



REAL ESTATE SERVICES

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Retail Market Report

Compared to 2012:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

UP

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Market Highlights

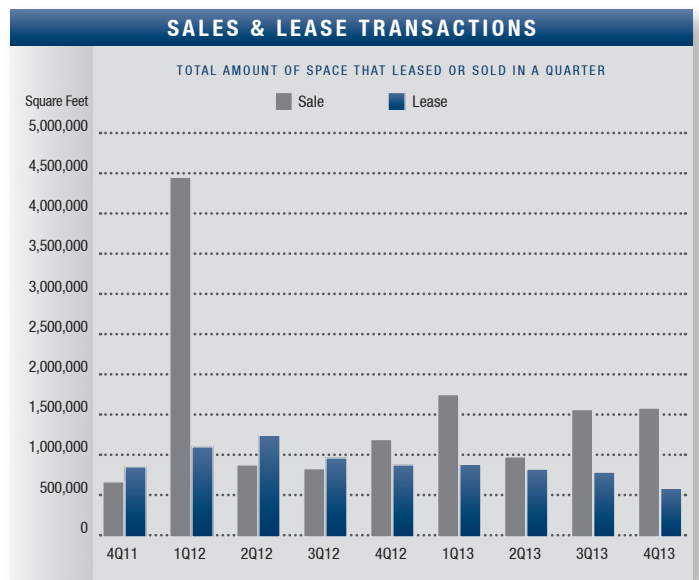
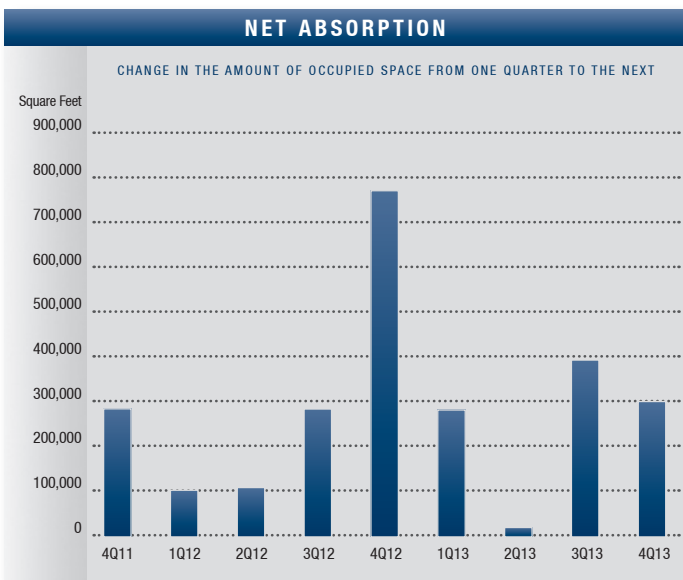
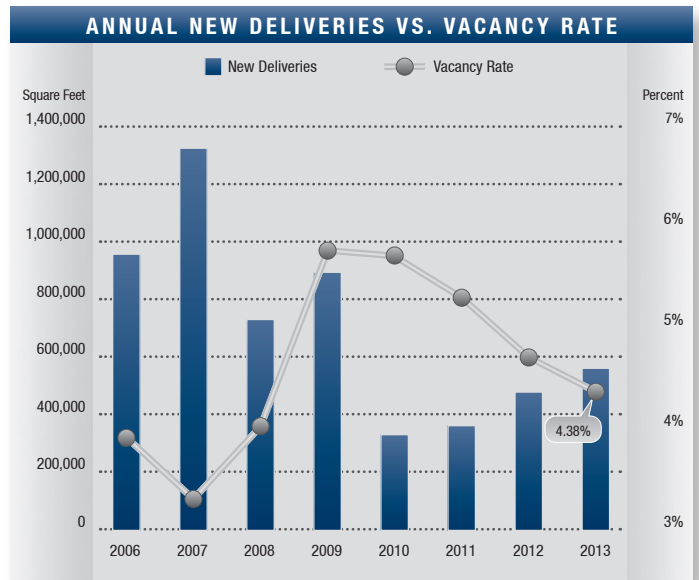
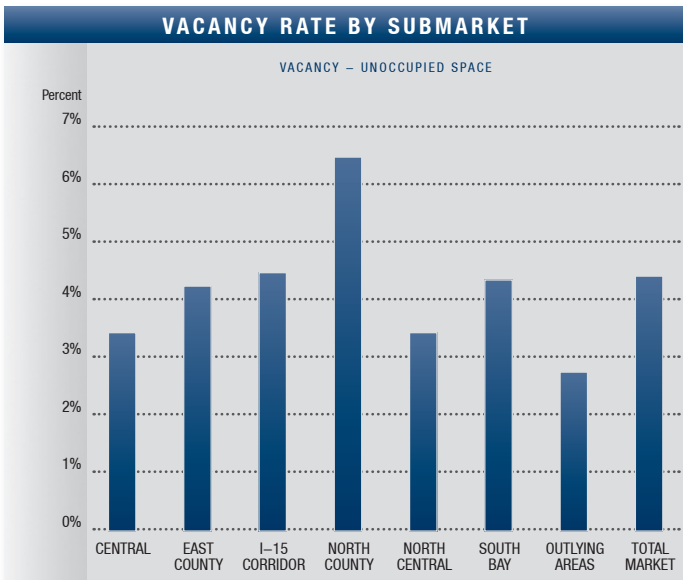
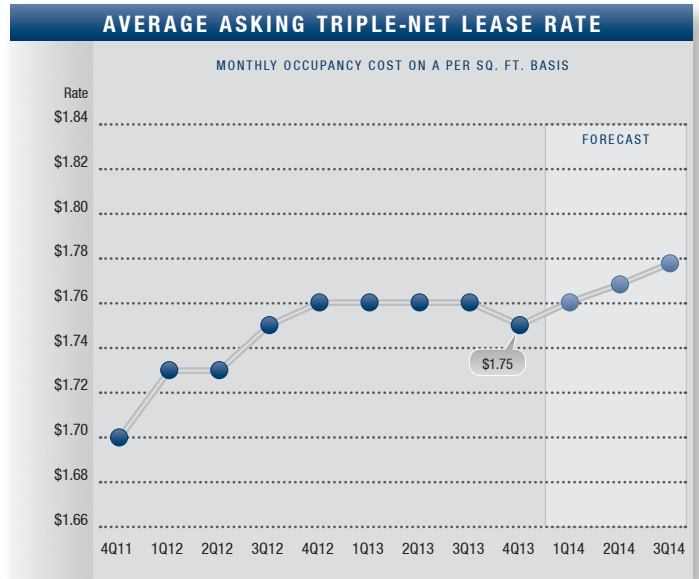
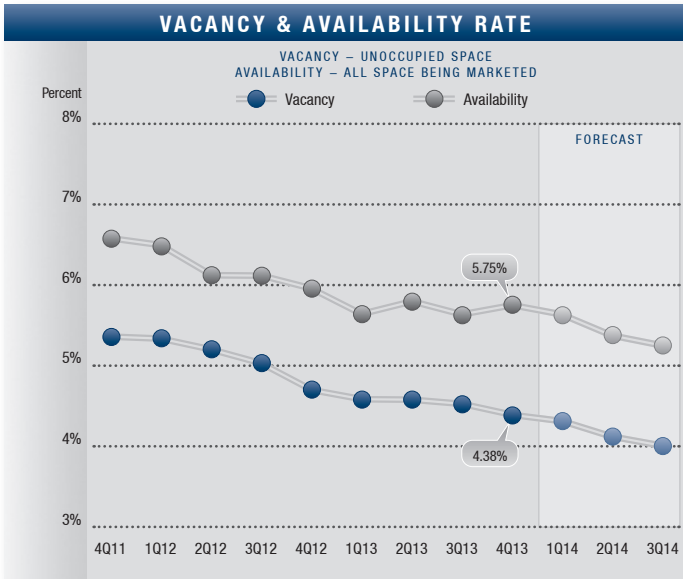
- **Stable Market** - The San Diego retail market's healthy vacancy rate continued to march downward in 2013. While asking rental rates came down a cent, the market posted the third straight year of solid positive net absorption. The San Diego retail market appears to be in recovery; however, further improvement hinges on the continued employment gains.
- **Construction** - New retail construction deliveries rose for three consecutive years after bottoming out in 2010. There was over 550,000 square feet of retail construction delivered in 2013. The larger retail projects delivered in 2013 include the Lowes at Palomar Commons in Carlsbad, and the new Walmart in Escondido. At the end of the fourth quarter, only 380,000 square feet remained under construction, with 4.01 million square feet planned.
- **Vacancy** - Direct/sublease space (unoccupied) finished the year at 4.38%, down from the previous year's rate of 4.71% and the lowest vacancy rate in five years.
- **Availability** - Direct/sublease space being marketed was 5.75% at the end of 2013, below 2012's rate of 5.95%. Malls had the lowest availability rate of any segment in the retail market, at 1.75%.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in San Diego County was \$1.75 at the end of the year, following four consecutive quarters at \$1.76, but still higher than 2011's rate of \$1.70. 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 significant amount of the available inventory being less desirable space. We are forecasting that average asking lease rates will begin to rise in the near future.
- **Absorption** - The San Diego retail market posted 960,000 square feet of positive net absorption in 2013. Since the

