CHAPTER 5

PROPERTY TYPES IN PERSPECTIVE

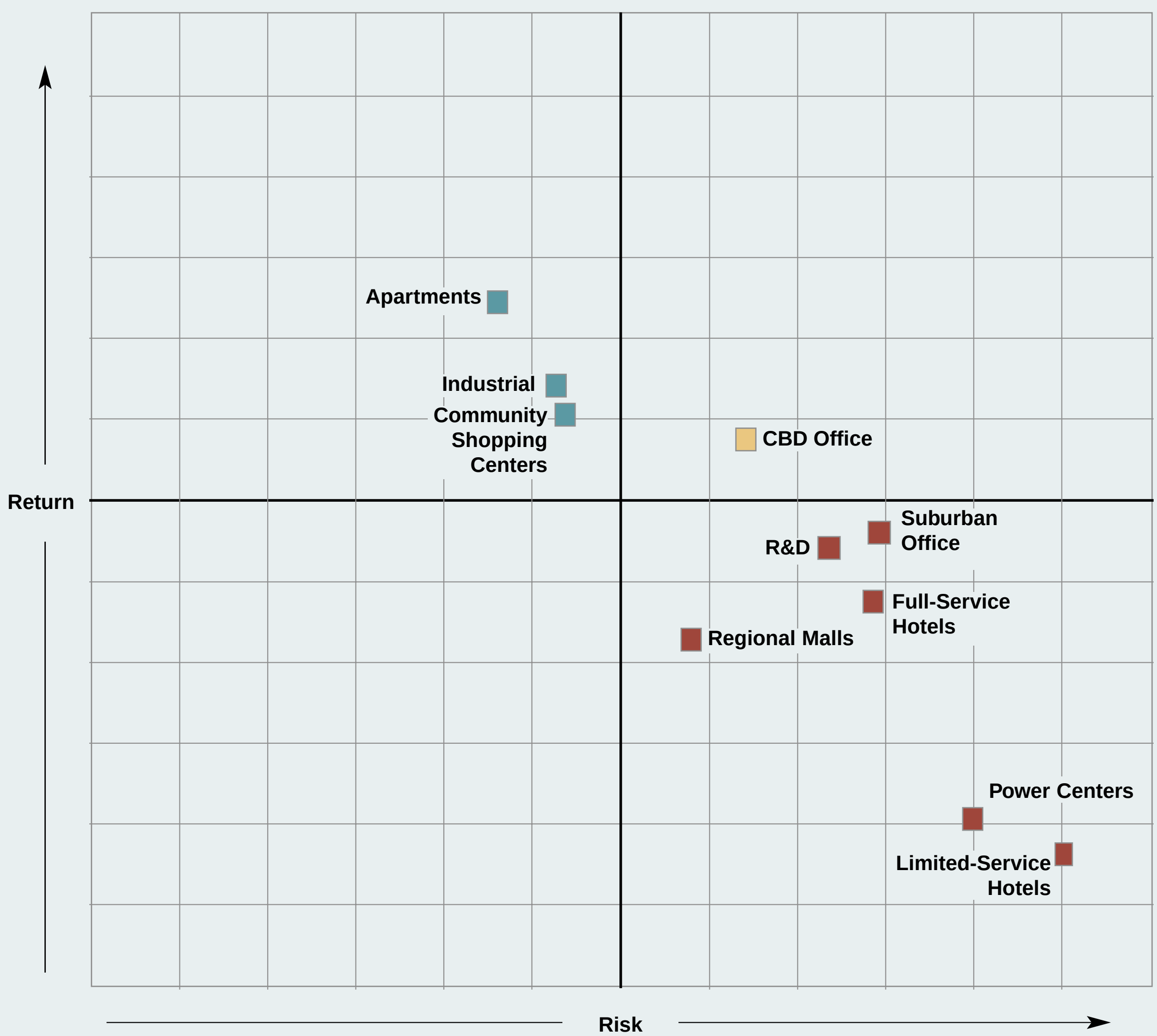
In tough times, as risk escalates and sagging demand threatens equilibrium, investors gravitate to well-leased, cash-flowing investment sectors that offer safer bets for maintaining performance and husbanding value. In anticipation of a cyclical correction in 2002, *Emerging Trends* interviewees recommend concentrating on two perennial cash-cow stalwarts—apartments and industrial properties.

These favorites are not without flaws. Ardor for multifamily has made this category expensive, despite housing shortages and buoyant demographic trends. And industrial properties typically soften when the economy corrects; however, investors draw comfort from this sector's record of maintaining control over new supply, compared with office, hotel, or retail sectors.

