



Retail Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

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Market Highlights

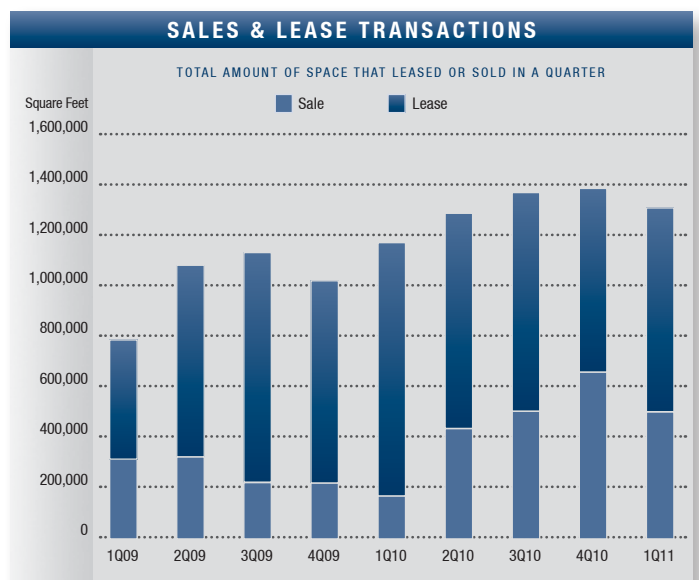
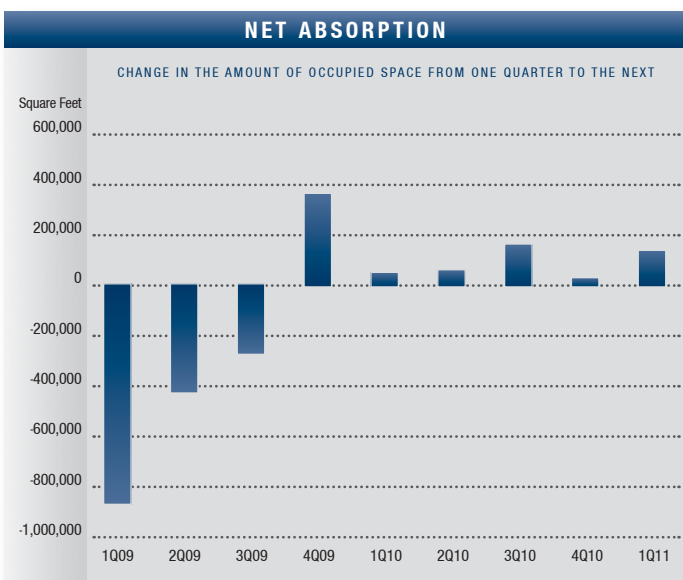
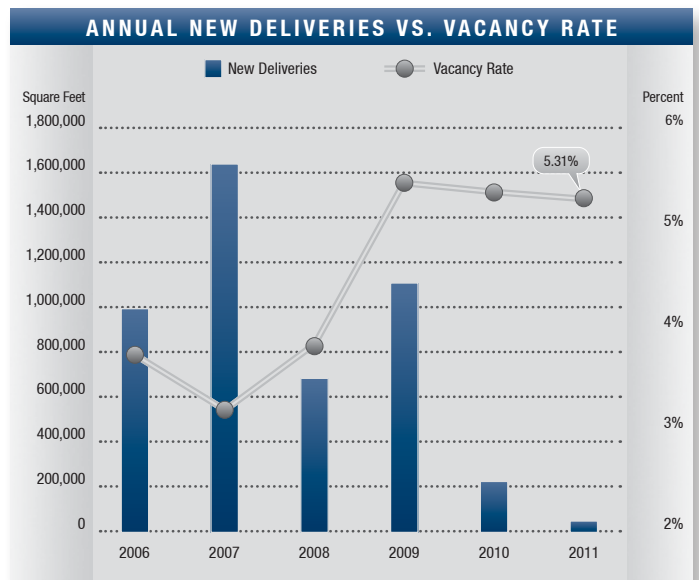
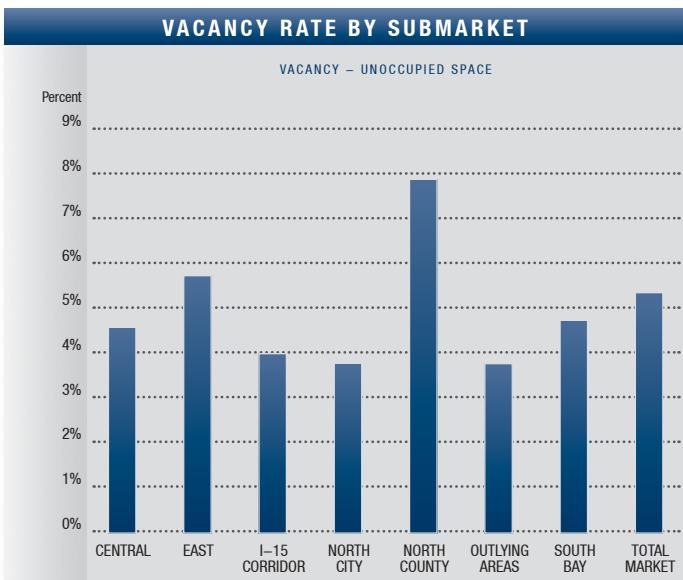
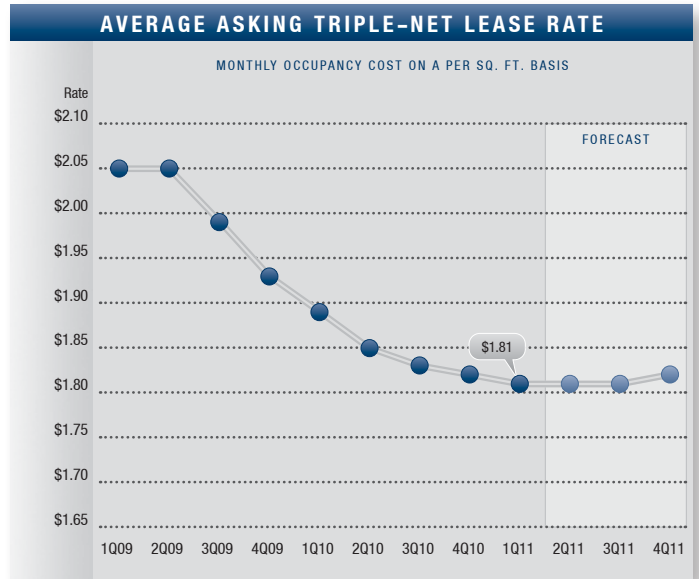
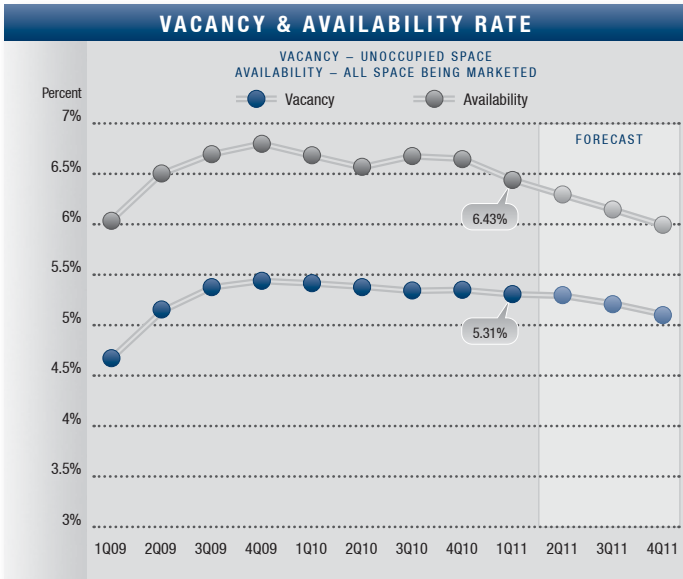
- **Encouraging Numbers** - 2011's first quarter numbers were encouraging – a sign that recovery could be on the horizon. Vacancy, availability and net absorption all showed signs of stabilization posting statistically insignificant changes compared to the previous quarter. With regard to sales transactions, the ask-bid gap narrowed, as evidenced by the drop in asking prices. While these are positive indications, stability will need to be sustained in following quarters to be considered recovery.
- **Construction** - There was only 45,400 square feet of retail construction underway in the first quarter of 2011. The shrinking availability of land, combined with high land prices, scarce financing and rising construction costs has led to few projects being developed.
- **Vacancy** - Direct/sublease space (unoccupied) finished the first quarter at 5.31%, a decrease from 2010's first quarter rate of 5.41%. The lowest vacancy rates were found in the North Cities and I-15 Corridor submarkets, at 3.76% and 3.98%, respectively.
- **Availability** - Direct/sublease space being marketed was 6.43% at the beginning of 2011, down from the 6.68% we saw in the same quarter of the previous year. This is a decrease of 3.74% of new space being marketed when compared to the first quarter of 2010.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in San Diego County was \$1.81 in the first quarter of 2011, which is one cent lower than the previous quarter and a 4.23% decrease from 2010's rate of \$1.89. The record high rate of \$2.12 was established in the third quarter of 2008.
- **Absorption** - The San Diego retail market posted 130,452 square feet of positive net absorption in the beginning of 2011; from the fourth quarter of 2009 to the first quarter of 2011, the retail market averaged approximately 130,000 square feet of positive absorption per quarter.
- **Transaction Activity** - Leasing activity checked in at 810,000 square feet in the first quarter of 2011, a decrease from 2010's first quarter figure of one million square feet.

