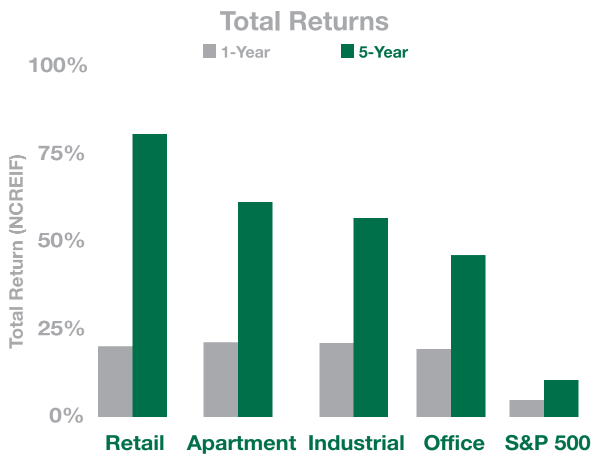
National Retail REPORT

Marcus & Millichap
RESEARCH SERVICES



- ▲ Cap Rates Relatively Favorable. The average cap rate for single-tenant assets dipped 10 basis points year-to-date to 6.7 percent, while multi-tenant cap rates declined 40 basis points to 6.9 percent. In spite of the decrease, returns are favorable when compared to the apartment market.
- ■ Velocity Down, Volume Up. While the number of properties traded during the first quarter of this year is down from 2005, dollar volume is up 6 percent.
- ▲ Retail Outperforms. Over the past five years, total returns in the retail sector reached approximately 80 percent, well above total returns in other core property sectors.
- ▲ Quality Infill Sites in Demand. Owners of older properties in high-traffic urban centers are likely to profit as retailers find it increasingly difficult to find quality sites. Big-box retailers are showing a willingness to adapt formats to urban settings.

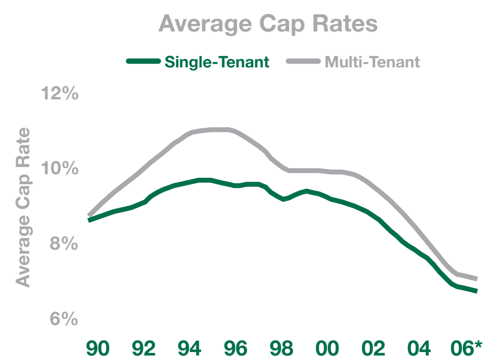
Investment Outlook: Expectations Key to Investment Outlook

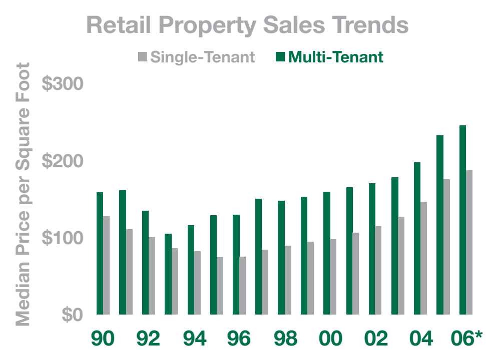
While there is still plenty of debt available in today's market, lenders are focusing more attention on cash flows. With cap rates at historically low levels, some sellers may need to adjust prices modestly, and/or buyers will have to increase down payments to compensate. In either case, buyer and seller expectations are in need of some re-alignment. For both buyers and sellers, however, the risk of further increases in mortgage rates will provide the incentive to move forward with deals. While a deceleration in transaction velocity is expected in the near term, the changing investment climate will also force the market back into a more sustainable pattern of growth, with price trends based more on operations.

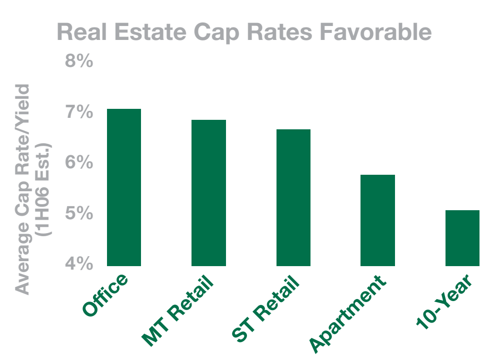
A sense of urgency is expected to bring more properties to market by year end. Within the multi-tenant sector, well-located centers anchored by top grocers will continue to generate high demand in spite of Wal-Mart's expansion, though properties with smaller grocers may face some challenges. Marketwide, the shrinking spread between cap rates and the 10-year Treasury yield is creating some buyer resistance, particularly for top-tier single-tenant assets. Overall demand in this segment, however, will remain strong as aging baby boomers seek low-maintenance assets. Exchange capital now accounts for a large share of single-tenant activity, much of it coming from top-performing coastal apartment markets where long-time owners have built-up substantial equity over the past several years. We expect many of these investors will take advantage of today's conditions to position themselves for their retirement years.

