



## Retail Market Report

Compared to the Previous Quarter:

### Vacancy



### Net Absorption



### Lease Rates



### Transactions



### Deliveries



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### Market Highlights

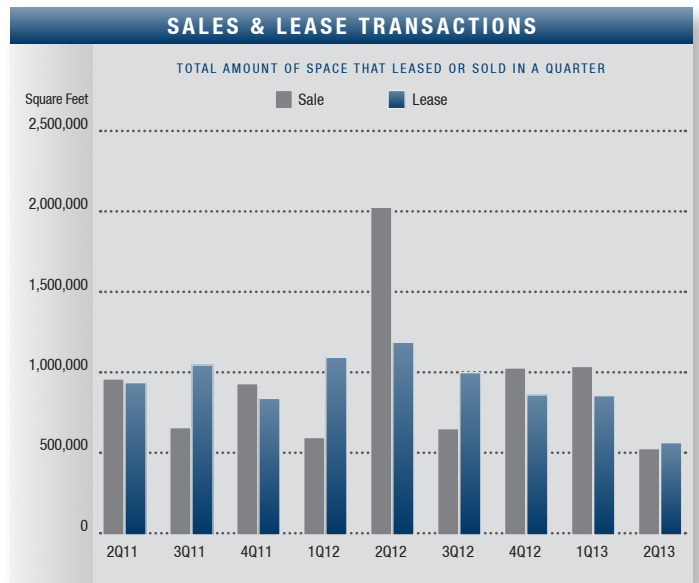
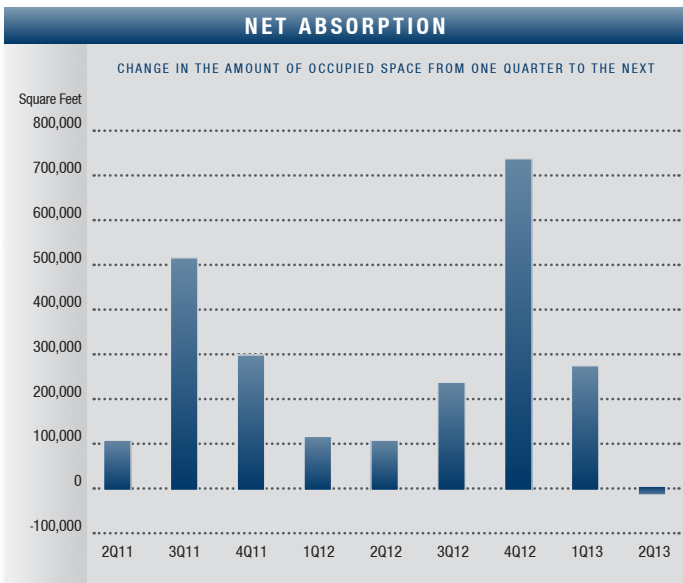
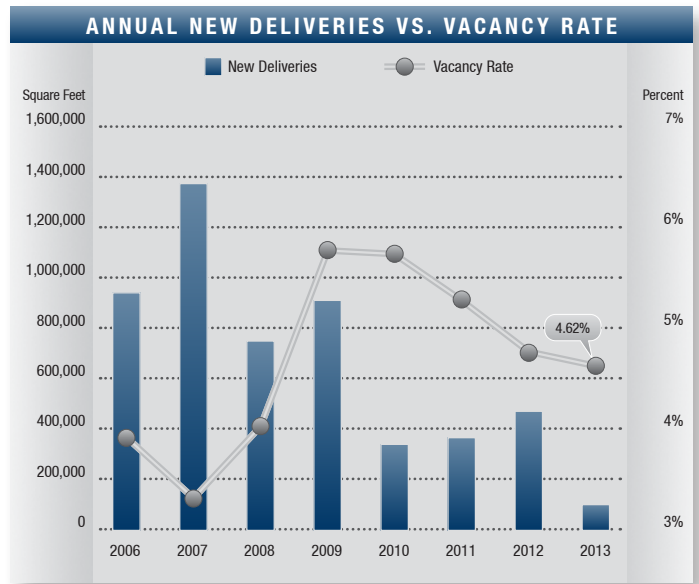
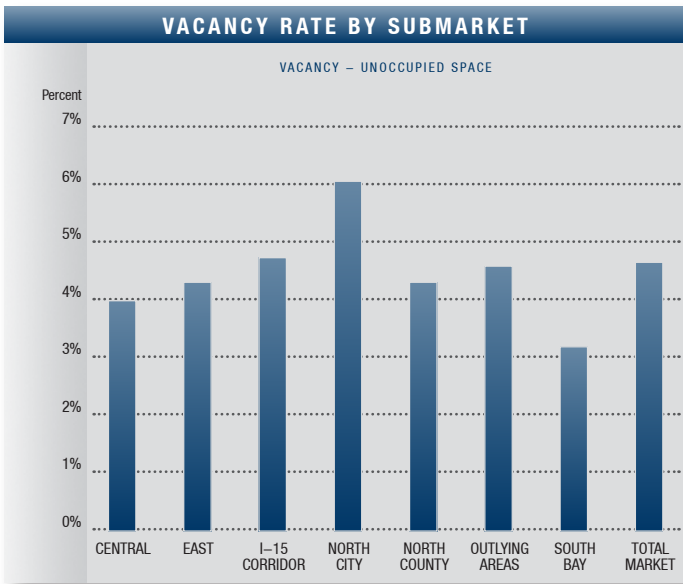
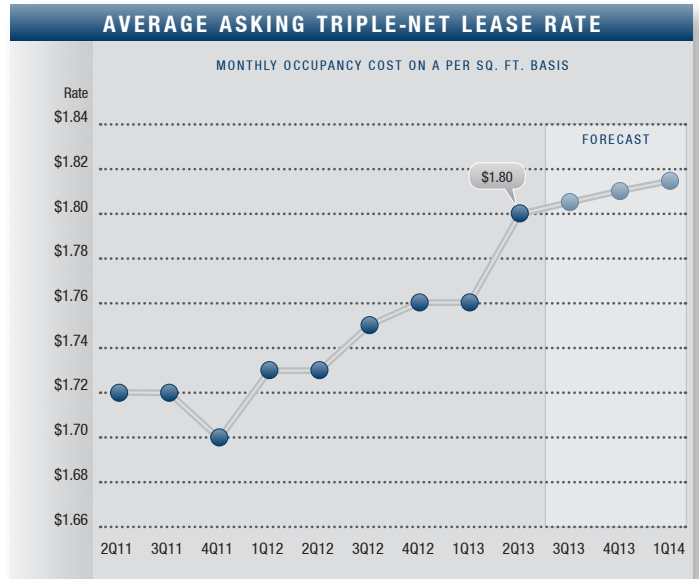
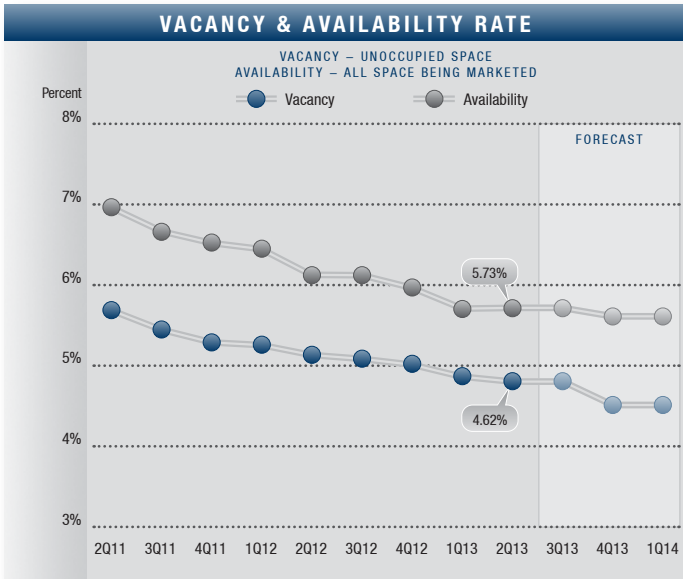
- **Steady Advance** - The San Diego retail market followed the previous two quarters of occupancy gains with an increase in asking rents in the second quarter of 2013. While the San Diego retail market is in recovery, further improvement hinges on the continued employment gains.
- **Construction** - There was 315,000 square feet of retail construction underway at the close of the quarter. The larger retail projects under construction included the Lowes anchored Palomar Commons in Carlsbad, a Walmart plus a separate Walmart grocery store in Escondido, and the ongoing renovation and expansion project at Westfield UTC. Westfield also was active in downtown in the second quarter; they demolished the former Robinson's May building at Horton Plaza in April.
- **Vacancy** - Direct/sublease space (unoccupied) finished the first quarter at 4.62%, effectively no change from the previous quarter's rate of 4.60% which was the lowest vacancy rate in four years.
- **Availability** - Direct/sublease space being marketed was 5.73% at the end of the second quarter, about the same as the previous quarter's rate of 5.71%. Malls had the lowest availability rate of any segment of the retail market, at 1.94%.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in San Diego County was \$1.80 at the end of the second quarter, a sizable four-cent increase from the first quarter's rate of \$1.76. With vacancy continuing to fall, rates should continue to stabilize.
- **Absorption** - The San Diego retail market posted 12,000 square feet of negative net absorption in the second quarter following nine consecutive quarters of positive net absorption. This miniscule amount of negative net

absorption is no change versus the previous quarter for all practical purposes.

