

FIRST QUARTER 2015 SAN DIEGO RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



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VOIT Real Estate Services

HIGHLIGHTS

- **Tight Market** - The San Diego retail market continued to improve in the first quarter. Asking rental rates increased, and the San Diego retail market posted over a quarter million square feet of positive net absorption to start the year for the 21st quarter of positive net absorption over the past 22 quarters.
- **Construction** - Despite the continued decrease in the county's vacancy rate for retail property, construction remains at very low levels. Much of the current retail construction in San Diego is renovation work, including the \$300 million transformation of Westfield Plaza Camino Real from an indoor mall into an open air mall, along with the ongoing remodel of Westfield UTC and other projects around the county. The low level of construction should alleviate upward pressure on vacancy and downward pressure on lease rates.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 3.88%, down from the previous quarter's rate of 3.95% and the lowest vacancy rate seen since the third quarter of 2008.
- **Availability** - Direct/sublease space being marketed was 5.21% at the end of the first quarter, effectively unchanged from the previous quarter. 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 7.49%, while malls were the lowest with a 1.23% availability rate.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in San Diego County was \$1.82 at the end of the quarter, up three cents from the fourth quarter, and a four-cent increase from 2014's first quarter rate. The highest average asking rates in the market were in the Central North submarket, at \$2.62 per square foot per month.
- **Absorption** - The San Diego retail market posted 302,531 square feet of positive net absorption in the first quarter, for a total of 5.4 million square feet of positive net absorption since the beginning of 2010.
- **Transaction Activity** - The combined amount of retail property sold and leased in the first quarter was 1.1 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 the San Diego County was 5.3% in February 2015, down from a revised 5.8% in January 2015 and below the year-ago estimate of 7.1%. This compares with an unadjusted unemployment rate of 6.8% for California and 5.8% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 39,700 payroll jobs from February 2014 and February 2015, including 8,800 from professional and business services, and 8,200 from leisure and hospitality, 6,900 from education and health services, and 4,000 from government. No major sector recorded year-over job losses.
- **Overall** - The San Diego retail market continues to post low vacancy rates, with current rates below 4.0%. Positive absorption trends endure, and overall the market has stabilized. Thus far in the recovery, quality properties have been able to keep overall asking rental rates stable, but demand remains soft for marginal product. Much like the market's unemployment rate, San Diego retail property has stronger fundamentals than the overall national average. But because of the limited supply pipeline the market remains tight.

FORECAST

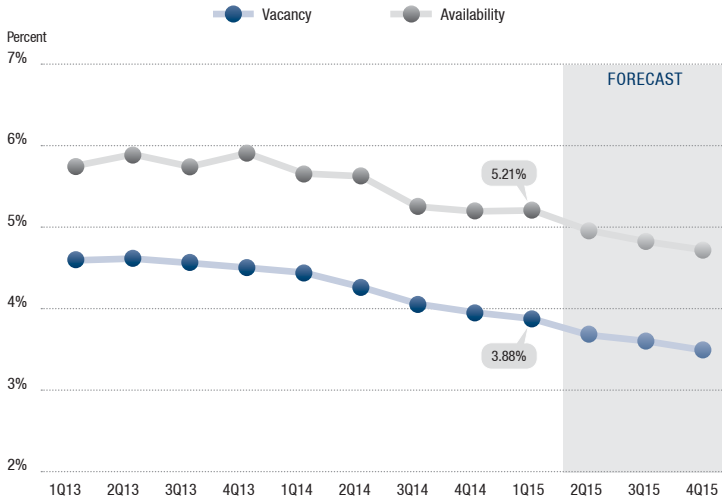
- **Construction** - We anticipate new retail deliveries will continue to be limited. Going forward, new retail product will come, not only from new shopping centers, but increasingly from mixed-use development in the market. Additionally, property renovations will be an avenue of adding high quality product with the continued demand and limited development pipeline.
- **Employment** - We anticipate job growth of around 1.9%, or 24,600 jobs, in San Diego County over the year. Look for sectors like construction, administrative & support, and transportation & utilities to lead the way for employment gains in 2015.
- **Lease Rates** - Expect average asking rates to increase by another 3% to 4% over the next four quarters.
- **Vacancy** - We anticipate the vacancy rate to descend slowly in coming quarters, dipping almost 40 basis points to approximately 3.5% by the end of the fourth quarter of 2015.

