

ECONOMIC INDICATORS

National

	Q4 16	Q4 17	12-Month Forecast**
GDP Growth	1.8%	2.3%*	▲
CPI Growth	1.8%	2.0%*	▲
Consumer Spending Growth	2.8%	2.6%*	▼
Retail Sales Growth	3.7%	4.3%*	▲

*Q3 values. **Forecast by Cushman & Wakefield. Values represent year-over-year % change.

Regional

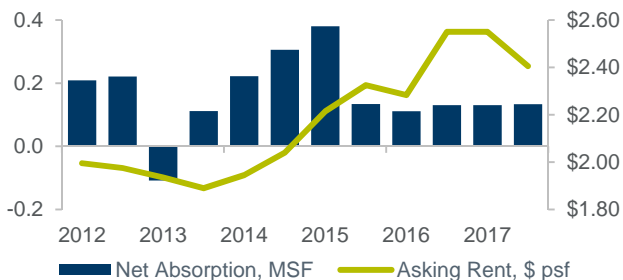
	H2 16	H2 17	12-Month Forecast**
Household Income	\$71,703	\$73,771	▲
Population Growth	0.8%	0.6%	▲
Unemployment	4.3%	3.3%*	▼

*November value. Source: Moody's Analytics, Ca. EDD

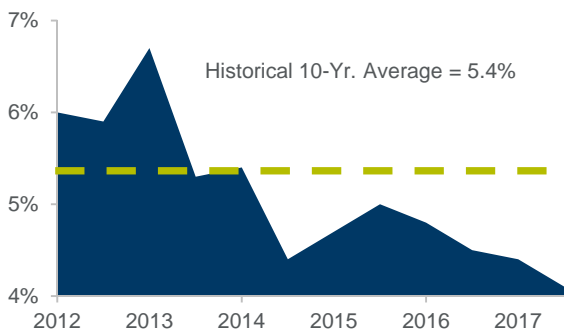
Market Indicators

	H2 16	H2 17	12-Month Forecast
Overall Vacancy - incl. Sublease	4.5%	4.1%	▼
Direct Net Absorption sf	203k	210k	▲
Under Construction sf	176k	896k	▲
Average Asking Rent (NNN)	\$2.52	\$2.23	▲

Net Absorption/Asking Rent (Triple Net, Monthly) 2-HALF TRAILING AVERAGE



Overall Vacancy – All Center Types, incl. Sublease



Economy

The San Diego employment market continued to record job growth, adding 20,800 jobs (+1.4%) year-over-year through November 2017. During the same time period, the unemployment rate decreased 100 basis points (bps), dropping to 3.3%. Also worth noting, the current rate is 270 bps below the 27-year average of 6%.

All employment sectors are expected to grow at a combined growth rate of 1.4% in 2018. San Diego's economy of \$215.3 billion as measured by gross regional product in 2016 is forecasted to grow an additional 3.1% in 2017 and 3.3% in 2018 – above its 10-year average growth rate of 2.3% - according to Moody's Analytics forecast released in January of 2018.

Market Overview

Retail vacancy (including sublease) decreased to 4.1% in the second half of 2017 (H2 2017), down 30 bps from mid-year of 2017 and 40 bps from a year ago. This was the second consecutive year of declining vacancy. Occupancy grew by 209,854 square feet (sf) across all center types in the H2 2017, bringing year-to-date net absorption to 266,869 sf. 2017 was the sixth year of positive occupancy growth. Current vacancy is 310 bps below the peak rate of 7.2% recorded eight years ago at the end of the recession. Since then, tenants have absorbed 2.1 million square feet (msf) across the county, with neighborhood and community centers accounting for 61% of space absorbed between 2010 and 2017.

Tenant demand continues to be driven by national and regional chains, most of which place the highest importance on the best-in-class centers within each trade area, fueling strong demand for Class A space. Because of strong demand for quality space, landlords of Class A centers are in the power position but tenants can still negotiate relative bargains for space at many Class B and C projects.

The best performing submarkets by square feet absorbed in the H2 2017 were Oceanside (108,700 sf), Uptown/Hillcrest (39,000 sf), Escondido (35,500 sf), Del Mar (35,000 sf) and San Marcos (30,700 sf). Tenants contributing to the positive absorption across these submarkets highlight established retail trends: expansion of specialty retailers and discounters.

In fact, due to San Diego's reputation as a "city of villages"—small, tightknit communities within the county—the largest move-in (nearly 40,000 sf) was a small-format Target Express located in the former Wang's of North Park (also former location of JC Penney for nearly thirty years). While the store has not opened yet, the retailer has taken occupancy and plans to offer a "curated assortment" of products tailored for the community and is working with several North Park planning groups to "ensure the spirit of [the] community is reflected throughout the store assortment and design", according to Target.

