

The

A real estate review from The Weitzman Group and Cencor Realty Services

OUTLOOK

Fall 2004



Texas' major retail markets continue to show strength in terms of occupancy, retailer demand and demand-based construction. That is the finding of The Weitzman Group and Cencor Realty Services' review of retail market conditions in Austin, Dallas, Fort Worth, Houston and San Antonio.

The retail real estate markets are benefiting from economies that report strong gains in the housing sector, as well as positive job growth.

We're pleased to present this recap of our retail market conditions at mid-year 2004. We look forward to hearing any comments or questions you may have.

AUSTIN'S RETAIL MARKET CONTINUES TO LEAD IN TEXAS

Austin's retail market once again reported the highest retail occupancy of any major market in Texas, based on a review of market conditions at mid-year 2004.

As of mid-year 2004, Austin's retail market reported overall occupancy of 95.5 percent, thanks to continued expansions from new and expanding retailers. This makes it the tightest retail market among Texas' major markets of Dallas/Fort Worth, Houston and San Antonio.

The occupancy rate increased from year-end 2003's rate of 95.2 percent. The rate is based on a total retail inventory of approximately 27 million square feet of retail space.

New projects opened during the first half of 2004 or under way for a 2004 opening should result in approximately 1.5 million square feet of new retail space. The 2004 construction total is slightly below 2003's total of approximately 2 million square feet added to the inventory. However, a number of large multi-tenant projects are in the works, so 2005 should see a significant jump in new construction

New projects come online in 2004

A number of Wal-Mart Supercenter and community retail projects are opening their doors during 2004. These include:

- **The Shops at Whitestone**, a 36,215-square-foot retail center adjacent to a new 207,000-square-foot Wal-Mart Supercenter located at the northwest quadrant of State Highway 183 and FM 1431 (Whitestone Lane);
- A new **H-E-B** project at the northwest corner of SH 95 and FM 379 in Taylor that will double the size of the existing store it will replace. The new store is set to open in August. At the southwest corner of SH 95 and FM 379, a Wal-Mart Supercenter and peripheral retail is under way;
- **Plaza Volente**, a multi-tenant project anchored by an under-construction H-E-B store with 109,000 square feet of space at the southeast corner of Anderson Mill Road and RM 620. H-E-B is also going to Slaughter and MoPac;
- A 59,280-square-foot **Randalls** Food Market located at 2051 Gattis School Road at A.W. Grimes Boulevard in Round Rock;
- A **Wal-Mart Supercenter** at Highway 79 and FM 122 in Round Rock that is set to open in late 2004;
- A **Wal-Mart Supercenter**-anchored project at Highway 71 just west of IH-35 set to open later this year;
- The second phase of **Round Rock Crossing**, at IH-35 and SH-45, a Target-anchored center that is adding Sportsman's Warehouse, Michael's, Best Buy, Catherines and others;

- Part of the Sixth & Lamar project with a flagship **Whole Foods** store. Other retailers scheduled to open at the location, which will total approximately 200,000 square feet of retail, include Anthropologie and REI, which will open its second Austin location at Sixth & Lamar in 2005;
- A **Target** Greatlands-anchored project in Four Points set to open later this year.

Additional retail projects proposed for 2005

Austin's retail market reports a number of large projects that are set to open in the near future. These include:

