



Retail Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

DOWN

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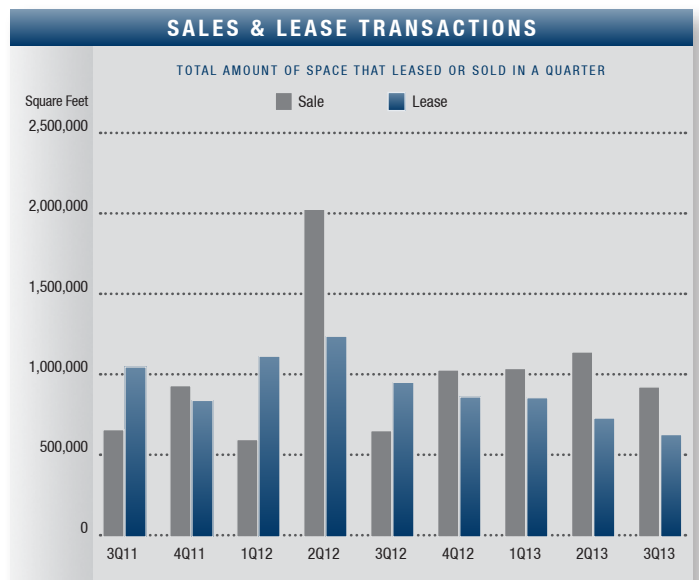
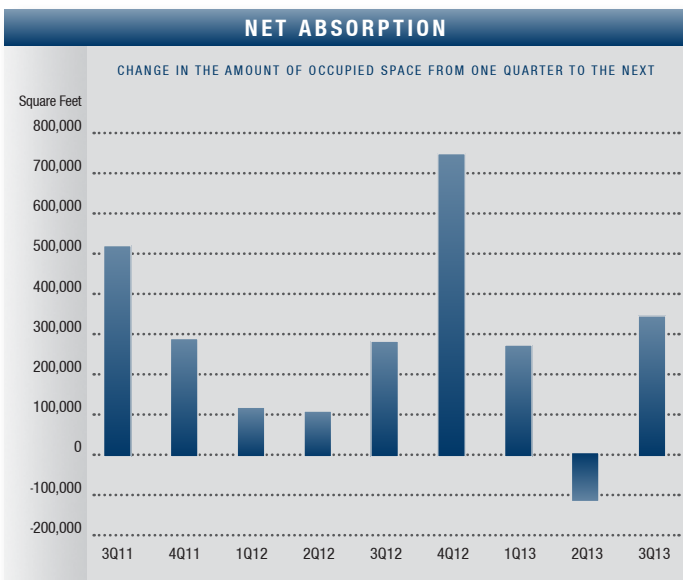
