



Retail Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

FLAT

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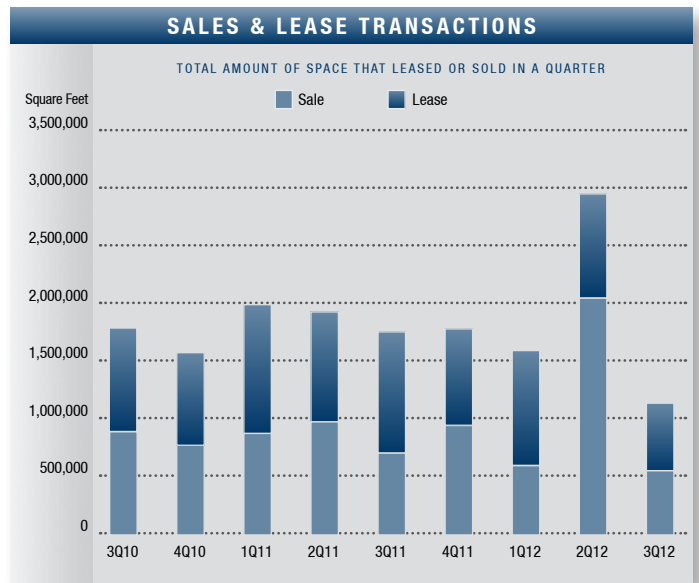
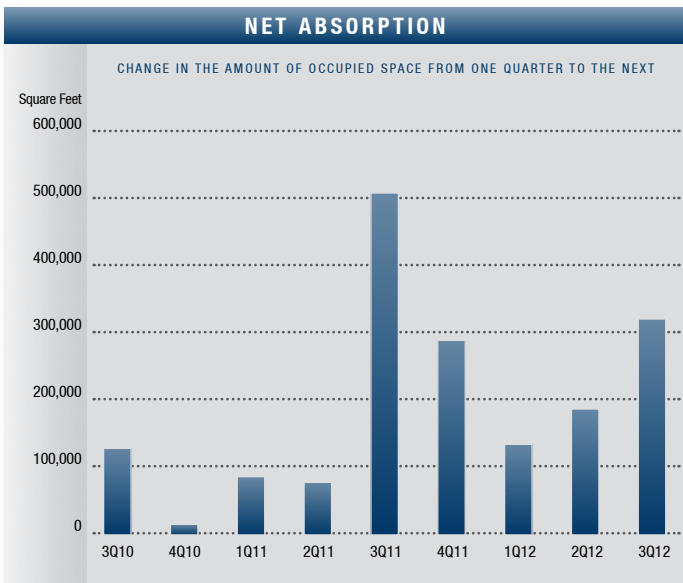