- **The Shops at the Galleria**, a project that broke ground in mid-2004. The 537,793-square-foot center is located on the south side of Highway 71 West at the intersections of RR 620 and FM 2244 in the Village of Bee Cave and includes Lowe's, World Market, Linens 'n Things, Pier 1, PETsMART, Michaels, Chase Bank and others;
- **Wolf Ranch**, a large, open-air Simon retail center at IH-35 and Texas 29 in Georgetown that has a planned 2005 opening. Wolf Ranch will be anchored by a 124,000-square-foot Target store, T.J. Maxx, Linens 'n Things and Michaels and will include a total of 750,000 square feet of space;
- A project with **Wal-Mart Supercenter** now under construction at the southwest corner of Slaughter and IH-35;
- **The Domain**, a 57-acre site bounded by MoPac, Braker Lane and Burnet Road, which is a joint venture project between Endeavor Real Estate Group and Simon Property Group. The project is slated for 780,000 square feet of retail space, as well as other uses. The center, which is set for a 2006 or 2007 opening, will be anchored by Neiman Marcus. A big box-anchored center is set for the southwest corner of the same intersection;
- A Simon Property Group **mall project** at IH-35 and Loop 4 in Buda;
- Another Simon project, an **upscale outlet mall** on the east side of IH-35 in Round Rock designed to have 750,000 square feet of retail, a hotel and residential space;
- An **upscale, department store-anchored mall** with up to 2.3 million square feet of retail and hotel space in Bee Cave.

Retailers continue to expand

In addition to the retailers named in the above-mentioned projects, a number of new and expanding retailers are active in Austin. These include:

- Hunting and fishing superstore **Cabela's**, which has announced plans to open a massive store at the southwest corner of IH-35 and Loop 4 in Buda;
- **Home Depot**, which is under way with a store at IH-35 and CR 210, between Buda and Kyle, set for a 2005 opening;
- **Ross Dress for Less**, which opened in Capital Plaza;
- **Ultimate Electronics**, which is opening a store at Highway 290 and Brodie Lane in Sunset Valley;
- **24-Hour Fitness**, which opened in Round Rock West and which will open in a former Bealls location on Anderson Mill;
- **Sears Grand**, Sears' new freestanding format that is slated to go to IH-35 and Parmer in 2005;
- **Big Lots**, which opened at MoPac and Parmer, at Highway 71 and 290 and in Round Rock;
- **Pei Wei Asian Diner**, which went into Tech Ridge in April and which will open in Hancock Center by the end of the year;
- Other active food-service concepts include **Ben & Jerry's, Pluckers, Quizno's, Tin Star, Extreme Pizza, Maggie Moo's, Cold Stone Creamery, Panda Express, Bear Rock Café, Jersey Mike's, Wendy's, Taco Cabana, Whataburger, Sonic and Starbucks**;
- In addition, **banks** are locating on shopping center pad sites at an active pace.

Rents remain stable marketwide

As of mid-year 2004, asking rental rates for Austin-area retail projects remained stable and in some cases showed increases.

Rates for Class A in-line space in mature, high-traffic markets ranged from the mid to high \$30s per square foot per year. For Class A grocery-anchored space in suburban locations, the rates were in the mid-\$20s or higher. For Class B and Class C in-line space, rates ranged from \$16 to \$20 per square foot, though they were in the \$12 range for larger-format tenants.

These rates are averages, and well-located space often goes for higher rates, while less-well-located projects may post lower asking rates.

Austin economic outlook remains positive

Austin's retail market benefits from the strength of one of its primary drivers – housing. At mid-year 2004, for example, existing home sales were 20 percent higher for the first six months of the year compared to the same period in 2003. The market is on track to set a record for existing home sales. The new home market also reports strong conditions. In addition, Austin's job market is expected to report modest growth for 2004. The area's unemployment rate of 4.9 percent at mid-year is down from 6.5 percent as of mid-year 2003.

The Weitzman Group forecasts continued stability and strength for Austin's retail market, based on the area's outlook for positive growth in housing, employment and population, as well as the influx of new retailers and new retail space set for the remainder of the year and into 2005.



DFW RETAIL MARKET REPORTS CONTINUED STABILITY

Dallas/Fort Worth's retail market reported notable leasing and construction activity during the first half of 2004, as well as stable occupancy and rental rates.

As of mid-year 2004, D/FW's retail market reported an overall occupancy rate of occupancy of 89.6 percent, down a fraction from 89.7 percent at year-end 2003.

The rate is based on a total market inventory of approximately 148 million square feet of retail space in Dallas/Fort Worth.

