

SD RETAIL DOING FINE. In the face of a changing retail landscape, the San Diego retail market has maintained solid fundamentals with availability at 5.13%, and the vacancy rate is still near a ten-year low. In spite of the rise of e-commerce, the San Diego retail real estate market remains robust with tight supply and high average asking rents.

VACANCY. Direct/sublease space (unoccupied) finished 1Q near an all-time low of 3.66%, 11 basis points higher than last year's 3.55% vacancy rate, and flat quarter-over-quarter. The current vacancy rate is more than 40% below the previous peak levels seen in 2010.

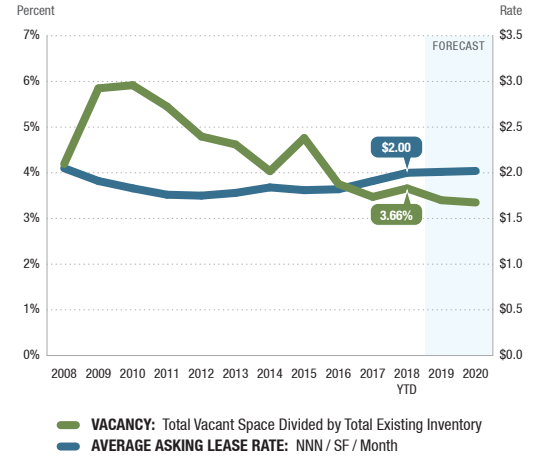
LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County was \$2.00, an increase of ten cents, or 5.26%, over the \$1.90 rate of Q1 2017. The highest average asking rate in the market was in the Central North area, posting \$2.92 per square foot per month, on a triple-net basis.

TRANSACTION ACTIVITY. The combined amount of retail property sold or leased during the fourth quarter was approximately 1.5 million square feet, which was a slight decrease from the 1.8 million square feet transacted in the prior quarter. The transaction activity 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.

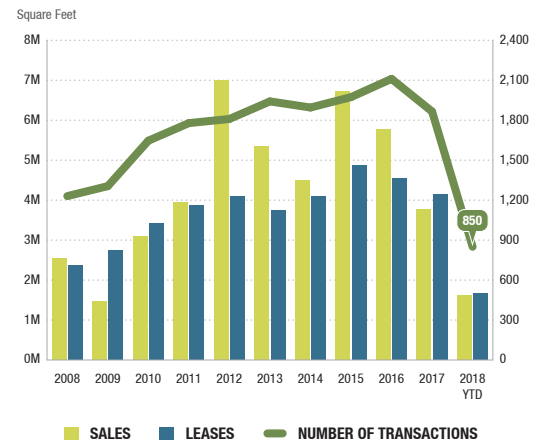
EMPLOYMENT. The unemployment rate in San Diego County was 2.9% in May 2018, unchanged from a revised 2.9% in April 2018, and below the year-ago estimate of 3.7%. This compares with an unadjusted unemployment rate of 3.7% for California and 3.6% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 32,500 payroll jobs between May 2017 and May 2018, including 15,500 from professional and business services, which reported the largest overall gain. The construction sector reported a growth of 5,200 jobs, and the manufacturing sector reported an increase of 4,600 jobs.

OVERALL. The San Diego retail market continues to remain on solid footing, as market fundamentals exhibited positive growth throughout 2017, and remain in good position through 2018. Vacancy ended the quarter at 3.66%, not that far off from a post-recession record low, despite the negative net absorption through the first two quarters of the year. There have been winners and losers in the retail landscape evolution. There is a dearth of shadow vacancy in the Westfield UTC mall in Downtown, as that mall prepares for redevelopment. Since the recession, there has been a steady stream of prominent retailers that have flourished or gone under, from one-time icon Sears, to the more recent demise of Toys "R" Us, but the market continues to adapt and move forward

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	2Q 2018	1Q 2018	2Q 2017	% Change Over Last Year
Vacancy Rate	■ FLAT	3.66%	3.66%	3.55%	2.92%
Availability Rate	▲ UP	5.13%	4.81%	4.71%	8.73%
Average Asking Lease Rate	▲ UP	\$2.00	\$1.89	\$1.90	5.26%
Sale & Lease Transactions	▼ DOWN	1,484,417	1,852,365	2,502,750	(40.69%)
Gross Absorption	▲ UP	1,015,827	922,469	1,271,015	(20.08%)
Net Absorption	▼ NEGATIVE	(192,927)	(270,472)	269,028	N/A

CONSTRUCTION. The completion of the renovation and expansion of Westfield’s UTC Mall closes the books on the driving force behind the majority of the recent construction volume. The market has reverted back to a pace of new construction that is right in line with the average output since the recovery began.