beginning of 2010, the San Diego retail market has had a total positive net absorption of over 3.5 million square feet of positive absorption.

- **Transaction Activity** - The combined amount of retail property sold and leased in 2013 was 8.8 million square feet, down from 2012's total of 11.4 million square feet. Three of the larger lease deals for the year were grocery stores. 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 6.8% in November 2013, down from a revised 7.1% in October 2013 and below the year-ago estimate of 8.3%. This compares with an unadjusted unemployment rate of 8.3% for California and 6.6% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 23,000 payroll jobs from November 2012 to November 2013 — including 6,100 in educational and health services; 5,700 from trade, transportation and utilities; 5,600 from leisure and hospitality; and 5,300 from construction. Manufacturing recorded the greatest number of job losses, down 2,000 year over year.
- **Overall** - The San Diego retail market continues to post very respectable vacancy rates, now below 4.5%. Positive absorption trends endure, and overall the market has stabilized. 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 improve. Going forward, demand is projected to keep pace with the relatively moderate level of new construction.

RETAIL MARKET OVERVIEW

	2013	2012	2011	% of Change vs. 2012
Total Vacancy Rate	4.38%	4.71%	5.30%	(7.01%)
Availability Rate	5.75%	5.95%	6.57%	(3.36%)
Average Asking Lease Rate	\$1.75	\$1.76	\$1.70	(0.57%)
Sale & Lease Transactions	8,846,476	11,403,195	7,893,167	(22.42%)
Gross Absorption	4,317,418	4,637,199	4,503,127	(6.90%)
Net Absorption	960,143	1,249,696	932,276	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 4Q2013	Square Feet Available	Availability Rate 4Q2013	Average Asking Lease Rate	Net Absorption 4Q2013	Net Absorption 2013	Gross Absorption 4Q2013	Gross Absorption 2013
Central													
General Retail	3,676	20,253,070	44,469	599,724	612,823	3.03%	907,183	4.48%	\$2.25	44,662	140,941	169,611	739,518
Mall Market	20	4,276,289	0	0	606	0.01%	12,606	0.29%	\$0.00	0	0	0	0
Power Center	88	3,226,125	5,600	0	66,075	2.05%	52,473	1.63%	\$0.00	2,482	7,770	6,890	30,019
Shopping Center	706	11,212,163	41,162	29,933	619,009	5.52%	764,425	6.82%	\$1.95	(21,009)	113,874	69,221	488,299
Specialty Center	7	313,886	0	0	27,556	8.78%	27,556	8.78%	\$0.00	90,230	88,584	90,230	92,270
Central Total	4,497	39,281,533	91,231	629,657	1,326,069	3.38%	1,764,243	4.49%	\$2.07	116,365	351,169	335,952	1,350,106
East County													
General Retail	1,425	7,162,327	42,400	26,855	117,475	1.64%	299,203	4.18%	\$1.22	(8,411)	61,675	38,018	181,385
Mall Market	38	3,199,323	0	4,800	63,177	1.97%	72,258	2.26%	\$2.13	1,200	8,923	1,200	15,696
Power Center	37	1,104,940	0	0	30,916	2.80%	44,848	4.06%	\$0.00	(2,267)	(24,459)	0	1,300
Shopping Center	543	8,345,862	7,100	41,642	624,839	7.49%	757,205	9.07%	\$1.58	14,277	(20,192)	80,987	238,638
Specialty Center	3	75,112	0	0	7,508	10.00%	7,508	10.00%	\$0.00	(1,353)	(6,908)	0	0
East County Total	2,046	19,887,564	49,500	73,297	843,915	4.24%	1,181,022	5.94%	\$1.51	3,446	19,039	120,205	437,019
I-15 Corridor													
General Retail	170	1,600,969	0	191,568	9,567	0.60%	13,817	0.86%	\$1.84	2,550	1,050	3,550	11,233
Mall Market	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Power Center	22	559,185	0	5,000	40,000	7.15%	74,561	13.33%	\$0.00	1,950	8,283	1,950	8,283
