UNITED STATES

HIGHLIGHTS

Retail Real Estate Back at a Crossroads as Global Optimism Subsides

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MARKET INDICATORS

	Q2 2012	Q3 2012*
VACANCY	↑	↑
NET ABSORPTION	↑	↔
CONSTRUCTION	↑	↑
RENTAL RATE	↓	↓

* Projected, relative to prior period

U.S. RETAIL MARKET *
SUMMARY STATISTICS, Q2 2012

Vacancy Rate: 10.5%
Change from Q1 2012: +0.2%

Under Construction:
6.1 Million Square Feet

New Supply:
3.7 Million Square Feet

Net Absorption:
3.6 Million Square Feet

ASKING RENTS PER SF
Shopping Center Space: $15.32
Change from Q1 2012: –$0.18

* Select Colliers Markets
Source: CoStar

- Eight of our nine 2012 "Trends to Watch" are readily observable as the U.S. economy continues on its slow path to recovery.
- In line with the broader S&P 500, retailers posted generally upbeat Q2 results, although their investments in price competition have pressured margins and forced some downward revisions to 2H 2012 earnings guidance.
- U.S. retail real estate continues to benefit from international investors' "flight to quality and safety" as individuals and funds allocate more capital to REITs, portfolios of single-tenant net lease assets, and trophy properties.
- We expect Back-to-School revenues to come in at or above plan for most retail categories, but are adopting a "wait and see" preliminary attitude for Holiday 2012 pending the outcome of a potential dockworkers' strike that could affect delivery of seasonal merchandise.

The past several months' global headlines have done little to put business or consumer confidence at ease. The slowing Gross Domestic Product (GDP) growth rate, reflecting a decline in productivity and shipments, highlights a U.S. economy that is still growing but at a barely discernible pace—and far too slowly to accelerate recovery. European austerity measures and markedly slower growth in China (although still strong by current Western levels) have begun to show up in U.S. corporate earnings as lower revenues reflect softer demand. However, the U.S. economy has experienced few material changes in recent months and, while still fragile, its trajectory appears to have stabilized after a slowdown this spring. It is true that ongoing uncertainty in governments' ability to make timely policy decisions and the to-be-determined outcome of the U.S. presidential election remain a pervasive risk for businesses and investors. Yet improving trends in housing, manufacturing, commercial lending, and retail CMBS issuances warrant more confidence in the retail sector as it moves closer to stabilizing at a new, lower, and, we hope, more comfortingly predictable baseline level of growth.

HIGHEST RETAILER	REPORTING PERIOD	SAME-STORE-SALES GROWTH %
Zumiez	Q1 2012	12.9
Chipotle	Q2 2012	8.0
Whole Foods	Q3 2012	8.0
Neiman Marcus	Q4 2012	7.9
Panera Bread	Q2 2012	7.1

LOWEST RETAILER	REPORTING PERIOD	SAME-STORE-SALES GROWTH %
Ruby Tuesday	Q4 2012	(5.0)
hhgregg	Q1 2013	(5.3)
Walgreens	Q3 2012	(6.6)
GameStop	Q2 2012	(9.3)
JCPenney	Q2 2012	(21.7)

ECONOMIC RECAP

Colliers Retail's Bellwether Economic Trends Scorecard (see chart below) reflects an economy that continues to grow, but at a maddeningly slow pace. As a result of this spring's global slowdown, nine of our twelve indicators declined during Q2, headlined by U.S. GDP which was reduced to an annualized pace of 1.7%. From a retail trading partner perspective, the twin growth engines of China and Germany reflected broader economic weakness. China's export-driven GDP growth rate dropped to 7.6% as domestic demand slowed—a trend we expect to continue in 2H 2012. Germany's Q2 GDP growth rate remained positive at 0.3%, narrowly beating expectations. Worryingly, though, forward-looking sentiment dropped precipitously as the country braces for either of Europe's two painful outcomes: a full or partial Eurozone break-up or a comprehensive plan for fiscal union. Provided that European leaders muster the political will to expedite a workout strategy (a big "if"), the latter plan appears better for long-term stability. It would develop a central budget control (similar to the U.S. FDIC) and a central taxing authority while shifting power away from national labor unions. In the interim, though, European leaders' wavering political wills compound uncertainty and confusion even as the escalating crisis moves the continent ever closer to some resolution.

Despite their downward trend overall, our preferred economic indicators still reflect weak growth rather than weak contraction here in the U.S. Historically, they correlate well with business cycles: One of our favorites, the National Restaurant Performance Index (RPI), has registered expansionary readings (RPI > 100) since August 2011. As initial data from July roll in, several of our indicators—retail sales, auto sales, and personal income—have rebounded and may even trend higher in Q3. We believe that the U.S. will narrowly escape being pulled into Europe's recession; however, spillover from global issues will continue to mitigate strengthening fundamentals in the U.S. economy for the next several years. Presidential election politics will likely overshadow policy-making for at least the next three months, with no real change to economic strategy until Q2 2013.

