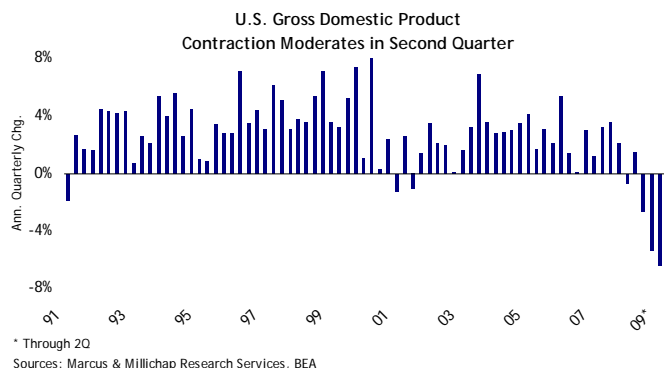




Technical End to Recession Likely in Current Quarter, but Real Economic Growth Yet to Come

Several indicators offer cause for guarded optimism, though the economy has not yet cleared the woods. While U.S. GDP contracted for the fourth consecutive period in the second quarter, the rate of decline slowed dramatically. Government spending and net exports posted moderate growth during the quarter; however, personal consumption, which accounts for 70 percent of GDP, weakened further. Employment trends continue to reflect softening across industries, though job losses have decelerated.

Until meaningful and sustainable job growth resumes, which is unlikely until at least mid-2010, consumers will remain cautious. Since the U.S. economy is largely consumer-driven, this greatly reduces the chances of a snapback recovery, which has followed some recessions. Instead, the economy will likely stabilize and post only modest expansion starting in late 2009. The outlook for even mild GDP growth is based on assumptions that housing has touched bottom and the stimulus package has started contributing to growth.



GDP Contraction Decelerates, Likely to Turn Positive in Current Quarter. U.S. GDP contracted at an annualized rate of 0.7 percent in the second quarter, following a 6.4 percent drop in the previous quarter. The latest release suggests that the most severe recession since the Great Depression has finally begun to lose steam. Although businesses have yet to increase spending, they have stopped slashing expenditures at a double-digit pace. For perspective, business spending shaved just 1 percentage point from GDP during the second quarter, compared with 5.3 percentage points in the first quarter. There were a few true bright spots in the latest GDP release. Government spending, which lost ground earlier this year, added 1.3 percentage points to GDP in the second quarter, while net exports contributed 1.65 percentage points. Third quarter GDP is expected to reflect growth, mainly due to an end to inventory reductions.

Job Losses Down from Extreme Levels. In September, employment declined by 263,000 jobs, the second-lowest monthly loss reported since the global financial crisis began a year ago. Payroll cuts remain widespread and high by historical measures, however, with a record-setting 7.2 million positions lost since the start of the recession. During September, manufacturers shed 51,000 jobs, which is a substantial decrease, though it pales in comparison to the average elimination of 150,000 positions per month in the first half of the year. Similarly, office-using employment contracted for the 21st consecutive month in September, though the decline was the smallest recorded since late 2007. This may come as little consolation to office property owners who have lost tenants in recent months, though it appears to be a step in the right direction. Unemployment increased to 9.8 percent in September and is





forecast to surpass 10 percent by year end as those who suspended job searches begin to re-enter the labor pool. On a positive note, reduced staffing and other cost cuts have resulted in stronger corporate profit margins.

Housing Near Bottom. Low residential mortgage rates and attractive pricing have moved many prospective homebuyers off of the sidelines, leading to reduced for-sale inventory and increased sales in four of the past five months. The \$8,000 tax credit available to first-time buyers has also encouraged purchases ahead of the program's deadline of Nov. 30. Although sales have improved, 25 percent of activity involves bank-owned homes, which typically sell at deep discounts. With roughly 13 percent of homeowners with a mortgage behind on payments or in foreclosure, further price reductions may occur in some markets, even as transactions increase. Nationwide, housing affordability has risen dramatically, and the overhang of for-sale homes could be steadily absorbed once job growth resumes.

"U"-Shaped Recovery Likely. With additional losses expected in the fourth quarter of 2009, employment forecasts call for a 4.5 million contraction this year, bringing the total lost during the recession to 7.6 million positions. Aside from the recent rise in auto sales spurred by the now-expired "Cash for Clunkers" program, consumers and businesses will continue to limit spending until clear signs of an economic recovery emerge. Government stimulus will help to offset the consumption gap in the near term; however, the full effects of legislative action may not be felt until mid-2010, as only a fraction of the available funding through the stimulus package has been spent to date. The recovery will require several months to gather momentum.