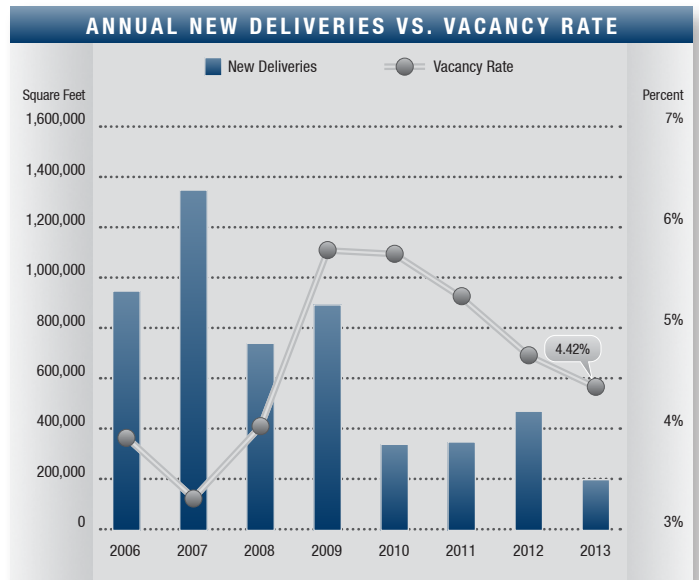
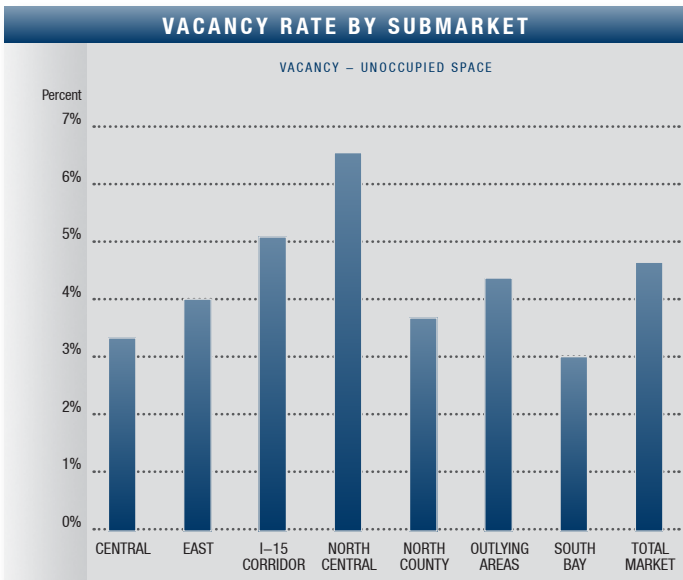
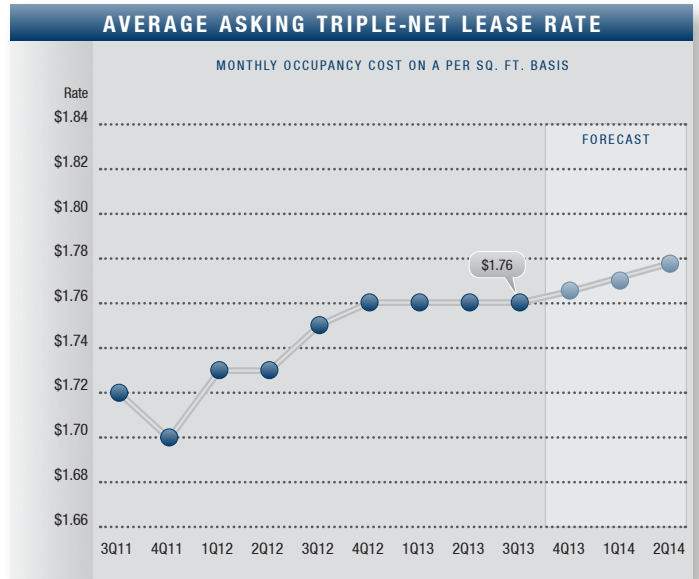
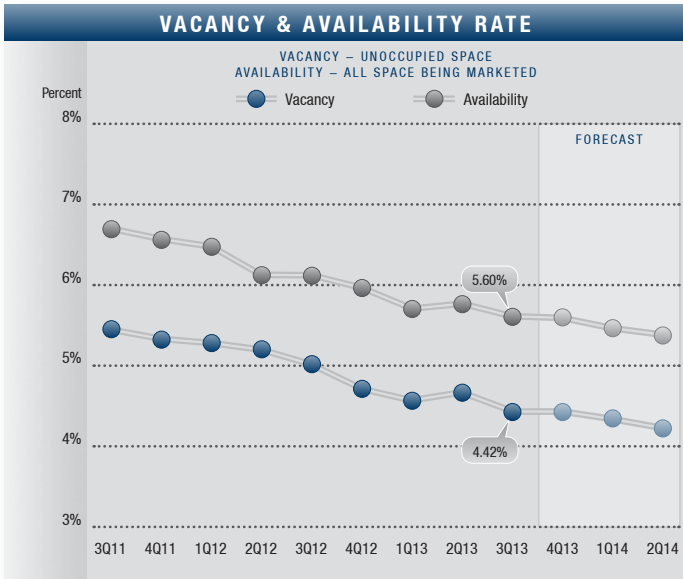
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Market Highlights

