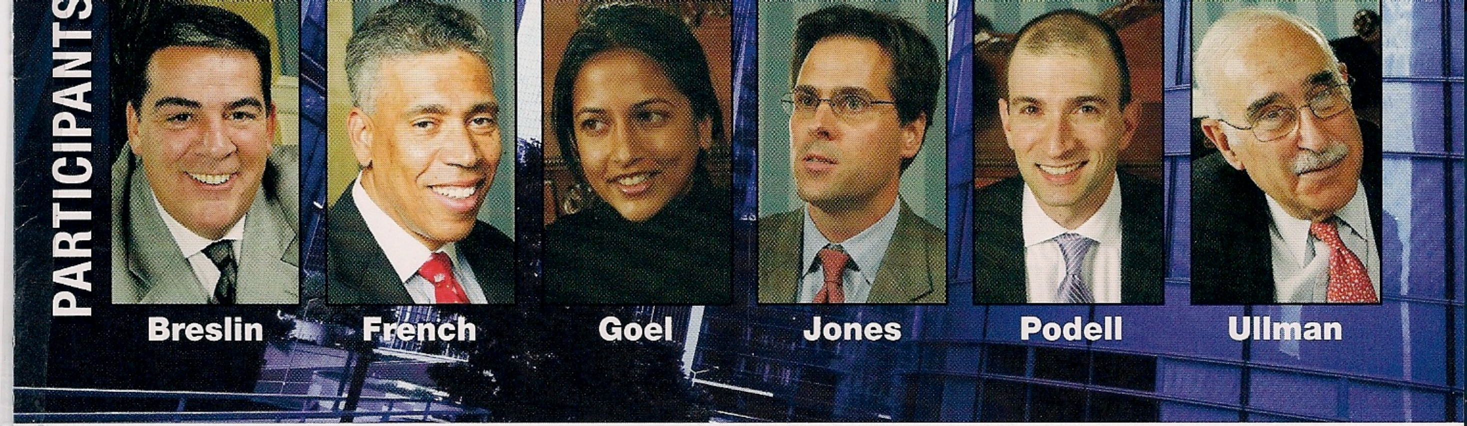

Real Estate New York recently assembled a panel of real estate finance executives who specialize in retail properties, to discuss issues in the retail sector. Moderating the panel was **Joseph C. French Jr.**, managing director and national director of retail for Sperry Van Ness. Also participating were **Pat Breslin**, vice chairman of GVA Worldwide Retail and president of the GVA Williams Retail Group; **Ambika Goel**, retail REIT analyst on Citigroup's real estate research team; **Stephen Jones**, managing director of real estate finance at RBS Greenwich Capital; **Joshua Podell**, vice president of real estate for Jones Retail Corp., a division of Jones Apparel Group; and **Leo Ullman**, chairman, CEO and president of Cedar Shopping Centers.

JOSEPH C. FRENCH JR.: *I'd like the panel to comment on the changes in the retail real estate market over the past few months, particularly in light of the sub-prime debacle and with the withdrawal from the capital markets of many of the conduit lenders. How has this impacted your business?*

JOSHUA PODELL: Because of the diversity of our retailing concepts, we run the gamut in terms of real estate. We do every type from Madison Avenue to Bergenline Avenue, to give an example locally. And over the past several months I've seen the gap in rents widen dramatically, between the triple-A properties and everything else. Everything else seems to be declining and the triple-A properties are still increasing at an alarming rate. But plenty of retailers still go after these properties.

LEO ULLMAN: Our portfolio features primarily supermarket-anchored properties, mostly in the B category. So we are experiencing some pushbacks. The Northeast remains extremely strong because of its stability, relatively good demographics and the pockets of growth in coastal areas. We've seen a continuing improvement even in the triple-A properties. For the B properties like ours, what we've noticed is that the Targets and Wal-Marts of this world, who are doing well in the lower demographic markets, are holding off on their expansion, and we are affected to some extent. That also impacts Best Buy, Dick's, Michael's and some of those other big-box stores—and the lower end of the fashion business is very much affected at the moment. But we are, again, primarily grocery-anchored, and the grocers are doing well.

FRENCH: *People have to eat, so grocery-anchored centers generally outperform other centers in a down economy. Furthermore, within this sector other grocers are learning how to successfully compete against the industry giant, Wal-Mart. We recently sold a Price Chopper-anchored center in Cobleskill, NY. A few years earlier, a Super Wal-Mart came to town, and instead of sales being hurt, Price Chopper sales actually increased. Many times, particularly in the Midwest, you see the grocer go out of business or at least lose sales to Wal-Mart.*

AMBIKA GOEL: With regard to REIT stocks, in mid-February the stocks peaked, up 15%. From there, the subprime news came out, debt spread started widening out, and from there we went down about 10%. Now we're flat on the year, so you've seen a lot of volatility in the public market.

