party retail advisors like Levin, particularly in the challenging Mid-Atlantic and Northeast as well as in other supply-constrained markets nationwide.

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A 25-year industry veteran, Joseph Lowry specializes in evaluating for-sale shopping centers and sourcing off-market retail investment opportunities for Levin Management's select institutional clients and high-net-worth investors. He also spearheads marketing of the firm's full suite of third-party services – including leasing, property management, accounting, construction management and marketing – to institutions, fund managers and private owners, including both existing and potential new clients.