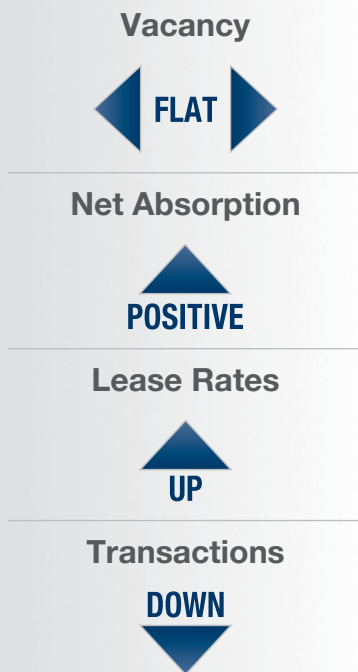




Retail Market Report

Compared to the Previous Quarter:



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Prepared by:

Jerry J. Holdner, Jr. – Lic.#01145748

Vice President of Market Research

VOIT Real Estate Services – Lic.#01333376

e-mail: jholdner@voitco.com

Market Highlights

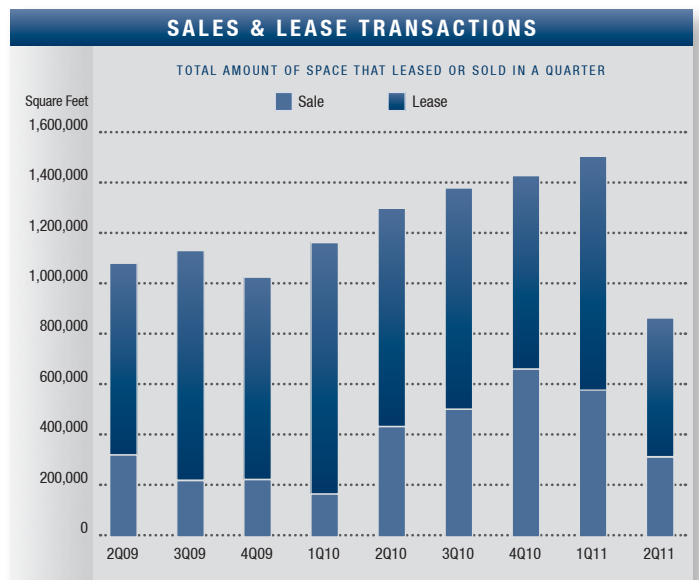
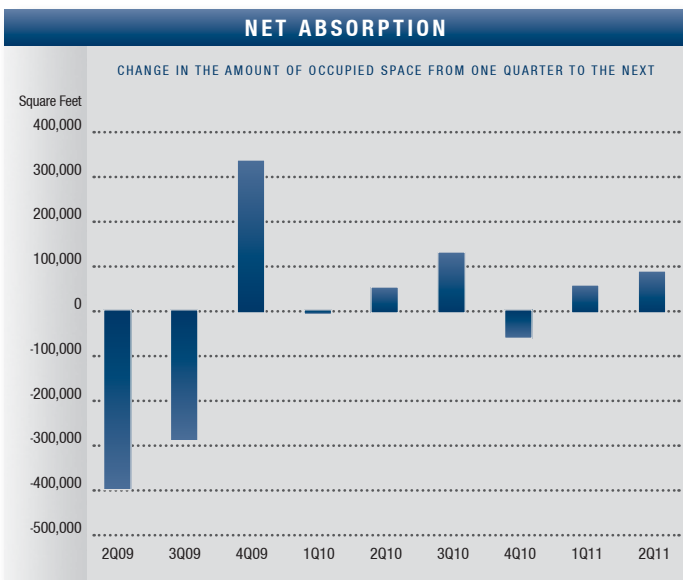
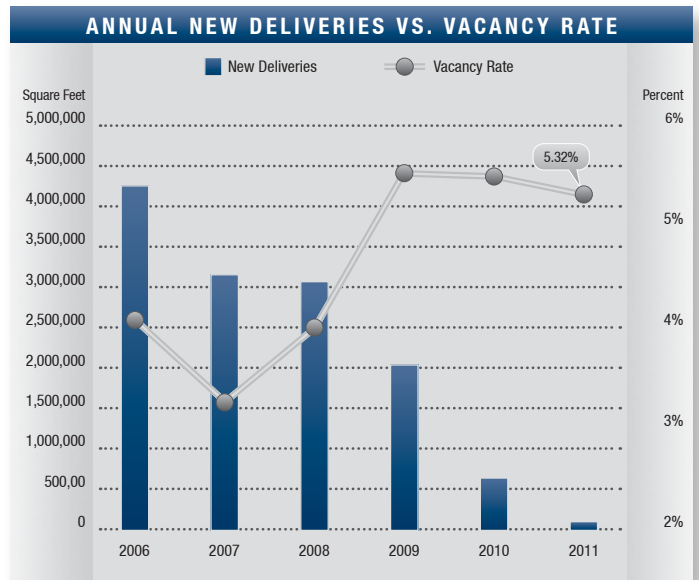
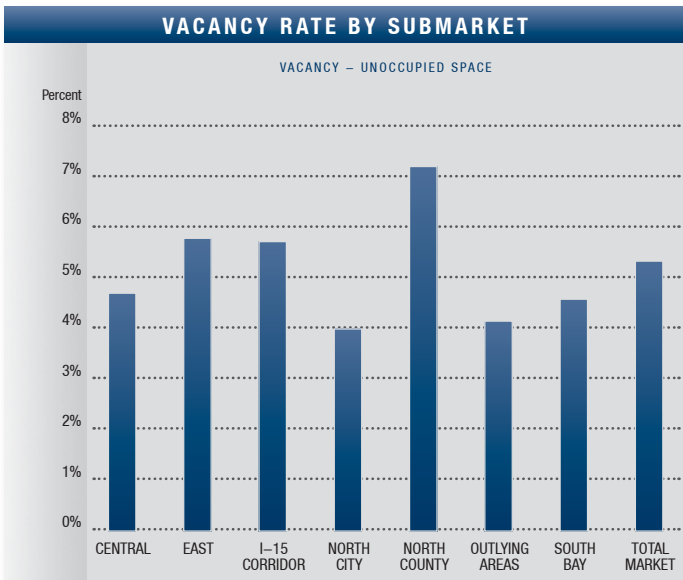
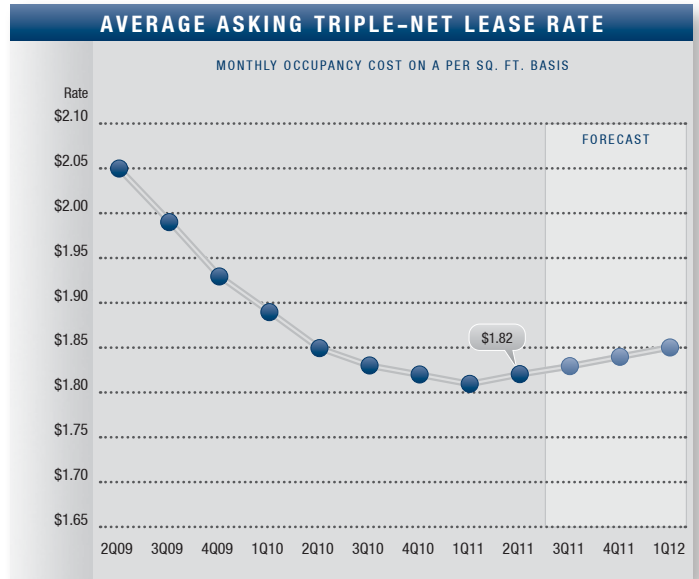
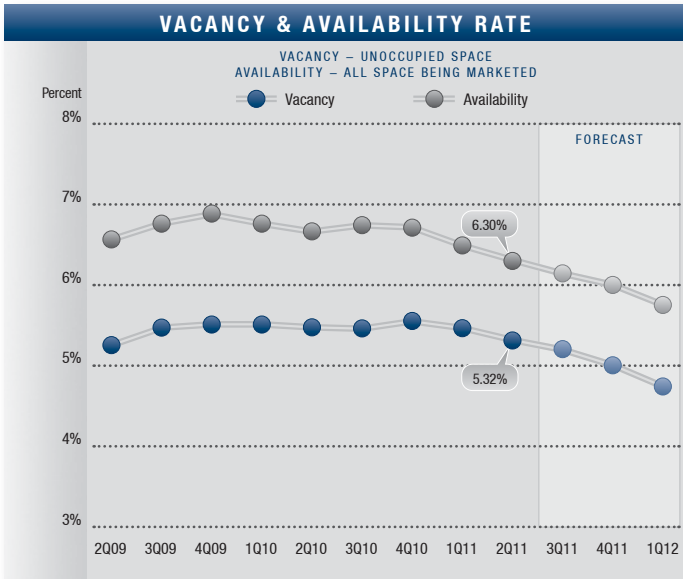
- **Steady Growth** - 2011's second quarter numbers were encouraging — a sign that recovery could be on the horizon. Vacancy, availability and net absorption all showed signs of stabilization posting statistically insignificant changes compared to the previous quarter. With regard to sales transactions, 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 135,000 square feet of retail construction underway in the second 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 second quarter at 5.32%, a decrease from 2010's second quarter rate of 5.41%. The lowest vacancy rates were found in the North Cities and Central County submarkets, at 3.94% and 4.64%, respectively.
- **Availability** - Direct/sublease space being marketed was 6.67% at the end of the second quarter of 2011, a very slight 0.15% decrease from the 6.68% we saw in the same quarter of the previous year.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in San Diego County was \$1.82 in the second quarter of 2011, one cent higher than the previous quarter but a 1.62% decrease from 2010's rate of \$1.85. The record high rate of \$2.12 was established in the third quarter of 2008.
- **Absorption** - The San Diego retail market posted 83,452 square feet of positive net absorption in the second quarter of 2011; from the fourth quarter of 2009 to the second quarter of 2011, the retail market averaged approximately 85,000 square feet of positive absorption per quarter.
- **Transaction Activity** - Leasing activity checked in at 550,000 square feet in the second quarter of 2011, a

