Marcus & Millichap

2015
NATIONAL RETAIL REPORT

Real Estate Investment Research

To Our Valued Clients:

Economic and investment conditions throughout commercial real estate are the healthiest they have been in years. Payroll expansion hit a 15-year high, and wage growth and equity returns lifted consumer confidence to a post-recession best. Household wealth now measures 17 percent above the 2007 level and corporate profits remain stable near their all-time high. Retail sales marked an annualized 4.0 percent gain in 2014, constrained by auto sales trending down from their peak and the 50 percent decline in oil prices. However, the tremendous savings in gasoline prices offers short-term support to consumer spending while the strengthened dollar will boost purchasing power, particularly for imported goods. These macro trends, in conjunction with job growth and wage and salary increases, bode well for the retail sector.

The vitality of the U.S. economy relative to other countries captured the attention of international retailers and investors, illustrated by the influx of capital and cross-border retailing. Retail properties have begun to post operational gains, achieved through accelerated tenant demand and low levels of supply. The momentum in tenant expansions and new leasing activity along with the shrinkage of quality space options present a compelling theme for retail investment at this point in the cycle.

Risks to the forecast remain, of course. Weak global economic growth subtracts from U.S. exports, and falling oil prices may curb near-term business investment in the energy sector. In addition, the coalescence of sustained economic improvement, greater depth of labor market advancement and surging consumer and retailer confidence prompted the conclusion of the Federal Reserve's quantitative easing program. However, the impending rise in interest rates will not be dramatic and any moderate increase will likely be balanced against strong job growth and inflation, which should protect asset valuations. Moreover, a host of forces other than Fed rate hikes and inflation will influence the trajectory of interest rates and cap rates, including investor sentiment, income growth and global cash flows.

We hope the following report offers retail investors useful insights on a variety of trends, markets and investment strategies.

Sincerely,

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Research Services

National Perspective

Market Overviews

Client Services

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National Retail Index (NRI)

- Prospects for stellar rent growth and low vacancy kept San Francisco (#1) and San Jose (#3) in the top ranks, dislodging New York (#2). San Diego (#5) and Orange County (#8) also rose, while Los Angeles (#10) held rank. Robust population and job growth trends lifted Houston (#6), Dallas/Fort Worth (#12) and San Antonio (#13), while Austin (#4) held position. Tourism and housing boosted Denver (#7) and Miami (#11), but below-average rent gains created big slippages for Seattle-Tacoma (#9) and Boston (#14).
- Late-recovery Florida markets Tampa-St. Petersburg (#21), Fort Lauderdale (#28), and Jacksonville (#34) surged four to seven points; Orlando (#23) and West Palm Beach (#29) both gained one. Momentum in Phoenix (#20) and Atlanta (#26) displaced Nashville (#19) and Charlotte (#30). Below-average job gains and fresh supply caused big swings to the downside for Washington, D.C. (#24), and Portland (#27).
- The outlook for strong revenue growth lifted Cincinnati (#37) and Kansas City (#42), but stubborn vacancy shaved points from Indianapolis (#41) and weak rent growth clipped Milwaukee (#43). The high level of completions relative to below-trend jobs caused a big displacement for Philadelphia (#32) and Northern New Jersey (#38). The brisk pace of retail sales and job growth raised Las Vegas (#40).

National Economy

- Employers added 3.1 million jobs in 2014, the strongest pace of hiring since 1999. Fourth quarter GDP growth measured 2.2 percent, easing from the second and third quarter rates of 4.6 and 3.9 percent, respectively. Nominal retail sales stand 19 percent higher than the prior peak, or 6.7 percent adjusted for inflation.
- Consensus estimates project 2.9 to 3.1 percent GDP growth in 2015 and 3.1 million to 3.5 million new jobs created. Upward pressure on wages will follow.
- The Federal Reserve concluded its quantitative easing program. Inflation remains in check, but liquidity creates upward pressure, and the Fed will closely monitor these risks.

National Retail Overview

- Scarcity of quality chain retail space has resulted in creative redevelopment of select urban storefronts, reconfigured in-line and end-cap space, and repurposing of functionally obsolete buildings.
- Retailers absorbed nearly 75 million square feet in 2014, eclipsing the nearly 40 million square feet of new space delivered and resulting in a 2.2 percent gain in asking rents.
- Dynamic retail conditions carry into 2015 with net absorption of nearly 88 million square feet outpacing still-modest additions to supply. Vacancy is forecast to decline another 60 basis points to 6.0 percent.

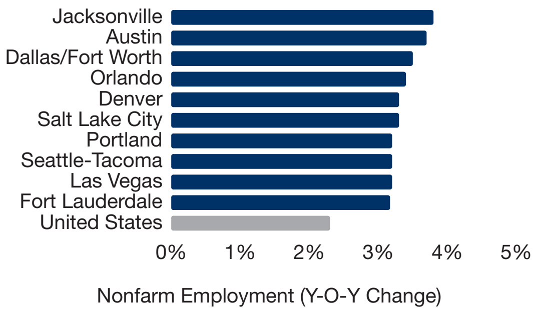
Capital Markets

- The spread between Treasuries and both single-tenant and multi-tenant cap rates remains 200 basis points wider than the 2006 peak, and the premium paid for a single-tenant asset is now 100 basis points.
- A robust CMBS market may approach $125 billion in 2015, improving liquidity in secondary and tertiary markets as well as pricing for new or value-add properties that are not yet stabilized.

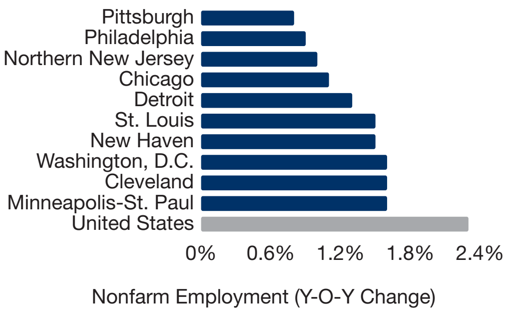
Retail Investment Outlook

- Greater liquidity and a healthy spread of 80 basis points between secondary and tertiary markets will channel more acquisitions to tertiary markets if supported by the local economy and market demographics.
- Retail sales volume grew 33 percent to $83.5 billion in 2014, surpassing the 2007 peak. Values have recovered 27 percent from the trough of the market.

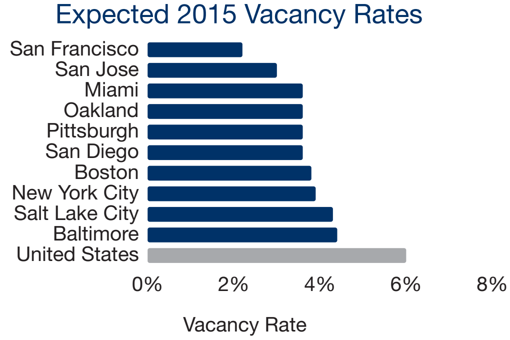
Markets with the Highest Expected 2015 Employment Growth



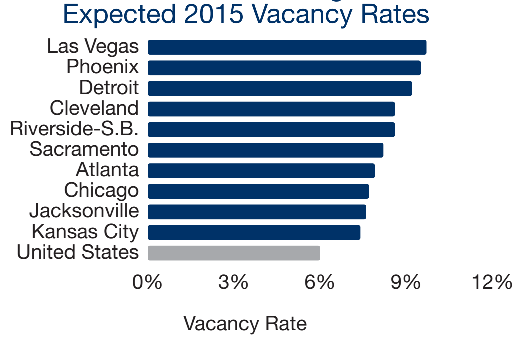
Markets with the Lowest Expected 2015 Employment Growth



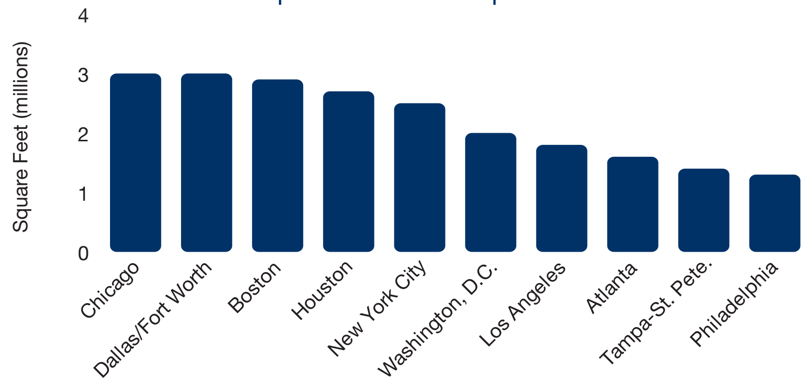
Markets with the Lowest Expected 2015 Vacancy Rates



Markets with the Highest Expected 2015 Vacancy Rates



Markets with the Highest Expected 2015 Completions



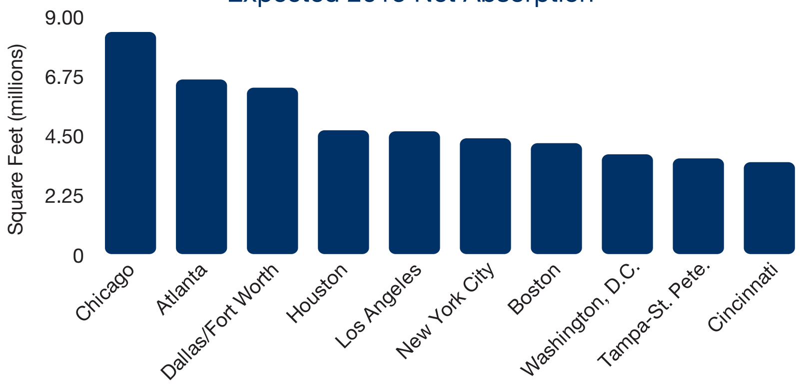
Gateway and Tech Markets Lead Ranking

The markets occupying the top third of the Index shuffled a bit but rank similarly to last year. Broad economic improvement now extends beyond technology and energy, and most markets, even those that are lower ranked, reflect operational improvement. Technology and high incomes earned San Francisco (#1) and San Jose (#3) top spots, nicking New York City (#2) down one spot. Oakland (#17) gained three spots, still benefiting from the economic glow of the Bay Area. Robust population and job growth ensure healthy retail demand in Texas metros. Austin (#4) remained stable, but Houston (#6) climbed three places, followed by Dallas/Fort Worth (#12) and San Antonio (#13), which advanced one and two rungs, respectively. Tourism, low vacancy and solid revenue growth levered up San Diego (#5) one spot and Orange County (#8) three, while Los Angeles (#10) retained its ranking. Tourism and homebuilding support Denver's (#7) and Miami's (#11) rise, but weaker revenue growth caused a four-point slippage for Seattle-Tacoma (#9) and a seven-point drop for Boston (#14).

Florida Markets and Housing-Dependent Metros Climb Aggressively

A broad cross-section of markets comprise the mid-tier ranks. Most positions are fairly stable relative to last year, with a few exceptions. The majority of Florida metros advanced in the Index, with Tampa-St. Petersburg (#21) and Fort Lauderdale (#28) surging five and four places, respectively, while Orlando (#23) and West Palm Beach (#29) both climbed one. The dearth of new supply and robust retail sales will help subdue high vacancy plaguing Phoenix (#20), which gained five places. Big swings to the downside include Washington, D.C. (#24), which ceded eight rungs on below-average job gains and fresh supply, and Portland (#27), which declined six spots on weak traction in revenue growth. Chicago (#22) posted a modest one-point improvement, while a significant decline in vacancy advanced Columbus (#31) two spots. Minneapolis-St. Paul (#25) lost three spots, and Sunbelt markets Nashville (#19) and Charlotte (#30) each slipped one place, bested by the stronger momentum of Florida markets. Atlanta (#26), however, levered up two spots on impressive demographic strength and solid retail sales.

Markets with the Highest Expected 2015 Net Absorption



Midwest Clings to Lower Rankings but Momentum Beginning to Shift

Many of these markets have improved space fundamentals but lack the level of job prospects or more-vibrant retail attributes of higher-ranked markets. The outlook for strong revenue growth pulled up Cincinnati (#37) and Kansas City (#42) two and one places, respectively, while Cleveland (#45) edged up one. Stubborn vacancy shaved three points from Indianapolis (#41) and new supply and weak rent growth tamped down Milwaukee (#43) by three as well. St. Louis (#44) held steady with sustained economic improvement, but a tepid labor market hurt Detroit (#46), which fell one notch. The high level of completions relative to the below-average jobs outlook displaced Philadelphia (#32) and Northern New Jersey (#38) by five and seven points, respectively. One of the only two California markets in the lower third ranks remains Sacramento (#33), which advanced three spots and is forecast for a strong vacancy decline and robust rent growth. Still-high vacancy and below-average rent growth kept Riverside-San Bernardino (#35) flat. Robust retail sales and job growth propelled Jacksonville (#34) seven spots and Las Vegas (#40) two, despite high vacancy.

Index Methodology

The NRI ranks 46 major retail markets based on a series of 12-month, forward-looking economic and supply-and-demand variables. Markets are ranked based on their cumulative weighted-average scores for various indicators, including forecast employment growth, vacancy, construction and rents. Weighing both the forecasts and incremental change over the next year, the Index is designed to indicate relative supply-and-demand conditions at the market level.

Users of the Index are cautioned to keep several important points in mind. First, the NRI is not designed to predict the performance of individual investments. A carefully chosen property in a bottom-ranked market could easily outperform a poor choice in a top-ranked market. Second, the NRI is a snapshot of a one-year time horizon. A market facing difficulties in the near term may provide excellent long-term prospects and vice versa. Third, a market's ranking may fall from one year to the next even if its fundamentals are improving. The NRI is an ordinal index, and differences in ranking should be carefully interpreted. A top-ranked market is not necessarily twice as good as the second-ranked market, nor is it 10 times better than the 10th-ranked market.

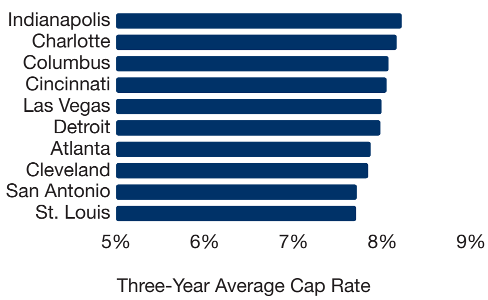
MSA	Rank 2015	Rank 2014[1]	14-15 Change
San Francisco	1	2	▲ 1
New York City	2	1	▼ 1
San Jose	3	3	■ 0
Austin	4	4	■ 0
San Diego	5	6	▲ 1
Houston	6	9	▲ 3
Denver	7	8	▲ 1
Orange County	8	11	▲ 3
Seattle-Tacoma	9	5	▼ 4
Los Angeles	10	10	■ 0
Miami	11	12	▲ 1
Dallas/Fort Worth	12	13	▲ 1
San Antonio	13	15	▲ 2
Boston	14	7	▼ 7
Baltimore	15	14	▼ 1
Pittsburgh	16	19	▲ 3
Oakland	17	20	▲ 3
Salt Lake City	18	17	▼ 1
Nashville	19	18	▼ 1
Phoenix	20	25	▲ 5
Tampa-St. Petersburg	21	26	▲ 5
Chicago	22	23	▲ 1
Orlando	23	24	▲ 1
Washington, D.C.	24	16	▼ 8
Minneapolis-St. Paul	25	22	▼ 3
Atlanta	26	28	▲ 2
Portland	27	21	▼ 6
Fort Lauderdale	28	32	▲ 4
West Palm Beach	29	30	▲ 1
Charlotte	30	29	▼ 1
Columbus	31	33	▲ 2
Philadelphia	32	27	▼ 5
Sacramento	33	36	▲ 3
Jacksonville	34	41	▲ 7
Riverside-San Bernardino	35	35	■ 0
New Haven	36	34	▼ 2
Cincinnati	37	39	▲ 2
Northern New Jersey	38	31	▼ 7
Louisville	39	37	▼ 2
Las Vegas	40	42	▲ 2
Indianapolis	41	38	▼ 3
Kansas City	42	43	▲ 1
Milwaukee	43	40	▼ 3
St. Louis	44	44	■ 0
Cleveland	45	46	▲ 1
Detroit	46	45	▼ 1

[1] See National Retail Index Note on page 64.

High-Yield Index

MSA	Rank
Indianapolis	1
Charlotte	2
Columbus	3
Cincinnati	4
Las Vegas	5
Detroit	6
Atlanta	7
Cleveland	8
San Antonio	9
St. Louis	10

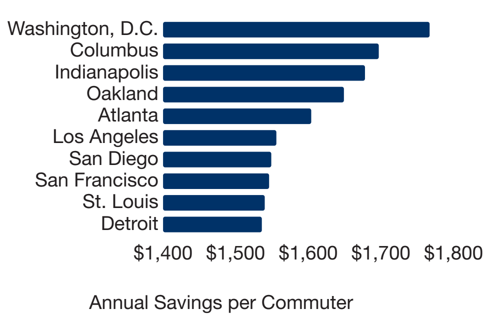
High-Yield Markets



Gas Savings Index

MSA	Rank
Washington, D.C.	1
Columbus	2
Indianapolis	3
Oakland	4
Atlanta	5
Los Angeles	6
San Diego	7
San Francisco	8
St. Louis	9
Detroit	10

Potential for Larger Disposable Income



Elevated Yields Moving Capital Into the Center of the Country

A strong national economy, low interest rates, and relaxed lending standards have boosted buyer demand and compressed cap rates for retail properties in coastal markets, leaving investors searching the country for higher yields. Many of the investors exploring opportunities in high-yield markets are 1031-exchange buyers that are trading out of multifamily properties, where cap rates have compressed to historic lows. The High-Yield Index highlights those markets where average cap rates were highest over the past three years, providing investors elevated returns. A myriad of factors can contribute to discrepancies in yields, including weaker operations or a softer economic recovery, which limits the number of risk-averse investors pursuing these deals. However, the absence of strong returns in alternative investment vehicles will leave a large field of buyers searching for properties in this index's markets.

Indianapolis tops this year's High-Yield Index as one of four markets with average cap rates above 8 percent over the past three years. A relatively slow return to the recovery kept investors at bay, propelling the market to the first spot. Other Midwest markets pepper the list for similar economic weakness, including Columbus (#3), Cincinnati (#4) and St. Louis (#10). Rust Belt metros Detroit (#6) and Cleveland (#8), where investors question the veracity of the recent turnaround, also make the top 10. Charlotte's exposure to the financial sector resulted in the second-place ranking, while Atlanta (#7) and San Antonio (#9) make surprising appearances on the index. Las Vegas, which struggles with a supply overhang and weakness in most industries outside of leisure and hospitality, occupies the fifth position in the ranking.

Pump Savings Favoring Commuters in Select Areas

Lower gas prices are returning savings to consumers that will be redirected into retail spending, supporting retailers across the country. Although much of the nation is enjoying the reprieve in gas prices, some commuters are benefiting more than others. The Gas Savings Index illustrates those markets where more cash is flowing into the pockets of commuters. Metros rise to the top of this list based on the peak-to-current decrease in gas prices as well as the length of commutes, which vary widely by metro. In some urban areas where public transportation plays a significant role in moving around the population, the "pump dividend" is not as great. In other sprawling markets, where commute distances are greater, individuals reap greater benefits from the decrease in oil prices. These savings could be short lived, however, when supply and demand realign and oil company profitability returns.

In the first position of the Gas Savings Index is Washington, D.C., where commuters from Northern Virginia and Maryland drive into the District to work. Based on current prices, the average commuter will save nearly $1,800 per year in the metro due to a combination of steep gas price cuts and length of travel. Columbus emerges as a surprising second-place market, backed by the largest decrease in average gas prices from peak to current. A few other Midwest markets appear in this index, including Indianapolis (#3), St. Louis (#9) and Detroit (#10). The large, sprawling metros in the ranking, where mileage plays an important role in returning cash to commuters, include Oakland (#4), Atlanta (#5), and Los Angeles (#6). San Diego (#7) and San Francisco (#8) have a strong balance of sizable gas-price declines and long commutes, returning approximately $1,550 to drivers at today's prices.

Discounts From Peak Prices Available to Investors

The uneven economic recovery and existing market conditions at the beginning of the most recent recession have resulted in significant price disparities between now and the prior peak. In many of the strongest markets, values approach and in some instances surpass the prior high watermark. In other metros, where market conditions have been slower to improve or potential risks are impacting underwriting, prices remain considerably lower than the lofty figures from a few years ago. The Opportunity Index highlights those metros that have the most upside potential based on the spread between peak and current prices. Many of these markets continue to work through the oversupply from the housing run-up last decade as retailers followed speculative homebuilders into distant suburbs. It should be noted that the most desirable properties in these markets have prices much closer to former levels, and discounted assets can still be found in markets that did not make the top 10 on the Opportunity Index.

The top spot in the Opportunity Index is occupied by Oakland, though the disparity between valuations is a function of the high prices paid during the previous bull real estate market and today. Most of the other metros in the ranking can be divided into two camps. Markets impacted by the supply glut from the housing downturn occupy several positions in the Opportunity Index. Phoenix (#2), Sacramento (#3), Las Vegas (#5), Riverside-San Bernardino (#7), and West Palm Beach (#8) all fall into this category. Phoenix, West Palm Beach and Riverside-San Bernardino have experienced strong economic conditions recently, and the gap between peak prices and current ones is anticipated to close rapidly this year. Other markets in the ranking are slow-growth areas, including Cincinnati (#4), Pittsburgh (#6), Milwaukee (#9) and Columbus (#10).

Low Construction Funneling Demand Into Existing Space

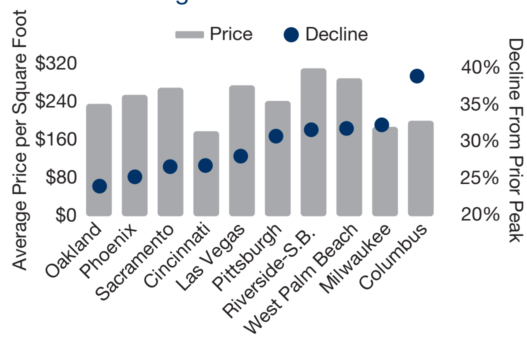
Retails sales have been rising rapidly since the economy started gaining traction and now rest approximately 20 percent above the previous peak. At the same time, builders have shied away from retail construction in recent years as online sales pare receipts at bricks-and-mortar centers and vacancy remains elevated in some areas. This year, the pace of retail sales growth should remain elevated as buyers enjoy higher wages and interest rates stay relatively low. In markets where retail sales are strong and additions to inventory are low, operators at existing centers will capture heightened demand from expanding retailers. The Existing Stock Demand Index is a forward-looking ranking of markets where consumers will drive the need for additional retail space while developers remain hesitant to build. Depending on the stage of the recovery cycle, retail sales-driven demand will manifest itself differently across metros.

San Francisco occupies the first position in this index due to a combination of factors. Wage growth has been strong while new development is nearly exclusively ground-floor retail at office and apartment projects. Many of the other markets on this list were at the center of the real estate boom last decade and boast strong economies, though the supply overhang has slowed development. Fort Lauderdale (#2), Riverside-San Bernardino (#3), Phoenix (#4), West Palm Beach (#6), and San Diego (#10) make the ranking based on this positioning. Other markets, where a healthy economy is supporting robust retail sales while construction is modest made the top 10. San Antonio falls into the fifth spot and Denver ranks ninth. Developers are also shying away from Pittsburgh and Charlotte, which resulted in those markets' inclusion in the ranking.

Opportunity Index

MSA	Rank
Oakland	1
Phoenix	2
Sacramento	3
Cincinnati	4
Las Vegas	5
Pittsburgh	6
Riverside-San Bernardino	7
West Palm Beach	8
Milwaukee	9
Columbus	10

Pricing Discount From Peak

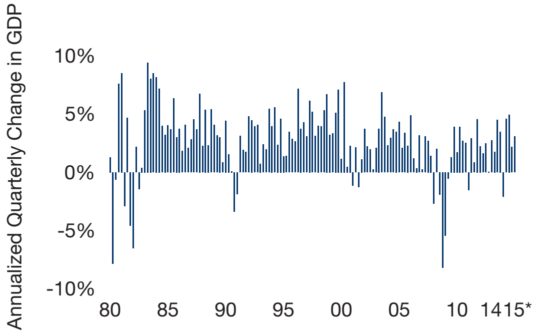


Existing Stock Demand Index

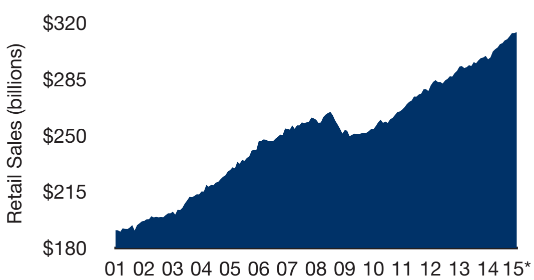
MSA	Rank
San Francisco	1
Fort Lauderdale	2
Riverside-San Bernardino	3
Phoenix	4
San Antonio	5
West Palm Beach	6
Pittsburgh	7
Charlotte	8
Denver	9
San Diego	10

Limited Competition

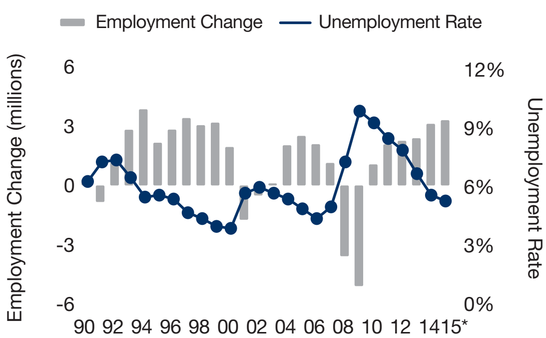
U.S. GDP



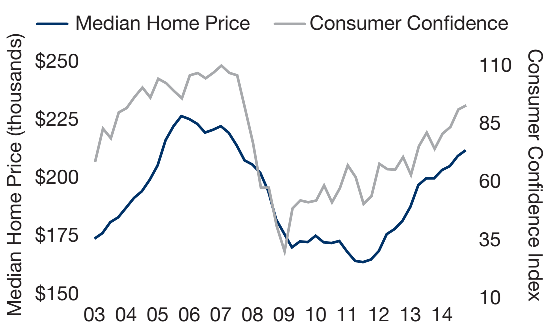
Monthly Retail Sales,
Excluding Auto & Gas



Employment Change vs. Unemployment



Median Home Price
vs. Consumer Confidence



* Forecast

Escalated Hiring Converges With Surging Confidence To Boost Economy, Bolster Retail Trends

The resilient U.S. economy continues to outperform the rest of the world, as multiple cylinders fire in unison. Domestic demand, accelerated hiring and the return of consumer confidence to pre-recession levels kept the U.S. economic recovery on point throughout 2014, despite a wide range of headwinds. The positive momentum was further lifted by the 50 percent decline in oil prices, which translated into a $400 million daily windfall in discretionary income for U.S. households. Fourth quarter GDP measured 2.2 percent, easing from second and third quarter GDP growth of 4.6 and 3.9 percent, respectively. Payrolls continued to build momentum, with approximately 3.1 million jobs added in 2014, the strongest growth since 1999. Not only has the U.S. more than regained the total number of jobs lost during the recession, but this short expansionary cycle has now outpaced the 8.2 million jobs added in the 2000s decade. As of early March, job gains for the last three months have averaged nearly 288,000, and unemployment ticked 120 basis points lower over the last year to 5.5 percent in February.

Despite potential downside risks to the economy — such as equity market volatility, inflation, weaker global growth, and geopolitical instability in the Middle East — some of these appear to be more transitory, and they will be partially offset by stronger domestic economic performance. The brightening economic outlook, together with steady hiring gains, has lifted confidence as well as discretionary income. This combination should bolster the steadily rising retail sector. Nominal retail sales excluding auto and gas now measure 19 percent higher than the prior peak, or 6.7 percent adjusted for inflation. This positive consumption trend has helped fuel economic growth and eased broader risk perceptions without stepping up inflation, which will grant the Federal Reserve additional latitude as it sets policy in the coming year.

2015 National Economic Outlook

- **Wide Range of Drivers Propel Growth:** GDP is forecast to grow by 2.9 to 3.1 percent this year and the U.S. should add an estimated 3.1 million to 3.5 million jobs. This growth will be further supported by corporate profits that now stand 27 percent above their 2006 peak. The housing market, however, has yet to contribute to economic momentum in a meaningful way, but a reduction in the minimum required downpayment could boost single-family housing.
- **Job Growth Accelerates Across Most Metros:** Recent acceleration in hiring by small to midsize businesses, which lagged in the current recovery cycle, will ensure greater depth and breadth of retail sector recovery in the coming year. Total job openings have trended upward in the past year, suggesting increased needs for technical and skilled labor. Unemployment nearing 5.0 percent increases competition for workers, creating upward pressure on wage growth.
- **Fed Walks a Tight Rope Flanked by Debt Ceiling and Budget Debates:** Long-term inflation remains tethered to the Federal Reserve target, but the liquidity injected into the system and growing pressure on wages creates potential for rapid economic acceleration and inflationary pressure. Congress passed legislation to fund the government through September 2015, but lawmakers remain highly divided, ensuring few major reforms.

Retail Performance Buoyed by Accelerating Economy; Vacancies Tumble Amid Limited Construction

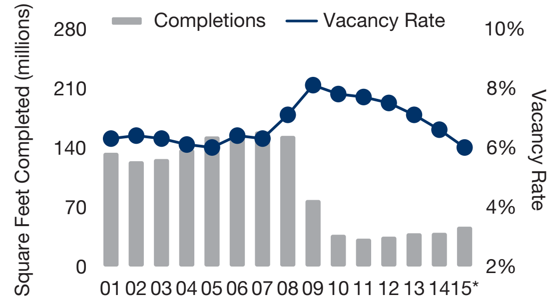
The accelerating U.S. economy, together with stronger hiring and income growth, has lifted consumer confidence and supported increased spending. This in turn has pulled an increasing number of retailers from the sidelines. Anemic supply growth concurrent with a 26 percent increase in absorption netted a 50-basis-point decrease in vacancy to 6.6 percent, the largest decline in 14 years. The level of energy, competition and rapidity of change in the retail industry has accelerated as new concepts, expanded distribution channels, and engaged international brands to challenge outdated market strategies and uninspired store formats. Location is the retailer mantra and the scarcity of quality chain retail space has resulted in creative redevelopment of select urban storefronts for luxury retailers. Vacant anchor space in malls and shopping centers has found new larger-format tenants such as Forever 21 or Whole Foods, while reconfigured in-line and end-cap spaces have drawn high demand from restaurants, fitness centers, specialty grocers and entertainment venues. Repurposing of otherwise functionally obsolete but well-located buildings for uses such as medical offices or charter schools has also bolstered performance trends.

Exceptional investor demand for urban storefront and single-tenant product mirrors the strength and direction of retailer demand for these property types, which is ultimately shaped by demographic, societal and technology trends. The millennial generation has fostered strong growth in casual dining brands such as Chipotle, Panera Bread and Baja Fresh, as well as spinoffs of traditional retailers targeting a younger audience by locating in core submarkets in urban storefront formats. Single-tenant properties accounted for more than two-thirds of retail absorption and 76 percent of last year's meager completions. The vacancy rate now matches a pre-recession low of 5.8 percent. Although recovery in multi-tenant product thus far has lagged that of single-tenant, net absorption increased by 52 percent over the prior year and vacancy fell to 8.0 percent from 8.5 percent. At $18.68 per square foot, the average asking rent for single-tenant properties remains 8.1 percent below peak, while the average for multi-tenant properties, at $16.64, lags peak rents by 12.0 percent.

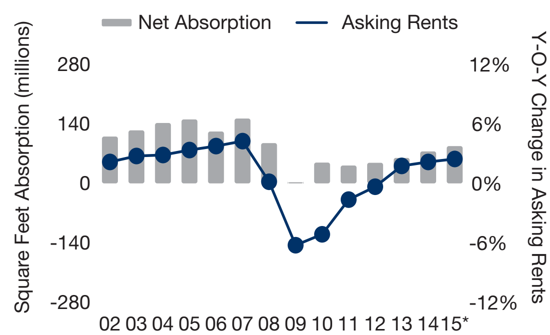
2015 Investment Outlook

- **Space Fundamentals Remain on Positive Trajectory:** Retailers absorbed nearly 75 million square feet in 2014, eclipsing the nearly 40 million square feet of new space delivered and resulting in a 2.2 percent gain in asking rents. This positive dynamic is forecast to carry into 2015, with net absorption of nearly 88 million square feet readily outpacing modest additions to supply of 47 million square feet. Vacancy should further decline to 6.0 percent, pushing rent gains of 2.5 percent.
- **Landlords Redevelop Existing Centers and Incorporate Mixed Uses:** Increasingly abundant capital enabled developers to strategically introduce new concepts in retail and entertainment, while e-retailers such as Amazon may test new sales formats, such as brick-and-mortar stores.
- **Housing Recovery Reboot:** Congress and lenders will develop reasonable new guidelines to facilitate a quicker return to credit-worthiness for potential homebuyers still on the financial mend. Retailers will follow new housing development in dynamic employment and population centers, prompting higher levels of retail construction.

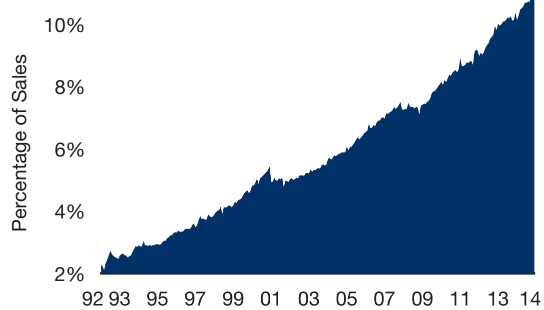
Retail Construction and Vacancy



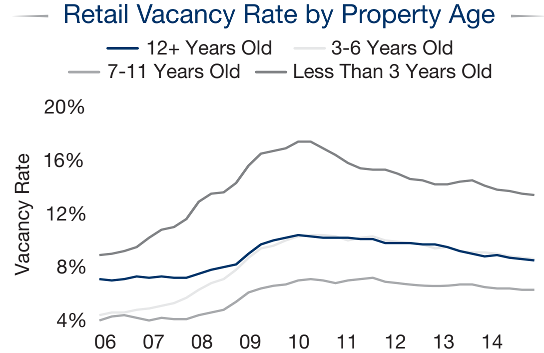
Net Absorption vs. Asking Rents



Internet Sales as a Percent of Total Retail Sales



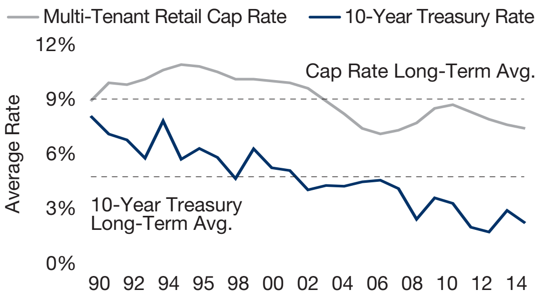
Retail Vacancy Rate by Property Age



Includes all multi-tenant shopping centers 10,000 square feet and larger

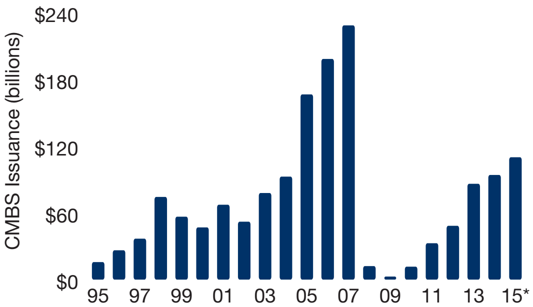
* Forecast

Multi-Tenant Retail Cap Rate Trends

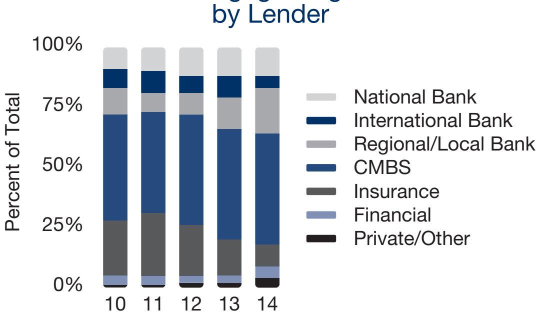


Note: Sales $1M and above

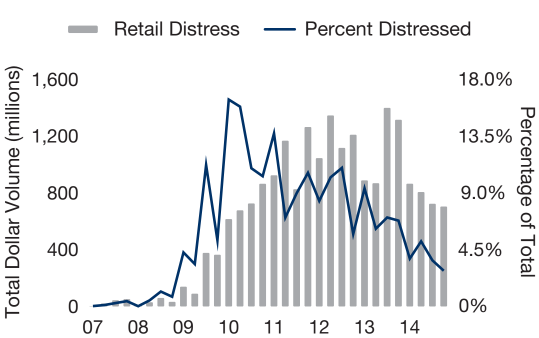
U.S. CMBS Issuance



Retail Mortgage Originations by Lender



Retail Distress Sales



* Forecast

Elevated Liquidity and Low Cost of Capital Support Broadening Investment Activity

U.S. commercial real estate investment remains a compelling alternative in a low-yield global environment. Low interest rates remain a key driver of the abundant capital in the market, together with economic momentum, robust investor demand and lender optimism. Equity spreads over mortgage and Treasury rates remain wide from a historical perspective, cushioning investments from the eventual rise in interest rates. As the liquidity impact of Fed intervention begins to fade, other forces that influence the trajectory of interest rates will take on renewed importance, including the timing and magnitude of rate changes, investor sentiment, income growth, inflation and global capital flows. Competition among lenders has resulted in a modest easing in underwriting standards, although the average loan-to-value measure of 70 percent remains below peak levels, changing little over the past year.