BELLWETHER ECONOMIC TRENDS

TREND	VERSUS PRIOR QUARTER
Chicago Fed Nat'l Activity Index (CFNAI)	↑
GDP U.S.	↓
GDP Hong Kong	↓
GDP Germany	↓
NFIB Small Business Optimism Index	↓
National Restaurant Performance Index	↓
Citibank Economic Surprise Index (CESI)	↓
CMBS retail delinquencies	↑
National Unemployment Rate	↑
Retail Sales growth (Commerce Dep't)	↓
Personal Income (% growth)	↑
Auto sales (annualized pace in millions)	↔

Sources: National Restaurant Association, Fitch, Commerce Department, Citibank, National Federation of Independent Businesses

POPULATIONS OF FASTEST-GROWING U.S. LARGE CITIES*, 2010-2011

RANK	CITY	% CHANGE
1	New Orleans, LA	4.9%
2	Round Rock, TX	4.8%
3	Austin, TX (tie)	3.8%
	Plano, TX (tie)	3.8%
	McKinney, TX (tie)	3.8%
	Frisco, TX (tie)	3.8%
7	Denton, TX	3.4%
8	Denver, CO	3.3%
9	Cary, NC	3.2%
10	Raleigh, NC (tie)	3.1%
	Alexandria, VA (tie)	3.1%
	Tampa, FL (tie)	3.1%
13	McAllen, TX (tie)	3.0%
	Carrolton, TX (tie)	3.0%
	Atlanta, GA (tie)	3.0%

* Populations greater than 100,000
Source: U.S. Census Bureau, Commerce Department

HOUSING MOVING OFF THE BOTTOM

Uneven data from the housing sector (one of the two main drivers of retail sales) suggest slowly improving conditions even if their path feels like "two steps forward, one step back." Sales and construction levels are increasing, although volumes remain less than one-third the peak levels of the 2.2-2.3 million annualized units built between 2004 and 2006. Lower prices, ongoing household debt reduction, and extended low interest rates have expanded the pool of potential buyers as the ratio of home prices to incomes is returning to pre-recession levels. Concurrently, single-family inventory levels are declining as banks accelerate foreclosure processing and investors amass large property portfolios and convert them to rental units.

Improvement in housing fundamentals continues to vary widely by region. After rising from fewer than 20 Metropolitan Statistical Areas (MSAs) in mid-2011 to more than 100 in April 2012, The National Association of Home Builders/First American Improving Markets Index (IMI) dropped by 20% in Q2. Texas remains the state with the most improved housing markets (12) as it benefits from so many cities' population growth in the IMI (see chart above). Florida ranked second with seven MSAs. Positive momentum in agriculture and manufacturing propelled several Midwest states (Michigan, Minnesota and Indiana) into the national top five. We expect home prices to increase further by year-end, but it's important to separate out the impact of increased demand/not enough new supply versus the effect of more expensive foreclosure inventories (as many foreclosed homes selling for less than $250,000 have already moved through the system). In whatever form they take, however, improving housing conditions bode well long-term for retail sales as expenditures become necessary to furnish newly-occupied multifamily and single-family residences.

U.S. CONSUMERS RETURN AFTER SPRING RETREAT

Consumer confidence had a huge impact on retail sales trends. U.S. retail and food services ended the quarter with three successive months of declines before moving 0.8% higher in July. Higher fuel costs accounted for some of the modest increase, but revenues were boosted by consumers' bargain-hunting as retailers rushed to clear stale spring inventories that weren't inspiring enough at full price to separate shoppers from their money. Online shopping continued its torrid growth trajectory: Digital marketing firm comScore reported that overall Q2 online sales reached $43.2 billion, up 15% year-over-year although slower than the 17% pace recorded in Q1 2012.

Retail sales slipped in Q2 because shoppers reacted to employment worries by allocating more of their modestly higher personal incomes into savings, not spending. Anecdotal evidence also suggests that, within higher income brackets, increased savings rates reflect budgeting for future higher tax liability if reform programs begin during the next year. While households still appear reluctant to return to pre-recession spendthrift ways, the relative resiliency of retail sales demonstrates a willingness to spend that generates outsized sales growth for certain retailers, and outsized profits for a smaller subset that is better managing its margins. Consumers' current spending habits reward chains that either: 1) offer best-in-class experiences or product quality where buyers will selectively pay full price; or 2) offer a price-focused offering that aligns with the value that consumers assign a particular commodity item. Our quarterly Retailer Report Card, featured later in this report, highlights categories that continue to outperform in this bifurcated selling environment.

CURRENT CONDITIONS

What follows is an overview of shopping center operating results for Colliers U.S. retail markets, along with a short discussion of a few trends we've been tracking this quarter that are impacting our national outlook.

Second quarter average shopping center rents came in at $15.32/PSF, trending down both quarter-over-quarter and year-over-year. Among individual property markets, Hawaii remains the most expensive for retail, with an average rental rate of $34.03/PSF, followed by San Francisco ($27.65), San Jose/South Bay ($26.95), Miami-Dade County ($23.25) and Long Island ($23.14). Among these perennial leaders, the best keep getting better: Hawaii, San Jose and Miami also notched some of the largest year-over-year percentage rental rate gains. By contrast, average rental rates declined by more than 5% in Columbia, SC (9.5%), Columbus, OH (9.1%) and Portland, OR (8.8%). For Q3, we are projecting a slightly lower rental rate nationally as landlords move to fill empty spaces in advance of the holidays.

Construction levels rebounded during the quarter, with approximately 6.3 million square feet of new projects underway as compared with 4.9 million in Q1 2012 and 3.3 million in Q4 2011. Houston (1.4 million SF) and Minneapolis (1.2 million SF) accounted for more than one-third of the national total, even as eleven of our 61 markets recorded no activity. The Mortgage Bankers Association reported that commercial lending has increased significantly over the past two quarters: Retail originations rose 25%. New projects frequently demonstrate much-needed creativity in adaptive reuse.

The Q2 national vacancy rate ticked up slightly, moving from 10.3% to 10.5%. San Francisco (4.2%), Hawaii (4.3%), Long Island (4.9%), Miami (5.2%), and Oakland/East and Pittsburgh (tied at 6.2%) recorded the lowest vacancies. On the other end of the scale, five markets—West Michigan, Phoenix, Detroit, Cincinnati and Reno—continue to experience vacancy rates above 15%. There (and elsewhere), vulnerability to store closures and protracted re-leasing efforts accentuate the advantage enjoyed by stronger retail assets. In South Florida, for instance, unanchored and "C" quality spaces are getting leased in Miami (vacancy rate 5.2%) while elsewhere they lie vacant (Broward County, 9.2% and Palm Beach, 10.5%).

