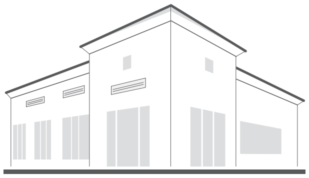

FOURTH QUARTER 2015

SAN DIEGO

RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Year:

Vacancy
UP

Net Absorption
NEGATIVE

Lease Rates
DOWN

Transactions
UP

Deliveries
UP

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VOIT Real Estate Services

HIGHLIGHTS

- **Tight Market -** The San Diego retail market did not move significantly in 2015. Both vacancy and availability increased from previous years and net absorption was slightly negative. The bright point of the year was the transaction volume, which was up 16.5% over 2014.
- **Construction -** After dipping downward in new deliveries in 2014 compared to the previous couple of years, construction for 2015 was up significantly for the retail market, delivering 704,486 square feet. This is the highest number delivered in the past six years since 2009. Renovation work for retail properties continues to impact construction in San Diego as well, including the $300 million transformation of Westfield Plaza Camino Real from an indoor mall to an open air mall, along with the ongoing remodel of Westfield UTC and other projects around the county.
- **Vacancy -** Direct/sublease space (unoccupied) finished the year at 4.63%, an increase from the previous year's rate of 3.97%.
- **Availability -** Direct/sublease space being marketed was 6.23% at the end of 2015, up 89 basis points from the previous year. 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 8.99%, while malls were the lowest with a 1.19% availability rate.
- **Lease Rates -** The average asking triple-net lease rate per month per square foot in San Diego County was $1.76, a decrease from last year's rate of $1.79. 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 240,646 square feet of negative net absorption in 2015, for a total of 4.6 million square feet of positive net absorption since 2010.
- **Transaction Activity -** The combined amount of retail property sold and leased in 2015 was 10.2 million square feet, an increase of 16.52% over 2014's tally of 8.7 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 4.8% in November 2015, down from a revised 5.0% in October 2015 and below the year-ago estimate of 6.0%. This compares with an unadjusted unemployment rate of 5.7% for California and 4.8% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 37,800 payroll jobs from November 2014 and November 2015, including 9,200 from education and health services, 8,200 from professional and business services, 7,300 of which were led by advances from professional, scientific and technical services.
- **Overall -** The San Diego retail market remains tight, with vacancy at just above 4.6%. 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

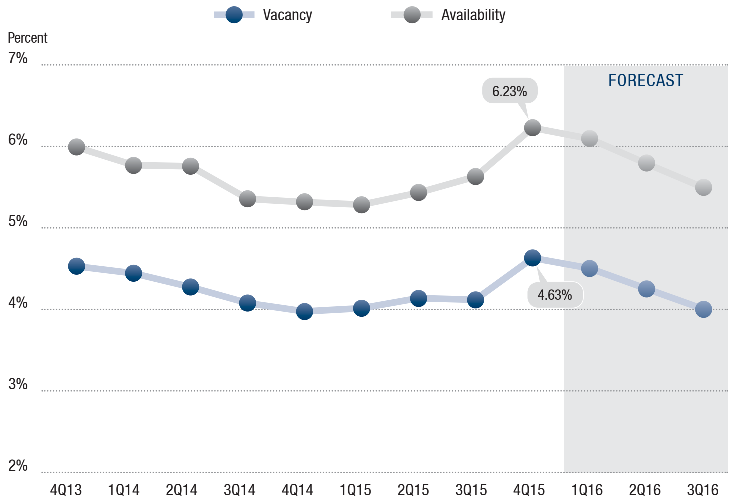
- **Construction -** We anticipate new retail deliveries will continue at a steady pace. Going forward, new retail product will come not only from new shopping centers, but increasingly from mixed-use development in the market. Additionally, property renovations will be an avenue of adding high quality 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 2016.
- **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