D/FW's occupancy rate remains stable because of retailers occupying new and existing space at a steady pace. The market continues to see examples of vacant second-generation spaces absorbed by expanding retailers. Unlike previous years, when retailers such as Kmart and Service Merchandise exited multiple locations, D/FW did not see any major blocks of space come onto the market that remained unoccupied.

For example, grocer chain Grocery Outlet exited the market during the first half of the year, but its 17 locations were quickly spoken for by another grocery chain, **Save-A-Lot**.

Construction remained steady during the first half of 2004 and is on pace to record the addition of approximately 3.5 million square feet of new space for expanding retailers; the majority of these are large-format retailers such as **Home Depot, Wal-Mart Supercenter** and **SuperTarget**. This level of construction in 2004 will be in line with 2003's 3.4 million square feet. The majority of new construction is occurring in the Dallas and Fort Worth suburban markets that are experiencing strong residential growth.

New projects for 2004 add to inventory

The first half of the year saw several retail projects come online. These include:

- A new **Home Depot** and **Chase Bank** branch that are the first phase of a multi-tenant project at Custer and Virginia in McKinney. Other Home Depots opened in Balch Springs and in North Fort Worth;
- The first phase of a Home Depot-anchored project called **The Shops at Stevens Park**, which is located on the site of the former Bronco Bowl on Fort Worth Avenue in Oak Cliff;
- A **Wal-Mart Supercenter** at Precinct Line and Harwood Road;
- The **redevelopment** of a former Kmart on Pipeline Road and Loop 820 for multi-tenant space;
- The first phase of **Sherman Town Center**, a project at the northwest quadrant of US-75 and Texas 82 that will total 700,000 square feet upon completion. The center is anchored by **Home Depot, Target** and **Cinemark**.

More retail centers under way

Projects in the works for opening in 2004 or later include:

- **Firewheel Town Center**, the most significant planned new project. The open-air mall is to be built at the northeast corner of State Highway 78 and the President George Bush Turnpike in Garland. Tenants include **Dillard's, Foley's** and **AMC Theaters**;
- **Main Street Village**, a **Kroger Signature**-anchored project at the intersection of Main Street and Teel in Frisco. The center will open in late summer 2004;

- **Eldorado Plaza**, a 250,000-square-foot project in McKinney with **Belk** department store, **Old Navy**, **Borders**, **Linens ‘n Things**, **World Market** and **Pier 1**;
- **Highlands Ranch**, a **Lowe’s**-anchored project at the southeast corner of FM 407 and FM 2499;
- **Signature Plaza**, a **Kroger** Signature-anchored center at the southeast corner of Coit Road and SH-121;
- The expansion of the **Lowe’s**-anchored **Mansfield Town Center** by 200,000 square feet for a 12-screen **Cinemark Theater** and other retailers. The Cinemark is expected to be completed early next year;
- A **Wal-Mart Supercenter**-anchored project in Wylie, along State Highway 78. In addition to the Wal-Mart, now under construction, the center’s first phase will include approximately 20,000 square feet of retail space. Wal-Mart also has additional Supercenters in the works throughout the Dallas/Fort Worth area, including a 207,000-square-foot store in Saginaw set to open in October;
- The planned expansion of Arlington’s **Lincoln Square**, where recent new tenants include **Best Buy** and **Bed Bath & Beyond**. The expansion is a multi-year project designed to add 250,000 square feet of additional space to the center’s existing 450,000 square feet;
- **Lake Worth Towne Crossing**, a 420,000-square-foot **Target**-anchored project on Jacksboro Highway set to open in 2005.