Investors' confidence and appetite for risk has increased, and they are assuming more leasing, renovation and development risk in a greater number of secondary and tertiary markets despite recent cap rate compression. Access to capital has increased steadily in the last year, particularly in these smaller metros. As a result, retail mortgage originations grew 16 percent year over year as of fourth quarter 2014. CMBS lenders still dominate the retail lending space with a 46 percent market share that transcends most market tiers and product types. CMBS issuance continues to climb at a quick pace, closing 2014 at a post-crisis high watermark of $94.1 billion. Regional and local banks have doubled their share to 19 percent in the past two years, but life companies surrendered a significant portion of their prior year's share to settle at 9 percent.

2015 Capital Markets Outlook

- Favorable Macroeconomic Conditions and Minimal Supply Growth Support Retail Revenue Gains and Mitigate Possible Upticks in Interest Rates: Debt terms should remain favorable, supporting liquidity and staving off an abrupt change in cap rates. A robust CMBS market, estimated to approach $125 billion in 2015, improves liquidity in secondary and tertiary markets, as well as pricing for new or value-add properties not yet stabilized.
- The Retail Cap Rate Spread Over 10-Year Treasuries Remains Higher Than Prior Peak: The spread between Treasuries and multi-tenant retail asset cap rates has narrowed by 100 basis points over the past two years. The premium paid for a single-tenant asset narrows the spread to 420 basis points, but spreads for both types remain 200 basis points wider than the height of the market in 2006. Higher financing costs for riskier investments could erode some of the cap rate arbitrage of assets in suburban secondary/tertiary markets and value-add assets, but lender competition together with occupancy gains and rent growth will help contain financing costs.
- Capital Flows to Broader Market Segments: Institutional and foreign capital will maintain steady demand for core assets in primary markets but will also broaden acquisition plans to include the best submarkets of secondary and tertiary markets. Investors will be less reticent about market tier, focusing instead on the viability and strength of trade area demographics.

Yield-Seeking Investors Broaden Acquisition Criteria; Cap Spreads Tightening

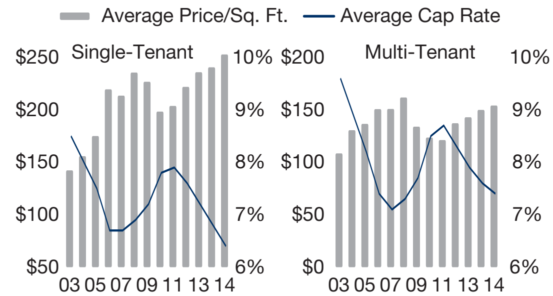
The modest pace of recovery in the retail property sector has thus far lagged the other property types, but economic and operational improvement for a broader range of markets and asset types appears to be underway. The prospect of sustainable momentum in operational performance has investors expanding beyond premier markets and top-tier assets and focusing on growth-oriented opportunities. The most active markets continue to be the preferred Gateway metros of New York City, Los Angeles and Chicago, but improved space fundamentals in secondary markets and the notable arbitrage in prices and cap rates has increasingly piqued investor interest in high-growth, expansionary markets such as Dallas/Fort Worth, Atlanta, Miami and Boston, all of which reflect significant upticks in velocity.

Retail sales volume totaled $83.5 billion in 2014, nearly 33 percent higher than the previous year and surpassing the previous high set in 2007. The transaction of individual assets, rather than portfolio and entity-level sales, accounted for the majority of sales, a feature suggesting mending buyer confidence. Presumably viewed as a lower risk hedge against interest rate hikes expected in 2014, sales volume for single-tenant properties increased 29 percent. Single-tenant retail investment represents a lower risk profile to many investors. Investors paid an average of $253 per square foot for single-tenant properties with cap rates in the low- to mid-6 percent range in 2014; in comparison, multi-tenant product sold at an average of $154 per square foot and cap rates in the mid-7 percent range. While both product types have recovered 27 percent in value from the trough of the market, the premium, or differential, paid for single-tenant product increased significantly to $100 per square foot from $73 and the cap rate differential has increased to 100 basis points from 40 in 2007.

2015 National Retail Investment Outlook

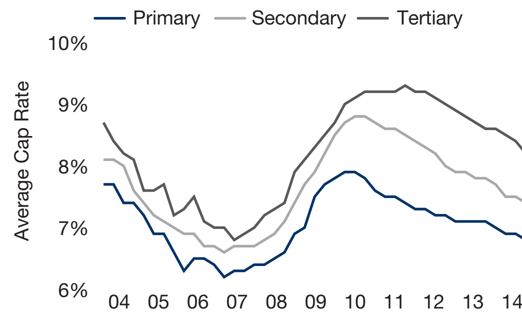
- **Secondary and Tertiary Markets and Submarkets Offer Arbitrage and Cushion:** The boost in consumption from lower oil prices will create an expansionary environment for retail sales, broadening performance gains across metro areas. Greater liquidity on the lending side and a healthy spread of 80 basis points between secondary and tertiary markets will channel more acquisitions to tertiary markets as long as the local economy and market demographics support it. In comparison, the spread between the two market tiers narrowed to within 30 basis points at the 2007 peak.
- **Limited Space Options Prompt Renovations and Value-Add Strategies in Select Markets:** Stronger wage growth and an increasingly robust sales environment continue to improve space fundamentals. Still-limited new supply will spur creative redevelopments of tired shopping centers. Best-in-class space, especially urban storefronts, still takes top honors in pricing and low cap rates.
- **Late-Recovery Markets Offer Superior Leasing Momentum and NOI Recovery:** Relative to primary and early-recovery markets, retail assets with higher vacancies and rents still below their peak offer revenue potential to help offset higher financing costs in a rising interest rate environment. Investors must consider, however, the economic risks of smaller metros as well as the potential for quick ramp-ups in supply, factoring these considerations into their investment criteria.

Retail Property Sales Trends

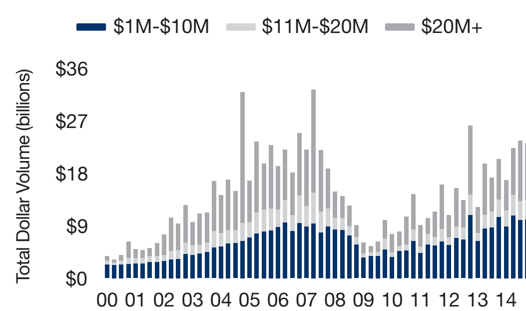


Sales figures represent transactions of $1 million+

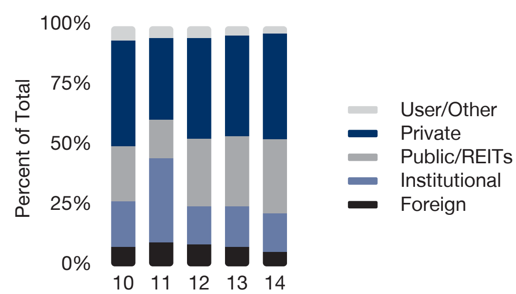
Retail Cap Rate Trends by Market Type



Retail Sales Volume by Price



Retail Buyer Composition

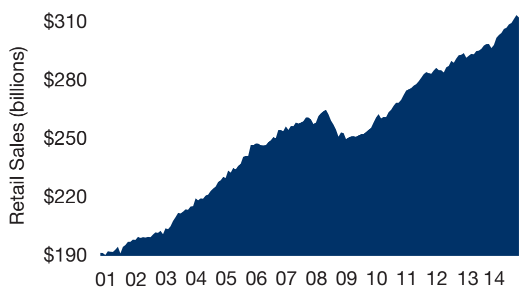


Gas Savings Set to Boost Retailers Across the Country; Net-Leased Properties Benefiting Differently

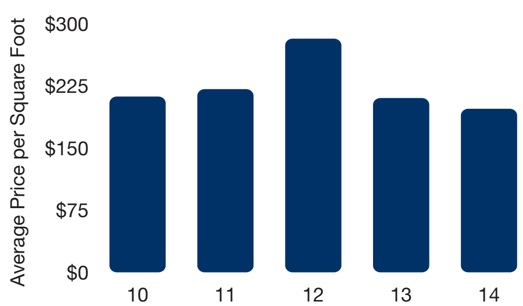
The net-leased retail market enters 2015 on mixed footing as low oil prices hamper earnings at gas stations while the extra income in consumers' pockets is redirected to other purchases. As a net importer, the United States retains billions of dollars within its borders due to the lower price of energy. Consumers are collecting a "pump dividend" in the form of hundreds of millions of dollars per day, which will boost retail sales throughout the economy. Low-income households, in particular, will reallocate cash toward clothes and groceries with gas savings, supporting big-box retailers Wal-Mart and Target. On higher levels of the income scale, Americans will have more discretionary income to dine out, boosting restaurants and fast-food establishments. Elsewhere in the net-leased sector, drugstores could get another lift in 2015. The penalty for not carrying health insurance through the Affordable Care Act doubles this year, which will encourage more people to explore the exchanges. Additionally, more than 3 million people will find jobs in the next 12 months, increasing the number of insured workers considerably. As a result, more doctors' visits and prescriptions are anticipated, supporting revenue at drugstores.

Investors executing 1031-exchanges will dominate the net-leased market in 2015 as retiring baby boomers take advantage of record-low cap rates in the apartment market. Multifamily properties on the coasts are changing hands at peak prices as new investors enter the market. Existing owners on the brink of retirement or considering divesting within the next three years are moving forward with plans while interest rates are low. The proceeds from these deals are put into net-leased assets to provide steady cash flow without management responsibilities. Properties secured under long leases with national credit tenants are highly sought after. These opportunities should expand this year as the pace of retail construction accelerates, creating more pad sites. Dollar stores and fast-food restaurants dominate the list of expanding retailers in 2015, providing investors several options to reallocate capital.

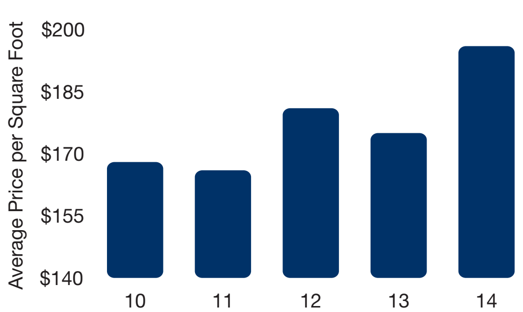
Monthly U.S. Retail Sales, Excl. Auto, Gas



Auto-Parts Retailers Sales Trends



Casual Dining Sales Trends



Auto-Parts Retailers

- In 2014, light vehicle sales totaled 16.4 million automobiles, the highest level since 2006, when 16.5 million autos were purchased. The increase in automobiles on the road will ultimately pay dividends for auto-parts retailers, though warranties will keep sales muted for a couple more years.
- During the most recent 12-month period, deal flow surged as buyers moved away from the most sought-after assets. The average sales price was $198 per square foot, down 6.2 percent from the prior year.
- In 2014, average cap rates for auto-parts retailers compressed 60 basis points due to heightened demand. New AutoZone stores trade at first-year returns beginning in the mid-5 percent area, while O'Reilly stores begin at 5.75 percent and Advanced Auto Parts is another 25 basis points higher at 6 to 6.25 percent.

Casual Dining

- Lower gas prices will provide more revenue for restaurants across the country, though some long-time industry giants may struggle. Olive Garden and Red Lobster are searching for ways to reconnect with diners.
- Transaction velocity for restaurants jumped 11 percent during 2014 as buyers' risk tolerance widened. Investors paid an average of $196 per square foot last year, up 12 percent year over year.
- Over the past year, average cap rates have dipped 20 basis points, though first-year returns vary widely based on franchisee status and concept.

Dollar Stores

- Shareholders recently voted to merge Family Dollar and Dollar Tree, creating a huge firm. The merger will likely lead to some store closings, though Dollar General has plans to open 250 or more stores this year.
- Despite concerns about store closings, deal flow in the dollar store segment continued to rise in 2014 due to the shear number of listings on the market. The average price ticked up 5 percent to $159 per square foot.
- At the beginning of the year, new Dollar General stores typically generate buyer interest at cap rates in the low-6 percent range, while Family Dollar stores with full leases begin near 7 percent.

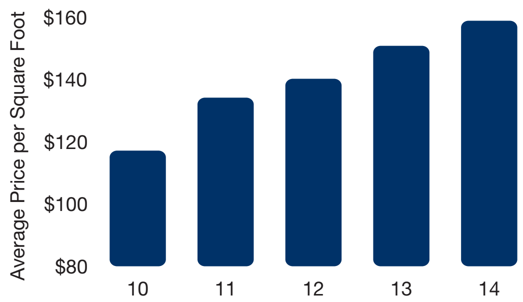
Drugstores

- The pace of new store openings in the drugstore sector has abated as most major chains focus on opening in-store clinics. Rite Aid has returned to profitability after nearing the brink of bankruptcy a few years ago.
- In 2014, transaction velocity for drugstores jumped as buyers assumed less risk in the segment as millions of additional residents acquired health insurance. The average sales price last year was $367 per square foot, up 7 percent year over year.
- With a new lease, both CVS and Walgreens can change hands at cap rates in the low-5 percent range, while Rite Aid begins trading in the mid-6 percent area. Last year, average cap rates dipped 50 basis points.

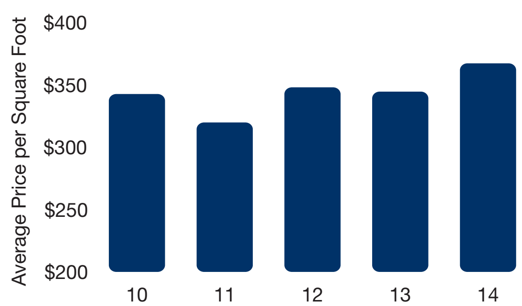
Quick-Service Restaurants

- Fast-food restaurants will benefit from consumers having greater access to discretionary income. Although McDonald's has struggled recently, Burger King plans to open 250 stores this year.
- Transaction velocity was nearly flat in 2014 when compared with the previous year. Although investor demand was flat, the average price per square foot surged 11 percent to $607 per square foot.
- Average cap rates dipped 40 basis points during the most recent 12-month period to 6 percent. Ground leases for McDonald's still capture first-year returns around 4 percent.

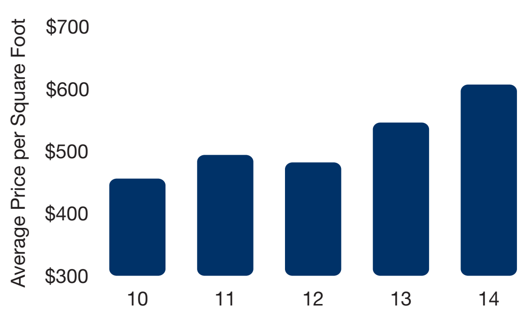
Dollar Store Sales Trends



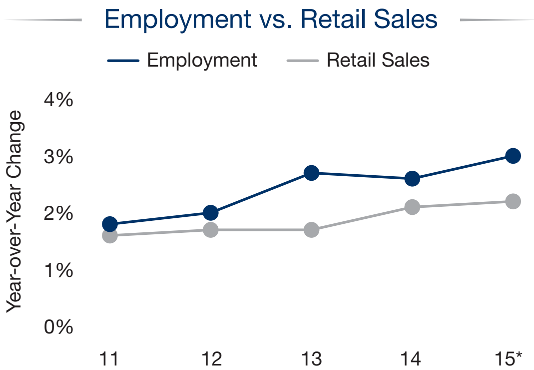
Drugstore Sales Trends

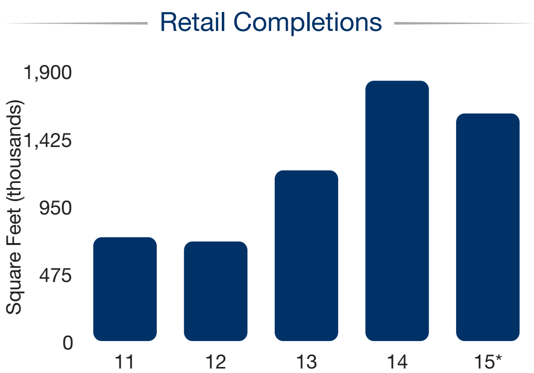


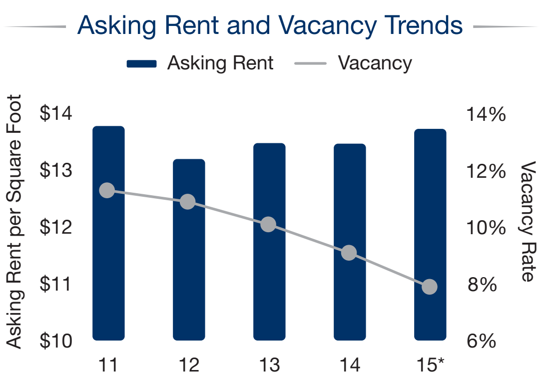
Quick-Service Restaurant Sales Trends

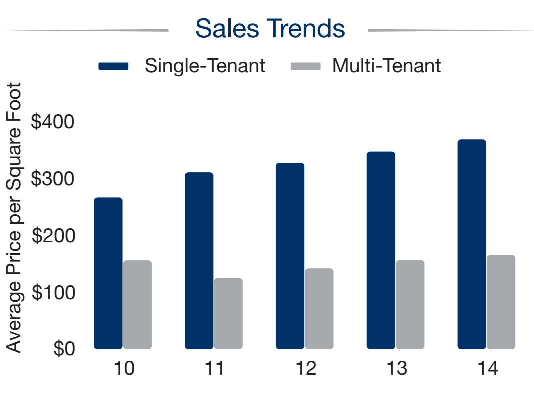


National Retail Index | Up 2 Places | 2015 Rank: 26 | 2014 Rank: 28









* Forecast

Distribution and Tech Companies Boost Hiring; Vacancy Retreats on Elevated Space Demand

Major employer expansions, particularly in the thriving manufacturing, distribution and technology segments, are supporting household formation and benefiting Atlanta retail operations this year. Wal-Mart and Kroger, for example, are each building 1.2 million-square-foot distribution facilities in the southern portion of the metro that are slated for completion this year and will create more than 500 jobs. Meanwhile, Keurig will hire 550 workers over the next four years at its new production facility in Douglas County. To the north in Roswell and Buckhead — growing tech corridors — Salesforce, Sharecare and General Motors are expanding their footprints and adding new positions. The increased pace of hiring will raise spending and lift demand for housing-related goods and services. These trends will attract new retailers to available space in the metro. Elevated tenant demand resulted in nearly 4.3 million square feet of net absorption last year, easily offsetting completions. Above-average completions will persist in 2015 as well, though the majority of the new projects will come online heavily pre-leased, posing little threat to vacancy. Operators will leverage limited available space to boost rents during 2015.

The improving economy and strong property performance will fuel increased investor interest in Atlanta retail properties. A growing buyer pool will outnumber the amount of for-sale inventory and intensify competition. As a result, competitively priced properties will receive multiple bids and investors will have to sharpen offers to acquire assets. Intense bidding will excite owners who are considering selling over the next few years, and some of these may test the market. Highly visible stabilized shopping centers along Georgia 400 and near major employment hubs will garner the strongest interest from institutions and 1031-exchange buyers. Initial yields for these properties have compressed over the past year to the mid-7 to low-8 percent range, while single-tenant cap rates trend 100 to 250 basis points lower.

2015 Market Outlook

- **2015 NRI Rank: 26, Up 2 Places.** An above-average vacancy decline pushed Atlanta up two places in this year's Index.
- **Employment Forecast:** In 2015, metro employment will expand 3.0 percent with the addition of 75,000 jobs. Last year, 63,900 positions were created.
- **Construction Forecast:** Development will modestly slow from the 1.84 million square feet delivered last year to 1.6 million square feet in 2015.
- **Vacancy Forecast:** Vacancy will tumble 120 basis points in 2015 to 7.9 percent. Last year, vacancy fell 100 basis points.
- **Rent Forecast:** This year, rents will reach $13.72 per square foot, a 1.9 percent increase, up from a slight drop one year ago.
- **Investment Forecast:** Single-tenant investors who are seeking higher returns will stretch their search preferences to include small strip centers this year.

Market Forecast | Employment: 3.0% ▲ | Construction: 240K ▼ | Vacancy: 120 bps ▼ | Asking Rents: 1.9% ▲

Austin Retail Performance Continues to Shine Amid Steady Job Gains

Austin's vacancy rate will tighten in 2015 as economic and population growth continue at above-average rates and deliveries remain moderate. Last year, the local population increased by 50,000 residents, including 31,000 people who relocated from outside the metro. The results should be similar this year as job creation in the tech sector and other higher-paying industries remains strong. The influx of residents in 2014 sparked significant residential development and helped push retail sales growth at more than twice the U.S. rate. Retail construction has lagged though, particularly downtown, where multiple hotels and luxury residential towers have or will soon come online. Within the area, which boasts vacancy around 3 percent, new retail space has been limited mostly to mixed-use projects, a trend that also gained momentum in the exceptionally tight West Central submarket, near east and north-central areas. In the suburbs, discount chains, grocery stores and furniture/appliance stores have been a driving force behind development. Over the foreseeable future, larger shopping center and big-box construction will remain concentrated in the north/northwest, west/southwest and far east of the metro, as retail chains chase rooftops into fast-growing communities.

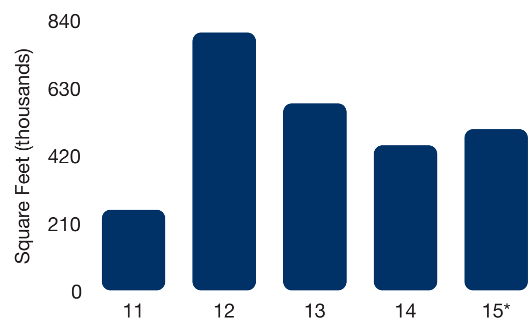
Competition for Austin retail properties will remain elevated this year. Capital flows into the metro have intensified, a trend that will persist through 2015. In addition to attracting a growing number of private investors from high-priced coastal states, the metro has also become a target for REIT and institutional capital. In 2014, institutional investors dominated anchored-shopping center sales and accounted for more than 40 percent of overall dollar volume, more than twice their market share in the previous year.

2015 Market Outlook

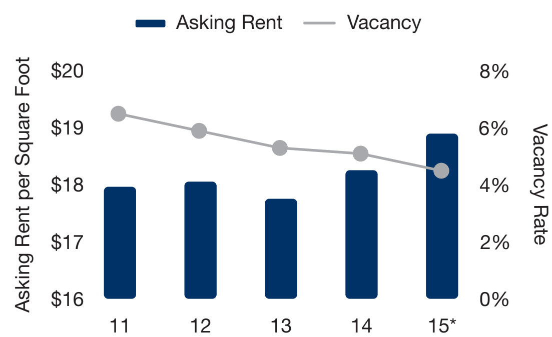
- **2015 NRI Rank: 4, No Change.** Austin retains a top 5 position in the ranking, buoyed by the nation's strongest rate of job growth.
- **Employment Forecast:** Austin will be among leading metros for hiring this year. Payrolls are forecast to rise 3.7 percent with the addition of 33,500 positions. During 2014, local employment increased 2.8 percent.
- **Construction Forecast:** Through 2015, developers will complete approximately 500,000 square feet of retail space. The forecast reflects a modest increase from 2014, when 455,000 square feet was delivered.
- **Vacancy Forecast:** Retail vacancy will improve 60 basis points in 2015 to 4.5 percent. Last year, the metro recorded a 20-basis-point reduction.
- **Rent Forecast:** Austin retail rents will rise 3.5 percent this year to $18.89 per square foot as conditions continue to tighten. During 2014, rents in the metro advanced 2.8 percent.
- **Investment Forecast:** A shortage of quality listings and still-favorable interest rates will hold cap rates near record-low levels. On average, single-tenant assets trade at cap rates in the low- to mid-6 percent range, while well-positioned strip centers with national tenants are being marketed at cap rates in the mid-7 percent area.

Employment vs. Retail Sales

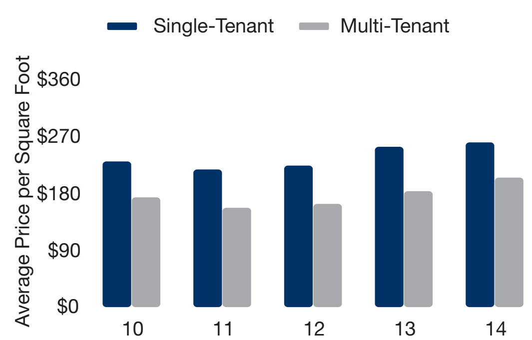
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends

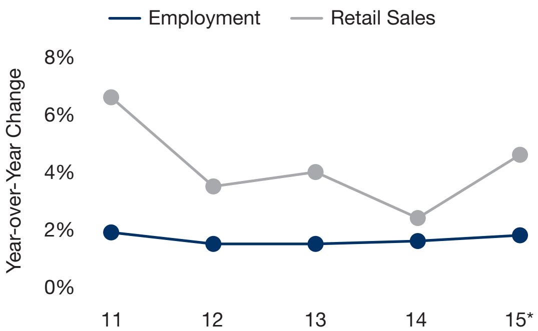


* Forecast

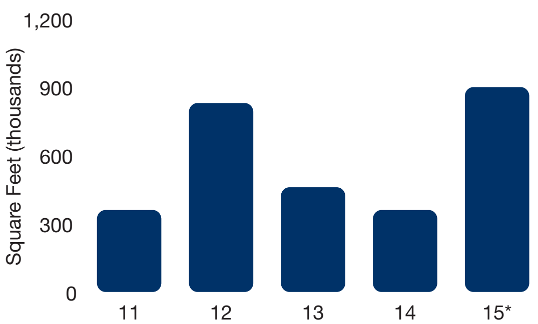
Marcus & Millichap

National Retail Index | Down 1 Place | 2015 Rank: 15 | 2014 Rank: 14

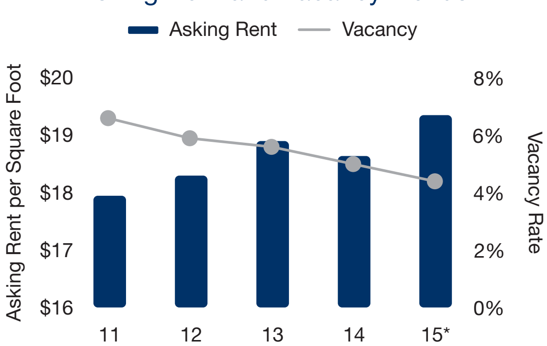
Employment vs. Retail Sales



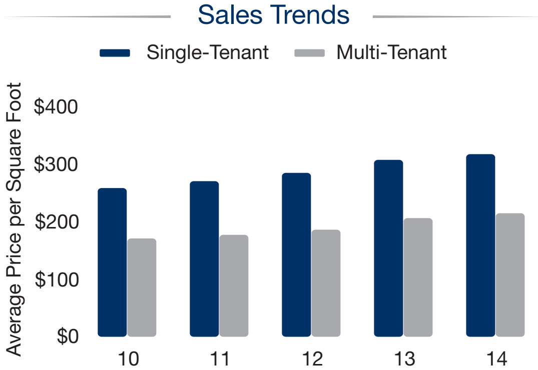
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

New Construction Emerging As Vacancies Tighten Across Metro

Broadening economic gains will support retail space demand, driving vacancies to historically tight levels and advancing rent growth. Construction has begun to accelerate, with new builds including a variety of retail complexes, single-tenant buildings and mixed-use spaces. Because land availability in the core remains constrained, owners are looking to renovate and redevelop to meet current trends. Baltimore city officials are supporting growth and development through a recently approved $1.1 billion investment in schools and a 14-mile light-rail system that will revitalize the city's infrastructure and boost employment in the metro. To the east of the city, the non-profit East Baltimore Development Inc. is initiating an 88-acre mixed-use project with residential and retail components, along with space for Johns Hopkins University. Retail projects under construction include a 120,000-square-foot Wal-Mart in Pasadena to the southeast, Forest Green shopping in Ellicott City to the southwest of Baltimore, and a CVS next door in Columbia. Farther south, the shopping center Main Street at Waugh Chapel continues to add space for new shops and restaurants, with nearly 20,000 square feet under construction at the start of 2015.

Prospective buyers are exiting Washington, D.C., for Baltimore, seeking higher returns, value-add deals and assets in outlying areas with potential upside. Overall, though cap rates are compressing in the metro, they are still higher than nearby markets, providing greater potential returns. Buyers are largely seeking smaller strip centers and single-tenant buildings. Though single-tenant exchanges are in demand, bidding competition, low returns and further cap rate compression are leading buyers to turn to smaller strip malls and shopping centers under 50,000 square feet. Supply constraints and limited listings will continue to drive up pricing and lower cap rates. Single-tenant spaces have traded in the 6 to 7 percent cap rate range, while strip centers and small shopping malls have recently traded in the 7 percent cap rate range.

2015 Market Outlook

- **2015 NRI Rank: 15, Down 1 Place.** Below-average employment gains and a sharp rise in construction sank Baltimore position in this year's ranking.
- **Employment Forecast:** Jobs will grow by 1.8 percent, as employers fill 24,000 positions this year. This is in addition to the 21,700 new staff and 1.6 percent rise in 2014.
- **Construction Forecast:** Completions will more than double from last year's 370,000 square feet as 900,000 square feet of retail space is delivered.
- **Vacancy Forecast:** The vacancy rate will slide 60 basis points to 4.4 percent after last year's 60-basis-point cut.
- **Rent Forecast:** Average asking rents in Baltimore will escalate 3.8 percent to $19.34 per square foot, besting last year's 1.4 percent decline.
- **Investment Forecast:** Solid regional employment and better yields than nearby markets will draw buyers to Baltimore.

Market Forecast | Employment: 1.8% ▲ | Construction: 530K ▲ | Vacancy: 60 bps ▼ | Asking Rents: 3.8% ▲

Down 7 Places | 2015 Rank: 14 | 2014 Rank: 7 — National Retail Index

Retail Development Surges As Upper-Income Hiring Proliferates

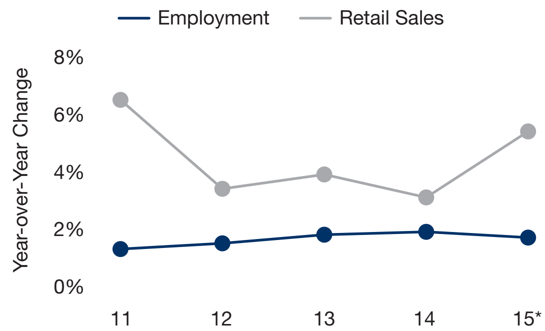
Job creation in higher-paying fields including biomedical, finance and technology will lure more people to Boston, capturing the attention of retailers and lifting space demand. Quality jobs and rising incomes are fueling household formation and residential developers are responding. A wave of apartment deliveries will continue into 2015, particularly in downtown Boston, the Seaport District and Cambridge. Elevated foot traffic generated by these new residences will increase spending. Several of these multifamily projects, in fact, incorporate a retail component. Retail developers are ramping up production outside the core as well, most notably along Route 128. One of the largest projects slated for completion this year is the first phase of University Circle, which consists of 500,000 square feet of retail and 350 luxury apartment units off Route 128 South. Though completions will reach nearly 2.9 million square feet, more than double the five-year average, deliveries will be on pace with pre-recession levels. Additionally, the majority of retail projects will be heavily leased upon completion, limiting pressure on the metro's vacancy rate and allowing rents to tick up.

Owners who held onto assets through the recession will enjoy cash flow generated by steady rent gains, limiting the amount of listings. While the supply of for-sale properties remains narrow, the buyer pool is widening. All types of investors are seeking assets in Boston, which are still priced at a discount relative to other coastal markets. Private buyers will remain the dominant players in the local investment market, and they will continue to focus on quality net-leased properties inside the Route 128 inner loop. A supply-demand imbalance, however, will put further upward pressure on values this year. Overall, cap rates will compress 20 to 50 basis points and first-year returns for single-tenant properties will average in the high-5 percent range, while overall multi-tenant properties trend 50 basis points higher, in the low-6 percent range.

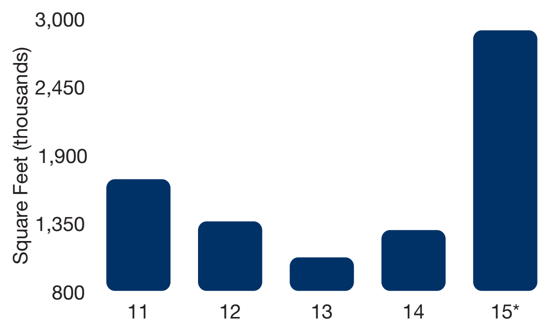
2015 Market Outlook

- **2015 NRI Rank: 14, Down 7 Places.** One of the largest development increases in the country and rising vacancy resulted in a seven-spot tumble for Boston in this year's NRI.
- **Employment Forecast:** Employment will rise 1.7 percent as 43,000 jobs are added in the metro, down from the 48,100 positions created last year.
- **Construction Forecast:** Builders will complete 2.9 million square feet this year, expanding inventory 1.4 percent. In 2014, 1.3 million square feet was completed.
- **Vacancy Forecast:** Though net absorption will exceed 2.6 million square feet in 2015, new inventory will push vacancy up 10 basis points to 3.8 percent.
- **Rent Forecast:** Following a 2.0 percent decline last year, asking rents will climb 1.1 percent to $18.28 per square foot in 2015.
- **Investment Forecast:** Competition for high-quality shopping centers, primarily grocery-anchored, will remain intense, though cap rates are unlikely to compress further.

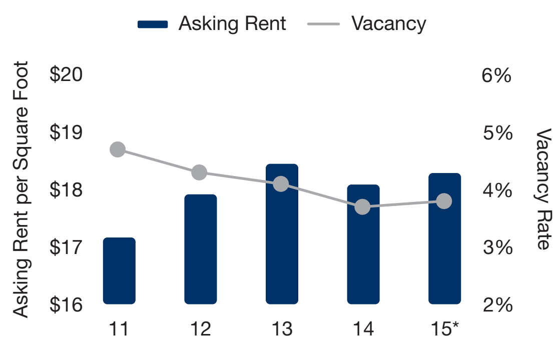
Employment vs. Retail Sales



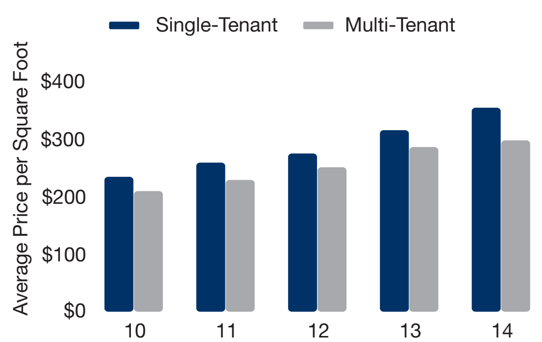
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends

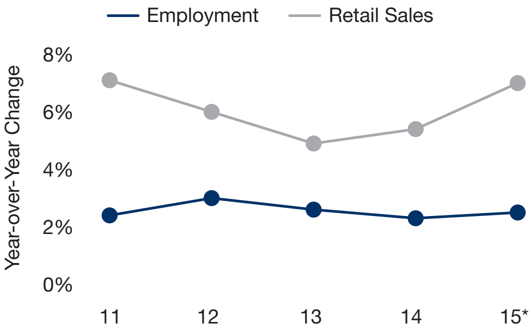


* Forecast

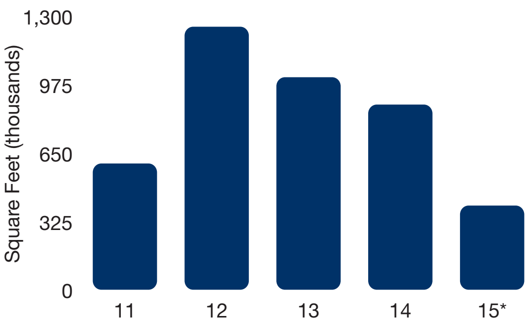
Employment: 1.7% ▲ Construction: 1.6M ▲ Vacancy: 10 bps ▲ Asking Rents: 1.1% ▲ — Market Forecast

National Retail Index | Down 1 Place | 2015 Rank: 30 | 2014 Rank: 29

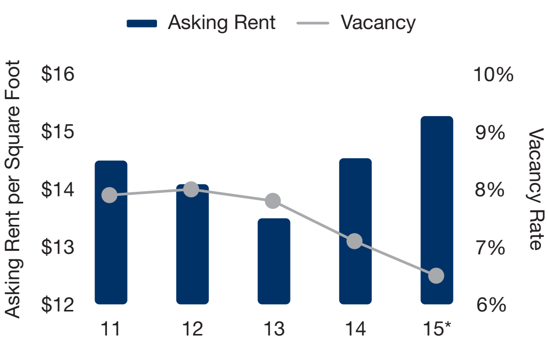
Employment vs. Retail Sales



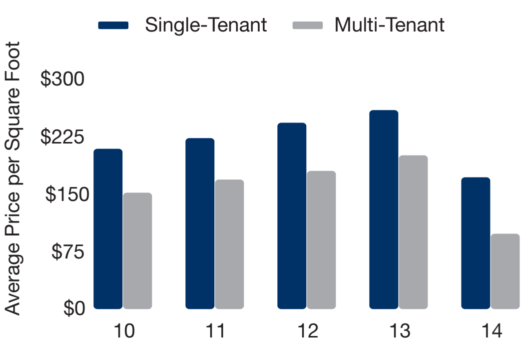
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

Retail Sales Growth Accelerates; Retailer Expansion Driving Vacancies Down

Rising employment will lift consumer confidence this year, spurring spending and encouraging retailers to expand their footprints in the metro. Several employers, including AvidXchange, Daimler, RingCentral and GKN Driveline, have plans to hire hundreds of workers in the near term. Job gains are resulting in household formation, which in turn is driving consumers to stores in search of big-ticket items to fill their homes. Retail sales this year are projected to outpace the national average, prompting retailers to open new locations. Publix will continue its rapid expansion into the Charlotte market. After opening eight stores last year, the grocery chain is on tap to debut six more locations in 2015. Cabela's will open its first Charlotte area store in Fort Hill, South Carolina, in the spring. Construction will be limited to a few build-to-suit single-tenant projects. A lack of speculative construction and expanding retailers will enable vacancy to dip to its lowest point since mid-2008, placing upward pressure on asking rents.

