

ECONOMIC INDICATORS

National

| | Q4 15 | Q4 16 | 12-Month Forecast* |
|--------------------------|-------|-------|--------------------|
| GDP Growth | 1.9% | 1.8% | ▲ |
| CPI Growth | 0.4% | 1.6% | ▲ |
| Consumer Spending Growth | 2.6% | 2.8% | ▼ |
| Retail Sales Growth | 2.0% | 4.0% | ▲ |

*Forecast by Cushman & Wakefield

Regional

| | Q4 15 | Q4 16 | 12-Month Forecast |
|-------------------|----------|----------|-------------------|
| Household Income | \$68,028 | \$71,347 | ▲ |
| Population Growth | 0.9% | 1.0% | ▲ |
| Unemployment | 4.8% | 4.2% | ▼ |

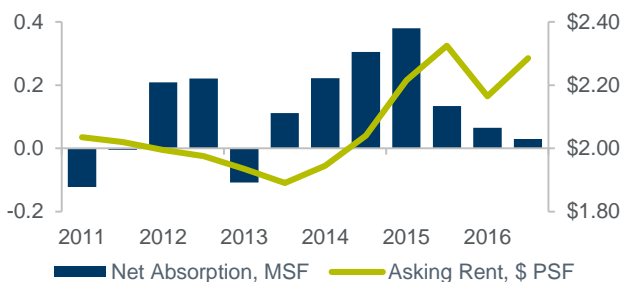
Source: Moody's Analytics, Ca. EDD

Market Indicators

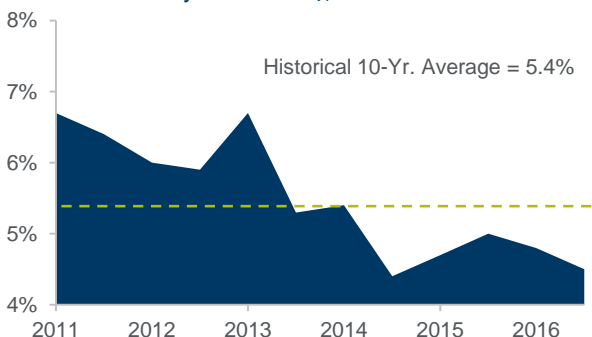
| | 2H 15 | 2H 16 | 12-Month Forecast |
|----------------------------------|--------|--------|-------------------|
| Overall Vacancy - incl. Sublease | 5.0% | 4.5% | ▼ |
| Direct Net Absorption SF | 274K | 203K | ▼ |
| Under Construction SF | 116K | 176K | ▲ |
| Average Asking Rent (NNN) | \$2.28 | \$2.52 | ▲ |

Net Absorption/Asking Rent (Triple Net, Monthly)

2H TRAILING AVERAGE



Overall Vacancy – All Center Types, incl. Sublease



Economy

The San Diego region added 28,900 jobs (+2%) year-over-year through December of 2016. Government recorded the largest annual gain by adding 6,300 jobs. Educational and health services added 5,700 jobs. Other major growth sectors included professional and business services (up 5,500 jobs), leisure and hospitality (up 5,400 jobs), trade, transportation and utilities (up 2,500 jobs), financial activities (up 2,200 jobs) and other services (up 2,100 jobs). Unemployment rate dropped 10 basis points (bps) from 4.3% in November to 4.2% in December. December represented the third consecutive monthly decrease. Unemployment rate dropped 60 bps from its mark of 4.8% a year ago and has plummeted 690 bps from the peak post-recession rate of 11.1% seven years ago (January 2010). All employment sectors are expected to grow in 2017 by a combined rate of 2.1%, in line with the 30-year average growth rate of 2%, positively affecting demand for retail space.

Market Overview

Fueled by employment growth, San Diego's retail market continues to maintain steady occupancy. Favorable economic conditions and demographics make San Diego a premier market for current and expanding retailers. As of December 31, 2016, retail vacancy, including sublease, in San Diego stood at 4.5%. Vacancy is down 50 bps from the 5% mark posted a year ago and reflects a substantial decline of 270 bps from the peak post-recession vacancy level of 7.2% reported seven years ago. Compared to mid-year of 2016, vacancy decreased 30 bps as a result of tenants occupying 203,434 SF countywide. 2016 was the fifth consecutive year of positive occupancy growth.

