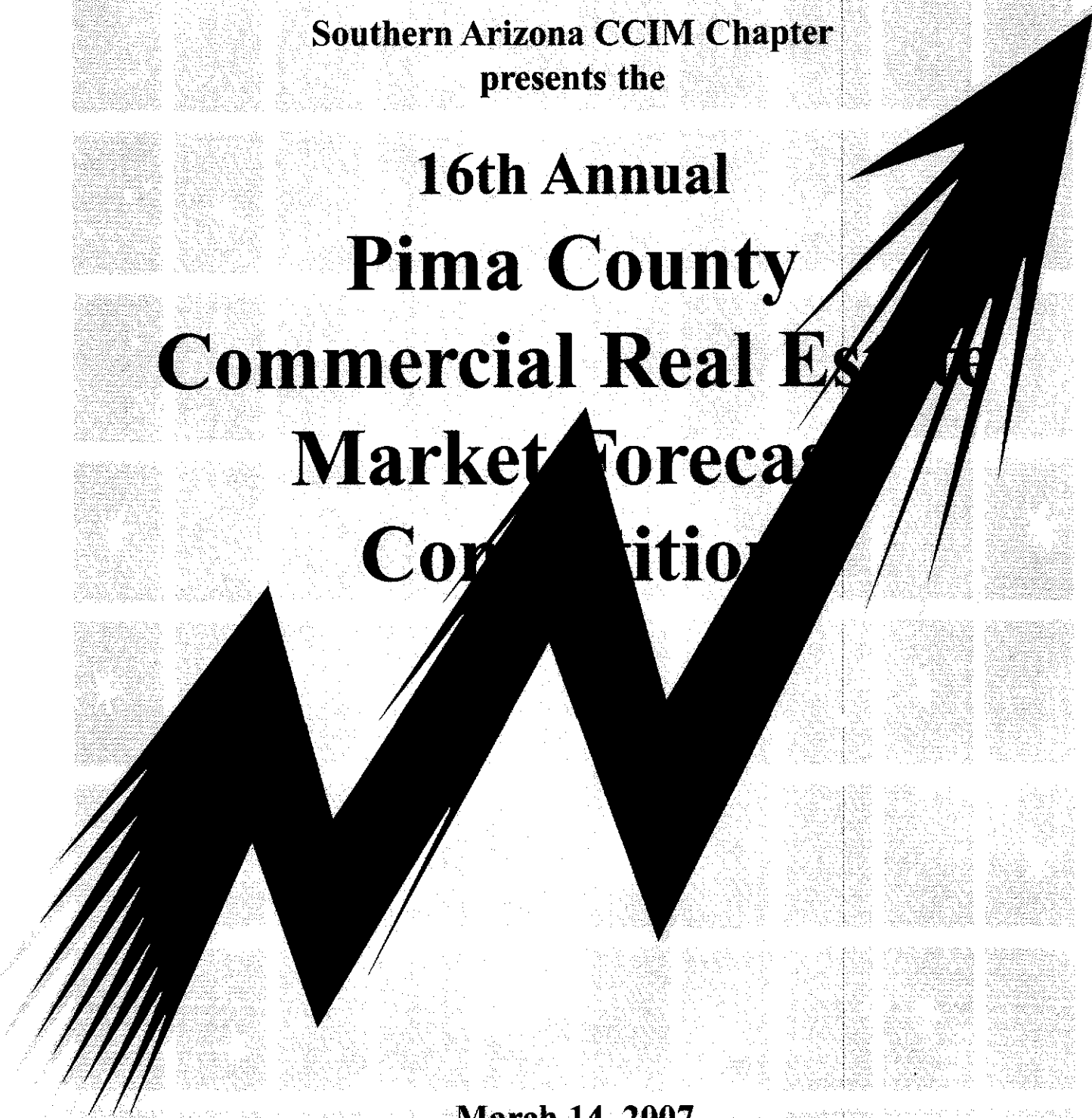


The logo for the Commercial Council of Real Estate Brokers (CCIM), consisting of the letters 'CCIM' in a bold, serif font inside a black rectangular box with a thin white border.

CCIM

**Southern Arizona CCIM Chapter
presents the**

**16th Annual
Pima County
Commercial Real Estate
Market Forecast
Competition**

A large, stylized black arrow graphic that starts at the bottom left and points towards the top right. The arrow has a jagged, zig-zag path and a feathered tail at the bottom left, suggesting movement and growth.

**March 14, 2007
The Westin La Paloma
3800 E. Sunrise Drive**



Southern Arizona Chapter

Welcome to the Event

Thank you for attending the 16th Annual Pima County Commercial Real Estate Market Forecast Competition. We owe a great deal of gratitude to the Pima County Real Estate Research Council, Inc. for generously sharing the Metropolitan Land Use Study with us over these past 16 years.

The Metropolitan Tucson Land Use Study (MTLUS), begun in 1969, is sponsored by the Pima County Real Estate Research Council, Inc. and is produced by the Office of Economic Development at the University of Arizona through the diligent efforts of David de Kok and Marshall Worden. Mr. de Kok directs and authors the quarterly Metropolitan Tucson Land Use Study. Mr. Worden is his co-author and presents the findings during forums held in February, May, August and November of each year.

The MTLUS report is an authoritative and comprehensive study of real estate activity in the Tucson metropolitan area. Each report contains both current and historical data for the major land use categories featured in this forecast competition.

The Southern Arizona CCIM Chapter is proud to be a Diamond sponsor of the Research Council. Many of our chapter members are also Research Council members. If you are not a member of the Pima County Real Estate Research Council, you should consider joining. It is one of the best forums you could attend. A membership application is included toward the back of this program book.

We are also grateful to Karen Schutte at CoStar COMPS® for compiling the sales data that determines the winners in our appraisal category. Karen is a skilled researcher and a good friend to the Southern Arizona CCIM chapter.

Next, we greatly appreciate the financial support from all of our sponsors. Their commitment to the CCIM chapter demonstrates their commitment to the commercial real estate business. They provide services that can be beneficial to your business. Please give them the opportunity to serve you.

Finally, special thanks to the presenters for the hours they spent preparing their 2007 forecast and sharing it with us today. Really, they are sharing their many years of experience and market knowledge. When we asked one presenter how long it took to prepare his prediction, the response was immediate; "about 20 years". We hope you enjoy the event.