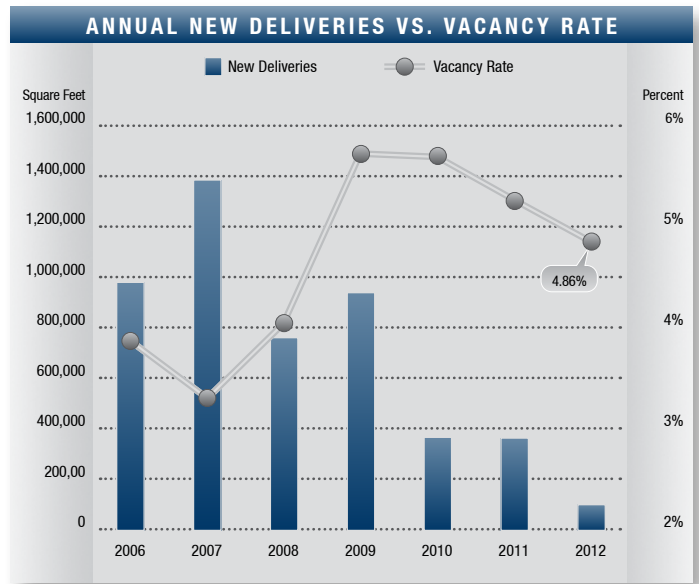
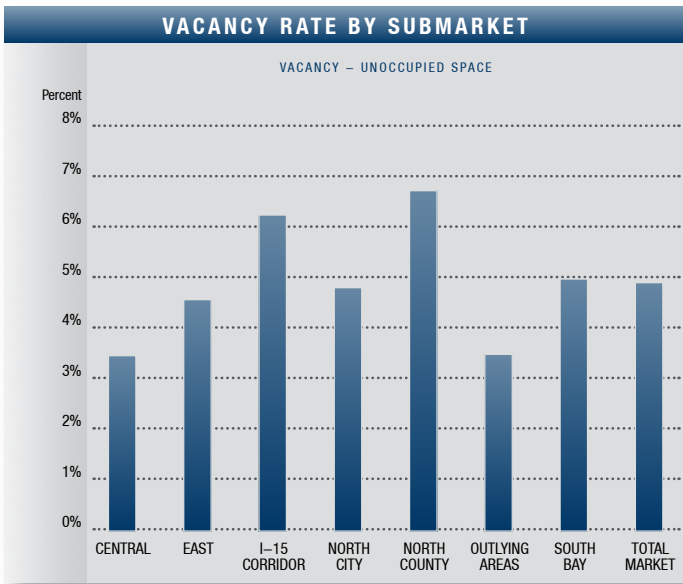
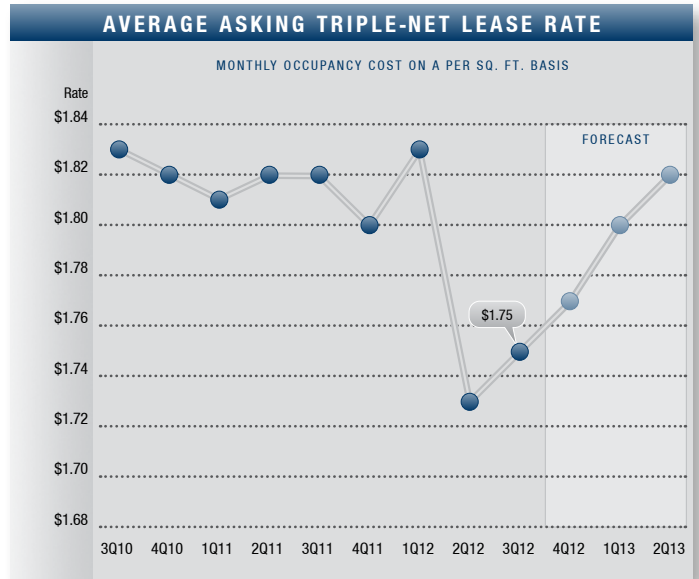
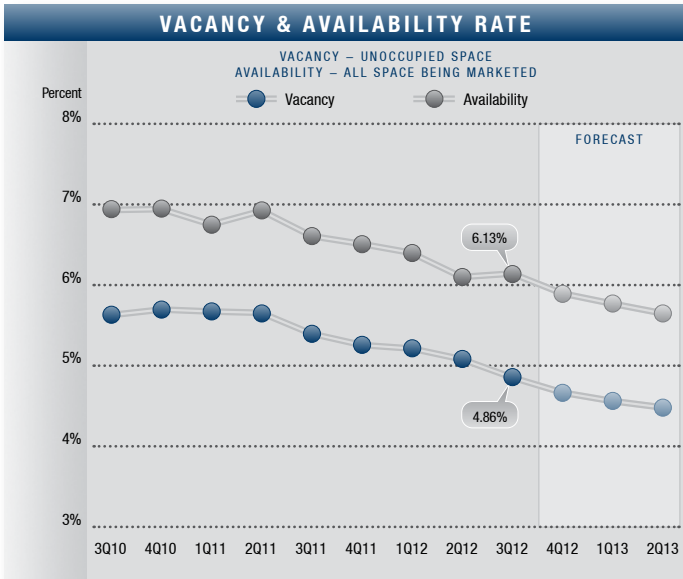


