

TIGHT MARKET. The San Diego retail market continued to show signs of tightened supply and increased competition in the third quarter. The industry experienced strong net absorption, asking rental rates continued to move steadily upward, and vacancy rates fell. Availability decreased slightly from last quarter as well as year over year.

VACANCY. Direct/sublease space (unoccupied) finished the quarter at 4.05%, a slight decrease from the previous quarter's rate of 4.12%.

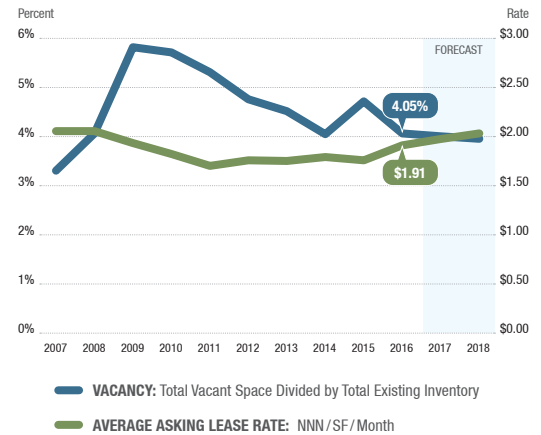
LEASE RATES. The average asking triple net lease rate per month per square foot in San Diego County was \$1.91, a three cent increase from last quarter's rate of \$1.88. The highest average asking rates in the market were in the Central North and I-15 Corridor submarkets, both posting \$2.73 per square foot per month, based on a triple-net basis.

TRANSACTION ACTIVITY. The combined amount of retail property sold and leased in the third quarter was 3 million square feet, up from the prior quarter's total of 2.14 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.

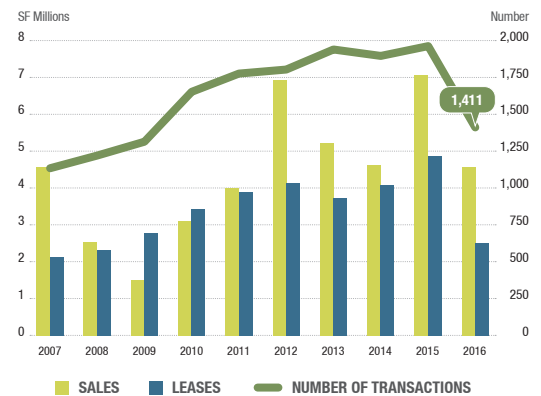
EMPLOYMENT. The unemployment rate in San Diego County was 5.0% in August 2016, down from a revised 5.3% in July 2016 and below the year-ago estimate of 5.2%. This compares with an unadjusted unemployment rate of 5.6% for California and 5.0% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 25,100 payroll jobs from August 2015 through August 2016, including 6,200 from government services, which reported the largest overall gain. Leisure and hospitality services reported a growth of up to 6,100 jobs, followed by the educational and health services that reported up to 6,000 jobs.

OVERALL. The San Diego retail market remains tight, with vacancy at 4.05%, a record low since the recession. Thus far in the recovery, quality properties have been able to keep overall asking rental rates stable. 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. The declining vacancy rate has allowed landlords to move in a positive direction and will push average rent to its highest level in eight years. 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.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	3Q 2016	2Q 2016	3Q 2015	% Change Over Last Year
Vacancy Rate	▼ DOWN	4.05%	4.12%	4.19%	-3.34%
Availability Rate	▼ DOWN	5.39%	5.57%	5.70%	-5.44%
Average Asking Lease Rate	▲ UP	\$1.91	\$1.88	\$1.75	9.14%
Sale & Lease Transactions	▲ UP	3,006,922	2,140,395	3,365,594	-10.66%
Gross Absorption	▼ DOWN	1,494,499	1,636,795	1,065,230	40.30%
Net Absorption	▲ POSITIVE	295,936	621,158	240,437	N/A

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, construction, and real estate, rental and leasing services 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.

