SECOND QUARTER 2016

SAN DIEGO

RETAIL

Voit

REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

DOWN

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HIGHLIGHTS

- **Tight Market -** The San Diego retail market continued to improve in the second quarter, but showed signs of tightened supply and increased competition. The industry experienced strong net absorption, asking rental rates continued to move steadily upward, and vacancy rates further trended downward. Availability decreased slightly from last quarter but stayed flat compared to this time last year.
- **Construction -** Subsequent to 2015's record high in new deliveries, 2016 ended the first half of the year with 78,003 square feet delivered and 439,013 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 multiple phase 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 Autumn 2017.
- **Vacancy -** Direct/sublease space (unoccupied) finished the quarter at 3.96%, a notable decrease from the previous quarter's rate of 4.51%.
- **Availability -** Direct/sublease space being marketed was 5.41% at the end of the second quarter, down 24 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 7.85%, while malls were the lowest with a 1.36% availability rate.
- **Lease Rates -** The average asking triple-net lease rate per month per square foot in San Diego County was $1.88, a ten-cent increase from last quarter's rate of $1.78. The highest average asking rates in the market were in the Central North submarket, at $2.93 per square foot per month, based on a triple-net lease.
- **Absorption -**The San Diego retail market posted 785,036 square feet of positive net absorption in the second quarter, for a total of 5.6 million square feet of positive net absorption since 2010.
- **Transaction Activity -** The combined amount of retail property sold and leased in the second quarter was 1.56 million square feet, down from the prior quarter's total of 1.94 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 4.2% in May 2016, down from a revised 4.5% in April 2016 and below the year-ago estimate of 5%. This compares with an unadjusted unemployment rate of 4.7% 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 32,200 payroll jobs from May 2015 to May 2016, including 7,600 from education and health services, which reported the largest overall gain. Professional and business services reported a growth of up to 6,500 jobs, followed by the government sector that reported up to 5,700 jobs.
- **Overall -** The San Diego retail market remains tight, with vacancy at 3.96%, a record low since before the recession. Thus far in the recovery, quality properties have been able to keep overall asking rental rates stable, but demand will be constrained by the lack of available space. Furthermore, development has been virtually nonexistent, running at just over half its historic average, meaning pressure on fundamentals brought on by builders is essentially nonexistent. 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

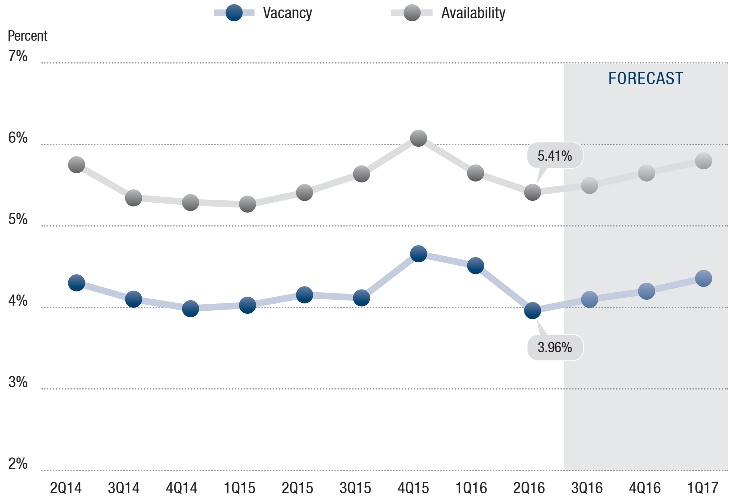
- **Construction -** We anticipate new retail deliveries slowing this year, after ending 2015 with a record high. Going forward, new retail product will come not only from new shopping centers, but also from mixed-use development in the market. Additionally, property renovations will be an avenue for 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 2% to 3% over the next four quarters.
- **Vacancy -** We anticipate the vacancy rate to remain stable with much of the occupancy gains already captured.