Sublease vacancy decreased 10 bps from mid-year and 60 bps from a year ago to 0.5% as of December 31, 2016.

It took five years (2010 to 2014) to recover the 1.2 million square feet (MSF) returned to the market in 2008 and 2009. Since mid-2014, San Diego's retail market has leased an additional 555,306 SF beyond those losses. Tenant demand continues to be driven by national and regional chains, most of which place a higher importance on the best-in-class centers within each trade area, fueling strong demand for Class A space. While some activity is spilling over into Class B and C assets, a shallow pool of mom and pop tenants has scarcely affected the pace of absorption. Because of strong demand for quality space, landlords of Class A centers may be in the power position, yet tenants can still negotiate relative bargains for space at many Class B and C projects.

The best performing submarkets by square feet absorbed in 2H 2016 were Oceanside (66,174 SF), Chula Vista/Bonita (50,157 SF) and El Cajon (43,063 SF). Tenants contributing to the positive absorption across these submarkets highlight established retail trends: expansion of fitness centers and discount retailers.

Delivering in the second half, the redevelopment of the 3rd & Moss Center in Chula Vista resulted in 50,141 SF of positive absorption, where Chuze Fitness and 99 Cents Only moved into spaces they had pre-leased. At Marketplace del Rio in Oceanside, a portion of the 24,798 SF of positive absorption was due to the opening of Fallas Paredes. Crunch Fitness also moved into 23,800 SF at Oceanside Town & Country.

Coming as no surprise, the closures of Sports Authority and Sport Chalet stores across the country accounted for the largest local move-outs in 2H 2016. Sports Authority vacated 43,304 SF at Escondido Valley Center. While Sport Chalet vacated 40,000 SF at Point Loma Plaza, Marshall's has already executed a lease to take over the space. Lastly, CVS vacated 24,734 SF at Country Club Shopping Center in Chula Vista.

Despite relatively flat vacancy, average asking rental rate across all center types increased 10.5% to \$2.52 per square foot (PSF) on a monthly triple net basis.

Retail Snapshot Year-End 2016

San Diego



Both coastal and high-income suburban locations remain popular and command premium rents for their locations. Despite a vacancy rate of 6.3%, Del Mar remains the premier target for expanding retailers, keeping rents among the highest in the county at an average of \$7.98 PSF, due, in large part, to the presence of the Del Mar Highlands shopping center. Asking rents in Encinitas, Mira Mesa/Miramar, Carlsbad, Rancho Bernardo and Carmel Mountain Ranch/Rancho Penasquitos submarkets also topped the market ranging between \$3.06 and \$4.01 PSF per month, respectively.

CONSTRUCTION IS DRIVEN BY DEVELOPMENT OF TROPHY CENTERS IN THE BEST LOCATIONS AND URBAN MIXED-USE REDEVELOPMENT.

Construction in the San Diego market is driven by urban development and redevelopment. Of the projects currently under construction, all are located in the urban locations of Downtown and Uptown. Notably, Park 12 is a mixed use retail and residential development located adjacent to Petco Park in Downtown. Including 713 residential units and a 12,000-SF open air plaza, Park 12 is set to be delivered in 2017.

Other drivers of construction include the expansion of trophy projects in the best locations and outparcel/pad development in existing shopping centers. Pure speculative development of shopping centers remains rare, however, developers are building centers with a larger portion of speculative in-line spaces while having major anchor commitments in place.

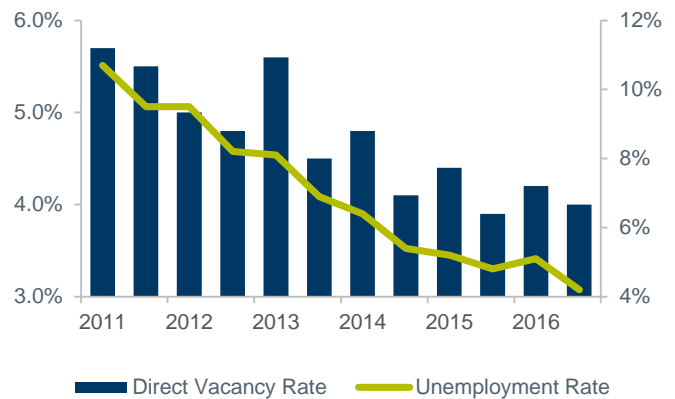
An example of trophy retail development is Kilroy's One Paseo shopping center which held its ground-breaking ceremony in January 2017. Despite being scaled down from its original plan, One Paseo, a 23.6-acre mixed-use environment including office and residential, will have nearly 96,000 SF of retail shops joined together by public plazas and paseos. Additionally, Westfield UTC has entered its second phase of a \$585 million "resort-inspired transformation" which is expected to be completed by October 2017. This expansion will add an additional 250,000-SF of retail, dining, event spaces and a valet lounge. Announced restaurants include Javier's (out of Newport Beach), Din Tai Fung, Arbor, Smokeyard BBQ and Chop House, True Food Kitchen, Great Maple and Winery Restaurant & Wine Bar.