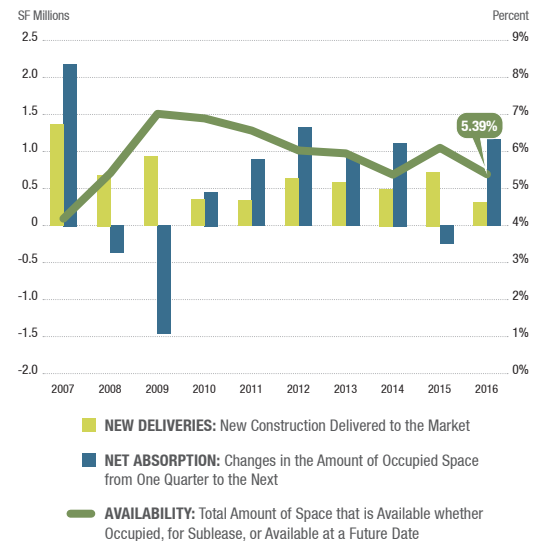
VACANCY. We anticipate the vacancy rate to remain stable with much of the occupancy gains already captured. A slower construction pipeline will also contribute to low vacancy rates.

CONSTRUCTION. Some slowing was due after 2015's record high of approximately 724,000 square feet in new deliveries, and the third quarter ended with 213,443 square feet delivered and 481,421 square feet under construction. Retail completions will dip by more than 50% in 2016 from a year ago and a slowdown in deliveries within most submarkets will limit availability of existing space, reducing vacancy further.

AVAILABILITY. Direct/sublease space being marketed was 5.39% at the end of the third quarter, down 18 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 7.51%, while malls were the lowest with a 1.19% availability rate.

ABSORPTION. The San Diego retail market posted 295,936 square feet of positive net absorption in the third quarter, for a total of 5.67 million square feet of positive net absorption since 2010.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
Old Grove Marketplace	Oceanside	81,279	\$23,250,000	Inven Trust Properties Corp.	Gerrity Group, LLC
2011–2019 Camino Del Este	Mission Valley	18,175	\$14,000,000	Gershman Properties, LLC	Terra Enterprises, Inc.
Car Country Plaza	Carlsbad	28,904	\$11,850,000	AutoNation, Inc.	T.G. Lambron, Inc.
240 S Cedros Ave.	Del Mar	21,144	\$10,425,000	Trilogy Investment Group	World Buyers
9305 Mission Gorge Rd.	Santee	13,666	\$10,100,000	CPI Santee I, LLC	Interra-Vision, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
Carmel Mountain Plaza	I-15 Corridor	40,672	Aug-2016	Dick's Sporting Goods	American Assets Trust, Inc.
Vista Balboa Center	Clairemont	38,359	Sep-2016	H Mart	Kimco Realty Corporation
Clairemont Village	Clairemont	32,688	Sep-2016	Sprouts Farmers Market	Kleege Enterprises
Oceanside Town & Country	Oceanside	23,800	Jul-2016	Crunch Fitness	Sterling Organization
Lakeside Plaza Retail Center	Lakeside	22,500	Aug-2016	Planet Fitness	Saad Attisha

