The Retail Market

Jon Anderson

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Commerce CRG | Utah County

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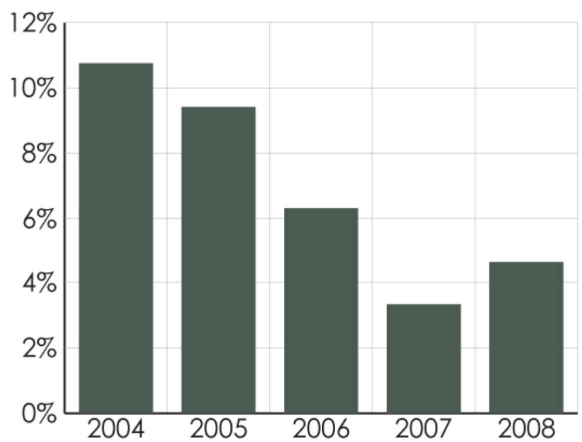
Utah County – Retail Market

Total Inventory:	9,737,543 SF
Lease Rates:	$7.58 - $34 NNN
Vacancy:	4.62%
CAP Rate:	6% - 9%
Land Values:	$7 - $26 PSF

Source: Commerce CRG Year-End Market Review

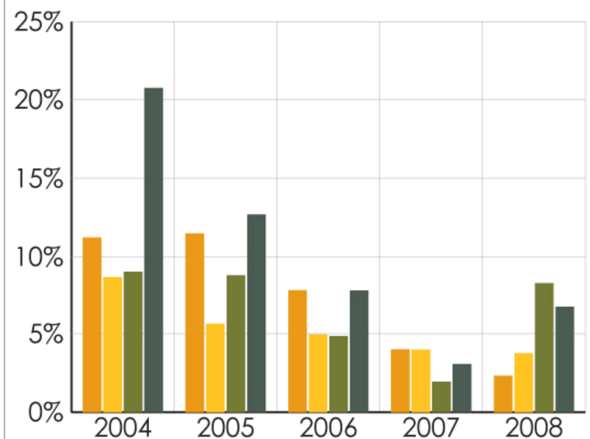
Utah County – Retail Market

OVERALL VACANCY - FIVE YEAR HISTORY



	2004	2005	2006	2007	2008
Overall	10.75%	9.41%	6.32%	3.33%	4.62%

OVERALL VACANCY BY SECTOR - FIVE YEAR HISTORY



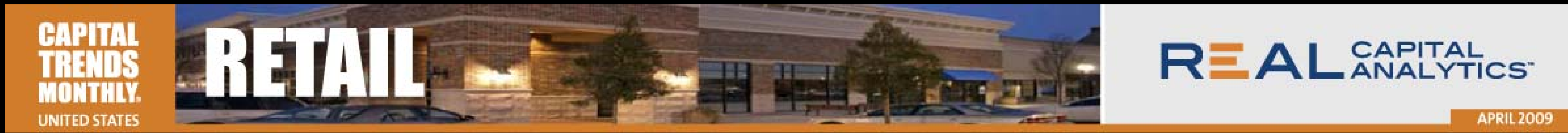
Sector	2004	2005	2006	2007	2008
Orem	11.24%	11.49%	7.77%	4.00%	2.32%
Provo	8.72%	5.62%	4.95%	3.99%	3.75%
UC No.	9.06%	8.84%	4.84%	1.94%	8.33%
UC So.	20.75%	12.71%	7.74%	3.07%	6.71%

Source: Commerce CRG Year-End Market Review

Utah County – Retail Market

- Retail continues as the strongest sector in the Utah County market and has performed well considering the downturn in the economy.
- The retail vacancy rate has moved up slightly to 4.62 percent as the market has experienced a slight slow down.
- Several developments were completed in 2008 with the Smith's Marketplace on Highway 92 being one of the more prominent projects.

