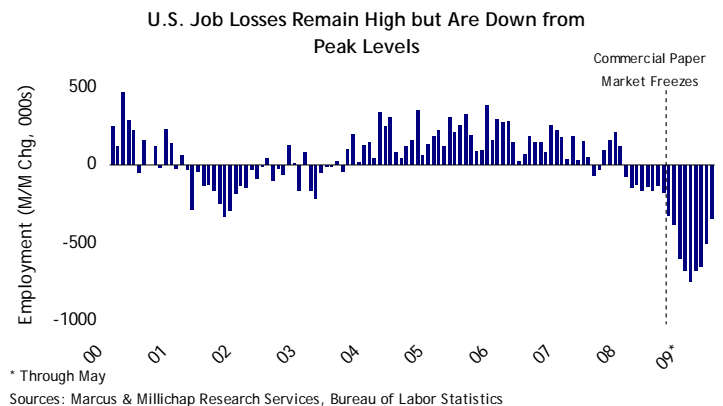




Economic Data Offers Cause for Cautious Optimism: Home Sales Rise, While Job Losses Down from Peak

Recession Drivers Shift. U.S. GDP contracted at an annualized rate of 5.7 percent in the first quarter of 2009, following a 6.3 percent decline in the previous quarter. Despite dramatic decreases in both quarters, the components of change varied significantly. Weakness during the fourth quarter was driven by a pullback in consumer spending, while contraction in the first quarter was due largely to drastic cutbacks in business spending and inventory reductions. During the first quarter, consumer expenditures made a positive contribution to GDP for the first time since mid-2008, and consumer confidence began to improve. Retail sales slipped in March and April before rising minimally in May, however, as consumers remained cautious, driving the savings rate to its highest level since 1995.



Job Losses Still Above-Trend but Decelerating. The freezing of the commercial paper market and interbank lending last fall resulted in extreme cutbacks across employment sectors. In May, employment declined by 345,000 jobs amid continued economic weakness, though losses were down more than 45 percent from the previous six-month average. Since the start of the downturn, 6 million jobs have been lost nationwide, the greatest contraction in history, and the unemployment rate has skyrocketed from 4.9 percent to 9.4 percent, the highest level since 1983. Unemployment is expected to rise past 10 percent by early 2010, even after job losses subside, due to individuals who suspended job searches during the downturn re-entering the labor pool.

Home Sales Activity Rising, but Prices Yet to Bottom. Rising foreclosure activity has led to dramatic declines in home prices, which, combined with low mortgage rates and an \$8,000 tax credit for first-time homebuyers, have sparked a wave of home sales in many major markets. While sales activity appears to be moving along a floor, prices are forecast to slip further through 2009 as bank-owned properties continue to flood the market.

Government Measures Improve Confidence, Help Settle Financial Markets – No Quick Fix. Government intervention since the onset of the credit crunch has reached unprecedented levels. Several credit facilities have been established since the fall of 2007 to address troubled segments of the financial system, including money market funds, the commercial paper market and asset-backed securities. A more systemic approach has been proposed to clear toxic loans and securities from banks' balance sheets through public-private partnerships. While these programs could provide a much-needed price discovery tool and free up capital for new lending, implementation will require time and likely some trial and error.



Stress Tests Uncover Potential Problems Ahead of the Curve; Markets Respond Favorably. The economic downturn may be rooted in the housing and mortgage markets, but uncertainty and fear played critical roles in the escalation of a credit crunch to a full-blown financial crisis. To provide more transparency in the financial system, the government recently performed stress tests on the 19 largest U.S. banks. Although 10 banks were ordered to raise a combined \$75 billion to protect against potential losses, the results were not as grim as many feared. Markets have reacted somewhat positively, with financial stocks posting gains immediately following the release of the results. Furthermore, major banks have already raised a substantial portion of the government's capital requirements through stock sales.

Fed Focuses on Unlocking Commercial Mortgage-Backed Securities (CMBS) Market; Potential S&P Downgrades May Hamper Effectiveness. In early May, the Fed announced it would offer five-year loans through its Term Asset-Backed Loan Facility (TALF) for the purchase of highly rated, newly issued CMBS starting this summer. The government followed a few weeks later by adding highly rated legacy CMBS to the program. The program's expansion was initially well-received, with spreads for AAA-rated CMBS narrowing more than 100 basis points. Furthermore, a few major banks have announced plans to originate new, fixed-rate commercial mortgages that will be securitized and eligible for TALF financing. CMBS spreads have ticked up again, and near-term volatility is likely, however, as Standard & Poor's recently proposed modifications to its ratings methodologies. The changes could lead to mass downgrades, particularly for 2005 to 2007 vintages, which were subject to the most lax underwriting. The latest developments may prompt some retooling of the CMBS component of TALF, since a large share of legacy CMBS may not qualify for the program.

