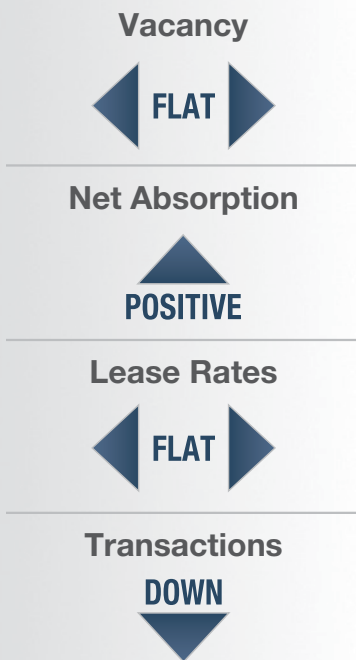




## Retail Market Report

Compared to last quarter:



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### Market Highlights

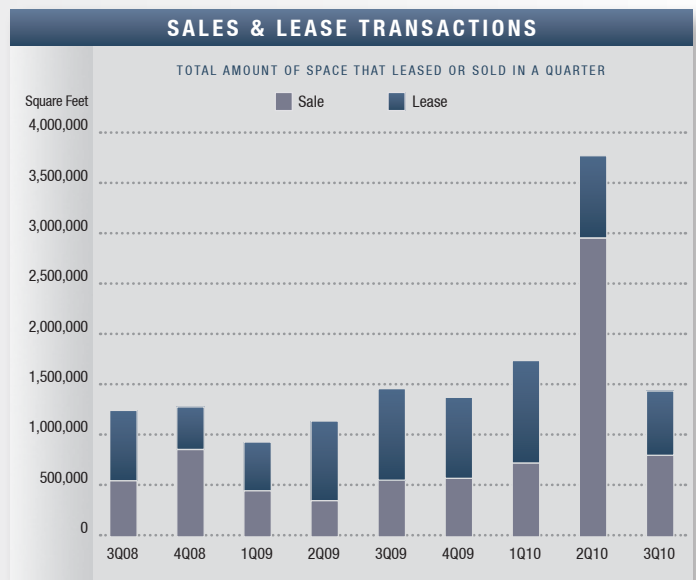
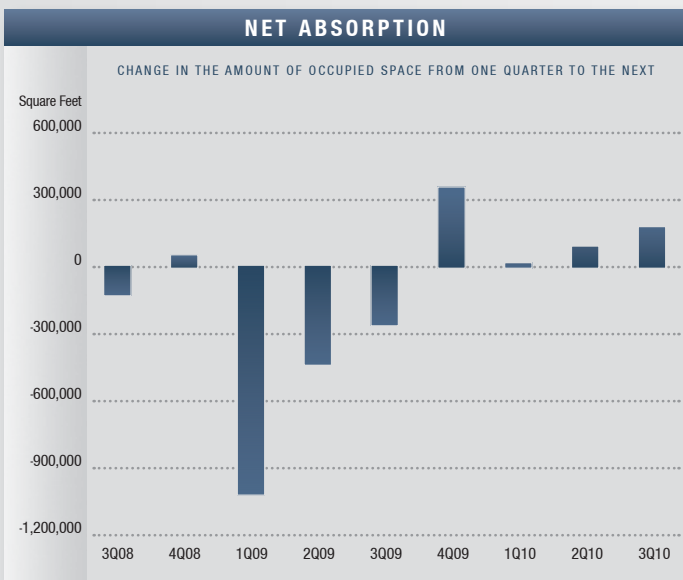
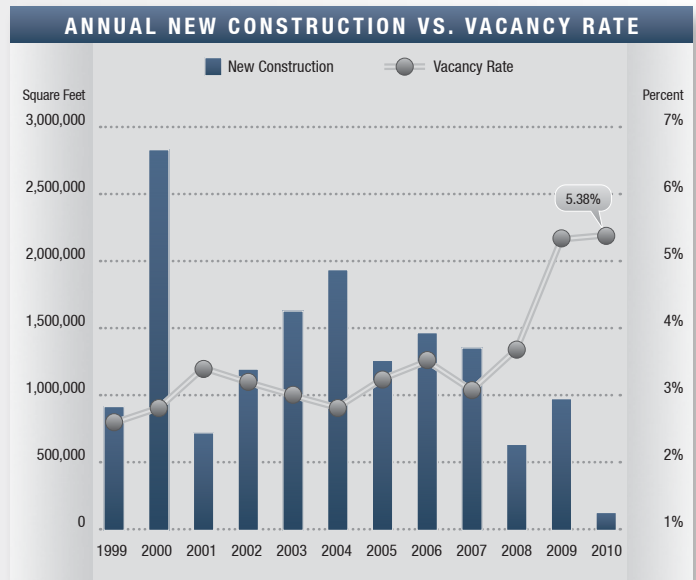
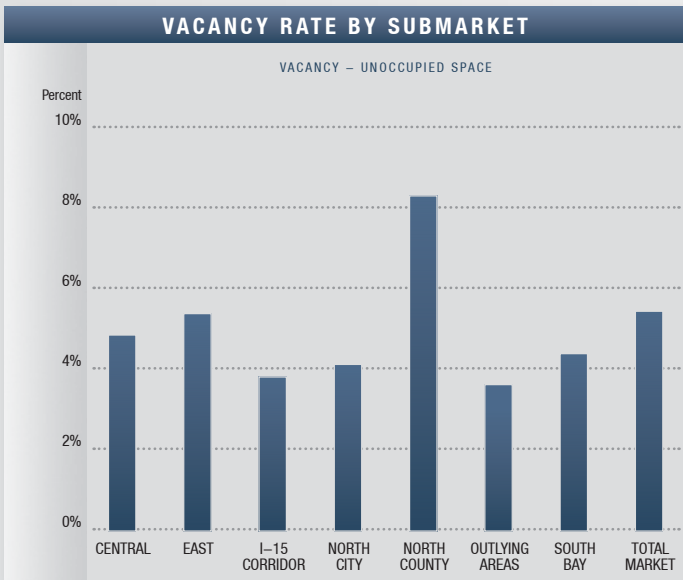
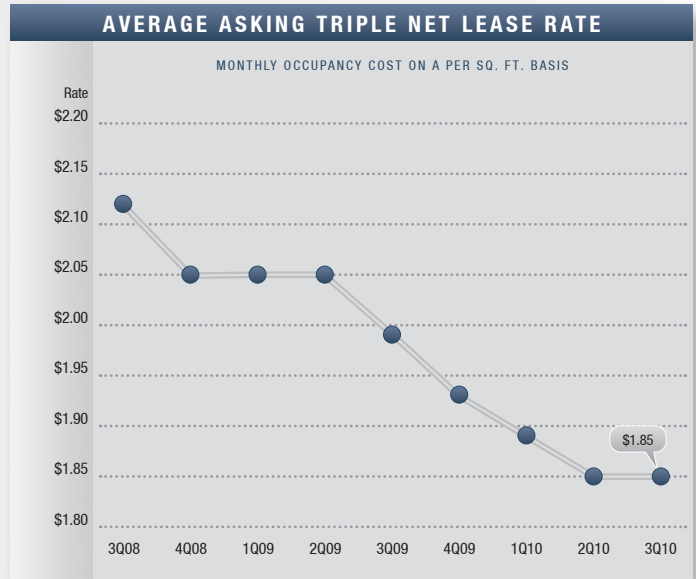
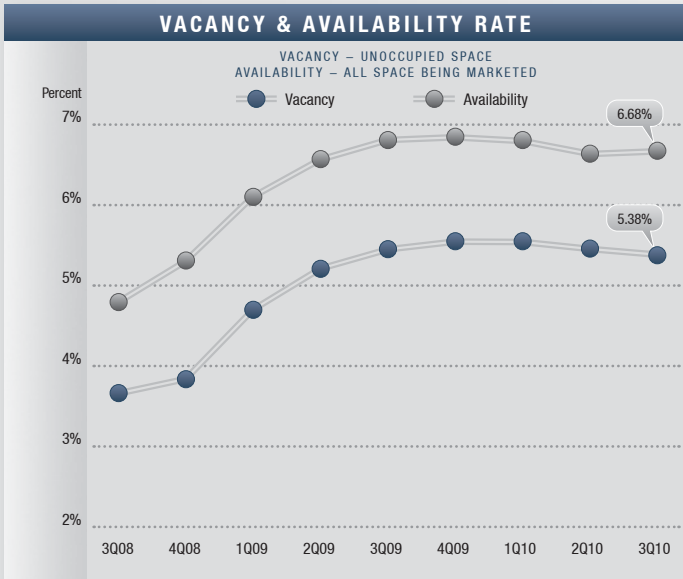
- **Bottoming Out?** – The numbers this quarter are encouraging — a sign that recovery could be on the horizon. Vacancy, availability and net absorption all showed signs of stabilization posting statistically insignificant changes compared to the previous quarter. With regard to sales transactions, the ask-bid gap seems to be narrowing, 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** – Currently, there is only 140,539 square feet of retail construction underway. The shrinking availability of land, combined with high land prices, scarce financing and rising construction costs, has led to few projects being developed in this infill market.
- **Vacancy** – Direct/sublease space (unoccupied) finished the quarter at 5.38%, a decrease as compared to last year's rate of 5.45%. The lowest vacancy rates can be found in the I-15 Corridor and North Cities markets, coming in at 3.72% and 4.02%, respectively.
- **Availability** – Direct/sublease space being marketed was 6.68% this quarter, down from the 6.80% we saw this same quarter last year. This is a decrease of 1.76% of new space being marketed when compared to the same quarter last year.
- **Lease Rates** – The average asking Triple Net lease rate per month per foot in San Diego County is currently \$1.85, which is a 7.04% decrease over last year's rate of \$1.99 and the same as last quarter. The record high rate of \$2.12 was established in the third quarter of 2008.
- **Absorption** – Net absorption for the county posted a positive 177,552 square feet for the third quarter of 2010; for the past 5 quarters the retail market has been averaging approximately 70,000 square feet of positive absorption.
- **Transaction Activity** – Leasing activity checked in this quarter at 629,180 square feet, a decrease over last