decrease from 2010's second quarter figure of 875,000 square feet. Sales activity also showed a decrease, posting 306,000 square feet of activity compared to the 423,000 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 9.6% in May 2011, down from a revised 9.8% in April 2011 and below the year-ago estimate of 10.1%. This compares with an unadjusted unemployment rate of 11.4% for California and 8.7% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 11,200 payroll jobs from May 2010 to May 2011 — 6,300 in professional and business services and 4,200 in education and health services. However, the government sector posted the greatest year-over-year decline — a loss of 4,300 jobs. Between April 2011 and May 2011 San Diego County employment increased by 7,300 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

	2Q2011	1Q2011	2Q2010	% Change vs. 2Q2010
Total Vacancy Rate	5.32%	5.37%	5.41%	(1.66%)
Availability Rate	6.67%	6.62%	6.68%	(0.15%)
Average Asking Lease Rate	\$1.82	\$1.81	\$1.85	(1.62%)
Sale & Lease Transactions	857,989	1,500,997	1,296,766	(33.84%)
Gross Absorption	1,039,485	963,279	1,313,981	(20.89%)
Net Absorption	83,452	56,506	53,834	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 2021	Square Feet Available	Availability Rate 2021	Average Asking Lease Rate	Net Absorption 2021	Net Absorption 2011	Gross Absorption 2021	Gross Absorption 2011
Central County													
Central San Diego	1,020	4,804,127	0	58,112	167,232	3.48%	215,722	4.49%	\$2.37	(16,777)	4,511	32,734	89,668
Clairemont	461	7,228,428	0	3,200	390,870	5.41%	409,467	5.66%	\$1.79	(5,200)	(28,946)	65,537	115,525
Coronado	88	622,142	0	9,700	33,354	5.36%	43,099	6.93%	\$2.91	(25)	(1,525)	5,100	6,995
Downtown	508	6,537,013	4,271	99,797	349,353	5.34%	493,323	7.55%	\$1.30	(31,882)	(12,649)	22,545	66,145
Mission Gorge	84	965,286	0	0	45,662	4.73%	48,444	5.02%	\$1.32	(4,827)	(2,923)	0	8,519
Mid City/South East San Diego	1,209	7,221,815	120,000	16,223	335,979	4.65%	398,371	5.52%	\$1.48	(23,485)	(100,674)	35,981	49,201
Mission Valley	105	5,762,210	0	0	128,622	2.23%	149,933	2.60%	\$1.85	20,211	44,846	20,211	47,211
Pacific Beach/Morena	458	3,101,206	0	59,970	147,745	4.76%	195,571	6.31%	\$2.48	(22,873)	(6,178)	14,965	51,081
Point Loma/Sports Arena	498	4,379,643	0	89,215	287,772	6.57%	318,553	7.27%	\$2.11	1,638	27,631	20,627	82,073
Central County Total	4,431	40,621,870	124,271	336,217	1,886,589	4.64%	2,272,483	5.59%	\$2.09	(83,220)	(75,907)	217,700	516,418
East County													
El Cajon	852	8,745,216	0	18,190	554,432	6.34%	644,695	7.37%	\$1.26	(4,065)	(4,467)	59,733	109,798
La Mesa	480	5,170,696	0	9,000	272,458	5.27%	316,672	6.12%	\$1.39	9,356	20,278	40,529	71,503
Lemon Grove/Spring Valley	360	2,830,753	0	3,000	105,760	3.74%	194,752	6.88%	\$1.27	(979)	(11,549)	16,813	13,203
Santee/Lakeside	337	3,424,045	0	33,724	226,715	6.62%	287,581	8.40%	\$1.89	(12,796)	(38,341)	12,876	26,704