Improving operations, a strong economy and higher initial yields than many other East Coast markets will attract a wide array of buyers to the Charlotte metro this year, creating intense competition for available retail assets. Out-of-state buyers will focus on newer upper-tier shopping centers within prime locations. First-year returns for these properties begin in the mid-6 percent range in core locations and average 100 basis points higher in suburban areas. High prices will push many local buyers to neighborhood and strip centers with strong tenant rosters in suburban locations. Cap rates for these deals average in the low-8 to mid-9 percent. Single-tenant properties will continue to attract attention from national investors this year. Cap rates for these properties are dependent on lease terms and tenant quality and can fall below 6 percent.

2015 Market Outlook

- **2015 NRI Rank: 30, Down 1 Place.** Charlotte's exposure to the finance sector weighed the market down one spot in the ranking.
- **Employment Forecast:** Charlotte employers will create 23,000 jobs this year, expanding total employment 2.5 percent. In 2014, payrolls increased by 20,500 workers.
- **Construction Forecast:** After delivering 890,000 square feet of retail space last year, the construction pipeline will slow considerably as 400,000 square feet is placed into service this year.
- **Vacancy Forecast:** Expanding retailers and limited construction will push down average vacancy 60 basis points to 6.5 percent in 2015. A 70-basis-point decline was recorded last year.
- **Rent Forecast:** Tightening vacancy will place upward pressure on asking rents; operators will lift rates 5.0 percent this year to $15.26 per square foot. In 2014, average asking rents rose 7.7 percent.
- **Investment Forecast:** Limited single-tenant listings and low yields will encourage many investors to consider less-management intensive, two- to five-tenant strip centers.

Market Forecast Employment: 2.5% ▲ Construction: 490K ▼ Vacancy: 60 bps ▼ Asking Rents: 5.0% ▲

Retail Development Maintains Momentum As Vacancies Trend Lower

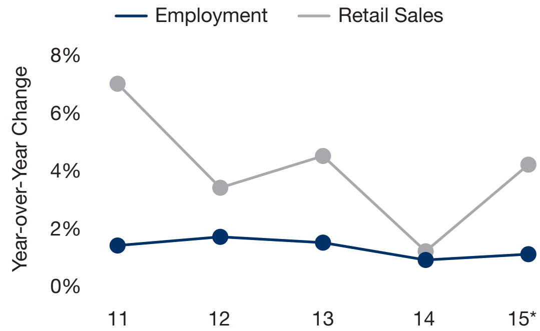
Though Chicago was a bit slower to start its economic recovery than coastal markets, momentum has begun to build and retail developers are ramping up construction. Roughly 3 million square feet will be added to inventory in 2015, the most in five years. New City is the largest retail property slated for delivery, with 370,000 square feet of retail space and nearly 200 rentals in the Lincoln Park neighborhood. Also within the city, highrise apartment and condo construction in downtown is increasing foot traffic for existing stores and creating demand for nearby retail space. In the suburbs, the biggest project coming online is the 290,000-square-foot expansion of the Chicago Premium Outlets in Aurora, which will add 50 stores anchored by Saks Fifth Avenue Off 5th. Despite the increase in development, vacancy will contract as Aldi, Fresh Thyme, Dunkin Donuts and Checkers, among other retailers, add locations. Tightening vacancy will push rents higher, although the average asking rent will finish the year 8 percent below the prior peak.

The brightening economic outlook is drawing more private capital into Chicagoland. International investors, in a flight to safety, are joined by buyers moving from the coasts into the Midwest for higher returns. These investors are seeking single-tenant and less-management-intensive multi-tenant assets. Stiff competition for the limited supply of these properties is pushing cap rates to historic lows and creating an aggressive bidding climate. This competition is encouraging buyers to move farther into the collar counties or down the quality scale. Value-add investors are also active. Assets with management challenges in the outer counties will trade at cap rates that extend into double digits.

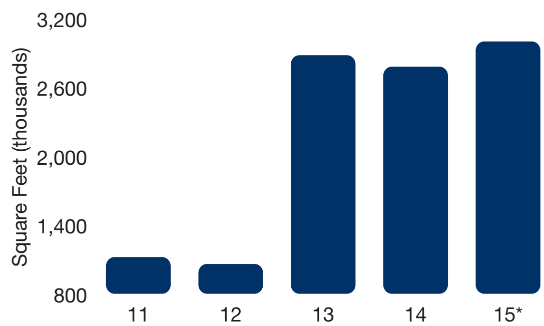
2015 Market Outlook

- **2015 NRI Rank: 22, Up 1 Place.** The Windy City inched one position further into the top half of the ranking this year.
- **Employment Forecast:** During 2015, payrolls will increase 1.1 percent as 50,000 jobs are created. Many of these positions will be at the numerous expanding tech companies. Last year, employment rose 0.9 percent.
- **Construction Forecast:** Developers will complete nearly 3 million square feet of retail space this year, up from the 2.8 million square feet that was delivered in 2014.
- **Vacancy Forecast:** The improving local economy will boost retail demand, pushing down vacancy 90 basis points to 7.7 percent in 2015, following a 90-basis-point fall last year.
- **Rent Forecast:** As vacancy declines, asking rents will move up 1.8 percent to $17.47 per square foot, the highest level since 2009. During 2014, rents increased 0.4 percent.
- **Investment Forecast:** Strong demand for well-located, multi-tenant assets with two to four tenants has pushed some cap rates below 6 percent, on par with many single-tenant properties.

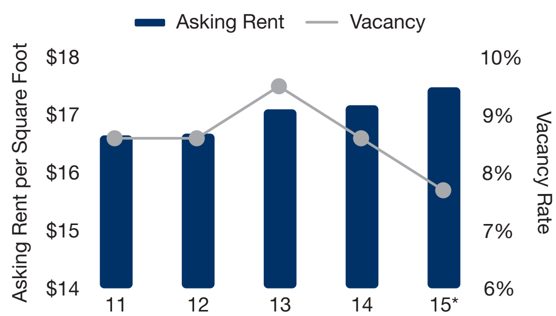
Employment vs. Retail Sales



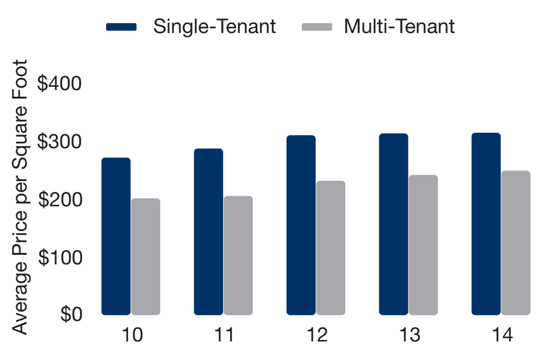
Retail Completions



Asking Rent and Vacancy Trends

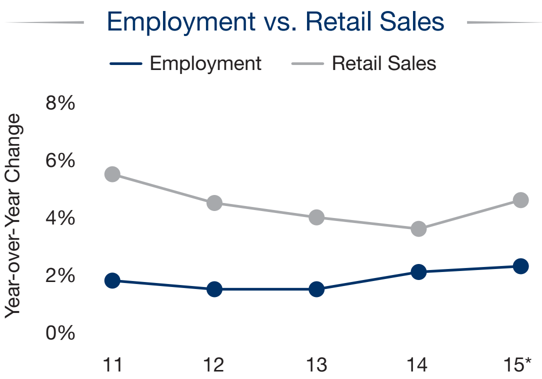


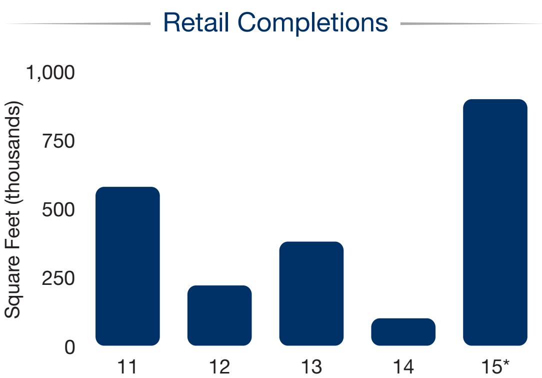
Sales Trends

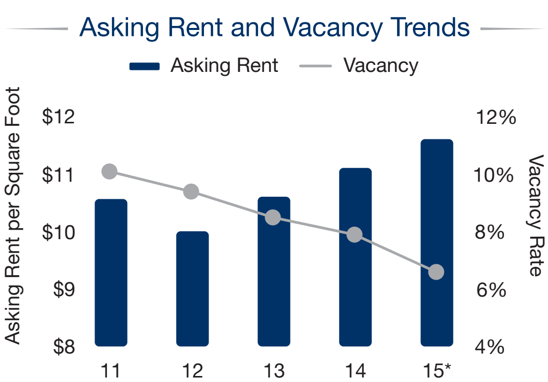


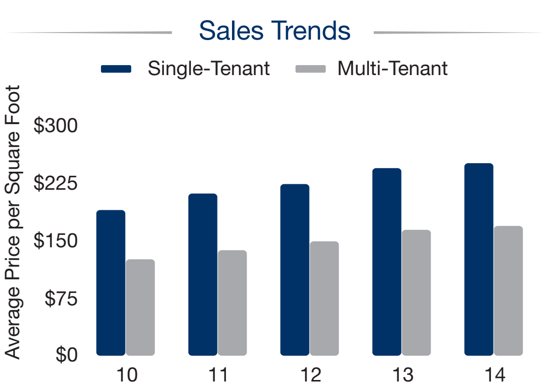
* Forecast

National Retail Index | Up 2 Places | 2015 Rank: 37 | 2014 Rank: 39









* Forecast

Out-of-State Investors Increase Pursuit Of Cincinnati Retail

Cincinnati retail vacancies will decrease to their lowest levels in 2015 as steady hiring and accelerated retail spending support retailer expansion. While job advances remain modest, increases have been relatively steady over the past five years. Company expansions include Christ Hospital, north of downtown, which will continue to build upon the sizable gains of the healthcare industry over the last seven years. GE will also expand, adding an operations center downtown and 1,400 new jobs over the next two years. As more residents enter the workforce and increase spending, retailers will respond by enlarging footprints in the metro. Developers will meet the need for square footage with new shopping centers and standalone buildings. To the north of the city, the 632,000-square-foot, mixed-use Liberty Center will open this fall, anchored by Dick's Sporting Goods and Dillard's. Downtown, just north of the Kentucky border, the mixed-use Banks development will continue to complete retail spaces and apartments. To the south, in Florence, Kentucky, owners of pads at the 63-acre Mall Road will be adding a Costco and Menards to anchor Florence Heights shops. While mixed-use projects continue to be constructed metrowide, developers are focusing on building for single-tenant use to the northwest, near Miami University in Oxford.

Although core assets will remain in high demand and the number of such listings will be limited, out-of-state investors will also scour the market for pad plays near larger developments. Such areas are spread throughout the metro thanks to a diverse economy and a variety of Fortune 500 company locations such as Cintas, Kroger and Procter & Gamble. Further development downtown and into the suburbs will draw additional investor interest. Demand for multi-tenant assets will grow, as some buyers are outbid by competition for single-tenant space. Single-tenant buildings tend to trade in the 6 to 7 percent cap, while multi-tenant properties can provide 7 percent first-year returns and value-add asset buyers can obtain 8 percent cap rates.

2015 Market Outlook

- **2015 NRI Rank: 37, Up 2 Places.** A large projected decline in vacancy propelled Cincinnati two places higher in the ranking.
- **Employment Forecast:** Employers will create 24,000 jobs this year, a 2.3 percent increase to overall employment, advancing above the pre-recession peak for the first time. This is a bump up from 2.1 percent growth in 2014.
- **Construction Forecast:** Developers will expand retail supply by 900,000 square feet or 0.8 percent, eclipsing last year's 110,000 square feet.
- **Vacancy Forecast:** Vacancy will drop 130 basis points to 6.6 percent as tenant demand intensifies. Last year vacancy fell 60 basis points.
- **Rent Forecast:** Asking rent will rise 4.5 percent to $11.60 per square foot near last year's 4.7 percent increase, marking the third year of rapid growth.
- **Investment Forecast:** Investors will seek low rent to sales ratios in both smaller multi-tenant assets and single-tenant properties in core areas.

Market Forecast Employment: 2.3% ▲ Construction: 790K ▲ Vacancy: 130 bps ▼ Asking Rents: 4.5% ▲

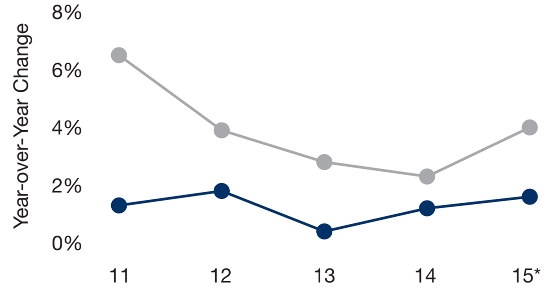
Resurgence of Downtown Cleveland Fueling Investor and Developer Confidence

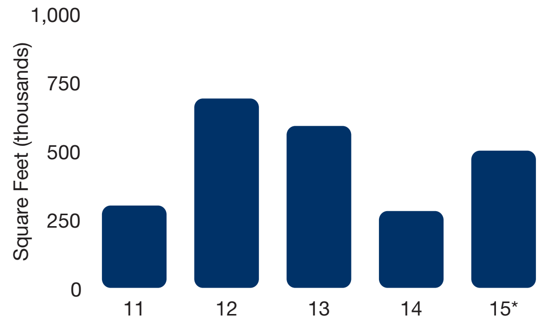
The Cleveland retail market will make strides this year as the revitalization of downtown and new developments attract tourists and residents to the metro. Following the recent completion of the Medical Mart and convention center, the region gained national attention when Cleveland was selected to host the 2016 Republican National Convention. One of the deciding factors that landed Cleveland the event was the number of hotels under construction and slated for delivery over the next few years. Beyond hotel development, several office-to-residential conversions are taking shape downtown as well. As these projects come to completion, nearby restaurants and storefronts will benefit from increased spending generated by construction and hospitality workers, visitors and new residents. As a result, retailers will search for available space in desirable areas in downtown Cleveland and University Heights. Necessity retailers, grocers and fitness centers, meanwhile, will fill vacancies in growing residential suburbs. Heightened space demand this year will result in more than 1 million square feet of net absorption for the second straight year. While space becomes more challenging to find, retail developers will move off the sidelines.

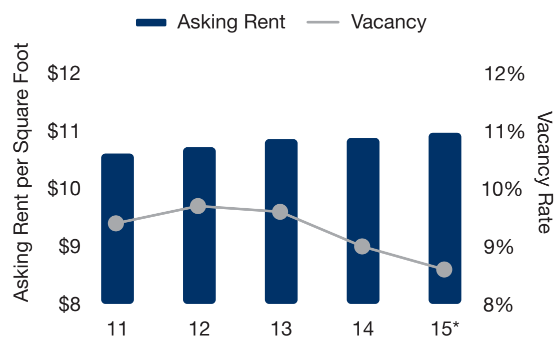
Investor optimism in the Cleveland market will rise with the improving economy and stronger property performance this year. High-net-worth private buyers will remain active in the market, targeting net-leased properties along major thoroughfares that feature initial yields in the mid-6 percent range, though some assets can dip below 6 percent. Drugstores and fast-food establishments with long lease commitments, for example, trade in the mid-5 percent area, though these properties are challenging to find and buyers will have to sharpen offers to acquire these assets. Meanwhile, REITs will compete for a limited number of quality grocery-anchored shopping centers that trade in the low-7 percent cap rate range.

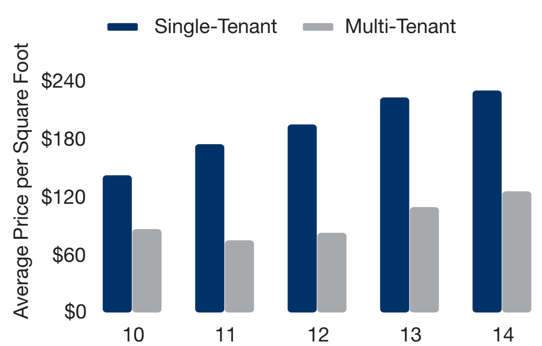
2015 Market Outlook

- **2015 NRI Rank: 45, Up 1 Place.** With one of the highest vacancy rates in the nation, Cleveland landed near the bottom of this year's NRI.
- **Employment Forecast:** After hiring an additional 12,200 workers last year, employers will create 16,500 jobs in 2015, expanding employment 1.6 percent.
- **Construction Forecast:** Completions will rise to 500,000 square feet this year, lifting stock 0.3 percent. Less than 300,000 square feet of space was delivered one year ago.
- **Vacancy Forecast:** In 2015, vacancy will drop 40 basis points on 1.0 million square feet of net absorption to 8.6 percent. Last year, vacancy receded 60 basis points.
- **Rent Forecast:** Average rents will advance 0.8 percent in 2015 to $10.96 per square foot, following a nominal rise last year.
- **Investment Forecast:** Buyers searching for higher yields will target unanchored strip centers with value-add prospects that trade up to 200 basis points higher, depending on location and quality.









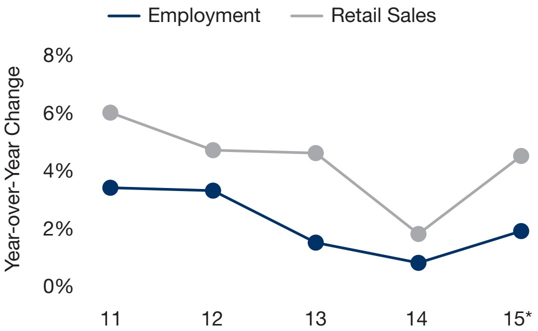
* Forecast

Employment: 1.6% ▲ Construction: 200K ▲ Vacancy: 40 bps ▼ Asking Rents: 0.8% ▲ Market Forecast

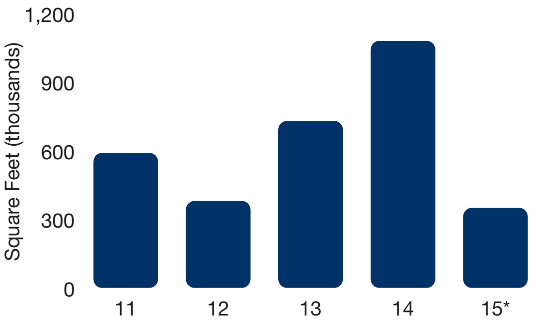
Marcus & Millichap

National Retail Index | Up 2 Places | 2015 Rank: 31 | 2014 Rank: 33

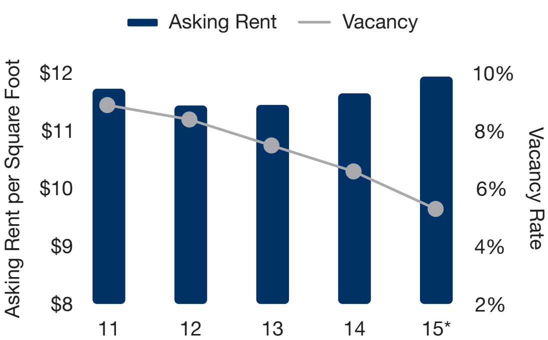
Employment vs. Retail Sales



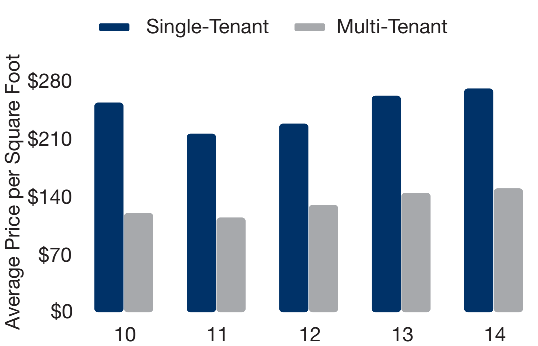
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

Demand for Columbus Retail Space Climbs As Household Formations Accelerate

Retail vacancy in Columbus will tumble this year as steady job growth and household formation boost space demand amid restrained retail development. Following a lackluster gain last year, hiring will accelerate in 2015, led by the government, retail and distribution sectors. An improving job outlook will lure new residents to the metro, lifting household formation. Residential developers are meeting growing housing demand with thousands of rentals slated for delivery this year, with new supply concentrated in the most desirable areas of downtown Columbus and near Ohio State University. The number of people working downtown will also grow as several companies expand their footprints and relocate from the suburbs. Retailers will follow, though available space will become increasingly difficult to find with vacancy near 5 percent in these areas. Despite limited space ready for move-in, development will slow after a wave of properties came online last year. New inventory will consist of smaller shopping centers and mostly pre-leased storefronts. Completions will lag elevated space demand, putting significant downward pressure on vacancy and supporting another year of healthy rent growth.

A brightening economic outlook and steady rent gains will sustain investor interest in Columbus retail assets, contributing to strong sales this year. The buyer pool will widen as more out-of-state investors enter the Columbus market, searching for higher yields relative to coastal markets. Demand for net-leased assets near employment hubs or affluent neighborhoods with high traffic counts will outweigh a thin amount of for-sale inventory, placing upward pressure on property values. Cap rates here will slightly compress to the low- to mid-6 percent range, depending on tenant quality and lease term. Priced out of the few assets listed, some investors will stretch their preferences to include small open-air shopping centers in suburban neighborhoods such as Dublin, Hilliard and Powell. Elevated buyer interest and aggressive debt sourcing will excite property owners, encouraging some to test the market in coming months.

2015 Market Outlook

- 2015 NRI Rank: 31, Up 2 Places. Rapidly falling vacancy facilitated a two-spot rise in the NRI, making Columbus the highest-ranked Ohio market.
- Employment Forecast: This year, employment will grow 1.9 percent as 19,000 positions are created. During 2014, 8,100 jobs were added.
- Construction Forecast: After completing 1 million square feet last year, deliveries will slow to 350,000 square feet in 2015.
- Vacancy Forecast: Limited new inventory and rising space demand will push vacancy down 130 basis points to 5.3 percent. Vacancy fell 90 basis points one year ago.
- Rent Forecast: Average rents will reach $11.93 per square foot, a 2.5 percent increase. Last year, rents climbed 1.7 percent.
- Investment Forecast: Upside opportunities at shopping centers with below market rents will arise this year as tightening conditions put upward pressure on rents and NOI growth.

Market Forecast | Employment: 1.9% ▲ | Construction: 650K ▼ | Vacancy: 130 bps ▼ | Asking Rents: 2.5% ▲

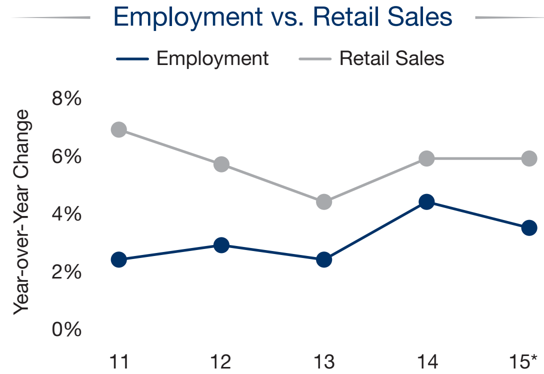
Vacancies Hit 10-Year Low as Retailers Target Burgeoning Dallas/Fort Worth Market

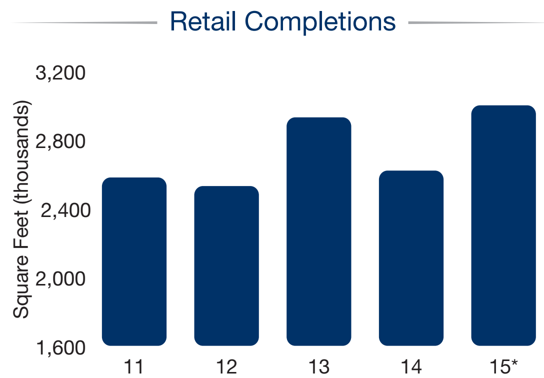
Dallas/Fort Worth retail vacancy ended 2014 at a 10-year low and will tighten further as tenant demand remains elevated and new supply comes online largely pre-leased. Nebraska Furniture Mart's sprawling showroom alone will account for 19 percent of this year's completions, while Wal-Mart Supercenters and grocery chains including Kroger, Wal-Mart Neighborhood Market, The Fresh Market, Sprouts and Trader Joe's comprise another 38 percent of the total. In Dallas, retail development is concentrated outside of Interstate 635, following the path of corporate and residential development along the Dallas North Tollway and North Central Expressway. In Richardson's Cityline development, the site of State Farm and Raytheon's new campuses, construction is underway on a Whole Foods-anchored center, in addition to a hotel and sizable apartment complex. Along the Dallas North Tollway in Frisco, multiple mixed-use projects are in the works. Plans for Frisco Station, which surrounds the Cowboys' new headquarters, call for up to 40 acres of retail development, while the nearby Wade Park project is planned for up to 600,000 square feet of retail space. In Fort Worth, this year's deliveries will be focused in Southlake, Grapevine and the greater Mid-Cities area, though a few grocery stores are underway or planned in the Central submarket.

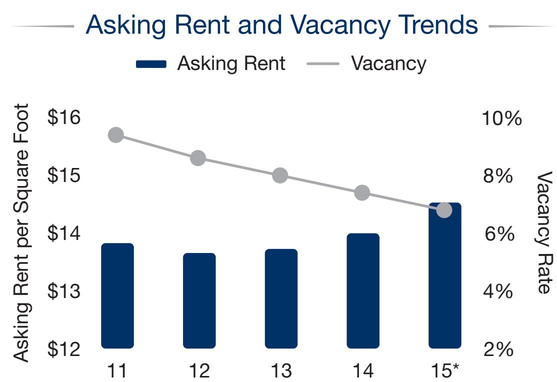
The investment climate will remain highly competitive this year as buyer demand outstrips for-sale inventory. Similar to 2014, private investors, predominantly from Texas, will account for the largest share of transactions. Institutional and international capital flows should rise, though, as positive employment and performance trends offset investors' concerns regarding low oil prices. In fact, many investors expect lower energy prices to elevate consumer spending. The influx of capital, coupled with low interest rates, should help hold cap rates near historically low levels. Overall, single-tenant cap rates compressed roughly 30 basis points last year to 6.7 percent, while multi-tenant cap rates dipped into the mid-7 percent range.

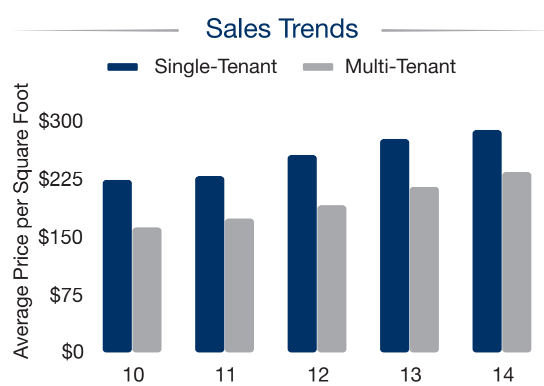
2015 Market Outlook

- **2015 NRI Rank: 12, Up 1 Place.** Healthy retail sales growth will result in strong operational gains, boosting the Metroplex one spot in the NRI.
- **Employment Forecast:** Payrolls will rise 3.5 percent in 2015 with the addition of 113,900 positions. During 2014, payrolls grew 4.4 percent.
- **Construction Forecast:** Completions will rise moderately in 2015 but, at 3 million square feet, will continue to pale in comparison to 2007 and 2008.
- **Vacancy Forecast:** Vacancy in the Metroplex will improve 60 basis points in 2015 to 6.8 percent. In 2014, vacancy declined 60 basis points.
- **Rent Forecast:** Following a 2.0 percent uptick last year, asking rents will climb another 3.8 percent in 2015 to $14.52 per square foot.
- **Investment Forecast:** Top-quality deals will continue to command notable premiums. Best-of-class fast-food offerings, such as corporate-guaranteed ground leases, currently trade around 4 percent, while newer Walgreens and CVS stores trade in the 5.5 to 5.8 percent range.







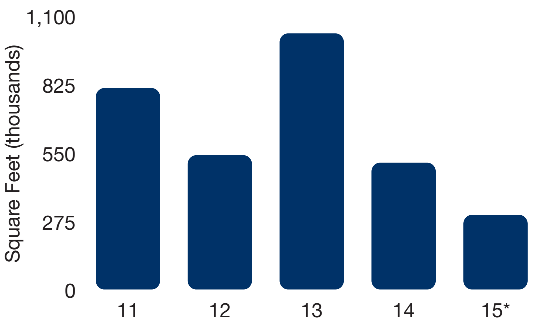


* Forecast

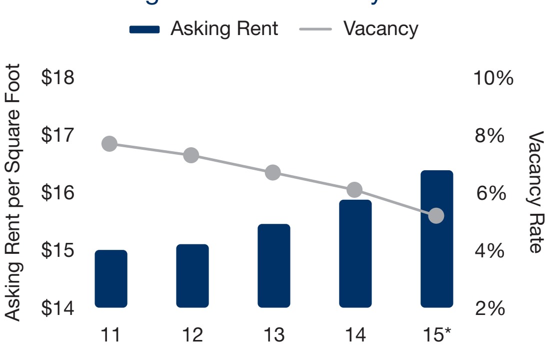
National Retail Index | Up 1 Place | 2015 Rank: 7 | 2014 Rank: 8

Employment vs. Retail Sales

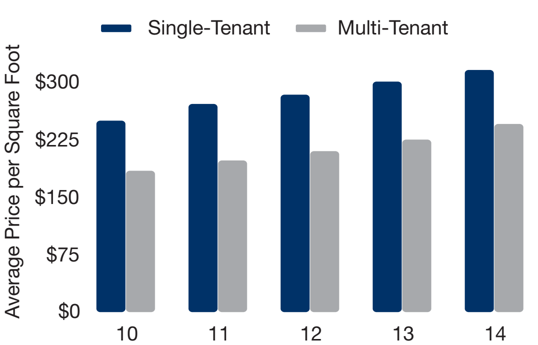
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

A Strong, Diverse Denver Economy Forges Ahead; Investor Demand Outpaces Listings

Wealth effect stemming from robust employment and rising home values will drive retail sales this year. A thriving retail market will attract new tenants and facilitate healthy rent growth. Employers will continue to expand in the metro, pushing total employment to a new high and drawing additional residents to the metro. For instance, last year Lockheed unveiled plans to add 850 high-paying jobs at its Jefferson County facility over the upcoming years. Rising housing demand has lifted the median price of an existing home nearly 60 percent over the past six years. As a result, Denver has become one of the most expensive non-coastal housing markets in the nation. High home values will positively affect how homeowners feel about their financial situation, encouraging retail spending. Retail construction will slow this year as many developers focus on redevelopment projects such as the Southwest Plaza Mall, which will be completed later this year. The largest project underway is the Promenade at Castle Rock, an outer-belt suburban mixed-use development. Retailers are expected to open in the first phase during 2015 with construction wrapping up in 2018. Subdued construction and expanding retailers will drop vacancy to its lowest point in more than nine years, pushing rents higher.

A diverse, growing economy and strengthening operations will attract significant investor interest to the metro this year. Listings will remain limited, creating intense competition for adequately priced assets in the market. Low cap rates and heightened investor demand will draw many sellers off the fence, increasing transaction velocity. Grocery-anchored centers and properties containing necessity-based retailers will garner the strongest interest from investors. Single-tenant properties are also sought after, with cap rates for these assets often dipping below 6 percent for national brands with long-term leases. For higher first-year returns, buyers will look to smaller, less-management-intensive strip centers with a handful of tenants.

2015 Market Outlook

- **2015 NRI Rank: 7, Up 1 Place.** Denver's employment and occupancy gains boosted the market up one spot in the Index.
- **Employment Forecast:** Hiring will expand 3.3 percent this year as employers add 45,000 workers to payrolls. Last year, 43,600 positions were created in the metro.
- **Construction Forecast:** After opening 510,000 square feet of retail space last year, deliveries will ebb as developers slow the pace of completions in 2015 to 300,000 square feet.
- **Vacancy Forecast:** Strong tenant demand and limited construction will facilitate a 90-basis-point decline in vacancy this year to 5.2 percent. The rate retreated 60 basis points in 2014.
- **Rent Forecast:** Average asking rents will rise 3.2 percent in 2015 to $16.38 per square foot, following a 2.7 percent increase last year.
- **Investment Forecast:** Higher prices in the core will motivate local buyers to trade into more affordable assets in the cities surrounding Denver.

Market Forecast | Employment: 3.3% ▲ | Construction: 210K ▼ | Vacancy: 90 bps ▼ | Asking Rents: 3.2% ▲

Revitalized Neighborhoods Spark Retailer Interest; Investors Target Redevelopment Opportunities

As Detroit's economic outlook brightens, numerous redevelopment opportunities are attracting retailers to the metro. Meijer, for one, is opening a new store at the former Redford High School site, and refurbished residential and office buildings downtown and Midtown are lifting demand for retail amenities. This trend will intensify as the expanded Cobo Center lures more visitors and construction on the hockey arena, surrounding entertainment district and light rail bring additional workers into the area. In the suburbs, a lack of competitive construction amid rising demand from retailers will tighten vacancy during 2015; however, larger improvements will be hindered by store closings in some submarkets. Target and Macy's are two retailers that will shutter in the struggling Northland mall this year, and the future of the property, which is in receivership, is uncertain. Overall, vacancy in the metro will tighten in the quarters ahead, pushing rent growth to the highest level in more than five years.

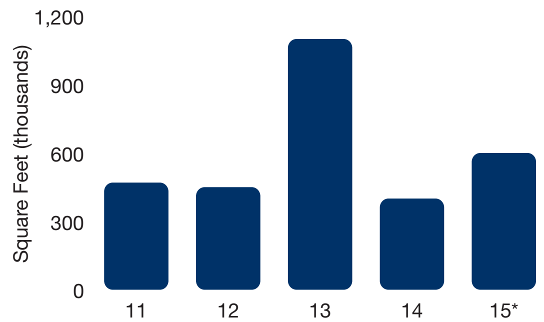
Lower entry costs and higher returns are drawing investors to the metro, generating intense buyer interest, while rising property values are motivating more owners to sell. Demand still outpaces available listings, however, due in part to a perceived lack of reinvestment opportunities. Strong demographics and improving operations are enticing investors to consider assets in Oakland County and nearby Ann Arbor, where shadow-anchored properties near big-box and grocery-anchored centers are especially sought after. In Detroit, redeveloped assets in the downtown and Midtown areas are attracting the attention of national and regional buyers seeking stabilized properties. Assets with long-term leases to quality tenants are targeted.