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2016	Square Feet Available	Availability Rate 3Q2016	Average Asking Lease Rate	Net Absorption 3Q2016	Net Absorption 2016	Gross Absorption 3Q2016	Gross Absorption 2016
Central													
General Retail	3,654	19,351,387	3,500	788,310	577,967	2.99%	790,829	4.09%	\$2.28	9,816	64,525	137,940	460,539
Malls	39	4,520,504	0	0	79,569	1.76%	96,521	2.14%	\$0.00	(49,048)	(44,281)	0	4,767
Power Centers	96	3,531,215	0	0	93,187	2.64%	102,387	2.90%	\$0.00	41	(3,211)	2,475	14,098
Shopping Centers	710	11,162,984	5,700	41,164	558,854	5.01%	603,394	5.41%	\$2.09	(97,832)	(84,981)	127,635	331,543
Specialty Centers	7	313,886	0	0	21,454	6.83%	21,454	6.83%	\$0.00	4,512	4,512	4,512	4,512
Central Total	4,506	38,879,976	9,200	829,474	1,331,031	3.42%	1,614,585	4.15%	\$2.19	(132,511)	(63,436)	272,562	815,459
East County													
General Retail	1,432	7,192,869	12,075	53,508	117,687	1.64%	193,740	2.69%	\$1.36	10,257	48,261	55,314	175,451
Malls	15	2,929,516	0	0	5,166	0.18%	15,746	0.54%	\$0.00	0	1,773	0	11,402
Power Centers	60	1,699,138	0	4,800	11,274	0.66%	38,273	2.25%	\$0.00	(3,333)	(3,531)	3,772	8,584
Shopping Centers	554	8,405,527	9,863	160,995	436,473	5.19%	522,924	6.22%	\$1.54	182,878	454,855	245,216	629,200
Specialty Centers	3	75,112	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
East County Total	2,064	20,302,162	21,938	219,303	570,600	2.81%	770,683	3.80%	\$1.52	189,802	501,358	304,302	824,637
I-15 Corridor													
General Retail	170	1,647,830	0	33,944	10,321	0.63%	41,412	2.51%	\$2.78	6,595	17,175	10,995	491,339
Malls	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Power Centers	24	567,029	0	0	47,986	8.46%	7,314	1.29%	\$0.00	(40,672)	(33,032)	0	7,640
Shopping Centers	287	4,258,579	0	212,332	300,416	7.05%	323,789	7.60%	\$2.72	110,516	163,523	182,136	287,222
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
I-15 Corridor Total	481	6,473,438	0	246,276	358,723	5.54%	372,515	5.75%	\$2.73	76,439	147,666	193,131	786,201
North County													
General Retail	1,686	11,144,363	40,442	674,022	311,205	2.79%	490,336	4.40%	\$2.32	877	106,597	92,922	284,697
Malls	23	3,176,626	0	50,340	2,311	0.07%	3,322	0.10%	\$0.00	2,331	20	2,331	9,135
Power Centers	107	3,092,900	0	31,044	222,870	7.21%	392,145	12.68%	\$2.38	(49,256)	(5,624)	4,590	65,389
Shopping Centers	951	15,275,159	17,728	504,625	1,243,224	8.14%	1,667,344	10.92%	\$1.62	29,970	190,653	162,964	585,380
Specialty Centers	5	367,735	0	0	0	0.00%	9,323	2.54%	\$3.13	0	0	0	1,485
North County Total	2,772	33,056,783	58,170	1,260,031	1,779,610	5.38%	2,562,470	7.75%	\$1.74	(16,078)	291,646	262,807	946,086
Central North													
General Retail	864	7,202,705	65,597	156,199	232,963	3.23%	326,005	4.53%	\$3.36	(24,150)	(19,797)	27,778	131,420
Malls	20	1,102,034	145,000	646,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Power Centers	63	2,081,145	3,200	108,835	127,794	6.14%	161,373	7.75%	\$0.00	(16,505)	(65,309)	0	63,733
Shopping Centers	410	6,593,400	43,922	184,634	317,276	4.81%	334,290	5.07%	\$2.33	31,744	33,502	70,358	249,197
Specialty Centers	9	232,667	0	0	44,910	19.30%	66,066	28.40%	\$0.00	0	(3,143)	6,049	7,149
Central North Total	1,366	17,211,951	257,719	1,095,668	722,943	4.20%	887,734	5.16%	\$2.73	(8,911)	(54,747)	104,185	451,499
South Bay													
General Retail	1,107	5,705,696	3,000	506,751	208,358	3.65%	321,876	5.64%	\$1.43	37,721	73,339	85,161	183,129
Malls	43	2,405,653	0	0	37,189	1.55%	42,819	1.78%	\$0.00	7,244	33,718	7,244	37,017
Power Centers	27	999,590	0	59,100	0	0.00%	15,800	1.58%	\$0.00	0	14,920	0	14,920
Shopping Centers	525	8,920,526	131,394	240,056	431,805	4.84%	667,197	7.48%	\$1.53	155,287	213,319	246,625	523,802
Specialty Centers	26	766,840	0	0	12,856	1.68%	7,146	0.93%	\$0.00	2	2	2	2
South Bay Total	1,728	18,798,305	134,394	805,907	690,208	3.67%	1,054,838	5.61%	\$1.50	200,254	335,298	339,032	758,870
Outlying Areas													
General Retail	499	2,024,139	0	3,200	74,436	3.68%	106,008	5.24%	\$1.39	(8,399)	8,878	11,908	56,166
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	73,271	5.62%	78,869	6.05%	\$1.65	(4,660)	(8,093)	6,572	8,474
Specialty Centers	1	255,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outlying Areas Total	605	3,727,695	0	19,883	158,707	4.26%	195,877	5.25%	\$1.56	(13,059)	785	18,480	64,640
San Diego Total													
General Retail	9,412	54,268,989	124,614	2,215,934	1,532,937	2.82%	2,270,206	4.18%	\$2.20	32,717	298,978	422,018	1,782,741
Malls	151	14,280,223	145,000	696,340	135,235	0.95%	169,408	1.19%	\$0.00	(39,473)	(8,770)	9,575	62,321
Power Centers	377	11,971,017	3,200	203,779	503,111	4.20%	717,292	5.99%	\$2.38	(109,725)	(95,787)	10,837	174,364
Shopping Centers	3,531	55,918,841	208,607	1,360,489	3,361,319	6.01%	4,197,807	7.51%	\$1.79	407,903	962,778	1,041,506	2,614,818
Specialty Centers	51	2,011,240	0	0	79,220	3.94%	103,989	5.17%	\$3.13	4,514	1,371	10,563	13,148
San Diego Total	13,522	138,450,310	481,421	4,476,542	5,611,822	4.05%	7,458,702	5.39%	\$1.91	295,936	1,158,570	1,494,499	4,647,392

