

THE MARKETS

THE LATEST SALES AND LEASING DATA FOR PROPERTY TYPES AND MARKETS ACROSS THE STATE

How's business?

"While average cap rates for retail properties continue to rise, demand for single-tenant assets like fast food restaurants remains solid, with cap rates still below 7 percent for those with strong fundamentals. The real challenge continues to be valuing multi-tenant properties with income established during the "leasing frenzy" of 2004 through 2007. Many of these assets are now faced with tenant retention issues and replacement rents of 60 percent to 80 percent below their original rates, leaving a pricing gap between sellers and buyers. As a result, very few of these properties are currently being traded."

— **Matthew Burnett**, senior associate, CB Richard Ellis, Ontario



"[Vacancy] seems to have stabilized a little bit, but I think we still have a period of higher vacancy coming in the next six to 12 months. After Christmas we'll see the vacancy stay static, or we're going to see some of the retailers go by the wayside. I think a lot of them are waiting to see what their holiday sales are going to be and that will determine if they're going to stay in business or not, as far as the local retailers and some of the regional operators go."

"Rents are declining and I think they will be for the next six to 12 months. There are a number of tenants that are out trying to take advantage of the lower rents. A lot of tenants, if they're actively looking in the market, they're looking at the better-quality, better-located shopping centers."



— **Phillip Lyons**, principal, Grubb & Ellis|BRE Commercial, Carlsbad

"Most Orange County retailers continue to struggle and will be betting large on a strong Christmas to drive sales. Value-orientated retailers like Wal-Mart and 99 Cents Only are faring best. Furniture stores, stores selling durable goods and other higher-end stores are taking the hardest hits in sales during these tough economic times. Lease rates continue to soften, and retailers are pushing for lower lease rates, testing landlords for lease extensions and renewals. With fewer numbers of interested tenants chasing opportunities, landlords are being forced to lower rates and [are] giving additional concessions."

"Cap rates continue to climb above 7 percent and financing continues to be challenging. But as always, well-anchored and well-managed centers are generally staying full and holding their value the best."

— **Ken Gould**, senior vice president, Lee & Associates-Newport Beach Inc., Newport Beach



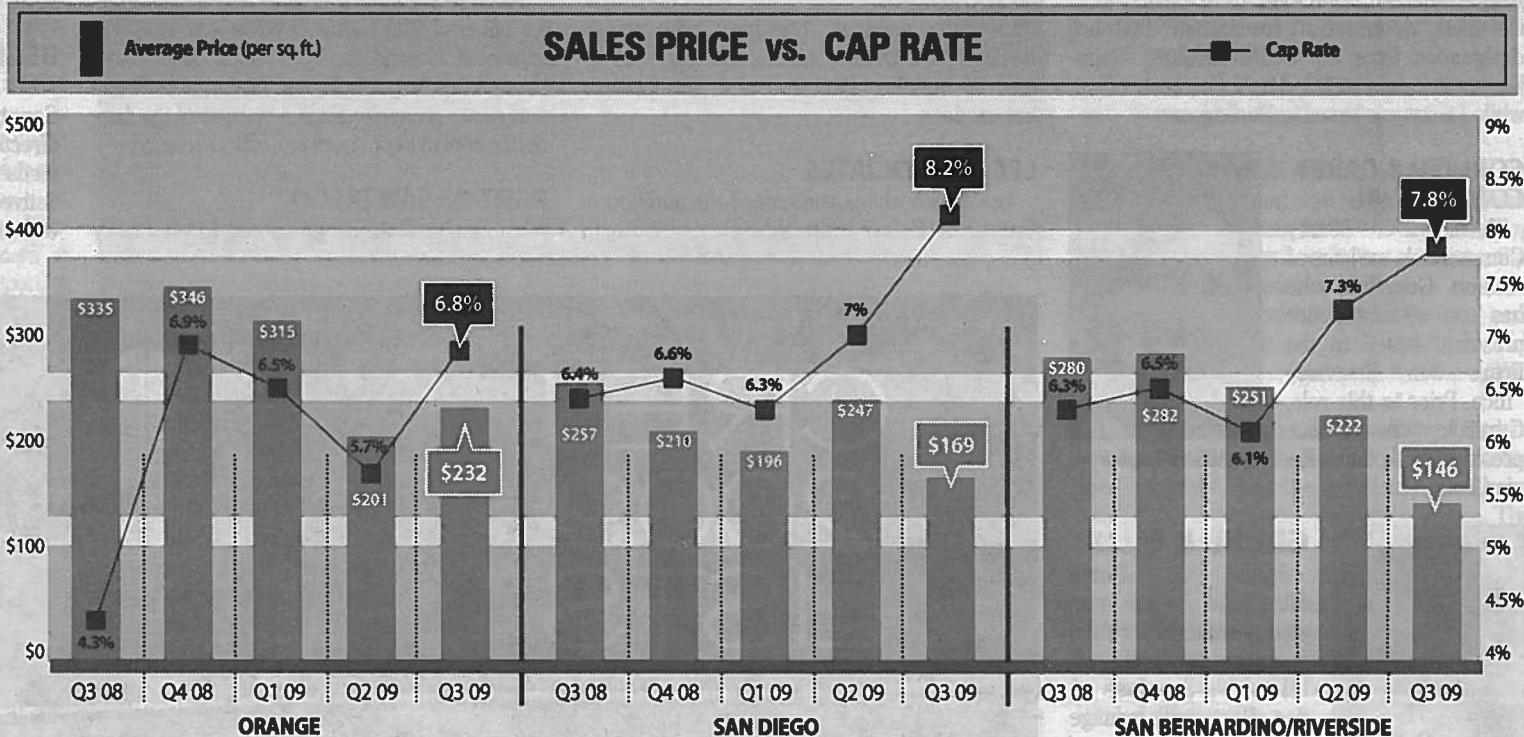
— Interviews by Kari Hamanaka, Mandy Jackson and Julie Nakashima.
— Charts by Maliha Jafri.