Paul Rosado, CCIM
2007 Chapter President

Andy Seleznov, CCIM
2007 Pima County Real Estate Market
Forecast Chairman



Summary of 2007 Individual Forecast

2006 Forecast and Actuals are included for only the 2006 winners. Benchmark data for vacancy rates and residential building permits is provided by the University of Arizona Office of Economic Development - Metropolitan Land Use Study (3rd & 4th Qtr. 2007 reports). Benchmark interest rates are sourced from the US Federal Reserve. Appraisal sales data is provided by CoStar COMPS®.

RETAIL Vacancy Rate for Shopping Centers and Street-Side Commercial Space	Dec 2007 Forecast		2006 Forecast	2006 Actual
	Vacancy	Absorption		
George Larsen, CCIM - Larsen Baker, LLC	8.20%	800,000 sf	7.90%	7.99%
Nancy McClure - CB Richard Ellis Tucson	7.90%	not given		
Debbie W. Heslop, CCIM - Volk Company	7.60%	not given		

OFFICE Vacancy Rate of Leasable Space	Sept 2007 Forecast		2006 Forecast	2006 Actual
	Vacancy	Absorption		
Richard M. Kleiner, SIOR - PICOR Commercial Real Estate Services	11.70%	not given	12.40%	12.20%
Tari Auletta, CCIM - Synergy Commercial Real Estate, Inc.	10.50%	not given		
John G. Yarborough - Romano Real Estate Corporation	11.60%	not given		

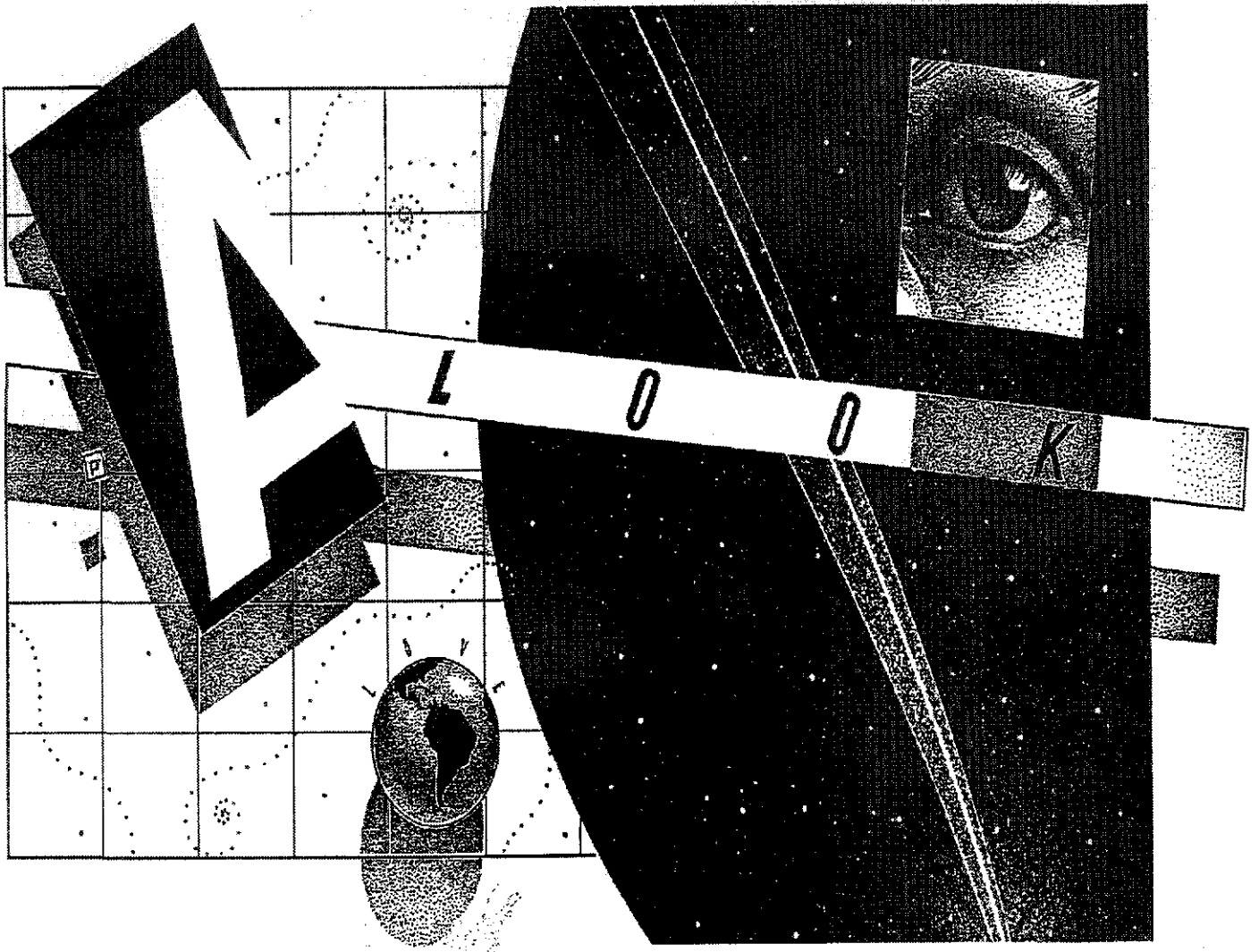
LAND - Total number of residential building permits issued in the year	2007	2006	2006
	Forecast	Forecast	Actual
Bob Benedon, ALC, CCIM - Long Realty Company	8,274	10,327	8,518
James Marian, CCIM - Chapman Lindsey Commercial Real Estate	7,000		
John Strobeck - Bright Future Business Consultants	8,179		

MUTIFAMILY HOUSING Vacancy Rate	Dec 2007 Forecast		2006 Forecast	2006 Actual
	Vacancy	Absorption		
John C. Buette - Sperry Van Ness	5.45%	1575 units	6.75%	6.03%
Bob Kaplan - PICOR Commercial Real Estate Services	6.80%	1750 units		
Mike McClain - Marcus & Millichap	5.10%	not given		

INDUSTRIAL Vacancy Rate of Leasable Space	Sept 2007 Forecast		2006 Forecast	2006 Actual
	Vacancy	Absorption		
Russell Hall, SIOR - PICOR Commercial Real Estate Services	8.45%	not given	14.70%	10.60%
Gary Emerson - Bourn Partners, LLC	10.20%	not given		
J. Terry Lavery, CCIM - Oxford Realty Advisors	3.70%	175,000 sf		

