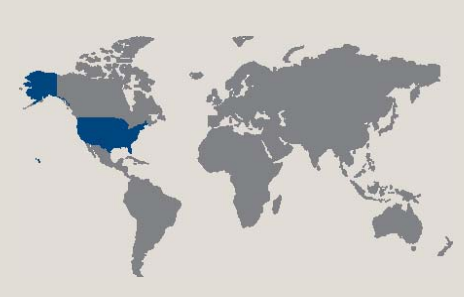




The Knowledge Report

RETAIL | THIRD QUARTER | 2009



MARKET INDICATORS

VACANCY BY SPACE TYPE

	2009 Q3	2009 Q2	Change
Direct	5.1%	4.8%	↑
Sublease	0.4%	0.5%	↓
Total	5.5%	5.3%	↑

NET ABSORPTION

	2009 Q3	2009 YTD
Total	-261,944	-1,386,032

NEW SUPPLY

	2009 Q3	2009 YTD
Total	42,618	452,986

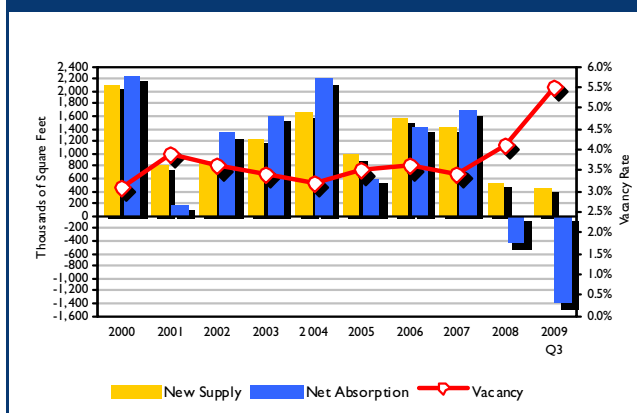
Retailers continue to struggle

SAN DIEGO COUNTY OVERVIEW

Demand for retail space continued negative for the fifth consecutive quarter. While most of the vacancies occurred in Q1 after a disappointing holiday season, tenants vacated approximately 250,000 square feet in Q2 as well as Q3. Close to 1,500,000 square feet of tenant vacancies occurred during the first nine months of 2009. By year-end, countywide vacancies could reach nearly two million square feet.

The September 2009 San Diego County unemployment rate measured 10.2% ~ a significant decrease from the previous month's two-decade high rate of 10.6%. The California rate decreased to 12.0% while the national rate decreased slightly to 9.5%. For two straight months, the total non-farm labor force increased with 1,400 jobs added over that period. From September 2008 to September 2009, a net loss of 52,000 jobs was recorded. At the end of September, the USD Index of Leading Economic Indicators for San Diego increased for the sixth straight month, indicating a possible "bottoming out" of the local recession. This possible "recovery" was primarily bolstered by growing consumer confidence along with some support by increasing local stock prices and a more optimistic outlook for the national economy (vis-à-vis the Conference Board's Index of Leading Economic Indicators).

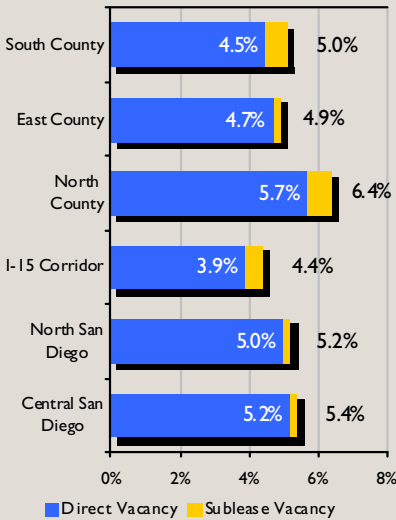
NEW SUPPLY, ABSORPTION AND VACANCY RATES



Vacancy continues to rise and currently stands at 5.5%. Nearly 1.4 million square feet of negative net absorption has been reported year-to-date with almost a half-million square feet of construction completed. By year-end, vacancy will likely reach 6%.



VACANCY RATES BY MARKET



The market areas of San Diego County had vacancy rates that hovered close to county average with the exception of North County. Five submarkets had vacancy rates that exceeded 7% with three of those located in North County. San Marcos had the highest vacancy rate at 8.1%.

The Q3 countywide total retail vacancy rate for shopping centers and freestanding retail over 2,500 square feet increased to 5.5% compared to 5.3% in the previous quarter and 3.8% one year ago. About 7.0 million square feet currently sits vacant, equivalent to the combined size of the five largest malls in San Diego County. Direct vacancy measured 5.1%, while sublease vacancy remained unchanged at 0.4%.