- Stable Market** - The San Diego retail market's healthy vacancy rate continued to march downward in the third quarter of 2013, while asking rental rates remained stable, despite the low amount of prime retail space on the market. While the San Diego retail market appears to be in recovery, further improvement hinges on the continued employment gains.
- Construction** - There was 370,000 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, and The Headquarters project at Seaport Village.
- Vacancy** - Direct/sublease space (unoccupied) finished the third quarter at 4.42%, down from the previous quarter's rate of 4.67% and the lowest vacancy rate in four and a half years.
- Availability** - Direct/sublease space being marketed was 5.6% at the end of the third quarter, slightly lower than the second quarter's rate of 5.76%. Malls had the lowest availability rate of any segment of the retail market, at 1.78%.
- Lease Rates** - The average asking triple-net lease rate per month per square foot in San Diego County was \$1.76 at the end of the third quarter, unchanged from the previous quarter's rate. Although vacancy rates have steadily moved downward, the asking rental rate has remained stable. The lack of asking rent increases may be due to a large part of the available inventory being less desirable space.
- Absorption** - The San Diego retail market posted 341,000 square feet of positive net absorption in the third quarter, more than regaining the 115,000 square feet of negative net absorption from the second quarter which broke a string of nine consecutive quarters of positive net absorption.
- Transaction Activity** - The combined amount of retail property sold and leased in the first quarter was 1.53 million square feet. This was only a slight decrease, nearly equivalent to 2012's third quarter's total of 1.59 million square feet. 99 Cents Only was the tenant of one of the larger lease transactions of the quarter, continuing the trend of discount-oriented retailers expanding during the recovery. Another of the larger leases was CrossFit, a health club currently in the midst of a massive brand expansion. 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 7.4% in August 2013, down from a revised 7.8% in July 2013 and below the year-ago estimate of 9.2%. This compares with an unadjusted unemployment rate of 8.8% 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 14,800 payroll jobs from August 2012 to August 2013 — including 5,300 in educational and health services, 4,700 from leisure and hospitality, and 4,400 from professional and business services. Manufacturing recorded the greatest number of job losses, down 2,800 year-over-year.
- Overall** - The San Diego retail market continues to post very respectable vacancy rates. Positive absorption trends endure, 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 keep overall asking rental rates stable, 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

