

revac's

Houston Shopping Center Market Survey



Year End 2004

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HOUSTON SHOPPING CENTER MARKET SURVEY

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Top Ten Investment Markets - Contributed by Sperry Van Ness Commercial Advisors

CID SourceNET Services and Order Form

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III. ADVISORY BOARD

WILLIAM C. FORREST - Revac Commercial Valuations and Ad Valorem Tax Services
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RETAIL MARKET OVERVIEW

As of Mid Year 2004, the total retail space for existing centers in Houston/Harris County was 139,464,908 square feet which includes all centers 20,000 square feet or larger including regional malls. Overall market vacancy rose in the first 6 months of 2004 to 14.30% from 13.34% in the last 6 months of 2003.

When the type of centers are viewed individually, community centers (80,001 SF to 300,000 SF) have the highest vacancy rate with 15.68% vacant which is up from 14.62%, followed by neighborhood centers (20,000 SF to 80,000 SF) with 13.22% which is up from 12.74% and regional centers (300,001 SF and greater) with 12.54% vacant, up from 11.37%.

CONSTRUCTION		
CURRENT (1/04-6/04)		1,837,052 sf
Previous 6 months (7/03-12/03)	⇓	2,636,318 sf
Previous year (1/03-6/03)	⇓	2,503,949 sf

CONSTRUCTION

Overall construction for the first 6 months of 2004 reported an additional 1,837,052 square feet being completed. The construction total for 2003 was 5,140,267 square feet. This was following a total construction for 2002 of 4,264,696 square feet. The highest level since 1985 was in 2001 with 9,140,256 square feet.

Average construction for the previous 5 ½ yrs (1999-Mid Year 2004) averaged 5,211,413 square feet per year with the majority being constructed in 2001 (9,140,256 square feet). Eight (8) of the 17 market areas completed new centers in the first 6 months of 2004.

New Construction		
Area	# Ctrs	SF
North	1	30,000
Northeast	1	155,708
Northwest	3	458,735
Inner Southeast	1	103,282
Southeast	1	38,500

Southwest	2	389,870
Inner West	1	300,000
West	4	360,957
TOTAL	14	1,837,052

A total of 24 centers were under construction at Mid Year 2004 totaling 2,832,538 square feet. The majority of these centers can be expected to come on line by mid to late 2004 or early 2005. The areas with centers under construction are:

Under Construction		
Area	# Ctrs	SF
North	1	40,000
Northeast	2	130,948
Northwest	9	1,188,561
South	1	425,000
Southeast	2	152,000
Inner Southwest	3	218,249
Southwest	1	230,000
West	5	447,780
TOTAL	24	2,832,538

The makeup of the centers under construction include 13 traditional centers and 1 power center with big box tenants. Wal-Mart is constructing 2 stores while Target is constructing 1 store. The remaining centers consist of 6 grocery-anchored centers and 1 specialty center.

Proposed development indicates 23 centers with 5,149,322 square feet are currently being planned. Most of the current proposed centers project a mid 2005 construction date or later. The market areas with proposed retail centers are:

Proposed		
Area	# Ctrs	SF
Inner Loop West	1	27,000
North	1	100,000
Inner Northwest	3	146,000
Northwest	6	436,122
South	1	22,000
Inner Southeast	1	210,000
Southeast	1	250,000
Southwest	3	750,000
West	6	3,208,200
TOTAL	23	5,149,322

The proposed centers are comprised of 15 traditional centers plus 2 grocery store-anchored centers, 2 Wal-Mart, 1 big box retail center, 1 Target and 2 regional mall sites. Some of the traditional centers may secure larger anchor tenants such as grocery stores as construction plans develop further.

ABSORPTION

ABSORPTION		
CURRENT (1/04-6/04)		136,721 sf
Previous 6 months (7/03-12/03)	↓	951,300 sf
Previous year (1/03-6/03)	↓	1,024,773 sf

Total net absorption during the 5 ½ year period from 1999 through Mid Year 2004 was 11,718,007 square feet, equivalent to an average annual absorption of 2,130,547 square feet. The last 6 months of 2003 showed a positive absorption rate of 951,300 square feet while the first 6 months of 2004 reported a positive 136,721 square feet absorbed. The total absorption for 2003 was 1,976,073 square feet which followed a year of negative absorption in 2002 with -2,974,362 square feet absorbed.

During the first 6 months of 2004, the Northwest (NW) area experienced the highest positive absorption with +505,622 square feet followed by the West (W) with +298,538 square feet. The highest negative absorption was in the North (N) with -301,186 square feet, followed by the Inner Northwest (INW) with -265,795 square feet absorbed. Only six (6) out of 17 areas experienced positive absorption while eleven (11) areas showed a negative absorption or no absorption for the first 6 months of 2004.

VACANCY RATES

The overall retail vacancy rate for existing shopping centers in Harris County is 14.30% which is the weighted average between the CBD vacancy rate of 5.83% and the suburban vacancy rate of 14.37%.

The highest vacancy rates are in the Inner West (IW) at 19.78%, the Southeast (SE) with 18.91%, Inner Northeast (INE) with 17.99%, and the Inner Northwest (INW) at 16.61%. By contrast, the lowest vacancy rates are in the South (S) area with 4.29%, the C.B.D. with 5.83%, and the Inner North (IN) with 7.93%.

