

Mall REITs

Steve & Barry's BK – A Body Blow for Lower Quality Malls

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Overview:

After several weeks of speculation, discount retailer Steve & Barry's filed for bankruptcy. The company cited the credit crunch and difficult economic conditions as the primary reasons for its demise. An inability to increase prices in response to rising costs may have been a factor in this disappointing step. However, the privately-owned company recently reported an eye-opening 15% same-store sales increase. In addition, the company continued opening stores throughout the first half of this year, which is certainly not the typical behavior of a retailer encountering significant financial distress. It remains to be seen how many stores the bankrupt retailer will close, and a total liquidation remains a possibility.

Steve & Barry's has been a bright spot for the owners of lower-quality malls in recent years, given the retailer's willingness to occupy less-desirable and often-sizeable space (ranging from 20,000 to 80,000 s.f.). Many mall owners were willing to pay hefty tenant allowances to entice Steve & Barry's into their centers, and it appears that these payments may have been a primary source of income and cash flow for a company that was not making money in its core retailing business. The company's rapid expansion and marketing flare may have masked a financially rotten core that was overlooked by the mall owners who shoveled millions of dollars of tenant allowances to the retailer.

Roughly one-third of Steve & Barry's 276 stores are found in shopping centers owned by the mall REITs. **The total rent received by the REITs is minimal, with Steve & Barry's representing roughly 0.4% of total GLA for the mall REITs. However, the impact of pending store closures is still problematic.** The space is often in less desirable locations, and the list of potential replacement tenants is slim. Nearly all national and regional retailers are scaling back expansion plans, and many are also shuttering low-performing locations. Steve & Barry's stores did generate a lot of mall traffic, and the closing of its stores is likely to have a negative residual impact on tenant sales throughout the mall. This in turn will have a negative impact on the rents that mall landlords can charge other tenants, particularly those in locations closest to the former Steve and Barry's space. Co-tenancy issues could add another wrinkle to the deteriorating retail landscape, as tenants may look to this and other anchor closures as reason and justification to shutter their own stores.

For the mall REITs in our coverage universe, Glimcher Realty Trust (GRT) and CBL & Associates (CBL) have the greatest exposure to Steve & Barry's, with stores in roughly 50% and 25% of their centers, respectively. The pending closure of what was fast becoming a major mall anchor for these mall landlords suggests continued underperformance in operating results for lower-quality mall portfolios compared to their higher-quality brethren. Lower-quality mall portfolios will likely bear a bigger brunt of the Steve & Barry's bankruptcy and other troubles brewing in the retail horizon. The large valuation gaps that exist between the low and high quality mall REITs could widen further based on this expectation, and the "high quality trumps low quality" theme that has persisted in the mall space over the past 2-3 years appears poised to continue for some time.

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Exhibit 1

Roughly one-third of Steve & Barry's 276 stores are found in shopping centers owned by the mall REITs. On average, these centers tend to be mid- to low-tier in quality. Although rents received from and space occupied by Steve & Barry's is minimal for the mall REITs, the impact of pending store closures will likely be more pronounced given the retailer's penchant for filling less desirable locations and the thin list of potential replacement tenants for those lesser quality spots.

Company	Ticker	No. of Malls Affected (1)	Planned / Unopened Stores	% of Malls Owned	Avg. Mall Quality (2)	Minimum Rent (\$MM)	% of Total GLA (3)	Current Rec.
Glimcher Realty Trust	GRT	11	0	48%	C/C-	3.7	2.3%	SELL
CBL & Associates	CBL	21	0	24%	C+	7.0	1.2%	SELL
Westfield Group (4)	WDC.AU	14	1	12%	B+/B	N/A	0.4%	Not App.
Simon Property Group	SPG	23	4	11%	B/B-	8.7	0.4%	BUY
General Growth Properties	GGP	17	1	9%	B+/B	N/A	0.3%	SELL
Macerich	MAC	3	1	4%	C+	N/A	0.2%	HOLD
Pennsylvania REIT	PEI	2	0	5%	C	N/A	0.3%	HOLD
Taubman Centers	TCO	1	0	4%	B	N/A	0.2%	BUY
Tanger Factory Outlets	SKT	0	0	Not App.	Not App.	Not App.	Not App.	BUY
Weighted Avg.		92	7	11%	B/B-		0.4%	

Note: Minimum rent and GLA for Steve & Barry's is not disclosed by all of the mall REITs.

(1) Includes two properties co-owned by SPG and MAC.

(2) Green Street's opinion on average mall quality.

(3) Green Street estimates and company disclosures.

(4) Westfield Group (WDC.AU) is not part of Green Street's coverage universe. "% of Malls Owned" and "% of Total GLA" is for U.S. and non-U.S. malls.

Access to Green Street's mall database can be found via the following link:

<https://www.greenstreetadvisors.com/research/mall/>

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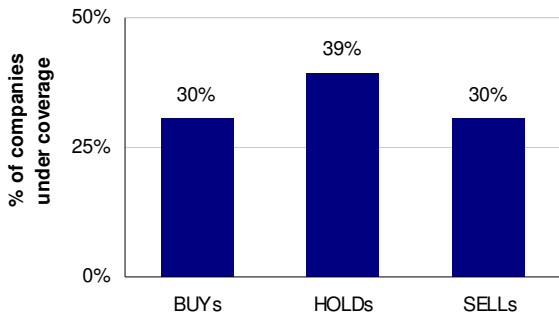
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(as of 7/1/08)**



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Total Return of Green Street's Recommendations

Year	Buy	Hold	Sell	NAREIT Eqty ⁴
2008 YTD ³	3.0%	1.4%	-6.7%	-3.6%
2007	-6.5%	-22.3%	-27.6%	-15.7%
2006	45.4%	29.9%	18.4%	35.1%
2005	26.3%	18.3%	-1.9%	12.2%
2004	42.3%	28.4%	15.6%	31.6%
2003	42.7%	37.2%	20.9%	37.1%
2002	17.7%	2.6%	1.9%	3.8%
2001	35.7%	19.1%	11.9%	13.9%
2000	53.6%	29.3%	4.4%	26.4%
1999	14.2%	-9.2%	-20.2%	-4.6%
1998	-0.6%	-15.1%	-16.4%	-17.5%
1997	37.1%	14.2%	5.8%	20.3%
1996	47.3%	30.2%	17.5%	35.3%
1995	23.6%	14.3%	-0.4%	15.3%
1994	20.5%	-0.7%	-9.3%	3.2%
1993 ³	29.4%	5.4%	6.7%	12.4%
Total Return³	3788.4%	361.6%	4.2%	468.4%
Annualized	26.8%	10.4%	0.3%	11.9%

1) Historical results through January 3, 2005 were independently verified by Ernst & Young, LLP. E&Y did not verify stated results subsequent to January 3, 2005. Past performance results cannot be used to predict future performance. For a complete explanation of study, see 5/9/03 report "How are We Doing?".
 2) Company inclusion in the calculation of total return has been based on whether the companies were listed in the primary exhibit of Green Street's "Real Estate Securities Monthly", pg. 13-16. Beginning with May 2000, Gaming C-Corps and Hotel C-Corps, with the exception of Starwood Hotels and Homestead Village, are not included in the primary exhibit and therefore not included in the calculation of total return. Beginning with March 2003, all Hotel companies are excluded.
 3) Study uses recommendations given in Green Street's "Real Estate Securities Monthly" from January 29, 1993 through July 1, 2008.
 4) Not directly comparable to Green Street's performance indices because NAREIT includes more companies and uses market-cap weightings. Green Street's returns are equally-weighted averages.