

Salt Lake County YEAR-END 2010 | MARKET REVIEW

RETAIL MARKET

RETAIL MARKET TRENDS

- During the second half of 2010 there was a continued softening of asking lease rates reflecting the general weakness of the retail leasing market. Most notable was the significant drop in asking rates for large regional centers where rates have traditionally been the highest. With this drop in lease rates, smaller, more local, tenants have in some cases been able to move up into this class of project where previously they had been priced out.
- Tenant improvement allowances through landlord cash outlays remain difficult for tenants to obtain. The challenging economic environment has led landlords to offer improvement allowances more through rent abatement incentives than cash outlays. There has been a shift in economic exposure for primarily local and regional tenants that have been active during the second half of the year. This tactic is yet another challenge to getting deals done, as sources of capital to make improvements are not easily found by tenants.
- Deal activity and market velocity appear to have bottomed during third quarter 2010 and now show definite signs of stronger activity. We are cautiously hopeful that this

MARKET INDICATORS

	Current	Change since:	
		Q4 09	Q2 10
Retail Vacancy	9.08%	▲	▼
Average Market Lease Rate	\$17.42 PSF	▼	▼
Completed Construction	299,157 SF	▲	▲

Arrows are indicators, arrows do not represent a positive or negative value.

is the bellwether of a trend to more normalized market activity, stronger tenant performance, pressure for rate stability, and restoration of underlying asset values.

- Grocery was one of the more dynamic segments of the retail market along the Wasatch Front with mixed results. On the downside, Associated Foods closed two of the Salt Lake County Albertsons/Fresh Market stores purchased in mid-2009 (a total of six closures by Associated throughout the state of Utah as of press time). On the upside, Walmart continues to move forward in developing its Parley's Way Store and Harmons has broken ground on two new stores (City Creek in downtown Salt Lake and Station Park in Farmington) and has committed to open a new small concept in the former Emigration Market. Further, WinCo has been a strong factor along the Wasatch Front, opening multiple

RETAIL MARKET OVERVIEW - FOURTH QUARTER 2010

Retail Sector	Market SF* with malls	Vacant SF with malls*	Vacancy with malls*	Market SF w/o malls	Vacant SF w/o malls**	Vacancy w/o malls**	Absorption**
Northeast	4,978,120	486,259	9.77%	4,685,116	309,919	6.61%	80,129
Central East	6,096,714	403,892	6.62%	4,991,564	386,478	7.74%	33,958
Southeast	9,528,489	1,078,059	11.31%	8,259,803	1,054,559	12.77%	25,026
Northwest	876,650	89,880	10.25%	876,650	89,880	10.25%	-40,313
Central West	7,191,820	800,535	11.13%	6,508,954	611,101	9.39%	-105,823
Southwest	8,680,435	532,903	6.14%	8,680,435	532,903	6.14%	55,246
Total by Sector	37,352,228	3,391,528	9.08%	34,002,522	2,984,840	8.78%	48,223
Retail Type							
Regional Mall	3,349,706	406,688	12.14%	-	-	-	-105,478
Regional Center	6,735,413	571,550	8.49%	6,735,413	571,550	8.49%	-18,585
Community Center	15,315,205	1,164,047	7.60%	15,315,205	1,164,047	7.60%	74,823
Neighborhood Center	7,508,007	654,083	8.71%	7,508,007	654,083	8.71%	32,945
Anchorless Center	4,443,897	595,160	13.39%	4,443,897	595,160	13.39%	64,518
Total by Type	37,352,228	3,391,528	9.08%	34,002,522	2,984,840	8.78%	48,223

*Refers only to shopping center or multi-tenant developments over 10,000 square feet. ** Absorption includes regional malls.

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stores in 2010, but is rumored to be slowing their future expansion. Finally, specialty grocer Sunflower Market, building on their performance, has announced two new locations in the Salt Lake Valley. The much anticipated Whole Foods relocation to Trolley Square is also imminent. After years of steady expansion, this segment may have reached a saturation point with activity being more cannibalistic than opportunistic. Competition is fierce in the grocery segment where concept and operations are now more critical than ever.

