



THIRD QUARTER 2014

SAN DIEGO

RETAIL

Voit

REAL ESTATE SERVICES

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

FLAT



Deliveries

DOWN



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VOIT Real Estate Services

HIGHLIGHTS

- **Tight Market** - The San Diego retail market continued to improve as we enter the last quarter of 2014. Asking rental rates increased, and the market posted positive net absorption of over 365,000 square feet. Both vacancy and availability continued to trend downward, displaying decreases from both the previous quarter and the prior year. While the San Diego retail market appears to be in recovery, further improvement hinges on continued employment gains.
- **Construction** - After hitting low marks in 2010 and 2011, new retail construction saw a significant increase from those levels in 2012 and 2013. However, that trend looks to end this year with only approximately 135,000 square feet delivered through the first three quarters of 2014. 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. 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 3.93%, down from the previous quarter's rate of 4.19% and the lowest vacancy rate seen since the third quarter of 2008.
- **Availability** - Direct/sublease space being marketed was 5.12% at the end of the third quarter, a decrease from the prior quarter's rate of 5.55%. 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 7.59%, while malls were the lowest with a 1.08% availability rate.
- **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 quarter, up two cents from the second quarter, and a four-cent increase from 2013's third quarter rate. The highest average asking rates in the market were in the North Central submarket, at \$2.62 per square foot per month.
- **Absorption** - The San Diego retail market posted 366,844 square feet of positive net absorption in the third quarter of the year, giving the San Diego retail market a total of 4.5 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 third quarter was 1.69 million square feet, nearly the same as the prior quarter's total of 1.72 million square feet. This statistic can have some lag time in being reported, so look for the third quarter figures to end up somewhat higher in the next report. The largest leases from the third quarter are a good representation of some of the types of tenants that have been active during the recovery: grocery stores, gyms, and value oriented retailers. 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 6.2% in August 2014, down from a revised 6.6% in July 2014 and below the year-ago estimate of 7.7%. This compares with an unadjusted unemployment rate of 7.4% for California and 6.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 34,200 payroll jobs from August 2013 and August 2014, including 8,400 from professional and business services, 6,800 from educational and health services, and 6,800 from construction. The financial activities sector recorded the greatest number of job losses, down 700 year over year.
- **Overall** - The San Diego retail market continues to post low vacancy rates, with current rates below 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. As job creation continues and consumer confidence stabilizes, the retail market will continue to improve.

FORECAST

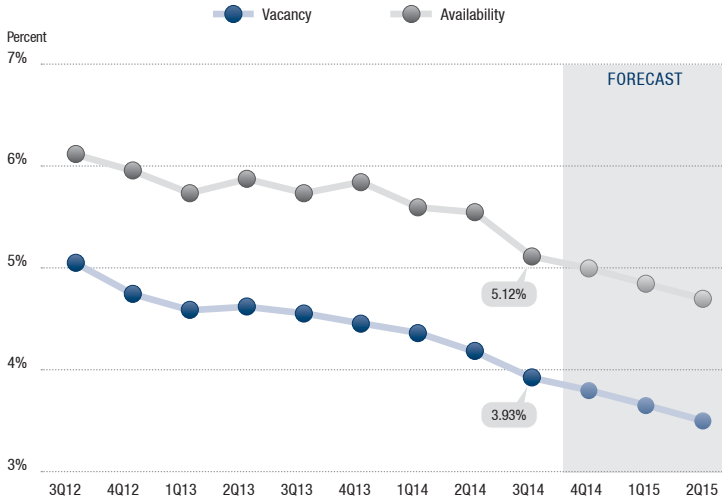
- **Construction** - We anticipate new retail deliveries slowing this year from the levels of the past two years. Going forward, new retail product will come, not only from new shopping centers, but increasingly from mixed-use development in the market. Additionally, property renovations will be an avenue 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 2014.
- **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 40 basis points to approximately 3.5% by the end of the second quarter of 2015.

OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	3.93%	4.19%	4.57%	(14.00%)
Availability Rate	5.12%	5.55%	5.73%	(10.65%)
Average Asking Lease Rate	\$1.80	\$1.78	\$1.76	2.27%
Sale & Lease Transactions	1,691,961	1,723,519	2,087,472	(18.95%)
Gross Absorption	985,516	1,134,514	1,239,472	(20.49%)
Net Absorption	366,844	320,149	374,622	N/A