VACANCY RATES		
CURRENT (1/04-6/04)		14.30%
Previous 6 months (7/03-12/03)	↑	13.34%
Previous year (1/03-6/03)	↑	12.34%

Vacancy rates dropped in 3 out of the 17 market areas with the largest decrease in vacancy in the Inner Southeast (ISE) with a decrease from 16.03% to 14.46% (a drop of 1.57 percentage points) followed by Inner Loop East (ILE) down from 15.03% to 13.89% (1.14 percentage points). Over 80% of the areas increased their vacancy rates. The area with the largest increase in vacancy was the Inner Northwest (INW), up from 10.43% to 16.61%, followed by Inner West (IW) with 19.78% up from 14.92%, and North with 15.89%, up from 12.32%.

RENTAL RATES

RENTAL RATES		
CURRENT (1/04-6/04)		\$19.10
Previous 6 months (7/03-12/03)	↔	\$19.10
Previous year (1/03-6/03)	↓	\$19.15

Effective rental rates for existing centers showed a stabilized overall rate from \$19.10 (per square foot per year) to \$19.10. Rates in the CBD average \$23.27 while in the suburban markets, effective rental rates in existing centers average \$19.09 with a range from a low of \$10.21 in the Inner Northeast (INE) to a high of \$23.87 in the Inner Southwest (ISW). Seven (7) out of the 17 market areas experienced an increase in their rental rates for this survey period. The greatest increase was in the Southwest (SW) area with a 1.34% increase. The largest decrease in rental rates was in the Inner South (IS) showing a 3.76% decrease.

Effective rental rates for the first 6 months of 2004 by type of center showed neighborhood centers increasing 9 cents to \$12.99 from \$12.90. Community centers rose 8 cents to \$15.12 from \$15.04 and regional centers rose 16 cents to \$31.43 from \$31.27.

AGE OF CENTER

The Profile by Age of Center reflects vacancy rates and rental rates by area and age group. The age groups are broken down into 0-5 years, 6-10 years, 11-15 years and 16 years and older. The age group with the

RENT				
	0-5 Yrs	6-10 Yrs	11-15 Yrs	16+ Yrs
CURRENT (1/04-6/04)	\$20.91	\$25.19	\$16.40	\$15.35
Previous 6 months (7/03-12/03)	\$20.18	\$24.82	\$14.91	\$15.30
Previous year (1/03-6/03)	\$19.61	\$24.81	\$14.89	\$15.15
VACANCY				
CURRENT (1/04-6/04)	9.56%	11.65%	22.18%	15.65%
Previous 6 months (7/03-12/03)	10.20%	12.89%	16.46%	14.29%
Previous year (7/03-12/03)	8.38%	12.31%	15.96%	13.20%

lowest vacancy rate is the 0-5 year old centers with 9.56%. In the first part of 2003, a large jump in the vacancy rate was seen in the 6-10 and 11-15 year old centers due mainly to the fact that numerous large big box stores had closed leaving a large glut of vacant space on the market. The age group with the highest vacancy rate is the 11-15 year old centers with 22.18%.

The group with the highest rental rate was the 6-10 year old centers with \$25.19. The centers 16+ years old had the lowest rental rate with \$15.35.

ANCHORED VS. NON-ANCHORED

Vacancy rates in anchored centers (under 500,000 square feet which exclude the super regional malls) average 10.61% as compared to non-anchored centers at 21.48%. Anchored centers are also able to command higher rents currently at \$16.67 as compared to \$12.34 for non-anchored centers. The strongest anchors are usually those with a grocery store and drug store or large department store. Anchored centers saw an decrease in vacancy for the first 6 months of 2004 to 10.61% from 11.12% while non-anchored centers increased from 18.28% to 21.48%. Rental rates rose 39 cents for anchored centers while non-anchored centers rose 1 cent in the first 6 months of 2004.

ANCHOR CENTERS NON-ANCHOR CENTERS				
		Rent		Vacancy
CURRENT (1/04-6/04)	Chg	\$16.67 \$12.34	Chg	10.61% 21.48%
Previous 6 months (7/03-12/03)	↑ ↑	\$16.28 \$12.33	↑ ↓	11.12% 18.28%
Previous year (1/03-6/03)	↑ ↓	\$16.29 \$12.35	↑ ↑	10.12% 18.10%

INVESTMENT SALES AND FORECLOSURES

For the period of 2000 through the last 6 months of 2003, a total of 842 centers totaling 43,625,676 square feet were purchased by investors. Investment activity for the last 6 months of 2003 totaled 5,746,014 square feet in 105 centers. Total investment activity for 2003 was 11,634,306 square feet in 233 centers. Foreclosures for the 2000 - 2003 period numbered 23 involving 2,641,573 square feet. In the last 6 months of 2003 3 centers were foreclosed for a total of 274,987 square feet, while the total foreclosures for 2003 were 438,640 square feet in 5 centers. Thus far in 2004, foreclosures have remained stable.

YEAR	% of Sales	% of Foreclosures
2004	98%	2%
2003	98%	2%
2002	98%	2%
2001	95%	5%
2000	98%	2%
1999	98%	2%
1998	98%	2%

In 2003, the Northwest (NW) area had the greatest number of centers sold (37). The Southwest (SW) area had the greatest amount of square footage (3,737,136 square feet). The centers sold in 2003 constituted 98% of the total transactions while centers foreclosed make up 2%, reflecting a stable market.

RETAIL PURCHASE PRICES					
Year	Chg	Avg Price/SF	Total SF Sold	Total \$ Sales	Avg Center Size (SF)
2004		\$65.11	4,501,100	\$103,298,682	48,925
2003	↑	\$64.26	11,634,306	\$277,215,132	47,753
2002	↑	\$50.11	15,500,968	\$233,435,602	60,829

Note: Previous figures may have been revised
Current year may represent a partial year

REVAC's "Real Estate Report" for Houston/Harris County records all commercial and land transactions on a monthly basis. The three of the largest shopping centers sold during the first half of 2004 were the Kingwood Shopping Center in northeast Houston with 151,000 square feet, Plaza in the Park in the Inner Loop area with 129,955 square feet, and Westgate Marketplace located at 1330 Fry Rd in west Houston with 292,000 square feet.

