



Retail Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Deliveries

DOWN

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Market Highlights

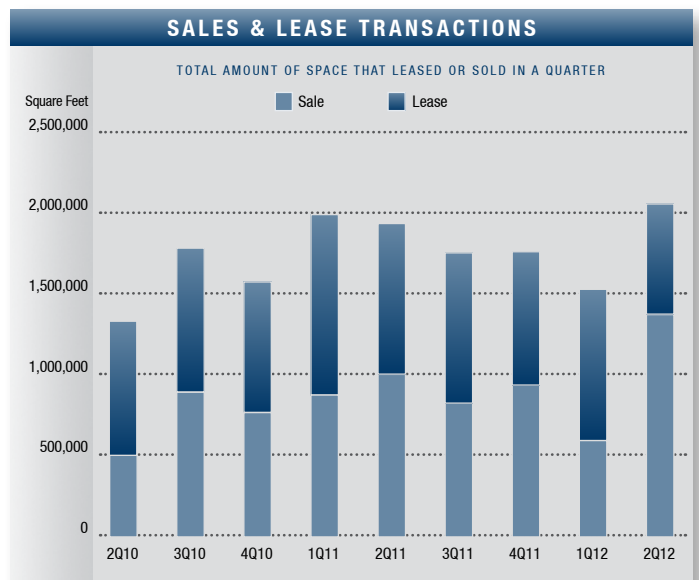
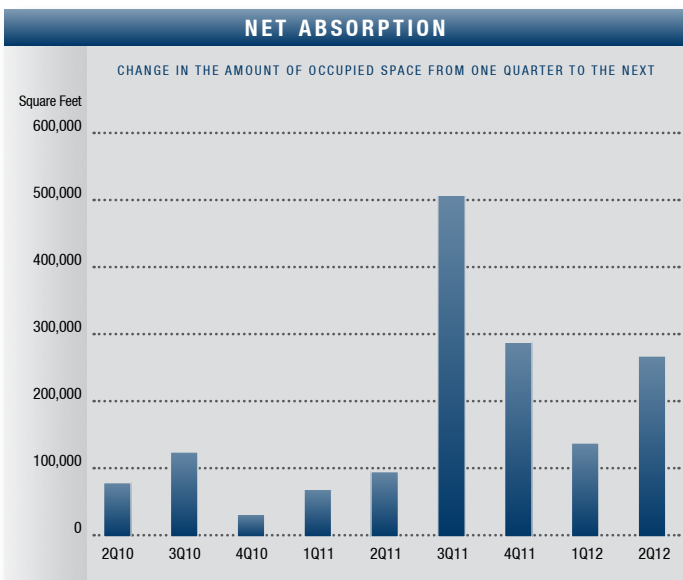
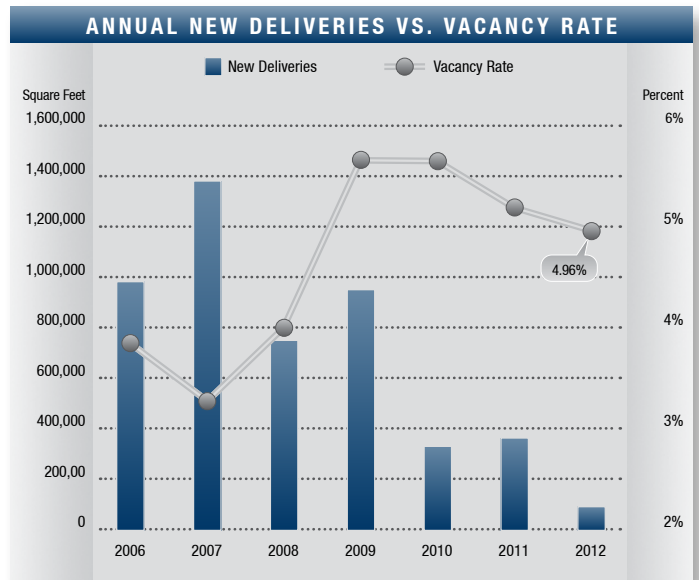
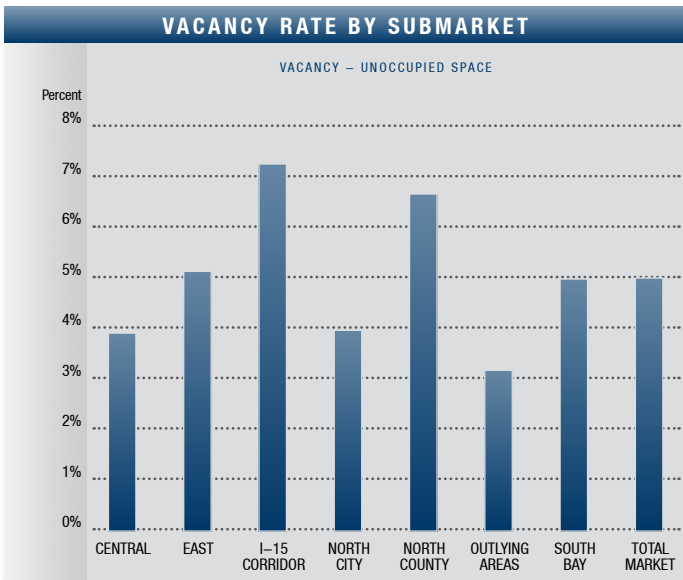
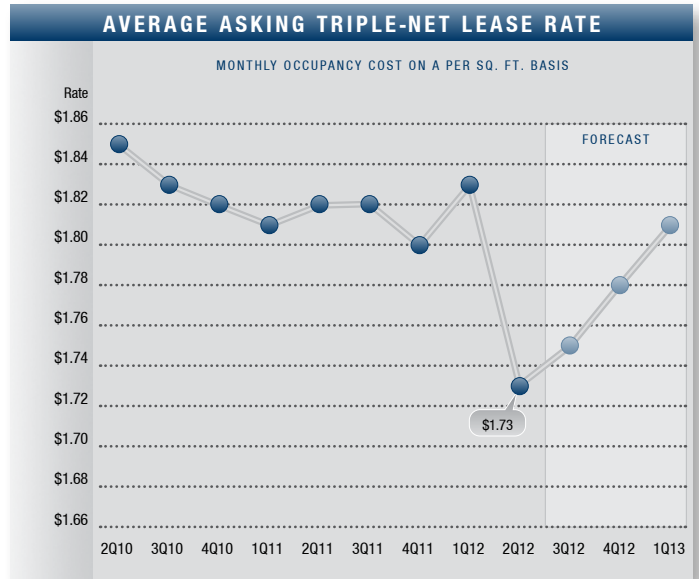
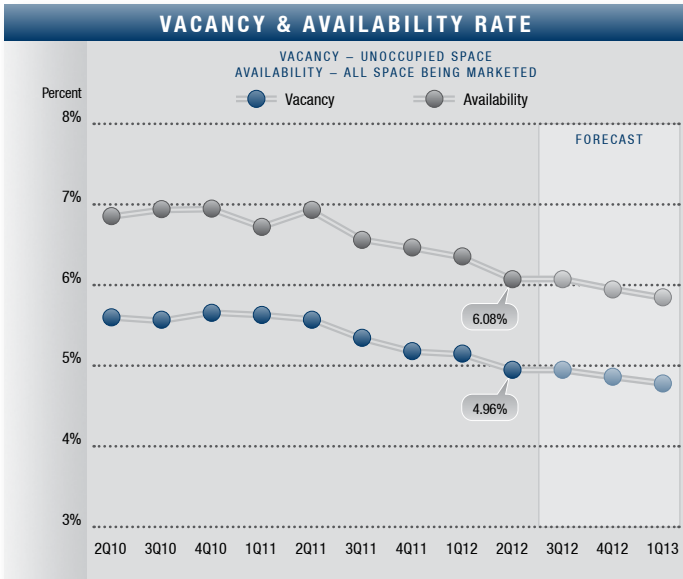
- **Retail Is Sunny in San Diego** - The San Diego retail market's second quarter numbers continued the trend of improving fundamentals — vacancy, availability, and transaction volume all moved in a positive direction. While the San Diego retail market is in recovery, the further improvement hinges on the continued employment gains.
- **Construction** - There was 520,995 square feet of retail construction underway at the close of the second quarter. The retail construction pipeline has remained steady, although dropping from the volume seen five years ago.
- **Vacancy** - Direct/sublease space (unoccupied) finished the second quarter at 4.96%, a decrease from the first quarter's rate of 5.15%. This was the lowest vacancy rate in three years.
- **Availability** - Direct/sublease space being marketed was 6.08% at the end of the second quarter, a decrease from the first quarter's rate of 6.36%. Malls had the lowest availability rate of any segment of the retail market at 2.93%.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in San Diego County was \$1.73 at the end of the first quarter, a decrease from the previous quarter's average asking rate of \$1.83. This drop in average asking rates is likely attributable to a change in the composition of availability. With vacancy continuing to fall, rates should stabilize. We are forecasting that lease rates will rise in 2012.
- **Absorption** - The San Diego retail market posted 267,473 square feet of positive net absorption in the

