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San Diego | Third Quarter 2011

Retail Market Report

Compared to the Previous Quarter:

Vacancy
DOWN

Net Absorption
POSITIVE

Lease Rates
FLAT

Transactions
DOWN

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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

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Market Highlights

- **Steady Growth -** 2011's third quarter numbers were encouraging — vacancy, availability and net absorption all posted positive numbers compared to the previous quarter, and the best numbers seen for those categories in years. 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 158,950 square feet of retail construction underway in the second quarter of 2011. The shrinking availability of land, scarce financing, and rising construction costs have led to few projects being developed.

- **Vacancy -** Direct/sublease space (unoccupied) finished the third quarter at 5.17%, a decrease from second quarter rate of 5.59%. The lowest vacancy rates were found in the North City and Central County submarkets, at 4.38% and 5.30%, respectively.

- **Availability -** Direct/sublease space being marketed was 6.37% at the end of the third quarter of 2011, a 5% decrease from the 6.7% we saw in the previous quarter and the lowest availability rate since first quarter 2010.

- **Lease Rates -** The average asking triple–net lease rate per month per square foot in San Diego County was $1.82 in the third quarter of 2011, holding the previous quarter's asking rate increase, which was the first increase of asking rates since the third quarter of 2008.

- **Absorption -** The San Diego retail market posted 390,828 square feet of positive net absorption in the third quarter of 2011, over a half million square feet better than the negative 176,658 square feet net absorption from the previous quarter.

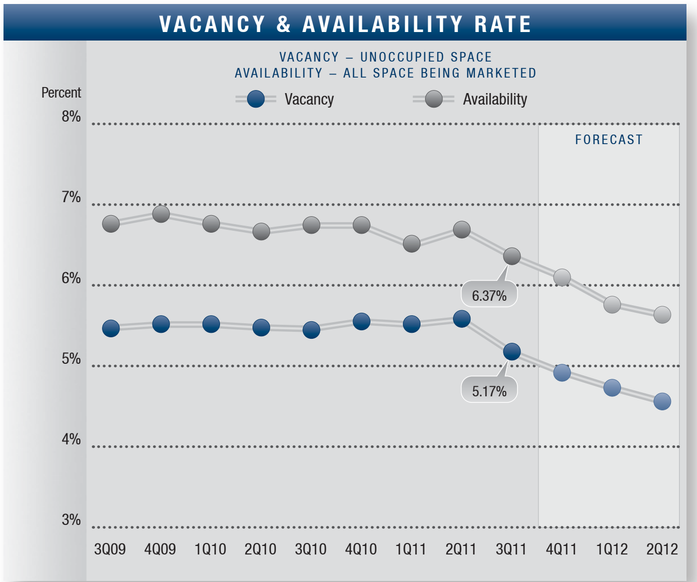
- **Transaction Activity -** Leasing activity checked in at 709,857 square feet in the third quarter of 2011, a slight decrease from the second quarter figure of 742,230 square feet. Sales activity also showed a decrease, posting 400,000 square feet of activity compared to the 876,000 square feet we saw in the same quarter of 2010. Details of the largest transactions can be found on the back page of this report.

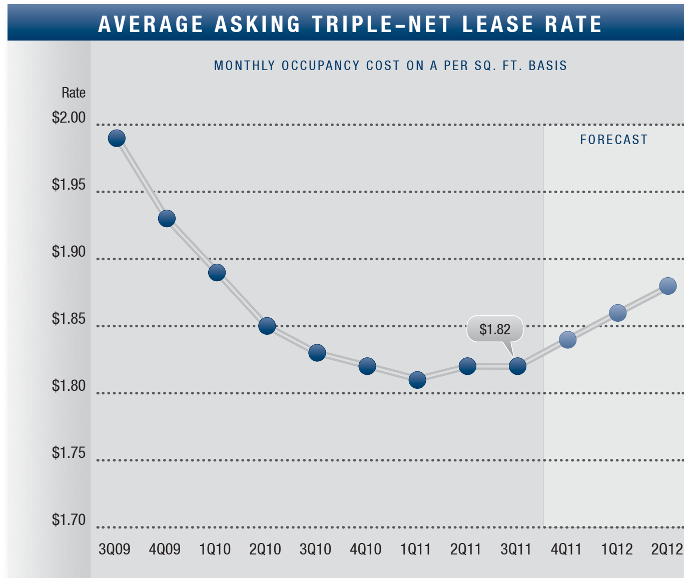
- **Employment -** The unemployment rate in San Diego County was 10.2% in August 2011, down from a revised 10.6% in July 2011 and below the year–ago estimate of 10.7%. This compares with an unadjusted unemployment rate of 11.9% for California and 9.1% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 13,500 payroll jobs from August 2010 to August 2011 — 8,600 in leisure and hospitality and 5,400 in professional and business services. However, government posted the greatest year–over–year decline — a loss of 5,600 jobs. Between July 2011 and August 2011 San Diego County employment increased by 200 jobs overall.

