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San Diego | Third Quarter 2010

Retail Market Report

Compared to last quarter:

Vacancy

FLAT

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

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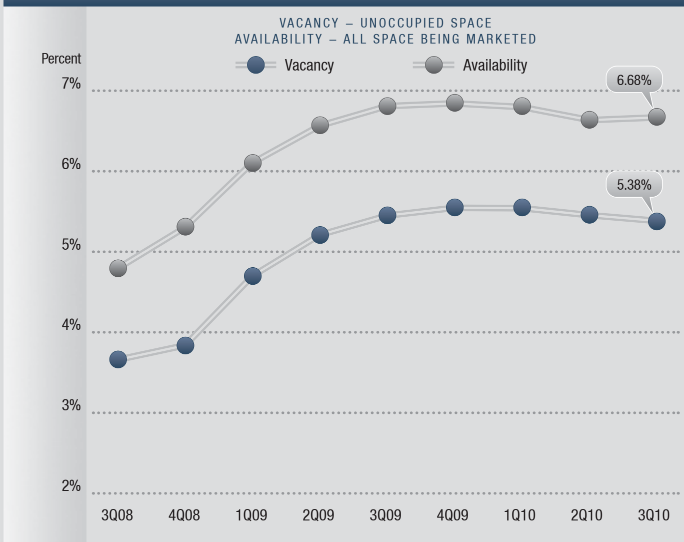
Market Highlights

- **Bottoming Out? –** The numbers this quarter are encouraging — a sign that recovery could be on the horizon. Vacancy, availability and net absorption all showed signs of stabilization posting statistically insignificant changes compared to the previous quarter. With regard to sales transactions, the ask–bid gap seems to be narrowing, as evidenced by the drop in asking prices. While these are positive indications, stability will need to be sustained in following quarters to be considered recovery.
- **Construction –** Currently, there is only 140,539 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 5.38%, a decrease as compared to last year's rate of 5.45%. The lowest vacancy rates can be found in the I–15 Corridor and North Cities markets, coming in at 3.72% and 4.02%, respectively.
- **Availability –** Direct/sublease space being marketed was 6.68% this quarter, down from the 6.80% we saw this same quarter last year. This is a decrease of 1.76% 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 $1.85, which is a 7.04% decrease over last year's rate of $1.99 and the same as 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 positive 177,552 square feet for the third quarter of 2010; for the past 5 quarters the retail market has been averaging approximately 70,000 square feet of positive absorption.
- **Transaction Activity –** Leasing activity checked in this quarter at 629,180 square feet, a decrease over last quarter's figure of 918,134 square feet. The average square footage leased per quarter over the past five quarters is 860,000 square feet. Sales activity showed an increase, posting 798,272 square feet of activity compared to the 532,748 square feet we saw this same quarter last year.
- **Employment –** The unemployment rate in San Diego County was 10% in May 2010, down from a revised 10.4% in April 2010 and above the year–ago estimate of 9.3%. This compares with an unadjusted unemployment rate of 11.9% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County lost 11,900 payroll jobs over the last twelve months — 4,400 in trade, transportation and utilities and 4,200 in manufacturing. However, educational and health services added 3,600 new jobs. Between April 2010 and May 2010 San Diego County gained 8,400 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 going into 2011. Once employment turns positive and consumer confidence stabilizes, the retail market will regain equilibrium.