APPRAISAL - Estimated Market Values Ending December 2006	Retail per sq ft	Office per sq ft	Industrial per sq ft	Multifamily per unit
2006 Actuals Prices	\$163.50	\$105.28	\$59.64	\$60,264
2006 Forecast Prices	\$143.50	\$123.50	\$64.00	\$61,000
2007 Forecast Prices:				
Derrick Sinclair, CCIM, MAI - Sinclair Appraisal Services	\$152.00	\$125.00	\$62.00	\$53,000
James S. Bradley, MAI - KB Real Estate Appraisers, Inc.	\$181.00	\$141.00	\$71.00	\$48,000
Steven R. Cole, MAI, SRA - Southwest Appraisal Associates	\$168.00	\$115.00	\$65.00	\$57,000

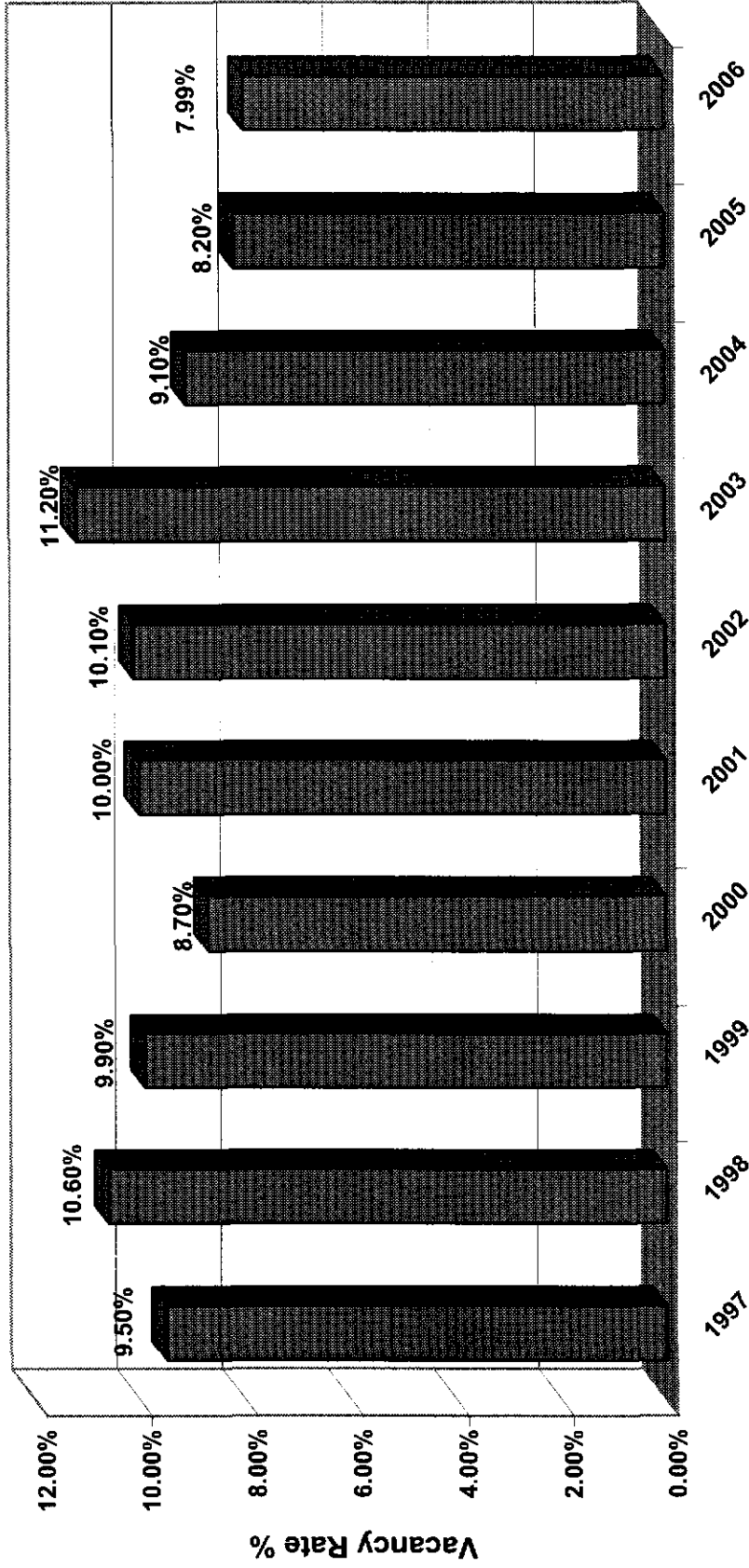
FINANCE - Annual Yield for the 10-year US Treasury Note	12/31/07 Forecast	2006 Forecast	2006 Actual
Laurie Weber, CCIM - LendAmerica	4.90%	4.65%	4.71%
Jim Hunter - Compass Bank	4.75%		
Paul Kraft - Wells Fargo	5.50%		



at

RETAIL

Retail Vacancy Rate Historical Overview



Shopping Centers & Street Side Commercial Space ending 4th Qtr of the Year
Source: Metropolitan Land Use Study, Office of Economic Development, University of Arizona

RETAIL LAND USE CATEGORY

RETAIL Vacancy Rate for Shopping Centers and Street-Side Commercial	Dec 2007 Forecast		2006 Forecast	2006 Actual
	Vacancy	Absorption		
George Larsen, CCIM - Larsen Baker, LLC	8.20%	800,000 sf	7.90%	7.99%
Nancy McClure - CB Richard Ellis Tucson	7.90%	not given		
Debbie W. Heslop, CCIM - Volk Company	7.60%	not given		

Determining the Winner

In the Retail Use category, the forecast is the Vacancy Rate of the combination of shopping centers and street-side commercial space as of the 4th Quarter of 2007 as determined from the Metropolitan Tucson Land Use Study ("MTLUS"). The presenters also prepare a forecast for the net absorption of square feet during the 12 month period ending December 2007. If no absorption figure is given, then a value of zero square feet will be assigned.

The presenter with the vacancy rate closest to the MTLUS published vacancy rate will be declared the winner and automatically invited back to the 2008 forecast competition. In the event that the published vacancy rate, which is rounded to one decimal place, does not determine a winner, then the decimal place will be extended by dividing the vacant square feet by the total leasable square feet as published by MTLUS. In the event of identical predictions, the presenter who predicts the net absorption square footage closest to MTLUS will be declared the winner.

The final arbitrator to determine a winner will be the director of the MTLUS report when published.

Only the 2006 winner of the Commercial Real Estate Market Forecast Competition has their remarks published in the 2007 Commercial Real Estate Market Forecast Competition book.

