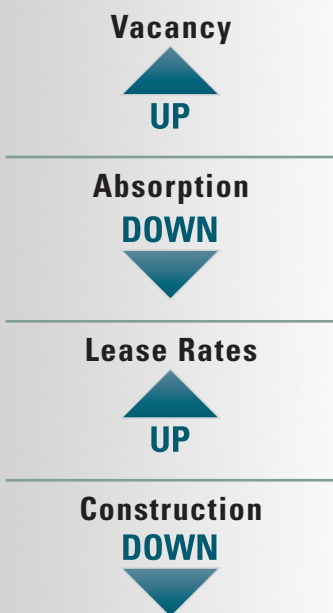




# Retail Market Report

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## Retail Market Highlights

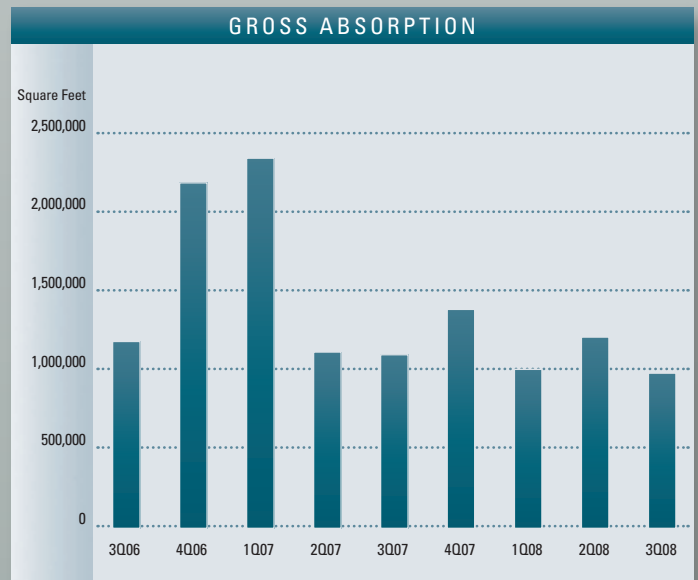
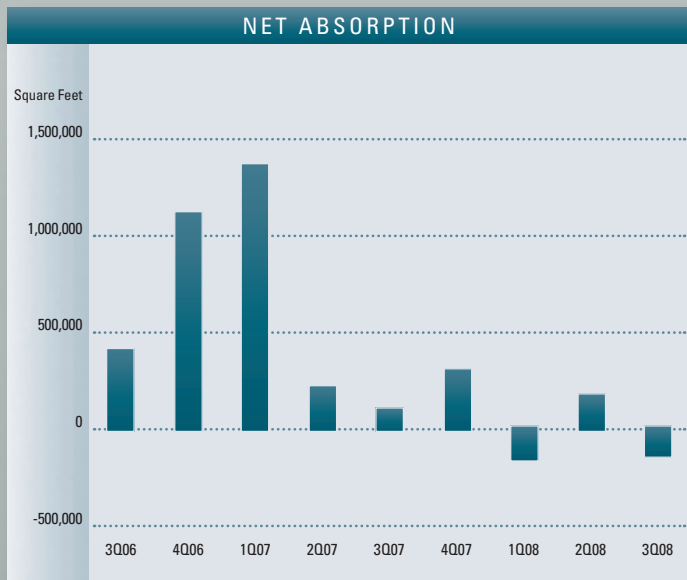
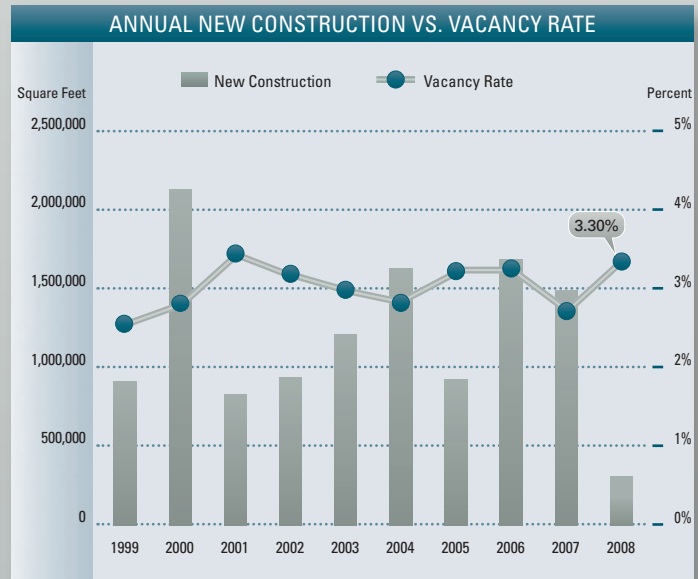
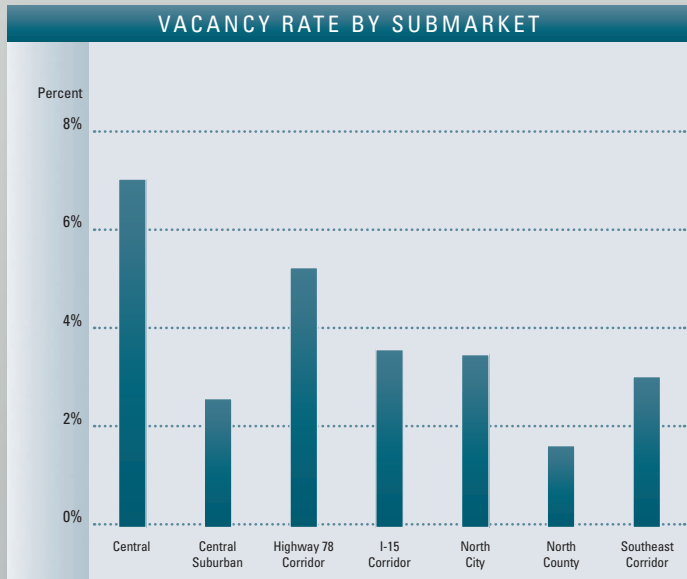
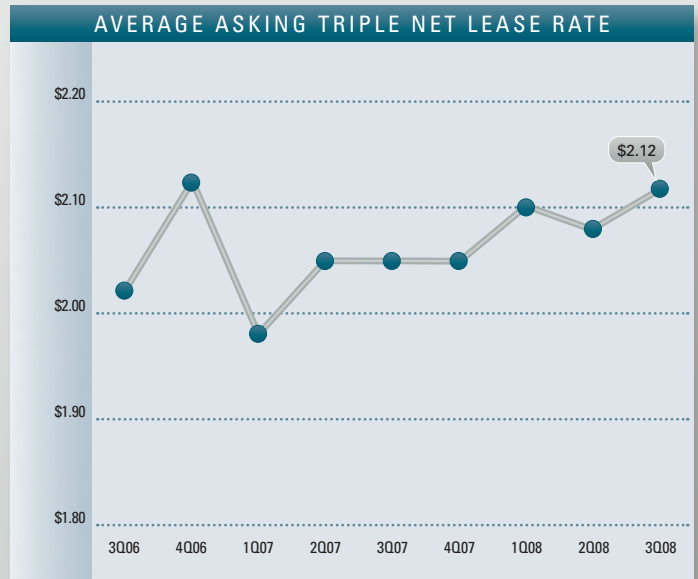
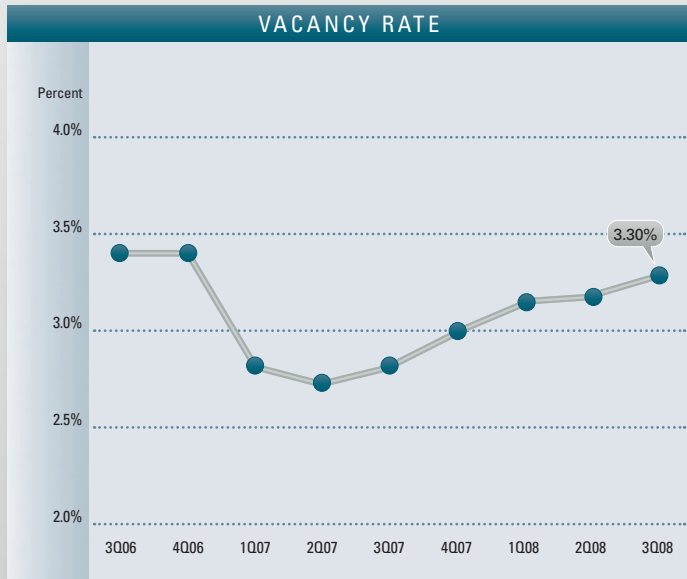
- ◆ The San Diego County Retail market is undergoing changes due to reaction to the credit crunch. The three primary concerns are as follows: expensive and scarce financing, economic uncertainty and volatility, and an increasing gap between “ask” and “bid” pricing between buyers and sellers. However, the region’s strong local economy and high quality of life continue to make it a desirable location for business.
