FOURTH QUARTER 2014
SAN DIEGO
RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to 2013:

Vacancy
DOWN

Net Absorption
POSITIVE

Lease Rates
UP

Transactions
DOWN

Deliveries
DOWN

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VOIT Real Estate Services

HIGHLIGHTS

- **Tight Market -** The San Diego retail market continued to improve in 2014. Asking rental rates increased, and the San Diego retail market posted the second highest annual total of positive net absorption of the past seven years. Both vacancy and availability continued to trend downward, displaying decreases for the fifth consecutive 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 ended in 2014 with construction levels slouching downward. 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 year at 3.90%, down from the previous year's rate of 4.44% and the lowest vacancy rate seen since the third quarter of 2008.
- **Availability -** Direct / sublease space being marketed was 5.16% at the end of 2014, a decrease from 2013's rate of 5.84%. 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 7.44%, while malls were the lowest with a 1.12% availability rate.
- **Lease Rates -** The average asking triple-net lease rate per month per square foot in San Diego County was $1.79 at the end of the year, a four-cent increase from 2013's fourth 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 1,172,393 square feet of positive net absorption in 2014, for a total of 4.86 million square feet of positive net absorption since the beginning of 2010.
- **Transaction Activity -** The combined amount of retail property sold and leased in 2014 was 7.3 million square feet. This statistic can have some lag time in being reported, so look for fourth quarter figures to end up somewhat higher in the next report.
- **Employment -** The unemployment rate in the San Diego County was 5.8% in November 2014, unchanged from a revised 5.8% in October 2014 and below the year-ago estimate of 7.0%. This compares with an unadjusted unemployment rate of 7.1% for California and 5.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 43,000 payroll jobs from November 2013 and November 2014, including 13,300 from professional and business services, 7,700 from educational and health services, and 6,500 from leisure and hospitality. The financial activities sector recorded the greatest number of job losses, down 800 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

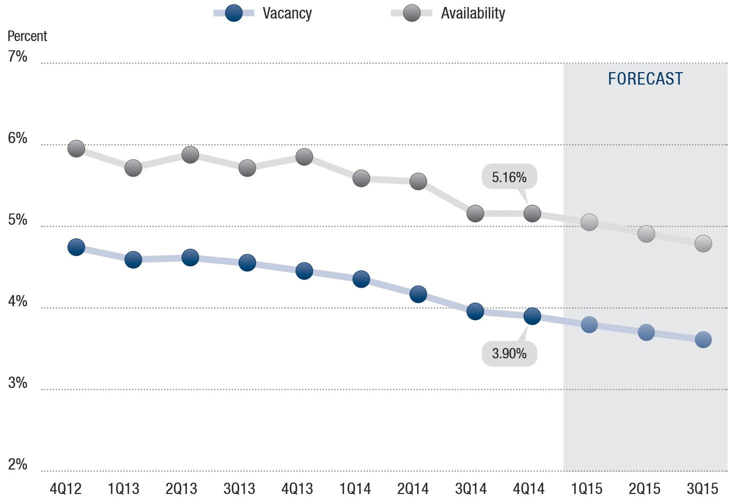
- **Construction -** We anticipate new retail deliveries will continue to be limited. Going forward, new retail product will come, not only from new shopping centers, but increasingly from mixed-use development in the market. Additionally, property renovations will be an avenue of adding high quality 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 4% over the next four quarters.
- **Vacancy -** We anticipate the vacancy rate to descend slowly in coming quarters, dipping about 30 basis points to approximately 3.6% by the end of the third quarter of 2015.

OVERVIEW

	2014	2013	2012	% of Change vs. 2013
Total Vacancy Rate	3.90%	4.44%	4.74%	(12.16%)
Availability Rate	5.16%	5.84%	5.95%	(11.64%)
Average Asking Lease Rate	$1.79	$1.75	$1.76	2.29%
Sale & Lease Transactions	7,300,276	8,998,701	11,385,373	(18.87%)
Gross Absorption	4,405,823	4,386,137	4,763,251	0.45%
Net Absorption	1,172,393	965,608	1,396,401	N/A

