KEYSER MARSTON ASSOCIATES.
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

To: Jerry Backoff, Planning Division Director, City of San Marcos

From: KEYSER MARSTON ASSOCIATES, INC.

cc: Garth Koller, Principal Planner, City of San Marcos

Date: July 23, 2010

Subject: City of San Marcos – Retail Market Assessment and Leakage Analysis

Keyser Marston Associates, Inc. (KMA) has undertaken a retail market assessment for the City of San Marcos (City). The City is in the process of updating its General Plan and has requested that KMA provide an assessment of the City's retail market and potential market support and demand for retail in the City in the future.

In preparing this market assessment, KMA undertook the following work tasks:

- Kick-off meeting with City staff.
- Review of background information such as resource documents, maps, and relevant plans.
- Tours of the City and surrounding environs.
- Review of key market factors related to inventory, vacancy, and value indicators for the City's retail market as compared to surrounding North County cities.
- Identified the major retail centers in the City and North County cities.
- Reviewed the socio-economic demographics of the City in comparison to the North County cities.
- Estimated the current retail productivity levels in the market area in order to identify and project the likely supportable retail demand over the 20-year planning horizon.
- Identified key opportunities and constraints affecting retail development within the City over the 20-year planning horizon.

A. Retail Market Conditions

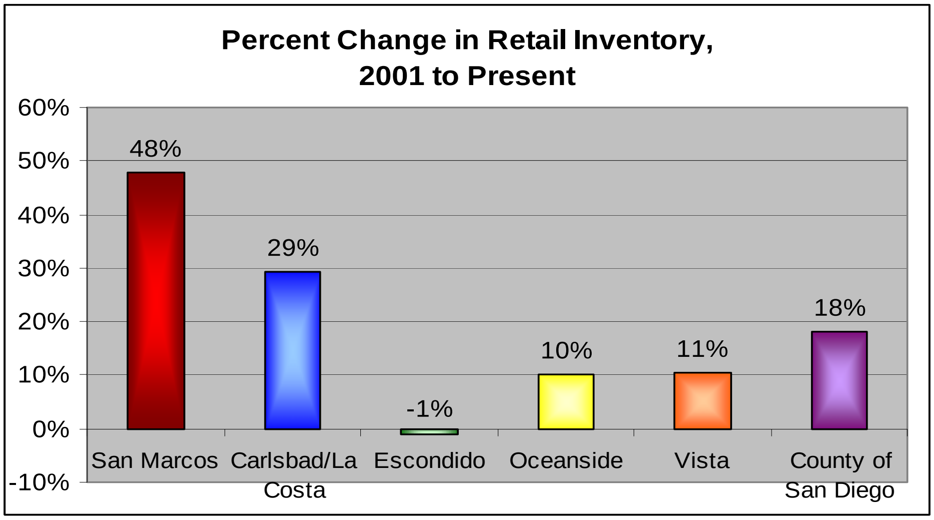
Commercial real estate markets are experiencing a high level of uncertainty, dysfunction and lack of confidence due to the national recession and credit crisis. Problems originally concentrated in the housing market have spread to other land use sectors, with new real estate development of all types grinding to a halt. The retail sector is particularly impacted, with consumer spending at its lowest level in years, and retail landlords struggling to find or retain tenants. Given the current and anticipated near-term economic climate, it is difficult to be optimistic about demand for new real estate development within a reasonable planning horizon. However, many regional economists project the beginning of a market turnaround in Southern California within the next two years.

According to the most recent data, the International Council of Shopping Centers (ICSC) estimated that 6,100 chain stores closed in 2008 with another 3,100 closings during the first half of 2009. Contributing to these closures was the housing market downturn which depressed retail sales, particularly home furnishings and improvement stores. San Diego experienced the impact of the economic downturn first-hand as evidenced by the closings of The Sharper Image, Mervyn’s, Linens ‘n’ Things, Circuit City, and various Starbucks locations. Even as corporate retailers have scaled back or shuttered a number of their stores, small “mom & pop” stores have been able to take advantage of the current market conditions. The current vacancy rates and lower rents have provided them with leasing opportunities in markets that were previously inaccessible. Similarly, even amidst the challenging economy, Wal-Mart, dollar stores and other discount retailers are doing quite well and have been able to capture market share from their upscale competitors.

According to CB Richard Ellis, first quarter reports indicate national retail sales have begun to report healthy gains and finds that general merchandise and food and beverage stores are having the most impressive year-over-year growth.

The balance of this section reviews the key market indicators for the retail land use.

- San Marcos has experienced a healthy growth in retail development over the past ten years. As shown on the chart below, San Marcos has had the largest percentage growth in retail inventory over the last 10 years in the North County submarket with an increase of 48%, followed by the Carlsbad/La Costa submarket (29% increase).



- Since 2000, the City of San Marcos has had a total of 77 retail building sales containing a total dollar volume of $273 million, with a median of $180 per square feet (SF) of building. Although the City maintains a healthy increase in retail building values, the sale of retail buildings in the City has continued to decrease since 2004.

- As of the first quarter of 2010, San Marcos has 2.3 million SF of rentable retail inventory or 17% of the total North County submarket, or 4.5% of the County's total retail inventory.

- The current retail vacancy factor in the first quarter of 2010 for San Marcos is at 7.2% which is the second lowest in the North County market but higher than the county average of 6.2%.

- The current average asking rental rate is $1.92 per SF which is the third highest in the North County submarket but below the county average of $2.05 per SF.

- KMA's survey of currently available retail space in the City illustrates that asking rents are on average $1.91 per SF, with a median of $1.65 per SF.

- The highest asking rents are at the Civic Center Plaza, San Marcos Marketplace, and San Elijo Town Center, which are all in the low- to mid-$3.00 range.

- KMA identified a number of regional/subregional retail centers in the North County area. The centers were identified by reviewing the National Research Board's Shopping Center Directory, field surveys, and research conducted on the Internet. The results of this research indicate that San Marcos contains 1,119,000 SF of regional/subregional gross leasable area (GLA), or 13.4% of the North County market area. These centers are summarized as follows:

- Creekside Marketplace: 262,000 SF anchored by Best Buy, Lowe's, and Staples
- Grand Plaza: 357,000 SF anchored by Nordstrom Rack, Bed Bath & Beyond, Sports Chalet, Petco, Ross, and Marshalls
- Nordahl Marketplace: 500,000 SF anchored by Wal-Mart, Costco, and Kohl's

- There are no new construction projects underway or scheduled to begin throughout the first half of 2010.

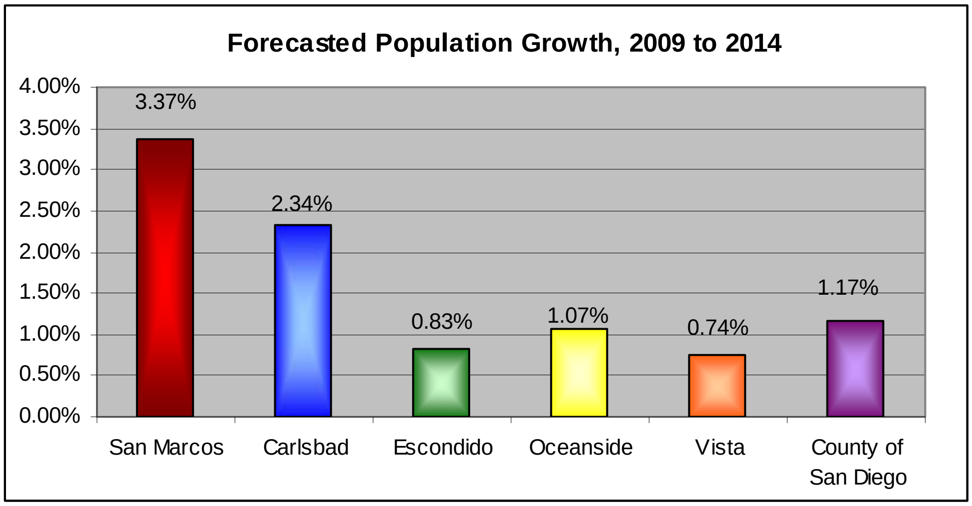
B. Socio-Economic Conditions

Identifying the socio-economic character of the market area residents is necessary for the evaluation of potential market opportunities. KMA reviewed the salient socio-economic characteristics for the cities of Oceanside, Carlsbad, Escondido, San Marcos, and Vista and County of San Diego (County) to provide a benchmark against which the market area residents can be measured.