We believe that space absorption is stronger than the vacancy numbers suggest. Institutional investment manager RREEF wrote in a recently-released white paper that "…'average' vacancy and rent figures are distorted by the extremely poor performance of a relatively few failing centers…When failing shopping centers (defined as having a vacancy rate greater than 40%) are excluded, the measured national vacancy rate decreases by almost 300 basis points—an adjusted figure more consistent with top-performing property owners that allows a more realistic comparison with institutional-quality properties."

CONSUMERS' "NEEDS" DRIVING BACK-TO-SCHOOL SPENDING

Close to a dozen entities released predictions for Back-to-School (BTS) results, with forecasts generally pointing to: 1) stronger comparable sales growth than 2011's; 2) a longer shopping season, with families both starting earlier and finishing later; and 3) economic uncertainty creating increased price sensitivity and awareness of "essential"

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UNITED STATES | SHOPPING CENTER MARKET STATISTICS

MARKET	INVENTORY* JUNE 30, 2012 (SF)	NEW SUPPLY YTD 2012 (SF)	UNDER CONSTRUCTION (SF)	VACANCYRATE JUNE 2011 (%)	VACANCY RATE JUNE 2012 (%)	YTD ABSORPTION 2012 (SF)	QUOTED RENT JUNE 2012 (US$PSF)	YOY CHANGE IN RENT (%)
Atlanta, GA	141,664,066	179,972	28,536	14.8%	14.8%	424,704	$12.87	(2.57)
Bakersfield, CA	9,328,857	20,617	0	8.5%	10.3%	(74,715)	$15.71	3.70
Baltimore, MD	45,528,971	12,810	282,275	7.6%	8.3%	(31,190)	$18.35	(1.18)
Birmingham, AL ***	26,964,104	0	0	14.0%	13.2%	239,468	$8.72	(5.01)
Boise, ID	12,956,958	0	8,260	11.6%	11.7%	7,030	$12.08	0.58
Boston, MA	86,538,066	86,250	17,000	7.0%	6.8%	243,732	$15.03	(2.02)
Charleston, SC	16,371,944	2,800	0	9.0%	9.6%	(69,722)	$13.48	37.83
Charlotte, NC	51,091,669	11,797	67,667	11.8%	12.4%	(311,584)	$12.73	(0.39)
Chicago, IL	159,555,492	23,504	6,083	12.3%	12.1%	98,800	$15.56	(0.51)
Cincinnati, OH	35,388,130	12,000	12,000	14.0%	15.1%	(12,255)	$10.65	(3.09)
Cleveland, OH	59,659,757	20,000	20,000	13.7%	13.8%	(119,736)	$10.50	(5.41)
Columbia, SC	15,032,733	0	0	8.4%	9.0%	9,677	$10.20	(9.49)
Columbus, OH	31,820,036	40,891	40,891	13.4%	11.2%	206,767	$11.57	(9.11)
Dallas/Ft. Worth, TX	149,379,701	239,362	239,362	13.9%	13.7%	896,145	$13.22	1.46
Denver, CO	71,026,432	54,037	54,037	10.1%	10.1%	168,161	$13.83	(1.28)
Detroit, MI	71,093,013	83,617	83,617	15.6%	15.8%	131,924	$12.50	(1.19)
Fresno, CA	25,088,782	15,175	15,575	11.9%	12.3%	94,124	$13.84	1.99
Ft. Lauderdale-Broward, FL	48,643,603	93,894	93,894	10.8%	9.2%	266,174	$17.28	(1.31)
Green Bay, WI	6,666,173	0	0	14.7%	14.9%	8,798	$9.92	(0.50)
Greenville/Spartanburg, SC	29,649,197	10,500	10,500	11.0%	10.5%	(161,567)	$9.09	(1.62)
Hartford, CT	42,547,179	33,552	33,552	8.7%	9.1%	(138,955)	$13.24	(1.49)
Hawaii	17,178,112	0	0	3.9%	4.3%	51,810	$34.03	7.49
Houston, TX **	141,241,587	246,791	1,400,000	7.8%	7.2%	156,383	$14.45	(3.54)
Indianapolis, IN	40,100,056	7,000	7,000	12.6%	11.7%	(44,236)	$11.57	(1.45)
Jacksonville, FL	38,114,557	139,616	139,616	12.4%	13.1%	(303,331)	$13.09	(3.68)
Kansas City, MO-KS	38,942,805	0	0	14.5%	14.0%	160,650	$11.79	(2.16)
Las Vegas, NV **	44,207,894	195,000	160,000	12.5%	11.6%	314,848	$16.80	(1.35)
Little Rock, AR	15,018,554	0	0	8.6%	7.9%	53,448	$10.15	5.62
Long Island, NY	52,540,869	0	0	5.2%	4.9%	121,708	$23.14	(3.54)
Los Angeles – Inland Empire, CA	86,098,585	67,784	67,784	12.1%	11.5%	274,420	$17.37	(1.59)
Los Angeles, CA	151,019,770	66,128	66,128	6.7%	7.2%	(352,424)	$22.38	(2.61)
Louisville, KY	27,871,311	27,428	27,428	11.5%	10.9%	(33,646)	$11.30	2.73
Memphis, TN	30,670,737	11,500	11,500	12.8%	13.6%	90,004	$10.66	(1.48)
Miami-Dade County, FL	45,244,034	99,323	99,323	6.2%	5.2%	268,177	$23.25	5.39
Milwaukee, WI	33,923,415	33,820	33,820	12.8%	12.0%	90,337	$11.41	(5.31)
Minneapolis, MN **	43,865,467	57,100	1,161,660	n/a	7.7%	(85,894)	$8.50	n/a
Nashville, TN	30,049,130	43,200	43,200	10.8%	11.6%	(255,431)	$13.18	(2.08)
New Jersey – Northern	91,444,252	48,000	48,000	9.4%	9.8%	21,885	$19.57	(1.95)
Oakland/East Bay, CA	40,586,750	84,607	84,607	6.5%	6.2%	30,479	$21.33	(0.47)
Oklahoma City, OK	26,344,302	2,500	2,500	11.7%	10.5%	43,559	$10.00	(1.86)
Omaha, NE **	17,005,877	18,781	18,781	13.2%	13.5%	(120,642)	$11.10	2.68
Orange County, CA	64,704,728	0	0	6.7%	7.4%	(305,003)	$22.99	1.23
Orlando, FL	62,742,681	147,113	147,113	12.0%	12.2%	(200,490)	$14.70	(4.11)
Palm Beach County, FL	35,145,334	0	0	10.9%	10.1%	68,518	$16.82	(5.82)
Philadelphia, PA	149,837,165	331,378	331,378	9.8%	9.8%	248,765	$14.51	(0.27)
Phoenix, AZ	104,097,719	78,000	78,000	16.1%	16.3%	800,659	$13.94	(4.52)
Pittsburgh, PA	32,439,369	168,539	168,539	7.0%	6.2%	225,743	$11.98	5.36
Portland, OR	34,913,630	0	0	8.3%	8.7%	(160,124)	$16.42	(8.78)
Raleigh/Durham/Chapel Hill, NC	38,203,714	12,209	12,209	8.8%	9.3%	61,122	$15.10	5.37
Reno, NV	10,338,544	0	0	15.7%	15.1%	(138,577)	$15.58	(0.26)
Sacramento, CA	51,064,904	17,000	17,000	13.9%	13.5%	203,171	$16.46	(3.74)
San Diego, CA	53,339,461	2,500	2,500	7.9%	8.0%	2,784	$20.81	(2.44)
San Francisco, CA	9,440,844	0	0	5.3%	4.2%	(17,640)	$27.65	(1.46)
San Jose/South Bay, CA	30,432,275	41,000	41,000	7.6%	7.5%	(240,382)	$26.95	8.98
Savannah, GA	7,249,333	0	0	9.1%	8.4%	(26,493)	$13.72	(2.07)
Seattle/Puget Sound, WA	58,091,744	281,234	281,234	10.3%	9.8%	571,882	$18.30	0.83
St. Louis, MO	55,138,884	22,243	22,243	10.8%	11.3%	(26,007)	$12.56	1.13
Stockton, CA	19,471,441	134,240	134,240	11.5%	11.6%	67,799	$15.23	(1.68)
Tampa/St Petersburg, FL	87,038,244	15,300	15,300	11.1%	10.5%	144,952	$13.48	1.81
Washington, D.C.	81,127,022	137,937	137,937	7.4%	7.3%	94,758	$22.85	3.25
West Michigan	32,391,991	7,700	7,700	18.1%	17.8%	(123,477)	$9.36	(2.60)
Westchester County, NY	50,405,273	259,664	259,664	6.6%	7.4%	33,383	$18.84	1.13
Totals	**3,217,562,300**	**3,745,413**	**6,050,379**	**10.6%**	**10.5%**	**3,643,227**	**$15.32**	**(0.00)**