Shopping Center	273	4,084,369	0	31,097	227,669	5.57%	289,177	7.08%	\$2.57	37,876	46,931	56,338	176,922
Specialty Center	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
I-15 Corridor Total	465	6,244,523	0	227,665	277,236	4.44%	377,555	6.05%	\$2.55	42,376	56,264	61,838	196,438
North County													
General Retail	1,671	11,380,810	4,915	352,468	390,204	3.43%	594,286	5.22%	\$1.15	2,745	155,629	49,735	357,272
Mall Market	73	3,911,551	0	32,000	31,443	0.80%	80,354	2.05%	\$2.75	6,500	81,353	6,500	88,878
Power Center	50	1,904,566	0	12,500	106,345	5.58%	115,652	6.07%	\$2.62	9,931	7,801	23,481	36,867
Shopping Center	901	14,917,931	98,000	443,024	1,564,589	10.49%	1,867,814	12.52%	\$1.56	32,894	(57,499)	154,743	612,665
Specialty Center	5	367,815	0	0	1,210	0.33%	2,275	0.62%	\$0.00	0	0	0	1,210
North County Total	2,700	32,482,673	102,915	839,992	2,093,791	6.45%	2,660,381	8.19%	\$1.52	52,070	187,284	234,459	1,096,892
North Central													
General Retail	849	6,945,366	0	51,342	117,543	1.69%	170,920	2.46%	\$3.90	3,592	71,627	40,502	204,613
Mall Market	41	2,054,238	0	491,000	15,844	0.77%	26,855	1.31%	\$0.00	(22)	3,478	18,188	28,239
Power Center	46	1,172,941	0	0	12,867	1.10%	16,755	1.43%	\$0.00	(5,046)	(2,400)	4,331	21,742
Shopping Center	410	6,673,959	0	169,136	351,485	5.27%	406,892	6.10%	\$1.87	50,611	136,597	98,586	350,648
Specialty Center	9	232,667	0	0	79,147	34.02%	88,714	38.13%	\$1.69	(8,960)	28,203	0	47,618
North Central Total	1,355	17,079,171	0	711,478	576,886	3.38%	710,136	4.16%	\$2.36	40,175	237,505	161,607	652,860
South Bay													
General Retail	1,080	5,686,152	140,000	665,210	207,664	3.65%	319,653	5.62%	\$1.32	25,354	48,397	40,784	135,129
Mall Market	42	2,637,917	0	0	68,312	2.59%	80,726	3.06%	\$0.00	2,674	(25,807)	13,500	26,839
Power Center	25	994,292	0	0	0	0.00%	12,548	1.26%	\$0.00	0	1,996	0	1,996
Shopping Center	510	8,940,993	0	327,624	515,866	5.77%	645,878	7.22%	\$1.66	(8,628)	61,637	50,564	325,581
Specialty Center	25	627,072	0	478,000	17,650	2.81%	17,650	2.81%	\$0.00	(3,579)	(10,851)	462	6,482
South Bay Total	1,682	18,886,426	140,000	1,470,834	809,492	4.29%	1,076,455	5.70%	\$1.59	3,044	25,485	105,310	496,027
Outlying Areas													
General Retail	473	1,880,651	0	27,200	40,920	2.18%	65,974	3.51%	\$1.43	5,614	26,027	10,396	49,823
Mall Market	11	145,890	0	0	11,000	7.54%	11,000	7.54%	\$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	1,311,467	0	30,000	46,127	3.52%	54,947	4.19%	\$1.85	3,185	7,483	26,888	38,253
Specialty Center	1	255,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outlying Areas Total	580	3,593,008	0	57,200	98,047	2.73%	131,921	3.67%	\$1.77	8,799	33,510	37,284	88,076
San Diego Total	13,325	137,454,898	383,646	4,010,123	6,025,436	4.38%	7,901,713	5.75%	\$1.75	279,052	960,143	1,056,655	4,317,418
General Retail	9,344	54,909,345	231,784	1,914,367	1,496,196	2.72%	2,371,036	4.32%	\$1.80	76,106	505,346	352,596	1,678,973
Mall Market	225	16,225,208	0	527,800	190,382	1.17%	283,799	1.75%	\$2.39	10,352	67,947	39,388	159,652
Power Center	268	8,962,049	5,600	17,500	256,203	2.86%	316,837	3.54%	\$2.62	7,050	(1,009)	36,652	100,207
Shopping Center	3,438	55,486,744	146,262	1,072,456	3,949,584	7.12%	4,786,338	8.63%	\$1.72	109,206	288,831	537,327	2,231,006
Specialty Center	50	1,871,552	0	478,000	133,071	7.11%	143,703	7.68%	\$1.69	76,338	99,028	90,692	147,580
San Diego Total	13,325	137,454,898	383,646	4,010,123	6,025,436	4.38%	7,901,713	5.75%	\$1.75	279,052	960,143	1,056,655	4,317,418

