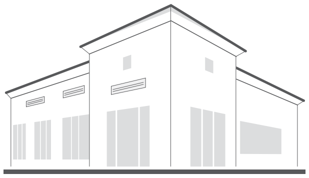

SECOND QUARTER 2015

SAN DIEGO

RETAIL

Voit

REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

UP

Net Absorption

NEGATIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

DOWN

HIGHLIGHTS

- **Tight Market -** The San Diego retail market continued to improve in the second quarter. Asking rental rates increased, and the San Diego retail market posted a total of 5.2 million square feet of positive net absorption over the past 23 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 4.16%, up from the previous quarter's rate of 4.03% and one of the lowest vacancy rates seen since the third quarter of 2008.
- **Availability -** Direct / sublease space being marketed was 5.43% at the end of the second quarter, up 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 8.07%, while malls were the lowest with a 1.05% availability rate.
- **Lease Rates -** The average asking triple-net lease rate per month per square foot in San Diego County was $1.86 at the end of the quarter, up four cents from the first quarter, and an eight-cent increase from 2014's second quarter rate. The highest average asking rates in the market were in the Central North submarket, at $2.94 per square foot per month.
- **Absorption -** The San Diego retail market posted only 52,075 square feet of negative net absorption in the second quarter, for a total of 5.2 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 second quarter was 1.3 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 4.9% in May 2015, up from a revised 4.8% in April 2015 and below the year-ago estimate of 6.1%. This compares with an unadjusted unemployment rate of 6.2% for California and 5.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 42,400 payroll jobs from May 2014 and May 2015, including 11,000 from professional and business services, and 8,500 from leisure and hospitality, 6,800 from education and health services, and 4,500 from construction. No major sector recorded year-over job losses.
- **Overall -** The San Diego retail market continues to post low vacancy rates, with current rates just above 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 3.75% by the end of the first quarter of 2016.

OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	4.16%	4.03%	4.30%	(3.26%)
Availability Rate	5.43%	5.24%	5.67%	(4.23%)
Average Asking Lease Rate	$1.86	$1.82	$1.78	4.49%
Sale & Lease Transactions	1,292,915	1,574,745	1,994,455	(35.17%)
Gross Absorption	896,062	843,947	1,143,985	(21.67%)
Net Absorption	(52,075)	180,292	301,245	N/A

To view available properties or electronic versions of current or past market reports, please visit:

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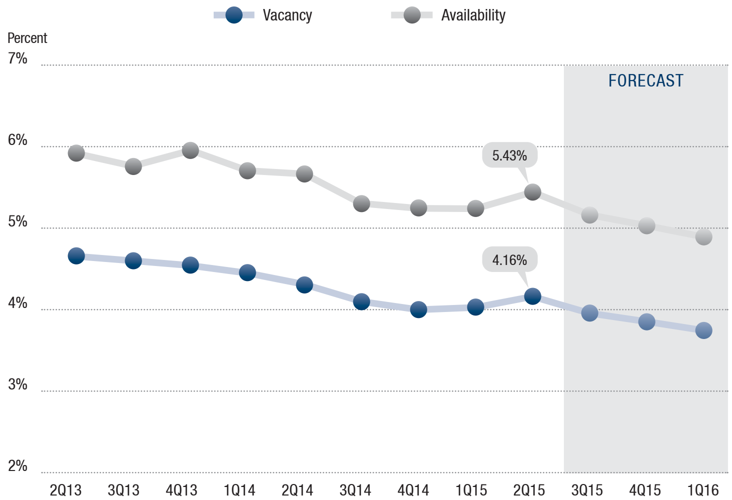
VOIT Real Estate Services

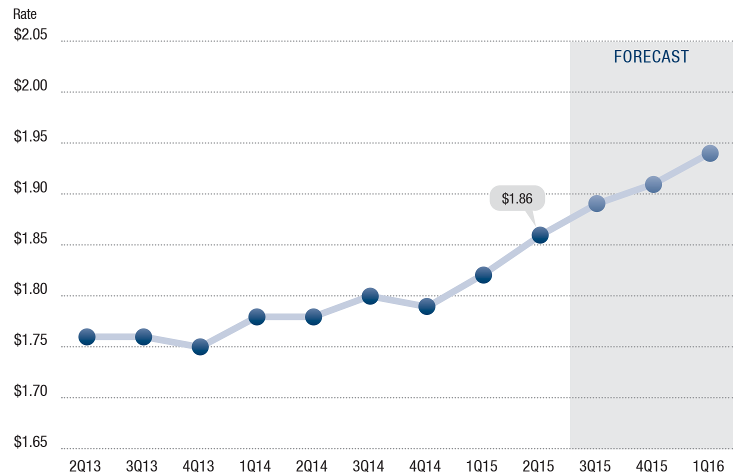
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