	3Q13	2Q13	3Q12	% of Change vs. 3Q12
Total Vacancy Rate	4.42%	4.67%	5.01%	(11.78%)
Availability Rate	5.60%	5.76%	6.11%	(8.35%)
Average Asking Lease Rate	\$1.76	\$1.76	\$1.75	0.57%
Sale & Lease Transactions	1,530,107	1,863,165	1,592,486	(3.92%)
Gross Absorption	1,188,003	841,228	1,086,277	9.36%
Net Absorption	340,946	(114,524)	279,583	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 3Q2013	Square Feet Available	Availability Rate 3Q2013	Average Asking Lease Rate	Net Absorption 3Q2013	Net Absorption 2013	Gross Absorption 3Q2013	Gross Absorption 2013
Central													
General Retail	3,672	20,247,957	12,086	600,221	629,036	3.11%	854,772	4.22%	\$2.12	157,718	143,012	245,519	599,128
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	68,557	2.13%	78,892	2.45%	\$0.00	(120)	5,288	0	23,129
Shopping Center	705	11,269,642	11,162	59,933	596,850	5.30%	718,771	6.38%	\$2.00	111,757	131,617	214,383	411,047
Specialty Center	6	198,886	115,000	0	2,786	1.40%	2,786	1.40%	\$0.00	1,140	(1,646)	1,140	2,040
Central Total	4,491	39,218,899	143,848	660,154	1,297,835	3.31%	1,668,527	4.25%	\$2.06	270,495	278,271	461,042	1,035,344
East County													
General Retail	1,425	7,293,813	1,642	37,000	109,264	1.50%	252,252	3.46%	\$1.27	17,336	56,544	46,980	129,525
Mall Market	37	3,192,866	0	10,800	63,832	2.00%	72,941	2.28%	\$2.13	0	2,268	0	7,541
Power Center	37	1,104,940	0	0	28,649	2.59%	44,848	4.06%	\$3.00	(23,492)	(22,192)	0	1,300
Shopping Center	546	8,319,563	3,900	44,842	595,794	7.16%	741,749	8.92%	\$1.55	39,419	(4,205)	93,690	198,744
Specialty Center	2	82,792	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
East County Total	2,047	19,993,974	5,542	92,642	797,539	3.99%	1,111,790	5.56%	\$1.46	33,263	32,415	140,670	337,110
I-15 Corridor													
General Retail	175	1,706,838	0	15,368	10,992	0.64%	20,842	1.22%	\$1.54	(2,400)	(1,500)	0	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	4,057,309	0	31,097	266,215	6.56%	324,387	8.00%	\$2.18	(10,216)	6,060	30,465	120,606
Specialty Center	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
I-15 Corridor Total	464	6,310,400	0	46,465	319,157	5.06%	421,740	6.68%	\$2.11	(12,616)	10,893	30,465	134,622
North County													
General Retail	1,673	11,312,555	112,015	308,343	407,390	3.60%	619,071	5.47%	\$1.14	24,062	50,721	80,539	206,730
Mall Market	73	3,912,551	0	32,000	38,981	1.00%	63,237	1.62%	\$2.75	79,559	74,815	81,122	82,378
Power Center	50	1,904,566	0	12,500	98,154	5.15%	111,689	5.86%	\$2.58	23,622	15,992	27,385	31,508
Shopping Center	889	14,777,002	93,502	553,419	1,561,531	10.57%	1,768,264	11.97%	\$1.57	(156,853)	(251,076)	97,037	298,474
Specialty Center	5	367,815	0	0	1,210	0.33%	1,210	0.33%	\$0.00	0	0	0	1,210
North County Total	2,690	32,274,489	205,517	906,262	2,107,266	6.53%	2,563,471	7.94%	\$1.56	(29,610)	(109,548)	286,083	620,300
North Central													
General Retail	847	6,908,196	10,056	57,342	109,195	1.58%	154,623	2.24%	\$3.71	22,653	69,909	58,869	163,906
Mall Market	41	2,054,238	0	491,000	34,032	1.66%	47,353	2.31%	\$0.00	(22)	3,478	6,551	10,051
Power Center	46	1,170,856	0	0	7,821	0.67%	7,821	0.67%	\$0.00	3,169	2,646	3,169	17,411
Shopping Center	406	6,648,310	0	169,136	401,102	6.03%	437,674	6.58%	\$1.83	27,350	86,480	60,079	241,791
Specialty Center	9	232,667	0	0	70,187	30.17%	79,754	34.28%	\$1.75	0	37,163	0	47,618
North Central Total	1,349	17,014,267	10,056	717,478	622,337	3.66%	727,225	4.27%	\$2.09	53,150	199,676	128,668	480,777
South Bay													
General Retail	1,080	5,761,192	0	536,560	227,776	3.95%	326,077	5.66%	\$1.45	3,044	25,485	13,558	89,557
Mall Market	42	2,637,917	0	0	70,986	2.69%	81,057	3.07%	\$0.00	(4,308)	(28,481)	10,616	13,339
Power Center	25	995,818	0	0	0	0.00%	12,548	1.26%	\$0.00	0	1,996	0	1,996
Shopping Center	507	8,832,592	4,881	418,668	512,697	5.80%	630,579	7.14%	\$1.71	24,075	59,925	99,073	273,136
Specialty Center	25	627,072	0	478,000	6,071	0.97%	6,071	0.97%	\$0.00	(4,812)	728	480	6,020
South Bay Total	1,679	18,854,591	4,881	1,433,228	817,530	4.34%	1,056,332	5.60%	\$1.68	3,044	25,485	123,727	384,048
Outlying Areas													
General Retail	466	1,822,110	0	27,200	46,534	2.55%	61,838	3.39%	\$1.43	10,667	20,413	13,728	39,478
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	95	1,309,544	0	30,000	48,267	3.69%	57,676	4.40%	\$1.69	(2,402)	5,343	3,620	11,365
Specialty Center	1	255,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outlying Areas Total	578	3,547,654	0	57,200	105,801	2.98%	130,514	3.68%	\$1.56	8,265	25,756	17,348	50,843
San Diego Total	13,298	137,214,274	369,844	3,913,429	6,067,465	4.42%	7,679,599	5.60%	\$1.76	340,946	497,116	1,188,003	3,043,044
General Retail	9,338	55,052,661	135,799	1,582,034	1,540,187	2.80%	2,289,475	4.16%	\$1.80	233,080	364,584	459,193	1,236,007
Mall Market	229	16,234,861	0	533,800	219,437	1.35%	288,894	1.78%	\$2.38	75,229	52,080	98,289	113,309
Power Center	268	8,948,558	5,600	12,500	245,131	2.74%	332,309	3.71%	\$2.62	3,179	10,063	30,554	81,677
Shopping Center	3,415	55,213,962	113,445	1,307,095	3,982,456	7.21%	4,679,100	8.47%	\$1.73	33,130	34,144	598,347	1,555,163
Specialty Center	48	1,764,232	115,000	478,000	80,254	4.55%	89,821	5.09%	\$1.75	(3,672)	36,245	1,620	56,888
San Diego Total	13,298	137,214,274	369,844	3,913,429	6,067,465	4.42%	7,679,599	5.60%	\$1.76	340,946	497,116	1,188,003	3,043,044