East County Total	2,029	20,170,710	0	63,914	1,159,365	5.75%	1,443,700	7.16%	\$1.38	(8,484)	(34,079)	129,951	221,208
I-15 Corridor													
Carmel Mountain Ranch	140	2,358,370	0	7,139	201,803	8.56%	260,017	11.03%	\$2.05	(41,335)	(43,443)	5,657	12,334
Poway	217	2,870,032	0	29,326	126,668	4.41%	217,000	7.56%	\$1.70	7,071	(8,559)	24,404	34,870
Rancho Bernardo	33	563,650	0	11,604	20,813	3.69%	59,874	10.62%	\$2.50	(1,118)	13,145	1,919	3,492
Rancho Penasquitos	62	798,261	0	0	25,609	3.21%	47,132	5.90%	\$2.58	991	1,623	4,695	5,327
I-15 Corridor Total	452	6,590,313	0	48,069	374,893	5.69%	584,023	8.86%	\$1.92	(34,391)	(37,234)	36,675	56,023
North City													
Cardiff/Encinitas	435	6,540,915	3,590	13,620	174,582	2.67%	152,446	2.33%	\$2.42	70,319	71,356	89,691	104,068
Del Mar Heights	286	2,871,839	0	0	85,004	2.96%	111,394	3.88%	\$3.06	(5,253)	1,860	16,092	34,346
La Jolla/Torrey Pines	280	2,356,015	0	0	155,641	6.61%	177,139	7.52%	\$3.16	(47,011)	(14,591)	29,151	80,777
Miramar	286	4,371,735	0	10,000	284,863	6.52%	369,580	8.45%	\$1.78	(31,551)	(15,312)	26,308	71,618
UTC Center	63	2,241,952	0	0	23,294	1.04%	37,552	1.67%	\$2.00	(1,068)	839	500	5,647
North City Total	1,350	18,382,456	3,590	23,620	723,384	3.94%	848,111	4.61%	\$2.37	(14,564)	44,152	161,742	296,456
North County													
Carlsbad	340	5,173,234	0	335,757	286,943	5.55%	369,338	7.14%	\$2.45	20,193	26,630	36,511	69,244
Escondido	805	9,733,778	0	2,606	708,229	7.28%	856,125	8.80%	\$1.50	62,161	76,326	120,840	224,935
Oceanside	675	7,945,099	0	133,925	577,294	7.27%	726,313	9.14%	\$1.74	13,950	61,676	36,138	122,577
San Marcos	294	4,510,103	0	274,560	391,534	8.68%	454,927	10.09%	\$1.76	58	5,715	30,142	51,703
Vista	548	5,184,475	0	89,431	376,214	7.26%	446,603	8.61%	\$1.73	117,025	119,474	146,708	189,356
North County Total	2,662	32,546,689	0	836,279	2,340,214	7.19%	2,853,306	8.77%	\$1.74	213,387	289,821	370,339	657,815
Outlying Areas													
Outlying SD County North	479	2,664,364	0	38,800	114,062	4.28%	134,605	5.05%	\$1.40	(2,895)	(19,127)	5,805	14,510
Outlying SD County South	63	824,677	3,729	0	28,988	3.52%	42,365	5.14%	\$1.27	(8,987)	(16,364)	500	12,233
Outlying Areas Total	542	3,489,041	3,729	38,800	143,050	4.10%	176,970	5.07%	\$1.34	(11,882)	(35,491)	6,305	26,743
South Bay													
Chula Vista	708	9,138,648	0	198,471	364,386	3.99%	483,781	5.29%	\$1.62	2,941	(32,295)	52,629	84,056
Eastlake	95	2,440,980	0	154,352	139,678	5.72%	208,115	8.53%	\$1.42	1,531	3,776	7,238	10,746
Imperial Beach/South San Diego	449	4,247,504	0	240,569	152,108	3.58%	202,128	4.76%	\$1.85	(18,176)	(20,687)	16,787	29,574
National City	395	3,386,693	3,490	27,357	216,728	6.40%	329,920	9.74%	\$1.57	36,310	42,266	40,119	72,742
South Bay Total	1,647	19,213,825	3,490	620,749	872,900	4.54%	1,223,944	6.37%	\$1.70	22,606	(6,940)	116,773	197,118
San Diego County Total	13,113	141,014,904	135,080	1,967,648	7,500,395	5.32%	9,402,537	6.67%	\$1.82	83,452	144,322	1,039,485	1,971,781