first quarter, marking the eleventh straight quarter of positive net absorption.

- **Transaction Activity** - The combined total of retail property sold and leased in the second quarter was over two million square feet. This was the largest total of square feet leased and sold in a quarter since 2007. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in the San Diego County was 8.8% in May 2012, unchanged from a revised 8.8% in April 2012 and below the year-ago estimate of 9.8%. This compares with an unadjusted unemployment rate of 10.4% for California and 7.9% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 13,400 payroll jobs from May 2011 to May 2012 — 5,400 in educational and health services and 5,300 in professional and business services. Manufacturing posted the greatest year-over-year decline — a loss of 2,300 jobs.
- **Overall** - We are beginning to see a decrease in the amount of available space being added per quarter, as well as an overall increase in investment sales activity. Positive absorption continues, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market has begun to stabilize. We foresee a continued increase in investment activity in the coming quarters as lenders dispose of distressed assets. Lease rates are expected to firm up and possibly increase in late 2012. We should also see an increase in leasing activity as many short-term deals come up for renewal. As job creation continues and consumer confidence stabilizes, the retail market will continue to recover.

RETAIL MARKET OVERVIEW

	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Total Vacancy Rate	4.96%	5.15%	5.58%	(11.11%)
Availability Rate	6.08%	6.36%	6.90%	(11.88%)
Average Asking Lease Rate	\$1.73	\$1.83	\$1.82	(4.95%)
Sale & Lease Transactions	2,043,617	1,504,784	1,922,040	6.33%
Gross Absorption	1,071,525	971,605	1,063,885	0.72%
Net Absorption	267,473	133,877	90,471	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 2Q2012	Square Feet Available	Availability Rate 2Q2012	Average Asking Lease Rate	Net Absorption 2Q2012	Net Absorption 2012	Gross Absorption 2Q2012	Gross Absorption 2012
Central													
General Retail	3,706	21,534,374	0	58,951	794,428	3.69%	1,147,548	5.33%	\$2.13	(26,991)	92,614	49,417	133,155
Mall Market	20	4,276,289	0	0	606	0.01%	6,706	0.16%	N/A	0	(606)	29,986	43,236
Power Center	88	3,442,859	0	12,800	72,882	2.12%	60,976	1.77%	\$2.18	320	16,987	16,493	27,863
Shopping Center	672	10,731,733	85,830	129,142	666,365	6.21%	812,649	7.57%	\$1.71	87,089	72,327	122,821	233,991
Specialty Center	7	343,052	0	0	12,469	3.63%	33,941	9.89%	N/A	(9)	(9)	1,200	1,200
Central Total	4,493	40,328,307	85,830	200,893	1,546,750	3.84%	2,061,820	5.11%	\$2.08	60,409	181,313	219,917	439,445
East County													
General Retail	1,473	7,731,270	28,816	37,000	240,833	3.12%	340,536	4.40%	\$2.13	(12,844)	9,451	(32,545)	(42,891)
Mall Market	33	2,886,930	0	10,800	93,431	3.24%	78,724	2.73%	\$2.56	0	(2,000)	8,343	8,343
Power Center	37	1,104,940	0	0	13,217	1.20%	19,320	1.75%	\$3.00	10,479	10,479	1,642	1,642
Shopping Center	522	8,153,606	5,000	39,071	664,454	8.15%	714,979	8.77%	\$1.50	13,461	18,797	237,065	382,939
Specialty Center	2	82,792	0	0	0	0.00%	0	0.00%	\$1.00	0	0	5,412	89,412
East County Total	2,067	19,959,538	33,816	86,871	1,011,935	5.07%	1,153,559	5.78%	\$1.60	11,096	36,727	219,917	439,445
I-15 Corridor													
General Retail	170	1,672,548	0	5,368	24,750	1.48%	28,238	1.69%	\$2.13	0	5,171	136,437	281,394
Mall Market	0	0	0	0	0	0	0	0	N/A	0	0	0	0