OVERVIEW

	2Q16	1Q16	2Q15	% of Change vs. 2Q15
Total Vacancy Rate	3.96%	4.51%	4.15%	(4.58%)
Availability Rate	5.41%	5.65%	5.41%	0.00%
Average Asking Lease Rate	$1.88	$1.78	$1.86	1.08%
Sale & Lease Transactions	1,566,655	1,941,397	2,619,501	(40.19%)
Gross Absorption	1,512,479	1,148,938	836,257	80.86%
Net Absorption	785,036	243,437	159,493	N/A

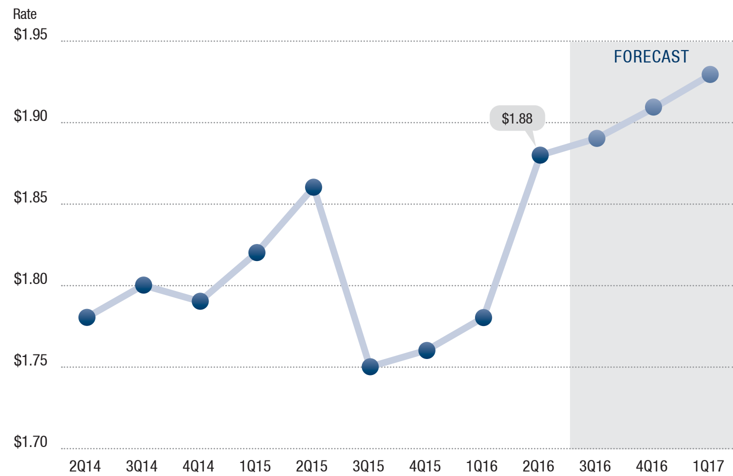
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



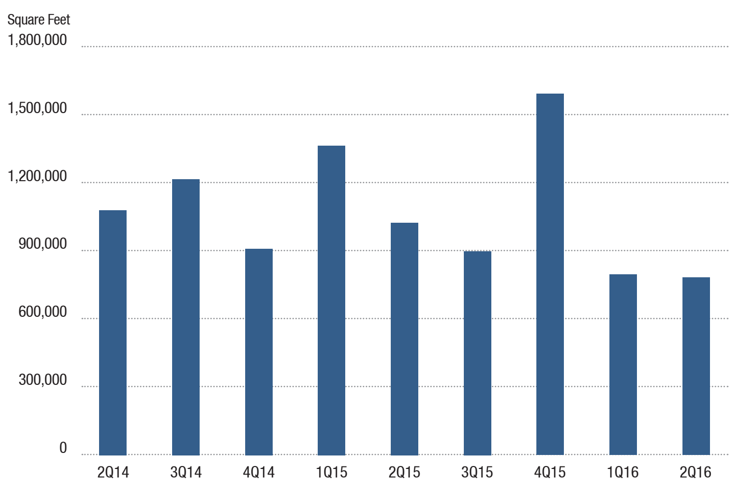
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY BASE RENT ON A PER SQ. FT. BASIS



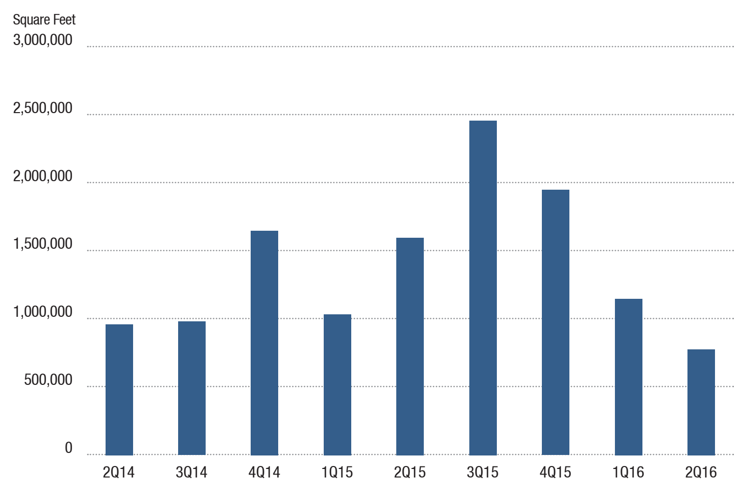
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