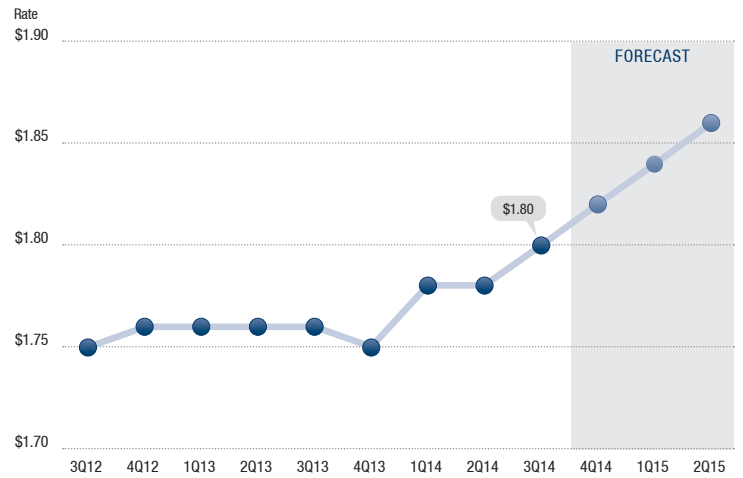
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



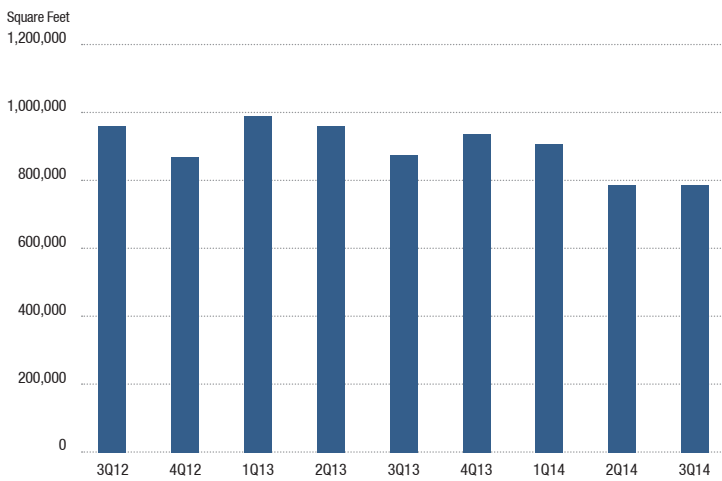
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



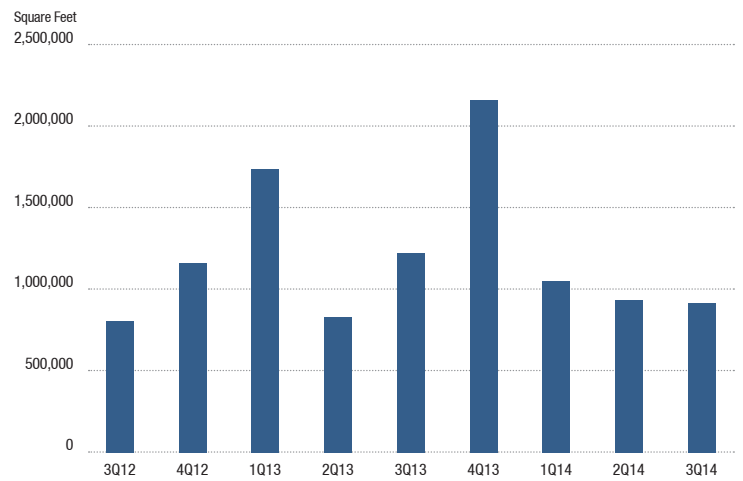
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



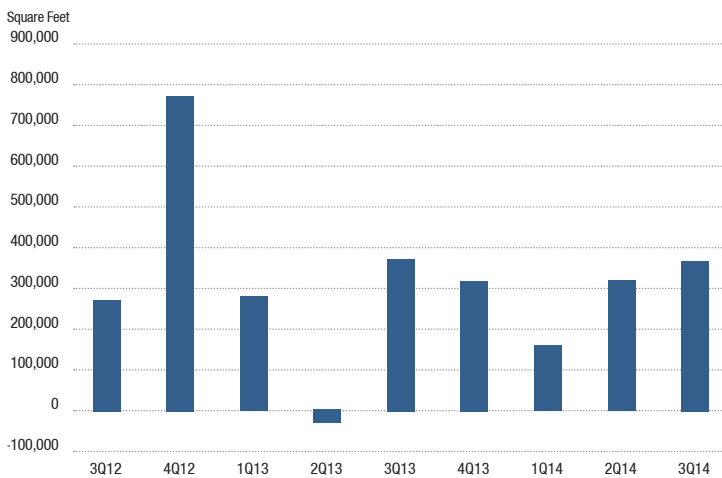
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