Thirty-six of the forty-two major retail markets in the U.S. posted higher vacancy than San Diego. Vacancy for strip, neighborhood, and community centers in San Diego stands at 7.1% compared to 10.6% for the U.S. Relatively speaking, San Diego continues to fare better than the nation as a whole and most markets nationally.

The vacancy rate is expected to increase as more retailers close stores during a potentially challenging holiday season. Q4 demand will likely be negative on par with the rate of lost space that occurred over the last two quarters. If this holiday season fairs as poorly as 2008, another spike in lost space is expected during

Q1 2010. It may be a year or more before demand picks up to pre-2008 levels.

Net absorption totaled a negative 261,444 square feet. Unlike Q2 when three submarkets measured over 100,000 square feet of negative net absorption, no submarket exceeded 70,000 square feet of negative net absorption in Q3. In general, Q3 negative demand in most submarkets declined compared with the last two quarters. The San Ysidro/Imperial Beach submarket had the most positive absorption (nearly 95,000 square feet). Leasing activity continued to increase as nearly 750,000 square feet of leases were signed in Q3 which should help mitigate some of the Q4 vacancy expected to come online during Q4 and early-2010.

New construction activity has slowed. About 453,000 square feet was completed in the first nine months of 2009 (approximately 43,000 square feet in Q3). An additional 570,000 square feet is under construction. Tenants should continue to see competitive leasing rates and terms for existing properties. Thus, *(Continued on page 4)*

SALES AND INVESTMENT ACTIVITY

SALES ACTIVITY IN Q3 — RANKED BY TOTAL SALE PRICE

PROPERTY NAME	SUBMARKET	SALE PRICE	SIZE SF	PRICE / SF	CAP RATE
Market Street Village (Grocery Store)	Downtown	\$13,775,001	42,973	\$320.55	7.88%
Fairmont Avenue & El Cajon Blvd (Auto Dealership)	Mid-City	\$12,264,245	91,420	\$134.15	N/Av
La Mesa Square (Neighborhood Center)	La Mesa	\$10,243,500	88,033	\$116.36	N/Av
Vineyard Square (Neighborhood Center)	Escondido	\$5,595,000	22,140	\$252.71	9.60%
Car County Carlsbad (Auto Dealership / Distressed Sale)	Carlsbad	\$3,500,000	28,128	\$124.43	N/Av
7582 Broadway (Strip Center)	Lemon Grove	\$2,450,000	10,000	\$245.00	N/Av

RETAIL INVESTMENT STATISTICS — PROPERTIES 2,500 SF AND OVER

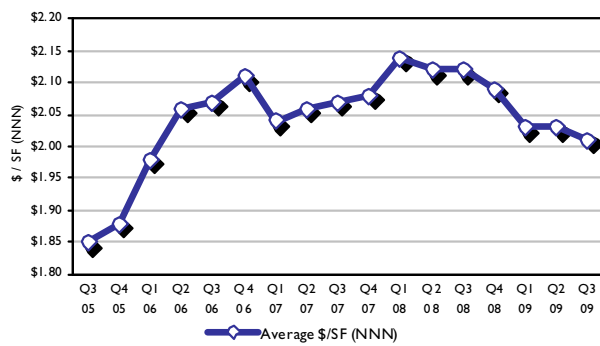
MARKET	NUMBER OF SALES				SALES VOLUME (\$ MILLIONS)				AVERAGE PRICE PER SF			
	2006	2007	2008	2009*	2006	2007	2008	2009*	2006	2007	2008	2009*
Central San Diego	64	82	49	38	\$200.7	\$205.4	\$116.8	\$93.0	\$220	\$232	\$211	\$186
East County	50	52	32	13	\$146.2	\$106.4	\$77.6	\$35.5	\$219	\$200	\$148	\$152
I-15 Corridor	5	11	4	4	\$49.4	\$111.5	\$7.0	\$13.7	\$262	\$352	\$421	\$317
North County	63	48	38	15	\$305.8	\$213.5	\$136.8	\$30.1	\$312	\$267	\$296	\$240
North San Diego	7	10	8	3	\$28.9	\$196.4	\$29.0	\$7.0	\$617	\$340	\$587	\$467
South County	18	18	27	9	\$62.3	\$401.2	\$92.9	\$19.7	\$302	\$284	\$186	\$105
San Diego County	207	221	158	82	\$793.2	\$1,234.3	\$460.1	\$199.1	\$273	\$252	\$219	\$180

* Sales through 9/30/2009.