2015 Market Outlook

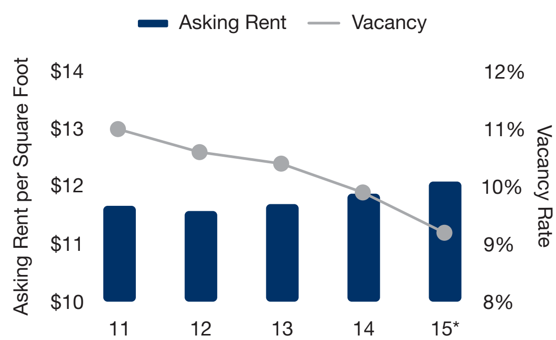
- **2015 NRI Rank: 46, Down 1 Place.** The Motor City occupies the final spot in the NRI with high overall vacancy and a lackluster job-growth forecast.
- **Employment Forecast:** After generating 20,000 jobs last year, employers will step up the pace of hiring in 2015 with the addition of 25,000 workers, a 1.3 percent increase in payrolls.
- **Construction Forecast:** Building on last year's completion of 400,000 square feet, developers will finalize 600,000 square feet this year, a 0.3 percent advance in inventory.
- **Vacancy Forecast:** The improving local economy will boost retail demand. As a result, vacancy will drop 70 basis points to 9.2 percent in 2015. Last year, vacancy fell 50 basis points.
- **Rent Forecast:** Operators will lift asking rents 1.8 percent to an average of $12.08 per square foot in 2015. In the prior annual period, rents rose 1.5 percent.
- **Investment Forecast:** Redevelopment opportunities are proliferating throughout the metro as strengthening operations and rising property values make more projects feasible. Properties along the M-1 light-rail line will garner interest.

Employment vs. Retail Sales

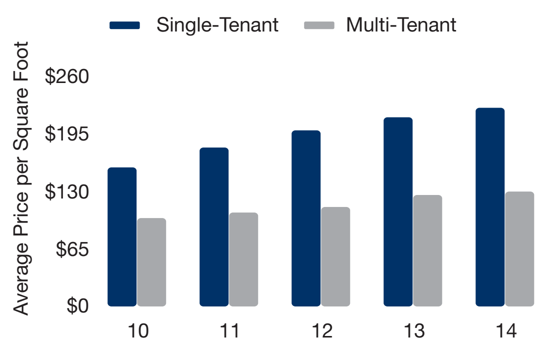
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends

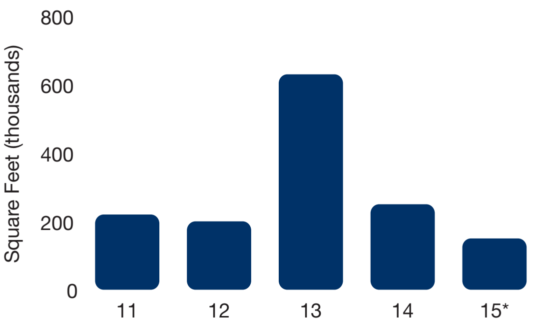


* Forecast

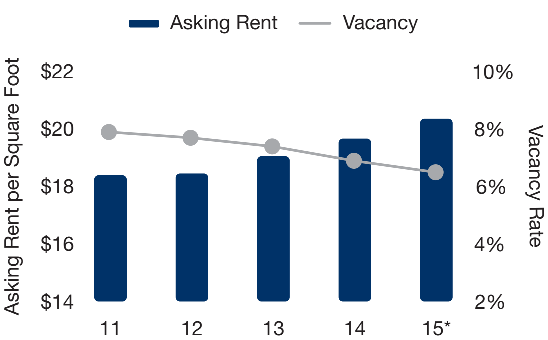
National Retail Index | Up 4 Places | 2015 Rank: 28 | 2014 Rank: 32

Employment vs. Retail Sales

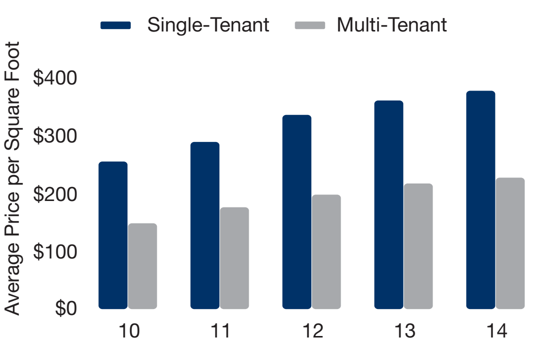
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

Bright Tourism Outlook
Attracts Retailers, Investors to Broward County

Steady employment gains and a vibrant tourism industry in Broward County will bode well for retail property operations in 2015. Employment in the metro will rise above the pre-recession peak by year end, boosting retail sales in the area. In addition, more than 14 million visitors are expected to travel to the county this year, crowding hotels and increasing sales at tourism-related businesses. As a result, several retailers are expanding, including Whole Foods Market, which will open two locations in the county. Discount retailers Stein Mart, T.J. Maxx and Bealls Outlet are also adding stores in the metro, signing leases from 20,000 to 25,000 square feet each. Though demand is rising, the amount of new retail square footage opening will fall, allowing the net absorption of vacant space to lower vacancy and lift market rental rates.

Local private investors and foreign buyers from Central and South America will continue targeting retail assets in the market this year. Single-tenants assets with a strong, corporate-backed tenant are attracting foreign capital, as are grocery-anchored centers in coastal areas of the county. Local buyers, however, are searching the metro for quick-service and casual-dining restaurants, as well as drugstores and auto-repair stores. In addition, improving property operations and strengthening investor demand will continue to push property values above previous peaks. Owners who have held onto assets purchased before the economic downturn will be given the opportunity to realize profits. Meanwhile, investors who acquired properties during the recession have been busy bringing property operations up to market and will be looking to cash out in order to take advantage of other opportunities.

2015 Market Outlook

- **2015 NRI Rank: 28, Up 4 Places.** Fort Lauderdale took a step closer to the top half of the ranking this year as retail sales and employment growth forecasts for the metro are among the top 10 for all markets.
- **Employment Forecast:** Employers will add 25,000 workers to payrolls during 2015, an annual increase of 3.2 percent. Last year, approximately 28,500 jobs were added in the county, rising 3.8 percent year over year.
- **Construction Forecast:** Completions will fall in Broward County this year as builders bring 150,000 square of retail space online. Developers completed 260,000 square feet of space during 2014.
- **Vacancy Forecast:** Vacancy will fall for the sixth consecutive year as demand for space rises. By the end of 2015, vacancy will reach 6.5 percent, down 40 basis points from last year. In 2014, vacancy fell 50 basis points.
- **Rent Forecast:** Rent growth will remain strong this year and asking rents will rise to $20.34 per square foot, increasing 3.5 percent in 12 months. In 2014, average asking rents grew 3.2 percent.
- **Investment Forecast:** Construction commenced on the All Aboard Florida station in downtown Fort Lauderdale late last year. The project will be completed early next year and assets nearby will draw investor interest as convenience-based retailers seek space.

Market Forecast | Employment: 3.2% ▲ | Construction: 110K ▼ | Vacancy: 40 bps ▼ | Asking Rents: 3.5% ▲

Houston Retail Well Positioned to Withstand Moderating Economic Growth and Oil Price Volatility

Houston's retail market remains poised for improvement this year despite the recent slide in oil prices, thanks largely to constrained development. Retail deliveries will rise in 2015, but at 2.7 million square feet, they will remain 75 percent below the market's peak in 2008. In recent quarters, soaring land prices have pushed traditional shopping center construction into Houston's fast-growing perimeter suburbs, such as Cypress, Katy and Cinco Ranch to the northwest/west, Sugarland/Richmond to the southwest, and Pearland and Clear Lake/League City to the south/southeast. Setting aside the 550,000-square-foot expansion to the Baybrook Mall in Friendswood, major discount retailers and dominant grocery chains remain the driving force behind suburban retail construction. In parts of the metro where land is scarce and more costly, new retail space is concentrated in mixed-use projects. In The Woodlands/Spring area, home to ExxonMobil's new campus, Whole Foods and Pier 1 will soon open at Hughes Landing, a 66-acre development that will feature multiple Class A office buildings, a hotel and luxury apartments. In the Inner Loop submarket, where vacancy hovers in the low-4 percent range, the River Oaks District will headline this year's deliveries, adding 250,000 square feet of luxury retail space.

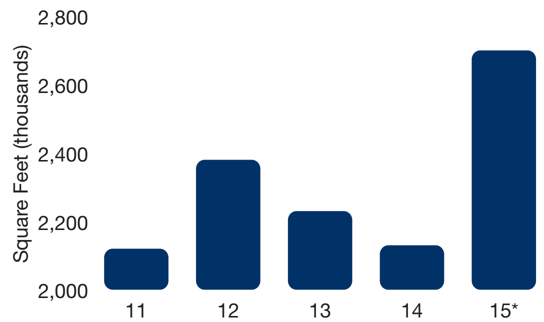
Many investors will overlook the drag of low oil prices on Houston's economy this year as development remains measured and still-favorable demographics support retailer demand. The lag in construction has, however, hampered transaction velocity, particularly with regard to high-quality shopping centers. Over the past year, cap rates in the multi-tenant sector declined approximately 20 basis points to 8 percent, though more significant compression was noted for well-located centers anchored by a dominant grocery chain or strips with multiple credit tenants. Such deals, though few and far between, traded at cap rates as low as 6 percent. Single-tenant cap rates, on the other hand, average 7 percent, but best-of-class assets can trade sub-5 percent.

2015 Market Outlook

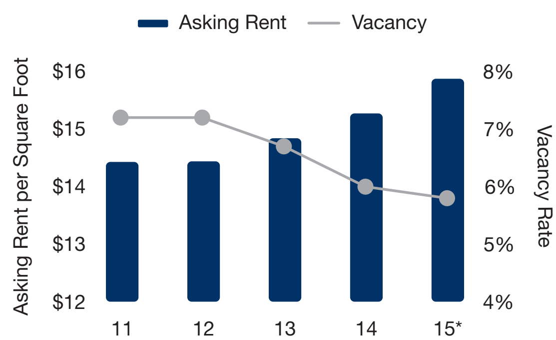
- **2015 NRI Rank: 6, Up 3 Places.** Despite the threat lower energy prices pose, retail operations will remain healthy, justifying Houston's three-spot rise.
- **Employment Forecast:** Low oil prices will curb hiring in 2015. For the year, payrolls will rise 2.0 percent, or by 60,000 jobs, following a gain of 4.3 percent in 2014.
- **Construction Forecast:** Retail completions will total 2.7 million square feet in 2015, up from 2.1 million square feet last year.
- **Vacancy Forecast:** After tightening 70 basis points in 2014, Houston's vacancy rate will decline another 20 basis points, to 5.8 percent, in 2015.
- **Rent Forecast:** Retail asking rents will rise 3.9 percent in 2015 to $15.86 per square foot. In 2014, rents in the metro advanced 2.9 percent.
- **Investment Forecast:** Healthcare providers are playing an increased role in local retail leasing, which not only has expanded the pool of potential tenants but has also attracted more investors to the marketplace.

Employment vs. Retail Sales

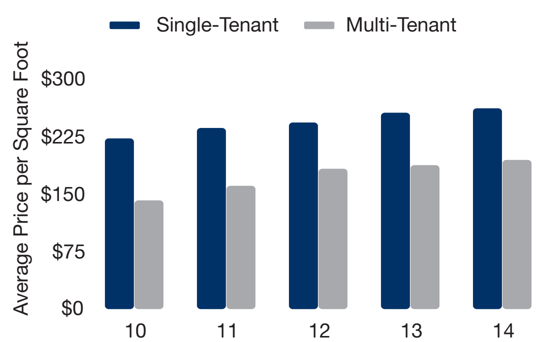
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



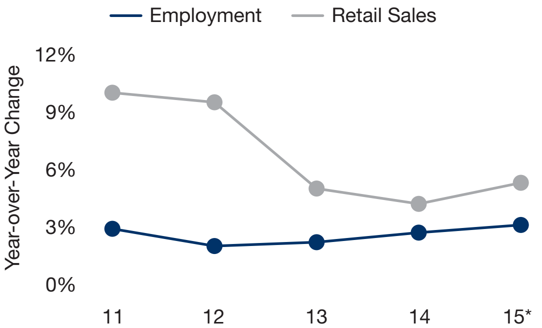
* Forecast

Employment: 2.0% ▲ Construction: 600K ▲ Vacancy: 20 bps ▼ Asking Rents: 3.9% ▲

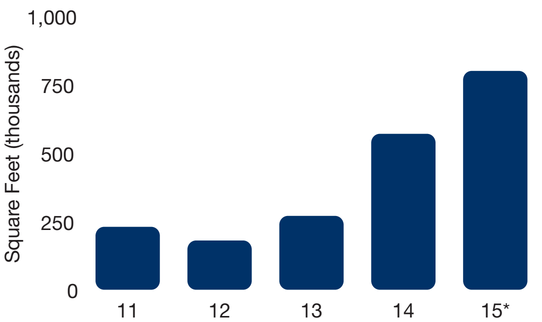
Market Forecast

National Retail Index | Down 3 Places | 2015 Rank: 41 | 2014 Rank: 38

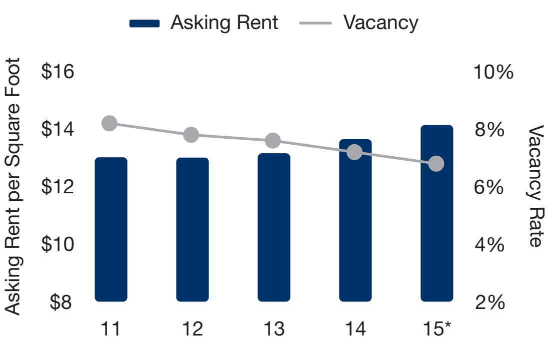
Employment vs. Retail Sales



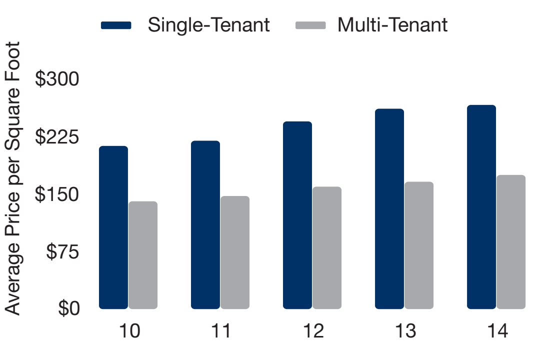
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

Rising Job Gains Support Retailer Expansion, Pushing Vacancies to Pre-Recession Levels

Solid employment gains and a relatively affordable cost of living are attracting residents to Indianapolis and boosting retail sales. During 2015, job growth will reach a 15-year peak, with the largest expansion in the high-paying professional and business services sector. Payroll gains will support the formation of more than 40,000 new households during the coming five years. The added demand for housing will increase retail spending, especially in household goods and services, and generate the need for new retail space. The rise in tenant demand has activated developers. The largest project set for delivery in 2015 is the Bridges Shopping Center in Carmel with Market District grocery anchoring the 250,000-square-foot center. Cabela's and Wal-Mart will also open stores this year in Noblesville and Greenwood, respectively. An uptick in demand for existing space coupled with strong pre-leasing activity in new construction will drop vacancy to the lowest level in more than eight years, putting upward pressure on rents.

The increased availability of capital is drawing more private investors off the sidelines and into Indianapolis' retail market. Many are targeting triple-net, single-tenant assets with cap rates that begin in the low- to mid-6 percent range for a well-located property with a national credit tenant. Initial yields for these properties are higher than those available in many larger markets, which is attracting out-of-state investors, especially from the West Coast. Assets along major transportation corridors in Indianapolis and Carmel are especially sought after, as are properties in the high-growth areas of Fishers, Noblesville, Greenwood and Plainfield. As competition intensifies for the limited number of single-tenant properties available, more buyers are willing to expand their portfolio parameters. Small strip centers with regional and local tenants farther from prime locations will trade with initial yields 100 to 200 basis points higher than their single-tenant counterparts.

2015 Market Outlook

- **2015 NRI Rank: 41, Down 3 Places.** Rising construction is limiting occupancy improvements, resulting in a three-position slip in the NRI.
- **Employment Forecast:** This year, employers will create 30,000 jobs, a 3.1 percent increase. During 2014, payrolls grew 2.7 percent.
- **Construction Forecast:** Construction activity is picking up. In 2015, 800,000 square feet will come online, a 0.9 percent rise in inventory. Last year, 600,000 square feet was delivered.
- **Vacancy Forecast:** Strengthening tenant demand will offset the increase in inventory, moving vacancy down 40 basis points to 6.8 percent by year end. During 2014, vacancy also contracted 40 basis points.
- **Rent Forecast:** Asking rents will climb 3.6 percent in 2015 to $14.12 per square foot. Last year, rents advanced 3.7 percent.
- **Investment Forecast:** With the cost of borrowing still low and many CMBS loans coming due this year, owners may want to re-evaluate their holdings to take advantage of current market conditions.

Market Forecast | Employment: 3.1% ▲ | Construction: 200K ▲ | Vacancy: 40 bps ▼ | Asking Rents: 3.6% ▲

Late Recovery Draws Investors Seeking Upside To Jacksonville Retail Assets

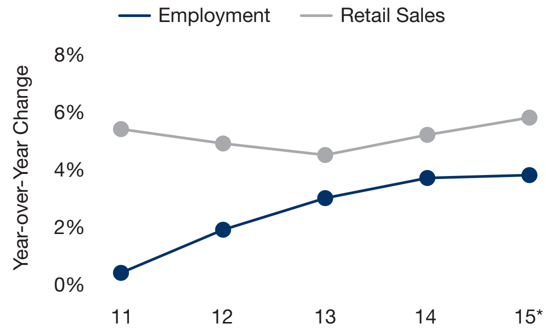
Jacksonville retail owners will record stronger operational improvements in 2015, riding a growing local economy and benefiting from heightened retailer interest. Several industries are expanding in the metro, and late last year employers recovered all of the jobs lost during the recession. As a result, buyer confidence is returning and retail sales are anticipated to grow more than 6 percent this year, contributing directly to strengthening retailer interest in the market. In fact, several retailers are expanding footprints this year. Discount retailers T.J. Maxx and Bealls Outlet have signed leases for more than 20,000 square feet each and will open in 2015. Meanwhile, other retailers are building new spaces and moving throughout the metro. Belk will close its store at Regency Square Mall to occupy a new 95,000-square-foot location nearby. More than 700,000 square feet of retail space will be absorbed in the metro this year, and developers will remain cautious when considering construction projects. As supply growth stays limited, rental rates will tick up as the market average adjusts.

The Jacksonville retail market will continue to grow in popularity among investors during 2015 as operational improvements accelerate and competition increases in other Florida markets. A number of out-of-state investors, notably from higher-priced markets such as California and the Northeast, are targeting Jacksonville retail assets and seeking higher returns when compared with other Florida metros. Meanwhile, local buyers are deploying capital into the market in search of value-add plays at a time when nearby metros provide fewer upside opportunities. Many investors are targeting strip and neighborhood centers in the Southside submarket near St. John's Town Center.

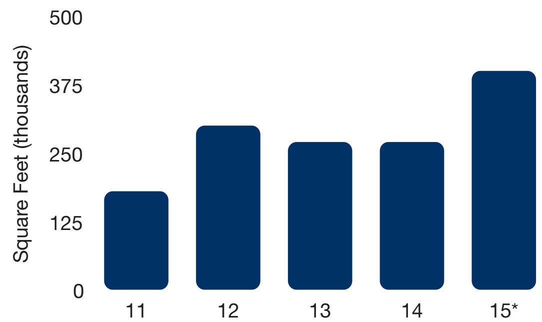
2015 Market Outlook

- **2015 NRI Rank: 34, Up 7 Places.** Jacksonville's huge improvement in the ranking is driven by employment and retail sales improvements.
- **Employment Forecast:** Employers in the metro will add 24,000 workers this year, expanding payrolls 3.8 percent. In 2014, jobs grew by 3.7 percent as 22,800 positions were created.
- **Construction Forecast:** Retail deliveries will rise this year as builders complete 400,000 square feet of space by the end of 2015. Nearly 275,000 square feet of retail space came online last year.
- **Vacancy Forecast:** Demand for retail space is increasing and vacancy will reach 7.6 percent by year end, falling 50 basis points on net absorption of 705,000 square feet. Vacancy dipped 20 basis points in 2014.
- **Rent Forecast:** Average asking rents will advance 3.6 percent to $13.38 per square foot by the end of 2015. Last year, rents ticked up 2.3 percent.
- **Investment Forecast:** Jacksonville's late recovery is drawing investors in search of value-add plays. Upside potential can be significant and much of the improvement will be realized in the next couple of years.

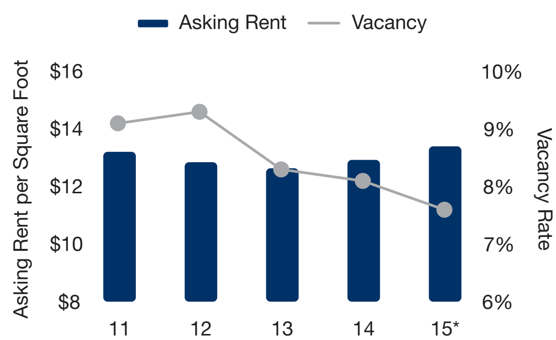
Employment vs. Retail Sales



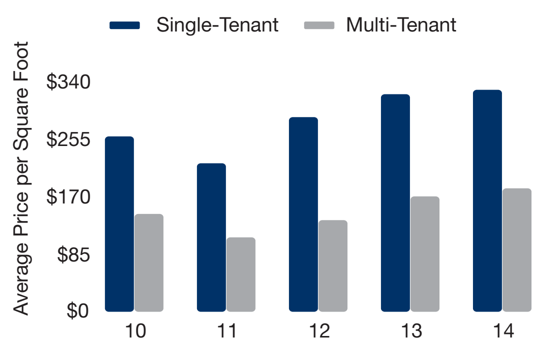
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



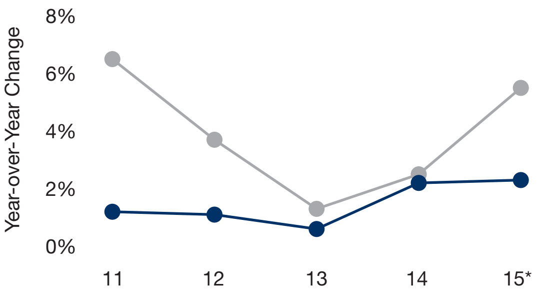
* Forecast

Employment: 3.8% ▲ Construction: 125K ▲ Vacancy: 50 bps ▼ Asking Rents: 3.6% ▲ Market Forecast

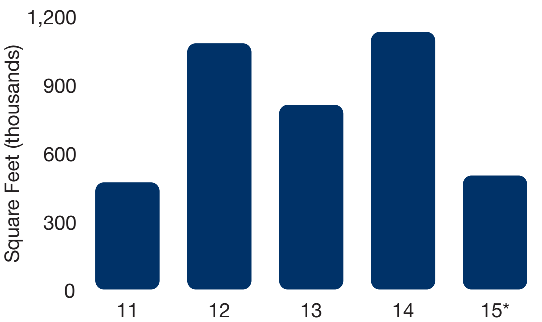
Marcus & Millichap

National Retail Index | Up 1 Place | 2015 Rank: 42 | 2014 Rank: 43

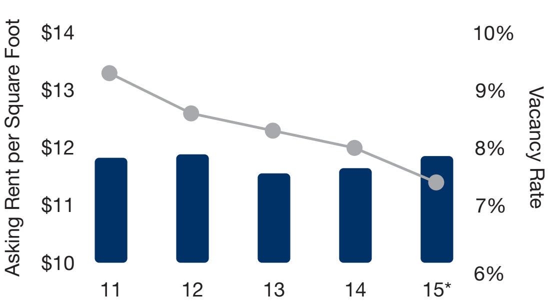
Employment vs. Retail Sales



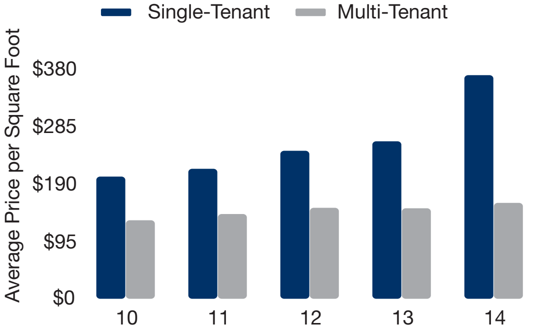
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

Accelerating Retail Sales Lift Asset Performance; Investors Increasingly Active

Employment growth will be steady this year, with amplified job gains buoying housing and retail sales and supporting improvements in retail operations. Among the firms that are hiring, Cerner Corp. will add 16,000 positions over time at its Three Trails Campus at the former Bannister Mall site in south Kansas City. Nearby on Ward Parkway, engineering firm Burns & McDonnell, which completed a new headquarters last year, will add 2,100 employees in the coming years. Job growth is boosting household formation in the metro and generating demand for new shopping center space. Developers in Johnson County are reacting by constructing both single-tenant buildings and multi-tenant centers. The largest project under construction is the Corbin Park regional mall in the southern Johnson County suburb of Overland Park, which will supplement its impressive roster of high-credit lessees with the delivery of 220,000-square-foot Scheels All Sports. Nearby, the BluHawk shopping center will also add square footage. To the north of the metro, on the Missouri side of Kansas City, the Shoal Creek Village expansion will provide shopping and entertainment to local residents. While completion of multi-tenant retail centers will tick higher, single-tenant construction will decline this year, cutting the overall square footage delivered from last year's total. The curbed amount of new space will support lower vacancy and higher rents in the metro.

Investors are turning to the Kansas City metro for strong demographics and a relatively stable economy, with more yield potential from investment properties than the coasts. Out-of-town buyers are ready to pay a premium in Johnson County suburbs such as Overland Park, Lenexa, Olathe and Kansas City, as well as Independence in Missouri, where household incomes are generally higher than average. Downtown redevelopment will also draw investors to the Power & Light District. Throughout the metro, single-tenant properties can trade in the 7 percent cap range, while multi-tenant strip centers range from 8 percent and higher.

2015 Market Outlook

- **2015 NRI Rank: 42, Up 1 Place.** Slowly shrinking vacancy prevented a larger improvement in the NRI for Kansas City.
- **Employment Forecast:** Job growth will be strong as 24,000 new positions are created, a 2.3 percent gain. Last year payrolls ticked up 2.2 percent.
- **Construction Forecast:** Developers will provide 500,000 square feet in deliveries in 2015, less than half of last year's 1.1 million square feet.
- **Vacancy Forecast:** The vacancy rate will drop 60 basis points to 7.4 percent, a new post-recession low. This builds on last year's 30-basis-point drop to 8.0 percent, as deliveries fall.
- **Rent Forecast:** Average asking rent will grow 1.8 percent to $11.85 per square foot, up from the 0.8 percent gain in 2014.
- **Investment Forecast:** Investors will scour the metro for sites near residential and retail expansion, especially in downtown and to the south.

Market Forecast | Employment: 2.3% ▲ | Construction: 550K ▼ | Vacancy: 60 bps ▼ | Asking Rents: 1.8% ▲

Conference and Tourism Revival Underpins Strengthened Retail Operations

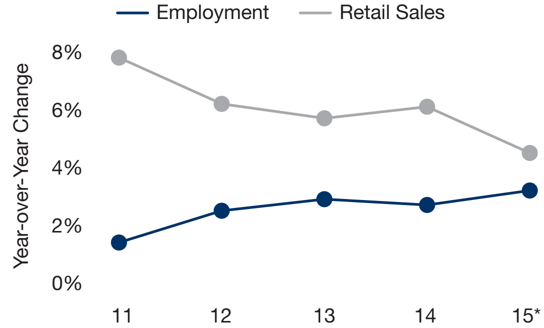
Local economic development initiatives and business growth will spur overall job expansion across the Las Vegas metro. Although hospitality, gaming and retail are a big draw to the area, conferences also bring in thousands of visitors. The city has plans for a 1 million-square-foot expansion and renovation of the Las Vegas Convention Center south of the Strip, generating jobs and demand for retail and places to eat. Plans for entertainment expansions along the Strip include the Grand Bazaar Shops at Bally's Las Vegas. Just north of the highly trafficked gaming and entertainment venues on the Strip, The Downtown project continues to redevelop the core, generating jobs after bringing 300 companies, restaurants and startups to the area. North of the Strip and slightly west of downtown, Las Vegas North Premium Outlets will expand with 140,000 square feet featuring 34 name brands such as a two-story Saks Fifth Avenue Off 5th, Neiman Marcus Last Call and The Cheesecake Factory. Farther west of the Las Vegas core, the 22,000-acre mixed-use Downtown Summerlin will provide residents a unique shopping and dining experience. Just outside Summerlin, in northwest Las Vegas, Tivoli Village at Queensridge currently has 225,000 square feet under construction. The second phase of the project is underway and set to include retail and a boutique hotel, with leases signed by H&M and Restoration Hardware. As the economy in Las Vegas diversifies, retail demand will outpace new construction, allowing vacancies to dip and the average market rental rate to rise.

Retail transaction velocity will remain strong this year as investors continue to seek assets in the metro due to the area's growth potential. The average price per square foot has been steadily increasing, while cap rates compressed over the past five years, pointing to restoring operations. Owners of value-add properties can obtain cap rates near 9 percent, while stabilized properties with national tenants can trade in the 5 to 6 percent range. Buyer interest will remain strong throughout Las Vegas, near economic engines such as universities, new mixed-use developments and the Strip.

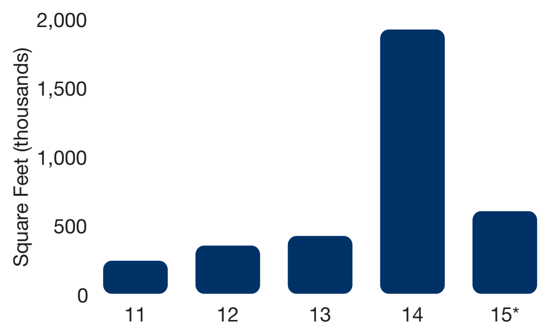
2015 Market Outlook

- **2015 NRI Rank: 40, Up 2 Places.** A healthy injection of jobs into the Las Vegas market supported a two-position improvement in the ranking.
- **Employment Forecast:** Job growth of 3.2 percent will add 28,000 payrolls, a fifth straight year of gains.
- **Construction Forecast:** Completions will decrease to 600,000 square feet from last year's 2 million, which was largely attributed to the Downtown Summerlin shopping center.
- **Vacancy Forecast:** The metrowide vacancy rate will drop 70 basis points to 9.7 percent after falling 70 points last year.
- **Rent Forecast:** Average rent growth will be 2.3 percent, amounting to $16.20 per square foot, up from 1.6 percent growth in 2014.
- **Investment Forecast:** Investors will scour this metro for upside potential as it ramps up for sizable improvement.

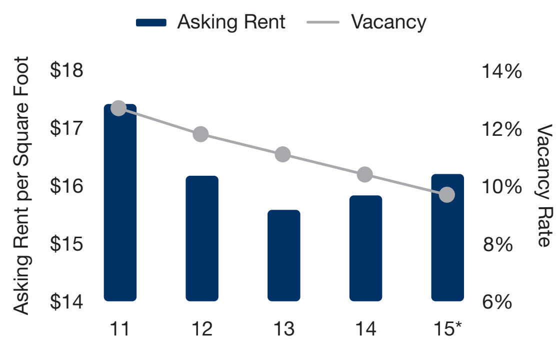
Employment vs. Retail Sales



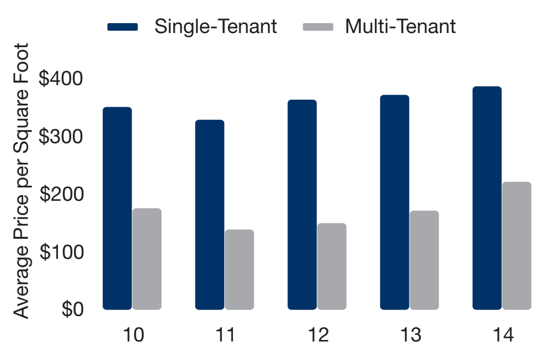
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

MSA Name	Vacancy (Year-End)[2]				Asking Rent ($/Sq. Ft., NNN)[2]				Completions (000s of Sq. Ft.)[2]			
	12	13	14	15*	12	13	14	15*	12	13	14	15*
Atlanta	10.9%	10.1%	9.1%	7.9%	$13.19	$13.47	$13.46	$13.72	700	1,200	1,830	1,600
Austin	5.9%	5.3%	5.1%	4.5%	$18.05	$17.75	$18.25	$18.89	800	580	450	500
Baltimore	5.9%	5.6%	5.0%	4.4%	$18.29	$18.89	$18.63	$19.34	830	460	360	900
Boston	4.3%	4.1%	3.7%	3.8%	$17.91	$18.44	$18.08	$18.28	1,360	1,070	1,290	2,900
Charlotte	8.0%	7.8%	7.1%	6.5%	$14.08	$13.49	$14.53	$15.26	1,250	1,010	880	400
Chicago	8.6%	9.5%	8.6%	7.7%	$16.67	$17.09	$17.16	$17.47	1,060	2,880	2,780	3,000
Cincinnati	9.4%	8.5%	7.9%	6.6%	$10.00	$10.60	$11.10	$11.60	220	380	100	900
Cleveland	9.7%	9.6%	9.0%	8.6%	$10.71	$10.85	$10.87	$10.96	690	590	280	500
Columbus	8.4%	7.5%	6.6%	5.3%	$11.43	$11.44	$11.64	$11.93	380	730	1,080	350
Dallas/Fort Worth	8.6%	8.0%	7.4%	6.8%	$13.65	$13.72	$13.99	$14.52	2,530	2,930	2,620	3,000
Denver	7.3%	6.7%	6.1%	5.2%	$15.10	$15.45	$15.87	$16.38	540	1,030	510	300
Detroit	10.6%	10.4%	9.9%	9.2%	$11.57	$11.69	$11.87	$12.08	450	1,100	400	600
Fort Lauderdale	7.7%	7.4%	6.9%	6.5%	$18.44	$19.04	$19.65	$20.34	200	630	250	150
Houston	7.2%	6.7%	6.0%	5.8%	$14.43	$14.83	$15.26	$15.86	2,380	2,230	2,130	2,700
Indianapolis	7.8%	7.6%	7.2%	6.8%	$12.99	$13.14	$13.63	$14.12	180	270	570	800
Jacksonville	9.3%	8.3%	8.1%	7.6%	$12.83	$12.62	$12.91	$13.38	300	270	270	400
Kansas City	8.6%	8.3%	8.0%	7.4%	$11.88	$11.55	$11.64	$11.85	1,080	810	1,130	500
Las Vegas	11.8%	11.1%	10.4%	9.7%	$16.17	$15.58	$15.83	$16.20	350	420	1,920	600
Los Angeles	5.7%	5.3%	4.9%	4.5%	$25.06	$25.23	$26.46	$27.57	940	770	950	1,800
Louisville	7.5%	7.2%	6.3%	5.8%	$11.53	$11.74	$11.75	$11.90	110	130	620	300
Miami	4.1%	4.1%	3.8%	3.6%	$27.86	$27.58	$29.29	$30.03	410	470	950	700
Milwaukee	8.2%	7.9%	7.3%	6.8%	$12.11	$11.56	$11.66	$11.80	830	710	360	1,200
Minneapolis-St. Paul	5.7%	5.4%	5.7%	5.4%	$13.96	$13.56	$13.84	$14.20	1,080	690	940	800
Nashville	8.5%	8.0%	6.9%	6.2%	$13.81	$14.11	$14.74	$15.33	490	370	300	700
New Haven	6.1%	5.5%	5.3%	4.9%	$19.01	$19.52	$19.88	$20.48	280	120	70	400
New York City	4.4%	4.2%	4.1%	3.9%	$46.60	$52.76	$53.00	$55.10	790	780	1,360	2,500
Northern New Jersey	6.1%	5.4%	4.9%	4.4%	$21.86	$21.99	$22.88	$23.90	220	330	480	1,200
Oakland	5.6%	5.0%	4.2%	3.6%	$21.81	$21.88	$22.76	$23.92	450	350	100	450
Orange County	6.0%	5.5%	4.9%	4.5%	$22.95	$22.79	$24.37	$25.61	360	160	270	1,100
Orlando	7.5%	7.2%	6.8%	6.2%	$15.16	$15.35	$15.43	$15.80	460	670	610	900
Philadelphia	6.9%	6.9%	6.6%	6.3%	$15.50	$15.44	$16.19	$16.92	1,270	1,010	280	1,300
Phoenix	12.2%	11.2%	10.5%	9.5%	$14.59	$14.42	$14.35	$14.65	980	980	560	400
Pittsburgh	5.3%	4.4%	4.2%	3.6%	$12.09	$12.30	$12.43	$12.62	360	680	660	300
Portland	5.7%	5.4%	5.1%	4.7%	$16.22	$16.48	$16.87	$17.33	350	210	760	800
Riverside-San Bernardino	10.1%	9.6%	9.2%	8.6%	$16.34	$15.79	$15.83	$15.97	840	890	630	300
Sacramento	11.1%	10.3%	9.4%	8.2%	$16.37	$15.78	$16.17	$16.60	260	610	540	400
Salt Lake City	5.1%	4.7%	4.6%	4.3%	$12.87	$12.79	$12.96	$13.15	2,030	410	720	600
San Antonio	6.4%	6.1%	5.9%	5.2%	$14.59	$14.90	$15.00	$15.45	880	1,180	1,620	300
San Diego	5.1%	4.9%	4.2%	3.6%	$21.23	$21.62	$22.53	$23.52	590	410	350	350
San Francisco	3.1%	2.6%	2.4%	2.2%	$29.59	$31.07	$34.84	$37.80	40	80	90	50
San Jose	5.3%	4.7%	3.7%	3.0%	$28.12	$28.93	$30.06	$32.28	150	430	640	500
Seattle-Tacoma	5.9%	6.1%	5.1%	4.8%	$18.32	$18.13	$18.33	$18.61	620	750	420	600
St. Louis	8.0%	7.8%	7.2%	6.5%	$12.20	$12.31	$12.28	$12.40	560	850	320	650
Tampa-St. Petersburg	7.9%	7.7%	6.9%	6.2%	$13.92	$13.86	$13.84	$14.07	670	730	1,770	1,400
Washington, D.C.	5.4%	5.2%	4.9%	4.6%	$23.17	$24.10	$24.77	$25.56	1,470	1,870	1,490	2,000
West Palm Beach	7.0%	6.6%	6.4%	5.9%	$17.70	$17.87	$18.41	$18.78	140	300	870	200
U.S. Metro Total	7.5%	7.1%	6.6%	6.0%	$17.24	$17.55	$17.94	$18.38	35,240	39,230	39,800	47,000

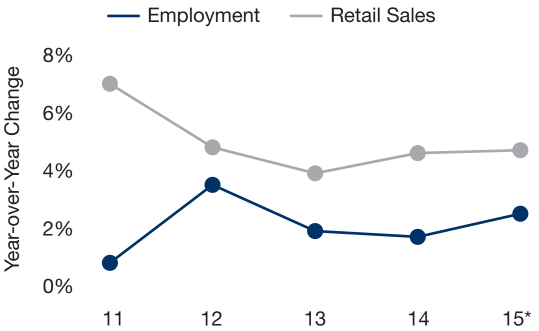
* Forecast [2] See Statistical Summary Note on page 64.