Grocery-anchored retail, a favorite choice of pension funds because of high income returns, also ranks near the top. But investors should be careful—herd investing may cloud perceptions of increasing risk in these smaller shopping centers. Downtown office retains a loyal following, but its risk profile has risen in the wake of sublease turmoil and concern over the economy. Quality office properties in the Consensus Six metro areas should navigate any market swells. Commodity space will face deteriorating prospects.

EXHIBIT 5-1

Property Type - Return and Risk: 2002



Source: Emerging Trends in Real Estate 2002 *interviews*

Investors continue to favor smaller to mid-sized investments over larger properties, which can tie up too much money.

Investors view suburban office, especially space in fringe areas, as more vulnerable than properties in the major 24-hour office markets. Subcity locations, however, should hold their own. Research and development has taken a well-deserved dive—no surprise. In the 2001 survey, interviewees, beguiled by tech hype, aligned R&D close to downtown office in the risk/return matrix. Now R&D has faded to a more realistic position, although its risk potential is higher than interviewees suggest. NCREIF data indicates it may be the most volatile of the property types.

Full-service hotels sink in the face of deteriorating revenue streams. Power centers' humble standing continues to reflect the country's overstored condition, and the questionable viability of many regional malls keeps that sector mired in uncertainty. Limited-service hotels—viewed as low-grade and much too easy to build—are off investment charts.

Interviewees continue to favor smaller to midsized investments over larger properties, which can tie up too much money. The sight of the World Trade Center's demise reinforces the angst about bigger being better. Again, apartments and distribution centers fill the bill.

EXHIBIT 5-2

Property Markets: 2002 Prospects

Source: Emerging Trends in Real Estate 2002 *interviews*

APARTMENTS

STRENGTHS

Everyone knows the story: "The demographics are terrific." Over the next decade, the burgeoning Echo Boomer generation as well as growing numbers of Baby Boomer empty-nesters and new immigrants will stoke demand for apartments. Also, in recessions, rental apartment markets tend to be less sensitive to rate compression than other property types. "Downside risk is minimal." Apartments meet investor demand for more bite-sized investments that allow risk to be spread across a portfolio.

WEAKNESSES

"The buzz can't get any better," so too much money is chasing product. In many markets, cap rates are too low to sustain decent future gains, especially for lesser-quality properties. "Apartments are overpriced, but everybody wants them—it's got to balance out." In 2002, rents could be "flat to down" in some markets. During economic slumps, roommate doubling-up increases and younger adults move back home. Recessions tend to weed out bad operators—marginally maintained units or properties saddled with poor leasing agents can suffer.

BEST BETS

Focus acquisition efforts on supply-constrained markets in Southern California and the Boston-to-Washington, D.C. megalopolis, but don't expect any bargains. Affordability barriers discourage homebuying in these areas, and Northeast markets boast the nation's lowest turnover rates—there's very little new construction to lure away renters. The typical ratio governing need for new apartments is one unit for every two new jobs created. California can't keep up, building only one new unit for every three jobs. In other areas, weed out portfolios. Sell mature holdings and capital drains. Wait out the dip to make new acquisitions, and prepare to strike quickly after cap rates normalize.

DEVELOPMENT

Slow down in hot growth markets! Chicago, New York, and San Francisco have overdone upscale high-rise development for the short term. In Southern California keep building where you can—land costs can eat into returns. New York needs to regroup—the residential market will be chilled by recent events. Expect apartments to be part of any downtown resurrection (but not in 2002).

AVOID

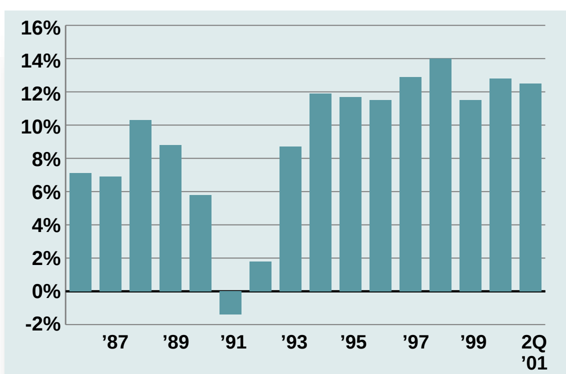
Beware of markets that are cooling off. "Apartments are overrated there." Dallas, Atlanta, Phoenix, Austin, Orlando and Las Vegas are "borderline overbuilt." In general, pricing at cap rates below 8% provides problematic upside.