Lease rates are on a triple-net basis.



Market Update

by **Brian Mulvaney, SIOR, CCIM**

SENIOR VICE PRESIDENT, SAN DIEGO

The San Diego office market experienced a significant decrease in availability over the prior quarter and is nearing single-digit vacancy. In fact, the San Diego office market is close to having the lowest vacancy in almost 25 years. The lack of new construction over the past ten years has led to peak rents in certain submarkets. There were only two new high-rise office buildings added to the inventory in the past twelve months. One of the projects was a build-to-suit for Sempra Energy downtown adjacent to Petco Park. The second was One La Jolla Center in the heart of UTC, with one of the highest asking rental rates in the submarket, averaging \$4.40 per square foot.

The regional office market is constrained by the scarcity of land, so we are now seeing owners reposition their office properties by completing lobby and common area renovations, landscape improvements, and adding outdoor amenities. This trend has even occurred in the downtown and urban core areas, where older office buildings have been demolished and repositioned as open plan, creative office, inspiring collaboration and attracting tenants looking for alternative work environments. Amenities for this type of space are completely different from the standard lockers, showers and gymnasiums, instead providing for ping-pong and foosball tables, clustered work stations, areas to “kick back” and collaborate—anything to create an atmosphere which millennials will perceive as cool and different.

The office market has posted reasonably positive net absorption for the third quarter, and we anticipate seeing this trend to continue into the foreseeable future. Experts are cautious to note that organic growth has been the majority of the market expansion with the creation of new startup and technology-based businesses. Some markets are still recovering from downsizing by companies like Qualcomm and SAIC, however the bulk of mid-city markets have recovered from the reductions by these large employers.

Office lease rates are up significantly from 2015, with an average countywide lease rate of \$2.82 per square foot. The marketplace is seeing the highest effective rental rates we have experienced with some markets exceeding \$4.25 per square foot per month. Lease concessions are down, creating an optimum situation for landlords owning quality product.

The investment market for the office sector is still rolling along at a healthy pace, though transaction volume is down slightly from the same period in 2015. We are seeing an increase in asset prices and we are right back to and exceeding peak pricing levels, creating another historical high point in local markets.

Please Contact Us for Further Information

Jooyoung Kim
Market Research Analyst
jkim@voitco.com

Anaheim, CA
714.978.7880

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

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. ©2016 Voit Real Estate Services, Inc. License #01333376.

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CORFAC
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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