On the retail REIT side, we're seeing a fair amount of stability. We haven't seen any blowups in earnings, and everyone's earnings were generally in line with expectations. In the mall sector we've seen the higher-quality malls show much stronger operating performance than lower-quality malls. The differential in operating performance will probably continue to widen next year.

As for shopping centers, core performance will remain fairly stable. You could see some issues with shopping center developers. Some shopping center companies focus on leasing and management and others on development. We see the shopping center development very tied to housing growth. And, historically, if you look at the correlation between the two, there's about a year lag in development between housing and shopping center development.

FRENCH: *Now let's hear what the banker has to say about the easy flow and availability of cash.*

STEPHEN JONES: We're still very much in the credit crunch. We're near the widest spreads that we've offered in the market. But without question, on top of wider spreads lending in the market has become more selective and careful underwriting. So it's a challenging CMBS market to say the least.

FRENCH: *Are you seeing any default or delinquencies for loans already out there?*

JONES: Our loan performance by and large has been great. There have been some defaults, predominantly in areas you'd expect at this point. Some Wall Street firms were creating condo securitizations, and there have been some defaults there. But for conventional retail properties the defaults have been minimal, at the lowest point ever. CMBS investors, nonetheless, understand the risks, and we're still able to lend, although on different terms from what we've been able to do in the past.

ULLMAN: Have life companies jumped into this space? Is there a lot of balance sheet lending available at this point? Because at least in our case, we've seen some fairly aggressive quotes from the life companies.

JONES: Yes, we expect the life companies, who have had a difficult two to four years originating, to ramp up their efforts. Met Life has closed a couple loans for GGP, which was pretty much a standby in the CMBS market. Life companies will step up for the stronger borrowers, such as REITs, but they probably won't step in for the B and C real estate, or value-added situations.

PAT BRESLIN: With regard to rents, what surprises me is the rental rates in some inner-city neighborhoods. On Fordham Road in the Bronx and Fulton Street in Brooklyn, rents are more expensive than on North Michigan Avenue in Chicago. Fulton Street has the everyday retailers—the Foot Lockers and the Finish Lines—and the middle-of-the-road retailers, and they're charging north of $350 per sf there.

But then look at Madison Avenue, where we've had handshake deals at $1,000 psf on a property and we'd get a phone call from a tenant that afternoon offering $1,250 per sf for that same property. How can I look a retailer in the eye and say, "You're going to make money there"?

PODELL: It depends on how you justify it. You have your Madison Avenue store for branding purposes. Sometimes they're not expected to make money. Tiffany, though, is a brilliant pioneer of Wall Street. They have the audience for a flagship store there.

BRESLIN: At $125 or $150 per sf as opposed to $1,000.

PODELL: Exactly. There's no reason why Louis Vuitton, Gucci or Tiffany can't build their brands there, with that kind of customer.

BRESLIN: Wall Street will be an urban mall, and those are successful all over the country.

PODELL: How many flagships do you need? It depends on who you are. It depends on how big your wholesale is.

FRENCH: *With regard to consumer spending, are you seeing any changes due to the problems in our capital markets and economy? How has this impacted different retail sectors? What retailers will face challenges? What retailers, if any, will be expanding?*

PODELL: We're in the fashion business. You can protect yourself against external economic factors if you're in fashion. There's no hot commodity item out there; that's part of the reason the fashion business is struggling. And it's no secret. Liz Claiborne announced disappointing earnings, for example. Retailers love to claim weather and everybody laughs. But the truth is that when it's 80 degrees, middle of October, you're not selling a lot of boots.

In terms of who's going to be expanding, take your pick. The entrepreneurial retailers who can flourish in any market are out there and they all love Manhattan and the boroughs in general.

ULLMAN: We're seeing a much greater

impact of gas prices in a good part of the country, and certainly for the grocery-anchored business. The dollar stores will be hurting a bit, but the club stores will do very well in this market. They have a grocery component and that will be interesting and important in a lot of markets.