Household Income[2]			Employment Change[2]				Unemployment Rate[2]				MSA Name
13	14	15*	12	13	14	15*	12	13	14	15*	
$55,245	$57,073	$58,940	2.0%	2.7%	2.6%	3.0%	8.5%	7.3%	7.1%	5.7%	Atlanta
$60,454	$63,730	$64,616	4.7%	4.3%	2.8%	3.7%	5.5%	5.0%	4.1%	4.3%	Austin
$67,394	$67,534	$69,847	1.5%	1.5%	1.6%	1.8%	7.2%	6.4%	5.9%	5.3%	Baltimore
$72,869	$75,880	$78,593	1.5%	1.8%	1.9%	1.7%	6.2%	6.4%	5.2%	4.8%	Boston
$53,365	$55,135	$56,916	3.0%	2.6%	2.3%	2.5%	9.0%	7.2%	5.9%	5.4%	Charlotte
$59,890	$60,352	$62,174	1.7%	1.5%	0.9%	1.1%	9.1%	8.8%	6.2%	6.2%	Chicago
$53,173	$53,723	$55,323	1.5%	1.5%	2.1%	2.3%	7.0%	6.8%	4.6%	4.5%	Cincinnati
$48,385	$49,031	$50,660	1.8%	0.4%	1.2%	1.6%	7.4%	7.6%	6.1%	4.7%	Cleveland
$54,634	$55,186	$56,690	3.3%	1.5%	0.8%	1.9%	6.1%	6.2%	4.2%	4.3%	Columbus
$57,853	$60,436	$61,763	2.9%	2.4%	4.4%	3.5%	6.4%	5.9%	4.8%	5.0%	Dallas/Fort Worth
$61,287	$64,441	$66,179	3.5%	3.0%	3.3%	3.3%	7.3%	6.1%	4.0%	3.5%	Denver
$51,058	$52,269	$54,627	2.2%	0.8%	1.1%	1.3%	10.2%	9.0%	7.9%	6.9%	Detroit
$49,838	$51,890	$53,743	2.0%	2.7%	3.8%	3.2%	6.9%	5.4%	4.9%	4.5%	Fort Lauderdale
$56,817	$59,404	$60,984	4.3%	2.8%	4.3%	2.0%	6.4%	5.9%	4.8%	5.3%	Houston
$52,414	$55,470	$57,620	2.0%	2.2%	2.7%	3.1%	7.6%	6.3%	5.3%	5.0%	Indianapolis
$51,064	$52,474	$54,187	1.9%	3.0%	3.7%	3.8%	7.9%	6.2%	5.7%	5.1%	Jacksonville
$55,085	$56,755	$59,040	1.1%	0.6%	2.2%	2.3%	6.6%	5.9%	5.4%	4.3%	Kansas City
$50,157	$52,319	$53,747	2.5%	2.9%	2.7%	3.2%	10.9%	9.3%	7.0%	6.3%	Las Vegas
$54,156	$55,058	$57,440	3.5%	1.9%	1.7%	2.5%	10.4%	9.4%	8.0%	7.1%	Los Angeles
$49,734	$53,402	$55,750	3.8%	1.5%	2.3%	2.4%	7.9%	7.4%	5.5%	5.1%	Louisville
$41,561	$42,898	$44,413	2.6%	3.3%	2.8%	3.2%	9.3%	7.4%	6.5%	5.3%	Miami
$51,815	$52,583	$54,463	1.5%	1.4%	2.1%	2.3%	7.4%	7.1%	5.8%	4.7%	Milwaukee
$67,500	$66,239	$67,522	1.2%	2.3%	1.8%	1.6%	5.3%	4.5%	3.5%	3.4%	Minneapolis-St. Paul
$52,657	$57,099	$59,026	3.2%	3.0%	3.1%	3.1%	6.5%	6.2%	5.4%	4.7%	Nashville
$69,741	$70,727	$73,489	1.3%	1.3%	1.7%	1.5%	8.2%	7.5%	6.4%	5.8%	New Haven
$54,789	$56,102	$57,447	2.5%	2.0%	2.3%	2.3%	8.9%	7.8%	6.4%	6.1%	New York City
$71,669	$ 73,235	$75,470	0.6%	1.5%	0.8%	1.0%	9.1%	7.6%	6.7%	6.4%	Northern New Jersey
$74,109	$76,368	$79,530	4.3%	2.4%	2.4%	2.8%	8.4%	6.9%	5.7%	5.0%	Oakland
$73,406	$75,429	$78,579	3.7%	2.0%	2.3%	2.3%	7.1%	5.9%	5.0%	4.9%	Orange County
$46,830	$47,944	$49,485	2.9%	3.4%	4.3%	3.4%	8.1%	6.1%	5.5%	4.9%	Orlando
$60,495	$60,967	$63,114	1.1%	0.5%	0.7%	0.9%	8.4%	7.2%	5.7%	5.7%	Philadelphia
$52,199	$53,530	$56,252	3.0%	2.8%	2.7%	2.6%	7.1%	6.6%	5.9%	4.4%	Phoenix
$50,446	$51,566	$53,359	0.4%	-0.1%	1.1%	0.8%	7.3%	6.4%	4.9%	4.9%	Pittsburgh
$58,206	$60,124	$62,825	2.1%	2.5%	3.1%	3.2%	7.9%	6.9%	6.5%	6.2%	Portland
$53,160	$53,596	$55,473	4.3%	3.7%	1.9%	2.8%	11.3%	9.6%	8.1%	7.5%	Riverside-San Bernardino
$56,893	$57,859	$60,419	3.0%	2.7%	2.0%	2.2%	9.7%	8.1%	6.7%	5.9%	Sacramento
$63,068	$65,159	$67,159	4.1%	2.1%	3.1%	3.3%	4.8%	3.9%	3.5%	3.6%	Salt Lake City
$50,676	$53,212	$53,875	3.0%	2.2%	3.1%	2.2%	6.2%	5.7%	4.6%	4.9%	San Antonio
$60,986	$62,509	$65,106	3.8%	1.6%	3.3%	2.7%	8.4%	7.0%	5.7%	5.4%	San Diego
$81,242	$85,014	$89,140	5.6%	3.6%	3.7%	3.0%	6.4%	5.1%	4.2%	4.3%	San Francisco
$89,771	$94,411	$98,998	4.9%	4.5%	4.0%	2.8%	8.0%	6.4%	5.2%	5.1%	San Jose
$68,367	$69,932	$71,979	2.8%	2.7%	3.2%	3.2%	6.6%	5.8%	5.2%	4.8%	Seattle-Tacoma
$53,010	$54,654	$56,873	0.4%	0.5%	1.3%	1.5%	7.4%	6.9%	6.0%	5.1%	St. Louis
$46,230	$47,184	$48,974	2.0%	2.6%	1.2%	2.1%	8.3%	6.5%	5.9%	5.4%	Tampa-St. Petersburg
$89,719	$91,183	$93,704	1.5%	0.7%	0.7%	1.6%	5.6%	5.2%	4.9%	4.2%	Washington, D.C.
$51,186	$53,168	$55,063	2.2%	3.4%	2.5%	2.9%	8.4%	6.6%	5.5%	5.0%	West Palm Beach
$52,048	$54,109	$55,902	1.7%	1.7%	2.1%	2.2%	7.8%	7.0%	5.7%	5.4%	U.S. Metro Total

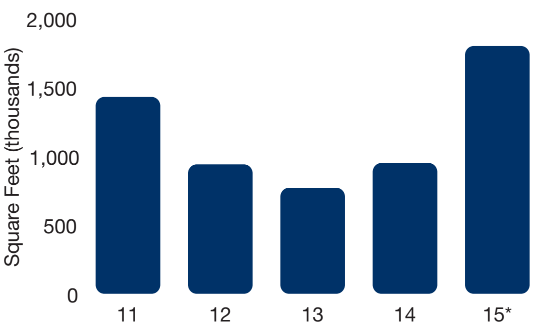
* Forecast   [2] See Statistical Summary Note on page 64.

National Retail Index | No Change | 2015 Rank: 10 | 2014 Rank: 10

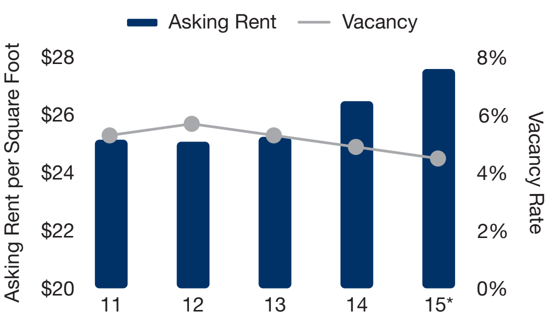
Employment vs. Retail Sales



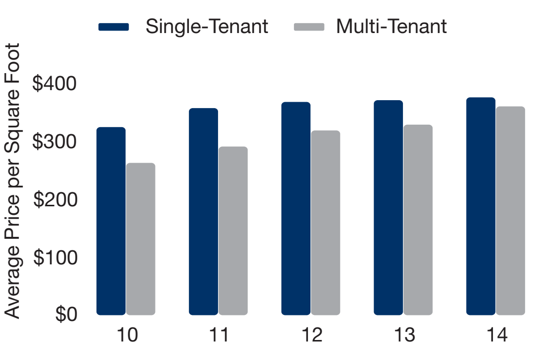
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

Blanket Improvement Expected in LA Retail Sector; Investors Turning East to Find Value-Add Deals

Overall retail conditions across Los Angeles County are improving, though some areas are enjoying stronger tenant demand than others. In the Westside Cities, where population density is elevated and incomes outpace the countywide average by a wide margin, vacancy will close the year near 3 percent, which should allow for more meaningful rent growth in the months ahead. In Greater Downtown, meanwhile, rents are improving ahead of tightening conditions. Retail property managers in the area understand the impact the thousands of new multifamily rentals will have on demographics and retailer demand and are pricing space accordingly. The South Bay and San Fernando Valley, on the other hand, are enjoying a more traditional recovery as rent hikes are supported by recent occupancy gains, a trend that will persist throughout 2015. The lifestyle center Village at Westfield Topanga in the Warner Center is a positive indicator of the health of the county's retail market. The 550,000-square-foot development is entirely pre-leased several months prior to completion in the third quarter of this year.

The vastness of Los Angeles County affords investors a multitude of opportunities for varying strategies, though many of the ideal value-add deals have already evaporated in the most desirable areas. Buyers seeking to improve tenant rosters and potentially upgrade the facade of existing multi-tenant retail centers will likely turn their attention to the northern and eastern stretches of the county. The San Gabriel Valley, which is enjoying a renaissance thanks to blue-collar job growth, is ripe with assets that have been neglected through the previous recession. Elsewhere, stabilized strip centers with a handful of credit and local tenants are also available for investors interested in elevated returns compared with the single-tenant and multifamily markets. In fact, 1031 exchanges will constitute a greater share of deals this year, which will put downward pressure on cap rates until the Fed begins to act. Since these investors have a hard timeline to identify transactions, pricing will move to the backseat in some of these deals, supporting sellers' valuations.

2015 Market Outlook

- **2015 NRI Rank: 10, No Change.** Los Angeles maintained a top 10 ranking in the Index thanks to low overall vacancy.
- **Employment Forecast:** Employers will widen payrolls 2.5 percent in 2015 as 104,000 jobs are created, up from 69,800 positions last year.
- **Construction Forecast:** The 1.8 million square feet slated for delivery this year is highly pre-leased, limiting the threat to existing operations.
- **Vacancy Forecast:** Conditions will tighten 40 basis points in 2015, pulling down vacancy to 4.5 percent. In 2014, vacancy also fell 40 basis points.
- **Rent Forecast:** Countywide, asking rents will climb 4.2 percent to $27.57 per square foot, slightly below 2014's pace of 4.9 percent growth.
- **Investment Forecast:** Single-tenant cap rates begin in the low-4 percent range for new buildings and move above 6 percent for older assets. First-year returns for multi-tenant assets began the year close to 7 percent.

Market Forecast | Employment: 2.5% ▲ | Construction: 850K ▲ | Vacancy: 40 bps ▼ | Asking Rents: 4.2% ▲

Investors Target Upside-Potential Opportunities As Louisville Makes Steady Gains

Sound economic growth in Louisville will help tighten retail property operations as employment and retail sales reach new highs. In downtown Louisville, Kindred Healthcare Inc. is undergoing a $39.5 million expansion to its headquarters. The company plans to potentially add 500 high-paying jobs over the next several years. Job growth throughout the metro continues to attract new residents to Louisville. The metro's growing population and household formations will increase retail spending for a variety of retailers. In fact, retail sales are projected to rise nearly 6 percent this year, well above than the national average. Strong consumer demand will embolden smaller retailers to expand into vacant in-line space throughout the metro. Despite a rise in tenant demand, the retail development will slow this year after a substantial boost to stock last year. A slim construction pipeline and expanding retailers will push vacancy down to its lowest level in more than eight years and support an increase in marketwide asking rents.

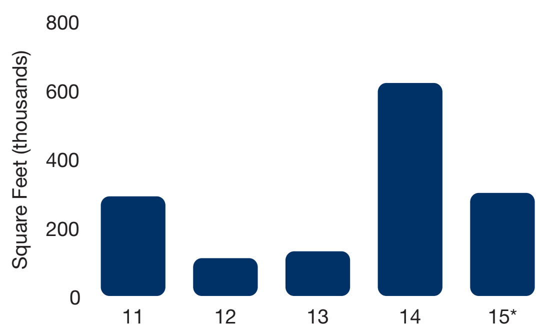
Coastal buyers are looking to exchange into Louisville's multi-tenant assets where they can locate higher yields than in their home markets. Though cap rates are competitive with other Midwest markets, rents have yet to recover to their pre-recession peak, offering prospects of upside potential and drawing additional interest from buyers. A competitive lending environment will support investors as they make acquisitions this year. Heightened investor demand and compressed cap rates from previous years will draw more sellers off the sidelines in 2015, boosting transaction velocity. Investors will be particularly attracted to properties north of Interstate 64 and on the east side of town.

2015 Market Outlook

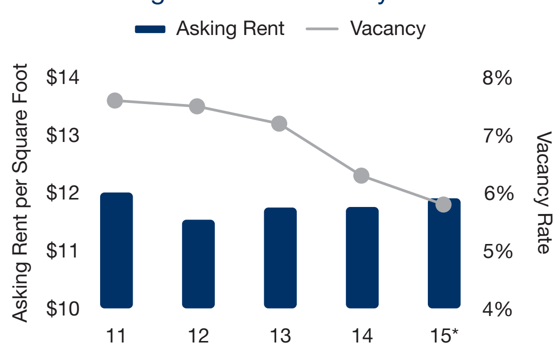
- **2015 NRI Rank: 39, Down 2 Places.** Soft rent growth was the primary catalyst in Louisville's two-position retreat in the ranking.
- **Employment Forecast:** Gains in the healthcare and manufacturing sectors will facilitate the addition of 15,400 jobs in 2015, a 2.4 percent increase. Last year, employers lifted hiring 2.3 percent with the addition of 14,600 jobs.
- **Construction Forecast:** After placing 630,000 square feet of retail space into service last year, deliveries will slow as developers add 300,000 square feet to existing retail stock in 2015.
- **Vacancy Forecast:** Rising tenant demand and reduced construction will enable vacancy to fall 50 basis points this year to 5.8 percent, following a 90-basis-point decline in 2014.
- **Rent Forecast:** As tenants compete for available space, average asking rents will rise 1.3 percent in 2015 to $11.90 per square foot. Rents will finish the year down more than 9 percent from the prior high in early 2009.
- **Investment Forecast:** The majority of multi-tenant properties will trade in the 8-percent cap rate range, with well-located grocery-anchored centers changing hands at least 100 basis points lower.

Employment vs. Retail Sales

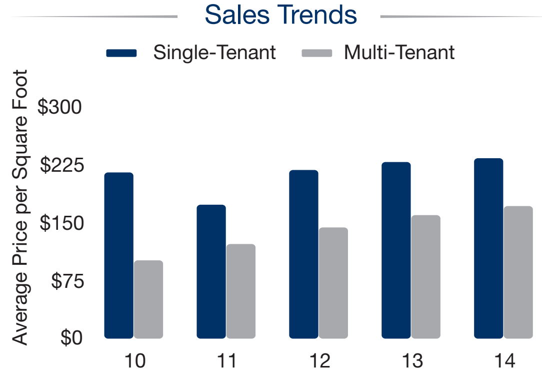
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



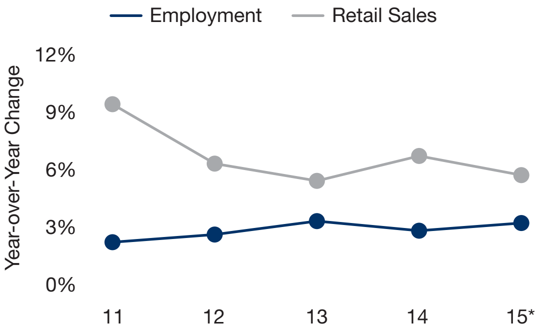
* Forecast

Employment: 2.4% ▲ Construction: 330K ▼ Vacancy: 50 bps ▼ Asking Rents: 1.3% ▲ Market Forecast

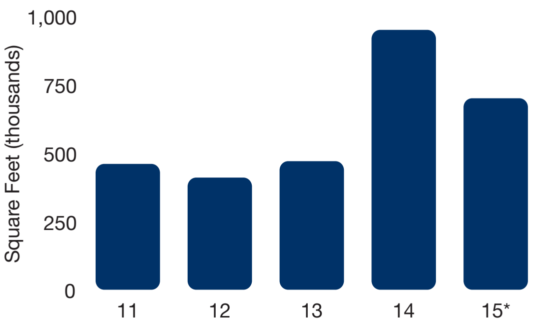
Marcus & Millichap

National Retail Index | Up 1 Place | 2015 Rank: 11 | 2014 Rank: 12

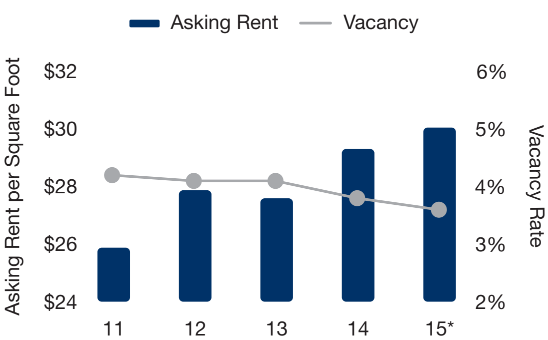
Employment vs. Retail Sales



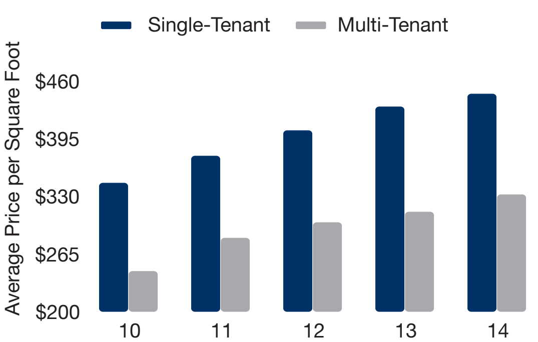
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

Resurgent Tourism Bolsters Retail Spending; Foreign Investors Increasingly Active

The Miami retail market will remain a hotbed for activity in 2015 as retailers open new stores and developers move forward with several projects. Strong job growth and a bustling tourism industry are drivers for retail expansion. Over the last year, employment in the metro has surpassed its pre-recession peak, thanks in large part to the metro's reputation as a visitor hot spot. Leisure and hospitality employment has led the metro in job creation since late 2007, and with more visitors expected in 2015, additional workers will be added. The combination of strong employment gains and healthy tourism are lifting retail sales well above pre-recession levels, and the market's status as a luxury retail destination is driving the development of two high-end shopping centers. Brickell City Centre, a 500,000-square-foot retail center, will open this year, while construction on the Mall at Miami Worldcenter will continue into 2016. As retailers continue their expansion into the county, vacancy stay below 4 percent this year, allowing owners to lift rents.

Demand for retail assets in Miami will intensify in 2015 as both foreign and out-of-state buyers seek to expand portfolios. Increased deal flow is expected as strong demand is met by investors motivated to sell. Those who have held assets since before the recession may now be able to divest at a profit as average prices have reached new highs. International investors view Miami as a safe place to deploy capital and are primarily searching for properties in affluent areas and in coastal submarkets. Meanwhile, many private local buyers have been priced out of these areas and are targeting assets in suburban locations. Single-tenant properties with long-term leases in place are preferred, though strong competition and a lack of available listings are encouraging many of these buyers to shift investment strategies. Some investors are looking to small strip centers along major thoroughfares, with national and regional tenants as quality substitutions.

2015 Market Outlook

- **2015 NRI Rank: 11, Up 1 Place.** Miami nearly cracked the top 10 due to a sub-4 percent vacancy forecast.
- **Employment Forecast:** Metro employers will add 35,000 positions this year, an annual increase of 3.2 percent. During 2014, approximately 30,000 jobs were created, expanding employment 2.8 percent year over year.
- **Construction Forecast:** Builders will complete 700,000 square feet of space during 2015, below the 960,000 square feet completed last year.
- **Vacancy Forecast:** Vacancy will dip 20 basis points by year end to 3.6 percent as demand for space keeps pace with deliveries. Retail vacancy dipped 30 basis points in 2014.
- **Rent Forecast:** Average rents reached their highest level in over a decade during 2014 on rent growth of 6.2 percent. Asking rents will continue to rise this year, albeit at a slower pace, reaching $30.03 per square foot, and increasing 2.5 percent annually.
- **Investment Forecast:** Availability of quality listings will dictate sales trends throughout 2015 as buyer demand remains high.

Market Forecast | Employment: 3.2% ▲ | Construction: 260K ▼ | Vacancy: 20 bps ▼ | Asking Rents: 2.5% ▲

Construction Elevates as Brightening Economic Outlook Sustains Retail Demand

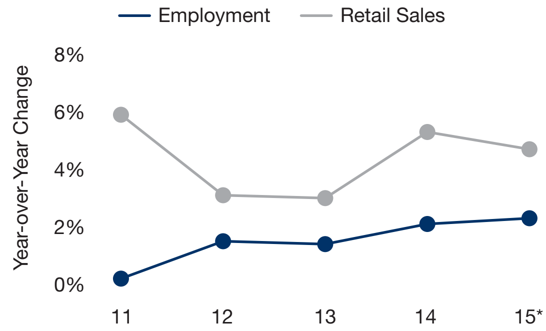
A bright economic outlook has spurred the retail market in Milwaukee. The pace of employment growth reached the highest level in more than 15 years in 2014 and this year's job gains are expected to be even more robust. With more people working, retail sales are expected to jump 4.7 percent in 2015, activating retailer expansion plans, especially among discount, grocery and household-goods stores, as well as restaurants and microbreweries. To accommodate this growth, developers will complete roughly 1.2 million square feet of retail space this year, the largest amount in seven years. More than 60 percent of the space is in a handful of projects, including a Nordstrom at Mayfair Mall, the second phase of Mayfair Collection, and three Meijer stores. Despite the rise in construction and some retailer consolidation, strong demand for space will drop vacancy further, push rent growth higher and boost operations.

The strengthening local economy and readily available financing are generating significant interest in retail assets in Milwaukee, driving values up. Yield-seeking investors are coming from both coasts, targeting net-leased properties with more than a 10-year lease term. Listings fall short of demand for these assets as many owners have refinanced and are reluctant to sell. This trend will motivate buyers to move farther from the metro core and consider shorter lease terms or less credit-worthy tenants. Investors, however, are expecting a discounted price for these tradeoffs, which can widen the bid-ask gap between buyers and sellers. Strong retail sales and more optimism among small-business owners have increased investor confidence in multi-tenant properties. Smaller strip centers shadowing big-box-anchored centers garner strong interest from high-net-worth private buyers.

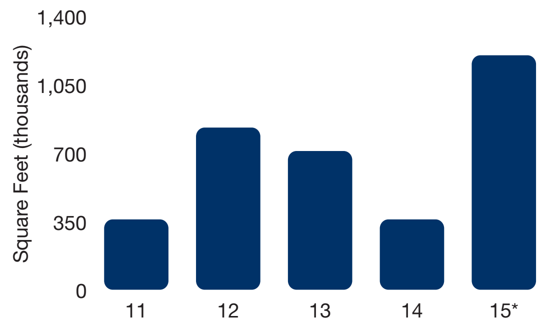
2015 Market Outlook

- **2015 NRI Rank: 43, Down 3 Places.** New construction will limit rent growth this year, dragging down Milwaukee three spots.
- **Employment Forecast:** This year, employers will create 20,000 jobs, an increase of 2.3 percent. During 2014, payrolls rose 2.1 percent or by 17,700 positions.
- **Construction Forecast:** Construction will surge in 2015 as developers complete 1.2 million square feet of mostly build-to-suit space, boosting inventory 1.4 percent. This is the largest stock increase since 2007.
- **Vacancy Forecast:** Strong tenant demand coupled with little new speculative inventory will lower vacancy 50 basis points this year to 6.8 percent. In 2014, vacancy fell 60 basis points.
- **Rent Forecast:** As vacancy recedes, owners will boost asking rents 1.2 percent to $11.80 per square foot in 2015. Last year, asking rents inched up 0.9 percent.
- **Investment Forecast:** Some buyers exchanging out of apartment assets are targeting higher-yielding retail properties in Milwaukee. Assets with a national tenant and more than ten years remaining on a lease will trade with initial yields that begin in the low-6 percent range.

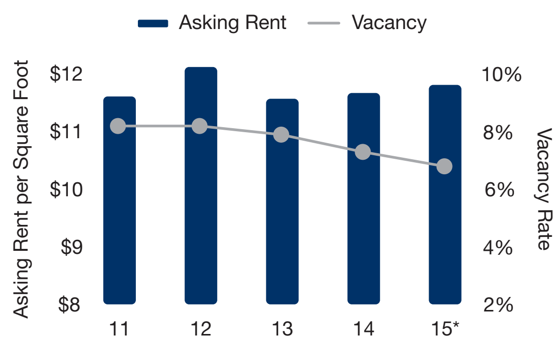
Employment vs. Retail Sales



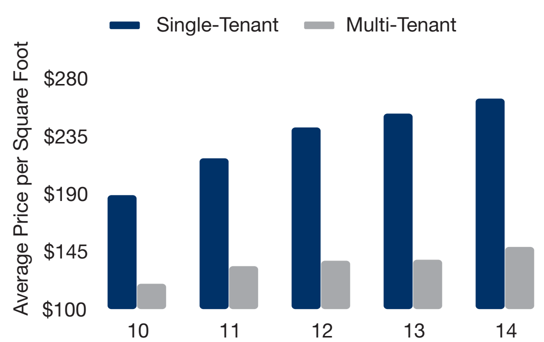
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



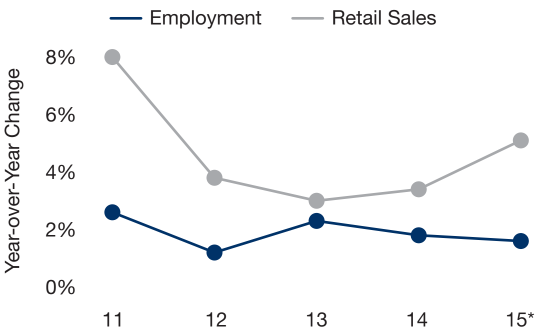
* Forecast

Minneapolis-St. Paul

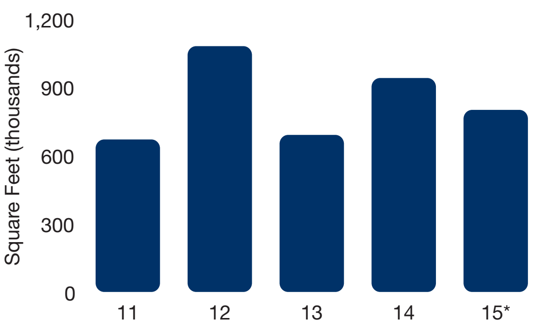
Marcus & Millichap

National Retail Index | Down 3 Places | 2015 Rank: 25 | 2014 Rank: 22

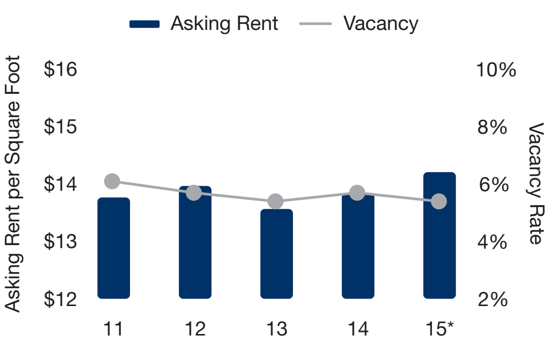
Employment vs. Retail Sales



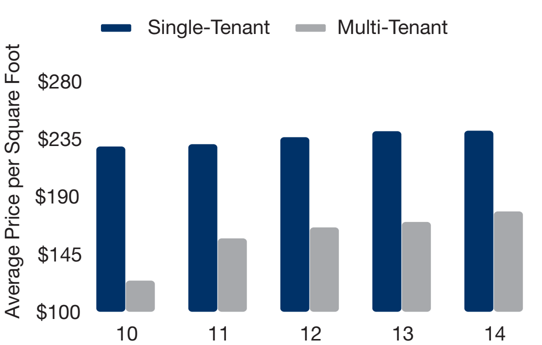
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

Redevelopment Surges Across Minneapolis-St. Paul Amid Steady Retail Performance

The prospect of a growing population, high discretionary incomes and rising retail sales are attracting retailers to the Minneapolis-St. Paul metro. Sustained job gains over the past six years have dropped the unemployment rate to one of the lowest in the nation and the 30,000 jobs expected to be created this year will draw additional workers to the area. Many of the positions will be in the relatively high-paying professional and business services sector. The strengthening demographics throughout the metro are luring new retailers while others expand. Hy-Vee is one company that will enter the market with three stores this year, accounting for a third of the total square footage coming online. The firm's New Hope location is the site of a long-vacant Kmart. Another former Kmart store in White Bear Lake is being developed into a center that will be anchored by Cub Foods. Overall, as marketwide vacancy tightens further in 2015, rents will climb at the highest annual pace in more than seven years.

The metro's strong economy, favorable demographics and the potential for higher yields are attracting investors inland from the coasts. Properties with quality tenants signed to long-term leases in the west and southwest suburbs are especially in demand. In urban cores, mixed-use developments are proliferating, offering investors additional buying opportunities, some with grocery-anchored tenants. In Minneapolis, redeveloping neighborhoods such as Near Northeast, Dinkytown and the North Loop will garner the attention of value-add investors. In these neighborhoods, apartment projects are increasing foot traffic, which is generating additional retail demand and resulting in the renovation of older buildings for small shops and restaurants.

2015 Market Outlook

- **2015 NRI Rank: 25, Down 3 Places.** A below-average employment and vacancy forecast weighed on the Twin Cities ranking.
- **Employment Forecast:** With the unemployment rate sitting below 4.0 percent, jobs will be harder to fill. As a result, employers will add 30,000 workers to payrolls in 2015, a 1.6 percent advance. In 2014, employment grew 1.8 percent.
- **Construction Forecast:** Following the completion of 940,000 square feet last year, construction will taper. During 2015, developers will complete 800,000 square feet, a 0.5 percent increase in inventory.
- **Vacancy Forecast:** Store closings will hinder a more substantial decrease in vacancy this year. Vacancy will contract 30 basis points to 5.4 percent this year, recouping last year's 30-basis-point rise.
- **Rent Forecast:** As vacancy declines asking rents will rise 2.6 percent to an average of $14.20 per square foot in 2015. This is up from a 2.1 percent gain last year.
- **Investment Forecast:** The redevelopment of vacant retail stores will offer investment opportunities this year. Many are the sites are former suburban Kmart stores and underperforming shopping centers.

Market Forecast | Employment: 1.6% ▲ | Construction: 140K ▼ | Vacancy: 30 bps ▼ | Asking Rents: 2.6% ▲

Robust Retail Demand Drives Vacancy Lower; Out-of-State Capital Enters Nashville

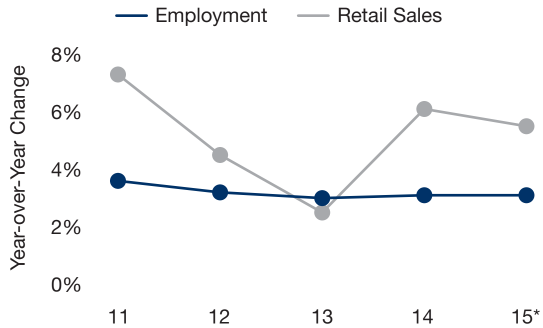
Retail operations will gain momentum this year as high-quality jobs and entertainment attractions lure more residents and tourists to the metro. Live music, performing arts and an emerging culinary scene have supported rising demand for hotel rooms and increased retail spending during the past several years. Thousands more visitors will come to Nashville this year as the metro hosts several events including the Southeastern Conference Men's Basketball Tournament and the National Rifle Association convention. Diverse entertainment options and strong job prospects are also attracting millennials in search of a live-work-play lifestyle. An influx of new residents is fueling household formation, driving residential development, most notably in the central and southern portion of the metro. Motivated by the rise in consumers, retail developers are also active and will double the square footage delivered one year ago. The majority of new inventory is heavily pre-leased, though a few speculative neighborhood centers are slated for completion this year, a sign of growing confidence in the market. Despite the jump in deliveries, completions in 2015 are still below pre-recession annual levels, and elevated tenant demand will reduce vacancy to the lowest rate since 2007.

A third year of rent gains will lift incomes, encouraging property owners to hold onto assets while more investors enter the Nashville retail market. All types of buyers are optimistic about Nashville's strong demand drivers and are eager to expand portfolios, triggering an intense bidding environment and driving up property values. California and Northeast buyers are searching for quality assets with long lease terms that trade at a discount compared with their local markets. Single-tenant cap rates, for example, average in the mid-6 percent range, while multi-tenant properties trend up to 200 basis points higher, depending on tenant quality and location.

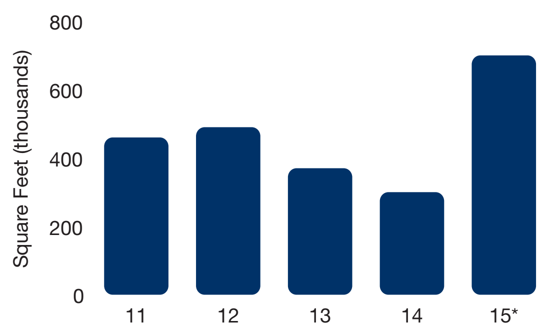
2015 Market Outlook

- **2015 NRI Rank: 19, Down 1 Place.** An overall strong outlook earned Nashville a place in the Index's top 20 again this year.
- **Employment Forecast:** Payrolls will expand 3.1 percent in 2015, or by 26,500 jobs. Last year, 25,300 positions were added.
- **Construction Forecast:** Developers will deliver 700,000 square feet of space this year, increasing inventory 0.8 percent. Approximately 300,000 square feet opened in 2014.
- **Vacancy Forecast:** Vacancy will fall 70 basis points on net absorption of nearly 1.3 million square feet to 6.2 percent. Last year, vacancy tumbled 110 basis points.
- **Rent Forecast:** Asking rents will jump 4.0 percent in 2015 to $15.33 per square foot, following a 4.5 percent climb one year ago.
- **Investment Forecast:** A limited amount of grocery-anchored centers will garner strong interest from REITs with cap rates starting at 5.5 percent.

