

MarketView Tucson Shopping Centers

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Mid-Year 2009

Quick Stats

	Current	Change from last	
		Yr.	6 Mos.
Vacancy	10.3%	↑	↗
Lease Rates	\$19.54	→	→
Net Absorption*	-203,289	↓	↓
Construction	70,140	↓	↓

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

Hot Topics

- The vacancy rate continues to climb, rising to its highest level since 2004.
- Shopping center asking lease rates are similar to a year ago, but landlords are providing more incentives to tenants and executed leases are at rates lower than asking.
- Absorption turns negative due to tenant fallout.
- Shopping center construction is significantly down from previous years.
- Most retailers have curtailed expansion plans and are closing unprofitable stores.
- Most of the planned retail centers that were scheduled to open in the next three years have extended their timelines or eliminated projects altogether.
- Many developers are struggling to keep existing projects occupied.
- Refinancing existing shopping centers with loans coming due will challenge owners as capital markets are uncertain and values have dropped.

The Tucson shopping center market exhibited continued declines for the first half of 2009. Weakness in existing, older properties has been present for several years, but occupied new construction by big box, traditional and specialized anchor users has kept certain statistical categories fairly healthy. The continued erosion of consumer confidence and retail spending combined with the housing contraction has halted many developers' expansion plans. Much of the activity in the marketplace today is for 2010 openings.

Shopping center vacancy rose to 10.3 percent at mid-year, up from 9.1 percent at year-end 2008 and 8.3 percent at mid-year 2008. Vacancy rates bottomed in 2007 and began to increase in 2008, signaling the beginning of the current trend. In the first half of 2009, vacancy rates increased in all the submarkets. The Northwest submarket rose to 10.3 percent from an adjusted 6.7 percent at mid-year 2008. The Northeast submarket increased substantially from 10.9 percent in 2008 to more than 16 percent at mid-year 2009. Also noteworthy is the continued spread between availability and vacancy. Market wide the available rate is 12.8 percent, a full 2.5 percentage points above vacant space. This spread indicates space that is still occupied but available for sublease. At year-end 2008 the availability rate was 10.6 percent, very close to our new vacancy level.

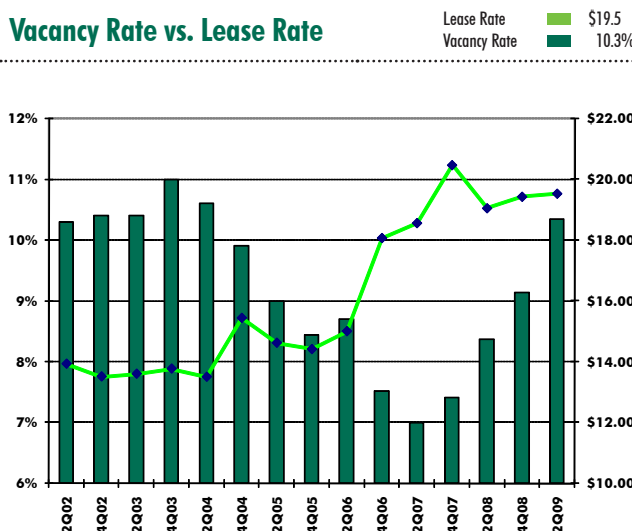
The absorption rate for Tucson's shopping center market was negative in the first half of 2009. Overall, the market posted a negative 203,289 square feet of net absorption at mid-year 2009. In prior years the market has reported negative net absorption in older existing properties, such as 136,000 square feet in 2008. However, a large amount of occupied new construction made the overall absorption figure a positive number as developers and retailers raced to keep up with the housing boom. Now, in the absence of that growth and with the downsizing of many retailers, the market has stagnated. All submarkets reported negative net

absorption for the period. None of the areas were hit by any significant large retailer departures in shopping centers; however, large freestanding retailers not tracked by this report, such as Circuit City and Mervyns, added to the market's overall stress.

Shopping center construction in the first half of 2009 was significantly lower than that of recent years. There was more than 1 million square feet of new construction completed during 2008. That was a 6 percent increase in Tucson's shopping center base. Completions in the first half of 2009 totaled 70,140 square feet in only two projects, both additions to existing centers. There is very little new product anticipated to break ground in 2009. Marana Marketplace is about to open and could be the last product finished this year. Many retailers are pulling back wherever they can, even in buildings in which they have already committed. Tucson currently has 9 million square feet of new shopping center space in the planning stage. During the past housing boom most of this product had completion goals between 2010 and 2012. However, with increasing unemployment and retail sales yet to fully recover, the horizon for these new projects seems out of sight. Developers and owners have other issues at hand, such as financing rollovers and rent roll stabilization on existing properties, creating little opportunity for construction activity in 2009.