- ◆ The Retail vacancy rate is at a low 3.3%, which is up from the 2.71% rate we saw during the third quarter of 2007. The lowest vacancy rates in the county can be found in the North County and Central Suburban Corridor submarkets, coming in at 1.62% and 2.69% respectively. This lack of supply is creating constrained demand for Retail space in the San Diego County area and is putting pressure on lease rates to remain at current levels.
- ◆ The average asking Triple Net lease rate was \$2.12 per square foot per month this quarter. This is four cents higher than last quarter and 3.41% higher than what was reported in the third quarter of 2007. The highest rates in the county can be found in the Downtown submarket, where the average asking Triple Net lease rate is \$2.96 per square foot.
- ◆ Retail absorption checked in at a negative 149,682 square feet for the third quarter of 2008. Last year the San Diego Retail Market had a total of over 2 million square feet of positive absorption.
- ◆ Currently there is 418,045 square feet of Retail construction underway, and total construction is lower than the 727,497 square feet that was under construction at this same time last year.
- ◆ Planned Retail construction in San Diego County is down. Currently there is 2 million square feet of Retail space on the slate as being planned compared to last year’s figure of 3.1 million square feet.
- ◆ According to the State of California Employment Development Department, San Diego County lost 5,700 payroll jobs over the last twelve months. Between July 2008 and August 2008 San Diego County gained 500 jobs, mostly in the leisure & hospitality and educational & health services sectors.
- ◆ The unemployment rate in San Diego County was 6.4% in August 2008, down from a revised 6.5% percent in July 2008, but above the year ago estimate of 4.8%. This compares with an unadjusted unemployment rate of 7.6 percent for California and 6.1 percent for the nation during the same period.
- ◆ Lease rates are expected to remain at current levels for the short run, and concessions should continue to increase in the forms of free rent, relocation funds and tenant improvement allowances.



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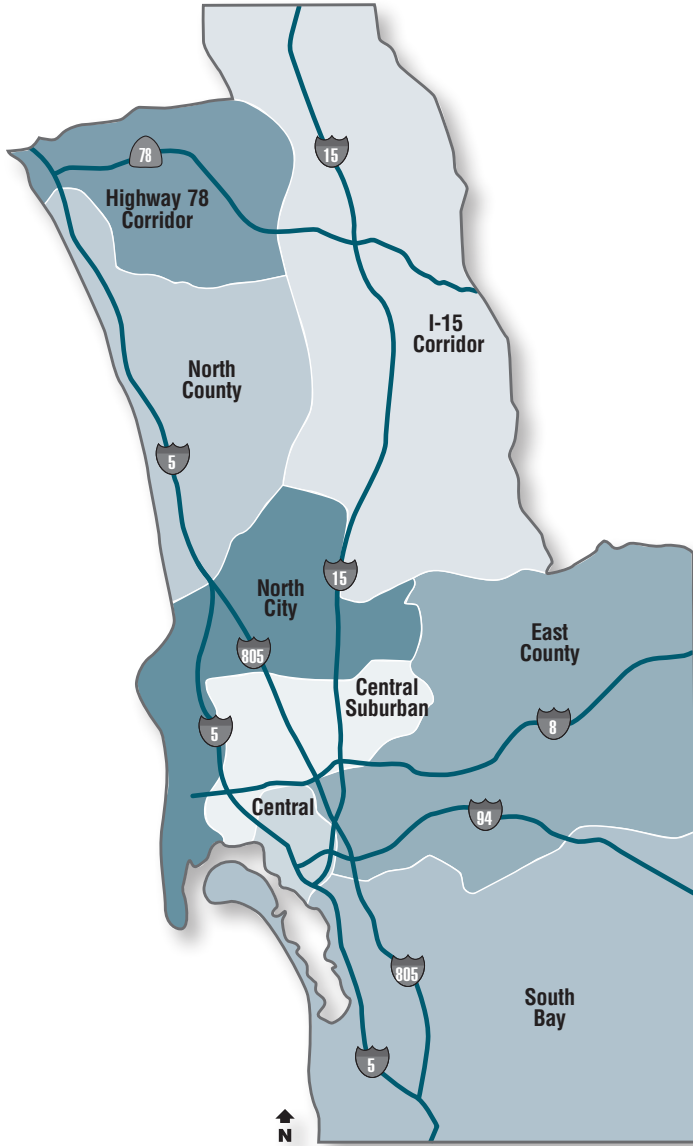
RETAIL MARKET OVERVIEW				
	3Q2008	2Q2008	3Q2007	% CHANGE VS. 3Q07
Under Construction	418,045	499,891	727,497	-42.54%
Vacancy	3.30%	3.20%	2.71%	21.77%
