

Grayway

THE REVIVAL OF RETAIL

An Outlook for 2011



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Welcome to the year 2011... a year destined to be full of new beginnings for businesses across the nation. But if America is to truly rebound from its recent recession, one thing is for certain: the condition of the retail market will be a vital part of that equation.

This issue of the GrayWay spotlights retailers who have not only managed to survive, but even thrive, despite America's economic woes. Retailers like H&M, a Gray-I.C.E. Builders' customer whose recent grand opening of the company's largest store is featured on the cover.

This issue also offers a real look at the state of retail today, current trends and the outlook for tomorrow. We hope you find this information useful as you prepare to face the challenges ahead.

A handwritten signature in white ink, appearing to read 'Bob Moore'.

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RETAIL



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IN THE MIDST OF CHANGE LIES OPPORTUNITY

Some Retailers Finding the Good in a Bad Economy

Reorganization, consolidation, bankruptcy, liquidation... all frightening but possible outcomes for countless American businesses struggling to survive in today's tough marketplace. And you don't have to be an economist to know that America's retailers have been hit particularly hard by the U.S. economy's three-year recession.

The nation was shocked when strongholds like Circuit City—once America's second-largest electronics retailer—Goody's and KB Toys closed their doors for good as penny-pinching consumers flocked to the big-box discounters for savings on electronics, clothing and toys. Countless others consolidated stores, leaving dark cavities throughout America's malls and shopping centers. But what has been one retailer's proverbial nail in the coffin has been another's golden opportunity.



Costco/Brookhaven, Georgia

“There is real estate coming available that may not have been available in the past.”

Todd Thull
Costco
Assistant Vice President
of Construction



Costco celebrates a grand opening in Brookhaven, Georgia.



Todd Thull

“What I’ve been seeing in the construction world is that as you see consolidations in department stores, as you see some of the medium boxes falling out of the picture like Circuit City, that there is real estate coming available that may not have been available in the past,” said Todd Thull, assistant vice president of construction for Costco, the third largest retailer in the U.S. “We could not fit in a Circuit City site, but we could probably fit in a traditional department store site. There are a number of dark department stores as a result of consolidations and bankruptcies. Traditional regional shopping malls may be an increasing opportunity for us.”

While big-box retailers like Costco are taking advantage of infill opportunities across the U.S., they aren’t the only ones feeding off the recession’s leftovers. Mid-sized retailers with a strong international market base have managed to not only survive, but thrive, throughout the economic downturn.



H&M, a European fashion retailer, has 2,200 stores spread across 38 countries, but just 10 percent of those are located in the United States. According to Rajnesh Singh, the company’s director of construction, this

is precisely why H&M has fared so well over the past few years.

“We’ve had a consistent, sustainable growth strategy and the good thing is, our business is not linked to any one local economy,” explained Singh. “So, if things are rough in the U.S., we have other markets that can offset some of the weakness in certain markets.... Softness in one area can be compensated to some degree with above-average gains in another.”

And, like Costco, H&M has taken advantage of the infill opportunities left behind by the unfortunate casualties of the recession.

“Some would say that this is a down time, but others might counter that by saying this is actually a good time if you are growing a business because of favorable lease terms and the opportunity to get good spaces,” said Singh.

While both Thull and Singh have seen benefits for their respective companies, they have not been spared some hardship due to the recession. For example, Thull says he has had to weed through an influx of proposals from subcontractors who have turned out in droves to bid on work. Under normal circumstances, competition among subcontractors is good for driving down costs. But, in this case, too much competition has driven some to lose sight of what makes good business sense.

Bob Moore, president of Gray-I.C.E Builders and a newly elected Retail Contractors Association board member, says the problem has required him and his team to be much more diligent when prequalifying subcontractors.

“We’ve had, in essence, to double the guard at the gate with subcontractor prequalifications over the last couple of years,” said Moore. “It’s certainly something we’ve identified as one of our biggest areas of risk—subcontractors bidding potentially below cost to have a revenue stream that they thought would bridge themselves to the other side when there’s a nice recovery or more prosperity. Yet, in reality, they were cash-flowing themselves out of business.”

But both Thull and Moore agree that increasing commodity prices is the biggest challenge retailers will face as they plan for growth in the coming years. Moore says this is, in large part, due to increased globalization.

“The total of emerging markets’ Gross Domestic Product will, for the first time in history, exceed the combined Gross Domestic Product of developed nations,” explained Moore. “Their consumption and demand for raw materials, precious metals, etc., will drive up costs for us.”

A harsh reality, indeed, but Moore believes it is the responsibility of the general contractor to help retail customers adjust to inflation and keep their expansion and construction projects on track.