EMPLOYMENT. The labor market in San Diego County will continue to improve, although we anticipate job growth to slow. In 2017 there was a 1.2% increase in total employment, and a 1.0–1.5% increase is projected for 2018. With the local stalwarts of defense and biotech remaining strong, look for these sectors to lead the way for employment gains, followed by healthcare, and hospitality and leisure.

LEASE RATES. Expect average asking rates to increase by a moderate 2–3% over the next four quarters.

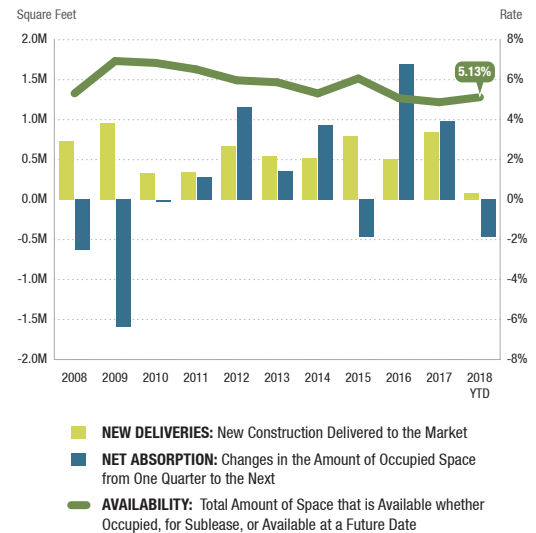
VACANCY. We anticipate the vacancy rate to remain stable and low, with much of the occupancy gains already captured. Availability has been moving upward of late, which will place pressure on the overall occupancy rate.

CONSTRUCTION. Following the 837,453 square feet of new retail projects completed in 2017, (the highest annual total since 2009), there is now 495,673 feet of retail product under construction, which is more in line with the 10-year average of 537,000 square feet under construction per quarter. Currently, the construction pipeline is being driven by infill projects, with few development sites being pursued outside of the built-out areas in the county.

AVAILABILITY. Direct/sublease space being marketed was 5.13% at the end of 2Q. This was an increase over Q1’s availability rate of 4.81%. The Central South area of the county posted the lowest availability rate in the county, at 3.42%.

ABSORPTION. The San Diego retail market posted two consecutive quarters of negative net absorption to start the year, totaling 463,399 square feet. North County saw the most negative net absorption in 2Q at 111,829 square feet.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1100–1170 Broadway	Chula Vista	356,335	\$58,500,000	Protea Properties	Kimco Realty Corporation
1101 W. 9th Ave.	Escondido	114,625	\$22,550,000	Envision Escondido R&E, LLC	Group 1 Realty, Inc.
7660 El Camino Real	Carlsbad	50,689	\$21,900,000	SJI Properties, LLC	Dionysus Investments, LLC
1144–1172 Prospect St.	La Jolla	12,272	\$16,200,000	LLJ Ventures	AIMCO
5515 Car Country Dr.	Carlsbad	46,523	\$16,171,500	Baker Parking, LLC	Rekab Properties

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3501–3555 Cannon Rd.	Oceanside	59,750	Jun-2018	Undisclosed	Vishvarupa, Inc.
8784–8876 Navajo Rd.	La Mesa	38,000	Jun-2018	24 Hour Fitness	JH Real Estate Partners
333–335 N. El Camino Real	Encinitas	33,338	May-2018	ALDI Grocery	335 North El Camino Real
575 Fletcher Pkwy.	El Cajon	31,000	Apr-2018	Undisclosed	Seritage Growth Properties
3717 Rosecrans St.	Point Loma/Sports Arena	24,950	Apr-2018	Big Lots	HEES II

