Voit
Real Estate Services

Retail Market Report

Compared to last quarter:

Vacancy
UP

Net Absorption
DOWN

Lease Rates
DOWN

Transactions
DOWN

Retail Market Highlights

- **Market Challenges** - 2010 appears to be off to a much better start than 2009, with sales activity increasing as life insurance companies begin lending. However, many users/investors still have concerns with vacancy, tenant delinquencies, economic volatility, and the gap between "ask" and "bid" pricing. Fortunately, the ask-bid gap appears to be diminishing, as evidenced by the recent increase in sales activity. Another challenge for the Industrial market is a lack of tenant demand. The slow economic environment is forcing tenant contractions/ consolidations and failures, which in turn put an upward pressure on vacancy rates. To avoid failures many tenants are requesting rent relief from landlords, which in turn is leading landlords to seek their own relief from lenders.
- **Construction** - Currently, there is only 156,519 square feet of Retail construction underway. The shrinking availability of land, combined with high land prices, scarce financing and rising construction costs, has led to few projects being developed in this infill market.
- **Vacancy** - Direct / sublease space (unoccupied) finished the quarter at 5.42%, an increase over last year's rate of 4.54%. The lowest vacancy rates can be found in the I-15 Corridor and North Cities markets, coming in at 3.93% and 4.06%, respectively.
- **Availability** - Direct / sublease space being marketed was 6.60% this quarter, up from the 5.95% we saw this same quarter last year. This is an increase of 11% of new space being marketed when compared to the same quarter last year.
- **Lease Rates** - The average asking Triple Net lease rate per month per foot in San Diego County is currently $1.89, which is a 7.80% decrease over last year's rate of $2.05 and four cents lower than last quarter. The record high rate of $2.12 was established in the third quarter of 2008.
- **Absorption** - Net absorption for the county posted a negative 104,243 square feet for the first quarter of 2010; for the past 5 quarters the R&D market has been averaging approximately 300,000 square feet of negative absorption. This negative absorption can be attributed to the recent job losses.
- **Transaction Activity** - Leasing activity checked in this quarter at 674,765 square feet, a decrease over last quarter's figure of 801,781 square feet. The average square footage leased per quarter over the past five quarters is 730,000 square feet. Sales activity showed an increase, posting 651,103 square feet of activity compared to the 609,738 square feet of last quarter.
- **Unemployment** - The unemployment rate in San Diego County was 10.6% in February 2010, down from a revised 11.1% in January 2010, and above the year ago estimate of 8.7%. This compares with an unadjusted unemployment rate of 12.8% for California and 10.4% for the nation during the same period.
- **Employment** - According to the State of California Employment Development Department, San Diego County lost 44,600 payroll jobs over the last twelve months — 9,200 in manufacturing and 8,100 in professional and business services. However, educational and health services added 2,000 new jobs. Between January 2010 and February 2010 San Diego County gained 900 jobs overall.
- **Overall** - We are beginning to see a decrease in the amount of available space being added per quarter, as well as an increase in investment sales activity. Positive absorption is the big story, and with few new deliveries in the pipeline to put more upward pressure on vacancies, the market is beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances should continue to increase to motivate tenants to immediate action. We should see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins in the second half of 2010. Once job creation turns positive and consumer confidence stabilizes, the Industrial market will regain equilibrium.

RETAIL MARKET OVERVIEW

	1Q2010	4Q2009	1Q2009	% CHANGE VS. 1Q2009
Vacancy Rate	5.42%	5.35%	4.54%	19.38%
Availablity Rate	6.60%	6.66%	5.95%	10.92%
Average Asking Lease Rate	$1.89	$1.93	$2.05	(7.80%)
Sale & Lease Transactions	1,325,868	1,411,519	933,117	42.09%
Gross Absorption	1,009,059	1,382,779	1,051,941	(4.08%)
Net Absorption	(104,243)	278,568	(1,054,935)	N/A