Availability	4.57%	4.56%	3.66%	24.86%
Pricing - Triple Net Service	\$2.12	\$2.08	\$2.05	3.41%
Activity	957,056	1,190,282	1,112,486	-13.97%
Net Absorption	-149,682	183,240	105,374	N/A

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	INVENTORY			VACANCY & LEASE RATES					ABSORPTION			
	Number Of Buildings	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2008	Total Availability 3Q2008	Average Asking Lease Rate	Net Absorption 3Q2008	Net Absorption 2008	Net Absorption 2007	Net Absorption 2006
<b>Central</b>												
Downtown	420	4,920,097	27,845	139,169	344,886	7.01%	440,941	\$2.96	(1,652)	46,467	27,371	(86,169)
<b>Central Total</b>	<b>420</b>	<b>4,920,097</b>	<b>27,845</b>	<b>139,169</b>	<b>344,886</b>	<b>7.01%</b>	<b>440,941</b>	<b>\$2.96</b>	<b>(1,652)</b>	<b>46,467</b>	<b>27,371</b>	<b>(86,169)</b>
<b>Central Suburban</b>												
City Heights/University	1,270	8,116,140	3,521	53,691	268,215	3.30%	389,086	\$1.95	9,286	(33,979)	150,082	(16,362)
Kearny Mesa	249	4,940,455	0	6,650	126,430	2.56%	152,783	\$1.74	(16,918)	(27,471)	32,265	(32,466)
Mission Gorge	236	4,462,869	52,664	0	82,579	1.85%	108,622	\$1.67	1,706	14,975	17,085	(53,269)
Mission Valley	101	5,365,115	0	0	47,754	0.89%	85,537	\$2.03	123	10,204	(15,807)	(4,861)
Old Town	106	501,350	0	0	13,260	2.64%	14,910	\$2.36	(2,350)	1,032	6,464	2,811
Point Loma	423	3,778,372	21,700	52,853	200,873	5.32%	194,897	\$2.28	(16,607)	(15,683)	234,056	61,609
Rose Canyon/Morena	570	5,682,450	24,635	53,625	126,795	2.23%	189,889	\$2.38	11,137	31,200	137,938	(7,027)
Uptown/Hillcrest	245	1,730,064	32,622	22,688	64,188	3.71%	67,340	\$2.51	11,589	12,159	22,731	24,391
<b>Central Suburban Total</b>	<b>3,200</b>	<b>34,576,815</b>	<b>135,142</b>	<b>189,507</b>	<b>930,094</b>	<b>2.69%</b>	<b>1,203,064</b>	<b>\$2.02</b>	<b>(2,034)</b>	<b>(7,563)</b>	<b>584,814</b>	<b>(25,174)</b>
<b>Highway 78 Corridor</b>												
Oceanside	587	6,277,762	14,744	89,776	414,307	6.60%	508,472	\$5.08	10,275	(79,333)	(51,459)	129,025
San Marcos/Vista	847	11,848,833	62,166	834,872	528,595	4.46%	900,198	\$2.01	(40,375)	(37,296)	229,723	433,478
<b>Highway 78 Corridor Total</b>	<b>1,434</b>	<b>18,126,595</b>	<b>76,910</b>	<b>924,648</b>	<b>942,902</b>	<b>5.20%</b>	<b>1,408,670</b>	<b>\$2.05</b>	<b>(30,100)</b>	<b>(116,629)</b>	<b>178,264</b>	<b>562,503</b>
<b>I-15 Corridor</b>												
Escondido	686	9,284,024	25,798	35,706	448,684	4.83%	695,993	\$1.82	(18,227)	(79,109)	66,006	72,940