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

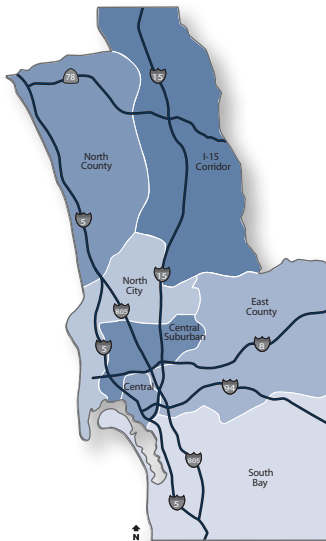
Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
9800-9938 Mission Gorge Rd. (55% Ownership Interest)	East County	311,498	\$314.61	Kimco Realty Corporation	Vestar Development Company
402-450 5th Ave.	Central	54,773*	\$885.47	Clarion Partners	Champion Real Estate Development Co.
6250 & 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
4240-4380 Kearny Mesa Rd.	Central	140,796	\$294.75	Retail Opportunity Investments Corp.	American Fund-OIK

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1820 Oceanside Blvd.	North County	67,104	Jun-13	Frazier Farms	Krupp Company
1046 Mission Ave.	North County	31,830	May-13	Walmart Neighborhood Market	Pacific Development Partners, LLC
7620 Balboa Ave.	Central	31,779	Aug-13	C3 Church San Diego	Balboa Office Building, LLC
4611 Mercury St. **	Central	29,158	Jan-13	First Korean Market	Mercury Street Annex, LLC
8820 Grossmont Blvd.	East County	25,751	May-13	Ross	Sunbelt Investment Holdings, Inc.

* Not including parking

** VRES Deal **



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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