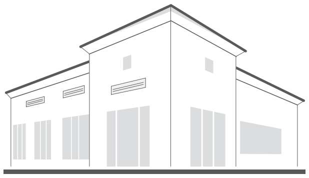

THIRD QUARTER 2015
SAN DIEGO
RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

UP

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Deliveries

FLAT

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VOIT Real Estate Services

HIGHLIGHTS

- **Tight Market -** The San Diego retail market did not move significantly in the third quarter. The vacancy rate for the market remained practically unchanged, and net absorption was slightly positive. The bright point of the quarter was transaction volume which was up versus the prior quarter.
- **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 4.30%, up slightly from the previous quarter's rate of 4.25% and just eleven basis points of difference from the rate of 2014's third quarter.
- **Availability -** Direct / sublease space being marketed was 5.74% at the end of the third quarter, up 20 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 8.15%, while malls were the lowest with a 1.16% availability rate.
- **Lease Rates -** The average asking triple-net lease rate per month per square foot in San Diego County was $1.75 a decrease from the second quarter's rate of $1.86. 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 106,830 square feet of positive net absorption in the third quarter, for a total of 5.2 million square feet of positive net absorption over the past six years.
- **Transaction Activity -** The combined amount of retail property sold and leased in the third quarter was 2.9 million square feet, an increase of 33.15% over the 2014 third quarter's tally of 2.2 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 5.1% in August 2015, down from a revised 5.4% in August 2015 and below the year-ago estimate of 6.6%. This compares with an unadjusted unemployment rate of 6.1% 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 42,400 payroll jobs from August 2014 and August 2015, including 11,500 from professional and business services, and 8,000 from education and health services, 5,600 from both transportation and utilities, and leisure and hospitality. Only two minor sectors recorded year-over job losses totaling 900 jobs.
- **Overall -** The San Diego retail market remains tight, 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

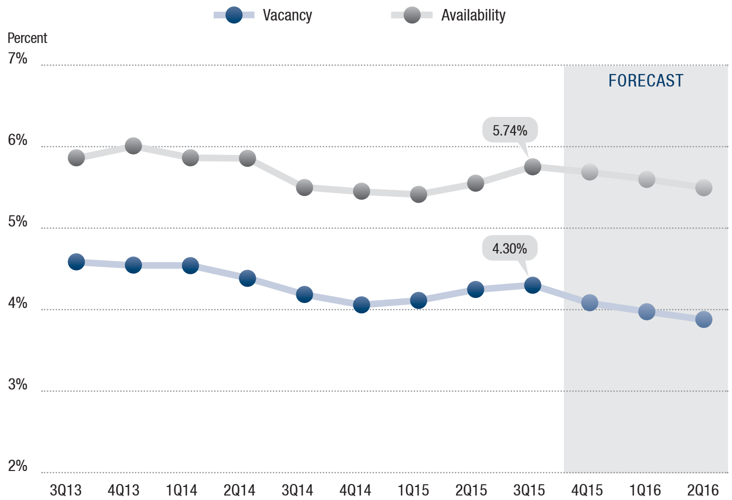
- **Construction -** We anticipate new retail deliveries will continue to be limited. Going forward, new retail product will come not only from new shopping centers, but increasingly from mixed-use development in the market. Additionally, property renovations will be an avenue of adding high quality 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 5% over the next four quarters.
- **Vacancy -** We anticipate the vacancy rate to remain stable with much of the occupancy gains already captured.

OVERVIEW

	3Q15	2Q15	3Q14	% of Change vs. 3Q14
Total Vacancy Rate	4.30%	4.25%	4.19%	2.63%
Availability Rate	5.74%	5.54%	5.50%	4.36%
Average Asking Lease Rate	$1.75	$1.86	$1.80	(2.78%)
Sale & Lease Transactions	2,922,298	2,319,996	2,194,688	33.15%
Gross Absorption	925,199	900,080	1,147,207	(19.35%)
Net Absorption	106,830	(62,888)	482,647	N/A

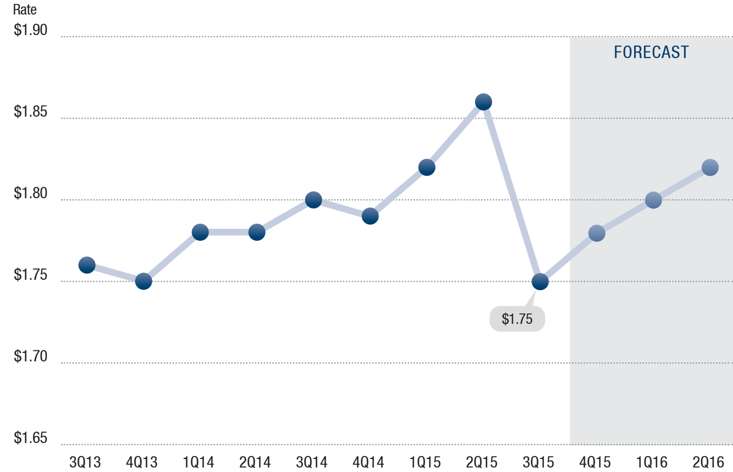
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



