MARKETBEAT
RETAIL SNAPSHOT

TUCSON, AZ
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ECONOMIC OVERVIEW
Slow but steady progress is the most accurate way to characterize the state of Tucson's retail market. Home sales in the region are stronger, with March existing home sales 6% higher than the previous month. The investor inventory is tight, with competitive offers the norm.

National retail sales were up in the first quarter, gaining .8% in March, nearly triple the increase projected. In Arizona, sales in January 2012 were up 5.4% over the previous year and gained 16% over a two-year period.

RETAIL MARKET OVERVIEW
The top four leases of the quarter included Cost Plus, Chuze Fitness, Bookman's Exchange and The Drawing Studio. Chuze Fitness' market debut included three initial locations in the 12,000 to 15,000-square foot (sf) range. In the food sector, active retailers in the Tucson market include Paradise Bakery, SmashBurger, and a rekindled expansion by Starbucks. Within the home furnishing sector, pockets of activity have emerged, with Mattress Firm leasing stores. On the apparel side, Famous Footwear relocated their eastside store across the intersection at Broadway and Wilmot to updated space.

Walmart announced Neighborhood Markets at Ina and Thornydale, Broadway and Camino Seco, Golf Links and Kolb, and a general merchandise/urban model location at Houghton and Golf Links.

The recent downturn had a particularly large impact on unanchored retail properties. A Cushman & Wakefield | PICOR survey comparing vacancy rates at grocery-anchored strips versus unanchored retail properties showed a significant performance disparity:

Space surveyed	1Q 2012 Vacancy
Marketwide	8.6%
Grocery anchored	7.2%
Unanchored Retail	15.8%

Migration from unanchored retail to grocery anchored is a clear flight to quality facilitated by lower rental rates and relaxed credit by landlords competing for too few tenants.

On the investor side, renewed activity is present in the market with 2011 sales volume up seven percent (7%) over 2010.

OUTLOOK
While no fortunes are being made in the current climate, the fundamentals improve by the day and a sense of renewed investor confidence is discernible. Lenders, such as banks and life companies, are aggressively chasing well-positioned quality opportunities to refinance debt placement, and are competing with sub five percent (5%) debt in the market. Cash out deals are being considered again, which may bode well for construction with pent up demand for renovations and other improvements.

The Small Business Administration (SBA) has been aggressive on retailer lending and offers streamlined paperwork and simplified qualification with a broader definition of small business than in the past.

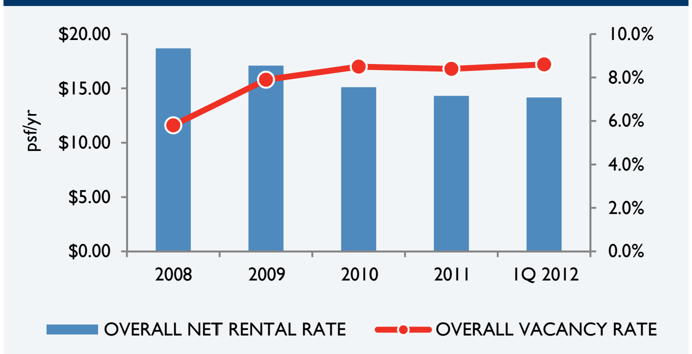
We will continue to see drug, gas and convenience stores actively competing for quality sites.

ECONOMIC INDICATORS

NATIONAL	2011	2012F	2013F
GDP Growth	1.7%	2.4%	2.8%
CPI Growth	3.1%	2.2%	1.9%
Consumer Spending Growth	2.2%	2.3%	2.9%
Retail Sales Growth	7.7%	6.0%	4.0%
REGIONAL	**2011**	**2012F**	**2013F**
Household Income	$44,175	$45,543	$47,699
Population Growth	0.6%	0.8%	2.2%
Unemployment	7.9%	7.7%	6.3%

Source: Moody's Analytics

OVERALL RENTAL VS. VACANCY RATES



Source: CoStar Group

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