OUTLOOK 2002

Interviewees peg multifamily as the best investment for the next decade. Demand generators will push income stream growth and value gains could outstrip all other sectors, even nosing out office. Any moderation in pricing during 2002 will provide a good buying opportunity.

EXHIBIT 5-3

NCREIF Apartment Returns



Sources: NCREIF, Rosen Consulting Group

Addendum

DOWNTOWN REVIVAL

If cities haven't figured it out yet, the availability of attractive housing of all stripes—luxury condos, rehabbed lofts and warehouse space, affordable units for both low- and middle-income people—will determine the future health of downtown markets. Without healthy residential neighborhoods, downtowns wither—look at L.A., Dallas, Phoenix, and Atlanta. New housing must be integrated into neighborhoods with service retail—supermarkets, drug stores, cleaners—plus parks and recreational space. Tax incentives and abatements have keyed revivals in many cities, coaxing suburban developers into undertaking infill projects. "If projects can be made profitable, builders will build," says a developer from Philadelphia—where an incentive program looks like a success story. Houston and Denver have also made strides to reestablish neighborhoods. The State of California is launching affordable housing investment programs through its employee retirement systems to spur infill development and meet huge unmet demand. Meanwhile, the low-income housing tax credit program should be given maximum support at both the federal and state levels, concentrating the production of affordable units in urban areas and densifying suburbs, and avoiding sprawl zones.

HOUSING SHORTAGES

2000 census figures point to increased household formations and a future housing squeeze. Pacing the increased demand is an immigrant influx from China, Mexico, India, and former Soviet countries, as well as more single parents, divorcees, and older people living on their own. Shortages could become particularly acute for moderate-income people—tax credits spur developers to build at the low end while the luxury end promises greater profit margins. Immigration gateways will have the tightest markets—again the Northeast and West Coast metro areas.

SENIOR LIVING

Interviewees have backed off from this category, realizing all the talk about demographics was a little premature. Baby Boomers start marching toward retirement communities in large numbers after 2015—not yet. This group is aging gracefully and living longer. Independent-living communities offer today's best play in a fragile market. "You must be careful. Investors need the right partner to manage these properties." A chunk of this "capital-starved" industry is in bankruptcy after a late-'90s building binge, and properties can be picked up at well below replacement cost. "It's the early cusp. Rooms will fill" eventually. Avoid assisted-care or nursing homes—these are highly specialized businesses.

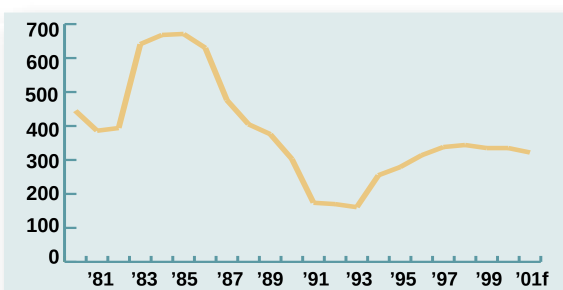
Apartment Summary 2002

		RATING	RANKING
Investment Potential		6.2	1st
Development Potential		6.0	1st
Overbuilding Risk		5.3	6th (tie)
	BUY	SELL	HOLD
Recommendations	58%	26%	16%
	1 YEAR	5 YEARS	10 YEARS
Predicted Value Gains/Losses	3.4%	16.1%	29.7%

Source for all property type summaries in Chapter 5: Emerging Trends in Real Estate 2002 *interviews*

EXHIBIT 5-4

Multifamily Construction Starts (Thousands of Units)



Sources: Haver Analytics, Rosen Consulting Group

INDUSTRIAL

STRENGTHS

There's some truth to the old bromide that "industrial space never gets way overbuilt"—allowing the market to ride out economic declines better than most other property sectors. A short project cycle (only nine months to put up a distribution center) permits developers to cut back when demand slows. Owners love the solid income returns and low capital requirements. Buyers are always plentiful for these core investor favorites.

WEAKNESSES

The struggling economy has pushed vacancies to new ten-year highs and will shave income growth. As consumer confidence skids, distribution activity will decline further, softening markets. Big-box warehouses, designed for single-user, high-tech companies, have been especially vulnerable to tenant blow-ups. "The risk level of some industrial properties is higher than historically because of the specialization and sophistication in inventory management."