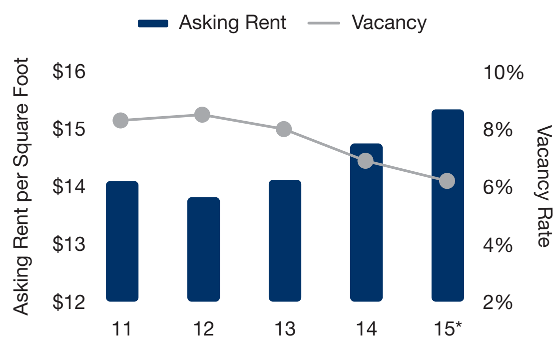
Employment vs. Retail Sales



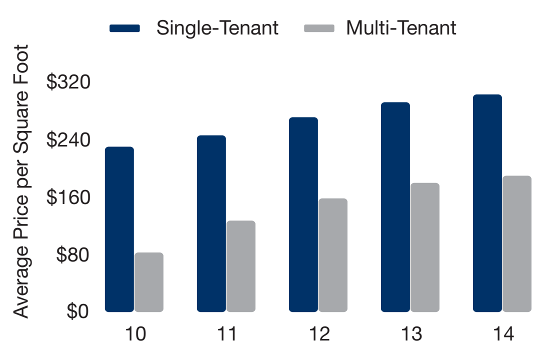
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends

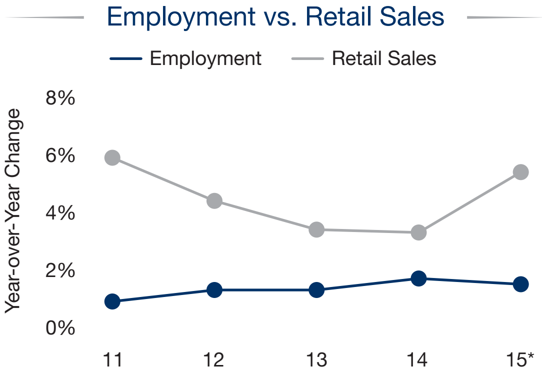


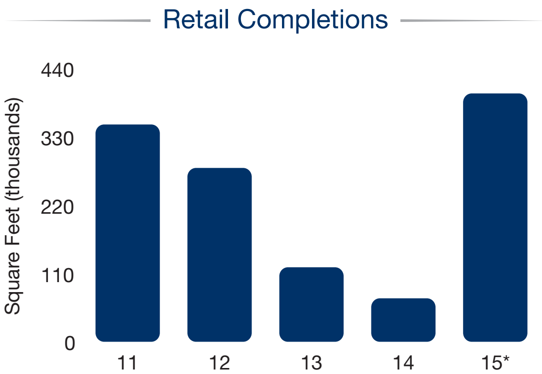
* Forecast

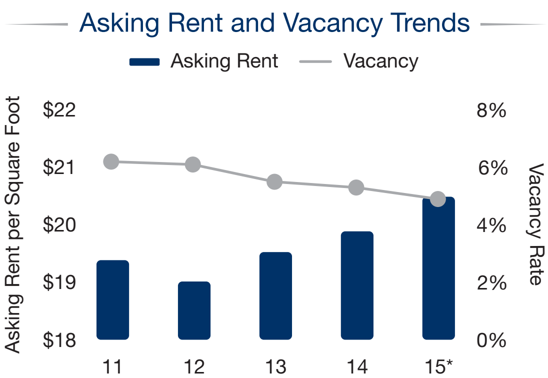
Employment: 3.1% ▲ Construction: 400K ▲ Vacancy: 70 bps ▼ Asking Rents: 4.0% ▲

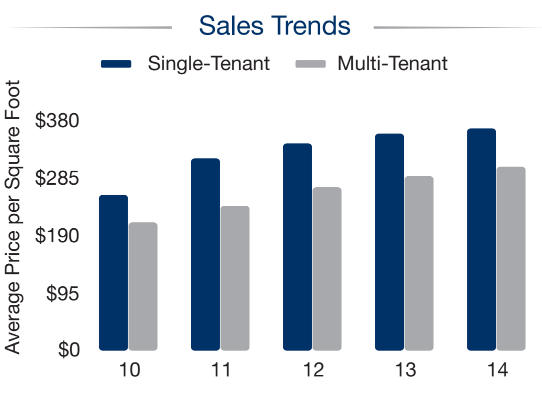
Market Forecast

National Retail Index | Down 2 Places | 2015 Rank: 36 | 2014 Rank: 34









* Forecast

Accelerating Consumption Bolsters Retail Performance; Regional Investors Drive Acquisitions

Stable employment and high incomes will drive retail spending in New Haven and Fairfield counties this year, attracting new tenants and pushing vacancy below 5 percent. Broad-based employment gains, led by hiring among retailers as well as companies in the professional and business services sector, will advance total employment in New Haven and Fairfield counties above the prior peak. The improving job market will help lift retail sales 5.4 percent in 2015, after a 3.3 percent jump last year. Rising consumer spending will draw additional retailers to the two-county market. This fall, Bass Pro Shops will complete construction on a 150,000-square-foot location at Bridgeport's Steelpointe Harbor. Dick's Sporting Goods and Lowe's are also set to open new locations in the market. Additionally, smaller retailers will be emboldened to move into dark, in-line space, pulling down vacancy and placing upward pressure on rents. Although retail construction will rise this year, projects will be limited to a handful of build-to-suit developments, diminishing any impact on vacancy.

Buyers will outnumber sellers in New Haven and Fairfield counties this year as improving operations spur income growth. Higher yields than nearby markets will generate elevated interest from out-of-state buyers, creating increased competition for available properties. Meanwhile, compressed cap rates will motivate owners to list multi-tenant properties while investor interest is soaring, edging up transaction velocity. Well-located strip and neighborhood centers with strong tenant rosters can trade at first-year yields in the mid-6 to mid-7 percent range. Demand for single-tenant assets will also remain elevated in the market. Drugstores in New Haven County change hands at average cap rates beginning in the low- to mid-6 percent area, depending on the lease, while those in Fairfield County can dip below 6 percent.

2015 Market Outlook

- **2015 NRI Rank: 36, Down 2 Places.** A lack of significant payroll expansion weighed on New Haven's spot in the Index.
- **Employment Forecast:** Employers will increase payrolls 1.5 percent in 2015 with the creation of 12,500 jobs, pushing total employment above the pre-recession high. Last year 13,400 positions were generated.
- **Construction Forecast:** Deliveries of two build-to-suit big-box stores will add 400,000 square feet to retail inventory this year. In 2014, a mere 75,000 square feet was brought online.
- **Vacancy Forecast:** This year, vacancy will fall 40 basis points to 4.9 percent on net absorption of more than 700,000 square feet. In 2014, the rate declined 20 basis points.
- **Rent Forecast:** Tightening vacancy will push up average asking rents 3.0 percent in 2015 to $20.48 per square foot, nearly 9 percent below the previous high watermark. Asking rents climbed 1.8 percent last year.
- **Investment Forecast:** New mixed-use developments in New Haven, Bridgeport and Norwalk will generate additional foot traffic, improving operations nearby and increasing investor interest.

Market Forecast   Employment: 1.5% ▲   Construction: 325K ▲   Vacancy: 40 bps ▼   Asking Rents: 3.0% ▲

Retail Construction Heats Up As New York City Employment Sets New Peak

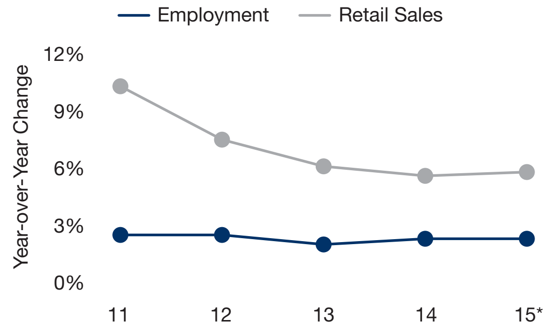
Job growth will help drive retail spending this year, which bodes well for retail owners. Total employment will set an all-time high as the New York City economy grows at a steady pace. Drawn by the strong economy, several retailers are expanding in the city. Lowe's, which already has two locations in Brooklyn and one in Queens, will be opening its first two locations in Manhattan in the second half of 2015. Meanwhile, Apple looks to add its first Brooklyn store. As these and many other retailers expand their presence in the five boroughs, the vacancy rate will reach a new multi-year low. Tightening vacancy will enable operators to increase asking rents for the fourth consecutive year and encourage builders to begin new projects. Retail development will pick up again in 2015. The most notable project scheduled for delivery is the Westfield World Trade Center. The property will add more than 300,000 square feet of retail space to existing stock. In 2016, several other large projects are set to be competed, including the Fulton Center in Brooklyn and Empire Outlets on Staten Island.

The retail investment climate will be largely determined by sellers as interested buyers far outnumber available listings. The anticipation of healthy appreciation and strong rental incomes will keep many owners on the sidelines. However, extremely tight cap rates and heightened investor demand will tempt many to test the market. Cap rates for best-in-class properties can dip well below 5 percent. Appropriately priced assets can expect multiple competitive offers from a wide array of would-be buyers. Many sellers will choose to redeploy capital in the outer boroughs in order to achieve their desired returns at prices that are discounted from those in Manhattan and downtown Brooklyn.

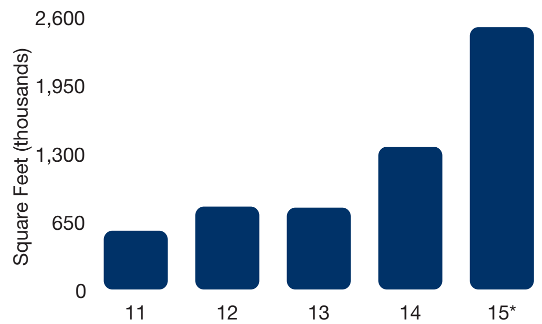
2015 Market Outlook

- **2015 NRI Rank: 2, Down 1 Place.** New York and San Francisco flipped the top two spots in this year's ranking.
- **Employment Forecast:** Employment will reach a new high this year as hiring ticks up 2.3 percent with the addition of 92,500 positions. In 2014, 93,600 jobs were created.
- **Construction Forecast:** Builders are on track to deliver 2.5 million square feet of retail space in 2015, increasing stock 1.2 percent. Last year, 1.4 million square feet was placed into service.
- **Vacancy Forecast:** Vacancy will break the 4.0 percent mark this year, falling 20 basis points to 3.9 percent on net absorption in excess of 2.8 million square feet. A 10-basis-point decline was recorded in 2014.
- **Rent Forecast:** Rents will continue to post healthy gains in 2015 as tight vacancy places upward pressure on asking rents. Average asking rents will rise 4.0 percent this year to $55.10 per square foot, following a 0.5 percent rise last year.
- **Investment Forecast:** Economic uncertainty in Europe will entice many foreign investors to seek stable assets in New York City.

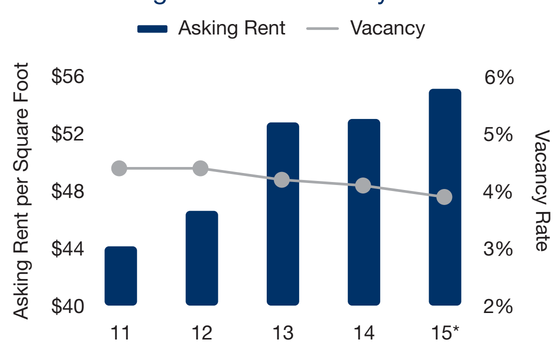
Employment vs. Retail Sales



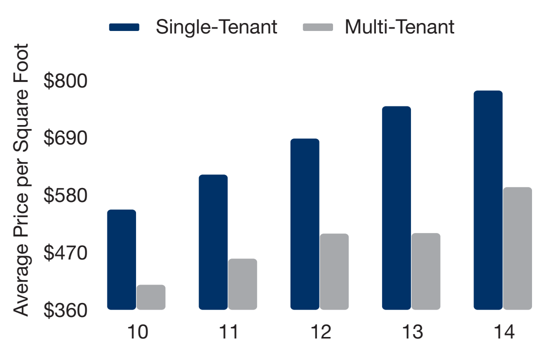
Retail Completions



Asking Rent and Vacancy Trends



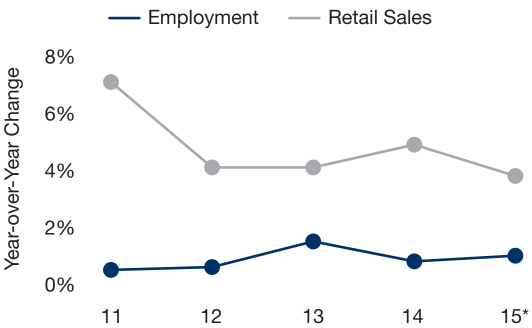
Sales Trends



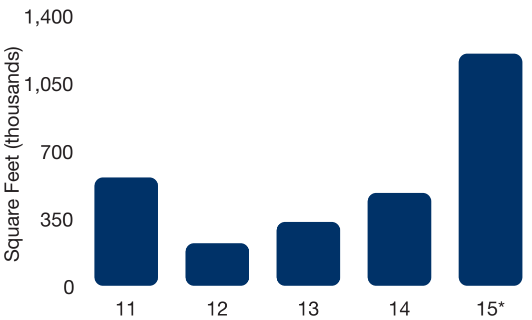
* Forecast

National Retail Index | Down 7 Places | 2015 Rank: 38 | 2014 Rank: 31

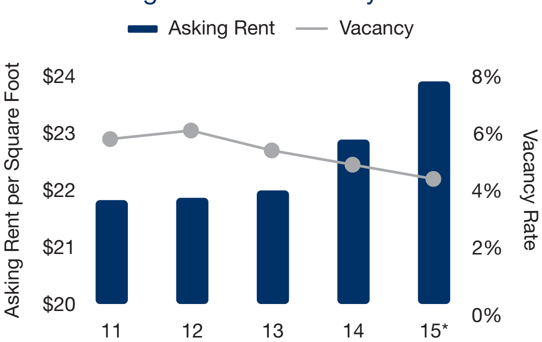
Employment vs. Retail Sales



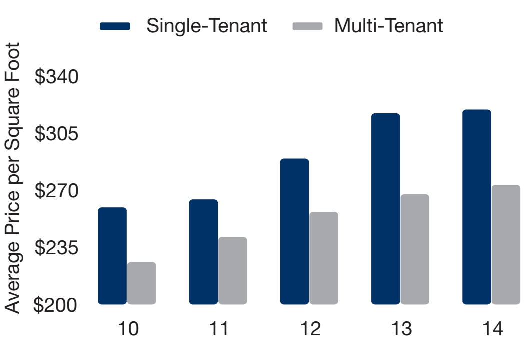
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

Accelerating Rent Growth Excites Investors As Northern New Jersey Employers Expand

Competitive tax incentives are encouraging corporate expansions in Northern New Jersey, with several companies crossing the Hudson River into the six-county region. Following the same trend, many residents of New York City are relocating to Northern New Jersey to find apartments with lower rent or to purchase a home. As the market's economy strengthens, consumer confidence will increase retail sales 3.8 percent this year. These improving conditions will motivate retailers to grow their footprints in the region, with grocers and fast-casual restaurants among the most aggressive. Several fast-casual restaurants, including BurgerFi, The Counter and Blaze Pizza, are among those with significant expansion plans. In Clark, the 250,000-square-foot shopping center Clark Commons will be anchored by a Whole Foods. The upscale grocer has several more stores scheduled to open in the region. At the foot of the George Washington Bridge, The Shops at Hudson Lights is expected to deliver roughly 150,000 square feet of retail space with iPic Theaters as the lead tenant.

Rising retail space demand will draw additional investors to the region this year. Buyers from New York City will be enticed by cap rates that can be up to 150 basis points higher. Fast-food locations and drugstores command the most investor attention with cap rates dipping into the low-5 percent range. Many of these buyers are looking for an up-leg to a 1031 exchange and time constraints will pressure some of these investors to pay a premium for available properties. Also, lending institutions will compete with one another to add Northern New Jersey retail assets to their portfolios, making financing more readily available and moving additional buyers off the sidelines. Elevated investor demand and high property values will encourage more sellers to bring properties to market, lifting transaction velocity.

2015 Market Outlook

- **2015 NRI Rank: 38, Down 7 Places.** The nation's slowest employment growth caused Northern New Jersey to tumble seven positions.
- **Employment Forecast:** This year, employment in Northern New Jersey will increase 1.0 percent or by 18,000 positions, up from the 15,300 jobs created last year.
- **Construction Forecast:** Developers will increase inventory 0.7 percent this year with the addition of 1.2 million square feet of retail stock. In 2014, 490,000 square feet was brought online.
- **Vacancy Forecast:** Vacancy will fall 50 basis points in 2015 to 4.4 percent as net absorption rises above 1.7 million square feet.
- **Rent Forecast:** Tight vacancy will place upward pressure on asking rents in 2015 as tenants compete for available space. Average asking rents will rise 4.5 percent this year to $23.90 per square foot.
- **Investment Forecast:** Vacant big-box stores will present new prospects for opportunistic investors as vacancy continues to decline. While some new owners may market these for large space tenant users, others will consider converting them into mixed-use properties.

Market Forecast | Employment: 1.0% ▲ | Construction: 710K ▲ | Vacancy: 50 bps ▼ | Asking Rents: 4.5% ▲

Cost-Conscious Companies Move to the East Bay; Retailers Benefit From Influx of High-Paying Jobs

Oakland's economy is benefiting from high overhead in both San Francisco and San Jose, which is luring companies seeking more affordable accommodations to the East Bay. Since 2010, office rents for available space in San Francisco and San Jose have soared 55 and 33 percent, respectively, which is creating sticker shock for office users that signed leases at the bottom of the market. Pandora's success in downtown Oakland has served as a beacon for other companies seeking to reduce expenses, particularly startups. Reflecting this trend, the market ranked No. 13 in venture capital spending as companies including Clef relocated from the other side of the Bay Bridge. Technology firms are not alone in seeking lower-cost alternatives, evident by Gensler's recent lease in Oakland. The rising tide of firms moving into the East Bay will attract high-paid workers who will support greater retail sales. At the same time, retail development is restrained, channeling much of the new demand for brick-and-mortar space into existing properties this year.

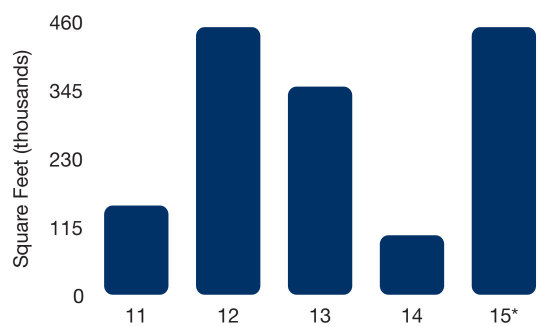
Investors are following companies into the East Bay to take advantage of lower prices and a greater number of opportunities. Additionally, the upside potential in the area in terms of operating income is elevated due to multiple factors. Vacancy is so tight in the other Bay Area metros that operators need to wait for existing leases to expire before lifting rents to the market rate. Oakland, on the other hand, has a greater number of multi-tenant buildings with significant vacancy that can be repositioned and re-tenanted on a shorter timeline. The other contributing factor to value-add plays in the East Bay is the relatively nascent nature of the retail recovery cycle. Rents have significant upside since the economic engine began revving approximately one year behind the tech-heavy Silicon Valley and San Francisco markets. Higher yields are also attracting buyers. Entering the year, first-year returns for multi-tenant assets in sought-after areas are in the mid- to high-6 percent range.

2015 Market Outlook

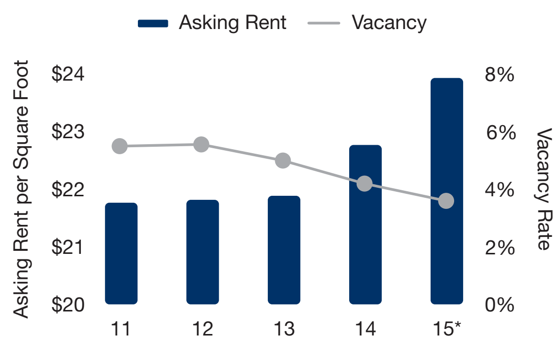
- **2015 NRI Rank: 17, Up 3 Places.** Retailers are following jobs into the East Bay, lifting the market three spots in the ranking.
- **Employment Forecast:** After 24,800 jobs were created in 2014, hiring will accelerate to 2.8 percent as 29,500 positions are generated this year.
- **Construction Forecast:** Approximately 450,000 square feet will be added to inventory in 2015, up from 100,000 square feet last year.
- **Vacancy Forecast:** Rising demand will support a 60-basis-point improvement in vacancy to 3.6 percent, building on last year's 80-basis-point fall.
- **Rent Forecast:** Asking rents are projected to finish the year at $23.92 per square foot, up 5.1 percent. In 2014, rents climbed 4.0 percent.
- **Investment Forecast:** Single-tenant deal flow will be relatively light due to the dearth of construction in the East Bay. Average cap rates begin in the low-4 percent area for ground leases and move up to near 7 percent.

Employment vs. Retail Sales

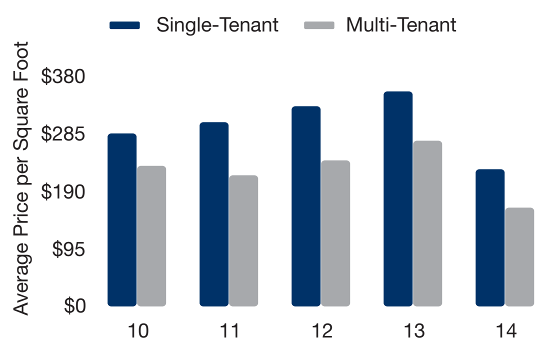
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



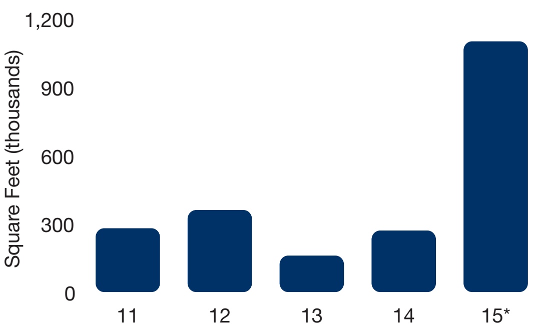
* Forecast

Employment: 2.8% ▲ Construction: 350K ▲ Vacancy: 60 bps ▼ Asking Rents: 5.1% ▲ Market Forecast

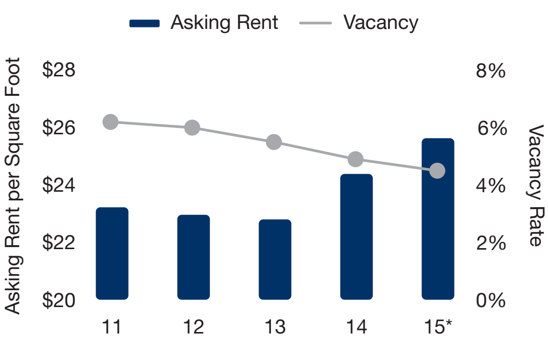
National Retail Index | Up 3 Places | 2015 Rank: 8 | 2014 Rank: 11

Employment vs. Retail Sales

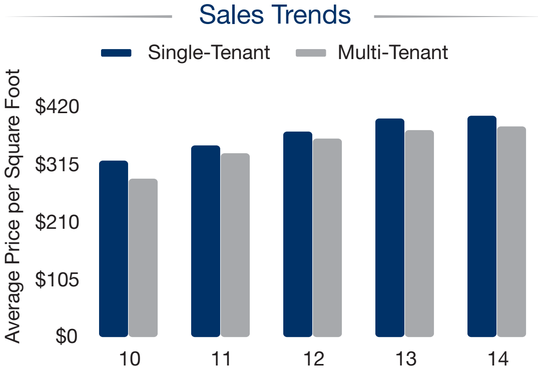
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

New Traffic-Generating Centers Emerging; Investors Deploying Exchange Capital Into Orange County

The collective spending power of Orange County's residents along with the area's many tourist attractions are elevating the desirability of local retail space. Nonetheless, the recession disproportionately impacted the metro, resulting in a longer recovery period compared with the coastal counties to the north and south. A complete recovery will still take time, though steady progress is expected in 2015. Payrolls will surpass the previous high watermark in the fourth quarter and could reach that level sooner if hiring surprises to the upside. As a result, retail operations should make strides this year. The only major headwinds facing owners in the market are two speculative projects that had insignificant leasing commitments entering 2015. The Outlets at San Clemente and The Source in Buena Park will collectively add nearly 800,000 square feet to inventory in the third quarter. Retailer interest in the space is expected to strengthen, though lease-up could last until the holiday shopping season.

The investment outlook for Orange County's retail properties remains bright as exchange capital flows into the market. Investors are trading out of apartment properties where cap rates are at all-time lows and redeploying proceeds into retail assets. As the number of single-tenant deals has evaporated and prices skyrocketed, these buyers are turning to smaller multi-tenant deals to achieve higher yields. Smaller strip centers occupied by national credits, for instance, can change hands at cap rates in the mid-5 percent range, offering buyers a 50- to 100-basis-point spread from net-leased deals. Investors seeking even greater returns can find opportunities to acquire properties with a mix of local retailers and national credits. Average cap rates for these transactions began the year in the high-6 percent area, though each trade will be weighed by several factors, including location, tenant roster and potential rent hikes as leases expire.

2015 Market Outlook

- **2015 NRI Rank: 8, Up 3 Places.** Orange County cracked the top 10 of this year's NRI as rent growth soars for a second consecutive year.
- **Employment Forecast:** Payrolls will expand 2.3 percent this year as 34,000 jobs are created, bringing the number of local workers beyond the pre-recession peak. In 2014, 33,200 spots were generated.
- **Construction Forecast:** Two major projects constitute the bulk of the deliveries in 2015, which will total 1.1 million square feet. Last year, builders added less than 300,000 square feet of retail space.
- **Vacancy Forecast:** Countywide vacancy will improve 40 basis points this year to 4.5 percent, the lowest level since the end of 2008.
- **Rent Forecast:** Another solid year of rent growth is on tap as operators ask for $25.61 per square foot by year end, an annual gain of 5.1 percent. In 2014, asking rents jumped 6.9 percent.
- **Investment Forecast:** Strip centers occupied by national chains will be in high demand, though investors seeking upside may explore properties with local retailers that have a strong operating history in ethnic neighborhoods.

Market Forecast: Employment: 2.3% ▲ Construction: 800K ▲ Vacancy: 40 bps ▼ Asking Rents: 5.1% ▲

New Attractions Bolster Orlando Tourism And Retail Spending

Tourism remains the backbone of the Orlando economy, and 2015 will prove to be another big year for the market as other industries grow and expand. Several new attractions will open this year, including the Orlando Eye and SEA LIFE Orlando. In addition, Universal Studios, Walt Disney World and SeaWorld expanded parks in 2014, while the $429 million Dr. Phillips Center for the Performing Arts opened in November. These developments will translate into a rising number of visitors this year and elevated tourism will further propel hiring in the leisure and hospitality industry, and drive retail spending. In addition to tourism, the metro's education and health services sector will benefit greatly as Orlando Regional Medical Center opens a new 245-bed tower. This industry stands to grow further as the University of Central Florida, one of the largest universities in the country, plans an expanded downtown campus. Improving economic trends and a bright outlook are building developers' and retailers' confidence. Several large shopping centers are underway, including Lee Vista Promenade and The Crosslands, yet builders remain cautious as new construction is heavily pre-leased. With limited available new space and demand rising, vacancy will tighten further.

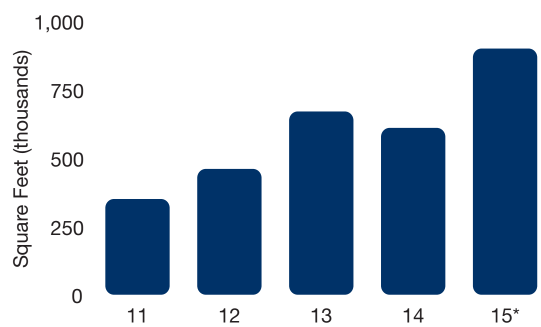
The Orlando market will draw investors from across the county, as well as foreign buyers, increasing the buyer pool and intensifying competition for retail assets. Contracting vacancy, strong rent gains and easy access to financing are contributing to investor interest in properties that provide steady cash flow. Aggressive bidding for these assets is pushing up property values and owners who have held assets since the recession may be able to sell for profits. Strong demand and a shortage of inventory, most notably for single-tenant assets and grocery-anchored shopping centers, has compressed cap rates. Initial yields for single-tenant properties average in the low-6 percent range while multi-tenant returns are nearly 150 basis points higher.

2015 Market Outlook

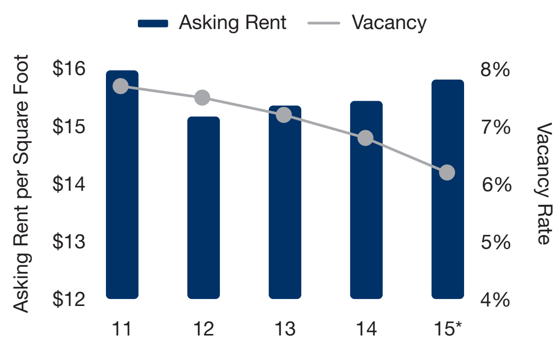
- **2015 NRI Rank: 23, Up 1 Place.** Rapid payroll growth cemented Orlando's position in the top half of the NRI.
- **Employment Forecast:** Orlando employers will add 38,000 workers to payrolls in 2015, expanding staffs 3.4 percent, outpacing the national average of 2.3 percent. Last year, employment surged 4.3 percent.
- **Construction Forecast:** Builders will complete 900,000 square feet of retail space this year, up from 600,000 square feet in 2014.
- **Vacancy Forecast:** Retail vacancy will reach 6.2 percent by year end, a dip of 60 basis points. Vacancy slipped 40 basis points last year.
- **Rent Forecast:** Average asking rents will reach $15.80 per square foot, an annual increase of 2.4 percent. In 2014, average rents grew 0.5 percent.
- **Investment Forecast:** Single-tenant investors will find more opportunities as retailers follow residential growth in Minneola and Clermont, meanwhile multi-tenant buyers will find centers with restaurants and service tenants more attractive.

Employment vs. Retail Sales

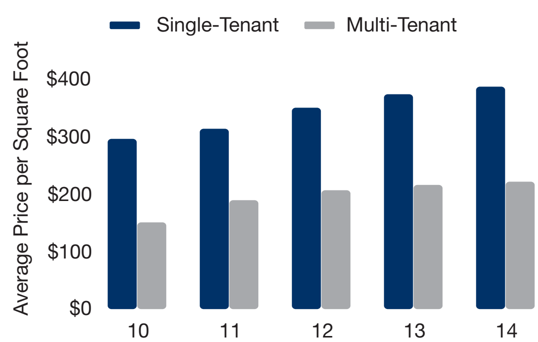
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends

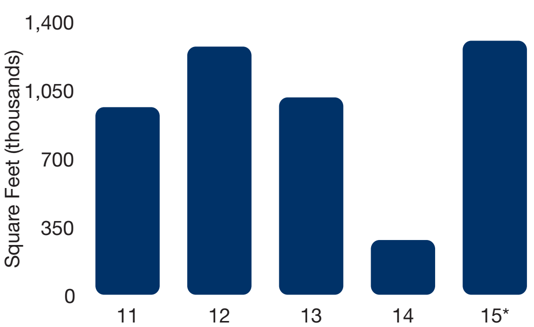


* Forecast

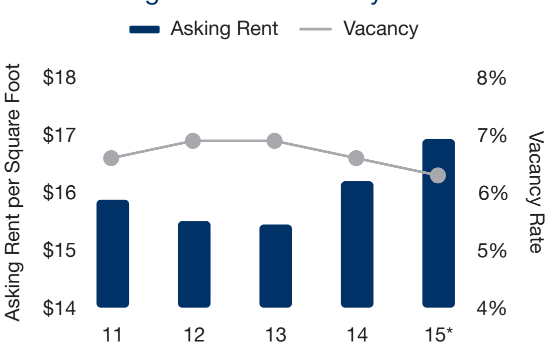
National Retail Index | Down 5 Places | 2015 Rank: 32 | 2014 Rank: 27

Employment vs. Retail Sales

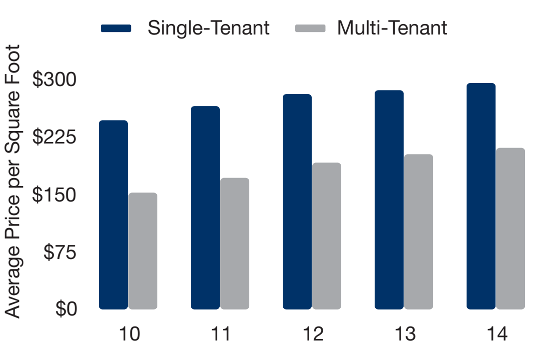
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

Economic Stability Draws Yield-Seeking Regional Buyers To Philadelphia

Retailer demand will cause vacancy to tick lower and encourage developers to bring new projects to the market throughout the metro. A wave of apartment construction in University City and Center City will attract more residents this year, drawing the attention of retailers and developers. Target is looking to debut as many as four of its smaller Target Express concept stores in the vicinity. Throughout the market, Moe's Southwest Grill plans to open six locations every year through 2019. In Northern Delaware, construction continues near the Christiana Mall with the completion of the 650,000-square-foot Christiana Fashion Center. Delivery is scheduled for the spring with anchor tenant Nordstrom Rack opening in the fall. Despite growing demand for retail space, some headwinds persist. Bottom Dollar's exit from the Philadelphia market left 46 stores vacant. However, German retailer Aldi, which is amid an aggressive U.S. expansion, has purchased all of the darkened stores. Although the company has yet to announce further plans for the vacated sites, future occupancy will likely ensue for many of these locations.

Philadelphia's stable economy and higher yields than nearby metros will draw a large amount of investment activity. Transactions will consist mostly of single-tenant properties as shopping center listings will remain scarce. Shopping centers brought to market will draw significant investor attention, especially those with grocery-anchored tenants. This segment will be largely dominated by institutional investors and deep-pocket private investors from outside the metro. A competitive lending environment will provide buyers with sufficient added capital, enhancing investor appetite for Philadelphia area assets. Intense buyer demand and compressed cap rates will motivate owners who are sitting on the fence to list properties, elevating sales velocity. Cap rates for strip centers average in the mid-7 to low-8 percent range.

2015 Market Outlook

- **2015 NRI Rank: 32, Down 5 Places.** Weak job growth and a below-average vacancy decline resulted in a five-position fall for Philadelphia.
- **Employment Forecast:** In 2015, employment will increase 0.9 percent as 25,000 workers are added to payrolls, bringing the metro within 1.0 percent of recovering all of the jobs lost during the recession.
- **Construction Forecast:** Developers are set to place 1.3 million square feet of retail space into service in 2015, increasing inventory 0.5 percent.
- **Vacancy Forecast:** Vacancy will decline 30 basis points this year to 6.3 percent on net absorption in excess of 1.8 million square feet. A 30-basis point decline was recorded in 2014.
- **Rent Forecast:** Tightening vacancy will place upward pressure on rents this year, pushing average asking rents up 4.5 percent to $16.92 per square foot, following a 4.9 percent increase last year.
- **Investment Forecast:** Single-tenant cap rates for properties in Philadelphia's core submarkets can dip below 5 percent. Higher yields and competition will push some to consider updating in-line centers in these areas.

Market Forecast: Employment: 0.9% ▲ Construction: 1M ▲ Vacancy: 30 bps ▼ Asking Rents: 4.5% ▲

Developers Show Restraint As Soft Housing Market Moderates Economic Growth

Employment growth and household formation will benefit retail operations in 2015; however, the slow-to-recover housing market will impede more substantial improvement. Hiring will moderately accelerate this year as healthcare and technology companies expand, though sluggish single-family home sales will stall housing-related job growth, a major driver of the local economy. New jobs will continue to boost household formation and encourage apartment developers to deliver the largest number of units in more than a decade. South Scottsdale and North Tempe will receive the bulk of new stock, encouraging retailers, grocers and fast-food establishments to locate nearby. As retail space demand accelerates, tenants will compete for a thin amount of quality inventory due to more than six years of restrained development. In fact, through the end of this year, less than 4 million square feet will be completed since the downturn, yet vacancy will remain more than 200 basis points above the low achieved in 2007. Limited competition from new inventory will help vacancy fall below the 10 percent threshold, stimulating above-average rent growth this year.