	2015	2014	2013	% of Change vs. 2014
Total Vacancy Rate	4.63%	3.97%	4.53%	16.62%
Availability Rate	6.23%	5.32%	5.99%	17.11%
Average Asking Lease Rate	$1.76	$1.79	$1.75	(1.68%)
Sale & Lease Transactions	10,166,661	8,725,541	8,876,092	16.52%
Gross Absorption	4,083,655	4,375,855	4,396,665	(6.68%_
Net Absorption	(240,656)	1,225,948	876,310	N/A

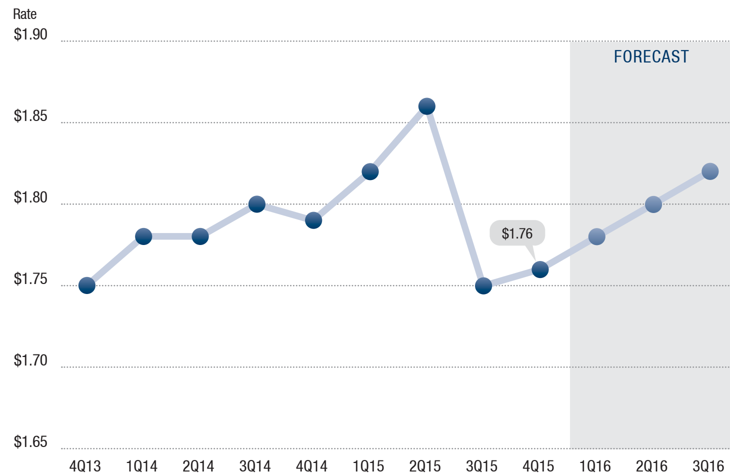
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



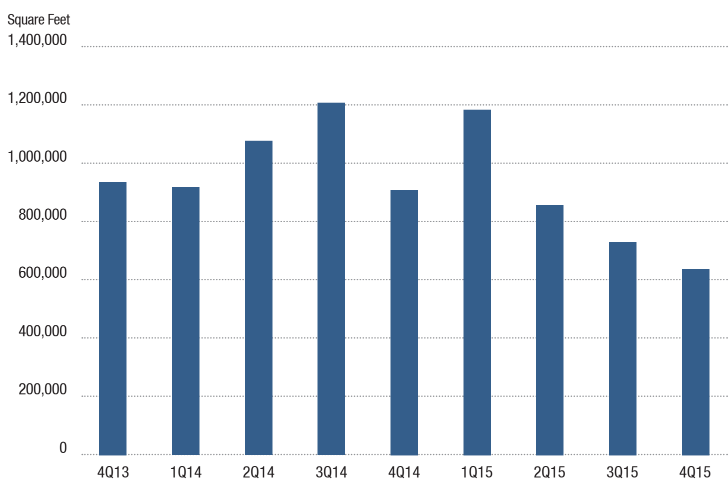
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



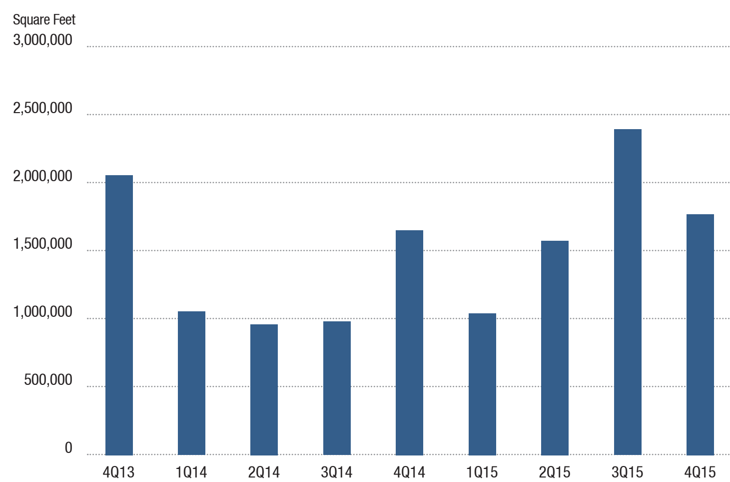
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