The grocery sector accounted for the lion's share of the big-box activity in 2015, a trend that continued in 2016. While Albertsons has taken back some of its original stores, Haggen's failed expansion into Southern California has opened several opportunities for specialty, ethnic, and discount grocers looking to expand or enter the San Diego market. During 2016, Smart & Final opened 12 Smart & Final *Extra!* stores, most of which were former Haggen locations, bringing the chain's San Diego presence to 26 stores. Lazy Acres Market, a natural and organic food store operated by the parent of Bristol Farms, opened in Mission Hills and Encinitas. Additionally, Gelson's opened three locations in 2016. Asian-themed 99 Ranch Market expanded in Clairemont in October and will add another planned location in Chula Vista in 1H 2017. Aldi, a budget-focused specialty grocer based in Germany, announced and opened two San Diego locations in 2016, Vista and Chula Vista, as part of a rapid Western United States expansion.

The department store sector continues to feel growing pains, as Macy's announced the closure of 100 stores during 2017, including one San Diego location at Westfield Mission Valley, which had been open since 1961. Nordstrom also closed their Westfield Horton Plaza location in 2016 due to lagging sales; however, Westfield has purchased the prime downtown real estate and will consider redevelopment opportunities.

Direct Vacancy vs. Unemployment Rate

VACANCY AT 4.0% - BELOW POST-RECESSION AVG. RATE OF 4.6%



Retail Tenant Categories 2016/2017

| New to Market/Expanding | Downsizing/Consolidating |
|---|-------------------------------------|
| Fast Casual Restaurant Concepts, Fast Food | Department Stores |
| Breweries/Brew Pubs | Drug Stores |
| Food Halls/Artisanal Markets | Mid-Priced Apparel |
| Grocery Stores – Specialty, Organic, Ethnic, Off-Price/Discount | Mid-Priced/Unionized Grocery Stores |
| Fitness/Health Clubs | Office Supplies |
| Personal Services – Salons, Spas | Consumer Electronics |

Outlook

- Strong demand for space in San Diego County will continue into 2017, mirroring economic fundamentals. Limited space opportunities and supply will drive rents upward, particularly in Class A centers and in urban areas.
- New construction or redevelopment will continue in response to the constrained supply, and developers and landlords will seek opportunities to create amenity-rich experiences in mixed-use environments.
- Luxury and upscale retail concepts will continue to expand with nearly all of their growth occurring in urban settings or at Class A centers in the best locations. Notably, off-price or outlet concepts for luxury retailers will grow at an even faster clip than their namesake brands.