New and expanding retailers active in 2004

Retailers entering or expanding in the D/FW market include:

- The above-mentioned retailers such as **Wal-Mart** and **Home Depot**;
- Hunting and fishing superstore **Cabela’s**, one of the most significant new retailers, which has announced plans to locate a 200,000-square-foot store in North Fort Worth along I-35W;
- **IKEA** furniture superstore, another significant new entry, which will open a 310,000-square-foot store in Frisco later this year;
- Hunting and fishing superstore **Bass Pro Shops Outdoor World**, which has announced a second D/FW location for Garland;
- **Belk** department store, which will locate its first D/FW-area location in McKinney;
- **JCPenney’s** new freestanding format, which is under way with a new 86,000-square-foot location in Burleson Town Center at I-35 and Alsbury Boulevard;
- **Rave Motion Pictures**, which is opening locations in North East Mall and Ridgmar Mall;
- **Life Time Fitness**, which is opening fitness centers in Colleyville and Flower Mound;
- **Conn’s**, an electronics retailer, which is adding additional D/FW locations;
- **PureBeauty**, a cosmetics retailer, which is expanding in D/FW;
- **Bank** branches, which continue to expand at a rapid pace, building freestanding locations at well-traveled intersections;
- Drug stores, primarily **Walgreens**;
- Dollar stores, including **99 Cents Only**, **Dollar Tree** and **Dollar General**. These dollar stores are revitalizing older community centers with popular store formats that are as large as 25,000 square feet.

Mall market reports activity

The overall retail market did not see any significant closings this year, although Lord & Taylor – which is exiting the Texas market as previously announced – closed at NorthPark Center mall in late January. **Lord & Taylor’s** Plano location remains open for the time being.

In the mall market, **Firewheel Town Center** is not the only mall making news. Several malls are expanding or working to reposition themselves. **NorthPark** is being expanded with a new **Nordstrom** location, a **multiple-screen movie theater** and in-line space. Opening is set for late 2005. In Fort Worth, the aging Fort Worth Town Center mall’s owners are seeking a new tenant mix to appeal to the area’s Hispanic shopper base.

Rental rates remain steady

As a result of the new construction and expanding retailers, retail rental rates remain steady. Rates are showing increases in the best-located Class A centers and in strong submarkets.

For new in-line space, average rates ranged from \$18 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, unanchored neighborhood centers, where the rates were in the \$3- to \$5-per-square-foot range.

The retail market remains strong thanks in part to the D/FW economy. The housing market remains extremely strong in terms of both new home starts and existing home sales. The job market has returned to positive territory after several back-to-back quarters of job losses.

Therefore, we expect D/FW's retail market to end 2004 on a strongly positive note, thanks to retailer expansions, demand-based new construction and the outlook for an improving economy.



HOUSTON'S RETAIL MARKET REPORTS INCREASED STRENGTH

Houston's retail market at mid-year showed strong activity that should result in the market ending the year on a high note for 2004.

The market remains active in terms of expanding retailers, new retailers entering the market and the lease-up of large-format spaces vacated recently by retailers such as Kmart. The lease-up of existing spaces is a sign that the market is strong enough to lease both new and vacant space at a steady pace.

That is one of the conclusions drawn from a review of Houston retail market conditions conducted by The Weitzman Group and Cencor Realty Services for the period from January 1 to June 20, 2004. The review reports on leasing, construction, retailer demand, market occupancy and rental rates.

As a result, the market at mid-year reported an occupancy rate of 86.5 percent, up a full percentage point from the 85.5 percent rate at year-end 2003. The rate increase was a result of all classes of shopping centers – neighborhood, community, power and regional – showing occupancy improvements. In addition, the poorly performing Town & Country Mall was removed from the inventory due to the announcement that it is being torn down. This further strengthened the occupancy rate.

The report is based on a retail market inventory of approximately 127 million square feet of space.

One reason for the increase in occupancy is the re-tenanting of retail spaces vacated in 2003 by Kmart, which closed 16 stores, and Auchon, whose closure of its two stores put approximately 500,000 square feet on the market.

Fortunately, the market is strong enough that, when a retailer goes out, there is often a use waiting to take its place. The Auchon location on Beltway 8 was occupied in the first half of 2004 by a 100,000 square foot Food Town grocery store; the remainder of the Auchon space was taken by a multiple-vendor market.