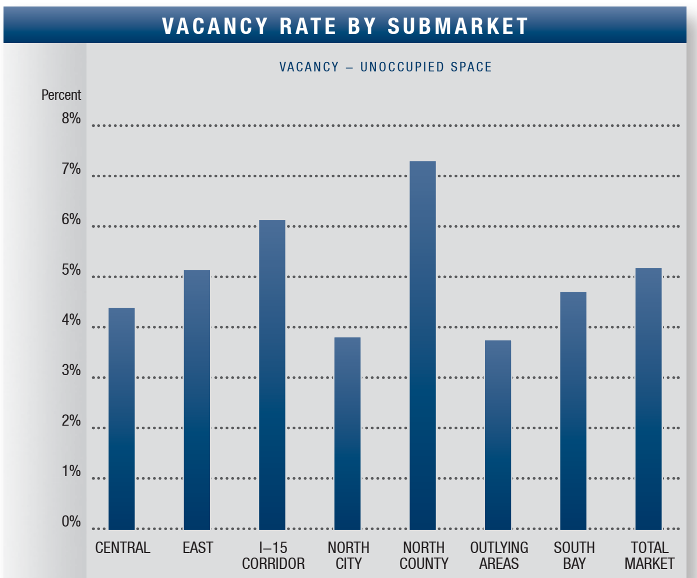
- **Overall -** We are continuing to see a decrease in the amount of available space being added per quarter, as well as some compression of cap rates for investment sales. Positive absorption is the big story, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market 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.

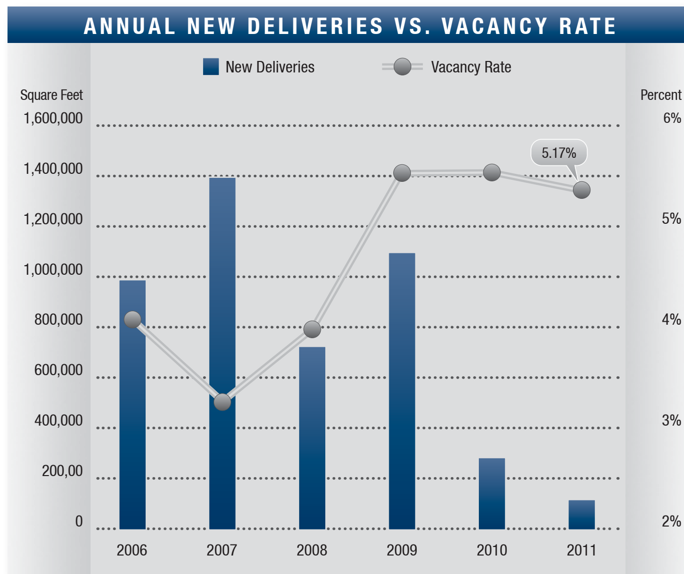
RETAIL MARKET OVERVIEW

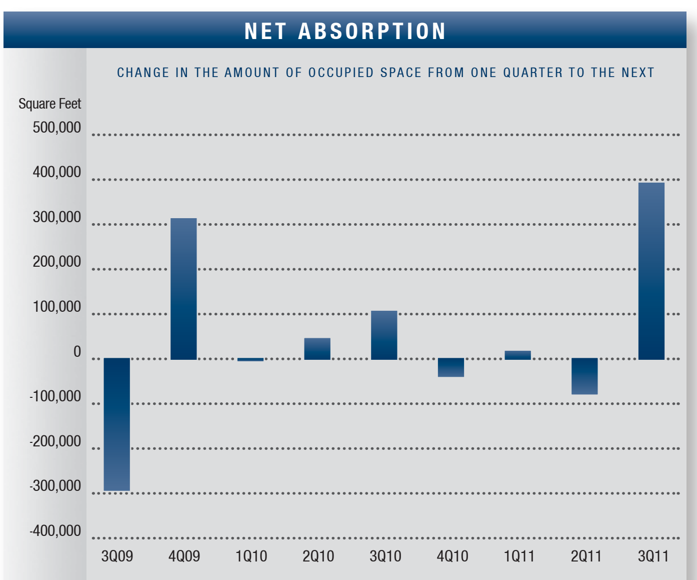
	3Q2011	2Q2011	3Q2010	% Change vs. 3Q2010
Total Vacancy Rate	5.17%	5.59%	5.45%	(5.14%)
Availablity Rate	6.37%	6.70%	6.75%	(5.63%)
Average Asking Lease Rate	$1.82	$1.82	$1.83	(0.55%)
Sale & Lease Transactions	1,109,751	1,617,930	1,769,722	(37.29%)
Gross Absorption	1,195,325	1,054,874	1,298,425	(7.94%)
Net Absorption	390,828	(176,658)	106,677	N/A

