Integrity & Knowledge

Union Square Overview
3rd Quarter 2009

CORNISH & CAREY COMMERCIAL

ONCOR INTERNATIONAL

Prepared by
Julie Taylor
Tom Neuburger

C&C

Table of Contents

Integrity & Knowledge

C&C

Union Square Retail Performance

Integrity & Knowledge

- Sales in the Union Square market continue to be very soft.
- Year-to-Date Sales for the majority of merchants are negative.
- Luxury Retailers experience the deepest downturn in sales; 30% declines in Sales are common.
- Discount Retailers such as Old Navy, Ross and H&M, are the only retailers to experience flat or positive sales.
- Center wide sales at Westfield thru September are down by 10%. This is an improvement over prior months, things are getting “less bad”.

C&C

Consumer Patterns

Integrity & Knowledge

- Consumers are being extremely careful with their money.
- Consumers at all income levels focus intensely on true need, value and product longevity.
- Economists and Retailers believe a cultural shift has taken place.
- New consumer patterns will impact retail sales for years to come.

C&C

A Dramatic Change in Deal Making

Integrity & Knowledge

- Retailers are considering expansion in an uncertain climate and are more careful with their dollars than the average consumer.
- Retailers touring the market seek value: premium sites for rock bottom rent.
- Negotiations extend much longer than normal.
  - Retailers take time to attain the best possible deal.
  - Retailers drag out the deal making process for several quarters to assess market conditions and stability before making a commitment.
  - In Deal Making, the “Re-Trade” and “Starts & Stops” are common.

C&C

Rental Rates

Integrity & Knowledge

- Many tenants continue to seek rent relief.
- A number of tenants are aggressively marketing their space for sublease.
- The supply of sublease opportunities will depress direct deal rent.
  - Leases signed between 2005–2007 can be sublet for sixty cents on the dollar.
  - Cop.Copin at 343 Powell subleases at 50% of contract rent, formerly Baccarat.
- Landlords not ready to drop rents to fill space.
- Landlords hope that time will bring a market rebound.
- Retailers are unwilling to step to pre 2007 rent levels because sales forecasts are low.
- A major disconnect exists between Landlord's and Retailer's perception of Market Rent.
- Rental Rates for prime space will fall only 5%-10% and in some cases not at all. Certain trophy sites, such as 2 Stockton (Virgin) are unaffected by the downturn.
- Rental Rates for challenging configurations or off pitch locations will fall 10%-25%.

C&C

Vacancies

Integrity & Knowledge

- Direct Vacancy in Q3 2009 is 10%.
  - Direct Vacancy in Q3 2008 was 8%.
- Sublease potential adds another 4% to available space in the market.
  - Sublease availability is expected to grow through Q2 2010.
- In a normal year 7-9 new leases are inked in Union Square.
- This year only two new leases and one sublease.
  - Facconable
  - Vince
  - Sublease: Cop.Copin
- Same deals in process now as in Q1 2009, “the never ending deal”.
- For landlords temporary stores are a way to slow the bleeding.
- For retailers temporary stores offer a way to test the market.
  - Kiplinger-170 Post St.
  - James Perse-33 Grant Ave.
  - Gap-250 Post St.

C&C

Leasing Activity & Forecast

Integrity & Knowledge

- ↑ Touring activity is picking up.
- ↑ New Letters of Intent are in progress.
- ↓ Many pending deals 'in progress' over the summer have been re-traded by the tenant or fell apart altogether.
- ↓ The market continues to be very unstable. Progress, if any is very slow.
- ↓ Very tough Holiday Season is expected for retailers.
- ↓ The Union Square leasing market will continue to be soft thru summer of 2010.
  - Retailers are like sheep, after a few tenants ink new deals, others will follow.
  - Similar to our market after 9/11, the dot com bust & SARS impact on tourism; when market activity comes to a standstill it takes a lot of time for it to gain momentum again.
  - Our climb back will take a little longer this time because the US consumer has to rebuild their nest egg and won't be able to spend comfortably until 2012.

C&C