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San Diego | Second Quarter 2010

Retail Market Report

Compared to last quarter:

Vacancy
DOWN

Net Absorption
POSITIVE

Lease Rates
DOWN

Transactions
UP

Market Highlights

- **Encouraging Numbers -** The numbers this quarter appear to be encouraging for the first time since the second quarter of 2008 — a sign that recovery could be on the horizon. This quarter, availability showed signs of stabilization, vacancy dropped, and net absorption posted positive numbers. Although demand is still weak by historical standards, the volume of transactions is increasing. With regards to sales transactions, the ask-bid gap seems to be narrowing, evident from 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 5.40%, an increase over last year's rate of 5.14%. The lowest vacancy rates can be found in the I-15 Corridor and North Cities markets, coming in at 3.88% and 3.93%, respectively.
- **Availability -** Direct/sublease space being marketed was 6.57% this quarter, up from the 6.49% we saw this same quarter last year. This is an increase of 1.23% 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 9.76% 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 positive 199,828 square feet for the second quarter of 2010; for the past five quarters the R&D market has been averaging approximately 60,000 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 633,965 square feet, a decrease over last quarter's figure of 770,710 square feet. The average square footage leased per quarter over the past five quarters is 825,000 square feet. Sales activity showed an increase, posting 494,991 square feet of activity compared to the 343,035 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 in the second half of 2010. Once job creation turns positive and consumer confidence stabilizes, the industrial market will regain equilibrium.

RETAIL MARKET OVERVIEW

	2Q2010	1Q2010	2Q2009	% CHANGE vs. 2Q2009
Vacancy Rate	5.40%	5.51%	5.14%	5.06%
Availablity Rate	6.57%	6.72%	6.49%	1.23%
Average Asking Lease Rate	$1.85	$1.89	$2.05	(9.76%)
Sale & Lease Transactions	1,128,956	1,695,338	1,113,745	1.37%
Net Absorption	199,828	(102,120)	(436,018)	N/A
Gross Absorption	1,320,565	1,021,612	1,331,779	(0.84%)

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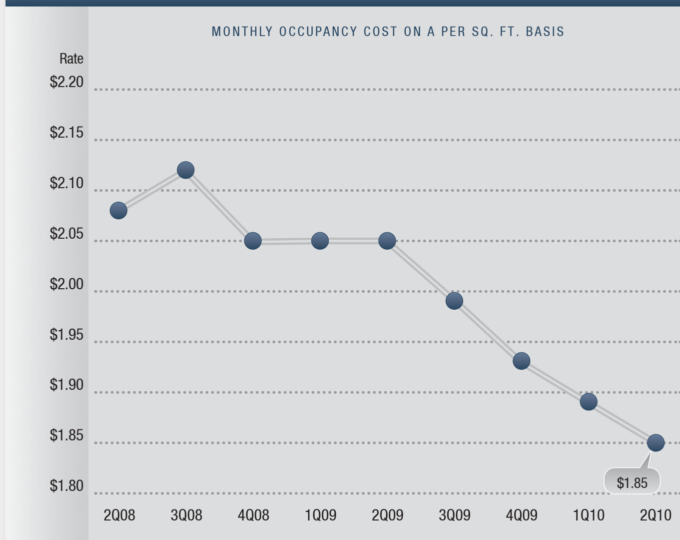
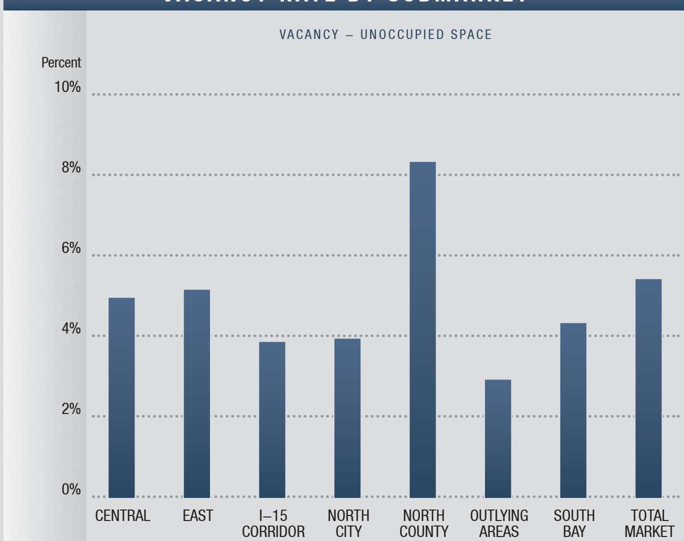
CORFAC International

