

HOUSING DOWNDRAFT CATCHES RETAIL MARKET; BUYERS AND SELLERS SEEK NEW COMMON GROUND

Retail property fundamentals are softening due to the prolonged housing downturn and slowing economy; however, performance variation by market and type of retail has widened significantly. This makes it more critical than any time since 2002 to base investment strategy on specific markets, submarkets and investment circumstances. In the near term, the retail sector will continue to feel the strain of reduced consumer confidence, the housing slump, and high food and energy prices. The credit crunch has brought several planned projects to a halt and will limit speculative shopping center construction, providing an opportunity to work through excess supply. Mature, supply-constrained markets will outperform over the next 12 to 18 months as the economy stabilizes and moderate growth resumes. Current weakness in traditional growth markets, mostly brought on by housing problems, could result in favorable longer-term investments as these markets recover over the next 24 months.

Similar to other commercial property types, economic uncertainty and tight credit markets are resulting in significant reductions in retail transaction velocity and mild price correction. Fortunately, the shift that is under way was preceded by several years of healthy performance and robust price appreciation, which will limit distress sales and prevent a major marketwide correction. Price and cap rate movements have been highly dependent on asset quality and tenant credit, with the most sought-after properties experiencing cap rate adjustments ranging from 20 basis points to 40 basis points. Cap rates for lower-quality properties have increased more substantially, reflecting lenders' and investors' focus on safety. Despite tight credit markets and the considerable reduction in the issuance of commercial mortgage-backed securities (CMBS), the majority of maturing commercial mortgages are being successfully refinanced and delinquency rates remain near historical lows.

2008 ANNUAL RETAIL FORECAST



Economy: The government's stimulus package, liquidity injections and lower interest rates make a technical recession unlikely and should prevent a prolonged downturn, fostering growth later this year. In addition, companies avoided excessive hiring and capital investments during the most recent expansion period, supporting expectations for only a moderate downturn.



Construction: Completions are forecast at 131 million square feet this year, down from 145 million square feet in 2007. Several large regional malls/lifestyle centers are slated to come online this year, totaling 11 million square feet, more than two times the total delivered in 2006.

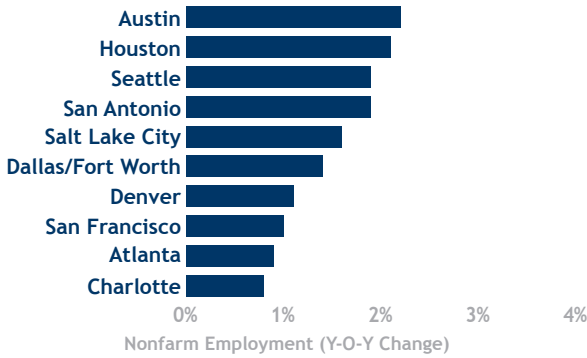


Vacancy: Vacancy is expected to rise 140 basis points this year to 11.1 percent, following a 90 basis point increase in 2007. Absorption of neighborhood/community center space turned negative in the first quarter of this year for the first time since 1980, though vacancy in this segment remains below the overall retail average at 7.7 percent.

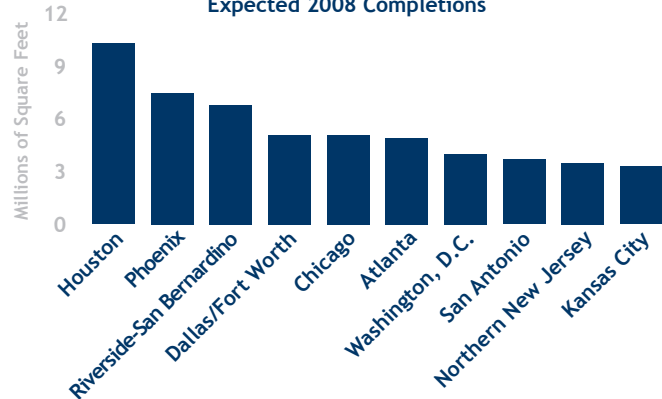


Rents: Driven by new construction, shopping center asking rents are forecast to rise 1.9 percent this year to approximately \$20 per square foot, compared to 2.9 percent in 2007. Owners are expected to increase concessions, limiting effective rent growth to 0.9 percent.