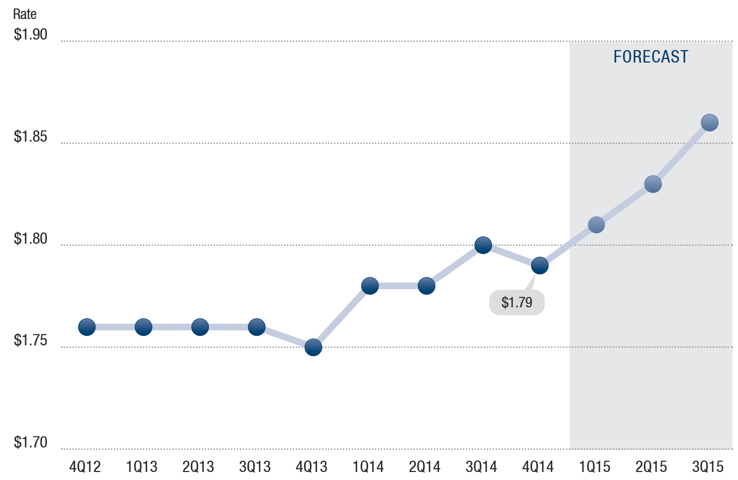
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



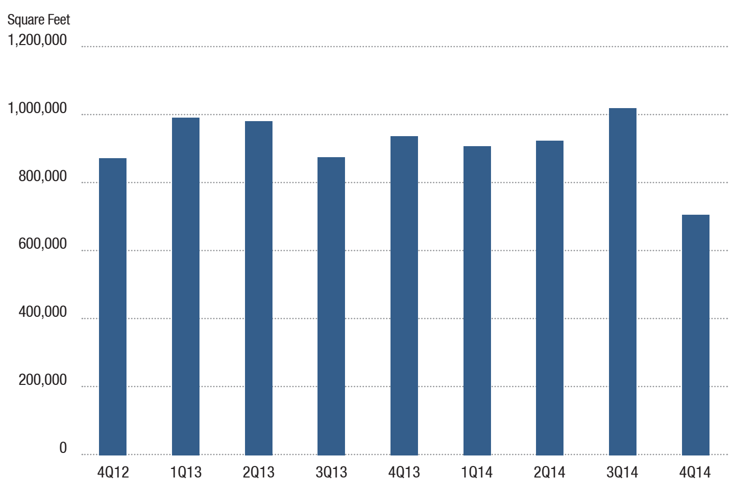
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



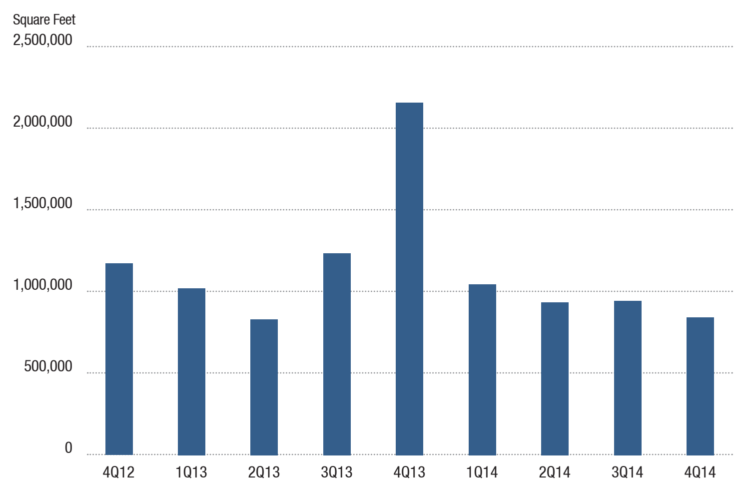
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



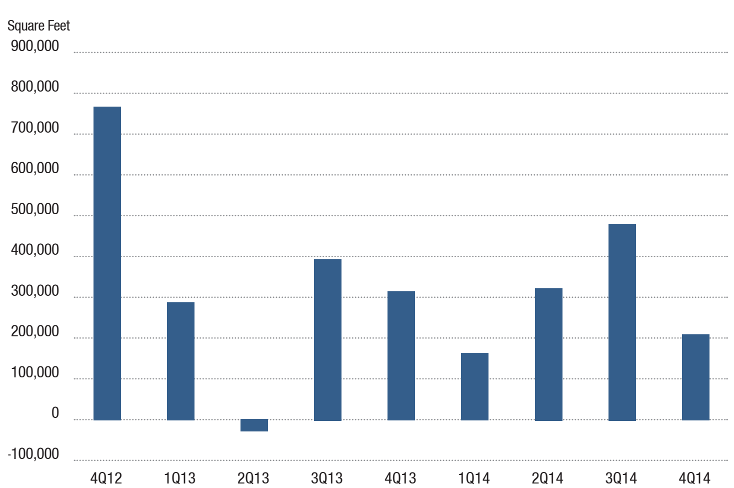
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