* Community and Neighborhood Centers ** Select Colliers offices track their own market data *** New market added to sample this quarter; Source: CoStar, Colliers Research

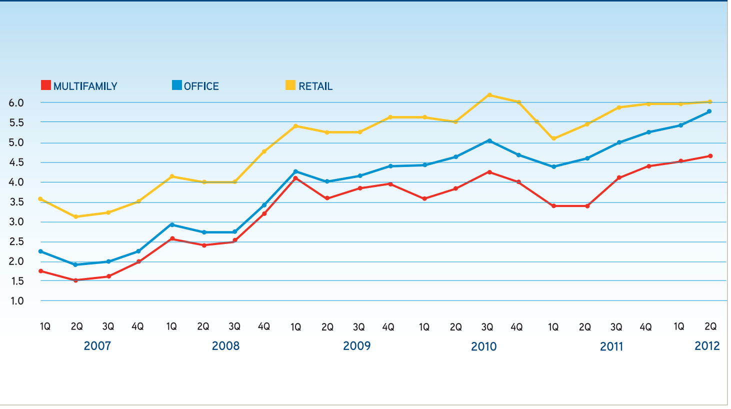
versus discretionary items. Year-over-year sales growth is expected to receive a boost from the 2007 baby "boomlet": There are more children entering kindergarten this year than at any point since the late 1950s. The extended shopping season, a.k.a. "creep," allows families to avoid feeling pressured, making it easier to budget and creating flexibility to wait for inevitable deals and promotions. As a result, BTS retail standouts will successfully parlay low prices to steal market share from competitors; Citibank expects Walmart's price leadership to drive the chain's BTS sales outperformance. We see the retail marketplace as increasingly competitive and agree with the NPD Group's assessment that "every retailer won't feel [price pressure], but they'll have to earn [their sales results]."

KEEPING CLOSE WATCH ON RETAILER MARGINS AND SUPPLY CHAINS

Colliers' quarterly Retailer Report Card (see pages 6-7) reveals generally positive trends in same-store sales growth for the April-June calendar period. Reviewing the numbers by product category, discounters and restaurants, especially those in the quick-serve segment, still lead their peers even as they hit challenging year-over-year comparisons. Chipotle (+8.0%) and Panera (+7.1%) landed among our sample's top five, as did Whole Foods and Neiman Marcus, leaders in their respective high-end categories. Retailers' underperformance reflected either company-specific issues (Walgreens suffering from ESRX fallout, JCPenney moving through its turnaround) or the current challenges faced by the commoditization of the consumer electronics sector (Best Buy, GameStop, hhgregg). Buoyed by sales growth, and with their very conservative initial 2012 guidance, more than three-quarters of retailers within our broader, 200-retailer sample felt comfortable either maintaining or raising their full-year earnings outlook (of those that specifically addressed the topic).