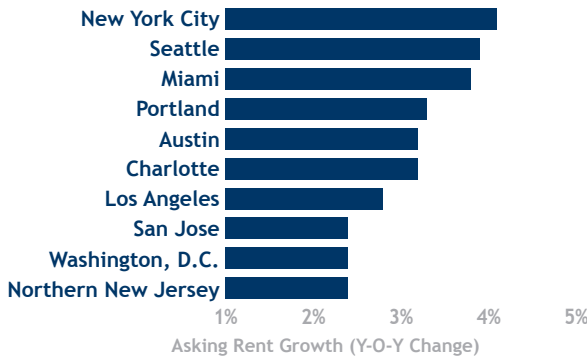
Markets with the Highest Expected 2008 Employment Growth



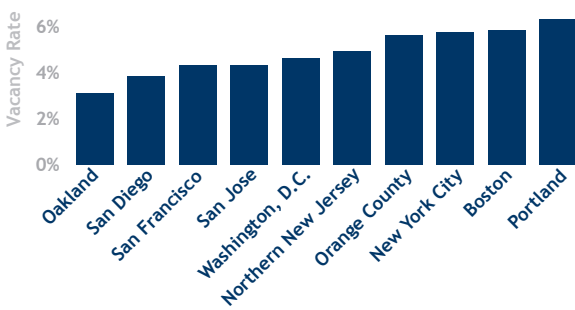
Markets with the Highest Expected 2008 Completions



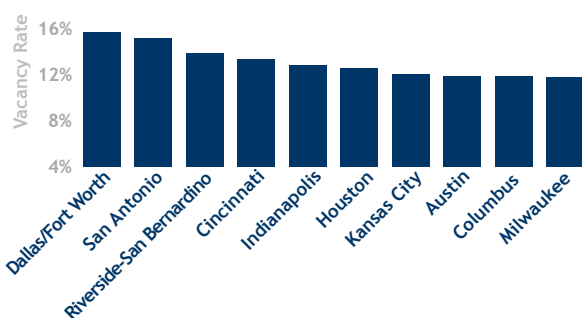
Markets with the Greatest Expected 2008 Asking Rent Growth



Markets with the Lowest Expected 2008 Vacancy Rates



Markets with the Highest Expected 2008 Vacancy Rates



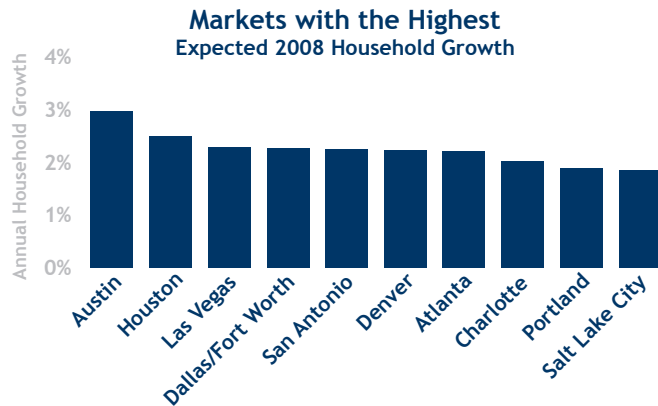
2008 National Retail Index

Marcus & Millichap is pleased to present the 2008 edition of the National Retail Index (NRI). The NRI is a snapshot analysis that ranks 43 retail markets based on a series of forward-looking supply and demand indicators. Markets are ranked based on their cumulative weighted-average scores for various indicators, including forecast employment growth, vacancy, construction, household formation, retail sales, rent growth and an additional analysis of local housing market conditions. Taking into account both the forecast level and degree of change for the year, the index is designed to indicate relative supply and demand conditions at the market level.

Users of the index are cautioned to keep several important points in mind. First, the NRI is not designed to predict the performance of individual investments. A carefully chosen investment in the bottom-ranked market could easily outperform a poor choice in the top-ranked market. Second, the index is geared toward a short-term time horizon. A market facing difficulties in the near term may provide excellent long-term prospects, and vice versa. Third, it is possible for a market to rise in the rankings even if its fundamentals are weakening. This can happen when conditions fall off more substantially in the market's peers. Finally, because the NRI is an ordinal index, differences in specific rankings should not be misinterpreted. For example, the top-ranked retail market is not necessarily twice as good as the second-ranked market, nor is it 10 times better than the 10th-ranked market.

Housing Woes Weighing on Retailers; Job Gains Expected in Second Half

Retailers are feeling the effects of the cooling economy and weak housing market conditions. Food and energy costs continue to rise, putting a greater strain on household budgets, while job losses during the first several months of 2008 have hampered consumer confidence and further restrained discretionary spending. These trends have been especially apparent in markets that had posted some of the most impressive gains during the housing boom, including Phoenix, Riverside-San Bernardino, Las Vegas and several Florida metros. In many cases, retail developers built ahead of rooftops in outlying areas of these markets and are now struggling as housing projects are delayed and residential foreclosures push higher. There is good news in the marketplace, however. In many supply-constrained areas, fundamentals remain healthy, despite vacancy rates creeping moderately higher. Home sales have already begun to pick up in a handful of markets, and modest job growth is expected to return in the second half of the year, suggesting that the economic downturn should be short-lived. Finally, retailers could see an uptick in spending in the next few months as consumers receive tax rebates as part of the economic stimulus package.