Market Highlights

- Steady Advance** - The San Diego retail market's third quarter numbers continued the trend of improving fundamentals—vacancy, availability, and net absorption 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 321,305 square feet of retail construction underway at the close of the third quarter. The retail construction pipeline has remained steady, although dropping from the volume seen five years ago.
- Vacancy** - Direct/sublease space (unoccupied) finished the third quarter at 4.86%, a decrease from the second quarter's rate of 5.09%. This was the lowest vacancy rate in four years.
- Availability** - Direct/sublease space being marketed was 6.13% at the end of the third quarter, a decrease from the second quarter's rate of 6.10%. Power centers had the lowest availability rate of any segment of the retail market at 1.95%.
- Lease Rates** - The average asking triple-net lease rate per month per square foot in San Diego County was \$1.75 at the end of the third quarter, an increase from the previous quarter's average asking rate of \$1.73. With vacancy continuing to fall, rates should stabilize. We are forecasting that lease rates will rise the coming quarters.
- Absorption** - The San Diego retail market posted 319,659 square feet of positive net absorption in the third quarter, marking the twelfth consecutive quarter of positive net absorption.
- Transaction Activity** - The combined amount of retail property sold and leased in the third quarter was over one million square feet. This was a drop off from the second quarter's nearly three million square feet total, which was the largest amount space leased and sold in a quarter in over six years. 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 9.0% in August 2012, down from a revised 9.3% in July 2012 and below the year-ago estimate of 10.3%. This compares with an unadjusted unemployment rate of 10.4% for California and 8.2% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 30,300 payroll jobs from August 2011 to August 2012 — 6,300 in professional and business services, and 5,200 from education and health services. Manufacturing posted the greatest year-over-year decline- a loss of 700 jobs.
- Overall** - We are seeing a decrease in the amount of available space being added per quarter. Positive absorption continues, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market is stabilizing. 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 the coming quarters. Thus far in the recovery quality properties have been able to start moving rental rates back in a positive direction, but demand remains soft for marginal product. As job creation continues and consumer confidence stabilizes, the retail market will continue to recover.