What these quarterly sales comps don't reveal is margin pressure, which impacted profits and will become an increasingly important issue in the next 2-3 quarters even with lower commodities price inflation. Sliding revenues during the 2008-09 recession forced companies to restructure operations to stay profitable; their efforts were rewarded as shoppers and diners returned when economic conditions began to improve. Ongoing employment uncertainty and low growth in personal incomes have kept consumers' focus on price,

12-MONTH ROLLING CAP RATE SPREADS OVER TREASURY YIELDS, 2007-2012



Source: Reis

though, so companies must now embark on new programs for expense-side management, this time focused on inventory and supply chains. Weaker sell-throughs this spring swelled inventories in June (+0.1% overall, but +0.6% for retailers), which then led to higher July retail sales but lower margins as stores cleared their stock. Now more than ever, inventory management is the key to retailer profitability. Those that want to stay in business have to further streamline their supply chains. Those that believe they will meet or exceed Wall Street expectations are already doing so. One example: In a thin-margin business, retailers (both brick-and-mortar and pure-play online) that opt to build distribution centers served by rail and ports can parlay an advantage over those that rely on ground transport.

As retail companies dedicate more capital to distribution system upgrades, we continue to observe the convergence of retail and industrial real estate. Increasingly integrated property portfolios and networks offer opportunities for cost efficiencies but make retail far more sensitive to disruptions in global supply chains. Since the early spring we have been monitoring negotiations between the United States Maritime Alliance and the International Longshoremen's Association, whose dock workers staff more than a dozen of the country's largest ports. As this report went to press, contract negotiations between the two sides had broken down again in advance of a September 30 strike deadline. Industry concern about a pre-Holiday ports logjam—just as foreign-sourced merchandise reaches the U.S.—has retailers scrambling either to re-route cargo to non-ILA-staffed ports or secure expensive (read: margin-killing) back-up options such as drop-shipping to ensure that stores have product in stock to sell. We will provide a detailed update on the situation, and how different categories of retailers have already been impacted financially (whether or not the strike actually occurs), in our Q3 retail report.

FOREIGN INVESTMENT IN U.S. REAL ESTATE SURGES

U.S. real property assets continue to attract a more global collection of investment capital that is shifting its funds away from Europe and other markets perceived as risky. Blue-chip REITs have been a popular indirect investment vehicle for domestic investors, but in recent months REITs have seen increased investor interest from Asia, especially Japan. Trade association NAREIT projects that the REIT industry is on track this year to meet or exceed the record $51 billion it raised in 2011, mostly through secondary offerings. REITs are redeploying proceeds received from secondary offerings and asset sales (e.g., rotating low-performing assets out of their portfolios, such as the Starwood Capital/Westfield transaction) to solidify control of and enhance/redevelop their investment-grade retail spaces.

For direct investments, stabilizing property fundamentals and the ongoing availability of inexpensive debt has further accelerated both the pace of transactions and cap rate compression. With the ever-hot single-tenant net lease category, cap rates for some product types have fallen to levels not seen since 2005-06. Data from Reis illustrate that 12-month rolling cap rate spreads between U.S. Treasuries and property types reached 5-year highs in Q2, with retail spreads the widest (see chart to left).

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UNITED STATES | RETAILER REPORT CARD