Mature Markets Rise While Traditional Top-Performers Undergo Temporary Housing-Induced Softening

In the 2008 NRI, San Francisco ascended seven places to take over the top position. San Francisco will receive a minimal amount of new stock, keeping vacancy low enough to drive above-average rent growth. Strong retail sales and rent gains propelled Seattle (#2) up three places in the index. Completions are slowing significantly in San Jose (#3), sustaining the vacancy rate well below the national average and supporting continued rent increases. Uncertainty in the financial services sector is expected to result in weak job expansion in New York City, causing the metro to fall three spots to #4, despite forecasts for some of the nation's strongest rent growth. High household incomes will support spending in Washington, D.C., this year, easing the metro up four spots to the #5 position.

San Diego comes in at #6 again this year, although vacancy will rise in response to increased retail deliveries. Oakland (#7) fell three spots in the NRI amid forecasts for net job losses in 2008, though the market is expected to end the year as the tightest market in the index, even after a vacancy forecast increase. Portland (#8) made one of the greatest gains in the 2008 NRI, as metrowide job growth and rent appreciation are expected to outpace the national average in 2008. Despite some projected job losses, healthy rent growth moved Los Angeles up three places to #9. Boston rounds out the top 10, jumping eight spots due to a forecast for only a modest increase in vacancy.

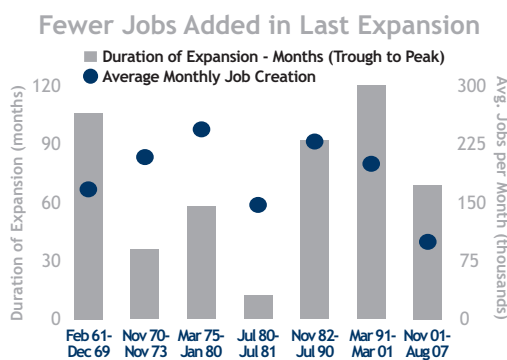
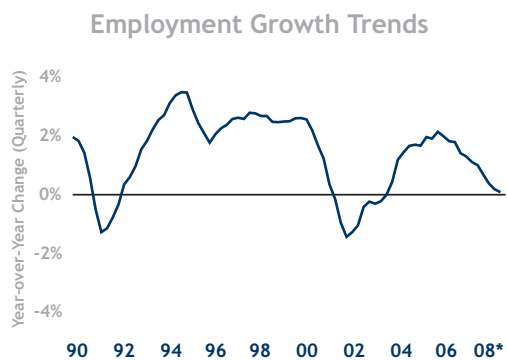
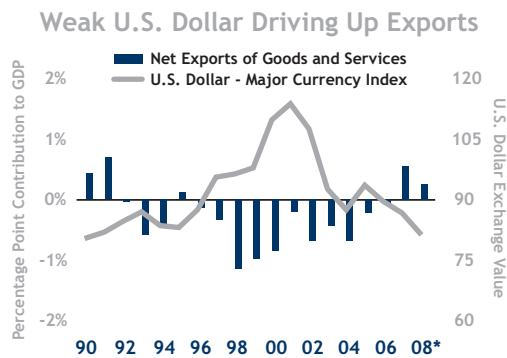
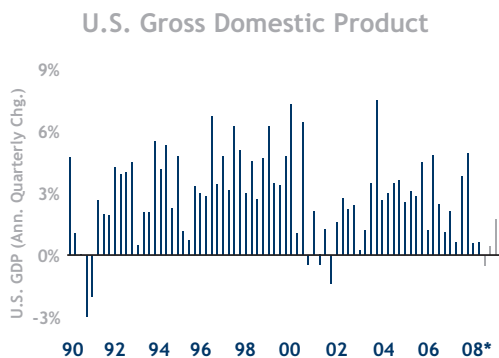
Weak housing market conditions drove down some traditionally high-growth metro areas in this year's ranking. Fort Lauderdale (#15), Phoenix (#19) and West Palm Beach (#21) fell 13, 16 and 10 places, respectively. While local retail fundamentals in these markets will experience turbulence over the next 12 to 18 months, forecasts for retail demand drivers remain among the strongest in the nation, supporting still-favorable long-range outlooks.

Despite forecasts for robust economic growth, Houston (#27) and Dallas/Fort Worth (#28) declined modestly in this year's index due to high levels of construction, which will result in vacancy increases of more than 100 basis points in each market. Austin (#11), on the other hand, rose four spots due to scaled-back development and a healthy job growth projection.

Midwestern markets make up much of the lower-third of the NRI again this year, as employment losses will continue to restrict retail sales in these areas. Since many of these markets did not experience a rapid run-up in home prices or retail development, they may offer more stable retail fundamentals through 2008.