RETAIL PURCHASE PRICES

Average sales prices for retail centers in the Houston/Harris County area for 2004 were \$65.11/square foot of net rentable area. This is an 1% increase in the average sales price from 2003 when the average price per square foot of net rentable area was \$64.26. Two years ago, in 2002, the average sales price was \$50.11 per square foot. These prices are based on all retail centers, regardless of size or class.

The total sales of shopping centers for 2004 reached \$103,298,682 with an average center size of 48,925 square feet, as compared to the previous year with \$277,215,132 and an average size of 47,753 square feet. Two years earlier the total sales price figure was \$233,435,602 with an average center size of 60,829 square feet.

When comparing prices by size of center, the smaller centers rose in the price per square foot in 2004. The price of \$79.77/SF is up from the previous year and up from 2 years ago. The neighborhood centers (20,000 - 80,000 SF) increased to \$70.34 as compared to the previous year and from two years earlier. The community centers (80,001 -300,000 SF) also rose slightly in 2004 to \$55.03.

in this survey report and all retail establishments that collect sales tax. Total gross retail sales for 2002 were \$58,828,462,146 which is up over 2% from 2001. In the 8 years from 1995 to 2002 the greatest increases in retail sales occurred in the mid to late 1990s.

The retail market area with the highest level of retail sales in 2002 was the Inner Southwest with \$7,907,453,821.

AVERAGE PRICE PER SF BY SIZE OF CENTER				
Year	Under 20,000 SF	20,000 to 80,000 SF	80,001 to 300,000 SF	OVER 300,000 SF
2004	\$79.77	\$70.34	\$55.03	N/A
2003	\$72.66	\$69.48	\$46.94	N/A
2002	\$67.23	\$51.59	\$43.82	\$123.00

HOUSTON RETAIL MARKET SUMMARY

Once again, occupancy fell nearly a whole percentage point and absorption dropped from the previous year but did not fall to the level of the negative absorption in 2002. Occupancy, absorption, and rental rates suffered in 2002

with the exodus of many large retailers such as K-Mart, Albertson's, Service Merchandise, Weiner's, etc. The overall negative absorption rate for 2002 was the largest negative absorption seen in years. In the 2003, some of this "big box" space began to be released but at a slow rate.

Construction was moderate in the first half of 2004 with over 1,800,000 square feet of new space. The previous year, 2003, outpaced the construction rate of 2002 with the addition of over 5,100,000 square feet being built in 2003. Potentially, over 7,000,000 square feet of shopping center space currently under construction or proposed for construction could be added to market in the next 1 to 1½ years.

Overall rental rates remained stable overall, however, individual areas experienced changes. Historically, rental rates hit bottom in 1987 with an average of \$11.06 and steadily climbed to \$13.70 in 1991. Since then, the rental rates for shopping centers have risen 38% or a yearly increase rate of nearly 4%. In the past 5 years, the rates have risen 10% or roughly 2% per year.

GROSS RETAIL SALES

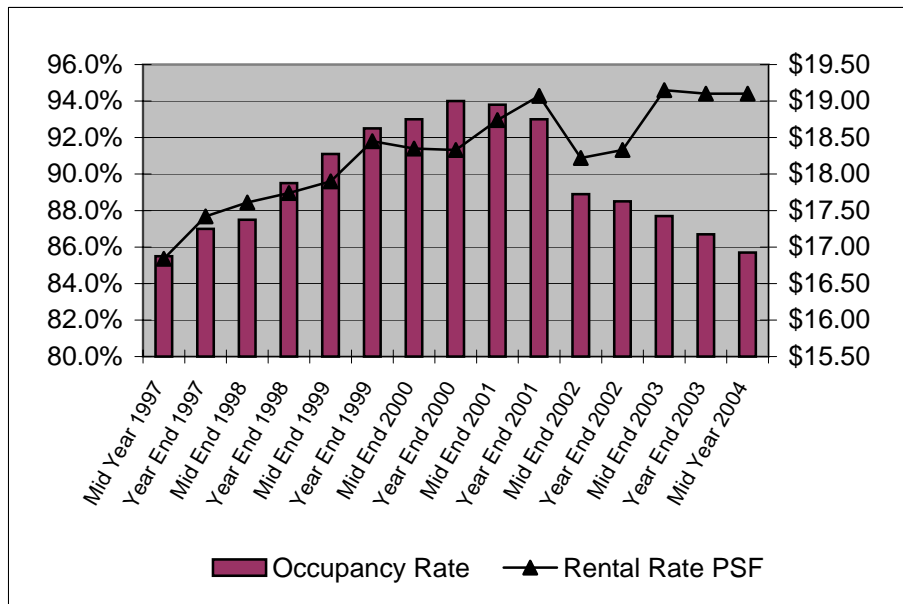
GROSS RETAIL SALES		
Year	% Chg	Gross Sales
2002	2.53%	\$58,828,462,146
2001	2.29%	\$57,374,111,397
2000	4.69%	\$56,088,917,371
1999	7.24%	\$53,575,221,349
1998	3.63%	\$49,957,896,758
1997	11.72%	\$48,210,159,222
1996	11.39%	\$43,152,610,124
1995	7.15%	\$38,741,328,959