The Presenters

George C. Larsen, GRI, CCIM, CPB – Larsen Baker, LLC

Winner of the 2006 Commercial Real Estate Market Forecast Competition

George C. Larsen, CCIM is the broker and co-owner of Larsen Baker, LLC and President of Arizona Development Group, Inc. He has over twenty-five years experience in commercial real estate sales, management and development. With partner Don Baker, he has developed and now owns and manages a portfolio of 40 retail / office properties in Arizona. He has an MBA from Arizona State University. George is a Senior Emeritus instructor on the CCIM faculty and was awarded the Commercial Property Builder designation of the National Association of Homebuilders.

Nancy A. McClure – CB Richard Ellis Tucson, LLC

Nancy McClure is a First Vice President at CB Richard Ellis Tucson, LLC, specializing in retail properties. With over 20 years in the commercial real estate field, Ms. McClure's business focus has been in representing shopping center owners and key retail businesses in Southern Arizona. She currently represents a substantial portion of the primary retail product in the Tucson market and is able to handle all aspects of retail — from leasing, user sales, investment sales, as well as new development.

RETAIL LAND USE CATEGORY

Client satisfaction is key to Ms. McClure and consistent delivery of quality service is synonymous to her reputation.

Ms. McClure's strategic business plan is to work with property owners to enhance value through leasing to quality tenants and to position shopping centers for sale in the investment arena. This "cradle to grave" concept has proved successful in a myriad of assignments from centers as small as 15,000 square feet to large, anchored centers in excess of 1,100,000 square feet, including the El Con Mall. Understanding the market, tenant mentality, and retail trends are the critical components Ms. McClure brings to transactions.

Ms. McClure's professional affiliations include:

- International Council of Shopping Centers, committee member, former Tri-State Conference
- American Cancer Society, Chairman of Committee Member 1999-present.

Ms. McClure is a 1983 graduate of Southern Methodist University, Dallas, Texas

- Bachelor of Arts, May 1983
- Majors in English and Spanish; Minor in Ibero-American Studies.

Debbie W. Heslop, CCIM, Associate Broker - Volk Company

Debbie Heslop has over 18 years of experience in the commercial real estate industry in both the brokerage and corporate real estate arenas. She spent the majority of her career in Boston and relocated with her husband to Tucson to enjoy the Southwest lifestyle. Debbie joined Tucson Realty & Trust Company as a Retail Specialist in 2002. She was recognized as Outstanding New Agent in her first year and in her last year with the company was recognized as one of their Top Producers. Debbie joined the Volk Company at the end of 2005 and continues her work with retail developers and national retailers. In her short time in Tucson, she has closed transactions in excess of \$44 M, has earned the CCIM Designation and her Associate Brokers License. Currently she serves on the Board of the Southern Arizona CCIM Chapter.



2007 RETAIL TRENDS

Presented By:

George C. Larsen, CCIM
Larsen Baker LLC
6298 E. Grant Rd.
Tucson, AZ 85712
(520) 296-0200

RETAIL LAND USE CATEGORY

2007 RETAIL TRENDS

It will be hard to top 2006, but the retail sector in Tucson shows no sign of slowing down in 2007. Consider these facts:

- The retail vacancy rate is at an all time low of about 7.9%. Since some retail space is functionally or economically obsolescent, that is about as good as it gets.
- Despite the housing sector's slump, Arizona is still the country's fastest growing state. Arizona is #2 in job growth-we'll have to try harder!
- Since retail construction follows job growth and population growth, Tucson will require more retail development year after year. About 700,000 sq. ft. got built last year. Expect \pm 900,000 sq. ft. this year.
- The Tucson Metroplex just reached a population of 1 million...thank goodness we planned a road system for at least 500,000 of us.
- Interest rates on commercial loans are extremely favorable, at less than six percent (6%) fixed rate interest, based on a 75% loan to value, thirty (30) year amortization and a ten (10) year call. It's hard to screw up when someone will lend you money at 6%.
- Investor demand for shopping centers is remarkable strong. Competition from (mostly) out of state buyers has pushed selling prices for quality centers to as much as \$350.00 / sq. ft. Cap rate returns for the best of these centers is at 6.5% or less.
- Retail rents are all over the place, with new construction commanding a minimum of \$25.00- \$30.00 sq. ft. / year net rent, but with many older established shopping centers only able to achieve \$12.00-\$18.00 / sq. ft. rents. Across the board, rents are up (average rent: \pm \$17.00 / sq. ft.). Pad buildings collect rents of \$40.00 / sq. ft. or more. Common area maintenance costs with taxes / insurance now range from about \$3.75 / sq. ft. in older centers to \$8.50 / sq. ft. for the newer high end specialty centers.
- Construction costs, impact fees, and land development costs are all up substantially from prior years. Some high end retail centers have total land / building / soft costs of \$250 / sq. ft. or more. Most developers now factor in \$7.00 / sq. ft. of land area for horizontal improvement costs. Impact fees can be as much as \$25.00 / sq. ft. for a new fast food restaurant.

RETAIL LAND USE CATEGORY

What to Expect for 2007

Since the market is so good, developers will be active. There is over 6 million sq. ft. of new "Super Centers" announced by out of state developers (the "Big Boys"). Some examples:

- Eastbourne is planning a 1 million sq. ft. retail center at Kino / 36th Street as part of the 350 acre mixed use / University of Arizona research park.
- Westcor (the La Encantada developer) is planning a 1 million sq. ft. retail center in Marana, near the I-10 / Tangerine interchange, and another at Houghton / Valencia.
- Vestar will develop the Oro Valley Town Center at Tangerine / 1st Avenue.
- The Barclay Group will develop new mega-centers at Irvington / I-19 (Tucson Spectrum) and on 164 acres in Marana (Marana Spectrum).
- Tucson will get three (3) new multi screen theaters this year or next, in Marana, Oro Valley and at the Tucson Spectrum.
- Continental Ranch / Arizona Pavilions at Cortaro / I-10 will total about 1mm sq. ft. when Phase II is completed.
- The "Locals" are just as busy, but with slightly smaller scale developments. Bourn Partners, Volk Company, Harpel Company, CBRE, Town West Development and Larsen Baker are all working on multiple new retail developments that will add the Tucson retail landscape.

Anything to Worry about?

If you are so inclined, you can worry about:

- **Overbuilding.** There may be a disconnect between what the Tucson population can absorb ($\pm 700,000$ sq. ft. / year) and what out of state developers can build in such a strong market. What is in the retail development pipeline is more than what we need or can absorb in the next five years.
- **High Rent.** The higher level of net rent required to justify new construction could result in sticker shock to retailers. For example, a 1,000 sq. ft. store with net rent of \$25.00 / sq. ft. needs to produce about \$300,000.00 / year in sales to be profitable. How many dog groomers or florists can achieve that level of annual sales?