MARKETBEAT

Retail Snapshot Year-End 2016

San Diego



| SUBMARKET | TOTAL BLDGS | INVENTORY | SUBLET VACANT | DIRECT VACANT | VACANCY RATE | CURRENT DIRECT NET ABSORPTION | YTD DIRECT NET ABSORPTION | UNDER CONSTRUCTION | AVERAGE ASKING RENT (ALL Types) |
|----------------|-------------|-------------------|----------------|------------------|--------------|-------------------------------|---------------------------|--------------------|---------------------------------|
| North County | 130 | 19,150,945 | 49,815 | 1,034,599 | 5.7% | 172,500 | 63,842 | 0 | \$2.06 |
| Central County | 95 | 14,091,241 | 82,341 | 514,677 | 4.3% | 24,635 | (14,388) | 0 | \$4.46 |
| South County | 206 | 17,115,160 | 104,063 | 611,252 | 4.2% | (3,110) | (19,316) | 176,105 | \$1.86 |
| East County | 65 | 8,871,204 | 52,197 | 229,806 | 3.2% | 9,409 | 28,758 | 0 | \$1.81 |
| TOTAL | 496 | 59,228,550 | 288,416 | 2,390,334 | 4.5% | 203,434 | 58,896 | 176,105 | \$2.52 |
| Community | 96 | 16,950,265 | 56,073 | 691,405 | 4.4% | 26,702 | 9,319 | 0 | \$2.25 |
| Freestanding | 20 | 695,902 | 0 | 116,727 | 16.8% | 45,204 | 28,965 | 16,885 | \$1.11 |
| Neighborhood | 232 | 23,230,804 | 190,189 | 1,045,650 | 5.3% | 136,003 | 132,269 | 0 | \$1.93 |
| Power | 28 | 11,363,592 | 24,076 | 241,918 | 2.3% | 7,754 | (90,263) | 0 | \$4.81 |
| Regional | 9 | 3,627,952 | 8,745 | 30,923 | 1.1% | 3,719 | 4,598 | 0 | \$2.88 |
| Strip | 111 | 3,360,035 | 9,333 | 263,711 | 8.1% | (15,948) | (25,992) | 159,220 | \$2.29 |
| TOTAL | 496 | 59,228,550 | 288,416 | 2,390,334 | 4.5% | 203,434 | 58,896 | 176,105 | \$2.52 |

Retail monthly asking rates converted to Triple Net (NNN). Vacancy rate includes direct and sublease. Net absorption excludes sublease.

Key Lease Transactions 2H 2016

| PROPERTY | SF | TENANT | LANDLORD | TRANSACTION TYPE | SUBMARKET |
|---------------------------------|--------|-------------------------|-----------------------------|------------------|-------------------------------|
| 11640-11730 Carmel Mountain Rd. | 40,672 | Dick's Sporting Goods | American Assets Trust, Inc. | Direct | Carmel Mount. Ranch/Rancho PQ |
| 101-197 Las Posas Rd. | 40,133 | Orchard Supply Hardware | World Premier Investments | Direct | San Marcos |
| 7715-7725 Balboa Ave | 38,359 | H Mart | Kimco Realty Corp. | Direct | Kearny Mesa |
| 1050 N. El Camino Real | 37,275 | Dick's Sporting Goods | Zelman Development Co. | Direct | Encinitas |
| 3007-3089 Clairemont Dr. | 33,688 | Sprouts Farmers Market | Kleege Enterprises | Direct | Clairemont/Pacific Beach |

Key Sale Transactions 2H 2016

| PROPERTY | SF | BUYER | SELLER | SALE PRICE | SUBMARKET |
|-----------------------------|---------|-----------------------------|-------------------------|-------------------------|---------------------------|
| Felicita Town Center | 126,502 | Brixmor Property Group | Gerrity Group LLC | \$40,100,000 (\$317/SF) | Escondido |
| 8990-8996 Miramar Rd. | 170,467 | Mira Investments | Hangen Cono Assad & Co. | \$23,680,000 (\$139/SF) | Mira Mesa/Miramar |
| Old Grove Marketplace | 81,279 | InvenTrust Properties Corp. | Gerrity Group LLC | \$23,250,000 (\$286/SF) | Oceanside |
| 340-418 W. San Ysidro Blvd. | 92,147 | BRFI San Ysidro LLC | Border Properties LLC | \$23,000,000 (\$250/SF) | San Ysidro/Imperial Beach |
| 2011-2019 Camino Del Este | 18,147 | Gershman Properties LLC | Terra Enterprises, Inc. | \$14,000,000 (\$770/SF) | Mission Valley |

Under Construction 2H 2016

| PROPERTY | PRELEASED | | | ADDRESS | CENTER TYPE | ESTIMATED COMPLETION | SUBMARKET |
|----------------------------------|-----------|--------|-------|------------------|--------------------|----------------------|-----------|
| | SF | SF | % | | | | |
| Park 12 | 45,360 | 0 | 0% | 202 Park Blvd. | Strip | 2017 | Downtown |
| Makers Quarter* | 35,965 | 30,950 | 86.1% | Various | Strip/Freestanding | 2017/2018 | Downtown |
| BRIC Broadway + Pacific Phase II | 32,850 | 0 | 0% | 900 Bayfront Ct. | Strip | 2018 | Downtown |
| Pacific Gate | 16,000 | 0 | 0% | 850 E St. | Strip | 2017 | Downtown |

*Totaling 167,125 SF, the retail portion of Makers Quarter is comprised of 35,965 SF that is UC and 131,160 SF that is Planned.

