

RETAIL REMAINS STRONG. The San Diego retail market has recorded more than half a million square feet of positive net absorption for the year to date, and the vacancy rate is at a ten-year low. In spite of the surge in online retail sales, the San Diego retail real estate market remains robust with tight supply and high average asking rents.

VACANCY. Direct/sublease space (unoccupied) finished the quarter near an all-time low of 3.45%, a decrease from the previous quarter's rate of 3.67% and significantly lower than last year's 4.06% vacancy rate. The current vacancy rate is more than 40% below the previous peak levels seen in 2010.

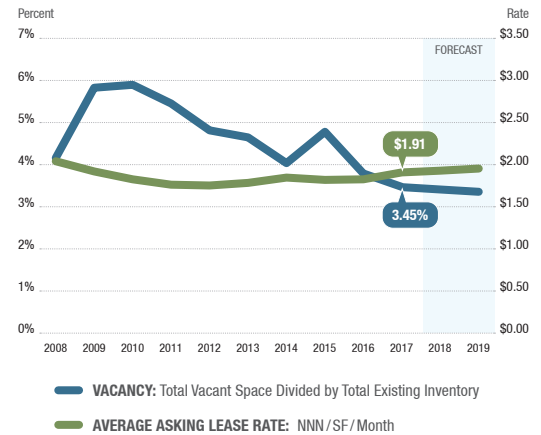
LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County was \$1.91, an increase of one cent over the prior quarter, and a seven cent, or 3.8 percent increase over the \$1.84 rate of third quarter 2016. The highest average asking rate in the market was in the I-15 Corridor submarket, posting \$2.81 per square foot per month, based on a triple-net basis.

TRANSACTION ACTIVITY. The combined amount of retail property sold or leased during the third quarter was approximately 1.5 million square feet, below the prior quarter's total of 2.1 million square feet. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report.

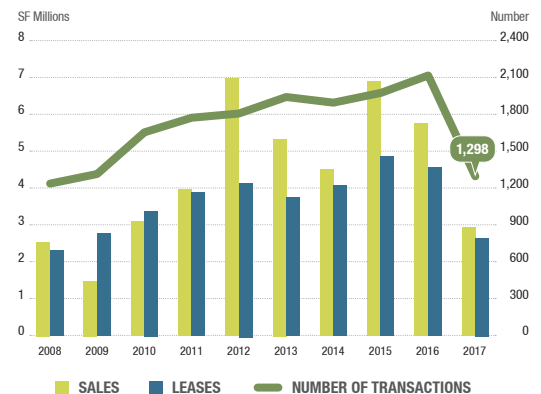
EMPLOYMENT. The unemployment rate in San Diego County was 4.7% in August 2017, unchanged from a revised 4.7% in July 2016 and below the year-ago estimate of 4.9%. This compares with an unadjusted unemployment rate of 5.4% for California and 4.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 19,200 payroll jobs between August 2016 and August 2017, including 5,600 from education and health services, which reported the largest overall gain. The other services sector reported a growth of 5,000 jobs, and the government sector reported an increase of 4,900 jobs.

OVERALL. The San Diego retail market continues to improve, as market fundamentals exhibit positive growth through the first three quarters of 2017, with vacancy at 3.45%, a post-recession record low. There remains a large delta between the central or coastal areas, and other parts of the county, demonstrated by the one to three percentage point difference in availability for the Shopping Center segment. To this point, the increase in construction this year has not caused a significant increase in availability. Overall, the San Diego retail property sector is strong and remains on solid footing even in the midst of the rise of Amazon and other online retailers.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

| | Change Over Last Quarter | 3Q 2017 | 2Q 2017 | 3Q 2016 | % Change Over Last Year |
|---------------------------|--------------------------|-----------|-----------|-----------|-------------------------|
| Vacancy Rate | ▼ DOWN | 3.45% | 3.67% | 4.06% | (14.90%) |
| Availability Rate | ▲ UP | 5.07% | 4.85% | 5.38% | (5.66%) |
| Average Asking Lease Rate | ▲ UP | \$1.91 | \$1.90 | \$1.84 | 3.80% |
| Sale & Lease Transactions | ▼ DOWN | 1,502,702 | 2,122,494 | 3,266,088 | (53.99%) |
| Gross Absorption | ▼ DOWN | 1,127,242 | 1,283,744 | 1,627,114 | (30.72%) |
| Net Absorption | ▲ POSITIVE | 325,536 | 199,572 | 379,908 | N/A |

CONSTRUCTION. The renovation and expansion of Westfield’s UTC Mall has been the driving force behind this year’s increase in construction. Indicative of the trend in future construction coming increasingly from mixed-use development, Westfield UTC has broken ground on a 23-story apartment tower as the mall expansion nears completion. Likewise, the 37-story Ballpark Village mixed-use apartment project adjacent to Petco Park will include 60,000 square feet of retail space.