Source: Commerce CRG Year-End Market Review

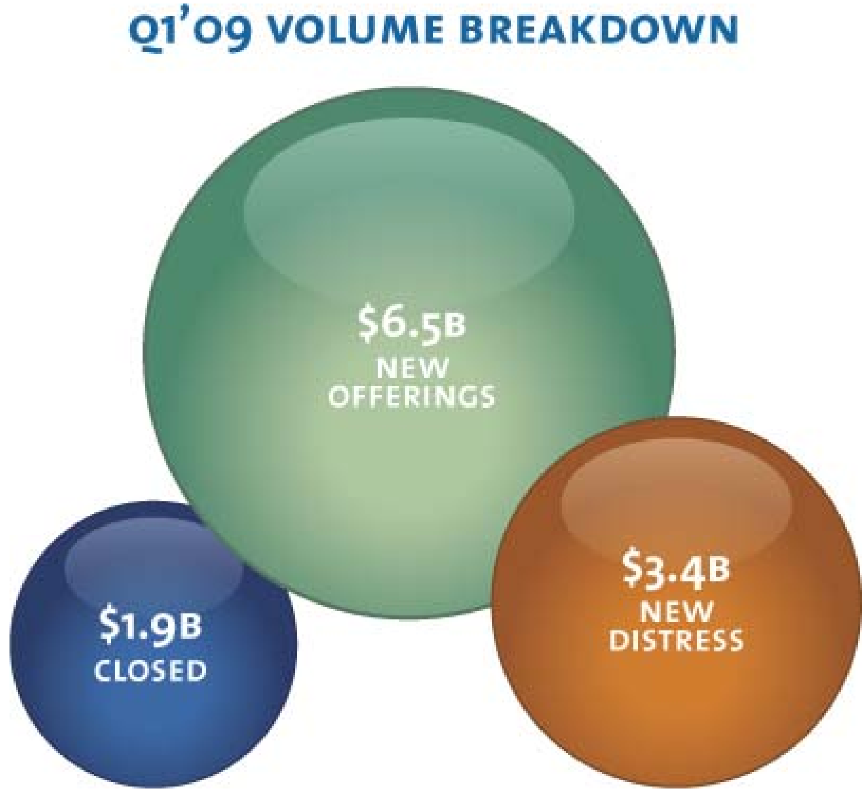


QUARTER IN REVIEW

Where to Now? Q1 Volume Shrivels to Just 10% of Peak

In line with every core property type, q1 retail asset sales volume, at $1.9b, was down more than 90% from its market peak two years earlier and was off 74% from the same quarter a year ago. Moreover, volume continues to slow. Sales of significant retail fell 40% in q1'09 compared to the previous quarter and the totals for each month this quarter have fallen consecutively.

New offerings are anything but slower, though. In q1, over $6.5b of retail properties were listed for sale and already another $3.0b has been added in April. In addition, some $3.4b of retail assets were added to RCA's Troubled Assets Radar in q1'09, bringing the total to $16.8b at quarter's end. In the few weeks since, this total has more than doubled with the bankruptcy of GGP and other large-scale defaults.



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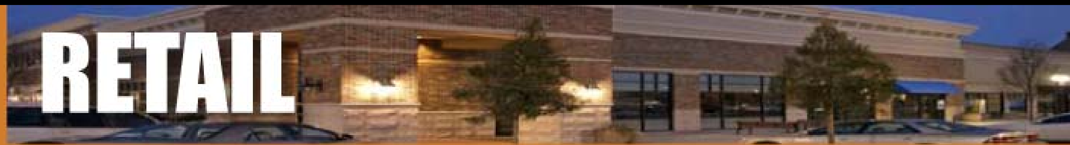


