

# 2011

## **U.S. Economic, Capital Markets and Retail**

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**Market Overview and Outlook – *Special Client Webcast***

**February 1, 2011**

**Marcus & Millichap**  
Real Estate Investment Services

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***U.S. ECONOMIC and RETAIL MARKET  
OVERVIEW and OUTLOOK***

# 2011 Economic Tug-of-War

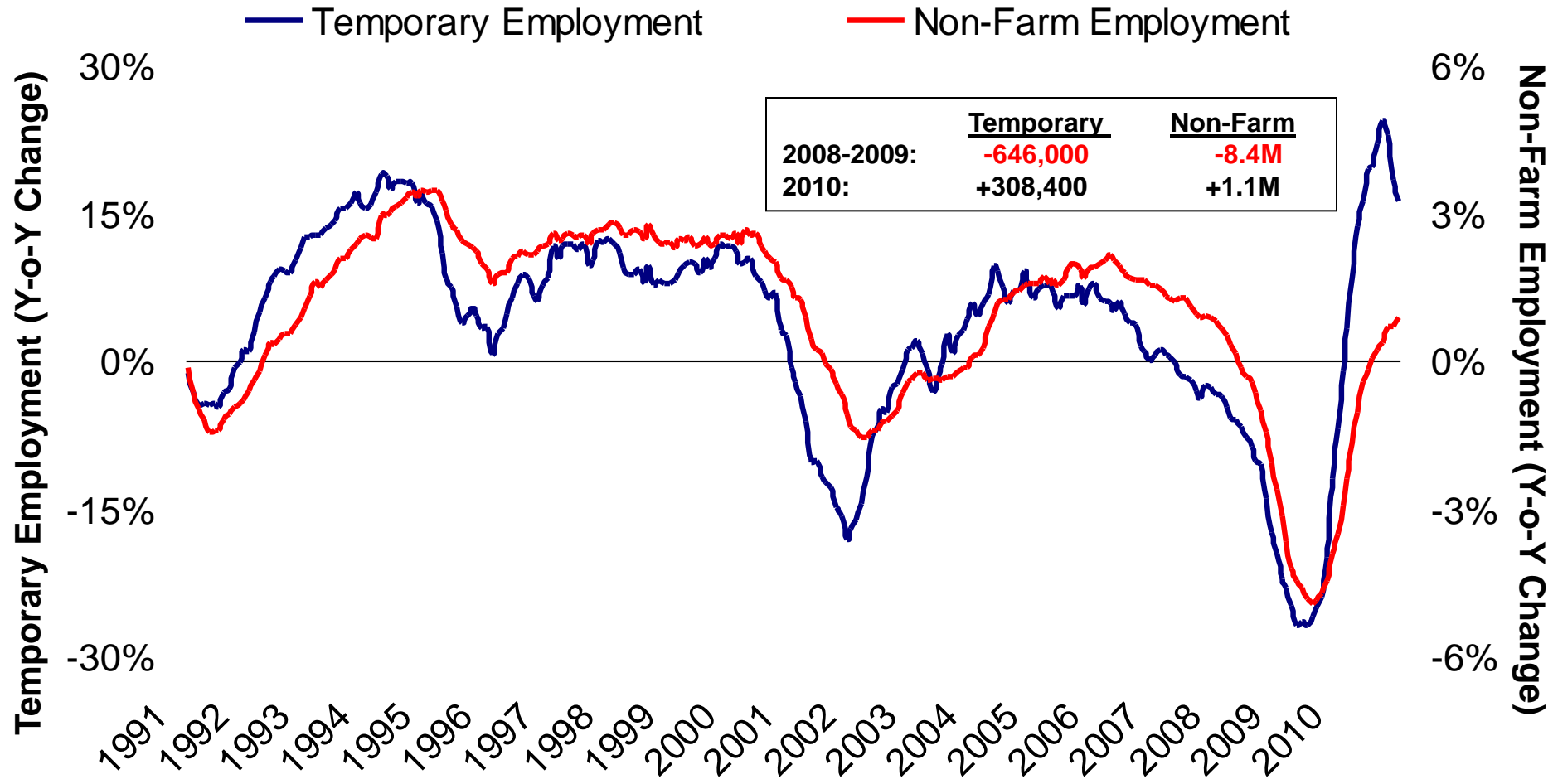
## Positives

- **Retail Sales** excl. auto & gas well above pre-recession levels
- **U.S. GDP** above 2007 levels
- **The Private Sector** added 1.3 million jobs in 2010
- **Worker Productivity** at all-time high and up 6% from pre-recession levels
- **Corporate Profits** exceed previous peak in 3Q06
- **ISM Manufacturing Index** is up 24% from pre-recession levels
- **ISM Non-Manufacturing Index** is up 9% from pre-recession levels
- **Capital Markets** improving
- **10-Year Treasury** at 3.4%
- **Core Inflation** remains under 1% compared to 2.4% in 2007

## Headwinds

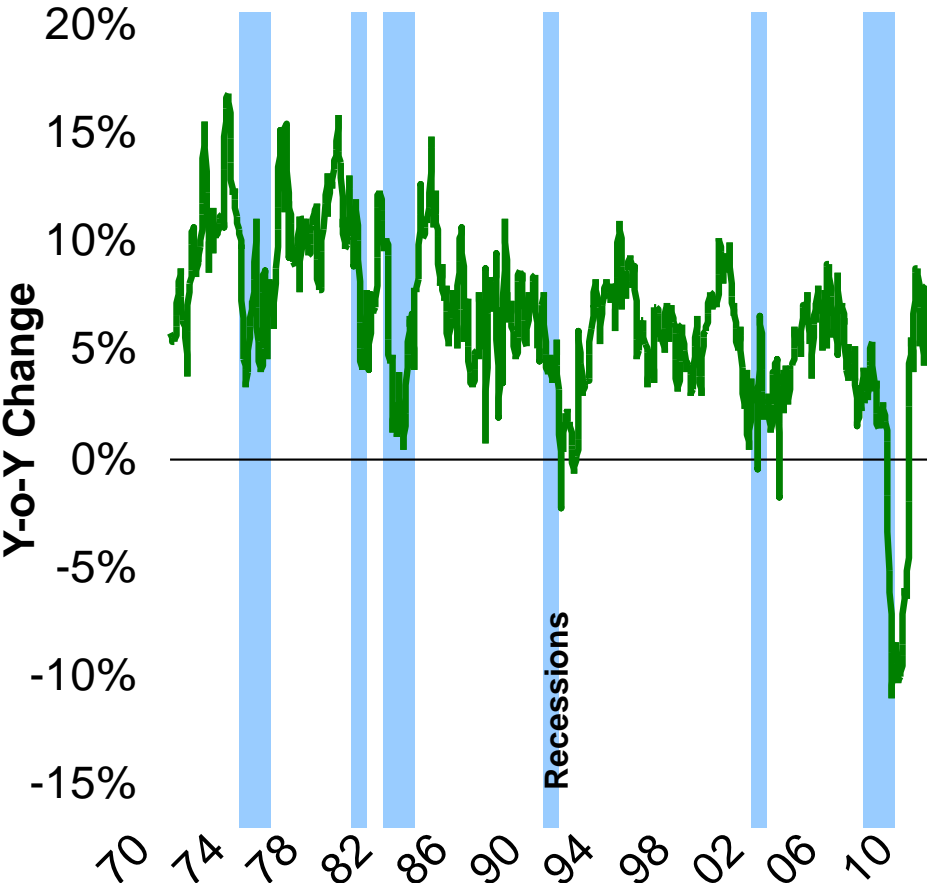
- **Unemployment Rate** at 9.4% or double 2007 levels
- **Underemployment Rate** at 16.7%
- **Consumer Confidence** remains 33% below pre-recession levels
- **Single-Family Home Sales** 27% below the 2005 peak
- **Single-Family Home Prices** down 22% from the 2006 peak
- **Household Debt** remains elevated at 91% of GDP
- **Public Debt**, at 92% of GDP, is the highest level since World War II
- **European Debt Crisis** poses risk of contagion
- **Uncertainty/Macro Risks** persist (geopolitical, commodity prices)

# Companies Still Hesitant to Add Permanent Jobs

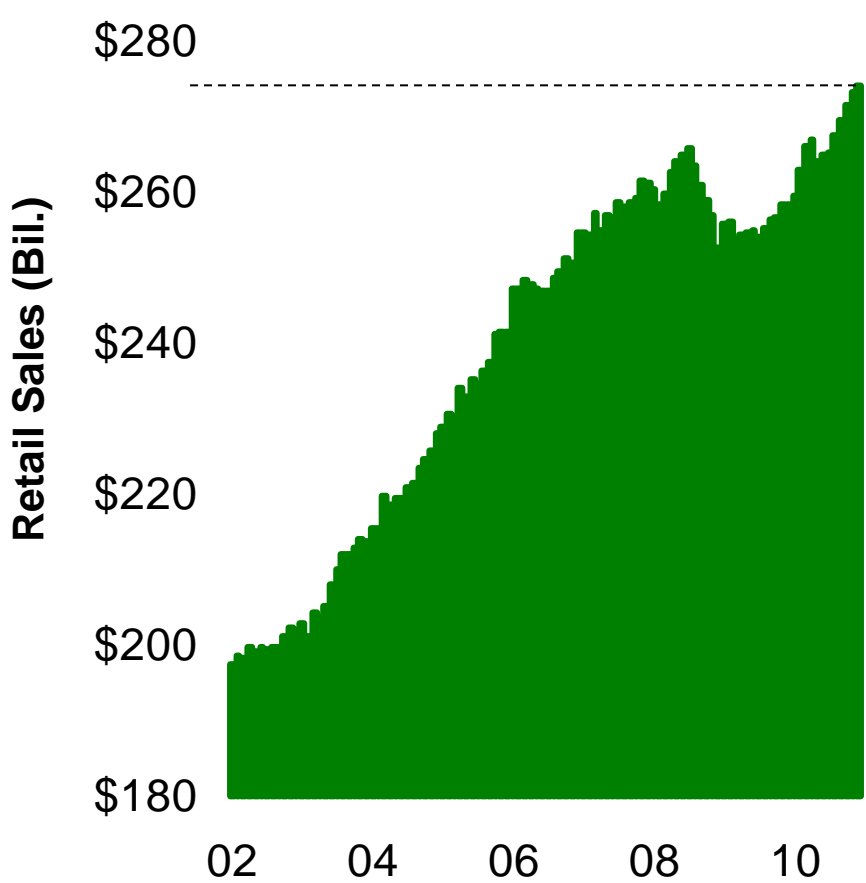


# U.S. Retail Sales Have Recovered From Dramatic Drop – Further Growth Hindered

Long-Term Total Retail Sales



Monthly Retail Sales Excl. Auto and Gas

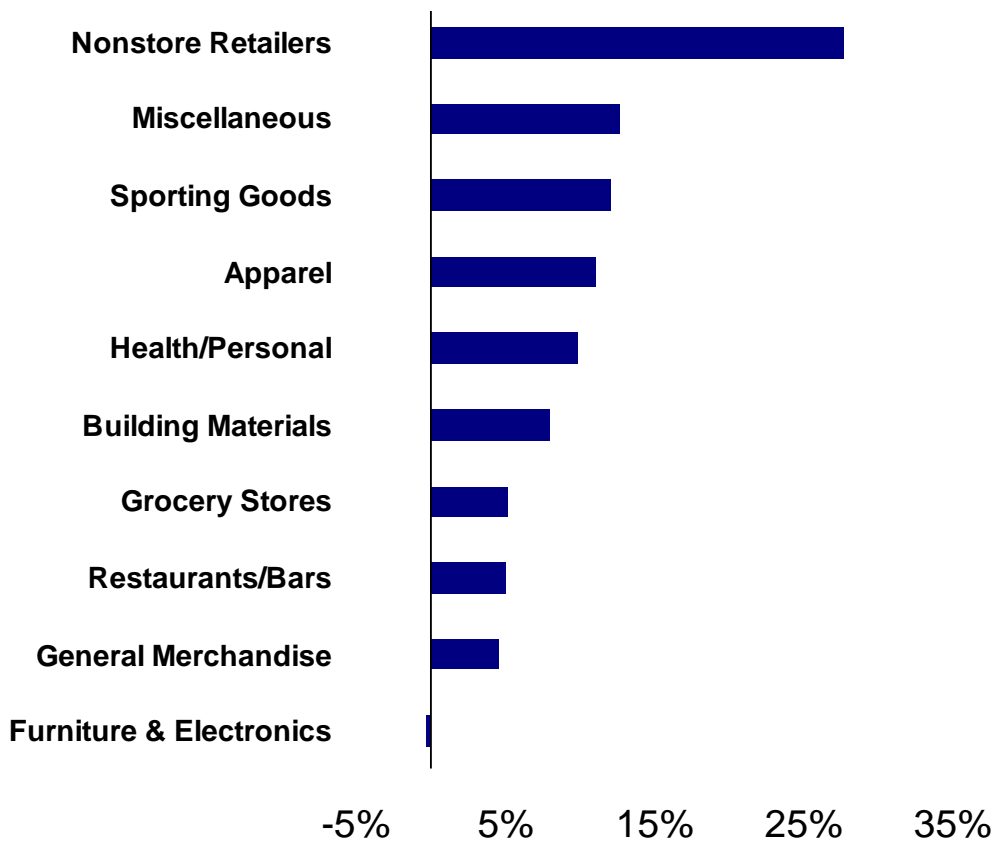


Sources: Marcus & Millichap Research Services, U.S. Census Bureau

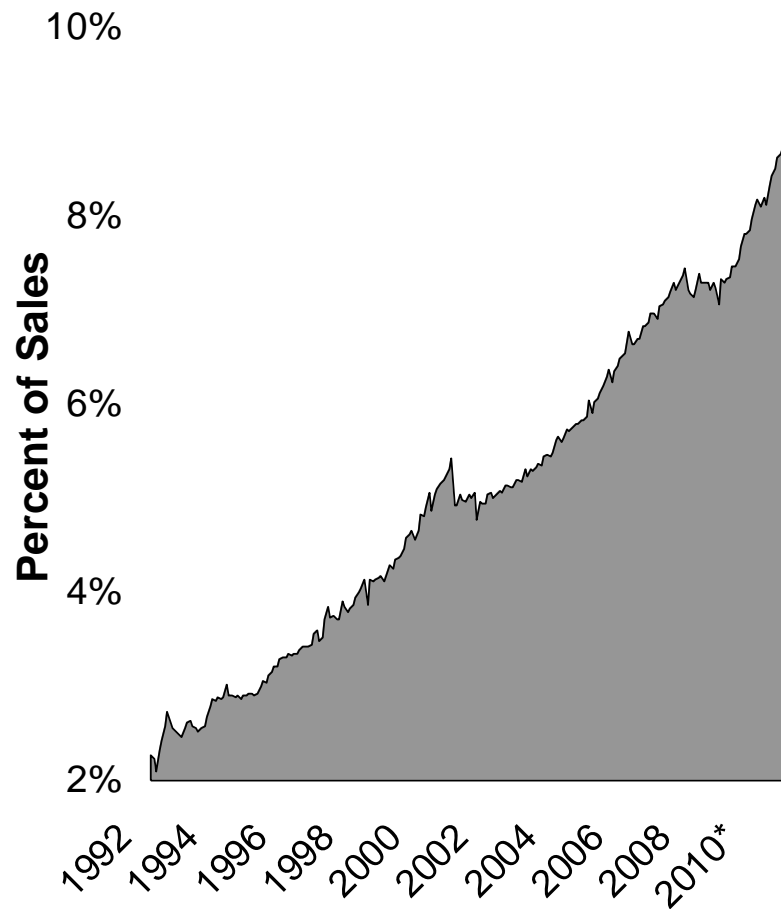
# Retail Sales Growth From Trough by Store Type; Electronic Shopping Gaining Share of Retail Sales