OVERVIEW

| | 1Q15 | 4Q14 | 1Q14 | % of Change vs. 1Q14 |
|---------------------------|-----------|-----------|-----------|----------------------|
| Total Vacancy Rate | 3.88% | 3.95% | 4.43% | (12.42%) |
| Availability Rate | 5.21% | 5.20% | 5.67% | (8.11%) |
| Average Asking Lease Rate | \$1.82 | \$1.79 | \$1.78 | 2.25% |
| Sale & Lease Transactions | 1,110,892 | 2,386,268 | 1,954,448 | (43.16%) |
| Gross Absorption | 965,717 | 1,046,152 | 1,076,136 | (10.26%) |
| Net Absorption | 302,531 | 287,323 | 154,023 | N/A |

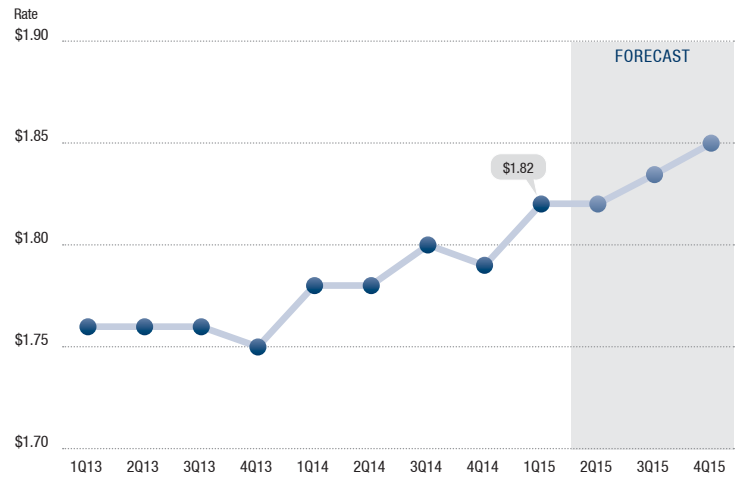
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



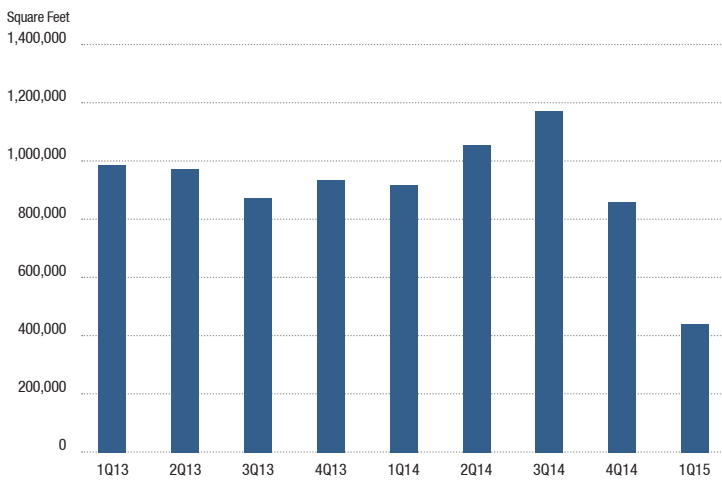
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