EMPLOYMENT. The labor market in San Diego County will continue to improve, although we anticipate job growth to slow to 1.8% for this year, and 1.6% in 2018. With an expected growth in tourism and local economy in general, look for sectors like leisure and hospitality to lead the way for employment gains, followed by health care and biotech, and government employment.

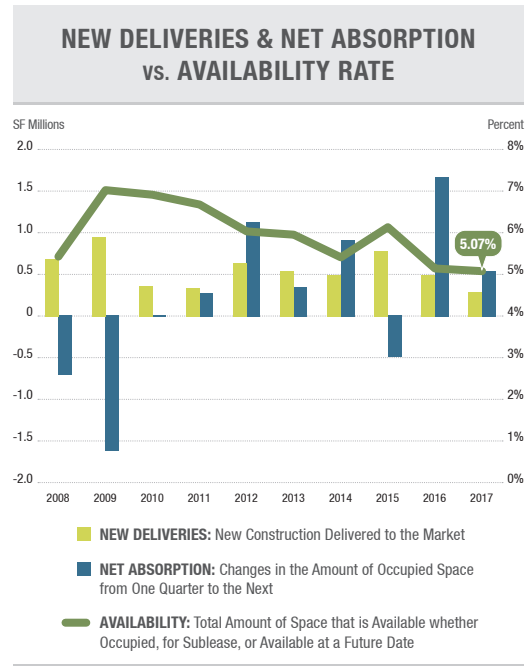
LEASE RATES. Expect average asking rates to increase by a slight 1–3% over the next four quarters.

VACANCY. We anticipate the vacancy rate to remain stable and low, with much of the occupancy gains already captured. Much of the anticipated deliveries this coming year are preleased before they hit the market, which doesn’t allow for much effect on the low vacancy rates.

CONSTRUCTION. 281,684 square feet of new retail projects have completed so far this year, with an additional 512,102 square feet on track to complete by year end. The current projection of 793,786 square feet of new construction would mark the highest annual total since 2009. Currently, the construction pipeline is being driven by infill projects, with few development sites being pursued outside of the built-out areas in the county.

AVAILABILITY. Direct/sublease space being marketed was 5.07% at the end of the third quarter, a slight tick up from last quarter’s 4.85%. The shopping center segment of San Diego’s retail market, which includes strip centers, neighborhood centers, and community centers, posted the highest availability rate at 7.23%, while malls were the lowest with a miniscule 2.50% availability rate.

ABSORPTION. The San Diego retail market posted 325,536 square feet of positive net absorption in the third quarter, pushing the total for the year thus far above half a million square feet, right about at the annual average of the past five years.



Significant Transactions

Sales

| Property Address | Submarket | Square Feet | Sale Price | Buyer | Seller |
|----------------------------------|-----------------|-------------|--------------|-----------------------------|-----------------------------|
| 40 N. 4th Ave. | Chula Vista | 127,861 | \$42,000,000 | American Assets Trust, Inc. | Brixton Capital |
| 1430–1480 Eastlake Pkwy., et al. | Chula Vista | 60,973 | \$40,850,000 | Crow Holdings Capital | AGC SD Retail Holdings, LLC |
| 375 7th Ave. | Downtown | 26,443 | \$11,400,000 | HP Investors, LLC | Bosa Development |
| 9305 Mission Gorge Rd. | Santee | 13,666 | \$11,100,000 | Jo-Lyn Management Corp. | Columbia Property Investors |
| 12125–12165 Alta Carmel Ct. | Rancho Bernardo | 27,132 | \$10,518,888 | Jade Group 1, LLC | The Abbey Company |

