

STRONG AND STEADY. The San Diego retail market started the year off strong and continues to remain resilient, with record low vacancy and availability rates, exhibiting a robust market with tight supply and increased competition. The industry experienced strong net absorption, and average asking rents continued to be high.

VACANCY. Direct/sublease space (unoccupied) finished the quarter at an all-time low of 3.66%, a slight but still notable decrease from the previous quarter's rate of 3.73% and significantly lower than last year's 4.17%.

LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County was \$1.86, the same rate as last quarter's tally, but two cents (\$0.02) lower than the second quarter of 2016 which posted \$1.88. The highest average asking rate in the market was in the Central North submarket, posting \$2.91 per square foot per month, based on a triple-net basis.

TRANSACTION ACTIVITY. The combined amount of retail property sold or leased during the second quarter was approximately 1.64 million square feet, just below the prior quarter's total of 1.68 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.

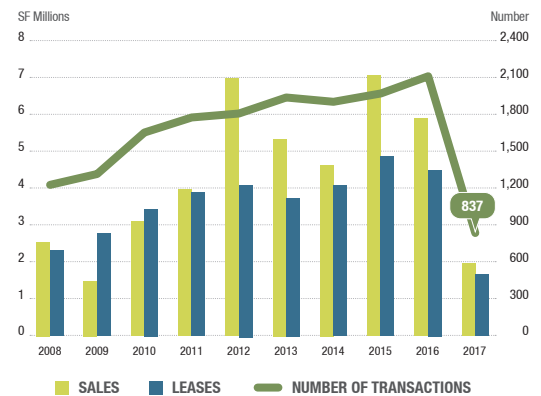
EMPLOYMENT. The unemployment rate in San Diego County was 3.6% in May 2017, down from a revised 3.8% in April 2016 and below the year-ago estimate of 4.3%. This compares with an unadjusted unemployment rate of 4.2% for California and 4.1% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 20,300 payroll jobs between May 2016 and May 2017, including 6,000 from government services, which reported the largest overall gain. The construction sector reported a growth of 5,000 jobs, and the educational and health services reported an increase of 3,900 jobs.

OVERALL. The San Diego retail market continues to improve, as market fundamentals exhibit positive growth in the first half of 2017, with vacancy at 3.66%, a post-recession record low. The decreasing vacancy rate will continue to allow landlords to move in a positive direction. However, a ceiling looms on rental rates because NNN expenses are also increasing and the total cost to some tenants may force them to find alternatives. Availability has steadily decreased but in response, construction has been on the rise over the past couple of years to try to help keep the market stable. 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 reflected in the decrease in transaction volume, the market remains tight as we head into the second half of the year.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	2Q 2017	1Q 2017	2Q 2016	% Change Over Last Year
Vacancy Rate	▼ DOWN	3.66%	3.73%	4.17%	(12.23%)
Availability Rate	▼ DOWN	4.88%	5.03%	5.64%	(13.48%)
Average Asking Lease Rate	▬ FLAT	\$1.86	\$1.86	\$1.88	(1.06%)
Sale & Lease Transactions	▼ DOWN	1,641,681	1,679,772	1,566,655	4.79%
Gross Absorption	▼ DOWN	1,169,307	1,072,236	1,723,502	(32.16%)
Net Absorption	▲ POSITIVE	24,893	129,330	575,388	N/A

CONSTRUCTION. We anticipate new retail deliveries will finish the year strong, with many new construction projects being delivered in 2017. Going forward, new retail product will be concentrated in shopping centers, and increasingly from mixed-use development in the market.

EMPLOYMENT. The labor market in San Diego County will continue to improve although we anticipate job growth to slow to 1.8%, or 25,000 jobs, over the year. With an expected growth in tourism and local economy in general, look for sectors like leisure and hospitality to lead the way for employment gains, followed by health care and biotech, and government employment.

LEASE RATES. Expect average asking rates to increase by a slight 1–3% over the next four quarters.