Rancho Bernardo/ Poway	441	8,253,921	0	5,368	167,813	2.03%	283,984	\$3.08	(29,169)	(34,767)	260,831	23,501
Scripps Ranch	48	880,284	0	6,400	23,455	2.66%	24,595	\$2.65	(40)	(10,961)	(6,684)	(385)
<b>I-15 Corridor Total</b>	<b>1,175</b>	<b>18,418,229</b>	<b>25,798</b>	<b>47,474</b>	<b>639,952</b>	<b>3.47%</b>	<b>1,004,572</b>	<b>\$2.32</b>	<b>(47,436)</b>	<b>(124,837)</b>	<b>320,153</b>	<b>96,056</b>
<b>North City</b>												
Del Mar Heights	52	1,134,570	0	0	1,119	0.10%	4,201	\$4.00	9,591	5,745	(2,744)	6,276
Governor Park	9	183,912	0	0	1,600	0.87%	1,600	\$0.00	(800)	0	(1,600)	0
La Jolla	215	1,502,416	0	0	56,967	3.79%	67,673	\$3.74	(441)	35,296	(22,140)	(2,775)
Miramar	185	3,918,047	0	0	187,323	4.78%	277,245	\$1.74	(36,643)	(61,533)	(34,557)	(26,021)
N University City - UTC Center	27	293,161	0	0	25,200	8.60%	19,631	\$0.00	(3,374)	(12,470)	21,300	(13,192)
Sorrento Mesa	4	26,987	0	0	795	2.95%	795	\$1.75	0	0	1,753	0
Torrey Pines/Sorrento Valley	75	2,445,750	0	0	46,773	1.91%	49,978	\$3.42	26,742	4,664	29,223	(19,845)
<b>North City Total</b>	<b>567</b>	<b>9,504,843</b>	<b>0</b>	<b>0</b>	<b>319,777</b>	<b>3.36%</b>	<b>421,123</b>	<b>\$2.40</b>	<b>(4,925)</b>	<b>(28,298)</b>	<b>(8,765)</b>	<b>(55,557)</b>
<b>North County</b>												
Carlsbad	306	5,343,992	4,020	61,642	113,792	2.13%	137,696	\$2.31	(7,885)	(30,146)	(11,951)	60,542
North Beach Cities	603	8,884,623	24,045	51,790	116,295	1.31%	184,237	\$3.11	371	26,790	222,087	(79,492)
<b>North County Total</b>	<b>909</b>	<b>14,228,615</b>	<b>28,065</b>	<b>113,432</b>	<b>230,087</b>	<b>1.62%</b>	<b>321,933</b>	<b>\$2.67</b>	<b>(7,514)</b>	<b>(3,356)</b>	<b>210,136</b>	<b>(18,950)</b>
<b>South/Southeast Corridor</b>												
East County	1,663	17,163,687	76,725	94,084	608,467	3.55%	768,527	\$1.67	(70,258)	(125,796)	294,285	(3,831)
South San Diego	1,687	20,656,512	47,560	580,819	525,524	2.54%	717,550	\$1.94	14,237	132,610	415,031	1,056,758
<b>South/Southeast Corridor Total</b>	<b>3,350</b>	<b>37,820,199</b>	<b>124,285</b>	<b>674,903</b>	<b>1,133,991</b>	<b>3.00%</b>	<b>1,486,077</b>	<b>\$1.81</b>	<b>(56,021)</b>	<b>6,814</b>	<b>709,316</b>	<b>1,052,927</b>
<b>San Diego County Total</b>	<b>11,055</b>	<b>137,595,393</b>	<b>418,045</b>	<b>2,089,133</b>	<b>4,541,689</b>	<b>3.30%</b>	<b>6,286,380</b>	<b>\$2.12</b>	<b>(149,682)</b>	<b>(227,402)</b>	<b>2,021,289</b>	<b>1,525,636</b>

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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