quarter's figure of 918,134 square feet. The average square footage leased per quarter over the past five quarters is 860,000 square feet. Sales activity showed an increase, posting 798,272 square feet of activity compared to the 532,748 square feet we saw this same quarter last year.

- **Employment** – The unemployment rate in San Diego County was 10% in May 2010, down from a revised 10.4% in April 2010 and above the year-ago estimate of 9.3%. This compares with an unadjusted unemployment rate of 11.9% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County lost 11,900 payroll jobs over the last twelve months — 4,400 in trade, transportation and utilities and 4,200 in manufacturing. However, educational and health services added 3,600 new jobs. Between April 2010 and May 2010 San Diego County gained 8,400 jobs overall.
- **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 put more upward pressure on vacancies, the market is beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances should continue to increase 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 begins going into 2011. Once employment turns positive and consumer confidence stabilizes, the retail market will regain equilibrium.

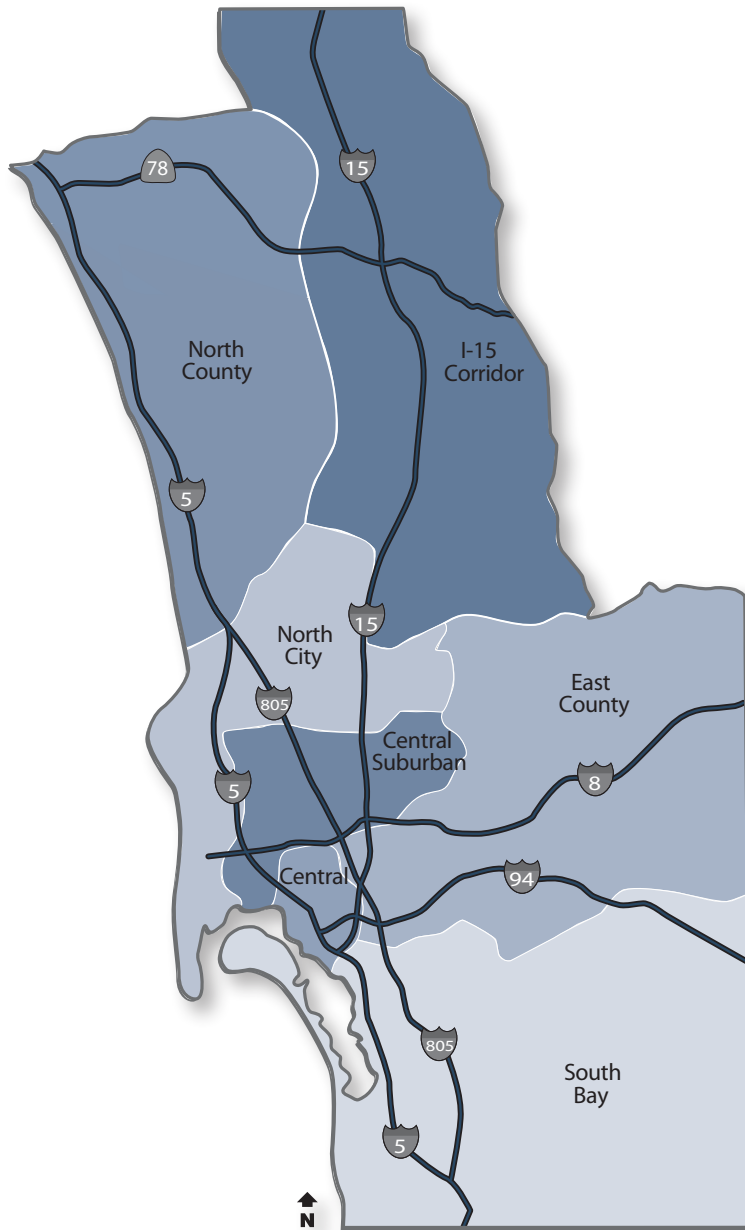
### RETAIL MARKET OVERVIEW

|                           | 3Q2010    | 2Q2010    | 3Q2009    | % CHANGE vs. 3Q2009 |
|---------------------------|-----------|-----------|-----------|---------------------|
| Vacancy Rate              | 5.38%     | 5.40%     | 5.45%     | (1.28%)             |
| Availability Rate         | 6.68%     | 6.57%     | 6.80%     | (1.76%)             |
| Average Asking Lease Rate | \$1.85    | \$1.85    | \$1.99    | (7.04%)             |
| Sale & Lease Transactions | 1,427,452 | 3,764,940 | 1,450,882 | (1.61%)             |
| Gross Absorption          | 1,265,839 | 1,371,010 | 1,136,456 | 11.38%              |
| Net Absorption            | 177,552   | 95,152    | (281,865) | 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 3Q2010 | Square Feet Available | Availability Rate 3Q2010 | Average Asking Lease Rate | Net Absorption 3Q2010 | Net Absorption 2010 | Gross Absorption 3Q2010 | Gross Absorption 2010 |
| <b>Central County</b>          |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Central San Diego              | 996              | 4,742,526                | 2,016             | 43,699              | 196,652               | 4.15%               | 206,717               | 4.36%                    | \$2.03                    | 25,527                | 44,421              | 73,408                  | 161,056               |
| Clairmont                      | 443              | 7,086,857                | 0                 | 3,200               | 326,878               | 4.61%               | 442,121               | 6.24%                    | \$1.86                    | 94,781                | 157,340             | 135,771                 | 411,845               |
| Coronado                       | 89               | 627,632                  | 0                 | 11,500              | 22,583                | 3.60%               | 36,510                | 5.82%                    | \$2.89                    | 10,475                | 12,836              | 14,276                  | 19,066                |
| Downtown                       | 517              | 6,544,232                | 0                 | 0                   | 366,638               | 5.60%               | 477,732               | 7.30%                    | \$2.60                    | (12,094)              | 12,301              | 43,338                  | 228,932               |
| Mission Gorge                  | 83               | 976,129                  | 0                 | 0                   | 50,069                | 5.13%               | 54,113                | 5.54%                    | \$1.95                    | 2,746                 | (15,435)            | 6,946                   | 14,201                |
| Mid City/South East San Diego  | 1,175            | 7,242,076                | 20,000            | 16,023              | 273,706               | 3.78%               | 368,961               | 5.09%                    | \$1.51                    | 35,810                | 62,374              | 96,021                  | 185,112               |
