

GOOD YEAR FOR RETAIL. The San Diego retail market has recorded nearly one million square feet of positive net absorption in 2017, 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 year near an all-time low of 3.48%, 30 basis points lower than last year's 3.78% vacancy rate. The current vacancy rate is more than 40% below the previous peak levels seen in 2010.

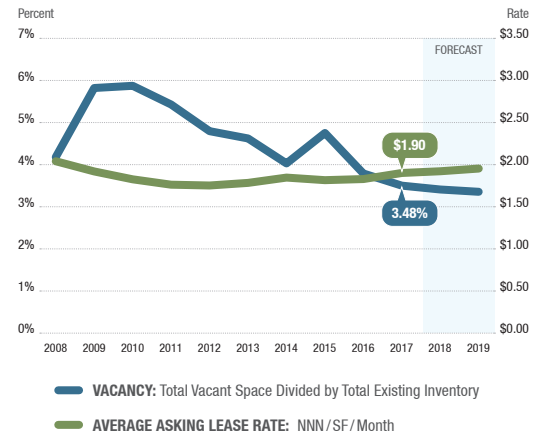
LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County was \$1.90, an increase of seven cents, or 3.8%, over the \$1.83 rate of fourth quarter 2016. The highest average asking rate in the market was in the I-15 Corridor submarket, posting \$2.80 per square foot per month, on a triple-net basis.

TRANSACTION ACTIVITY. The combined amount of retail property sold or leased during the fourth quarter was approximately 1.5 million square feet. While this total is only slightly below the prior quarter's total of 1.8 million square feet, the fourth quarter is often the busiest time of the year for sale activity. 2017's fourth quarter was a relatively slow quarter in terms sales volume. The transaction activity 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.

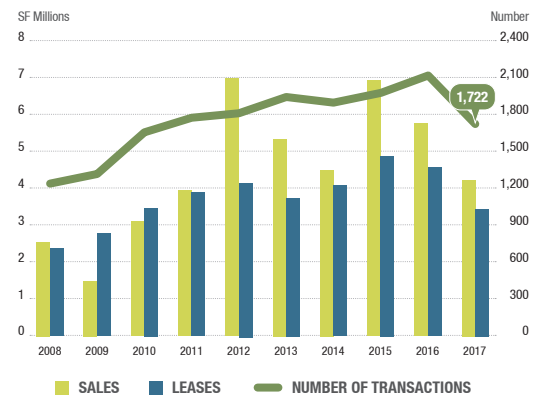
EMPLOYMENT. The unemployment rate in San Diego County was 3.3% in December 2017, unchanged from a revised 3.3% in November 2017 and below the year-ago estimate of 4.1%. This compares with an unadjusted unemployment rate of 4.2% for California and 3.9% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 21,100 payroll jobs between December 2016 and December 2017, including 4,900 from leisure and hospitality, which reported the largest overall gain. The educational and health services sector reported a growth of 3,900 jobs, and the government sector reported an increase of 3,800 jobs.

OVERALL. The San Diego retail market continues to improve, as market fundamentals exhibited positive growth throughout of 2017. Vacancy ended the year at 3.48%, 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 in 2017 did not cause 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	4Q 2017	3Q 2017	4Q 2016	% Change Over Last Year
Vacancy Rate	■ FLAT	3.48%	3.48%	3.78%	(7.91%)
Availability Rate	▼ DOWN	4.94%	5.05%	5.13%	(3.71%)
Average Asking Lease Rate	▼ DOWN	\$1.90	\$1.92	\$1.83	3.83%
Sale & Lease Transactions	▼ DOWN	1,472,431	1,819,157	3,257,215	(54.79%)
Gross Absorption	▲ UP	1,639,889	1,037,022	1,449,472	13.14%
Net Absorption	▲ POSITIVE	499,318	191,397	475,275	N/A

CONSTRUCTION. The completion of Westfield’s UTC Mall’s renovation and expansion closes the books on the driving force behind 2017’s construction volume. Going into 2018, the level of retail projects under construction has dipped below 350,000 square feet for only the second time since the start of 2011. Indicative of the trend in future construction coming increasingly from mixed-use development, Westfield UTC has broken ground on a 23-story apartment tower. 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, with continuing steady job growth. In 2017 there was a 1.5% increase in total employment, and a 1.6% increase is projected for 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 solid 2% to 3.5% over the next four quarters.