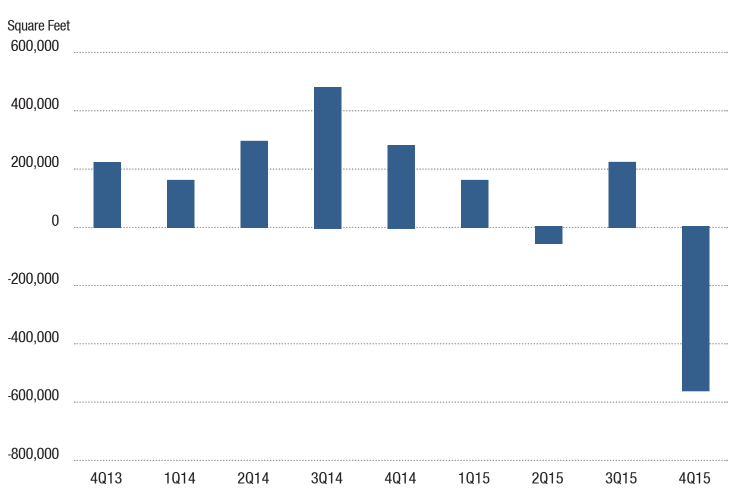
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

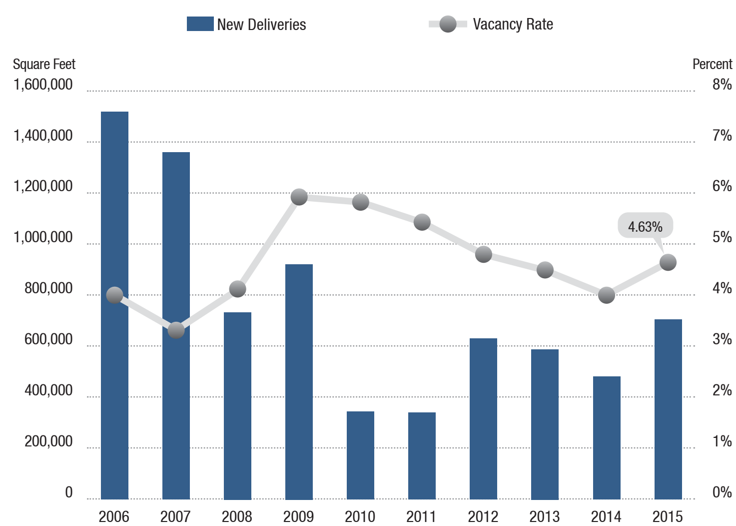


NET ABSORPTION

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 4Q2015	Square Feet Available	Availability Rate 4Q2015	Average Asking Lease Rate	Net Absorption 4Q2015	Net Absorption 2015	Gross Absorption 4Q2015	Gross Absorption 2015
Central													
General Retail	3,647	19,386,644	10,210	769,427	586,399	3.02%	847,628	4.37%	$2.33	(8,053)	115,763	173,873	664,917
Malls	39	4,389,310	0	0	35,288	0.80%	42,695	0.97%	$0.00	(1,172)	1,027	2,093	7,511
Power Centers	96	3,521,522	0	0	89,976	2.56%	103,245	2.93%	$0.00	1,968	7,257	52,044	81,813
Shopping Centers	706	11,141,602	0	46,864	523,261	4.70%	671,416	6.03%	$1.94	(26,060)	(25,219)	90,608	427,039
Specialty Centers	7	313,886	0	0	25,966	8.27%	25,966	8.27%	$0.00	5,661	(4,085)	6,053	6,053
Central Total	4,495	38,752,964	10,210	816,291	1,260,890	3.25%	1,690,950	4.36%	$2.06	(27,656)	94,743	324,671	1,187,333
East County													
General Retail	1,429	7,216,165	0	96,135	182,524	2.53%	256,241	3.55%	$1.56	(40,205)	(48,312)	47,675	142,778
Malls	15	2,742,077	0	0	6,939	0.25%	28,245	1.03%	$0.00	1,397	(60)	1,397	1,949
Power Centers	61	1,674,668	0	4,800	7,743	0.46%	42,667	2.55%	$0.00	2,732	21,406	2,732	21,406
Shopping Centers	552	8,297,263	0	126,087	753,949	9.09%	798,852	9.63%	$1.65	(206,767)	(179,414)	96,418	316,426
Specialty Centers	3	75,112	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
East County Total	2,060	20,005,285	0	227,022	951,155	4.75%	1,126,005	5.63%	$1.55	(242,843)	(206,380)	148,222	482,559
I-15 Corridor													
General Retail	164	1,610,201	17,720	10,418	11,921	0.74%	23,126	1.44%	$4.00	322	(11,921)	1,672	4,614
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	282	4,203,347	19,784	263,950	376,215	8.95%	471,020	11.21%	$2.44	(66,544)	(78,277)	179,485	263,157
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
I-15 Corridor Total	468	6,372,733	37,504	279,368	395,450	6.21%	501,460	7.87%	$2.75	(66,222)	(97,512)	181,157	267,771
North County													
General Retail	1,684	11,311,891	25,432	1,254,389	373,049	3.30%	750,319	6.63%	$0.93	9,724	21,599	59,693	202,310
Malls	23	3,176,626	0	50,340	2,331	0.07%	10,743	0.34%	$0.00	1,263	6,950	2,871	19,401
Power Centers	106	3,087,743	0	38,645	166,047	5.38%	305,971	9.91%	$2.33	68,291	89,306	154,370	191,679
Shopping Centers	940	15,147,598	6,028	443,252	1,434,770	9.47%	1,742,300	11.50%	$1.62	(64,509)	(12,646)	243,018	723,494
Specialty Centers	5	367,735	0	0	0	0.00%	10,808	2.94%	$3.13	0	0	0	0
North County Total	2,758	33,091,593	31,460	1,786,626	1,976,197	5.97%	2,820,141	8.52%	$1.63	14,769	105,209	459,952	1,136,884