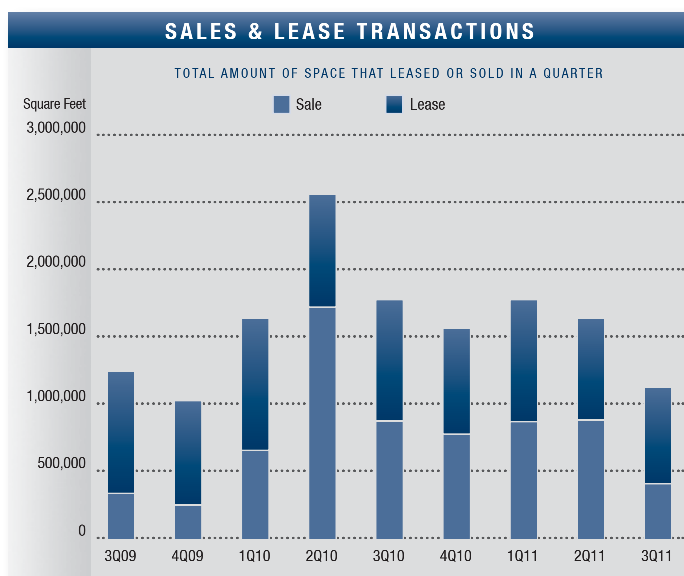

VACANCY & AVAILABILITY RATE
VACANCY – UNOCCUPIED SPACE
AVAILABILITY – ALL SPACE BEING MARKETED
Vacancy
Availability
Percent
8%
7%
6%
5%
4%
3%
FORECAST
6.37%
5.17%
3Q09 4Q09 1Q10 2Q10 3Q10 4Q10 1Q11 2Q11 3Q11 4Q11 1Q12 2Q12


AVERAGE ASKING TRIPLE-NET LEASE RATE
MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS
Rate
$2.00
$1.95
$1.90
$1.85
$1.80
$1.75
$1.70
FORECAST
$1.82
3Q09 4Q09 1Q10 2Q10 3Q10 4Q10 1Q11 2Q11 3Q11 4Q11 1Q12 2Q12


VACANCY RATE BY SUBMARKET
VACANCY – UNOCCUPIED SPACE
Percent
8%
7%
6%
5%
4%
3%
2%
1%
0%
CENTRAL
EAST
I–15 CORRIDOR
NORTH CITY
NORTH COUNTY
OUTLYING AREAS
SOUTH BAY
TOTAL MARKET


ANNUAL NEW DELIVERIES VS. VACANCY RATE
New Deliveries
Vacancy Rate
Square Feet
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,00
0
Percent
6%
5%
4%
3%
2%
5.17%
2006 2007 2008 2009 2010 2011


NET ABSORPTION
CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT
Square Feet
500,000
400,000
300,000
200,000
100,000
0
-100,000
-200,000
-300,000
-400,000
3Q09 4Q09 1Q10 2Q10 3Q10 4Q10 1Q11 2Q11 3Q11


SALES & LEASE TRANSACTIONS
TOTAL AMOUNT OF SPACE THAT LEASED OR SOLD IN A QUARTER
Sale
Lease
Square Feet
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
3Q09 4Q09 1Q10 2Q10 3Q10 4Q10 1Q11 2Q11 3Q11