Forecast:

Indicators Offer Cause for Guarded Optimism. Business and consumer confidence have increased in recent months due to more optimistic expectations for the second half of 2009, while initial jobless claims are still elevated but down from the peak. Some near-term spikes in new unemployment claims may occur due to recent bankruptcy filings by GM and Chrysler, but overall employment should begin to level in the third quarter. Assuming home prices bottom by early 2010 and credit markets continue to ease, employment should expand by 1.0 percent to 1.25 percent in 2010.

Moderate Economic Growth in 2010. The housing market was the first domino to fall and has weighed heavily on the economy, subtracting an average of 95 basis points from GDP every quarter since 2006. Therefore, even a bottoming of the housing market bodes well for overall GDP, which is forecast to increase by 2.0 percent to 2.5 percent in 2010.

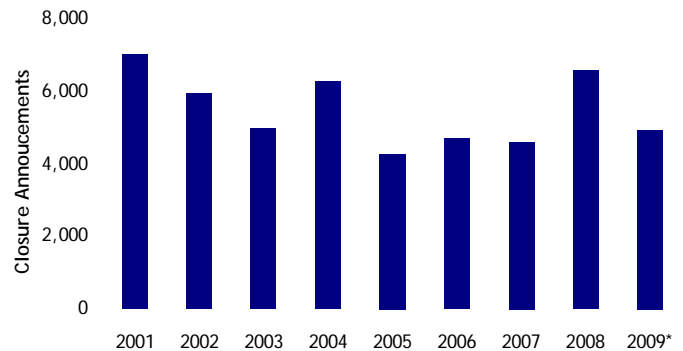
Commercial Property Distress to Rise Amid Wave of Maturing Debt. Even if programs aimed at restarting the securitization market are successful and constraints on debt capital ease, the combination of deteriorating property fundamentals, declining values and tighter underwriting will make it impossible for many owners to refinance maturing loans without considerable equity contributions. During the first quarter of 2009, the distressed component of the marketplace increased by more than 50 percent, and with nearly \$365 billion in commercial mortgage debt due to mature in 2009 and 2010, distress will undoubtedly rise further. On a positive note, there is a tremendous amount of equity awaiting placement in the commercial real estate market. REITs have raised more than \$7 billion year to date, for example, positioning them to acquire well-priced assets that may come to market in the near term.

Weak Fundamentals to Prevail Through 2009 Due to Constricting Retailer Demand, New Supply

Consumers Cautious; Pulling Back on Spending.

After declining in March and April, retail sales posted a modest increase in May, due in large part to rising gasoline prices. On a year-over-year basis, retail sales excluding autos and gas were still down 2.9 percent. Severe job losses, reduced wealth and general economic uncertainty are prompting households to conserve cash. The net worth of U.S. households contracted by \$1.3 trillion in the first quarter of 2009 alone, as stock portfolios continued to shrink and home prices remained on a downward trajectory. Over the past year, savings deposits have increased 17 percent, and the savings rate, which measures the amount of disposable income that is saved, rose to 5.7 percent, its highest level since 1995. Once home prices and financial markets stabilize and an economic recovery begins to gain traction, consumers ultimately will reduce their cash reserves, a welcome shift for struggling retailers.

