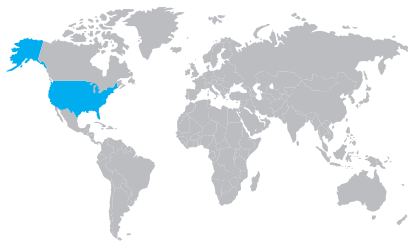


# SAN DIEGO REGION MARKET REPORT



## Retail demand slightly positive; vacancy stays flat

### MARKET OVERVIEW

Retail demand took a mild upswing in Q2 as nearly 85,000 square feet of net absorption was reported while vacancy remained relatively unchanged. Leasing demand is likely to stay relatively flat – but positive trending – in the last half of the year; investment sales activity seems on track to exceed 2009 by nearly double its volume.

The June 2010 San Diego County unemployment rate measured 10.5% -- a 0.4% increase from the previous month. Both the California and national unemployment rates increased slightly and stand at 12.2% and 9.6%, respectively. For the half of this year, there was a net gain of 5,700 non-farm jobs countywide. However over the one-year period ending in June, a net loss of 12,500 non-farm jobs was reported countywide.

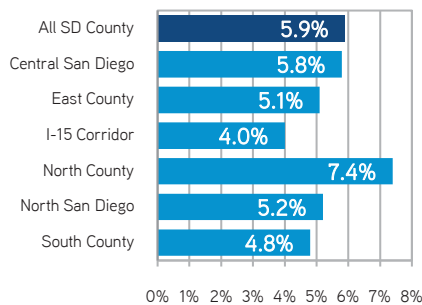
At the end of June, the USD Index of Leading Economic Indicators for San Diego showed fifteen straight months of increase. The primary drivers of this growth were increases in residential building permits and hiring demand along with a slight increase in local consumer confidence.

### MARKET INDICATORS

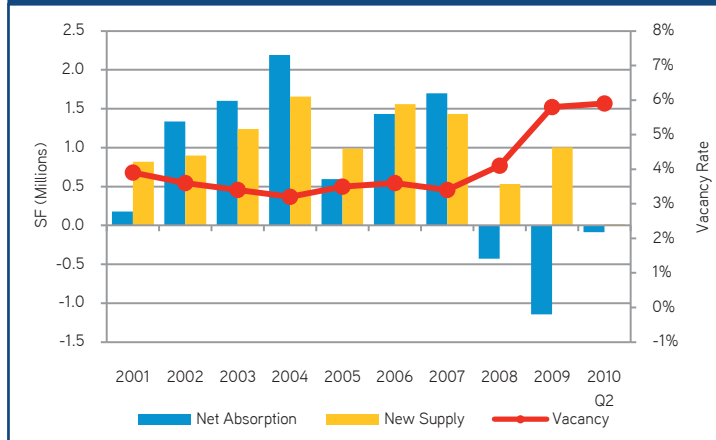
	Q2 2010	Q3 2010 (forecast)
VACANCY	→	→
NET ABSORPTION	↑	→
CONSTRUCTION	→	→
RENTAL RATE	↓	↓

### RETAIL VACANCY RATES

Q2 2010

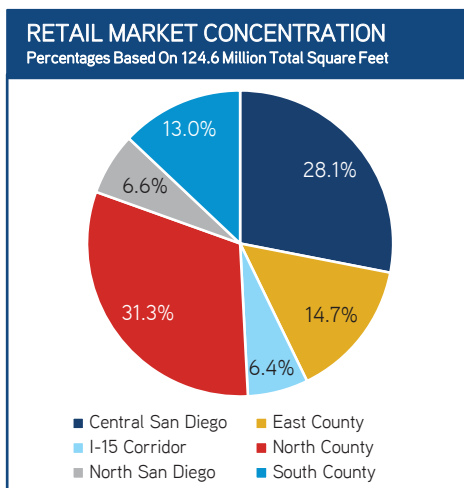


### NEW SUPPLY, ABSORPTION AND VACANCY RATES



### MARKET TRENDS

Vacancy remained unchanged at 5.9% at the end of Q2 2010. Nearly 85,000 square feet of net absorption was recorded countywide while just over 21,000 square feet was completed. Demand will likely be flat throughout the last half of 2010, leaving the vacancy rate to remain under or around 6%.



**MARKET CONCENTRATION**

The San Diego County retail market is comprised of nearly 125 million square feet. The county is divided into six major market areas with 40 submarkets within them. Nearly 60% of all countywide retail space is located within the Central San Diego and North County markets. Over 85% of the 140,000 square feet under construction will be completed in North County, thereby continuing to increase its positioning as the largest market area.

