



Retail Market Report

Compared to 2010:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

UP

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Market Highlights

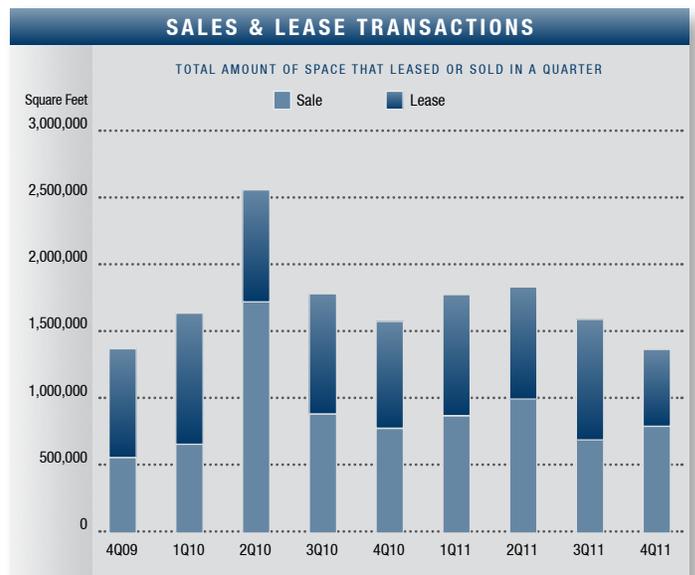
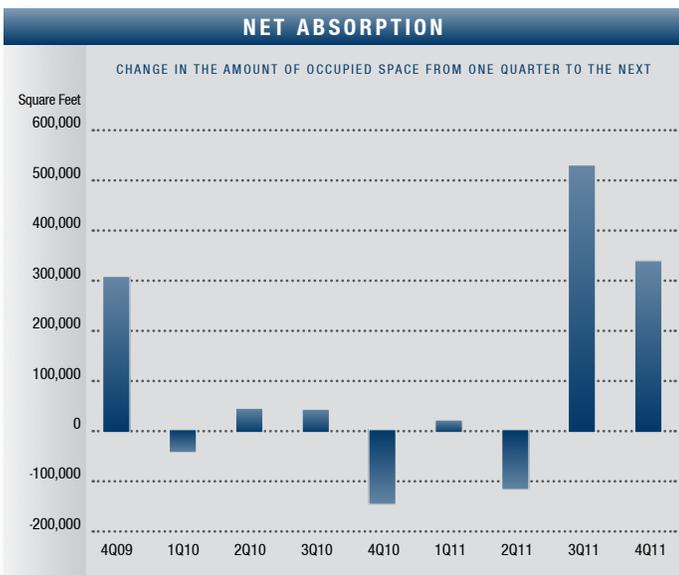
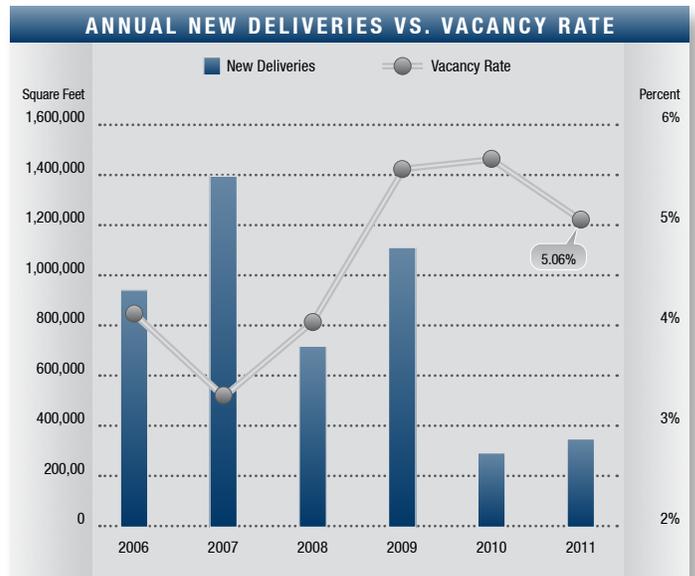
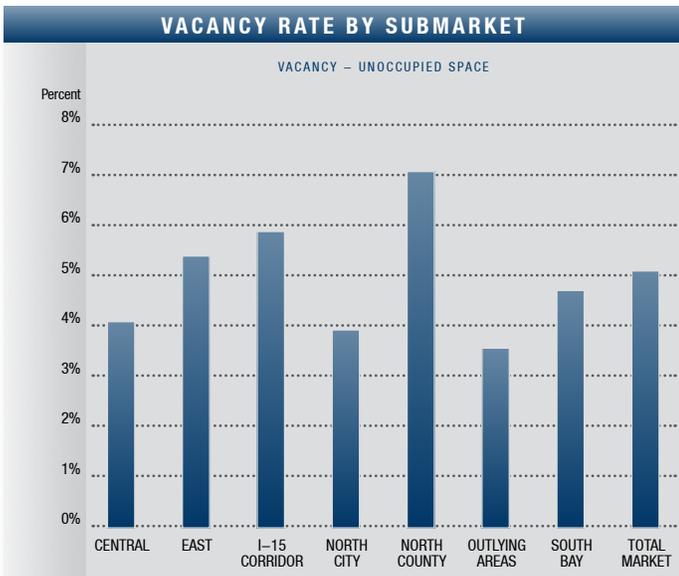
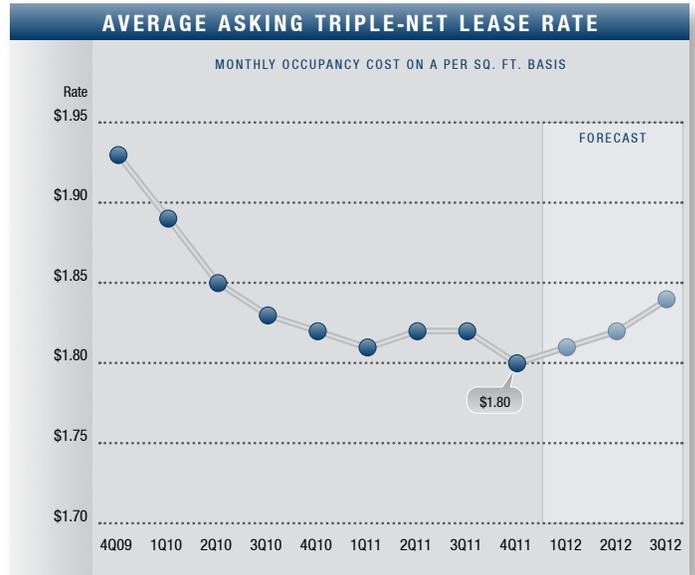
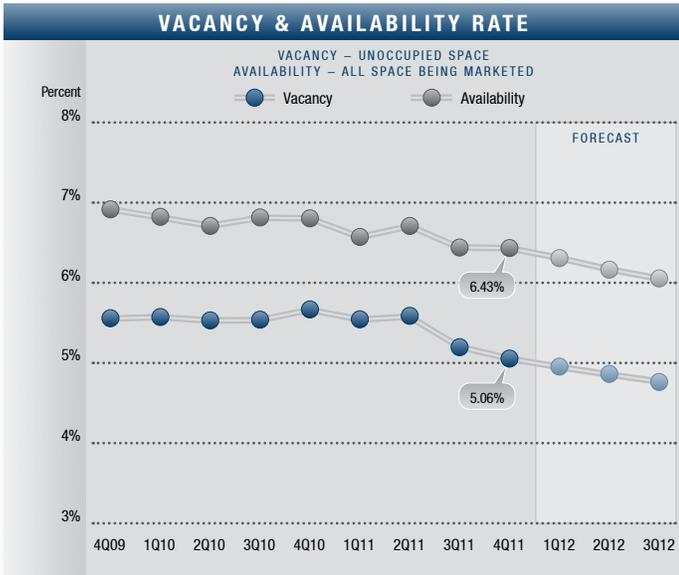
- **Steady Growth** - 2011's numbers were encouraging—vacancy, availability, and net absorption all posted the most positive figures seen in years. With regard to sales transactions, demand was high for quality assets. While these are positive indications, stability will need to be sustained in following quarters to be considered recovery.
- **Construction** - There was only 182,298 square feet of retail construction underway at the close 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) ended the year at 5.06%, a decrease from 2010's rate of 5.68%. The lowest vacancy rates were found in the North City and Central County submarkets, at 3.84% and 4.05%, respectively.
- **Availability** - Direct/sublease space being marketed was 6.43% at the end of the 2011, a 5.6% decrease from the 6.81% we saw in the previous year and the second straight year of decreases.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in San Diego County was \$1.80 at the end of 2011, a decrease from the previous year's average asking rate. With vacancy continuing to fall, rates should stabilize. We are forecasting that lease rates will begin to rise in 2012, ending the year at \$1.85.
- **Absorption** - Demand gains have put this market back on track. The San Diego retail market posted 776,707 square feet of positive net absorption in 2011, the most positive net absorption since 2007.
- **Transaction Activity** - Leasing activity checked in at 3,132,000 square feet in 2011, a decrease from the