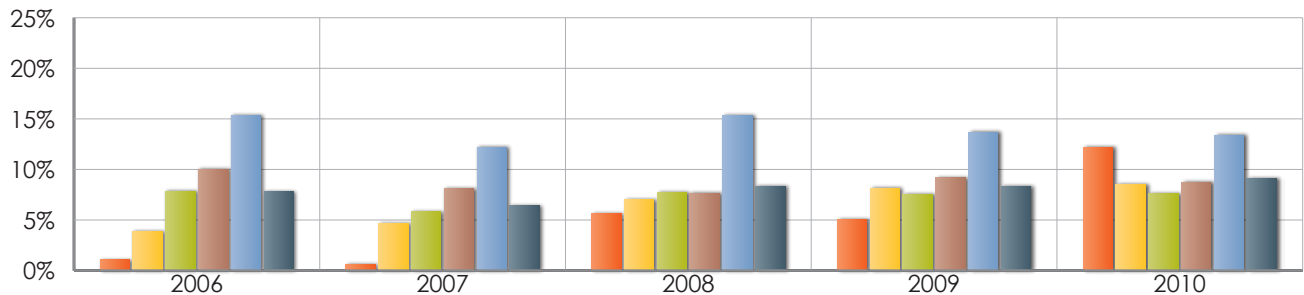
- Although the economy made small steps toward improving, people continued to stay closer to home this past year, patronizing local craft and hobby stores, discount retailers, local dining and entertainment venues. Craft stores like Joann's and Hobby Lobby are reportedly doing very well and continue to expand in the market while discount stores such as Shoe Carnival, TJ Maxx, Kohl's, Maurice's, Ross Dress for Less, Rue 21 and Beales all appeared to benefit from the soft economy and this trend. The second half of 2010 also saw very strong attendance at movie theatres and continued expansion of local eateries, especially value oriented establishments.

RETAIL MARKET LEASE RATES & CONSTRUCTION

Retail Sector	Lease Rates	New Construction SF
Northeast	\$21.52	193,716
Central East	\$18.99	-
Southeast	\$16.39	-
Northwest	\$15.25	-
Central West	\$16.74	83,069
Southwest	\$17.42	22,372
Total by Sector	\$17.42	299,157
Retail Type		
Mall	-	137,982
Regional Center	\$22.19	22,372
Community Center	\$16.22	138,803
Neighborhood Center	\$15.14	-
Anchorless Center	\$17.35	-
Total by Type	\$17.42	299,157

Due to the challenge of tracking actual signed lease rates with any comparative value, Commerce tracks and reports rates based on a weighted average of the "high asking rate."

RETAIL MARKET VACANCY BY TYPE – FIVE YEAR HISTORY



	2006	2007	2008	2009	2010
Regional Mall	1.07%	0.61%	5.60%	5.08%	12.14%
Regional Center	3.89%	4.64%	7.00%	8.12%	8.49%
Community Center	7.81%	5.81%	7.74%	7.55%	7.60%
Neighborhood Center	9.97%	8.08%	7.66%	9.18%	8.71%
Anchorless Center	15.32%	12.19%	15.32%	13.64%	13.39%
Total by Type	7.79%	6.39%	8.31%	8.29%	9.08%

