

At mid-year 2002, we're pleased to report that our major Texas markets of Austin, Dallas/Fort Worth, Houston and San Antonio continue to be steady performers.

True, we're watching the economy as closely as anyone – and we're fortunate that there are key economic factors that enhance the strength of our retail markets.

The Weitzman Group reviews conditions in our major markets, relying upon the input of our communications and research staff, our associates and the expertise of our affiliate company, Cencor Realty Services. We look forward to hearing any comments or answering any questions you may have.

Austin's retail market continues to show strength, balance

At mid-year 2002, the Austin retail market continues to show its strengths by maintaining strong occupancy, steady rental rates and retailer interest in the midst of an economic slowdown.

The Austin market posted an overall occupancy rate of just under 95 percent, in line with year-end 2001's occupancy rate of 95 percent. Austin's retail occupancy rate ranks as the highest rate for a major market in Texas. The rates are based on a total inventory of approximately 25 million square feet of multi- and single-tenant retail space.

While the market remains tight in terms of supply and demand, the limited vacancy has come in the form of closings from major retailers that have experienced difficulties nationwide. For example, Kmart closed two of its three Austin-area stores during the first half of the year.

Austin continues to have a significant amount of its new space come online significantly occupied, which has helped keep occupancy rates high. In addition, the retail market has remained tight because of the limits to supply seen in development and geographic constraints. Retailers for the most part are continuing to report healthy sales, which further fuels retail market occupancies.

Construction planned for 2002 will primarily open during the second half of the year and will come close to matching 2001's level of 1 million square feet. This is due to the construction of multi-tenant community centers, the expansion of existing centers and a notable number of large-format freestanding and in line retailers such as Wal-Mart Supercenter, Conn's, Randalls and others.

Retailers continue to expand

Retailers expanding in Austin include:

- Wal-Mart Supercenter, which opened in June at FM 1431 and Highway 183 in Cedar Park, its third superstore in the Austin area. Future plans include expanding the I-35 and SH 183 store to a superstore in 2003 or later and a new store in the Rivery project in Georgetown;
- Wal-Mart also opened its third area Sam's wholesale club in a former HQ in South Towne Square in February;
- SuperTarget, which is under way with its first area store, at Highway 183 and Lakeline Mall Boulevard, for a 2003 opening;
- Another SuperTarget is planned for Parmer at I-35 in 2004 and in

Bee Cave at FM 620 near Texas 71, also in 2004. Target also renovated its Lakehills store at Lamar and 290 and plans to renovate its store at 183 and Ohlen.

- Conn's Appliances, which opened peripheral to North Cross Mall on Anderson Lane in June, and which will open in August peripheral to Lakeline Mall and in November in Renaissance Square in Round Rock;
- Randalls opened at Cypress Creek and Lakeline Boulevard in January and plans to open at Brodie and Slaughter Lane by the end of the year. Stores in Pflugerville on FM 1825 and Heatherwilde and at Arterial B and Gattis School Road are planned for 2003;
- Albertsons, which is under way with a store at Gattis School Road and County Road 122. Albertsons also opened at Westgate and William Cannon and will open in Rollingwood in 2003 and in Cypress Creek in 2004;
- H-E-B's new plans include stores at Parmer and 1431 and in Round Rock;
- Kohl's, which will open its fourth area location on 290 in Sunset Valley;
- Academy Sports and Outdoors, which relocated and expanded (to almost 70,000 square feet) its central Austin store to a site on SH 183 and I-35 and relocated its Arboretum store to a former Wal-Mart on SH 183 just north of McNeil. Academy is also under way with a store at I-35 and Mayes in Round Rock and is expanding and renovating its store at I-35 and William Cannon;
- Best Buy, which enlarged its S. MOPAC and 290 store to 46,000 square feet, an increase of 16,000 square feet.

New projects come online

Demand from these and other retailers has prompted several new retail projects, either under way or in the works for 2003 or later openings. For 2002, new projects should add approximately 850,000 square feet of retail space to the market.

