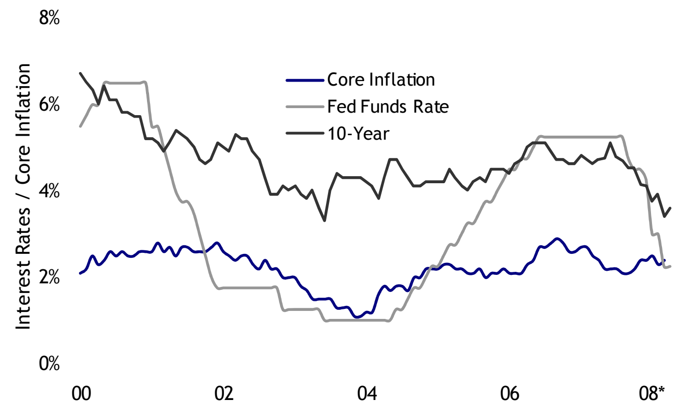
Marcus & Millichap RESEARCH SERVICES — THE OUTLOOK

Economic Growth Nearly Flat in First Quarter, Fiscal Stimulus Supports More Optimistic Outlook for Second Half

U.S. GDP increased at an estimated annual rate of 0.6 percent in the first quarter of 2008, propped up by personal expenditures on services, government spending and net exports. Housing remains a drag on growth, subtracting 120 basis points from the first quarter GDP figure, while a pull back in business spending on equipment and structures deducted an additional 30 basis points from the overall rate.

Despite the increase in GDP, weakness has clearly spread beyond the manufacturing, housing and banking sectors, as evidenced by the loss of 260,000 jobs year to date. Business and consumer confidence have slipped, which combined with tighter credit markets and high oil prices, has created a somewhat self-propelling downturn that is likely to last until midyear. During the second half, however, the benefits of Fed rate cuts, new liquidity measures and tax rebates will provide a moderate boost to the economy.

Interest Rates Low, Inflation Risks Rising



*Inflation as of March, interest rates through April
Sources: Marcus & Millichap Research Services, Federal Reserve

The housing market continues to exert downward pressure on the economy, both directly and indirectly. Existing home sales are down 20 percent from 12 months ago, while for-sale inventory is hovering around 10 months of supply, compared to a low of 3.6 months in early 2005 and 7.5 months one year ago. Home prices are 8 percent below year-ago levels and recent stabilization is likely temporary.

Fed efforts to prevent a prolonged economic downturn became more aggressive in the first quarter. In addition to rate cuts and an extension of its term-auction facility, the Fed also opened the door for major securities firms to borrow directly from the central bank and supplied credit to J.P. Morgan Chase to support the acquisition of struggling Bear Stearns. While recent Fed action has helped stave off a financial sector collapse, mortgage-related writedowns are rising rapidly and many banks remain hesitant to lend, focusing first on stabilizing their battered balance sheets. At the end of April, investors were gaining some confidence in financial markets, with the yield on the 10-year Treasury ticking up modestly and the stock market posting healthy gains.

Short-term risks remain elevated due to ongoing housing market correction, high energy costs and the fragility of the financial sector. Oil prices have increased 15 percent to date in 2008 and are up 75 percent from one year ago, fanning inflation concerns and potentially threatening an economic recovery. In addition, an estimated 9 million households have negative equity in their homes, which could lead to a greater-than-expected spike in foreclosure activity, extending the mortgage- and housing-market slide into 2009.

Forecast:

Additional Fed rate cuts will not come as willingly given inflationary pressures; a tightening campaign is likely shortly after the economy normalizes. While risks are clearly present, there are some bright spots in the economy, such as the still-expanding health-care sector, strong export activity and heightened international travel to the U.S. due to the weakened state of the dollar. Following flat to potentially negative readings of U.S. GDP in the first half, moderate economic expansion is forecast to resume in the second half of this year as the positive impact of rate cuts and the economic stimulus package takes hold.

Job growth is anticipated during the latter part of this year, offsetting losses posted through midyear. If history repeats itself, approximately two-thirds of the $100 billion in tax rebates will be spent by year end, largely in the retail sector, but a portion of the cash will also go toward paying down consumer debt. While moderate GDP growth of 1.2 percent is anticipated in 2008, a renewal of business and consumer confidence is necessary for the recovery to build momentum heading into 2009. Unlike the last recession, lending standards are tight, home prices are declining and energy costs are at record-high levels, forcing consumers to rein in spending.

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Economy.com, Federal Reserve, ICSC, NAR, RCA, PPR, Reis.

