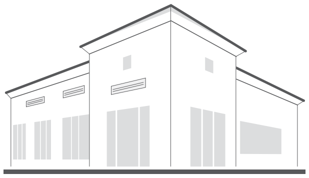

FIRST QUARTER 2016

SAN DIEGO

RETAIL

Voit

REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

UP

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

DOWN

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HIGHLIGHTS

- **Tight Market -** The San Diego retail market did not move significantly in the first quarter of 2016 from 4th quarter of 2015. Both vacancy and availability increased compared to this time last year but net absorption ended slightly positive, which is an improvement from the negative net absorption in Q4 2015. The average asking triple-net lease rates ticked up by two cents from last quarter.
- **Construction -** Subsequent to 2015's record high in new deliveries, 2016 started out with 48,700 square feet delivered and 440,500 square feet under construction. Renovation work for retail properties continues to impact construction in San Diego as well, including the completion of the first phase of a $1 billion expansion of Westfield UTC that includes many new amenities and restaurants. Phase II of the mall, which will add 251,000 square feet of retail space and restaurants, is slated for completion in Fall 2017.
- **Vacancy -** Direct/sublease space (unoccupied) finished the quarter at 4.7%, an increase from the previous quarter's rate of 4.67%.
- **Availability -** Direct/sublease space being marketed was 5.95% at the end of the first quarter, down 14 basis points 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 8.52%, while malls were the lowest with a 1.2% availability rate.
- **Lease Rates -** The average asking triple-net lease rate per month per square foot in San Diego County was $1.79, an increase from last quarter's rate of $1.76. The highest average asking rates in the market were in the Central North submarket, at $2.75 per square foot per month.
- **Absorption -**The San Diego retail market posted 8,722 square feet of positive net absorption in the first quarter, for a total of 4.6 million square feet of positive net absorption since 2010.
- **Transaction Activity -** The combined amount of retail property sold and leased in the first quarter was 1.69 million square feet, down from the prior quarter's total of 3.0 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 February 2016, unchanged from a revised 4.7% in January 2016 and below the year-ago estimate of 5.5%. This compares with an unadjusted unemployment rate of 5.7% for California and 5.2% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 39,100 payroll jobs from February 2015 and February 2016, including 8,500 from education and health services, which reported the largest overall gain. Leisure and hospitality reported a growth of up to 7,000 jobs, followed by professional and business services that reported up to 6,400 jobs.
- **Overall -** The San Diego retail market remains tight, with vacancy at 4.7%. Positive absorption trends continue, and generally 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. However, due to the limited supply pipeline the market remains tight.

FORECAST

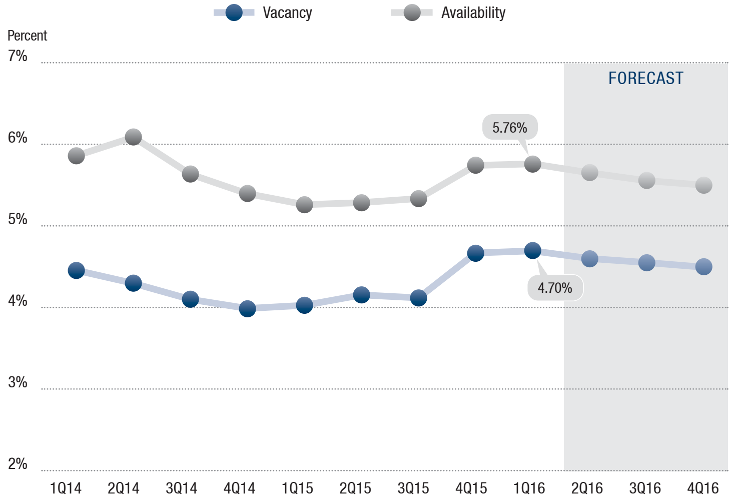
- **Construction -** We anticipate new retail deliveries slowing this year, after ending 2015 with a record high. Going forward, new retail product will come not only from new shopping centers, but also from mixed-use development in the market. Additionally, property renovations will be an avenue for adding high quality product in light of the continued demand and limited development pipeline.
- **Employment -** We anticipate job growth of around 2.5%, or 35,000 jobs, in San Diego County over the year. Look for sectors like professional, scientific, & technical services, health care & social services, and leisure & hospitality to lead the way for employment gains in 2016.
- **Lease Rates -** Expect average asking rates to increase by another 3% to 5% over the next four quarters.
- **Vacancy -** We anticipate the vacancy rate to remain stable with much of the occupancy gains already captured.