MSA	Rank 2008	Rank 2007	07-08 Change
San Francisco	1	8	▲ 7
Seattle	2	5	▲ 3
San Jose	3	10	▲ 7
New York City	4	1	▼ 3
Washington, D.C.	5	9	▲ 4
San Diego	6	6	■ 0
Oakland	7	4	▼ 3
Portland	8	17	▲ 9
Los Angeles	9	12	▲ 3
Boston	10	18	▲ 8
Austin	11	15	▲ 4
Northern New Jersey	12	19	▲ 7
Orange County	13	7	▼ 6
Miami	14	20	▲ 6
Fort Lauderdale	15	2	▼ 13
Atlanta	16	14	▼ 2
Denver	17	25	▲ 8
Chicago	18	22	▲ 4
Phoenix	19	3	▼ 16
Las Vegas	20	13	▼ 7
West Palm Beach	21	11	▼ 10
Orlando	22	27	▲ 5
Charlotte	23	32	▲ 9
Salt Lake City	24	34	▲ 10
Riverside-San Bernardino	25	16	▼ 9
Philadelphia	26	31	▲ 5
Houston	27	26	▼ 1
Dallas/Fort Worth	28	24	▼ 4
Tucson	29	21	▼ 8
Minneapolis-St. Paul	30	30	■ 0
Tampa	31	23	▼ 8
Sacramento	32	28	▼ 4
San Antonio	33	29	▼ 4
Columbus	34	38	▲ 4
Jacksonville	35	33	▼ 2
New Haven	36	35	▼ 1
Indianapolis	37	36	▼ 1
St. Louis	38	New	■ NA
Kansas City	39	37	▼ 2
Cincinnati	40	42	▲ 2
Milwaukee	41	39	▼ 2
Detroit	42	40	▼ 2
Cleveland	43	41	▼ 2

Economic Stimuli to Limit Downturn, Foster Moderate Growth in Second Half



* Forecast

Economic expansion is forecast to resume in the third quarter as the benefits of Fed rate cuts, new liquidity measures and tax rebates become more apparent. The housing market should reach bottom later this year, though risks are clearly present, including the potential for rising foreclosures outside of the subprime arena. An estimated 9 million U.S. households have negative equity in their homes, which could lead many otherwise financially able homeowners to walk away from their mortgages. If this occurs en masse, a rapid run-up in for-sale supply could keep downward pressure on prices and extend the housing downturn into 2009. Fortunately, long-term interest rates are expected to remain relatively low throughout 2008, while conforming residential mortgage caps have been raised in higher-priced markets, home starts have dropped off, and government interventions to stem the pace of foreclosures are expected. Barring additional unexpected shocks to the credit markets, home buying should pick up in the second half, reducing for-sale inventory and curtailing price correction in most markets.

Despite a more optimistic economic outlook for the latter half of 2008, many retailers will continue to shutter underperforming locations, proceeding with caution through 2009. From 2002 to 2007, U.S. households cashed out \$1.3 trillion in home equity, mitigating the impact of rising energy prices on discretionary spending. With home prices declining, homeowners are feeling the pressure of elevated food costs and sky-high gas prices. In addition, a broad-based negative psychology has spread to businesses and consumers, further restraining spending. There are some bright spots in the economy, however, including stronger export demand and international travel. Driven by the dollar's weakness against other major currencies, the influx of international travelers will lend support to the retail sector in several gateway markets.