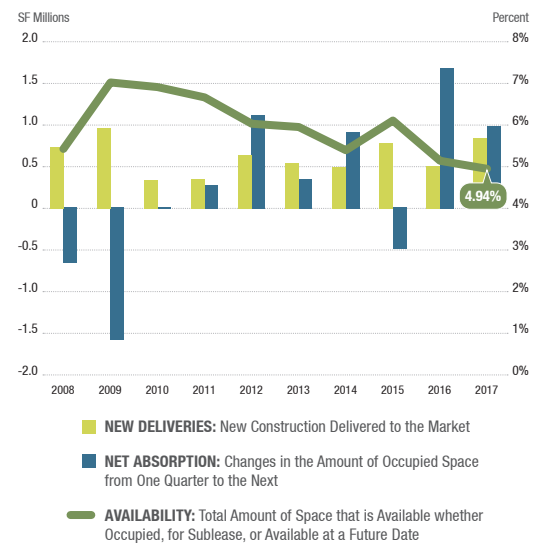
VACANCY. We anticipate the vacancy rate to remain stable and low, with much of the occupancy gains already captured. With the current dearth of retail properties under construction, we do not anticipate new supply to apply upward pressure on the overall market vacancy rate.

CONSTRUCTION. 833,923 square feet of new retail projects were completed in 2017, marking 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 4.94% at the end of 2017. This was the first year to see availability rates fall below 5% since 2008. 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 7.06%, while malls were the lowest with a miniscule 2.09% availability rate.

ABSORPTION. The San Diego retail market posted 499,318 square feet of positive net absorption in the fourth quarter alone, which pushed the cumulative net absorption total for the year close to one million square feet. This is 38% greater than the annual average of the previous five years.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1348–1366 W. Valley Pkwy.	Escondido	47,085	\$16,003,000	ADF, LP	Escondido Valley Center 02, LLC
601–675 N. Broadway	Escondido	97,791	\$12,900,000	Mount Vernon Inn, LLC	TSN Country Corner, LLC
7030–7090 Miramar Rd.	Miramar	53,742	\$12,600,000	Undisclosed	Summit Realty Advisors
13350 Camino Del Sur	Rancho Panasquitos	14,042	\$10,400,000	Zion Corner, LLC	Paragon Real Estate Investment
10320–10370 Friars Rd.	Mission Gorge	66,416	\$10,100,000	Becker Properties	SENTE, Inc.