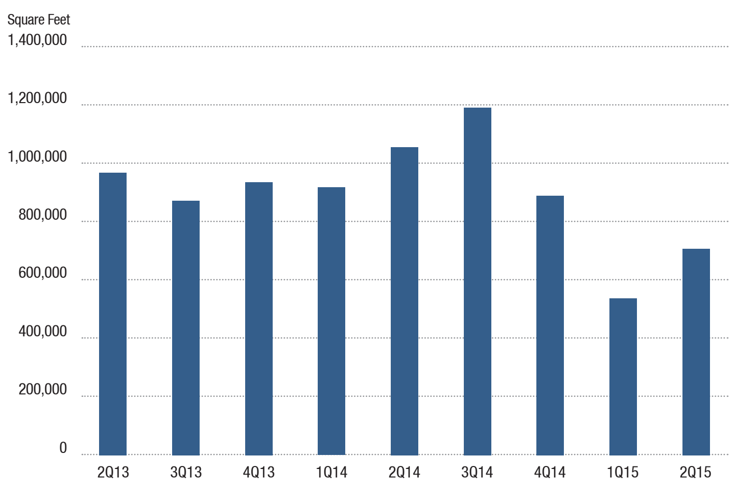
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



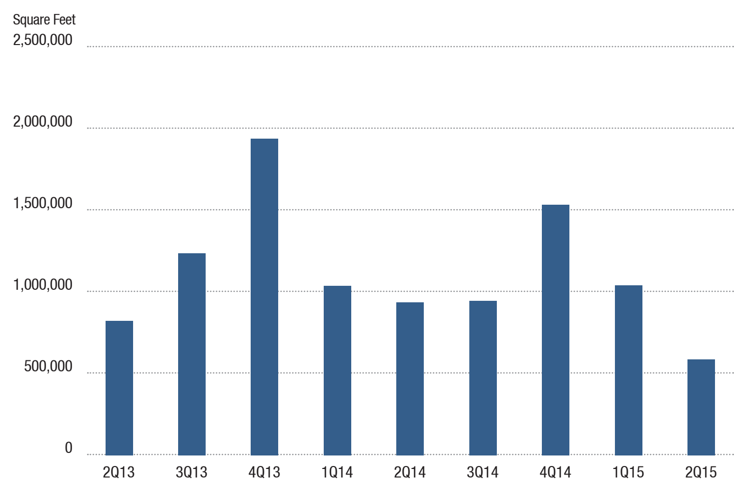
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



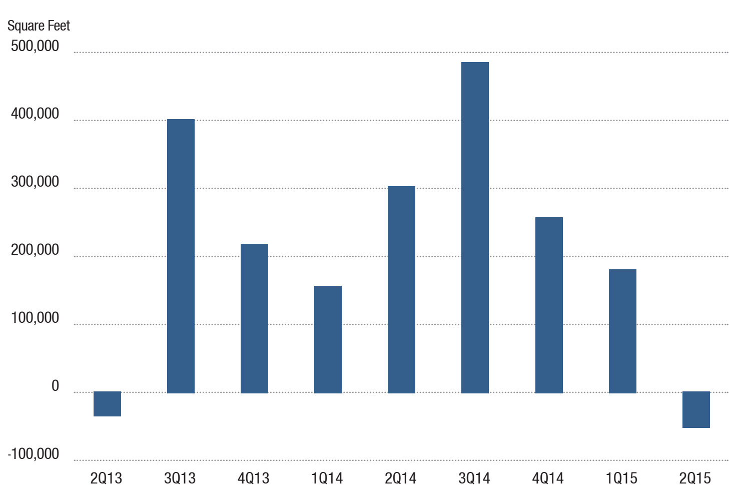
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