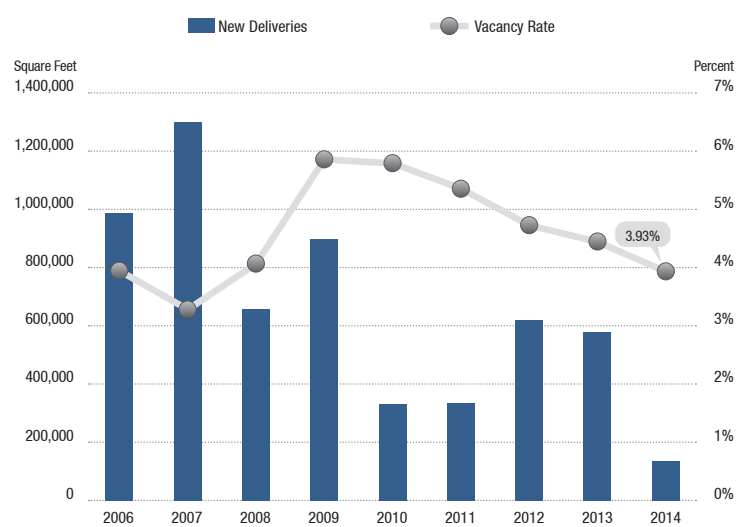


NET ABSORPTION

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 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
Central													
General Retail	3,647	19,491,722	9,757	570,624	568,407	2.92%	840,162	4.31%	\$2.20	55,298	80,054	142,999	468,449
Malls	41	4,532,033	0	0	49,368	1.09%	42,479	0.94%	\$0.00	4,014	(1,340)	6,241	13,679
Power Centers	89	3,251,923	0	0	68,844	2.12%	100,607	3.09%	\$0.00	(10,604)	2,831	17,702	48,992
Shopping Centers	712	11,287,013	0	62,964	581,605	5.15%	649,358	5.75%	\$1.93	104,896	65,914	180,048	387,694
Specialty Centers	7	313,886	0	0	20,007	6.37%	20,007	6.37%	\$0.00	(1,913)	7,549	0	11,473
Central Total	4,496	38,876,577	9,757	633,588	1,288,231	3.31%	1,652,613	4.25%	\$2.07	151,691	155,008	346,990	930,287
East County													
General Retail	1,428	7,239,791	0	44,728	105,765	1.46%	263,105	3.63%	\$1.19	(18,546)	59,225	12,345	156,895
Malls	14	2,543,631	0	0	6,879	0.27%	8,379	0.33%	\$0.00	0	0	0	0
Power Centers	61	1,761,652	0	4,800	41,345	2.35%	69,348	3.94%	\$2.38	6,536	30,129	9,968	37,513
Shopping Centers	546	8,326,540	8,800	52,102	546,545	6.56%	663,500	7.97%	\$1.47	23,923	101,356	86,542	280,829
Specialty Centers	3	75,112	0	0	0	0.00%	0	0.00%	\$0.00	0	7,508	0	7,508
East County Total	2,052	19,946,726	8,800	101,630	700,534	3.51%	1,004,332	5.04%	\$1.41	11,913	198,218	108,855	482,745
I-15 Corridor													
General Retail	169	1,600,521	111,000	191,568	9,841	0.61%	15,891	0.99%	\$2.80	0	(274)	0	7,446
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	0	0.00%	0	0.00%	\$0.00	0	40,000	0	40,000
Shopping Centers	273	4,060,135	0	29,731	166,207	4.09%	219,332	5.40%	\$2.42	18,910	41,010	29,128	97,964
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
I-15 Corridor Total	464	6,219,841	111,000	226,299	176,048	2.83%	235,223	3.78%	\$2.42	18,910	80,736	29,128	145,410
North County													
General Retail	1,671	11,152,818	10,500	351,394	317,596	2.85%	488,542	4.38%	\$1.50	15,293	54,167	55,553	208,177
Malls	22	3,026,626	0	0	0	0.00%	15,430	0.51%	\$0.00	0	0	0	0
Power Centers	103	3,075,361	0	44,500	141,714	4.61%	173,422	5.64%	\$2.48	(948)	(3,926)	3,627	8,862
Shopping Centers	921	15,087,025	98,000	452,449	1,395,833	9.25%	1,571,485	10.42%	\$1.58	113,419	197,507	234,050	653,859
Specialty Centers	5	367,815	0	0	0	0.00%	0	0.00%	\$0.00	0	1,210	0	2,275
North County Total	2,722	32,709,645	108,500	848,343	1,855,143	5.67%	2,248,879	6.88%	\$1.61	127,764	248,958	293,230	873,173
North Central													
General Retail	848	6,994,776	0	93,600	98,284	1.41%	149,956	2.14%	\$3.97	9,891	26,663	34,197	104,460
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	36,514	1.75%	50,042	2.40%	\$0.00	(3,771)	(7,803)	3,027	11,493
Shopping Centers	407	6,554,388	120,186	184,634	283,726	4.33%	338,285	5.16%	\$2.08	22,974	69,959	60,732	226,878
Specialty Centers	10	275,379	0	0	71,542	25.98%	67,235	24.42%	\$1.50	0	14,266	0	23,483
North Central Total	1,352	17,051,722	120,186	878,069	490,066	2.87%	605,518	3.55%	\$2.62	29,094	103,085	97,956	366,314
South Bay													
General Retail	1,094	5,651,134	2,322	845,754	193,624	3.43%	327,626	5.80%	\$1.37	14,899	23,858	48,035	131,996
Malls	42	2,637,917	0	0	53,595	2.03%	73,909	2.80%	\$0.00	6,286	14,717	6,286	25,462
Power Centers	27	1,020,407	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Shopping Centers	523	8,962,476	0	214,549	510,108	5.69%	719,554	8.03%	\$1.72	11,024	20,744	42,410	193,885
Specialty Centers	25	627,072	140,000	478,000	4,109	0.66%	4,109	0.66%	\$0.00	8,587	13,541	9,974	14,928
South Bay Total	1,711	18,899,006	142,322	1,538,303	761,436	4.03%	1,125,198	5.95%	\$1.63	40,796	72,860	106,705	366,271
Outlying Areas													
General Retail	484	1,981,317	10,572	33,668	65,527	3.31%	90,865	4.59%	\$1.67	(12,545)	(9,036)	1,452	21,827
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	97	1,319,154	0	30,000	50,683	3.84%	56,512	4.28%	\$0.00	(779)	(3,556)	1,200	15,794
Specialty Centers	1	255,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outlying Areas Total	593	3,701,361	10,572	63,668	127,210	3.44%	158,377	4.28%	\$1.67	(13,324)	(12,592)	2,652	37,621
San Diego Total													
13,390	137,404,878	511,137	4,289,900	5,398,659	3.93%	7,034,316	5.12%	\$1.80	366,844	846,282	985,516	3,201,821	
San Diego Total													
General Retail	9,341	54,112,079	144,151	2,131,336	1,359,035	2.51%	2,180,323	4.03%	\$1.91	64,290	234,666	294,581	1,099,250
Malls	153	14,025,631	0	491,000	120,842	0.86%	151,197	1.08%	\$0.00	10,300	13,377	12,527	39,141
Power Centers	366	11,756,173	0	163,135	288,417	2.45%	393,419	3.35%	\$2.46	(8,787)	61,231	34,324	146,860
Shopping Centers	3,479	55,596,731	226,986	1,026,429	3,534,707	6.36%	4,218,026	7.59%	\$1.73	294,367	492,934	634,110	1,856,903
Specialty Centers	51	1,914,264	140,000	478,000	95,658	5.00%	91,351	4.77%	\$1.50	6,674	44,074	9,974	59,667
San Diego Total	13,390	137,404,878	511,137	4,289,900	5,398,659	3.93%	7,034,316	5.12%	\$1.80	366,844	846,282	985,516	3,201,821