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2011	Square Feet Available	Availability Rate 3Q2011	Average Asking Lease Rate	Net Absorption 3Q2011	Net Absorption 2011	Gross Absorption 3Q2011	Gross Absorption 2011
Central County													
Central San Diego	1,015	4,713,956	65,637	49,475	118,856	2.52%	191,420	4.06%	$2.53	59,876	29,518	90,118	179,344
Clairemont	469	7,200,604	0	0	370,948	5.15%	376,366	5.23%	$1.73	54,422	(17,322)	78,032	166,557
Coronado	88	620,762	0	0	33,354	5.37%	42,589	6.86%	$2.74	0	(1,025)	810	8,305
Downtown	506	6,547,895	104,271	0	333,906	5.10%	477,813	7.30%	$2.55	14,423	(11,587)	41,139	112,114
Mission Gorge	85	967,743	0	0	46,590	4.81%	46,862	4.84%	$1.93	(928)	(5,247)	2,377	10,896
Mid City / South East San Diego	1,218	7,232,247	28,800	15,900	299,591	4.14%	388,489	5.37%	$1.47	35,308	(81,785)	59,625	100,090
Mission Valley	105	5,763,215	0	0	131,767	2.29%	152,112	2.64%	$1.81	(3,145)	41,701	6,668	69,283
Pacific Beach / Morena	458	3,103,708	0	59,970	144,933	4.67%	187,415	6.04%	$2.51	(175)	(3,366)	7,219	64,550
Point Loma / Sports Arena	499	4,405,908	0	45,447	276,856	6.28%	285,598	6.48%	$2.03	10,916	64,413	69,634	177,573
Central County Total	4,443	40,556,038	198,708	170,792	1,756,801	4.33%	2,148,664	5.30%	$2.05	170,697	15,300	355,622	888,712
East County													
El Cajon	845	8,712,871	0	8,690	502,340	5.77%	647,017	7.43%	$1.25	53,302	42,075	113,421	222,559
La Mesa	501	5,237,363	0	9,000	245,613	4.69%	311,382	5.95%	$0.75	35,331	57,260	69,579	144,626
Lemon Grove / Spring Valley	383	2,884,427	0	3,000	102,424	3.55%	167,938	5.82%	$1.17	7,636	(15,341)	20,561	50,602
Santee / Lakeside	337	3,378,123	0	25,000	190,549	5.64%	219,505	6.50%	$2.03	32,305	(6,036)	54,262	80,966
East County Total	2,066	20,212,784	0	45,690	1,040,926	5.15%	1,345,842	6.66%	$1.36	128,574	77,958	257,823	498,753
I–15 Corridor													
Carmel Mountain Ranch	142	2,402,520	0	7,139	205,823	8.57%	284,439	11.84%	$2.28	(4,020)	(47,463)	17,962	30,296
Poway	216	2,867,434	0	29,326	142,961	4.99%	210,581	7.34%	$2.20	(16,293)	(24,852)	12,363	47,233
Rancho Bernardo	32	525,040	6,672	4,932	30,388	5.79%	39,539	7.53%	$1.85	(9,575)	3,570	1,540	19,202
Rancho Penasquitos	62	797,011	0	0	26,481	3.32%	47,265	5.93%	$2.44	(872)	751	9,234	14,561
I–15 Corridor Total	452	6,592,005	6,672	41,397	405,653	6.15%	581,824	8.83%	$2.25	(30,760)	(67,994)	41,099	111,292
North City													
Cardiff / Encinitas	429	6,331,948	3,590	13,620	191,414	3.02%	201,992	3.19%	$2.43	34,673	67,042	85,823	168,256
Del Mar Heights	292	2,890,527	0	0	76,840	2.66%	84,559	2.93%	$2.84	10,364	10,024	23,733	58,079
La Jolla / Torrey Pines	281	2,373,439	0	0	133,220	5.61%	147,951	6.23%	$3.30	21,518	13,830	33,143	115,870
Miramar	283	4,353,909	0	10,000	260,410	5.98%	332,572	7.64%	$1.79	28,446	9,141	46,970	118,588
UTC Center	62	2,231,030	0	0	24,169	1.08%	29,073	1.30%	$2.00	(875)	(36)	0	5,647
North City Total	1,347	18,180,853	3,590	23,620	686,053	3.77%	796,147	4.38%	$2.40	94,126	100,001	189,669	466,440
North County													
Carlsbad	340	5,174,676	0	296,877	280,000	5.41%	371,356	7.18%	$2.30	6,356	33,573	25,382	94,626
Escondido	807	9,734,394	0	22,895	711,593	7.31%	815,687	8.38%	$1.52	29,455	97,563	66,107	302,662
Oceanside	674	7,747,026	0	101,475	553,513	7.14%	703,075	9.08%	$1.66	23,781	85,957	57,851	180,928
San Marcos	296	4,462,762	0	228,557	386,094	8.65%	441,486	9.89%	$1.86	9,646	(109,617)	58,247	109,950
Vista	548	5,196,123	0	89,431	414,086	7.97%	471,304	9.07%	$1.59	(37,872)	73,202	16,713	206,069
North County Total	2,665	32,314,981	0	739,235	2,345,286	7.26%	2,802,908	8.67%	$1.71	31,366	180,678	224,300	894,235
Outlying Areas													
Outlying SD County North	478	2,655,978	0	38,800	101,325	3.81%	122,908	4.63%	$1.55	15,930	(6,390)	27,644	42,154
Outlying SD County South	62	824,266	0	0	28,988	3.52%	39,005	4.73%	$1.27	3,729	(13,135)	3,729	15,462
Outlying Areas Total	540	3,480,244	0	38,800	130,313	3.74%	161,913	4.65%	$1.41	19,659	(19,525)	31,373	57,616
South Bay													
Chula Vista	708	9,158,941	0	122,471	364,178	3.98%	483,926	5.28%	$1.84	758	(36,175)	46,893	130,949
Eastlake	95	2,438,255	0	154,352	161,637	6.63%	226,700	9.30%	$1.58	(24,684)	(20,908)	7,392	18,138
Imperial Beach / South San Diego	449	4,131,561	0	670,359	152,104	3.68%	167,456	4.05%	$1.70	4	(22,583)	23,551	51,225
National City	396	3,411,170	6,980	47,457	222,820	6.53%	314,823	9.23%	$1.59	1,088	31,719	17,603	92,081
South Bay Total	1,648	19,139,927	6,980	994,639	900,739	4.71%	1,192,905	6.23%	$1.72	(22,834)	(47,947)	95,439	292,393
San Diego County Total	**13,161**	**140,476,832**	**215,950**	**2,054,173**	**7,265,771**	**5.17%**	**9,030,203**	**6.37%**	**$1.82**	**390,828**	**238,471**	**1,195,325**	**3,209,441**