RETAIL LAND USE CATEGORY

- Irrational Exuberance. Because of cap rate compression, Tucson has experienced ever higher selling prices for retail properties. Could we follow the housing market where the last buyers in get burned? An investor buying income properties at 6% -7% cap rates has very little margin for error. If interest rates increase or rents decrease, the twelve (12) year seller's market will finally come to a close.

ENOUGH NEGATIVE TALK!

No one ever became successful by dwelling on what dreadful things might happen. Absent a shocking unforeseen event like 9/11 or Lute retiring, in 2007 expect:

- About the same strong occupancy rates.
- Moderate rent increases.
- Lots of new construction of all types of retail buildings.

Tucson is still the Best Little City this Side of San Diego...we'll do fine in 2007.

**MY PREDICTION FOR 4TH QUARTER 2007 RETAIL VACANCY RATE FOR
SHOPPING CENTERS AND STREETSIDE COMMERCIAL SPACE:
8.2%**

RETAIL LAND USE CATEGORY

**YOU DO THE MATH: PART ONE
THE DEVELOPER'S PERSPECTIVE**

Land Cost

40,000 sq. ft. at \$25.00 / sq. ft.

\$ _____

Horizontal Development Costs

40,000 sq. ft. at \$5.00 / sq. ft.

\$ _____

Construction Cost: Shell

10,000 sq. ft. at \$ 100.00 / sq. ft.

\$ _____

Construction Cost: TI's

10,000 sq. ft. at \$ 20.00 / sq. ft.

\$ _____

Soft Costs

10,000 sq. ft. at \$ 40.00 / sq. ft.

\$ _____

TOTAL DEVELOPMENT COSTS:

\$ _____

(\$ _____ / sq. ft.)

NET RENTAL INCOME

10,000 sq. ft. at \$ 25.00 / sq. ft.

\$ _____

INVESTMENT VALUE OF CENTER:

NET INCOME

\$ _____

=

\$ _____

6.5 % CAP RATE

.065

PROFIT:

\$ _____

RETAIL LAND USE CATEGORY

**YOU DO THE MATH: PART TWO
THE TENANT'S PERSPECTIVE**

Example Tenant: 2,000 sq. ft. Retail Store

NET RENT

2,000 sq. ft. at \$25.00 / sq. ft. \$ _____ / Year

CAM CHARGES/ Taxes / Insurance

2,000 sq. ft. at \$8.00 / sq. ft. \$ _____ / Year

UTILITIES COST:

2,000 sq. ft. at \$2.00 / sq. ft. \$ _____ / Year

TOTAL OCCUPANCY COSTS \$ _____ / Year

RATIO OF OCCUPANCY COST TO
SALES TO BE PROFITABLE

10% Occupancy Cost / Gross Sales

ANNUAL SALES REQUIRED FOR A
10% RATIO:

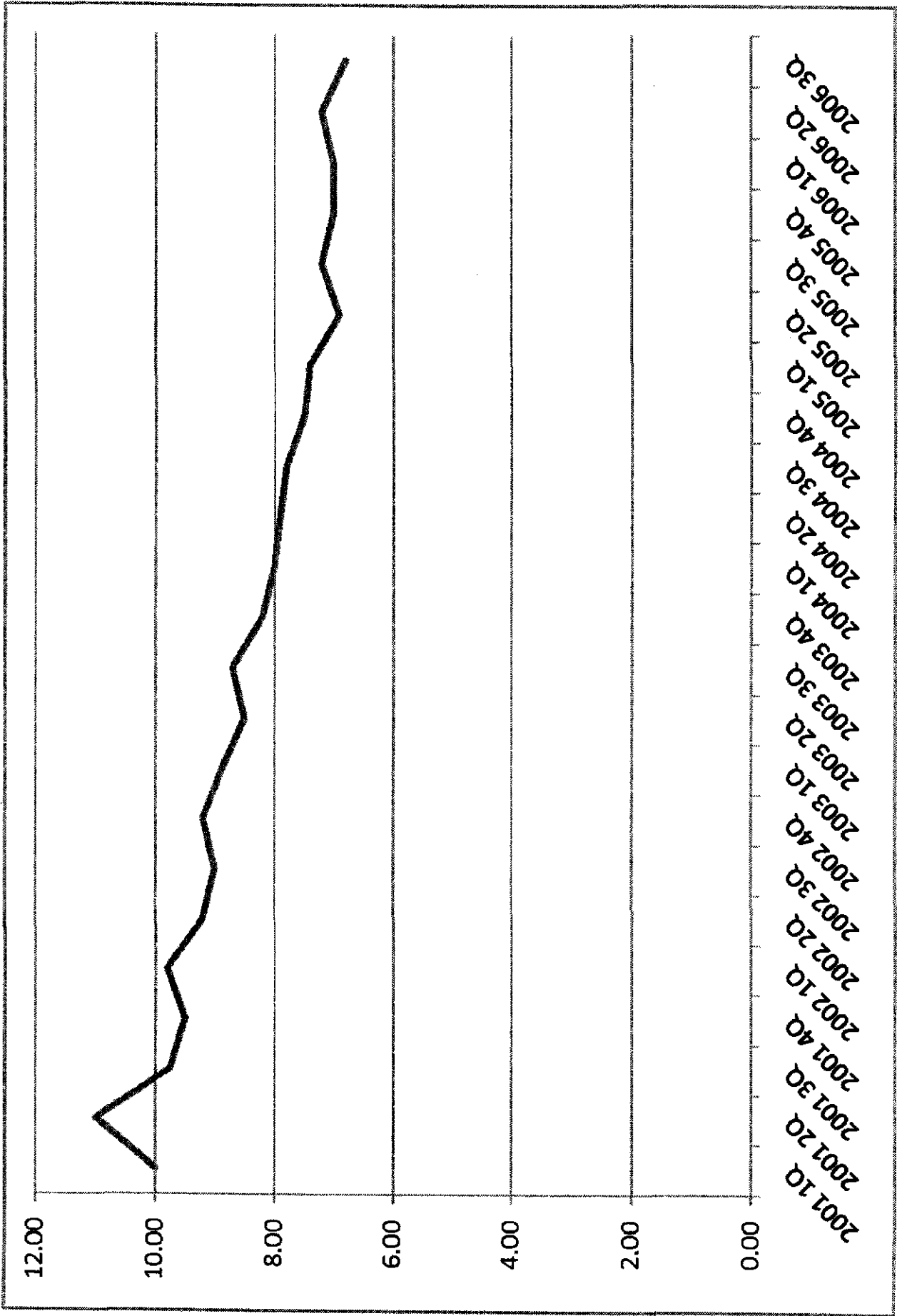
<u>Total Occupancy Costs</u>	\$ _____	\$ _____
10%	.10	(\$ _____ / Month)