RETAIL MARKET OVERVIEW

	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	4.86%	5.09%	5.40%	(10.00%)
Availability Rate	6.13%	6.10%	6.61%	(7.26%)
Average Asking Lease Rate	\$1.75	\$1.73	\$1.82	(3.85%)
Sale & Lease Transactions	1,114,587	2,931,975	1,739,533	(35.93%)
Gross Absorption	1,181,501	1,001,856	1,396,591	(15.40%)
Net Absorption	319,659	182,929	505,855	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 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012	
Central														
General Retail	3,713	21,532,373	6,575	561,809	712,456	3.31%	1,162,786	5.40%	\$1.91	53,737	162,593	142,984	461,528	
Mall Market	20	4,276,289	0	0	606	0.01%	13,006	0.30%	\$0.00	0	(606)	0	0	
Power Center	88	3,442,859	0	12,800	48,080	1.40%	46,611	1.35%	\$2.44	24,802	41,789	30,196	59,581	
Shopping Center	677	10,717,618	85,830	129,142	616,206	5.75%	740,620	6.91%	\$1.81	82,760	122,400	142,387	387,662	
Specialty Center	7	343,052	0	0	11,214	3.27%	33,586	9.79%	\$2.69	1,255	1,246	1,255	2,501	
Central Total	4,505	40,312,191	92,405	703,751	1,388,562	3.44%	1,996,609	4.95%	\$2.06	162,554	327,422	316,822	911,272	
East County														
General Retail	1,457	7,520,671	14,408	37,000	206,604	2.75%	343,425	4.57%	\$1.24	46,680	55,457	78,224	136,484	
Mall Market	34	2,892,867	0	10,800	65,600	2.27%	75,909	2.62%	\$2.56	27,831	26,431	27,831	49,930	
Power Center	37	1,104,940	0	0	13,217	1.20%	12,560	1.14%	\$3.00	0	10,479	0	17,078	
Shopping Center	533	8,181,599	0	39,071	607,463	7.42%	716,118	8.75%	\$1.50	74,223	94,269	188,778	337,556	
Specialty Center	2	82,792	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0	
East County Total	2,063	19,782,869	14,408	86,871	892,884	4.51%	1,148,012	5.80%	\$1.46	148,734	186,636	294,833	541,048	
I-15 Corridor														
General Retail	178	1,731,310	0	15,368	20,070	1.16%	38,353	2.22%	\$1.83	4,680	10,351	4,680	10,351	
Mall Market	0	0	0	0	0	#0/0!	0	0	N/A	0	0	0	0	
Power Center	22	546,253	0	0	48,283	8.84%	82,844	15.17%	\$0.00	41,356	41,356	41,356	41,356	
Shopping Center	265	4,204,637	0	31,097	335,429	7.98%	330,248	7.85%	\$2.16	19,031	(60,990)	51,093	129,334	
Specialty Center	0	0	0	0	0	0	0	0	\$0.00	0	0	0	0	
I-15 Corridor Total	465	6,482,200	0	46,465	403,782	6.23%	451,445	6.96%	\$2.11	65,067	(9,283)	97,129	181,041	
North County														
General Retail	1,700	11,075,436	7,782	440,234	475,844	4.30%	621,900	5.62%	\$1.21	(11,068)	(50,242)	34,291	126,136	
Mall Market	74	4,060,751	0	0	189,135	4.66%	147,750	3.64%	\$2.12	(345)	4,383	2,353	18,817	
Power Center	42	1,561,894	0	8,000	49,543	3.17%	91,083	5.83%	\$2.50	453	114,545	4,076	118,168	
Shopping Center	891	15,204,417	0	675,756	1,452,127	9.55%	1,694,589	11.15%	\$1.60	13,305	99,122	153,971	463,569	
Specialty Center	5	367,815	0	0	1,210	0.33%	1,210	0.33%	\$0.00	0	1,065	0	1,065	
North County Total	2,712	32,270,313	7,782	1,123,990	2,167,859	6.72%	2,556,532	7.92%	\$1.56	2,345	168,873	194,691	727,755	
North City														
General Retail	863	6,799,067	0	15,291	214,199	3.15%	299,969	4.41%	\$3.06	(41,186)	(32,111)	26,209	103,777	
Mall Market	41	1,968,869	100,000	491,000	41,881	2.13%	50,913	2.59%	\$1.50	636	28,228	636	37,378	
Power Center	46	1,170,856	0	0	10,343	0.88%	16,870	1.44%	\$0.00	(5,300)	(4,620)	2,182	45,779	
Shopping Center	399	6,457,211	0	144,850	424,850	6.58%	486,880	7.54%	\$1.84	(3,372)	(38,892)	60,553	145,835	
Specialty Center	9	234,922	0	0	100,129	42.62%	86,182	36.69%	\$1.25	(43,514)	(43,514)	0	0	
North City Total	1,358	16,630,925	100,000	651,141	791,402	4.76%	940,814	5.66%	\$2.09	(92,736)	(90,909)	89,580	332,769	
South Bay														
General Retail	1,106	5,944,479	0	347,354	298,307	5.02%	427,794	7.20%	\$1.73	(50,245)	20,155	16,770	123,256	
Mall Market	42	2,646,242	0	0	65,012	2.46%	76,166	2.88%	\$0.00	24,522	(6,893)	38,053	47,950	
Power Center	25	975,818	0	0	1,996	0.20%	14,544	1.49%	\$0.00	0	0	0	0	
Shopping Center	473	8,683,526	106,710	598,001	566,409	6.52%	685,413	7.89%	\$1.67	70,324	48,290	127,110	252,383	
Specialty Center	25	625,914	0	478,000	6,799	1.09%	7,304	1.17%	\$1.80	1,458	(3,184)	1,458	22,335	
South Bay Total	1,671	18,875,979	106,710	1,423,355	938,523	4.97%	1,211,221	6.42%	\$1.68	46,059	58,368	183,391	445,924	
Outlying Areas														
General Retail	456	1,772,818	0	8,800	56,639	3.19%	63,577	3.59%	\$1.21	(12,005)	(5,482)	1,269	15,023	
Mall Market	16	161,000	0	0	11,000	6.83%	11,000	6.83%	\$1.75	0	0	0	0	
Power Center	0	0	0	0	0	0	0	0	\$0.00	0	0	0	0	
Shopping Center	85	1,346,795	0	33,510	53,665	3.98%	67,203	4.99%	\$1.62	(359)	(1,192)	3,786	19,984	
Specialty Center	1	255,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0	
Outlying Areas Total	558	3,535,613	0	42,310	121,304	3.43%	141,780	4.01%	\$1.56	(12,364)	(6,674)	5,055	35,007	
San Diego Total	13,332	137,890,090	321,305	4,077,883	6,704,316	4.86%	8,446,413	6.13%	\$1.75	319,659	634,433	1,181,501	3,174,816	
General Retail	9,473	56,376,154	28,765	1,425,856	1,984,119	3.52%	2,957,804	5.25%	\$1.86	(9,407)	160,721	304,427	976,555	
Mall Market	227	16,006,018	100,000	501,800	373,234	2.33%	374,744	2.34%	\$2.08	52,644	51,543	68,873	154,075	
Power Center	260	8,802,620	0	20,800	171,462	1.95%	264,512	3.00%	\$2.46	61,311	203,549	77,810	281,962	
Shopping Center	3,323	54,795,803	192,540	1,651,427	4,056,149	7.40%	4,721,071	8.62%	\$1.72	255,912	263,007	727,678	1,736,323	
Specialty Center	49	1,909,495	0	478,000	119,352	6.25%	128,282	6.72%	\$2.44	(40,801)	(44,387)	2,713	25,901	
San Diego Total	13,332	137,890,090	321,305	4,077,883	6,704,316	4.86%	8,446,413	6.13%	\$1.75	319,659	634,433	1,181,501	3,174,816	

