



Voit
Real Estate Services

Retail Market Report

Compared to last quarter:

Vacancy



UP

Net Absorption



DOWN

Lease Rates



FLAT

Transactions



DOWN

Retail Market Highlights

- ◆ **Market Challenges** - The San Diego County Retail market is facing challenges due to the national recession. The primary concerns are as follows: increasing vacancy, tenant delinquencies, scarce financing, economic uncertainty and volatility, and the gap between “ask” and “bid” pricing between buyers and sellers. However, that gap appears to be diminishing, which is evident from some recent large sales that occurred in Southern California in the second quarter. Another challenge the Retail market is facing is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn has put upward pressure on vacancy and availability rates. These contractions have led to many tenants requesting rent relief from landlords, and owners to attempt to renegotiate loan terms with lenders.
- ◆ **Construction** - Currently there is 338,230 square feet of Retail construction underway, due to lack of demand. The shrinking availability of land, combined with the 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 4.92%, constituting an increase over last year’s second quarter rate of 3.32%. The lowest vacancy rates in the county can be found in the North County and Central Suburban markets coming in at 3.87% and 4.09% respectively.
- ◆ **Availability** - Direct/sublease space being marketed was 6.2% this quarter, up from the 4.56% we saw this same quarter last year. This is an increase of 36% 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 \$2.05, which is a 1.44% decrease over last year’s rate of \$2.05 and the same as last quarter’s rate. The record high rate of \$2.12 was established in the third quarter of 2008.
- ◆ **Absorption** - Net absorption for the county posted a negative 392,506 square feet for the second quarter of 2009, giving the R&D market a total of 1.35 million square feet of negative absorption for the year. This negative absorption can be attributed to the recent job losses.
- ◆ **Transaction Activity** - Leasing activity checked in this quarter at 516,910 square feet, which is an increase over last quarter when only 398,419 square feet leased. The average amount of leasing per quarter over the past nine quarters was 580,000 square feet. Sales activity showed a decrease over last quarter, posting 265,615 square feet of activity compared to the first quarter’s 429,270 square feet.
- ◆ **Unemployment** - The unemployment rate in San Diego County was 9.4% in May 2009, up from a revised 9.2% in April 2009, and above the year ago estimate of 5.4%. This compares with an unadjusted unemployment rate of 11.2% for California and 9.1% for the nation during the same period.
- ◆ **Employment** - According to the State of California Employment Development Department, San Diego County lost 52,200 payroll jobs over the last twelve months – 11,500 in retail trade, transportation and utilities services and 11,100 in construction. However, between April 2009 and May 2009 San Diego County only lost 2,800 jobs.
- ◆ **Overall** - Lease rates are expected to remain soft for the foreseeable future, and concessions should continue to increase in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances to incentivize tenants to act now. We should see an increase in activity in the second half of 2009 from pent up demand, once financial markets correct themselves and as consumer confidence increases. The final outcome hinges on how the recession progresses and how quickly credit eases up.