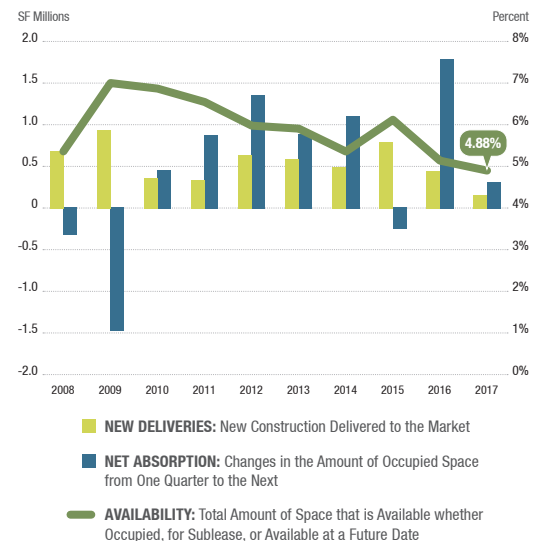
VACANCY. We anticipate the vacancy rate to remain stable and low, with much of the occupancy gains already captured. Much of the anticipated deliveries this coming year are preleased before they hit the market, which doesn't allow for much effect on the low vacancy rates.

CONSTRUCTION. 2017 started out slowly on the construction front, with approximately 165,000 square feet in new deliveries in the first half of the year. However, there is more than 400,000 square feet under construction due to complete this year. This should push the total above the annual average of 590,000 square feet delivered over the past five years. More than half of the retail construction in the county is made up of Westfield UTC's Phase II, with almost 400,000 square feet currently underway for expansion. Phase II will feature a new 140,000 square foot Nordstrom and an additional 251,000 square feet of top brand retailers and high end restaurants, due to complete in the fall of 2017.

AVAILABILITY. Direct/sublease space being marketed was 4.88% at the end of the second quarter, down significantly from the second quarter of 2016, which ended at 5.64%. 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 7.37%, while malls were the lowest with a paltry 0.68% availability rate.

ABSORPTION. The San Diego retail market posted 24,893 square feet of positive net absorption in the second quarter, following 129,330 square feet in the first quarter of the year, for a total of 6.4 million square feet of positive net absorption since the start of 2010.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1502–1910 Sweetwater Rd.	National City	185,902	\$36,500,000	Mgp Xi Us Properties, LLC	Sweetwater Associates, LP
770 Dennery Rd.	South San Diego	86,610	\$36,000,000	Citivest Commercial Investments, LLC	EPR Properties REIT
The Beachwalk	Solana Beach	54,973	\$33,250,000	GEM OPS, LLC	The Muller Company
Rio Vista Shopping Center	Mission Valley	113,395	\$28,250,000	Sudberry Properties, Inc.	Sears Holding Corp.
1043–1099 E. Main St.	El Cajon	75,225	\$17,900,000	Doerken Properties, Inc.	Barsky Management, Inc.