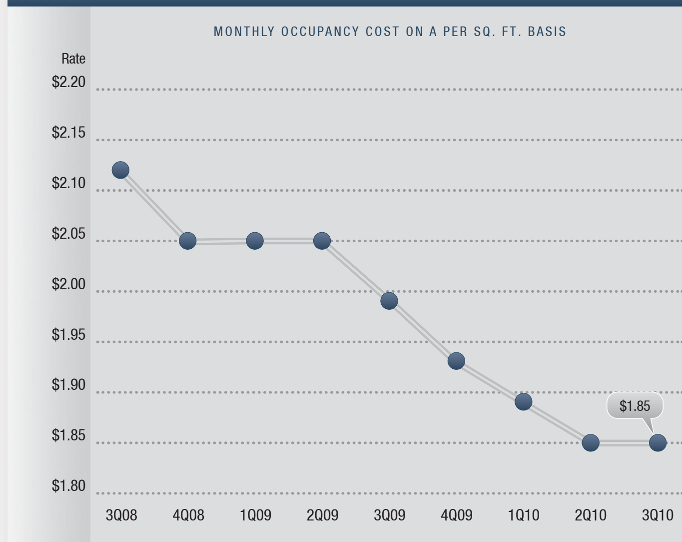
RETAIL MARKET OVERVIEW

	3Q2010	2Q2010	3Q2009	% CHANGE vs. 3Q2009
Vacancy Rate	5.38%	5.40%	5.45%	(1.28%)
Availablity Rate	6.68%	6.57%	6.80%	(1.76%)
Average Asking Lease Rate	$1.85	$1.85	$1.99	(7.04%)
Sale & Lease Transactions	1,427,452	3,764,940	1,450,882	(1.61%)
Gross Absorption	1,265,839	1,371,010	1,136,456	11.38%
Net Absorption	177,552	95,152	(281,865)	N/A