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
Dennery Rd.	South San Diego	45,000	Nov-2017	Undisclosed	30 West Pershing, LLC
2601 National City Blvd.	National City	24,129	Nov-2017	Mossy Automotive Group	(Sublease)
3414–3420 College Ave.	Mid City/SESD	10,385	Nov-2017	Undisclosed	Ultimate Capital, LLC
3414–3420 College Ave.	Mid City/SESD	9,632	Nov-2017	Undisclosed	Ultimate Capital, LLC
854 Metcalf St.	Escondido	8,876	Nov-2017	About Service	Lincopar, Inc.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2017	Square Feet Available	Availability Rate 4Q2017	Average Asking Lease Rate	Net Absorption 4Q2017	Net Absorption 2017	Gross Absorption 4Q2017	Gross Absorption 2017
Central South													
General Retail	3,690	20,065,139	34,497	771,439	518,083	2.58%	830,584	4.14%	\$2.21	42,643	134,760	218,923	717,088
Malls	39	4,532,963	0	0	49,656	1.10%	49,656	1.10%	–	(8,656)	43,420	0	52,076
Power Centers	97	3,561,779	0	6,000	43,977	1.23%	43,576	1.22%	\$3.85	17,655	47,740	21,680	68,680
Shopping Centers	707	11,111,230	0	22,635	458,050	4.12%	497,202	4.47%	\$2.03	(27,554)	3,123	87,720	407,249
Specialty Centers	7	271,679	0	0	20,788	7.65%	20,788	7.65%	–	0	0	0	1,140
Central South Total	4,540	39,542,790	34,497	800,074	1,090,554	2.76%	1,441,806	3.65%	\$2.15	24,088	229,043	328,323	1,246,233
East County													
General Retail	1,444	7,339,598	3,832	46,570	116,747	1.59%	140,983	1.92%	\$1.55	81,965	(7,499)	137,780	258,675
Malls	15	2,929,516	0	0	2,495	0.09%	144,961	4.95%	\$2.38	0	2,671	0	59,171
Power Centers	60	1,699,138	0	4,800	12,889	0.76%	36,424	2.14%	–	(1,188)	10,812	0	17,000
Shopping Centers	559	8,369,681	0	88,854	373,732	4.47%	541,846	6.47%	\$1.67	17,946	54,476	71,632	225,314
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	–	0	0	0	0
East County Total	2,080	20,372,491	3,832	140,224	505,863	2.48%	864,214	4.24%	\$1.65	98,723	60,460	209,412	560,160
I-15 Corridor													
General Retail	172	1,654,795	0	60,218	20,529	1.24%	46,429	2.81%	\$3.42	(1,500)	5,904	0	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	285	4,250,774	0	222,738	207,384	4.88%	239,907	5.64%	\$2.74	(8,074)	57,607	63,778	245,359
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	–	0	0	0	0
I-15 Corridor Total	481	6,472,598	0	282,956	232,827	3.60%	291,250	4.50%	\$2.80	(9,574)	106,583	63,778	313,113
North County													
General Retail	1,695	11,422,518	32,291	456,526	304,965	2.67%	377,571	3.31%	\$1.19	(74,115)	(55,174)	36,008	381,196
Malls	24	3,176,626	0	50,340	6,918	0.22%	8,980	0.28%	–	1,481	(3,037)	1,500	4,081
Power Centers	108	3,098,035	23,041	22,315	81,166	2.62%	139,681	4.51%	\$2.38	123,893	130,937	144,121	202,465
Shopping Centers	956	15,193,461	81,988	459,415	991,896	6.53%	1,481,160	9.75%	\$1.67	36,010	208,315	114,370	743,054
Specialty Centers	5	367,735	0	0	0	0.00%	1,210	0.33%	\$3.12	0	0	0	9,323
North County Total	2,788	33,258,375	137,320	988,596	1,384,945	4.16%	2,008,602	6.04%	\$1.53	87,269	281,041	295,999	1,340,119
Central North													
General Retail	868	7,281,770	11,849	182,795	236,449	3.25%	366,949	5.04%	\$2.89	(13,310)	48,958	42,857	253,584
Malls	22	1,501,334	0	0	182,500	12.16%	182,500	12.16%	–	222,500	222,500	405,000	405,000
Power Centers	65	2,086,976	7,743	101,235	109,577	5.25%	71,905	3.45%	–	(8,647)	11,729	3,682	38,224
Shopping Centers	420	6,642,834	42,950	314,836	189,429	2.85%	349,058	5.25%	\$2.54	20,932	51,247	50,874	219,810
Specialty Centers	9	232,667	0	0	41,873	18.00%	61,089	26.26%	\$1.50	3,037	6,437	3,038	7,538
Central North Total	1,384	17,745,581	62,542	598,866	759,828	4.28%	1,031,501	5.81%	\$2.71	224,512	340,871	505,451	924,156
South County													
General Retail	1,114	5,912,966	5,400	514,062	135,192	2.29%	174,278	2.95%	\$1.45	36,268	74,881	64,067	219,088
Malls	42	2,510,639	0	0	56,450	2.25%	192,095	7.65%	–	6,247	(15,443)	6,247	13,148
Power Centers	28	1,015,334	0	79,900	7,400	0.73%	7,400	0.73%	–	12,800	(7,400)	12,800	42,417
Shopping Centers	534	9,215,858	83,804	173,974	596,627	6.47%	757,617	8.22%	\$1.92	9,138	(119,144)	126,156	264,774
Specialty Centers	26	770,533	0	0	3,190	0.41%	3,190	0.41%	\$1.35	1,529	325	1,529	5,744
South County Total	1,744	19,425,330	89,204	767,936	798,859	4.11%	1,134,580	5.84%	\$1.79	65,982	(66,781)	210,799	545,171
Outlying Areas													
General Retail	502	1,994,356	0	3,200	55,264	2.77%	67,351	3.38%	\$1.85	9,195	20,732	21,757	72,603
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	93	1,292,946	0	12,766	48,290	3.73%	92,542	7.16%	\$1.67	(877)	13,757	4,370	40,432
Specialty Centers	1	255,000	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Outlying Areas Total	607	3,688,192	0	15,966	114,554	3.11%	170,893	4.63%	\$1.76	8,318	34,489	26,127	113,035
San Diego Total													
13,624	140,505,357	327,395	3,594,618	4,887,430	3.48%	6,942,846	4.94%	\$1.90	499,318	985,706	1,639,889	5,041,987	
General Retail	9,485	55,671,142	87,869	2,034,810	1,387,229	2.49%	2,004,145	3.60%	\$1.87	81,146	222,562	521,392	1,926,916
Malls	153	14,796,968	0	50,340	309,019	2.09%	589,192	3.98%	\$2.38	221,572	250,111	412,747	533,476
Power Centers	382	12,028,291	30,784	214,250	259,923	2.16%	303,900	2.53%	\$2.80	144,513	236,890	182,283	411,858
Shopping Centers	3,554	56,076,784	208,742	1,295,218	2,865,408	5.11%	3,959,332	7.06%	\$1.91	47,521	269,381	518,900	2,145,992
Specialty Centers	50	1,932,172	0	0	65,851	3.41%	86,277	4.47%	\$2.57	4,566	6,762	4,567	23,745
San Diego Total	13,624	140,505,357	327,395	3,594,618	4,887,430	3.48%	6,942,846	4.94%	\$1.90	499,318	985,706	1,639,889	5,041,987