The salient socio-economic characteristics are summarized below:

- According to Claritas, the population in San Marcos is the smallest in North County with approximately 83,000 persons. Oceanside contains the largest population with 173,000 persons.

- According to Claritas, the population in San Marcos is projected to increase 3.4% annually through 2014, which is the greatest increase in the North County cities.



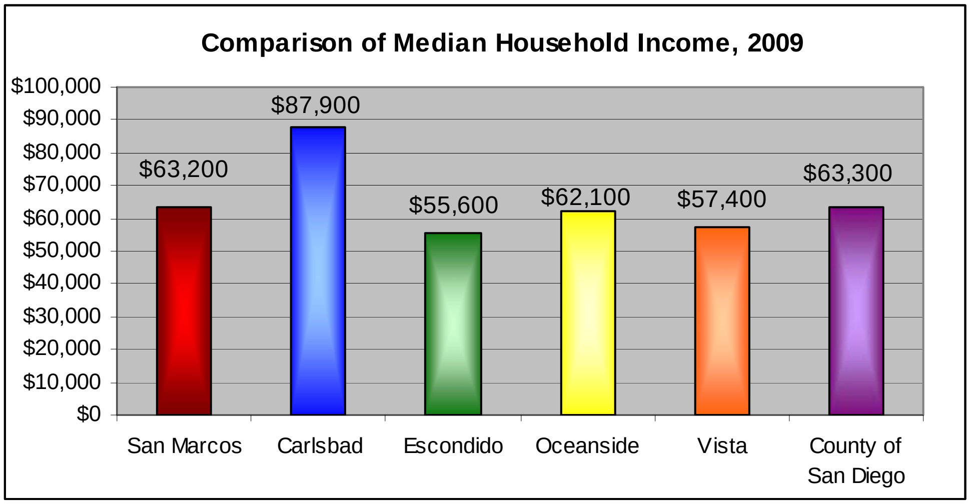
- There are 27,500 households in San Marcos which is the smallest among the North County cities but by 2014 it is projected to grow to 32,500 which will surpass the City of Vista at 30,400 households.

- Households in San Marcos are larger than the County but relatively average in terms of average North County households.

- The population in San Marcos has an average household size of 3.02 persons, which is third among the North County cities and larger than the County's.

- Per capita and household income levels in the North County submarket are relatively similar for the North County cities with the exception of Carlsbad. The per capita incomes ranged from $23,000 to $27,000 with the exception of Carlsbad which is $47,000.

- San Marcos' median household income was $63,000 which was second highest in the North County submarket.



C. Per Capita Retail Sales

KMA evaluated the strength of sales exhibited by retail uses within San Marcos by comparing the performance of existing retail uses in the City to the performance of similar uses within the other cities in the North County submarket.

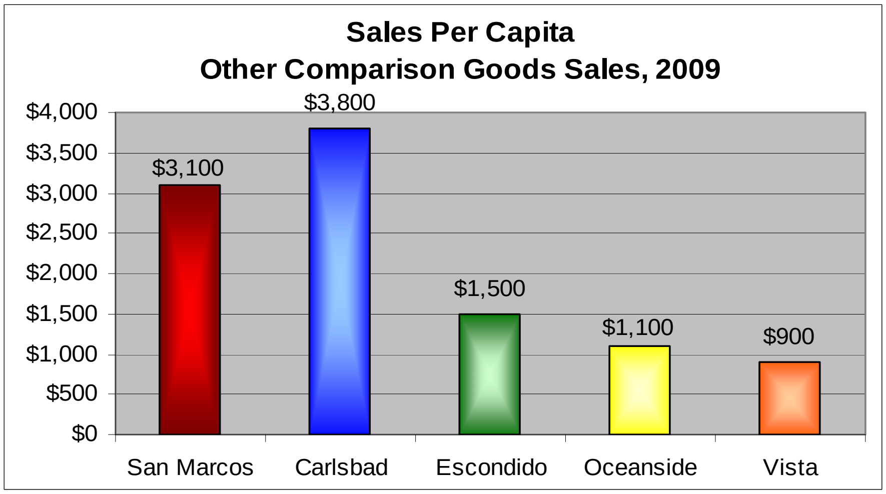
The total taxable retail sales in San Marcos have grown from $543 million in 2000 to $796 million in 2009. The category showing the highest growth was apparel, going from $2.3 million to $33.8M or an average annual increase of 34.6%. The worst performing category was home improvement which showed a decline from $169 million in 2000 to $141 million in 2009 or an average annual decrease of -2%. When the retail sales are broken down by category, the results can be summarized as follows:

- General Merchandise Stores – Per capita general merchandise sales in San Marcos are in the mid range for the North County submarket but have shown the greatest average annual growth over the last 10 years with an average annual growth rate of 6.7% compared to the next highest average annual growth rate in Oceanside of 2.1%. These sales are driven by the presence of Costco, Wal-Mart, and general merchandise stores.

- Other Comparison Goods[1] – Per capita sales in specialty stores within San Marcos are higher than all cities within the North County submarket except for Carlsbad. In terms of per capita sales as a percentage of per capita income, San Marcos ranked highest at 11.8% with Carlsbad second at 8.1%.

---

[1] Specialty stores include apparel stores, sporting good stores, home furnishings, appliances, office and other specialty shops.



- Convenience Goods Sales – The per capita convenience goods sales in San Marcos are lower than the Carlsbad, Escondido and Vista.

- Eating and Drinking Places – Eating and drinking places sales in San Marcos are higher than all North County cities at $1,374 per capita except for Carlsbad at $1,869 per capita.

- Home Improvement Sales – Per capita sales in this category at $1,691 are higher than all North County cities except for Vista at $1,869 per capita.

- Other Retail Stores – Other retail stores include packaged liquor stores, farm implement dealers, farm and garden supply stores and other miscellaneous retailers (e.g. motorcycles, boats, trailers, etc.). Per capita sales in this category at $792 are higher than all North County cities except for Escondido at $837 per capita.

The retail sales information suggests the following:

- Regional serving uses:

  - The demographic strength exhibited by the customers that would likely shop at San Marcos establishments has attracted general merchandise retailers to the City as shown by the growth in retail inventory over the last 10 years.

  - The sales at lumber and building supply stores are significantly higher in San Marcos, which is likely driven by the existence of The Home Depot, Lowes, and other building materials supply stores in the City that are unique to the North County area.

  - The sales in home furnishings and appliance stores are low in the City. It appears that both the City and regional residents are meeting their needs for these goods in other parts of the North County region.