Central North													
General Retail	863	7,194,050	197,839	147,964	201,187	2.80%	291,879	4.06%	$3.30	(40,358)	(24,598)	66,446	193,822
Malls	20	1,102,034	0	646,000	0	0.00%	0	0.00%	$0.00	0	0	0	0
Power Centers	64	2,087,645	0	108,835	79,789	3.82%	104,851	5.02%	$0.00	(46,149)	(50,483)	10,490	27,130
Shopping Centers	410	6,605,101	0	228,556	393,312	5.95%	442,068	6.69%	$2.25	(34,518)	(22,551)	72,804	237,793
Specialty Centers	9	232,667	0	0	45,167	19.41%	69,877	30.03%	$1.81	3,143	12,501	3,143	15,901
Central North Total	1,366	17,221,497	197,839	1,131,355	719,455	4.18%	908,675	5.28%	$2.94	(117,882)	(85,131)	152,883	474,646
South Bay													
General Retail	1,103	5,668,726	118,000	671,969	282,115	4.98%	393,683	6.94%	$1.37	1,352	(94,323)	3,600	5,648
Malls	43	2,407,129	0	0	70,907	2.95%	73,413	3.05%	$0.00	0	(17,312)	0	6,561
Power Centers	27	1,023,153	0	0	14,920	1.46%	60,337	5.90%	$0.00	0	(14,920)	3,000	3,000
Shopping Centers	521	8,917,164	0	250,300	548,639	6.15%	790,771	8.87%	$1.53	(100,054)	(49,717)	78,886	317,731
Specialty Centers	26	766,840	0	478,000	12,858	1.68%	17,646	2.30%	$0.00	(2,933)	139,057	0	141,990
South Bay Total	1,720	18,783,012	118,000	1,400,269	929,439	4.95%	1,335,850	7.11%	$1.45	(101,635)	(37,215)	85,486	474,930
Outlying Areas													
General Retail	495	1,995,710	0	3,200	83,314	4.17%	117,246	5.87%	$1.60	(8,039)	(5,996)	12,701	42,838
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	1,300,545	0	0	65,178	5.01%	85,064	6.54%	$1.49	(13,503)	(8,374)	3,777	16,694
Specialty Centers	1	255,000	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Outlying Areas Total	601	3,697,145	0	3,200	159,492	4.31%	213,310	5.77%	$1.89	(21,542)	(14,370)	16,478	59,532
San Diego Total	**13,468**	**137,924,229**	**395,013**	**5,644,131**	**6,392,078**	**4.63%**	**8,596,391**	**6.23%**	**$1.76**	**(563,011)**	**(240,656)**	**1,368,849**	**4,083,655**
General Retail	9,385	54,383,387	369,201	2,953,502	1,720,509	3.16%	2,680,122	4.93%	$1.76	(85,257)	(47,788)	365,660	1,256,927
Malls	151	13,963,066	0	696,340	126,465	0.91%	166,096	1.19%	$0.00	1,488	(9,395)	6,361	35,422
Power Centers	376	11,953,916	0	157,280	365,789	3.06%	624,385	5.22%	$2.26	26,842	45,252	222,636	325,028
Shopping Centers	3,505	55,612,620	25,812	1,359,009	4,095,324	7.36%	5,001,491	8.99%	$1.73	(511,955)	(376,198)	764,996	2,302,334
Specialty Centers	51	2,011,240	0	478,000	83,991	4.18%	124,297	6.18%	$1.80	5,871	147,473	9,196	163,944
San Diego Total	**13,468**	**137,924,229**	**395,013**	**5,644,131**	**6,392,078**	**4.63%**	**8,596,391**	**6.23%**	**$1.76**	**(563,011)**	**(240,656)**	**1,368,849**	**4,083,655**