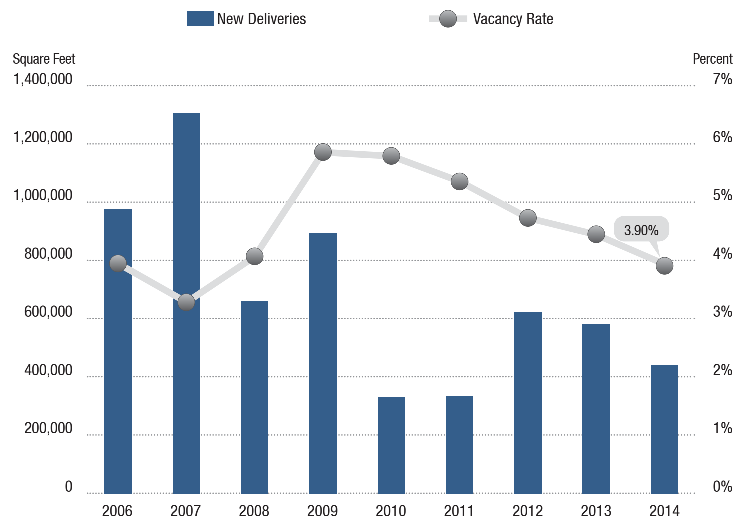


NET ABSORPTION

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 4Q2014	Square Feet Available	Availability Rate 4Q2014	Average Asking Lease Rate	Net Absorption 4Q2014	Net Absorption 2014	Gross Absorption 4Q2014	Gross Absorption 2014
Central													
General Retail	3,645	19,445,882	33,007	570,624	566,023	2.91%	859,822	4.42%	$2.06	(24,437)	49,891	80,305	547,628
Malls	41	4,532,033	0	0	36,315	0.80%	42,479	0.94%	$0.00	13,053	11,713	13,053	26,732
Power Centers	89	3,251,923	0	0	70,234	2.16%	101,997	3.14%	$0.00	(1,390)	1,441	0	48,992
Shopping Centers	709	11,221,238	0	59,964	489,347	4.36%	619,178	5.52%	$1.83	77,480	155,638	136,856	524,550
Specialty Centers	7	313,886	0	0	21,881	6.97%	21,881	6.97%	$0.00	(1,874)	5,675	528	12,001
Central Total	4,491	38,764,962	33,007	630,588	1,183,800	3.05%	1,645,357	4.24%	$2.07	62,832	224,358	230,742	1,159,903
East County													
General Retail	1,428	7,244,059	0	48,798	123,403	1.70%	250,106	3.45%	$1.27	(7,364)	41,587	11,217	168,210
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	29,149	1.65%	61,501	3.49%	$2.40	12,196	42,325	18,277	55,790
Shopping Centers	545	8,320,845	8,800	44,722	523,569	6.29%	582,493	7.00%	$1.48	14,136	124,332	71,463	362,132
Specialty Centers	3	75,112	0	0	0	0.00%	0	0.00%	$0.00	0	7,508	0	7,508
East County Total	2,051	19,945,299	8,800	98,320	683,000	3.42%	902,479	4.52%	$1.41	18,968	215,752	100,957	593,640
I-15 Corridor													
General Retail	171	1,713,276	0	191,568	8,841	0.52%	14,891	0.87%	$2.80	112,000	111,726	112,000	119,446
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	274	4,040,274	0	29,731	155,030	3.84%	228,374	5.65%	$2.46	14,177	54,827	31,948	132,612
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
I-15 Corridor Total	467	6,312,735	0	226,299	163,871	2.60%	243,265	3.85%	$2.42	126,177	206,553	143,948	292,058
North County													
General Retail	1,673	11,134,570	10,500	351,304	351,091	3.15%	521,802	4.69%	$1.51	(16,752)	29,922	49,189	257,866
Malls	22	3,026,626	0	0	5,304	0.18%	21,448	0.71%	$0.00	(5,304)	(5,304)	1,608	1,608
Power Centers	104	3,079,361	0	40,500	214,603	6.97%	248,851	8.08%	$2.49	(68,889)	(72,815)	31,090	39,952
Shopping Centers	932	15,278,054	10,822	374,049	1,408,585	9.22%	1,611,760	10.55%	$1.61	71,300	375,623	255,513	1,013,660
Specialty Centers	5	367,815	0	0	0	0.00%	0	0.00%	$0.00	0	1,210	0	2,275
North County Total	2,736	32,886,426	21,322	765,853	1,979,583	6.02%	2,403,861	7.31%	$1.61	(19,645)	328,636	337,400	1,315,361
North Central													
General Retail	852	7,061,176	37,576	56,024	132,953	1.88%	197,527	2.80%	$3.70	(34,669)	(845)	28,264	139,885
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	38,506	1.84%	52,034	2.49%	$0.00	(1,992)	(9,795)	0	11,493
Shopping Centers	408	6,563,026	120,186	184,634	256,068	3.90%	330,414	5.03%	$2.10	27,658	97,617	64,564	291,442
Specialty Centers	9	232,667	0	0	57,668	24.79%	67,235	28.90%	$1.50	13,874	21,479	13,874	30,696
North Central Total	1,356	17,084,048	157,762	840,493	485,195	2.84%	647,210	3.79%	$2.62	4,871	108,456	106,702	473,516
South Bay													
General Retail	1,095	5,662,693	0	830,554	156,597	2.77%	294,692	5.20%	$1.38	26,401	63,707	45,121	193,991
Malls	42	2,637,917	0	0	53,595	2.03%	73,909	2.80%	$0.00	0	14,717	0	25,462
Power Centers	27	1,020,407	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Shopping Centers	524	8,982,385	0	204,870	508,304	5.66%	708,392	7.89%	$1.66	2,809	23,603	88,038	286,568
Specialty Centers	25	627,072	140,000	478,000	11,915	1.90%	11,915	1.90%	$0.00	(7,806)	5,735	655	15,583
South Bay Total	1,713	18,930,474	140,000	1,513,424	730,411	3.86%	1,088,908	5.75%	$1.63	21,404	107,762	133,814	521,604
Outlying Areas													
General Retail	487	1,987,550	20,072	15,368	63,634	3.20%	102,226	5.14%	$1.67	2,393	(5,643)	3,493	27,720
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	0	60,608	4.59%	63,833	4.84%	$1.70	(9,925)	(13,481)	6,227	22,021
Specialty Centers	1	255,000	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Outlying Areas Total	596	3,707,594	20,072	15,368	135,242	3.65%	177,059	4.78%	$1.67	(7,532)	(19,124)	9,720	49,741
San Diego Total	**13,410**	**137,631,538**	**380,963**	**4,090,345**	**5,361,102**	**3.90%**	**7,108,139**	**5.16%**	**$1.79**	**207,075**	**1,172,393**	**1,063,283**	**4,405,823**
General Retail	9,351	54,249,206	101,155	2,064,240	1,402,542	2.59%	2,241,066	4.13%	$1.90	57,572	290,345	329,589	1,454,746
Malls	153	14,025,631	0	491,000	113,093	0.81%	157,215	1.12%	$0.00	7,749	21,126	14,661	53,802
Power Centers	367	11,760,173	0	159,135	352,492	3.00%	464,383	3.95%	$2.46	(60,075)	1,156	49,367	196,227
Shopping Centers	3,489	55,724,976	139,808	897,970	3,401,511	6.10%	4,144,444	7.44%	$1.73	197,635	818,159	654,609	2,632,985
Specialty Centers	50	1,871,552	140,000	478,000	91,464	4.89%	101,031	5.40%	$1.50	4,194	41,607	15,057	68,063
San Diego Total	**13,410**	**137,631,538**	**380,963**	**4,090,345**	**5,361,102**	**3.90%**	**7,108,139**	**5.16%**	**$1.79**	**207,075**	**1,172,393**	**1,063,283**	**4,405,823**

