



Recession Deepens Amid Accelerated Job Losses and Credit Freeze; Massive Stimulus and Other Measures Underpin Stabilization in Late 2009

First quarter job cuts remain extreme in reaction to financial crisis. The escalation of the credit crunch to a full-blown financial crisis was reflected in a fourth quarter GDP decline of 6.25 percent, the most severe contraction since 1982. Furthermore, the near standstill of the commercial paper market in late 2008 led to an acceleration in job losses, as some companies were unable to make payrolls. Since November, cuts have averaged 650,000 jobs per month, compared to an average decrease of 180,000 positions during the first 10 months of 2008.

Most economic news grim, but positive points should not be overlooked. The housing market appears to be nearing a bottom in some markets, inflation concerns have subsided due to dramatic declines in oil prices, retail sales figures have been encouraging in early 2009 compared to previous months, and massive stimulus and liquidity injections will ultimately help generate economic activity once credit markets begin to unclog. Government intervention during this downturn has reached unprecedented levels, with additional Federal action likely in the coming months. Unlike other recessions in recent history, consumers lack the confidence and resources necessary to mitigate this downturn, as home equity, credit, household wealth and jobs have evaporated in recent quarters. This time around, business confidence must first be restored, which will require the stabilization of credit markets and the financial sector.

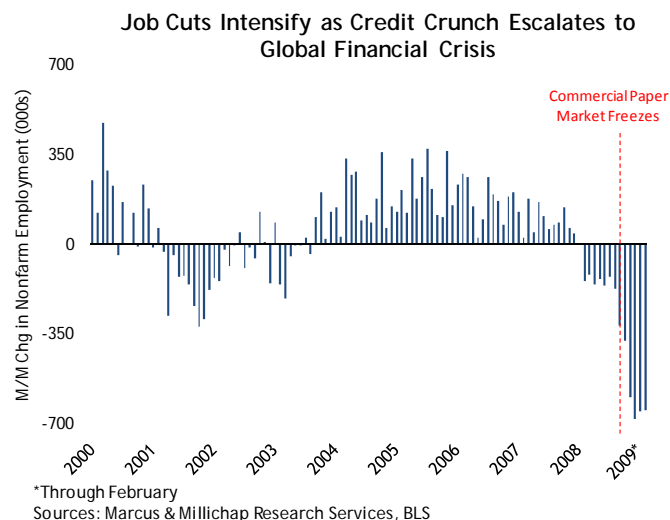
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Concerns regarding the national debt warranted, but government intervention is necessary to reverse the negative feedback loop. As 2009 comes to a close, public debt as a share of U.S. GDP is forecast to exceed 85 percent, up from roughly 60 percent in 2000 but still well below post-World War II levels of 120 percent. In addition to the \$787 billion stimulus package recently passed by Congress, a housing bill is expected to be enacted in the near term that would mitigate the pace of residential foreclosures and increase the availability of mortgage credit. Assuming the bill passes soon, a pricing floor should be established by early 2010.

Forecast:

Elevated job losses should ease by midyear; at least modest growth of 1 percent forecast for 2010. Since the contraction began, 4.4 million jobs have been cut, and peak-to-trough losses will likely approach 6 million positions. The unemployment rate already has spiked to 8.1 percent and is expected to reach 9.5 percent later this year.

Recession expected to be on par with the mid-1970s; housing will greatly influence 2010 growth pace. U.S. GDP is forecast to contract by more than 3 percent from the third quarter of 2008 through the second quarter of 2009. Growth of approximately 1.9 percent is projected for 2010, assuming the housing market begins to stabilize by the end of this year. Residential investment has subtracted between 50 basis points and 140 basis points from GDP every quarter since mid-2006; even a bottoming-out of the market will provide much-needed relief to the U.S. economy.