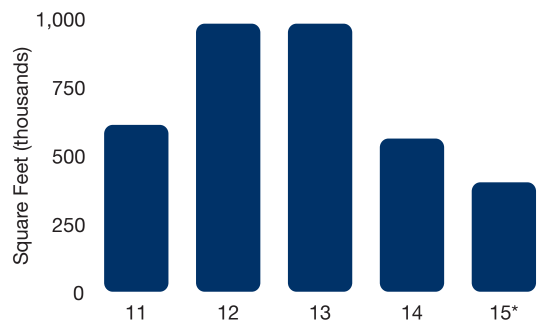
Steadily improving property operations will attract more out-of-state investors, particularly from California, and sustain local interest in Phoenix retail assets. Despite growing buyer interest, more investors will compete for a limited number of for-sale assets as current owners hold onto properties due to few opportunities to redeploy capital. Assets that are listed and competitively priced will be met with multiple offers. California investors will remain active, scouring the market for quality net-leased properties with long lease terms in areas with desirable demographics, attractions and high traffic counts. First-year returns for these assets are in the low-6 percent range, roughly 200 basis points higher than similar properties in California. These investors are willing to pay more aggressive cap rates, and some buyers priced out of this segment are moving their search to three- to four-tenant strip centers.

2015 Market Outlook

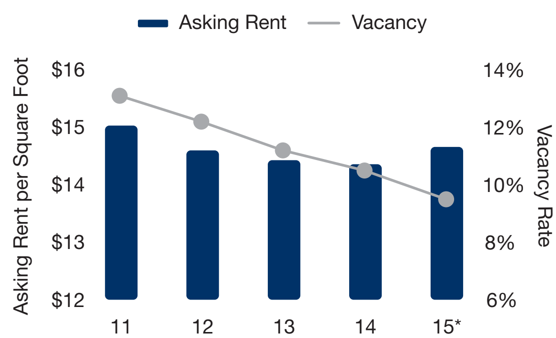
- **2015 NRI Rank: 20, Up 5 Places.** Phoenix entered the top 20 aided by a strong projected improvement in vacancy and low construction.
- **Employment Forecast:** Employment will rise 2.6 percent in 2015 with the creation of 50,000 jobs. Metro employers added 48,800 workers last year.
- **Construction Forecast:** Construction will slow as builders bring 400,000 square feet online in 2015, expanding stock 0.2 percent.
- **Vacancy Forecast:** Heightened tenant demand and subdued development will slice vacancy 100 basis points to 9.5 percent, the lowest rate since 2007. Vacancy retreated 70 basis points one year ago.
- **Rent Forecast:** As vacancy tightens, asking rents will reach $14.65 per square foot, a 2.1 percent increase. In 2014, rents dipped 0.5 percent.
- **Investment Forecast:** While the majority of for-sale inventory consists of stabilized Class B/C assets, investors seeking higher returns will actively search for value-add properties in North Phoenix and the East Valley.

Employment vs. Retail Sales

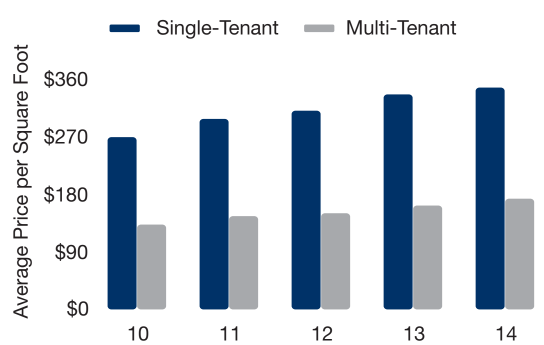
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



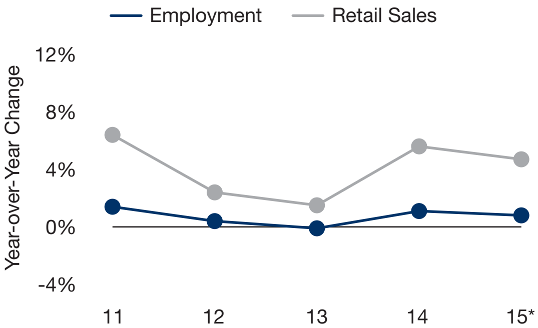
* Forecast

Employment: 2.6% ▲ Construction: 170K ▼ Vacancy: 100 bps ▼ Asking Rents: 2.1% ▲ Market Forecast

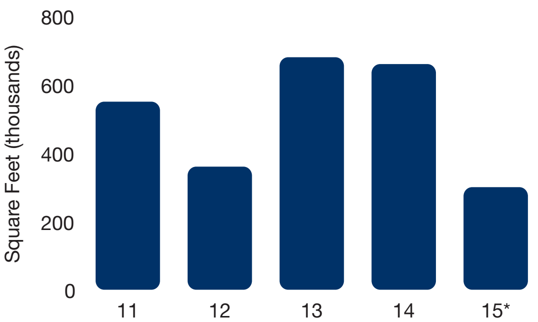
Marcus & Millichap

National Retail Index | Up 3 Places | 2015 Rank: 16 | 2014 Rank: 19

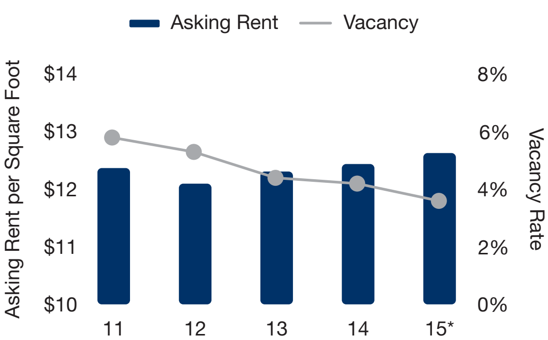
Employment vs. Retail Sales



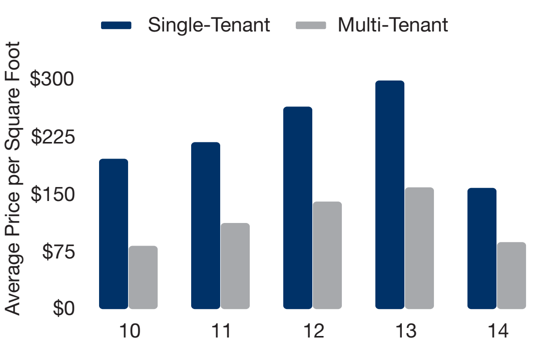
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

Retailers Expand Amid Restrained Development; Pittsburgh Vacancy is Among the Nation's Lowest Rates

The Pittsburgh retail market is poised for improvement this year as steady job gains lift consumer confidence and retail sales. Employment growth will strengthen during 2015, albeit at a much slower pace than the national rate. New positions will be in the higher-paying education, medicine, technology and energy industries, supporting increased retail spending. Retailers are responding to these favorable trends and will fill available space near employment centers in the CBD and new residential developments in north and south Pittsburgh. Expanding and new businesses, particularly drugstores, supermarkets and discount retailers, will push net absorption above 1 million square feet during 2015 for a third consecutive year. Amongst retailer expansion, Bottom Dollar closed nearly 20 of its Pittsburgh stores early this year. Aldi acquired the physical assets, yet it remains unknown what the company will do with the empty storefronts and the impact the closures will have on the market. Still, vacancy will tighten further on strong net absorption this year, and quality space will become increasingly difficult to find as the pace of development slows. Speculative construction will remain absent in the metro, in part due to the high cost of construction, and this year's projects will be limited to a few small shopping centers and storefronts.

A disconnect between seller and buyer price expectations combined with limited for-sale inventory will impede transaction velocity in Pittsburgh this year. Owners who acquired properties during the downturn are enjoying cash flow from steady rent gains. While benefiting from increased NOIs, these owners have lacked motivation to bring properties to market because they perceive few exchange opportunities. A thin amount of inventory and restrained new development is putting upward pressure on property values. Average cap rates will moderately compress to the low-7 percent area. REITs, which are more willing to pay aggressive cap rates, will remain the prominent buyer this year. These investors, along with well-capitalized private buyers, will scour the market for well-located properties with quality tenants.

2015 Market Outlook

- **2015 NRI Rank: 16, Up 3 Places.** Pittsburgh boasts one of the lowest vacancy rates in the country, propelling the market up three spots in the NRI.
- **Employment Forecast:** In 2015, employment will expand 0.8 percent with the addition of 9,500 jobs. Last year, employers hired 12,400 workers.
- **Construction Forecast:** Developers will finish 300,000 square feet of retail space this year, less than half of the square footage completed in 2014.
- **Vacancy Forecast:** Limited new supply and steady demand will contribute to a 60-basis-point drop in vacancy to 3.6 percent this year. Vacancy fell 20 basis points one year earlier.
- **Rent Forecast:** Average rents will climb 1.5 percent in 2015 to $12.62 per square foot, up from the 1.1 percent rise recorded last year.
- **Investment Forecast:** Grocery-anchored centers along major thoroughfares will attract investors at an average cap rate in the mid-7 percent area.

Market Forecast | Employment: 0.8% ▲ | Construction: 365K ▼ | Vacancy: 60 bps ▼ | Asking Rents: 1.5% ▲

Down 6 Places | 2015 Rank: 27 | 2014 Rank: 21 National Retail Index

Unique Portland Culture Draws Young Professionals; Retailer Expansions Follow

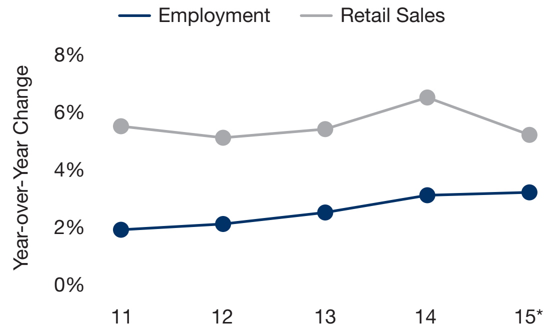
Portland has become a magnet for technology, apparel and footwear companies, and will continue to attract top talent to the metro, bolstering retail spending and lifting retail space demand. Employment will outpace the national growth rate for a sixth consecutive year. Improving job opportunities and a live-work-play atmosphere will help draw more young professionals to the metro. In order to support elevated demand, apartment developers will deliver the largest addition to inventory in more than a decade, with 5,000 units slated for completion this year. The addition of new households is forecast to boost retail spending 5.2 percent during 2015. These positive indicators will capture the attention of retailers looking to expand their local footprint. Amid rising space demand, the pace of construction will increase only slightly this year. While the majority of new inventory is pre-leased, several small speculative projects in the northeast and southwest region of the metro are under construction, indicating confidence in the market. Though new supply will exceed the five-year average, it falls far below pre-recession annual levels, leaving little impact on vacancy. Tightening conditions will result in another year of respectable rent gains.

Strong demographics and steady rent growth will sustain heightened investor interest in Portland retail assets. Out-of-state investors, particularly from California and Washington, are seeking higher yields. They will actively search for quality single-tenant and multi-tenant assets with three to four tenants in the CBD and near major employment hubs in suburbs such as Beaverton and Hillsboro. Single-tenant assets typically trade beginning in the mid- to high-5 percent range, roughly 50 to 70 basis points above core coastal markets. First-year returns can dip in the low-5 percent area for triple-net corporate-backed leases, which garner strong interest from REITs, the dominant players in the market last year.

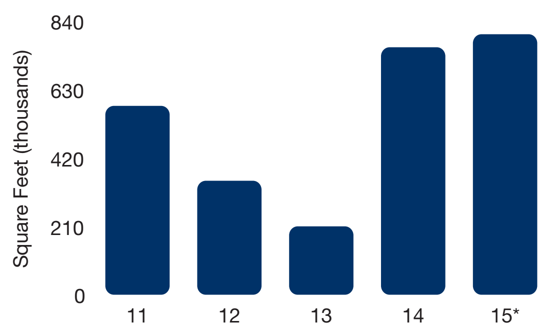
2015 Market Outlook

- **2015 NRI Rank: 27, Down 6 Places.** Portland fell six places in the ranking as a combination of stronger markets surpassed the metro and relatively high construction weighs on the forecast vacancy improvement.
- **Employment Forecast:** Following the generation of 32,200 jobs in 2014, employers will create 35,000 jobs this year, a 3.2 percent gain.
- **Construction Forecast:** Developers will bring online 800,000 square feet in 2015, up slightly from the 770,000 square feet delivered last year.
- **Vacancy Forecast:** Rising demand amid a steady construction pace will move vacancy down 40 basis points this year to 4.7 percent. During 2014, vacancy decreased 30 basis points.
- **Rent Forecast:** Asking rents will rise 2.7 percent to $17.33 per square foot in 2015, building on last year's 2.4 percent gain.
- **Investment Forecast:** Due to land-use restrictions, few sites with drive-through capacity are being developed in the metro, generating heightened demand from investors, as these properties can trade below 4 percent.

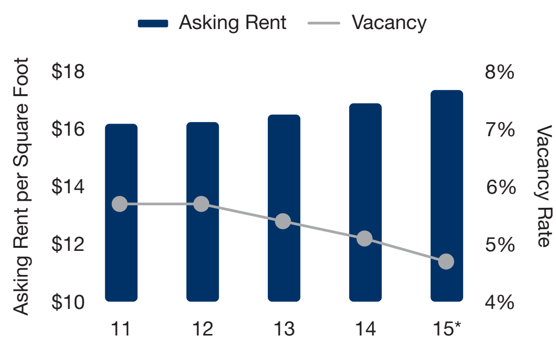
Employment vs. Retail Sales



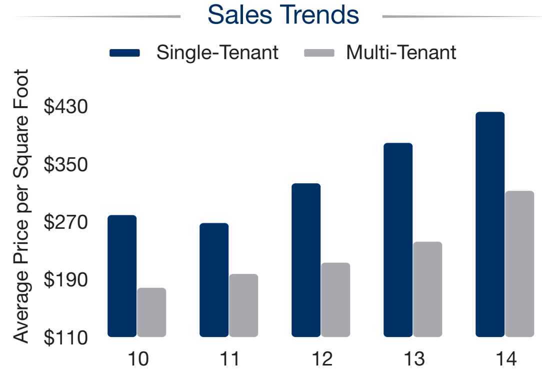
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



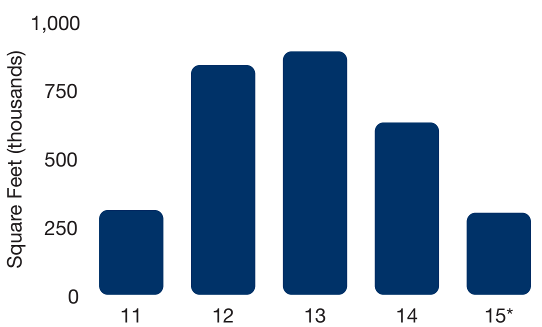
* Forecast

Employment: 3.2% ▲ Construction: 30K ▲ Vacancy: 40 bps ▼ Asking Rents: 2.7% ▲ Market Forecast

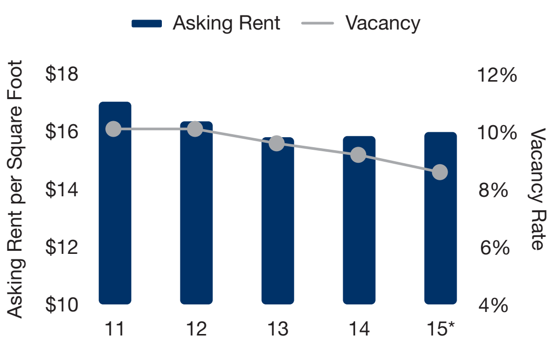
National Retail Index | No Change | 2015 Rank: 35 | 2014 Rank: 35

Employment vs. Retail Sales

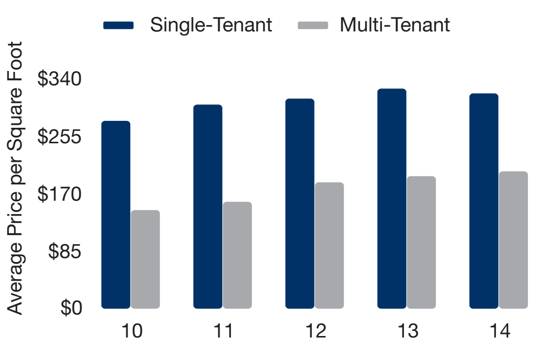
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

Recovering Housing Demand Lifts Retail Sector; Buyers Target Renovation Options

Retail sales will make steady headway in the Riverside-San Bernardino region as the strengthening national economy lifts warehousing and logistics demand in the Inland Empire and housing development once again builds momentum. Apartment development has already begun to reinvigorate as 2,100 units were completed last year, and single-family construction has started to reemerge. As additional households form in the area, retail demand, particularly for furnishings and housing-related goods, will support store expansions. In response, Lowe's Home Improvement is opening in Chino Hills early in 2015. Housing development farther west spurred the development of a big-box Super Wal-Mart Center in Perris. Also appealing to the new residents, a Century Theatre is scheduled to open at the end of this year in La Quinta, driving traffic to nearby retailers. Though retail inventory is expanding, the number of projects under construction is slowing down in 2015, allowing operations in existing facilities to tighten and market asking rents to lift.

Investors in the metro are selective, seeking quality product, primarily in areas west of Interstate 15 and secondary areas with upside potential. Many buyers will seek assets in populous and high-retail-activity locations in Rancho Cucamonga and Ontario. Investors willing to roll up their sleeves to renovate sites and target new leases will be attracted to areas east of I-15. The southwestern section of Riverside County continues to draw new residents to its affordable homes in suburbs such as Temecula and Murietta, luring added retailers. As vacancy drops and rents lift with the market, Orange County and LA buyers will seek the metro for lower prices and higher yields.

2015 Market Outlook

- **2015 NRI Rank: 35, No Change.** The Inland Empire maintained its position in the middle of the back half of the ranking as stubbornly high vacancy contracts relatively slowly this year.
- **Employment Forecast:** Job gains will number 35,000 in 2015, a 2.8 percent lift. In 2014, 23,700 jobs were generated.
- **Construction Forecast:** Construction deliveries will decrease to 300,000 square feet from 630,000 last year, when shopping centers expanded with some pads of 20,000 to 185,000 square feet.
- **Vacancy Forecast:** The marketwide vacancy rate will retreat another 60 basis points to 8.6 percent, after a 40-basis-point drop last year.
- **Rent Forecast:** Market rents will rise 0.9 percent to $15.97 per square foot on average, after last year's 0.3 percent improvement. This marks the second year of gains.
- **Investment Forecast:** As more investors target properties in communities close to Orange County, cap rates in these areas can run 50 basis points lower than other parts of the metro, yet first-year yields remain 100 basis points higher than properties along the coast.

Market Forecast | Employment: 2.8% ▲ | Construction: 330K ▼ | Vacancy: 60 bps ▼ | Asking Rents: 0.9% ▲

Up 3 Places | 2015 Rank: 33 | 2014 Rank: 36

National Retail Index

California Investors Increase Activity in Sacramento As Performance Trends Advance

Continued Sacramento employment gains will translate into rising retail sales, supporting retailer expansion into existing available space and lifting absorption of newly developed properties. Combined, the trend will underpin a steady tightening of vacancies across the metro. Big-box vendors and grocers, together with discount merchandisers such as Dollar General and Family Dollar, have led expansion trends, but the broad-based nature of the employment growth will support a widening array of retail needs. The Rocklin/Roseville suburbs of Placer County, home to Rocklin Commons and Rocklin Crossing, have seen particularly strong demand, leading to the addition of pre-leased big-box stores such as PetSmart and Bass Pro Shops. Slightly north within Sacramento County, freestanding retail is being constructed, including a 118,000-square-foot Wal-Mart store in North Highlands and a 28,000-square-foot Smart & Final Extra. In the metro core, owners with assets near the new Kings arena in downtown will be encouraged to upgrade their assets to capitalize on renewed traffic to the area. Over the long-term, these assets have the potential to appreciate significantly.

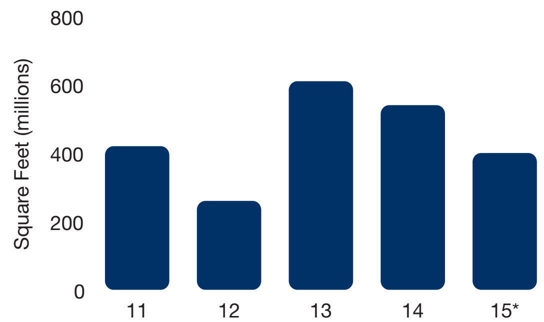
Local investors have become increasingly active in areas such as Elk Grove, Rocklin, Roseville and Lincoln, which have become more enticing. Investments into these areas have largely been dominated by out-of-state buyers for the last few years, but strengthened performance trends, smaller capital requirements and steady yields have attracted investors. In addition, increased capital from the Bay Area and Southern California has entered the market as investors from those areas harvest apartments that have been trading at record prices. After selling properties in core markets for cap rates in the 5 percent range, these investors are looking favorably on multi-tenant retail yields ranging between 7 to 8 percent. Those seeking lesser management intensive assets are favoring single-tenant offerings that can trade with initial yields in the 5 to 6 percent range.

2015 Market Outlook

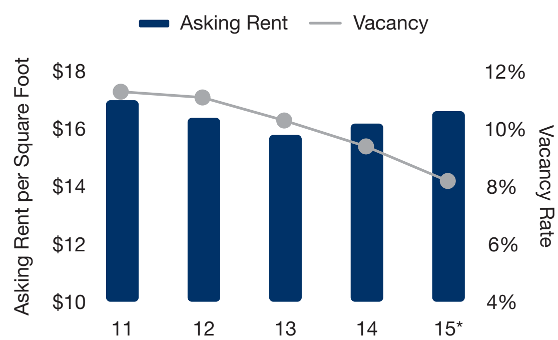
- **2015 NRI Rank: 33, Up 3 Places.** A large projected increase in occupancy boosted Sacramento three spots in the ranking.
- **Employment Forecast:** During 2015, local employers will add 20,000 jobs, gaining 2.2 percent in overall employment after last year's 17,800 positions and 2.0 percent rise.
- **Construction Forecast:** This year, 400,000 square feet of space will come online, down from 550,000 square feet delivered in 2014.
- **Vacancy Forecast:** The metrowide vacancy rate will drop close to 2008 numbers, falling 120 basis points to 8.2 percent by year-end 2015, after dipping 90 points last year.
- **Rent Forecast:** Operators will lift asking rents 2.7 percent to $16.60 per square foot, over last year's 2.5 percent rise as demand by retailers grows.
- **Investment Forecast:** Sacramento's affordable housing relative to the Bay and job growth are a draw for new residents. The new households will attract more retailers and the potential for investment.

Employment vs. Retail Sales

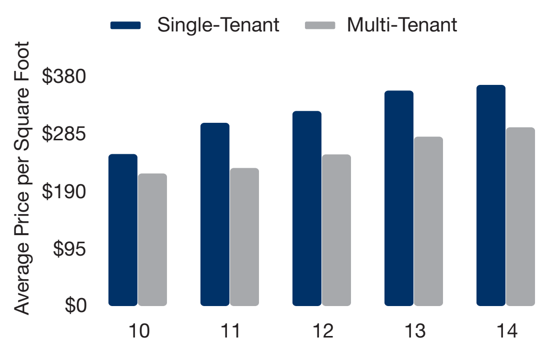
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

Employment: 2.2% ▲ Construction: 150K ▼ Vacancy: 120 bps ▼ Asking Rents: 2.7% ▲

Market Forecast

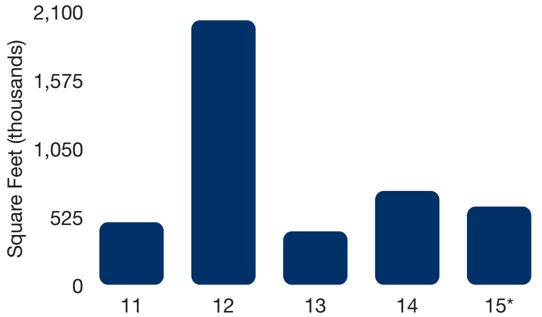
Salt Lake City

Marcus & Millichap

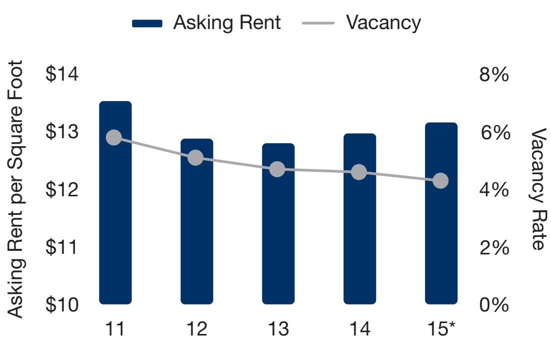
National Retail Index | Down 1 Place | 2015 Rank: 18 | 2014 Rank: 17

Employment vs. Retail Sales

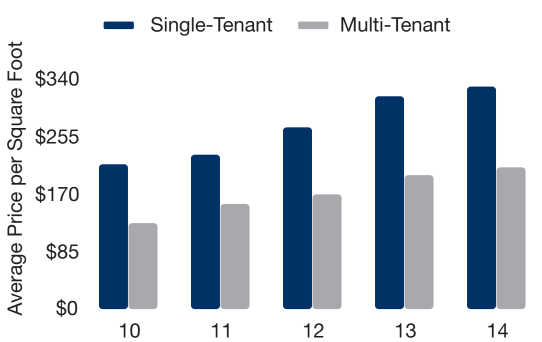
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

Rising Tech Employment Along the Wasatch Front Intensifies Demand for Retail Assets

A growing technology sector will propel employment growth along the Wasatch Front, boosting spending, improving retail property operations and encouraging retailers to expand. A highly educated workforce will draw additional employers this year. In the second half of 2014, Oracle signed a lease at the Traverse Ridge Center in Lehi with plans create at least 350 high-paying jobs. Driven by venture capital funding, InsideSales.com will hire 400 workers this year at its Provo and Salt Lake City locations. Competitive tax incentives are also encouraging companies such as Goldman Sachs and Wayfair to expand in the market. A low unemployment rate will push up the median household income 3.5 percent in 2015 as employers compete for workers. The strong job market will draw additional households to the region, boosting spending on housing-related goods and lifting overall retail sales more than 7 percent. Retail construction will slow slightly as developers remain reluctant to build speculative projects. Increased demand for retail space will push vacancy down to its lowest point in more than eight years, placing upward pressure on asking rents.

A strong economy and lower yields than most major markets in the western United States will draw the attention of many out-of-state investors, increasing competition for available assets. High prices will motivate some owners to list their properties, lifting transaction velocity along the Wasatch Front. Single-tenant assets will remain in high demand, especially among out-of-state, 1031-exchange buyers. Cap rates for these properties average in the mid-5 to mid-6 percent range, with some drugstores and fast-food locations dipping slightly lower. Multi-tenant assets in prime locations with solid tenant mixes will also generate significant interest from buyers. Intense competition for single-tenant assets will drive many investors to consider smaller, less-management-intensive properties with strong shadow anchors.

2015 Market Outlook

- 2015 NRI Rank: 18, Down 1 Place. A modest decline in vacancy and slow rent growth dragged down Salt Lake City one position in the ranking despite healthy job growth projections.
- Employment Forecast: Payrolls will expand by 37,000 positions this year, a 3.3 percent increase. Last year, 33,900 jobs were created.
- Construction Forecast: This year, 600,000 square feet will come online, increasing stock 0.6 percent, a slight decline from 2014, when 730,000 square feet was completed.
- Vacancy Forecast: Vacancy will reach 4.3 percent this year after falling 30 basis points. Last year, vacancy dipped 10 basis points.
- Rent Forecast: Average asking rents will rise 1.5 percent in 2015 to $13.15 per square foot following a 1.3 percent bump last year.
- Investment Forecast: Construction of the Mountain View Corridor will encourage development nearby as retailers follow rooftops west of Interstate 15. The new inventory will create additional buying opportunities along the Wasatch Front for investors.

Market Forecast | Employment: 3.3% ▲ | Construction: 130K ▼ | Vacancy: 30 bps ▼ | Asking Rents: 1.5% ▲

Lag in Retail Development Pressuring Vacancy Lower, Strengthening Rent Growth

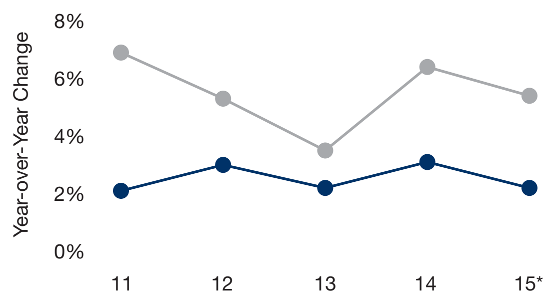
San Antonio's retail market will tighten further as tenant demand remains elevated and completions slide. While lower oil prices will result in cutbacks to Eagle Ford payrolls this year, the impact on retail sales and space demand should largely be limited to communities in the far south of the metro. Over the past few years, big-box chains and grocery stores, including Wal-Mart and H-E-B, have driven local retail development. The lack of speculative construction has facilitated backfill of the many large spaces that went dark during the recession. Last year, DSW and Ulta moved into a former Best Buy, while Dick's Sporting Goods leased a former Mervyn's store at South Park Mall. This year, H&M, Dave & Buster's and various other shops and restaurants will open in the Joske's building downtown, which last housed a Dillard's in 2008. The dwindling supply of available space has not gone unnoticed by developers, who are expected to break ground on a handful of shopping centers by year end. Construction starts will be concentrated in the fast-growing Northwest and far Northeast submarkets, though, where residential construction abounds and retail developments, such as The Rim and The Forum, have filled quickly.

Investor demand for San Antonio shopping centers increased last year, but transaction velocity only rose modestly. The disconnect can be attributed to a shortage of value-add listings, which remain the prime targets for Texas-based buyers, who dominate the local investment market. Competition for such deals has intensified to the point that listed properties with high vacancy and/or below-market rents can generate dozens of offers soon after hitting the market. While many private investors remain hesitant to consider stabilized properties, REITs have become more active in this space. Cap rates have compressed as a result, particularly for performing shopping centers with national and/or credit tenants, which can trade between 6.5 and 7.0 percent. Single-tenant cap rates in the metro average around the mid-7 percent range, but they run the gamut based on tenants' credit and remaining lease term.

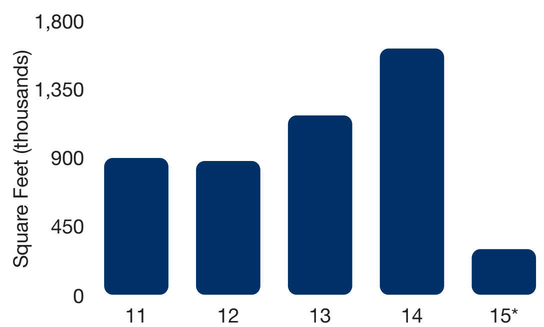
2015 Market Outlook

- **2015 NRI Rank: 13, Up 2 Places.** San Antonio advanced two spots in the ranking despite some weakness near the Eagle Ford Shale.
- **Employment Forecast:** San Antonio payrolls will rise 2.2 percent in 2015 with the addition of 20,700 jobs. Last year, employment grew 3.1 percent.
- **Construction Forecast:** Developers will deliver 300,000 square feet of retail space to the metro this year, down from 1.6 million square feet in 2014.
- **Vacancy Forecast:** Following a 20-basis-point improvement last year, retail vacancy will decline another 70 basis points, to 5.2 percent, in 2015.
- **Rent Forecast:** In 2015, asking rents will rise 3.0 percent to $15.45 per square foot. Last year, rents increased 0.7 percent.
- **Investment Forecast:** Listings may rise as a wave of debt originated in 2005 matures. While property values, by and large, have recovered from the recession, lenders may require additional equity infusions to refinance, encouraging more owners to sell.

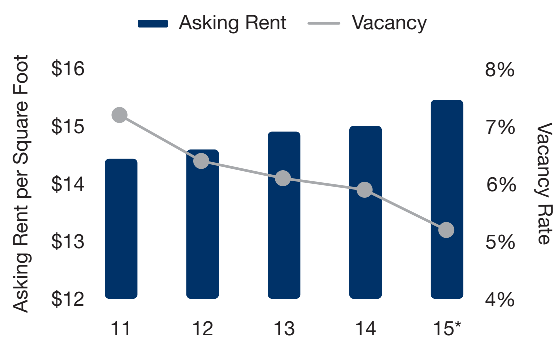
Employment vs. Retail Sales



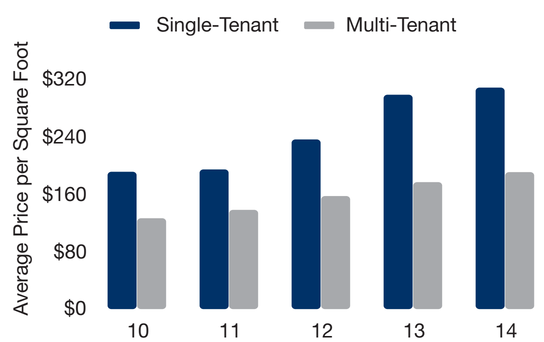
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends

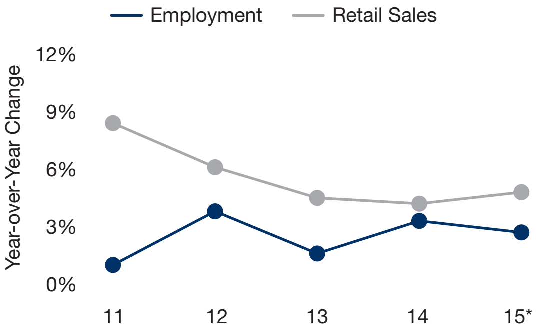


* Forecast

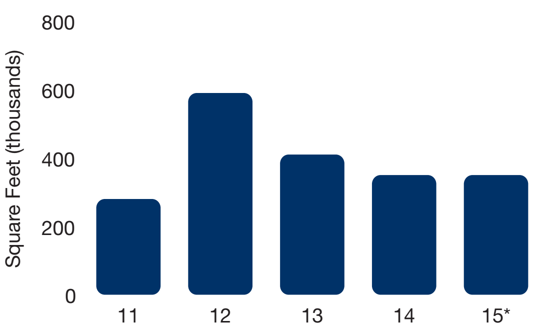
Employment: 2.2% ▲ Construction: 1.3M ▼ Vacancy: 70 bps ▼ Asking Rents: 3.0% ▲ Market Forecast

National Retail Index | Up 1 Place | 2015 Rank: 5 | 2014 Rank: 6

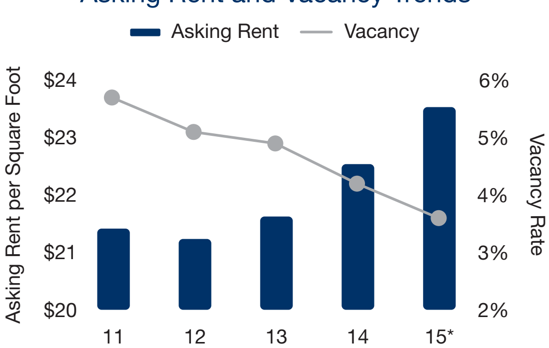
Employment vs. Retail Sales



Retail Completions



Asking Rent and Vacancy Trends



Sales Trends

* Forecast

Tourist Attractions Boost Retail Spending; Buyers Target Multi-Tenant Properties

San Diego's retail vacancy will retreat below the pre-recession level in 2015 as the market's available space remains in high demand. The resurgent job market, which pushed payrolls above the previous peak last year, is attracting residents to the county. As new households form, spending on big-ticket items will accelerate, lifting retail sales more than 5 percent this year. Many of these new households will be in outlying submarkets, where rents and home prices are considerably lower than core areas. That trend should support tenant demand for dark, multi-tenant retail space, particularly smaller strip centers, which have been the last to recover from the previous downturn. Spending will also get a boost from an evolving tourism market. Although growth in the number of day-trip visitors is easing, the frequency of hotel stays is anticipated to climb considerably over the next five years. This group recorded a double-digit increase in average spending per trip last year, a trend that bodes well for retailers near major tourist attractions.

Although retail operations have been improving for the past three years, investors have remained hesitant to dive back into the market. Momentum is building, however, as risk aversion dissipates for most types of multi-tenant retail. Recent increases in rent and occupancy supported an uptick in velocity in 2014 that will gain momentum this year. Much of the rise in deal flow involved strip centers after tenanting concerns abated in recent months. Buyers will purchase stabilized centers with average cap rates in the mid-6 to low-7 percent range. Anchored centers can change hands for first-year returns that are 100 basis points lower. In the single-tenant arena, exchange investors will remain active when deals are listed. Nonetheless, restrained development activity will limit the number of net-leased deals this year.

