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Mexico's Retail Market - Residential boom & credit availability drive development



Plaza Real Saltillo



Like many emerging countries, Mexico has never enjoyed an abundance of quality retail offerings. In fact, it has been underserved for decades, despite its growing population, increasing wealth and access to personal credit. Fortunately, retailers and retail real estate developers have finally realized the need and are working to meet it. Over the past three years, Mexico's retail real estate market has grown rapidly, according to Victor Lachica Bravo, president & CEO of real estate brokerage firm Cushman & Wakefield Mexico.

While most retail projects are funded locally, foreign capital has become increasingly active in Mexico. U.S. investors are particularly interested in Mexico's retail market, and U.S. investment funds are expected to invest \$3 billion in shopping center development over the next three years, according to Commercial Real Estate Advisors. These investors hope to realize returns somewhere between 12% and 15%.

Today, Mexico has about 2.5 square feet of retail space per person compared to just 1.4 square feet of retail space per person in 2004, according to the International Council of Shopping Centers (ICSC). Of course, Mexico's recent growth can't compare to 20 square feet of retail space per person in the United States.

"I believe we're going to reach 3.3 square feet of retail space per person very soon, which means that we've almost doubled our retail space," Lachica Bravo says. "The reality is that we were extremely under-retailed, and even with the new retail, there is still a need."

Consumer spending increases

Consumer spending in Mexico rose by 12 percent in 2005, according to Jones Lang LaSalle, while the Mexican Association of Department Stores reported that sales by its members grew by 14.3 percent in 2006. Much of the long-term growth in Mexico's retail sector can be attributed to the increasing population and expanding residential market. In fact, the largest housing developers such as URBI and ARA are increasingly integrating a retail component in their large housing developments to increase the overall value of their projects.

With 107 million people, Mexico is the world's 11th largest country in terms of population. While there are around 38 million people between 25 and 49 - the age that is typically associated with household intent - this number will grow by 21 percent to 46 million by 2030.

* Continues on page 2

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Phoenix Sky Harbor International Airport had more than 42 million passengers in 2007, a new record, said spokesperson.

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Mexico's Retail Market (Cont')

Mexico's housing development commission says the country has a shortfall of 3 million homes; others estimate the shortfall to be as high as 7 million even though the construction sector is building 750,000 homes a year. At the current speed of construction, it is estimated that the deficit could be met somewhere between 2015 and 2020, but ongoing demographic trends indicate that another 800,000 homes per year are needed to satisfy new household intent.



Additionally, consumer credit is growing at double digit rates in the new environment of reduced interest rates and tamed inflation, meaning that Mexicans have more access to personal credit than ever before. In the last few years, mostly foreign-owned banks have dramatically expanded their Mexican credit card debt portfolios. In 2006, banks approved 8.7 million new credit cards, awarding 40 percent of the new accounts to customers with no previous credit history. Credit card consumer spending reached about \$37 billion in 2006, according to LatinReport.



Beyond population growth and consumer credit, remittances from Mexico's 10 million migrant workers have also stimulated private consumption. In 2006, remittances from the United States exceeded \$20 billion - the highest flow in Latin America and the third highest in the world after India and China. Experts estimate that 80 percent of all remittances end up being spent on consumables.

Beyond discount and grocery chains, many prestigious fashion retailers have Mexico on their radars. Brands such as Louis Vuitton, Carolina Herrera, Donna Karan, Armani, Hermes, Salvatore Ferragamo, and Ermenegildo Zegna have successfully entered a number of Mexican markets. Saks Fifth Avenue will soon open its first store in the country in Mexico City.

Retail development boom

There are currently 30 shopping centers under development in Mexico, according to Prudential Real Estate Investors. GE Real Estate also has partnered with Planigrupo, which has about \$160 million worth of retail projects under development, most of them grocery-anchored centers. However, these centers are dissimilar to the grocery-anchored centers that are common in the U.S.; these Mexican grocery-anchored centers, which range from 250,000 square feet to 300,000 square feet, are usually enclosed and boast a large number of inline shops, as well as several sub-anchors including a cinema, Bross says.



* Continues on Page 3

DID YOU KNOW?

The city of Tucson is Southern Arizona's eighth-largest employer, with more than 5,800 full-time-equivalent jobs and a payroll of \$274.6 million.

The Cleveland Indians began training in Tucson in March 1947. Tucson was the team's spring training home for nearly 50 years. The Indians played their last game at Hi Corbett Field on March 31, 1992.

Homes in Tucson use an average of 120 gallons of water per person, per day, less than most other Southwest cities and 45 gallons below Phoenix's rate.

The Inland Press Foundation announced that the Nogales International placed first in its organization's 2007 "Best-in-the-Nation" general excellence competition for non-daily newspapers in the less-than 5,000 circulation class. There were 28 entries in this category.

Kohl's opened stores in Surprise, Queen Creek and Bullhead City, bringing the number of its Arizona stores to 25.

Exports from Arizona grew \$1 billion, or five percent, to \$19.2 billion last year, placing Arizona 19th among states in export sales, the Governor's office announced.

The Grand Canyon's age might be about 10 million years, you can reach it in 8 hours by car from Tucson.

In a spring season with only one rainout, MLB's Cactus League was more popular than ever, setting an attendance record of 1.31 million fans.

Tucson was ranked the third best bicycle-friendly city in the nation by Bicycle Magazine in 2007 for its impressive 300 days of sunshine a year.