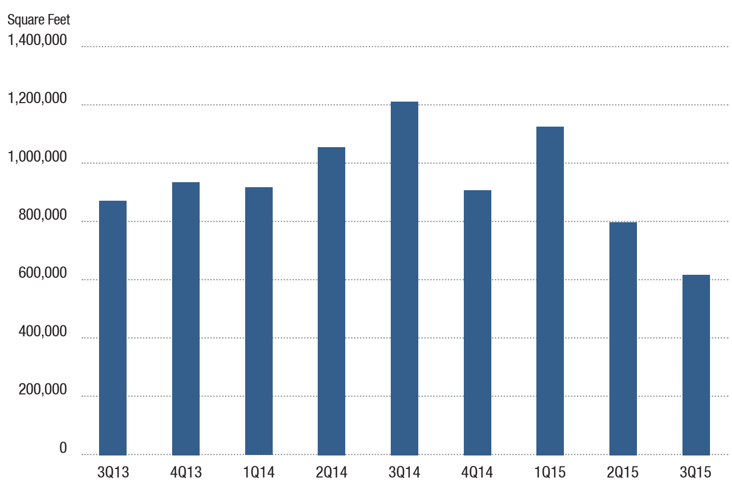
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



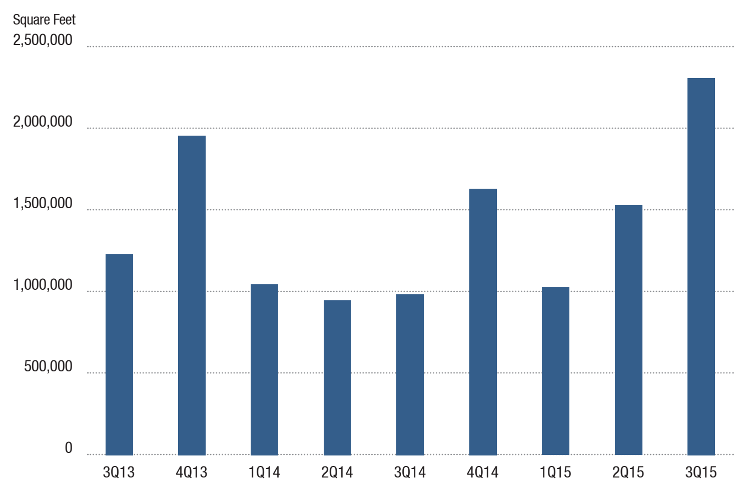
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



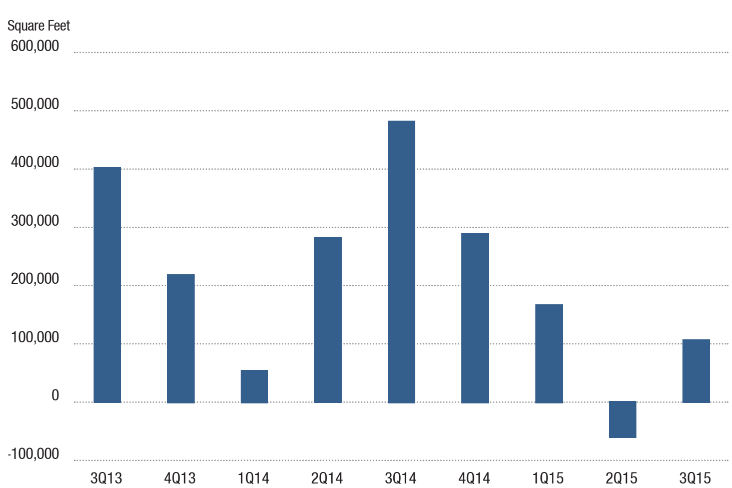
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