Lease rates are on a triple-net basis.

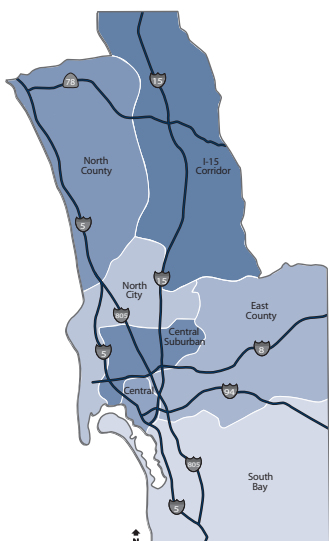
MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
961-965 Palomar Airport Rd.	Carlsbad	15,317	\$979.30	Hannay Realty Advisors	Mission Equities Real Estate, Inc.
645-715 W. Mission Ave.	Escondido	137,954	\$74.66	MDA Holdings, LP	Hypericum Companies, Inc.
770 W. San Marcos Blvd.	San Marcos	20,725	\$391.70	Undisclosed	Eugene Ku
625-635 S. Melrose Dr.	Vista	40,589	\$181.08	Pathfinder Partner Funds	The Prudential Insurance Company
13167 Black Mountain Rd.	Rancho Peñasquitos	22,349	\$318.94	B3 Black Mountain, LLC	Malulani Investments, LP

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
555 Grand Ave.	San Marcos	91,554	Aug-14	Winco	City of San Marcos
4421 University Ave.	Mid City	66,284	July-14	El Super	(Sublease)
555 Grand Ave.	San Marcos	58,000	Aug-14	Hobby Lobby	City of San Marcos
1980 University Dr.	Vista	17,900	Aug-14	Planet Fitness	Valvista North, LLC
450 Fletcher Pkwy.	El Cajon	16,400	July-14	Rock Thrift Store	Cal West Real Estate



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

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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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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