RETAILER	MOST RECENT REPORTING PERIOD	% CHG IN Y-O-Y SALES (MOST RECENT QTR)	% CHG IN Y-O-Y SALES PREVIOUS QTR	COMMENTS	OUTLOOK
AUTO					
Advance Auto Parts	Q2 2012	(2.7)	2.1	weak demand, esp. in cold-weather markets; consumers postponing maintenance	●●●○
AutoZone (U.S.)	Q3 2012	3.9	5.9	23rd consecutive quarter of double-digit EPS growth	●●●●
O'Reilly Auto Parts	Q2 2012	2.5	7.4	strong May results balanced out weaker June; working to drive more DIY traffic	●●●●
Pep Boys	Q1 2012	(2.8)	0.8	stumbled on lower product, service revenues, but reiterated new store program	●●●○
DEPARTMENT STORES					
Belk	Q1 2012	7.4	5.0	sportswear, home exceeded expectations; expanding private label men's lines,	●●●●
Dillard's	Q2 2012	3.0	5.0	better margins, 8 quarters of consecutive SSS growth; ladies' shoes, accessories led Q2	●●●○
JCPenney	Q2 2012	(21.7)	(18.9)	effects of fewer marketing dollars as company continues its transformation	●●○○
Macy's	Q2 2012	3.0	4.4	280 stores currently fulfilling online orders vs 23 at end of 2011	●●●●
Nordstrom	Q2 2012	4.5	8.5	raised full-year guidance, plans for 230 Rack stores by 2016	●●●●
Neiman Marcus	Q4 2012	7.9	6.7	women's contemporary sportswear, shoes drove stores (+7.9%) and Direct (+18.8%)	●●●○
Saks Fifth Avenue	Q2 2012	4.7	4.8	loss on costs for new fulfillment center, store closings; expecting higher 2H margins	●●●○
Sears (U.S.)	Q2 2012	(2.9)	(1.0)	operating loss narrows by nearly 50% (~$80M); further asset liquidations coming	○○○○
The Bon Ton	Q2 2012	0.1	(1.3)	losses widening with lower revenues and ongoing debt-reduction	●○○○
DISCOUNTERS					
Big Lots	Q1 2012	(0.8)	3.4	comps had been projected to be 2%-4%; reduced full-year earnings guidance	●●○○
Costco (U.S., with/excl. fuel)	Q3 2012	5.0/5.0	8.0/7.0	better-than-expected results driven by price investments	●●●●
Dollar General	Q1 2012	6.7	6.5	DG Market, DG Plus, and California, Massachusetts expansions driving growth	●●●●
Dollar Tree	Q2 2012	4.5	5.6	higher traffic drove Q2 comps; customers responding well to Deals brand	●●●●
DSW	Q1 2012	7.6	5.6	reiterated FY 2012 outlook that's short of expectations	●●●○
Family Dollar	Q3 2012	5.0	4.5	missed on consensus SSS comp, but future upside likely from merchandising	●●●●
Kohl's	Q2 2012	(2.7)	0.2	acccessories, men's apparel, footwear led results; inventory levels improving	●●●○
Ross	Q2 2012	7.0	9.0	sales strength in Juniors, Shoes, and the Florida market; 80 new stores by year-end	●●●●
Sam's Club (U.S., excl. fuel)	Q2 2012	4.5	5.3	comps higher on both average traffic and ticket; strong renewals rate continues	●●●●
Target	Q2 2012	3.1	5.3	another strong quarter; all eyes on website ops as high-profile 2H promotions launch	●●●●
TJ Maxx	Q2 2013	7.0	8.0	Q2 EPS grew 25%; traffic up significantly in all divisions worldwide	●●●●
Tuesday Morning	Q4 2012	0.2	(3.2)	average ticket rose as traffic fell; search underway for new CEO	●○○○
Walmart (U.S.)	Q2 2013	2.2	2.6	July was the quarter's strongest sales comp month, bodes well for BTS revenues	●●●●
GROCERY					
Harris Teeter	Q3 2012	3.7	3.9	swapped portfolios of N.C. stores with Lowes Foods; converting three to new format	●●●●
Kroger (excl. fuel)	Q1 2012	4.2	4.9	34 consecutive quarters of positive IDS; increased 2012 earnings guidance	●●●●
Safeway (with/excl. fuel)	Q2 2012	1.9/0.8	1.6/flat	digital marketing program helping to combat discounter competition	●●●○
SuperValu (Retail food)	Q1 2013	(3.7)	n/a	Jewel-Osco and Save-A-Lot potential divestiture options as corporate profits slide	●○○○
Weis Markets	Q2 2012	0.4	0.9	low debt load gives them an advantage over weaker competitors	●●○○
Whole Foods	Q3 2012	8.0	9.5	transactions +7%; on track to reach eventual corporate goal of 1,000 stores	●●●●
HOBBY					
Barnes & Noble	Q1 2013	4.6	4.5	losses narrowed on both e-book and hard-copy revenues, effective cost controls	●●○○
Best Buy (U.S.)	Q2 2013	(3.9)	(3.7)	quarterly profits down 91%, suspended earnings guidance, named new CEO	●○○○
Cabela's	Q2 2012	4.7	4.2	new '12 stores have all exceeded expectations; real estate program accelerating	●●●●
GameStop (global)	Q2 2012	(9.3)	(12.5)	starting to gain traction in shift to digital product; potential buyout candidate?	●○○○
hhgregg	Q1 2013	(5.1)	(0.7)	changes to cost structure expected to show up in better results later this year	●●○○
Office Depot (N. America)	Q2 2012	(4.0)	(6.0)	operating loss widens; lower computer sales hurting revenues	●○○○
OfficeMax (retail)	Q2 2012	(1.8)	(2.1)	strong Q2 beat estimates; resumed quarterly dividend; more focus on service offerings	●●○○
PetSmart	Q2 2012	7.0	7.4	7% increase in service revenues; quarter transaction counts move higher	●●●●
Staples (N. America)	Q2 2012	(2.0)	flat	strength in non-office supply products; hurt by weak computer and core supply sales	●●●○

UNITED STATES | RETAILER REPORT CARD (CONTINUED)