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 202018	Square Feet Available	Availability Rate 202018	Average Asking Lease Rate	Net Absorption 202018	Net Absorption 2018	Gross Absorption 202018	Gross Absorption 2018
Central South													
General Retail	3,689	20,025,961	22,244	794,574	501,366	2.50%	666,972	3.33%	\$2.21	(32,803)	22,500	156,391	341,834
Malls	41	4,552,527	0	0	55,380	1.22%	55,380	1.22%	–	(4,116)	(5,724)	1,608	1,608
Power Centers	98	3,595,269	0	6,000	57,387	1.60%	42,986	1.20%	\$3.85	4,700	(2,310)	8,200	9,125
Shopping Centers	724	11,110,224	0	34,635	451,470	4.06%	560,625	5.05%	\$1.92	7,259	(9,000)	105,662	192,007
Specialty Centers	7	271,679	0	0	26,504	9.76%	26,504	9.76%	\$5.83	(216)	(5,716)	1,039	1,039
Central South Total	4,559	39,555,660	22,244	835,209	1,092,107	2.76%	1,352,467	3.42%	\$2.12	(25,176)	(250)	272,900	545,613
East County													
General Retail	1,445	7,345,603	15,440	29,970	178,917	2.44%	255,595	3.48%	\$1.39	(35,299)	(45,581)	53,877	75,377
Malls	14	2,816,104	0	0	10,688	0.38%	164,622	5.85%	–	(5,305)	(8,193)	2,730	4,913
Power Centers	60	1,699,138	0	4,800	16,021	0.94%	28,705	1.69%	–	1,188	1,229	2,184	10,123
Shopping Centers	561	8,287,899	0	160,913	359,688	4.34%	539,942	6.51%	\$1.71	38,732	28,605	83,957	135,082
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	–	0	0	0	0
East County Total	2,082	20,183,302	15,440	195,683	565,314	2.80%	988,864	4.90%	\$1.62	(684)	(23,940)	142,748	225,495
I-15 Corridor													
General Retail	171	1,649,605	0	55,425	29,379	1.78%	39,125	2.37%	\$2.54	33	33	5,609	7,109
Malls	0	0	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Power Centers	24	567,029	0	0	4,914	0.87%	112,173	19.78%	–	0	0	0	0
Shopping Centers	286	4,262,286	0	222,738	184,474	4.33%	199,978	4.69%	\$2.93	4,547	31,881	33,186	73,598
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	–	0	0	0	0
I-15 Corridor Total	481	6,478,920	0	278,163	218,767	3.38%	351,276	5.42%	\$2.91	4,580	31,914	38,795	80,707
North County													
General Retail	1,691	11,400,078	101,219	564,020	496,105	4.35%	578,058	5.07%	\$2.07	(131,752)	(201,148)	77,958	117,745
Malls	24	3,176,626	0	50,340	6,918	0.22%	8,702	0.27%	–	2,062	0	2,062	2,062
Power Centers	109	3,101,378	0	18,312	75,934	2.45%	98,695	3.18%	\$2.38	2,250	21,273	37,917	68,121
Shopping Centers	952	15,094,706	210,617	344,501	974,790	6.46%	1,373,119	9.10%	\$1.64	15,611	12,996	122,819	338,343
Specialty Centers	5	367,735	0	0	0	0.00%	500	0.14%	–	0	0	1,210	1,210
North County Total	2,781	33,140,523	311,836	977,173	1,553,747	4.69%	2,059,074	6.21%	\$1.75	(111,829)	(166,879)	241,966	527,481
Central North													
General Retail	864	7,000,994	11,409	85,308	212,336	3.03%	333,202	4.76%	\$3.66	(14,538)	(191,668)	56,092	104,135
Malls	21	1,488,514	0	0	197,000	13.23%	197,000	13.23%	–	(14,500)	(14,500)	0	0
Power Centers	66	2,093,744	0	101,235	56,728	2.71%	58,773	2.81%	–	62,032	60,592	62,524	72,083
Shopping Centers	421	6,661,993	15,546	432,487	321,036	4.82%	385,715	5.79%	\$2.49	(76,217)	(131,607)	39,599	95,777
Specialty Centers	9	232,667	0	0	58,233	25.03%	80,365	34.54%	\$1.75	(4,104)	(10,153)	0	0
Central North Total	1,381	17,477,912	26,955	619,030	845,333	4.84%	1,055,055	6.04%	\$2.92	(47,327)	(287,336)	158,215	271,995
South County													
General Retail	1,117	5,893,606	14,705	493,098	154,290	2.62%	253,972	4.31%	\$1.64	1,884	(20,571)	36,297	65,456
Malls	42	2,510,639	0	0	15,824	0.63%	116,620	4.65%	–	0	9,627	0	18,451
Power Centers	28	1,017,179	0	79,900	4,575	0.45%	26,689	2.62%	–	7,400	2,825	7,400	7,400
Shopping Centers	534	9,219,763	104,493	156,885	537,543	5.83%	731,950	7.94%	\$2.08	12,947	18,588	95,551	158,616
Specialty Centers	26	770,300	0	0	23,545	3.06%	37,992	4.93%	\$1.60	(20,355)	(20,355)	1,600	1,600
South County Total	1,747	19,411,487	119,198	729,883	735,777	3.79%	1,167,223	6.01%	\$1.95	1,876	(9,886)	140,848	251,523
Outlying Areas													
General Retail	509	2,029,821	0	13,248	56,922	2.80%	95,195	4.69%	\$1.78	(17,919)	(17,740)	2,558	6,287
Malls	11	145,890	0	0	11,000	7.54%	11,000	7.54%	–	0	0	0	0
Power Centers	0	0	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Shopping Centers	93	1,290,443	0	12,766	41,872	3.24%	95,334	7.39%	\$1.71	3,552	10,718	17,797	29,195
Specialty Centers	1	255,000	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Outlying Areas Total	614	3,721,154	0	26,014	109,794	2.95%	201,529	5.42%	\$1.74	(14,367)	(7,022)	20,355	35,482
San Diego Total													
General Retail	9,486	55,345,668	165,017	2,035,643	1,629,315	2.94%	2,222,119	4.01%	\$2.17	(230,394)	(454,175)	388,782	717,943
Malls	153	14,690,300	0	50,340	296,810	2.02%	553,324	3.77%	\$2.38	(21,859)	(18,790)	6,400	27,034
Power Centers	385	12,073,737	0	210,247	215,559	1.79%	368,021	3.05%	\$2.80	77,570	83,609	118,225	166,852
Shopping Centers	3,571	55,927,314	330,656	1,364,925	2,870,873	5.13%	3,886,663	6.95%	\$1.91	6,431	(37,819)	498,571	1,022,618
Specialty Centers	50	1,931,939	0	0	108,282	5.60%	145,361	7.52%	\$1.82	(24,675)	(36,224)	3,849	3,849
San Diego Total	13,645	139,968,958	495,673	3,661,155	5,120,839	3.66%	7,175,488	5.13%	\$2.00	(192,927)	(463,399)	1,015,827	1,938,296