2010 figure of 3,528,000 square feet, but still 11% higher than 2009. Sales activity also showed a decrease, posting 3,404,000 square feet of activity compared to the 4,003,000 square feet we saw in 2010. 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 9.2 percent in November 2011, down from a revised 9.7 percent in October 2011, and below the year-ago estimate of 10.6 percent. This compares with an unadjusted unemployment rate of 10.9 percent for California and 8.2 percent for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 26,600 payroll jobs from November 2010 to November 2011—9,100 in education and health care services, and 7,900 in professional and business services. However, construction posted the greatest year-over-year decline—a loss of 1,900 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. As we finish 2011, 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 in the early part of 2012 with the possibility of increasing in the second half of 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

	2011	2010	2009	% of Change vs. 2010
Total Vacancy Rate	5.06%	5.68%	5.57%	(10.92%)
Availability Rate	6.43%	6.81%	6.93%	(5.58%)
Average Asking Lease Rate	\$1.80	\$1.82	\$1.93	(1.10%)
Sale & Lease Transactions	6,535,972	7,530,679	4,560,933	(13.21%)
Gross Absorption	4,418,442	4,780,253	5,065,727	(7.57%)
Net Absorption	776,707	(86,325)	(1,344,546)	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 4Q2011	Square Feet Available	Availability Rate 4Q2011	Average Asking Lease Rate	Net Absorption 4Q2011	Net Absorption 2011	Gross Absorption 4Q2011	Gross Absorption 2011
Central County													
Central San Diego	1,017	4,711,660	65,637	49,475	130,931	2.78%	192,506	4.09%	\$2.29	(12,075)	17,143	19,651	199,995
Claremont	471	7,116,309	0	0	346,234	4.87%	408,379	5.74%	\$1.71	17,884	9,280	52,711	223,725
Coronado	87	620,509	0	9,700	30,601	4.93%	39,487	6.36%	\$2.50	2,753	1,728	3,986	12,291
Downtown	503	6,345,236	104,271	99,797	307,159	4.84%	484,168	7.63%	\$2.53	34,263	15,160	45,331	159,145
Mission Gorge	87	1,025,010	0	0	37,798	3.69%	44,570	4.35%	\$1.54	11,561	3,545	14,867	27,367
Mid City/South East San Diego	1,220	7,257,476	8,800	12,700	298,525	4.11%	376,363	5.19%	\$1.44	21,066	(57,202)	39,634	139,724
Mission Valley	104	5,641,014	0	0	75,149	1.33%	76,357	1.35%	\$1.81	82,118	98,819	92,300	161,583
Pacific Beach/Morena	458	3,095,151	0	59,970	137,476	4.44%	172,818	5.58%	\$2.51	7,957	3,380	26,117	91,167
Point Loma/Sports Arena	502	3,095,151	0	89,295	212,191	6.86%	276,160	8.92%	\$2.08	124,122	151,499	150,763	329,836
Central County Total	4,449	38,907,516	178,708	320,937	1,576,064	4.05%	2,070,808	5.32%	\$2.01	289,649	243,352	445,360	1,344,833
East County													
El Cajon	846	8,701,552	0	14,690	492,307	5.66%	634,903	7.30%	\$1.28	(20,197)	68,292	36,630	280,543
La Mesa	502	5,223,699	0	13,665	264,789	5.07%	281,151	5.38%	\$1.28	2,985	63,034	15,535	157,050
Lemon Grove/Spring Valley	383	2,666,419	0	8,800	115,427	4.33%	175,035	6.56%	\$1.28	(13,003)	(28,344)	4,500	55,102
Santee/Lakeside	338	3,380,988	0	43,416	188,086	5.56%	227,723	6.74%	\$1.59	3,313	503	9,774	90,740
East County Total	2,069	19,972,658	0	80,571	1,060,609	5.31%	1,318,812	6.60%	\$1.39	(26,902)	103,485	66,439	583,435
I-15 Corridor													
Carmel Mountain Ranch	141	2,377,668	0	7,139	174,195	7.33%	224,241	9.43%	\$2.32	1,628	(15,835)	26,180	56,476
Poway	217	2,870,103	0	29,326	151,657	5.28%	212,969	7.42%	\$2.18	(8,696)	(33,548)	12,872	60,605