GOEL: The higher-end retailers aren't necessarily bulletproof, though. We've seen Coach, Tommy Bahama, Target, and Nordstrom's come out with weaker-than-expected sales. Although you are seeing the higher-end retailers post stronger sales growth, that doesn't mean that the gap couldn't narrow a bit. I'm also seeing a bit of differentiation within the segments. It used to matter less if you had the right merchandising mix, so long as you had the right sales strategy. Now the merchandise is factoring in a little more especially in those segments that are undergoing restructuring.

FRENCH: *Steve, you're doing the underwriting, so you're obviously also looking at which tenants are likely to do well and which tenants will face difficulties.*

JONES: There was a time when there was very little appreciation of that risk, and that's what made the deal work. If you'd recognized that risk, you probably came in second or third place in the bidding and didn't win the financing business. There's now an appreciation for the risk. The market will doing more thorough tenant due diligence.

The other element of the economy that's interesting for retail is the weak dollar. The price of gasoline clearly has an impact on cost of goods delivered, and on top of that retailers get a considerable percentage of their goods from overseas, and the costs of those goods should go up. There's certainly pressure on margins. There's a risk of recession and a risk of inflation. And we haven't confronted that in a long time.

BRESLIN: I agree. People aren't taking into account that it's going to be the one-two punch. When gas goes over $3 a gallon and milk is close to $5 a gallon, you're in for trouble. The part of our business that's beginning to pick up steam now is from our overseas retailers. A lot of the strong European and Asian retailers are beginning to understand real estate and retail and how it works in the US. Once they get a firm understanding of that, there's going to be a lot more of them coming over here to do business.

FRENCH: *What will the retail real estate market look like, six to 12 months from now, in terms of rents, cap rates, and financing? How will these changes impact the different sectors of the market: REITs, institutional, private and foreign?*

BRESLIN: Landlords in the B and C markets are relying more on the credit tenant to make up the difference in risk. They'll come shortfall on the rents because they're looking for security. A landlord just loves rated tenants, no matter who they are.

FRENCH: *How are you viewing this from the lending side?*

JONES: I'm hopeful. Clearly, right now we're running significantly below our prior production level. If that doesn't change, we're going to have to change things pretty radically in terms of how we're structured. But I'm hopeful because we haven't seen many defaults in CMBS. And generally I would say they're pretty well structured securities.

GOEL: We don't expect a significant change in rents. That's dependent on what happens with the economy and whether we enter a recession. There's still a significant amount of institutional capital waiting on the sidelines, but the demand is still there. The bid-ask spreads for cap rates will narrow and that will bring transaction volume back in February or March of next year.

Another issue that could also act as kind of catalyst for the market would be the weaker dollar. A lot of foreign buyers are now more interested in U.S. real estate because they're buying it on the cheap. So far we've seen them more interested in the trophy properties versus the B and C properties, so you could see class A cap rates remain fairly stable based upon the foreign buyer entering the market.

FRENCH: *So you're saying that in the next six to 12 months the B properties could present a buying opportunity for Leo?*

GOEL: Well, this is the kind of environment that you keep a clean balance sheet for.

ULLMAN: I agree. First of all, there's an enormous amount of capital out there waiting to be invested. That distinguishes the current situation from the situation from 1987 to 1990. So I'm very optimistic. People have been able to create derivatives and CDOs and synthetics to tremendous volumes of liquidity, and none of it is real. But somewhere under there real estate is still a very important factor.

PODELL: I see the next six to 12 months as a period of cautious optimism. But 2009 is going to be extremely strong, for three reasons. First, next year is an election year, which means a lot of spending in media, a lot of optimism coming from our representatives, a lot of wonderful promises. That gives people hope. Second, they're forecasting a warmer than normal winter. If that's the case the oil will go down because of the inventories, and that'll obviously help our gas prices and our heating prices, and people are going to find themselves with some money that they saved for that gas and that oil. Americans don't save, so we'll spend it—hopefully at my stores. Finally, everybody has built in an awful Christmas for retailers. That's no secret. So it's going to be pretty hard to disappoint Wall Street's expectations on account of Christmas sales.

FRENCH: *Where do you see the major challenges for your sector of the market? Where are the new market opportunities? How do you capitalize on them? And who is best positioned to take advantage of these opportunities?*

PODELL: The major challenge for any fashion business is to maintain and build the brand. As for opportunities, I found two recently in New York City. One is the Upper East Side, around First and York avenues, north of 72nd Street. That sub-market is as dense as any in the country. There's no reason retailers can't open a sister store to one they might have on Third Avenue.

The other opportunity is in the Financial District, where we haven't scratched the surface. I wouldn't be surprised if the offering there eventually rivaled Madison Avenue. It'll never have Madison Avenue's traffic, but the smart retailers are going to realize you can both build your brand there, and make money.