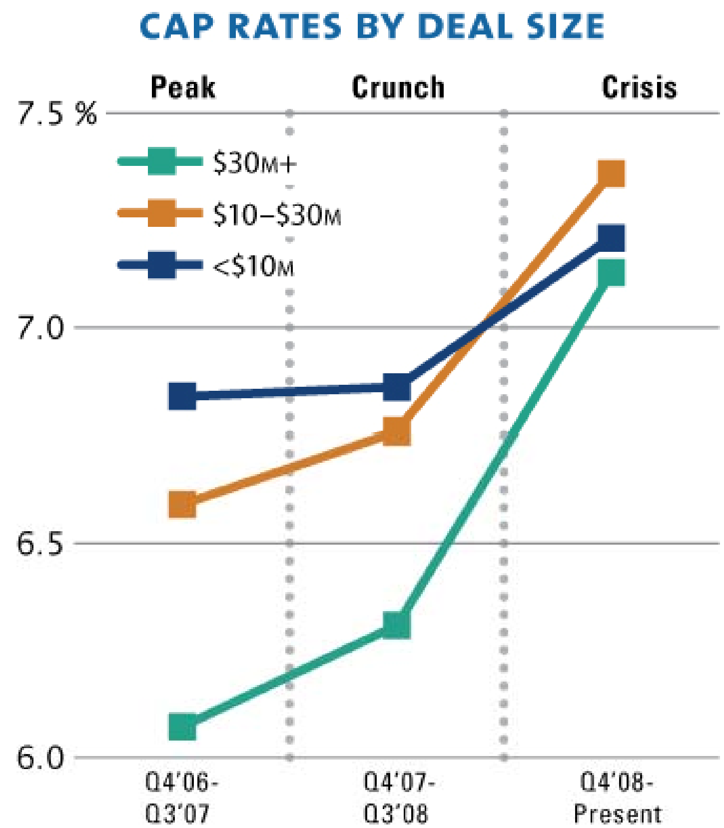
REAL CAPITAL ANALYTICS

APRIL 2009

QUARTER IN REVIEW

The differing appeal—or lack thereof—to investors among retail subtypes carried through to sales activity and cap rates. Strip centers have held up relatively well with volume of $1.4b, a 61% drop from a year ago. However, there have been virtually no significant sales of regional malls over the past year. Just one mall sale in q1, the 1.4m sf Cincinnati Mall, highlights the struggle facing malls; it traded at $25 psf with lower than average occupancy.

Underscoring the link between housing troubles and retail, no significant retail properties sold in major markets such as Las Vegas and Miami in q1. While the sales freeze spread across every region, the Midwest—no stranger to cold—was hardest hit. Volume fell 94% from q1'08 and 75% from q4'08. Among markets, the Inland Empire was the only one to surpass $100m in sales. Atlanta and Manhattan were the most active markets with seven property sales each.



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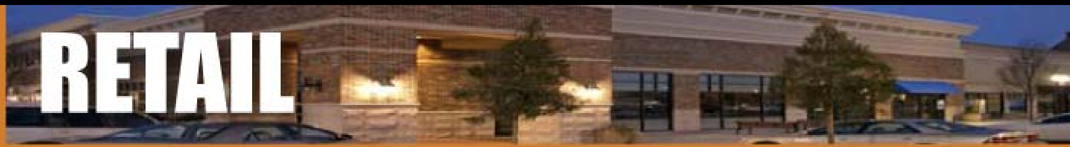


REAL CAPITAL ANALYTICS

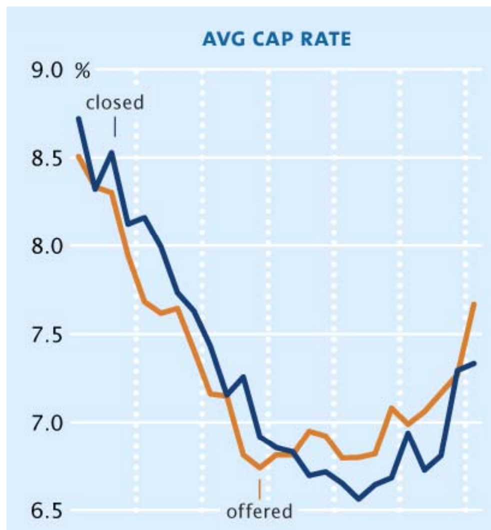
APRIL 2009

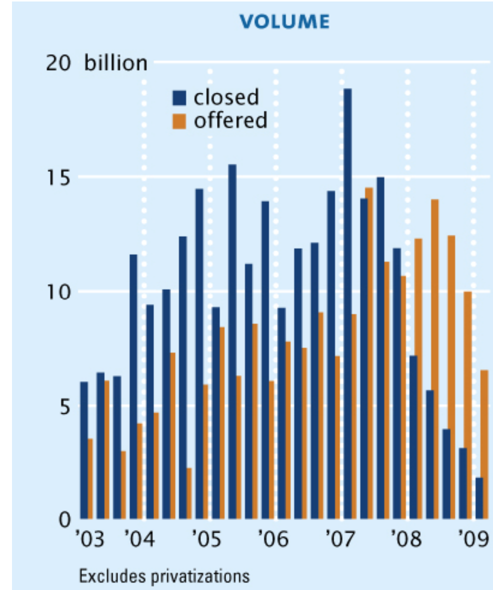
QUARTER IN REVIEW

Cap rates on closed deals edged up only slightly in q1, though the data is scarce. For offerings, where there are plenty of data points, asking cap rates spiked by 40 bps. The convergence of cap rates for all deal sizes reaffirms the dynamic changes that have occurred. While large deals commanded premium pricing at the peak, it is the small properties most in demand now and those selling for under $10m are the majority of the trades. In addition, the premium that major properties used to command has evaporated and yields for retail properties of all sizes are converging at 7.25%.