VACANCY & AVAILABILITY RATE

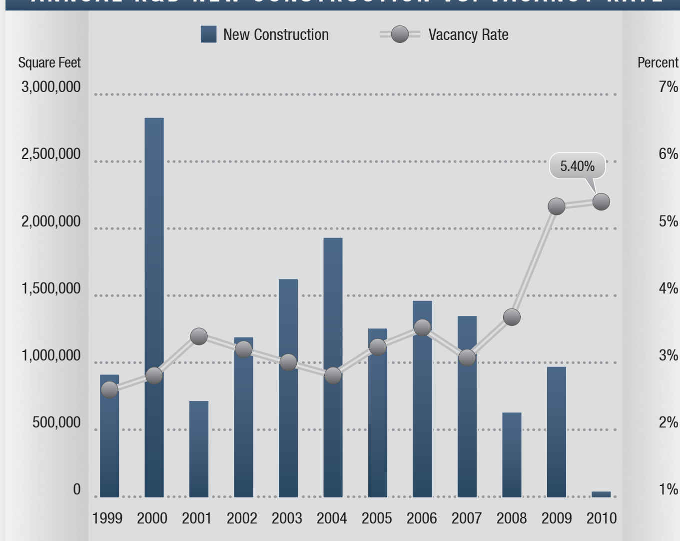
AVERAGE ASKING TRIPLE NET LEASE RATE



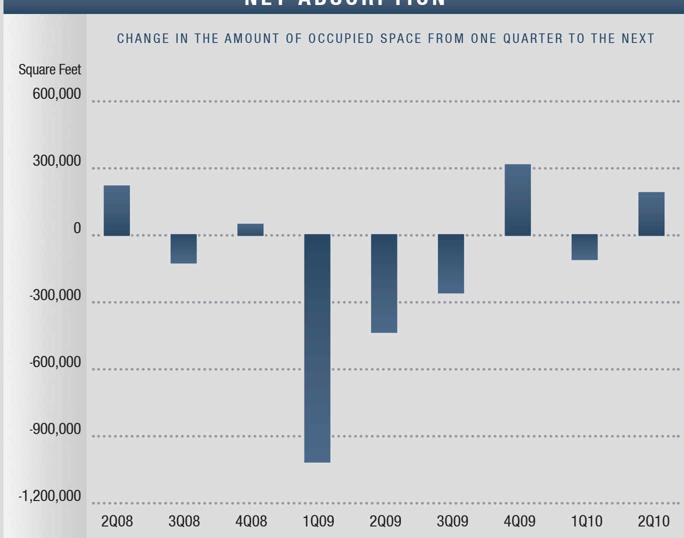
VACANCY RATE BY SUBMARKET



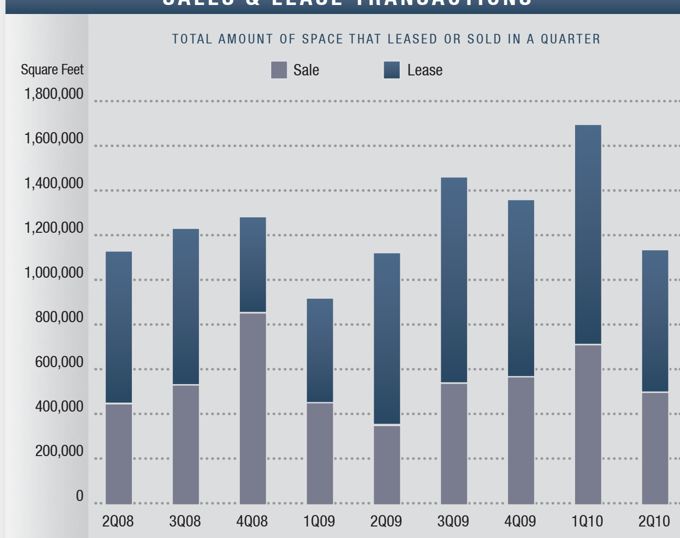
ANNUAL R&D NEW CONSTRUCTION VS. VACANCY RATE



