

**MARKET OVERVIEW.** The San Diego retail market continues to buck the trend of the struggling national retail sector. Through the first half of the year, vacancy remains low, and net absorption for the first half is positive. Some signs of softness appear when you look at average asking rental rates, which have dipped slightly since the start of the year. However, the limited amount of retail product under construction highlights the supply-constrained nature of the San Diego market, which has kept it on solid footing thus far.

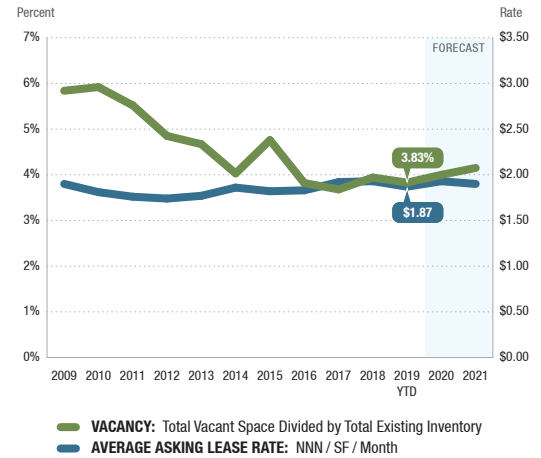
**VACANCY.** Direct/sublease space (unoccupied) finished the second quarter at 3.83%, a decrease of 19 basis points from the first quarter's vacancy rate of 4.04%, but at the same level of one year ago, and it is still well below the ten-year average of 4.69% vacancy rate.

**LEASE RATES.** The average asking triple-net lease rate per month per square foot in San Diego County was \$1.87, a \$0.03 decrease from the previous quarter's rate of \$1.90. The highest average asking rate in the market was in the I-15 Corridor, posting \$3.19 per square foot per month, on a triple-net basis.

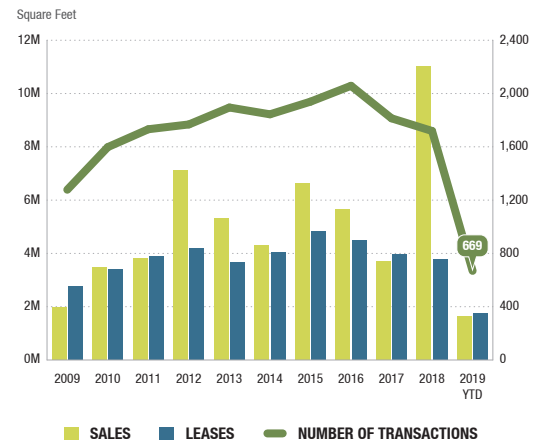
**TRANSACTION ACTIVITY.** The combined amount of retail property sold or leased during the second quarter was approximately 1.7 MSF, identical to the previous quarter's transaction volume. The transaction activity statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report.

**EMPLOYMENT.** The unemployment rate in San Diego County was 2.8% in May 2019, down from a revised 3.0% in April 2019, and unchanged from the year-ago estimate of 2.8%. This compares with an unadjusted unemployment rate of 3.5% for California and 3.4% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 25,600 payroll jobs between May 2018 and May 2019, including 8,700 from education and health services, which reported the largest overall gain. The professional and business services sector reported a growth of 7,000 jobs, the second most among the major employment sectors. The largest year-over-year loss was in trade, transportation, and utilities which reported 3,200 fewer jobs than the prior year.

### VACANCY vs. AVERAGE ASKING LEASE RATE



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



### Market Statistics

	Change Over Last Quarter	2Q 2019	1Q 2019	2Q 2018	% Change Over Last Year
Vacancy Rate	▼ DOWN	3.83%	4.04%	3.84%	(0.15%)
Availability Rate	▼ DOWN	4.83%	5.06%	5.21%	(7.40%)
Average Asking Lease Rate	▼ DOWN	\$1.87	\$1.90	\$2.01	(6.97%)
Sale & Lease Transactions	▬ FLAT	1,702,181	1,748,693	1,564,648	8.79%
Gross Absorption	▲ UP	1,193,616	1,166,460	966,970	23.44%
Net Absorption	▲ POSITIVE	55,253	657	(107,617)	N/A

**EMPLOYMENT.** The labor market in San Diego County will continue to improve, although we anticipate job growth to slow. In 2018 there was a 1.7% increase in total employment, and a 1.0–1.2% increase is projected for 2019. With the local stalwarts of defense and biotech remaining strong, look for these sectors to lead the way for employment gains, followed by healthcare.