OVERVIEW

	1Q16	4Q15	1Q15	% of Change vs. 1Q15
Total Vacancy Rate	4.70%	4.67%	4.03%	16.63%
Availability Rate	5.95%	6.09%	5.26%	13.12%
Average Asking Lease Rate	$1.78	$1.76	$1.82	(2.20%)
Sale & Lease Transactions	1,689,680	3,055,451	2,349,185	(28.07%)
Gross Absorption	964,886	1,346,110	836,257	15.38%
Net Absorption	8,722	(603,269)	159,493	N/A

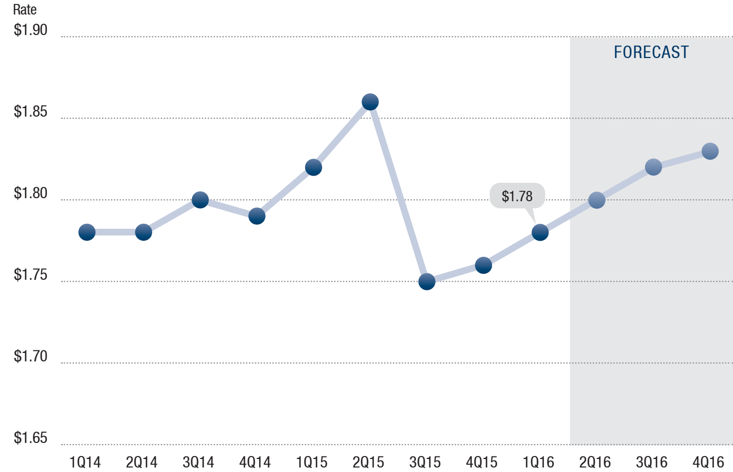
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



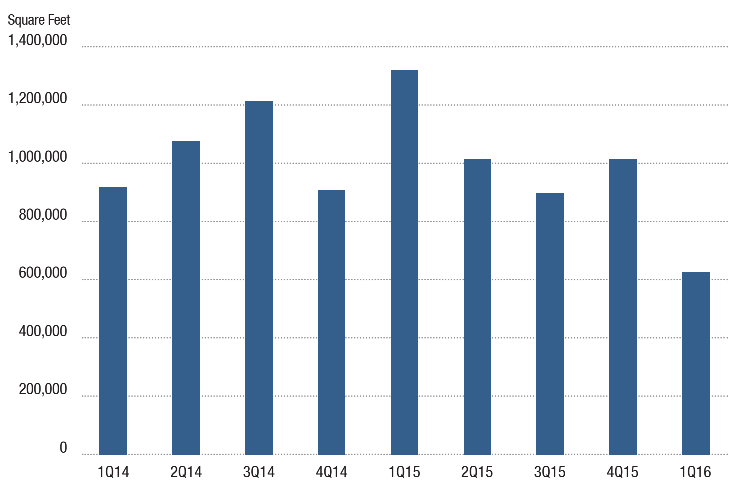
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



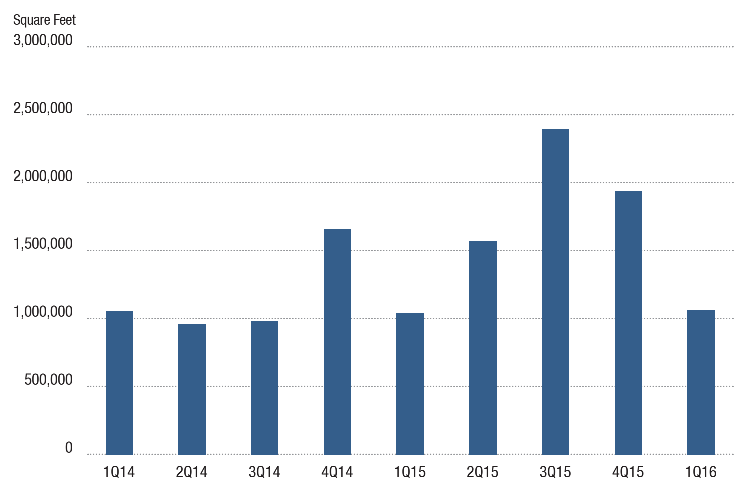
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