BEST BETS

Owners should batten down the hatches and ride out any 2002 squalls. Buyers should look to pick off some bargains in weakened markets—flexible quad-box space, which can be divided into fours, is ideal. Bigger and newer, "more state-of-the-art," is definitely better. Over time, primary national distribution hubs—Dallas, Atlanta, Chicago, northern New Jersey—and global gateways—Los Angeles, San Francisco Bay Area, Seattle, and Miami—will become even more important to shipping strategies.

AVOID

You hear the warnings so often, it's like the Chinese water torture: steer clear of older, lower-ceiling space without cross-docking capability, or industrial parks with limited truck access and/or turning-radius inadequacy. Obsolescence remains a major bugaboo, and "quality matters." Older buildings continue to be removed from stock. Large 500,000-square-foot, single-user buildings that can't be easily reconverted are higher risk. If the tenant takes a head shot, these buildings can be hard to re-lease. Smaller, local warehouse markets have been marginalized: just-in-time logistics remove many of them from distribution equations and reduce overall inventory-to-sales ratios.

DEVELOPMENT

If economic soothsayers are correct about slower growth, the next recovery won't accelerate demand for a flood of new space.

OUTLOOK 2002

A relatively weak year looms. "If you have well-located properties, with access to airports, interstates, and ports, you'll be fine." Expect values to flatten or even decline slightly in markets with bigger vacancies. Rent growth will be curtailed. But these properties will bounce back nicely with the economy.

Industrial Summary 2002

		RATING	RANKING
Investment Potential		5.7	2nd
Development Potential		5.2	2nd
Overbuilding Risk		5.3	6th (tie)
	BUY	**SELL**	**HOLD**
Recommendations	44%	21%	35%
	1 YEAR	**5 YEARS**	**10 YEARS**
Predicted Value Gains/Losses	2.5%	13.7%	25.5%

Addendum

CEILING HEIGHTS

Is 30-foot-clear really necessary? Low ceilings (18-foot-clear) translate into obsolescence, but most tenants don't really need stacking space over 30 feet high in order to meet requirements for transferring goods through distribution facilities. *Emerging Trends* has pointed out before that "people aren't warehousing anything anymore." Warehouses have become "processing centers." Goods are moved horizontally, not stored vertically. Many owners and developers have now come to the conclusion that "ceiling height is totally overrated. You see people building 36 feet up and stacking only to eight." Large truck courts with good parking, ample doors for simultaneous loading and unloading, carefully-engineered flat floors, and insurance-rated sprinkler systems are much more important to functionality than ceiling height. The sweet spot in terms of ceiling height is more like 24 feet.

RESEARCH AND DEVELOPMENT

It's a common refrain these days: "The late-'90s price run-up in R&D was so tremendous I should have unloaded everything I had." No other property sector tracked the tech boom and bubble-burst more closely than R&D, and "everyone forgot that R&D means high risk." Silicon Valley, some northern Virginia markets, Austin, and other pockets of R&D activity around the country were at the "epicenter of the implosion." Just like dot-com analysts and stock pickers, R&D owners got greedy and "were in a state of denial."

"Rents that became office-sized are heading back to more industrial-like levels," says an interviewee. Values have dropped below replacement cost. Projects built-to-suit for now-cratered start-ups will need costly retrofits to make them re-leasable.

Despite all the bad news, interviewees remain guardedly optimistic. R&D markets are relatively small, and most institutional investors have limited holdings. Many incubator companies were wiped out, but the high-tech industry remains the leading-edge growth sector for the future. The recent carnage "was nothing like the late '80s" and markets should recover—albeit slowly.

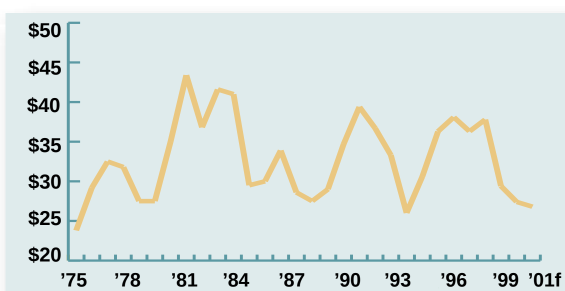
Most R&D investors will be sidelined in 2002, though some opportunistic players may hunt for bargains. Owners, you'll have to hang in. You missed the market peak—big time.