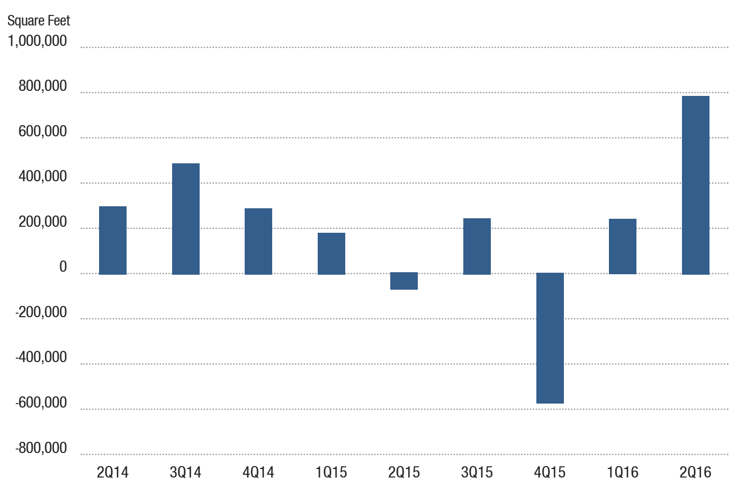
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

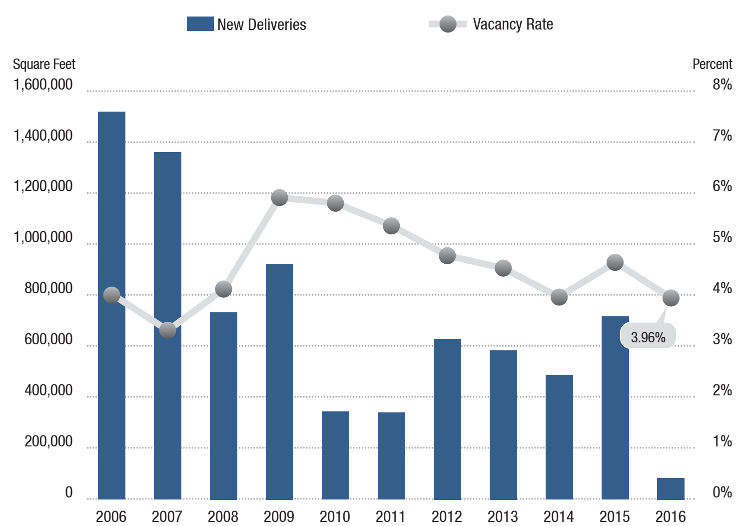


NET ABSORPTION

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 2Q2016	Square Feet Available	Availability Rate 2Q2016	Average Asking Lease Rate	Net Absorption 2Q2016	Net Absorption 2016	Gross Absorption 2Q2016	Gross Absorption 2016
Central													
General Retail	3,659	19,415,438	0	769,270	622,116	3.20%	824,228	4.25%	$2.20	34,553	25,017	153,116	322,182
Malls	39	4,520,504	0	0	30,521	0.68%	100,476	2.22%	$0.00	1,502	4,767	1502	4,767
Power Centers	96	3,531,692	0	0	93,228	2.64%	106,862	3.03%	$0.00	(4,662)	(3,252)	6,213	11,623
Shopping Centers	708	11,195,688	5,700	41,164	460,072	4.11%	637,536	5.69%	$1.98	29,771	73,515	66,260	202,608
Specialty Centers	7	313,886	0	0	25,966	8.27%	25,966	8.27%	$0.00	0	0	0	0
Central Total	4,509	38,977,208	5,700	810,434	1,231,903	3.16%	1,695,068	4.35%	$2.09	61,164	100,047	227,091	541,180
East County													
General Retail	1,430	7,195,376	4,200	73,235	123,212	1.71%	194,667	2.71%	$1.65	8,943	37,064	45,018	123,953
Malls	15	2,929,516	0	0	5,166	0.18%	15,746	0.54%	$0.00	1,773	1,773	8,089	11,402
Power Centers	60	1,697,896	0	4,800	7,941	0.47%	62,502	3.68%	$0.00	(2,438)	(198)	6,213	4,812
Shopping Centers	551	8,396,115	9,863	123,115	481,988	5.74%	549,193	6.54%	$1.59	179,011	257,382	218,844	371,290
Specialty Centers	3	75,112	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
East County Total	2,059	20,294,015	14,063	201,150	618,307	3.05%	822,108	4.05%	$1.60	187,289	296,021	278,164	511,457
I-15 Corridor													
General Retail	165	1,615,731	7,720	33,944	10,321	0.64%	27,958	1.73%	$3.65	1,090	1,600	2,690	4,290
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	0	0	0
Shopping Centers	286	4,240,029	4,773	250,247	325,863	7.69%	364,229	8.59%	$2.52	51,028	103,780	81,330	156,069
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
I-15 Corridor Total	473	6,415,149	12,493	289,191	343,498	5.35%	399,501	6.23%	$2.65	52,118	105,380	84,020	160,359
North County													
General Retail	1,686	11,149,125	37,292	651,922	294,019	2.64%	495,687	4.45%	$1.95	80,660	111,532	112,020	188,587
Malls	23	3,176,626	0	50,340	4,642	0.15%	4,642	0.15%	$0.00	0	(2,311)	6,804	6,804
Power Centers	106	3,087,555	4,500	31,044	173,614	5.62%	381,074	12.34%	$0.00	42,199	39,132	46,699	56,299
Shopping Centers	948	15,253,336	6,028	496,340	1,231,463	8.07%	1,635,514	10.72%	$1.62	215,784	204,814	308,596	416,623
Specialty Centers	5	367,735	0	0	0	0.00%	9,323	2.54%	$3.13	0	0	0	1,485