Lease rates are on a triple-net basis.

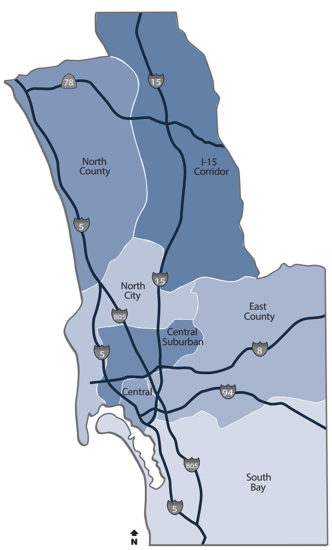
MAJOR TRANSACTIONS OF 2015

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	539,960	$339	Angelo, Gordon & Co.	Gatlin Development Co.
Shoppes at Carlsbad	Carlsbad	967,603	$176	Rouse Properties, Inc.	Westfield Group
7035–7215 Clairemont Mesa Blvd., Et Al	Kearny Mesa	295,802	$362	Clarion Partners, HP Investors	McGrath Development
7833–7851 Girard Ave.	La Jolla	36,745	$721	Coppel Corporation	ColRich
9420–9460 Scranton Rd.	Miramar	56,004	$412	The Festival Companies	AVP Advisors, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2707–2717 Via De La Valle	Del Mar	47,481	Aug-2015	Gelson's Market	Spirit Realty Capital
1262 E Main St. – Renewal	El Cajon	41,462	Dec-2015	Dixieline Lumber & Home Centers	PROBuild
673–685 San Rodolfo Dr. – Renewal	Solana Beach	39,295	May-2015	Marshalls	American Assets Trust, Inc.
8784–8876 Navajo Rd.	La Mesa	33,958	Oct-2015	Orchard Supply Hardware	JH Real Estate Partners, Inc.
1750–1762 University Dr.	Vista	28,799	May-2015	ALDI	Valvista North, LLC



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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