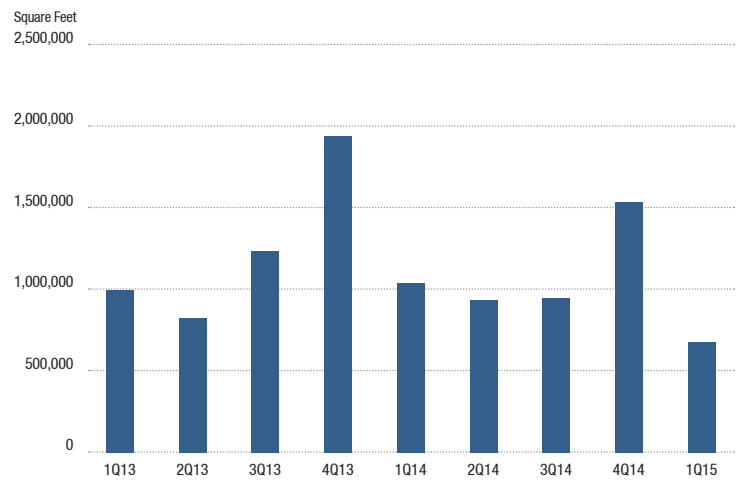
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



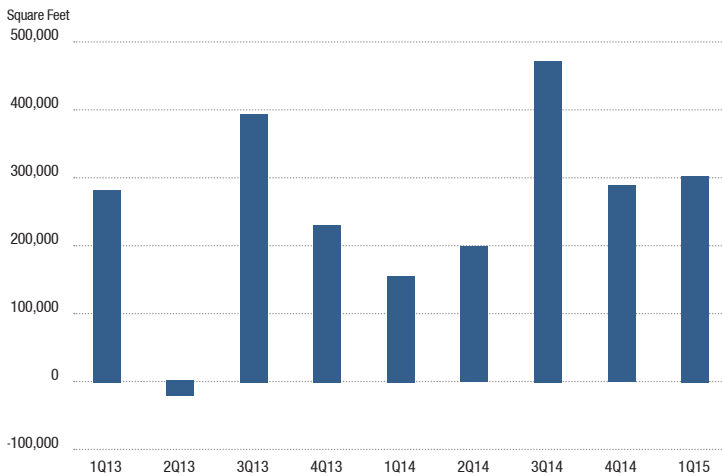
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