2008 National Economic Outlook

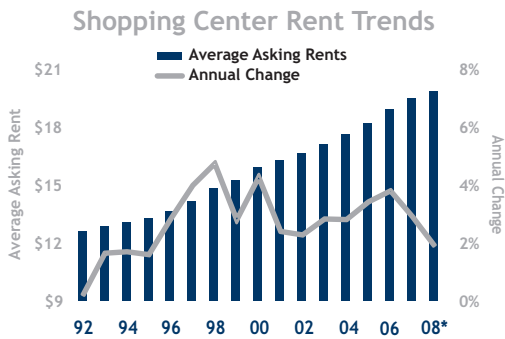
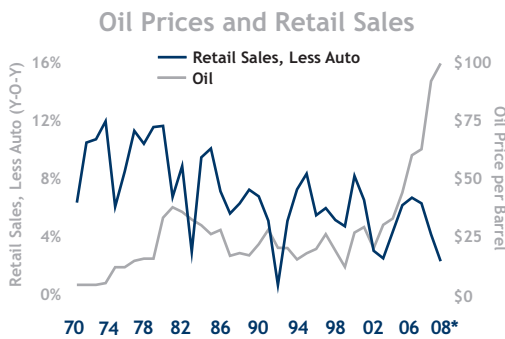
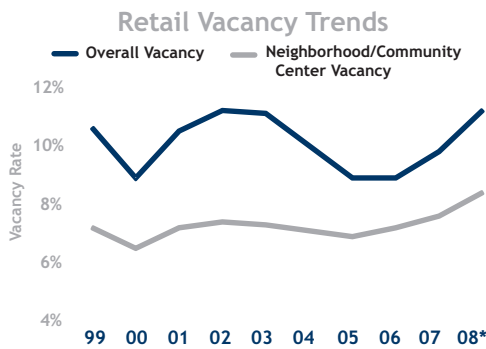
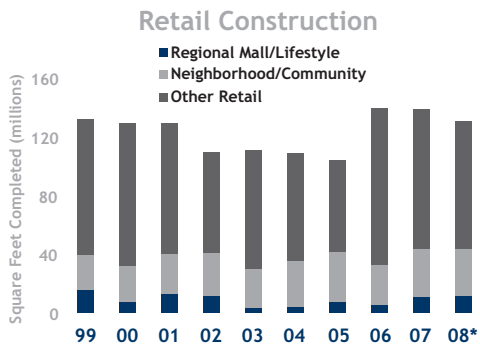
- ◆ **Return to Modest Job Growth Anticipated Later this Year.** Staffing levels were relatively lean heading into the current downturn, and wage pressures should ease further this year. Net job losses were reported through the first several months of 2008, but hiring is anticipated to resume in the second half, resulting in a flat employment market this year.
- ◆ **Slower Economic Growth Expected.** GDP is forecast to rise by 1.2 percent in 2008, compared with 2.2 percent in 2007, as growth in the second half offsets contraction earlier in the year. The weak dollar will continue to support healthy export activity, and corporate balance sheets outside of housing- and banking-related industries are still sturdy.
- ◆ **Checks Are in the Mail.** U.S. households are getting some relief in the form of \$100 billion in tax rebates. If history repeats itself, roughly two-thirds of the total will be spent by year end, much of it in the retail sector, which is good news for struggling merchants.
- ◆ **High Energy Prices Stoke Inflation Concerns.** While core inflation has reached just 2.5 percent over the past year, oil prices have spiked more than 20 percent since year-end 2007. Higher production costs will eventually need to be passed along to consumers, increasing the likelihood of Fed tightening following normalization of the economy.
- ◆ **Housing Wealth Effect Reversing.** Strong home price appreciation contributed \$6.4 trillion to U.S. households' net worth from 2002 to 2006; however, the trend has reversed, with housing subtracting nearly \$180 billion during the second half of 2007.

MSA Name	Vacancy (Year-End, %) ¹		Asking Rent (\$/Sq. Ft., NNN) ¹		Completions (000s of Sq. Ft.)		Employment Growth (%) ¹	
	07	08*	07	08*	07	08*	07	08*
Atlanta	8.7	9.7	17.37	17.56	6,032	4,900	1.6	0.9
Austin	11.1	11.8	19.87	20.51	5,331	2,000	3.4	2.2
Boston	5.5	5.8	21.55	21.87	1,917	2,100	0.6	0.5
Charlotte	7.4	8.3	17.78	18.35	3,356	1,700	2.9	0.5
Chicago	8.3	9.2	19.65	20.00	9,100	5,100	0.5	0.1
Cincinnati	11.3	13.3	14.58	14.75	2,216	1,600	0.9	-0.8
Cleveland	8.9	10.7	15.39	15.31	1,919	1,600	-0.4	-0.7
Columbus	11.2	11.8	12.63	12.71	1,235	1,200	1.2	-0.4
Dallas/Fort Worth	14.3	15.6	15.65	15.70	9,232	5,100	2.6	1.3
Denver	7.3	8.1	17.17	17.44	4,444	2,500	2.2	1.0
Detroit	9.8	11.4	17.56	17.49	2,700	1,400	-1.8	-1.0
Fort Lauderdale	5.9	8.4	19.33	19.27	1,893	1,000	-0.2	-1.1
Houston	11.3	12.5	15.74	16.02	4,029	10,300	3.9	1.9
Indianapolis	11.5	12.8	15.01	15.09	1,871	2,500	1.2	0.4
Jacksonville	8.6	9.6	15.54	15.85	3,614	1,400	0.4	0.5
Kansas City	10.8	12.0	14.02	14.20	1,402	3,300	1.8	-0.2
Las Vegas	4.9	6.5	23.65	24.03	2,626	3,300	0.3	-0.6
Los Angeles	7.3	8.1	29.59	30.42	3,359	3,000	0.1	-0.2
Miami	5.7	6.8	24.29	25.21	2,166	1,600	0.6	0.1
Milwaukee	10.1	11.7	15.26	15.31	787	1,300	0.1	-0.7
Minneapolis-St. Paul	9.0	9.6	17.83	18.26	3,779	2,200	0.5	0.3
New Haven	7.9	9.0	21.64	22.08	376	500	-0.5	-0.4
New York City	5.1	5.7	68.19	71.00	1,200	1,300	0.9	0.1
Northern New Jersey	4.2	4.9	27.96	28.63	1,100	3,500	0.5	0.0
Oakland	2.0	3.1	29.09	29.41	862	900	0.1	-0.8
Orange County	4.7	5.6	31.58	32.09	1,253	1,100	-1.5	-0.7
Orlando	8.1	8.6	18.64	18.88	3,813	2,800	1.0	0.2
Philadelphia	6.7	7.4	19.92	20.20	1,765	1,600	0.6	0.1
Phoenix	8.1	10.3	19.36	19.48	7,495	7,500	0.2	-0.3
Portland	5.5	6.3	19.67	20.32	1,420	1,250	1.7	0.4
Riverside-San Bernardino	11.6	13.8	22.40	22.53	5,831	6,800	-0.4	-1.0
Sacramento	8.9	10.7	23.87	24.04	2,015	1,900	0.5	-0.4
Salt Lake City	9.6	10.4	16.27	16.51	1,921	1,100	3.2	1.6
San Antonio	13.3	15.1	14.83	15.10	3,961	3,700	2.3	1.9
San Diego	3.1	3.8	28.91	29.43	784	1,400	0.3	-0.6
San Francisco	4.0	4.3	33.57	34.38	366	100	2.1	1.0
San Jose	3.2	4.3	31.58	32.27	883	250	1.6	0.7
Seattle	7.7	8.3	22.73	23.61	1,404	2,650	2.9	1.9
St. Louis	10.1	10.8	15.09	15.30	2,557	1,900	0.2	-0.1
Tampa	7.7	9.5	15.68	15.79	2,873	3,300	-1.2	-0.4
Tucson	9.1	11.3	17.31	17.64	198	2,000	-0.7	-0.8
Washington, D.C.	3.9	4.6	27.34	28.00	2,635	4,000	0.8	0.4
West Palm Beach	7.2	8.6	22.87	22.98	1,373	750	-0.6	-0.7