Another large move-in was Oceanside Marketplace (21,000 sf), a community swapmeet/consignment hall. This business also reflects the demand for specialty retailers. Ross Dress for Less took occupancy of approximately 28,000 sf in Chula Vista, not a surprising addition considering the immense demand for off-price retailers.

Both coastal and high-income suburban locations remain popular and command premium rents for their locations. Del Mar, with a 2.7% vacancy rate, remains the premier target trade area for expanding retailers, keeping rents among the highest in the county, averaging \$5.00 psf triple net per month due, in large part, to the availability at the prestigious Del Mar Highlands shopping center.

With nearly 900,000 sf currently under construction, San Diego has not seen this development volume in 11 years (1.4 msf under construction in 2006). Drivers of construction include demand for mixed-use retail experiences,

urban development and redevelopment, as well as the expansion of trophy projects and outparcel/pad development in existing shopping centers.

Of the projects currently under construction, the majority are located in urban locations. In fact, 18 retail projects are currently under construction Downtown, mostly on the ground floor of multi-family or hospitality buildings. By square footage, Mira Mesa has the most under construction (302,000 sf) due to The Watermark, a massive mixed-use development.

Notably, Park 12, located in Downtown, is a mixed-use development adjacent to Petco Park. Set to be delivered in 2018, it will include 713 residential units and a 12,000-sf open air plaza. While located in a suburban submarket, the Millenia development in Chula Vista with 131,000 sf of retail under construction, strives to mimic urban development with walkable promenades, parks, services, shops and restaurants. It is billed as a “pedestrian paradise”.

CONSTRUCTION VOLUME AT 896,000 SF, THE HIGHEST LEVEL IN 11 YEARS

An example of trophy retail development is Kilroy’s One Paseo. Despite being scaled down from its original plan, the controversial 23.6-acre mixed-use environment, will include retail, office and residential, totaling approximately 1.1 msf. The first phase, to cost approximately \$225 million, includes 95,000 sf of retail and the initial segment of apartments. Retail occupancy is scheduled for the 2018 holiday season.

Additionally, the 40-year-old Westfield UTC has delivered on its second phase of a two-year, \$600 million “resort-inspired transformation”. This expansion, which increases the total project size by 30%, features an additional 90 new shops and chef-driven restaurants (251,000 sf) and an 18,000-sf indoor/outdoor event space. To much fanfare, a new 149,000-sf Nordstrom opened in October 2017, along with new restaurants and retailers.

Many projects that were expected to be completed in 2017, were pushed to the first half of 2018. As a result, just 41,000 sf was officially delivered in 2017. Projects completed include a 22,000-sf portion of Camino Town & Country in Oceanside and three small Downtown projects totaling 18,000 sf. One of those downtown was the 10 Barrel Brewing building, part of Makers Quarter.

Outlook

- Construction deliveries will sharply increase throughout 2018 and 2019. While 29% of space that is under construction is currently pre-leased to tenants, we expect some space to be delivered vacant leading to a momentary spike in vacancy.
- However, strong demand for space in San Diego will continue during this time. With anticipated deliveries of high quality, experiential retail in mixed-use developments over the next two years, San Diego’s large Millennial population—known for valuing experiences—will be a heavy driver, demanding innovative and class A retailers.

Direct Vacancy vs. Unemployment Rate

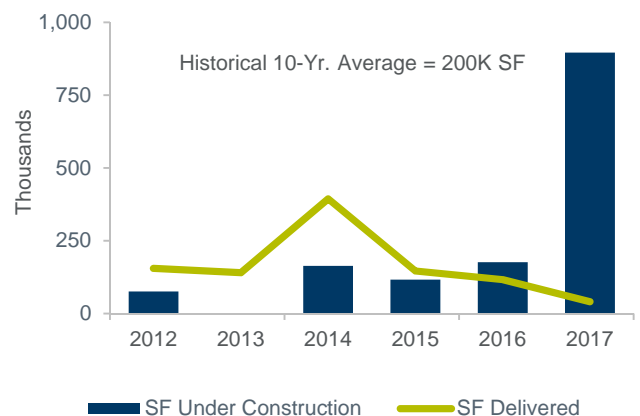
VACANCY AT 3.6% - BELOW 10-YR. AVG. RATE OF 4.5%