| Mission Valley                 | 103              | 5,530,404                | 0                 | 0                   | 179,269               | 3.24%               | 172,462               | 3.12%                    | \$1.58                    | (89,781)              | (96,975)            | 17,232                  | 35,017                |
| Pacific Beach/Morena           | 462              | 3,155,884                | 0                 | 55,970              | 157,093               | 4.98%               | 209,855               | 6.65%                    | \$1.93                    | 6,755                 | 2,899               | 22,779                  | 86,004                |
| Point Loma/Sports Arena        | 466              | 4,251,579                | 0                 | 77,655              | 317,413               | 7.47%               | 349,738               | 8.23%                    | \$1.93                    | 13,528                | 55,348              | 38,856                  | 153,757               |
| <b>Central County Total</b>    | <b>4,334</b>     | <b>40,157,319</b>        | <b>22,016</b>     | <b>208,047</b>      | <b>1,890,301</b>      | <b>4.71%</b>        | <b>2,318,209</b>      | <b>5.77%</b>             | <b>\$2.00</b>             | <b>87,747</b>         | <b>235,109</b>      | <b>448,627</b>          | <b>1,294,990</b>      |
| <b>East County</b>             |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| El Cajon                       | 843              | 8,810,528                | 0                 | 22,190              | 517,277               | 5.87%               | 661,375               | 7.51%                    | \$1.32                    | (42,639)              | (65,130)            | 50,857                  | 176,661               |
| La Mesa                        | 476              | 5,221,327                | 0                 | 9,000               | 310,623               | 5.95%               | 377,908               | 7.24%                    | \$1.47                    | (19,696)              | (22,821)            | 34,045                  | 109,710               |
| Lemon Grove/Spring Valley      | 357              | 2,948,137                | 0                 | 0                   | 94,793                | 3.22%               | 127,297               | 4.32%                    | \$1.43                    | (11,477)              | (12,058)            | 18,694                  | 43,664                |
| Santee/Lakeside                | 339              | 3,485,122                | 0                 | 17,430              | 173,857               | 4.99%               | 239,219               | 6.86%                    | \$2.17                    | 24,655                | 31,080              | 40,620                  | 135,887               |
| <b>East County Total</b>       | <b>2,015</b>     | <b>20,465,114</b>        | <b>0</b>          | <b>48,620</b>       | <b>1,096,550</b>      | <b>5.36%</b>        | <b>1,405,799</b>      | <b>6.87%</b>             | <b>\$1.49</b>             | <b>(49,157)</b>       | <b>(68,929)</b>     | <b>144,216</b>          | <b>465,922</b>        |
| <b>I-15 Corridor</b>           |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Carmel Mountain Ranch          | 140              | 2,374,391                | 0                 | 7,139               | 72,936                | 3.07%               | 122,498               | 5.16%                    | \$2.72                    | 28,416                | 32,782              | 40,810                  | 93,262                |
| Poway                          | 215              | 2,863,222                | 0                 | 35,726              | 119,856               | 4.19%               | 158,263               | 5.53%                    | \$2.01                    | 1,056                 | (7,586)             | 30,987                  | 70,739                |
| Rancho Bernardo                | 32               | 549,681                  | 0                 | 0                   | 19,989                | 3.64%               | 54,550                | 9.92%                    | \$2.50                    | 195                   | (3,258)             | 1,364                   | 5,081                 |