¹ See Statistical Summary Note on page 8

* Forecast

Housing Downturn, Consumer Pullback Weighing on Retail Property Fundamentals



* Forecast

Retail construction has slowed, which will help to minimize the impact that moderating retail sales growth and store closures will have on retail property performance this year. Nonetheless, vacancy rose 40 basis points in the first quarter to 10.1 percent, and further increases are anticipated amid scaled-back expansion plans and closures of underperforming locations. The disappointing holiday season, slower retail sales and tighter credit markets led to the closure of 2,125 stores during the first quarter, two-thirds of the total reported during the first half of 2007. For the year, closures are forecast to total 6,000 stores, which would be the highest figure since 2004; however, retailers left standing this year should be well positioned to resume expansion when the economy stabilizes and housing regains some traction. Retailers of nonessentials are taking the hardest hits, with apparel and furniture stores recording the most significant year-over-year declines in sales. Drugstores and wholesale clubs are faring best in the current climate as consumers respond to slower economic growth by seeking lower prices and focusing on everyday necessities rather than luxury items.

The housing downturn and overall economic slowdown have generated significant financing challenges for mixed-use developers, causing delays and sending some builders back to the drawing board. As this year advances, the tighter credit environment will result in further reductions in speculative retail development, easing supply-side concerns in markets that face short-term overbuilding issues. At the same time, some regional mall owners are breathing new life into dying properties by signing nontraditional anchor tenants. Department store consolidation and changing consumer preferences have pushed many well-located infill mall properties to the brink, providing strong opportunities for expanding retailers such as Costco and Trader Joe's to pick up mall space in quality locations.

2008 National Retail Market Outlook

- ◆ **Overall Retail Development Slowing; Mall Construction Up.** Completions are forecast at 131 million square feet this year, down from 145 million square feet in 2007. Several large regional malls/lifestyle centers are slated to come online, totaling 11 million square feet, more than two times the total delivered in 2006.
- ◆ **Vacancy on the Rise.** Vacancy is expected to rise 140 basis points this year to 11.1 percent, following a 90 basis point increase in 2007. Absorption of neighborhood/community center space turned negative in the first quarter of this year for the first time since 1980, though vacancy in this segment remains below the overall retail average at 7.7 percent.
- ◆ **Rent Growth Moderating.** Driven in part by new supply, shopping center asking rents are forecast to rise 1.9 percent this year to approximately \$20 per square foot, compared to a 2.9 percent gain in 2007. With vacancy edging higher, owners are expected to increase concessions, limiting effective rent growth to 0.9 percent.
- ◆ **Hardest-Hit Retail Markets Offer Strong Long-Term Prospects.** Markets that once boasted the hottest housing markets are now experiencing the greatest increases in retail vacancy, as many new home developments failed to materialize and a large share of new houses remain vacant. Fortunately, these metro areas have some of the most promising long-term household and employment growth forecasts in the nation.