  - The sales in “other retail stores” are high in San Marcos. It appears that the agricultural concerns active in the area are meeting the needs of the citizens of San Marcos and buyers in other cities within the County.

- Community serving uses:

  - The sales data indicates that San Marcos is not capturing its fair share of the grocery and drug store potential generated within its market area.

  - The restaurant sales in San Marcos are relatively mediocre. In particular, full-service restaurant sales are lower than would be expected based on the City’s demographics and income levels and inventory of restaurants.

D. Retail Sales Leakage Analysis

Leakage refers to purchases made by San Marcos residents outside of San Marcos; the sales are “leaked” out to other communities. KMA prepared a retail sales import/export (leakage) model for the City of San Marcos. Essentially, the methodology employed consists of estimating the total potential retail expenditures of the City’s population, and then deducting the actual retail sales achieved within the City.

KMA calculated the amount of potential retail expenditures by analyzing spending ratios in the other trade area cities relative to population and per capita income. KMA then deducted from that total potential retail sales figure the actual 2009 retail sales for each retail category as provided by Hinderliter de Llamas and Associates to the City of San Marcos.

The KMA analysis concluded that the City of San Marcos as a whole imports more sales than it leaks for its total retail sales potential. As a whole, in 2009, the City actually imported $48.5 million in retail sales from other cities, primarily from the Other Comparison Goods category. The table below itemizes the category and percent of each retail category that the City currently captures where leakage currently occurs. When new retail development is developed and leased up with retail tenants that are currently located elsewhere in the trade area, the City of San Marcos has the potential to recapture a substantial portion of the current retail sales export.

Retail Category	Estimated Annual Sales Leakage	% of Leakage to Total Potential Sales	%of Sales Captured to Total Potential Sales
General Merchandise	$4,180,000	3%	97%
Convenience Goods (1)	$34,010,000	35%	65%
Eating and Drinking	$15,251,000	12%	88%
Total	**$53,441,000**		

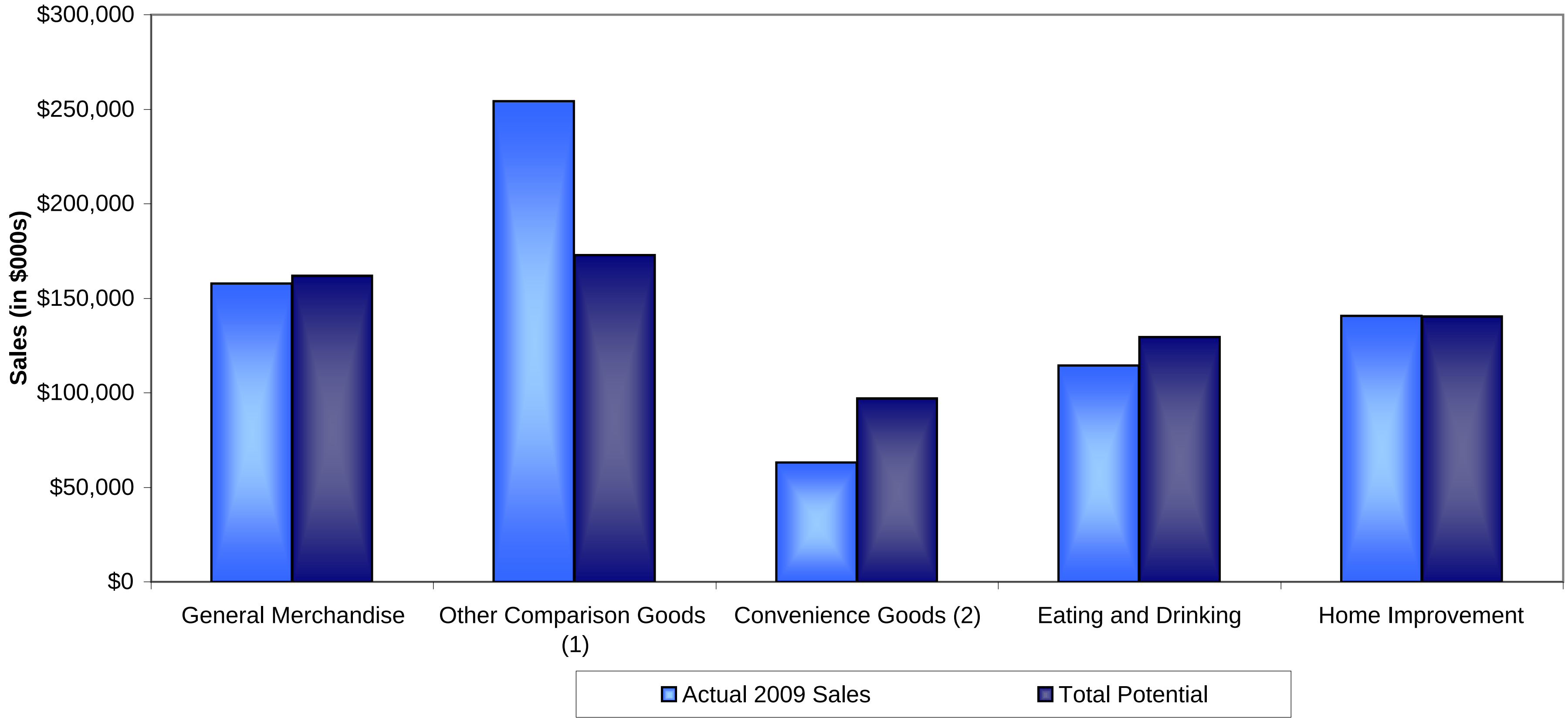
(1) Includes food and drug stores.

Note that KMA did not include the retail categories of Auto Dealers and Supplies in our leakage analysis, as this category is not a focus of the City and is highly competitive within the cities of Carlsbad, Escondido, and Vista.

Exhibit 1 presents the City's actual retail sales versus the total potential expenditures for 2009. Exhibit 2 illustrates the categories that the City is exporting, as mentioned above.

EXHIBIT 1

ACTUAL RETAIL SALES VS. TOTAL POTENTIAL EXPENDITURES, CITY OF SAN MARCOS, 2009
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

