



Retail Market Report

Compared to 2009:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Market Highlights

- **Are we there yet?** - The numbers from 2010 were 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 2009. With regard to sales transactions, the ask-bid gap appears 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** - There was only 101,839 square feet of retail construction underway in the fourth quarter of 2010. The shrinking availability of land, combined with high land prices, scarce financing and rising construction costs, has led to few projects being developed.
- **Vacancy** - Direct/sublease space (unoccupied) finished the year at 5.37%, a decrease over 2009's rate of 5.48%. The lowest vacancy rates were found in the I-15 Corridor and North Cities submarkets, at 3.64% and 3.98%, respectively.
- **Availability** - Direct/sublease space being marketed was 6.62% at the end of 2010, down from the 6.85% we saw at the end of 2009. This is a decrease of 3.36% of new space being marketed when compared to 2009.
- **Lease Rates** - The average asking Triple Net lease rate per month per square foot in San Diego County was \$1.82 in the fourth quarter of 2010, which is one cent lower than the previous quarter and a 5.70% decrease over 2009's rate of \$1.93. The record high rate of \$2.12 was established in the third quarter of 2008.
- **Absorption** - Net absorption for the county posted a positive 313,013 square feet for 2010; from the fourth quarter of 2009 to the fourth quarter of 2010, the retail market averaged approximately 135,000 square feet of positive absorption per quarter for the last five quarters.
- **Transaction Activity** - Leasing activity checked in at 3.2 million square feet for 2010, an increase over 2009's

figure of 2.95 million square feet. Sales activity showed an increase, posting 1.78 million square feet of activity compared to the 1.06 million square feet we saw in 2009.

- **Employment** - The unemployment rate in San Diego County was 10.4% in November 2010, up from a revised 10.3% in October 2010 and below the year-ago estimate of 10.4%. This compares with an unadjusted unemployment rate of 12.4% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 100 payroll jobs from November 2009 to November 2010 — 3,500 in professional and business services and 3,100 in education and health services. However, construction posted the greatest year-over-year decline — a loss of 2,100 jobs. Between October 2010 and November 2010 San Diego County employment increased by 3,700 jobs overall. The LAEDC is forecasting that 17,000 jobs will be added in San Diego County in 2011.
- **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 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 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.