Gross retail sales for the Houston/Harris County area continued to rise in 2002. These figures are comprised of the total gross retail sales for the Houston MSA including sales both in the shopping centers reported

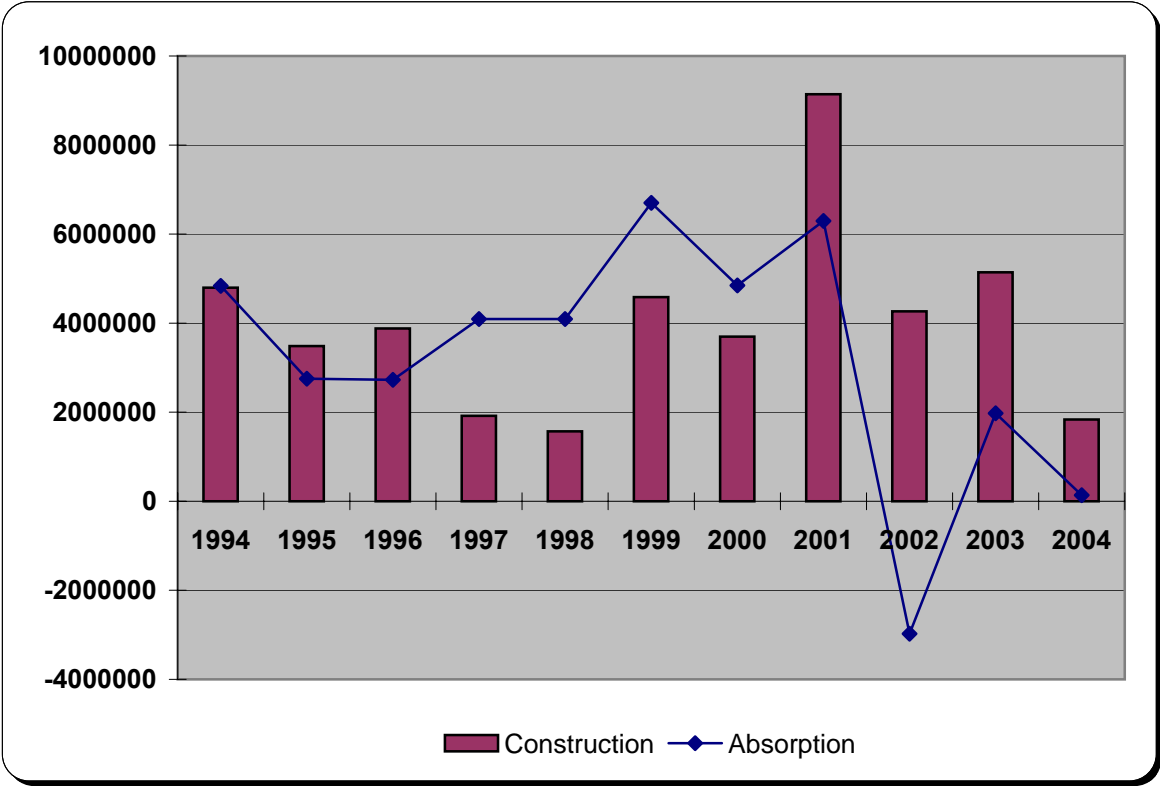
Houston Retail Market

History of Occupancy Rates and Rental Rates 1997-2004

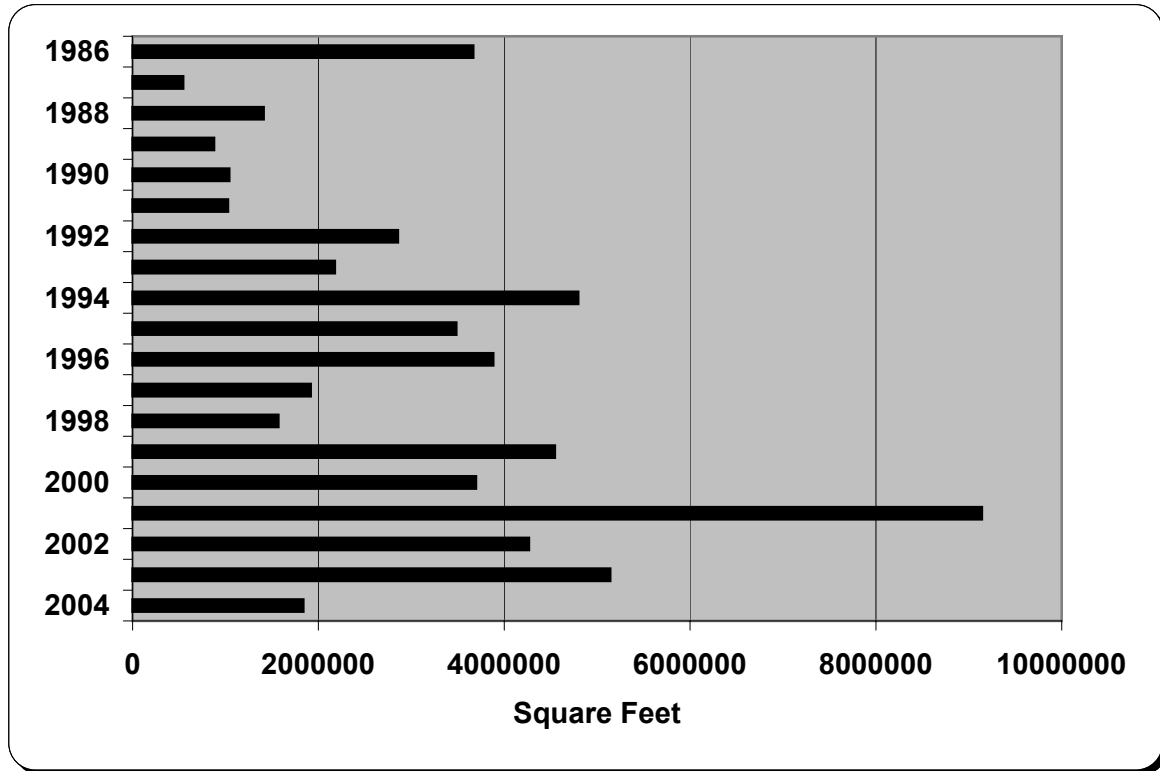
	Occupancy Rate	Rental Rate PSF
Mid Year 1997	85.5%	\$16.84
Year End 1997	87.0%	\$17.42
Mid End 1998	87.5%	\$17.61
Year End 1998	89.5%	\$17.74
Mid End 1999	91.1%	\$17.90
Year End 1999	92.5%	\$18.45
Mid End 2000	93.0%	\$18.35
Year End 2000	94.0%	\$18.33
Mid End 2001	93.8%	\$18.74
Year End 2001	93.0%	\$19.07
Mid End 2002	88.9%	\$18.22
Year End 2002	88.5%	\$18.33
Mid End 2003	87.7%	\$19.15
Year End 2003	86.7%	\$19.10
Mid Year 2004	85.7%	\$19.10