Maturing Debt Remains Key Challenge for Commercial Real Estate. An estimated \$535 billion of commercial mortgage debt will mature over the next two years. Due to declining NOIs and values, as well as tighter lending criteria, a large share of these mortgages may not qualify for refinancing without significant equity contributions from owners. After witnessing the devastating impact of foreclosures on residential property values, portfolio lenders have become increasingly willing to work with commercial borrowers to avoid foreclosures. Borrowers with CMBS debt are in a more challenging position, since delinquent loans are transferred to special servicers, which have tighter regulations on the modifications they can offer.

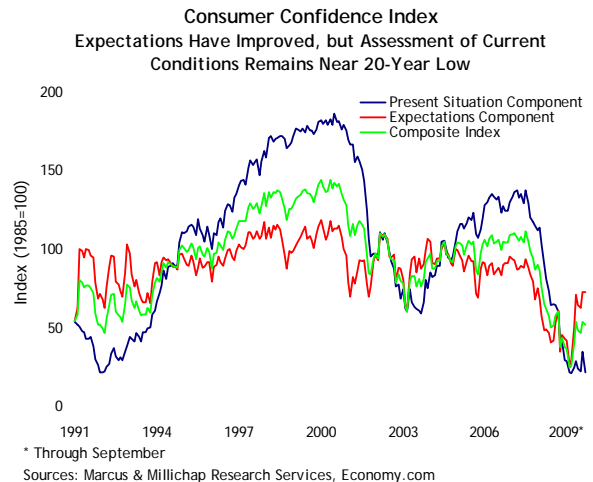
Government Programs Aimed at Unlocking Credit Markets Show Promise. The complexity of financial sector challenges caused the Term Asset-Backed Securities Loan Facility (TALF) and the Public-Private Investment Program (PPIP) to get off to a slow start. A scaled-down version of PPIP has begun moving forward, however, and the component of TALF focused on commercial mortgage-backed securities (CMBS) is gaining momentum. At least two major REITs are close to completing new-issue, TALF-eligible CMBS deals, and more could follow. Much of the capital raised will likely be used to pay down maturing mortgage debt, which has become increasingly difficult to refinance through traditional lending channels. The legacy CMBS component of TALF is already operational, with approximately \$3.5 billion in loans funded to date. These programs, designed to help restart the CMBS market, will increase lending for new property acquisitions and the refinancing of maturing debt.

Opportunities Emerging for Commercial Real Estate Investors. Economic recovery will require several quarters to gain momentum; therefore, investors awaiting the return of strong economic expansion to redeploy capital into commercial real estate are at risk of missing attractive acquisition opportunities. A tremendous amount of capital waiting for well-priced, quality assets to be offered for sale has been accumulated, and many investors have begun to move off of the sidelines.

Retail Fundamentals to Soften Further, but Indicators Suggest Investment Activity May Soon Move Off Bottom

Consumers Reserve Optimism for Future, but Recent Retail Sales Exceed Expectations.

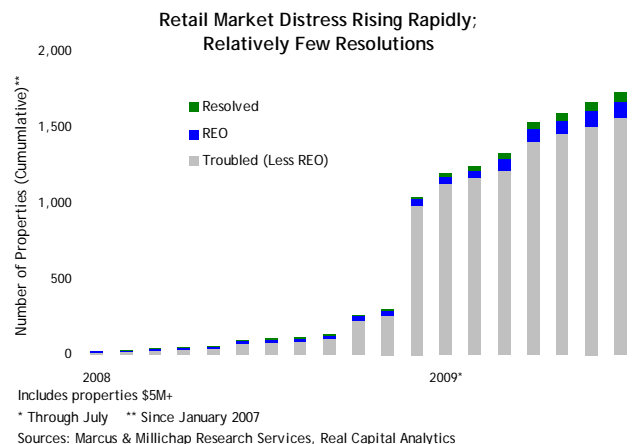
Economic indicators suggest the worst may be over for the economy, though the resumption of meaningful job and economic growth is not anticipated until 2010. Consumer attitudes align with this forecast, as the latest consumer confidence survey shows their assessment of current conditions remains relatively dismal, while expectations for the future are considerably brighter than earlier this year. The most recent retail sales figures were promising, with a 2.7 percent gain recorded for the month. Growth was driven in large part by auto sales, which received a temporary boost from the “Cash for Clunkers” program, and gas stations due to higher fuel costs; however, increases were recorded in most major retail segments. The only weakening in retail sales during August was limited to building supply and home furnishings stores.



Encouraging Signs Emerge for Retail Investment Market. While a turnaround in vacancy and rents remains unlikely over the short term, investment market indicators offer cause for guarded optimism. To start, mortgage originations for retail properties ticked up during the second quarter for the first time in almost a year, though they remain 80 percent below peak levels recorded in mid-2007. In addition, the number of properties going under contract has increased in recent months, which may translate into an escalation in sales velocity late this year.