NET ABSORPTION

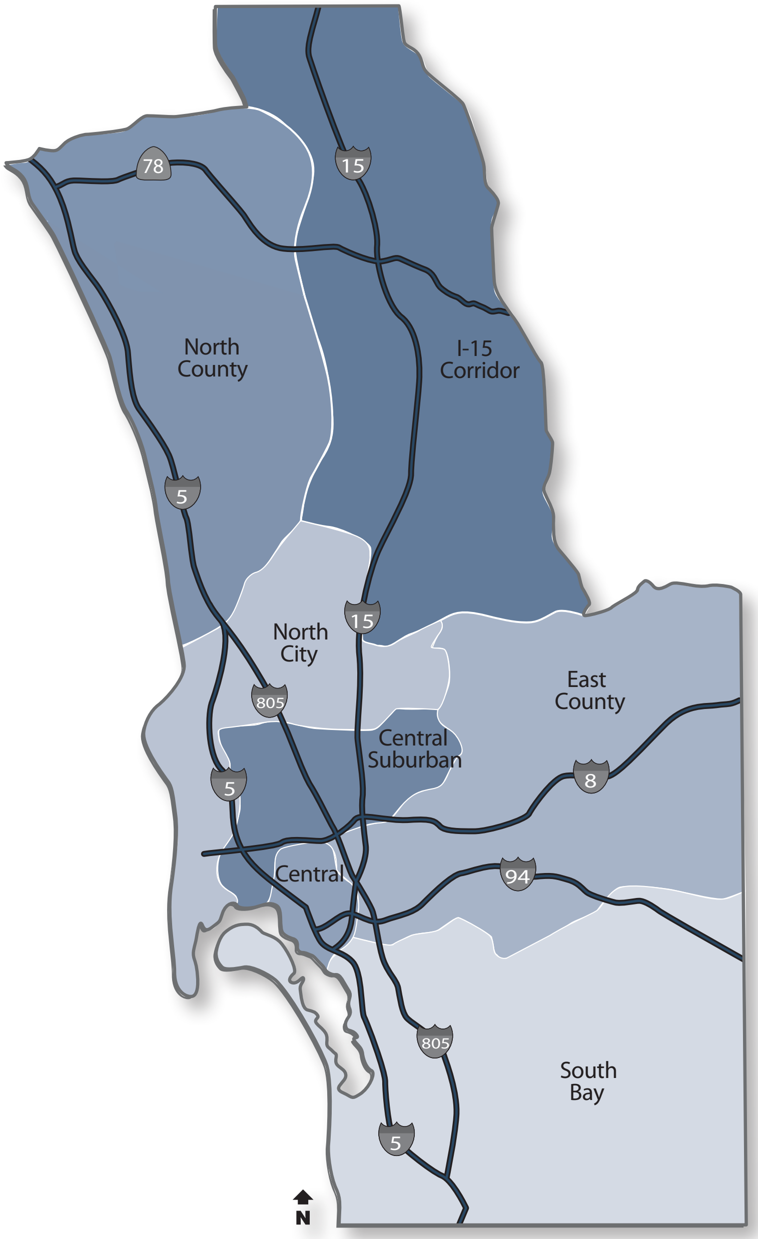


SALES & LEASE TRANSACTIONS



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2010	Total Availability 2Q2010	Availability Rate 2Q2010	Average Asking Lease Rate	Net Absorption 2Q2010	Net Absorption 2010	Gross Absorption 2Q2010	Gross Absorption 2010
Central County													
Central San Diego	984	4,616,105	2,016	43,699	204,750	4.44%	220,111	4.77%	$2.00	39,200	18,894	65,461	87,648
Clairmont	443	7,247,988	0	3,200	418,759	5.78%	344,920	4.76%	$1.94	809	9,959	165,699	223,474
Coronado	88	623,835	0	11,500	37,172	5.96%	52,361	8.39%	$2.91	(1,029)	(1,029)	1,400	1,400
Downtown	523	6,829,023	0	0	364,124	5.33%	472,969	6.93%	$2.70	39,410	28,642	99,181	148,260
Mission Gorge	82	972,477	0	0	52,815	5.43%	54,702	5.63%	$1.87	(14,545)	(18,181)	4,655	7,255
Mid City/South East San Diego	1,122	7,047,305	20,000	16,023	334,316	4.74%	349,461	4.96%	$1.43	14,826	26,064	51,785	88,591
Mission Valley	102	5,502,558	0	0	89,488	1.63%	162,683	2.96%	$1.58	(345)	(7,194)	1,800	17,785
Pacific Beach/Morena	461	3,137,524	0	55,970	161,148	5.14%	208,047	6.63%	$1.82	(14,327)	(4,256)	25,074	62,425
Point Loma/Sports Arena	462	4,279,248	0	77,655	328,741	7.68%	356,141	8.32%	$1.91	18,953	41,620	50,845	114,501
Central County Total	4,267	40,256,063	22,016	208,047	1,991,313	4.95%	2,221,395	5.52%	$1.98	82,952	94,519	465,900	751,339
East County													
El Cajon	841	8,890,499	0	22,190	486,286	5.47%	660,629	7.43%	$1.43	(12,253)	(28,971)	44,567	125,804
La Mesa	477	5,185,388	0	9,000	286,152	5.52%	332,925	6.42%	$1.54	(4,767)	5,800	40,189	75,815
Lemon Grove/Spring Valley	354	2,932,069	0	0	83,316	2.84%	115,653	3.94%	$1.47	11,367	(581)	16,284	24,970
Santee/Lakeside	337	3,453,830	0	17,430	198,962	5.76%	251,823	7.29%	$1.98	(11,881)	6,825	20,473	95,667
East County Total	2,009	20,461,786	0	48,620	1,054,716	5.15%	1,361,030	6.65%	$1.56	(17,534)	(16,927)	121,513	322,256
I–15 Corridor													
Carmel Mountain Ranch	141	3,199,896	0	7,139	101,352	3.17%	179,473	5.61%	$2.68	4,763	4,366	8,947	52,452
Poway	212	2,837,589	0	35,726	123,441	4.35%	158,366	5.58%	$1.99	3,888	(9,142)	23,903	38,281
Rancho Bernardo	31	518,769	0	0	20,184	3.89%	20,184	3.89%	$2.86	(4,000)	(3,453)	1,200	3,717
Rancho Penasquitos	62	816,824	0	0	41,409	5.07%	53,207	6.51%	$3.06	1,801	3,776	7,126	15,285
I–15 Corridor Total	446	7,373,078	0	42,865	286,386	3.88%	411,230	5.58%	$2.32	6,452	(4,453)	41,176	109,735
North City													