Rancho Bernardo	34	536,577	0	0	31,575	5.88%	43,608	8.13%	\$1.85	5,485	15,218	9,355	28,557
Rancho Penasquitos	66	799,854	0	0	25,294	3.16%	40,578	5.07%	\$2.50	1,187	1,938	4,853	19,414
I-15 Corridor Total	458	6,584,202	0	36,465	382,721	5.81%	521,396	7.92%	\$2.26	(396)	(32,227)	53,260	165,052
North City													
Cardiff/Encinitas	429	6,060,077	3,590	6,000	194,103	3.20%	188,780	3.12%	\$2.31	(2,189)	77,525	17,740	185,996
Del Mar Heights	294	2,862,071	0	0	64,044	2.24%	73,182	2.56%	\$2.86	11,731	23,320	26,973	85,477
La Jolla/Torrey Pines	281	2,365,443	0	0	121,466	5.14%	138,463	5.85%	\$3.23	11,754	27,284	25,742	143,712
Miramar	283	4,359,351	0	10,000	274,301	6.29%	343,401	7.88%	\$1.62	(3,741)	(1,280)	33,435	152,023
UTC Center	61	1,796,553	0	0	15,415	0.86%	24,165	1.35%	\$2.83	8,754	8,718	16,112	21,759
North City Total	1,348	17,443,495	3,590	16,000	669,329	3.84%	767,991	4.40%	\$2.21	26,309	135,567	120,002	588,967
North County													
Carlsbad	341	5,335,408	0	349,757	287,993	5.40%	376,049	7.05%	\$2.35	(7,993)	25,580	10,873	105,499
Escondido	809	9,752,833	0	27,895	658,259	6.75%	834,202	8.55%	\$1.62	38,294	136,338	59,971	367,173
Oceanside	679	7,781,014	0	107,975	581,725	7.48%	751,980	9.66%	\$1.61	(27,712)	58,245	31,880	212,808
San Marcos	296	4,445,445	0	199,921	368,891	8.30%	415,054	9.34%	\$1.90	21,203	63,892	49,630	313,480
Vista	547	5,197,308	0	115,211	380,725	7.33%	422,244	8.12%	\$1.59	(3,010)	74,518	19,204	225,273
North County Total	2,672	32,512,008	0	800,759	2,277,593	7.01%	2,799,529	8.61%	\$1.72	20,782	358,573	171,558	1,224,233
Outlying Areas													
Outlying SD County North	480	2,660,123	0	38,800	98,935	3.72%	119,122	4.48%	\$1.55	2,890	(3,500)	6,590	48,744
Outlying SD County South	63	832,906	0	0	23,195	2.78%	37,186	4.46%	\$1.50	6,293	(6,842)	6,293	21,755
Outlying Areas Total	543	3,493,029	0	38,800	122,130	3.50%	156,308	4.47%	\$1.53	9,183	(10,342)	12,883	70,499
South Bay													
Chula Vista	710	9,156,229	0	122,471	382,447	4.18%	554,720	6.06%	\$1.87	(18,444)	(50,044)	49,984	182,733
Eastlake	95	2,438,255	0	154,352	147,529	6.05%	228,687	9.38%	\$1.73	14,108	(6,800)	18,561	36,699
Imperial Beach/South San Diego	449	4,119,188	0	724,359	163,244	3.96%	188,513	4.58%	\$1.75	(11,140)	(32,723)	20,539	72,764
National City	397	3,414,091	0	45,507	202,388	5.93%	264,503	7.75%	\$1.35	32,303	67,866	56,646	149,227
South Bay Total	1,651	19,127,763	0	1,046,689	895,608	4.68%	1,236,423	6.46%	\$1.71	16,827	(21,701)	145,730	441,423
San Diego County Total	13,190	138,040,671	182,298	2,340,221	6,984,054	5.06%	8,871,267	6.43%	\$1.80	335,452	776,707	1,015,232	4,418,442
Malls	147	14,422,093	0	10,800	307,251	2.13%	389,974	2.70%	\$1.87	34,824	138,891	84,040	205,429
Power Centers	307	10,068,857	0	61,447	455,506	4.52%	537,129	5.33%	\$2.24	159,012	326,072	173,665	449,216
Community Centers	774	19,981,356	0	160,901	1,024,540	5.13%	1,016,269	5.09%	\$1.73	2,754	136,066	109,520	542,282
Neighborhood Centers	1,303	24,680,061	100,000	648,930	2,143,745	8.69%	2,549,508	10.33%	\$1.88	82,106	89,611	279,945	1,098,295
Strip Centers	1,160	10,805,361	3,590	162,696	920,198	8.52%	1,048,063	9.70%	\$1.55	22,970	(10,005)	116,982	549,877
Specialty Centers	83	2,622,032	0	478,000	84,525	3.22%	163,190	6.22%	\$2.52	975	11,111	12,332	42,815
General Retail	9,416	55,460,911	78,708	817,447	2,048,289	3.69%	3,167,134	5.71%	\$1.80	32,811	84,961	238,748	1,530,528
San Diego County Total	13,190	138,040,671	182,298	2,340,221	6,984,054	5.06%	8,871,267	6.43%	\$1.80	335,452	776,707	1,015,232	4,418,442