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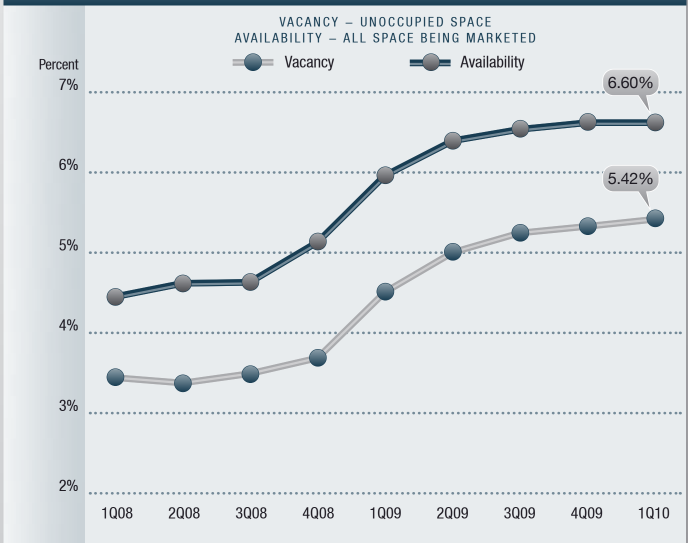
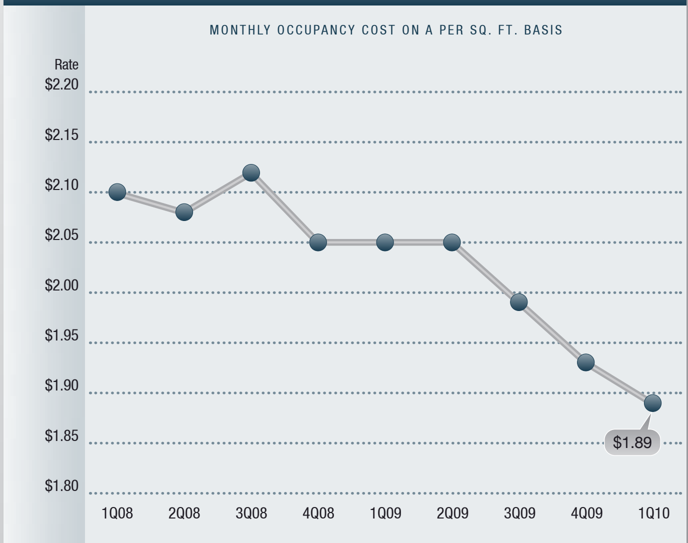
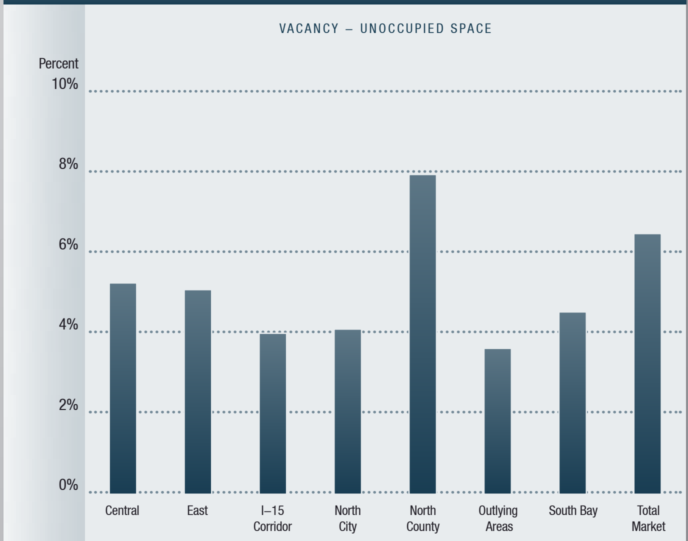
VACANCY & AVAILABILITY RATE