Leases

| Property Address | Submarket | Square Feet | Transaction Date | Tenant | Owner |
|-------------------------|-------------|-------------|------------------|----------------|---------------------|
| 8140 Mira Mesa Blvd. | Mira Mesa | 38,987 | Sep-2017 | BevMo | Kohl’s |
| 8140 Mira Mesa Blvd. | Mira Mesa | 31,698 | Sep-2017 | Sprouts | Kohl’s |
| Hwy–125 & Birch Rd. | Chula Vista | 26,004 | Aug-2017 | Ross | Sudberry Properties |
| 444 E. San Ysidro Blvd. | San Ysidro | 24,594 | Sep-2017 | Grocery Outlet | LAF4LT Holdings, LP |
| Hwy–125 & Birch Rd. | Chula Vista | 21,000 | Aug-2017 | HomeGoods | Sudberry Properties |

| | INVENTORY | | | | VACANCY & LEASE RATES | | | | | ABSORPTION | | | |
|-----------------------------|--------------------|--------------------------|-------------------|---------------------|-----------------------|---------------------|-----------------------|--------------------------|---------------------------|-----------------------|---------------------|-------------------------|-----------------------|
| | Number of Bldgs. | Net Rentable Square Feet | Square Feet U / C | Square Feet Planned | Square Feet Vacant | Vacancy Rate 3Q2017 | Square Feet Available | Availability Rate 3Q2017 | Average Asking Lease Rate | Net Absorption 3Q2017 | Net Absorption 2017 | Gross Absorption 3Q2017 | Gross Absorption 2017 |
| Central | | | | | | | | | | | | | |
| General Retail | 3,679 | 19,906,076 | 104,486 | 793,365 | 501,774 | 2.52% | 816,403 | 4.10% | \$2.24 | (17,990) | 86,011 | 145,678 | 497,438 |
| Malls | 39 | 4,520,504 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | – | 30,910 | 80,617 | 30,910 | 80,617 |
| Power Centers | 97 | 3,561,779 | 0 | 6,000 | 61,632 | 1.73% | 70,073 | 1.97% | – | (3,165) | 30,085 | 0 | 47,000 |
| Shopping Centers | 710 | 11,157,239 | 0 | 22,635 | 446,971 | 4.01% | 513,657 | 4.60% | \$2.10 | 39,074 | 14,202 | 107,914 | 306,937 |
| Specialty Centers | 7 | 271,679 | 0 | 0 | 20,788 | 7.65% | 20,788 | 7.65% | – | 0 | 0 | 1,140 | 1,140 |
| Central Total | 4,532 | 39,417,277 | 104,486 | 822,000 | 1,031,165 | 2.62% | 1,420,921 | 3.60% | \$2.18 | 48,829 | 210,915 | 285,642 | 933,132 |
| East County | | | | | | | | | | | | | |
| General Retail | 1,440 | 7,269,781 | 0 | 33,302 | 129,752 | 1.78% | 199,311 | 2.74% | \$1.51 | 10,451 | (65,783) | 53,581 | 135,733 |
| Malls | 15 | 2,929,516 | 0 | 0 | 2,495 | 0.09% | 144,961 | 4.95% | \$2.38 | 6,604 | 2,671 | 9,099 | 59,171 |
| Power Centers | 60 | 1,699,138 | 0 | 4,800 | 11,701 | 0.69% | 33,634 | 1.98% | – | 7,000 | 12,000 | 12,000 | 17,000 |
| Shopping Centers | 560 | 8,386,960 | 0 | 164,732 | 392,493 | 4.68% | 555,879 | 6.63% | \$1.67 | 16,314 | 35,715 | 56,086 | 150,872 |
| Specialty Centers | 2 | 34,558 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | – | 0 | 0 | 0 | 0 |
| East County Total | 2,077 | 20,319,953 | 0 | 202,834 | 536,441 | 2.64% | 933,785 | 4.60% | \$1.63 | 40,369 | (15,397) | 130,766 | 362,776 |
| I-15 Corridor | | | | | | | | | | | | | |
| General Retail | 171 | 1,650,475 | 0 | 60,218 | 19,029 | 1.15% | 47,229 | 2.86% | \$2.86 | 2,721 | 7,404 | 7,230 | 24,682 |
| Malls | 0 | 0 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | – | 0 | 0 | 0 | 0 |
| Power Centers | 24 | 567,029 | 0 | 0 | 4,914 | 0.87% | 4,914 | 0.87% | – | 0 | 43,072 | 0 | 43,072 |
| Shopping Centers | 286 | 4,258,232 | 0 | 222,738 | 197,275 | 4.63% | 236,059 | 5.54% | \$2.80 | 78,001 | 67,716 | 100,835 | 180,241 |
| Specialty Centers | 0 | 0 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | – | 0 | 0 | 0 | 0 |
| I-15 Corridor Total | 481 | 6,475,736 | 0 | 282,956 | 221,218 | 3.42% | 288,202 | 4.45% | \$2.81 | 80,722 | 118,192 | 108,065 | 247,995 |
| North County | | | | | | | | | | | | | |
| General Retail | 1,692 | 11,368,470 | 11,860 | 519,342 | 254,505 | 2.24% | 479,327 | 4.22% | \$1.16 | (15,633) | (4,714) | 36,598 | 344,203 |
| Malls | 24 | 3,176,626 | 0 | 50,340 | 8,399 | 0.26% | 8,961 | 0.28% | – | (1,500) | (4,518) | 0 | 2,581 |