Historical Construction & Absorption
1994-2004



Construction History
Shopping Center Space

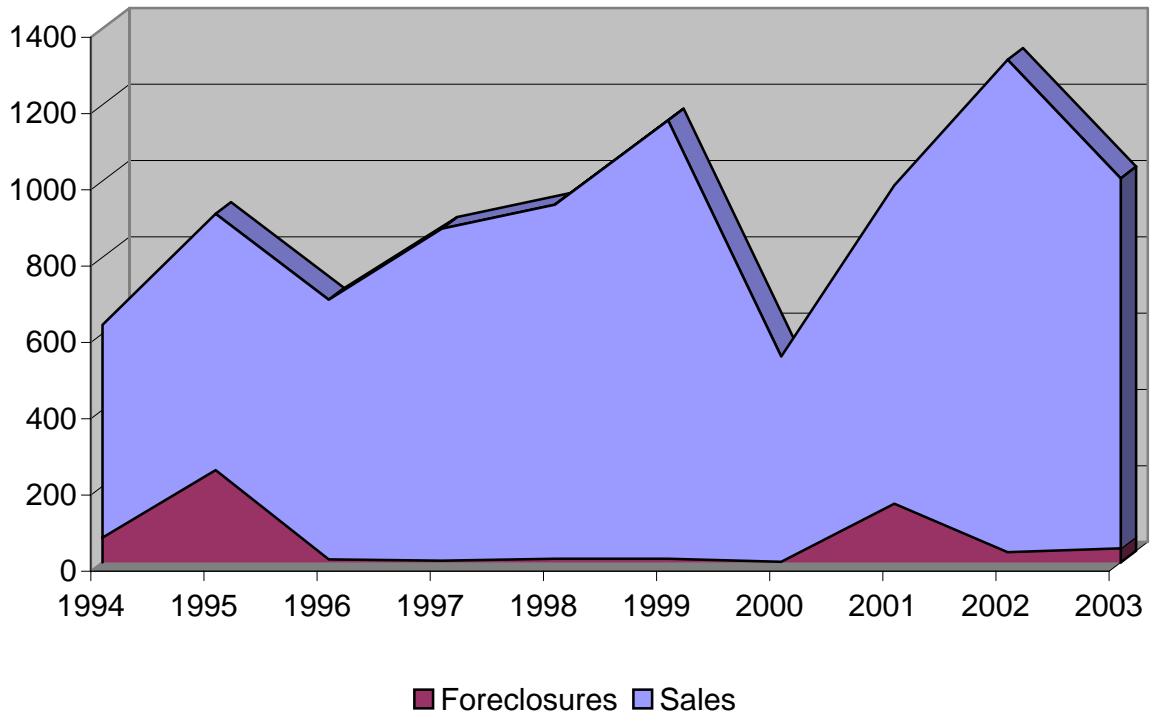


History of Construction and Absorption

Area	Total New Const 5.5 Yrs 1999-2004	Avg Annual Const 1999-2004	Total Const 2004	Const 2nd 6 Mos 2003	Const 1st 6 Mos 2004	Total Absorp 5.5 Yrs 1999-2004	Avg Annual Absorp 1999-2004	Total Absorp 2003	1st 6 Mos Absorp 2004
CBD	0	0	0	0	0	-33,104	-6,019	-22,940	0
ILE	668,405	121,528	0	0	0	44,813	8,148	-186,168	18,794
ILW	878,453	159,719	0	51000	0	100,803	18,328	-136,999	-8,064
IN	47,472	8,631	0	47472	0	52,123	9,477	340,115	-18,861
N	1,237,545	225,008	30,000	0	30,000	553,103	100,564	479,165	-301,186
INE	207,000	37,636	0	0	0	-214,274	-38,959	-123,379	-58,353
NE	1,610,493	292,817	155,708	172180	155,708	1,025,036	186,370	-329	5,566
INW	594,173	108,031	0	0	0	40,024	7,277	34,633	-265,795
NW	6,132,466	1,114,994	458,735	1609655	458,735	3,494,791	635,417	1,037,455	505,622
IS	0	0	0	0	0	230,430	41,896	11,756	-5,000
S	994,500	180,818	0	0	0	1,216,966	221,267	318,076	0
ISE	692,880	125,978	103,282	20047	103,282	-265,913	-48,348	-165,646	201,859
SE	3,293,421	598,804	38,500	231300	38,500	630,908	114,711	-96,024	-69,503
ISW	1,502,136	273,116	0	0	0	363,069	66,013	475,994	-123,555
SW	3,581,572	651,195	389,870	291472	389,870	1,712,600	311,382	169,386	215,469
IW	2,436,016	442,912	300,000	57812	300,000	-244,946	-44,536	-276,751	-258,810
W	4,786,240	870,225	360,957	155380	360,957	3,011,578	547,560	117,729	298,538
Total	28,662,772	5,211,413	1,837,052	2,636,318	1,837,052	11,718,007	2,130,547	1,976,073	136,721