**Monthly Sales Growth From Trough**

■ December 2008 - December 2010



**Electronic Shopping as % of Retail Sales**

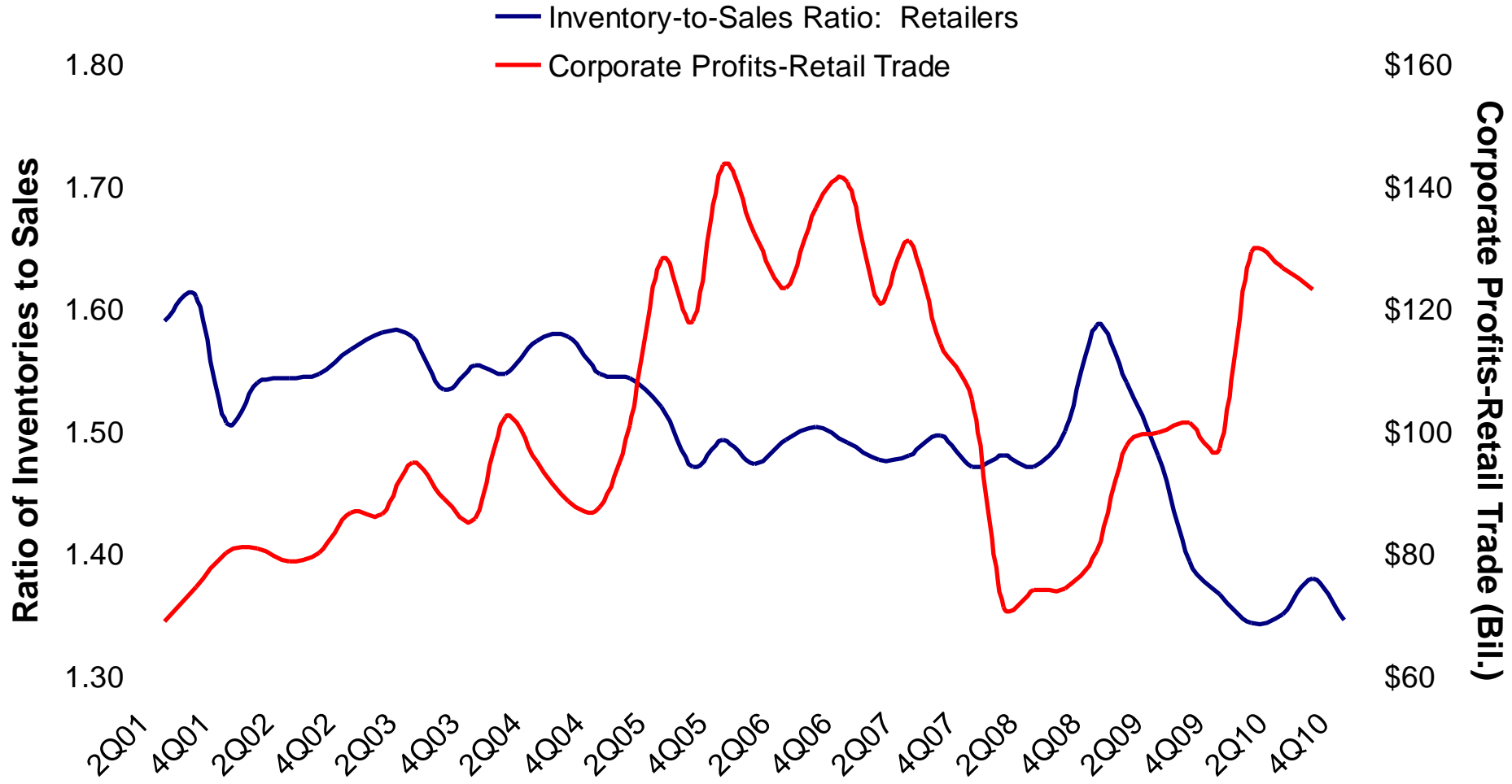


\* Through November 2010

Excludes auto & gas sales

Sources: Marcus & Millichap Research Services, U.S. Census Bureau

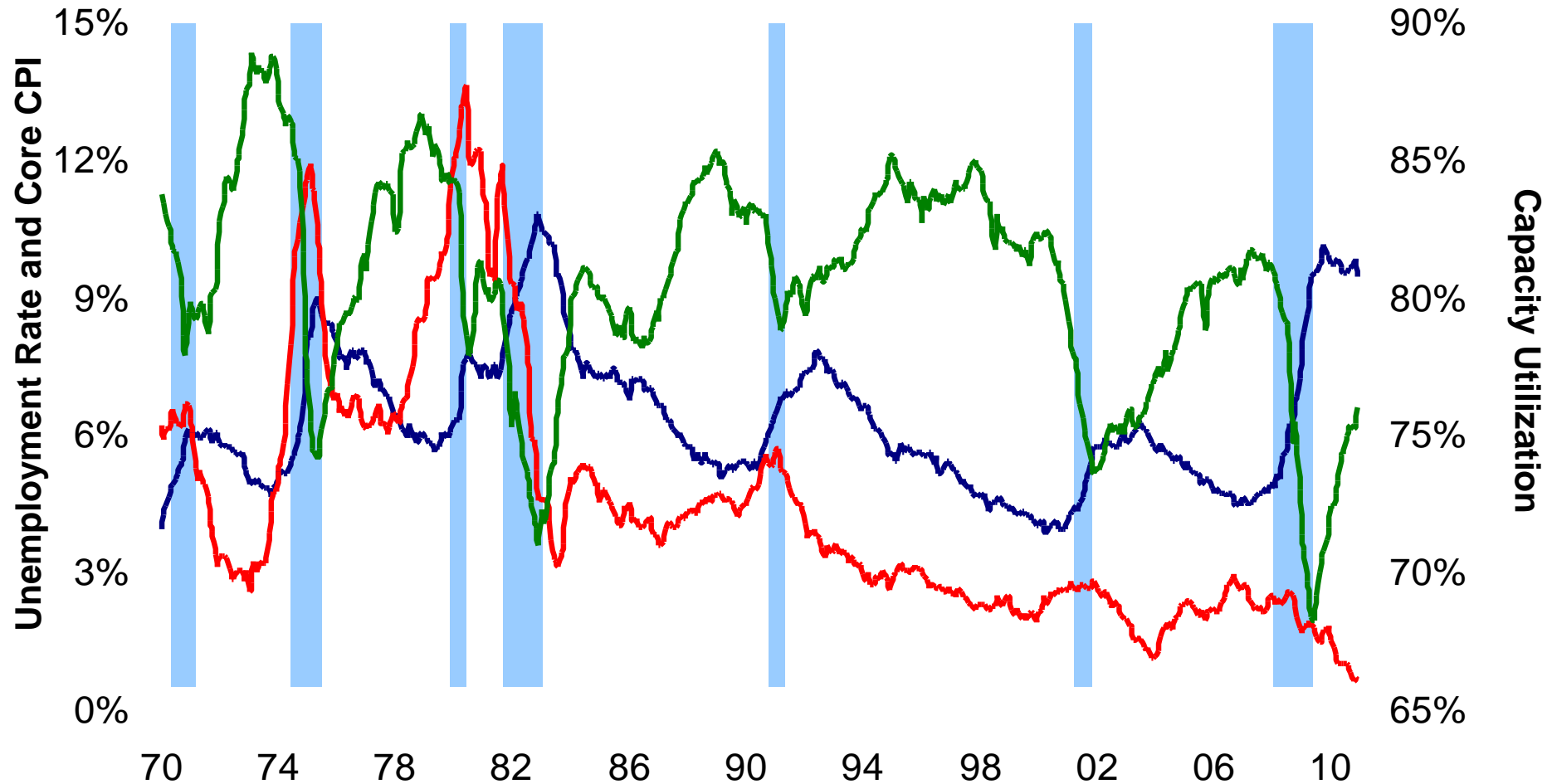
# Corporate Earnings and Retail Operations Improving



Inventory-to-sales ratio through 4Q10, corporate profits through 3Q10  
Sources: Marcus & Millichap Research Services, Census Bureau, BEA

# Deflation Concerns, Weak Recovery Dominating Current Fed Agenda

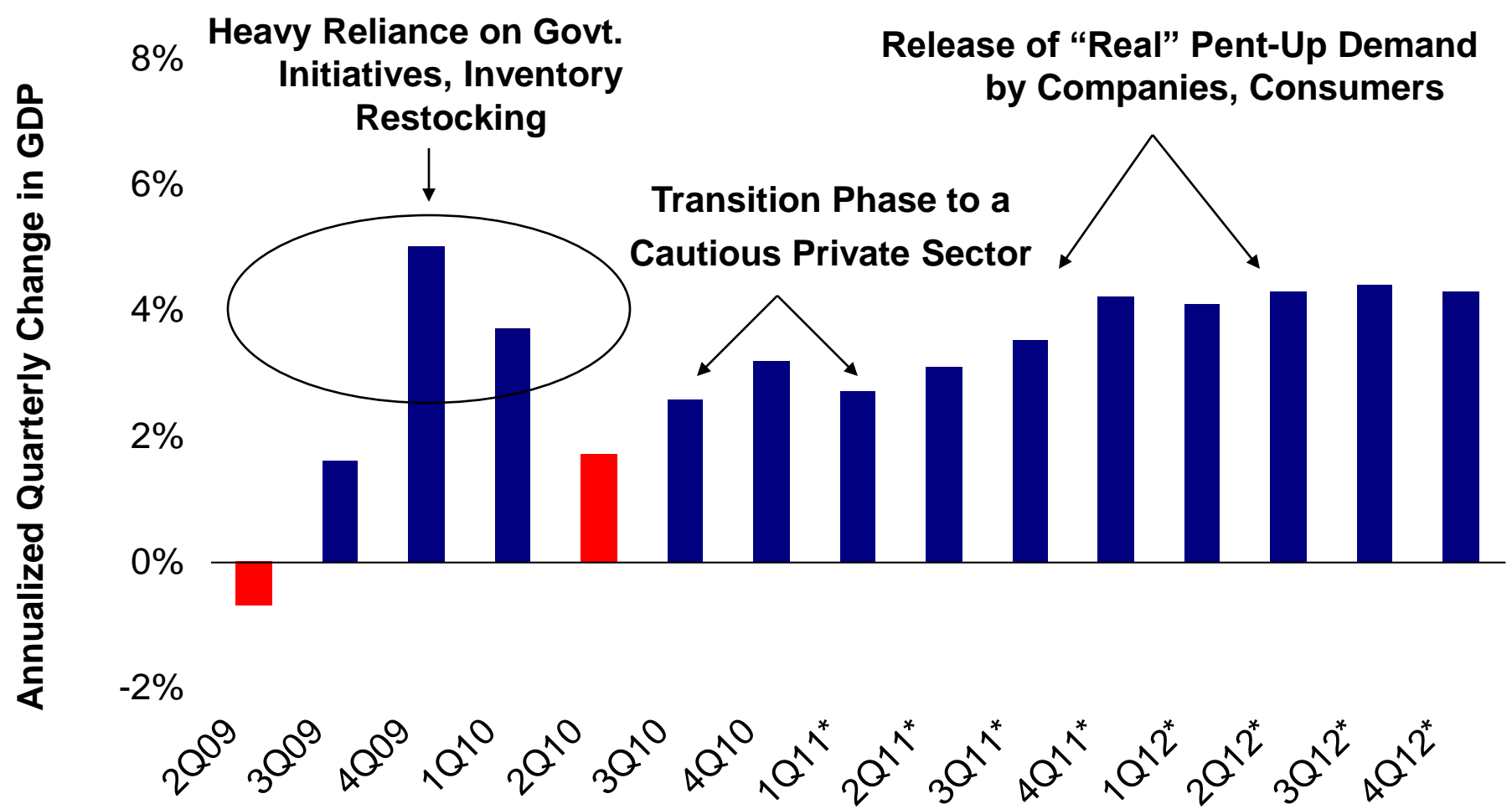
— Unemployment Rate — Core CPI — Capacity Utilization