New projects for the Austin area include:

- One of the largest pending projects, a massive power retail project at the northeast corner of Parmer and Lamar that will include Toys 'R' Us, Linens 'n Things, Ross Dress for Less, Chili's and Johnny Carino's, among others. Wal-Mart and Lowe's will anchor a project on the west side of I-35, north of Parmer;
- A 100,000-square-foot Albertsons-anchored center at the

- northwest corner of Gattis School Road and County Road 122;
- The expansion of the retail space at Sixth and Lamar, which will include Whole Foods and Borders;
- Rivery Towne Crossing, a planned 415,000-square-foot project near the San Gabriel review, west of I-35, in Georgetown. The project, which breaks ground in August, is to include Wal-Mart Supercenter and Home Depot;
- The next phase of La Frontera in Round Rock, which is to include Borders;
- The expansion of Barton Creek Mall with Nordstrom, Austin's first new department store in five years, which is set to open in 2003;
- The renovation of Republic Square, a Bealls-anchored project in Georgetown.

Austin slated for three new malls

In addition to these centers, three mall-type projects are in the planning stages in the Austin area. These include:

- A Simon mall project at I-35 and SH 29 in Buda with a projected 2005 opening;
- An open-air mall in Round Rock, also a Simon project, with 750,000 square feet of retail, a hotel and residential space with a projected 2005 opening;
- An upscale department store-anchored mall with up to 2.3 million square feet of retail and hotel space in Bee Cave.

New retailers and restaurants expanding in Austin include:

- Nordstrom, which is under way with its Barton Creek Mall store for an August 2003 opening;
- Julian Gold, a San Antonio-based upscale fashion retailer that opened on West Sixth;
- Seattle's Best Coffee, which added its first two area stores during the first half of the year and which plans approximately 16 stores in Austin and Waco by 2006;
- Cheesecake Factory, a well-known restaurant concept that will open this fall in the former Arbor Theater site in the Arboretum;
- Fox & Hound, which opened its first area location at Fourth and Guadalupe;
- Wings and More, a 6,500-square-foot concept, which opened its first area location at I-35 and Howard;
- Home Depot Expo, which is preparing to open its first area location;
- Hard Rock Café, which opened downtown.

Rents remain stable

As of mid-year, retail rental rates remained stable. Rates for Class A in-line space for a small tenant in a well-located center ranged from \$26 to \$36 per square foot per year. For Class B space, the rates typically ranged from \$18 to \$24 per square foot. Rates for Class C space ranged from \$12 up to \$18 per square foot. For the remainder of 2002, rates are expected to remain stable, though it is unlikely that they will experience notable increases or decreases.

At mid-year 2002, Austin's economy showed the impact of a downturn in the high-tech sector, which has primarily affected the office market and job growth. The downturn was offset by the stability of the large drivers in the economy, which include employers such as the state government, the University of Texas and the health care and service sectors, as well as the housing market, which remains active.

As of June 2002, the unemployment rate for the Austin area was 6 percent, up from 5.4 percent at the beginning of the year. The rate dropped to 5.9 percent in July. For the 12-month period ending June 2002, total nonfarm employment was down by 4,100 jobs, although job growth on a monthly basis has returned to positive territory, according to the Texas Workforce Commission.

Austin reports many pluses

On a positive note, the Austin area led Texas in income increases and in median family income during the 10-year period ending in 2000. Austin's median family income grew by 22 percent, more than twice the national rate. The Austin area population grew 48 percent during the 1990s, to 1.2 million, and boasts the state's most educated large market. In the Austin area, 37 percent of residents 25 years or older have at least a bachelor's degree.

In the housing market, the new home market reported starts in line with previous activity, as well as approximately 9,300 existing home sales closings during the first half of the year. Median home prices also increased to approximately \$159,000 as of mid-year, compared to \$151,000 a year earlier. The apartment market at mid-year also posted an occupancy rate of approximately 90 percent. While multi-family rents have shown some declines, absorption remained positive during the first half of the year, with more units leased than built.

The retail outlook for the remainder of 2002 and beyond remains good, based on the long-term growth prospects for the Austin economy. For the remainder of the year, the market should experience strong occupancy, stable rental rates and continued expansion on the part of new and existing retailers.



DFW retail market reports continued strengths

During the first six months of 2002, the Dallas/Fort Worth retail market experienced a level of activity strong enough to ensure that the market stayed relatively balanced in terms of supply and demand.

That is one of the findings of a review of Dallas/Fort Worth retail market conditions conducted by brokerage firm The Weitzman Group.

At the end of 2001, the market reported a 91 percent occupancy rate, its highest level in more than 15 years. However, due to the closures of stores by several large-format tenants, including Kmart and Winn-Dixie, occupancy at mid-year is estimated to have dropped by two percentage points to approximately 89 percent.