Lease rates are on a triple-net basis.



SD Retail Navigating Changing Landscape Just Fine

by **Kipp Gstettenbauer**

SENIOR VICE PRESIDENT / PARTNER, SAN DIEGO

Reflecting on retail rental rates in 2017, we see rates holding steady in most strip malls and slowly rising in grocery-anchored shopping centers. With a lack of supply in most grocery-anchored centers, landlords can charge \$3.00 NNN and above for small shop space. In the more compacted areas with no new product, landlords have no problem achieving rates in the \$5.00–\$6.00 NNN per square foot per month range.

Concessions have become a large part of landlords achieving any rate above \$3.00 NNN per square foot per month in most areas of the county. The typical five-year deal will come with:

- 3–6 months of free rent for permitting and construction
- \$20.00/SF in TI's for new tenants

With interest rates still hovering at historically low levels and occupancy on the rise, landlords have begun looking toward their long-term goals. This means either selling at peak pricing or refinancing while interest rates remain low and occupancy for their assets remains strong.

The ubiquitous growth of e-commerce has certainly changed the retail landscape, but occupancy gains for the market as a whole have persisted. Increasingly, landlords are focusing on experience-oriented tenants to drive foot traffic in their centers. The recent expansion of the Westfield UTC mall showcases this phenomenon. Westfield focused on improving the sense of place, and walking into the rejuvenated UTC mall feels like walking into a high-end hotel. Additionally, the new and expanded areas of the UTC Mall include a movie theater, a gym, and a number of fine dining restaurants, highlighting a focus on eateries and service/experience uses that many landlords are now leaning upon to bolster their tenant mix.

Current occupancy in San Diego is high (above 96%) and the lack of product on the market has continued to drive lease rates up. As we move into 2018 we see no signs of this changing. Tenants will seek to stabilize their cost of occupancy by either buying outright or locking in long-term leases.

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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. ©2018 Voit Real Estate Services, Inc. License #01991785.

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Submarkets

CENTRAL SOUTH

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 COUNTY

Chula Vista, Eastlake, Imperial Beach/South San Diego, National City