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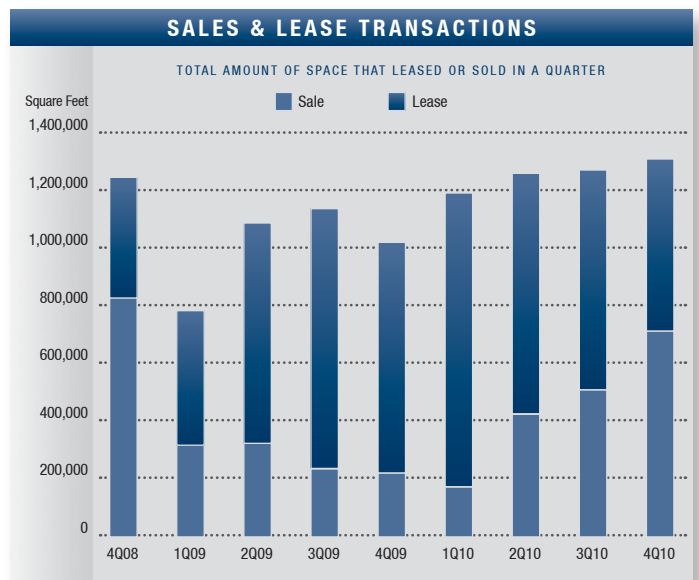
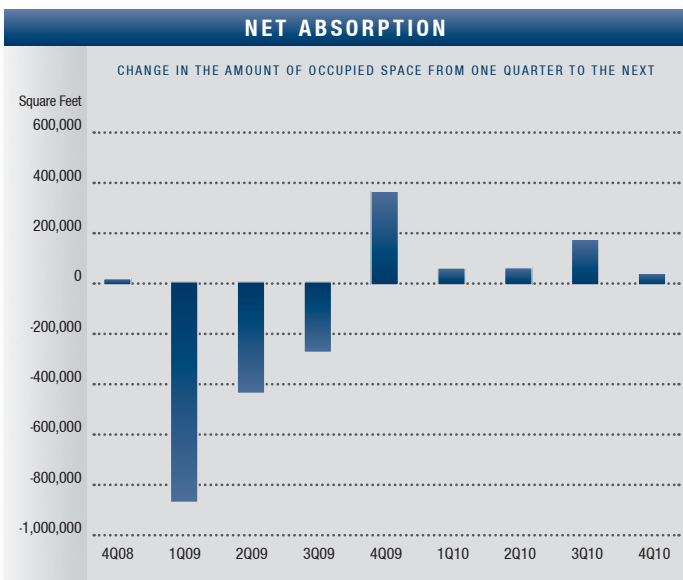
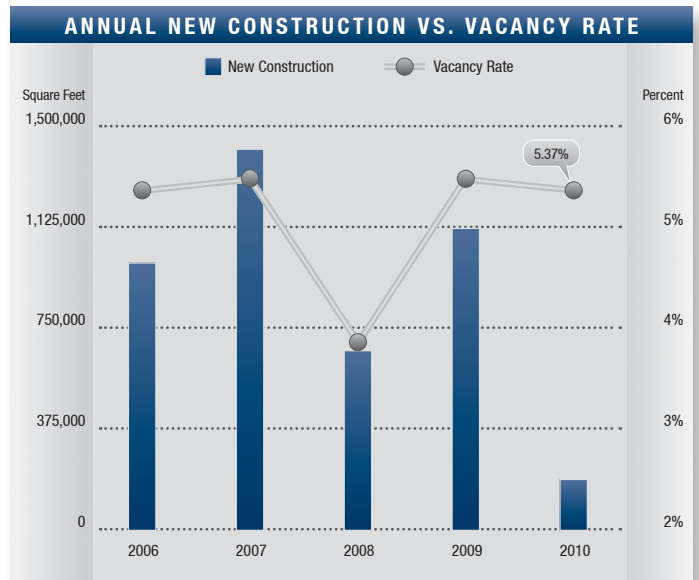