Tighter Financing, Price Expectations Gap Slow Retail Property Sales – For Now

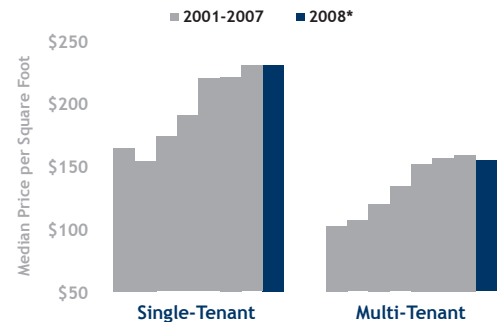
The credit crunch and a classic buyer/seller price expectations gap have hindered transaction velocity so far this year, with retail property sales down 40 percent during the first quarter compared to one year earlier. The \$1 million to \$10 million segment of the market registered only a modest decline, as private investors focused on single-tenant assets occupied by strong credit tenants. In addition, the lack of CMBS debt capital is having the least effect on the lower price ranges, where investors have generally relied on funding from regional and local banks. Sales velocity in the \$40 million-plus price range declined dramatically upon the onset of the credit crunch and was down nearly 85 percent during the first quarter from one year earlier. Furthermore, foreign capital flows into the U.S. retail sector surged early last year, dominated by Australia-based Centro Properties, which recently ran into significant challenges refinancing its maturing debt. A mass selloff of the 700-property U.S. portfolio appears unlikely for now, however, as Centro reportedly reached an agreement with its lenders in early May for an extension through mid-December 2008.

Retail 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 50 basis points on average to the mid-6 percent to low-7 percent range. Investors' focus on safety and 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 the health of retailers, however, are driving up cap rate expectations as related to upcoming lease expirations.

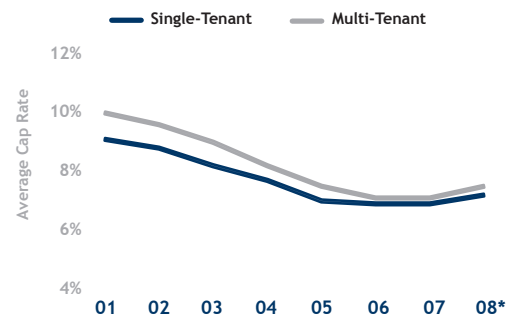
2008 Investment Outlook

- ◆ **Opportunities Present.** Buyers who come across reasonably priced properties that meet their investment strategies would be wise to leverage the current market environment and still-attractive financing to increase their holdings. Although pricing and cap rates are adjusting by property quality, strength of rent rolls and the local market, the number of distressed sales in the marketplace is unlikely to present substantial across-the-board price reductions.
- ◆ **Foreign Investors Still Active but More Cautious.** During the first quarter, foreign acquisitions of major U.S. retail properties accounted for roughly 10 percent of total dollar volume, compared with 17 percent in 2007, and the sources of capital have shifted. Australian investors have been nearly absent from the marketplace thus far in 2008 after accounting for 85 percent of foreign investment in U.S. retail last year, replaced by European investors who are driven by highly favorable exchange rates and comparatively attractive yields.
- ◆ **Retail Returns Healthy.** Despite hitting a rough patch in recent quarters, retail property returns remain attractive, both from a short- and long-term perspective. Over the past year, total returns on retail properties reached 15 percent, falling short of office but surpassing the S&P 500 by a wide margin.
- ◆ **Risk-Adjusted Price Correction Under Way.** After skyrocketing 80 percent from 2002 to 2006, retail prices are retreating moderately. Price correction is concentrated in the lower tiers, which experienced some dramatic cap rate compression in recent years. The cap rate spread between primary and tertiary markets has expanded to more than 100 basis points and is forecast to widen further as investors and lenders lean toward safety.

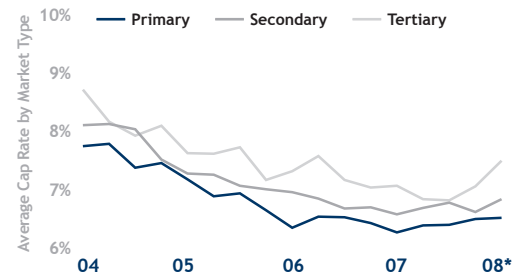
Retail Property Price Trends



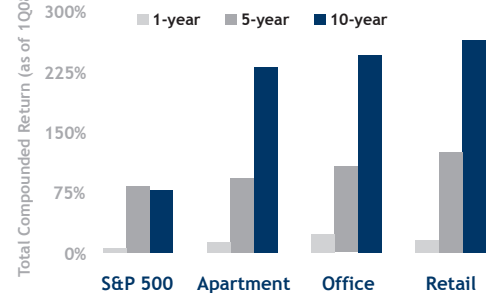
Retail Cap Rate Trends



Cap Rate Trends by Market Type Reflect Flight to Safety

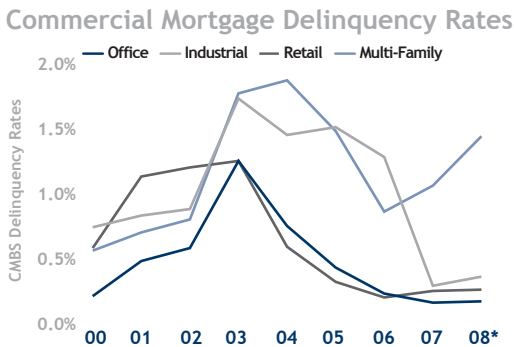
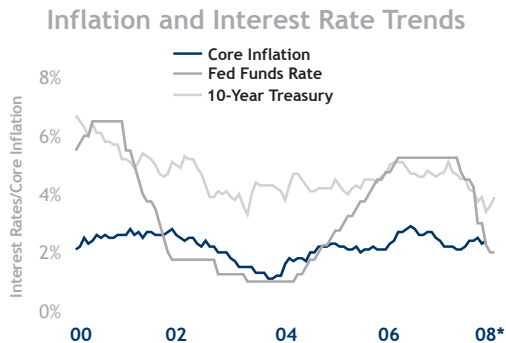