Investors Waiting for Surge in High-Quality, Bank-Owned Inventory Disappointed.

Further weakening in occupancy and rents has led to a rapid increase in distress throughout the retail market since the start of the year. The number of high-quality properties that have come to the market due to foreclosure is minimal in comparison, however, as many lenders are working with at-risk borrowers to restructure terms or extend maturing loans to avoid foreclosures. REITs, which were once at risk due to the large volumes of debt maturing in the next few years, have been highly successful raising capital through stock offerings. Furthermore, two major U.S. retail REITs are in the process of organizing CMBS deals eligible for the government’s Term Asset-Backed Securities Loan Facility (TALF). These two deals are expected to raise a combined \$1.2 trillion, a large portion of which will likely be used to pay down existing debt. As a result, fewer high-quality properties may become distressed, preventing any drastic price reductions for these assets.



Vacancy Ascent Continues. Retail fundamentals continue to soften, with vacancy rising 50 basis points in the second quarter to 9.5 percent. Unlike other core commercial real estate sectors, several markets experienced a housing-driven run-up in retail construction prior to the downturn. Consequently, the vacancy rate for shopping centers delivered since the start of 2008 is more than twice the average marketwide. Large properties such as power centers also have been disproportionately affected by the downturn due to store closures by major national big-box chains. The significant number of closures in recent quarters has triggered co-tenancy clauses, which allow for rent reductions or lease cancellations if certain tenants vacate or occupancy falls below a specific threshold.

Retail Rents Slip as Vacancy Rises, Consumer Pullback Continues. The depth of the current downturn has resulted in the softest retail market since the early 1990s. During the last recession, retail was the most stable of the core property types. At the time, rising home prices and readily available debt supported consumer spending, even as businesses pulled back. This time, the lending climate is tight, and consumers have cut spending out of necessity and due to economic uncertainty. As a result, retail rent reductions have become more severe and widespread. Both effective and asking rents posted the most significant declines on record during the second quarter, slipping 1.4 percent and 0.7 percent. For perspective, rents lost more ground in the second quarter of 2009 than in all of 2008.

Forecast:

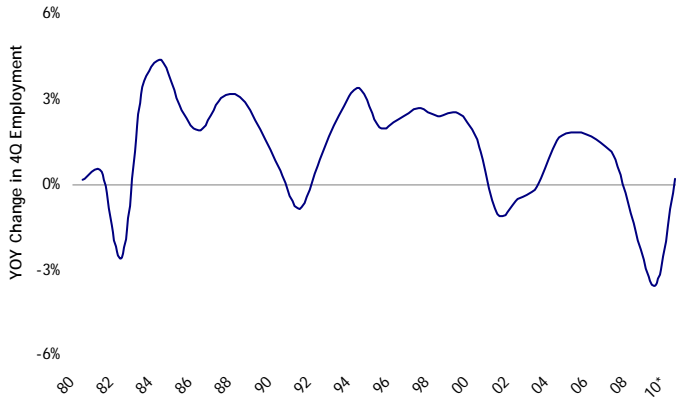
Further Weakening Looming, Even as Completions Slide. Nationwide, new supply is expected to total 120 million square feet in 2009, down 40 percent from 2008. Completions are forecast to decline further next year, slipping to their lowest level since at least 1980. Despite the pullback in development, retailer demand is still likely to fall short, causing vacancy to rise to 12.5 percent range by the end of 2010. Rents will continue to soften as a result, with effective rates decreasing by at least 6 percent in 2009 and another 4 to 5 percent in 2010.

Increased Inventory, Reduced Competition Bring Investors Back to Market. Due to heavy stock market losses last year, some institutional investors became overweight in their commercial real estate holdings. The stock market has since improved dramatically, and commercial property prices have retreated, setting the stage for these generally lower-leverage investors to re-enter the market. Already, there have been a handful of larger retail deals involving pension funds, which could prove to be a vital source of capital for major owners with debt maturities looming. Instead of selling new stock, Macerich has successfully raised capital to reduce its debt by selling desirable single-tenant assets and major stakes in strong-performing mall properties to various types of investors, including pension funds. Institutions were often unable to compete with private investors in recent years due to more conservative acquisition criteria, but with the average multi-tenant cap rate now above 8 percent for the first time since 2004, they could become more active buyers in the near term.

While major investors are focusing on large properties that rarely trade, many private buyers are targeting high-quality single-tenant assets. During the most recent boom, a significant share of single-tenant sales involved 1031-exchange capital coming from apartments, and strong competition for available properties pushed average cap rates into the mid-6 percent range. Since many smaller, long-term apartment owners are waiting for a turnaround in fundamentals prior to selling, competition for single-tenant properties has declined substantially, and the average cap rate has increased to 7.7 percent.

