



## SAN DIEGO COUNTY RETAIL

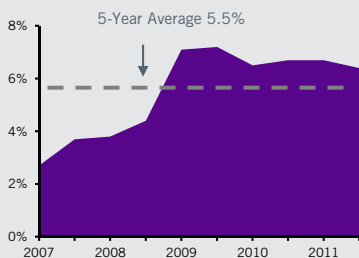
### Economic Indicators

	2H 11	2H 10
San Diego Labor Force	1.435M	1.395M
San Diego Unemployment	9.2%	10.6%
U.S. Unemployment	8.6%	9.6%
U.S. CCI	53.53	57.05

### Net Absorption – All Center Types, excl. Sublease



### Total Vacancy – All Center Types, incl. Sublease



### Market Tracker

\*Arrows = Current Qtr Trend

▼ Vacancy 6.4%	▲ Net Absorption 135,946 SF	◀ Deliveries 0 SF	▼ Asking Rent \$2.00 NNN
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## Retail Market Improving Slow but Steady

During the second half of 2011, San Diego retail market fundamentals continued to progress as evidenced by improved leasing activity and a decreasing countywide vacancy rate. Countywide total vacancy for all center types, including sublease space, was 6.4 percent in the second half of 2011 compared to 6.7 percent during the first half of 2011 and a year ago. The current vacancy of 6.4 percent is 2.7 percentage points higher than the 3.7 percent recorded at the start of the last recession (2H07); however, it is 0.8 percentage points lower than the peak rate of 7.2 percent recorded at the end of the recession (2H09). The countywide vacancy rate including sublease is forecasted to decrease from 6.4 percent in 2011 to 5.7 percent in 2012. Cassidy Turley tracks retail centers over 50,000 square feet, excluding owner-user centers in San Diego County with the exception of the Downtown and Uptown submarkets where we track retail centers over 10,000 square feet.

Evaluating total vacancy by submarket, UTC/La Jolla (1.1 percent), San Ysidro/Imperial Beach, Mission Valley, Del Mar, Uptown/Hillcrest, College and Kearny Mesa (3.7 percent) submarkets recorded the lowest vacancy rate ranging between 1.1 and 3.7 percent in the second half of 2011 among 30 retail submarkets countywide. Downtown and San Marcos recorded the highest total vacancy rate countywide at 12.9 and 12.6 percent, respectively.

Countywide net absorption was 135,946 square feet in the second half of 2011 bringing year-to-date net absorption to negative 9,725 square feet. All center types recorded positive net absorption in the second half of 2011 with the exception of free-standing and regional centers. The submarkets that recorded the highest leasing activity in the second half of 2011 were Kearny Mesa and La Mesa/Lemon Grove by recording 98,536 and 56,019 square feet of positive absorption, respectively. On the contrary, Downtown and Oceanside recorded the highest negative net absorption countywide by returning 45,287 and 42,287 square feet, respectively.

In 2011, the strongest leasing activity was recorded in Mira Mesa/Miramar, National City and Chula Vista/Bonita. Tenants returned the most space to Escondido, Carmel Mountain Ranch/Rancho Penasquitos, Downtown and Rancho Bernardo. With less than one percent of the total inventory of retail space under construction countywide, leasing should remain competitive. This is especially true in well-positioned properties where demand is beginning to outpace supply and reduced rents will begin to creep back towards their pre-recession peak levels. Leasing activity as measured by annual net absorption is expected to improve by recording approximately 250,000 square feet of positive net absorption in 2012 compared to 9,725 square feet of negative net absorption in 2011.

The expansion of convenient and cost-effective retail chains continued to be the main driver of activity in the second half of 2011. National concepts that can successfully cater to consumers who expect more from their time and money have seen the most success and activity. A lack of financing has dramatically limited the ability for local concepts to establish funding to expand.

The overall countywide monthly average asking rent for all center types was \$2.00 per month per square foot triple net (NNN) in the second half of 2011, a 10 percent decrease from the peak rate of \$2.21 (2H09) and a 1.4 percent decrease from \$2.03 a year ago, indicating that rents are stabilizing. Free-standing, community and power centers recorded the most improvements in asking rents from a year ago, a trend that is expected to continue.

Further improvements in the San Diego retail market will depend on sustained improvements in the employment market and the forecast is promising. Over the last year, San Diego's employment market has improved notably. From November 2010 to November 2011 San Diego has added a total of 26,600 jobs of which 1,900 were in the retail sector outpacing the total annual job growth in neighboring Southern California metros. San Diego's total employment is forecasted to increase 1.0 percent in 2012 and 2.5 percent in 2013, according to Moody's Analytics. All sectors except government and other services are forecasted to add jobs in 2012, with the education and health services, professional and business services, and leisure and hospitality sectors leading the way.