The outlook for continued strength in occupancy is good, however. For example, many of the 71 North Texas Winn-Dixies have been taken over by other grocers, including Kroger, Tom Thumb, Brookshire's and Fiesta.

Additionally, new and expanding retail concepts continue to lease space as they seek to capture their share of retail spending by DFW's population of more than 5.5 million people.

Consumer spending remains strong

The market continues to do well in the face of economic uncertainty for several reasons. Consumer spending has remained relatively strong, prompted in part by the strong housing market in DFW, low interest rates and notable gains in consumer net income seen during the past decade.

According to the U.S. Census Bureau statistics, from 1990 to 2000, North Texas saw a 28.3 percent increase in population and an increase of 37.1 percent in median household income.

Expanding retailers select sites

Also, several major retailers continue to expand here due to the success of their existing stores; these include SuperTarget, Wal-Mart Supercenter, Bed Bath & Beyond, MJDesigns, Home Depot, Central Market and others. Vacancy rates are also kept relatively low because construction over the past decade has been primarily demand-based, with the majority of new space coming online occupied.

Demand prompts new construction

As of mid-year 2002, the DFW market is on its way to adding approximately 3 million square feet of new space to the market for the year. This is a notable reduction from the 6.2 million square feet added in 2001 and the 8.8 million square feet added in 2000. However, both 2001 and 2000 saw new malls come online, which added millions of square feet to the market during those years. No new malls are set to come online during 2002, although successful malls have been expanding, including the addition of Sears to North East Mall, the addition of Galyan's at Stonebriar Centre mall and the planned addition of Nordstrom to NorthPark Center mall. The North East Mall Sears store, however, represents a relocation from Fort Worth Town Center mall.

Construction is occurring due to demand from new and expanding retailers. One of the most notable retailers entering the market during 2002 is Ultimate Electronics, which opened six stores in August and will open four more in the coming months.

Retailers expand marketwide

Other new and expanding retailers include:

- Bed Bath & Beyond, which is opening new stores in markets including Lewisville, Plano, Mesquite and Denton;
- MJDesigns, which is expanding in markets including Arlington, Dallas and Garland;
- Oshman's, which has opened new stores in Plano and Mesquite;
- Steak N Shake, which opened its first DFW restaurant in January in Grapevine, with new locations set to open in Arlington, Lewisville and Frisco;
- Grocers, including Albertsons, which is under way with a \$184-million program through 2003 that will add 13 new stores and remodel eight existing stores; Rainbow Foods, which opened in seven former Super 1 stores; Fiesta, which recently opened its ninth area store; Whole Foods Market, which opened in the town of Highland Park; Kroger; Wal-Mart Neighborhood Market; H-E-B's upscale grocer Central Market, which opened its second and third area stores in Plano and Dallas; Market Street, a new entrant that is under way with its first area store in Colleyville; and Tom Thumb, which will open in three former Winn-Dixies in Garland, Arlington and Fort Worth after extensive remodelings;
- CVS Pharmacy, which continues to acquire sites for its Metroplex expansion plans to go head to head with Walgreens and Eckerd. Sites include Lewisville, Wylie, Grapevine, Arlington, Fort Worth and Mansfield;
- Wal-Mart Supercenter and SuperTarget, which continue to expand

their stores with full-scale groceries added to their traditional selection.

Although the majority of retailer activity during the first half of 2002 involved new locations, a couple of significant closures did occur. Kmart closed 10 DFW stores as part of its nationwide closings as part of its bankruptcy plan, and Winn-Dixie closed all of its 71 North Texas stores as it exited the Texas market. Approximately 51 of the stores are in the immediate DFW area.

New developments come online

New retail developments coming online or in the works include:

- The Highlands of Flower Mound, a 350,000-square-foot center at FM 2499 and FM 407 in Flower Mound set to open in early 2003 with SuperTarget, Ross Dress for Less, Linens 'n Things, World Market, Party City and more;
- The Marketplace at Town Centre, a power retail project at I-635 and Town Center Boulevard in Mesquite that will include Linens 'n Things, Michaels, Ross Dress for Less, Ultimate Electronics and more;
- The Plano Central Market project that opened at Highway 190 and Coit in the first quarter. A Central Market project opened in Dallas at Lovers and Greenville in the second quarter. The intersection will be the site of Dallas proper's first Krispy Kreme store;
- Preston Center Pavilion, the complete renovation of the former Preston Center Foley's, which opened with Marshalls MegaStore and DSW Shoe Warehouse as well as Ross Dress for Less;
- Sublett Crossing, an Albertsons-anchored center at Sublett Road and U.S. 287 set to open in October;
- Colleyville Town Center, a Market Street grocery-anchored project that will include mixed uses, including Colleyville's community center;
- An Albertsons-anchored center at Coit and Spring Valley in Richardson that will include about 23,000 square feet of inline retail space. Albertsons will also anchor a 115,000-square-foot center at Golden Triangle Boulevard and North Beach in Fort Worth and a 100,000-square-foot center at FM 423 and FM 720 in Frisco set to open in 2003;
- Buckner Marketplace, a Fiesta-anchored project on Buckner Boulevard in southeast Dallas that is now under way;
- The redevelopment of Superstore Plaza, peripheral to the Parks at Arlington mall, with MJDesigns and Hancock Fabrics.

Additionally, the Firewheel mall project in Garland is expected to start construction in the near future. The mall, to be anchored by Dillard's and Foley's, will feature an open-air format.

Rents remain steady

Because occupancy remains steady, retail rental rates for the most part have also remained steady. Rates generally are flat, with some increases or declines seen depending on location or age of retail centers.

For new inline space, average rates ranged from \$16 to \$22 per square foot. The highest rates were found in the regional malls, where average rates were in the \$27-32-per-square-foot range, with small-tenant space in the top malls going for much higher rates. The lowest rates were found in older neighborhood centers, where the rates were

in the \$3-to-\$5-per-square-foot range.

DFW's economic performance continues to underpin its retail market. DFW has some of the nation's fastest-growing affluent cities, including Frisco, which grew 449 percent from 1990 to 2000, Flower Mound, which grew 226 percent during the same period, and Southlake, which grew 204 percent.

DFW led the nation with 920,000 new jobs from 1990 to 2000. But DFW lost about 36,000 jobs in 2001. As of mid-year, DFW's unemployment rate had risen to 7.5 percent, compared to a 5.8 percent rate for Texas as a whole. Many of the lost jobs were in the high-tech sector, which is affecting the office market negatively. However, the volume of employed residents ranks as one of the largest in the nation, and the area is gaining jobs in certain areas, such as the service sector. Overall, the employment picture is stable, and DFW expects about 20,000 new jobs for 2002.

Growth boosts housing market

DFW's growth continues to boost the housing market. DFW ranks as one of the top homebuilding markets in the country this year, and its affordability is an added plus. DFW ranked as the fifth-most affordable major market in an American Chamber of Commerce study.

Overall, economy watchers are predicting a recovery in overall growth during the latter half of 2002, with activity then notably gaining steam in 2003 and 2004.

Because of the number of strong factors in DFW's economy, the outlook for the retail market remains good. Retailers unable to compete in today's climate may be closing stores in the months to come, but overall retailer activity should remain positive, adding to occupancy and market strengths.



Houston's retail market reports stable occupancy

Houston's retail real estate market continues to report stability in terms of occupancy, construction and rental rates, despite a downturn in the local and national economies. The market has benefited from continued strength in the housing market, as well as a stable job market in Houston.

That is the finding of a review of market conditions during the first six months of the year by The Weitzman Group. As predicted at year-end 2001, construction slowed considerably, to the point that construction now under way or coming online will total approximately 3 million to as much as 3.5 million square feet by year-end 2002. This level of construction is down significantly from 2001's new construction of approximately 6 million square feet of new multi- and single-tenant retail.

In addition to some community centers and center expansions, the construction is being accounted for by the growth of large-format retailers such as SuperTarget, Wal-Mart Supercenter, Lowe's and The Great Indoors.

Market reports stability

In general, the market is stable, though activity is slower when compared to the volume of new construction and leasing that occurred during the previous two years, when approximately 10 million square feet of retail space was added to the market. New construction coming

online has been largely pre-leased; as a result, occupancy has remained strong in the face of the active construction market.

Vacancies in the market have largely resulted from the closure of stores experiencing problems on a regional or national level. For example, Albertsons made the decision to close stores this year in several markets, including Houston and San Antonio, due to weaker-than-desired performance. In Houston, Albertsons closed 42 stores.

However, the closures inadvertently reflect the strength of the leasing market. About 90 percent of the Albertsons portfolio is being absorbed by H-E-B, Randalls and Kroger, and local grocers are absorbing another five percent.