“The strategy to counter inflation is to build as fast as you can because the cost will definitely be going up,” said Moore. “We’ve been as lean as we can be the last couple of years. We try to add value to our retail customers by giving them feedback on the methods and materials they choose because they buy a lot of the materials for their stores. We try to give them suggestions and feedback on the cost, the durability, the maintainability, the cost of energy and try to be a partner with them to make the process as lean as possible.”

GRAY...WE'RE BUILDING

Costco Wholesale Corporation Bucks County, Pennsylvania

Costco Wholesale Corporation, an international chain of membership warehouses, has selected Gray Construction to build its new retail warehouse in Bucks County, Pennsylvania.

The 147,605 square-foot warehouse will include a full bakery, meat, deli and produce department and fuel center. This will be Gray's second project for Costco Wholesale Warehouse and first project to include the Costco Wholesale Warehouse and Fuel Center combo. The Bucks County location is scheduled to open in late August 2011.



Costco Wholesale Corporation / Bucks County, Pennsylvania
Courtesy of MulvannyG2 Architecture.

THE REALITY OF RETAIL TODAY



**Q&A with
Michael P. Niemira,
Vice President, Chief
Economist & Director
of Research for the
International Council
of Shopping Centers, Inc.**

Michael P. Niemira

Please describe what is happening in the current retail market.

In a word—improving. Retail real estate is the confluence of two cycles—retail and real estate. The retail cycle turned the corner a little more than a year ago as corporate profitability began to improve after nearly a two-year period of recession. The profit improvement was secured with widespread hardship and adjustment, including store closings and bankruptcies, slashing retail inventories, slashing employment and generally cutting costs—including some rent reductions. But that retail-industry improvement was the catalyst for a real estate turnaround, which was first seen in the public market with retail REIT (Real Estate Investment Trust) returns improving by 27 percent in 2009 and another 33 percent in 2010. To be sure, the retail real estate market is still facing high vacancy rates through yearend 2010, though signs that the worst is behind us are increasingly more prevalent.

What type of retailers are doing well during this economy and what type are not?

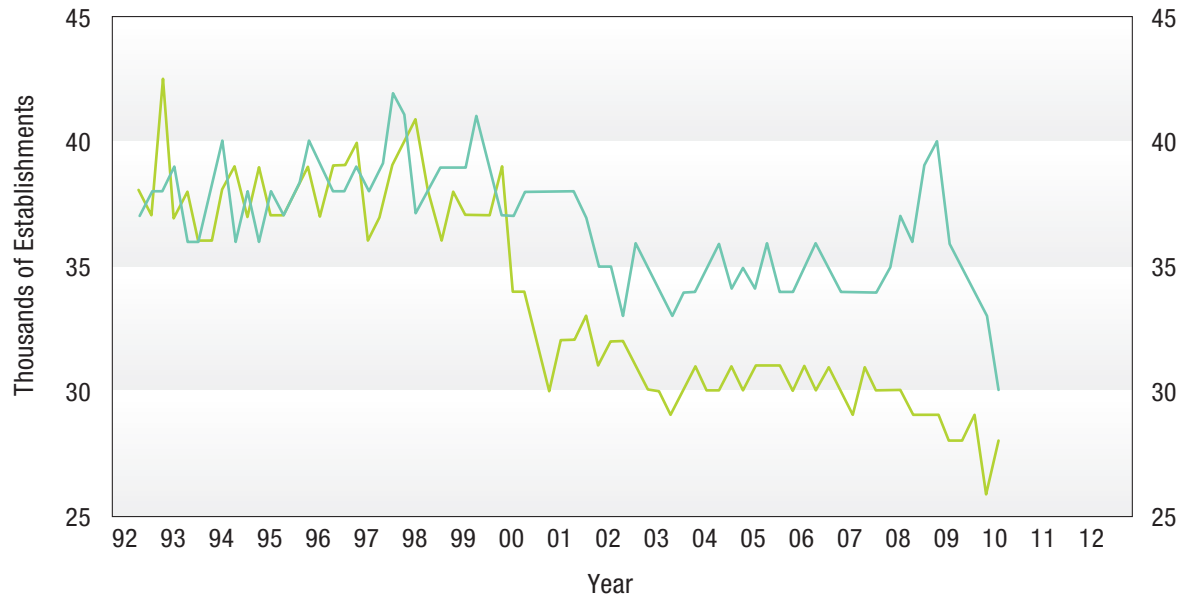
As is relatively typical of business cycle recoveries, the improvement starts from a narrow base and broadens. This was precisely how the most recent retail recovery unfolded with luxury retailers turning up first while dollar stores continued to benefit by the tough times. In early 2010, the middle-tier retailers began to improve, but their performance was spotty through the year. There were, however, strong notable exceptions such as Macy's and Limited. For 2011, ICSC Research forecasts that this year will be the year of the discounter with that segment finally

showing more strength after a very tough time in 2010 as many other retail segments were improving. The rationale for this thinking is that the reduction in the payroll tax will fuel more spending at discounters, in particular.