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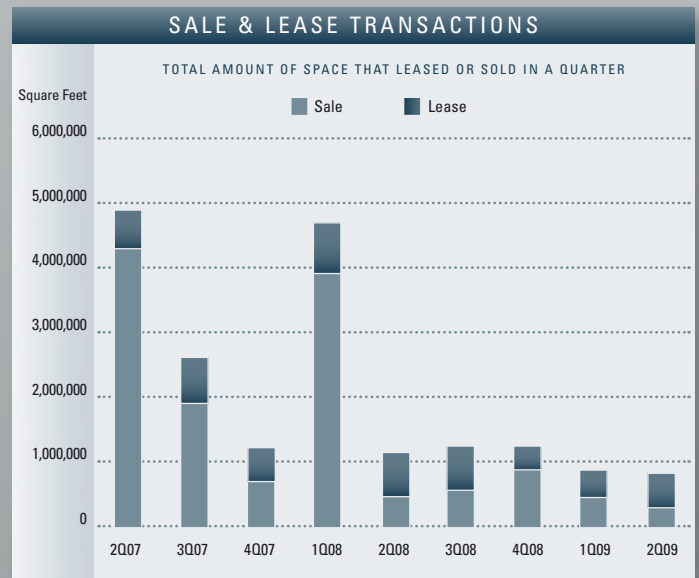
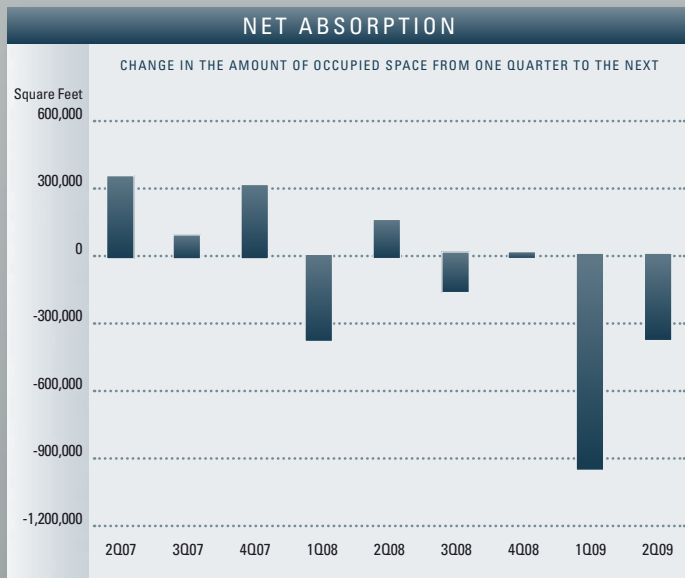
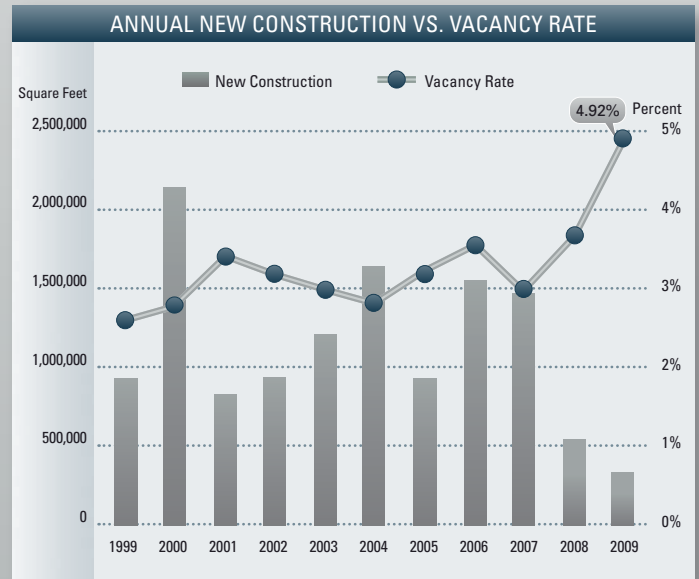