Lease rates are on a triple–net basis.

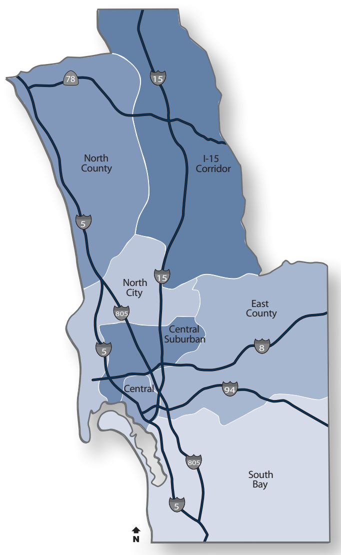
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
687 S. Coast Hwy. 101 – Ground Floor Condo	Encinitas	38,828	$502.21	Loja Group, LLC	J.E. Dewald & Associates
11130 E. Ocean Air Dr.	Carmel Valley	13,344	$457.13	Shahriar Pourteymour	Spectrum Property Management
4651–4655 Mission Blvd.	Pacific Beach	8,000	$378.75	John Valkus	Louis Crescenzo
7720–7728 Fay Ave.	La Jolla	7,000	$404.71	JB Realty	Mark Leinenweber
1815 E. Valley Pkwy.	Escondido	15,330	$183.30	Courtney Bucks	Steven Strebig
528 5th Ave.	Downtown	2,083	$1,152.18	Patrick Fransen	Charles Williams

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
855 N. Broadway	Escondido	18,000	11–Jul	San Clemente Auto Center	Hardesty Corners
11985 Bernardo Plaza Dr.	Rancho Bernardo	15,430	11–Jul	Chuze Fitness	Weikel Rancho Bernardo Ltd. Partnership
7550 Miramar Rd.	Miramar	15,116	11–Aug	Kiva Kitchen & Bath	Hubka Family Trust
9751 Mission Gorge Rd.	Santee	14,400	11–Aug	Fresh & Easy	CLL Cuyamaca
3309–3315 Rosecrans St.	Sports Arena	11,135	11–Sep	ULTA	Kimco Realty Corporation
1205 Auto Park Way	Escondido	10,000	11–Sep	Vintana	Luna Properties, 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

Please Contact Us for Further Information

Anaheim, CA
714.978.7880

Commerce, CA
323.201.4494

Inland Empire, CA
909.218.5285

Irvine, CA
949.851.5100

Las Vegas, NV
702.734.4500

Newport Beach, CA
949.644.8648

Phoenix, AZ
602.952.8648

Sacramento, CA
916.772.8648

San Diego, CA
858.453.0505

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REAL ESTATE SERVICES

101 Shipyard Way
Newport Beach, CA 92663

949.644.8648
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