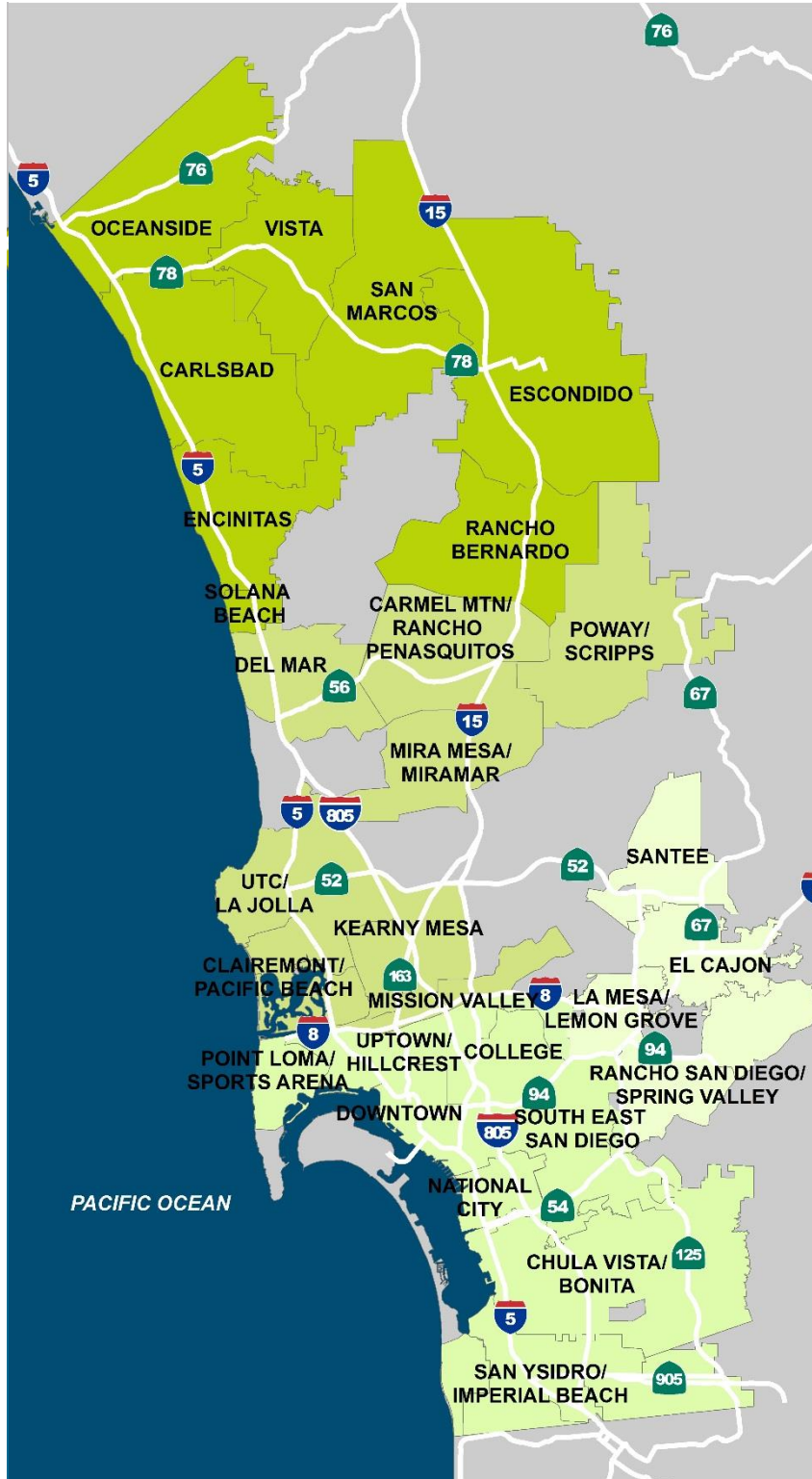
Retail Snapshot Year-End 2016

San Diego



RETAIL SUBMARKETS

SAN DIEGO



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