| Power Centers | 108 | 3,097,359 | 23,041 | 13,003 | 205,059 | 6.62% | 142,801 | 4.61% | \$2.38 | 6,725 | 7,044 | 6,725 | 58,344 |
| Shopping Centers | 955 | 15,231,619 | 85,816 | 401,914 | 1,047,681 | 6.88% | 1,592,527 | 10.46% | \$1.67 | 121,645 | 185,647 | 269,658 | 687,169 |
| Specialty Centers | 5 | 367,735 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$3.12 | 0 | 0 | 0 | 9,323 |
| North County Total | 2,784 | 33,241,809 | 120,717 | 984,599 | 1,515,644 | 4.56% | 2,223,616 | 6.69% | \$1.55 | 111,237 | 183,459 | 312,981 | 1,101,620 |
| Central North | | | | | | | | | | | | | |
| General Retail | 863 | 7,233,362 | 19,592 | 182,795 | 206,057 | 2.85% | 353,349 | 4.88% | \$3.11 | 35,542 | 77,350 | 60,524 | 207,227 |
| Malls | 19 | 1,096,334 | 401,000 | 491,000 | 0 | 0.00% | 0 | 0.00% | – | 0 | 0 | 0 | 0 |
| Power Centers | 65 | 2,086,976 | 0 | 108,835 | 100,930 | 4.84% | 77,508 | 3.71% | – | 8,380 | 20,376 | 12,684 | 34,542 |
| Shopping Centers | 419 | 6,611,004 | 0 | 24,286 | 207,587 | 3.14% | 343,535 | 5.20% | \$2.37 | 13,106 | 33,089 | 51,128 | 168,229 |
| Specialty Centers | 9 | 232,667 | 0 | 0 | 44,910 | 19.30% | 58,077 | 24.96% | \$1.50 | 0 | 3,400 | 0 | 4,500 |
| Central North Total | 1,375 | 17,260,343 | 420,592 | 806,916 | 559,484 | 3.24% | 832,469 | 4.82% | \$2.76 | 57,028 | 134,215 | 124,336 | 414,498 |
| South Bay | | | | | | | | | | | | | |
| General Retail | 1,114 | 5,874,242 | 5,400 | 459,267 | 167,160 | 2.85% | 257,461 | 4.38% | \$1.40 | 11,359 | 48,818 | 55,956 | 169,869 |
| Malls | 42 | 2,510,639 | 0 | 0 | 62,697 | 2.50% | 195,094 | 7.77% | – | (23,945) | (25,508) | 5,462 | 6,901 |
| Power Centers | 28 | 1,015,334 | 0 | 70,100 | 20,200 | 1.99% | 20,200 | 1.99% | – | 22,217 | (20,200) | 29,617 | 29,617 |
| Shopping Centers | 531 | 9,204,496 | 91,899 | 177,474 | 585,895 | 6.37% | 727,100 | 7.90% | \$2.00 | (19,167) | (120,007) | 51,407 | 138,618 |
| Specialty Centers | 26 | 770,533 | 0 | 0 | 4,719 | 0.61% | 4,719 | 0.61% | \$1.35 | (3,129) | (1,204) | 2,290 | 4,215 |
| South Bay Total | 1,741 | 19,375,244 | 97,299 | 706,841 | 840,671 | 4.34% | 1,204,574 | 6.22% | \$1.79 | (12,665) | (118,101) | 144,732 | 349,220 |
| Outlying Areas | | | | | | | | | | | | | |
| General Retail | 501 | 1,994,467 | 0 | 3,200 | 64,459 | 3.23% | 86,067 | 4.32% | \$1.72 | (2,802) | 11,537 | 11,682 | 50,846 |
| Malls | 11 | 145,890 | 0 | 0 | 11,000 | 7.54% | 11,000 | 7.54% | – | 0 | 0 | 0 | 0 |
| Power Centers | 0 | 0 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | – | 0 | 0 | 0 | 0 |
| Shopping Centers | 94 | 1,302,716 | 0 | 16,750 | 47,413 | 3.64% | 91,665 | 7.04% | \$1.70 | 2,818 | 14,634 | 9,038 | 36,062 |
| Specialty Centers | 1 | 255,000 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | – | 0 | 0 | 0 | 0 |
| Outlying Areas Total | 607 | 3,698,073 | 0 | 19,950 | 122,872 | 3.32% | 188,732 | 5.10% | \$1.67 | 16 | 26,171 | 20,720 | 86,908 |
| San Diego Total | | | | | | | | | | | | | |
| 13,597 | 139,788,435 | 743,094 | 3,826,096 | 4,827,495 | 3.45% | 7,092,299 | 5.07% | \$1.91 | 325,536 | 539,454 | 1,127,242 | 3,496,149 | |
| General Retail | 9,460 | 55,296,873 | 141,338 | 2,051,489 | 1,342,736 | 2.43% | 2,239,147 | 4.05% | \$1.89 | 23,648 | 160,623 | 371,249 | 1,429,998 |
| Malls | 150 | 14,379,509 | 401,000 | 541,340 | 84,591 | 0.59% | 360,016 | 2.50% | \$2.38 | 12,069 | 53,262 | 45,471 | 149,270 |
| Power Centers | 382 | 12,027,615 | 23,041 | 202,738 | 404,436 | 3.36% | 349,130 | 2.90% | \$2.38 | 41,157 | 92,377 | 61,026 | 229,575 |
| Shopping Centers | 3,555 | 56,152,266 | 177,715 | 1,030,529 | 2,925,315 | 5.21% | 4,060,422 | 7.23% | \$1.90 | 251,791 | 230,996 | 646,066 | 1,668,128 |
| Specialty Centers | 50 | 1,932,172 | 0 | 0 | 70,417 | 3.64% | 83,584 | 4.33% | \$2.57 | (3,129) | 2,196 | 3,430 | 19,178 |
| San Diego Total | 13,597 | 139,788,435 | 743,094 | 3,826,096 | 4,827,495 | 3.45% | 7,092,299 | 5.07% | \$1.91 | 325,536 | 539,454 | 1,127,242 | 3,496,149 |

