



Voit
Real Estate Services

Retail Market Report

Compared to last quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



Retail Market Highlights

- ◆ **Market Challenges** – Let's just say it's nice to have 2009 behind us as the Retail market continues to struggle going into 2010. The primary concerns are as follows: increasing vacancy, tenant delinquencies, scarce financing (except SBA owner user), 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 this year as sellers lowered their expectations. Another challenge for the Retail market 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. This has led many tenants to request rent relief from landlords and owners to attempt to renegotiate loan terms with lenders.
- ◆ **Transaction Activity** – Leasing activity checked in this quarter at 628,465 square feet, which is a decrease over last quarter when 900,136 square feet leased. The average amount of leasing per quarter over the past ten quarters was 620,000 square feet. Sales activity showed a decrease over last quarter, posting 95,541 square feet of activity compared to the third quarter's 535,313 square feet.
- ◆ **Unemployment** – The unemployment rate in San Diego County was 10.3% in November 2009, down from a revised 10.7% in October 2009, and above the year ago estimate of 6.9%. This compares with an unadjusted unemployment rate of 12.2% for California and 9.4% for the nation during the same period.
- ◆ **Employment** – According to the State of California Employment Development Department, San Diego County lost 43,300 payroll jobs over the last twelve months – 9,800 in professional and business services. However, government added 200 new jobs. Between October 2009 and November 2009 San Diego County gained 4,500 jobs.
- ◆ **Construction** – Currently there is only 401,242 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 year at 5.37%, constituting an increase over last year's rate of 3.70%. The lowest vacancy rates can be found in the North County and North Cities markets coming in at 4.14% and 4.39%, respectively.
- ◆ **Availability** – Direct/sublease space being marketed was 6.64% this quarter, up from the 5.12% we saw this same quarter last year. This is an increase of 30% 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 \$1.93, which is a 5.85% decrease over last year's rate of \$2.05 and six 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 positive 224,335 square feet for the fourth quarter of 2009, giving the Retail market a total of 1.3 million square feet of negative absorption for the year. This negative absorption can be attributed to the recent job losses.
- ◆ **Overall** – We are starting to see a decrease in the amount of available space being added per quarter, as well as an increase in investment sales activity during the last half of 2009. In 2010, negative absorption will continue to slow, and with few new deliveries in the pipeline to put more upward pressure on vacancies, the market should stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. As 2009 came to a close, there was an increase in price-induced transactions, which will carry over into 2010. Lease rates are expected to remain soft for the near future, and concessions should continue to increase in the forms of free rent, relocation funds and tenant improvement allowances to incentivize tenants to act now. 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 Retail market will turn positive.