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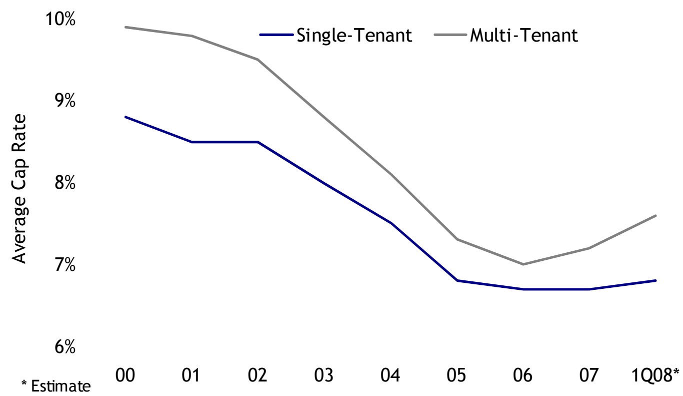
Retail Market Challenged by Consumer Pullback, Housing Downturn

Retail vacancy increased 40 basis points in the first quarter to 10.1 percent. Fortunately, a large share of development has been tenant driven in recent years, and tighter lending will limit speculative building further as 2008 progresses. Most major chains have reduced expansion plans dramatically and are closing underperforming stores.

Retail Property Cap Rate Trends



Sources: Marcus & Millichap Research Services, CoStar Group, Inc.

Retail sales growth stalled in the first quarter but is forecast to reach 3 percent this year, down from 4.1 percent in 2007. Residential cash-out refi activity was down 50 percent last quarter when compared to one year earlier, which combined with higher gas and food prices, has caused many consumers to forego spending on non-essentials. This trend is evident when reviewing sales performance by retailer segment; drugstores and wholesale clubs are faring best, while declines among furniture, apparel and department stores are accelerating. Retailers focused solely on home furnishings and other non-necessities are struggling, with chains including Levitz, Sharper Image and Bombay Company recently filing for bankruptcy.

Sales velocity was down 40 percent during the first quarter when compared to one year earlier, and investors' flight to quality became evident. The credit crunch and a classic buyer/seller price-expectations gap resulted in a major drop-off in retail property sales compared to last year's record activity. The $1 million to $10 million segment registered the least significant decline, as private investors focused on single-tenant assets occupied by strong credit tenants, which are generally in this price range. Single-tenant cap rates vary significantly, with assets in primary markets registering a mild 10 basis point uptick to 6 percent during the past year, while cap rates in secondary/tertiary markets have increased 30 to 40 basis points to the mid-6 to low-7 percent range. Investors' focus on safety, along with tighter lending standards, have also affected cap rates for multi-tenant assets, with the average rising 50 basis points to 7.6 percent. Quality shopping centers in primary areas continue to command interest from multiple buyers. Concerns over the depth and duration of the economic downturn and health of retailers, however, are driving up cap rate expectations, as related to upcoming lease expirations.

Forecast:

Completions are forecast at 131 million square feet this year, down from 145 million square feet in 2007. Nonetheless, vacancy is expected to rise by an additional 100 basis points this year to 11.1 percent, following a 90 basis point increase in 2007. In addition to reduced expansion plans, store closures are expected to reach 6,000 in 2008, compared to 4,600 in 2007.

Financing is available, but lender caution will prevail in 2008, as slower consumer spending directly impacts property performance. Value-add deals that rely heavily on future rent and occupancy growth and properties in secondary/tertiary locations will register the greatest price correction. Despite a focus on assets occupied by top credit tenants, reduced exchange capital out of the apartment market, particularly from California, will limit single-tenant transaction velocity this year.

The long-range outlook for retail is relatively positive; further reductions in development will set the stage for improvement once the housing market stabilizes and the economic recovery gains traction. In the near-term, investors with cash in hand are likely to find strong buying opportunities, as the listing-to-sales ratio has doubled over the past 12 months. Pricing correction is under way, but strong appreciation in recent years will limit the number of distress sales. For the year, the buyer/seller expectations gap, along with tighter financing, will remain the greatest challenges to the retail investment market.

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Economy.com, Federal Reserve, ICSC, NAR, RCA, PPR, Reis.