Vacant Kmart's lease up well

Houston's vacant Kmart's, in particular, have met a strong response from the market.

Target purchased a 107,000-square-foot former Kmart at Meyerland Plaza, located at Beechnut Street and Loop 610 South. **Target** should open in mid-2005 at the location. (Also at Meyerland Plaza, **Circuit City** has leased in a new expansion space at the center.);

- The former Kmart on Murphy Road in Stafford has been redeveloped as a **neighborhood market** with 170 individual retail and service vendors under one roof;
- **Levcor** purchased a former Kmart at TC Jester and 18th Street late last year and will open it this year as a 109,000-square-foot multi-tenant retail project;
- **AmReit** purchased a site off Interstate 45 at West Road that had been occupied by Kmart and a computer store. The location is being redeveloped for multi-tenant and big-box space.

In addition, other vacated spaces are being recycled, including:

- a former 102,000-square-foot Target at Texas 6 and Settlers Way in Sugar Land purchased earlier this year. It will be redeveloped for multi-tenant use;
- a former 240,000-square-foot Dillard's at Baybrook Mall, which was vacated when Dillard's merged its two **Baybrook** stores into one 320,000-square-foot location. The vacated Dillard's has been taken by **Foley's**.

These new redevelopments help increase market occupancy, but they do not add to the new construction totals, except in the case of center expansions.

Partly as a result of this, we expect the construction totals in 2004 to be down by close to 1 million square feet compared to 2003. Based on projects now under way or in the pipeline, Weitzman/Cencor estimates total new construction of just under 3 million square feet of space for 2004.

New construction demand is coming from grocery stores such as **Kroger** and **H-E-B**, which is the most active grocer in the market, as well as large-format retailers with groceries such as **Wal-Mart** and its **Supercenters** and **Target** with its **SuperTargets**. In addition, new multi-tenant retail is being built for "category killers" including **Linens 'n Things**, **Michaels**, **Best Buy**, **Circuit City**, **Barnes & Noble**, **Bed Bath & Beyond**, **Pier 1**, **Marshalls** new **MegaMarshalls** concept and others.

New projects come online in Houston

New projects opening in Houston include:

- The **Market at 1488**, a shopping center at FM 1488 and FM 2978 in Montgomery County anchored by a 65,000-square-foot **Kroger Signature**;
 - **Deer Park**, a **Wal-Mart Supercenter**-anchored project at Spencer Highway and East Boulevard in Deer Park. In addition to the 204,000-square-foot Wal-Mart (which opened in late 2003), the center features 18,800 square feet of in-line space;
 - **Eagle Ranch Shopping Center**, a 93,000-square-foot community center anchored by **Kroger Signature**. The center is being built at the intersection of Fry Road and Little York Road and is expected to open in the fourth quarter of 2004;
 - **Market Street**, a "town center" project in The Woodlands that will have an **H-E-B** and a **Borders Books & Music store**. Market Street is set to open in 2004 with 368,000 square feet of retail space;
 - **Baybrook Square**, a large development project at Bay Area Boulevard and I-45 that is slated to open in late 2004. The center will include **MegaMarshalls**, **Fitz & Floyd**, **Pier 1**, **DSW Shoe Warehouse** and others;
 - **Woodlands Mall** new expansion, which includes **P.F. Chang's**, **Cheesecake Factory** and **Barnes & Noble**;
 - **Sugar Land Town Square**, which is designed to have 230,000 square feet of upscale retail space. The first phase will have 150,000 square feet of retail. Restaurants at the center include a **P.F. Chang's** and **Café Express** set to open this year;
 - An **H-E-B** center in **The Woodlands** at Woodlands Parkway and Kuykendahl with 58,000 square feet in addition to the grocery store;
 - A 178,000-square-foot **H-E-B**-anchored center at Louetta Road and I-45.