RETAILER	MOST RECENT REPORTING PERIOD	% CHG IN Y-O-Y SALES (MOST RECENT QTR)	% CHG IN Y-O-Y SALES PREVIOUS QTR	COMMENTS	OUTLOOK
HOME					
Aaron's (corporate-owned)	Q2 2012	6.1	4.8	record quarter as it nears its 2,000th store; target market = more than 50% of U.S. pop.	●●●●
Bed Bath & Beyond	Q1 2012	3.0	6.8	higher coupon redemption and sales of lower-margin items hurt gross profits	●●●●
Home Depot (U.S.)	Q2 2012	2.6	6.1	Pro, service businesses led Q2 growth; 35% of mobile sales pick up orders in store	●●●●
Lowe's (U.S.)	Q2 2012	(0.2)	2.7	earnings beat expecations as revenues miss	●●●○
Pier 1	Q1 2013	7.2	10.3	new e-commerce-enabled website launched July 28	●●●●
Williams-Sonoma, Inc.	Q1 2012	5.4	7.0	Pottery Barn and West Elm, along with direct-to-customer, drove growth	●●●●
PHARMACY					
CVS	Q2 2012	5.6	8.4	raised and narrowed FY guidance; still projects it will retain ~50% of WAG transfers	●●●●
Rite Aid	Q1 2013	2.5	3.0	customers responding well to loyalty program rollout	●●○○
Walgreens	Q3 2012	(6.6)	(1.5)	ESRX dispute settled in mid-July; debt downgrades following Alliance Boots deal	●●○○
RESTAURANTS					
Applebee's	Q2 2012	0.7	1.2	completed 4-year refranchising program for company-owned restaurants	●●○○
BJ's Restaurants	Q2 2012	4.4	3.3	envisions eventual growth from 125 locations to 425+ nationwide	●●●●
Bob Evans	Q1 2013	1.0	(0.6)	slight miss on top and bottom-lines, but earnings growth is accelerating	●●○○
Brinker Int'l (system-wide)	Q4 2012	2.1	4.2	gaining incremental market share, improving margins; reinforced Maggiano RE growth	●●●●
Buffalo Wild Wings (owned)	Q2 2012	5.3	9.2	Canadian expansion continues; new locations planned in Puerto Rico/Middle East	●●●●
Burger King (U.S./Canada)	Q2 2012	4.4	4.2	results driven by company's largest menu expansion in its history	●●●●
Cheesecake Factory (total)	Q2 2012	1.7	2.4	profits up in Bakery business; testing smaller Grand Luxe prototype	●●●○
Chipotle	Q2 2012	8.0	12.7	moving closer to 100% pasture-fed dairy; most resaurants use some local produce	●●●●
Darden (Basic/Specialty)	Q1 2013	(1.9)/2.7	4.1/5.8	Specialty drove results as Olive Garden/Red Lobster promotions were less effective	●●●●
Denny's	Q2 2012	0.8	2.4	diners like new core menu, "Build Your Own Pancakes;" looking to add int'l locations	●●○○
Domino's	Q2 2012	1.7	2.0	store redesigns to reflect higher percentage of diners who grab food to go	●●●●
Dunkin' Donuts (U.S.)	Q2 2012	4.0	7.2	boost from cold beverages, K-Cups, promotional Bakery/Breakfast sandwiches	●●●●
Einstein Noah	Q2 2012	1.3	1.1	fewer transactions but higher avg. ticket driven by more catering, revamped mix	●●○○
Jack in the Box (system-wide)	Q3 2012	2.8	4.2	breakfast remains strongest day part; continued focus on speed of service	●●●○
Kona Grill, Inc.	Q2 2012	2.3	8.7	record Q2 profit margin and EPS; sushi remains a strong product differentiator	●●●●
Krispy Kreme (company stores)	Q1 2013	2.1	8.3	announced 5-year franchise plan to develop 80 stores in India	●●●●
McDonald's (U.S.)	Q2 2012	3.6	8.9	continued strength in everyday value items; popular additions to McCafe menu	●●●●
Mimi's Café	Q1 2013	(3.3)	(3.1)	SSS comps improved each month of the quarter; company add $1M to marketing	●○○○
Mitchell's Fish Market	Q2 2012	2.3	flat	new leadership team already having positive results	●●●○
Panera Bread	Q2 2012	7.1	7.5	EPS growth > 20% in nine of the past 10 quarters; signature sandwich sales up 22%	●●●●
Papa John's (N. America)	Q2 2012	5.7	1.1	ACSI ranked company #1 for customer satisfaction among all limited-service chains	●●●●
Qdoba (system-wide)	Q3 2012	2.1	3.0	more promotional activity drove higher SSS growth (+3.3%) company-owned locations	●●●○
Ruby Tuesday, Inc.	Q4 2012	(5.0)	(4.2)	rolling out new TV marketing plan, expecting it to drive positive SSS in Q1 2013	●●○○
Ruth's Chris	Q2 2012	6.0	3.7	10 straight quarters of customer traffic growth; higher prices drove much of comp gain	●●●●
Starbucks (U.S.)	Q3 2012	7.0	8.0	strong quarter, but shook the market with global profit warning	●●●●
Yum! Brands (U.S.)	Q2 2012	7.0	5.0	Doritos Locos Tacos launch led to Taco Bell +13% SSS; breakfasts coming in 2014	●●●●
SPECIALTY APPAREL					
Ann Taylor	Q2 2012	4.7	3.8	profits up 24%; Ann Taylor (+5.6%), Loft (+4.2%)	●●●○
The Buckle	Q2 2012	(0.8)	7.4	comps turned negative on tough year-over-year comparisons; good inventory levels	●●●●
Destination Maternity	Q3 2012	(2.4)	3.2	Q3 sales and earnings weaker than expected; continued focus on better assortments	●●○○
The Gap	Q2 2012	4.0	4.0	WWD called Q2 earnings call "(CEO's) most upbeat" since 2007	●●○○
H&M	Q2 2012	2.0	3.0	new 2013 store in Manhattan will be its largest globally	●●●●
Hot Topic	Q2 2012	3.9	7.5	successful "Hot Cash" promotion in July; unveiled new marketing plan for Torrid	●●●○
Limited Brands	Q2 2012	8.0	7.0	Victoria's Secret records its 10th consecutive quarter of SSS < 9%	●●●●
Men's Wearhouse	Q1 2012	3.8	9.3	fewer tux rentals, stronger revenues in "modern fit" lines; CFO left to join Francesca's	●●○○
Talbots	Q1 2012	(3.8)	flat	comps down on planned store closures; Sycamore taking them private	●●○○
Zumiez	Q1 2012	12.9	9.7	record Q1 results; monthly comps holding through summer even as peers slipped	●●●●

* Sources: Company Reports, Colliers Research

LOOKING AHEAD

We return to the "Magic 8-Ball" and see how we're doing with respect to the nine trends we forecast last winter in our 2012 outlook.

ANOTHER WILD RIDE FOR EQUITIES — "YES, DEFINITELY"

In the U.S., the Supreme Court's decision in late to uphold the Affordable Care Act resulted in the market's second-highest gain year-to-date, but subsequent activity has been muted. We expect equities volatility to remain elevated this fall as the Eurozone crisis intensifies and the scale and scope of potential liabilities become more clear.

MANUFACTURING SURGES — "OUTLOOK GOOD"

The production of motor vehicles and computers drove strong industrial growth in July, although the average trend for the past several months has been weaker than it was earlier this year. On balance, though, manufacturing indices remain in positive territory, and employment rates in geographic areas dependent on manufacturing activity continue to improve more quickly than the broader U.S. economy. We remain confident that manufacturing will continue to make a positive contribution to U.S. growth for the balance of 2012.