**VACANCY**

For shopping centers and freestanding retail over 2,500 square feet, the Q2 countywide total vacancy rate stayed level at 5.9%. This is only slightly higher than the 5.3% vacancy rate reported a year ago. About 7.4 million square feet currently sits vacant. Direct vacancy measured 5.6%; sublease vacancy dipped slightly to 0.4%.

With a 7.4% vacancy rate, North County has the most available space available within the county. In particular, Vista, San Marcos, Oceanside and Escondido all post vacancy rates exceeding 8%. All other submarkets across the county have vacancy rates at sub-8% levels.

While the vacancy rate here has continued to climb each quarter since Q3 2007 (3.5%), San Diego is relatively healthier than the majority of markets in the nation. The national vacancy rate of 7.4% was around 1.5% higher than San Diego.

**NET ABSORPTION**

Net absorption totaled a positive 84,813 square feet countywide. However, demand was relatively flat in most submarkets as evident by the fact 24 out of the 40 submarkets had less than 10,000 square feet of either negative or positive net absorption. Only six submarkets posted over 20,000 square feet of negative or positive demand.

Central San Diego had the most overall positive net absorption with 57,242 square feet. In particular, Downtown/Coronado led all Central

San Diego submarkets with 44,250 square feet. Conversely, the Central San Diego submarket of Navajo/San Carlos had the most negative net absorption with 24,838 square feet.

Overall tenant activity has been relatively stable amongst the majority of submarkets during the first half of 2010. There were a few exceptions however. Vista had the most negative net absorption with 127,436 square feet. Chula Vista/Bonita posted the most demand with 73,598 square feet.

**CONSTRUCTION**

New construction completions were minimal for the first six months of the year, totaling only 36,695 square feet. Only 21,195 square feet was completed within two projects during Q2. 139,791 square feet is under construction with over three-quarters of this concentrated in the North County. Coupled with a relatively high vacancy rate, North County is clearly over-built and will likely reach a vacancy rate of nearly 8.0% by year-end.

Proposed construction totals 1.7 million square feet across the county. Half of the future retail inventory is planned for development in South County. In terms of population growth, this is one of the fastest growing regions of the county with generally strong retail demand as evident by its relatively low vacancy rates. In fact, up until Q4 2008, overall vacancy in the South County was consistently below 3% with some submarkets posted below 2% vacancy in prior quarters.

**SALES AND INVESTMENT ACTIVITY**

**SALES ACTIVITY IN Q2**

PROPERTY NAME	SUBMARKET	SALE PRICE	SIZE SF	PRICE / SF	CAP RATE
Del Mar Plaza	Del Mar/Solana Beach	\$41,600,000	74,631	\$557.41	N/Av
The Shops at San Miguel Ranch	Chula Vista/Bonita	\$19,800,000	103,636	\$191.05	8.50%
LA Fitness – 2070 Otay Lakes Road	Chula Vista/Bonita	\$12,075,000	44,363	\$272.19	N/Av
450 W Vista Way	Vista	\$10,500,000	36,491	\$287.74	N/Av
CVS Pharmacy – 645 Market Street	Downtown/Coronado	\$7,340,000	15,300	\$479.74	6.40%

**RETAIL INVESTMENT STATISTICS – PROPERTIES 2,500 SF AND OVER**

MARKET	NUMBER OF SALES				SALES VOLUME (\$ Millions)				AVERAGE PRICE PER SF			
	2007	2008	2009	2010*	2007	2008	2009	2010*	2007	2008	2009	2010*
Central San Diego	82	49	47	16	\$205.4	\$116.8	\$90.7	\$23.4	\$232	\$211	\$207	\$242
East County	52	32	18	7	\$106.4	\$77.6	\$40.6	\$13.9	\$200	\$148	\$152	\$163
I-15 Corridor	11	4	4	0	\$111.5	\$7.0	\$13.7	N/A	\$352	\$421	\$317	N/A
North County	48	38	20	18	\$213.5	\$136.8	\$39.1	\$81.1	\$267	\$296	\$220	\$307
North San Diego	10	8	4	3	\$196.4	\$29.0	\$9.5	\$26.1	\$340	\$587	\$530	\$246
South County	18	27	12	8	\$401.2	\$92.9	\$28.4	\$44.4	\$284	\$186	\$130	\$203
San Diego County	221	158	105	52	\$1,234.3	\$460.1	\$222.0	\$189.0	\$252	\$219	\$191	\$245