Lease rates are on a triple-net basis.

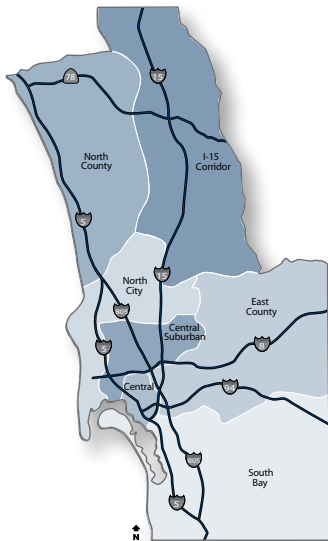
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
7710-7770 El Camino Real (Partial Interest)	Carlsbad	121,429	\$953.23	GEM Realty Capital, Inc.	Excel Trust, Inc.
2370-2390 Del Mar Heights Rd.	Del Mar	60,067	\$680.41	Donahue Schriber	C.W. Clark, Inc.
4340-4420 Bonita Rd.	Bonita	98,854	\$309.04	Donahue Schriber	Nottingham Associates, Inc.
407-515 W. Washington St.	Mission Hills	63,500	\$452.76	American Realty Advisors	The Vons Companies, Inc.
645 Saxony Rd.	Encinitas	83,737	\$200.03	Shea Homes	Bahlmann Family Trust

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9940 Mira Mesa Blvd.	Mira Mesa	44,777	Aug-12	H Mart	Mira Mesa Shopping Center East
7480 Miramar Rd.	Miramar	43,514	Aug-12	Woodbridge Interiors	Wells Fargo
13345 Poway Rd.	Poway	23,813	Sept-12	Michaels	Poway Plaza, LLC
2751 Roosevelt Rd.	Point Loma	22,914	Aug-12	Point Loma Sports Club	Liberty Station 210 Investors
1072 Camino Del Rio N.	Mission Valley	13,200	Jul-12	Trader Joe's	Westfield Group



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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