

TRANSWESTERN *Outlook*

Excerpts from Mid-Year 2009 Houston Metro Area Report by Transwestern

The Houston Metro Retail Market

Population Gains Support Modest Retail Growth

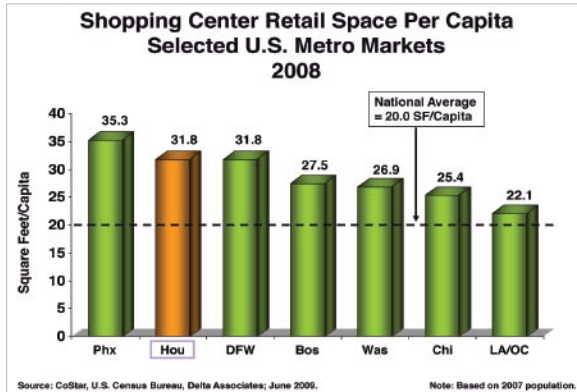
The Houston metro area's population grew from 4.72 million people in 2000 to 5.73 million in 2008, an increase of 21.4% in eight years. Although Houston is currently losing jobs due to the national economic slowdown, payroll employment change is the secondbest in the nation; therefore, demand for retail space continues, albeit at a reduced rate.

Retail Job Growth Slowing

The Retail sector gained 1,400 jobs over the 12-month period ending in April 2009 - a 0.5% increase. With 264,600 employees in the metro area, the retail industry reflects a resilient local economy, despite a nationwide slowdown in the retail sector.

Retail Development: Slowing Amid Uncertainty

The Houston metro area provides its residents with a wide variety of retail options with 31.8 SF of retail space per capita - well above the national average of 20 SF and second-highest among major U.S. metro markets. Houston's retail inventory has grown rapidly in recent years, but the expansion is slowing. Development in 2009 is expected to be less than half the 5 million SF developed in 2008. Simon Property Group has listed a proposed mall site for sale in Katy. The company has been planning the



development of the 134-acre parcel at I-10 and Grand Parkway since the 1990s. Other major projects that have been delayed or canceled this year include the High Street mixed-use project on Westheimer inside the 610 Loop and the Promenade Shops in Pearland.

Retail Vacancy: Rising

Houston's retail vacancy rate rose to 16.4% in the 1st quarter of 2009 from 15.9% in the 4th quarter of 2008 and 15.5% a year earlier. The current vacancy rate is the highest this decade. Vacancy will likely continue to rise in 2009 if consumer spending remains low due to reduced consumer confidence.

Part of the reason for rising vacancy is that some national chains are closing locations or dropping expansion plans. In turn, this slows traffic at anchored shopping centers, driving business away from secondary retailers. This effect is likely to be magnified as the year goes on.

Retail Outlook

The short-term outlook for the Houston retail market is cautious, but Houston has avoided the sharp retail slowdown seen in other cities thus far. The retail market is heavily dependent on the strength of the energy industry, due to its large employment base and spending power. The short-term outlook for Houston retail may be volatile. Nevertheless, Pitney Bowes Business Insight forecasts that Houston is one of the top five metros most likely to experience retail sales growth over the next six quarters. The long-term outlook remains positive due to a healthy growth in population.



2nd Quarter, Multi-Tenant Retail Market Statistical Overview

by Stuart Showers

The retail market continues to soften with occupancy rates decreasing by 1.17% over the previous quarter and 1.75% over the previous year. The under-construction pipeline remains elevated;

however, the hold-status has been placed on several projects, essentially lowering the amount in the U/C status. Absorption really took a hit during the quarter as the city-wide total was ~-1.5million SF. Short and mid-term projections continue to be somewhat dour,

with potential occupancy decreases of an additional 1.5 - 3%, coupled with decreases in asking rents.