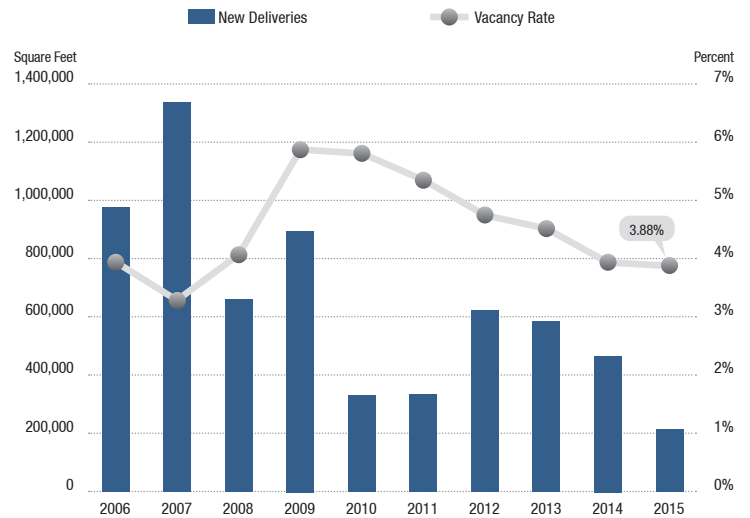


NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



ANNUAL NEW DELIVERIES VS. VACANCY RATE



| | INVENTORY | | | VACANCY & LEASE RATES | | | | | | ABSORPTION | | | |
|-----------------------------|--------------------|--------------------------|-------------------|-----------------------|--------------------|---------------------|-----------------------|--------------------------|---------------------------|-----------------------|---------------------|-------------------------|-----------------------|
| | Number of Bldgs. | Net Rentable Square Feet | Square Feet U / C | Square Feet Planned | Square Feet Vacant | Vacancy Rate 1Q2015 | Square Feet Available | Availability Rate 1Q2015 | Average Asking Lease Rate | Net Absorption 1Q2015 | Net Absorption 2014 | Gross Absorption 1Q2015 | Gross Absorption 2014 |
| Central | | | | | | | | | | | | | |
| General Retail | 3,647 | 19,517,674 | 51,415 | 567,783 | 571,417 | 2.93% | 903,199 | 4.63% | \$2.17 | 17,163 | 49,891 | 121,477 | 547,628 |
| Malls | 41 | 4,532,033 | 0 | 0 | 38,065 | 0.84% | 38,116 | 0.84% | \$0.00 | (1,750) | 11,713 | 1,469 | 26,732 |
| Power Centers | 89 | 3,251,923 | 0 | 0 | 77,094 | 2.37% | 96,561 | 2.97% | \$0.00 | (6,860) | 1,441 | 75 | 48,992 |
| Shopping Centers | 707 | 11,166,426 | 14,490 | 45,474 | 515,323 | 4.61% | 623,621 | 5.58% | \$1.77 | (38,371) | 155,638 | 94,662 | 524,550 |
| Specialty Centers | 7 | 313,886 | 0 | 0 | 21,881 | 6.97% | 21,881 | 6.97% | \$0.00 | 0 | 5,675 | 0 | 12,001 |
| Central Total | 4,491 | 38,781,942 | 65,905 | 613,257 | 1,223,780 | 3.16% | 1,683,378 | 4.34% | \$2.07 | (29,818) | 224,358 | 217,683 | 1,159,903 |
| East County | | | | | | | | | | | | | |
| General Retail | 1,428 | 7,239,657 | 0 | 53,635 | 135,130 | 1.87% | 241,170 | 3.33% | \$1.34 | 6,773 | 41,587 | 39,999 | 168,210 |
| Malls | 14 | 2,543,631 | 0 | 0 | 6,879 | 0.27% | 8,379 | 0.33% | \$0.00 | 0 | 0 | 0 | 0 |
| Power Centers | 61 | 1,761,652 | 0 | 4,800 | 24,295 | 1.38% | 59,219 | 3.36% | \$2.55 | 4,854 | 42,325 | 4,854 | 55,790 |
| Shopping Centers | 548 | 8,363,307 | 9,950 | 36,722 | 554,992 | 6.64% | 582,061 | 6.96% | \$1.58 | 16,555 | 124,332 | 64,288 | 362,132 |
| Specialty Centers | 3 | 75,112 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 7,508 | 0 | 7,508 |
| East County Total | 2,054 | 19,983,359 | 9,950 | 95,157 | 721,296 | 3.61% | 890,829 | 4.46% | \$1.41 | 28,182 | 215,752 | 109,141 | 593,640 |
| I-15 Corridor | | | | | | | | | | | | | |
| General Retail | 171 | 1,714,194 | 0 | 191,568 | 11,783 | 0.69% | 12,613 | 0.74% | \$3.73 | (2,942) | 111,726 | 0 | 119,446 |
| Malls | 0 | 0 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 0 | 0 | 0 |
| Power Centers | 22 | 559,185 | 0 | 5,000 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 40,000 | 0 | 40,000 |
| Shopping Centers | 274 | 4,040,274 | 0 | 29,731 | 169,954 | 4.21% | 252,191 | 6.24% | \$2.52 | (16,124) | 54,827 | 13,174 | 132,612 |
| Specialty Centers | 0 | 0 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 0 | 0 | 0 |
| I-15 Corridor Total | 467 | 6,313,653 | 0 | 226,299 | 181,737 | 2.88% | 264,804 | 4.19% | \$2.42 | (19,066) | 206,553 | 13,174 | 292,058 |
| North County | | | | | | | | | | | | | |
| General Retail | 1,674 | 11,152,210 | 29,689 | 352,634 | 346,386 | 3.11% | 484,483 | 4.34% | \$1.49 | 10,160 | 29,922 | 59,320 | 257,866 |
| Malls | 22 | 3,026,626 | 0 | 0 | 11,381 | 0.38% | 21,448 | 0.71% | \$0.00 | (6,077) | (5,304) | 3,755 | 1,608 |
| Power Centers | 104 | 3,079,361 | 0 | 40,500 | 230,538 | 7.49% | 246,886 | 8.02% | \$2.49 | 1,215 | (72,815) | 7,841 | 39,952 |
| Shopping Centers | 932 | 15,263,115 | 6,822 | 356,861 | 1,243,312 | 8.15% | 1,556,030 | 10.19% | \$1.60 | 196,003 | 375,623 | 264,049 | 1,013,660 |