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 **
CENTRAL SAN DIEGO												
Clairemont	76	1,750,799	6.8%	0.0%	6.8%	-13,890	-71,515	0	0	0	50,680	\$1.51
College Area	209	2,731,855	4.7%	0.0%	4.7%	-21,744	-5,489	0	40,858	0	4,500	\$1.56
Downtown/Coronado	484	7,449,396	5.9%	0.5%	6.3%	6,063	27,707	0	50,605	286,887	32,500	\$2.75
Kearny Mesa	246	5,115,963	3.0%	0.0%	3.0%	5,020	7,453	0	5,898	5,905	25,430	\$1.90
Logan Heights	98	1,001,446	5.8%	0.0%	5.8%	-6,189	-24,518	0	0	37,945	18,990	\$1.57
Mid-City	800	5,875,059	5.6%	0.2%	5.8%	-10,911	-75,719	0	24,801	90,342	61,219	\$1.74
Mission Valley	73	2,257,813	2.5%	0.0%	2.5%	8,417	-10,649	0	0	0	0	\$2.23
Morena	228	3,285,283	7.2%	0.6%	7.8%	-3,887	-121,509	0	0	0	14,000	\$1.68
Navajo/San Carlos	90	1,528,806	4.6%	0.0%	4.6%	-5,321	-11,763	0	0	0	0	\$1.73
Pacific Beach/Pt. Loma	427	3,728,317	6.4%	0.0%	6.4%	15,737	42,643	4,135	4,135	0	19,755	\$2.34
Southeast S.D.	29	474,286	3.0%	0.0%	3.0%	-3,853	2,297	0	0	0	0	\$1.50
Tierrasanta	17	321,725	4.4%	0.0%	4.4%	-5,315	-1,379	0	0	0	0	\$1.89
Total	2,777	35,520,748	5.2%	0.2%	5.4%	-35,873	-242,441	4,135	126,297	421,079	227,074	\$2.04
EAST COUNTY												
East County	49	835,774	3.2%	0.0%	3.2%	5,534	15,850	0	0	0	0	\$1.57
El Cajon	542	6,904,930	4.4%	0.2%	4.6%	-20,010	-57,005	3,740	3,740	0	7,000	\$1.62
La Mesa	300	3,696,642	6.3%	0.2%	6.5%	-28,492	-89,730	0	0	0	0	\$1.53
Lakeside	78	633,159	5.9%	0.0%	5.9%	-10,175	-9,183	0	0	0	0	\$1.56
Lemon Grove	101	1,109,913	2.8%	0.0%	2.8%	-1,464	12,825	0	0	0	0	\$1.29
Ramona	96	915,876	2.4%	0.0%	2.4%	-5,912	-9,252	0	0	0	0	\$1.49
Santee	157	2,754,777	6.0%	0.7%	6.7%	-23,042	-11,642	0	14,820	0	12,590	\$1.86
Spring Valley	118	1,704,798	2.8%	0.0%	2.8%	14,511	-22,401	0	31,421	0	0	\$1.43
Total	1,441	18,555,869	4.7%	0.2%	4.9%	-69,050	-170,538	3,740	49,981	0	19,590	\$1.61
I-15 CORRIDOR												
Poway	176	2,860,038	3.5%	0.0%	3.5%	-28,857	-43,349	0	0	0	35,726	\$2.20
Rancho Bernardo	157	3,858,030	3.6%	1.0%	4.7%	1,891	-28,065	0	0	0	0	\$2.61
Rancho Penasquitos	55	825,414	4.8%	0.2%	5.0%	-8,288	-13,244	0	0	0	0	\$3.19
Scripps Ranch	46	659,464	5.6%	0.0%	5.6%	702	-12,560	0	0	0	0	\$2.65
Total	434	8,202,946	3.9%	0.5%	4.4%	-34,552	-97,218	0	0	0	35,726	\$2.56
NORTH COUNTY												
Carlsbad	250	3,833,166	4.7%	0.3%	5.0%	-36,870	44,480	20,000	158,365	41,995	48,480	\$2.39
Del Mar/Solana Beach	139	1,915,486	2.3%	1.0%	3.2%	-171	-14,754	0	4,300	0	0	\$3.26
Encinitas	296	6,766,911	2.3%	2.6%	4.9%	7,670	-193,926	0	0	45,844	12,620	\$2.40
Escondido	521	8,190,828	7.5%	0.3%	7.8%	-69,407	-151,070	0	0	9,254	37,000	\$1.76
Fallbrook/Bonsall	162	1,346,306	1.7%	0.0%	1.7%	-4,938	-11,557	0	0	0	38,800	\$1.25
Oceanside	467	7,425,061	6.9%	0.3%	7.2%	26,078	-50,074	0	39,072	31,132	125,616	\$1.88
San Marcos	244	4,728,194	7.6%	0.5%	8.1%	-64,251	-125,690	9,743	9,743	0	213,621	\$2.00
Vista	347	4,889,239	6.9%	0.0%	6.9%	-14,549	-57,753	0	42,000	20,700	71,200	\$1.66
Total	2,426	39,095,191	5.7%	0.7%	6.4%	-156,438	-560,344	29,743	253,480	148,925	547,337	\$1.92
NORTH SAN DIEGO												
Carmel Valley	45	824,900	1.3%	0.0%	1.3%	0	0	0	0	0	0	\$3.50
La Jolla	201	2,216,538	7.7%	0.1%	7.8%	-5,379	-68,727	0	0	0	0	\$4.41
Mira Mesa	128	3,288,666	4.4%	0.0%	4.4%	-21,221	-26,226	0	0	0	0	\$1.79
Miramar	59	1,173,954	3.6%	1.5%	5.1%	21,352	37,683	0	0	0	0	\$1.68
University City	35	765,496	5.6%	0.1%	5.7%	-12,047	-11,068	0	0	0	0	\$2.43
Total	468	8,269,554	5.0%	0.2%	5.2%	-17,295	-68,338	0	0	0	0	\$2.98
SOUTH COUNTY												
Chula Vista/Bonita	554	9,807,732	4.4%	0.7%	5.1%	-46,983	-173,529	0	5,790	0	426,123	\$2.14
National City	216	3,203,298	5.6%	1.0%	6.6%	3,979	-39,807	5,000	17,438	0	39,539	\$1.55
San Ysidro/Imperial Beach	284	4,145,561	3.7%	0.0%	3.7%	94,268	-33,817	0	0	0	410,802	\$1.62
Total	1,054	17,156,591	4.5%	0.6%	5.0%	51,264	-247,153	5,000	23,228	0	876,464	\$1.90
MARKET TOTALS - SAN DIEGO COUNTY												
Total	8,600	126,800,899	5.1%	0.4%	5.5%	-261,944	-1,386,032	42,618	452,986	570,004	1,706,191	\$2.01