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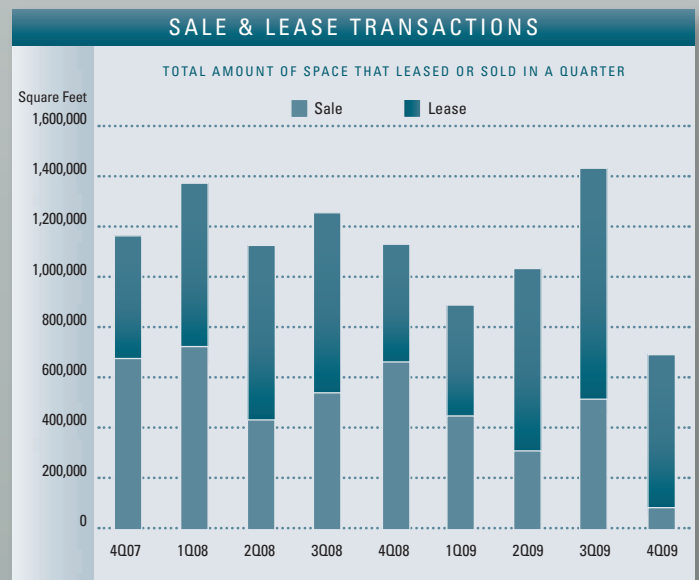
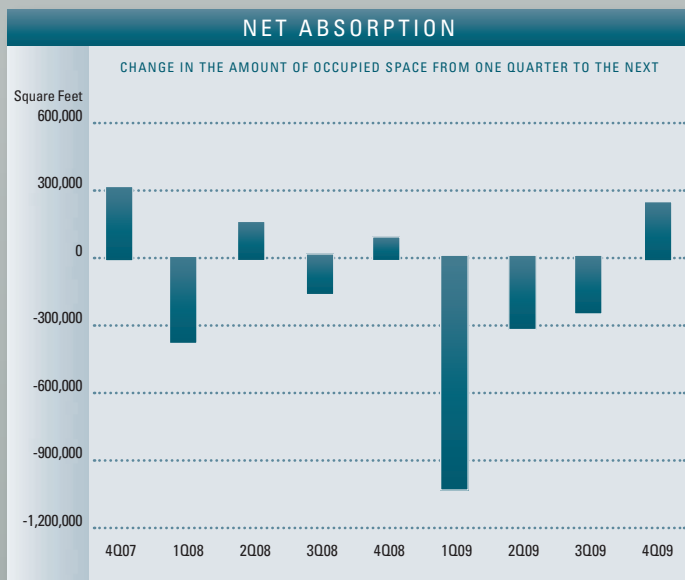
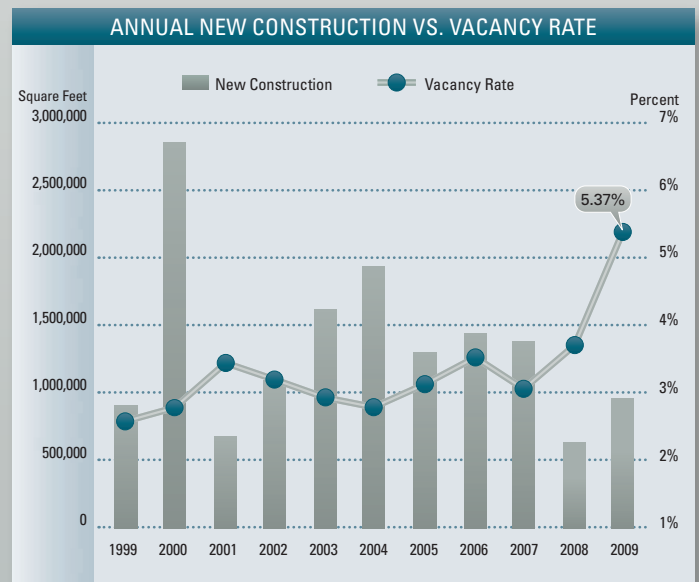