Research & Development Summary 2002

		RATING	RANKING
Investment Potential		4.7	6th
Development Potential		4.2	4th (tie)
Overbuilding Risk		6.0	4th
	BUY	SELL	HOLD
Recommendations	24%	28%	48%
	1 YEAR	5 YEARS	10 YEARS
Predicted Value Gains/Losses	0.4%	10.9%	21.5%

EXHIBIT 5-5

New Industrial Construction ($ Billions)



Sources: Haver Analytics, Rosen Consulting Group

OFFICE

STRENGTHS

Most interviewees expect the handful of major 24-hour downtown office markets to stay close to equilibrium, despite buffeting from demand decline and "the sublease problem." The good news about subleasers: they still pay rent unless they go into bankruptcy or out of business. Rollover leases will command big markups, just not as big as a year ago. New construction has been controlled in downtown markets, cushioning them against the downdraft. Subcities also show resilience. Dealmakers and brokers sagely declined to underwrite stratospheric rental rates into property analyses, and buyers backed off well ahead of the market's turn.

WEAKNESSES

Tenants now have the upper hand over landlords, as rents decline off record highs in many downtowns. Suburban markets have softened; too much building has come on line recently—just in time to meet fading demand. Corporate cost-cutters ax expansion plans and tighten belts. It's bad news for market absorption trends, and nobody expects zero-to-sixty acceleration in corporate growth after the economy turns the corner. "Anything commodity" will show greater value deterioration.

BEST BETS

High-quality 24-hour city office buildings are keepers for core investors—it's no time to sell. Fish for near-bottom opportunities, concentrating on harder-hit markets with good long-term fundamentals. The problem is you'll have plenty of company. And don't expect too many distressed sellers who can be pushed to the wall on pricing. Suburban office close to subcities, or in urbanizing nodes, may offer the greatest buyer bargains.

AVOID

Another mantra: eschew fringe suburban product and older, obsolescent space. Recent value run-ups in B-minus and C space inflated values out of proportion. Market dips are never kind to these properties and they take longer to revive. Some never do.

DEVELOPMENT

Wisely, construction lenders closed the vaults and "developers aren't stupid—they're not going to put their money at risk." Bankers' discipline forced downtown developers to obtain significant preleasing. Consequently, just-completed projects should have decent cash flows to carry them through. Suburban spec developers and their lenders face considerable uncertainty. Projects scheduled for 2003 hope to skate past the bad times. Basically, office projects are non-starters for 2002: "On a risk-adjusted basis, development looks too chancy today."

OUTLOOK 2002

Downtown markets shouldn't suffer significant dislocation and will be positioned to resume steady if unspectacular growth in rental rates once the economy picks up. Suburban markets will stagger on for a while, but they feature better acquisition opportunities as markets rebound.

Downtown Office Summary 2002

		RATING	RANKING
Investment Potential		5.4	4th
Development Potential		4.2	4th (tie)
Overbuilding Risk		5.1	8th
	BUY	SELL	HOLD
Recommendations	42%	10%	48%
	1 YEAR	5 YEARS	10 YEARS
Predicted Value Gains/Losses	0.9%	14.1%	26.2%

Tenants now have the upper hand over landlords, as rents decline off record highs in many downtowns.

Addendum

SKYSCRAPER PERIL

The stomach-turning pictures of the World Trade Center cataclysm raise questions about the future of skyscraper trophies. Anybody working in a major downtown tower has a new perspective on the merits of a corner office with a view. Suddenly, these great buildings seem incredibly vulnerable targets of mayhem. But once the collective psyche moves beyond the September 11 attack, the allure of owning and working in signature properties should once again reclaim its own magnetic force—though major companies may look to spread employees across multiple locations. In general, building owners will be faced with increased security costs.

SHADOW VACANCY

Large, more sophisticated tenants struggle to shrink space costs further. Many companies took advantage of boom times and new technologies to squeeze space per capita to its limits. Now, they want to eliminate as many "empty cubes" as possible and utilize their space to maximum efficiency. Companies are "hyperfocused" on the "shadow vacancy" problem: pockets of office space that aren't being used. Typically, about 5% of company space suffers from shadow vacancy—"that can amount to millions of dollars off the bottom line annually." Space planners and facilities managers attack the issue with growing fervor as corporate profit outlooks diminish. Anyone who thought there would be a backlash move to bigger offices and more space per employee should think again.