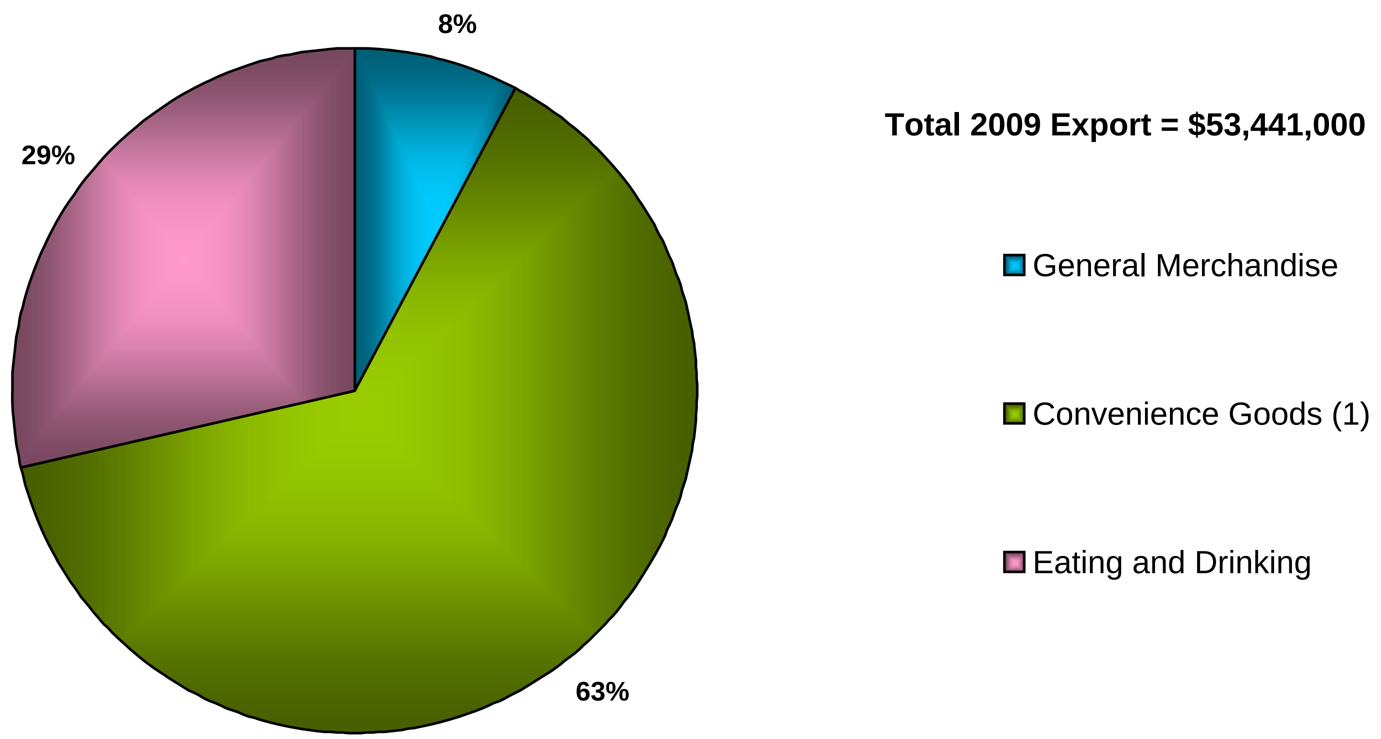


(1) Includes apparel, home furnishings and appliances, and specialty stores.
(2) Includes food and drug stores.

Source: Hinderliter de Llamas and Associates; Claritas, Inc.
Prepared by: Keyser Marston Associates, Inc.

EXHIBIT 2

EXPORT BY RETAIL CATEGORY, CITY OF SAN MARCOS, 2009
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS



(1) Includes food and drug stores.

Source: Hinderliter de Llamas and Associates; Claritas, Inc.
Prepared by: Keyser Marston Associates, Inc.

E. Retail Space Demand Analysis

KMA prepared a retail space demand model based on: (1) estimates of potential recapture of existing residents' spending that could be achieved, and (2) the demand for new retail space generated by new population growth.

- KMA estimates that potentially 20% to 80% (depending on the category) of the retail sales leakage could be recaptured within the City, supporting additional 52,000 SF to 67,000 SF of new retail space development. The KMA demand projection relies on estimates for per capita income allocated to retail spending, recapture rates, and sales productivity per SF, as illustrated below.

Retail Category	Estimated Recapture Rate		Estimated Recapture	
	Low	High	Low	High
General Merchandise	20%	30%	2,200 SF	3,300 SF
Convenience Goods	60%	80%	34,000 SF	45,300 SF
Eating and Drinking	60%	80%	15,300 SF	18,300 SF
Totals	54%	70%	51,500 SF	66,900 SF

Estimates for:	Based on:
Per Capita Income Allocated to Retail Spending	Claritas, Inc., Consumer Expenditure Survey and typical household spending ratios
Capture Rates	KMA estimates based on locational factors and amenities relative to competitive destinations
Sales Productivity Per SF	Typical retail sales volumes per SF by type of use based on sources such as U.S. Business Reporter, Urban Land Institute, International Council of Shopping Centers, and others.

- KMA estimates that the retail space demand generated from population growth will range between 355,000 SF to 449,000 SF. The KMA demand projection relies on estimates of population growth from 2009 to 2029, average per capita income, capture rates, and sales productivity per SF, as illustrated below.

Retail Category	Estimated Capture Rate		Estimated Capture	
	Low	High	Low	High
General Merchandise	50%	60%	80,000 SF	96,000 SF
Comparison Goods	60%	80%	96,000 SF	128,000 SF
Convenience Goods	70%	80%	42,000 SF	48,000 SF
Eating and Drinking	50%	60%	48,000 SF	57,600 SF
Home Improvement	60%	80%	89,200 SF	118,900 SF
Totals			355,200 SF	448,500 SF

- The following summarizes total projected retail and restaurant space demand through 2029:

Retail/Restaurant Space Demand	Low	High
Recapture of Sales Export (from current leakage)	51,500 SF	66,900 SF
20-Year Growth-Generated Demand (projection)	355,200 SF	448,500 SF
Total Locally Supported Demand	406,500 SF	515,900 SF
Add: Demand from Beyond Trade Area	102,000 SF	129,000 SF
Total Retail/Restaurant Space Demand	508,500 SF	644,900 SF
Or Say (Rounded)	577,000 SF	

- Assuming a standard retail Floor Area Ratio (FAR) of 0.25, the amount of supportable retail/restaurant SF translates into approximately 53 acres. This potential demand can be met in the future "University District" which would allow 1,000,000 SF of retail/commercial mixed use on portions of the 194 acre site and as part of the 214 acre Creekside Specific Plan Area where 1,265,000 SF of retail is allowed.

F. Opportunities and Constraints

Opportunities	Constraints
• Population growth is projected to be the fastest for the next 5 years in the North County submarket; a trend that has continued over the last ten years. • Median household incomes are one of the highest in the North County, which in turn can support additional retail services. • Although San Marcos lacks a true downtown, a pedestrian-friendly shopping atmosphere such as the mixed-use development proposed as part of the Creekside Specific Plan may enhance its already strong retail sales. • Despite the presence of Restaurant Row in San Marcos, there is leakage in the Eating and Dining category which could be recaptured and accommodated in the new downtown. • Strong and growing educational hub and expanding student population with Palomar Community College and California State University San Marcos. • Expanding local and regional health care facilities lead by Kaiser Permanente and Palomar Pomerado Healthcare (PPH). • Large portions of the City are in a Redevelopment Project area which may assist developers in creating new development.	• San Marcos is a net importer of sales; additional retail in certain categories may only result in transfer of sales from existing retailers. • Strong retail competition from adjacent cities that have exclusive retail tenants such as Escondido (North County Fair) and Vista (North County Square). • Development sites large enough to accommodate big-box retail are scarce in the City; much of the City's freeway-oriented sites are already built-out. • Current rent levels are generally too low to support new construction – new construction will need to stand out in order to attract higher rent tenants, such as near the Civic Center.

G. Conclusion

Overall, the KMA analysis indicates the City is generating slightly higher than normal sales expenditures and is importing approximately $49 million in retail sales. In particular, Other Comparison Goods and Home Improvement sales are very strong. Consequently, additional development of these types of stores would likely result in the transfer of sales from existing establishments.

San Marcos is undergoing its General Plan Update and has completed the Creekside Specific Plan. Implementation of the Creekside Specific Plan, located in the heart of San Marcos, is already underway with the first planned development. A downtown amenity with a pedestrian-friendly environment that makes shopping a pleasant experience could be a regional draw and may further increase the sales import advantage especially in the specialty retail sector and in the eating and drinking category which currently has a deficit.

In addition, San Marcos has a large educational and medical workforce growth that is unique to the North County submarket which also helps with potential growth. A good share of these new workers and students will likely patronize retail outlets near their place of work or study.