Lease rates are on a triple-net basis.

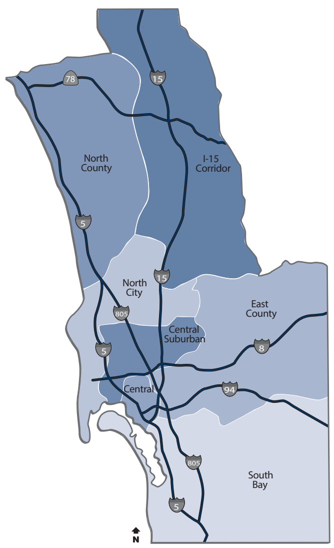
MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
13409-13595 Poway Rd.	I-15 Corridor	128,852	$341.28	ROIC	American Realty Advisors
7710-7770 El Camino Real	Carlsbad	122,071	$258.87	Angelo, Gordon & Co.	Excel Trust, Inc. GEM Realty Capital, Inc.
390-394 E St.	Chula Vista	96,114	$227.85	RREEF Property Trust	R&V Management Corporation
961-965 Palomar Airport Rd.	Carlsbad	15,317	$979.30	Hannay Realty Advisors	Mission Equities Real Estate, Inc.
2559 El Camino Real	Carlsbad	156,132	$88.07	MSC, LLC	Westcore Properties

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
3439 Via Montebello	Carlsbad	56,724	Jun-14	Vons	Property Development Centers
10150 Scripps Gateway Ct.	Scripps Ranch	40,000	Feb-14	Whole Foods	Sudberry Properties



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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