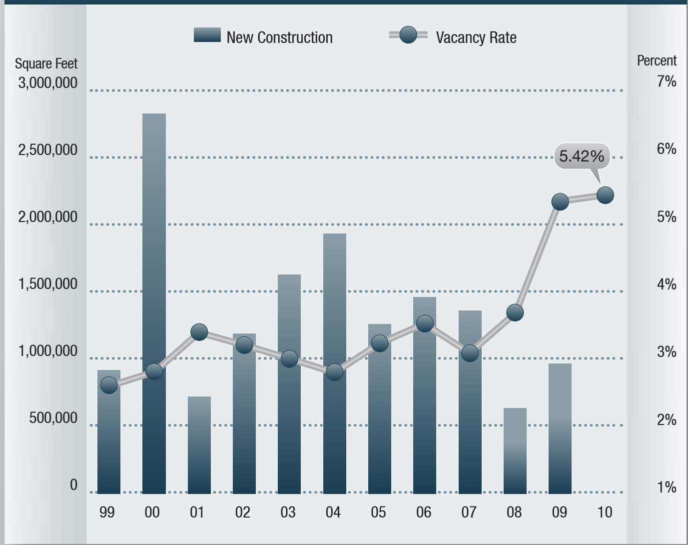
AVERAGE ASKING TRIPLE NET LEASE RATE



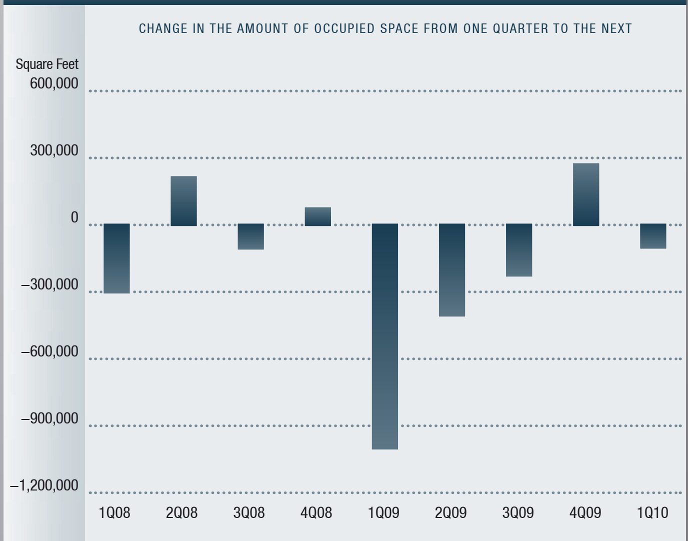
VACANCY RATE BY SUBMARKET



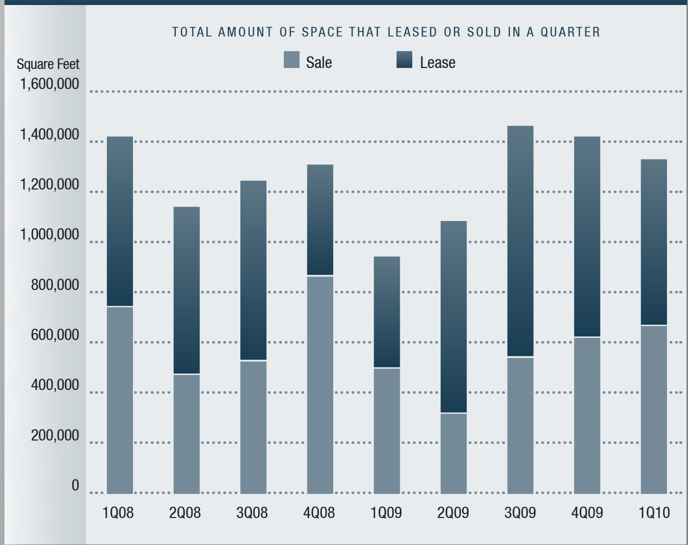
ANNUAL NEW CONSTRUCTION VS. VACANCY RATE