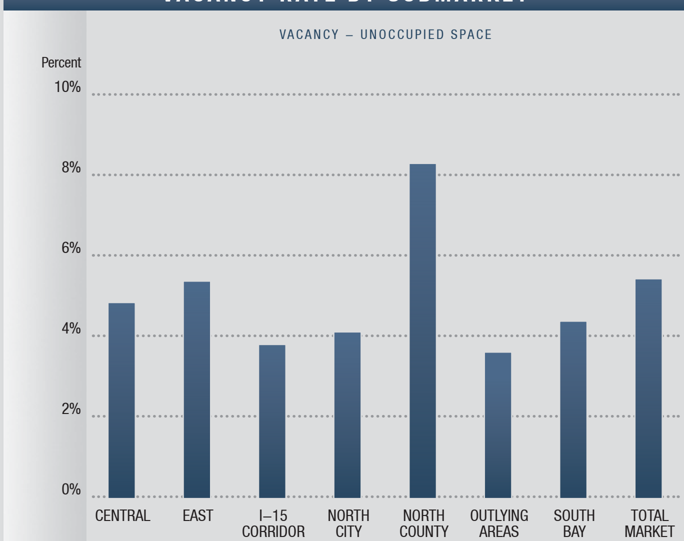
VACANCY & AVAILABILITY RATE



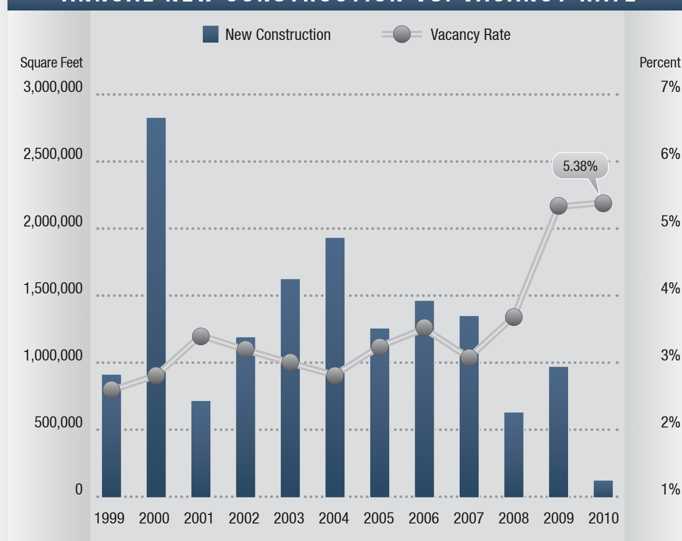
AVERAGE ASKING TRIPLE NET LEASE RATE



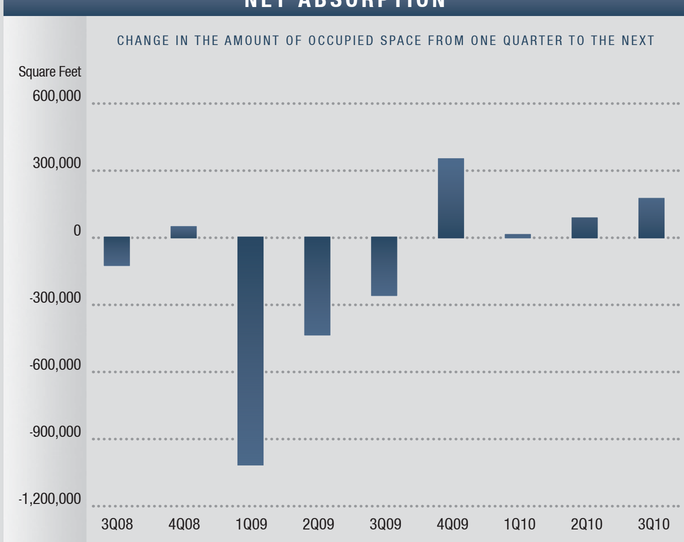
VACANCY RATE BY SUBMARKET



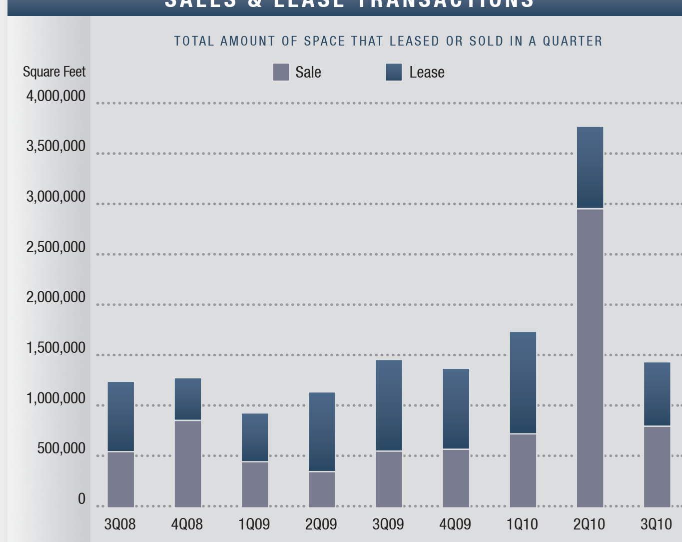
ANNUAL NEW CONSTRUCTION VS. VACANCY RATE