Leasing and construction remains active, although both are likely to slow during 2002 as the market adjusts to changes in the economy.

Occupancy remains steady

As of mid-year 2002, the market showed an occupancy rate of approximately 86 percent, about even with the 86.8 percent rate posted at year-end 2001, based on a total market inventory of more than 110 million square feet. At mid-year 2001, occupancy was approximately 88 percent.

The reduction in occupancy compared to a year ago is largely due to weak retailers that exited or closed select stores in all of their markets, not just Houston. During the past 12 months, closures have included 11 Kmarts, all of the Weiner's stores in the market (although a significant number of these have been re-leased), and six Krause's Sofa Factory stores.

The retail market should continue to experience stability for the remainder of 2002 for several reasons. One, there are few signs of overbuilding in the market, as the majority of space built during the 1990s and 2000-2001 was pre-leased prior to construction. Second, the housing market remains active and multi-family remains healthy. Third, job growth is steady, although it has slowed compared to the same period during 2001. As of mid-year 2002, the Houston metro area's unemployment rate was 6.5 percent, compared to 5.2 percent as of June 2001. The unemployment rate represents a loss of 6,700 jobs over the 12-month period, due largely to layoffs by major employers like Enron and Dynergy. However, job growth remained healthy in several categories, including health services and construction jobs.

Active retailers expand locations

Active retailers opening stores or planning new stores for 2002 include:

- Kohl's department store, which opened 12 area locations in March;
- Wal-Mart Neighborhood Markets, which opened new Houston stores this year including stores on Beechnut, Eldridge Parkway and S. Gessner, bringing the area total to five locations;
- SuperTarget, a concept combining a traditional Target store with a full-scale supermarket, which entered the Houston market in 2001 and which is opening new locations, including Silverlake Village at Highway 288 and FM 518 and in Fairway Plaza IV in Pasadena;
- Wal-Mart, which is under way with its Supercenters that combine a traditional Wal-Mart store with a full-scale supermarket;
- The Great Indoors, a home improvement and furnishings superstore concept, which opened locations at I-10 and Beltway 8 and by Willowbrook Mall;
- Lowe's, which is opening stores in Meyerland Plaza at Bissonet and Weslayan, in Baybrook Passage in Clear Lake, and in Gulfgate

Plaza, which opened this year after its Lowe's anchor opened in 2001;

- Grocers H-E-B, Kroger and Randalls, which – as noted – continue to open new locations, including stores in former Albertsons;
- Randalls also will be opening its small, downtown-area grocery store at Louisiana and Webster this year. The downtown area continues to see growth in its residential market, as well as an increase in the number of new entertainment venues;
- Oshman's sporting goods, which is expanding with stores at Kirkwood and Westheimer and in Westgate Shopping Center at Fry and I-10;
- Dollar General, a value-oriented retailer that is under way with a market penetration program for Harris County;
- Eckerd and Walgreens, which continue to open freestanding stores. CVS pharmacy also plans to expand after entering Houston in 2001;
- Anchor or junior-anchor type retailers such as Bed Bath & Beyond, Best Buy, Barnes & Noble, Ross Dress for Less and Linens 'n Things;
- Specialty retailers like Lucky Brand Clothing, which entered the Houston market with a store in Highland Village, on Westheimer near Weslayan.

Restaurants remain active

Restaurant activity remains strong in the Houston market.

These include:

- New restaurants to the market, including Rockfish, Pei Wei Asian Diner, Fleming's Steakhouse and BJ's Chicago Pizza & Brewery, which did its first area location in Clear Lake;
- P.F. Chang's, which opened its second area location in Royal Oaks Village;
- Panera Bread, which is expanding in the market;
- Chipotle Grill, a Mexican-food concept with several locations;
- Champps, which is under way with its third area location in Royal Oaks Village.

Retailers with planned openings for 2003 include many of the retailers listed above, as well as:

- Skechers, which is entering the market with its 7,000-8,000-square-foot concept;
- Pottery Barn Kids, which will open its first Houston store in Highland Village in 2003. Highland Village will also get the first area location of chef Emeril Legasse's New Orleans-style restaurant;
- Foley's, which will open in the Galleria in 2003;
- Lord & Taylor and Dillard's, which will open in Memorial City Mall in 2003 or 2004. The mall is undergoing a major renovation, part of which will open this year.