NET ABSORPTION

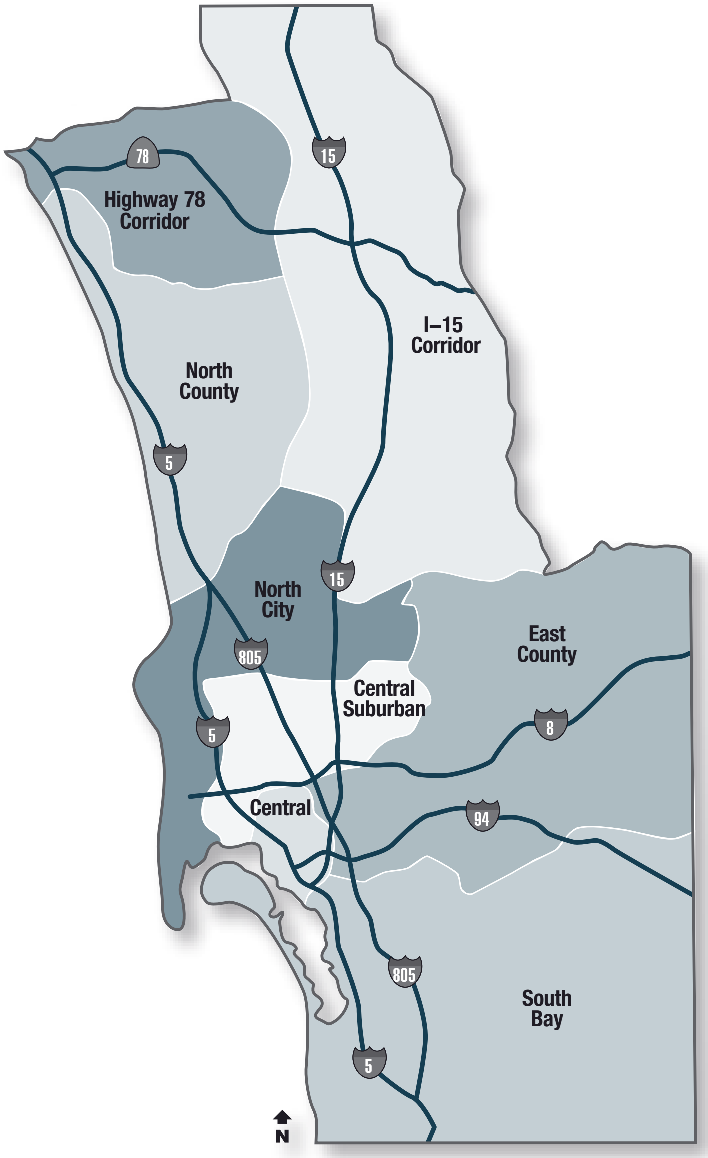


SALE & LEASE TRANSACTIONS



	INVENTORY				VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2010	Total Availability 1Q2010	Average Asking Lease Rate	Net Absorption 1Q2010	Net Absorption 2010	Gross Absorption 1Q2010	Gross Absorption 2010
Central County												
Central San Diego	966	4,614,955	7,357	42,669	236,109	5.12%	288,246	$2.01	(20,306)	(20,306)	22,187	22,187
Clairmont	444	7,258,667	0	0	419,068	5.77%	588,106	$2.02	9,150	9,150	57,775	57,775
Coronado	88	619,775	0	11,500	36,143	5.83%	46,368	$2.91	0	0	0	0
Downtown	523	6,853,715	12,169	0	430,722	6.28%	572,985	$2.75	(19,710)	(19,710)	45,076	45,076
Mission Gorge	82	972,296	0	0	38,270	3.94%	42,618	$2.14	(3,636)	(3,636)	2,600	2,600
Mid City/South East San Diego	1,076	7,096,323	20,000	21,880	345,852	4.87%	382,435	$1.38	11,038	11,038	36,506	36,506
Mission Valley	102	5,524,814	0	0	89,143	1.61%	89,323	$2.27	(22,253)	(22,253)	15,985	15,985
Pacific Beach/Morena	458	3,120,053	0	55,970	152,321	4.88%	178,821	$1.96	(5,135)	(5,135)	37,351	37,351
Point Loma/Sports Arena	462	4,265,988	0	86,655	347,694	8.15%	336,133	$1.93	23,467	23,467	63,656	63,656
Central Suburban Total	4,201	40,326,586	39,526	218,674	2,095,322	5.20%	2,525,035	$2.05	(27,385)	(27,385)	281,136	281,136
East County												
El Cajon	839	8,862,320	0	18,190	477,899	5.39%	624,862	$1.47	(20,584)	(20,584)	81,237	81,237
La Mesa	472	5,185,027	3,000	9,000	278,062	5.36%	331,355	$1.00	10,387	10,387	35,446	35,446
Lemon Grove/Spring Valley	354	2,932,039	0	0	94,683	3.23%	120,275	$1.42	(11,948)	(11,948)	8,686	8,686
Santee/Lakeside	338	3,511,829	0	17,226	188,641	5.37%	247,196	$2.07	26,898	26,898	79,025	79,025
East County Total	2,003	20,491,215	3,000	44,416	1,039,285	5.07%	1,323,688	$1.61	4,753	4,753	204,394	204,394
I–15 Corridor												
Carmel Mountain Ranch	143	3,328,103	0	7,139	105,275	3.16%	168,746	$2.76	35,443	35,443	43,505	43,505
Poway	214	2,855,057	0	35,726	125,829	4.41%	159,910	$2.04	(11,530)	(11,530)	11,628	11,628
Rancho Bernardo	31	518,769	0	0	16,184	3.12%	14,984	$2.86	547	547	2,517	2,517
Rancho Penasquitos	62	816,824	0	0	47,894	5.86%	55,021	$2.90	(2,709)	(2,709)	7,299	7,299
I–15 Corridor Total	450	7,518,753	0	42,865	295,182	3.93%	398,661	$2.39	21,751	21,751	64,949	64,949
North City												
Cardiff/Encinitas	419	6,988,797	45,844	12,620	239,532	3.43%	276,705	$1.93	(16,678)	(16,678)	8,631	8,631
Del Mar Heights	282	2,939,498	0	0	84,767	2.88%	104,279	$2.86	(2,861)	(2,861)	15,847	15,847
La Jolla/Torrey Pines	279	2,308,828	0	0	180,459	7.82%	174,317	$2.96	(144)	(144)	28,189	28,189