\* As of 6/30/2010

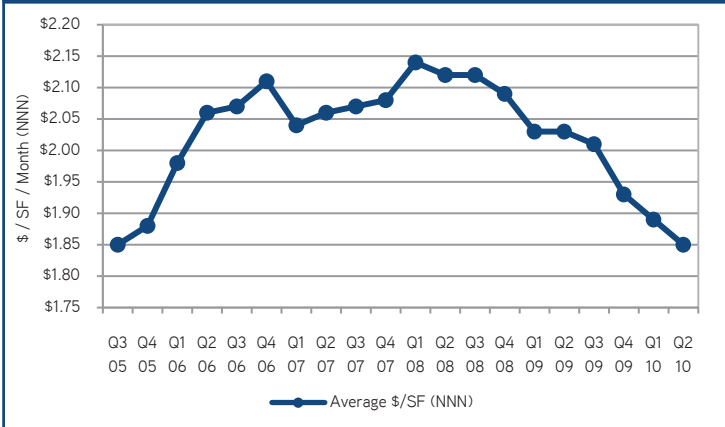
**SAN DIEGO COUNTY RETAIL OVERVIEW – Q2 2010**

Submarket	EXISTING PROPERTIES					NET ABSORPTION		NEW SUPPLY		FUTURE SUPPLY		RENT
	Bldgs	Total Inventory SF	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacancy Rate	Net Absorption QTR SF	Net Absorption YTD SF	Construction Completed QTR SF	Construction Completed YTD SF	Under Construction SF	Proposed SF	Avg. Rental Rate
<b>CENTRAL SAN DIEGO</b>												
Clairemont	76	1,702,925	7.6%	0.0%	7.6%	-14,745	-10,914	0	0	0	55,970	\$1.70
College Area	224	2,790,479	4.7%	0.0%	4.7%	9,208	5,232	0	0	0	4,500	\$1.69
Downtown/Coronado	488	6,774,050	5.3%	0.5%	5.8%	44,250	34,514	0	7,000	0	11,500	\$2.62
Kearny Mesa	264	5,175,774	5.1%	0.0%	5.1%	13,738	14,846	0	0	0	3,200	\$1.89
Logan Heights	105	910,559	5.2%	0.0%	5.2%	2,587	9,131	0	0	0	9,523	\$1.45
Mid-City	823	5,821,499	5.3%	0.2%	5.5%	27,595	15,751	4,295	4,295	20,000	43,699	\$1.75
Mission Valley	77	2,384,303	3.9%	0.2%	4.1%	1,471	-6,926	0	0	0	0	\$2.02
Morena	227	3,269,113	6.8%	0.9%	7.7%	-16,052	15,486	0	0	0	57,900	\$1.51
Navajo/San Carlos	89	1,525,883	6.6%	0.0%	6.6%	-24,838	-29,114	0	0	0	0	\$1.66
Pacific Beach/Pt. Loma	432	3,727,026	6.5%	0.0%	6.5%	16,228	16,693	0	0	0	19,755	\$2.16
Southeast S.D.	47	557,110	4.5%	0.0%	4.5%	-2,200	-4,300	0	0	0	0	\$1.76
Tierrasanta	17	320,847	4.3%	0.0%	4.3%	0	598	0	0	0	0	\$1.87
<b>TOTAL</b>	<b>2,869</b>	<b>34,959,568</b>	<b>5.5%</b>	<b>0.2%</b>	<b>5.8%</b>	<b>57,242</b>	<b>60,997</b>	<b>4,295</b>	<b>11,295</b>	<b>20,000</b>	<b>206,047</b>	<b>\$1.95</b>
<b>EAST COUNTY</b>												
East County	54	909,022	1.9%	0.0%	1.9%	12,637	9,418	0	0	0	0	\$2.11
El Cajon	542	6,769,248	5.3%	0.0%	5.3%	-20,408	-41,346	0	0	0	22,190	\$1.42
La Mesa	304	3,677,729	6.1%	0.2%	6.3%	1,616	10,521	0	0	0	9,000	\$1.49
Lakeside	79	585,318	5.5%	0.0%	5.5%	4,016	1,944	0	0	0	0	\$1.80
Lemon Grove	100	1,090,892	3.0%	0.0%	3.0%	6,718	2,210	0	0	0	0	\$1.30
Ramona	102	935,220	4.9%	0.0%	5.0%	2,580	1,455	0	0	0	0	\$1.40
Santee	160	2,716,330	5.2%	0.9%	6.1%	-15,222	5,556	0	0	0	40,530	\$1.70
Spring Valley	118	1,665,658	3.7%	0.0%	3.7%	2,593	-93	0	0	0	0	\$1.40
<b>TOTAL</b>	<b>1,459</b>	<b>18,349,417</b>	<b>5.0%</b>	<b>0.2%</b>	<b>5.1%</b>	<b>-5,470</b>	<b>-10,335</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>71,720</b>	<b>\$1.50</b>
<b>I-15 CORRIDOR</b>												
Poway	175	2,805,499	4.4%	0.0%	4.4%	3,888	-11,392	0	0	0	35,726	\$1.94