Suburban Office Summary 2002

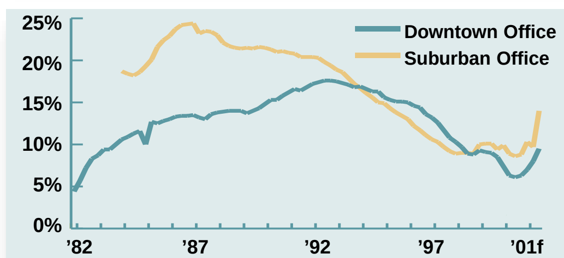
		RATING	RANKING
Investment Potential		4.8	5th
Development Potential		3.4	6th
Overbuilding Risk		6.3	3rd
	BUY	SELL	HOLD
Recommendations	39%	18%	43%
	1 YEAR	5 YEARS	10 YEARS
Predicted Value Gains/Losses	-1.4%	10.7%	20.9%

FUNCTIONAL FLEXIBILITY

Beyond serving cooling and wiring needs for tenant tech requirements, buildings need to supply open floor plans, which continue to gain favor over private office layouts. High ceilings and few columns are key. Multizone air conditioning is important for improving the comfort levels in the cube rat mazes. Tenants increasingly require 24/7 access, which challenges cleaning and security operations and increases power costs. "It's all about being part of a global economy." Most costs can be passed through to tenants.

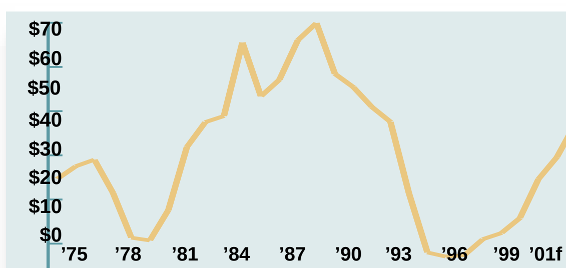
EXHIBITS 5-6, 7, 8

Office Vacancy Rates



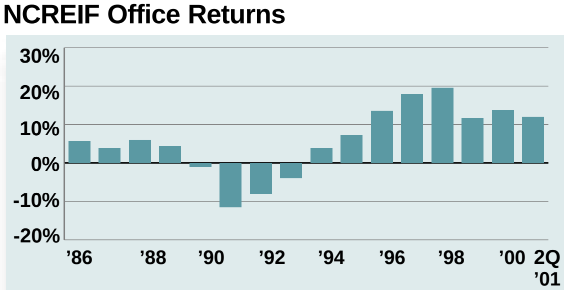
Sources: CB Richard Ellis, Rosen Consulting Group

New Office Construction ($ Billions)



Sources: Haver Analytics, Rosen Consulting Group

NCREIF Office Returns



Sources: NCREIF, Rosen Consulting Group

HOTELS

STRENGTHS

After ten years of significant profit growth and cost cutting, hotels today are much better fortified to withstand lowered occupancies and room rates when rough economic times hit. That's good, because the lodging industry has entered its roughest stretch since the bleak Gulf War period of 1991. In fact, business falloff after the terrorist rampage was unprecedented. However, the industry break-even occupancy rate stands at an impressive 54%, down from 64% in 1990. That leaves room for ample declines in markets that were enjoying 80%-plus occupancies into 2001. Interest expense has been cut to just 3.8% of revenues. Owners are well capitalized—industry-wide default rates hovered under 2% before September 11. The big operators have taken advantage of national contracts with vendors and service suppliers, and use centralized reservation systems and computers to cut administrative costs.

The new generation of midpriced hotels without food and beverage operations are positioned to do better, attracting business travelers whose more limited expense accounts won't cover the tab at higher-end full-service lodgings. Vacationers are also attracted to lower price points. Everyone can get by without room service.

WEAKNESSES

Plenty of those. The public's heightened fear of terrorism sends shudders through the travel industry. "Down trading" pounds at luxury and full-service hotel room revenues. Travelers look to cheaper alternatives, and operators lower their rates to retain market shares, hitting bottom lines. "Profits are sinking." Bigger business markets—New York and San Francisco, in particular—show the biggest drop-offs just as new construction is completed. New projects will struggle and defaults could rise dramatically. Rooms go begging. "Now I can get a room at a discount even at midnight, where a few months ago there was nothing available," says a seasoned road warrior. Reduced business travel puts airport hotels directly in the line of fire. Vacation destinations were late to feel the pinch, but as consumer spending tanks—and as people stay closer to home—watch out for more bad news.

BEST BETS

"This is no time to sell" full-service hotels. Buyers will look for bargains in the trough, calculating their offers off 2001 income streams, not record 2000 levels. Anyone selling "would be distressed." Don't expect many trades. Everyone is counting on 2003 to bring a resumption of profit-growth trends, since the industry—particularly construction lenders—has been relatively well disciplined recently. The best future growth markets include Florida destinations, California, Washington, D.C. (new convention center), and supply-constrained Boston. New York suffers from obvious near-term question marks, but should rebound as the city recovers and rebuilds.