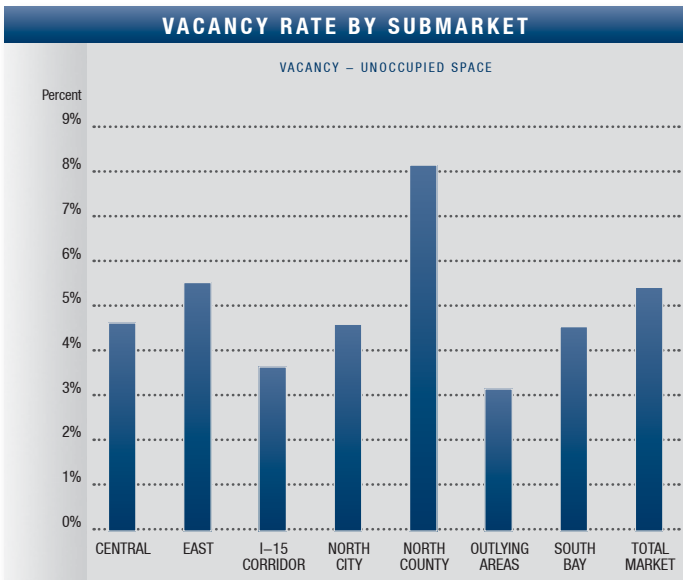
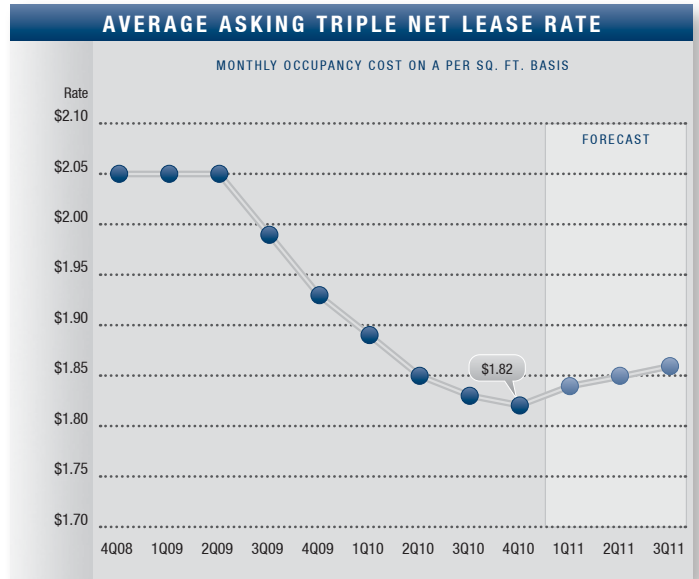
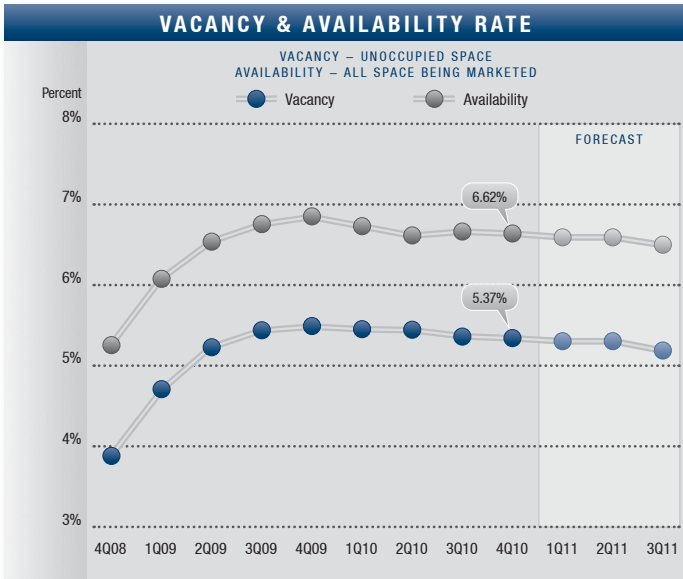
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RETAIL MARKET OVERVIEW