KMA estimates that the amount of supportable retail/restaurant demand through 2029 translates into approximately 53 acres. This potential demand can be met by the retail/restaurant uses proposed as part of the “University District” and Creekside Specific Plan Area.

H. Limiting Conditions

- KMA has made extensive efforts to confirm the accuracy and timeliness of the information contained in this document. Such information was compiled from a variety of sources deemed to be reliable including state and local government, planning agencies, and other third parties. Although KMA believes all information in this document is correct, it does not guarantee the accuracy of such and assumes no responsibility for inaccuracies in the information provided by third parties. Further, no guarantee is made as to the possible effect on development of current or future federal, state, or local legislation including environmental or ecological matters.

- The accompanying projections and analyses are based on estimates and assumptions which were developed using currently available economic data, project specific data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize and unanticipated events and circumstances may occur. Such changes are likely to be material to the projections and conclusions herein and, if they occur, require review or revision of this document.

- The findings are based on economic rather than political considerations. Therefore, they should be construed neither as a representation nor opinion that government approvals for development can be secured.

- Development opportunities are assumed to be achievable during the specified time frame. A change in development schedule requires that the conclusions contained herein be reviewed for validity.

- The analysis, opinions, recommendations and conclusions of this document are KMA's informed judgment based on market and economic conditions as of the date of this report. Due to the volatility of market conditions and complex dynamics influencing the economic conditions of the building and development industry, conclusions and recommended actions contained herein should not be relied upon as sole input for final business decisions regarding current and future development and planning.

attachments

Retail Market Conditions

Retail Market Assessment
City of San Marcos

TABLE 1

RETAIL RENTABLE INVENTORY, NORTH SAN DIEGO COUNTY SUBMARKETS, 2001 TO PRESENT
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

											Change, 2001-2010	
Submarket	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010** (1)	**Absolute**	**Percent**
Carlsbad/La Costa	1,623,000	1,623,000	1,888,000	1,819,023	1,909,500	1,976,400	1,976,400	1,976,400	2,096,400	2,096,400	473,400	29%
Escondido	3,025,300	3,025,300	3,138,300	3,138,300	3,154,700	3,009,600	3,074,400	3,074,400	2,994,400	2,994,400	(30,900)	-1%
Oceanside	3,866,000	3,866,000	4,029,300	3,807,700	4,303,300	4,303,300	4,236,700	4,236,700	4,260,500	4,260,500	394,500	10%
San Marcos	***1,555,500***	***1,149,500***	***1,149,500***	***1,159,200***	***1,870,400***	***2,225,300***	***2,268,300***	***2,335,700***	***2,301,700***	***2,301,700***	***746,200***	***48%***
Vista	1,878,300	1,878,300	2,038,300	2,038,300	2,400,500	1,793,900	1,682,900	1,757,093	2,076,900	2,076,900	198,600	11%
Total, San Diego County (2)	43,130,700	42,774,700	44,063,900	45,425,000	51,513,200	51,044,400	50,723,700	50,617,300	50,739,500	50,909,800	7,779,100	18%

(1) As of 1st quarter 2010.
(2) Modified by KMA to exclude Southwest Riverside County.

Source: CB Richard Ellis
Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2;7/23/2010;ema

TABLE 2

RETAIL BUILDING SALES TRENDS, CITY OF SAN MARCOS, 2001 TO PRESENT
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 (1)	Total 2000-2010
Number of Transactions	7	8	17	11	11	6	7	3	3	3	1	77
Total Dollar Volume	$23,690,000	$17,818,888	$46,464,500	$39,972,250	$75,348,000	$15,850,000	$27,425,000	$8,801,500	$5,530,000	$3,618,500	$8,250,000	$272,768,638
Total Building SF	295,585	250,169	369,230	258,324	442,932	182,908	108,415	82,876	9,113	7,552	46,146	2,053,250
Average Price Per SF Building	$80.15	$71.23	$125.84	$154.74	$170.11	$86.66	$252.96	$106.20	$606.83	$197.89	$178.78	$131.81
Median Price Per SF Building	$106.95	$181.70	$126.82	$164.06	$188.93	$238.25	$329.24	$162.80	$812.50	$302.48	$178.78	$179.16
Cap Rate	10.5%	9.1%	8.6%	7.9%	6.8%	7.2%	6.1%	6.0%	N/A	N/A	N/A	8.1%

(1) Through May 2010.

Source: CoStar Comps, Inc.
Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2;7/23/2010;ema

TABLE 3

RETAIL MARKET PROFILE, NORTH SAN DIEGO SUBMARKETS, 1ST QUARTER 2010
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

Submarket	Rentable SF	As % of North County Submarket	As % of County	Overall Vacancy Rate	Under Construction	Average Asking Lease Rate
Carlsbad/La Costa	2,096,379	15%	4.1%	6.8%	0	$2.32
Escondido	2,994,398	22%	5.9%	10.8%	0	$2.31
Oceanside	4,260,501	31%	8.4%	10.6%	0	$1.58
San Marcos	***2,301,693***	***17%***	***4.5%***	***7.2%***	***0***	***$1.92***
Vista	2,076,932	15%	4.1%	8.3%	0	$1.77
Subtotal, North County Submarket	13,729,903	100%	27%	-	0	-
Total, San Diego County (1)	50,909,825	-	-	6.2%	0	$2.05

(1) Excludes the Cities of Murrieta and Temecula.

Source: CB Richard Ellis
Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2\7/23/2010; ema

TABLE 4

RETAIL ASKING LEASE RATES, CITY OF SAN MARCOS (1)
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

Address	Center Name/Description	Total Center/ Building SF	Available Leasable SF	Average Asking Lease Rate (2)	Percent Vacant	Year Built
NEC Hwy. 78 and Twin Oaks Valley Rd.	Civic Center Plaza	72,200	900	$3.45	1%	2007
197 Woodland Pkwy.	San Marcos Marketplace	80,000	4,495	$3.15	6%	N/A
Elfin Forest Rd. and San Elijo Rd.	San Elijo Town Center	20,000	3,235	$3.13	16%	2009
1030 La Bonita Dr.	Cove Commons and Lake San Marcos	25,000	9,100	$2.78	36%	N/A
733 Center Dr.	Nordahl Marketplace	500,000	20,000	$2.69	4%	1985
101-197 S. Las Posas Rd.	Grand Plaza	356,639	37,686	$2.50	11%	2006
1158 San Marcos Blvd.	San Marcos Food Court	7,500	1,721	$2.50	23%	N/A
702 Center Dr., Ste. A2	Pad in Nordahl Marketplace	8,000	1,100	$2.25	14%	N/A
950 W. San Marcos Blvd.	N/A	10,000	800	$2.19	8%	N/A
730-740 Nordahl Rd.	Plaza San Marcos	49,469	8,757	$2.18	18%	1984
109-195 Rancho Santa Fe Rd.	San Marcos Village	96,606	9,700	$2.00	10%	N/A
204-208 S. Rancho Santa Fe Rd.	N/A	7,000	1,152	$1.65	16%	N/A
577 S. Rancho Santa Fe Rd.	Grandon Village	11,314	3,755	$1.65	33%	2004
100 N. Rancho Santa Fe Rd.	N/A	49,045	18,023	$1.65	37%	1985
2085 Montiel	Red Rock Center	73,000	20,400	$1.62	28%	N/A
1100 W. San Marcos Blvd.	Single-tenant user	12,000	12,000	$1.60	100%	N/A
2055-2115 Montiel	Retail showroom space in Red Rock Center	24,619	14,950	$1.50	61%	N/A
251-261 Autumn Dr.	Residential building with ground-floor retail	7,426	7,426	$1.50	100%	2010
1144 Los Vallecitos Blvd.	Free standing retail building	26,019	18,818	$1.50	72%	N/A
1001 W. San Marcos Blvd.	Galleria Vera Cruz	13,141	12,341	$1.49	94%	N/A
1220-1364 E. Mission Rd.	Vallecitos Village	78,021	22,115	$1.35	28%	N/A
444-458 W. Mission Ave.	Plaza del Paseo	23,000	7,024	$1.35	31%	N/A
801-853 W. San Marcos Blvd.	San Marcos Center	42,000	11,552	$1.32	28%	N/A
1050 Los Vallecitos Blvd.	Office building with retail	N/A	41,258	$1.30	N/A	1993
500 S. Rancho Santa Fe Rd.	Rancho Santa Fe Village	11,758	551	$1.20	5%	2006
755 W. San Marcos Blvd.	San Marcos Auto Center	21,560	2,861	$1.12	13%	N/A
330 Rancheros Dr.	San Marcos Plaza office building with retail	N/A	6,720	$1.05	N/A	1979
	Minimum	7,000	551	$1.05	1%	1979
	Maximum	500,000	41,258	$3.45	100%	2010
	Median	24,619	8,757	$1.65	23%	2004
	Average	65,013	11,053	$1.91	32%	1997