| Rancho Penasquitos             | 62               | 816,824                  | 0                 | 0                   | 32,648                | 4.00%               | 48,788                | 5.97%                    | \$2.85                    | 8,761                 | 12,537              | 12,720                  | 28,005                |
| <b>I-15 Corridor Total</b>     | <b>449</b>       | <b>6,604,118</b>         | <b>0</b>          | <b>42,865</b>       | <b>245,429</b>        | <b>3.72%</b>        | <b>384,099</b>        | <b>5.82%</b>             | <b>\$2.34</b>             | <b>38,428</b>         | <b>34,475</b>       | <b>85,881</b>           | <b>197,087</b>        |
| <b>North City</b>              |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Cardiff/Encinitas              | 425              | 6,556,234                | 45,844            | 12,620              | 251,421               | 3.83%               | 266,936               | 4.07%                    | \$2.13                    | (3,102)               | (24,967)            | 19,558                  | 60,509                |
| Del Mar Heights                | 284              | 2,863,349                | 0                 | 0                   | 88,916                | 3.11%               | 125,430               | 4.38%                    | \$2.91                    | (1,739)               | (4,410)             | 33,019                  | 76,882                |
| La Jolla/Torrey Pines          | 278              | 2,306,635                | 0                 | 0                   | 131,624               | 5.71%               | 111,797               | 4.85%                    | \$3.08                    | 19,697                | 49,552              | 40,925                  | 130,376               |
| Miramar                        | 274              | 4,773,229                | 0                 | 0                   | 262,621               | 5.50%               | 336,073               | 7.04%                    | \$1.75                    | 907                   | (17,879)            | 30,028                  | 111,423               |
| UTC Center                     | 63               | 2,321,053                | 0                 | 0                   | 22,192                | 0.96%               | 29,515                | 1.27%                    | \$2.30                    | 9,612                 | 15,355              | 11,423                  | 25,673                |
| <b>North City Total</b>        | <b>1,324</b>     | <b>18,820,500</b>        | <b>45,844</b>     | <b>12,620</b>       | <b>756,774</b>        | <b>4.02%</b>        | <b>869,751</b>        | <b>4.62%</b>             | <b>\$2.19</b>             | <b>25,375</b>         | <b>17,651</b>       | <b>134,953</b>          | <b>404,863</b>        |
| <b>North County</b>            |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Carlsbad                       | 333              | 5,079,911                | 42,091            | 48,480              | 288,262               | 5.67%               | 336,251               | 6.62%                    | \$2.47                    | 4,971                 | 24,177              | 30,916                  | 94,001                |
| Escondido                      | 803              | 9,686,466                | 0                 | 17,860              | 788,234               | 8.14%               | 957,419               | 9.88%                    | \$1.63                    | 42,243                | 13,860              | 87,629                  | 257,020               |
| Oceanside                      | 666              | 7,661,102                | 30,588            | 113,419             | 650,396               | 8.49%               | 750,291               | 9.79%                    | \$1.63                    | 25,791                | 43,681              | 113,964                 | 210,558               |
| San Marcos                     | 298              | 4,582,505                | 0                 | 227,560             | 438,098               | 9.56%               | 506,314               | 11.05%                   | \$1.88                    | 6,110                 | (22,337)            | 68,399                  | 167,733               |