	2010	2009	2008	% CHANGE vs. 2009
Vacancy Rate	5.37%	5.48%	3.86%	(2.01%)
Availability Rate	6.62%	6.85%	5.24%	(3.36%)
Average Asking Lease Rate	\$1.82	\$1.93	\$2.05	(5.70%)
Sale & Lease Transactions	5,011,117	4,013,201	4,405,166	24.87%
Gross Absorption	4,728,306	5,080,318	4,444,621	(6.93%)
Net Absorption	313,013	(1,199,813)	(204,072)	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 4Q2010	Square Feet Available	Availability Rate 4Q2010	Average Asking Lease Rate	Net Absorption 4Q2010	Net Absorption 2010	Gross Absorption 4Q2010	Gross Absorption 2010
Central County													
Central San Diego	1,023	4,829,738	0	50,339	171,575	3.55%	203,259	4.21%	\$2.17	26,577	70,498	71,230	232,286
Clairmont	450	7,162,848	0	3,200	395,298	5.52%	458,470	6.40%	\$1.89	(68,420)	89,420	39,276	450,762
Coronado	89	627,632	0	9,700	31,829	5.07%	44,062	7.02%	\$2.87	(9,226)	3,610	3,948	23,014
Downtown	517	6,706,090	0	199,797	342,654	5.11%	459,873	6.86%	\$2.71	20,149	18,305	54,735	276,463
Mission Gorge	83	976,129	0	0	42,239	4.33%	46,973	4.81%	\$2.02	7,830	(7,105)	12,830	27,531
Mid City/South East San Diego	1,193	7,301,398	20,000	16,023	278,555	3.82%	343,975	4.71%	\$1.54	(3,349)	59,525	25,156	211,368
Mission Valley	104	5,762,210	0	0	173,468	3.01%	168,961	2.93%	\$1.81	5,801	(91,174)	9,560	44,577
Pacific Beach/Morena	462	3,138,467	0	55,970	143,362	4.57%	195,918	6.24%	\$2.10	13,666	14,630	27,762	111,922
Point Loma/Sports Arena	495	4,358,695	0	82,202	314,438	7.21%	311,510	7.15%	\$2.04	3,475	58,823	43,188	196,945
Central County Total	4,416	40,863,207	20,000	417,231	1,893,418	4.63%	2,233,001	5.46%	\$2.07	(3,497)	216,532	287,685	1,574,868
East County													
El Cajon	841	8,774,761	0	18,190	547,595	6.24%	648,960	7.40%	\$1.24	(27,418)	(94,948)	49,166	225,827
La Mesa	476	5,218,036	0	9,000	291,576	5.59%	352,679	6.76%	\$1.44	19,047	2,696	46,870	156,580
Lemon Grove/Spring Valley	356	2,813,730	0	0	88,253	3.14%	137,205	4.88%	\$1.31	2,640	(9,418)	16,673	60,337
Santee/Lakeside	336	3,471,291	0	12,794	188,374	5.43%	255,833	7.37%	\$2.02	(16,017)	12,103	12,587	148,474
East County Total	2,009	20,277,818	0	39,984	1,115,798	5.50%	1,394,677	6.88%	\$1.42	(21,748)	(89,567)	125,296	591,218
I-15 Corridor													
Carmel Mountain Ranch	140	2,374,391	0	7,139	74,358	3.13%	126,664	5.33%	\$2.67	(1,422)	31,360	1,997	126,232
Poway	215	2,832,631	0	35,726	118,009	4.17%	193,462	6.83%	\$2.07	1,376	(6,710)	48,526	117,794
Rancho Bernardo	32	549,681	13,969	0	19,989	3.64%	54,550	9.92%	\$2.50	0	(3,258)	0	5,081
Rancho Penasquitos	62	816,824	0	0	27,232	3.33%	40,373	4.94%	\$2.87	5,416	17,953	6,475	34,480
I-15 Corridor Total	449	6,573,527	13,969	42,865	239,588	3.64%	415,049	6.31%	\$2.41	5,370	39,345	56,998	283,587
North City													
Cardiff/Encinitas	432	6,548,080	45,844	7,620	241,438	3.69%	241,608	3.69%	\$2.14	8,173	(14,484)	37,574	100,493
Del Mar Heights	285	2,866,280	0	0	90,612	3.16%	114,989	4.01%	\$2.89	(1,740)	(5,606)	18,580	96,006
La Jolla/Torrey Pines	277	2,296,751	0	0	139,073	6.06%	118,665	5.17%	\$2.94	(8,159)	42,103	6,445	136,821
Miramar	274	4,732,601	0	0	251,758	5.32%	344,961	7.29%	\$1.86	8,463	(2,673)	36,426	154,592
UTC Center	63	2,321,310	0	0	24,133	1.04%	33,234	1.43%	\$2.30	(1,941)	8,257	2,496	28,169
North City Total	1,331	18,765,022	45,844	7,620	747,014	3.98%	853,457	4.55%	\$2.21	4,796	27,597	101,521	516,081
North County													
Carlsbad	338	5,131,934	0	335,883	313,573	6.11%	381,363	7.43%	\$2.98	18,548	42,725	40,252	134,253
Escondido	801	9,804,211	6,000	2,606	794,993	8.11%	934,070	9.53%	\$1.59	(8,964)	7,601	30,997	289,488
Oceanside	672	7,808,313	0	118,144	651,941	8.35%	765,441	9.80%	\$1.68	33,703	65,284	61,222	261,183
San Marcos	295	4,539,971	0	227,560	398,542	8.78%	454,411	10.01%	\$1.76	38,356	16,619	64,043	232,476
Vista	550	5,226,343	0	96,531	495,688	9.48%	582,442	11.14%	\$1.37	(8,560)	(117,354)	28,525	114,298
North County Total	2,656	32,510,772	6,000	780,724	2,654,737	8.17%	3,117,727	9.59%	\$1.73	73,083	14,875	225,039	1,031,698
Outlying Areas													
Outlying SD County North	473	2,555,216	0	8,800	93,935	3.68%	112,698	4.41%	\$1.44	3,811	(4,097)	5,000	50,067
Outlying SD County South	59	805,943	0	0	11,624	1.44%	23,471	2.91%	\$1.39	6,352	14,884	6,852	31,457
Outlying Areas Total	532	3,361,159	0	8,800	105,559	3.14%	136,169	4.05%	\$1.43	10,163	10,787	11,852	81,524
South Bay													
Chula Vista	691	8,978,349	0	198,471	332,091	3.70%	441,995	4.92%	\$1.82	(27,601)	115,658	39,240	388,446
Eastlake	100	2,500,083	0	154,352	151,224	6.05%	219,398	8.78%	\$1.37	(4,968)	9,123	9,013	45,003
Imperial Beach/South San Diego	451	4,299,499	0	216,418	125,241	2.91%	222,093	5.17%	\$1.52	12,273	16,161	16,120	84,810
National City	357	3,279,145	16,026	18,147	235,310	7.18%	326,922	9.97%	\$1.60	(9,925)	(47,498)	27,188	131,071
South Bay Total	1,599	19,057,076	16,026	587,388	843,866	4.43%	1,210,408	6.35%	\$1.66	(30,221)	93,444	91,561	649,330
San Diego County Total	12,992	141,408,581	101,839	1,884,612	7,599,980	5.37%	9,360,488	6.62%	\$1.82	37,946	313,013	899,952	4,728,306