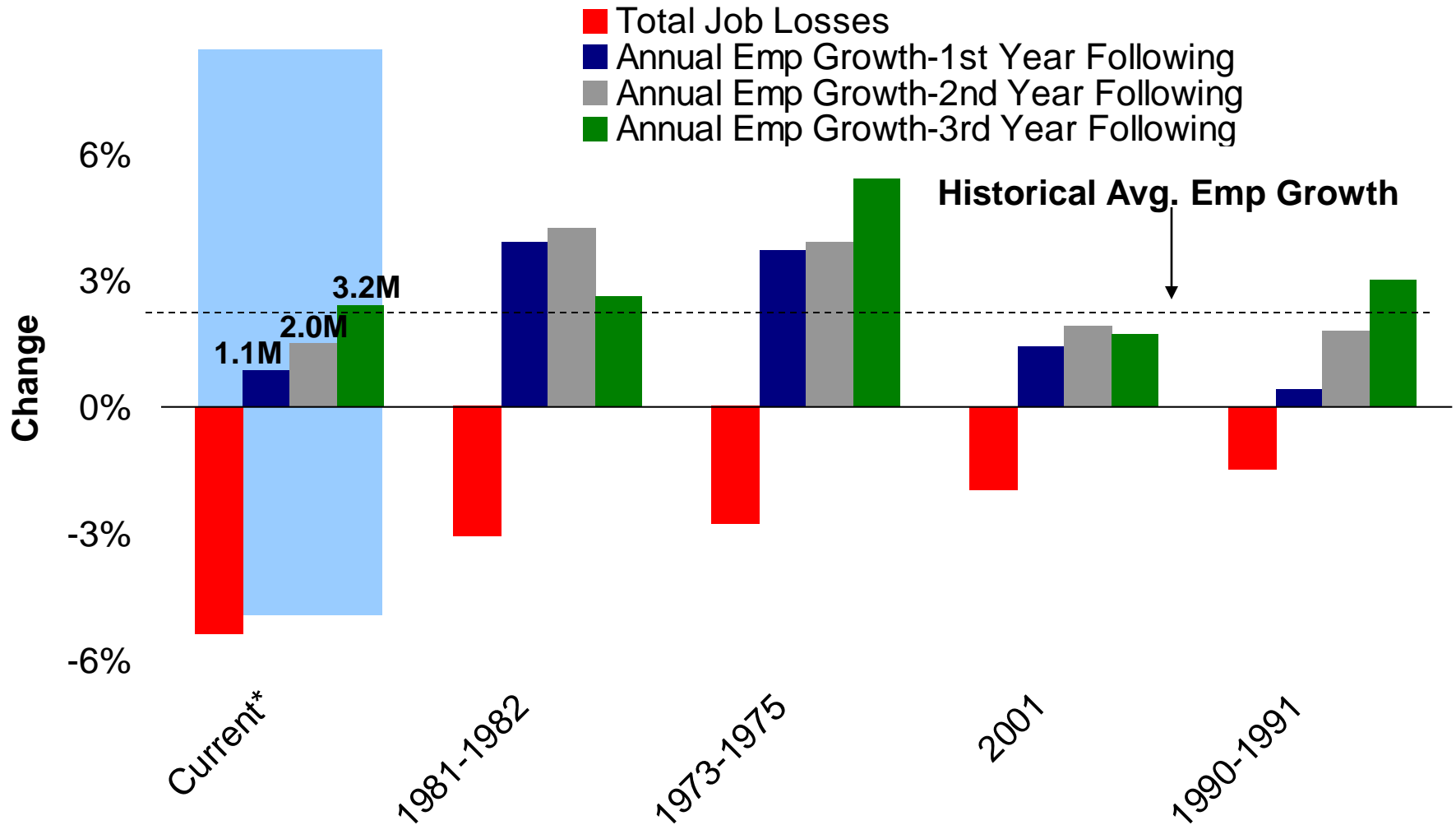
# An Economy in Transition

## U.S. GDP Growth Past, Present and Future



\* Forecast  
 Sources: Marcus & Millichap Research Services, BEA, Economy.com

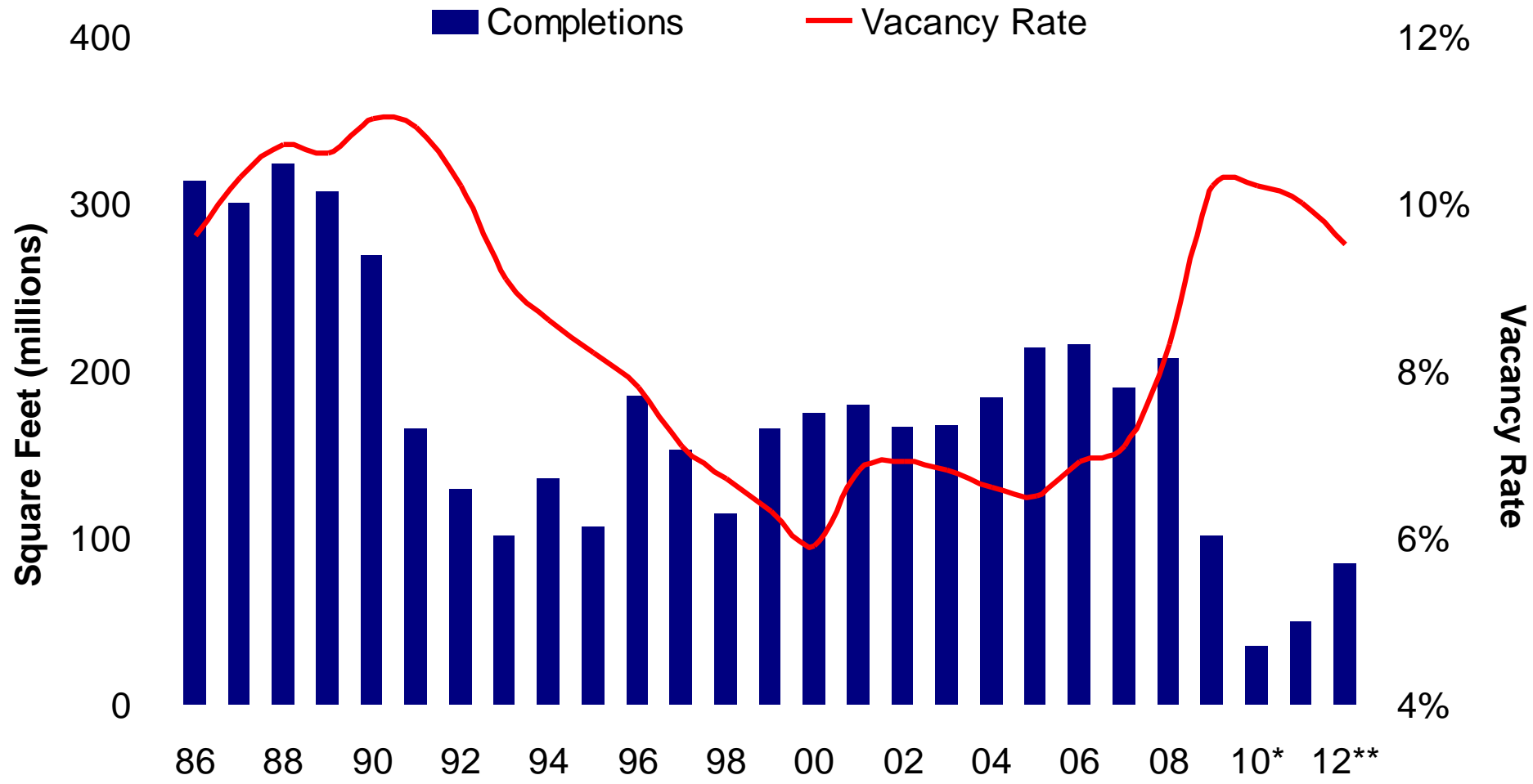
# Employment Growth Is Expected to Gain Momentum in 2011 and 2012 – Even If Just Catching up to Long-Term Average



\* Next year = 2010 job growth, Following 2 years = 2011-2012 job growth  
 Employment growth based on employment for the 12 months after the contraction period

Sources: Marcus & Millichap Research Services, BLS

# Retail Vacancies Beginning to Stabilize; Falling Construction a Major Recovery Driver

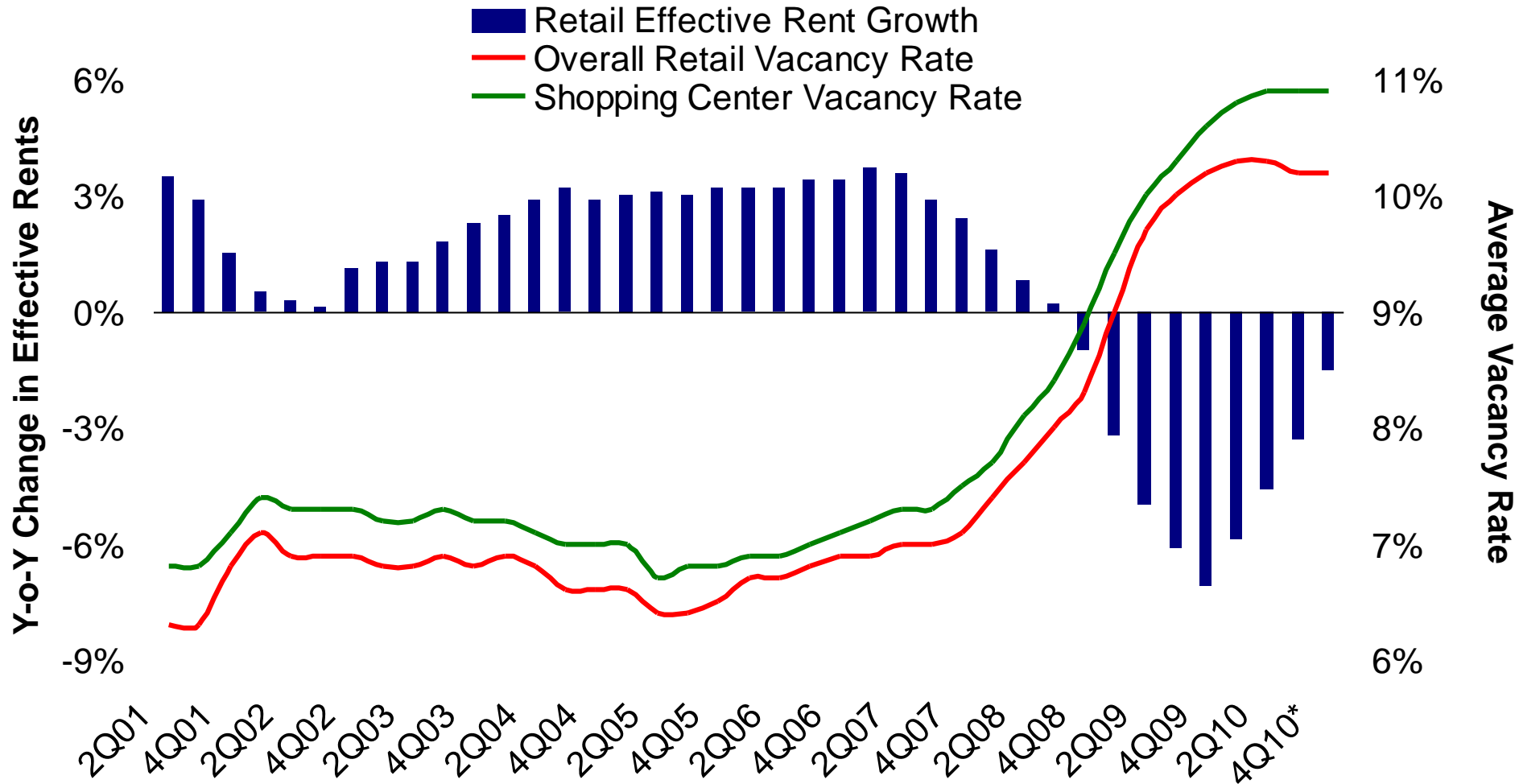


\* Estimate

\*\* Forecast

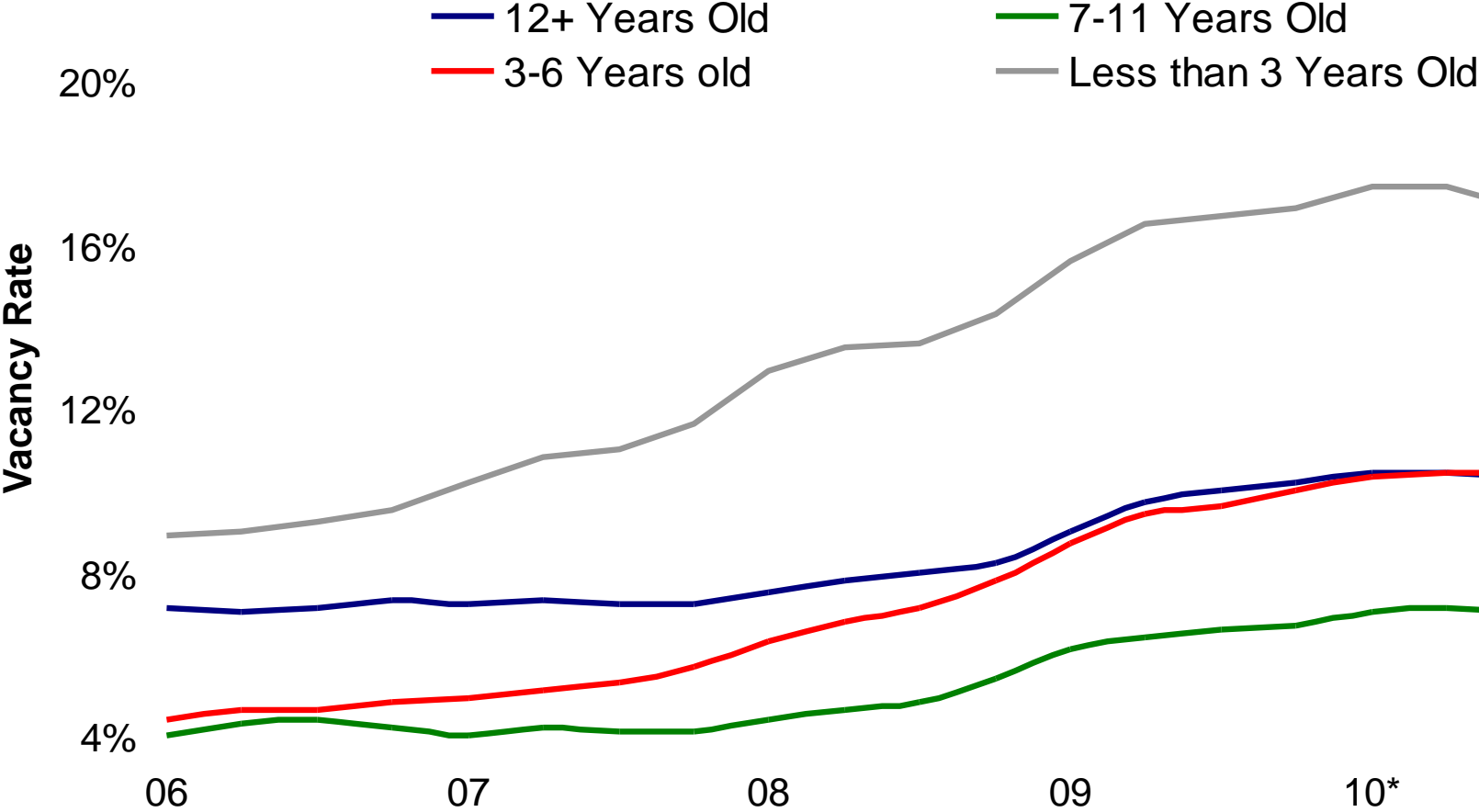
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.

# Quarterly U.S. Retail Rents vs. Vacancy Rate



\* Preliminary estimate  
 Shopping centers include neighborhood/community centers  
 Sources: Marcus & Millichap Research Services, Reis, CoStar Group, Inc.

# Retail Vacancy Rate by Property Age



\* Estimate  
Includes all multi-tenant shopping centers 10,000 square feet and larger  
Sources: Marcus & Millichap Research Services, Costar Group, Inc.

# Top U.S. Retailers Expanding and Downsizing

Top 10 Retailers Expanding*	Market Sector	Number of Stores
Dollar General	General	625
Family Dollar	General	300
Quiznos	Restaurant	300
Walgreens	Health/Personal	225
Advance Auto Parts	Miscellaneous	200
Uniqlo	Apparel	200
AutoZone	Miscellaneous	140
Fresh & Easy	Grocery	104
SUPERVALU	Grocery	100
Fastenal	Building Materials	95

Top 10 Retailers Downsizing**	Market Sector	Number of Stores
Hollywood Video	Miscellaneous	2,415
Blockbuster	Miscellaneous	690
Waldenbooks (Borders)	Miscellaneous	200
Ford Lincoln Dealerships	Miscellaneous	175
Jones Apparel	Apparel	173
f.y.e	Miscellaneous	149
Men's Wearhouse	Apparel	145
Charming Shoppes	Apparel	120
Foot Locker	Apparel	117
The Walking Company	Apparel	117

\* Retailers expanding through 2011

\*\* Retailers downsizing through 2010

Sources: Marcus & Millichap Research Services, [retailindustry.about.com](http://retailindustry.about.com)

# Retail Metro Vacancy Ranking Forecast 2011

Top 15 Markets	2011 Vacancy
San Francisco	3.9%
San Diego	4.7%
San Jose	5.5%
Los Angeles	5.9%
Seattle-Tacoma	5.9%
Orange County	6.0%
New York	6.3%
Washington, D.C.	6.3%
Boston	6.4%
Portland	6.7%
Baltimore	6.8%
Miami	7.2%
Oakland-East Bay	7.3%
New Jersey	7.6%
San Antonio	8.5%
<b>U.S. Average</b>	<b>10.0%</b>

Bottom 15 Markets	2011 Vacancy
Palm Beach	10.7%
Columbus	10.8%
Chicago	11.0%
Fort Lauderdale	11.2%
Jacksonville	11.7%
Dallas-Ft. Worth	11.8%
Las Vegas	11.8%
Atlanta	11.9%
Detroit	11.9%
Inland Empire	11.9%
Louisville	12.1%
Indianapolis	12.4%
Phoenix	12.6%
Cleveland	12.8%
Cincinnati	14.1%
<b>U.S. Average</b>	<b>10.0%</b>

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***CAPITAL MARKETS  
OVERVIEW and OUTLOOK***