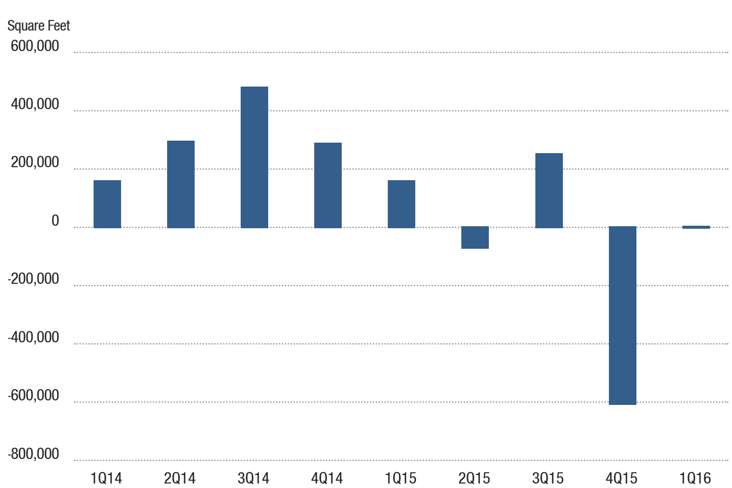
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

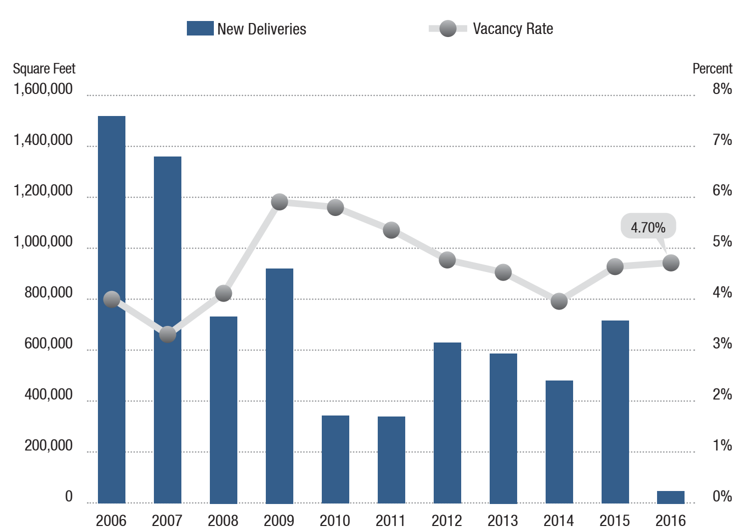


NET ABSORPTION

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 1Q2016	Square Feet Available	Availability Rate 1Q2016	Average Asking Lease Rate	Net Absorption 1Q2016	Net Absorption 2015	Gross Absorption 1Q2016	Gross Absorption 2015
Central													
General Retail	3,657	19,474,074	11,997	766,420	694,817	3.57%	912,011	4.68%	$2.32	(48,950)	115,763	151,046	664,917
Malls	39	4,520,504	0	0	35,288	0.78%	56,930	1.26%	$0.00	0	1,027	3,265	7,511
Power Centers	96	3,531,692	0	0	88,566	2.51%	101,000	2.86%	$0.00	1,410	7,257	5,410	81,813
Shopping Centers	708	11,144,745	24,229	22,635	527,143	4.73%	662,281	5.94%	$1.99	(1,929)	(25,219)	75,465	427,039
Specialty Centers	7	313,886	0	0	25,966	8.27%	25,966	8.27%	$0.00	0	(4,085)	0	6,053
Central Total	4,507	38,984,901	36,226	789,055	1,371,780	3.52%	1,758,188	4.51%	$2.16	(49,469)	94,743	235,186	1,187,333
East County													
General Retail	1,431	7,208,734	36,200	73,235	132,771	1.84%	216,108	3.00%	$1.61	28,121	(48,312)	78,935	142,778
Malls	15	2,742,077	0	0	6,939	0.25%	23,232	0.85%	$0.00	0	(60)	3,313	1,949
Power Centers	60	1,697,896	0	4,800	7,743	0.46%	62,636	3.69%	$0.00	0	21,406	2,240	21,406
Shopping Centers	552	8,323,635	0	132,978	736,383	8.85%	647,036	7.77%	$1.63	25,746	(179,414)	105,137	316,426
Specialty Centers	3	75,112	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
East County Total	2,061	20,047,454	36,200	211,013	883,836	4.41%	949,012	4.73%	$1.63	53,867	(206,380)	189,625	482,559
I-15 Corridor													
General Retail	165	1,615,731	7,720	33,944	11,411	0.71%	26,170	1.62%	$3.65	510	(11,921)	1,600	4,614
Malls	0	0	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Power Centers	22	559,389	0	5,000	7,314	1.31%	7,314	1.31%	$0.00	0	(7,314)	0	0
Shopping Centers	286	4,245,412	0	255,020	381,043	8.98%	371,786	8.76%	$2.44	26,956	(78,277)	73,267	263,157
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
I-15 Corridor Total	473	6,420,532	7,720	293,964	399,768	6.23%	405,270	6.31%	$2.56	27,466	(97,512)	74,867	267,771
North County													
General Retail	1,685	11,373,479	27,452	1,253,862	370,291	3.26%	611,721	5.38%	$1.94	5,686	21,599	63,336	202,310
Malls	23	3,176,626	0	50,340	4,642	0.15%	4,642	0.15%	$0.00	(2,311)	6,950	0	19,401
Power Centers	106	3,087,555	4,500	32,648	225,413	7.30%	299,438	9.70%	$2.38	(12,667)	89,306	9,600	191,679
Shopping Centers	946	15,213,601	6,028	492,172	1,492,083	9.81%	1,795,682	11.80%	$1.63	(33,062)	(12,646)	83,045	723,494
Specialty Centers	5	367,735	0	0	0	0.00%	9,323	2.54%	$3.13	0	0	1,485	0