- **Transaction Activity** - The combined amount of retail property sold and leased in the first quarter was 1.07 million square feet. This was a decrease from first quarter's total of 1.88 million square feet. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in the San Diego County was 6.7% in May 2013, down from a revised 7.0% in April 2013 and below the year-ago estimate of 8.8%. This compares with an unadjusted unemployment rate of 8.1% for California and 7.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 20,300 payroll jobs from May 2012 to May 2013 — including 5,600 in professional and business services and 4,800 each from educational and health services and leisure and hospitality. Construction and manufacturing were the only employment sectors to post year-over year job losses, at 400 and 100 net jobs lost, respectively.
- **Overall** - The San Diego retail market has a very respectable vacancy rate. Positive absorption trends continue, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market is stabilizing. We foresee a continued increase in investment activity in the coming quarters as lenders dispose of distressed assets. Lease rates are expected to increase in the coming quarters. Thus far in the recovery, quality properties have been able to begin moving rental rates in a positive direction again, but demand remains soft for marginal product. As job creation continues and consumer confidence stabilizes, the retail market will continue to recover.

### RETAIL MARKET OVERVIEW

	2Q13	1Q13	2Q12	% of Change vs. 2Q12
Total Vacancy Rate	4.62%	4.60%	5.19%	(10.98%)
Availability Rate	5.73%	5.71%	6.13%	(6.53%)
Average Asking Lease Rate	\$1.80	\$1.76	\$1.73	4.05%
Sale & Lease Transactions	1,069,669	1,883,505	3,195,051	(66.52%)
Gross Absorption	945,010	1,003,258	1,056,464	(10.55%)
Net Absorption	(12,043)	272,553	104,766	N/A