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
443 College Blvd.	Oceanside	86,668	Apr-2017	Target	Solid Rock Homes, LP
14340 Penasquitos Dr.	Rancho Penasquitos	57,580	Apr-2017	Floor & Décor Shop	Brixton Capital
999 N. Broadway	Escondido	43,500	Apr-2017	El Super	Pacific Development Partners, LLC
2110–2160 Vista Way	Oceanside	41,375	Jun-2017	Dick's Sporting Goods	Angelo, Gordon & Co.
2007–2041 Mission Ave.	Oceanside	37,690	Apr-2017	Oceanside Marketplace	Heslin Holdings, Inc.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 202017	Square Feet Available	Availability Rate 202017	Average Asking Lease Rate	Net Absorption 202017	Net Absorption 2017	Gross Absorption 202017	Gross Absorption 2017
Central													
General Retail	3,664	19,610,016	0	769,270	523,785	2.67%	754,201	3.85%	\$2.54	78,122	99,643	245,007	342,145
Malls	39	4,520,504	0	0	33,617	0.74%	30,910	0.68%	\$0.00	0	47,000	2,707	49,707
Power Centers	97	3,561,779	0	0	58,467	1.64%	63,692	1.79%	\$0.00	(7,595)	33,250	0	47,000
Shopping Centers	709	11,141,003	5,700	41,164	483,094	4.34%	519,383	4.66%	\$2.18	3,862	(22,621)	117,812	199,375
Specialty Centers	7	313,886	0	0	20,788	6.62%	20,788	6.62%	\$0.00	0	0	0	0
Central Total	4,516	39,147,188	5,700	810,434	1,119,751	2.86%	1,388,974	3.55%	\$2.28	74,389	157,272	365,526	638,227
East County													
General Retail	1,440	7,225,739	4,200	73,235	111,894	1.55%	184,320	2.55%	\$1.47	(18,556)	(1,586)	21,564	81,276
Malls	15	2,929,516	0	0	9,099	0.31%	3,683	0.13%	\$0.00	19,540	(3,933)	44,951	50,072
Power Centers	60	1,699,138	0	4,800	18,701	1.10%	45,634	2.69%	\$0.00	5,000	5,000	5,000	5,000
Shopping Centers	555	8,359,027	9,863	123,115	405,251	4.85%	533,159	6.38%	\$1.70	13,655	16,003	58,250	96,347
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
East County Total	2,072	20,247,978	14,063	201,150	544,945	2.69%	766,796	3.79%	\$1.73	19,639	15,484	129,765	232,695
I-15 Corridor													
General Retail	171	1,650,355	7,720	33,944	21,750	1.32%	32,407	1.96%	\$4.00	5,795	4,683	10,069	17,452
Malls	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Power Centers	24	567,029	0	5,000	4,914	0.87%	4,914	0.87%	\$0.00	2,400	43,072	2,400	43,072
Shopping Centers	286	4,258,100	4,773	250,247	237,773	5.58%	219,585	5.16%	\$3.01	23,803	27,218	44,979	91,875
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
I-15 Corridor Total	481	6,475,484	12,493	289,191	264,437	4.08%	256,906	3.97%	\$2.88	31,998	74,973	57,448	152,399
North County													
General Retail	1,691	11,214,020	37,292	651,922	238,947	2.13%	445,193	3.97%	\$2.52	12,527	1,658	98,189	145,500
Malls	23	3,176,626	0	50,340	6,899	0.22%	10,461	0.33%	\$0.00	(3,577)	(3,018)	1,011	2,581
Power Centers	107	3,092,900	4,500	31,044	211,784	6.85%	157,756	5.10%	\$2.38	7,551	319	7,551	51,619
Shopping Centers	948	15,140,627	6,028	496,340	1,150,166	7.60%	1,656,791	10.94%	\$1.71	(6,758)	72,507	236,290	453,264
Specialty Centers	5	367,735	0	0	0	0.00%	0	0.00%	\$0.00	6,900	0	8,113	9,323
North County Total	2,774	32,991,908	47,820	1,229,646	1,607,796	4.87%	2,270,201	6.88%	\$1.42	16,643	71,466	351,154	662,287
Central North													
General Retail	866	7,279,685	200,437	151,199	257,567	3.54%	308,096	4.23%	\$3.40	(36,904)	32,600	44,673	129,193
Malls	19	1,096,334	0	646,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Power Centers	63	2,081,133	0	108,835	101,783	4.89%	147,450	7.09%	\$0.00	12,192	16,323	15,208	21,858
Shopping Centers	419	6,611,004	37,500	191,056	224,679	3.40%	320,607	4.85%	\$2.29	(16,061)	5,397	47,443	114,930
Specialty Centers	9	232,667	0	0	44,910	19.30%	57,477	24.70%	\$0.00	3,400	3,400	4,500	4,500
Central North Total	1,376	17,300,823	237,937	1,097,090	628,939	3.64%	833,630	4.82%	\$2.91	(37,373)	57,720	111,824	270,481
South Bay													
General Retail	1,111	5,735,472	121,000	748,159	163,860	2.86%	249,555	4.35%	\$1.60	15,077	39,714	54,141	112,812
Malls	42	2,510,639	0	0	38,752	1.54%	41,206	1.64%	\$0.00	0	(1,563)	0	1,439
Power Centers	28	1,015,334	0	0	42,417	4.18%	12,800	1.26%	\$0.00	0	(42,417)	0	0
Shopping Centers	528	9,159,699	0	250,300	548,933	5.99%	821,955	8.97%	\$2.00	(88,109)	(90,296)	79,074	114,118
Specialty Centers	26	770,533	0	0	1,590	0.21%	5,877	0.76%	\$0.00	1,925	1,925	1,925	1,925
South Bay Total	1,735	19,191,677	121,000	998,459	795,552	4.15%	1,131,393	5.90%	\$1.63	(71,107)	(92,637)	135,140	230,294
Outlying Areas													
General Retail	501	1,977,980	0	3,200	59,657	3.02%	69,657	3.52%	\$1.29	(5,838)	15,039	14,200	38,364
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	1,302,716	0	16,683	51,351	3.94%	55,467	4.26%	\$1.80	(3,458)	10,696	4,250	25,904
Specialty Centers	1	255,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outlying Areas Total	607	3,681,586	0	19,883	122,008	3.31%	136,124	3.70%	\$1.67	(9,296)	25,735	18,450	64,268
San Diego Total	13,561	139,036,644	439,013	4,645,853	5,083,428	3.66%	6,784,024	4.88%	\$1.86	24,893	310,013	1,169,307	2,250,651
General Retail	9,444	54,693,267	370,649	2,430,929	1,377,460	2.52%	2,043,429	3.74%	\$2.43	50,223	191,751	487,843	866,742
Malls	149	14,379,509	0	696,340	99,367	0.69%	97,260	0.68%	\$0.00	15,963	38,486	48,669	103,799
Power Centers	379	12,017,313	4,500	149,679	438,066	3.65%	432,246	3.60%	\$2.38	19,548	55,547	30,159	168,549
Shopping Centers	3,539	55,972,176	63,864	1,368,905	3,101,247	5.54%	4,126,947	7.37%	\$1.93	(73,066)	18,904	588,098	1,095,813
Specialty Centers	50	1,974,379	0	0	67,288	3.41%	84,142	4.26%	\$0.00	12,225	5,325	14,538	15,748
San Diego Total	13,561	139,036,644	439,013	4,645,853	5,083,428	3.66%	6,784,024	4.88%	\$1.86	24,893	310,013	1,169,307	2,250,651