NET ABSORPTION

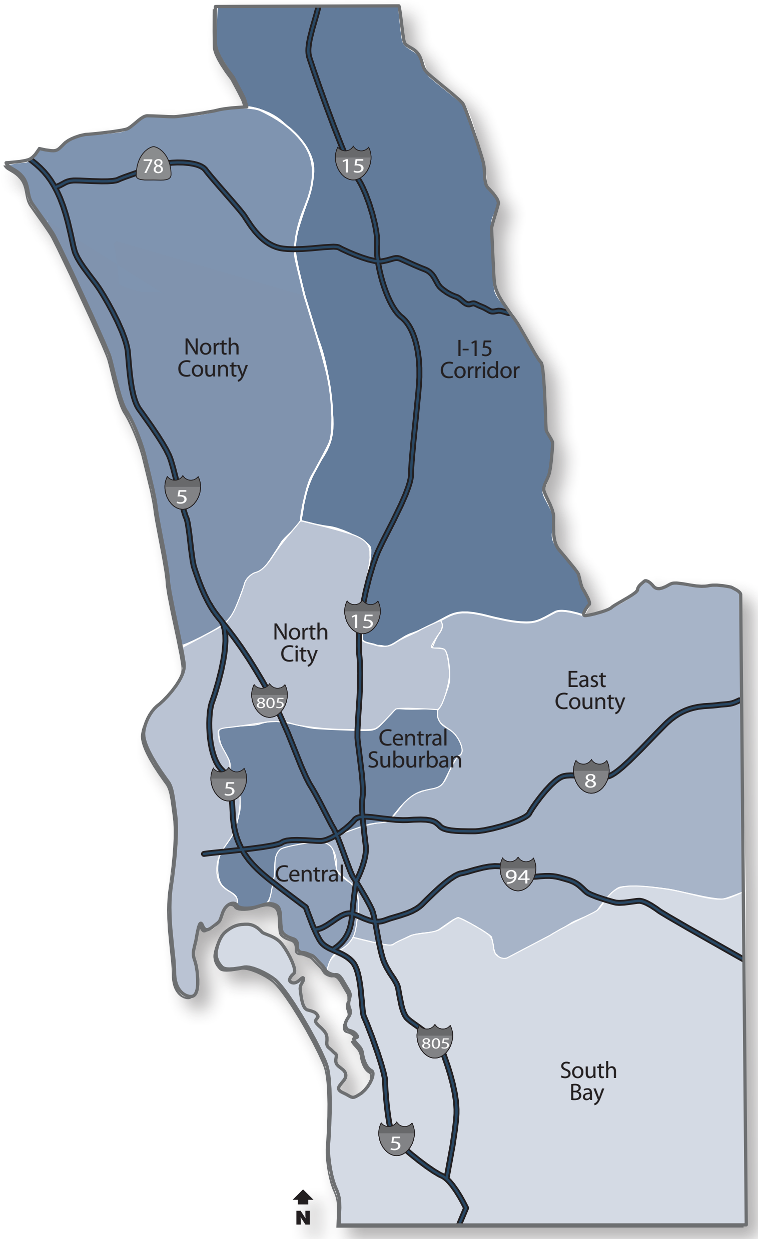


SALES & LEASE TRANSACTIONS



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2010	Square Feet Available	Availability Rate 3Q2010	Average Asking Lease Rate	Net Absorption 3Q2010	Net Absorption 2010	Gross Absorption 3Q2010	Gross Absorption 2010
Central County													
Central San Diego	996	4,742,526	2,016	43,699	196,652	4.15%	206,717	4.36%	$2.03	25,527	44,421	73,408	161,056
Clairmont	443	7,086,857	0	3,200	326,878	4.61%	442,121	6.24%	$1.86	94,781	157,340	135,771	411,845
Coronado	89	627,632	0	11,500	22,583	3.60%	36,510	5.82%	$2.89	10,475	12,836	14,276	19,066
Downtown	517	6,544,232	0	0	366,638	5.60%	477,732	7.30%	$2.60	(12,094)	12,301	43,338	228,932
Mission Gorge	83	976,129	0	0	50,069	5.13%	54,113	5.54%	$1.95	2,746	(15,435)	6,946	14,201
Mid City/South East San Diego	1,175	7,242,076	20,000	16,023	273,706	3.78%	368,961	5.09%	$1.51	35,810	62,374	96,021	185,112
Mission Valley	103	5,530,404	0	0	179,269	3.24%	172,462	3.12%	$1.58	(89,781)	(96,975)	17,232	35,017
Pacific Beach/Morena	462	3,155,884	0	55,970	157,093	4.98%	209,855	6.65%	$1.93	6,755	2,899	22,779	86,004
Point Loma/Sports Arena	466	4,251,579	0	77,655	317,413	7.47%	349,738	8.23%	$1.93	13,528	55,348	38,856	153,757
Central County Total	4,334	40,157,319	22,016	208,047	1,890,301	4.71%	2,318,209	5.77%	$2.00	87,747	235,109	448,627	1,294,990
East County													
El Cajon	843	8,810,528	0	22,190	517,277	5.87%	661,375	7.51%	$1.32	(42,639)	(65,130)	50,857	176,661
La Mesa	476	5,221,327	0	9,000	310,623	5.95%	377,908	7.24%	$1.47	(19,696)	(22,821)	34,045	109,710
Lemon Grove/Spring Valley	357	2,948,137	0	0	94,793	3.22%	127,297	4.32%	$1.43	(11,477)	(12,058)	18,694	43,664
Santee/Lakeside	339	3,485,122	0	17,430	173,857	4.99%	239,219	6.86%	$2.17	24,655	31,080	40,620	135,887
East County Total	2,015	20,465,114	0	48,620	1,096,550	5.36%	1,405,799	6.87%	$1.49	(49,157)	(68,929)	144,216	465,922
I–15 Corridor													
Carmel Mountain Ranch	140	2,374,391	0	7,139	72,936	3.07%	122,498	5.16%	$2.72	28,416	32,782	40,810	93,262
Poway	215	2,863,222	0	35,726	119,856	4.19%	158,263	5.53%	$2.01	1,056	(7,586)	30,987	70,739
Rancho Bernardo	32	549,681	0	0	19,989	3.64%	54,550	9.92%	$2.50	195	(3,258)	1,364	5,081
Rancho Penasquitos	62	816,824	0	0	32,648	4.00%	48,788	5.97%	$2.85	8,761	12,537	12,720	28,005
I–15 Corridor Total	449	6,604,118	0	42,865	245,429	3.72%	384,099	5.82%	$2.34	38,428	34,475	85,881	197,087