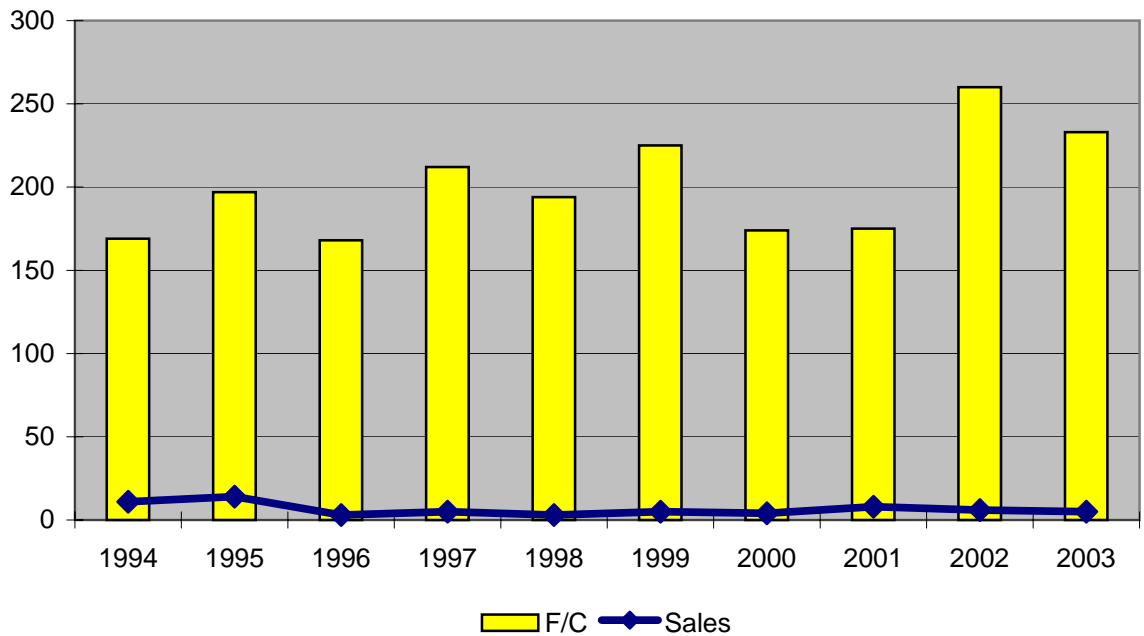
Sales & Foreclosures

Monthly Average in Thousands of SF



Sales Vs. Foreclosures

Number of Centers



Retail Sales And Foreclosures

by Year

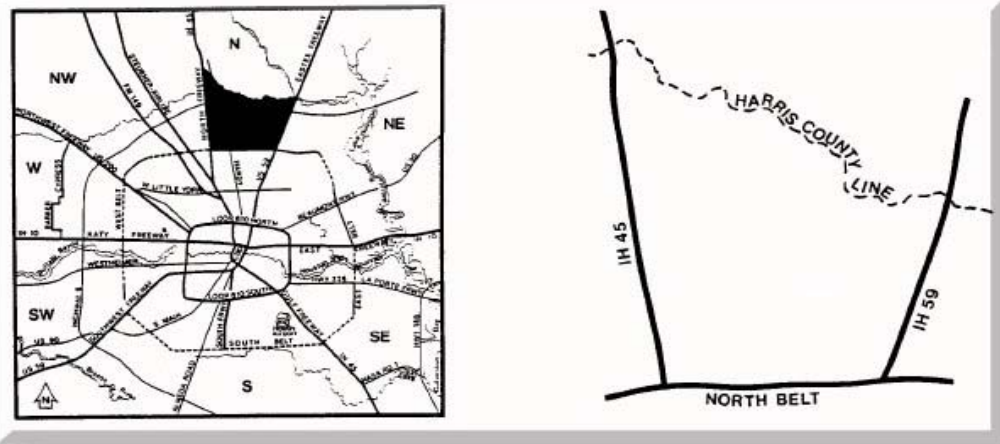
2000				
Area	Sales		Foreclosures	
	SQ. FT	# Ctrs	SQ. FT	# Ctrs
CBD	0	0	0	0
ILE	210,956	11	7,259	1
ILW	233,972	16	0	0
IN	98,659	7	10,428	1
N	136,419	6	0	0
INE	107,266	3	0	0
NE	370,453	5	0	0
INW	130,447	13	0	0
NW	1,699,354	26	5,490	1
IS	52,119	5	0	0
S	0	0	0	0
ISE	217,378	10	0	0
SE	554,253	17	7,000	1
ISW	592,755	18	0	0
SW	485,846	13	0	0
IW	728,958	11	0	0
W	841,856	13	0	0
Total	6,460,691	174	30,177	4