Other projects are in the works for 2005 and later. These include:

- **The Crossing at 518**, a phased regional shopping center at the northeast corner of Highway 288 and FM 518 in Pearland that will feature 625,000 square feet upon completion. The center features an existing **Wal-Mart Supercenter** and has signed several restaurants, as well as anchors such as **Bed Bath & Beyond** and **Best Buy**;
 - **Blackhawk Town Center**, a project at Texas 646 and I-45 that will feature a 94,000-square-foot **H-E-B** grocery, **Walgreens**, **Bank of America** and others. The center, to total 130,000 square feet, is set for an early 2005 opening;
 - **Lake Pointe Center**, a mixed-use development in First Colony to be located at US 59 and Highway 6;
 - The 61,000-square-foot first phase of the **Gardens at Westgreen**, a retail and entertainment center located at I-10 and Westgreen Road in far west Houston. The first phase, to open in late 2004, features primarily restaurants. A second 40,000-square-foot phase is planned;
 - **Terramont Shopping Center**, a project to be anchored by a 210,000-square-foot **Wal-Mart Supercenter** on Woodlands Parkway in The Woodlands. The Wal-Mart is set to open in spring 2005;

- A project at Spring Cypress and Highway 290 with **Wal-Mart** and **Palais Royal**. Across the street is a new project with **Target**, **Michaels**, **Ross Dress for Less**, **T.J.Maxx**, **PETsMART**, **Office Depot** and **DSW Shoe Warehouse**, with opening for early 2005;

- **Katy Town Centre**, a mixed-use project along Katy Freeway designed to have 1.3 million square feet of office, retail and entertainment space.

New space in Houston is significantly pre-leased prior to completion, which ensures that the occupancy picture remains healthy.

Retailers continue to expand

Retailers expanding in Houston include:

- **H-E-B**, the most active grocer in the Houston market, which is aggressively opening 10 new stores and replacing smaller Pantry stores with larger stores. H-E-B's largest area store, with 109,000 square feet, is under way at I-45 and FM 646;
- **Kroger**, which continues to be the second-most active grocer in the market. Kroger stores include the ones at Market at 1488, at FM 1488 and FM 2978, at FM 290 and Spring Cypress and at Eagle Ranch Shopping Center, located at West Little York and Fry Road;
- Large-format retailers, such as **Best Buy** and **Bed Bath & Beyond**, mentioned earlier in this report;
- **Dollar General**, which continues to expand its Houston presence;
- Restaurants including **Cheesecake Factory**, **P.F. Chang's**, **Applebee's**, **Smith & Wollensky** and **Perry's Grill & Steakhouse**, which opened in Sugar Land Town Square;
- Specialty retailers such as **Storehouse**, **Sharper Image**, **Bombay** and **Bombay Kids**;
- **IKEA**, which opened a new, larger store next to its existing store, which was demolished;
- **Wal-Mart**, which is opening new stores such as the ones at I-45 and FM 646, at I-45 and FM 1764, at Spring Cypress and Highway 290, Highway 6 and Richmond and at FM 1488 and Woodlands Parkway (for a late 2005 opening).

New retailer space users entering or planning to enter the Houston market include:

- New banks such as **Wachovia** and **Hibernia**, which are actively adding branches;
- New restaurants including **Smith & Wollensky**, **Brio Tuscan Grill** and **Mi Cocina**;
- Specialty retailers such as women's clothing retailer **J. Jill's**, high-end bath accessories retailer **Water Works**, china retailer **Fitz & Floyd** and skin care specialist **Kiehl's**;
- Sporting good concepts such as **Sportsman's Warehouse** and **Gander Mountain Sports**;
- Ice cream concepts such as **Ben & Jerry's**, which opened the first of several planned locations in Highland Village and at Astro World, and **Carvel**, which opened its first location at 1560 Eldridge Parkway in the Parkway Villages Shopping Center.

Rents remain stable marketwide

As of mid-year, asking rental rates for Houston-area retail projects showed slight increases when compared to year-end 2003. Rates for multi-tenant space were highest in Class A, well-anchored space inside of Loop 610.