(1) As of June 23, 2010.
(2) All leases are triple-net (NNN).

Source: LoopNet.com
Prepared by: Keyser Marston Associates, Inc.
Filename:San Marcos\Retail Market Assessment v2\7/23/2010; ema

TABLE 5

RETAIL BUILDING SALES, NORTH SAN DIEGO COUNTY, 2009 TO PRESENT
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

Sale Date	Address	City	Sale Price	Acres	$/SF Land	Saleable Building SF	$/SF Building	Cap Rate	Year Built	Property Description
03/25/10	728 E. Valley Pkwy.	Escondido	$870,000	0.86	$23	4,800	$181	N/A	N/A	Storefront retail/office building
03/12/10	1702 Mission Ave.	Oceanside	$637,000	0.38	$39	2,473	$258	N/A	1967	Fast food restaurant
02/25/10	2365 E. Valley Pkwy.	Escondido	$610,000	0.64	$22	3,710	$164	N/A	1985	Storefront retail/office building
02/18/10	2045 E. Valley Pkwy.	Escondido	$1,200,000	0.89	$31	6,000	$200	N/A	N/A	Restaurant building
01/07/10	7170 Avenida Encinas	Carlsbad	$1,550,000	1.14	$31	4,003	$387	6.3%	N/A	Service station
01/07/10	150 W. Grand Ave.	Escondido	$650,000	N/A	N/A	3,810	$171	N/A	N/A	Restaurant building
11/04/09	701-723 E. Escondido Blvd.	Escondido	$820,000	0.32	$59	6,605	$124	8.2%	1952	Retail storefront building
10/22/09	333 S. Ivy St.	Escondido	$310,000	0.12	$59	1,652	$188	N/A	N/A	General freestanding building
10/15/09	1650 S. Melrose Dr.	Vista	$1,650,000	N/A	$44	4,870	$339	6.5%	1998	Fast food restaurant
08/17/09	802 E. Valley Pkwy.	Escondido	$800,000	0.75	$25	2,000	$400	6.8%	1973	Fast food restaurant
08/15/09	728 E. Valley Pkwy.	Escondido	$725,000	0.86	$19	4,800	$151	10.0%	N/A	Storefront retail/office building
07/24/09	***640 Grand Ave.***	***San Marcos***	***$749,500***	***0.54***	***$32***	***6,000***	***$125***	***N/A***	***1988***	***General freestanding building***
06/12/09	100 La Terraza Blvd.	Escondido	$1,900,000	N/A	N/A	2,988	$636	N/A	1992	Service station
06/11/09	1004 S. Santa Fe Ave.	Vista	$925,000	0.42	$50	2,343	$395	N/A	1985	Fast food restaurant
04/07/09	7050 Avenida Encinas	Carlsbad	$1,566,000	0.69	$52	2,303	$680	5.8%	1989	Fast food restaurant
02/27/09	528 N. Broadway	Escondido	$1,000,000	0.29	$79	10,000	$100	N/A	N/A	Retail storefront building
01/23/09	334 Main St.	Vista	$525,000	0.07	$172	2,200	$239	N/A	1968	Retail storefront building
		Minimum	$310,000	0.07	$19	1,652	$100	5.8%	1952	
		Maximum	$1,900,000	1.14	$172	10,000	$680	10.0%	1998	
		Median	$820,000	0.59	$39	3,810	$200	6.7%	1985	
		Average	$969,853	0.57	$49	4,150	$279	7.3%	1980	

Source: CoStar Comps, Inc.
Prepared by: Keyser Marston Associates, Inc.
Filename:San Marcos\Retail Market Assessment v2\7/23/2010; ema

TABLE 6

OVERVIEW OF SELECTED REGIONAL/SUBREGIONAL RETAIL CENTERS AND CINEMAS, NORTH COUNTY SAN DIEGO
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

Center Name	Location	City	GLA (1) Including Anchors	Year Opened	Last Renovation/ Expansion	Anchored Tenants
The Forum	NWC Calle Barcelona & El Camino Real	Carlsbad	265,000	2003		Borders Books, Bed Bath & Beyond
Premium Outlets	Interstate 5 @ Palomar Airport Rd.	Carlsbad	287,936	1997	2001	Barney's New York, Gap, Jones New York
Plaza Camino Real	Hwy. 78 @ El Camino Real	Carlsbad	1,200,000	1969	1989	JC Penney, Sears, Macy's, MovieMax
UltraStar Cinemas	El Camino Real	Carlsbad	N/A			UltraStar Cinemas
Escondido Promenade	SEC West Valley & Auto Pkwys.	Escondido	222,000	1987		Target, Toys 'R' Us, T.J. Maxx
North County Fair	Interstate 15 & Via Rancho Pkwy.	Escondido	1,255,000	1986		Sears, Nordstrom, Macy's, JC Penney
Escondido Pavilion	W. Valley Pkwy.	Escondido	N/A	2001		Regal Cinemas, Starbucks
El Camino North	El Camino Real & Vista Way	Oceanside	497,117	1980	2003	Mervyns, Stein Mart, Ross
Mission Marketplace	NWC Mission Ave. & College Blvd.	Oceanside	344,655	1989	1997	Rite Aid Pharmacy, Henry's, Ralphs, Kmart, Cinema Star
Ocean Place Cinemas	Coast Highway & Mission Ave.	Oceanside	79,067	1999		Regal Cinemas
Old Grove Marketplace	SWC Old Grove Rd. & 76 Expressway	Oceanside	261,519	2002	2004	Lowe's, Ralphs
Home Depot	Hwy. 78 & College Blvd.	Oceanside	130,000	N/A		Home Depot
Home Depot	Hwy. 76 & Melrose Dr.	Oceanside	130,000	N/A		Home Depot
Plaza Del Oro	Hwy. 76 & Frazee Rd.	Oceanside	75,000	N/A		24-Hr Fitness, CVS Pharmacy, In-N-Out
Pacific Coast Plaza	Hwy. 78 & Vista Way	Oceanside	440,000	N/A		Stater Brothers, Wal-Mart, Bed Bath & Beyond
Quarry Creek	Hwy. 78 & Jefferson Ave.	Oceanside	357,000	N/A		Albertsons, Kohl's, Wal-Mart
Rancho Del Oro Town Center	Hwy. 76 & College Ave.	Oceanside	268,000	N/A		Wal-Mart, Vons, Dennys, Washington Mutual
Camino Town & Country	Hwy. 78 & El Camino Real	Oceanside	238,146	N/A		Target
Nordahl Marketplace	***NWC Hwy. 78 & Nordahl Rd.***	***San Marcos***	***500,000***	***1985***	***2002***	***Wal-Mart, Costco, Kohl's***
Creekside Marketplace	***Hwy. 78 & San Marcos Blvd.***	***San Marcos***	***262,000***	***2004***		***Lowe's, Best Buy. Staples***
Grand Plaza	***Hwy. 78 & Las Posas Rd.***	***San Marcos***	***356,639***	***2006***		***Nordstrom Rack, Bed Bath & Beyond, Sports Chalet, Petco, Marshalls, Ross***
North County Square	NWC Hwy. 78 & Sycamore Dr.	Vista	650,000	1994	2000	Target Greatlands, Old Navy, Sam's, Office Depot
Vista Village	Vista Village Way & Santa Fe Ave.	Vista	232,543	2001/2003		Staples, Linens 'N' Things, Frasier Farms, Krikorian Theatres
Vista Gateway	Hwy. 78 & Hacienda Dr.	Vista	290,000	N/A		Costco, Circuit City
Total GLA			8,341,622			