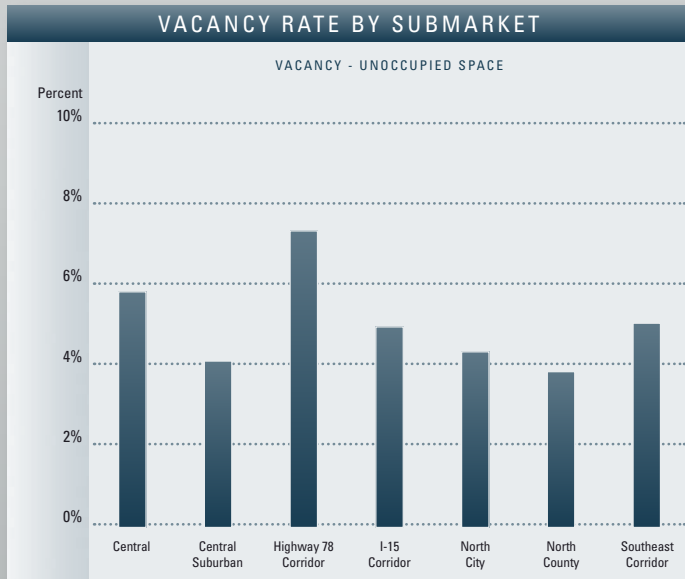
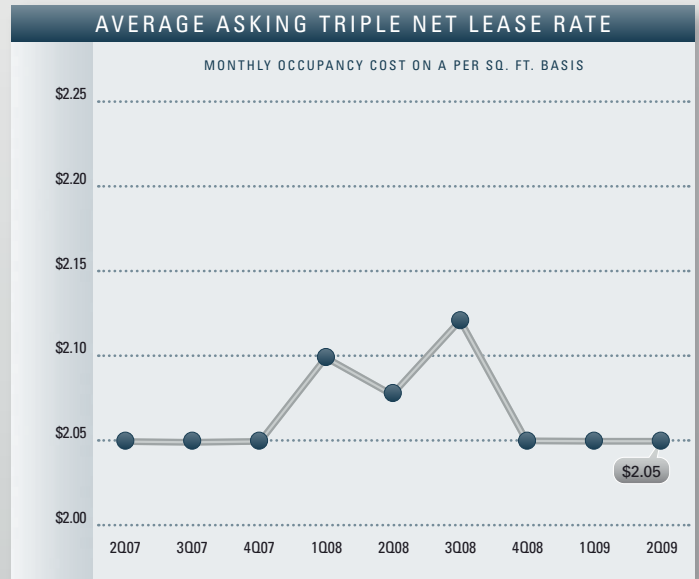
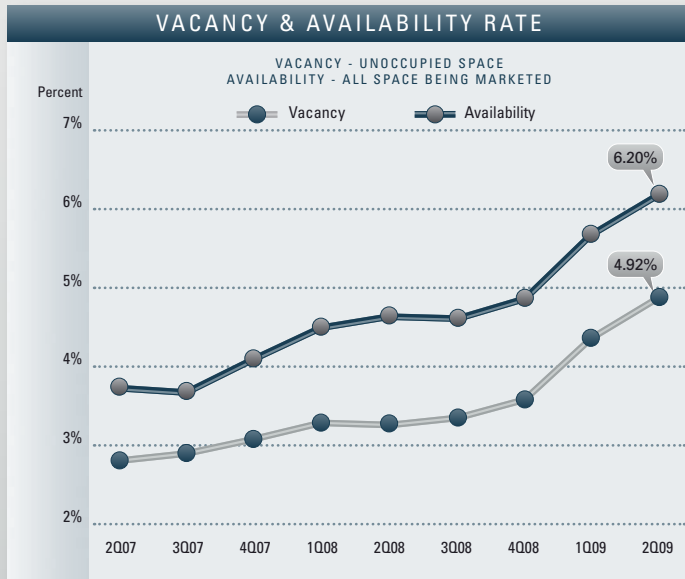
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RETAIL MARKET OVERVIEW