| Specialty Centers | 5 | 367,815 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 1,210 | 0 | 2,275 |
| North County Total | 2,737 | 32,889,127 | 36,511 | 749,995 | 1,831,617 | 5.57% | 2,308,847 | 7.02% | \$1.61 | 201,301 | 328,636 | 334,965 | 1,315,361 |
| North City | | | | | | | | | | | | | |
| General Retail | 853 | 7,047,505 | 37,576 | 61,909 | 124,836 | 1.77% | 228,340 | 3.24% | \$3.63 | (25,520) | (845) | 15,889 | 139,885 |
| Malls | 23 | 1,139,534 | 0 | 491,000 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 0 | 0 | 0 |
| Power Centers | 64 | 2,087,645 | 0 | 108,835 | 29,306 | 1.40% | 55,268 | 2.65% | \$0.00 | 0 | (9,795) | 2,250 | 11,493 |
| Shopping Centers | 413 | 6,657,239 | 59,373 | 184,634 | 304,355 | 4.57% | 379,351 | 5.70% | \$2.12 | 18,824 | 97,617 | 49,708 | 291,442 |
| Specialty Centers | 9 | 232,667 | 0 | 0 | 57,668 | 24.79% | 62,434 | 26.83% | \$0.00 | 0 | 21,479 | 0 | 30,696 |
| North City Total | 1,362 | 17,164,590 | 96,949 | 846,378 | 516,165 | 3.01% | 725,393 | 4.23% | \$2.62 | (6,696) | 108,456 | 67,847 | 473,516 |
| South Bay | | | | | | | | | | | | | |
| General Retail | 1,095 | 5,664,611 | 0 | 790,119 | 174,705 | 3.08% | 293,542 | 5.18% | \$1.40 | (16,278) | 63,707 | 12,162 | 193,991 |
| Malls | 42 | 2,416,953 | 0 | 0 | 71,190 | 2.95% | 91,504 | 3.79% | \$0.00 | (17,595) | 14,717 | 0 | 25,462 |
| Power Centers | 27 | 1,020,407 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 0 | 0 | 0 |
| Shopping Centers | 522 | 8,942,991 | 0 | 204,870 | 474,108 | 5.30% | 709,420 | 7.93% | \$1.60 | 25,118 | 23,603 | 58,794 | 286,568 |
| Specialty Centers | 26 | 767,072 | 0 | 478,000 | 11,915 | 1.55% | 11,915 | 1.55% | \$0.00 | 140,000 | 5,735 | 140,000 | 15,583 |
| South Bay Total | 1,712 | 18,812,034 | 0 | 1,472,989 | 731,918 | 3.89% | 1,106,381 | 5.88% | \$1.63 | 131,245 | 107,762 | 210,956 | 521,604 |
| Outlying Areas | | | | | | | | | | | | | |
| General Retail | 491 | 1,996,926 | 10,572 | 3,800 | 70,893 | 3.55% | 115,154 | 5.77% | \$1.52 | (4,575) | (5,643) | 8,249 | 27,720 |
| Malls | 11 | 145,890 | 0 | 0 | 11,000 | 7.54% | 11,000 | 7.54% | \$0.00 | 0 | 0 | 0 | 0 |
| Power Centers | 0 | 0 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 0 | 0 | 0 |
| Shopping Centers | 97 | 1,319,154 | 0 | 0 | 54,846 | 4.16% | 73,196 | 5.55% | \$1.70 | 1,958 | (13,481) | 3,702 | 22,021 |
| Specialty Centers | 1 | 255,000 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 0 | 0 | 0 |
| Outlying Areas Total | 600 | 3,716,970 | 10,572 | 3,800 | 136,739 | 3.68% | 199,350 | 5.36% | \$1.67 | (2,617) | (19,124) | 11,951 | 49,741 |
| San Diego Total | | | | | | | | | | | | | |
| 13,423 | 137,661,675 | 219,887 | 4,007,875 | 5,343,252 | 3.88% | 7,178,982 | 5.21% | \$1.82 | 302,531 | 1,172,393 | 965,717 | 4,405,823 | |
| San Diego Total | | | | | | | | | | | | | |
| General Retail | 9,359 | 54,332,777 | 129,252 | 2,021,448 | 1,435,150 | 2.64% | 2,278,501 | 4.19% | \$2.00 | (15,219) | 290,345 | 257,096 | 1,454,746 |
| Malls | 153 | 13,804,667 | 0 | 491,000 | 138,515 | 1.00% | 170,447 | 1.23% | \$0.00 | (25,422) | 21,126 | 5,224 | 53,802 |
| Power Centers | 367 | 11,760,173 | 0 | 159,135 | 361,233 | 3.07% | 457,934 | 3.89% | \$2.50 | (791) | 1,156 | 15,020 | 196,227 |
| Shopping Centers | 3,493 | 55,752,506 | 90,635 | 858,292 | 3,316,890 | 5.95% | 4,175,870 | 7.49% | \$1.73 | 203,963 | 818,159 | 548,377 | 2,632,985 |
| Specialty Centers | 51 | 2,011,552 | 0 | 478,000 | 91,464 | 4.55% | 96,230 | 4.78% | \$1.50 | 140,000 | 41,607 | 140,000 | 68,063 |
| San Diego Total | 13,423 | 137,661,675 | 219,887 | 4,007,875 | 5,343,252 | 3.88% | 7,178,982 | 5.21% | \$1.82 | 302,531 | 1,172,393 | 965,717 | 4,405,823 |