Real Estate Outperforms Stock Market Over the Long Term



* 12 Months Ending 1Q 2008

Debt Capital Constrained but Still Available; Normalized Underwriting Here to Stay



* Through 1Q 2008

Underwriting standards tightened further in the first quarter of this year as some balance-sheet lenders reached capacity and retail market fundamentals softened. Borrowers' and tenants' credit qualities are under close scrutiny, which, along with property location and quality, is driving lenders' decisions. Loan-to-values (LTVs) have decreased over the past year at an average of 60 percent to 70 percent; however, LTVs today are closer to historical averages than the aggressive levels of 2006 and early 2007, when borrowers could obtain loans of 80 percent or more. Debt-service coverage ratios (DSCRs) also reflect greater caution in the marketplace, with lenders requiring 1.25x, compared with 1.1x or break-even in some cases. Obtaining financing for lower-quality assets occupied by noncredit tenants, or those that rely heavily on future rent and occupancy growth, has become increasingly challenging. On a positive note, delinquency rates for retail mortgages are still near historical lows, and despite constraints on debt capital, the majority of maturing loans are being successfully refinanced.

While financing is tighter, debt capital is available for realistically priced assets. Portfolio lender spreads for anchored retail properties are currently 210 basis points to 300 basis points over the 10-year Treasury, depending on the type of retailer and the buyers' and tenants' credit qualities. Loans on unanchored properties are pricing at 240 basis points to 325 basis points over the 10-year Treasury. As of early May 2008, there were signs of thawing in the previously frozen conduit market, where retail property loans were being priced at 325 basis points to 375 basis points over the 10-year Treasury.

2008 Capital Markets Outlook

- ◆ **Delinquency Rates Ticking Up but Still Low.** CMBS delinquency is expected to rise further, driven by loans originated in 2006 and 2007, when underwriting was most lax. At the end of the first quarter, retail CMBS delinquency was at just 0.25 percent, compared with the overall average of 0.43 percent.
- ◆ **Fed Rate Cuts Will Not Come as Willingly.** Since September 2007, the Fed has cut the fed funds rate by 275 basis points to its current 2 percent. While the rate cuts should help to stimulate economic growth in the second half of the year, a potential side effect is rising inflation, pointing to the likelihood of a tightening campaign shortly after economic growth returns.
- ◆ **Efforts Continue to Settle Financial Markets and Restore Liquidity.** In addition to rate cuts and an extension of its term-auction facility in the first quarter, the Fed also opened the door for major securities firms to borrow directly from the central bank using difficult-to-trade agency mortgage-backed securities as collateral. In addition, the Fed extended credit to J.P. Morgan Chase to support the acquisition of struggling Bear Stearns, staving off a potential financial sector collapse.
- ◆ **Long-Term Rates to Remain Relatively Low.** The yield on the 10-year Treasury fell to a low of 3.3 percent in March 2008 but has increased in recent weeks; however, at 3.9 percent, it is still 135 basis points below last summer's peak. Despite the weak dollar and inflation concerns, investors will continue to look to U.S. Treasury bonds as a safer alternative to stocks, keeping the 10-year Treasury in the high-3 percent to low-4 percent range this year.
- ◆ **Lender Spreads to Tighten Modestly.** The recent uptick in the 10-year Treasury is a sign that the "run for safety" is losing steam and investors are regaining some confidence in financial markets. As investors' confidence in the economy and credit markets is slowly restored starting in the second half, lender spreads will begin to narrow.

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Statistical Summary Note: Metro-level employment growth is calculated on a year-over-year basis using a fourth quarter average. Vacancy and rents are fourth quarter figures. Annual asking rents exclude concessions.

Sources: Marcus & Millichap Research Services, Bureau of Economic Analysis, Bureau of Labor Statistics, Commercial Mortgage Alert, Commercial Mortgage Securities Association, CoStar Group, Inc., Department of Energy, economy.com, International Council of Shopping Centers, Mortgage Bankers Association, NAREIT, NBER, NCREIF, Property & Portfolio Research, Real Capital Analytics, SIFMA, Standard & Poor's, The Conference Board, The Federal Reserve Board, TWR/Dodge Pipeline, U.S. Census Bureau, U.S. Securities and Exchange Commission, ULI.