Q1'09 TRANSACTION SUMMARY

	Volume		Pricing	
	$ Bil.	# Props	$/Unit	Avg Cap
Strip	$1.35	78	$159	7.6%
Regional Mall	0.04	1	25	
Urban	0.08	9	658	6.0%
Freestanding	0.41	55	239	6.9%
Total	$1.91	145	$156	7.3%





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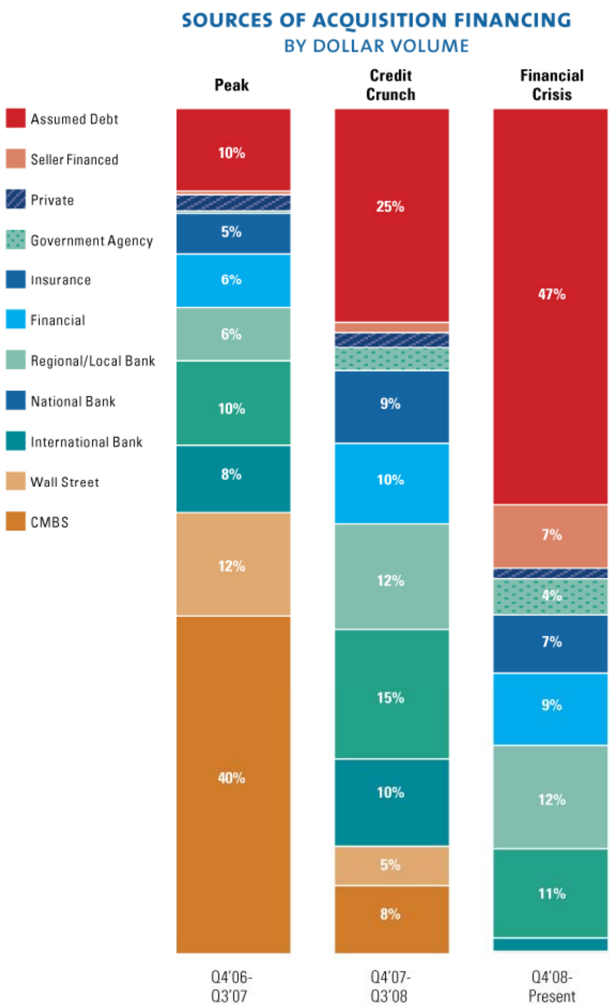


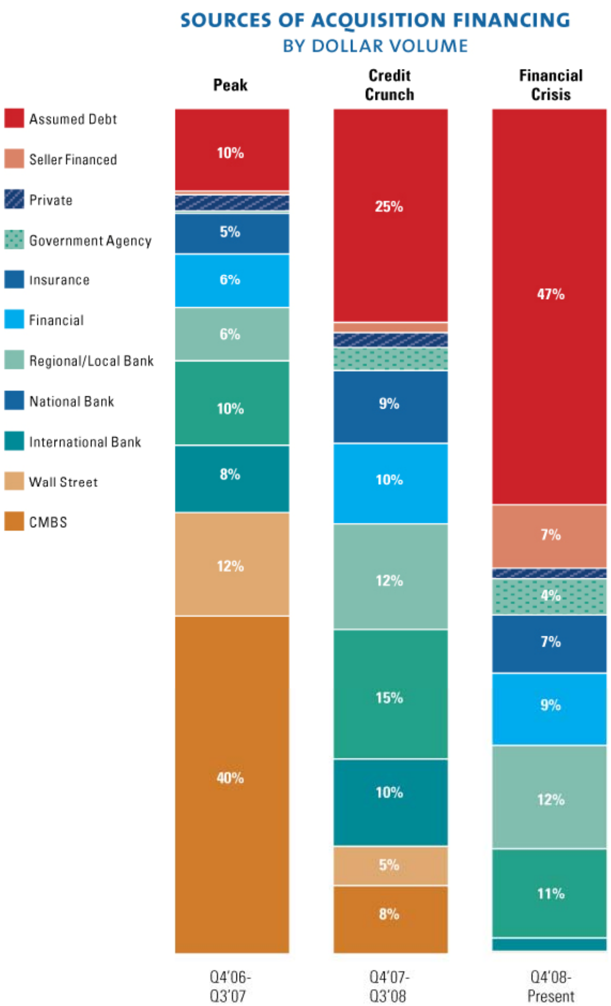
* Percentages based on dollar volume; may not sum to 100% due to rounding

SOURCES OF FINANCING

At the peak of the market, CMBS, Wall Street firms and international banks provided 60% of the financing used to acquire properties. In a pullback even more dramatic than the 90% falloff in investment sales since the peak, this group has financed just 2% of acquisitions since September 2008. With CMBS and Wall Street debt capital no longer available, even this limited funding has come largely from the international banks.