Lease rates are on a triple-net basis.



Bumping Along *the Top*

by **Mark Caston**

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Just like the labor market is considered to be at full employment, San Diego County's retail real estate is running at or near full occupancy.

The retail vacancy rate in San Diego County remained extremely low in 2Q 2018 at 3.66%. This is a slight increase compared with 3.55% in 2Q 2017, and no change at all, quarter-over-quarter. This was the seventh consecutive quarter with the vacancy rate staying between 3.4% to 3.8% in the San Diego retail market. There is not a lot of room for continued occupancy gains.

There are several contributing factors for this low vacancy rate in the San Diego County retail sector:

- Constrained development of retail space.
- Employment growth, 19-year low for SD Unemployment Rate in 2Q
- Increases in personal income, San Diego's grew faster than the U.S in latest numbers
- Permanent and seasonal population growth.

Additionally, continued advances in consumer confidence numbers indicate retailers will maintain efforts to seek growth opportunities in San Diego County going forward in 2018.

Average retail rental rates continue to move upward, currently at \pm \$2.00 NNN per square foot per month. This is an increase of more than 5% over the past year. These average rental rates are skewed by larger spaces affecting the average. We see pad sites, specialty, urban and coastal spaces, community and regional life style centers demanding \$3.50–4.50 NNN per square foot per month rental rates, with mall rents pushing even higher. Additionally, now that 2018 CAM budgets in place, we are experiencing substantial increases in triple net expenses across all types of retail centers. This trend could add pressure on the ability to raise rental rates in 2018.

Bad news in the retail sector continues to garner attention, from the bankruptcy of Toys "R" Us, to the local decline of Downtown's iconic Horton Plaza Mall. These changes are, strangely, welcomed in supply-constrained coastal markets such as San Diego. When Toys "R" Us started announcing store closures, San Diego landlords had multiple investors and retailers clamoring to get those locations. I would bet that Westfield is quite pleased that an outdated Sears is no longer going to welcome shoppers entering the UTC Mall from the east. Jeff Bezos sitting on the top of the list of the world's richest people isn't a good sign for the retail market, but in a market such as San Diego we are changing with the times and doing just fine. The low vacancy rate and limited new construction opportunities maintain San Diego's low risk investment image.

Results for 2Q 2018 are proving that San Diego County's retail market is successfully navigating this paradigm shift.

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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. ©2018 Voit Real Estate Services, Inc. License #01991785.

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Submarkets

CENTRAL SOUTH

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 COUNTY

Chula Vista, Eastlake, Imperial Beach/South San Diego, National City