Sales activity showed an increase, posting 500,000 square feet of activity compared to the 160,000 square feet we saw in the same quarter of 2010. Details of the largest transactions can be found on the back page of this report.

- **Employment** - The unemployment rate in San Diego County was 10.1% in February 2011, down from a revised 10.4% in January 2011 and below the year-ago estimate of 10.6%. This compares with an unadjusted unemployment rate of 12.3% for California and 9.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 19,100 payroll jobs from February 2010 to February 2011 – 10,700 in professional and business services and 3,800 in education and health services. However, construction posted the greatest year-over-year decline – a loss of 1,600 jobs. Between January 2011 and February 2011 San Diego County employment increased by 4,700 jobs overall. The LAEDC is forecasting that 5,700 jobs will be added in San Diego County in 2011.
- **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 apply upward pressure on vacancy, the market is beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, relocation funds and tenant improvement allowances should continue in order 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 continues in 2011. As unemployment rates drop and consumer confidence stabilizes, the retail market will regain equilibrium.

RETAIL MARKET OVERVIEW

	1Q2011	4Q2010	1Q2010	% Change vs. 1Q2010
Vacancy Rate	5.31%	5.37%	5.41%	(1.85%)
Availability Rate	6.43%	6.62%	6.68%	(3.74%)
Average Asking Lease Rate	\$1.81	\$1.82	\$1.89	(4.23%)
Sale & Lease Transactions	1,302,636	1,376,711	1,163,818	11.93%
Gross Absorption	949,240	913,975	1,191,954	(20.36%)
Net Absorption	130,452	25,096	49,972	N/A