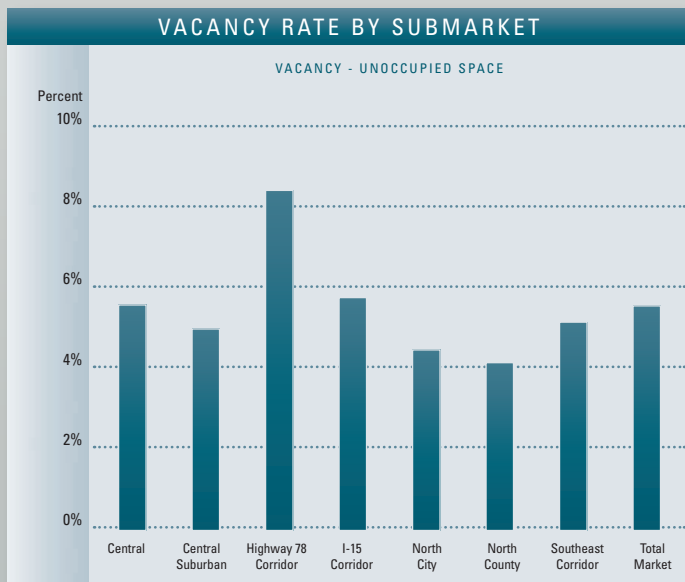
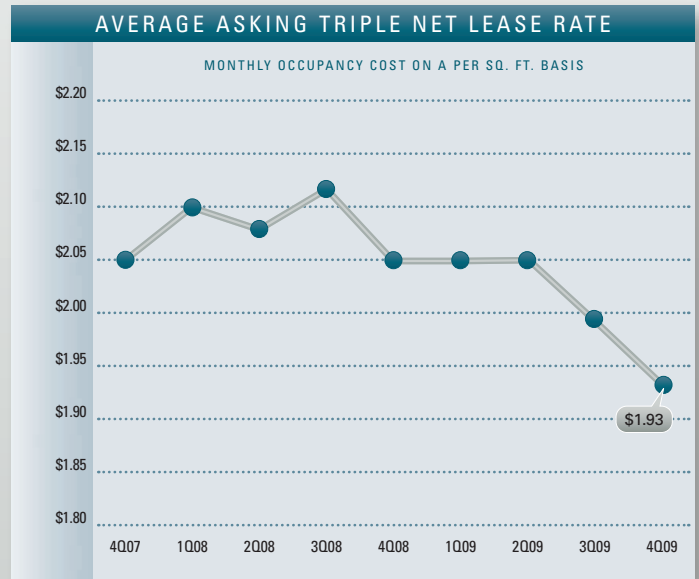
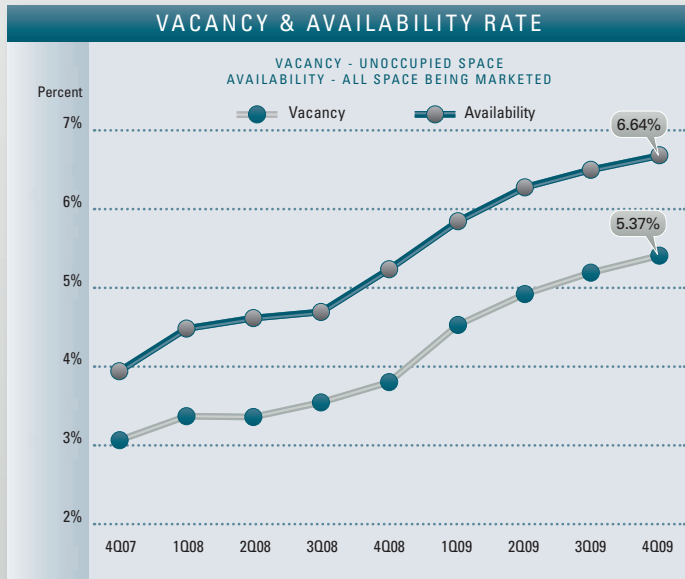
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RETAIL MARKET OVERVIEW