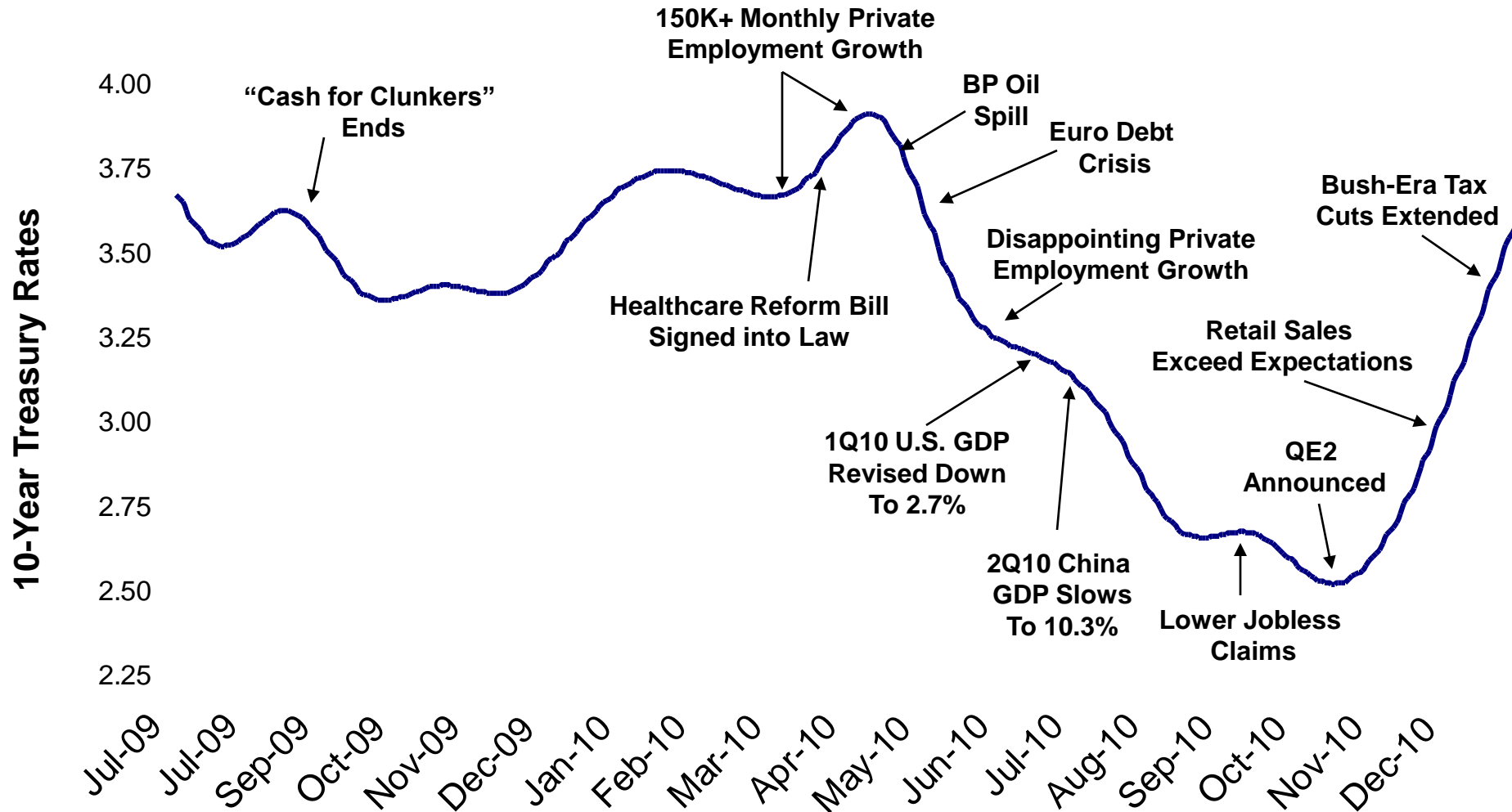
# Capital Markets Developments

## 2010 Review

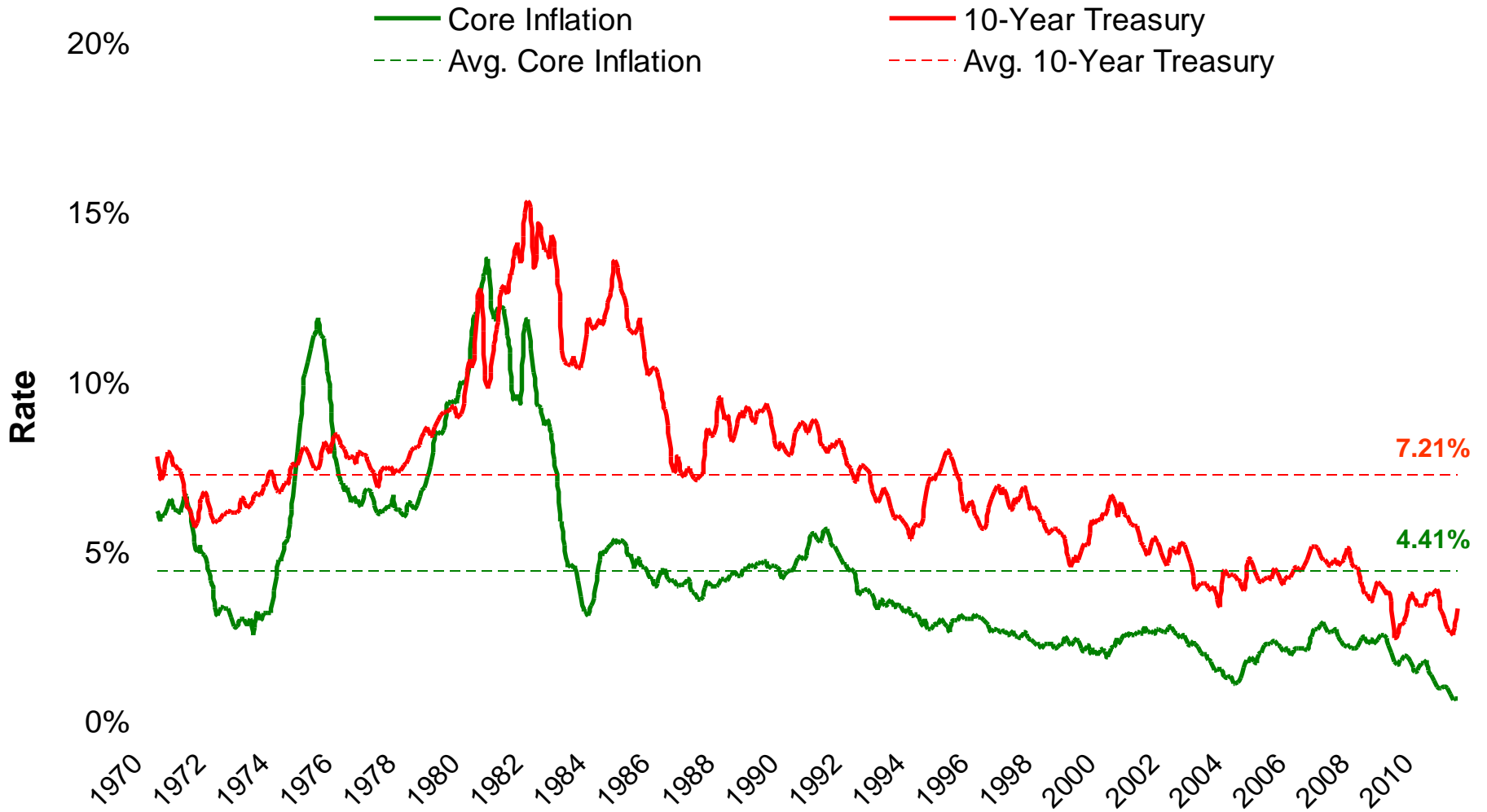
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- **Retail Real Estate Financing Improved During the Year**
  - Retail fundamentals generally stabilizing
  - Retail property valuation stabilized
  - Lender confidence improved during year
  
- **Capital Markets Recovery**
  - Credit spreads declined throughout 2010
  - Historically low interest rates
  - Capital sources increased during year

# 10-Year Treasury Movement Reflects the Power of Market Sentiment, Expectations and Uncertainty



# Core Inflation vs. 10-Year Treasury

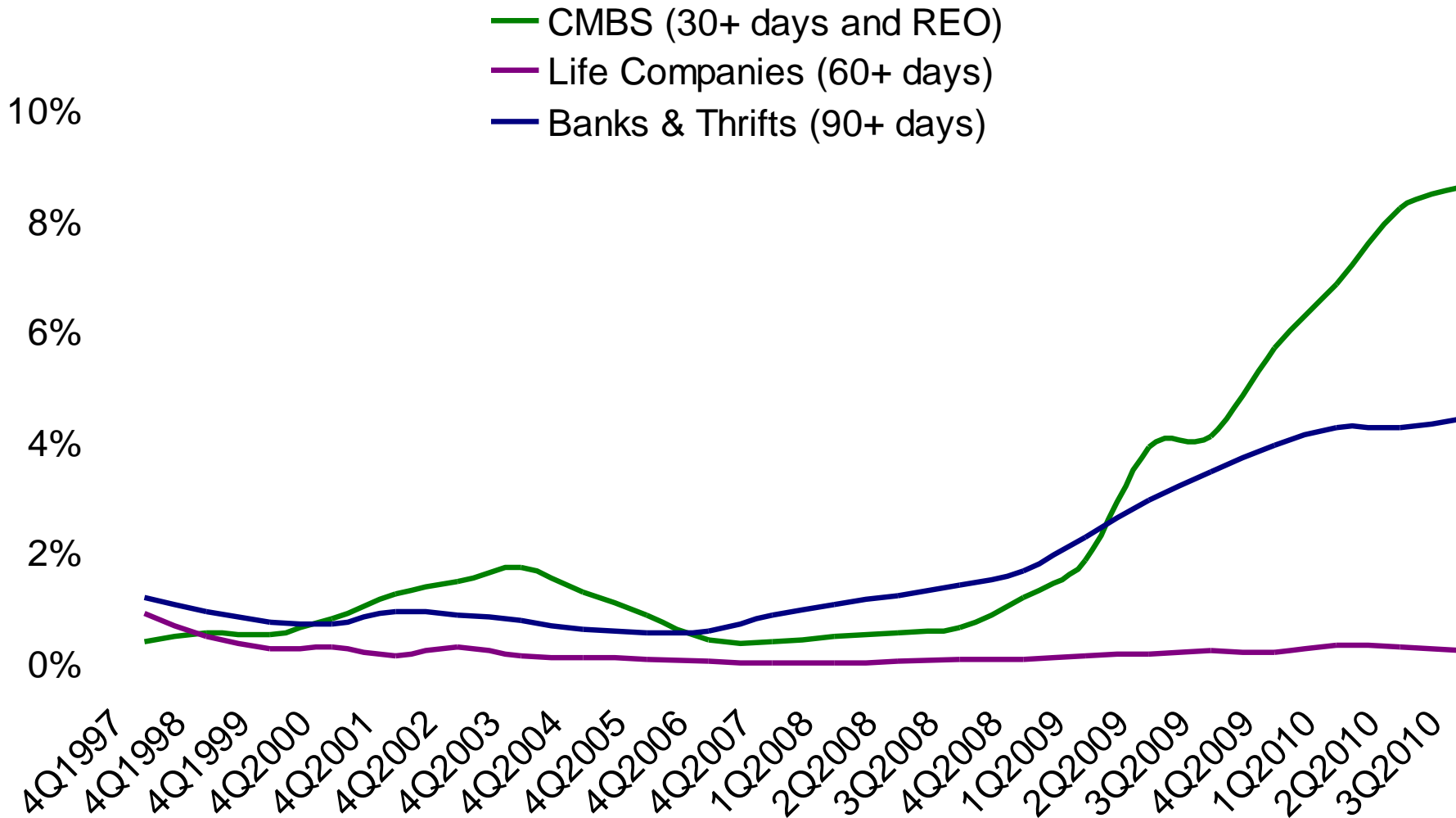


Sources: Marcus & Millichap Research Services, Economy.com, Federal Reserve

# CMBS Spreads



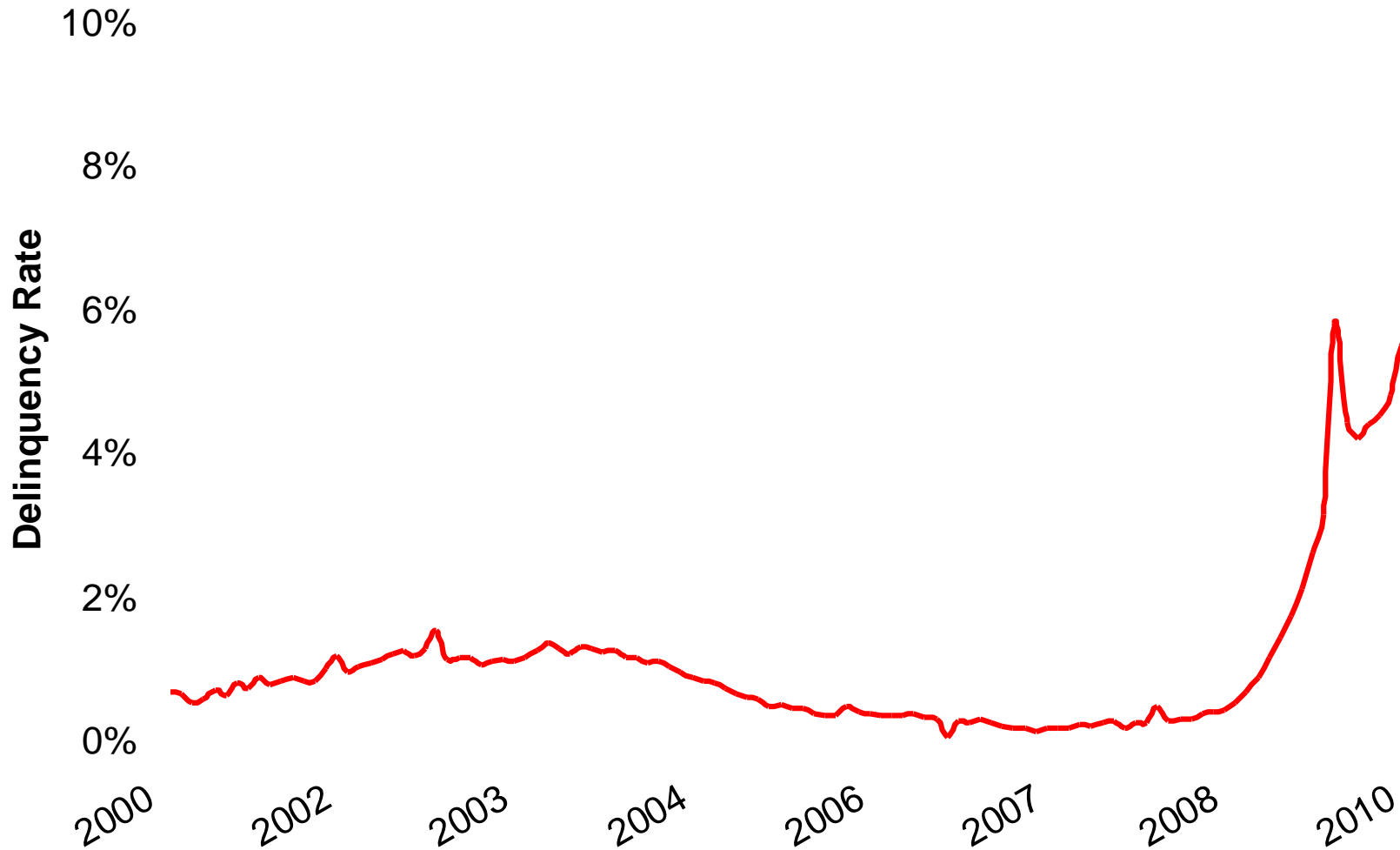
# Commercial Mortgage Delinquency Rates by Lender Type