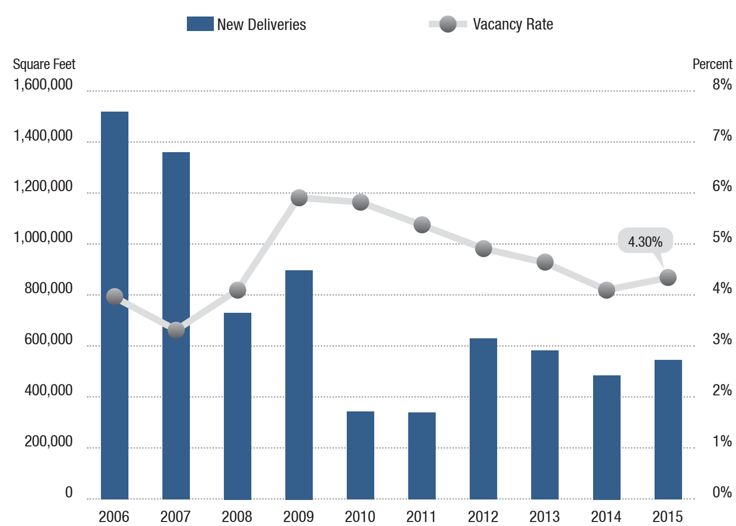


NET ABSORPTION

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 3Q2015	Square Feet Available	Availability Rate 3Q2015	Average Asking Lease Rate	Net Absorption 3Q2015	Net Absorption 2015	Gross Absorption 3Q2015	Gross Absorption 2015
Central													
General Retail	3,649	19,374,369	17,225	684,107	581,105	3.00%	801,130	4.13%	$2.19	103,826	112,831	227,465	488,378
Malls	41	4,408,874	0	0	34,116	0.77%	38,116	0.86%	$0.00	0	5,418	0	5,418
Power Centers	95	3,493,957	0	0	91,944	2.63%	70,492	2.02%	$0.00	23,184	5,289	23,184	29,769
Shopping Centers	706	11,141,969	0	53,704	497,201	4.46%	618,180	5.55%	$1.83	28,193	841	99,981	336,431
Specialty Centers	7	313,886	0	0	31,627	10.08%	27,294	8.70%	$0.00	0	(9,746)	0	0
Central Total	4,498	38,733,055	17,225	737,811	1,235,993	3.19%	1,555,212	4.02%	$2.06	155,203	114,633	350,630	859,996
East County													
General Retail	1,430	7,198,820	0	96,135	142,319	1.98%	231,373	3.21%	$1.32	(15,364)	(8,107)	19,437	95,103
Malls	15	2,742,077	0	0	8,336	0.30%	28,245	1.03%	$0.00	(1,457)	(1,457)	552	552
Power Centers	61	1,703,833	0	4,800	10,475	0.61%	45,399	2.66%	$1.75	2,312	18,674	2,312	18,674
Shopping Centers	551	8,383,861	0	121,322	554,324	6.61%	638,296	7.61%	$1.66	(32,592)	27,353	46,698	221,173
Specialty Centers	3	75,112	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
East County Total	2,060	20,103,703	0	222,257	715,454	3.56%	943,313	4.69%	$1.55	(47,101)	36,463	68,999	335,502
I-15 Corridor													
General Retail	165	1,618,558	0	20,418	19,963	1.23%	27,298	1.69%	$4.00	1,270	(12,243)	2,942	2,942
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	0	(7,314)	0	0
Shopping Centers	281	4,062,564	166,943	262,978	166,684	4.10%	273,131	6.72%	$2.48	8,573	(11,733)	41,902	83,672
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
I-15 Corridor Total	468	6,240,307	166,943	288,396	193,961	3.11%	307,743	4.93%	$2.75	9,843	(31,290)	44,844	86,614
North County													
General Retail	1,682	11,285,503	24,582	1,197,729	380,473	3.37%	765,946	6.79%	$0.87	(3)	12,075	58,090	142,417
Malls	23	3,176,626	0	50,340	3,594	0.11%	12,006	0.38%	$0.00	2,966	5,687	3,977	16,530
Power Centers	105	3,092,685	0	38,645	221,638	7.17%	211,400	6.84%	$2.33	10,503	20,615	14,960	36,909
Shopping Centers	939	15,248,766	9,628	442,507	1,497,021	9.82%	1,682,821	11.04%	$1.64	(26,718)	(32,834)	108,087	396,163
Specialty Centers	5	367,735	0	0	0	0.00%	1,485	0.40%	$0.00	0	0	0	0
North County Total	2,754	33,171,315	34,210	1,729,221	2,102,726	6.34%	2,673,658	8.06%	$1.63	(13,252)	5,543	185,114	592,019
Central North													
General Retail	858	7,169,328	92,184	285,964	182,780	2.55%	279,007	3.89%	$3.92	9,083	(8,660)	45,821	102,756
Malls	21	1,116,734	0	646,000	0	0.00%	0	0.00%	$0.00	0	0	0	0
Power Centers	64	2,087,645	0	108,835	33,640	1.61%	59,602	2.85%	$0.00	7,015	(4,334)	12,617	16,640
Shopping Centers	411	6,608,466	0	228,556	358,794	5.43%	446,081	6.75%	$2.20	5,922	11,967	77,878	164,989
Specialty Centers	9	232,667	0	0	48,310	20.76%	63,731	27.39%	$1.80	(3,400)	9,358	0	12,758
Central North Total	1,363	17,214,840	92,184	1,269,355	623,524	3.62%	848,421	4.93%	$2.94	18,620	8,331	136,316	297,143
South Bay													
General Retail	1,102	5,644,122	0	789,969	282,792	5.01%	428,879	7.60%	$1.35	(58,876)	(97,150)	28,368	59,474
Malls	43	2,407,129	0	0	70,907	2.95%	72,646	3.02%	$0.00	1,446	(17,312)	5,001	6,561
Power Centers	27	1,028,344	0	0	14,920	1.45%	63,337	6.16%	$0.00	0	(14,920)	0	0
Shopping Centers	523	9,035,251	0	238,962	543,190	6.01%	812,719	8.99%	$1.44	49,414	57,737	99,964	246,939
Specialty Centers	26	766,840	0	478,000	9,925	1.29%	9,925	1.29%	$0.00	0	141,990	0	141,990
South Bay Total	1,721	18,881,686	0	1,506,931	921,734	4.88%	1,387,506	7.35%	$1.45	(8,016)	70,345	133,333	454,964
Outlying Areas													
General Retail	494	1,991,066	0	0	75,275	3.78%	125,987	6.33%	$1.43	(7,430)	1,615	3,300	29,709
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	1,302,481	0	0	51,675	3.97%	74,296	5.70%	$1.93	(1,037)	5,129	2,663	12,917
Specialty Centers	1	255,000	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Outlying Areas Total	600	3,694,437	0	0	137,950	3.73%	211,283	5.72%	$1.89	(8,467)	6,744	5,963	42,626
San Diego Total	**13,464**	**138,039,343**	**310,562**	**5,753,971**	**5,931,342**	**4.30%**	**7,927,136**	**5.74%**	**$1.75**	**106,830**	**210,769**	**925,199**	**2,668,864**
General Retail	9,380	54,281,766	133,991	3,074,322	1,664,707	3.07%	2,659,620	4.90%	$1.76	32,506	361	385,423	920,779
Malls	154	13,997,330	0	696,340	127,953	0.91%	162,013	1.16%	$0.00	2,955	(7,664)	9,530	29,061
Power Centers	374	11,965,649	0	157,280	379,931	3.18%	457,544	3.82%	$2.26	43,014	18,010	53,073	101,992
Shopping Centers	3,505	55,783,358	176,571	1,348,029	3,668,889	6.58%	4,545,524	8.15%	$1.73	31,755	58,460	477,173	1,462,284
Specialty Centers	51	2,011,240	0	478,000	89,862	4.47%	102,435	5.09%	$1.80	(3,400)	141,602	0	154,748
San Diego Total	**13,464**	**138,039,343**	**310,562**	**5,753,971**	**5,931,342**	**4.30%**	**7,927,136**	**5.74%**	**$1.75**	**106,830**	**210,769**	**925,199**	**2,668,864**