U.S. Store Closure Announcements

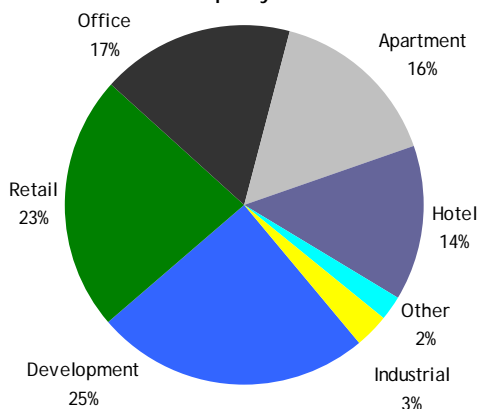


* Forecast

Sources: Marcus & Millichap Research Services, ICSC

Vacancy Pushes Higher. Retail vacancy rose to 9 percent in the first quarter, up 60 basis points from year-end 2008 and 120 basis points from mid-2008. Weakness in fundamentals is due to a wave of development in recent years, combined with reduced expansion plans among retailers and accelerating store closures. Power centers have been hit particularly hard by high levels of big-box construction and closures, as retailers such as Circuit City and Linens 'n Things have shuttered all locations nationwide. Power center vacancy has increased 270 basis points over the past 12 months as a result. Retail completions are trending down, with 14 million square feet delivered in the first quarter, versus 46 million square feet in the final quarter of 2008. There is, however, a considerable overhang of recently completed space that will weigh on fundamentals through 2010 and beyond, with vacancy among properties built in 2008 currently at 22 percent. Oversupplied housing markets such as Phoenix, Las Vegas, Riverside-San Bernardino and some major Florida metro areas are home to significant retail projects that were built in anticipation of population growth. Many new subdivisions failed to materialize or sit largely vacant, resulting in above-average retail vacancy increases in these markets.

Retail Accounts for Large Share of Distressed Property Market



Based on total distress (dollar volume) through 1Q09

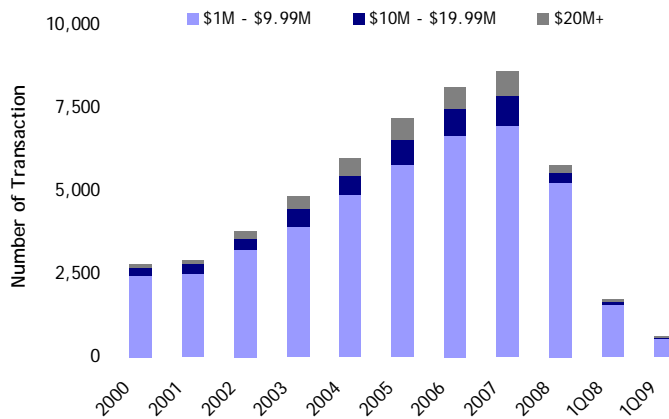
Sources: Marcus & Millichap Research Services, Real Capital Analytics

Rents Reflect Weakness. Retail rents began to slip late last year, and the trend gained momentum in the first quarter. Compared to one year ago, effective rents are down 2.8 percent, with the bulk of decline attributable to weakness in the first quarter. Asking rents also have fallen, though to a lesser degree, as owners are concentrating on concessions to attract and retain tenants. Some retailers have been successful in obtaining rent reductions on in-place leases, though major owners are reportedly denying a large share of these requests unless tenants can provide financials to support their case.

Capital Constraints, Buyer/Seller Disconnect Weighing on Investment Activity.

As of the first quarter of 2009, retail property transactions were down almost 65 percent from one year earlier. While activity slipped across the board, sales of properties \$20 million and greater dropped 75 percent, as financing large single-asset deals has become a significant challenge. Sales activity among retail properties priced at less than \$10 million was down to a lesser degree, due in part to private investors' demand for single-tenant assets. Top-quality single-tenant properties – or those occupied by strong-credit tenants and secured by long-term leases – remain among the safest alternatives in the commercial real estate market. There are, however, fewer buyers competing for these deals, due in part to a considerable reduction in 1031-exchange capital coming from apartments.

Drop-Off in Large Transactions Most Severe



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

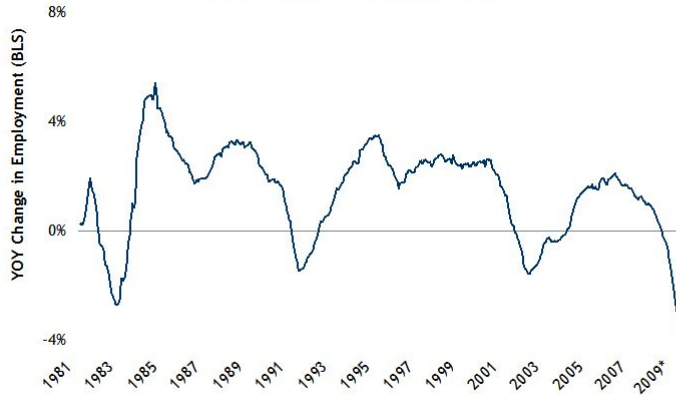
Forecast:

Further Weakening on Horizon, Despite Reduced Construction. New supply is forecast to decline to 90 million square feet in 2009, the lowest level in almost 15 years, and will retreat to less than 60 million square feet in 2010. Nevertheless, retailers remain cautious, scrutinizing expansion plans and closing underperforming locations to preserve capital and ride out the downturn. As a result of weakening demand, vacancy is expected to rise an additional 190 basis points over the balance of the year to 10.9 percent.