Delinquency rates at the end of each period

Sources: Marcus & Millichap Research Services, Mortgage Bankers Association

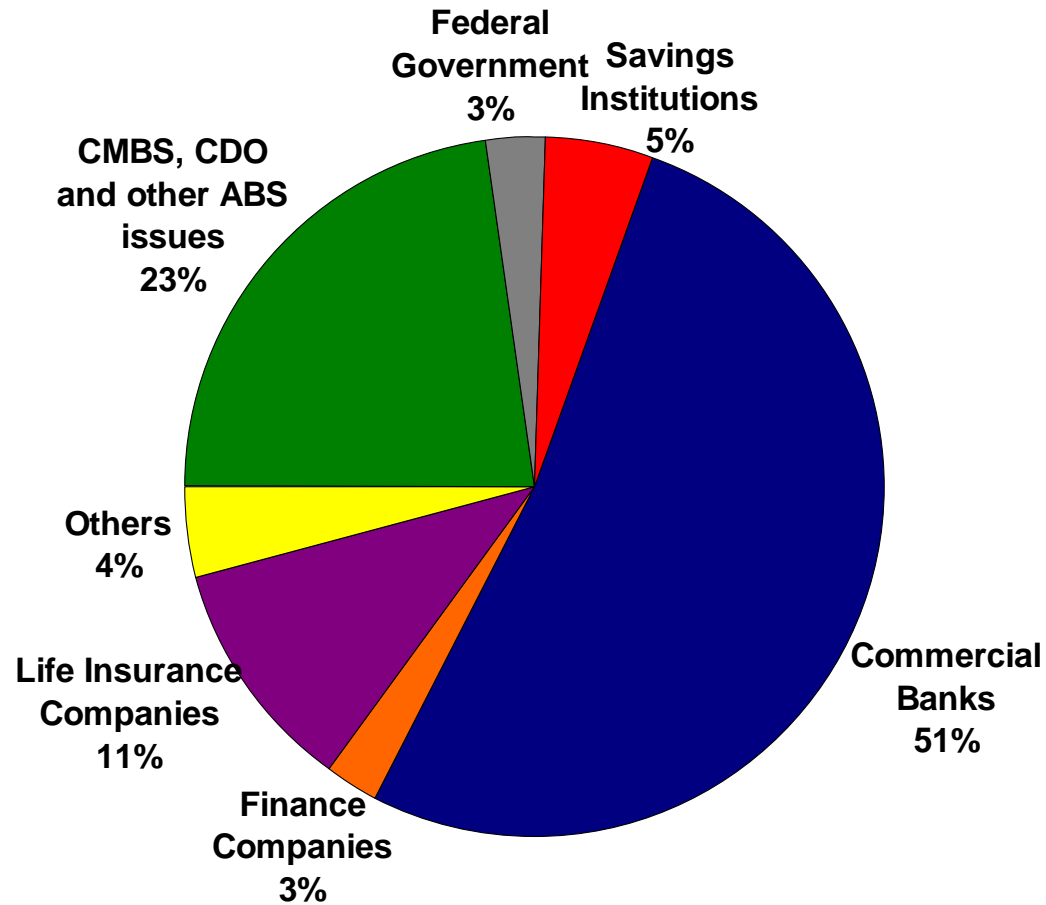
# Retail CMBS Delinquency Rate



# Total Commercial Mortgage Debt Outstanding: \$2.4 trillion\*

## By Lender Types (\$Bil):

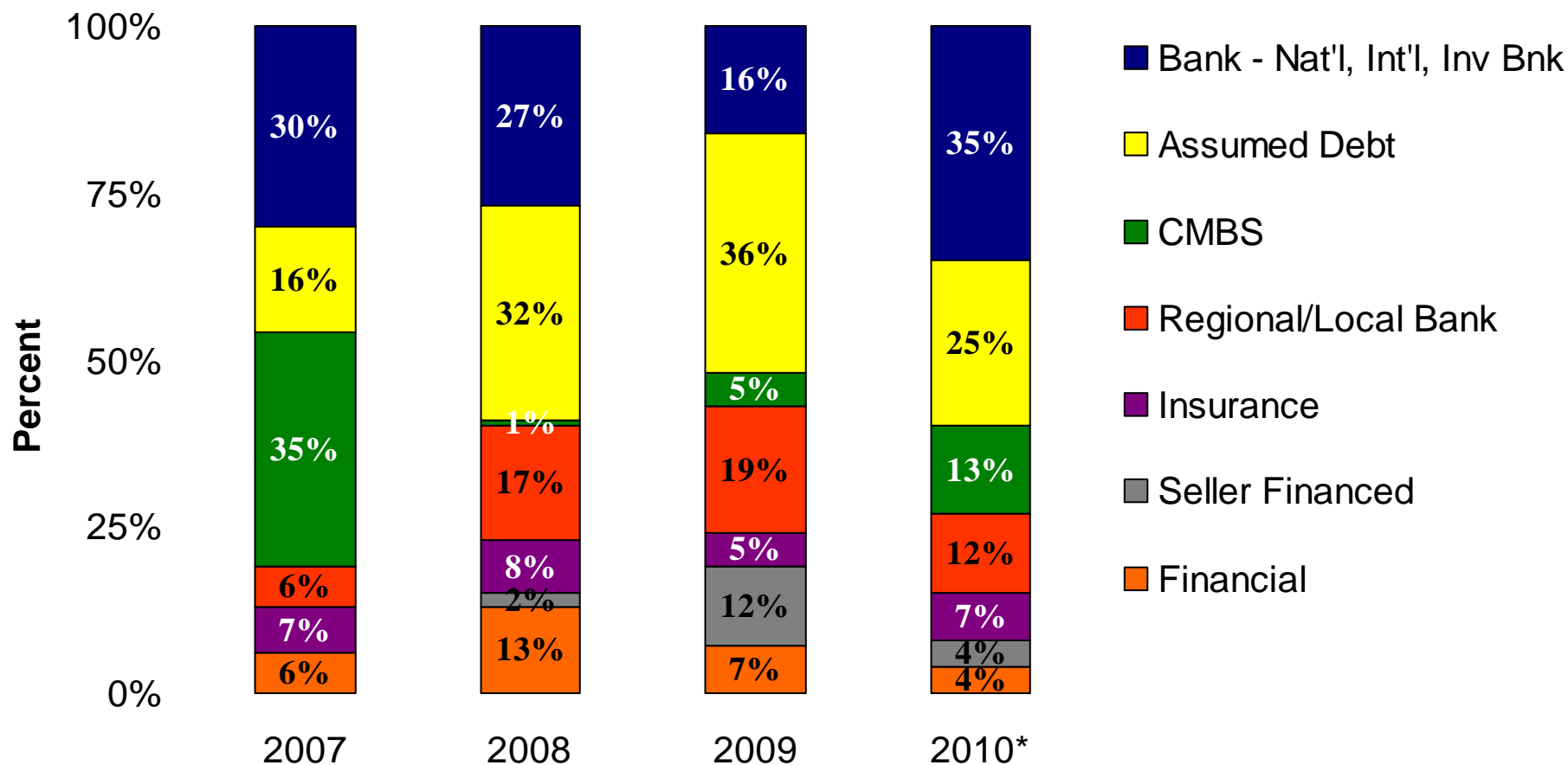
Commercial Banks	\$1,223.7
CMBS, CDO & Other ABS	\$536.5
Life Insurance Companies	\$251.3
Savings Institutions	\$120.6
Others	\$97.4
Federal Government	\$64.5
Finance Companies	\$61.5



\* As of 3Q10

Sources: Marcus & Millichap Research Services, Mortgage Bankers Association

# Sources of Commercial Real Estate Acquisition Financing by Dollar Volume

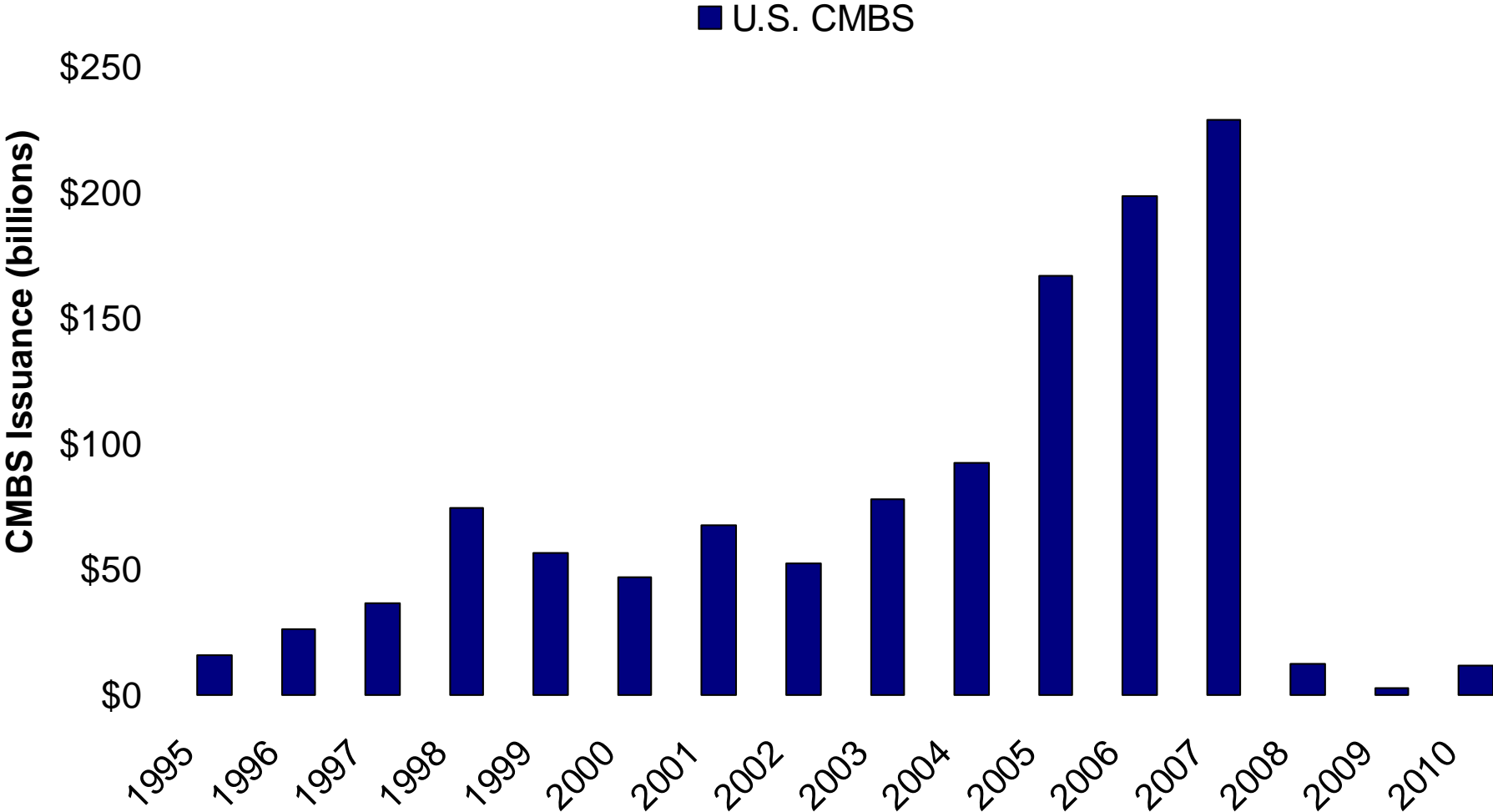


\*Through October 2010

Sources: Marcus & Millichap Research Services, Real Capital Analytics



# U.S. Commercial Mortgage Backed Securities (CMBS) Issuance



Sources: Marcus & Millichap Research Services, Commercial Mortgage Alert

# Capital Markets 2011 Outlook

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## ➤ Active Capital Sources During 2011

- Commercial banks
- Life companies
- Finance companies
- CMBS

## ➤ 10-Year Treasury Yields will remain range-bound (3.5% - 4%)

- Governments need to finance deficit
- As confidence is restored in economy, inflation expectations will push rates higher
- QE2 will limit upward pressure

## ➤ Investor Financing Strategies

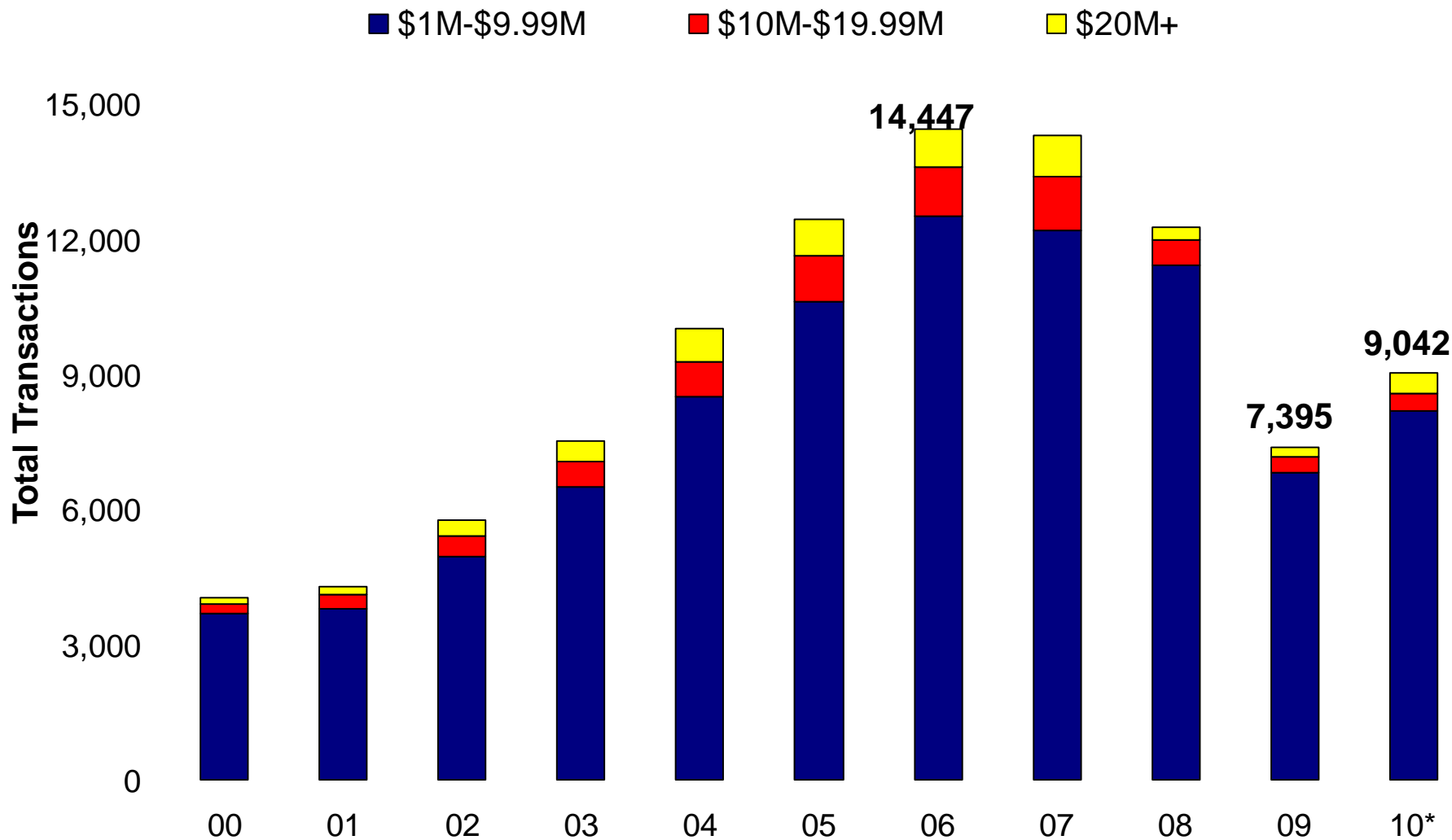
- Small investor (\$1 to \$10 million)
- Medium investor (\$10 to \$20 million)
- Large investor (\$20 million +)

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# ***National Retail Overview***