Lease rates are on a triple-net basis.

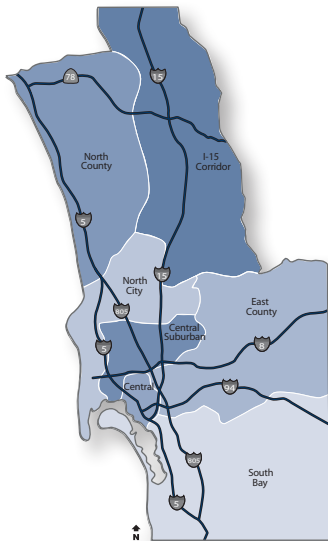
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
2629-2687 Gateway Rd. – 11 Properties	Carlsbad	111,403	\$520.63	Cornerstone Real Estate Advisors, LLC	LNR Partners, Inc.
3550-3680 Rosecrans St. – 4 Properties	Pt Loma/Sports Arena	56,006	\$130.34	Golden West Properties	Sports Arena Shopping Center, LLC
4445 Mission Blvd.	Pacific Beach/Morena	20,000	\$287.50	Summit Realty Advisors, LLC (et al)	Alma E Smith Trust
1560 W. Valley Pwy.	Escondido	20,000	\$217.56	Barchester Corporation	SCP Capital, Inc.
201-205 W. Mission Ave.	Escondido	41,307	\$94.41	Capstone Advisors, Inc.	Kennedy-Wilson Properties, Ltd.
1666 Rosecrans St.	Pt Loma/Sports Arena	26,751	\$133.27	Ralph's Grocery Company	Shultz Trust

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
7715 Balboa Ave.	Clarmnt/KM/Tierrasnta	66,851	Apr-11	24 Hour Fitness	KIR Vista Balboa, LP
4760-4796 Clairemont Mesa Blvd.	Clarmnt/KM/Tierrasnta	8,940	May-11	Career College of San Diego	Sam & Helen Deutsch
9212-9292 Miramar Rd.	Miramar/M Mesa/S Rnch	8,660	Jun-11	Ashoka Enterprise	InvestCal Realty Corporation
330 Third Ave.	Downtown	8,126	May-11	Infuzon Lounge	Lawrence & Lola Osborne
7853 Balboa Ave.	Clarmnt/KM/Tierrasnta	8,000	Apr-11	JJ&O Auto Sales	FEH Income Properties
3998 Clairemont Dr.	Clarmnt/KM/Tierrasnta	7,648	Jun-11	Anna's Linnens	Donahue Schriber



SUBMARKETS

CENTRAL COUNTY

Central San Diego, Clairemont, 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

Please Contact Us for Further Information

Anaheim, CA
714.978.7880

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323.201.4494

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Irvine, CA
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101 Shipyard Way
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