North City													
Cardiff/Encinitas	425	6,556,234	45,844	12,620	251,421	3.83%	266,936	4.07%	$2.13	(3,102)	(24,967)	19,558	60,509
Del Mar Heights	284	2,863,349	0	0	88,916	3.11%	125,430	4.38%	$2.91	(1,739)	(4,410)	33,019	76,882
La Jolla/Torrey Pines	278	2,306,635	0	0	131,624	5.71%	111,797	4.85%	$3.08	19,697	49,552	40,925	130,376
Miramar	274	4,773,229	0	0	262,621	5.50%	336,073	7.04%	$1.75	907	(17,879)	30,028	111,423
UTC Center	63	2,321,053	0	0	22,192	0.96%	29,515	1.27%	$2.30	9,612	15,355	11,423	25,673
North City Total	1,324	18,820,500	45,844	12,620	756,774	4.02%	869,751	4.62%	$2.19	25,375	17,651	134,953	404,863
North County													
Carlsbad	333	5,079,911	42,091	48,480	288,262	5.67%	336,251	6.62%	$2.47	4,971	24,177	30,916	94,001
Escondido	803	9,686,466	0	17,860	788,234	8.14%	957,419	9.88%	$1.63	42,243	13,860	87,629	257,020
Oceanside	666	7,661,102	30,588	113,419	650,396	8.49%	750,291	9.79%	$1.63	25,791	43,681	113,964	210,558
San Marcos	298	4,582,505	0	227,560	438,098	9.56%	506,314	11.05%	$1.88	6,110	(22,337)	68,399	167,733
Vista	549	5,242,639	0	89,531	484,660	9.24%	565,602	10.79%	$1.41	15,038	(106,326)	31,330	85,773
North County Total	2,649	32,252,623	72,679	496,850	2,649,650	8.22%	3,115,877	9.66%	$1.71	94,153	(46,945)	332,238	815,085
Outlying Areas													
Outlying SD County North	473	2,552,073	0	8,800	97,746	3.83%	109,954	4.31%	$1.43	(19,807)	(7,908)	12,327	45,067
Outlying SD County South	58	830,887	0	0	22,471	2.70%	37,013	4.45%	$1.63	(2,476)	7,533	5,095	25,600
Outlying Areas Total	531	3,382,960	0	8,800	120,217	3.55%	146,967	4.34%	$1.47	(22,283)	(375)	17,422	70,667
South Bay													
Chula Vista	692	8,985,227	0	281,471	309,583	3.45%	406,295	4.52%	$1.83	(2,337)	141,640	44,775	353,380
Eastlake	100	2,606,432	0		147,461	5.66%	191,496	7.35%	$1.95	7,812	12,386	12,645	31,962
Imperial Beach/South San Diego	444	4,272,479	0	407,002	137,014	3.21%	229,026	5.36%	$1.49	12,236	3,888	26,057	68,690
National City	343	3,279,701	0	41,339	225,385	6.87%	339,560	10.35%	$1.62	(14,422)	(39,373)	19,025	101,583
South Bay Total	1,579	19,143,839	0	729,812	819,443	4.28%	1,166,377	6.09%	$1.73	3,289	118,541	102,502	555,615
San Diego County Total	**12,881**	**140,826,473**	**140,539**	**1,547,614**	**7,578,364**	**5.38%**	**9,407,079**	**6.68%**	**$1.85**	**177,552**	**289,527**	**1,265,839**	**3,804,229**

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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