Lease rates are on a triple-net basis.

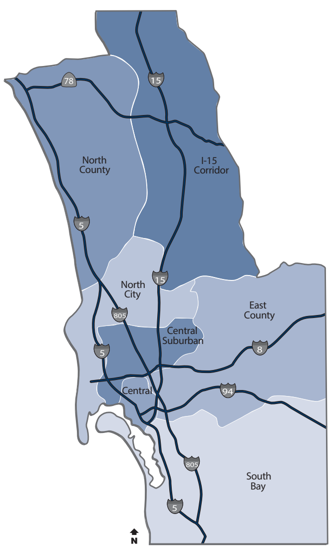
MAJOR TRANSACTIONS

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
7035-7215 Clairemont Mesa Blvd., Et Al	Kearny Mesa	294,428	$364	Clarion Partners, HP Investors	McGrath Development
2323 Division Ave.	National City	85,225	$175	Sue Pebley Management, LLC	National City Plaza, LLC
704 J St.	Downtown	12,500	$348	Pref Unicorn, LLC	Western Warehouse, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
7710 El Camino Real	Carlsbad	30,800	July-2015	Equinox	Angelo, Gordon & Co.
9745-9763 Mission Gorge Rd.	Santee	21,440	July-2015	Grocery Outlet	CLL Cuyamaca
1310 E. Valley Pkwy.	Escondido	18,088	Aug-2015	Aldi	Escondido Trafalgar, LLC
Palm Ave.	Imperial Beach	16,000	Sept-2015	Grocery Outlet	Imperial Beach Redevelopment Agency
1035 S. Harbison Ave.	National City	15,500	Sept-2015	Undisclosed	Dimenstein



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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