| | 2009 | 2008 | 2007 | % CHANGE VS. 2008 |
|--------------------|-------------|-----------|-----------|-------------------|
| Inventory Added | 980,472 | 619,134 | 1,357,987 | 58.36% |
| Under Construction | 401,242 | 854,355 | 428,990 | -53.04% |
| Vacancy | 5.37% | 3.70% | 3.06% | 45.14% |
| Availability | 6.64% | 5.12% | 3.94% | 29.69% |
| Pricing | \$1.93 | \$2.05 | \$2.05 | -5.85% |
| Net Absorption | (1,328,732) | (245,511) | 2,139,640 | N/A |
| Gross Activity | 4,821,020 | 4,356,492 | 5,970,777 | 10.66% |

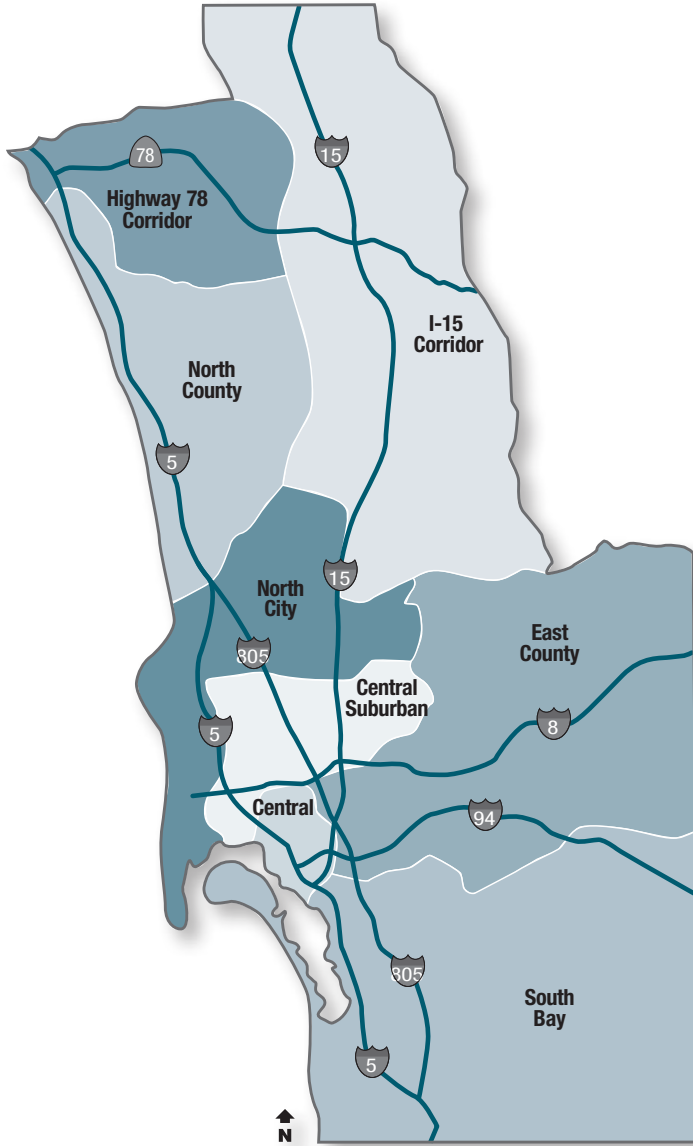


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| | INVENTORY | | | | | VACANCY & LEASE RATES | | | ABSORPTION | | | |
|---------------------------------|------------------|--------------------------|-------------------|---------------------|--------------------|-----------------------|---------------------------|---------------------------|-----------------------|---------------------|-------------------------|-----------------------|
| | Number of Bldgs. | Net Rentable Square Feet | Square Feet U / C | Square Feet Planned | Square Feet Vacant | Vacancy Rate 4Q2009 | Total Availability 4Q2009 | Average Asking Lease Rate | Net Absorption 4Q2009 | Net Absorption 2009 | Gross Absorption 4Q2009 | Gross Absorption 2009 |
| Central | | | | | | | | | | | | |
| Downtown | 492 | 7,330,697 | 286,887 | 0 | 406,899 | 5.55% | 554,109 | \$2.75 | (1,188) | 14,585 | 39,372 | 334,847 |
| Central Total | 492 | 7,330,697 | 286,887 | 0 | 406,899 | 5.55% | 554,109 | \$2.75 | (1,188) | 14,585 | 39,372 | 334,847 |
| Central Suburban | | | | | | | | | | | | |
| City Heights/University | 1,358 | 7,923,114 | 27,357 | 47,419 | 407,679 | 5.15% | 506,357 | \$1.57 | 28,477 | (50,534) | 75,082 | 264,853 |
| Kearny Mesa | 289 | 5,093,148 | 0 | 0 | 283,553 | 5.57% | 437,256 | \$2.01 | (4,833) | (118,344) | 36,972 | 139,636 |
| Mission Gorge | 274 | 4,267,487 | 0 | 0 | 152,691 | 3.58% | 168,850 | \$1.79 | 1,210 | (62,220) | 10,690 | 64,596 |
| Mission Valley | 113 | 5,517,554 | 0 | 0 | 85,595 | 1.55% | 117,567 | \$1.99 | (10,912) | (23,278) | 21,432 | 59,400 |
| Old Town | 110 | 508,588 | 0 | 0 | 7,731 | 1.52% | 11,481 | \$2.00 | 500 | (339) | 1,964 | 16,375 |
| Point Loma | 441 | 3,955,616 | 15,000 | 42,755 | 371,229 | 9.38% | 419,288 | \$1.94 | (10,594) | (73,718) | 22,101 | 166,859 |
| Rose Canyon/Morena | 605 | 5,344,114 | 0 | 50,680 | 258,226 | 4.83% | 316,334 | \$2.20 | (8,366) | (88,536) | 17,141 | 138,037 |
| Uptown/Hillcrest | 253 | 1,775,808 | 0 | 7,500 | 98,305 | 5.54% | 98,248 | \$1.50 | (2,522) | 6,676 | 14,760 | 68,654 |
| Central Suburban Total | 3,443 | 34,385,429 | 42,357 | 148,354 | 1,665,009 | 4.84% | 2,075,381 | \$1.91 | (7,040) | (410,293) | 200,142 | 918,410 |
| Highway 78 Corridor | | | | | | | | | | | | |
| Oceanside | 601 | 6,347,468 | 0 | 131,646 | 577,217 | 9.09% | 701,394 | \$1.70 | (108,214) | (148,274) | 60,509 | 236,718 |
