



# REIT Growth and Income Monitor

## REIT Sector Comments

### Retail REITs

09/08/2009

#### Notes:

Despite heavy debt load impacting consumers' financial health, we recommend investors maintain exposure to Retail REITs, with largest total market cap of any REIT sector. Retail REIT stock prices gained only 2% year to date for 2009, underperforming 13% average increase for all REITs followed by **REIT Growth and Income Monitor**. Lackluster Retail REIT stock price performance reflects sluggish retail sales, down (0.1%) for July, 2009. "Core retail sales" (excluding autos, gas and food) fell (0.4%). Sales declines during the summer of 2009 raise concerns about the important back-to-school shopping season. We see discretionary spending remaining depressed until the job market stabilizes.

Valuation for Retail REITs, as measured by ratio of total capitalization to annualized FFO, is in a range of 11.3X for **Agree Realty** to 50.0X for **Acadia Realty Trust**. Yields (including only cash portion of dividends) range from 0.8% for **Simon Property Group** to 10.1% for **Pennsylvania REIT**.

Many Retail REITs chose to alter dividend policies during 2009, as high yields appeared to have little impact on perceived value. Dividend reductions continued for the third quarter of 2009, with **Acadia Realty Trust** reducing dividends (14%), **CBL & Associates** (35%), and **Kite Realty Group** (61%). This followed dividend reductions for **Weingarten Realty** (52%), **Macerich** (25%), and **Acadia Realty Trust** (14%), and **Pennsylvania REIT** (48%) for the second quarter of 2009. Several Retail REITs, including **Developers Diversified Realty**, **Simon Property Group**, **Macerich**, and **One Liberty Properties** now pay only 10% of total dividends in cash. Low dividend coverage signals pending dividend reduction for **Equity One**, while high yields for **Glimcher Realty Trust** and **Pennsylvania REIT** (both yielding more than 10%) make dividend reduction probable. **Federal Realty Investment Trust** increased dividends 2% for the fourth quarter of 2009, joining **Tanger Factory Outlet Centers** as the only Retail REITs to increase dividends during 2009. **National Retail Properties** promises to increase dividends before the end of 2009. **Cedar Shopping Centers** suspended dividend payments.

More bad news from tenants may lie ahead. Vacancy rates at shopping centers result from tenant bankruptcies, with Smith & Hawken and jewelry retailer Finlay Enterprises joining Fortunoff, Robbins Brothers, Ultra Diamonds, Ritz Camera, Filene's Basement, Drug Fair, and Eddie Bauer as 2009 bankruptcies. Electronics, jewelry, apparel, and office supplies predict more store closures. We see risk for Borders, Blockbuster, Brookstone, Office Depot, Office Max, and Michael's.

We reduced our ranking on **Kite Realty Group**, still BUY, due to reduced land and outlot sales. **Federal Realty Investment Trust** we still rank BUY for stable operations, but growth has slowed. We reduced **Regency Centers** to HOLD due to lower transaction profits and fee income and reduced **Inland Real Estate** to HOLD for weak NOI. We returned to our highest BUY rank for **CBL & Associates** on higher total FFO and NOI.

Following removal of **General Growth Properties** and **Developers Diversified Realty** from the S&P 500 Index, **Kimco Realty** and **Simon Property Group** are the only remaining Retail REITs included in the S&P 500 Index.

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