Retail Sales per Sq. Ft. of Store Area
Required at the 10% Ratio

<u>Annual Sales</u>	\$ _____	\$ _____ / sq. ft. / Year
2,000 sq. ft.	2,000	

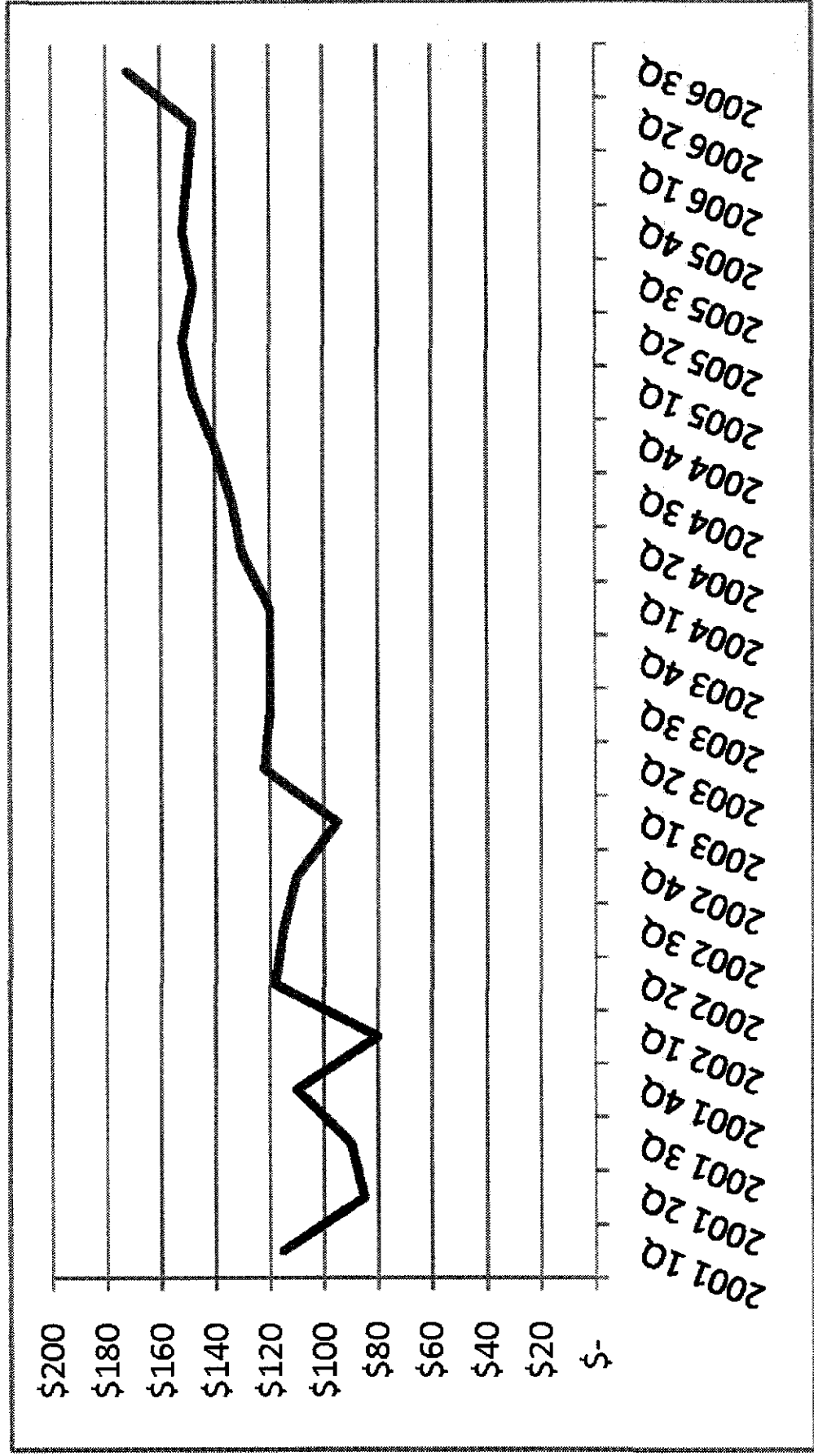
Percentage of Retail Tenants that can
Attain that Level of Sales / Sq. Ft. _____ %