Marketwide, rates for Class A in-line space at mid-year were averaging \$18 to \$23 per square foot per year – plus triple nets -- although some stronger areas inside the Loop saw rates ranging from \$30 to \$40 per square foot.

For second-generation space in good locations, rates typically were in the \$15-18-per-square-foot range. Class C space typically ranged from \$9-12 per square foot. Rates for the remainder of 2004 are expected to continue at this steady pace.

Rates for premium malls like the Galleria can be much higher than the Class A rates stated above.

Housing market benefits retail

Housing is one of retail demand's biggest drivers. As the saying goes, "Retail follows rooftops."

And there will be plenty of new rooftops in 2004, following record years in 2002 and 2003. For 2004, new residential construction is on pace to add 40,000 new homes.

In addition, home resales have also been at record levels.

Houston's job growth is also reflected in the area's jobless rate. At the beginning of the year, the unemployment rate was 6.8 percent. As of mid-year, the rate had improved to 6.1 percent.

With a positive outlook for the housing and job markets, we expect the retail market to continue to benefit from Houston's economic stability. Therefore, the outlook for the retail market for the remainder of 2004 remains strongly positive for retail demand, development and overall occupancy rates.



SAN ANTONIO RETAIL MARKET SHOWS CONTINUED STRENGTH

San Antonio's retail market experienced steady activity during the first half of 2004 and arrived at mid-year with a slight increase in overall occupancy. Retail leasing remained active during the year, but retailers remained selective about their locations. And while several major projects are in the works for later in 2004 and 2005, the majority of construction during the year was limited to neighborhood and shadow-anchored community projects.

As of mid-year, the market reported an overall occupancy rate of 89 percent, up slightly from year-end 2003's rate of 88.9 percent. The occupancy rate has remained steady because the market hasn't seen the type of closures from retailers such as Albertsons and Kmart that have been seen in years past.

The occupancy rate is based on a total market inventory of approximately 33 million square feet of multi-tenant retail space in the greater San Antonio area.

Based on retail projects announced or in the works, however, The Weitzman Group and Cencor Realty Services expect a surge in occupancy in the first half of 2005, when expanding retailers with multiple locations should occupy large blocks of space. These include 99 Cents Only, which has announced approximately 10 stores, which would absorb about 300,000 square feet of space.

Construction adds new projects and retail space

Construction during the first half of 2004, as noted, was limited to smaller centers and to a number of large-format retailers. All told, the market added approximately 800,000 square feet during the first six months of 2004.

New projects included:

- **Dellview Marketplace**, a 327,000-square-foot **Wal-Mart Supercenter**-anchored project with retailers including **Marshalls**, **Dollar Tree**, **Anna's Linens**, **Fashion\$ 5** and others;
- **Brooks Corner**, a center at Southeast Military and Goliad with **SuperTarget** and additional small-tenant space;
- A new 45,000-square-foot **Ashley Furniture** store on Pat Booker in Live Oak;
- A new **Lack's** store and a **Bealls** store – plus restaurant space – at **The Vineyard at Blanco and 1604**;
- A project at Austin Highway and Harry Wurzbach with **Payless**, **Gamestop** and others;
- A new **Wal-Mart Supercenter** at Bandera and Mainland, which also is seeing an additional 23,000 square feet of new outparcel retail space.

New projects under way for 2004, 2005

Projects under construction or being planned for later in 2004 or 2005 include:

- **The Shops at La Cantera**, the most significant planned project. The Shops at La Cantera is a 1.2-million-square-foot regional mall that is under way at the intersection of Loop 1604 and La Cantera Parkway. The mall is estimated to have a 2005 opening. The mall will be anchored by **Foley's**, **Dillard's**, **Nordstrom** and **Neiman Marcus**;
- **Brooks City Base**, a project at SE Military and Goliad with **Wal-Mart Supercenter** and **Sam's**. Additional retailers attached to the project include **Petco**, **Anna's Linens**, **Ross Dress for Less**, **Fashion\$ 5** and others. The project is estimated to break ground by the end of the year;
- A **Wal-Mart Supercenter** project at the northwest corner of FM 3009 and IH-35 to open later this year;