**LEASE RATES.** The average asking lease rate has remained fairly flat over the past couple of years, due in large part to the volatility in the retail sector as a whole. However, San Diego is a supply-constrained market, and availability remains low. Expect average asking rates to remain stable, with select segments seeing increases, but small to no increases in the market average in the coming quarters.

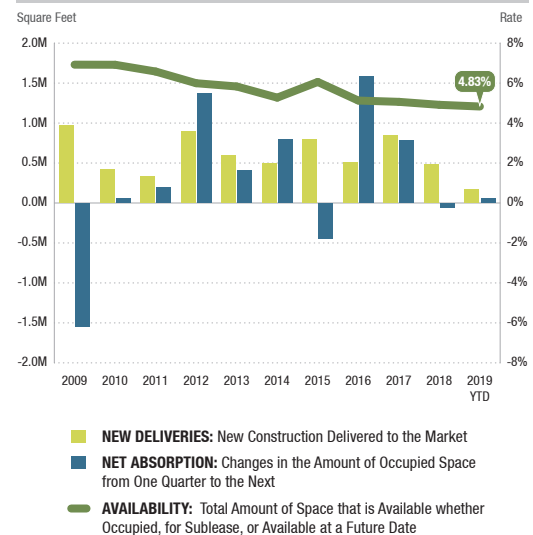
**VACANCY.** We anticipate the vacancy rate to remain stable and low, with much of the occupancy gains already captured. Availability has remained steady over the past four quarters, and with no buildup in availability, and minimal construction under way, we do not anticipate significant increases in vacancy.

**CONSTRUCTION.** Following the 464,118 square feet of new retail projects completed in 2018 (the lowest annual total since 2011), there were only 428,406 square feet under construction at the end of the second quarter of 2019. The limited amount of new construction coming to the market has acted as a stabilizing force during this period of dramatic change in retail.

**ABSORPTION.** The San Diego retail market saw a meager 55,910 square feet of positive net absorption in the first half of 2019, which was a welcome change in course following the 56,098 square feet of negative net absorption the market saw in 2018.

**AVAILABILITY.** Direct/sublease space being marketed was 4.83% at the end of the second quarter. This was a slight decrease from the first quarter’s availability rate of 5.06%. The I-15 Corridor area of the county posted the lowest availability rate in the county, at 3.7%.

**NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE**



## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
4002–4280 Clairemont Mesa Blvd.	Clairemont	431,037	\$150,000,000	Merlone Geier	Teachers Retirement of Ohio
1180 W. San Marcos Blvd.	San Marcos	100,551	\$36,500,000	Realty Income Corp.	Shopcore Properties
12622–12664 Poway Rd.	Poway	115,004	\$27,000,000	Sterling Organization	Greenstreet RE Partners, LP
7863–7877 Girard Ave.	La Jolla	27,024	\$12,500,000	Vectra Management Group	Davlyn Investments
191 N. El Camino Real	Encinitas	28,037	\$12,200,000	CJS Investments, LLC	US Financial, LP

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
12080 Carmel Mountain Rd.	Carmel Mountain Ranch	107,210	Jun-2019	At Home	(Sublease)
1180 W. San Marcos Blvd.	San Marcos	100,551	Apr-2019	Edwards Cinemas	Realty Income Corp.
1240 W. Morena Blvd.	Morena/Rose Canyon	35,414	Jun-2019	Undisclosed	Floit Properties
8805 Murray Dr.	La Mesa	19,837	Apr-2019	Sears Outlet	Rainbow Investment Co.
865 E. H St.	Chula Vista	15,170	May-2019	Goodwill	CVP Investments, LLC