CAP RATES

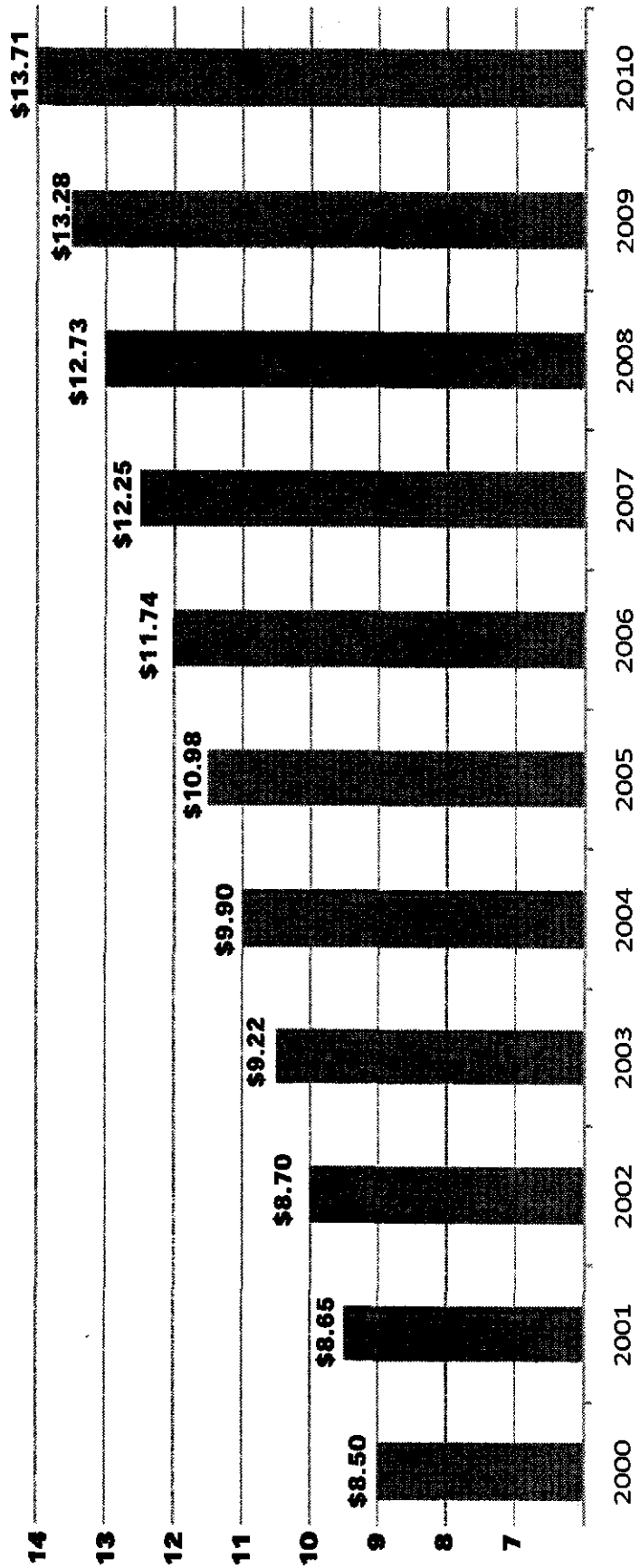


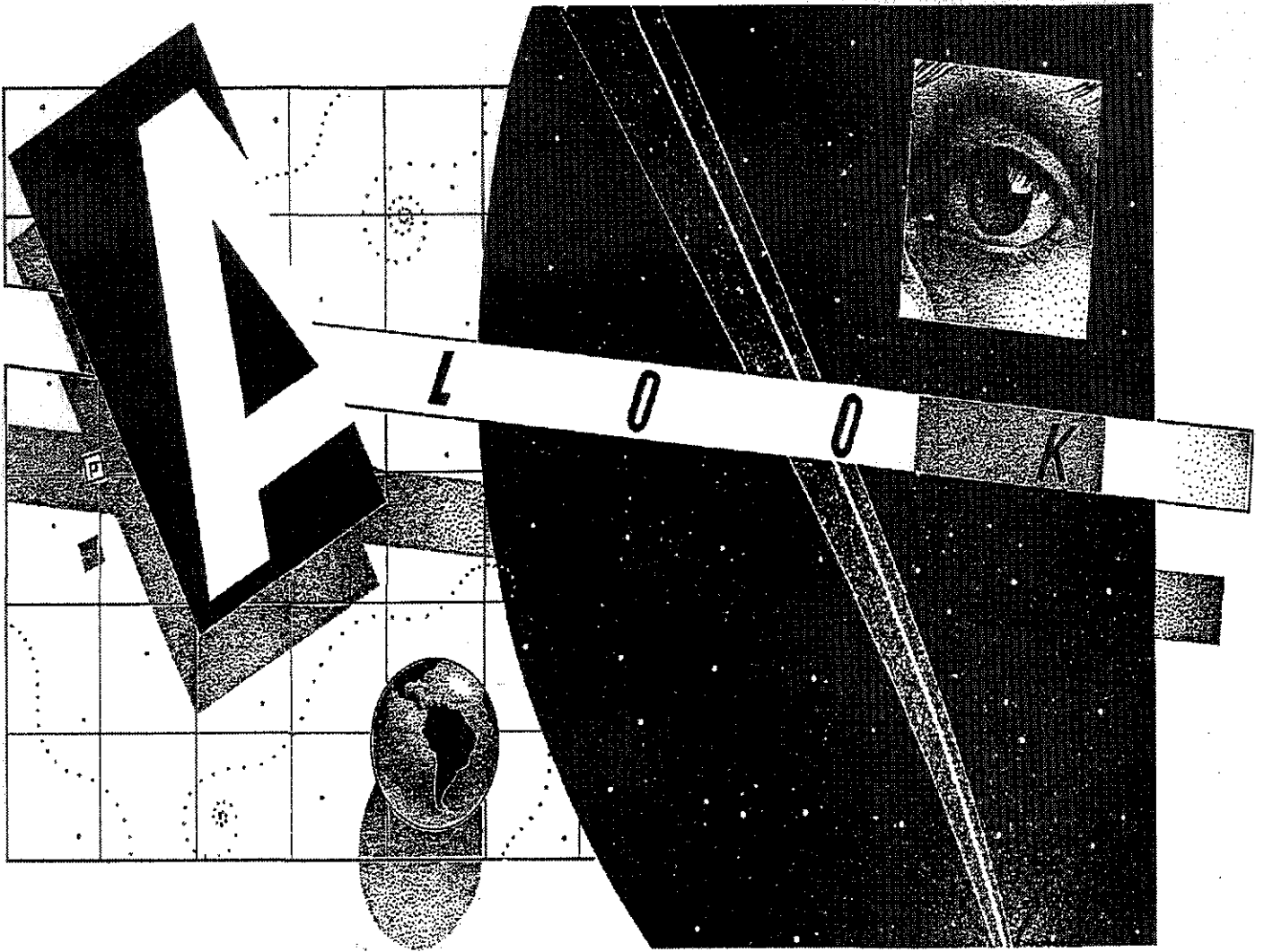
PRICE PER SQUARE FOOT

On Sales of \$5 million or more



2000 - 2010 PIMA COUNTY RETAIL SALES IN BILLIONS OF DOLLARS

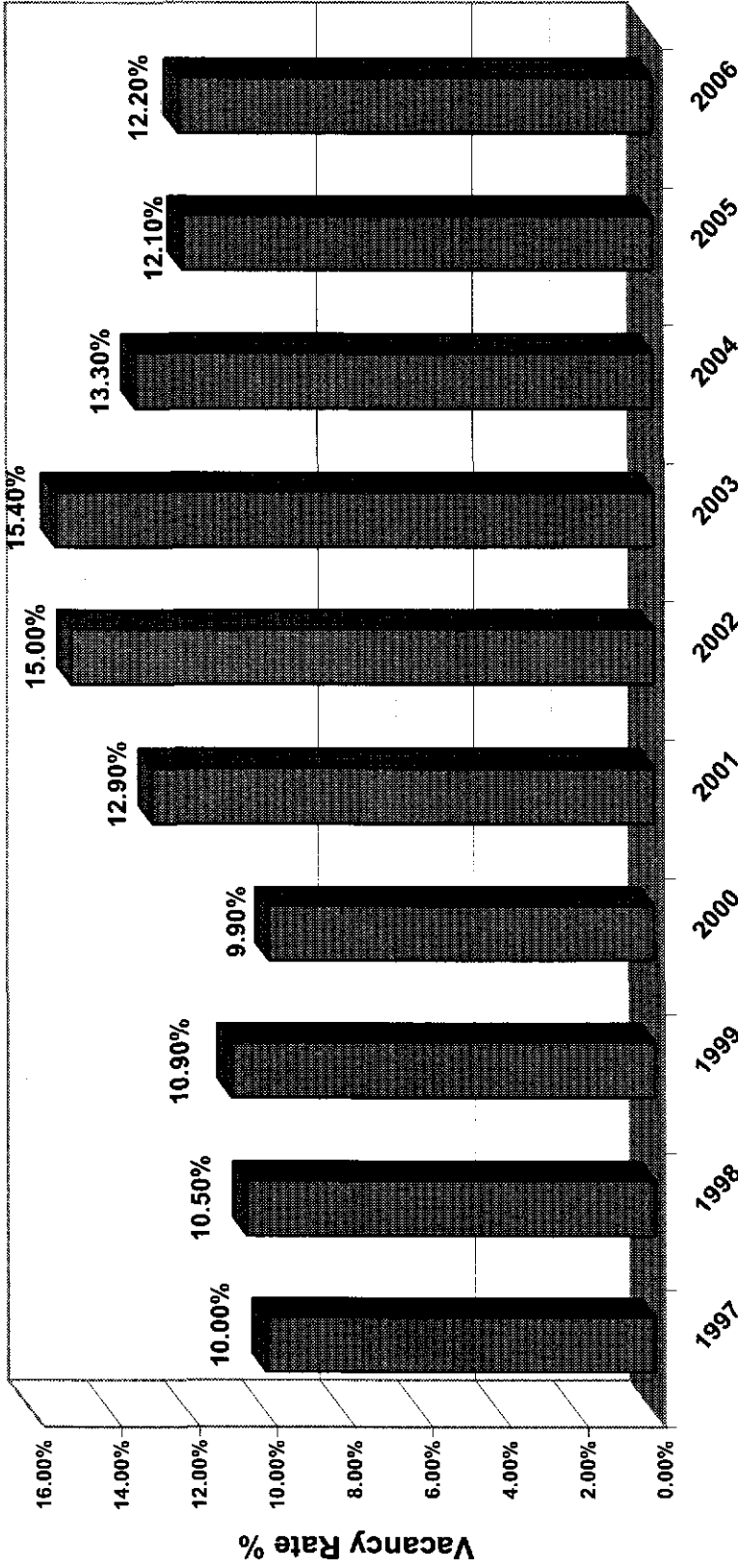




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OFFICE

Office Vacancy Rate For Leasable Space Historical Overview as of 3rd Quarter



Leasable Office Space as of the 3rd Qtr of the Year
Source: Metropolitan Land Use Study, Office of Economic Development, University of Arizona

OFFICE LAND USE CATEGORY

OFFICE Vacancy Rate of Leasable Space	Sept 2007 Forecast		2006 Forecast	2006 Actual
	Vacancy	Absorption		
Richard M. Kleiner, SIOR - PICOR Commercial Real Estate Services	11.70%	not given	12.40%	12.20%
Tari Auletta, CCIM - Synergy Commercial Real Estate, Inc.	10.50%	not given		
John G. Yarborough - Romano Real Estate Corporation	11.60%	not given		

Determining the Winner

In the Office Use category, the forecast is the Vacancy Rate for all leasable only office space as of the 3rd Quarter of 2007 as determined from the Metropolitan Tucson Land Use Study ("MTLUS"). Owner occupied space is not included in the forecast. The presenters also prepare a forecast for the net absorption of leasable only office space (square feet) during the 12 month period ending September 2007. If no absorption figure is given then a value of zero square feet is assigned.

The presenter with the vacancy rate closest to the MTLUS published vacancy rate will be declared the winner and automatically invited back to the 2008 forecast competition. In the event that the published vacancy rate, which is rounded to one decimal place, does not determine a winner, then the decimal place will be extended by dividing the vacant square feet by the total leasable square feet as published by MTLUS. In the event of identical predictions, the presenter who predicts the net absorption square footage closest to MTLUS will be declared the winner.

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The Presenters

Richard M. Kleiner, SIOR – PICOR Commercial Real Estate Services 2006 Winner of the Commercial Real Estate Market Forecast Competition

Rick Kleiner is a shareholder of PICOR Commercial Real Estate Services and specializes in sale, leasing and investment in office and medical properties. Rick was recognized as PICOR's "Top Office Division Producer" in 2006.