- A **SuperTarget**-anchored center at Loop 410 and State Highway 151 that is set to open in late 2005;
- **Legacy**, a planned 400,000-square-foot project at Loop 1604 and U.S. 281 that is set to open its first phase by late 2005. The project also may include other uses;
 - **North Rim Market**, a planned center with a first phase designed to include more than 500,000 square feet of restaurant and retail space, a cinema and a large-format anchor store. The first phase is located at IH-10 and La Cantera Parkway;
 - An **H-E-B** center on U.S. 181 in Floresville;
 - A new **Haverty's** store, its second in San Antonio, at The Forum at Olympia Parkway;
 - A **Basset Furniture Direct** store at **The Village at Forum Parkway**, at the northwest quadrant of IH-35 and Loop 1604;
 - A **neighborhood center** at Stone Oak and Huebner;
 - A **Rooms to Go** store near the northeast corner of Loop 410 and Blanco.

Retailers keep demand for space steady

Demand for new and existing space is coming for a wide range of tenants, including:

- Large-format anchors such as **Wal-Mart Supercenter** and **SuperTarget**;
- Furniture stores such as **Haverty's**, **Rooms to Go** and **Bassett Furniture Direct**;
- **Shoe Carnival**, which opened its second San Antonio location;
- **Krispy Kreme**, which opened its third local store;
- Wireless retail stores such as **Verizon** and **T-Mobile**;
- Dollar stores, especially **Dollar Tree** and **Dollar General**;
- Banks, which are opening freestanding branches;
- Restaurants, including **Chipotle**, which opened during the first half of the year, **Johnny Rockets**, **Taco Tote** and

Johnny Carino's;

- **Waldenbooks**, which opened on the South Side in South Park Mall.

New retailers enter market

New retailers in the market include:

- **Save-A-Lot**, which opened its first local store in **Fredericks Circle Shopping Center**;
- **Alamo Drafthouse Cinema**, which located in the former Westlakes 9 movie complex;
- **Sam Ash Musical Megastore**, which located in **Pavilions North Shopping Center**, across from North Star Mall;
- **Ben & Jerry's**;
- **Ashley Furniture HomeStore**, which opened its first area store at Loop 1604 and IH-35.

The market experienced a handful of closings, including JCPenney, which will close its anchor store at Windsor Park Mall this fall, when it opens a new location in Rolling Oaks Mall; Just for Feet, which closed two local stores as it went out of business nationwide; and Eddie Bauer, which closed in Bandera Pointe.

Rents remain stable

Retail rents remain strong in San Antonio, largely due to stable occupancy.

Overall, Class A rents for a small in-line spaces in anchored projects range from approximately \$20 to \$22 per square foot per year. In the strongest areas, Class A rents reached the mid- to high \$20s. In the more mature in-fill areas, rents can reach as high as the \$30 range.

Class B rates typically are in the \$14-18-per-square-foot range, and Class C rates are in the \$9-to-14 range. The retail market's continued strength, as well as the large amount of planned retail space, is largely due to the area's economy and, specifically, its housing market.

In 2003, San Antonio showed the best job gain percentage of any large Texas city. The job growth will continue to gain as the new Toyota Motor Corp. plant gets under way in south San Antonio. The plant will build Toyota's full-size pick-ups.

Job market leads Texas

For 2004, San Antonio continues to have one of the strongest job markets among Texas' major metropolitan areas. As of mid-year, the area's unemployment rate was 5.6 percent, down from 6.4 percent a year ago.

The housing market set records in 2003 with a double-digit increase in starts, and it continues to report strong activity in 2004.

For the remainder of 2004, the retail market can expect steady leasing and an increase in construction if planned projects get under way. The market should end the year on a positive note, then move into 2005 with a period of increased retailer demand.



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