Power Center	22	546,253	0	0	89,639	16.41%	82,844	15.17%	N/A	0	0	10,103	14,803
Shopping Center	267	4,242,439	0	31,097	353,560	8.33%	402,497	9.49%	\$2.18	(52,248)	(79,621)	73,377	143,248
Specialty Center	0	0	0	0	0	0	0	0	N/A	0	0	0	0
I-15 Corridor Total	459	6,461,240	0	36,465	467,949	7.24%	513,579	7.95%	\$1.76	(52,248)	(74,450)	219,917	439,445
North County													
General Retail	1,705	11,130,688	7,782	408,185	441,801	3.97%	564,573	5.07%	\$2.13	(18,530)	(17,199)	(26,155)	101,287
Mall Market	80	4,183,728	0	0	191,383	4.57%	230,307	5.50%	\$2.11	4,833	11,898	12,622	12,622
Power Center	42	1,561,894	0	8,000	49,996	3.20%	88,876	5.69%	\$3.01	105,896	114,092	81,467	86,967
Shopping Center	879	15,072,593	192,477	495,254	1,455,363	9.66%	1,675,451	11.12%	\$1.63	82,119	82,634	151,983	238,569
Specialty Center	5	367,815	0	0	1,210	0.33%	1,210	0.33%	N/A	1,065	1,065	0	0
North County Total	2,711	32,316,718	200,259	911,439	2,139,753	6.62%	2,560,417	7.92%	\$2.08	175,383	192,490	219,917	439,445
North City													
General Retail	868	7,432,998	0	15,291	168,831	2.27%	235,765	3.17%	\$2.13	28,957	11,557	(32,545)	(42,891)
Mall Market	40	1,894,238	100,000	491,000	43,610	2.30%	46,542	2.46%	\$1.50	(6,008)	21,492	8,343	8,343
Power Center	46	1,170,391	0	0	5,043	0.43%	12,358	1.06%	N/A	(1,208)	680	1,642	1,642
Shopping Center	397	6,546,466	3,590	144,850	398,755	6.09%	452,942	6.92%	\$2.17	12,465	(11,380)	237,065	382,939
Specialty Center	9	234,922	0	0	56,615	24.10%	133,781	56.95%	\$1.00	(16,967)	(16,967)	5,412	89,412
North City Total	1,360	17,279,015	103,590	651,141	672,854	3.89%	881,388	5.10%	\$1.60	17,239	5,382	219,917	439,445
South Bay													
General Retail	1,105	5,960,730	0	347,354	216,254	3.63%	334,129	5.61%	\$2.13	59,328	100,508	(30,903)	(42,891)
Mall Market	46	2,847,795	0	0	99,093	3.48%	102,325	3.59%	N/A	(26,541)	(36,550)	8,343	8,343
Power Center	25	977,708	0	0	1,996	0.20%	14,544	1.49%	N/A	0	0	0	1,642
Shopping Center	465	8,554,790	97,500	607,211	611,335	7.15%	678,825	7.94%	\$1.73	21,188	(3,485)	237,065	382,939
Specialty Center	25	625,914	0	478,000	8,257	1.32%	8,762	1.40%	\$1.00	(1,925)	(4,642)	5,412	89,412
South Bay Total	1,666	18,966,937	97,500	1,432,565	936,935	4.94%	1,138,585	6.00%	\$1.60	52,050	55,831	219,917	439,445
Outlying Areas													
General Retail	454	1,769,286	0	8,800	44,267	2.50%	53,243	3.01%	\$2.13	1,713	6,390	60,398	265,581
Mall Market	16	161,000	0	0	11,000	6.83%	11,000	6.83%	N/A	0	0	159,519	159,519
Power Center	0	0	0	0	0	0	0	0	N/A	0	0	0	0
Shopping Center	86	1,356,089	0	33,510	55,306	4.08%	70,009	5.16%	\$1.62	1,831	(2,333)	0	0
Specialty Center	1	255,000	0	0	0	0.00%	0	0.00%	N/A	0	0	0	14,345
Outlying Areas Total	557	3,541,375	0	42,310	110,573	3.12%	134,252	3.79%	\$1.90	3,544	4,057	219,917	439,445
San Diego Total	13,313	138,853,130	520,995	3,361,684	6,886,749	4.96%	8,443,600	6.08%	\$1.73	267,473	401,350	1,539,419	3,076,115
General Retail	9,481	57,231,894	36,598	880,949	1,931,164	3.37%	2,704,032	4.72%	\$1.63	31,633	208,492	124,104	652,744
Mall Market	235	16,249,980	100,000	501,800	439,123	2.70%	475,604	2.93%	\$2.08	(27,716)	(5,766)	227,156	240,406
Power Center	260	8,804,045	0	20,800	232,773	2.64%	278,918	3.17%	\$2.42	115,487	142,238	111,347	134,559
Shopping Center	3,288	54,657,716	384,397	1,480,135	4,205,138	7.69%	4,807,352	8.80%	\$1.72	165,905	76,939	1,059,376	1,764,625
Specialty Center	49	1,909,495	0	478,000	78,551	4.11%	177,694	9.31%	\$1.00	(17,836)	(20,553)	17,436	283,781
San Diego Total	13,313	138,853,130	520,995	3,361,684	6,886,749	4.96%	8,443,600	6.08%	\$1.73	267,473	401,350	1,539,419	3,076,115