North County Total	2,768	33,034,377	47,820	1,229,646	1,703,738	5.16%	2,526,240	7.65%	$1.71	338,643	353,167	474,119	669,798
Central North													
General Retail	864	7,173,082	200,437	151,199	212,615	2.96%	331,727	4.62%	$3.81	18,158	1,091	41,840	97,035
Malls	20	1,102,034	0	646,000	0	0.00%	17,425	1.58%	$0.00	0	0	0	0
Power Centers	64	2,082,645	0	108,835	57,902	2.78%	99,206	4.76%	$0.00	36,483	21,887	40,964	42,089
Shopping Centers	412	6,622,804	37,500	191,056	353,656	5.34%	405,334	6.12%	$2.16	(26,852)	(2,878)	58,338	175,877
Specialty Centers	9	232,667	0	0	44,910	19.30%	72,115	30.99%	$0.00	(2,043)	(3,143)	1,100	1,100
Central North Total	1,369	17,213,232	237,937	1,097,090	669,083	3.89%	925,807	5.38%	$2.93	25,746	16,957	142,242	316,101
South Bay													
General Retail	1,105	5,659,700	121,000	748,159	255,039	4.51%	324,156	5.73%	$1.41	44,677	35,658	72,854	97,399
Malls	43	2,405,653	0	0	44,433	1.85%	45,200	1.88%	$0.00	7,608	26,474	9,347	9,347
Power Centers	27	1,024,239	0	0	0	0.00%	15,800	1.54%	$0.00	14,920	14,920	14,920	14,920
Shopping Centers	521	8,888,864	0	250,300	471,100	5.30%	709,395	7.98%	$1.33	30,290	57,432	185,366	270,630
Specialty Centers	26	766,840	0	0	12,858	1.68%	9,646	1.26%	$0.00	0	0	0	0
South Bay Total	1,722	18,745,296	121,000	998,459	783,430	4.18%	1,104,197	5.89%	$1.35	97,495	134,484	282,487	392,296
Outlying Areas													
General Retail	499	2,021,474	0	3,200	57,464	2.84%	84,064	4.16%	$0.87	21,354	25,850	22,454	44,258
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	68,611	5.27%	87,897	6.75%	$1.76	1,227	(3,433)	1,902	2,102
Specialty Centers	1	255,000	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Outlying Areas Total	605	3,725,030	0	19,883	137,075	3.68%	182,961	4.91%	$1.63	22,581	22,417	24,356	46,360
San Diego Total	**13,505**	**138,404,307**	**439,013**	**4,645,853**	**5,487,034**	**3.96%**	**7,655,882**	**5.41%**	**$1.88**	**785,036**	**1,028,473**	**1,512,479**	**2,637,551**
General Retail	9,408	54,229,926	370,649	2,430,929	1,574,786	2.90%	2,282,487	4.21%	$2.24	209,435	237,812	449,992	877,704
Malls	151	14,280,223	0	696,340	95,762	0.67%	194,489	1.36%	$0.00	10,883	30,703	25,742	32,320
Power Centers	375	11,983,416	4,500	149,679	339,999	2.84%	672,758	5.61%	$2.38	86,502	72,489	115,009	129,743
Shopping Centers	3,520	55,899,502	63,864	1,368,905	3,392,753	6.07%	4,389,098	7.85%	$1.72	480,259	690,612	920,636	1,595,199
Specialty Centers	51	2,011,240	0	0	83,734	4.16%	117,050	5.82%	$3.13	(2,043)	(3,143)	1,100	2,585
San Diego Total	**13,505**	**138,404,307**	**439,013**	**4,645,853**	**5,487,034**	**3.96%**	**7,655,882**	**5.41%**	**$1.88**	**785,036**	**1,028,473**	**1,512,479**	**2,637,551**