North County Total	2,765	33,218,996	37,980	1,829,022	2,092,429	6.30%	2,720,806	8.19%	$1.44	(42,354)	105,209	157,466	1,136,884
Central North													
General Retail	865	7,169,364	200,437	147,964	219,990	3.07%	317,402	4.43%	$3.38	(6,324)	(24,598)	55,195	193,822
Malls	20	1,102,034	0	646,000	0	0.00%	0	0.00%	$0.00	0	0	0	0
Power Centers	64	2,087,645	0	108,835	94,385	4.52%	77,181	3.70%	$0.00	(14,596)	(50,483)	1,125	27,130
Shopping Centers	411	6,617,974	0	228,556	340,391	5.14%	408,716	6.18%	$2.25	10,387	(22,551)	106,247	237,793
Specialty Centers	9	232,667	0	0	42,867	18.42%	69,877	30.03%	$1.85	(1,100)	12,501	0	15,901
Central North Total	1,369	17,209,684	200,437	1,131,355	697,633	4.05%	873,176	5.07%	$2.78	(11,633)	(85,131)	162,567	474,646
South Bay													
General Retail	1,103	5,655,730	122,000	700,559	293,809	5.19%	409,497	7.24%	$1.39	(9,019)	(94,323)	24,545	5,648
Malls	43	2,405,653	0	0	70,907	2.95%	73,413	3.05%	$0.00	0	(17,312)	0	6,561
Power Centers	27	1,023,153	0	0	14,920	1.46%	45,417	4.44%	$0.00	0	(14,920)	0	3,000
Shopping Centers	521	8,935,000	0	250,300	509,273	5.70%	778,890	8.72%	$1.52	35,228	(49,717)	95,826	317,731
Specialty Centers	26	766,840	0	0	12,858	1.68%	17,646	2.30%	$0.00	0	139,057	0	141,990
South Bay Total	1,720	18,786,376	122,000	950,859	901,767	4.80%	1,324,863	7.05%	$1.47	26,209	(37,215)	120,371	474,930
Outlying Areas													
General Retail	496	2,000,292	0	3,200	74,018	3.70%	101,467	5.07%	$1.29	9,296	(5,996)	21,804	42,838
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	94	1,302,666	0	16,683	69,838	5.36%	88,422	6.79%	$1.50	(4,660)	(8,374)	0	16,694
Specialty Centers	1	255,000	0	0	0	0.00%	0	0.00%	$0.00	0	0		0
Outlying Areas Total	602	3,703,848	0	19,883	154,856	4.18%	200,889	5.42%	$1.57	4,636	(14,370)	21,804	59,532
San Diego Total	**13,497**	**138,371,791**	**440,563**	**5,225,151**	**6,502,069**	**4.70%**	**8,232,204**	**5.95%**	**$1.78**	**8,722**	**(240,656)**	**961,886**	**4,083,655**
General Retail	9,402	54,497,404	405,806	2,979,184	1,797,107	3.30%	2,594,376	4.76%	$1.78	(20,680)	(47,788)	396,461	1,256,927
Malls	151	14,092,784	0	696,340	128,776	0.91%	169,217	1.20%	$0.00	(2,311)	(9,395)	6,578	35,422
Power Centers	375	11,987,330	4,500	151,283	438,341	3.66%	592,986	4.95%	$0.00	(25,853)	45,252	18,375	325,028
Shopping Centers	3,518	55,783,033	30,257	1,398,344	4,056,154	7.27%	4,752,813	8.52%	$1.77	58,666	(376,198)	538,987	2,302,334
Specialty Centers	51	2,011,240	0	0	81,691	4.06%	122,812	6.11%	$2.99	(1,100)	147,473	1,485	163,944
San Diego Total	**13,497**	**138,371,791**	**440,563**	**5,225,151**	**6,502,069**	**4.70%**	**8,232,204**	**5.95%**	**$1.78**	**8,722**	**(240,656)**	**961,886**	**4,083,655**