Lease rates are on a triple-net basis.

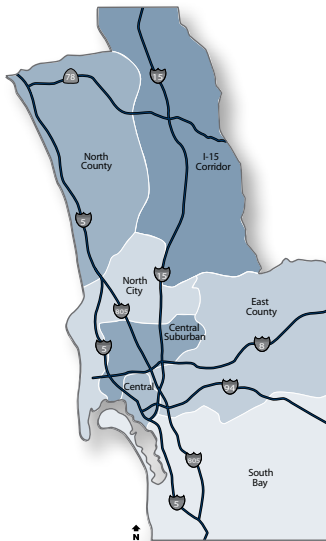
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
3102-3156 Sports Arena Blvd.	Sports Arena	101,818	\$235.71	Rosecrans Plaza Kiffmann, LLC	Great American Capital
702-750 Broadway & 1018-1060 8th Ave.	Downtown	130,430	\$99.92	Starwood Capital Group	Waterfall Center, LLC
4404 El Cajon Blvd.	Mid City	15,459	\$465.75	Helmut Kiffman	Kim Peterson
1571-1641 Magnolia Ave.	El Cajon	43,429	\$143.98	J4 Asset Management, Inc.	LNR Partners, Inc.
9225 Twin Trails Dr.	Rancho Penasquitos	16,793	\$371.61	Peter Splinter Family Holdings, Inc.	Schlosser Properties Company, Inc.

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
11160 Rancho Carmel Dr.	Carmel Mountain Ranch	30,000	May-12	TJ Maxx	Courtyard Holdings
4130 Oceanside Blvd.	Oceanside	25,822	April-12	Planet Fitness	CVS Caremark Corporation
1002 Market St.	Downtown	18,056	April-12	Grocery Outlet	1002 Market Street Property Holdings, LP
4220 Balboa Ave.	Clairemont	16,000	May-12	NP Produce	Balboa Rental Properties
3416 College Ave.	Mid City	12,115	June-12	Chuck E. Cheese's	Ultimate Capital, LLC



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

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