Lease rates are on a triple-net basis.



San Diego Retail – Holding Steady

by **Max Stone**

ASSOCIATE, SAN DIEGO

Reflecting on retail rental rates in the second quarter of 2017, we see rates holding steady in most strip malls and slowly rising in grocery-anchored shopping centers. With a lack of supply in most grocery-anchored centers, Landlords can charge \$3.00 NNN and above for small shop space. In the more urban areas, Landlords have no problem achieving rates in the \$5–\$6 NNN per square foot per month range.

Concessions have become a large part of Landlords achieving any rate above \$3 NNN per square foot per month in most areas of the county. The typical five-year deal will come with:

- 3–6 months of free rent for permitting and construction
- \$15 per square foot in TI's

Paramount to most Tenants is their ability to get ADA compliant space. With the increasing number of lawsuits in California, more and more tenants are becoming victims of this (occasionally fraudulent) pressure put on by attorneys abusing the system. Other priorities for retail tenants include the amount and timing of free rent, and the TI Allowance. With increasing rental rates, tenants need more time than ever to generate a foundation and following for their business before they become responsible for a monthly rental payment.

With interest rates still hovering at historically low levels and occupancy on the rise, landlords have begun looking toward their long-term goals. This means either selling at peak pricing or refinancing while interest rates remain low and occupancy for their assets remain strong.

Uptown Bressi and The Watermark are set to break ground within the next 12 months. Uptown Bressi will include more than 90,000 square feet which will complement the adjacent 115,000 Bressi Ranch Center. The Watermark will set a new precedent for the I-15 corridor, with 283,000 square feet of upscale retail. Preleasing has been strong for both developments and each are expecting 100% occupancy prior to the completion of construction.

Current occupancy in San Diego is high (above 96%) and the lack of product on the market has continued to drive lease rates up. As we move into the third quarter, we see no signs of this slowing down. Tenants will either seek to buy or lock in long-term leases to help stabilize their costs of occupancy.

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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. ©2017 Voit Real Estate Services, Inc. License #01991785.

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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