SOURCES: Arizona Republic, Arizona Daily Star, Arbis.com, El Imparcial.com, Tucson Citizen, among others

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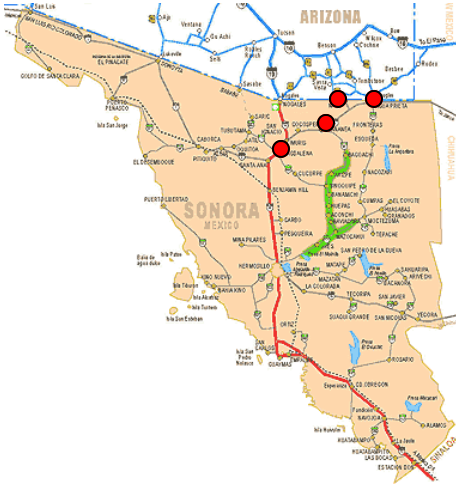
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Mexico's Retail Market (Cont')

Houston-based Hines also is actively developing retail projects in Mexico. Specifically, the company is focused on neighborhood centers for middle-income Mexicans, says Pierre Arriz, general manager of Hines Mexico. These centers are much smaller than Planigrupo's projects, yet they are still anchored by grocery chains including Walmex and Soriana. "We expect the Mexican middle class will continue to grow, which will fuel demand for more retail," he says.

Most of the new development has occurred in Mexico's larger cities including Mexico City, Guadalajara and Monterrey, Lachica Bravo says. Mexico City's suburbs such as Queretaro have also attracted retail development.

However, much of the future opportunity lies in smaller cities and rural areas, he notes. Many developers have already claimed land in these smaller markets as Walmex increasingly targets consumers in suburban and rural areas. But, retail development in these smaller markets is complicated by the limited number of financially sound anchor tenants, as well as smaller inline tenants.

"We have a systemic issue with that fact that we don't have many non big-box retailers," "Trying to bring retailers into new markets has been difficult because they have limited sources of capital."

SOURCE: GREM

'Fortune' chooses Avnet as an admired company

Avnet Inc. has been named to *Fortune* magazine's list of America's most admired companies. The Phoenix electronics distributor moved up to second place in the electronics wholesaler category from fourth place a year ago. It was the only Arizona company to make the list of 397 businesses, representing 64 industries.

FACTS:

- Hispanics cite pleasure travel as the most common form of travel and they cite visiting friends or relatives as the most common reason to travel.
- Rental cars are used as the primary mode of transportation by 7% of Hispanic travelers compared to 3% of the general population.
- About 33% of Hispanic trips include 3 or more people from the same household compared to 25% of the general population. Of the 11 most common trip activities, shopping is the favorite activity for Hispanics at 34%, followed by outdoor recreation at 16%.

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DID YOU KNOW ...?

Southern Arizona will have 118 additional doctors-in-training in the next three years under a new sponsorship collaboration between University Physicians Healthcare and the University of Arizona.

Wal-Mart said its \$4 prescription-drug program has saved Arizonans nearly \$18 million since late 2006.

NACO, Arizona, this unincorporated town, is coming of age as a premier location for business in the greater Bisbee area

Fortune Small Business magazine has picked Oro Valley as one of its "100 Best Places to Live and Launch."

Google looks to cell phones for next bout of growth and profit.

Japan will urge citizens to carry their own chopsticks instead of using disposable ones and go shopping with their own bags instead of using plastic ones, in a bid to more than halve the garbage it produces.

Fresh & Easy Neighborhood Market could soon cover the Phoenix Valley by opening locations about two miles apart, providing roughly one store for every 20,000 residents.

Carl's Jr. restaurant and Aaron Rents furniture may locate in Douglas, AZ.

Raytheon expands its Southern Arizona presence \$11B training program for U.S. Army personnel is launched in Sierra Vista, AZ

Phoenix has earned the top rank among Valley cities for its efforts to combat air-pollution problems.

Hilton Garden Inn opened its 125-room hotel near the Tucson airport.

Tucson is ranked No. 49 among the nation's 200 largest cities on Forbes list of Best Places For Business and Careers.

SOURCES: Arizona Daily Star, Inside Tucson Business, Arizona Republic, Tucson Citizen, among others.

WHAT'S GOING ON IN TUCSON, AZ?

- A purchase of 1.09 acres of land at 127 W. Fifth St. for \$450,000. **Paul Hooker and Rob Glaser of PICOR Commercial Real Estate Services, a Cushman & Wakefield Alliance Member,** represented the seller.
- A purchase of a 2,400 SF space at Southgate Park at East Ajo Way and South Kino Parkway for \$300,000. **Steve Cohen and Russ Hall of PICOR Commercial Real Estate Services, a Cushman & Wakefield Alliance Member,** represented the seller, South Gate Business Park LLC.
- A purchase of 1.2 acres located at 266 E. Missouri St. for \$195,000. **Paul Hooker of PICOR Commercial Real Estate Services, a Cushman & Wakefield Alliance Member,** represented the buyer.
- A purchase of the 60-unit Palace Apartments at 3814 E. Fourth St. for \$2.6 million. **Bob Kaplan of PICOR Commercial Real Estate Services, a Cushman & Wakefield Alliance Member,** represented the seller.
- Affinity Financial Group leased 1,308 SF from SEC Plaza Palomino LLC/New Rudasil La Cholla LLC. **Tom Knox of PICOR Commercial Real Estate Services, a Cushman & Wakefield Alliance Member,** represented the tenant.

Source: Arizona Daily Star

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