The unwillingness of any other group to step in to help fill this massive funding gap is a primary reason that sales volume has fallen so far off the peak. Even though the percentage of all-cash deals is up significantly, debt is still required to complete the majority of transactions. Since all-cash buyers are also demanding—and often getting—significant price concessions, assumable mortgages and seller financing have quickly emerged as the primary alternatives.

In some sense, CMBS loans continue to drive sales, but only those that are assumed as part of the transaction in the vacuum of new CMBS origination. The last new CMBS issue was over a year ago and none, other than one from Freddie Mac, are currently planned. The assumption of existing mortgages began growing in popularity immediately after the onset of the credit crunch and recently has grown to account for almost half of all acquisitions. The majority of these deals involve securitized mortgages that are now very attractive relative to current rates and terms being quoted by lenders. On average, assumed debt equates to 68% of the purchase price, an advance rate few lenders are willing to provide for new mortgages.



* Percentages based on dollar volume; may not sum to 100% due to rounding

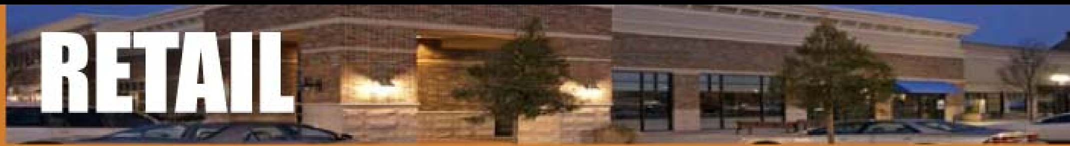
SOURCES OF FINANCING (CONT)

Property sellers—perhaps in response to pressure—have become the fastest-growing source of acquisition financing. Unheard of during the market peak, seller financing is becoming common. Transactions where the seller takes back a first mortgage are the typical scenario, but increasingly sellers have to provide subordinate loans as well.

Surprisingly, the major national banks still account for a similar percentage of acquisition financing. Even so, the nominal amount of commercial mortgages is off 90%, commensurate with the overall market. Pointedly, regional and community banks have doubled their share of acquisition financing from 6% at the peak to 12% currently.

Although their activity has since retreated a bit, insurance companies stepped in immediately following the credit crunch, nearly doubling their share of the financing market. Finance companies, including hard money lenders, also stepped up activity following the credit crunch but they too have lessened their activity since September 2008.

Government-sponsored enterprises Fannie Mae and Freddie Mac have seen their share of acquisition financing spike, but this capital is limited to the multi-family arena. However, financing from other Federal government sources, particularly through the PPIP program, could become significant in coming months throughout the commercial real estate industry.



DISTRESSED ASSETS BY PROPERTY TYPE

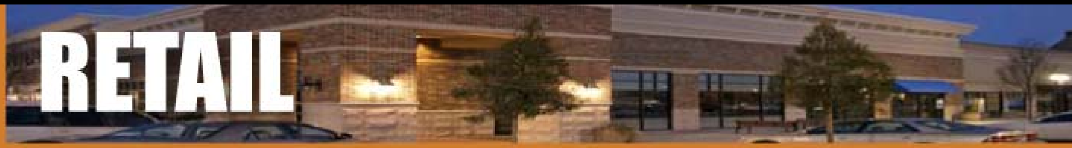
	Q1'09		Current Total	
	$ Bil	# Props	$ Bil	# Props
Office	$5.3	138	$12.6	433
Industrial	1.0	123	2.2	267
Retail	3.4	314	16.8	1,276
Hotel	4.0	106	10.1	225
Apartment	4.9	420	11.4	1,137
Development	6.7	251	18.0	510
Other	0.2	20	1.6	81
Total	**$25.6**	**1,372**	**$72.8**	**3,929**

Troubled Assets include situations where: a mortgage is delinquent or in default; liens have been filed; or foreclosure is in process and/or an administrator, receiver or special services has been appointed; where development has stopped before completion; the sole tenant is in liquidation; or the owning entity is in bankruptcy. Lender REO includes properties where the lender has taken title and it becomes Real Estate Owned ("REO").