(1) GLA = Gross Leaseable Area.

Source: Directory of Major Malls; KMA research
Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2\7/23/2010; ema

Socio-Economic Conditions

Retail Market Assessment
City of San Marcos

TABLE 7

COMPARATIVE OVERVIEW OF SOCIO-ECONOMIC CONDITIONS
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

	Cities					County of San Diego
	San Marcos	**Carlsbad**	**Escondido**	**Oceanside**	**Vista**	
Population						
2009 Estimate	83,215	99,526	139,123	173,022	92,934	3,064,619
2014 Forecast	98,232	111,705	145,008	182,447	96,439	3,247,986
Average Annual Rate						
Historical Population Growth, 2000-2009	4.71%	2.71%	0.45%	0.80%	0.37%	0.95%
Forecasted Population Growth, 2009-2014	3.37%	2.34%	0.83%	1.07%	0.74%	1.17%
Households						
2009 Estimate	27,535	39,868	44,850	59,802	29,461	1,077,820
2014 Forecast	32,464	44,696	46,350	62,664	30,366	1,141,072
Average Household Size	3.02	2.48	3.06	2.87	3.08	2.75
Median Age (years)	33.7	40.1	32.4	34.1	31.8	34.6
Per Capita Income (PCI)	$25,956	$47,150	$23,487	$26,585	$23,372	$30,204
Aggregate Personal Income	$2.2 Billion	$4.7 Billion	$3.3 Billion	$4.6 Billion	$2.2 Billion	$92.6 Billion
Median Household Income	$63,163	$87,904	$55,552	$62,083	$57,370	$63,335

Source: Claritas, Inc.
Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2\7/23/2010; ema

Per Capita Retail Sales

Retail Market Assessment
City of San Marcos

TABLE 8

OVERVIEW OF KMA RETAIL GROUPINGS
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

KMA Retail Category	Definition
General Merchandise	Variety stores, department stores, and general merchandise
Other Comparison Goods	Apparel stores, home furnishings and appliances, and specialty goods
Convenience Goods	Food stores, grocery stores with or without alcohol, drug stores, and package liquor stores
Eating and Drinking	Restaurants with or without liquor
Home Improvement	Lumber/building materials, hardware stores, plumbing/electrical supplies, and farm construction equipment
Other Retail Stores	Second-hand stores, garden supplies, watercraft dealers, airplane dealers, fuel, and ice dealers

Source: California State Board of Equalization
Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2\7/23/2010; ema

TABLE 9

TOTAL RETAIL SALES, CITY OF SAN MARCOS, 2000-2009
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

Retail Categories ($000s)	2000	2009	Average Annual Rate
General Merchandise	$57,969	$157,814	11.8%
Other Comparison Goods			
Apparel	$2,323	$33,759	34.6%
Home Furnishings & Appliances	$137,053	$202,196	4.4%
Specialty Retail	$18,046	$18,289	0.1%
Subtotal Comparison Goods	$157,422	$254,244	5.5%
Convenience Goods (1)	$38,299	$63,187	5.7%
Eating and Drinking	$67,662	$114,345	6.0%
Home Improvement	$168,569	$140,755	-2.0%
Other Retail Stores	$52,980	$65,915	2.5%
Total Retail Sales	**$542,900**	**$796,260**	**4.3%**

(1) Adjustments have been made to reflect total sales for food and drugs. Typically an estimated 30% for food stores and 70% for drug stores is taxable.

Source: Hinderliter deLlamas Associates, Inc.
Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2\7/23/2010; ema

TABLE 10

GENERAL MERCHANDISE SALES
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

Sales Per Capita	2000	2009	Average Annual Rate
San Marcos	$1,054	$1,896	6.7%
Carlsbad	$2,851	$2,160	-3.0%
Escondido	$1,940	$1,342	-4.0%
Oceanside	$1,039	$1,255	2.1%
Vista	$1,899	$2,121	1.2%

Per Capita Sales as a % of Per Capita Income	2000	2009	Absolute Change
San Marcos	5.6%	7.3%	1.7%
Carlsbad	8.2%	4.6%	-3.6%
Escondido	10.6%	5.7%	-4.9%
Oceanside	5.1%	4.7%	-0.4%
Vista	10.5%	9.1%	-1.4%

Source: Hinderliter de Llamas and Associates; Claritas, Inc.
Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2\7/23/2010; ema

TABLE 11

OTHER COMPARISON GOODS SALES (1)
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

Sales Per Capita	**2000**	**2009**	**Average Annual Rate**
San Marcos	$2,863	$3,055	0.7%
Carlsbad	$2,793	$3,839	3.6%
Escondido	$1,557	$1,526	-0.2%
Oceanside	$757	$1,103	4.3%
Vista	$885	$856	-0.4%

Per Capita Sales as a % of Per Capita Income	**2000**	**2009**	**Absolute Change**
San Marcos	15.3%	11.8%	-3.5%
Carlsbad	8.0%	8.1%	0.1%
Escondido	8.5%	6.5%	-2.0%
Oceanside	3.7%	4.1%	0.4%
Vista	4.9%	3.7%	-1.2%

(1) Includes apparel, home furnishings and appliances, and specialty stores.

Source: Hinderliter de Llamas and Associates; Claritas, Inc.
Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2\7/23/2010; ema

TABLE 12

CONVENIENCE GOODS SALES (1)(2)
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

Sales Per Capita	2000	2009	Average Annual Rate
San Marcos	$697	$759	1.0%
Carlsbad	$880	$1,167	3.2%
Escondido	$1,194	$1,444	2.1%
Oceanside	$946	$760	-2.4%
Vista	$836	$892	0.7%

Per Capita Sales as a % of Per Capita Income	2000	2009	Absolute Change
San Marcos	3.7%	2.9%	-0.8%
Carlsbad	2.5%	2.5%	-0.1%
Escondido	6.5%	6.1%	-0.4%
Oceanside	4.7%	2.9%	-1.8%
Vista	4.6%	3.8%	-0.8%

(1) Includes food and drug stores.