New projects under way, planned

The active retail expansions have resulted in a number of new projects either being completed in 2002 or under way for completion in 2003. These include:

- Silverlake Village, a project with SuperTarget, Kohl's, Linens 'n Things and Ross Dress for Less at Highway 288 and FM 518 that opens this year;
- Gulfgate Center, the redevelopment of Gulfgate Mall, which opened in the first half of the year with H-E-B, Ross, Old Navy and Michaels, which joined an existing Lowe's;

- Westgate at Fry and I-10, which is anchored by a recently opened Kohl's and which is still under construction for tenants including Oshman's and Pier 1;
- Fairway Plaza III, a Bed Bath & Beyond- and Barnes & Noble-anchored center that opened in Pasadena. Fairway Plaza IV is under way across the street, adding SuperTarget and Toys 'R' Us to an existing Kohl's;
- Riverpark Shopping Center, an H-E-B-anchored project at US 59 and Grand Parkway;
- Windvale Village, a Randalls-anchored center at FM 1488 and College Park Drive that will open in the second half of 2002;
- The Woodlands Main Street project, a 150,000-square-foot project located adjacent to Woodlands Mall on the Woodlands Waterway. The center is set to open in fall 2003;
- Sugar Land Town Square, a mixed-use project with 200,000 square feet of retail that broke ground in late 2001. The project, at the intersection of Highway 59 and Texas 6, will also include office and hotel space, as well as a new city hall, and is set for completion in summer 2003.

Housing market benefits retail

The retail market is benefiting directly from a strong housing and steady job market in the greater Houston area. After setting a record in 2001 with the sale of approximately 57,000 homes, the existing home market at mid-year reported that the market is basically even with the previous year's record-setting pace. The median home price at mid-year was \$131,250, the highest ever. The new housing market at mid-year was up 6 percent in terms of sales and 10 percent in terms of construction, compared to a year ago. Low mortgage rates are helping keep home sales steady. Additionally, multi-family occupancy rates remain well above 90 percent.

Houston's unemployment rate at mid-year was 6.5 percent, up from 5.2 percent at the same time in 2001. The rate was below the statewide average of 6.8 percent.

Houston's job growth outlook is strong, however. For the period from 1990 to 2001, Houston experienced a 22.5 percent increase in overall employment.

As a result of retailer demand, Houston's retail rental rates have remained steady, though few increases are seen and concessions such as free rent are often available, depending on location. At mid-year end, inline Class A space generally ranged from \$18-20 per square foot per year in the better markets to as high as \$25 or more per square foot for certain outparcels. For second-generation space in a good location, rates are generally in the \$15-16-per-square-foot range, with tertiary space in the \$9-to-\$12-per-square-foot range.

Outlook remains balanced

While the outlook for 2002 calls for a slowdown in retail leasing and construction, the market overall should continue to remain balanced in terms of supply and demand. Since construction has reflected demand, not the availability of funds, the overall market occupancy remains healthy. This, combined with a strong housing market and a diversified Houston economy, means the Houston retail market should continue to report a steady, healthy market through the remainder of 2002 and for the foreseeable future.



San Antonio retail market reports steady activity

San Antonio's retail market reported significant retail activity during the first half of 2002, including the expansion of major retailers and the entry of retailers into the market for the first time. However, the closure of certain tenants, most notably Albertsons, resulted in an increase in overall vacancy as of mid-year.

At mid-year, the overall San Antonio retail market reported an occupancy rate of 85 percent, down from approximately 86 percent at year-end 2001.

The occupancy rate is based on a total market inventory of 30,850,917 square feet of multi-tenant retail space in 265 retail centers with 25,000 square feet or more.

By submarket:

- North-Central San Antonio at mid-year shows an occupancy rate of approximately 92 percent, basically unchanged from year-end 2001.
- The Northeast submarket reported a slight improvement in occupancy, to 78 percent up from approximately 77 percent at year-end 2001.
- The Northwest submarket, by far the largest in terms of square footage with 8.9 million square feet, also remains one of the most active in terms of retailer activity. At mid-year, the occupancy rate in this market was approximately 90 percent, approximately the same as year-end 2001.
- The South-Central submarket posted the strongest occupancy rate in the market with 95 percent, down nearly a percentage point from year-end 2001.
- The Southeast submarket continues to report weak occupancy, with a 71 percent occupancy rate.
- The West submarket showed an overall occupancy rate of approximately 73 percent at mid-year.