	Inner Loop	Northeast	Near North	Far North	Near Northeast	Far Northeast	Near West	Far West	Near Southwest	Far Southwest	South	Near Southeast	Far Southeast	Total Houston
NRSF														
Strip Center	1,751,100	1,182,520	332,271	1,749,889	1,388,818	3,128,989	838,520	1,519,447	1,236,630	1,743,401	711,989	902,259	1,438,608	17,828,849
Community	4,018,971	3,528,927	1,077,292	4,244,548	2,473,596	7,136,304	2,187,160	3,913,031	2,133,784	5,316,972	1,401,728	988,558	6,328,724	44,769,595
Neighborhood	4,944,447	7,515,710	1,083,395	8,234,907	4,436,667	9,952,879	4,369,762	7,701,458	5,740,982	9,288,346	1,999,060	4,189,627	6,920,167	75,970,309
Regional Mall	--	2,330,175	1,333,212	4,119,172	894,788	3,319,740	5,171,497	2,262,928	1,602,371	2,000,000	1,325,000	2,226,744	2,668,412	28,154,039
Total	10,714,518	14,557,332	3,826,170	18,348,316	9,193,869	23,537,912	12,576,939	15,396,864	10,713,767	18,348,719	5,437,777	8,317,188	17,356,911	166,722,792
Occupancy														
Strip Center	81.49%	80.99%	90.84%	74.02%	82.45%	71.73%	79.15%	75.67%	83.34%	79.25%	61.14%	81.29%	72.35%	77.09%
Community	86.10%	75.39%	85.06%	83.51%	89.05%	84.73%	95.09%	82.33%	90.22%	89.86%	91.71%	83.36%	90.90%	86.46%
Neighborhood	81.86%	81.00%	82.04%	77.09%	85.65%	77.77%	84.87%	81.74%	84.63%	79.72%	74.94%	77.25%	83.22%	80.77%
Regional Mall	--	74.20%	99.50%	61.85%	99.98%	89.53%	92.73%	87.23%	74.05%	89.64%	85.27%	84.57%	95.36%	84.06%
Total	83.15%	78.52%	89.79%	74.84%	87.55%	80.06%	89.26%	82.12%	84.03%	83.83%	77.87%	80.04%	87.09%	82.42%
Average Rental Rate														
Strip Center	\$1.66	\$1.18	\$1.01	\$1.21	\$0.92	\$1.21	\$1.62	\$1.36	\$1.03	\$1.17	\$1.16	\$0.92	\$1.34	\$1.24
Community	\$2.57	\$1.47	\$0.00	\$1.71	\$1.11	\$1.76	\$2.12	\$1.72	\$1.32	\$1.43	\$2.10	\$0.88	\$1.47	\$1.68
Neighborhood	\$1.62	\$1.02	\$1.50	\$1.20	\$1.05	\$1.30	\$1.74	\$1.32	\$1.11	\$1.09	\$1.40	\$0.94	\$1.17	\$1.23
Regional Mall	--	\$2.40	\$9.50	\$3.11	\$1.54	\$3.50	\$4.86	\$2.38	\$2.38	\$2.15	\$2.38	\$2.12	\$2.20	\$2.91
Total	\$1.97	\$1.38	\$1.37	\$1.70	\$1.10	\$1.61	\$3.05	\$1.60	\$1.37	\$1.35	\$1.68	\$1.32	\$1.46	\$1.63
Absorption YTD 2009														
Strip Center	16,499	-40,011	-1,962	38,171	3,273	78,199	-15,184	11,401	35,074	58,959	-2,703	-11,580	-4,328	165,807
Community	41,730	398,891	84,998	120,235	389,026	561,161	286,729	-221,614	16,227	48,874	-2,021	-4,170	22,516	1,680,376
Neighborhood	-14,540	195,304	-11,038	-93,463	55,266	54,974	-202,744	-60,881	-30,334	-281,135	-20,232	-119,913	-617,494	-1,096,610
Regional Mall	--	30	27	24,000	3	32	43	-288,375	-92,894	37	37	37	-3,972	-355,944
Total	43,689	554,154	71,998	64,970	471,565	694,337	78,833	-251,031	-267,408	-266,196	-24,956	-135,626	-603,278	393,629
Construction														
Under Construction	567,290	1,650,042	348,716	98,000	370,287	157,217	248,000	3,548,466	62,040	911,004	84,152	0	40,355	8,085,569
Proposed	739,940	451,781	N/A	448,742	224,820	1,453,773	24,933	863,500	33,000	1,053,625	701,250	39,378	375,537	6,410,279
2009	694,359	301,397	32,641	259,454	129,378	1,556,587	137,400	921,518	170,950	1,556,893	89,533	55,000	488,000	6,483,110