The 2009 mid-year average asking rate for shopping center space stood at \$19.54 per square foot. Current market conditions warrant a further softening of lease rates, as landlords hang on to their tenants. Significant rental concessions are reported. The average asking rental rate at year-end 2008 was \$19.44 per square foot, down from \$20.48 per square foot at the end of 2007. The dramatic drop in retail sales has recently shown statistical signs of leveling off. While there are no signs of a return to the sales of 2006, the flattening of the sales contraction is a good sign that we have reached at least a new normal, if not an increase in sales for 2010.

Vacancy Rate vs. Lease Rate



Market Statistics - First-half 2009

Sub-Market	Gross Rentable Area	Vacancy Rate %	Availability Rate	Net Absorption	Construction	Avg. Asking Lease Rates
Central	3,195,340	12.5%	14.9%	-63,459	35,140	\$16.86
Northeast	1,001,241	16.2%	17.6%	-53,640		\$16.47
Northwest	7,523,843	10.3%	13.8%	-40,518		\$23.58
Southeast	4,069,440	9.5%	9.8%	-11,444	35,000	\$18.36
Southwest	4,086,026	8.7%	12.3%	-27,170		\$16.99
West	573,719	5.0%	5.0%	-7,058		\$16.48
Totals/Averages	20,449,609	10.3%	12.8%	-203,289	70,140	\$19.54

Economic Overview

Entering the 18th month of a recession, much of the economy appears to be struggling toward recovery. Debate about “green shoots” is lively but there are indicators the recovery has begun. The main question is what the recovery will look like.

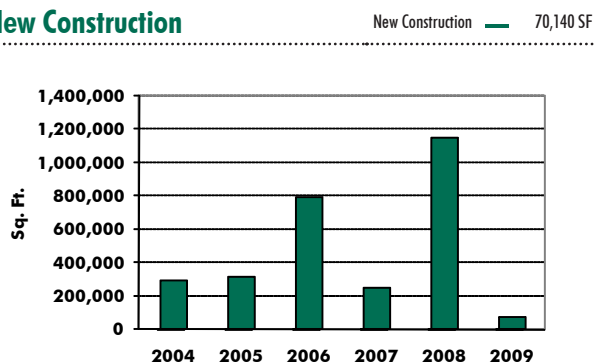
Many indicators, such as retail sales, industrial utilization and inventories, have shown signs of leveling off. Tucson’s retail sales have finally leveled off, after mirroring the dramatic plunge of the national economy. Even the worst indicators have slowed their rates of contraction.

While the outlook for new housing is unchanged, existing product seems to have reached a price point where purchasing has resurfaced. Flushing out the inventory of non-performing product is an important first step to an eventual housing recovery.

Job losses have slowed. While 2008 witnessed large industrial layoffs, 2009 has thus far seen only a moderate reduction in the service sector workforce. This “right sizing” for the new normal will probably not add jobs until stimulus projects are significantly underway.

This flattening of economic indicators may not seem like much of a recovery, but at least the contraction seems to be stopping.

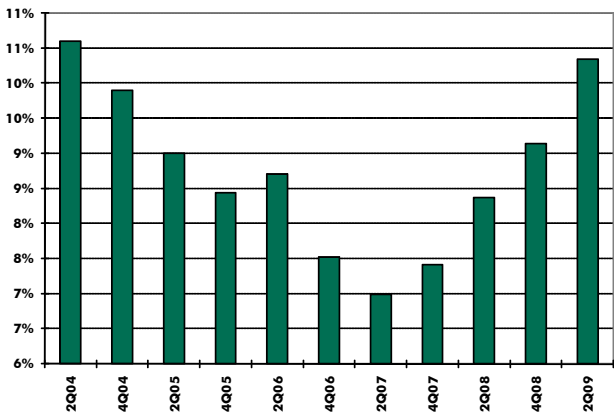
New Construction



The Tucson shopping center market added a very modest 70,140 square feet in the first half of 2009 in two projects. Both new buildings were additions to existing properties. After 1.2 million square feet was completed in 2008, expectations were that construction would slow, and it has slowed a lot. Current permit activity indicates this will be the trend for the year.

Vacancy

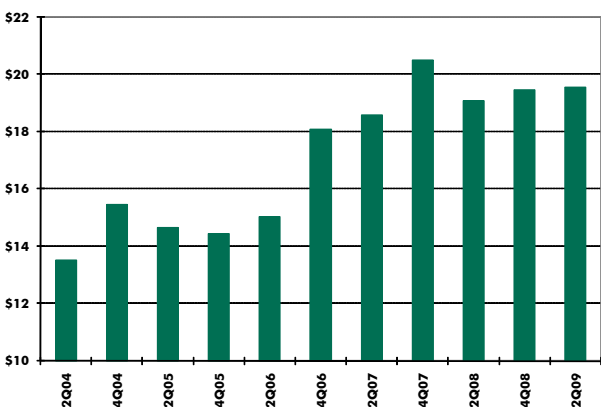
Vacancy 10.3%



The vacancy rate for Tucson’s shopping center market continued to climb in 2009, posting 10.3 percent in the first half compared to 9.1 percent at the end of 2008 and 8.3 percent at mid-year 2008. All of Tucson’s sub-markets experienced an increase in vacancy with the Central and Northern areas solidly in double digit territory.