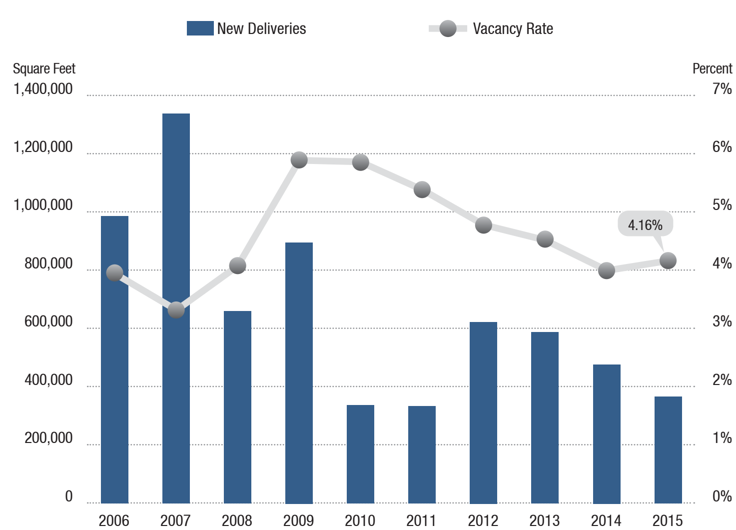


NET ABSORPTION

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 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
Central													
General Retail	3,640	19,221,882	55,511	578,663	571,216	2.97%	819,744	4.26%	$2.24	(4,269)	19,380	127,306	260,913
Malls	41	4,407,874	0	0	34,116	0.77%	38,116	0.86%	$0.00	3,949	2,199	3,949	5,418
Power Centers	94	3,458,955	35,002	0	88,226	2.55%	79,137	2.29%	$0.00	8,982	2,122	10,782	10,857
Shopping Centers	709	11,188,816	0	58,314	524,955	4.69%	666,434	5.96%	$1.89	1,785	(29,713)	129,409	230,500
Specialty Centers	7	313,886	0	0	31,627	10.08%	31,627	10.08%	$0.00	(9,746)	(9,746)	0	0
Central Total	4,491	38,591,413	90,513	636,977	1,250,140	3.24%	1,635,058	4.24%	$2.06	701	(15,758)	271,446	507,688
East County													
General Retail	1,431	7,260,076	0	96,135	131,806	1.82%	235,746	3.25%	$1.29	(1,676)	11,097	37,452	77,451
Malls	15	2,564,590	0	0	6,879	0.27%	8,379	0.33%	$0.00	0	0	0	0
Power Centers	61	1,703,833	0	4,800	12,787	0.75%	47,711	2.80%	$1.75	10,835	16,362	10,835	16,362
Shopping Centers	549	8,348,359	0	40,222	534,257	6.40%	636,831	7.63%	$1.64	16,714	38,229	108,308	174,475
Specialty Centers	3	75,112	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
East County Total	2,059	19,951,970	0	141,157	685,729	3.44%	928,667	4.65%	$1.55	25,873	65,688	156,595	268,288
I-15 Corridor													
General Retail	170	1,698,884	0	191,568	22,354	1.32%	20,242	1.19%	$3.87	(10,571)	(13,513)	0	0
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	7,314	1.31%	7,314	1.31%	$0.00	(7,314)	(7,314)	0	0
Shopping Centers	275	4,030,061	0	35,931	174,136	4.32%	260,603	6.47%	$2.62	(4,182)	(20,306)	28,596	41,770
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
I-15 Corridor Total	467	6,288,130	0	232,499	203,804	3.24%	288,159	4.58%	$2.75	(22,067)	(41,133)	28,596	41,770
North County													
General Retail	1,678	11,175,552	34,389	1,202,402	358,443	3.21%	523,223	4.68%	$1.51	398	13,625	33,611	84,327
Malls	23	3,176,626	0	0	6,560	0.21%	13,472	0.42%	$0.00	8,798	2,721	8,798	12,553
Power Centers	105	3,092,685	0	38,645	232,141	7.51%	209,259	6.77%	$2.53	3,229	10,112	8,440	21,949
Shopping Centers	936	15,238,464	3,600	343,218	1,469,603	9.64%	1,704,326	11.18%	$1.61	(54,598)	6,016	173,581	288,076
Specialty Centers	5	367,735	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
North County Total	2,747	33,051,062	37,989	1,584,265	2,066,747	6.25%	2,450,280	7.41%	$1.63	(42,173)	32,474	224,430	406,905
Central North													
General Retail	856	7,119,232	49,705	236,603	178,420	2.51%	231,736	3.26%	$3.99	(968)	(15,559)	32,356	56,935
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	40,655	1.95%	72,219	3.46%	$0.00	(625)	(11,349)	1,394	4,023
Shopping Centers	415	6,709,289	4,500	184,634	363,762	5.42%	422,640	6.30%	$2.33	(8,557)	6,407	37,225	87,473
Specialty Centers	9	232,667	0	0	44,910	19.30%	63,731	27.39%	$1.80	12,758	12,758	12,758	12,758
Central North Total	1,367	17,288,367	54,205	1,021,072	627,747	3.63%	790,326	4.57%	$2.94	2,608	(7,743)	83,733	161,189
South Bay													
General Retail	1,098	5,685,839	0	792,469	213,226	3.75%	346,657	6.10%	$1.29	(37,821)	(54,299)	17,069	29,231
Malls	43	2,407,129	0	0	72,353	3.01%	74,092	3.08%	$0.00	(1,163)	(18,758)	1,560	1,560
Power Centers	27	1,021,127	0	0	0	0.00%	20,920	2.05%	$0.00	0	0	0	0
Shopping Centers	523	8,944,018	0	229,570	474,159	5.30%	741,559	8.29%	$1.51	4,649	25,067	85,931	144,725
Specialty Centers	26	766,840	0	478,000	9,925	1.29%	9,925	1.29%	$0.00	1,990	141,990	1,990	141,990
South Bay Total	1,717	18,824,953	0	1,500,039	769,663	4.09%	1,193,153	6.34%	$1.45	(32,345)	94,000	106,550	317,506
Outlying Areas													
General Retail	483	1,943,823	10,572	3,800	59,773	3.08%	112,912	5.81%	$1.43	11,120	6,545	18,160	26,409
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	1,295,224	0	0	50,638	3.91%	67,788	5.23%	$1.93	4,208	(13,481)	6,552	10,254
Specialty Centers	1	255,000	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Outlying Areas Total	589	3,639,937	10,572	3,800	121,411	3.34%	191,700	5.27%	$1.89	15,328	(6,936)	24,712	36,663
San Diego Total	**13,437**	**137,635,832**	**193,279**	**5,119,809**	**5,725,241**	**4.16%**	**7,477,343**	**5.43%**	**$1.86**	**(52,075)**	**128,307**	**896,062**	**1,740,009**
General Retail	9,356	54,105,288	150,177	3,101,640	1,535,238	2.84%	2,290,260	4.23%	$2.04	(43,787)	(32,724)	265,954	535,266
Malls	156	13,841,643	0	491,000	130,908	0.95%	145,059	1.05%	$0.00	11,584	(13,838)	14,307	19,531
Power Centers	373	11,923,430	35,002	157,280	381,123	3.20%	436,560	3.66%	$2.45	15,107	9,933	31,451	53,191
Shopping Centers	3,501	55,754,231	8,100	891,889	3,591,510	6.44%	4,500,181	8.07%	$1.77	(39,981)	19,934	569,602	977,273
Specialty Centers	51	2,011,240	0	478,000	86,462	4.30%	105,283	5.23%	$1.80	5,002	145,002	14,748	154,748
San Diego Total	**13,437**	**137,635,832**	**193,279**	**5,119,809**	**5,725,241**	**4.16%**	**7,477,343**	**5.43%**	**$1.86**	**(52,075)**	**128,307**	**896,062**	**1,740,009**