Rick is distinguished by his extensive sales background and related education, including his MBA (Master of Business Administration) from the University of Arizona and his designation as Office Specialist in SIOR (the Society of Industrial and Office Realtors).

Rick has been associated with PICOR since starting his commercial real estate career in 1995. Prior to this affiliation, Rick served as Vice President of Marketing for Up With People, the Tucson-based international not-for-profit organization.

OFFICE LAND USE CATEGORY

Rick is married to Jan Miller, a Tucson native. They are proud parents of Sam, a sophomore at Northwestern University, and Emma, in 10th Grade at Catalina Foothills High School.

Tari Auletta, CCIM – Synergy Commercial Real Estate, Inc.

Tari formed Synergy Commercial Real Estate, Inc. in 2006 to concentrate on the rapidly growing North/Northwest office and medical projects.

With over 20 years of experience in the real estate business, Tari Auletta is one of Tucson's leading women in the commercial real estate field. She has the unique experience of having been a commercial property manager, as well as being a broker. Together this allows her to better understand the needs of her clients. Specializing in the sales and leasing of office and medical properties, Tari has represented buyers, sellers, and project developers.

Tari is known for her ability to build strong relationships within her profession and for her dedication to community service. She has served in leadership capacities as President of the Southern Arizona CCIM Chapter, for 2002 and 2003; President of the Blake Foundation, formerly known as the Southern Arizona Cerebral Palsy Foundation, from 2002-2004; board member for Greater Tucson Leadership and on the Chamber of Commerce local government committee. She is an active member of Commercial Real Estate Women (CREW) and in 2001 Tari was honored with the Judy Tyree Women of Distinction Award through Soroptimist International of Desert Tucson.

John G. Yarborough - Romano Real Estate Corporation

John started his commercial real estate career with Tucson Realty & Trust Company in 1990 after graduating Magna Cum Laude from the University of Arizona with a double major in Finance and Real Estate. John joined Romano Real Estate in 1996 to oversee their brokerage division and is currently . For the past several years, John's focus has been representing developers of new office and retail projects.