| Vista                          | 549              | 5,242,639                | 0                 | 89,531              | 484,660               | 9.24%               | 565,602               | 10.79%                   | \$1.41                    | 15,038                | (106,326)           | 31,330                  | 85,773                |
| <b>North County Total</b>      | <b>2,649</b>     | <b>32,252,623</b>        | <b>72,679</b>     | <b>496,850</b>      | <b>2,649,650</b>      | <b>8.22%</b>        | <b>3,115,877</b>      | <b>9.66%</b>             | <b>\$1.71</b>             | <b>94,153</b>         | <b>(46,945)</b>     | <b>332,238</b>          | <b>815,085</b>        |
| <b>Outlying Areas</b>          |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Outlying SD County North       | 473              | 2,552,073                | 0                 | 8,800               | 97,746                | 3.83%               | 109,954               | 4.31%                    | \$1.43                    | (19,807)              | (7,908)             | 12,327                  | 45,067                |
| Outlying SD County South       | 58               | 830,887                  | 0                 | 0                   | 22,471                | 2.70%               | 37,013                | 4.45%                    | \$1.63                    | (2,476)               | 7,533               | 5,095                   | 25,600                |
| <b>Outlying Areas Total</b>    | <b>531</b>       | <b>3,382,960</b>         | <b>0</b>          | <b>8,800</b>        | <b>120,217</b>        | <b>3.55%</b>        | <b>146,967</b>        | <b>4.34%</b>             | <b>\$1.47</b>             | <b>(22,283)</b>       | <b>(375)</b>        | <b>17,422</b>           | <b>70,667</b>         |
| <b>South Bay</b>               |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Chula Vista                    | 692              | 8,985,227                | 0                 | 281,471             | 309,583               | 3.45%               | 406,295               | 4.52%                    | \$1.83                    | (2,337)               | 141,640             | 44,775                  | 353,380               |
| Eastlake                       | 100              | 2,606,432                | 0                 | 0                   | 147,461               | 5.66%               | 191,496               | 7.35%                    | \$1.95                    | 7,812                 | 12,386              | 12,645                  | 31,962                |
| Imperial Beach/South San Diego | 444              | 4,272,479                | 0                 | 407,002             | 137,014               | 3.21%               | 229,026               | 5.36%                    | \$1.49                    | 12,236                | 3,888               | 26,057                  | 68,690                |
| National City                  | 343              | 3,279,701                | 0                 | 41,339              | 225,385               | 6.87%               | 339,560               | 10.35%                   | \$1.62                    | (14,422)              | (39,373)            | 19,025                  | 101,583               |
| <b>South Bay Total</b>         | <b>1,579</b>     | <b>19,143,839</b>        | <b>0</b>          | <b>729,812</b>      | <b>819,443</b>        | <b>4.28%</b>        | <b>1,166,377</b>      | <b>6.09%</b>             | <b>\$1.73</b>             | <b>3,289</b>          | <b>118,541</b>      | <b>102,502</b>          | <b>555,615</b>        |
| <b>San Diego County Total</b>  | <b>12,881</b>    | <b>140,826,473</b>       | <b>140,539</b>    | <b>1,547,614</b>    | <b>7,578,364</b>      | <b>5.38%</b>        | <b>9,407,079</b>      | <b>6.68%</b>             | <b>\$1.85</b>             | <b>177,552</b>        | <b>289,527</b>      | <b>1,265,839</b>        | <b>3,804,229</b>      |

Lease rates are on a triple net basis.



**SUBMARKETS**

**CENTRAL COUNTY**

Central San Diego, Clairmont, 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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