In 2012, the San Diego retail market is expected to transition from a slow to more vibrant recovery. San Diego remains an attractive destination for retail companies with its high median income and positive population growth. Retailers will continue to compete for the most visible locations, especially with a dearth of new construction projects on the horizon. Landlords with less desirable locations will attempt to attract and retain quality tenants by investing in the revitalization of their properties or offering concessions. The vibrancy of San Diego's retail sector was greatly hurt by the recession, but fundamentals are beginning to show signs of recovery.

Cassidy Turley BRE Commercial Retail Market Snapshot  
San Diego County • Second Half 2011

	TOTAL CENTERS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	CURRENT ABSORPTION	YTD ABSORPTION	UNDER CONSTRUCTION	AVERAGE ASKING RENT (ALL Types)
<b>Submarket</b>									
North County	133	20,250,270	247,015	1,533,035	8.8%	(75,029)	(262,125)	0	\$1.88
Central County	97	14,611,081	81,621	547,576	4.3%	195,684	168,809	0	\$2.13
South County	206	16,437,860	227,579	818,054	6.4%	(24,175)	63,302	75,733	\$2.20
East County	73	9,103,530	9,100	400,910	5.5%	39,466	20,289	0	\$1.78
<b>TOTAL</b>	<b>509</b>	<b>60,402,741</b>	<b>565,315</b>	<b>3,299,575</b>	<b>6.4%</b>	<b>135,946</b>	<b>(9,725)</b>	<b>75,733</b>	<b>\$2.00</b>
<b>Community</b>									
Community	46	8,044,877	67,362	459,076	6.5%	41,759	34,513	0	\$2.32
Free-Standing	19	358,103	18,056	76,699	26.4%	(50,832)	(52,652)	0	\$1.77
Neighborhood	251	27,197,520	267,769	1,681,538	7.2%	105,802	146,328	0	\$1.84
Power	36	14,700,629	112,108	475,590	4.0%	10,300	(77,198)	0	\$2.08
Regional	6	4,800,583	0	100,357	2.1%	(3,200)	(82,860)	0	\$2.14
Strip	151	5,301,481	667,202	506,315	11.5%	32,108	22,144	75,733	\$2.16
<b>TOTAL</b>	<b>509</b>	<b>60,402,741</b>	<b>565,315</b>	<b>3,299,575</b>	<b>6.4%</b>	<b>135,946</b>	<b>(9,725)</b>	<b>75,733</b>	<b>\$2.00</b>

\*Retail asking rates converted to Triple Net. Vacancy rate includes direct and sublease.

Key Lease Transactions 2H 11

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Felicita Town Center	55,636	Advanced Body Nutrition	Lease	Escondido
Carmel Mountain Plaza	40,000	Nordstrom Rack	Lease	Carmel Mountain
Flower Hill Promenade	30,000	Whole Foods	Lease	Del Mar
Sweetwater Square	19,788	Chuze Fitness	Lease	National City
Rancho Bernardo Town Center	15,430	Chuze Fitness	Lease	Rancho Bernardo

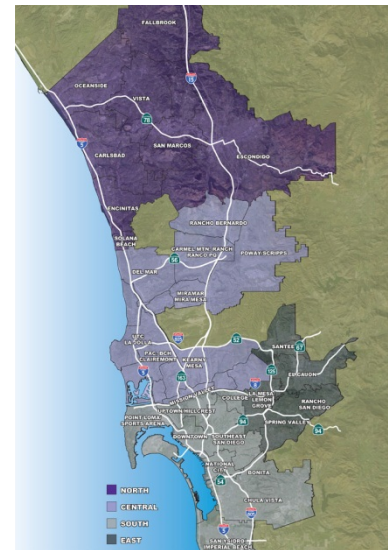
Key Sale Transactions 2H 11

PROPERTY	SF	SELLER/BUYER	PRICE	SUBMARKET
Encinitas Village	183,675	Newport Assets Inc. / Terramar Retail Centers LLC	\$78,650,000	Encinitas
Felicita Town Center	126,502	Sarofim Realty Advisors / Gerrity Group LLC	\$30,135,000	Escondido
SR Ranch Shopping Center	71,241	Coast Income Properties Inc. / Teachers Ins. & Annuity Association	\$29,650,000	Mira Mesa
Renaissance Towne Center	67,553	ACF Property Management, Inc. / Retail Opportunity Investments Corp.	\$23,800,000	UTC
Pacific Station	38,828	Loja Group / J.E. Dewald & Associates	\$19,500,000	Encinitas

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Retail Submarkets  
San Diego County



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