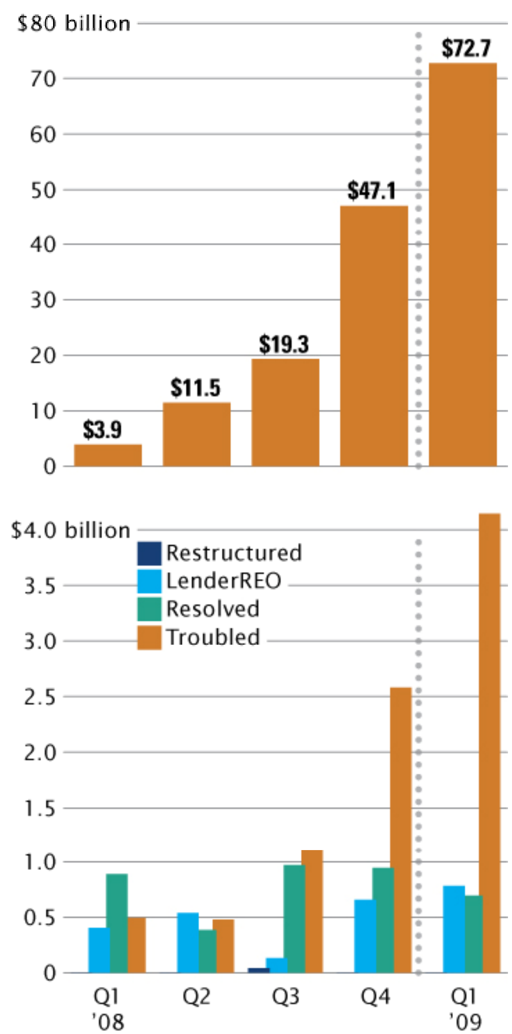
TROUBLED ASSETS RADAR

New reports of defaulted commercial mortgages exceeded $25.6b (1,372 properties) in q1'09, bringing the total universe of assets known to be distressed to $72.8b (3,929 properties) at the end of March, an increase of 55% from year-end. Moreover, preliminary data for April alone indicate the scale of defaults already tops the q1 total with major bankruptcies recently filed by General Growth and Opus South.

Troubled developments still top the list of properties defaulting, followed by multifamily and office properties; the retail and hotel sectors are rapidly catching up. Regionally, the West and Southeast had the largest tally of troubled properties, but nearly half of all markets nationally have more than $1b of distressed.



CURRENT DISTRESS



TROUBLED ASSETS RADAR

Total distress for this cycle topped $83.4b in the US at the end of q1, including $10.6b of formerly distressed situations that have now been resolved, usually through a sale, refinancing, or other recapitalization. At this early point in the cycle, far more assets are falling into trouble than are being resolved because of the stalled transaction market.

Instead of taking significant losses now, the preferable strategy for many lenders has been to simply extend or modify loan terms and hope market conditions improve—also known as “kicking the can down the street.” At the end of q1’09, at least $15.4b of property debt had been restructured or modified. These mortgages are still considered distressed since they will have to be dealt with over the next year or two.

Restructured/Modified is a classification indicating that the ownership or debt terms have been changed pursuant to an agreement between the debt and equity stakeholders. Typically, in these situations, the trouble is not fully resolved but simply postponed. The most common modification is to extend the loan term although debt service and/or loan balance terms may also be modified. A restructuring of the ownership, such as when a mezzanine lender steps into the equity position or where the lender exchanges debt for equity, also typically signifies unresolved trouble.