# U.S. Retail Property Transaction Trends

## Number of Sales Show Strength

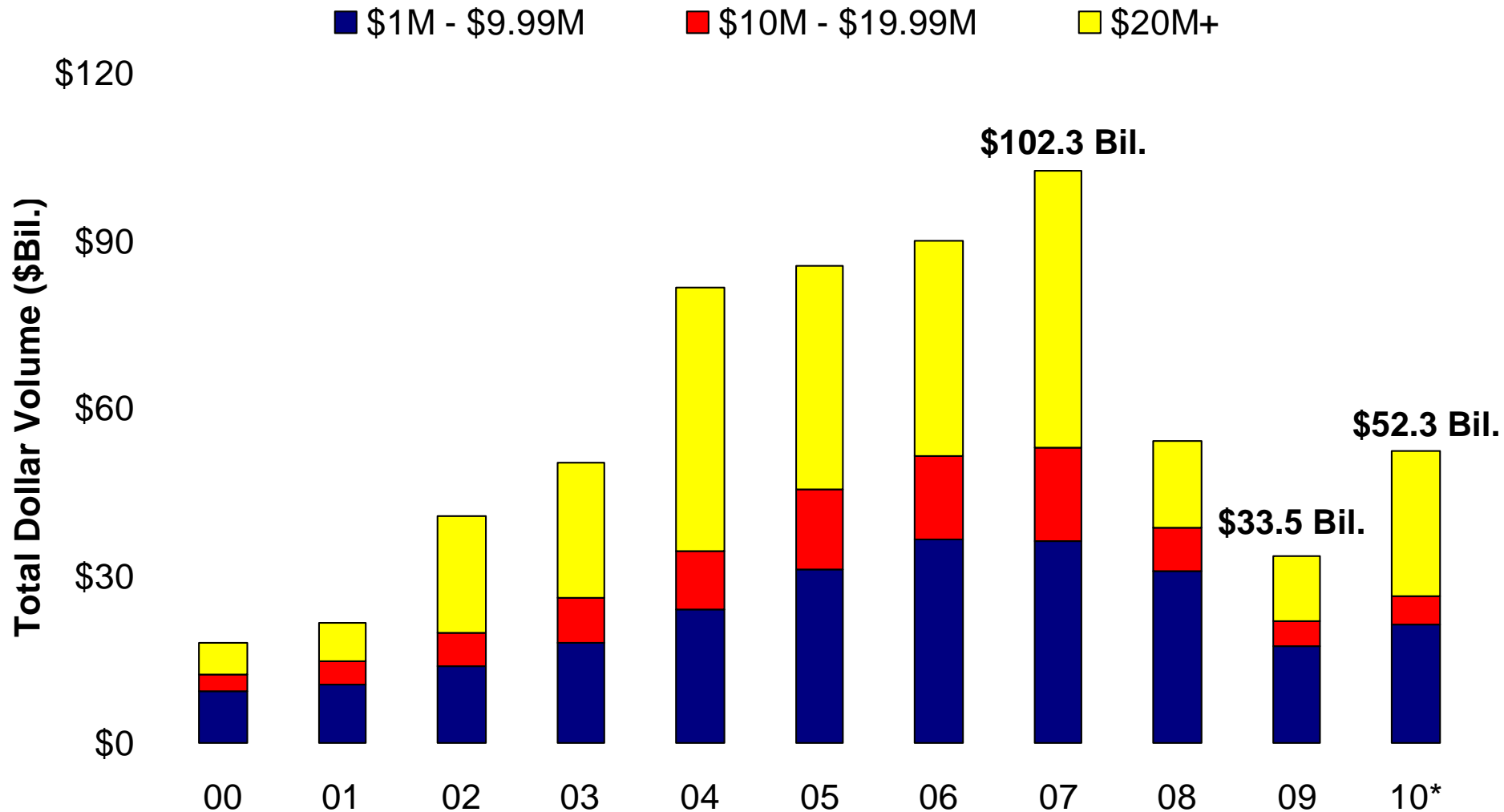


\* Preliminary estimate

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

# U.S. Retail Property Transaction Trends

## Overall Dollar Volume Beginning to Pick Up...

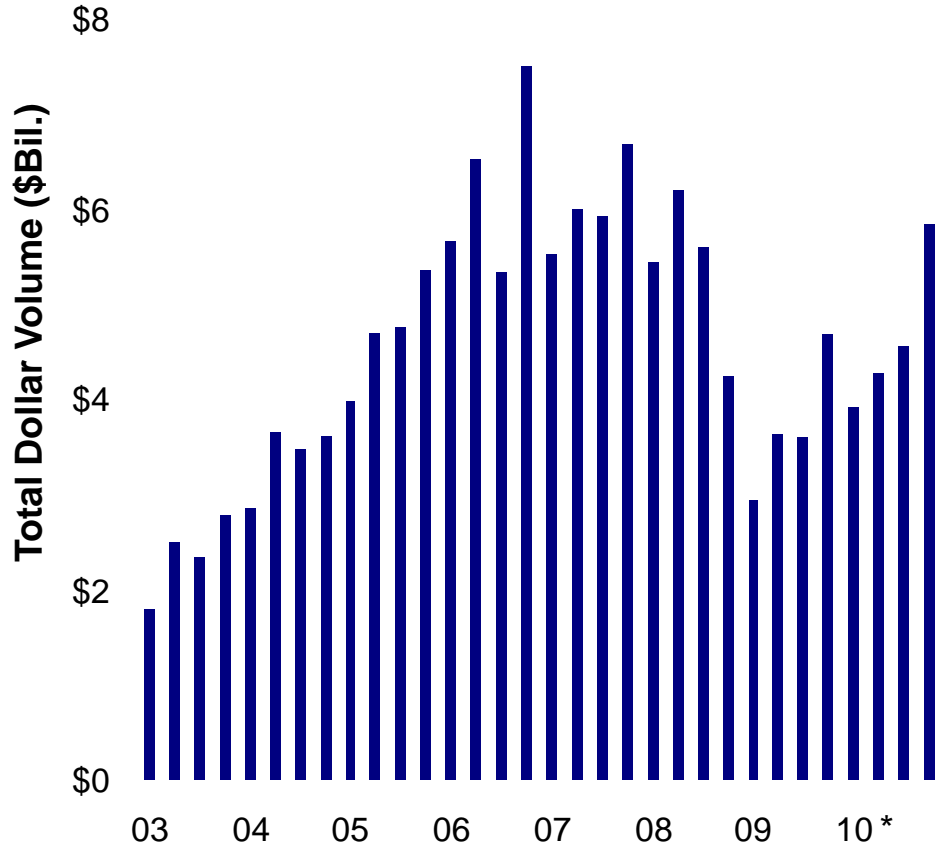


\* Preliminary estimate

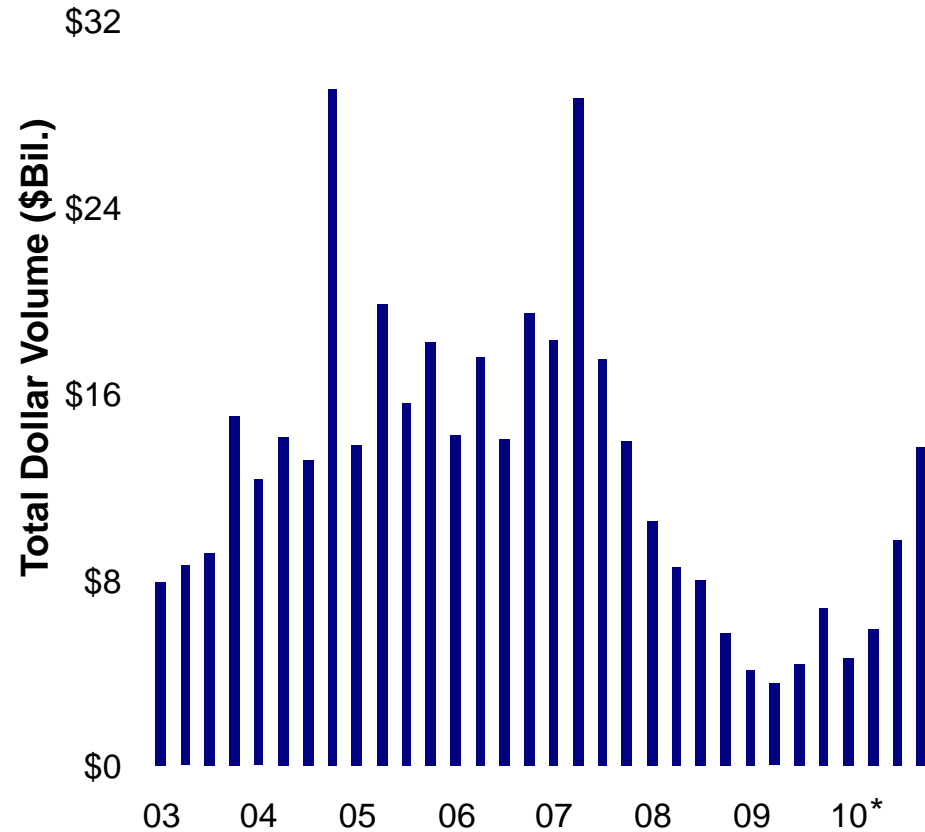
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics

# Retail Property Sales Trends

## Single-Tenant



## Multi-Tenant

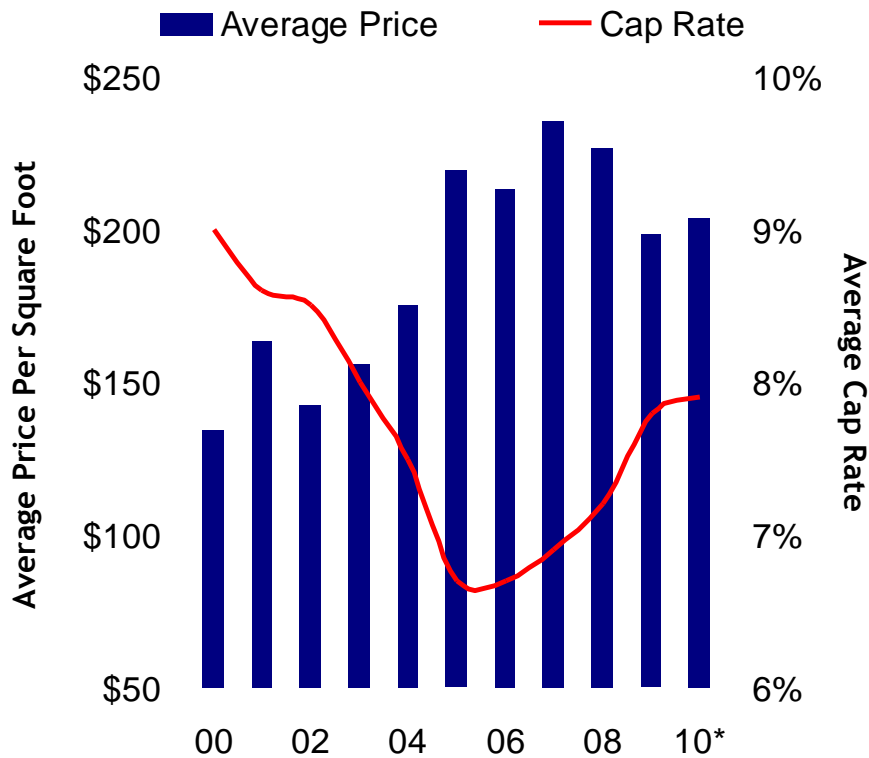


\* 4Q2010 preliminary estimate

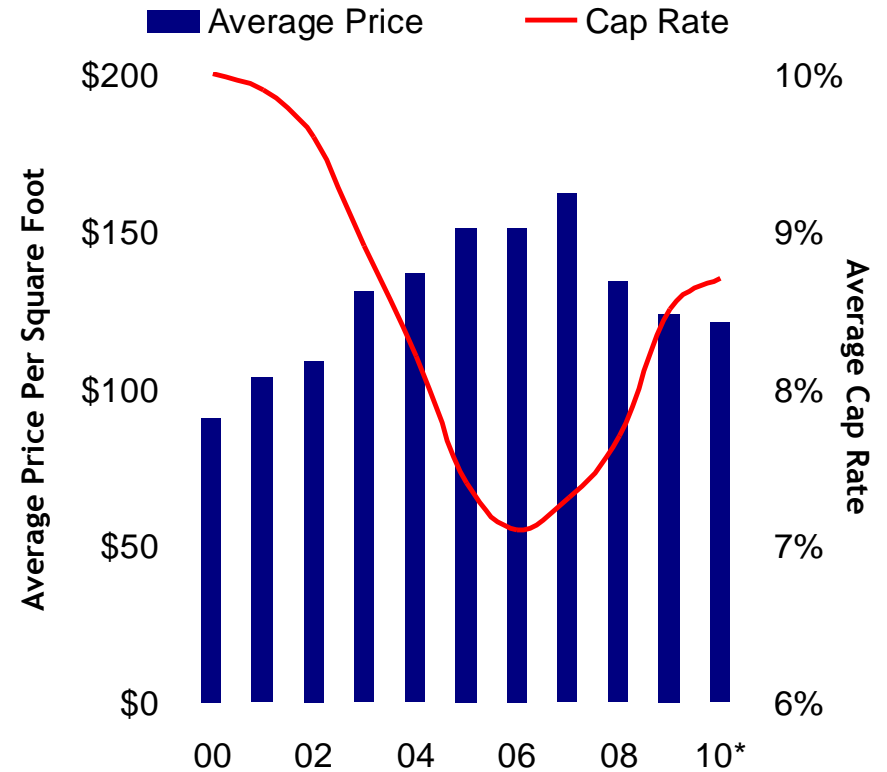
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics

# National Single- and Multi-Tenant Retail Price and Cap Rates

## Single-Tenant



## Multi-Tenant



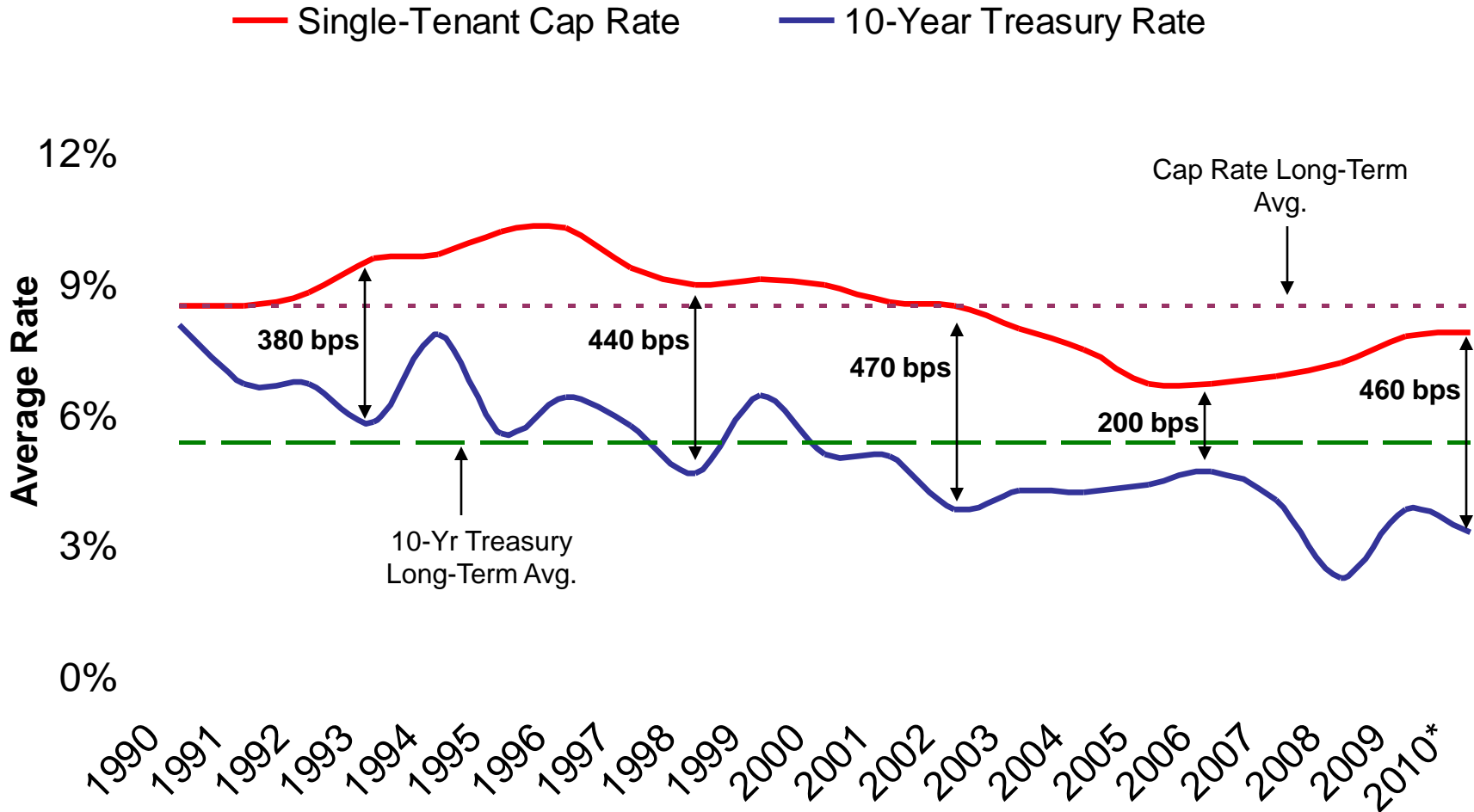
\* Preliminary estimate

Includes sales \$1 million and above

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

# Single-Tenant Retail Cap Rate Trends

## Average Cap Rates vs. 10-Year Treasury

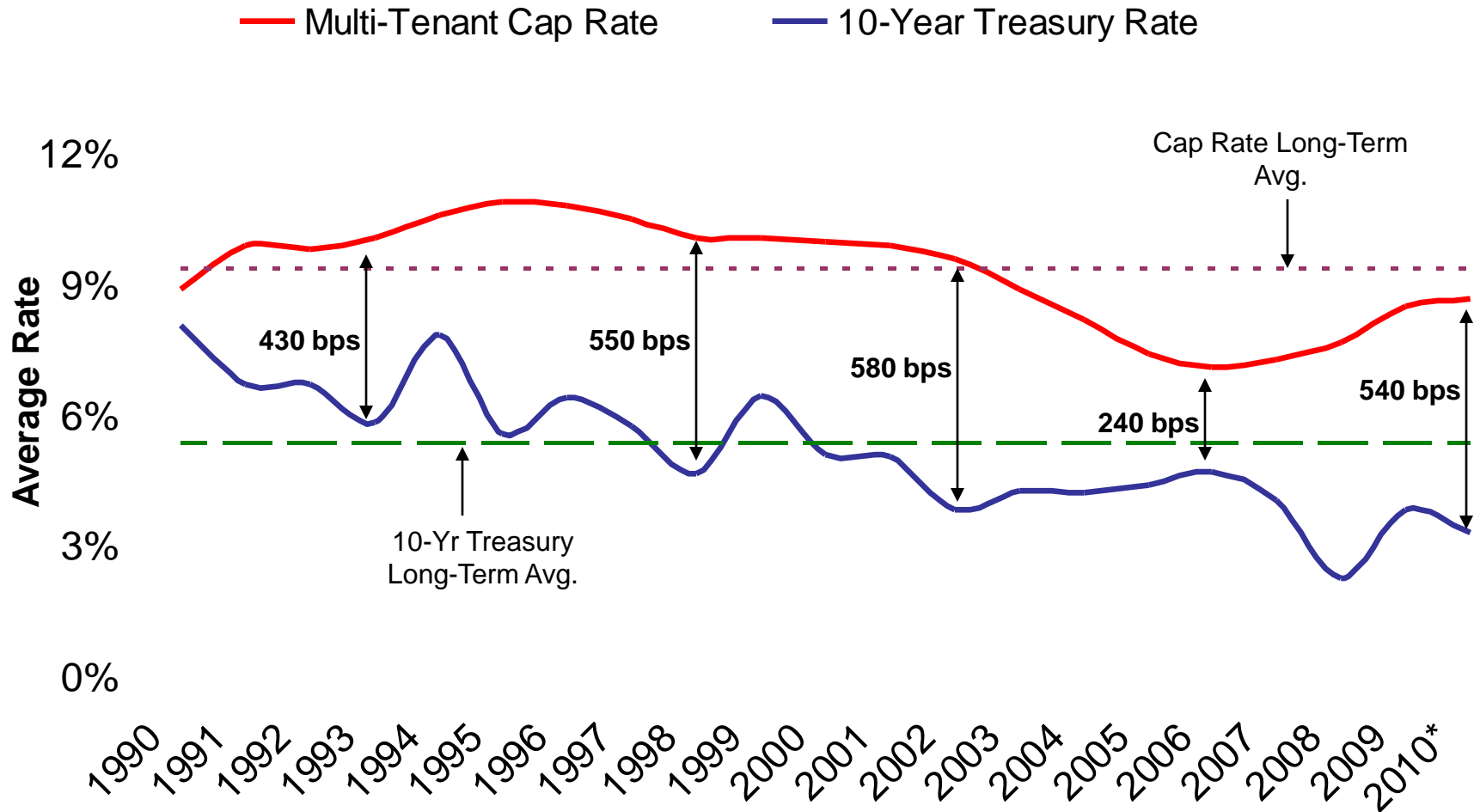


\* Preliminary estimate  
 Sales \$1 million and above  
 Sources: Marcus & Millichap Research Services, CoStar Group, Inc.



