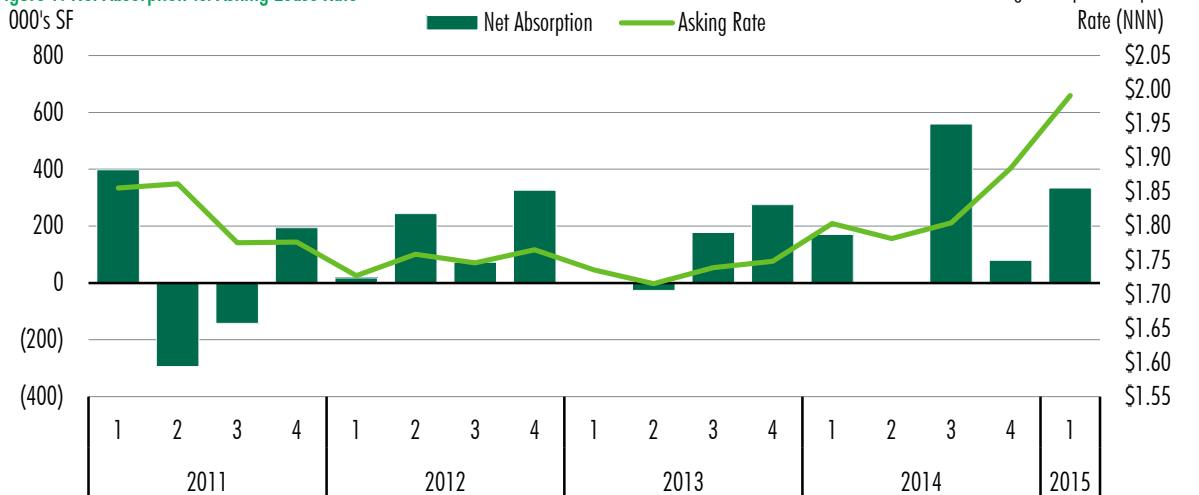


San Diego Retail, Q1 2015

Lack of available space sees asking rates rise

▼ Vacancy Rate 5.6%
▲ Net Absorption 333,476 sq. ft.
▼ Construction 163,560 sq. ft.
▲ Lease Rate \$1.99 NNN

Figure 1: Net Absorption vs. Asking Lease Rate



Source: CBRE Research, Q1 2015.

- Bolstered largely by the delivery of the 277,500-sq.-ft. La Costa Towne Square shopping center, Q1 2015's net absorption was 333,476 sq. ft. marking the third consecutive quarter of positive net absorption.
- The development pipeline is filling up with a handful of planned projects on the horizon. There is currently over 3.5 million sq. ft. of retail space planned for delivery in the next couple of years. Many of these projects - like One Paseo, Civita, and Horton Plaza - are rethinking the traditional retail center and seek to offer experiential amenities to attract a healthy mix of retail users.
- After remaining relatively flat for 17 quarters, lease rates have finally started to increase. Over the last two quarters, rates have increased 10.0% though there is still room for improvement, as rates are 17.4% below the peak of \$2.41 in Q4 2008.

The San Diego retail market started off 2015 with yet another positive quarter. For the third consecutive quarter, overall net absorption was positive, posting a strong 333,476 sq. ft. due, in large part, to the delivery of La Costa Towne Square. Vacancy showed similar signs of positive growth, decreasing 10 basis points (bps) to 5.6%. As the market continues to tighten, lease rates continue to increase, trending towards pre-recession highs.

With the delivery of La Costa Towne Square this quarter and the soon-expected delivery of the Village at Pacific Highlands Ranch, 2015 started off a development pipeline packed with planned and proposed projects across the market. If all goes according to plan, there will be 3.5 million sq. ft. of retail space delivered in the next couple of years.

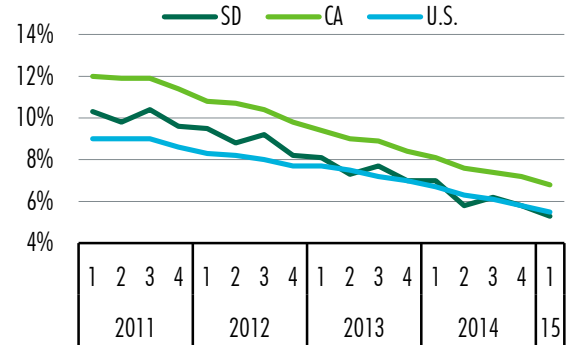
Amongst these 27 planned projects are a slew of creative repositioning projects aimed at establishing an experiential vibe to existing centers and malls. UTC, Horton Plaza and Plaza Camino Real - three of San Diego's major regional malls - are all undergoing redevelopment projects in coming years. Horton Plaza, for example, has plans to demolish the former Robinson's May building replacing it with a community park that will have more than 200 different events a year. With an ever changing retail landscape due, in large part, to the increasing might of e-commerce, landlords and developers are rethinking the traditional shopping experience. The Horton Plaza park project is a perfect example of this trend, combining an existing mall with a creative amenity aimed at activating an experience different from traditional shopping.

San Diego's unemployment rate decreased to 5.3%, a 50 bps decrease from last quarter. With this decrease, San Diego's unemployment is 180 bps lower than Q1 2014. National unemployment decreased 40 bps this quarter to 5.5%.

CBRE Econometric Advisors (CBRE EA) reports that the local San Diego retail employment has been steadily increasing by 2.0% over the past five years. Annual growth for the next five years is expected to continue at 0.8%, slightly slower than the predicted overall employment growth of 1.2%.