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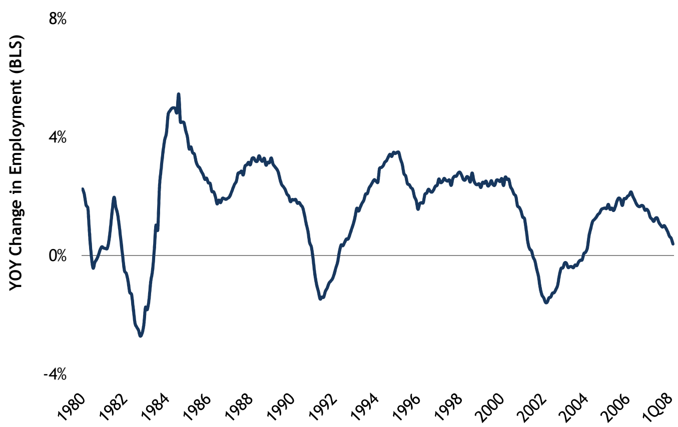
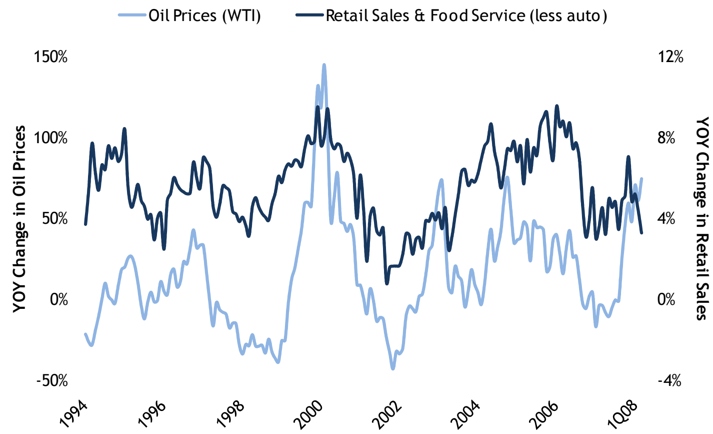
Retail Market Vital Signs

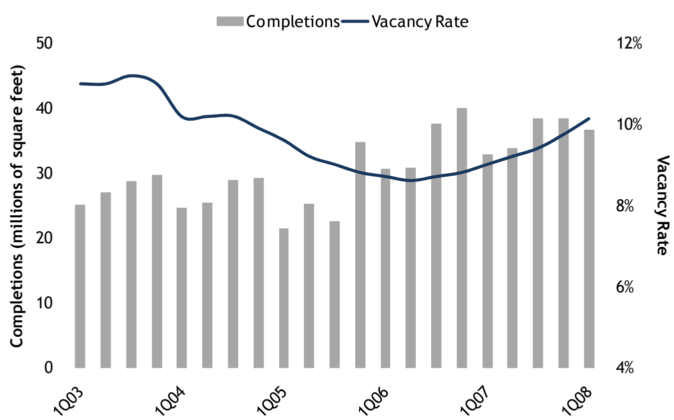
Total Non-Farm Employment Growth



Retail Sales and Oil Prices

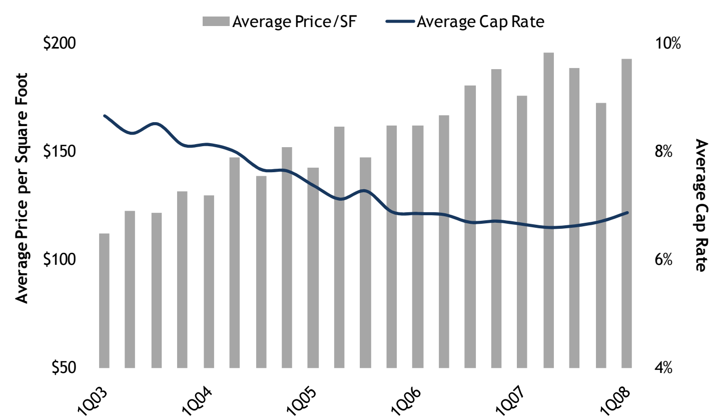


Total Retail Supply and Demand Trends



Includes single-tenant and multi-tenant retail
Sources: Marcus & Millichap Research Services, PPR, Reis

Retail Price and Cap Rate Trends



$5 Million+ Transactions
Sources: Marcus & Millichap Research Services, Real Capital Analytics

1Q 2007 to 1Q 2008 Change in Shopping Center Vacancy*

Top 10 Decrease in Vacancy

Metro	1Q 2008	Chg (bps)
Milwaukee	9.1	-110
Kansas City	8.6	-80
Miami	4.4	-60
Suburban Maryland	3.8	-50
Fort Worth	11.3	-40
Raleigh-Durham	8.3	-30
Charlotte	7.2	-20
Suburban Virginia	3	-20
Orange County	2.9	-10
Philadelphia	6.4	-10
US Metro Average	**7.7**	**60**

Top 10 Increase in Vacancy

Metro	1Q 2008	Chg (bps)
West Palm Beach	6.4	140
Chicago	8.8	150
Indianapolis	13	150
Salt Lake City	9.1	150
Tulsa	12.8	150
Sacramento	6.9	180
Albuquerque	10.2	190
New Haven	8.5	190
Ventura County	4.6	200
Fort Lauderdale	7.6	220
US Metro Average	**7.7**	**60**

*Neighborhood and community centers
Sources: Marcus & Millichap Research Services, Reis

The information in this report is deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, expressed or implied, may be made as to the accuracy or reliability of the information contained herein. Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Economy.com, Federal Reserve, ICSC, NAR, RCA, PPR, Reis.

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