Lease rates are on a triple-net basis.

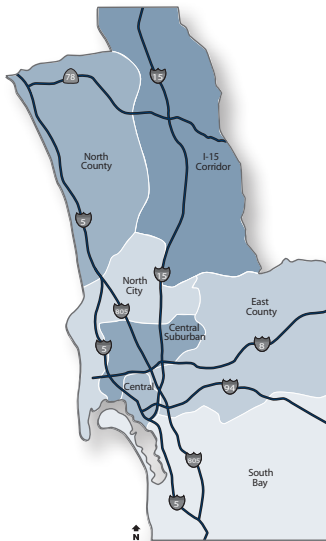
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
402-450 5th Ave.	Central	54,773	\$885.47	Clarion Partners	Champion Real Estate Development Co.
6250 & 6260 El Camino Real	North County	81,863	\$574.13	Tri-City Healthcare District	Carlitas Development
4310-4558 Camino De La Paz	South Bay	257,685	\$168.81	TKG Management, Inc.	Westwood Financial Corporation
1033-1330 Orange Ave.	Central	49,322	\$435.91	Paragon Real Estate Group	SIMA Corporation
643-665 5th Ave.	Central	17,500	\$871.43	ASB Capital Management, LLC	Federal Realty Investment Trust

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3358 Governor Dr. – Renewal	North Central	24,075	Jul-13	Sprouts	Governor Regents, Inc.
838 G St.	Central	15,038	Jul-13	CrossFit East Village	Ellis Investments, LLC
871 Showroom Pl.	South Bay	14,251	Jul-13	Lazer Journey	IRE Development, Inc.
1326 Main St. Ramona	Outlying	13,715	Aug-13	99 Cents Only	Auerbach Commercial Realty Corporation
7340 Miramar Rd.	North Central	13,422	July-13	Casual Dining & Bar Stools	Omninet Capital



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 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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