Retail Market Vital Signs

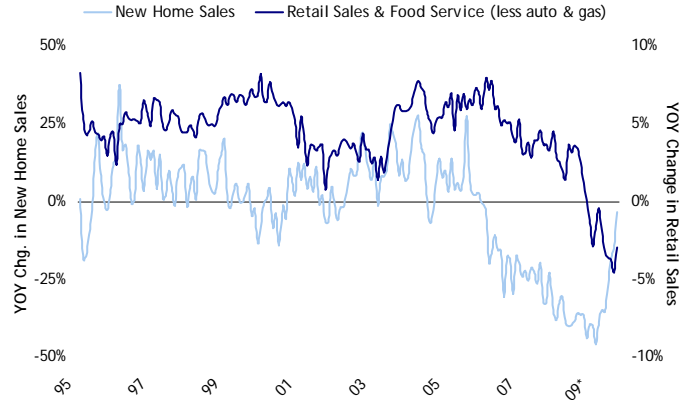
Total Nonfarm Employment Growth



* Forecast

Sources: Marcus & Millichap Research Services, Economy.com

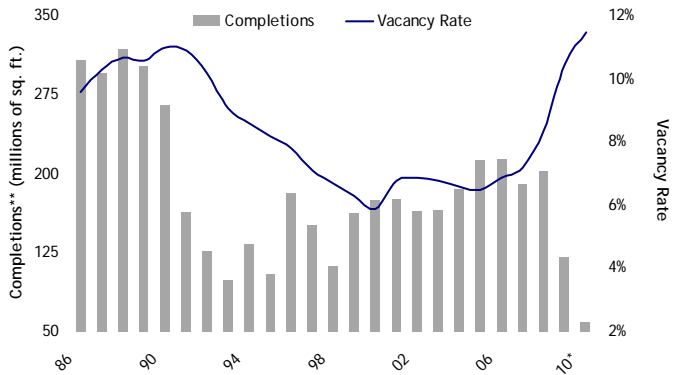
Retail Sales and New Home Sales



* Through August

Sources: Marcus & Millichap Research Services, Economy.com

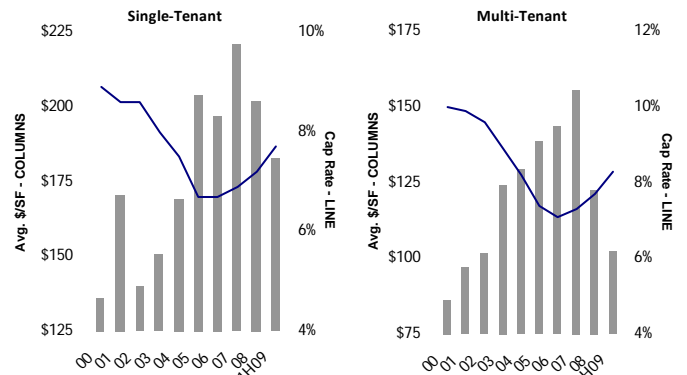
Total Retail Supply and Demand Trends



* Forecast ** Includes single-tenant and multi-tenant

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

Retail Property Sales Trends



Sales of \$1M+

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

2Q 2008 to 2Q 2009 Change in Retail Vacancy

Markets by Least Change in Vacancy

Metro	2Q09	YOY Chg (bps)
San Francisco	4.1%	20
Columbus	11.3%	20
San Antonio	9.6%	50
Cincinnati	13.5%	70
Memphis	13.1%	70
Boston	6.9%	90
Houston	13.1%	100
Kansas City	10.8%	100
Austin	9.6%	110
Dallas/Fort Worth	12.2%	110
U.S. Metro Average	9.5%	170

Markets by Greatest Change in Vacancy

Metro	2Q09	YOY Chg (bps)
Jacksonville	10.1%	240
Orange County	5.7%	250
Atlanta	11.6%	270
Riverside-San Bernardino	10.6%	270
West Palm Beach	9.6%	290
Sacramento	10.0%	290
Tucson	10.0%	300
Phoenix	11.1%	310
Fort Lauderdale	10.3%	340
Las Vegas	10.4%	340
U.S. Metro Average	9.5%	170

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

The information in this report is deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, expressed or implied, may be made as to the accuracy or reliability of the information contained herein. Sources: Marcus & Millichap Research Services, CoStar Group, Inc., DataQuick, Deutsche Bank, Economy.com, Federal Reserve, MBAA, NAR, Real Capital Analytics (RCA), Reis, U.S. Census Bureau.

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