Divergence Rising between Healthy, Core Properties and Distressed Assets

Retail sales fall amid job losses and increased household savings rate. A decline in gas prices accounted for a large share of the nearly 9 percent decrease in retail sales over the past year, but spending in other segments also faltered. Sales excluding auto and gas were down as well, albeit to a lesser degree, marking the first time in recent history that consumers have been unable to mitigate the recession by spending. While the most recent retail sales figures were more encouraging, consumers are likely to remain cautious, opting to save rather than spend when possible. In early 2009, the saving rate reached 5 percent, up from less than 1 percent one year earlier.



Increasing store closures and overbuilding driving up vacancy. Retail vacancy increased to 8.4 percent in the fourth quarter, up 30 basis points from the previous quarter and 120 basis points from one year earlier. Approximately 131 million square feet of space was delivered last year, more than one-third of which came online in the fourth quarter. Markets hit hard by the housing downturn have the most oversupply, as developers scrambled to build ahead of rooftops. Las Vegas, Orlando, Phoenix and Riverside-San Bernardino accounted for almost 20 percent of the new supply in 2008, driving vacancies in these markets up by between 190 and 300 basis points. In addition to new development, an estimated 150,000 stores closed in 2008, with another 73,000 locations forecast to be shuttered in the first half of 2009. Many retailers also are shelving expansion plans, leaving large holes in retail projects under way.

Effective rents turn negative. Rents slipped 1 percent in the latter half of 2008 and are expected to decline an additional 7 percent in 2009. Many property owners have responded to retailer weakness by renegotiating in-place rents, opting to avoid a potential store closure that could impact their bottom lines and, potentially, sales at an entire center.

Forecast:

Construction pipeline shrinking, but vacancy still expected to climb. Developers are forecast to complete 90 million square feet of retail product in 2009, the lowest level of deliveries since 1995. Despite reduced construction, vacancy is expected to rise 250 basis points this year to 10.9 percent, as retailers remain cautious and continue to shutter underperforming locations.

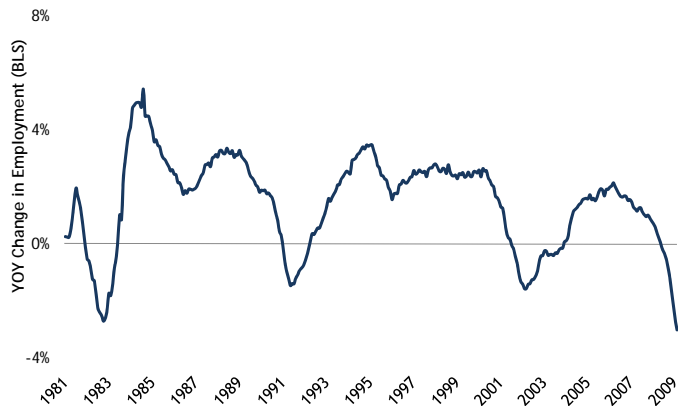
Buyer/seller expectations gap wide but closing. Cap rates on newly listed retail properties are up approximately 25 basis points to 50 basis points from last quarter. This suggests sellers have become more willing to adjust pricing expectations to clear the market, and we anticipate further correction through 2009. Tenant strength and location are driving the degree of price correction, with in-fill, core neighborhood/community centers seeing the least price pressure.

Distress in marketplace leads to uncertainty regarding values but also creates new opportunities. During the retail boom, rents for new retail centers were often determined by high construction and land costs, together with developers' IRRs. Since many new centers now have significant vacancy rates and construction and land costs have abated, establishing "market rents" for these properties in the quarters ahead will be key to redefining investment values.