Investment Opportunities Emerge. Factors including maturing debt, deteriorating NOIs and the need to raise capital to support other properties in investors' portfolios are resulting in more realistic pricing and increased acquisition opportunities. While this trend is expected to continue through 2009 as distress becomes more widespread, price correction will not be spread evenly throughout the marketplace. Over the past year, the average cap rate on closed transactions in primary markets has increased approximately 60 basis points, compared to a nearly 100 basis point correction in tertiary markets; however, cap rates necessary to clear the market today are even higher. The divergence in cap rates is forecast to continue based on risk, property quality and location.

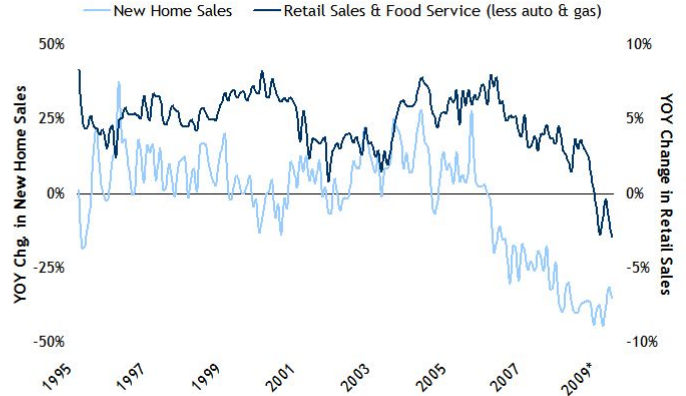
Retail Market Vital Signs

Total Non-Farm Employment Growth



Sources: Marcus & Millichap Research Services, Economy.com

Retail Sales and New Home Sales



Sources: Marcus & Millichap Research Services, Economy.com

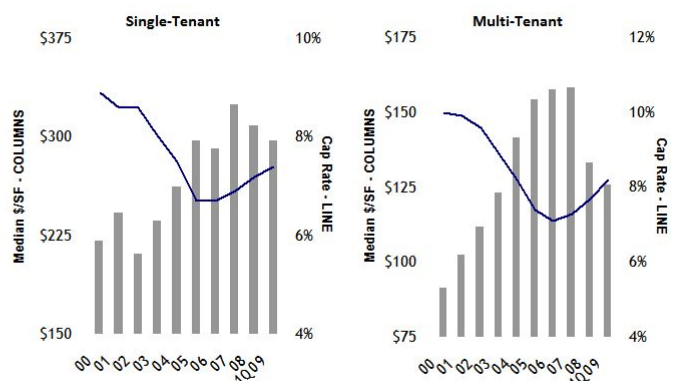
Total Retail Supply and Demand Trends



Includes single-tenant and multi-tenant

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

Retail Property Sales Trends



Sales of \$1M+

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

1Q 2008 to 1Q 2009 Change in Retail Vacancy

Top 10 Markets by Y-O-Y Change in Vacancy

Metro	1Q09	Y-O-Y Chg. (bps)
Columbus	10.9%	-
New York City	5.3%	10
San Francisco	4.2%	10
Dallas/Fort Worth	11.6%	40
St. Louis	10.0%	40
Cincinnati	13.3%	70
Detroit	11.2%	70
Austin	9.2%	80
San Antonio	9.5%	90
Chicago	10.0%	100
U.S. Metro Average	9.0%	150

Bottom 10 Markets by Y-O-Y Change in Vacancy

Metro	1Q09	Y-O-Y Chg. (bps)
Los Angeles	5.3%	230
Atlanta	10.8%	240
Orange County	5.3%	240
Cleveland	11.5%	250
Sacramento	9.2%	250
Tucson	9.1%	270
Fort Lauderdale	9.4%	280
Inland Empire	10.0%	280
Phoenix	10.5%	300
Las Vegas	10.4%	420
U.S. Metro Average	9.0%	150

Sources: Marcus & Millichap Research Services, Costar Group, Inc., 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., DataQuick, Deutsche Bank, Economy.com, Federal Reserve, ICSC, NAR, Real Capital Analytics (RCA), Reis, U.S. Census Bureau.

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