Lease rates are on a triple-net basis.



Retail isn't dead!

by **Spencer Kerrigan**
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As we enter the holiday spending season, San Diego's retail market remains strong. Westfield's UTC mall is finishing up its first round of expansion and renovation. In October, Nordstrom is set to debut its new 145,000 square foot store at UTC, which is 15,000 square feet larger than its existing location at the mall. So why is Westfield adding a total of 250,000 square feet of retail while Amazon is growing at a furious pace? Because bricks and mortar retail is far from dead.

As long as retailers are willing to adjust, the brick and mortar model isn't going anywhere soon. The adjustment required is to shift more to a comprehensive customer experience, rather than strictly transactional volume. This is visible on many different levels. Besides malls which are the largest sector needing to shift to stay alive, neighborhood and community centers are shifting as well. Smaller centers are adding more food options and outdoor amenities like parks and fountains to keep the customer happier and entertained while they're at the center shopping.

This shift has been, and will continue being, a theme in retail over many years. Shopping centers and tenants alike are recognizing the need to be more experience focused, and the ones shifting to that model are still thriving. Even though the amount of online sales as a total of all retail sales has almost doubled in the past five years, it will have to top out eventually. People enjoy being outside, mingling, shopping, and eating in a public environment. Even with the dawning of deliveries of both groceries and ready-made meals, people still do enjoy going out with friends and experiencing the feel of shopping centers as a hub of activity. Additionally, many service businesses simply can't disappear—people will always need haircuts, manicures, massages, dentists, and other services.

Retail rates in San Diego are still climbing for quality product, especially anchored centers with a large draw, and the average asking rates are substantially higher on the coast. Class B strip centers, though still seeing rent growth, are generally not achieving much more than \$2.00 to \$3.00 per square foot rents. The larger anchored centers, especially newly constructed and well located centers, can see rents into the \$4.00–\$5.00 range, plus triple net expenses often approaching another dollar per square foot. Vacancy remains below 4% and rents continue ticking up. However, because of the major divide between shopping centers across the quality spectrum, the overall average asking rental rate is suppressed by the high quantity of second class centers. In this modern age, retail real estate is undergoing huge fundamental changes, but it's not going away.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services. ©2017 Voit Real Estate Services, Inc. License #01991785.

Represented in 150 Markets
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CORFAC
 International

Submarkets

CENTRAL

Central San Diego, Clairemont, Coronado, Downtown, Mission Gorge, Mid City/Southeast 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

CENTRAL NORTH

Cardiff/Encinitas, Del Mar Heights, La Jolla/Torrey Pines, Miramar, UTC

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