(2) Figures reflect estimated total gross sales adjusted for non-taxable goods.

Source: Hinderliter de Llamas and Associates; Claritas, Inc.
Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2\7/23/2010; ema

TABLE 13

EATING AND DRINKING SALES
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

Sales Per Capita	**2000**	**2009**	**Average Annual Rate**
San Marcos	$1,231	$1,374	1.6%
Carlsbad	$1,493	$1,869	3.3%
Escondido	$909	$1,229	4.4%
Oceanside	$857	$1,252	5.6%
Vista	$651	$1,062	7.2%

Per Capita Sales as a % of Per Capita Income	**2000**	**2009**	**Absolute Change**
San Marcos	6.6%	5.3%	-1.3%
Carlsbad	4.3%	4.0%	-0.3%
Escondido	5.0%	5.2%	0.2%
Oceanside	4.2%	4.7%	0.5%
Vista	3.6%	4.5%	0.9%

Source: Hinderliter de Llamas and Associates; Claritas, Inc.
Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2\7/23/2010; ema

TABLE 14

HOME IMPROVEMENT SALES
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

Sales Per Capita	**2000**	**2009**	**Average Annual Rate**
San Marcos	$3,066	$1,691	-6.4%
Carlsbad	$622	$189	-12.4%
Escondido	$1,479	$1,551	0.5%
Oceanside	$414	$648	5.1%
Vista	$895	$1,691	7.3%

Per Capita Sales as a % of Per Capita Income	**2000**	**2009**	**Absolute Change**
San Marcos	16.4%	6.5%	-9.9%
Carlsbad	1.8%	0.4%	-1.4%
Escondido	8.1%	6.6%	-1.5%
Oceanside	2.0%	2.4%	0.4%
Vista	5.0%	7.2%	2.3%

Source: Hinderliter de Llamas and Associates; Claritas, Inc.
Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2\7/23/2010; ema

TABLE 15

OTHER RETAIL OUTLETS
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

Sales Per Capita	2000	2009	Average Annual Rate
San Marcos	$964	$792	-2.2%
Carlsbad	$919	$790	-1.7%
Escondido	$918	$837	-1.0%
Oceanside	$733	$638	-1.5%
Vista	$477	$568	2.0%

Per Capita Sales as a % of Per Capita Income	2000	2009	Absolute Change
San Marcos	5.1%	3.1%	-2.1%
Carlsbad	2.6%	1.7%	-1.0%
Escondido	5.0%	3.6%	-1.5%
Oceanside	3.6%	2.4%	-1.2%
Vista	2.6%	2.4%	-0.2%

Source: Hinderliter de Llamas and Associates; Claritas, Inc.
Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2\7/23/2010; ema

Retail Sales Leakage Analysis

Retail Market Assessment
City of San Marcos

TABLE 16

RETAIL SALES IMPORT/EXPORT ANALYSIS, CITY OF SAN MARCOS, 2009
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

Retail Category	Expenditure Potential As % of PCI	Total Potential (000's)	Actual 2009 (000's)	% of Actual to Total Potential	Import/ (Export) (000's)
General Merchandise	7.5%	$161,995	$157,814	97%	($4,180)
Other Comparison Goods (1)	8.0%	$172,794	$254,244	147%	$81,450
Convenience Goods (2)	4.5%	$97,197	$63,187	65%	($34,010)
Eating and Drinking	6.0%	$129,596	$114,345	88%	($15,251)
Home Improvement	6.5%	$140,395	$140,755	100%	$360
Other Retail Stores (3)	2.5%	$104,552	$124,709	119%	$20,157
Total		$806,528	$855,053	106%	$48,525

(1) Includes apparel, home furnishings and appliances, and specialty stores.
(2) Includes food and drug stores.
(3) Includes second-hand merchandise; farm implement dealers; farm and garden supply stores; fuel and ice dealers; mobile homes; trailers and campers; and boat, motorcycle, and plane dealers.

Source: Hinderliter de Llamas and Associates; Claritas, Inc.
Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2\7/23/2010; ema

Retail Space Demand Analysis

Retail Market Assessment
City of San Marcos

TABLE 17

SALES EXPORT RECAPTURE POTENTIAL, CITY OF SAN MARCOS
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

Retail Category	Export (000's)	Estimated Recapture Rate Low		Estimated Recapture Rate High	Assumed Sales Productivity Per SF Per Year	Estimated Recapture of Retail Space (SF) Low	Estimated Recapture of Retail Space (SF) High
General Merchandise	($4,180)	20%	-	30%	$375	2,200	3,300
Convenience Goods (1)	($34,010)	60%	-	80%	$600	34,000	45,300
Eating and Drinking	($15,251)	50%	-	60%	$500	15,300	18,300
Totals	($53,441)	54%	-	70%	$561	51,500	66,900

(1) Includes food and drug stores.

Source: Hinderliter de Llamas and Associates; Claritas, Inc.
Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2\7/23/2010; ema

TABLE 18

ESTIMATE OF RETAIL SPACE DEMAND, CITY OF SAN MARCOS, 2009-2014
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

I. Estimated Aggregate Personal Income

A. Total Population Growth, 2009-2029	**30,829**
B. Average Per Capita Income, 2009	**$25,956**
Increase in Aggregate Personal Income, 2009-2029	**$800,205,000**

	Allocation of Per Capita Income to Spending (1)	Assumed Capture Rate within City of San Marcos (1)		Estimated Annual Spending		Sales Productivity Per SF (1)	Retail Space Demand (SF)	
		Low	High	Low	High		Low	High
II. Growth-Generated Retail Space Demand								
General Merchandise	7.5%	50.0% -	60.0%	$30,008,000 -	$36,009,000	$375	80,000 SF -	96,000 SF
Comparison Goods (2)	8.0%	60.0% -	80.0%	$38,410,000 -	$51,213,000	$400	96,000 SF -	128,000 SF
Convenience Goods (3)	4.5%	70.0% -	80.0%	$25,206,000 -	$28,807,000	$600	42,000 SF -	48,000 SF
Eating and Drinking	6.0%	50.0% -	60.0%	$24,006,000 -	$28,807,000	$500	48,000 SF -	57,600 SF
Home Improvement	6.5%	60.0% -	80.0%	$31,208,000 -	$41,611,000	$350	89,200 SF -	118,900 SF
Total Growth-Generated Demand through 2029							**355,200 SF**	**448,500 SF**
Or Say (Rounded)							**355,000 SF**	**449,000 SF**

(1) KMA assumption.
(2) Includes apparel, home furnishings and appliances, and specialty stores.
(3) Includes food and drug stores.

Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2\7/23/2010; ema

TABLE 19

SUMMARY OF RETAIL SPACE DEMAND
RETAIL MARKET ASSESSMENT
CITY OF SAN MARCOS

		Low			High	
I. Estimated Locally Supported Retail Space Demand						
Recapture of Sales Export		51,500	SF		66,900	SF
20-Year Growth-Generated Demand		355,000	SF		449,000	SF
Total Locally Supported Retail Space Demand		406,500	SF		515,900	SF
II. Demand from Beyond Trade Area	25% of Locally Supported Demand	102,000	SF		129,000	SF
III. Total Retail Space Demand through 2029		**508,500**	**SF**	**to**	**644,900**	**SF**
Or Say (Rounded)				**577,000 SF**		

Prepared by: Keyser Marston Associates, Inc.
Filename: San Marcos\Retail Market Assessment v2\7/23/2010; ema