	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2013	Square Feet Available	Availability Rate 2Q2013	Average Asking Lease Rate	Net Absorption 2Q2013	Net Absorption 2013	Gross Absorption 2Q2013	Gross Absorption 2013
<b>Central</b>													
General Retail	3,673	20,336,781	9,021	617,883	759,586	3.74%	937,811	4.61%	\$2.22	3,514	2,976	249,268	375,577
Mall Market	20	4,276,289	0	0	606	0.01%	13,306	0.31%	\$0.00	0	0	0	0
Power Center	88	3,226,125	5,600	0	68,437	2.12%	80,272	2.49%	\$0.00	(4,840)	5,408	7,529	23,129
Shopping Center	702	11,282,907	0	49,345	711,518	6.31%	750,826	6.65%	\$2.03	(4,356)	28,259	85,864	205,018
Specialty Center	6	198,886	0	0	3,926	1.97%	3,926	1.97%	\$0.00	(2,179)	(2,786)	900	900
<b>Central Total</b>	<b>4,489</b>	<b>39,320,988</b>	<b>14,621</b>	<b>667,228</b>	<b>1,544,073</b>	<b>3.93%</b>	<b>1,786,141</b>	<b>4.54%</b>	<b>\$2.06</b>	<b>(7,861)</b>	<b>33,857</b>	<b>343,561</b>	<b>604,624</b>
<b>East County</b>													
General Retail	1,427	7,324,364	0	37,000	123,660	1.69%	269,321	3.68%	\$1.34	7,493	42,148	36,589	82,545
Mall Market	34	2,892,867	0	10,800	63,832	2.21%	74,141	2.56%	\$2.09	(3,593)	2,268	1,680	7,541
Power Center	37	1,104,940	0	0	17,157	1.55%	23,260	2.11%	\$3.00	(12,000)	(10,700)	0	1,300
Shopping Center	547	8,315,104	0	38,770	634,953	7.64%	729,358	8.77%	\$1.52	(42,996)	(43,364)	34,609	105,054
Specialty Center	2	82,792	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>East County Total</b>	<b>2,047</b>	<b>19,720,067</b>	<b>0</b>	<b>86,570</b>	<b>839,602</b>	<b>4.26%</b>	<b>1,096,080</b>	<b>5.56%</b>	<b>\$1.46</b>	<b>(51,096)</b>	<b>(9,648)</b>	<b>72,878</b>	<b>196,440</b>
<b>I-15 Corridor</b>													
General Retail	176	1,705,873	0	15,368	11,992	0.70%	16,242	0.95%	\$1.98	0	(2,500)	1,583	7,683
Mall Market	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Power Center	22	546,253	0	0	41,950	7.68%	76,511	14.01%	\$0.00	0	6,333	0	6,333
Shopping Center	267	4,059,961	0	31,097	248,259	6.11%	298,053	7.34%	\$2.24	895	24,016	31,868	91,341
Specialty Center	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>I-15 Corridor Total</b>	<b>465</b>	<b>6,312,087</b>	<b>0</b>	<b>46,465</b>	<b>302,201</b>	<b>4.79%</b>	<b>390,806</b>	<b>6.19%</b>	<b>\$2.11</b>	<b>895</b>	<b>27,849</b>	<b>33,451</b>	<b>105,357</b>
<b>North County</b>													
General Retail	1,668	11,126,351	99,782	339,982	376,674	3.39%	550,368	4.95%	\$1.17	29,659	76,938	87,003	166,183
Mall Market	73	3,912,551	0	32,000	118,540	3.03%	75,730	1.94%	\$2.58	(6,000)	(4,744)	0	1,256
Power Center	50	1,904,566	0	12,500	102,314	5.37%	119,733	6.29%	\$2.59	17,184	11,832	20,140	22,295
Shopping Center	880	14,770,132	185,502	583,419	1,341,872	9.09%	1,767,713	11.97%	\$1.57	(11,697)	(37,563)	111,996	196,967
Specialty Center	5	367,815	0	0	1,210	0.33%	0	0.00%	\$0.00	0	0	1,210	1,210
<b>North County Total</b>	<b>2,676</b>	<b>32,081,415</b>	<b>285,284</b>	<b>967,901</b>	<b>1,940,610</b>	<b>6.05%</b>	<b>2,513,544</b>	<b>7.83%</b>	<b>\$1.56</b>	<b>29,146</b>	<b>46,463</b>	<b>220,349</b>	<b>387,911</b>
<b>North City</b>													
General Retail	847	6,883,563	10,066	57,342	131,435	1.91%	170,192	2.47%	\$3.70	30,394	45,519	58,976	105,037
Mall Market	41	2,054,238	0	491,000	87,510	4.26%	47,353	2.31%	\$0.00	(50,000)	(50,000)	0	0
Power Center	46	1,170,856	0	0	10,990	0.94%	9,538	0.81%	\$0.00	(1,056)	(523)	6,527	14,242
Shopping Center	404	6,603,257	0	169,136	432,445	6.55%	440,366	6.67%	\$1.92	14,625	55,137	64,089	179,094
Specialty Center	9	232,667	0	0	59,732	25.67%	69,299	29.78%	\$1.25	4,104	47,618	4,104	47,618
<b>North City Total</b>	<b>1,347</b>	<b>16,944,581</b>	<b>10,066</b>	<b>717,478</b>	<b>722,112</b>	<b>4.26%</b>	<b>736,748</b>	<b>4.35%</b>	<b>\$2.09</b>	<b>(1,933)</b>	<b>97,751</b>	<b>133,696</b>	<b>345,991</b>
<b>South Bay</b>													
General Retail	1,083	5,697,963	0	514,560	232,820	4.09%	344,951	6.05%	\$1.70	47,647	39,586	66,912	93,144
Mall Market	42	2,637,917	0	0	66,678	2.53%	86,992	3.30%	\$0.00	(15,754)	(24,173)	0	2,723
Power Center	25	975,818	0	0	0	0.00%	12,548	1.29%	\$0.00	1,996	1,996	1,996	1,996
Shopping Center	500	8,904,870	4,881	418,668	560,408	6.29%	703,858	7.90%	\$1.68	(14,473)	23,414	69,086	173,163
Specialty Center	25	625,914	0	478,000	3,375	0.54%	10,808	1.73%	\$1.44	1,925	3,424	1,925	3,424
<b>South Bay Total</b>	<b>1,675</b>	<b>18,842,482</b>	<b>4,881</b>	<b>1,411,228</b>	<b>863,281</b>	<b>4.58%</b>	<b>1,159,157</b>	<b>6.15%</b>	<b>\$1.68</b>	<b>21,341</b>	<b>44,247</b>	<b>139,919</b>	<b>274,450</b>
<b>Outlying Areas</b>													
General Retail	464	1,824,537	0	27,200	55,701	3.05%	70,116	3.84%	\$1.37	(2,535)	12,246	1,156	25,750
Mall Market	16	161,000	0	0	11,000	6.83%	11,000	6.83%	\$0.00	0	0	0	0
Power Center	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Shopping Center	94	1,331,481	0	30,000	45,865	3.44%	80,060	6.01%	\$1.73	0	7,745	0	7,745
Specialty Center	1	255,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>Outlying Areas Total</b>	<b>575</b>	<b>3,572,018</b>	<b>0</b>	<b>57,200</b>	<b>112,566</b>	<b>3.15%</b>	<b>161,176</b>	<b>4.51%</b>	<b>\$1.56</b>	<b>(2,535)</b>	<b>19,991</b>	<b>1,156</b>	<b>33,495</b>
<b>San Diego Total</b>	<b>13,274</b>	<b>136,793,638</b>	<b>314,852</b>	<b>3,954,070</b>	<b>6,324,445</b>	<b>4.62%</b>	<b>7,843,652</b>	<b>5.73%</b>	<b>\$1.80</b>	<b>(12,043)</b>	<b>260,510</b>	<b>945,010</b>	<b>1,948,268</b>
General Retail	9,338	54,899,432	118,869	1,609,335	1,691,868	3.08%	2,359,001	4.30%	\$1.96	116,172	216,913	501,487	855,919
Mall Market	226	15,934,862	0	533,800	348,166	2.18%	308,522	1.94%	\$2.35	(75,347)	(76,649)	1,680	11,520
Power Center	268	8,928,558	5,600	12,500	240,848	2.70%	321,862	3.60%	\$2.53	1,284	14,346	36,192	69,295
Shopping Center	3,394	55,267,712	190,383	1,320,435	3,975,320	7.19%	4,770,234	8.63%	\$1.73	(58,002)	57,644	397,512	958,382
Specialty Center	48	1,763,074	0	478,000	68,243	3.87%	84,033	4.77%	\$1.25	3,850	48,256	8,139	53,152
<b>San Diego Total</b>	<b>13,274</b>	<b>136,793,638</b>	<b>314,852</b>	<b>3,954,070</b>	<b>6,324,445</b>	<b>4.62%</b>	<b>7,843,652</b>	<b>5.73%</b>	<b>\$1.80</b>	<b>(12,043)</b>	<b>260,510</b>	<b>945,010</b>	<b>1,948,268</b>