2001				
Area	Sales		Foreclosures	
	SQ. FT	# Ctrs	SQ. FT	# Ctrs
CBD	18,131	2	0	0
ILE	78,104	8	0	0
ILW	225,554	14	0	0
IN	402,056	10	0	0
N	2,407,395	5	270,853	2
INE	70,543	6	0	0
NE	26,760	3	0	0
INW	170,298	9	24,000	1
NW	2,408,551	21	75,580	1
IS	39,816	2	7,600	1
S	0	0	0	0
ISE	356,288	19	7,800	1
SE	557,715	16	160,414	1
ISW	454,526	15	1,300,000	1
SW	1,727,589	16	0	0
IW	431,861	14	0	0
W	654,524	15	0	0
Total	10,029,711	175	1,846,247	8

2002				
Area	Sales		Foreclosures	
	SQ. FT	# Ctrs	SQ. FT	# Ctrs
CBD	36,310	3	0	0
ILE	133,108	10	0	0
ILW	147,519	16	0	0
IN	344,838	9	0	0
N	913,720	11	0	0
INE	9,256	1	0	0
NE	316,177	8	0	0
INW	435,933	12	0	0
NW	1,530,582	28	100,432	2
IS	25,250	2	3,468	1
S	0	0	0	0
ISE	1,733,033	24	0	0
SE	3,039,248	34	0	0
ISW	2,945,672	33	5,600	1
SW	1,669,914	34	217,009	2
IW	1,358,470	21	0	0
W	861,938	14	0	0
Total	15,500,968	260	326,509	6

2003				
Area	Sales		Foreclosures	
	SQ. FT	# Ctrs	SQ. FT	# Ctrs
CBD	20,482	1	0	0
ILE	265,820	12	5,146	1
ILW	498,240	14	0	0
IN	14,416	4	0	0
N	554,098	6	172,000	1
INE	8,350	1	0	0
NE	219,527	11	0	0
INW	924,343	13	23,155	1
NW	1,558,237	37	0	0
IS	36,390	4	0	0
S	0	0	0	0
ISE	595,929	11	0	0
SE	1,466,507	26	238,339	2
ISW	487,223	26	0	0
SW	3,737,136	32	0	0
IW	789,264	19	0	0
W	458,344	16	0	0
Total	11,634,306	233	438,640	5

North



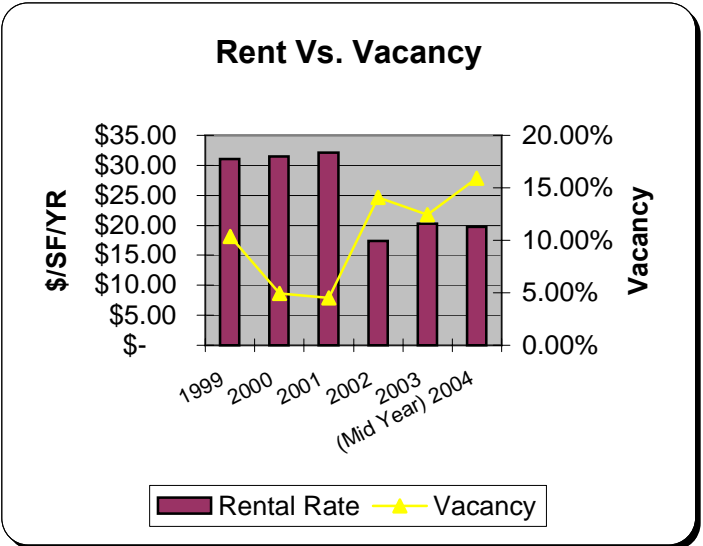
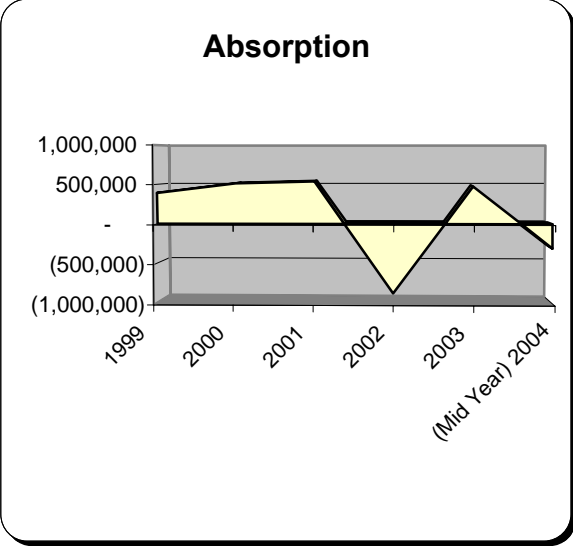
Year	Neighborhood		Community		Regional		Total Market	
	SF Const	# Ctrs	SF Const	# Ctrs	SF Const	# Ctrs	SF Const	# Ctrs
Prior 1960	0	0	0	0	0	0	0	0
1960-1969	0	0	0	0	0	0	0	0
1970-1979	388,679	8	1,401,209	8	1,706,117	1	3,496,005	17
1980-1989	698,246	16	1,564,503	10	1,374,986	1	3,637,735	27
1990	0	0	0	0	0	0	0	0
1991	32,246	1	0	0	0	0	32,246	1
1992	0	0	120,000	1	0	0	120,000	1
1993	0	0	0	0	0	0	0	0
1994	0	0	416,700	2	0	0	416,700	2
1995	0	0	0	0	0	0	0	0
1996	129,500	2	0	0	0	0	129,500	2
1997	0	0	0	0	0	0	0	0
1998	0	0	130,000	1	0	0	130,000	1
1999	0	0	130,000	1	0	0	130,000	1
2000	0	0	221,943	1	501,000	1	722,943	2
2001	0	0	0	0	0	0	0	0
2002	0	0	0	0	0	0	0	0
2003	37,500	1	0	0	317,102	1	354,602	2
Mid Year 2004	30,000	1	0	0	0	0	30,000	1
Total	1,316,171	29	3,984,355	24	3,899,205	4	9,199,731	57
(less removed)	48,000	1	0	0	0	0	48,000	1
Existing	1,268,171	28	3,984,355	24	3,899,205	4	9,151,731	56
U/C	40,000	1	0	0	0	0	40,000	1
Proposed	0	0	100,000	1	0	0	100,000	1