# Multi-Tenant Retail Cap Rate Trends

## Average Cap Rates vs. 10-Year Treasury

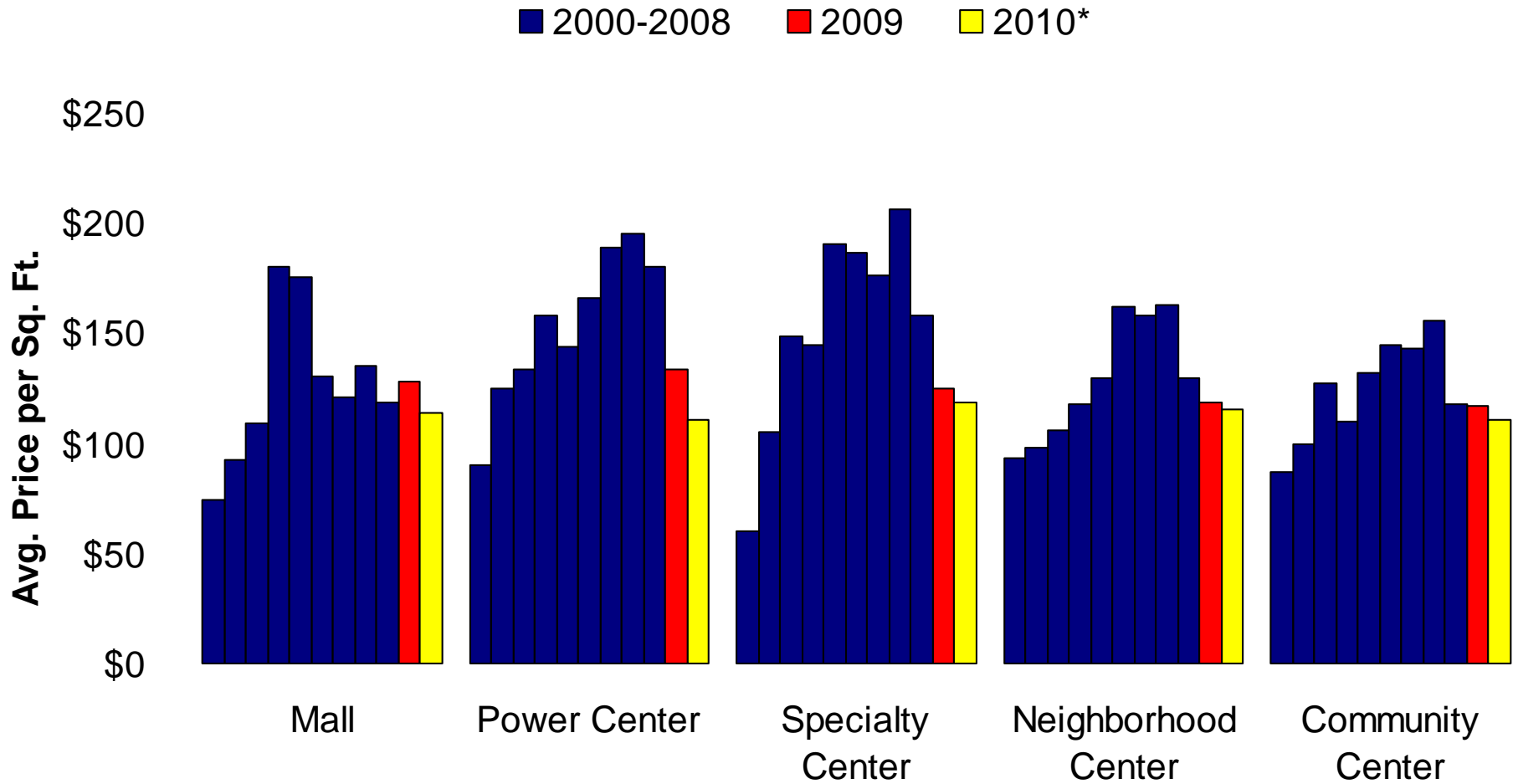


\* Preliminary estimate

Sales \$1 million and above

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

# Retail Price Trends by Type

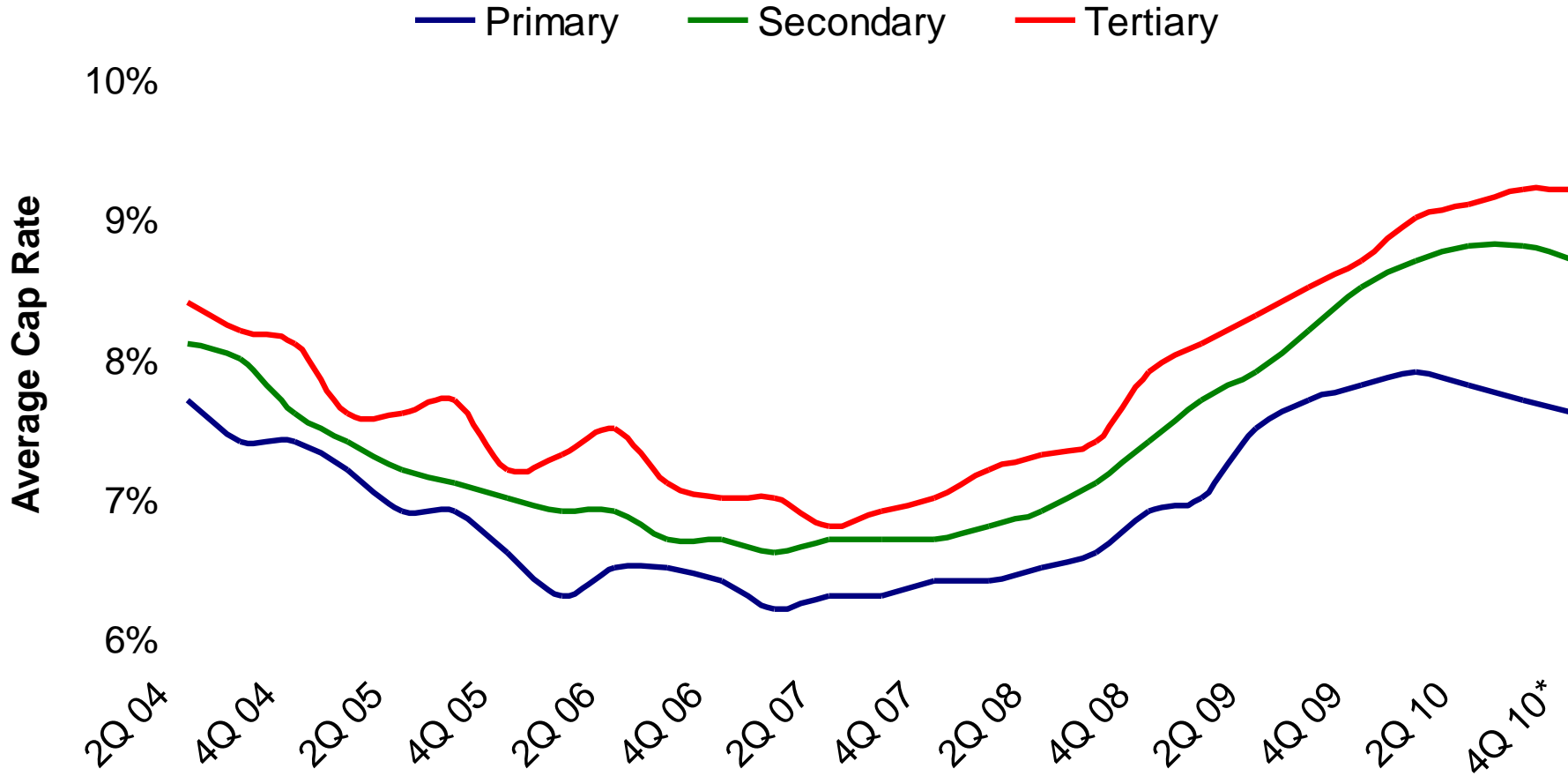


\* Preliminary estimate

Includes Sales \$1M+

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

# Re-Pricing of Risk by Quality Reflected in Retail Cap Rate Trends by Market Type

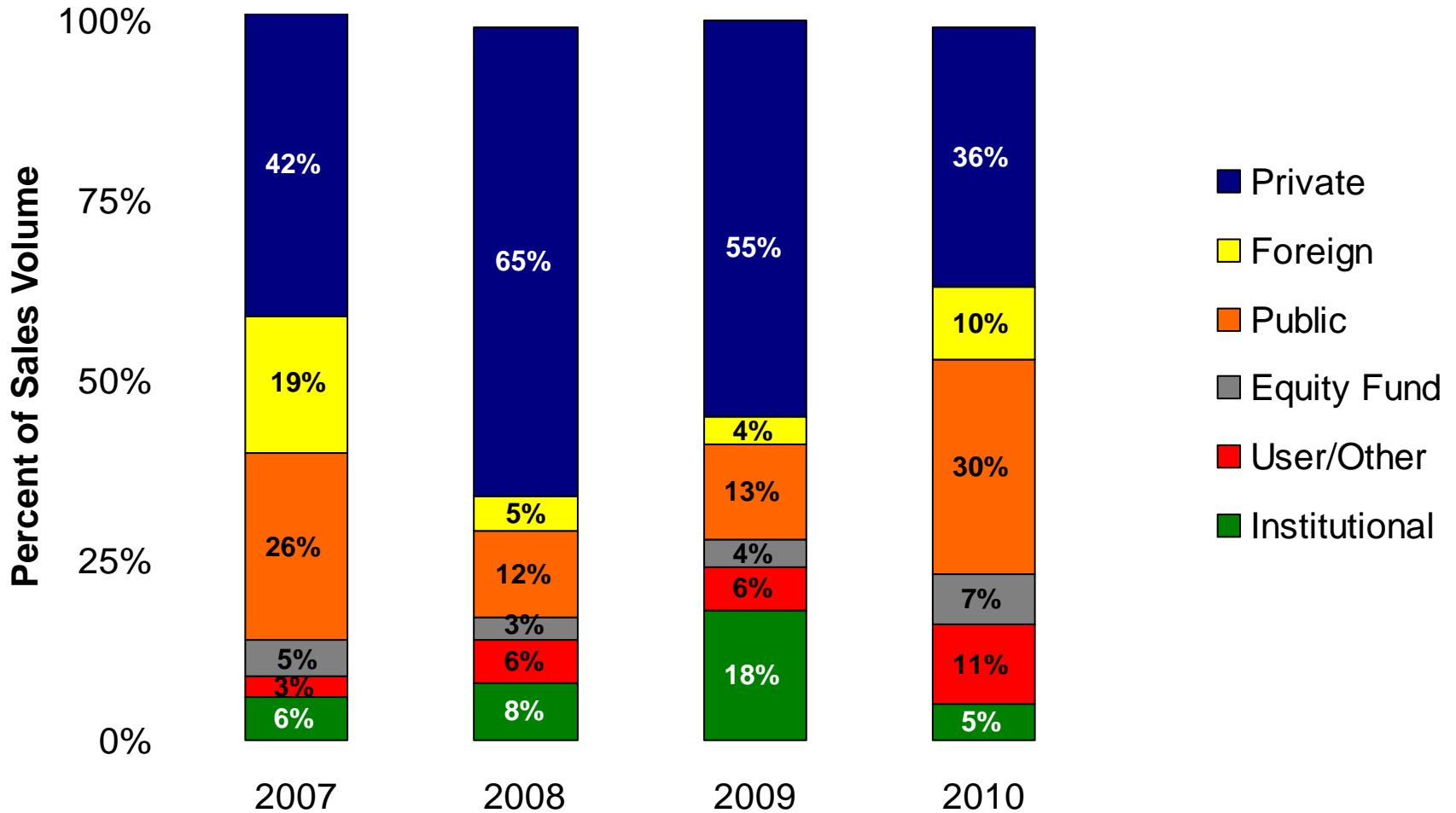


\* Preliminary estimate

Sales (Properties and Portfolios) \$5 million and above

Sources: Marcus & Millichap Research Services, Real Capital Analytics

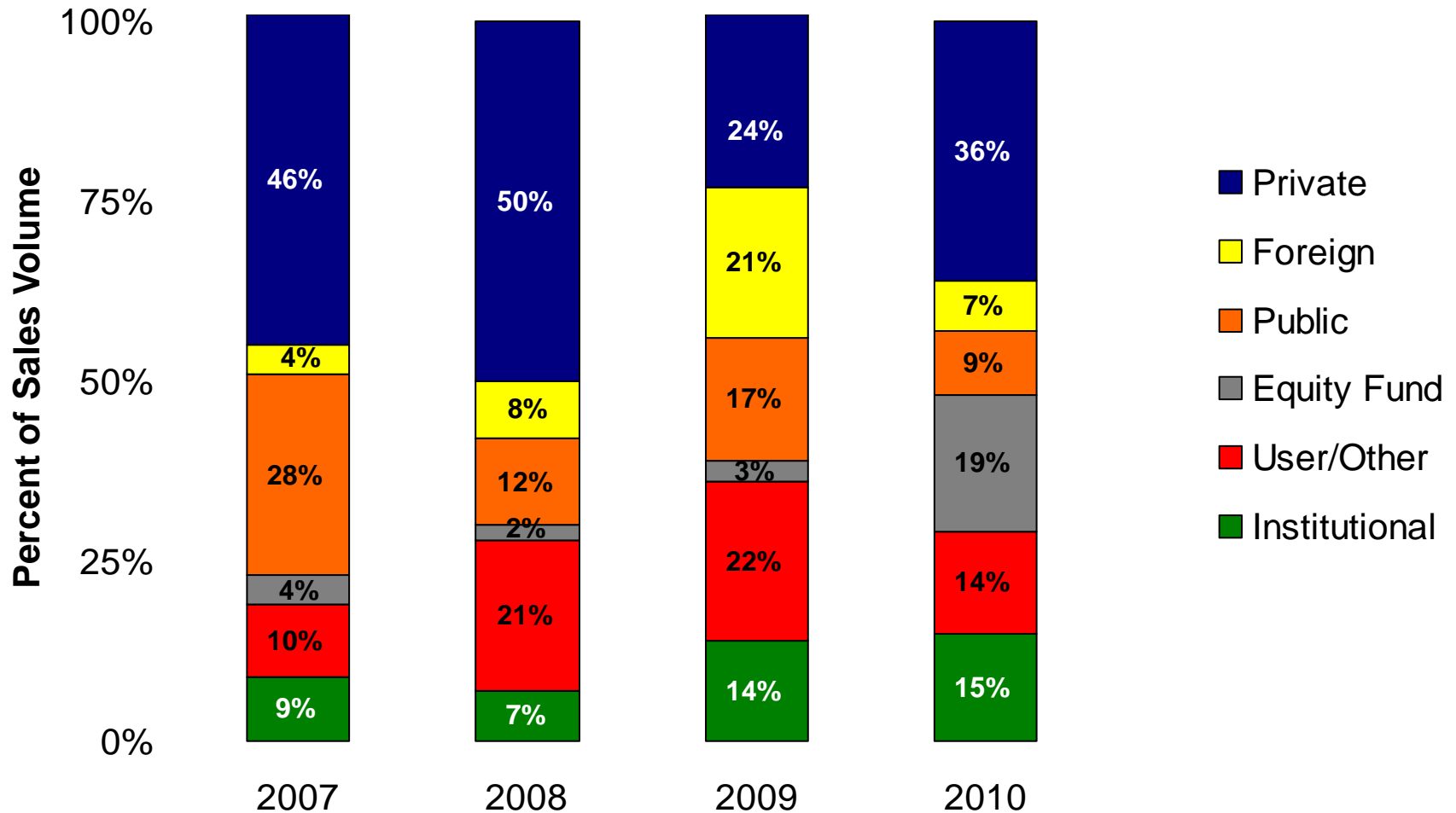
# U.S. Retail Buyer Composition



Sales \$5 Million and greater

Sources: Marcus & Millichap Research Services, Real Capital Analytics

# U.S. Retail Seller Composition



Sales \$5 Million and greater

Sources: Marcus & Millichap Research Services, Real Capital Analytics

# U.S. Estimated Distressed Assets Summary By Property Type

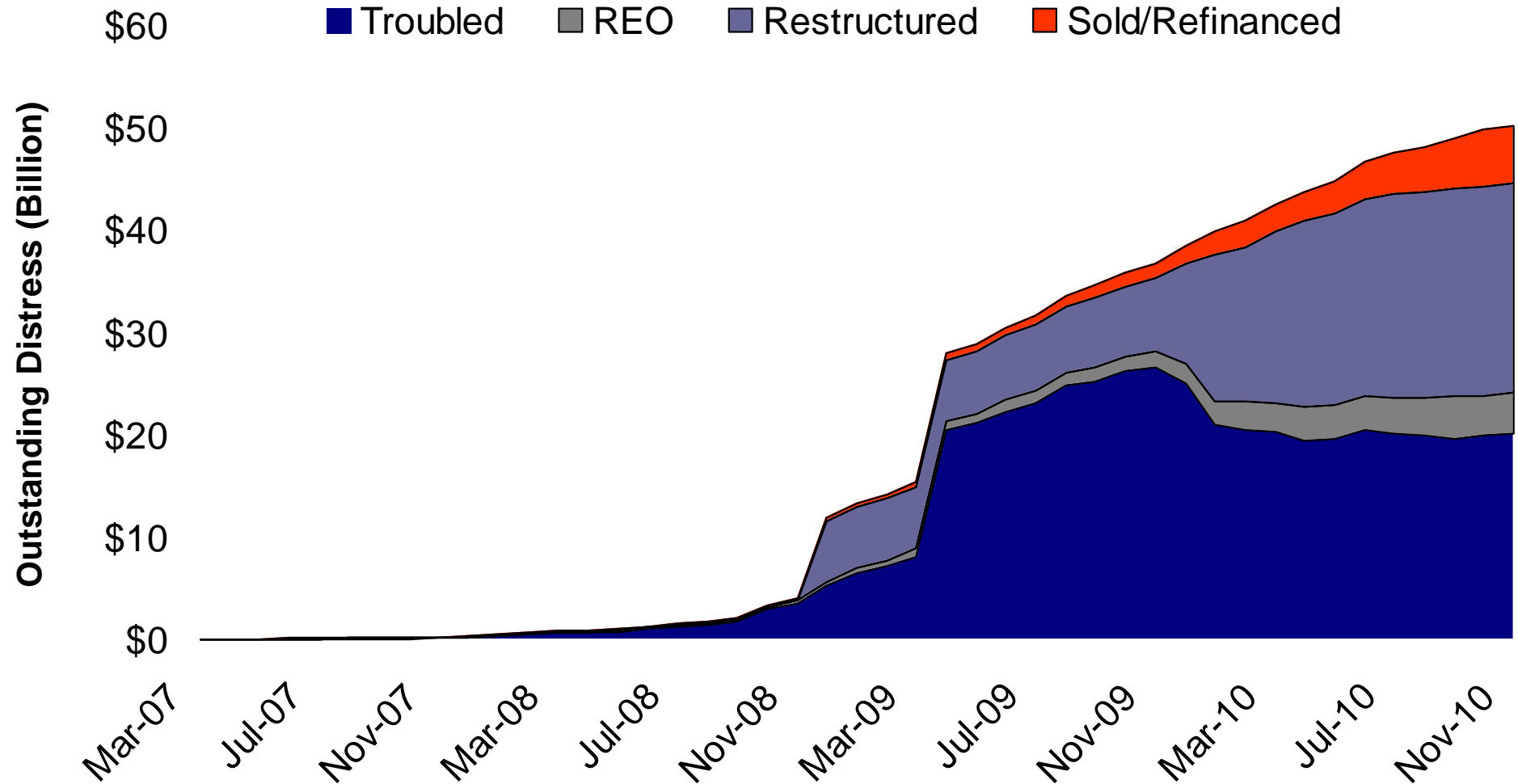
	Distressed	
	\$ in Bil.	# of props
Office	\$48.3	1,876
Apartment	\$37.9	2,728
Development & Other	\$33.5	1,720
Hotel	\$33.0	1,200
<b>Retail</b>	<b>\$24.1</b>	<b>1,959</b>
Industrial	\$9.1	1,271
<b>Grand Total</b>	<b>\$186.0</b>	<b>10,754</b>

As of November 15, 2010

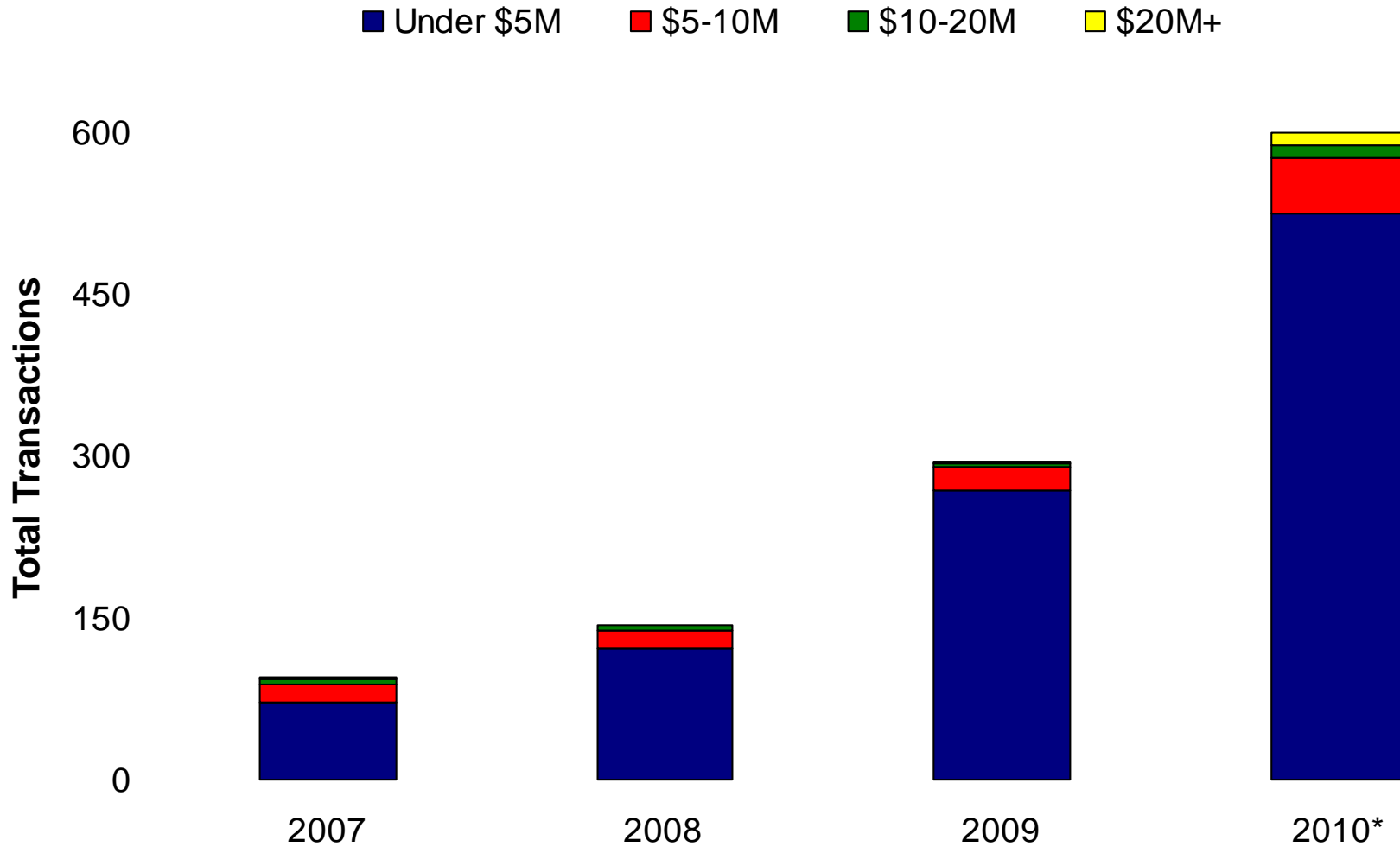
Note: Some portfolio deals may not be allocated to a single market

Sources: Marcus & Millichap Research Services, Real Capital Analytics

# U.S. Distressed Retail Property Trends



# Estimated Distressed U.S. Retail Investment Trends - Sales Velocity



\* Preliminary estimate

Includes Sales \$500k+

Includes auction sales, distressed sales, short sales and REO sales

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



# Observations for 2011

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- 1. Significant renewal of investor confidence and optimism a major impact on market activity.**
- 2. Fundamentals still trailing capital; NOI growth very limited as tenants remain cautious.**
- 3. Investors to remain selective – sales to rise along with inventory (20%+ growth in transactions).**
- 4. Improved capital positions and valuation recovery allowing lenders to sell more often – no “flood”.**
- 5. Cap rate divergence to continue – infill, anchored, credit dominating – but greater compression in secondary/tertiary as spreads narrow.**
- 6. Multi-tenant investments (right location/right configuration) offer substantial upside.**

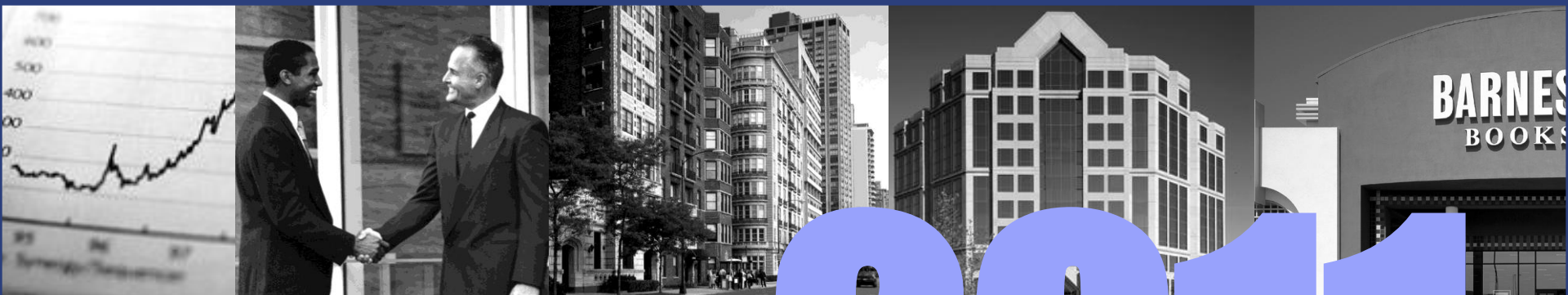
# 2011 National Retail Report



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