Rancho Bernardo	157	3,704,422	3.0%	0.2%	3.2%	3,129	5,529	0	0	0	7,139	\$2.56
Rancho Penasquitos	55	799,267	5.2%	0.0%	5.2%	1,801	3,776	0	0	0	0	\$2.91
Scripps Ranch	46	658,757	5.0%	0.0%	5.0%	6,260	3,562	0	0	0	0	\$2.39
<b>TOTAL</b>	<b>433</b>	<b>7,967,945</b>	<b>3.9%</b>	<b>0.1%</b>	<b>4.0%</b>	<b>15,078</b>	<b>1,475</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>42,865</b>	<b>\$2.34</b>
<b>NORTH COUNTY</b>												
Carlsbad	254	3,840,591	3.9%	0.8%	4.7%	14,518	15,466	0	0	43,359	48,480	\$2.24
Del Mar/Solana Beach	148	1,980,870	3.7%	0.0%	3.7%	3,610	3,669	0	0	0	0	\$2.84
Encinitas	303	6,762,204	2.7%	2.6%	5.3%	-13,264	-31,970	0	0	45,844	12,620	\$2.16
Escondido	553	7,955,014	8.0%	0.3%	8.3%	15,083	4,637	0	8,500	0	17,860	\$1.58
Fallbrook/Bonsall	166	1,327,519	2.2%	0.0%	2.2%	6,551	9,813	0	0	0	38,800	\$1.96
Oceanside	472	7,414,494	8.4%	0.5%	8.8%	8,754	10,830	0	0	30,588	122,935	\$1.77
San Marcos	250	4,693,528	8.9%	0.5%	9.4%	-21,786	-30,217	0	0	0	227,560	\$1.90
Vista	354	4,996,538	9.9%	0.1%	10.0%	5,250	-127,436	16,900	16,900	0	77,995	\$1.54
<b>TOTAL</b>	<b>2,500</b>	<b>38,970,758</b>	<b>6.7%</b>	<b>0.8%</b>	<b>7.4%</b>	<b>18,716</b>	<b>-145,208</b>	<b>16,900</b>	<b>25,400</b>	<b>119,791</b>	<b>546,250</b>	<b>\$1.79</b>
<b>NORTH SAN DIEGO</b>												
Carmel Valley	45	824,900	2.4%	0.0%	2.4%	1,312	-2,448	0	0	0	0	\$3.71
La Jolla	205	2,200,821	6.7%	0.0%	6.7%	31,138	29,394	0	0	0	0	\$2.96
Mira Mesa	128	3,289,107	5.2%	0.1%	5.3%	-7,880	-16,018	0	0	0	0	\$1.75
Miramar	58	1,133,194	3.3%	1.5%	4.8%	-1,945	68	0	0	0	0	\$1.62
University City	36	744,739	4.3%	0.0%	4.3%	2,161	5,743	0	0	0	0	\$2.48
<b>TOTAL</b>	<b>472</b>	<b>8,192,761</b>	<b>5.0%</b>	<b>0.3%</b>	<b>5.2%</b>	<b>24,786</b>	<b>16,739</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$2.33</b>
<b>SOUTH COUNTY</b>												
Chula Vista/Bonita	535	8,796,777	4.7%	0.2%	4.9%	-16,568	73,598	0	0	0	433,823	\$1.95
National City	234	3,338,603	6.2%	0.0%	6.2%	-1,345	-25,863	0	0	0	39,539	\$1.64
San Ysidro/Imperial Beach	289	4,001,693	3.2%	0.3%	3.5%	-7,626	-2,992	0	0	0	407,002	\$1.63
<b>TOTAL</b>	<b>1,058</b>	<b>16,137,073</b>	<b>4.7%</b>	<b>0.2%</b>	<b>4.8%</b>	<b>-25,539</b>	<b>44,743</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>880,364</b>	<b>\$1.81</b>
<b>MARKET TOTALS - SAN DIEGO COUNTY</b>												
<b>TOTAL</b>	<b>8,791</b>	<b>124,577,522</b>	<b>5.6%</b>	<b>0.4%</b>	<b>5.9%</b>	<b>84,813</b>	<b>-31,589</b>	<b>21,195</b>	<b>36,695</b>	<b>139,791</b>	<b>1,747,246</b>	<b>\$1.85</b>