Lease rates are on a triple-net basis.

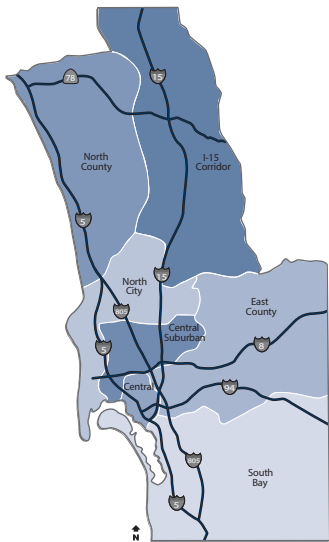
MAJOR TRANSACTIONS

Sales Transactions

| Property Address | Submarket | Square Feet | Price Per SF | Buyer | Seller |
|--|----------------|-------------|--------------|----------------------------|-----------------------------|
| 7833-7851 Girard Ave. | La Jolla | 36,745 | \$721.19 | Coppel Corporation | ColRich |
| 1058-1094 3rd Ave. | Chula Vista | 84,856 | \$218.02 | Milan Capital Management | Cardone Investments |
| 2931 Camino Del Rio N. (Leasehold Interest) | Mission Valley | 45,000 | \$264.44 | Store Capital | San Diego Food & Games, LLC |
| 1150 E. Vista Way | Vista | 43,372 | \$172.92 | Northgate Gonzalez Markets | El Tigre, Inc. |
| 13314-13348 Poway Rd. | Poway | 24,077 | \$259.58 | CIP Poway, LLC | PVC, LLC |

Lease Transactions

| Property Address | Submarket | Square Feet | Transaction Date | Tenant | Owner |
|--------------------------|-----------------|-------------|------------------|--------------------------|----------------------|
| 202 W. College St. | Fallbrook | 10,880 | Jan-2015 | County of San Diego | Citrus Equities, LLC |
| 3241 Rancho Santa Fe Rd. | Carlsbad | 10,080 | Jan-2015 | Big 5 Sporting Goods | DSB Properties, Inc. |
| 3702 Del Sol Blvd. | South San Diego | 8,226 | Mar-2015 | Family Gym | Picador Plaza, Inc. |
| 2002 S. Coast Hwy. | Oceanside | 7,730 | Jan-2015 | URGE Brewery & Gastropub | Oceanside 2002, LLC |
| 237 E. Valley Pkwy. | Escondido | 7,000 | Jan-2015 | Crossfit Escondido | Getz Trust |



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

NORTH CENTRAL

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

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