Lease rates are on a triple-net basis.

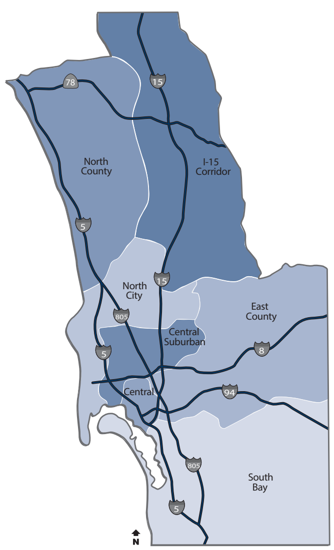
MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
713 S Main Ave. & 825–855 S. Main Ave.	Fallbrook	70,410	$335	Gerrity Group	Tourmaline Capital
1346–1358 W. Valley Pkwy.	Escondido	90,549	$185	Paragon Commercial Group	United Development Group
1702 N. Camino Del Rio Riv. & 1760 Camino Del Rio N.	Mission Valley	368,500	$45	Westfield Group	Macy's, Inc.
3910 Vista Way	Oceanside	26,025	$371	Oak Springs Investors	Land N Store Equity Fund
14589 Camino Del Norte	Carmel Mountain Ranch	16,972	$533	Marilyn Mae Aninger Family Trust	The BROE Group

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
7895 Highlands Village Pl.	Rancho Peñasquitos	50,511	Mar-2016	Vons	DSB Properties, Inc.
865 E. H St.	Chula Vista	14,920	Jan-2016	Island Pacific Supermarket	CVP Investments, LLC
453 Encinitas Blvd.	Encinitas	12,000	Jan-2016	Petco	La Jolla Management Company
16375 Bernardo Center Dr.	Carmel Mountain Ranch	12,000	Mar-2016	Charros	Equity Real Estate Services
542 Broadway	Chula Vista	11,200	Jan-2016	US Health Works	Chula Vista Square Partnership



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

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