Forecast

- ▲ Where's the Value? A few large REITs are targeting struggling retailers that have real estate holdings worth more than business operations. Underperforming mall-based department stores are also being viewed as lucrative opportunities.
- ▲ Price Appreciation Modest. Multi- and single-tenant retail prices were up approximately 7 percent during the first quarter of 2006. Appreciation has since remained limited, a trend we anticipate will continue through year end.
- ■ Cap Rates Level. Cap rates are expected to level, particularly at the high end of the market. Infill properties that can be viewed as repositioning opportunities may still have some room for compression as demand heats up.







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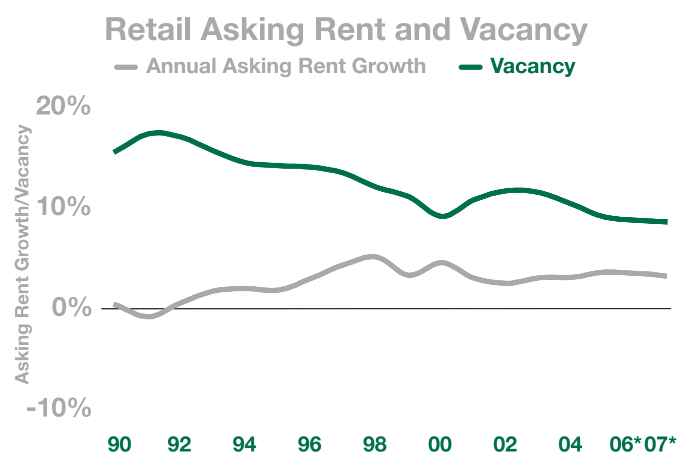
▲ Demand-Driven Development. Last year, approximately 100 million square feet of new retail space came online. Developers are on track to add 98 million square feet this year.

▲ Vacancy Improves. Vacancy declined 130 basis points in 2005 to 8.8 percent. With new supply closely matched to demand, vacancy has since dipped another 10 basis points.

▲ Mergers Create Opportunity. Stores closed due to the Federated-May merger have been getting picked up quickly, with regional department store chain Boscov and higher-end Nordstrom among the retailers taking advantage of the opportunity to expand quickly.

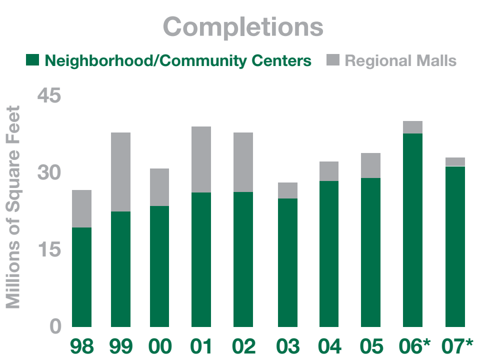
■ Mixed-Use May Face Challenges. Mixed-use has become popular in the push to reinvent downtowns, but retailers may question the viability of retail in these projects until they can determine the necessary residential base required to support it.

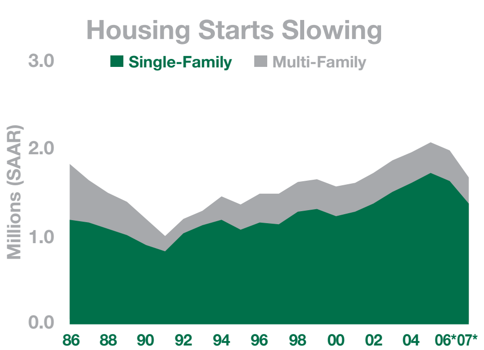


Retail Overview: Retail Market Still on Track

After several quarters of declining vacancy, retail market fundamentals are beginning to level. Most of the major national retailers left standing after the round of big-name bankruptcies a few years ago are holding strong, but a few of the smaller players are finding it more difficult to compete. Some companies have not only faced competition from the major discount chains but have also been negatively affected by technology. In recent months, retail closures have centered around smaller inline and junior-anchor tenants, such as RadioShack and Pier 1, which are typically located in strip and neighborhood centers. Many of these stores have been in place for several years and may actually provide owners with an opportunity to bring in stronger traffic-generating tenants at higher rents. Owners of larger properties are showing some concern regarding buyouts of major public retailers, such as Neiman Marcus, Burlington Coat Factory and Sports Authority, by private-equity firms. Once privatized, operations are no longer transparent, and concerns have surfaced among property owners that seasoned retailer management could be replaced by money managers not in tune with the industry.

Overall, market fundamentals are expected to remain sound this year. Development continues to be driven by tenant demand, and the big-box retailers are pushing forward with expansion plans. While lifestyle centers and mixed-use projects have been grabbing headlines, power centers have staged a comeback. In addition to accounting for the greatest share of new supply this year, vacancy is well below the market average at around 4 percent. Marketwide, high construction and land costs will restrain speculative development going forward, supporting absorption at existing shopping centers.





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▼ Rising Construction Costs. With costs on the rise and a significant share of space under way preleased, developer and operator yields are being compressed.

■ Stable Vacancy. While slower retail sales growth will lead some retailers to revise expansion plans, it will also limit speculative development. As a result, vacancy will remain flat at 8.7 percent through year end.

▲ Retail Rents Rise Moderately. Asking rents are forecast to rise 3.2 percent, pushing the average to $19.00 per square foot. Effective rents are forecast to rise at a slightly faster pace of 3.4 percent.