Lease rates are on a triple-net basis.

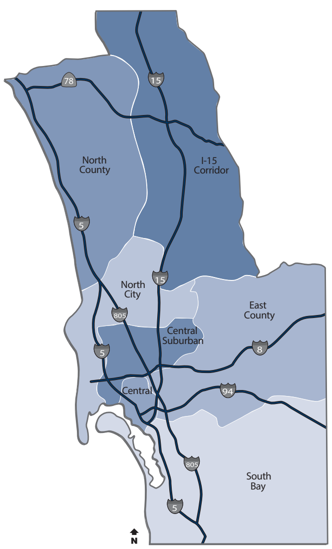
MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
Marketplace at Wingdingwalk	Chula Vista	104,206	$51,000,000	Zurich Alternative Asset Management, LLC	Shea Properties Management Co., Inc.
Santee Town Center	Santee	104,128	$27,535,000	Union City Investments, LLC	Pacific Castle, Inc.
6798-6800 Federal Blvd. (Greg Miller Toyota)	Lemon Grove	35,329	$9,000,000	Greg Miller Automotive San Diego, LP	Bob Baker Enterprises
1385 Tavern Rd. (Alpine Creek Town Center)	Alpine	15,790	$8,100,000	Hong Ji	Westcore Properties
121-129 Lomas Santa Fe Dr. (The Gateway at Cedros)	Solana Beach	8,035	$6,725,000	MDC Cedros, LP	SR Commercial

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
851-881 Showroom Pl.	Chula Vista	45,794	May-2016	Eastlake Speed Circuit Kart Racing	IRE Development, Inc.
816-820 Paseo Del Rey	Chula Vista	42,417	May-2016	Undisclosed	Petsmart, Inc.
340 National City Blvd.	National City	20,312	Jun-2016	National City Tools	Mario & Nancy Estolano
2704 Highland Ave.	National City	16,774	May-2016	Undisclosed	Basim Shoshani
974 W El Norte Pkwy.	Escondido	14,384	May-2016	Undisclosed	Sublease



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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