AVOID

Higher-end product, especially luxury resorts, is taboo for now. After the tech wreck, people weren't feeling quite as wealthy or spendthrift—and may not for quite a while. September 11 only exacerbated the business fall-off. Luxury properties are capital drains and management intensive. Any remaining high-rollers won't come back if the lawns aren't manicured and beds aren't turned down.

Many institutional investors have essentially redlined limited-service hotels. "They scare the heck out of me." Budget categories are rebounding, as lower price points suddenly look attractive to travelers and new construction temporarily eases. These hotels are also well positioned to benefit as vacationers take to the roads over the skies. At current low-teen yields, you could buy and look to flip. But these properties are better left to operators who can contend with the vagaries of low barriers to entry and plenty of competition.

DEVELOPMENT

Who's lending? The sector is now capital starved and new rooms are plentiful—construction peaked in 1998 but has tracked down slowly. Hotel development is a non-starter.

OUTLOOK 2002

The lodging industry might stay profitable, but it faces the daunting challenge of overcoming trauma from the terrorist strikes. If the economy rebounds and global conditions ameliorate, the damage will be manageable. Otherwise, 2002 looks like an extremely difficult year.

Limited-Service Hotel Summary 2002

		RATING	RANKING
Investment Potential		2.8	10th
Development Potential		2.0	10th
Overbuilding Risk		7.5	1st
	BUY	SELL	HOLD
Recommendations	8%	65%	27%
	1 YEAR	5 YEARS	10 YEARS
Predicted Value Gains/Losses	-2.7%	5.4%	12.3%

Full-Service Hotel Summary 2002

		RATING	RANKING
Investment Potential		4.4	7th
Development Potential		3.3	7th
Overbuilding Risk		5.7	5th
	BUY	SELL	HOLD
Recommendations	21%	21%	58%
	1 YEAR	5 YEARS	10 YEARS
Predicted Value Gains/Losses	-0.3%	10.4%	20.7%

EXHIBIT 5-9

Hotel Profitability

	1997	1998	1999	2000
RevPAR ($)	48	50	52	55
% Change	5.0%	3.4%	3.5%	5.7%
Industry Revenue ($B)	87	95	103	1144
% Change	9.6%	9.1%	9.1%	10.3%
Industry Profits ($B)	17	20.9	22.1	24
% Change	36.0%	22.9%	5.7%	8.6%
Profit Margin	19.6%	22.1%	21.4%	21.1%

Sources: Deutsche Banc Alex Brown, Smith Travel Research, and Lodging Econometrics

RETAIL

STRENGTHS

Interviewees are uniformly gloomy about retail real estate and grope for positives. Everyone likes fortress malls, but only a handful exist and their owners—mostly REITs or REIT joint ventures—aren't selling. In negotiations with national retailers, REIT owners can leverage coveted store slots in their prime centers to boost portfolio returns. Power centers, though saddled with a high-risk reputation because of oversupply and limited big-box retailer lineups, can nevertheless "outperform other formats" if they are well located near fortress malls.

Pension funds like the income from grocery-anchored strips and community centers and view these properties as lower-risk. Owners relentlessly point out that "everybody has to eat." But whose lunch will be noshed? Wal-Mart and other discounters muscle into traditional grocery stores' market shares, while supermarket chains consolidate in a low-margin business. Dry cleaners pose potential environmental problems, and Mom-and-Pops can take it hard on the chin during recessions.

WEAKNESSES

Many. America is overstored—too many formats cannibalize each other. "Everybody feeds from the same limited trough" and, so far, the Internet only nibbles away at market share. Fundamentals deteriorate—comparative sales growth is negative, consumer spending is down, value retailers are siphoning department store sales, and more chains are going Chapter 11. Credit tenants are in short supply, and apparel sales—traditional mall mainstays—continue to sag. NCREIF returns for retail lagged all other sectors over the past five years despite one of the most robust economic periods in U.S. history, when consumers were spending themselves into record levels of debt. What happens when the economy heads south? Most likely, nothing good—we'll soon find out.

BEST BETS

The pickings are slim. Fortress malls are solid holds, and nearby complementary power centers with top big-box retailers should perform well. A few B centers may be keepers—"they've been painted with the same brush as C malls but may be closer to A than C." Grocery-anchored shopping centers make sense if they're located in strong infill areas near attractive neighborhoods, but "it's difficult to find quality at a reasonable price."