Construction remains active

Construction remains active during 2002 as retailers expanded due to the continued health of the San Antonio economy. For example, San Antonio as of July 2002 reported the lowest unemployment rate among the state's major metro areas. San Antonio's unemployment rate was 5.4 percent, compared to 7.2 percent for Dallas/Fort Worth, 6.1 percent for Houston and 5.9 percent for Austin. The market at mid-year has added about 400,000 square feet of new retail space. During the 12-month period of 2001, the market added approximately 1.2 million square feet.

New projects for 2002 or later include:

- The expansion of the Village at Blanco, at the southeast corner of Loop 1604 and Blanco Road, with a 150,000-square-foot Lowe's. Lowe's is also under construction as an anchor at Westside Commons at the northwest corner of Highway 151 and Loop 410;
- The expansion of Culebra Market, an H-E-B-anchored project at the southeast corner of Loop 1604 and Culebra Road, with an additional 23,000 square feet of space;
- The expansion of SuperTarget-anchored Vineyard, located at the northwest corner of Loop 1604 and Blanco Road;
- Rigsby Road Shopping Center, a 60,000-square-foot center at the northeast corner of Loop 410 and Rigsby Road.

Additionally, several projects are in the planning stages for construction in 2002 or later.

- The Shops at La Cantera, a 1.2-million-square-foot regional mall that is planned for the intersection of Loop 1604 and La Cantera Parkway. The mall will be anchored by Foley's, Dillard's, Nordstrom and Neiman Marcus;
- Olympia Hills Market, a planned center at I-35 North and Olympia Parkway, is designed to have 170,000 square feet of retail;
- North Rim, an announced project at the northeast quadrant of IH-10 and Loop 1604, is designed to have 800,000 square feet of retail space, although no definite commitments have been announced.

New retailers enter market

Several notable retailers opened their first San Antonio locations during 2002. These include:

- Kohl's department store, which will serve as an anchor at Bandera Pointe shopping center at Loop 1604 and Bandera Road, as well as a store announced for the Forum at Olympia Parkway at Loop 1604 and Highway 281. Another store has been announced for Northwoods;
- Calloway's, which entered the market with three stores in former Wolfe Nursery locations;
- Restaurants including Cheesecake Factory, which opened in North Star Mall; Gallagher's Steakhouse, which opened in February; Double Dave's pizza, which opened the first of several planned locations in May on San Pedro; Macaroni Grill, which took a former On the Border at Huebner Oaks; and Krispy Kreme, which is under way with its first area location at I-10 and De Zavala;

Expanding retailers during the first half of 2002 include:

- Lowe's, which opened a new store at Loop 1604 and Blanco;
- Wal-Mart Supercenter, which is opening a location at Loop 410 and Rigsby; Wal-Mart Supercenter also will anchor a center at Vance Jackson Road and I-10 that is set to start construction in late 2002, and at Wurzbach and Austin Highway. Wal-Mart has also been converting existing stores to Supercenters;
- SuperTarget, which opened at the northwest corner of Loop 1604 and Blanco Road and is under way at Crossroads Mall;
- Costco, which opened a 150,000-square-foot warehouse club store in Sontera Park at Loop 1604 just off of Highway 281 in June.

Rents stay at current levels

Retail rents have remained stable, with some declines reported in select projects. Overall, Class A rents for a small inline rent range from approximately \$18 to \$23 per square foot per year. Class B rates typically are in the \$15-per-square-foot range, and Class C rates are in the \$12-to-15 range. There are some concessions in the market, mainly in the form of free rent on long-term deals in lieu of finish-out dollars.

A number of retailers closed stores during 2002, although several of these closed locations have been spoken for by other retailers. Closings include:

- Albertsons, which closed its 20 San Antonio stores in April as it exited the market. However, H-E-B has acquired five of the Albertsons stores, and others are in the works for new tenants;

- Kmart, which closed two area locations as part of its bankruptcy plan, leaving the retailer with four San Antonio locations.

Economy reports strengths

The San Antonio economy also continues to show strength. Tourism business has picked up after the slowdown following the September 11 attacks. The housing market also remains strong. Existing home sales during the first half of 2002 totaled approximately 7,400, in line with the strong activity during 2001, according to the Real Estate Center at Texas A&M.

The combination of stable economy, retailer demand and pre-leased construction should ensure that the strength and occupancy improvements in the San Antonio retail market experienced during 2001 should continue through this year.



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