	2Q2009	1Q2009	2Q2008	% CHANGE VS.2Q08
Under Construction	338,230	295,397	833,924	-59.44%
Vacancy	4.92%	4.45%	3.32%	48.19%
Availability	6.20%	5.70%	4.56%	35.96%
Average Asking Lease Rate	\$2.05	\$2.05	\$2.08	-1.44%
Sale & Lease Transactions	782,525	827,689	1,154,386	-32.21%
Gross Absorption	1,148,472	1,051,701	1,170,930	-1.92%
Net Absorption	-392,506	-957,014	152,048	N/A

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	INVENTORY			VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2009	Total Availability 2Q2009	Average Asking Lease Rate	Net Absorption 2Q2009	Net Absorption 2009	Gross Absorption 2Q2009	Gross Absorption 2009
Central												
Downtown	490	7,395,268	175,756	12,000	425,654	5.76%	562,566	\$2.73	70,237	30,879	155,735	240,474
Central Total	490	7,395,268	175,756	12,000	425,654	5.76%	562,566	\$2.73	70,237	30,879	155,735	240,474
Central Suburban												
City Heights/University	1,336	7,809,832	14,848	43,250	381,099	4.88%	470,842	\$1.42	19,773	(29,978)	89,551	136,636
Kearny Mesa	270	4,996,730	5,905	0	157,619	3.15%	319,866	\$1.83	528	(2,915)	17,497	40,653
Mission Gorge	264	4,295,516	0	0	134,753	3.14%	162,752	\$1.80	(33,864)	(46,282)	12,947	30,842
Mission Valley	108	5,443,724	0	0	92,116	1.69%	120,578	\$2.27	(8,112)	(30,299)	7,822	19,385
Old Town	108	502,841	0	0	10,973	2.18%	11,273	\$2.59	(2,281)	(3,581)	0	4,500
Point Loma	431	3,918,561	0	42,755	369,488	9.43%	394,974	\$2.05	23,712	(97,480)	52,254	93,497
Rose Canyon/Morena	596	5,733,680	4,135	76,110	187,132	3.26%	273,356	\$1.73	3,018	(48,077)	68,699	86,683
Uptown/Hillcrest	251	1,768,746	0	18,300	75,905	4.29%	81,448	\$2.26	1,194	12,157	10,282	34,291
Central Suburban Total	3,364	34,469,630	24,888	180,415	1,409,085	4.09%	1,835,089	\$1.81	3,968	(246,455)	259,052	446,487
Highway 78 Corridor												
Oceanside	606	6,439,970	31,112	116,100	499,925	7.76%	607,767	\$1.79	(96,404)	(80,092)	47,244	119,871
San Marcos/Vista	916	11,125,441	0	264,839	782,045	7.03%	1,029,730	\$1.95	18,931	(159,792)	133,684	228,540
Highway 78 Corridor Total	1,522	17,565,411	31,112	380,939	1,281,970	7.30%	1,637,497	\$1.88	(77,473)	(239,884)	180,928	348,411
I-15 Corridor												
Escondido	702	9,401,717	9,254	39,100	554,276	5.90%	702,004	\$2.58	(3,838)	(64,896)	28,966	78,809
Rancho Bernardo/Poway	444	7,842,626	0	5,368	282,642	3.60%	366,354	\$2.45	(9,421)	(49,182)	33,964	104,980
Scripps Ranch	47	798,227	0	6,400	40,207	5.04%	41,592	\$2.40	(420)	(13,984)	2,590	9,498
I-15 Corridor Total	1,193	18,042,570	9,254	50,868	877,125	4.86%	1,109,950	\$2.52	(13,679)	(128,062)	65,520	193,287
North City												
Del Mar Heights	49	824,089	0	0	10,914	1.32%	14,326	\$3.50	966	0	4,294	4,294
Governor Park	9	183,912	0	0	800	0.43%	800	\$0.00	0	800	0	800
La Jolla	216	1,463,136	0	0	110,867	7.58%	132,930	\$4.89	(36,523)	(69,333)	9,423	9,423
Miramar	199	3,892,853	0	8,773	195,101	5.01%	297,031	\$1.62	15,579	(727)	57,850	74,554
Sorrento Mesa	33	675,118	0	0	12,131	1.80%	18,643	\$0.00	(267)	12,053	3,858	16,178
Torrey Pines/Sorrento Valley	4	26,987	0	0	795	2.95%	795	\$1.25	0	0	0	0
UTC Center	74	2,393,573	0	0	75,129	3.14%	82,916	\$2.43	(478)	2,042	7,968	45,430
North City Total	584	9,459,668	0	8,773	405,737	4.29%	547,441	\$3.03	(20,723)	(55,165)	83,393	150,679
North County												
Carlsbad	329	5,373,998	0	101,995	156,383	2.91%	207,434	\$2.00	(2,721)	68,198	41,751	162,648
North Beach Cities	644	9,256,706	46,850	90,401	410,445	4.43%	492,854	\$2.54	(93,290)	(207,827)	89,240	179,289
North County Total	973	14,630,704	46,850	192,396	566,828	3.87%	700,288	\$2.33	(96,011)	(139,629)	130,991	341,937
South/Southeast Corridor												
East County	1,798	17,557,636	7,425	66,590	854,318	4.87%	1,064,148	\$1.65	(20,502)	(182,467)	151,318	214,440
South San Diego	1,825	20,970,210	42,945	709,990	1,071,317	5.11%	1,233,635	\$1.92	(238,323)	(403,988)	121,535	221,235
South/Southeast Corridor Total	3,623	38,527,846	50,370	776,580	1,925,635	5.00%	2,297,783	\$1.81	(258,825)	(586,455)	272,853	435,675
San Diego County Total	11,749	140,091,097	338,230	1,601,971	6,892,034	4.92%	8,690,614	\$2.05	(392,506)	(1,364,771)	1,148,472	2,156,950

Lease rates are on a triple net basis.



SUBMARKETS

CENTRAL
Downtown

CENTRAL SUBURBAN
City Heights/University
Kearny Mesa
Mission Gorge
Mission Valley
Old Town
Point Loma
Rose Canyon/Morena
Uptown/Hillcrest

HIGHWAY 78 CORRIDOR
Oceanside
San Marcos/Vista

I-15 CORRIDOR
Escondido
Rancho Bernardo/Poway
Scripps Ranch

NORTH CITY
Del Mar Heights
Governor Park
La Jolla
Miramar
N University City - UTC Center
Sorrento Mesa
Torrey Pines/Sorrento Valley

NORTH COUNTY
Carlsbad
North Beach Cities

SOUTH/SOUTHEAST CORRIDOR
East County
South San Diego

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