Cardiff/Encinitas	421	6,975,270	45,844	12,620	247,819	3.55%	258,885	3.71%	$1.99	(4,987)	(21,865)	32,320	40,951
Del Mar Heights	284	2,946,882	0	0	87,177	2.96%	105,981	3.60%	$2.80	1,030	(2,671)	28,016	43,863
La Jolla/Torrey Pines	278	2,308,340	0	0	150,821	6.53%	169,497	7.34%	$2.85	31,138	30,194	61,262	89,451
Miramar	273	5,249,982	0	0	260,153	4.96%	354,317	6.75%	$1.84	2,383	(6,471)	40,614	90,835
UTC Center	63	2,321,053	0	0	31,804	1.37%	37,583	1.62%	$2.51	2,161	5,743	8,650	14,250
North City Total	1,319	19,801,527	45,844	12,620	777,774	3.93%	926,263	4.68%	$2.32	31,725	4,930	170,862	279,350
North County													
Carlsbad	333	5,087,578	42,091	48,480	293,233	5.76%	354,687	6.97%	$2.53	18,258	19,206	31,565	63,085
Escondido	771	9,659,146	0	17,860	792,279	8.20%	972,398	10.07%	$1.69	4,902	1,556	122,676	166,846
Oceanside	674	7,700,609	30,588	113,419	653,646	8.49%	748,163	9.72%	$1.59	8,304	10,915	49,293	96,835
San Marcos	297	4,637,662	0	227,560	444,208	9.58%	493,605	10.64%	$1.83	(20,016)	(28,447)	53,178	74,715
Vista	546	5,224,395	0	89,531	499,658	9.56%	575,999	11.03%	$1.52	8,972	(121,324)	20,894	54,533
North County Total	2,621	32,309,390	72,679	496,850	2,683,024	8.30%	3,144,852	9.73%	$1.71	20,420	(118,094)	277,606	456,014
Outlying Areas													
Outlying SD County North	473	2,601,506	0	8,800	77,939	3.00%	113,045	4.35%	$1.60	9,131	11,399	18,563	32,740
Outlying SD County South	49	791,006	0	0	18,995	2.40%	32,324	4.09%	$1.69	14,918	10,009	18,367	20,005
Outlying Areas Total	522	3,392,512	0	8,800	96,934	2.86%	145,369	4.28%	$1.62	24,049	21,408	36,930	52,745
South Bay													
Chula Vista	691	8,986,238	0	281,471	324,362	3.61%	462,862	5.15%	$1.88	63,920	143,021	117,108	225,349
Eastlake	91	2,780,267	0	154,352	144,993	5.22%	180,407	6.49%	$1.95	2,675	11,054	2,679	19,317
Imperial Beach/South San Diego	445	4,278,282	0	407,002	153,166	3.58%	237,409	5.55%	$1.56	(15,848)	(12,264)	20,440	42,633
National City	339	3,278,132	0	41,339	211,263	6.44%	297,158	9.06%	$1.75	1,017	(24,951)	66,351	82,558
South Bay Total	1,566	19,322,919	0	884,164	833,784	4.32%	1,177,836	6.10%	$1.81	51,764	116,860	206,578	369,857
San Diego County Total	**12,750**	**142,917,275**	**140,539**	**1,701,966**	**7,723,931**	**5.40%**	**9,387,975**	**6.57%**	**$1.85**	**199,828**	**98,243**	**1,320,565**	**2,341,296**

This survey consists of buildings greater than 10,000 square feet. 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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