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REAL CAPITAL ANALYTICS

APRIL 2009

Troubled Assets Radar

Current Known Distress

Region	Market	Office $ Mil.	Office No. Prop	Industrial $ Mil.	Industrial No. Prop	Retail $ Mil.	Retail No. Prop	Apartment $ Mil.	Apartment No. Prop	Hotel $ Mil.	Hotel No. Prop	Other $ Mil.	Other No. Prop	Development $ Mil.	Development No. Prop	Total $ Mil.	Total No. Prop
Mid-Atlantic	Baltimore	$11.1	2	$7.2	1	$664.4	17	$130.7	4					$116.0	2	$929.3	26
	DC					3.8	1	51.4	3					58.0	2	113.2	6
	DC MD burbs	32.8	2	50.8	1	56.8	5	55.2	2	$4.1	1					199.7	11
	DC VA burbs	88.2	4			104.7	3	8.4	1							201.3	8
	Philadelphia	7.2	2	33.9	2	405.4	21	37.4	2							483.8	27
	Pittsburgh	116.9	7	6.4	1	146.1	7	44.2	4	6.1	2			50.5	2	370.2	23
	So NJ					83.	7			1,830.	4					1,913.	11
	All Others	231.4	11	5.4	2	896.2	47	203.7	13	377.4	7	$14.3	3	100.8	15	1,829.3	98
	Mid-Atlantic	**$487.6**	**28**	**$103.7**	**7**	**$2,360.3**	**108**	**$530.9**	**29**	**$2,217.6**	**14**	**$14.3**	**3**	**$325.3**	**21**	**$6,039.7**	**210**
Midwest	Chicago	337.4	27	85.5	17	1,039.7	46	343.6	38	167.3	6	87.	7	1,426.0	44	3,486.5	185
	Cincinnati	54.1	4	31.2	4	619.7	19	18.8	4	115.6	2			66.0	3	905.4	36
	Cleveland	36.1	2			524.4	21	20.	1	3.5	1			6.6	1	590.7	26
	Columbus	41.6	9	179.7	14	85.4	8	65.4	9	25.7	2					397.8	42
	Detroit	267.3	10	28.7	4	508.3	28	116.4	6	763.9	2	39.2	2			1,723.7	52
	Indianapolis	170.4	8	6.8	1	158.	9	44.6	7					34.0	3	413.9	28
	Kansas City	114.1	10			53.	4	10.8	2	83.2	4			26.8	2	287.8	22
	Milwaukee	28.5	2			89.2	8	36.5	6					13.7	5	167.8	21
	Minneapolis	62.4	6	7.5	2	470.7	13	21.	2					128.8	6	690.5	29
	St Louis	20.4	3	2.7	1	359.9	14	70.5	4	103.6	3	2.2	1			559.3	26
	All Others	210.9	14	43.4	3	1,081.8	92	362.4	24	242.2	19	126.	7	139.8	15	2,206.7	174
	Midwest	**$1,343.2**	**95**	**$385.7**	**46**	**$4,990.3**	**262**	**$1,109.9**	**103**	**$1,505.**	**39**	**$254.4**	**17**	**$1,841.6**	**79**	**$11,430.**	**641**

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Northeast	Boston	756.1	6	14.	5	317.1	14	139.1	2	7.	1	11.4	1	801.4	2	2,046.	31
	Hartford			4.5	2	280.8	12	76.5	27					3.3	2	365.	43
	Long Island	31.7	2	15.5	1	411.7	17					7.5	1			466.5	21
	Manhattan	4,678.8	17	29.8	1	37.	2	1,147.8	40	224.	1			285.9	5	6,403.2	66
	No NJ	137.3	8	31.	5	628.	17	113.	2					243.5	4	1,152.8	36
	NYC Boroughs	29.4	2	116.2	5	306.2	5	150.9	21	10.7	1			30.8	4	644.3	38
	Stamford	150.3	5	19.5	3	200.1	9					8.5	2	24.0	1	402.4	20
	Westchester	15.	2			110.6	9	8.4	1					38.1	2	172.1	14
	All Others	162.5	14	16.7	6	977.3	39	50.7	6	23.2	4	3.9	4	32.0	4	1,266.4	77
	Northeast	**$5,961.1**	**56**	**$247.2**	**28**	**$3,268.9**	**124**	**$1,686.3**	**99**	**$264.9**	**7**	**$31.3**	**8**	**$1,459.0**	**24**	**$12,918.7**	**346**
Southeast	Atlanta	133.7	9	134.2	10	877.	58	467.3	43	71.9	9	13.1	1	15.0	5	1,712.2	135
	Broward	100.5	7	23.5	3	285.8	11	303.7	18	40.3	2	43.	4	283.7	18	1,080.4	63
	Charlotte	115.7	1	2.5	1	132.	7	26.5	3					4.9	1	281.6	13
	Jacksonville	31.3	3			121.6	8	140.7	6					34.2	4	327.8	21
	Miami	139.1	10	68.9	6	167.2	6	603.	29	431.4	5	5.2	1	2,688.3	62	4,103.1	119
	Nashville	32.8	2	22.	5	99.9	9	112.3	15	9.9	2			59.0	2	335.9	35
	Orlando	70.5	6	35.9	3	351.7	13	340.5	11	178.1	8	3.	1	177.6	8	1,157.3	50
	Palm Beach	93.3	5	20.	3	204.7	11	225.2	8	37.3	3	5.	1	569.2	20	1,154.6	51
	SW Florida	42.7	3	5.8	3	192.5	12	238.7	8	25.3	2	100.5	2	151.6	7	757.	37
	Tampa	11.3	1	8.4	2	228.6	16	443.	18	21.2	2	2.3	1	435.3	11	1,150.2	51
	All Others	240.2	30	143.1	25	3,650.6	173	870.5	78	505.7	45	212.7	6	1,391.0	50	7,013.9	407
	Southeast	**$1,011.1**	**77**	**$464.4**	**61**	**$6,311.6**	**324**	**$3,771.4**	**237**	**$1,321.1**	**78**	**$384.8**	**17**	**$5,809.7**	**188**	**$19,074.**	**982**