MORE SHOPPERS CHOOSING EXPERIENCE OVER PRICE — "ASK AGAIN LATER"

This Colliers 2012 prediction has been less evident in recent months as price competition is once again front and center. Shoppers are responding favorably to retailers' aggressive promotional activity to clear unsold inventory. Acosta, a national marketing research firm, recently reported that in the tight-margin grocery business, shoppers in all income brackets care more about price these days: increasing their purchase of buy-one-get-one-free items (88%), buying more items on sale (55%) and clipping coupons (50%). Earlier in this report, we acknowledged that BTS retail winners will be those who use low prices to steal market share from competitors. All indications are that Holiday 2012 will be more of the same.

RETAILERS ROLL OUT MORE LIMITED EDITIONS AND EXCLUSIVES — "YES, DEFINITELY"

The last few months have seen several major retail partnerships, each designed to generate excitement and build or expand existing brand equity. The two largest: 1) British fast-casual chain TopShop will operate 2,500 SF "stores-within-a-store" at 14 Nordstrom locations beginning in September; and 2) Target & Neiman Marcus have collaborated on a 50-item product line, to be available December 1 in both chains' stores and on their websites. We expect more limited editions and exclusives, for stocking unique product remains an effective strategy for differentiation. It can also justify slightly higher pricing, critical for maintaining margins going into the 2012 holiday season.

MORE STRATEGIC ACQUISITIONS — "YES, DEFINITELY"

Retailer acquisitions of competitors or complementary brands continues, but we're also seeing increasingly more partnerships between retail companies and technology brands. The mobile payment space has been especially active: The expansion of omni-commerce retailing and order fulfillment makes refining payment systems a smart investment. One prolific example: PayPal now works with 20+ national retailers, including Toys "R" Us, Barnes & Noble, Home Depot, Abercrombie & Fitch, Jamba Juice, and Advance Auto Parts. It will also soon be available as a payment option at any store that accepts the Discover card.

DISTRESSED PIPELINE BEGINS TO MOVE — "OUTLOOK GOOD"

It's already happening in residential. Banks have moved past their "robo-signing" issues and are accelerating their pace of foreclosure processing, allowing investors to scoop up portfolios of single-family homes and convert them to rental units. For commercial properties, the overall U.S. CMBS delinquency rate rose to 10.16% in June, reaching a new all-time high. Although some regions are reporting more volume and larger-scale successful workouts (such as the $175 million Brookfield/ORIX Capital resolution on Kerzner's flagship Atlantis resort), the bubble of 2005-07 vintage loans (maturing between now and 2017) is looming. Many of the loans now becoming REO have already extended one to three years, with Pooling and Serving Agreements (PSA) that vary between loan pools. Also, lenders are only considering forbearance when the borrower brings additional money for rollovers or new leases and stays current on debt service and has a plan that everyone agrees can be executed. A significant percentage of retail loans—Fitch recently put it at 31%—are likely not able to be refinanced at maturity because property values are still likely be less than the loan amount. One way or another, many struggling retail properties—and their owners—are moving toward a day of reckoning which, after a painful mark-to-market process, will ultimately aid local market recoveries and allow assets to be repositioned for better uses.

FOREIGN INVESTORS "HEART" THE U.S. — "YES, DEFINITELY"

U.S. retail is attracting an increasingly international concentration of investment capital. Asian, South American, and Australian investors, reacting to debt woes and higher risk pricing, are shifting more capital here from Europe and other developing markets. Despite stratospheric pricing, we have heard this summer from a number of our institutional investor clients that they still prefer trophy properties in gateway markets as safer bets than most available alternatives. International investors are also taking a closer look at portfolios of single-tenant net lease retail assets for the security of their long-term lease structures and bond-like cash flows. Within the past quarter, STNL deals involving foreign buyers have demonstrated some of the most extreme cap rate compression, with an Apple store in Santa Monica selling last month to an international family holding company for just under $60 million at a sub-4 cap rate.

EXPANDED CAPACITY, STRINGENT UNDERWRITING IN DEBT MARKETS — "OUTLOOK GOOD"

Within the past few months, banks have expanded both their commercial loan volumes and the types of debt structures offered. However, there is more evidence to confirm that new loans are being underwritten on softer terms, and that large and middle-market firms are receiving a disproportionate share of the upside. According to the Federal Reserve's latest Senior Loan Officer Survey on Bank Lending Practices (released in July), banks' willingness to lend more is not a reflection of either a stronger capital position or a higher tolerance for risk, but rather a response to more aggressive competition from both other banks and nonbank lenders. Increased willingness to lend comes as borrower demand increases for construction loans, financing for Accounts Receivable and acquisitions.

URBAN INFILL — "OUTLOOK GOOD"

A just-released white paper from RREEF cites retailers' urban real estate programs as one of five tactics to execute "fewer stores, smaller stores" portfolio strategies. Target's first City Targets opened last month in Chicago, Seattle, and Los Angeles, and are the latest examples of a retailer moving to launch a small-store program after making the corporate decision to downsize. Urban locations and their owners/landlords stand to benefit from this renewed interest in more centralized space, especially in the case of Target, for its downtown Chicago City Target occupies roughly the same square footage (125,000 SF) as its existing prototype. Current economic uncertainty may slow the pace of development for complicated public-private partnerships or any program that requires additional public funding.

CONCLUSION

Retail real estate fundamentals have held up surprisingly well in this slow growth period, and the bifurcation between assets of differing qualities is providing solid opportunities for expanding retailers and yield-seeking investors. The preceding quarter has brought us closer to looming economic decisions and the results of upcoming elections both here in the U.S. and abroad. We expect further volatility to handicap any long-range predictions, but that U.S. real estate will continue on its slow path to stabilization and recovery.

522 offices in 62 countries on 6 continents

United States: 147
Canada: 37
Latin America: 19
Asia Pacific: 201
EMEA: 118

- $1.8 billion in annual revenue
- 1.25 billion square feet under management
- Over 12,300 professionals and staff
- 370 Retail professionals in 66 U.S. Offices

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