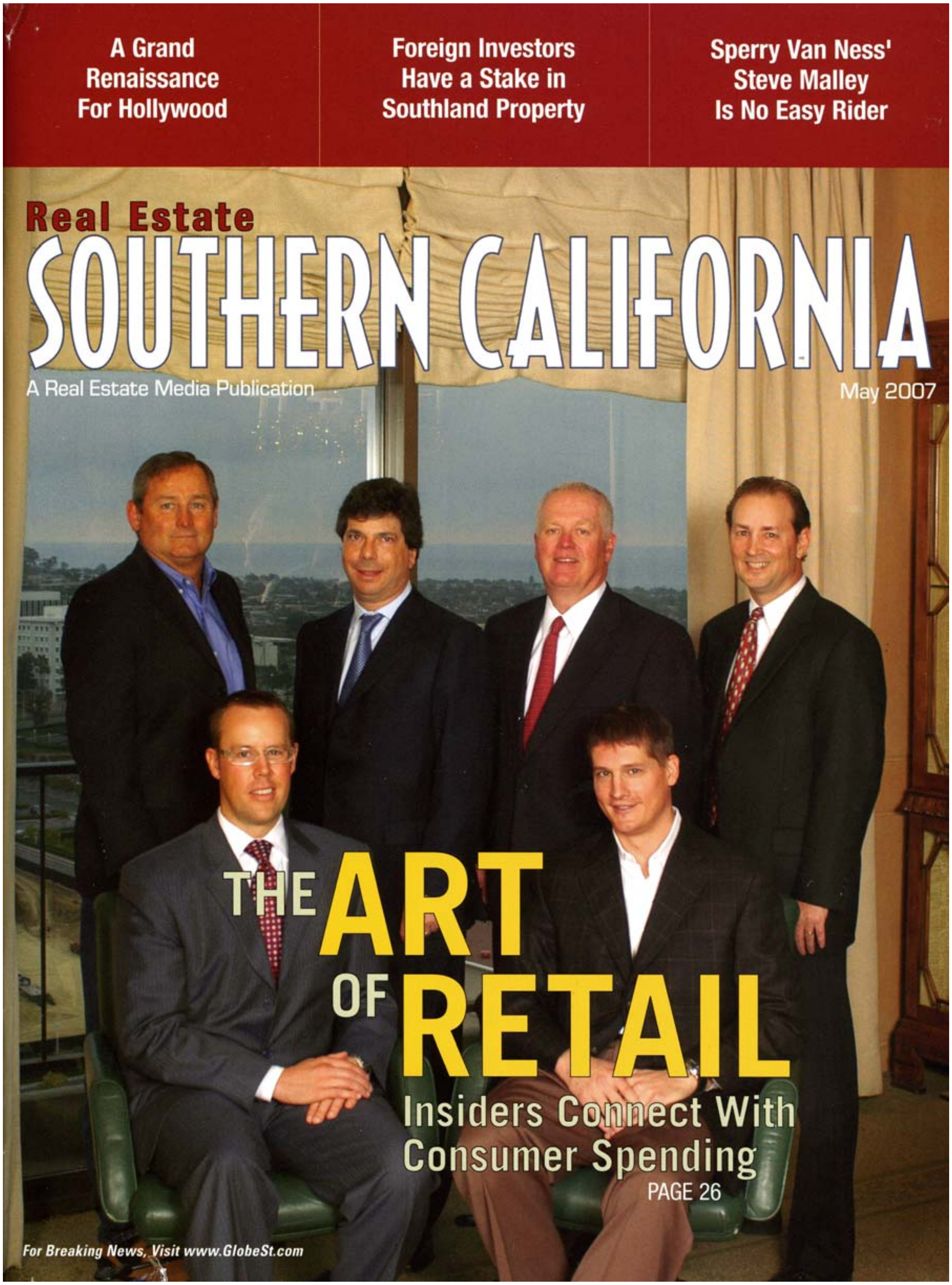
Publication: Real Estate Southern California
Date: May 2007



Publication: Real Estate Southern California
Date: May 2007

Ask the Experts

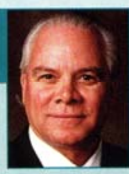
Q: What challenges are Southern California retailers facing today?

RIC CAPRETTA, CO-MANAGING PARTNER, WESTRUST

One major challenge facing retailers today is the potential decrease in sales due to massive consumer debt. Consumer spending has started to slow, and could be further slowed by the cooling of the housing market and the subprime market crash. Lots of people have been borrowing money on that level and spending it, and now they're not. In the near future, I believe these challenges will intensify. We've had a prolonged period of consumer spending that was influenced by the amount of consumer debt available. Increasing oil prices and rising interest rates are also affecting consumer spending. Due to these challenges, I think there's going to be a pull back on consumer debt, and that will translate into a pull back in retail spending.

ROB IPPOLITO, VICE PRESIDENT
BURNHAM REAL ESTATE'S RETAIL ADVISORY TEAM

Retailers looking to expand or open new locations are challenged by a lack of space. With vacancy in the low single digits, rental rates are at new highs, upwards of $4 per sf for class A centers in upscale markets. Higher operating expenses also impact retailers. Even so, tenant demand remains strong. Despite this, there are few new retail developments on the horizon, particularity in San Diego. The slowdown in new construction is forcing retailers to look for creative alternative sites, including redeveloping existing centers. The annual increases in rental rates will begin to slow to a more sustainable level, particularly as landlords find it necessary to adjust in response to the higher operating expenses their tenants are facing. From the consumer perspective, SoCal is under-retailed and this will help support tenant demand for locations.



RICK MIRANDA, SVP OF OPERATIONS/LAND DEVELOPMENT, EMPIRE COMMERCIAL REAL ESTATE

With the recent collapse of some subprime lenders and the estimation that approximately 2% to 6% of the market will be squeezed out of their homes in the next 12 to 18 months, many are wondering what challenges retailers will face. Retailers are finding it increasingly more difficult to find prime, corner locations and to make it through the approval process in a timely manner. Previously, finding a prime location in the Inland Empire wouldn't have been a challenge for retailers; but with the tremendous population growth driving more development, there is less space available, especially in the newer lifestyle centers. The approval process also takes longer, as the city and county staff are overwhelmed with the large amount of growth.

RICHARD WALTER, PRESIDENT, FARIS LEE INVESTMENTS

Some challenges facing Southern California retailers today are higher rents, due to the increased cost of construction. But retailers will continue to pay higher rents as long as consumer spending remains strong. Retailers are also facing lots of competition and a high barrier of entry for quality locations. This is due to the lack of developable land in Southern California, as well as to the length of time it takes to get a project approved and built. Some retail developments are three years out from being approved and completed, creating a very high barrier of entry for retailers who want to get into quality projects in Southern California today. I think these challenges will remain and there will continue to be increased competition among retailers.