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Southwest	Austin	433.1	13	32.2	4	273.8	7	97.7	11				1	177.0	6	1,013.8	42
	Dallas	630.	24	86.8	8	1,050.3	43	324.1	39	3.5	1		1	198.6	32	2,293.3	148
	Denver	225.7	4	14.1	3	244.	16	4.3	1	28.6	1			46.9	2	563.6	27
	Houston	23.8	3	34.	3	1,024.5	66	818.3	57	1.	1			71.0	11	1,972.6	141
	Phoenix	186.8	15	100.5	11	364.6	32	725.8	42	417.7	7	33.2	4	1,320.3	46	3,148.8	157
	San Antonio	36.9	2	11.3	1	295.9	7	125.	8	4.	1				6	473.	25
	All Others	106.	6	86.7	8	1,099.3	60	103.8	19	316.5	11		1	562.0	17	2,274.3	122
	Southwest	**$1,642.4**	**67**	**$365.6**	**38**	**$4,352.4**	**231**	**$2,198.9**	**177**	**$771.3**	**22**	**$33.2**	**7**	**$2,375.8**	**120**	**$11,739.4**	**662**
West	Central CA	53.8	5	53.9	6	154.9	18	26.3	8	79.7	5			270.5	3	639.2	45
	East Bay	7.3	4	7.2	2	511.3	21	178.3	9	31.8	4	3.7	2	618.5	8	1,358.1	50
	Hawaii	134.4	1	35.5	1	264.	8			815.3	8			121.7	3	1,370.9	21
	Inland Empire	49.3	7	17.3	8	434.3	21	99.1	8	12.3	4	.3	1	14.7	3	627.2	52
	Las Vegas	152.2	12	36.4	7	1,625.1	26	712.8	29	2,509.3	11	18.2	3	3,134.6	19	8,188.5	107
	Los Angeles	1,602.7	46	350.	38	1,294.5	45	487.6	33	178.5	5			173.7	17	4,086.9	184
	Orange Co	201.3	7	30.2	5	84.7	12	27.	2	41.1	3			778.5	6	1,162.8	35
	Portland	78.6	4	22.1	2	266.6	4			17.	1	5.4	3	26.4	2	416.1	16
	Sacramento	48.1	7	17.3	5	190.1	17	51.6	9	36.5	4	4.6	1	140.4	9	488.6	52
	San Diego	160.2	9	17.5	6	264.1	12	119.6	8			3.2	1	30.1	4	594.7	40
	San Francisco	137.	5	3.7	2	344.4	5	329.8	79	8.	1			76.4	2	899.1	94
	San Jose	9.	3	17.5	4	198.	6			56.3	1					280.9	14
	Seattle	4.4	2	1.3	1	16.2	2	62.3	11	179.	1	2.3	1	63.8	4	329.3	22
	All Others	47.4	10	76.8	7	614.5	43	177.4	14	206.1	10	897.7	18	1,398.9	26	3,418.8	128
	West	**$2,685.7**	**122**	**$686.6**	**94**	**$6,262.5**	**240**	**$2,271.8**	**210**	**$4,170.8**	**58**	**$935.4**	**30**	**$6,848.4**	**106**	**$23,861.2**	**860**

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