Lease Rates

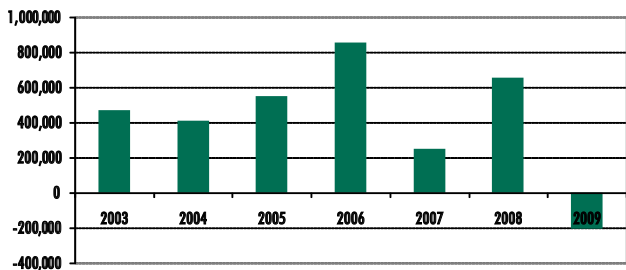
Lease Rates \$19.54



The average asking lease rate remained flat for the third consecutive period, registering at \$19.54 per square foot, which is up very slightly from \$19.44 at year end 2008. Rates have been down since 2007, when they were running in the \$20.50 per square foot range. The market terms being negotiated today indicate increased landlord incentives in order to retain and attract tenants, thus causing effective lease rates to decline.

Absorption

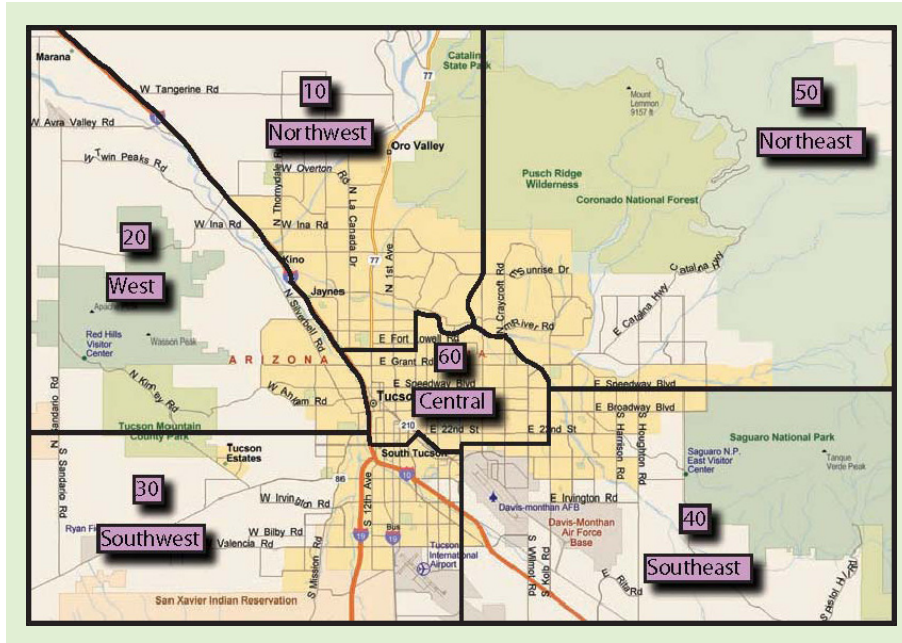
Absorption -203,289



Absorption during the first six months of 2009 was negative 203,289 square feet. Comparatively the net absorption at mid-year 2008 was positive 286,872 square feet. The total net absorption for 2008 was 941,631 square feet but was dominated by occupied new construction of big box and mini-anchor tenants. The absence of this build-to-suit growth will continue to keep absorption low.

MarketView Tucson Shopping Centers

Submarket Map



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Average Asking Lease Rate

Rate determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

Net Leases

Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

Market Coverage

Includes all competitive shopping centers 20,000 square feet and greater in size.

Net Absorption

The change in occupied square feet from one period to the next.

Net Rentable Area

The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies, and stairwell areas.

Occupied Area (Square Feet)

Building area not considered vacant.

Under Construction

Buildings which have begun construction as evidenced by site excavation or foundation work.

Available Area (Square Feet)

Available Building Area which is either physically vacant or occupied.

Availability Rate

Available Square Feet divided by the Net Rentable Area.

Vacant Area (Square Feet)

Existing Building Area which is physically vacant or immediately available.

Vacancy Rate

Vacant Building Feet divided by the Net Rentable Area.

Normalization

Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and Vacancy figures for those buildings have been adjusted in previous quarters.

For more information regarding the MarketView, please contact:

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