Lease rates are on a triple net basis.

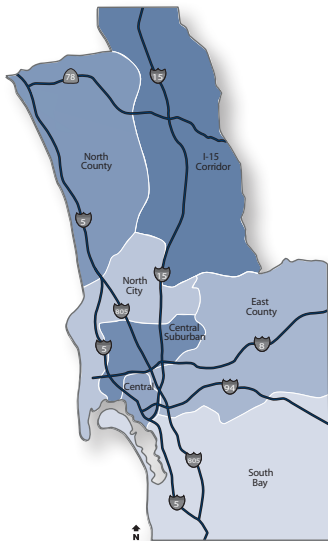
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
1555 Camino Del Mar	Del Mar	74,631	\$557.41	GLL Real Estate Partners, Inc.	DRA Advisors, LLC
6755 Mira Mesa Boulevard – 6 Properties	Mira Mesa/Miramar	97,708	\$239.49	RG Investments, LLC	Donahue Schriber
659 E. Palomar Street – 6 Properties	Chula Vista	101,650	\$206.59	Investec Real Estate Companies	Levine Investments, LP
2260 Otay Lakes Road	Chula Vista	46,281	\$432.14	Eastlake Village Ventures, LLC	Westwood Financial Corporation
198 W. Main Street	El Cajon	79,797	\$224.01	RS Partners, LP	Westcore Properties
9330–9360 Clairemont Mesa Boulevard – 3 Properties	Clairemont	55,943	\$261.87	Denise & Benjamin Handler	RE Hazard Contracting Company

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
7803 Othello Avenue	Clairemont	110,720	March 5th	Costco Wholesale	Nevada Investment Holdings Inc.
3245 Sports Arena Boulevard	Point Loma/Sports Arena	59,200	March 23rd	Ralphs	Mann Enterprises, Inc.
1200 Auto Park Way	Escondido	44,760	November 15th	Dick’s Sporting Goods	Federal Realty Investment Trust
3305–3379 Rosecrans Street	Point Loma/Sports Arena	35,362	October 7th	HomeGoods	Kimco Realty Corporation
333–335 N. El Camino Real	Cardiff/Encinitas	33,338	May 6th	Big Lots	335 North El Camino Real, LLC
1055 Wall Street	La Jolla/Torrey Pines	32,101	September 2nd	Seaside Home	Madison Marquette



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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