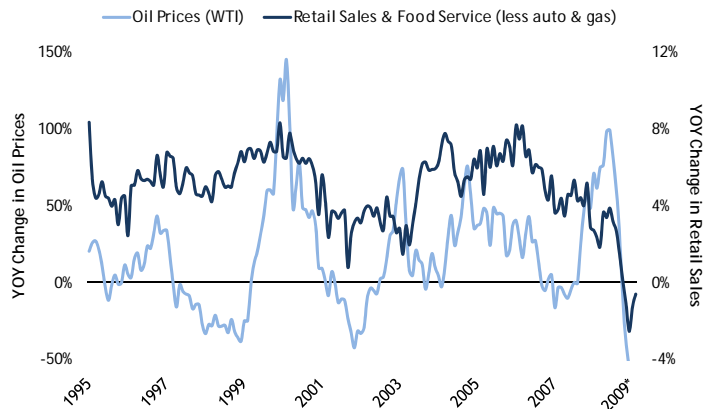
Retail Market Vital Signs

Total Non-Farm Employment Growth



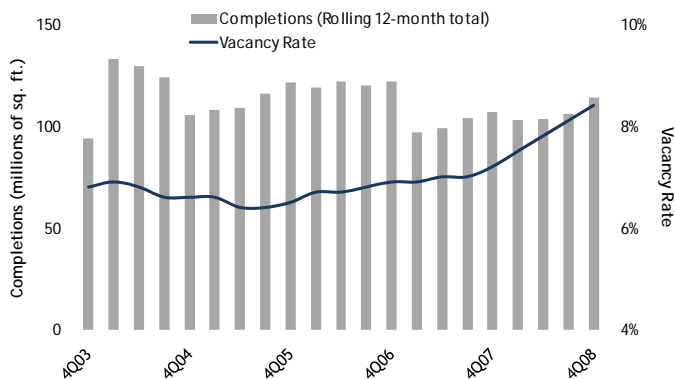
* Through February
Sources: Marcus & Millichap Research Services, Economy.com

Retail Sales and Oil Prices



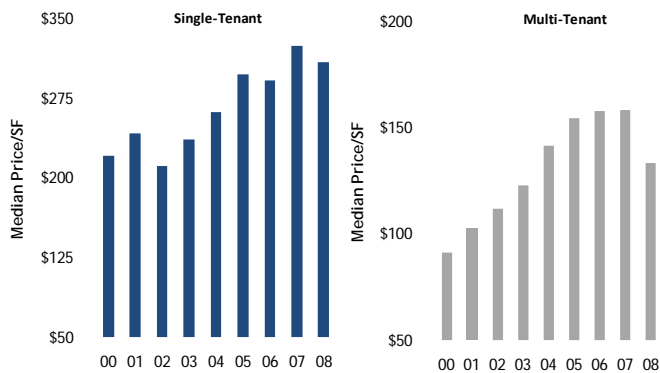
* Through February
Sources: Marcus & Millichap Research Services, Economy.com

Total Retail Supply and Demand Trends



Includes single-tenant and multi-tenant
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.

Retail Property Price Trends



Sales of \$1M+
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.

4Q 2007 to 4Q 2008 Change in Retail Vacancy

Top 10 Markets by YOY Change in Vacancy		
Metro	4Q 2008	YOY Chg (bps)
New York	4.8%	-30
San Francisco	3.9%	-30
Indianapolis	11.5%	10
Columbus	10.9%	20
Dallas-Fort Worth	11.4%	20
St. Louis	9.5%	30
Boston	6.2%	40
San Antonio	9.0%	40
San Diego	3.8%	50
Austin	9.1%	60
US Metro Average	8.4%	120

Bottom 10 Markets by YOY Change in Vacancy		
Metro	4Q 2008	YOY Chg (bps)
Atlanta	9.8%	170
Los Angeles	4.5%	170
Sacramento	7.9%	170
Washington, D.C.	5.3%	170
Orlando	8.4%	190
San Bernardino/Riversid	8.8%	210
Phoenix	9.3%	250
Cleveland	11.1%	290
Las Vegas	8.5%	300
Fort Lauderdale	8.6%	340
US Metro Average	8.4%	120

Sources: Marcus & Millichap Research Services, Costar Group, Inc., Reis

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