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2019	Square Feet Available	Availability Rate 2Q2019	Average Asking Lease Rate	Net Absorption 2Q2019	Net Absorption 2019	Gross Absorption 2Q2019	Gross Absorption 2019
<b>Central South</b>													
General Retail	3,742	20,403,782	13,277	984,690	609,727	2.99%	875,624	4.29%	\$2.37	(64,658)	(119,681)	190,102	292,815
Malls	64	5,086,980	0	0	218,250	4.29%	194,769	3.83%	–	0	(18,370)	0	3,100
Power Centers	98	3,568,245	0	6,000	19,275	0.54%	24,686	0.69%	–	34,951	37,046	38,451	46,211
Shopping Centers	699	10,845,817	0	34,635	409,921	3.78%	469,954	4.33%	\$2.10	(2,924)	(44,106)	84,628	167,030
Specialty Centers	7	294,915	0	0	40,430	13.71%	40,430	13.71%	–	0	(21,821)	0	1,711
<b>Central South Total</b>	<b>4,610</b>	<b>40,199,739</b>	<b>13,277</b>	<b>1,025,325</b>	<b>1,297,603</b>	<b>3.23%</b>	<b>1,605,463</b>	<b>3.99%</b>	<b>\$2.27</b>	<b>(32,631)</b>	<b>(166,932)</b>	<b>313,181</b>	<b>510,867</b>
<b>East County</b>													
General Retail	1,449	7,456,632	2,640	59,270	130,281	1.75%	286,602	3.84%	\$1.45	6,624	38,780	51,898	130,382
Malls	14	2,788,820	0	0	63,603	2.28%	146,636	5.26%	–	(43,450)	(15,345)	0	41,085
Power Centers	60	1,702,163	0	7,300	21,564	1.27%	38,678	2.27%	\$2.25	3,000	639	3,000	8,000
Shopping Centers	565	8,156,010	19,084	232,529	546,100	6.70%	525,103	6.44%	\$1.60	(54,711)	(60,486)	66,932	141,403
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	–	0	0	0	0
<b>East County Total</b>	<b>2,090</b>	<b>20,138,183</b>	<b>21,724</b>	<b>299,099</b>	<b>761,548</b>	<b>3.78%</b>	<b>997,019</b>	<b>4.95%</b>	<b>\$1.56</b>	<b>(88,537)</b>	<b>(36,412)</b>	<b>121,830</b>	<b>320,870</b>
<b>I-15 Corridor</b>													
General Retail	175	1,661,501	0	62,925	34,772	2.09%	48,848	2.94%	\$3.17	(1,643)	(16,568)	2,416	6,616
Malls	0	0	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Power Centers	24	581,357	0	0	11,864	2.04%	14,918	2.57%	–	104,510	100,260	107,210	107,210
Shopping Centers	287	4,278,761	0	229,532	189,464	4.43%	177,536	4.15%	\$3.19	(2,285)	(10,989)	35,022	66,922
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	–	0	0	0	0
<b>I-15 Corridor Total</b>	<b>486</b>	<b>6,521,619</b>	<b>0</b>	<b>292,457</b>	<b>236,100</b>	<b>3.62%</b>	<b>241,302</b>	<b>3.70%</b>	<b>\$3.19</b>	<b>100,582</b>	<b>72,703</b>	<b>144,648</b>	<b>180,748</b>
<b>North County</b>													
General Retail	1,703	11,655,512	0	514,715	507,134	4.35%	405,921	3.48%	\$1.10	(15,701)	6,459	59,140	134,212
Malls	24	3,176,626	0	50,340	14,038	0.44%	25,526	0.80%	–	27,949	(3,065)	27,949	27,949
Power Centers	109	3,112,798	0	18,312	127,825	4.11%	130,485	4.19%	–	(6,205)	(20,761)	6,172	45,269
Shopping Centers	968	15,134,846	48,000	418,159	938,796	6.20%	1,294,047	8.55%	\$1.57	12,858	85,700	153,724	410,062
Specialty Centers	5	364,234	0	0	1,210	0.33%	1,210	0.33%	–	0	0	0	0
<b>North County Total</b>	<b>2,809</b>	<b>33,444,016</b>	<b>48,000</b>	<b>1,001,526</b>	<b>1,589,003</b>	<b>4.75%</b>	<b>1,857,189</b>	<b>5.55%</b>	<b>\$1.39</b>	<b>18,901</b>	<b>68,333</b>	<b>246,985</b>	<b>617,492</b>
<b>Central North</b>													
General Retail	856	7,055,830	11,600	87,908	200,340	2.84%	237,342	3.36%	\$3.27	7,555	(15,977)	45,688	124,139
Malls	20	1,252,286	177,000	0	122,610	9.79%	185,821	14.84%	–	14,500	14,500	14,500	14,500
Power Centers	65	2,102,329	25,300	101,235	9,695	0.46%	33,860	1.61%	–	(1,211)	3,834	0	6,995
Shopping Centers	418	6,431,057	110,836	480,213	277,477	4.31%	366,778	5.70%	\$2.27	(44,579)	6,560	96,081	203,105
Specialty Centers	9	232,667	0	0	52,040	22.37%	56,351	24.22%	\$1.75	15,014	15,014	15,014	15,014
<b>Central North Total</b>	<b>1,368</b>	<b>17,074,169</b>	<b>324,736</b>	<b>669,356</b>	<b>662,162</b>	<b>3.88%</b>	<b>880,152</b>	<b>5.15%</b>	<b>\$2.64</b>	<b>(8,721)</b>	<b>23,931</b>	<b>171,283</b>	<b>363,753</b>
<b>South County</b>													
General Retail	1,123	6,185,061	9,769	394,262	103,112	1.67%	285,589	4.62%	\$1.65	49,256	39,355	71,783	91,933
Malls	41	2,508,451	0	0	10,008	0.40%	17,939	0.72%	–	25,790	(6,417)	25,790	25,790
Power Centers	27	965,080	7,400	75,500	4,575	0.47%	4,575	0.47%	–	0	2,825	15,170	22,570
Shopping Centers	545	9,274,872	3,500	121,445	569,832	6.14%	707,390	7.63%	\$2.00	(3,877)	68,949	82,946	226,053
Specialty Centers	23	741,871	0	0	14,782	1.99%	20,861	2.81%	\$2.80	(5,510)	(10,425)	0	0
<b>South County Total</b>	<b>1,759</b>	<b>19,675,335</b>	<b>20,669</b>	<b>591,207</b>	<b>702,309</b>	<b>3.57%</b>	<b>1,036,354</b>	<b>5.27%</b>	<b>\$1.94</b>	<b>65,659</b>	<b>94,287</b>	<b>195,689</b>	<b>366,346</b>
<b>San Diego Total</b>	<b>13,122</b>	<b>137,053,061</b>	<b>428,406</b>	<b>3,878,970</b>	<b>5,248,725</b>	<b>3.83%</b>	<b>6,617,479</b>	<b>4.83%</b>	<b>\$1.87</b>	<b>55,253</b>	<b>55,910</b>	<b>1,193,616</b>	<b>2,360,076</b>
General Retail	9,048	54,418,318	37,286	2,103,770	1,585,366	2.91%	2,139,926	3.93%	\$1.85	(18,567)	(67,632)	421,027	780,097
Malls	163	14,813,163	177,000	50,340	428,509	2.89%	570,691	3.85%	\$0.00	24,789	(28,697)	68,239	112,424
Power Centers	383	12,031,972	32,700	208,347	194,798	1.62%	247,202	2.05%	\$2.25	135,045	123,843	170,003	236,255
Shopping Centers	3,482	54,121,363	181,420	1,516,513	2,931,590	5.42%	3,540,808	6.54%	\$1.88	(95,518)	45,628	519,333	1,214,575
Specialty Centers	46	1,668,245	0	0	108,462	6.50%	118,852	7.12%	\$2.35	9,504	(17,232)	15,014	16,725
<b>San Diego Total</b>	<b>13,122</b>	<b>137,053,061</b>	<b>428,406</b>	<b>3,878,970</b>	<b>5,248,725</b>	<b>3.83%</b>	<b>6,617,479</b>	<b>4.83%</b>	<b>\$1.87</b>	<b>55,253</b>	<b>55,910</b>	<b>1,193,616</b>	<b>2,360,076</b>