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2011	Square Feet Available	Availability Rate 1Q2011	Average Asking Lease Rate	Net Absorption 1Q2011	Net Absorption 2011	Gross Absorption 1Q2011	Gross Absorption 2011
Central County													
Central San Diego	1,022	4,818,938	0	50,445	147,955	3.07%	199,521	4.14%	\$2.08	21,388	21,388	55,934	55,934
Clairmont	451	7,150,672	0	3,200	381,901	5.34%	481,372	6.73%	\$1.85	14,147	14,147	49,988	49,988
Coronado	89	624,097	0	9,700	33,329	5.34%	48,174	7.72%	\$3.25	(1,500)	(1,500)	1,895	1,895
Downtown	512	6,616,431	0	199,797	313,571	4.74%	471,784	7.13%	\$2.77	19,233	19,233	43,600	43,600
Mission Gorge	84	980,548	0	0	40,835	4.16%	38,379	3.91%	\$1.96	1,904	1,904	8,519	8,519
Mid City/South East San Diego	1,198	7,170,957	22,252	16,023	303,402	4.23%	348,179	4.86%	\$1.59	(27,492)	(27,492)	12,684	12,684
Mission Valley	105	5,762,210	0	0	175,833	3.05%	183,740	3.19%	\$1.85	24,635	24,635	27,000	27,000
Pacific Beach/Morena	458	3,106,189	0	59,970	125,322	4.03%	193,077	6.22%	\$2.03	14,595	14,595	36,116	36,116
Point Loma/Sports Arena	496	4,362,403	0	82,202	288,945	6.62%	321,267	7.36%	\$2.02	25,493	25,493	61,446	61,446
Central County Total	4,415	40,592,445	22,252	421,337	1,811,093	4.46%	2,285,493	5.63%	\$2.06	92,403	92,403	297,182	297,182
East County													
El Cajon	848	8,755,805	0	18,190	549,177	6.27%	607,987	6.94%	\$1.23	1,798	1,798	48,905	48,905
La Mesa	479	5,192,263	0	9,000	281,314	5.42%	322,374	6.21%	\$1.41	10,922	10,922	31,634	31,634
Lemon Grove/Spring Valley	356	2,815,167	0	3,000	103,781	3.69%	168,710	5.99%	\$1.30	(10,570)	(10,570)	13,203	13,203
Santee/Lakeside	335	3,406,323	0	8,724	213,919	6.28%	269,172	7.90%	\$2.14	(25,545)	(25,545)	13,828	13,828
East County Total	2,018	20,169,558	0	38,914	1,148,191	5.69%	1,368,243	6.78%	\$1.38	(23,395)	(23,395)	107,570	107,570
I-15 Corridor													
Carmel Mountain Ranch	140	2,359,312	0	7,139	82,654	3.50%	154,725	6.56%	\$2.54	(8,296)	(8,296)	6,677	6,677
Poway	216	2,852,032	0	29,326	133,139	4.67%	209,147	7.33%	\$2.19	(16,130)	(16,130)	9,966	9,966
Rancho Bernardo	33	563,650	0	0	19,695	3.49%	58,756	10.42%	\$2.40	14,263	14,263	15,743	15,743
Rancho Penasquitos	62	816,824	0	0	26,600	3.26%	42,446	5.20%	\$2.87	632	632	632	632
I-15 Corridor Total	451	6,591,818	0	36,465	262,088	3.98%	465,074	7.06%	\$2.41	(9,531)	(9,531)	33,018	33,018
North City													
Cardiff/Encinitas	433	6,525,015	3,500	17,210	240,401	3.68%	155,711	2.39%	\$2.54	1,037	1,037	14,377	14,377
Del Mar Heights	286	2,867,560	0	0	82,935	2.89%	106,075	3.70%	\$2.92	7,677	7,677	20,075	20,075
La Jolla/Torrey Pines	277	2,308,518	0	0	108,630	4.71%	130,081	5.63%	\$3.03	30,443	30,443	49,649	49,649
Miramar	277	4,749,139	0	0	251,422	5.29%	353,877	7.45%	\$1.74	4,397	4,397	41,530	41,530
UTC Center	63	2,321,310	0	0	21,726	0.94%	30,584	1.32%	\$2.00	2,407	2,407	5,147	5,147
North City Total	1,336	18,771,542	3,500	17,210	705,114	3.76%	776,328	4.14%	\$2.33	45,961	45,961	130,778	130,778
North County													
Carlsbad	339	5,180,316	9,777	325,980	307,136	5.93%	378,509	7.31%	\$2.61	6,437	6,437	32,733	32,733
Escondido	803	9,814,181	0	2,606	750,875	7.65%	891,870	9.09%	\$1.51	22,508	22,508	104,095	104,095
Oceanside	674	8,039,111	0	125,125	616,719	7.67%	733,642	9.13%	\$1.78	58,779	58,779	90,550	90,550
San Marcos	294	4,519,771	0	292,560	392,885	8.69%	447,553	9.90%	\$1.74	5,657	5,657	21,561	21,561
Vista	548	5,212,406	0	96,531	493,239	9.46%	424,044	8.14%	\$1.40	2,449	2,449	42,648	42,648
North County Total	2,658	32,765,785	9,777	842,802	2,560,854	7.82%	2,875,618	8.78%	\$1.69	95,830	95,830	291,587	291,587
Outlying Areas													
Outlying SD County North	476	2,654,018	0	8,800	110,167	4.15%	126,868	4.78%	\$1.38	(16,232)	(16,232)	8,705	8,705
Outlying SD County South	62	819,514	3,729	0	19,501	2.38%	40,139	4.90%	\$1.27	(7,377)	(7,377)	11,733	11,733
Outlying Areas Total	538	3,473,532	3,729	8,800	129,668	3.73%	167,007	4.81%	\$1.36	(23,609)	(23,609)	20,438	20,438
South Bay													
Chula Vista	698	9,004,256	0	198,471	368,080	4.09%	482,603	5.36%	\$1.80	(35,989)	(35,989)	31,427	31,427
Eastlake	100	2,509,747	0	154,352	148,739	5.93%	213,192	8.49%	\$1.47	(3,995)	(3,995)	4,044	4,044
Imperial Beach/South San Diego	451	4,306,907	0	240,569	133,932	3.11%	160,933	3.74%	\$1.71	(2,511)	(2,511)	12,787	12,787
National City	392	3,386,225	6,142	27,357	251,438	7.43%	306,049	9.04%	\$1.57	(4,712)	(4,712)	21,855	21,855
South Bay Total	1,641	19,207,135	6,142	620,749	902,189	4.70%	1,162,777	6.05%	\$1.67	(47,207)	(47,207)	70,113	70,113
San Diego County Total	13,057	141,571,815	45,400	1,986,277	7,519,197	5.31%	9,100,540	6.43%	\$1.81	130,452	130,452	950,686	950,686