Building inventory consists of retail and shopping centers over 2,500 SF, excluding regional malls. Average rental rates are average asking rates quoted "triple net" on a "per square foot per month" basis.  
 Note: Adjustments in total inventory and number of buildings may occur for various reasons including — but not limited to — square footage adjustments, property type changes, and demolition of properties which could affect increases and/or decreases in the property sample.

**HISTORICAL RENTAL RATE TRENDS**

Quarterly Average Asking Rate Per SF Per Month (NNN)



**RENTAL RATES**

Rental rates have exhibited a downward trend for the last nine quarters. Since Q1 2008, rents have fallen an average of 14%. Over just the last year, rents have dropped 9%. Further decreases are anticipated in Q3, but rents should level out by year-end.

480 offices in  
61 countries on  
6 continents

United States: 135  
Canada: 39  
Latin America: 17  
Asia Pacific: 194  
EMEA: 95

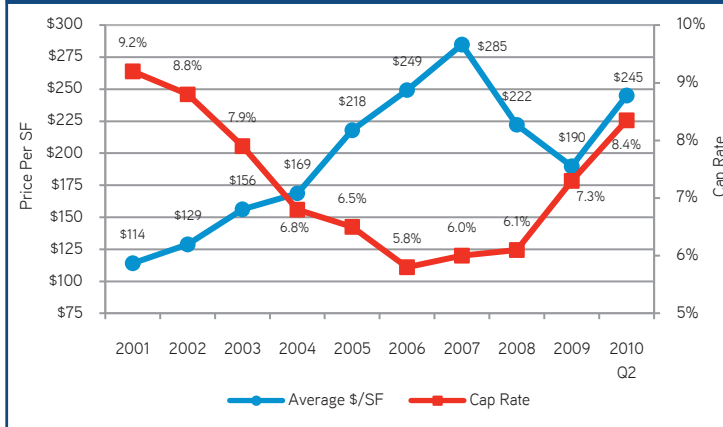
- \$1.6 billion in annual revenue
- 672.9 million square feet under management
- Over 10,000 professionals

**INVESTMENT TRENDS**

Pricing has strengthened in the first half of 2010 compared to 2009 as the average price per square foot stands at \$245. The large increase was mainly skewed by the sale of Del Mar Plaza for \$557 per square foot. Excluding this sale, the average price per square foot stood at \$212. Cap rates continue to increase and currently stand at 8.4%.

**RETAIL INVESTMENT TRENDS**

Average Price Per SF vs. Cap Rate



**RENTAL RATES**

Retail rental rates countywide topped out in Q1 2008 at an historical high with asking rates averaging \$2.14 per square foot on a triple-net basis. Since then, rents have decreased by 14%. The Q2 2010 average asking rate was \$1.85 per square foot, a decline of \$0.04 per square foot for the quarter and \$0.08 for the first half of the year. San Diego's average asking rental rate was 45% higher than that of the nation (\$1.28) as a whole.

Rental rates will likely decrease slightly in Q3, but should stabilize by Q4. Local consumer confidence has been strengthening since May and retail receipts continue to increase. Assuming unemployment rates begin to improve as well, rental rates should remain relatively flat in early 2011 with the possibility of minimal increases in the latter half of the year.

**SALES ACTIVITY**

Retail sales volume of \$107.6 million in Q2 was much more robust than Q1 or any quarter in 2009. Even though only 24 sales were recorded, a higher price-per-square-foot caused sales volume to be much higher. Sale prices ticked up, with an average price of \$281 per square foot in Q2 compared to \$210 per square foot in Q1. This equated to an average of \$245 per square foot for the first half of the year. Since 2006, cap rates have slowly increased, reaching 8.0 percent at the end of Q4 for an average of 7.3% for the year. Cap rates averaged 8.4% for the first six months of 2010 and may likely reach 9% by year-end.

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