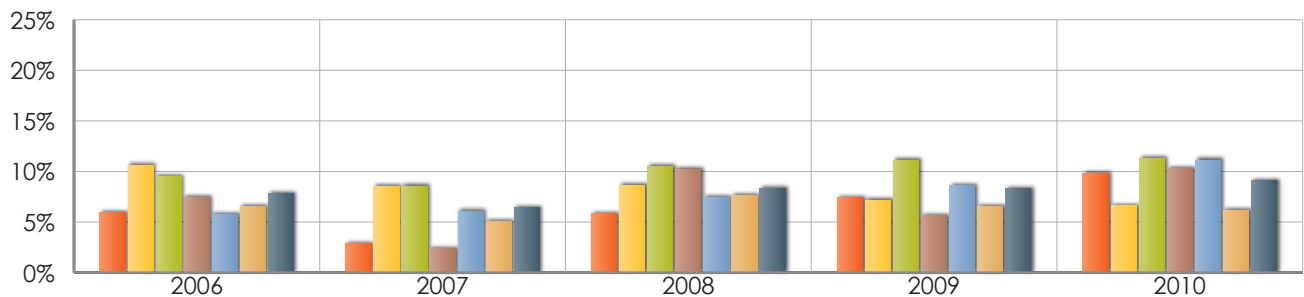
- The most significant development in the mall segment of the market continues to be the development of the much anticipated City Creek Center by the LDS Church. Slated for a 2012 opening, specifics are difficult to come by, but by all accounts interest is strong and this significant development will no doubt have an impact on the overall mall segment in the market.
- Regional malls in the market saw significant changes in Salt Lake County in 2010. Fashion Place Mall underwent a complete transformation with a complete interior remodel and the construction of a new building for Nordstrom. The former Nordstrom space will now be home to Crate & Barrel. Sephora is another tenant to enter the Salt Lake Market through Fashion Place's remodeling efforts. Trolley Square and Valley Fair Mall also underwent sizable expansions and remodels. Valley Fair Mall continued re-positioning its presence in the market through the addition of non-traditional mall tenants such as Ross Dress for Less, Petco and a number of fast food and fast casual restaurants. Lastly, after some delay, Trolley Square completed its expansion/remodel in 2010, with the new Whole Foods building being the largest new component of the project. Whole Foods is slated to open in early 2011. This project also encompasses a sizable amount of spec built retail square footage. By all accounts, The Gateway and South Towne malls remain strong with virtually no vacancy in either.
- The future of the former Cottonwood Mall site remains uncertain. While General Growth Properties emerged from bankruptcy, this property along with a number of others owned was "sold" to a new spin off entity, The Howard Hughes Corporation. It is not clear what the plans are for the iconic property at this point, but it is hoped that this new entity will be in a position to move forward sooner rather than later.

RETAIL MARKET FORECAST

- Although lease rates saw further softening in the second half of 2010, they are expected to stabilize in 2011 and possibly see some strengthening as the general economy continues to improve. Hints of inflation may contribute to this upward pressure. There is little anticipation of a pick-up in new construction in 2011, and do not see any appetite for speculative development. One exception may be the Sugar House area.
- The new Whole Foods store, which will open in early 2011, should provide a boost to Trolley Square. However, with the significant amount of vacancy in the original Trolley structure, as well as the new space available from the additional square footage added, there will be downward pressure on existing lease rates to get vacancy absorbed. During 2011, there should be a better vision of tenancy and impact on the market arising out of the City Creek project.
- While the restaurant sector has fared well, the state's restrictive liquor laws will continue to hinder new entities and additional expansion in the market. Although the legislature made some effort to bring Utah into a more mainstream position, a new law passed last year requiring restaurants to prepare drinks out of sight of customers is keeping several national restaurant chains out of the market. This is due to the additional costs associated with having to custom design their prototypical layouts to conform to the law. This, combined with the serious shortage of liquor licenses affecting local and national operations alike, will have a chilling impact on this otherwise healthy segment of the market.
- In 2009 and 2010, Hollywood Video exited the market, leaving thousands of empty square feet behind. In 2011, we expect to see yet another major home video player, Blockbuster, significantly reduce its presence as it emerges from bankruptcy. As part of Blockbuster's restructuring plan, the company will move away from its brick-and-mortar model to more kiosks. Executives have vowed to slash the number of retail stores in half nationwide—from 3,000 to 1,500. Although we do not know exactly how many Utah locations will close, considering Blockbuster currently occupies over 300,000 square feet of retail space in Utah, it will have an impact on the local market.

- Spooked by excessive non-performing loans and outright default/foreclosures, lenders have started playing a much bigger role in dictating lease terms, including co-tenancy provisions, kick-out clauses, and even lease length and commission terms. This added input from a new player will definitely have an impact on many of the settled provisions, particularly co-tenancy. Tenants with the upper hand, due to market conditions that have not created sufficient pressure for them to be aggressive, may be motivated to accept terms mandated by lenders, from the improving market and the Wall Street pressure for new stores.
- Anticipate a greater number of transactions in 2011. Improved phone traffic, increased transaction counts for other market segments, and a robust holiday shopping season, all point to an improved 2011. Problem projects and loans are still a large factor in the market, but 2010 was a time to get used to them and formulate solutions while 2011 should be a year of more action to actually convert them to productivity.