Lease rates are on a triple-net basis.

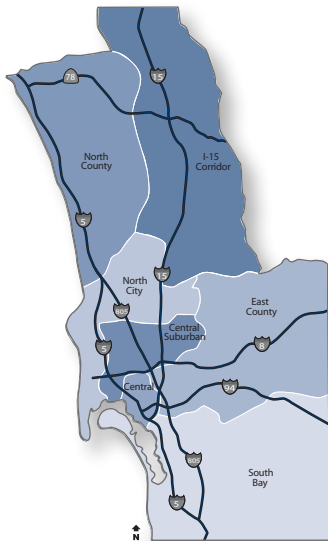
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
401 N. Coast Hwy.	Oceanside	225,152	\$65.73	501 PCH Ocean, LLC	Farmer & Merchants Trust
3762-3774 Mission Ave. - 9 Properties	Oceanside	178,175	\$200.36	Retail Opportunity Investments Corp.	Coseo Properties, Inc.
1180 W. San Marcos Blvd.	San Marcos	100,551	\$241.72	Excel Trust, Inc.	Geyser Holdings, LLC
1745-1765 Euclid Ave. - 3 Properties	Mid City/SE San Diego	69,000	\$96.90	Miracle Day Investments, LLC	TML Properties, LLC
3202-3304 Greyling Dr.	Clarmnt/KM/Tierrasnta	55,761	\$120.16	Omninet Capital	Burni Family Trust
157-199 Virginia	Imperial Beach/South SD	30,625	\$138.78	NJ Units, LLC	Tom E. Dixson

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
565 Fletcher Pky.	El Cajon	85,758	Mar-11	Dick's Sporting Goods	Parkway Plaza GP, LLC
2505 Vista Way	Oceanside	38,902	Jan-11	Sears Outlet Store	Pan Pacific Retail Properties
1536-1730 Sweetwater Rd.	National City	33,006	Mar-11	Mor Furniture for Less	Sweetwater Associates LP
1200 Auto Park Way	Escondido	30,915	Feb-11	Ross Dress for Less	FRIT Escondido Promenade, LLC
1006-1048 N. El Camino Real	Cardiff/Encinitas	27,500	Feb-11	Buy Buy Baby	Encinitas Town Center Assoc, LLC
1356 W. Valley Pky.	Escondido	10,954	Feb-11	Mr. O's BBQ	Escondido Valley Center 02, LLC



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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