Lease rates are on a triple-net basis.

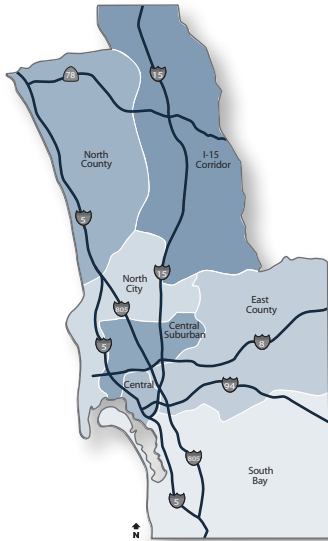
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
9343-9363 Clairemont Mesa Blvd.	Central	44,378	\$356.03	Wong Family Trust	Wick Family Properties
4348-4385 54th St.	Central	91,742	\$87.20	Daesung Investment, LLC	Mabee Properties
5334 Paseo Del Norte	North County	14,717	\$339.74	Hoehn Motors, Inc.	Aro Partners
5247 Kearny Villa Rd.	Central	12,333	\$318.59	DFTC, Inc.	Westbrook Ventures I, LLC
1879 Logan Ave.	Central	13,414	\$287.01	Crosby Square, Inc.	Lee Family Trust

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
8820 Grossmont Blvd.	East County	25,748	May-13	Ross	Sunbelt Investment Holdings, Inc.
2800 Roosevelt St.	North County	15,083	May-13	Advanced Biologics	Roosevelt Tamarack Investments, LP
9212-9292 Miramar Rd.	Central North	14,468	June-13	N/A	InvestCal Realty Corporation
851-881 Showroom Pl.	South Bay	14,227	April-13	N/A	IRE Development
1136 Morena Blvd.	Central	12,000	May-13	Mattson Consignment Sales	Morena Properties



SUBMARKETS

CENTRAL COUNTY

Central San Diego, Clairemont, Coronado, Downtown, Mission Gorge, Mid City/South East 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 CITY

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

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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