How many retail stores are projected to open in 2011?

The trends are improving. Based on government statistics (through mid 2010), openings were very weak in 2010 while the pace of store closings receded dramatically. In 2011, the pace of openings will begin to normalize as the closing pace remains low. But the ramp up will likely be only moderate since a fair amount of the large store openings are in the international realm—not domestic.

Trends in Store Openings and Closings



Source: U.S. Department of Labor.

■ Retail Store Openings ■ Retail Store Closings

“In 2011, retailers will need to watch costs—inflation is the current worry as import costs are rising due to the weak dollar—and they must be innovative.”



What does the retailer have to do in today's market to get customers into their stores?

In 2011, retailers will need to watch costs—inflation is the current worry as import costs are rising due to the weak dollar—and they must be innovative. Broadly, ICSC Research is upbeat for 2011 spending trends, but the pace of retail spending growth is only likely to be consistent with the 2010 performance.

Are you seeing retailers considering or going after LEED certification or other sustainability, renewable energy or conservation initiatives in 2011?

Our research scholar emeritus on sustainability said it best as he described the green movement as about “reaching for high performance buildings,”—and that means higher and longer-term returns. Eco-buildings and eco-operations are about saving money and helping the environment—a real win-win situation. So these technologies continue to become mainstream and continue to transform new and renovated properties.

GRAY MATTER

Surviving Five Decades

Brutal...a single word that perfectly describes the effect the recent recession has had on America's retailers. While consumers struggled to make ends meet due to high unemployment, many of America's most beloved retailers fell victim to the subsequent decrease in spending.

At Gray, we not only understand the challenges of surviving in a tough economy, we've lived it. For 50 years, our company has persevered through some of the most tumultuous economic climates in American history—“stagflation” in the 1970s; the boom and bust of the 1980s; the savings and loan crisis of the early '90s; and the current credit crunch from which America is still rebounding. That is why we are uniquely prepared to help our retail customers, and in fact all of our customers, forge ahead on what most definitely will be a rocky road to recovery.

What's even more important, however, is that we know your business...we know your schedules...we know your expectations...we know that retail construction is a unique experience, and should be treated as such. And what we don't know, we learn by immersing ourselves in the retail culture. Let us help your company take on the challenges ahead.



Jim Gray
Chairman

Stephen Gray
President and
Chief Executive Officer

Jim Gray and
Stephen Gray

SHADES OF GRAY

GRAY-I.C.E. BUILDERS FORMS DEDICATED TEAMS TO SERVE NATIONAL RETAILERS



Bob Moore
President
Gray-I.C.E. Builders

Located in California, one of America's strongest retail markets, Gray-I.C.E. Builders can say we know a little something about retail construction. For the past 15 years, our company has worked for some of the most recognizable retailers on the planet—Gap, H&M—and these are just a sampling of the many retailers we have been fortunate enough to serve.

Drawing from this experience, Gray-I.C.E. Builders has joined forces with fellow Gray family companies Gray Construction and WS Construction to better serve national retail customers.

Pooling our resources and dedicating teams of experts, we offer retailers across the country a more streamlined approach to construction services.

What's more, we understand that each and every retailer has its own distinctive culture with unique needs, preferences, and requirements. In light of this, our dedicated teams immerse themselves into the culture of each retail customer, so they may quickly adapt to new markets and new projects with ease.

Let our dedicated teams be your source for new store construction, open-store remodels and roll-outs across the nation.



Gap/Cerritos, California

MAINTENANCE TIPS

Spring is right around the corner and while most of the country is anxious for warmer weather, this stormy season can prove brutal on buildings. Service Team Manager Steve Higgins offers these maintenance tips to help you recover from the harsh winter months and to protect your building from potentially hazardous spring weather conditions.

- **Check your building's exterior asphalt and concrete surfaces. Damages may have occurred during snow removal and it may be time to apply new sealer to prevent water infiltration into the sub-grade beneath your asphalt and concrete surfaces.**
- **Perform a general review of your building's roof. Check gutters and roof drains to ensure they are clean and are draining properly. Ensure snow and ice buildup has not damaged flashing; loose flashing needs to be addressed immediately in preparation for springtime wind and storms.**



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