AVOID

The usual suspects. The allure of B and C malls wanes for both retailers and consumers, who follow each other to the A-class regional centers. Lesser malls have "no exit strategies." They burn capital to stay marginally competitive or else lose market share faster. "Tenants in malls are trying to stay hot by constantly remaking themselves, and malls have no choice but to follow suit." At the right price, buyers can get great income returns and depreciating assets, but "it's like dope." Dead and dying malls litter the nation's suburbs. Owners need to bite the bullet and sell out to cut losses or settle on an alternative use. Most power centers are risky propositions, as category killers and discounters battle amongst themselves in submarket-by-submarket survival contests. The only sure thing is that owners will be challenged to re-lease empty boxes abandoned by the losers.

DEVELOPMENT

Mall construction is moribund—only five or six are under way nationally. That's good news for existing owners, since new projects inevitably kill off one or more older, nearby centers. But don't be fooled. "There's not a lot of mall development going on, but there is a lot of retail development." Easy-to-build strip retail and power centers seem to go up willy-nilly, while lifestyle centers (a hybrid of power centers, malls, and community centers) continue to be promoted by retailers as the new-wave format for upscale neighborhoods. They'll end up

Tenants in malls are trying to stay hot by constantly remaking themselves, and malls have no choice but to follow suit.

stealing business from the other categories, particularly malls. It's just more of the same retailer merry-go-round: rob Peter to pay Paul.

OUTLOOK 2002

A weak economy promises to exacerbate retailer troubles and bleed returns from shopping centers. Unless and until retailers weed out formats and development shuts down, controlling the supply of new space, many equity and debt investors will choose to bypass shopping centers altogether. The economy could lend a cruel hand. For the present, "retail is being taken off a lot of radar screens."

Addendum

WHITHER DEPARTMENT STORES

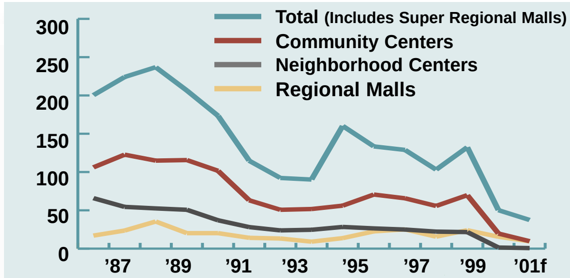
Underlying the problems of regional malls is the suspect condition of many national department store chains. Venerable J.C. Penney and Sears are shadows of their glorious pasts. Sterns and Montgomery Ward are just the latest storied names to go out of business. Dillards and Nordstrom have lost their former edge. The tally goes on and on. "They're only large apparel stores—very few real department stores exist anymore." Will more department stores skid into oblivion in a recession? "All retail will be highly susceptible." Without strong anchors to draw in traffic, malls are crippled. The demise of many regional centers tracks the fading fortunes of department stores.

GREYFIELD MALLS

Dead or dying regional shopping centers present a major challenge not only for owners and investors, but also local governments. How do you reclaim fertile sources of tax revenues that have become eyesores and emblems of decline? These huge sites are well suited to creative mixed-use projects, which include pedestrian friendly residential developments integrated with retail and some office. Malls had epitomized the car dependent suburban culture of post World War II America. If properly planned, greyfield malls can be transformed into model communities for the future.

EXHIBIT 5-10

Retail Construction (Square Feet)



Sources: *National Research Bureau, Rosen Consulting Group*

Community Shopping Center Summary 2002

		RATING	RANKING
Investment Potential		5.5	3rd
Development Potential		5.0	3rd
Overbuilding Risk		5.0	9th
	BUY	SELL	HOLD
Recommendations	48%	16%	36%
	1 YEAR	5 YEARS	10 YEARS
Predicted Value Gains/Losses	2.1%	10.8%	20.6%

Power Center Summary 2002

		RATING	RANKING
Investment Potential		3.0	9th
Development Potential		2.4	9th
Overbuilding Risk		6.4	2nd
	BUY	SELL	HOLD
Recommendations	6%	72%	22%
	1 YEAR	5 YEARS	10 YEARS
Predicted Value Gains/Losses	-2.2%	4.7%	10.0%

Regional Mall Summary 2002

		RATING	RANKING
Investment Potential		4.1	8th
Development Potential		2.9	8th
Overbuilding Risk		4.0	10th
	BUY	SELL	HOLD
Recommendations	7%	30%	63%
	1 YEAR	5 YEARS	10 YEARS
Predicted Value Gains/Losses	-0.6%	8.2%	15.9%

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