ULLMAN: We're very much focused on a development pipeline. The development yields have declined to some extent, and in our market we can still build to a 9% to 12% yield. But we have to be disciplined in doing that. We have to look carefully at our prices. Land costs keep going up, even in this market. The construction costs are generally predictable and stabilized, although they could be affected by oil prices. And we've been looking at growing our development pipeline in joint venture mode with equity participation by major pension funds or insurance companies—but it's got to work from a yield basis and we've got to gamble on the back-end cap rates.

In terms of acquisitions, we have to look carefully at the tenants, at their credit, make sure the leases look right, make sure the exclusives don't kill us. The supermarket, which is typically 40 to 50% of our shopping center, has exclusives on so many things. So you wind up leasing to nail stores, and there's hardly any credit there.

GOEL: Of the companies I cover, on the mall side the companies that are focused in the smaller markets and have lower sales productivity could be under some pressure. When a tenant has to close stores, they'll prefer to close stores in markets with less population density, even though sales relative to their rent might be lower.

On the shopping center side, I'm concerned about developers. If a company is developing, how pre-leased is the project? There could be significant risk on the back end. A lot of these companies assume that they could build on yields even lower than Leo was talking about.

JONES: One area of risk we see is the weak dollar. Economics tells you a weak dollar should drive exports, but there are clearly areas of the country that have been on their heels. Detroit's probably a good example of that. And if Detroit can't make it when you have the dollar as weak as it is now, what's the future of Detroit in five years? The same holds true for a lot of the Midwest and maybe parts of the Southeast.

In terms of opportunities, a lot of people are raising distressed debt funds. Not everything they're buying is distressed, but the yields at which they're being sold may be higher than what people are buying properties for right now. Clearly, as Leo mentioned earlier, this is a time of opportunity for balance sheet lenders.

BRESLIN: I just hope the situation is not as ominous and as dire as a lot of people around the country and around the world have anticipated. For the most part people are scared, retailers are scared, owners are scared, I'm scared and my tenants are scared, too. If the perfect storm comes around and it meets up here, it could be a lot uglier than people think. But it also could be a lot lighter than people think if it turns off to the east and keeps on going. —RENY

*Read more about this sponsored roundtable - **http://www.renymag.com/12_07/roundtable** where the panelists provide additional detail about current market conditions in retailing.*

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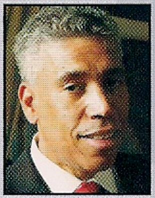
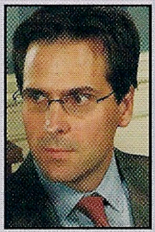
Patrick Breslin joined GVA Williams in 2002 as president of the retail group. He is a member of the firm's executive committee and vice chairman of GVA Worldwide Retail. In his 20-plus-year career, Breslin has been involved in 1,000 transactions, equaling more than $2 billion and encompassing more than 5 million sf.



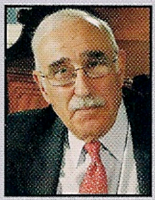
Joseph C. French Jr. serves as national director of retail properties and managing director for Sperry Van Ness, specializing investment sales of retail properties. In the past three years alone, he has been involved in the sale of more than 30 retail properties representing more than $350 million and more than 3.9 million square feet

Ambika Goel covers retail REITs for the Citigroup real estate research team, having joined the firm in 2004 and assumed primary coverage of the retail REIT sectors in 2006.



Stephen Jones is a managing director in real estate finance at RBS Greenwich Capital. Since joining RBSGC in 2003, he has funded more than $5 billion of loans. Previously he worked at Credit Suisse from 1993 to 2003 and was the first dedicated CMBS originator.

Joshua Podell joined Jones Retail Corp. (a division of Jones Apparel Group) in January 2006 as vice president of real estate, and currently handles the expansion of Nine West, Nine West Outlet, Easy Spirit, Easy Spirit Outlet, Anne Klein, Jones New York, Bandolino and Gloria Vanderbilt stores. Prior to joining Jones, he was senior vice president of real estate and construction at G+G Retail.



Leo Ullman, chairman, president and CEO of Cedar Shopping Centers, is a graduate of Harvard University and of Columbia University School of Law, He practiced law from 1965 to 1998, while creating and running real estate asset and property management companies. He gained control of the REIT now known as Cedar Shopping Centers in 1998. Cedar owns approximately 113 shopping centers with more than 11.5 million sf of gross leasable area.