* 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.

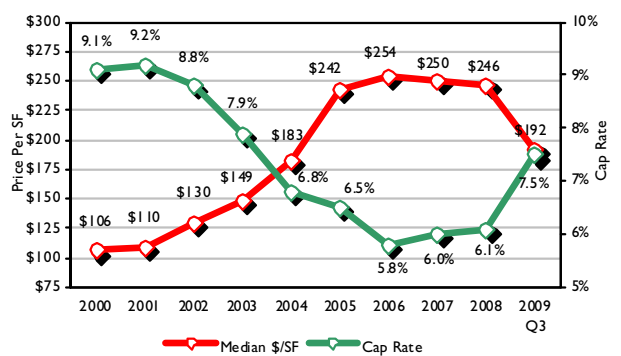
AVERAGE ASKING DIRECT RENTAL RATES



Rental rates topped out at a historical high of \$2.14/SF in Q1 2008. Since then, the countywide average asking rent has started to decline slowly with Q1 2009 posting the largest drop in the past six quarters and settling at \$2.01. This was a \$0.02 decrease from the previous quarter.

The median price per square foot has been slowing decreasing since 2006 and currently stands at \$192. Cap rates have been slowing increasing over the same period and currently stand at 7.5% for the first three quarters of 2009. However, the average cap rate was 8.5% for the sales that occurred in Q3.

RETAIL INVESTMENT TRENDS



(Continued from page 2)

most of the 1.7 million square feet of proposed space will remain undeveloped for at least two years while the market moves toward recovery and existing space is absorbed.

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 6%, and the Q3 average asking rate now stands at \$2.01 per square foot. While rents have continued decline in most submarkets, the premier submarkets like Carmel Valley, La Jolla, Del Mar/Solana Beach, and Rancho Penasquitos continue to have rents that exceed \$3.00 per square foot.

Countywide retail investment sales volume continued very weak. Only 24 sales were recorded in Q3 2009 bringing the total to 82 for the first nine months of the year. The median sales price of \$178 per square foot in Q3 has continued a decreasing trend that equals \$192 per square foot year-to-date. Since 2006, cap rates have slowly increased, reaching 7.5 percent at the end of Q3.

Although there are signs of increased consumer confidence and employment has begun to pick up, it is reasonable to expect that San Diego's full recovery is a few years away. Rents will be competitive in well into 2010. Sales volume will likely remain low but potentially pick up in the latter half of 2010. ■

294 OFFICES IN 61 COUNTRIES ON 6 CONTINENTS

USA 94
Canada 22
Latin America 17
Asia Pacific 64
EMEA 97

\$48.1 billion in annual transaction volume

1.1 billion square feet under management

12,749 Professionals

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