2015 Market Outlook

- **2015 NRI Rank: 5, Up 1 Place.** A combination of low construction and strong demand growth will result in one of the lowest vacancy rates in the nation, supporting San Diego's top 5 ranking.
- **Employment Forecast:** After 44,100 jobs were created in 2014, employers will expand payrolls by 37,000 positions this year, representing an increase of 2.7 percent.
- **Construction Forecast:** Development activity will match last year's output as 350,000 square feet comes online.
- **Vacancy Forecast:** Countywide vacancy will finish the year at 3.6 percent, a 60-basis-point decline from year-end 2014. Last year, vacancy retreated 70 basis points.
- **Rent Forecast:** Operators will lift asking rents 4.4 percent to $23.52 per square foot, building on last year's increase of 4.2 percent.
- **Investment Forecast:** Buyers will focus on multi-tenant assets in the popular neighborhoods near downtown and tourist attractions along the coast. Investors with a penchant for filling dark space will target assets in newer communities farther inland.

Market Forecast | Employment: 2.7% ▲ | Construction: 0 ■ | Vacancy: 60 bps ▼ | Asking Rents: 4.4% ▲

San Francisco Sits Atop the National Retail Index, Buoyed by the Lowest Vacancy Rate in the Country

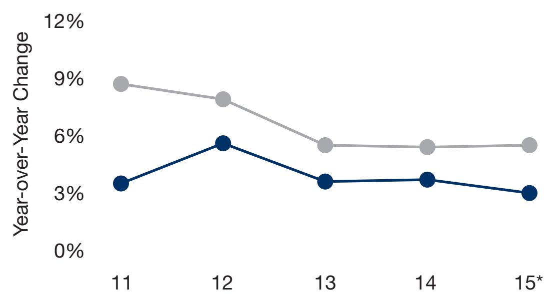
San Francisco's retail market will benefit from strong tenant demand and minimal construction, resulting in the lowest vacancy rate in the country by nearly 100 basis points. The imbalance between retail inventory and number of residents in San Francisco will widen further as developers focus on apartment and office towers with minimal ground-floor retail offerings. Thousands of Class A apartments are coming online in the city, attracting well-paid technology workers. Many of these residents are forgoing car ownership, which is supporting population-serving retailers in neighborhoods where tech employees reside. The South of Market area, where Salesforce is hiring thousands of workers through 2017 to fill space at a new skyscraper, will be a hotbed for the next few years. Another emerging area is the intersection of Van Ness and Market. The once-overlooked spot will house hundreds of apartments on each of its four corners. Overall, extremely low vacancy will facilitate impressive rent gains, securing San Francisco's position as the strongest retail market in the nation.

Acquiring retail properties in San Francisco requires investors to stretch on price, often with the help of large war chests to overcome the gap between underwriting criteria and market price. Most buyers assume significant appreciation when considering available assets and values are dictated by pro-forma cap rates. Some of these investors are targeting properties with upside associated with rent rollovers. Leases signed within the past seven years are beginning to expire and new rates are more than 15 percent above market rents during the downturn. Not all retailers will be able to absorb such a sizable rise in overhead, however, leaving operators walking a fine line between aggressive rent increases and maintaining occupancy without incurring tenant improvement costs. Overall, average cap rates for storefronts began the year slightly under 5 percent, while single-tenant deals transact for first-year returns between 4 and 5 percent.

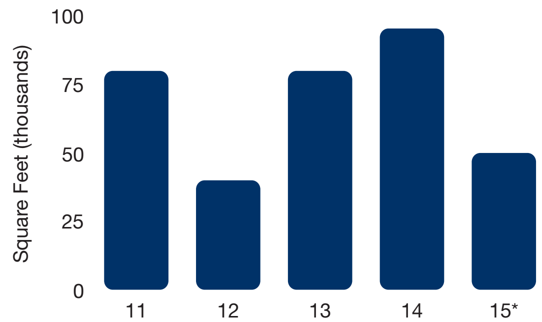
2015 Market Outlook

- **2015 NRI Rank: 1, Up 1 Place.** San Francisco reclaimed the top spot in the NRI with the nation's lowest vacancy rate and high rent growth.
- **Employment Forecast:** Employers will expand payrolls by 3 percent this year, or 33,400 jobs. Last year, 40,800 positions were created.
- **Construction Forecast:** Only 50,000 square feet of retail space will enter inventory in 2015, down from less than 100,000 square feet in 2014.
- **Vacancy Forecast:** Healthy retailer demand and minimal construction will drag down vacancy 20 basis points to 2.2 percent. In 2014, vacancy also tightened 20 basis points.
- **Rent Forecast:** Operators will lift asking rents 8.5 percent to $37.80 per square foot this year, building on last year's 12.1 percent rise.
- **Investment Forecast:** Buyers equipped with cash will remain active this year, though a dearth of listings is dictating deal flow. Most owners are willing to ride the favorable market conditions for a bit longer.

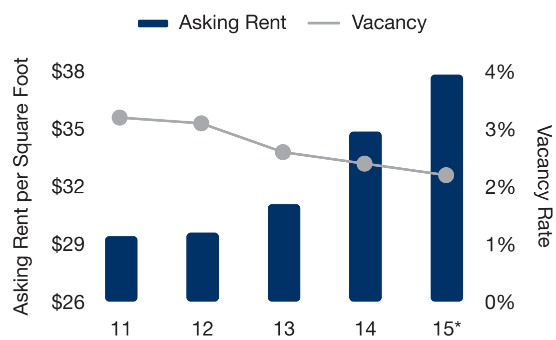
Employment vs. Retail Sales



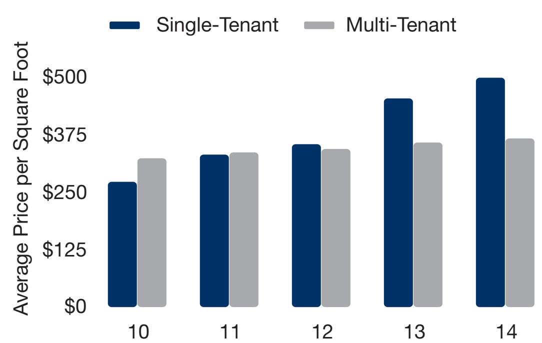
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends

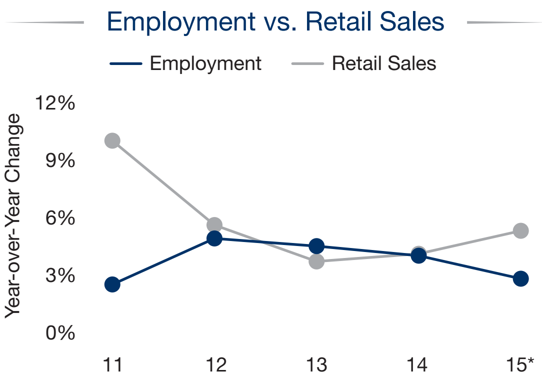


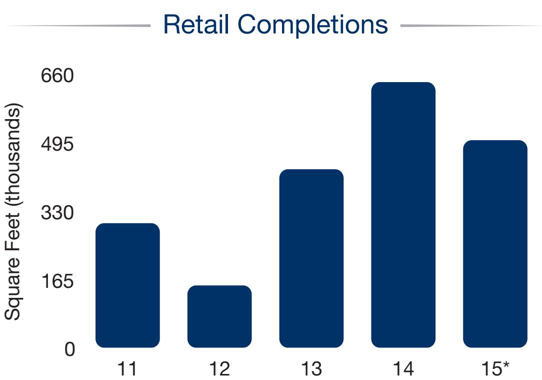
* Forecast

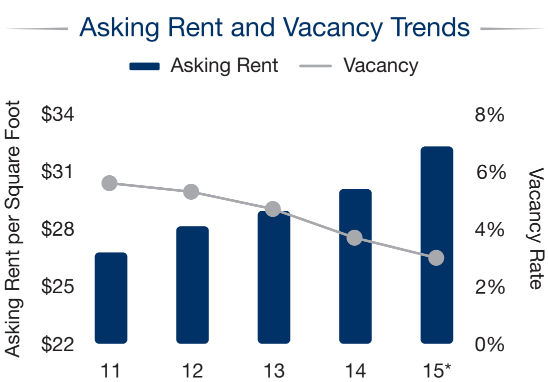
Market Forecast

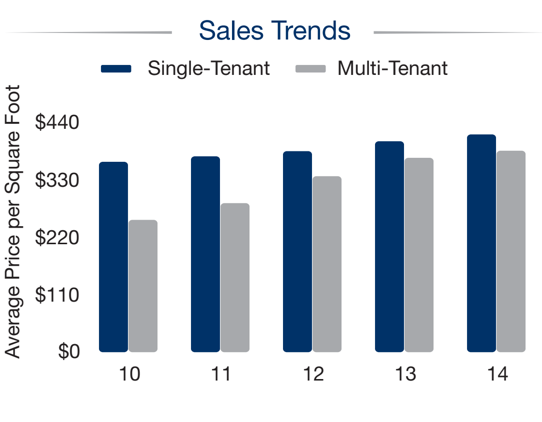
Employment: 3.0% ▲ Construction: 50K ▼ Vacancy: 20 bps ▼ Asking Rents: 8.5% ▲

National Retail Index | No Change | 2015 Rank: 3 | 2014 Rank: 3









* Forecast

Retailers Move to Take Advantage of Spending From High-Paid Technology Workers

Technology firms in Silicon Valley are awash in cash and passing profits to their employees, which will support higher retail sales in the metro. Although wage growth has been underwhelming across most of the nation, employers in the South Bay are bidding up salaries in an effort to attract top talent. These high-paid workers are recruited from college and moving to the area to form new households. Many of the tech employees are taking up residence in the area's new Class A apartments and spending their first few paychecks to furnish their homes. Retailers are eager to gain a foothold in the area to capture some of the discretionary spending from these residents, who will lift retail sales by more than 5 percent in 2015. Supply-side threats, meanwhile, will abate in the coming months as developers pursue just a handful of projects. As a result, rents will soar this year as vacancy tightens to 3 percent.

Values for San Jose retail buildings, particularly single-tenant properties, have climbed significantly in the past few years, pricing many smaller investors out of the market. Nonetheless, the queue of buyers eager to own assets in the market remains considerably longer than those willing to divest, keeping negotiating power firmly in the sellers' camp. That position should begin to transition this year as the Fed shifts from a stimulus monetary policy to a contractionary stance. The change will be sluggish, however, and forward guidance by the FOMC has resulted in the capital markets preemptively accounting for the increase in interest rates. Therefore, cap rates are unlikely to rise in step with gains in the funds rate, leaving conditions in the South Bay tight. Overall, single-tenant yields are in the low-4 percent range for credit ground leases and drift into the mid-5 percent area for franchisees. Multi-tenant cap rates vary from the low-5 percent range for anchored centers all the way up to the low-8 percent range for strip centers in the eastern stretches of the metro.

2015 Market Outlook

- 2015 NRI Rank: 3, No Change. High incomes offered by the technology firms coupled with strong tenant demand helped San Jose maintain the third position in the ranking.
- Employment Forecast: Employers will expand payrolls 2.8 percent this year, or 28,500 jobs, shy of the 39,000 spots generated in 2014.
- Construction Forecast: Only 500,000 square feet of retail space will come online in 2015, channeling space demand into existing properties.
- Vacancy Forecast: Vacancy will tighten 70 basis points this year to 3 percent, following a 100-basis point drop in 2014.
- Rent Forecast: Low vacancy will support a 7.4 percent rise in asking rents to $32.28 per square foot. In 2014, rents advanced 3.9 percent.
- Investment Forecast: Investors seeking higher returns will target areas in the eastern and southern communities of the metro, where tenant demand has lagged the overall average.

Market Forecast | Employment: 2.8% ▲ | Construction: 150K ▼ | Vacancy: 70 bps ▼ | Asking Rents: 7.4% ▲

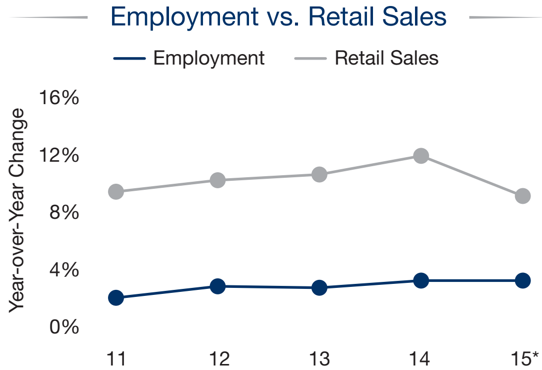
Puget Sound Retail Investors Making Steady Gains As Tech Sector Hiring Boosts Economy

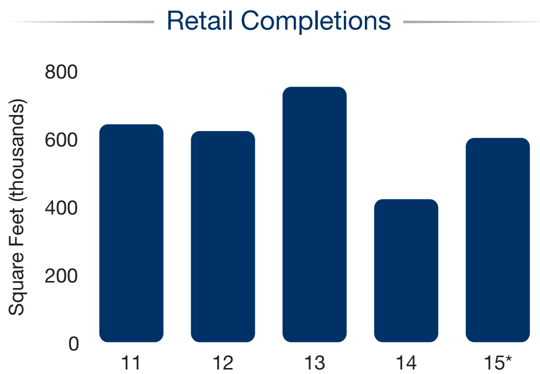
The vibrant Seattle-Tacoma economy will bolster the metro's retail market this year as job growth and retail sales surge. Employment gains will climb to the highest level in 10 years as local companies expand and the well-educated and skilled labor force attracts businesses to the metro. Many of the jobs created will be in the high-paying tech sector, which will draw young professionals to the region. The additional households will contribute to a boom in apartment construction and will underpin a 4 percent climb in retail sales as new residents increase spending on household-related goods. Higher sales and more optimism among small-business owners will contribute to a rise in demand for dark retail space. Developers will respond with the addition of nearly 600,000 square feet by year end. A sizable portion will be ground-floor retail space in the plethora of mixed-use apartment projects coming online. Escalating demand will support tighter vacancies, putting upward pressure on rents. Average asking rents will post the largest increase in more than seven years.

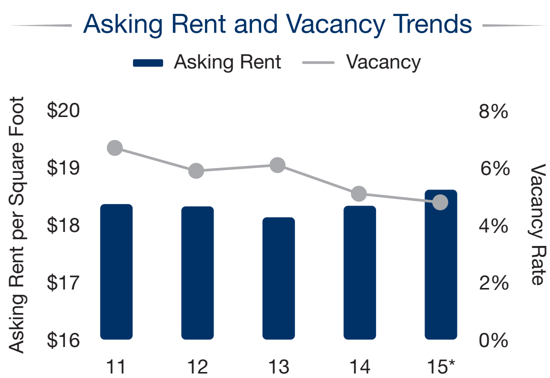
The rise in households, favorable demographics and a strong economy are drawing investors to retail assets in the metro. Many out-of-state buyers, especially from other West Coast markets, are targeting net-leased assets. As competition for the limited listings intensifies, more buyers will search on the Eastside or northward along Highway 99. Older properties along this and other major transit corridors are targeted by builders for their redevelopment potential. Some of these assets are being turned into higher-density residential projects with ground-floor retail space. Other investors may seek assets outside of the city limits this year as the minimum wage in Seattle begins to rise. The impact to small businesses is still unknown and could hinder interest in retail properties with short leases until some of the implications to retailers such as bars and restaurants become clear.

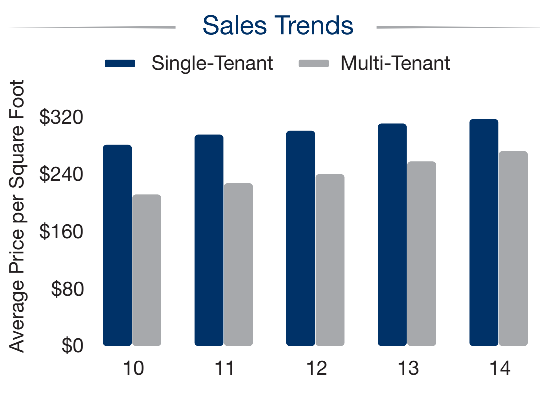
2015 Market Outlook

- **2015 NRI Rank: 9, Down 4 Places.** Although vacancy is only improving modestly, Seattle-Tacoma maintained a top 10 spot in the Index.
- **Employment Forecast:** During 2015, employers will add 60,000 workers to payrolls, a 3.2 percent increase. Last year 57,300 jobs were created.
- **Construction Forecast:** Developers will ramp up production this year on 600,000 square feet. This tops the 425,000 square feet that was completed in 2014.
- **Vacancy Forecast:** Increased tenant demand will offset the rise in inventory during 2015, moving vacancy down 30 basis points to 4.8 percent. Last year, vacancy retreated 100 basis points.
- **Rent Forecast:** As vacancy tightens, operators will lift rents 1.5 percent to $18.61 per square foot in 2015, after ticking up 1.1 percent last year.
- **Investment Forecast:** Improving operations in outlying areas in Snohomish and Pierce counties will provide investors with value-add potential as demand from locally owned businesses fills vacant space.







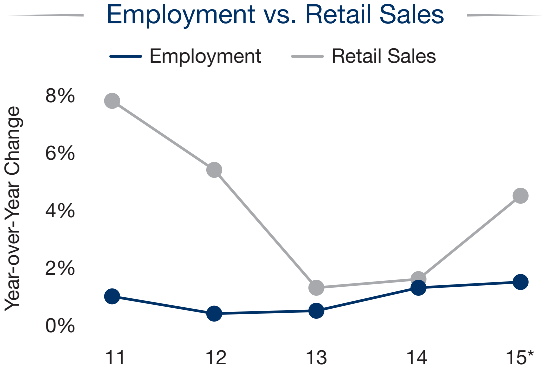


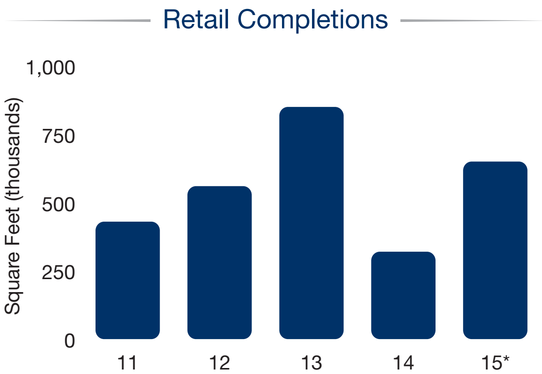
* Forecast

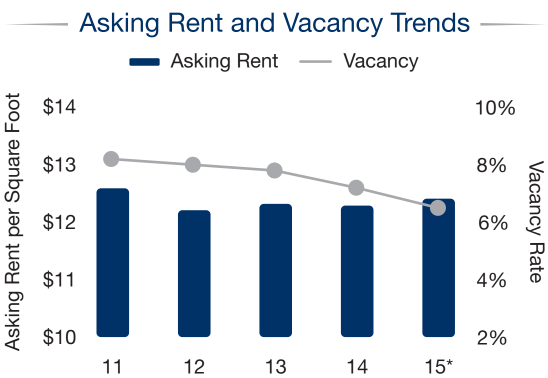
Employment: 3.2% ▲ Construction: 175K ▲ Vacancy: 30 bps ▼ Asking Rents: 1.5% ▲ Market Forecast

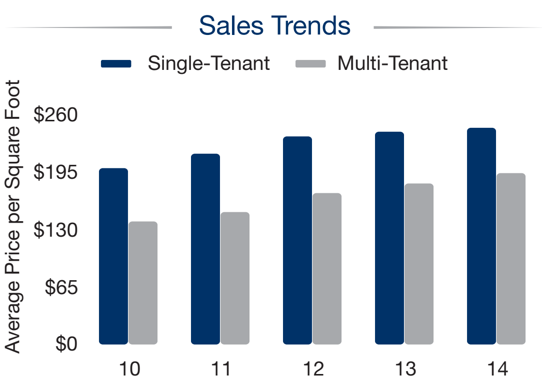
Marcus & Millichap

National Retail Index | No Change | 2015 Rank: 44 | 2014 Rank: 44









* Forecast

St. Louis Retail Prices Escalate as Positive Performance Trends Lure Yield-Pursuing Investors

Modest yet steady improvement will define the St. Louis economy this year, as employment opportunities in biotech, healthcare and manufacturing generate household formation and support retail demand. Expansion of Boeing's 777X line is expected to bring an additional 700 jobs to the north of St. Louis County in Berkeley, where both commercial and defense parts will be manufactured in the new facility. To the south of the city in Jefferson County, Anheuser-Busch will augment its plant to include aluminum bottling and expects to fill 70 positions. Two miles east in Ferguson, Centene, a healthcare management firm, has announced a call center and a second office tower in Clayton to the west of the city. As employers ramp up hiring across the metro, boosted household creation will spark rising retail sales and restore demand for retail space. Developers are responding to growing opportunities with new construction, including a 380,000-square-foot IKEA store and the 135,000-square-foot Kenrick shopping center. Dollar General also has multiple stores under construction in both Missouri and Illinois, expecting to add at least five locations. Overall construction will be elevated this year.

Tightened vacancies and generally higher yields will entice buyers to the market. Both local and regional investors are targeting St. Louis in search of better returns than those found in Chicago and major coastal metros. Value-add buyers, meanwhile, are searching for multi-tenant properties primed for occupancy and management improvements, reconstruction plays, or shopping centers with undeveloped pad sites. While a large portion of properties are locally owned, more out-of-town investors are willing to place capital in the metro at current cap rates.

2015 Market Outlook

- **2015 NRI Rank: 44, No Change.** Rent growth below the pace of inflation prevented St. Louis from moving up in the NRI.
- **Employment Forecast:** Employment will grow by 20,000 positions, or 1.5 percent this year, expanding slower the national average of 2.3 percent. This follows a 1.3 percent metrowide advance in 2014.
- **Construction Forecast:** More than 650,000 square feet will come online this year, after just 320,000 square feet was delivered last year.
- **Vacancy Forecast:** Vacancy will fall 70 basis points to 6.5 percent by the end of the year. This comes after a 60-basis-point drop in 2014 as the local economy progressed.
- **Rent Forecast:** Operators will lift rents 1.0 percent to $12.40 per square foot, well above last year's dip of 0.2 percent.
- **Investment Forecast:** Assets with high-credit tenants will continue to garner buyer interest despite low cap rates in the low-6 percent range. Investors will show renewed demand for multi-tenant properties as some buyers are outbid by the increasingly competitive pricing for single-tenant spaces.

Market Forecast | Employment: 1.5% ▲ Construction: 330K ▲ Vacancy: 70 bps ▼ Asking Rents: 1.0% ▲

Steady Job Growth Boosts Consumer Confidence, Retailer Expansion in Tampa-St. Petersburg

Job creation is raising consumer confidence in the Tampa-St. Petersburg metro, spurring spending and attracting retailers to the market. Employers will recover all of the jobs lost during the recession this year, led by hiring in the primary office-using sectors, as well as strong growth in the region's healthcare industry. Cognizant, Bristol-Myers Squibb, and USAA plan to add thousands of jobs over the next few years. St. Joseph's will open a new hospital in Riverview during the first quarter, and the $225 million project will create up to 500 jobs. These positive economic indicators will contribute to retailer expansion in 2015. Bass Pro Shops, Wal-Mart, Planet Fitness, Lululemon, and Sur La Table, among other retail brands, will open new stores in the metro this year. Construction will remain elevated in 2015 as builders bring 1.4 million square feet of space online; however, strong pre-leasing will allow dark space to fill up and encourage operators to lift asking rents.

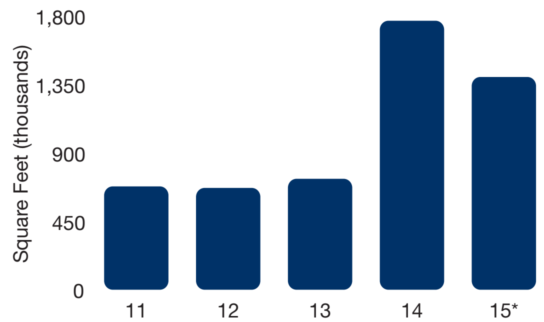
An improving local economy and tightening operations will continue to generate optimism in future market performance, drawing investors to Tampa. Strong competition for metro assets is compressing cap rates and raising property values closer to pre-recession levels. Single-tenant cap rates have compressed to the mid-6 percent range, while first-year yields for multi-tenant assets average nearly 150 basis points higher. Growing residential neighborhoods in Hillsborough along Interstate 75 and in Pinellas County will attract convenience and service-based retailer expansion and provide investment opportunities for buyers. Meanwhile, a gap between for-sale inventory and buyer demand still exists in the multi-tenant sector, with the majority of for-sale inventory on either end of the quality spectrum. As property values rise, many owners who have held assets since the recession, or brought assets up to market, may choose to divest for a profit.

2015 Market Outlook

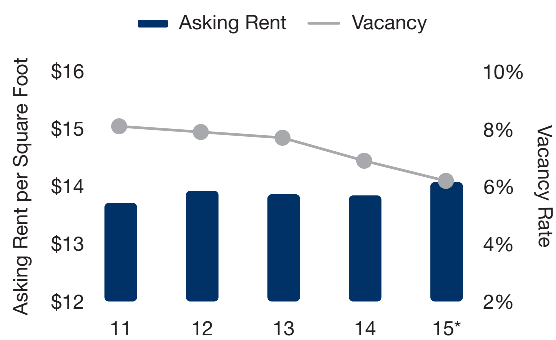
- **2015 NRI Rank: 21, Up 5 Places.** An above-average retail sales growth forecast pushed Tampa-St. Petersburg into the top half of the Index.
- **Employment Forecast:** The pace of job growth will rise dramatically in the metro during 2015 as 25,000 positions are created, expanding payrolls 2.1 percent. In 2014, employment grew 1.2 percent.
- **Construction Forecast:** Completions will drop in 2015 when compared with last year as 1.4 million square feet of retail space comes online. Builders delivered 1.8 million square feet of space in 2014.
- **Vacancy Forecast:** Vacancy will tumble 70 basis points this year to 6.2 percent. Last year, vacancy plunged 80 basis points.
- **Rent Forecast:** Tightening operations will encourage owners to lift asking rents, which will reach $14.07 per square foot by year-end, rising 1.7 percent annually. Asking rents slid 0.1 percent in the prior year.
- **Investment Forecast:** Buyers from the Northeast and California are becoming more active in the market, searching for higher returns than those found in other Florida markets.

Employment vs. Retail Sales

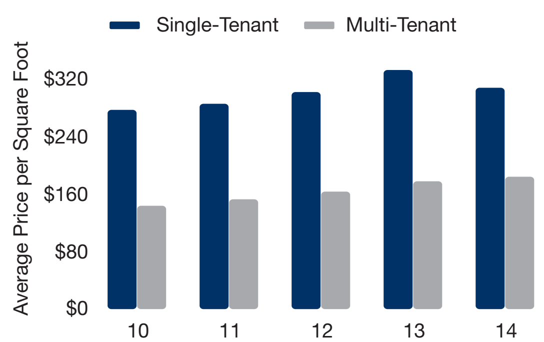
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends

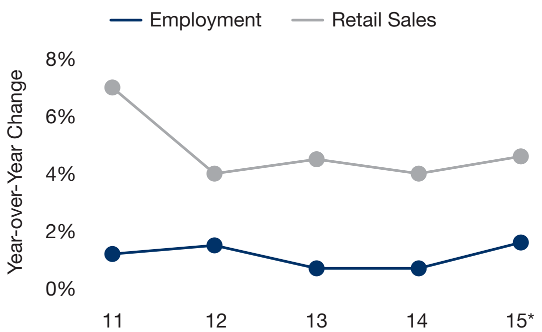


* Forecast

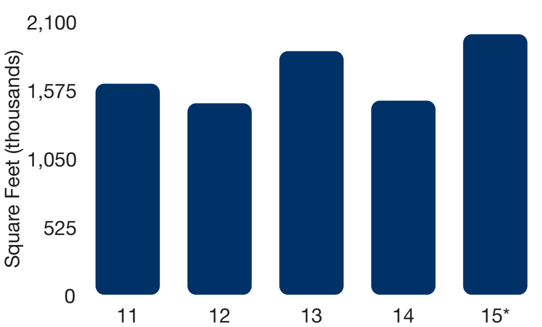
Employment: 2.1% ▲ Construction: 400K ▼ Vacancy: 70 bps ▼ Asking Rents: 1.7% ▲ Market Forecast

National Retail Index | Down 8 Places | 2015 Rank: 24 | 2014 Rank: 16

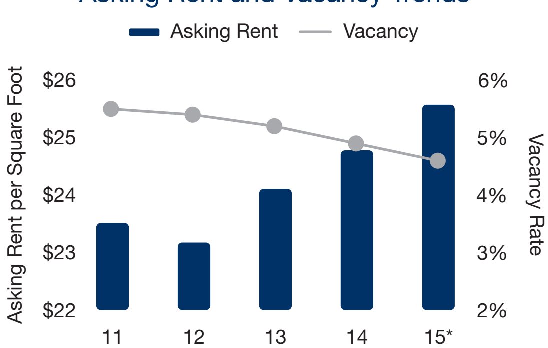
Employment vs. Retail Sales



Retail Completions



Asking Rent and Vacancy Trends



Sales Trends

* Forecast

Developers Active as More Millennials Flock to D.C.; Retail Posts Solid Gains

Respectable private sector hiring will boost employment growth this year, fueling household formation and sparking retailer expansion and new development. Improving job prospects will lure more people to the metro, and as a result, residential developers will remain active. Homes sales and prices will rise, motivating single-family builders to obtain a projected 23,300 permits. While the rising cost of owning remains out of reach for many potential buyers, apartment construction will resume after reaching its peak last year, with 10,900 units slated for delivery in 2015. New apartments are concentrated in Suburban Maryland and the District, and many have devoted space to retail use. Whole Foods will move into the bottom floor of 800 New Jersey Avenue upon completion in 2017, and the grocer will compete with several other supermarkets that are slated for completion this year, including Harris Teeter, Wegmans, Wal-Mart and Safeway. Additionally, fast-causal restaurants are rapidly expanding alongside the growing millennial population. This year, elevated tenant demand will push net absorption and new deliveries to their highest levels since 2008, supporting a respectable increase in rents.

Transaction velocity will strengthen this year as buyers are drawn by a brightening economic outlook and steady rent gains. Intense buyer competition, partially fueled by 1031-exchange activity, will push property values above their previous peak levels. REITs and well-capitalized private buyers will target a limited amount of quality inventory inside the Beltway. Net-leased assets with national credit tenants and long lease terms will draw the strongest interest, with initial returns starting in the low-5 percent range. These properties often trade at or above list price. Investors who are priced out of the single-tenant segment will search for smaller strip centers near new residential development that begin in the 7 percent cap rate range.

2015 Market Outlook

- **2015 NRI Rank: 24, Down 8 Places.** Restrained spending by the government sector and elevated construction pulled Washington, D.C., down eight spots in the Index, the largest decline among the ranked markets.
- **Employment Forecast:** Local employers will generate 48,500 jobs this year, a 1.6 percent increase. Last year, 20,500 workers were hired.
- **Construction Forecast:** After finishing nearly 1.5 million square feet last year, developers will complete 2 million square feet in 2015, expanding inventory 0.9 percent.
- **Vacancy Forecast:** In 2015, vacancy will drop 30 basis points on net absorption of 2.6 million square feet to 4.6 percent.
- **Rent Forecast:** Average rent will rise 3.2 percent to $25.56 per square foot, building on the 2.8 percent gain last year.
- **Investment Forecast:** Owners contemplating dispositions in the next two to four years will increasingly consider expediting plans to take advantage of low interest rates and keen interest in local assets.

Market Forecast | Employment: 1.6% ▲ | Construction: 510K ▲ | Vacancy: 30 bps ▼ | Asking Rents: 3.2% ▲

Up 1 Place | 2015 Rank: 29 | 2014 Rank: 30 National Retail Index

Healthy Job Creation and Strengthening Tourism Contribute to Retailer Optimism in Palm Beach County

The Palm Beach County retail market remains poised for improvement during 2015 as demand for space is brisk. The majority of space slated for completion this year is already pre-leased, and with scheduled deliveries falling dramatically when compared with last year, vacancy will tumble below 6 percent for the first time in more than seven years. Retailer's optimism for the area can be attributed to multiple factors, including healthy job growth and strengthening tourism. In addition, residential construction is also encouraging retailers to expand in the county. Thousands of apartments are underway or planned for completion this year, while numerous luxury condo projects and single-family homes are also proposed. The combination of these factors is attracting retailers such as Whole Foods Market, Stein Mart, Aldi's and Wal-Mart to possibly expand in Palm Beach County this year.

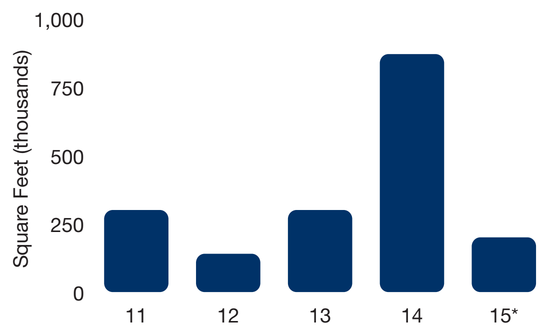
Healthy economic growth and improving retail property conditions will continue to attract out-of-state and cross-border investors to Palm Beach County in 2015. Demand for retail assets is elevated as these buyers target properties in the metro, though the limited supply of quality listings could affect transaction velocity in the coming months. Asset prices are increasing due in part to an influx of capital from high-priced markets from the Northeast and California. Many of these buyers are seeking properties in affluent areas and in prime coastal locations. Meanwhile, demand for net-lease properties will rise over the next few years as retailers expand in the area and recently built shopping centers stir interest in available pad sites. Auto-repair shops, drugstores, and fast-food and casual-dining establishments are all attracting bids from single-tenant investors.

2015 Market Outlook

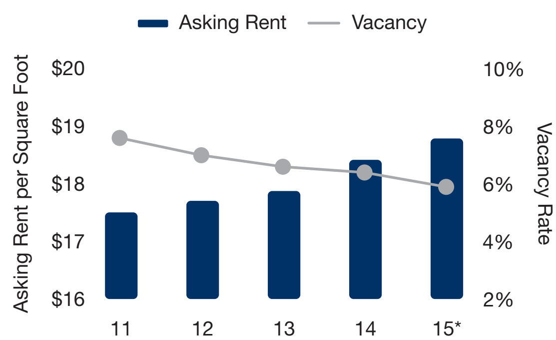
- **2015 NRI Rank: 29, Up 1 Place.** Fueled by strong retail sales and employment growth forecasts, West Palm Beach inched up one position in this year's ranking.
- **Employment Forecast:** Employment will rise 2.9 percent this year as 16,000 workers are added to payrolls. During 2014, employment increased 2.5 percent with the addition of 13,700 jobs.
- **Construction Forecast:** Retail construction will drop dramatically this year when compared with 2014, as just 200,000 square feet of retail space comes online. Builders completed 875,000 square feet of retail space in the metro last year.
- **Vacancy Forecast:** Vacancy has held steady in the mid- to high-6 percent range the last two years. This year, vacancy will fall to 5.9 percent by year end, down 50 basis points. Last year, vacancy dipped 20 basis points.
- **Rent Forecast:** Average asking rents will rise 2.0 percent this year to $18.78 per square foot. Asking rents grew 3.0 percent in 2014.
- **Investment Forecast:** Investors who have held assets since the downturn may have the opportunity to realize profits if divesting this year as average prices have surpasses their pre-recession highs.

Employment vs. Retail Sales

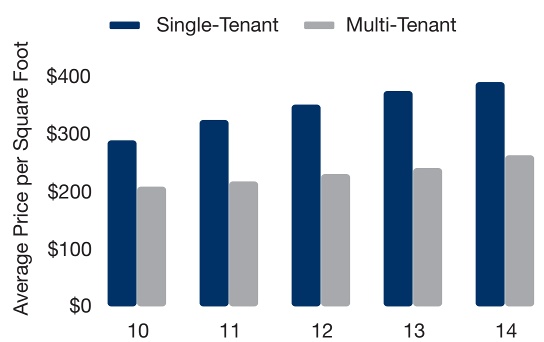
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



* Forecast

Employment: 2.9% ▲ Construction: 675K ▼ Vacancy: 50 bps ▼ Asking Rents: 2.0% ▲ Market Forecast

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National Retail Index Note: Employment and retail data forecasts for 2015 are based on the most up-to-date information available as of February 2015 and are subject to change.

Statistical Summary Note: Metro-level employment, retail sales, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2015. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein.

Sources: Marcus & Millichap Research Services, AAA, American Council of Life Insurers, Blue Chip Economic Indicators, Bureau of Economic Analysis, Commercial Mortgage Alert, CoStar Group Inc., Economy.com, Federal Reserve, Freddie Mac, Foresight Analytics, Mortgage Bankers Association, Real Capital Analytics, Real Estate Center at Texas A&M University, Standard & Poor's, Texas A&M, The Conference Board, Trepp, TWR/Dodge Pipeline, U.S. Bureau of Labor Statistics, U.S. Census Bureau, U.S. Department of Health and Human Services, U.S. Securities and Exchange Commission, U.S. Treasury Department.

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