Miramar	274	5,273,851	0	0	266,297	5.05%	357,604	$1.83	(2,355)	(2,355)	56,721	56,721
UTC Center	63	2,321,053	0	0	33,965	1.46%	33,594	$2.51	3,582	3,582	5,600	5,600
North City Total	1,317	19,832,027	45,844	12,620	805,020	4.06%	946,499	$2.25	(18,456)	(18,456)	114,988	114,988
North County												
Carlsbad	335	5,110,330	41,995	48,480	301,518	5.90%	363,423	$2.22	1,668	1,668	31,520	31,520
Escondido	754	9,841,204	9,254	25,706	681,841	6.93%	852,879	$1.69	(10,686)	(10,686)	31,521	31,521
Oceanside	669	7,687,669	0	144,007	665,926	8.66%	769,420	$1.65	(1,365)	(1,365)	49,371	49,371
San Marcos	297	4,639,833	0	200,396	420,743	9.07%	496,951	$1.93	(4,982)	(4,982)	21,537	21,537
Vista	548	5,222,481	16,900	82,586	491,730	9.42%	592,376	$1.61	(130,296)	(130,296)	33,549	33,549
North City Total	2,603	32,501,517	68,149	501,175	2,561,758	7.88%	3,075,049	$1.75	(145,661)	(145,661)	167,498	167,498
Outlying Areas												
Outlying SD County North	471	2,591,910	0	8,800	87,070	3.36%	127,365	$1.53	2,268	2,268	14,177	14,177
Outlying SD County South	48	787,649	0	0	33,913	4.31%	39,468	$1.68	(4,909)	(4,909)	1,638	1,638
Outlying Areas Total	519	3,379,559	0	8,800	120,983	3.58%	166,833	$1.58	(2,641)	(2,641)	15,815	15,815
South Bay												
Chula Vista	689	8,991,725	0	281,471	386,482	4.30%	432,126	$1.85	79,401	79,401	106,741	106,741
Eastlake	91	3,221,144	0	158,352	147,668	4.58%	206,471	$1.90	8,379	8,379	16,638	16,638
Imperial Beach/South San Diego	447	4,355,142	0	407,002	137,237	3.15%	147,006	$1.64	3,584	3,584	22,193	22,193
National City	340	3,285,542	0	39,539	212,325	6.46%	270,673	$1.58	(27,968)	(27,968)	14,707	14,707
South Bay Total	1,567	19,853,553	0	886,364	883,712	4.45%	1,056,276	$1.75	63,396	63,396	160,279	160,279
San Diego County Total	**12,660**	**143,903,210**	**156,519**	**1,714,914**	**7,801,262**	**5.42%**	**9,492,041**	**$1.89**	**(104,243)**	**(104,243)**	**1,009,059**	**1,009,059**

Lease rates are on a triple net basis.



SUBMARKETS

CENTRAL COUNTY
Central San Diego, Clairmont, Coronado, Downtown, Mission Gorge, Mid City/South East San Diego, Mission Valley, Pacific Beach/Morena, Point Loma/Sports Arena

EAST COUNTY
El Cajon, La Mesa, Lemon Grove/Spring Valley, Santee/Lakeside

I–15 CORRIDOR
Carmel Mountain Ranch, Poway, Rancho Bernardo, Rancho Penasquitos

NORTH CITY
Cardiff/Encinitas, Del Mar Heights, La Jolla/Torrey Pines, Miramar, UTC Center

NORTH COUNTY
Carlsbad, Escondido, Oceanside, San Marcos, Vista

OUTLYING AREAS
Outlying SD County North, Outlying SD County South

South BAY
Chula Vista, Eastlake, Imperial Beach/South San Diego, National City

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