Lease rates are on a triple-net basis.



## Changing Landscape

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In the first half of 2019, fundamentals such as the countywide vacancy rate remain strong as we are now going into our fourth consecutive year with vacancy below 4%. We do believe that certain segments are underreporting some of their vacancies, especially in the regional malls which have been one of the harder hit areas, and these landlords traditionally do not report all their vacancies. However, the shopping center segment which includes strip centers, neighborhood centers and the like is currently at a 6.5% availability rate, which is more indicative of where the market really is. This is still a very healthy rate, and many metros in the U.S. would love to have these conditions.

Rental rate gains have leveled off for the time being, with quality Class A centers and coastal or other prime areas achieving rates of \$5.00–\$6.00 NNN per square foot per month and in some cases even higher. On the other side of the coin, for many smaller businesses, monthly overhead is a growing concern. As a result, these tenants are seeking lower-cost alternatives and are flocking to Class B and C centers. Smaller businesses are willing to sacrifice some exterior modifications and inject more of their own capital to bring their spaces up to speed with their concept and the needs of their clients. Landlords at these centers are less likely to take part in supplementing tenants with improvement packages and are more likely to offer free rent in exchange. Not only do the Class B and C properties offer more competitive base rental rates, but the NNN costs are often half (or less) than the newly constructed centers.

Moving forward, the San Diego tenant market will continue to change and absorb the punches thrown at it by e-commerce. Gyms, restaurants, medical users and other tenants that demand face-to-face interaction are continuing to absorb vacancy in most retail centers. Large regional malls have taken the evolution of retail on the chin more than any other area, but the change of Horton Plaza into a creative office complex and the continued expansion of the UTC mall are examples of the market's ability to adapt. A look at the lease transactions highlighted in this report is a clear indicator of the retail tenants other than eateries that are expanding: home furnishings, outlets, and entertainment users. The San Diego market is highly desirable and continues to adapt with the times.

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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. ©2019 Voit Real Estate Services, Inc. DRE 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

### SOUTH COUNTY

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