North

Percent of Market
6.24%

Historical Rates

	1999	2000	2001	2002	2003	(Mid Year) 2004
Rental Rate	\$ 31.09	\$ 31.44	\$ 32.11	\$ 17.41	\$ 20.24	\$ 19.75
Vacancy	10.35%	4.95%	4.52%	14.11%	12.44%	15.89%
Absorption	388,985	513,579	537,638	(880,889)	479,165	-301,186



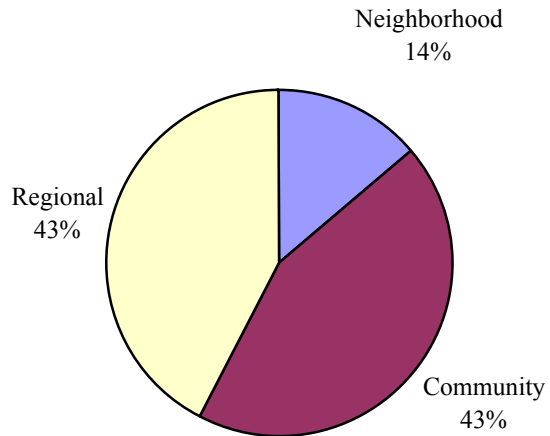
Gross Retail Sales

Year	Gross Retail Sales
1995	\$ 1,094,682,877
1996	\$ 1,256,770,253
1997	\$ 1,198,438,086
1998	\$ 1,345,357,439
1999	\$ 1,510,030,443
2000	\$ 1,676,420,936
2001	\$ 1,861,395,863
2002	\$ 2,155,012,964



Retail Space - % of Market

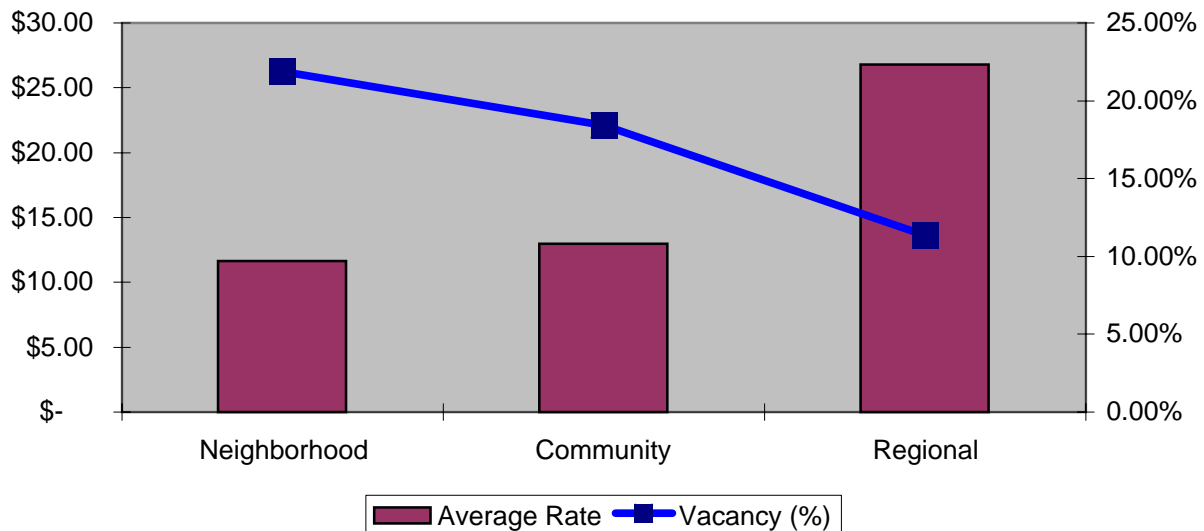
North



Vacancy & Rental Rates

By Type of Center

Vacancy & Rental Rates
By Type of Center



North

Vacancy Rates and Rental Rates By Type of Center and Stage of Construction as of Mid Year 2004

		Existing	Under Construction	Proposed
Neighborhood	NRA	1,268,171	40,000	-
	Available SF	277,304	35,000	-
	Vacancy (%)	21.87%	87.50%	
	Single Net			
	Double Net			
	Triple Net	\$ 11.65		
Average Rate	\$ 11.65	N/A		
Community	NRA	3,984,355	-	100,000
	Available SF	734,825	-	70,000
	Vacancy (%)	18.44%		70.00%
	Single Net			
	Double Net			
	Triple Net	\$ 12.96		
Average Rate	\$ 12.96		N/A	
Regional	NRA	3,899,205	-	-
	Available SF	442,469	-	-
	Vacancy (%)	11.35%		
	Single Net			
	Double Net			
	Triple Net	\$ 26.80		
Average Rate	\$ 26.80			
Total Market	NRA	9,151,731	40,000	100,000
	Available SF	1,454,598	35,000	70,000
	Vacancy (%)	15.89%	87.50%	70.00%
	Single Net			
	Double Net			
	Triple Net	\$ 19.75		
Average Rate	\$ 19.75	N/A	N/A	