Lease rates are on a triple-net basis.

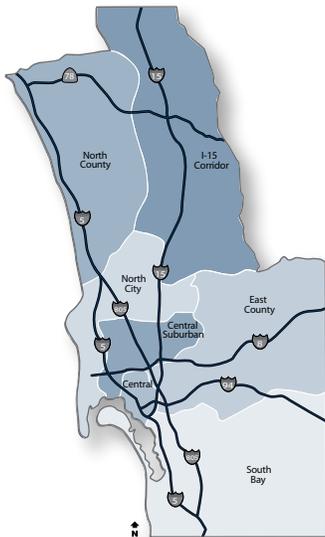
LARGEST TRANSACTIONS OF 2011

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
1905 Calle Barcelona	Carlsbad	264,586	\$679.17	TIAA-CREF Investment Management	Lubert-Adler Partners, LP
121-129 N. El Camino Real	Encinitas	183,675	\$428.20	Terramar Retail Centers, LLC	Newport Assets, Inc.
2687 Gateway Rd.	Carlsbad	111,403	\$520.63	Cornerstone Real Estate Advisors	LNR Partners, Inc.
3762-3774 Mission Ave.	Oceanside	178,175	\$200.36	Retail Opportunity Investments	Coseo Properties, Inc.
1815-1885 S. Centre City Pkwy.	Escondido	126,502	\$238.22	Gerrity Group, LLC	Sarofim Realty Advisors
9838-9890 Hibert St.	Scripps Ranch	71,241	\$416.19	Teachers Ins. & Annuity Assoc. of America	Coast Income Properties, Inc.

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
8820 Grossmont Blvd.	La Mesa	82,987	Aug-11	N/A	Nevada Investment Holdings
7007 Friars Rd.	Mission Valley	80,000	Jun-11	Forever 21	Simon Property Group
7620 Balboa Ave.	Clairemont	66,851	Apr-11	24 Hour Fitness	Kimco Realty Corporation
3010 Plaza Bonita Rd.	National City	42,222	May-11	Nordstrom Rack	Westfield Group
11940 Carmel Mountain Rd.	Carmel Mountain Ranch	40,000	Nov-11	Nordstrom Rack	American Assets Trust
565 Fletcher Pkwy.	El Cajon	40,000	Mar-11	Dick's Sporting Goods	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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