| San Marcos/Vista | 912 | 11,058,035 | 16,900 | 234,759 | 869,817 | 7.87% | 1,090,885 | \$1.81 | (152) | (122,941) | 85,145 | 557,166 |
| Highway 78 Corridor Total | 1,513 | 17,405,503 | 16,900 | 366,405 | 1,447,034 | 8.31% | 1,792,279 | \$1.76 | (108,366) | (271,215) | 145,654 | 793,884 |
| I-15 Corridor | | | | | | | | | | | | |
| Escondido | 729 | 9,433,810 | 9,254 | 25,706 | 625,785 | 6.63% | 817,769 | \$1.72 | 321,098 | 203,595 | 421,069 | 579,093 |
| Rancho Bernardo | 445 | 7,480,103 | 0 | 36,465 | 348,372 | 4.66% | 388,104 | \$2.38 | (29,868) | (113,912) | 29,723 | 164,793 |
| Scripps Ranch | 47 | 798,227 | 0 | 6,400 | 39,941 | 5.00% | 39,941 | \$2.37 | 464 | (13,718) | 5,781 | 19,110 |
| I-15 Corridor Total | 1,221 | 17,712,140 | 9,254 | 68,571 | 1,014,098 | 5.73% | 1,245,814 | \$1.96 | 291,694 | 75,965 | 456,573 | 762,996 |
| North City | | | | | | | | | | | | |
| Del Mar Heights | 49 | 824,089 | 0 | 0 | 16,953 | 2.06% | 20,365 | \$3.50 | (6,039) | (6,039) | 0 | 4,294 |
| Governor Park | 9 | 183,912 | 0 | 0 | 3,715 | 2.02% | 3,715 | \$0.00 | 0 | (2,115) | 0 | 800 |
| La Jolla | 220 | 1,453,603 | 0 | 0 | 129,781 | 8.93% | 163,526 | \$3.31 | 303 | (77,421) | 23,544 | 64,304 |
| Miramar | 192 | 3,863,326 | 0 | 0 | 195,455 | 5.06% | 295,917 | \$1.79 | 989 | (581) | 47,805 | 166,599 |
| Sorrento Mesa | 33 | 675,198 | 0 | 0 | 11,833 | 1.75% | 16,845 | \$0.00 | 0 | 12,351 | 0 | 17,152 |
| Torrey Pines/Sorrento Valley | 4 | 26,987 | 0 | 0 | 795 | 2.95% | 795 | \$1.25 | 0 | 0 | 0 | 0 |
| UTC Center | 74 | 2,811,046 | 0 | 0 | 73,591 | 2.62% | 55,228 | \$2.54 | 7,900 | 3,580 | 9,000 | 58,700 |
| North City Total | 581 | 9,838,161 | 0 | 0 | 432,123 | 4.39% | 556,391 | \$2.49 | 3,153 | (70,225) | 80,349 | 311,849 |
| North County | | | | | | | | | | | | |
| Carlsbad | 337 | 5,233,792 | 0 | 81,995 | 187,235 | 3.58% | 253,602 | \$2.31 | 10,432 | 61,532 | 53,634 | 251,878 |
| North Beach Cities | 664 | 9,386,050 | 45,844 | 69,323 | 418,548 | 4.46% | 487,388 | \$2.32 | (3,046) | (206,662) | 52,200 | 296,234 |
| North County Total | 1,001 | 14,619,842 | 45,844 | 151,318 | 605,783 | 4.14% | 740,990 | \$2.32 | 7,386 | (145,130) | 105,834 | 548,112 |
| South/Southeast Corridor | | | | | | | | | | | | |
| East County | 1,814 | 17,653,015 | 0 | 80,226 | 944,738 | 5.35% | 1,234,389 | \$1.62 | (34,535) | (263,542) | 118,967 | 467,815 |
| South San Diego | 1,911 | 20,480,993 | 0 | 712,692 | 971,653 | 4.74% | 1,064,621 | \$1.79 | 73,231 | (258,877) | 215,741 | 683,107 |
| South/Southeast Total | 3,725 | 38,134,008 | 0 | 792,918 | 1,916,391 | 5.03% | 2,299,010 | \$1.72 | 38,696 | (522,419) | 334,708 | 1,150,922 |
| San Diego County Total | 11,976 | 139,425,780 | 401,242 | 1,527,566 | 7,487,337 | 5.37% | 9,263,974 | \$1.93 | 224,335 | (1,328,732) | 1,362,632 | 4,821,020 |

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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