NEXT: INDUSTRIAL/NORCAL

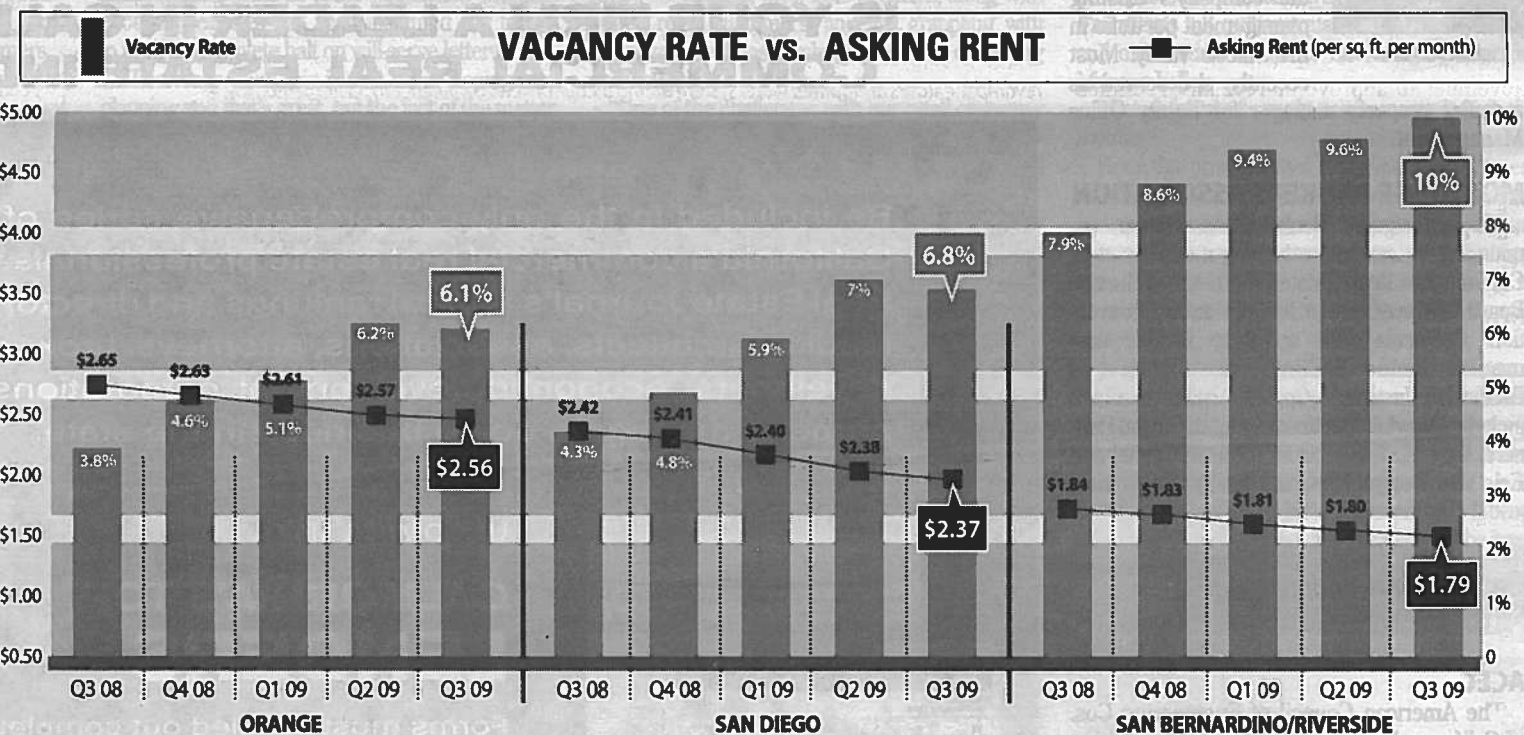
RETAIL PROPERTIES | ORANGE, SAN DIEGO AND SAN BERNARDINO/RIVERSIDE COUNTIES

Third Quarter 2009

Data by CoStar Group Inc.



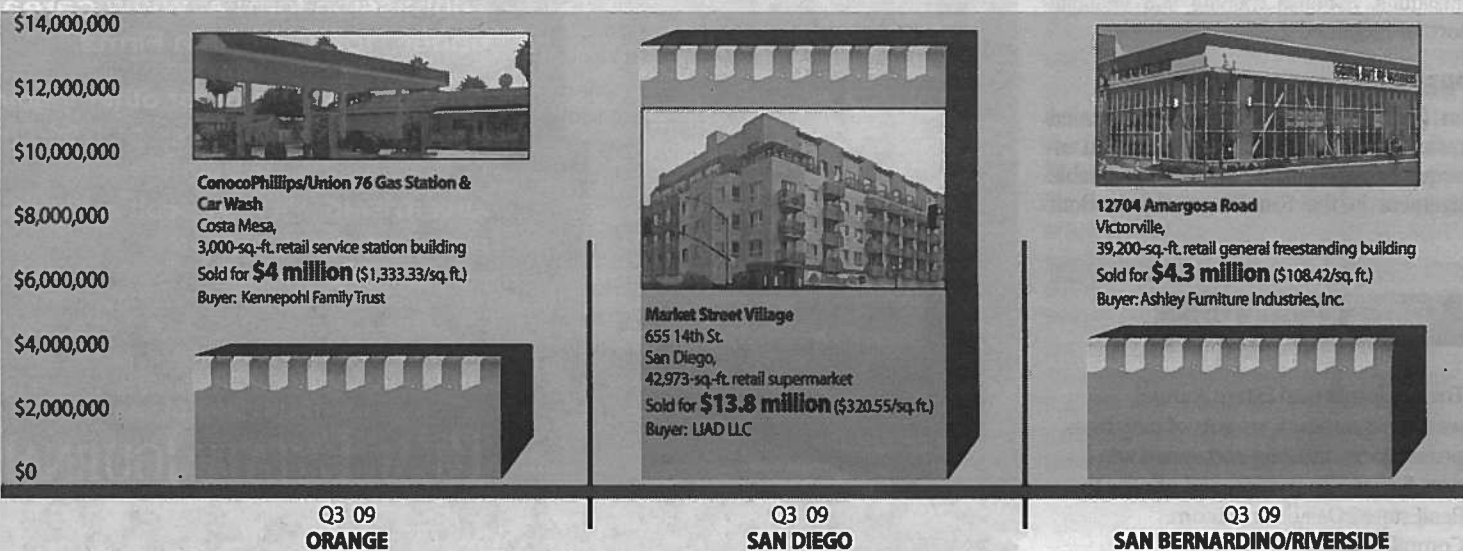
Data by Reis Inc.



Data by CoStar Group Inc.

MARKET'S TOP SALE*

*The largest outright sale of the quarter in its market. Other sales may have involved larger buildings or higher sales prices, but those transactions involved partial interest or other complications.



PROPERTY PHOTOS COURTESY OF COSTAR GROUP INC.