Lease rates are on a triple-net basis.

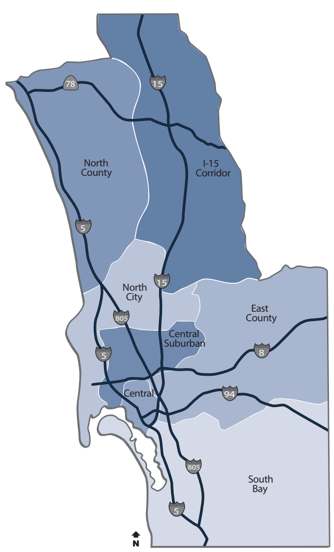
MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
Hwy-78 & Jefferson St. Eastlake & Olympic, Et Al	Oceanside Chula Vista, Et Al	531,389	$344.85	Angelo, Gordon & Co.	Gatlin Development Co.
125-157 N. Twin Oaks Valley Rd.	San Marcos	43,000	$237.58	Webb Management & Investments	Electronic Data Systems Corporation
1240 W. Morena Blvd.	Morena	35,192	$399.07	Dan Floit	Harbor Investment Co., LLC
1608 Broadway	El Cajon	50,607	$250.95	HEC-RNBT, LLC	Garrison Investment Group
1545 Camino Del Rio S.	Mission Valley	56,866	$211.02	John Hine Mazda	Cushman Properties, LP

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5950 Balboa Ave.	Kearny Mesa	47,000	May-2015	Haggen	Sunbelt Investment Holdings, Inc.
673 San Rodolfo Dr. – Renewal	Solana Beach	39,051	May-2015	Marshalls	American Assets Trust
1750 University Dr.	Vista	28,799	May-2015	ALDI	Valvista North, LLC
3416-3420 College Ave.	Mid City	24,289	May-2015	Sam Ash Music Store	Ultimate Capital, LLC
421 Bonita Rd.	Bonita	13,820	Apr-2015	DollarTree	KKA Properties, LLC



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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