RETAIL MARKET VACANCY BY SECTOR – FIVE YEAR HISTORY

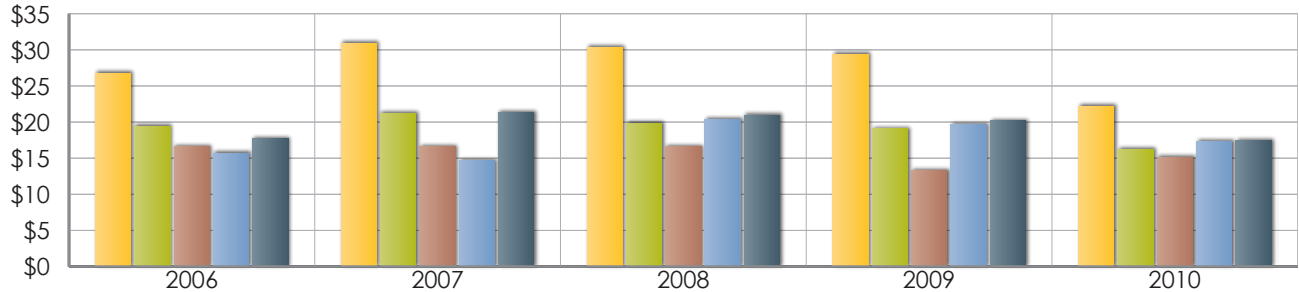


	2006	2007	2008	2009	2010
Northeast	5.93%	2.86%	5.82%	7.39%	9.77%
Central East	10.63%	8.49%	8.63%	7.18%	6.62%
Southeast	9.49%	8.55%	10.47%	11.08%	11.31%
Northwest	7.41%	2.37%	10.20%	5.65%	10.25%
Central West	5.72%	6.08%	7.41%	8.60%	11.13%
Southwest	6.55%	5.06%	7.64%	6.53%	6.14%
Total by Sector	7.79%	6.39%	8.31%	8.29%	9.08%

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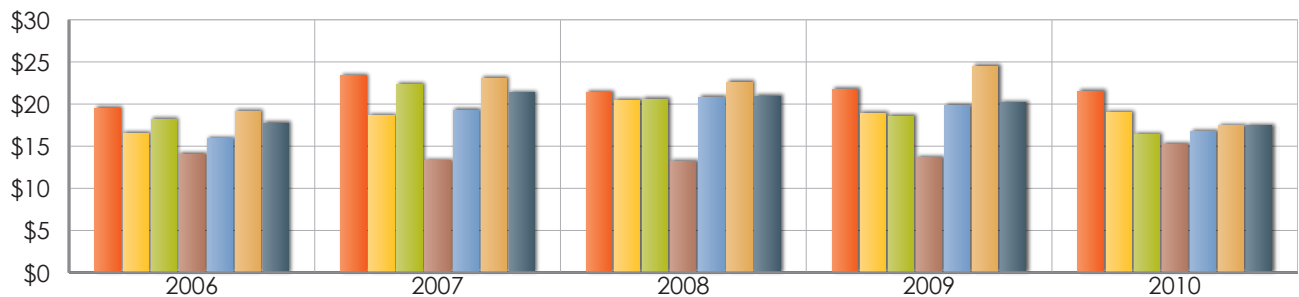
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RETAIL MARKET WEIGHTED AVERAGE LEASE RATES BY TYPE – FIVE YEAR HISTORY



	2006	2007	2008	2009	2010
Regional Center	\$26.75	\$30.94	\$30.32	\$29.41	\$22.19
Community Center	\$19.41	\$21.21	\$19.83	\$19.07	\$16.22
Neighborhood Center	\$16.59	\$16.57	\$16.61	\$13.32	\$15.14
Anchorless Center	\$15.71	\$14.69	\$20.38	\$19.63	\$17.35
Total by Type	\$17.72	\$21.32	\$20.95	\$20.16	\$17.42

RETAIL MARKET WEIGHTED AVERAGE LEASE RATES BY SECTOR – FIVE YEAR HISTORY



	2006	2007	2008	2009	2010
Northeast	\$19.47	\$23.34	\$21.36	\$21.69	\$21.52
Central East	\$16.54	\$18.63	\$20.42	\$18.90	\$18.99
Southeast	\$18.21	\$22.27	\$20.57	\$18.58	\$16.39
Northwest	\$14.06	\$13.27	\$13.18	\$13.65	\$15.25
Central West	\$15.86	\$19.25	\$20.77	\$19.81	\$16.74
Southwest	\$19.15	\$23.05	\$22.57	\$24.50	\$17.42
Total by Sector	\$17.72	\$21.32	\$20.95	\$20.16	\$17.42