Retail Tenant Categories 2017/2018

New to Market/Expanding	Downsizing/Consolidating
Fast Casual Restaurant Concepts, Fast Food, Trucks to Bricks Concepts	Department Stores
Breweries/Brew Pubs	Drug Stores
Food Halls/Artisanal Markets	Mid-Priced Apparel, Shoes
Grocery Stores – Specialty, Organic, Club/Warehouse, Off-Price/Discount	Mid-Priced/Unionized Grocery Stores
Fitness/Health Clubs	Toy Stores
Home Improvement/Furnishings	Consumer Electronics

Under Construction vs. Deliveries



MARKETBEAT

San Diego Region

Retail H2 2017



SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	CURRENT DIRECT NET ABSORPTION	YTD DIRECT NET ABSORPTION	UNDER CONSTRUCTION	AVERAGE ASKING RENT
North County	131	19,433,501	68,641	870,329	4.9%	207,091	186,316	91,088	\$2.10
Central County	95	14,105,638	82,777	349,133	3.1%	146	165,601	396,600	\$2.48
South County	207	17,035,187	75,743	757,617	4.8%	(38,507)	(111,612)	408,674	\$2.36
East County	66	8,903,386	55,684	178,890	2.6%	41,124	26,564	0	\$1.85
TOTAL	499	59,477,712	282,845	2,155,969	4.1%	209,854	266,869	896,362	\$2.23
Community	97	17,067,752	59,809	576,721	3.8%	68,261	136,878	306,400	\$2.39
Free-standing	20	675,931	0	48,288	7.1%	68,928	85,324	42,494	\$2.24
Neighborhood	233	23,252,931	167,098	1,016,758	5.1%	100,114	21,229	311,777	\$2.05
Power	28	11,494,571	34,202	148,375	1.6%	66,170	93,543	0	\$2.66
Regional	9	3,627,952	8,745	49,417	1.6%	7,865	(18,494)	0	\$2.53
Strip	112	3,358,575	12,991	316,410	9.8%	(101,484)	(51,611)	235,691	\$2.37
TOTAL	499	59,477,712	282,845	2,155,969	4.1%	209,854	266,869	896,362	\$2.23

Rental rates reflect triple net (NNN) asking rents \$ psf per month. Vacancy rate includes direct and sublease. Net absorption excludes sublease.

Key Lease Transactions H2 2017

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
Proposed Palm Plaza	45,000	Burlington Coat Factory	EPR Properties	Direct	San Ysidro/Imperial Beach
Proposed Vista Terrace	42,000	Sprouts Farmers Market	Black Lion Investment Group	Direct	Vista
Village at Mira Mesa	38,987	Bevmo	Brixmor Property Group	Direct	Mira Mesa
Village at Mira Mesa	31,689	Sprouts Farmers Market	Brixmor Property Group	Direct	Mira Mesa
Millenia Town Center	26,004	Ross	Fairfield Residential	Direct	Chula Vista/Bonita

Key Sale Transactions H2 2017

PROPERTY	SF	BUYER	SELLER	PRICE / PSF	SUBMARKET
Scripps Ranch Marketplace (Portion)	128,034	Regency Centers	Scripps Ranch Marketplace LP	\$81,600,000 / \$637	Poway
Gateway Marketplace	127,943	American Assets Trust, Inc.	Brixton Capital AC LLC	\$42,000,000 / \$328	Chula Vista
The Shops at Eastlake Terraces	60,973	Crow Holdings	Angelo, Gordon & Co.	\$40,850,000 / \$670	Chula Vista
Escondido Valley Center (Portion)	47,085	Darryl Flaming	ACF Property Management	\$16,003,000 / \$340	Escondido
Country Corners Shopping Center	97,791	Mentketh Akram & Azhar T Elias Yalda	TSN Country Corner LLC	\$12,900,000 / \$132	Escondido

Under Construction H2 2017 – selected projects

PROPERTY	RELEASED			ADDRESS	CENTER TYPE	ESTIMATED COMPLETION	SUBMARKET
	SF	SF	%				
The Watermark	301,600	46,000	15%	10150 Scripps Gateway Ct.	Community	2019	Mira Mesa
Millenia Town Center	130,489	80,304	62%	SEC. SR-125 Toll Rd. & Birch Rd.	Neighborhood	2018	Chula Vista
The Shops at One Paseo	95,000	0	0%	3275 Del Mar Heights Rd.	Neighborhood	2018	Del Mar
Centerpointe 78 - El Super	46,700	43,500	93%	999 N. Broadway	Neighborhood	2018	Escondido
Park 12	43,349	0	0%	202 Park Blvd.	Strip Center	2018	Downtown

RETAIL SUBMARKETS

SAN DIEGO



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