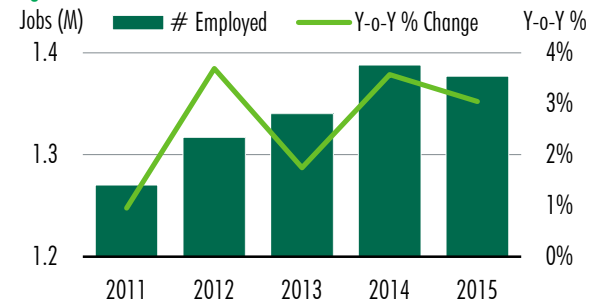
For the second straight quarter, average asking lease rates saw a sharp increase. The average asking rate for the San Diego retail market increased \$0.10 quarter-over-quarter to \$1.99. After remaining relatively flat for 17 quarters, lease rates have finally started to increase. Over the last two quarters, rates have increased 10.0% though there is still room for improvement, as rates are 17.4% below the peak of \$2.41 in Q4 2008. Most of the rent growth can be attributed to San Diego's desirable submarkets, which include Encinitas, Del Mar/Solana Beach, Downtown/Hillcrest, UTC, La Jolla, Mission Valley

Figure 2: Unemployment Rate



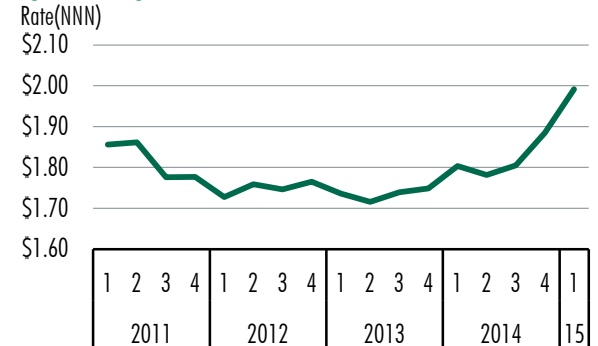
Source: U.S. Bureau of Labor Statistics, Q1 2015.

Figure 3: Year-Over-Year Job Growth



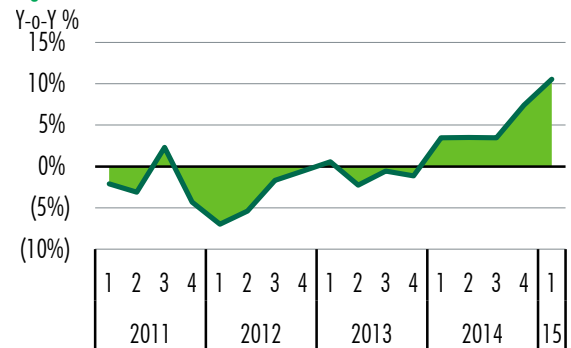
Source: U.S. Bureau of Labor Statistics, Q1 2015.

Figure 4: Asking Lease Rate



Source: CBRE Research, Q1 2015.

Figure 5: Year-Over-Year Rent Growth



Source: CBRE Research, Q1 2015.

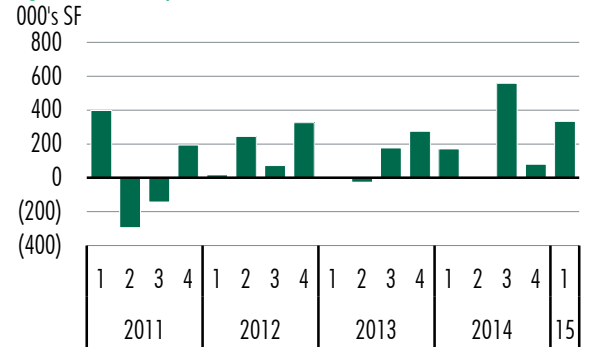
and Pacific Beach. These submarkets posted a combined \$0.18 increase between quarters.

Marking the third consecutive quarter of positive net absorption, Q1 2015 saw 333,476 sq. ft. Most of the quarter's net absorption is attributable to the long-awaited delivery of the 277,500-sq.-ft. La Costa Towne Square. The largest deal for the quarter was an innovative use of retail space; The County of San Diego signed a 92,000 sq. ft. lease at Parkway Place in Escondido in an old Albertsons and Office Depot box. The Department of Health & Human Services plans to open in the spring of 2015. Additionally, the Village at Pacific Highlands Ranch in the Del Mar Heights area is currently 70% pre-leased and poised to make a substantial impact on the area's retail scene when it officially opens later this summer.

The San Diego retail market's overall vacancy rate was 5.6% this quarter, down 10 bps from Q4 2014 and 260 bps lower than the peak in Q3 2011. Once again, this quarter's vacancy rate marks the lowest rate the market has seen post-recession. Prior to the downturn, however, vacancy dropped to 2.0% so there remains plenty of room for continued improvement. As the market continues to tighten, expect lease rates to continue to increase as landlords gain pricing power in lease negotiations.

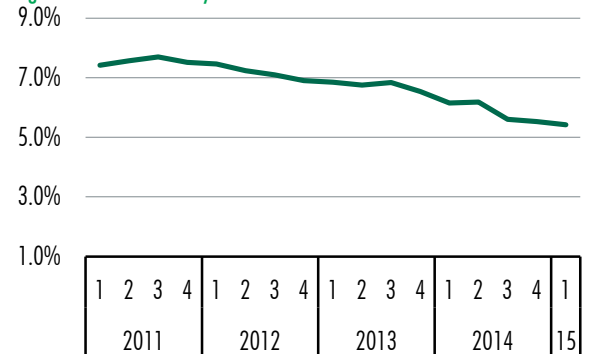
With substantial capital in the market and historically low interest rates, it is to be expected that sales activity for the quarter surpassed previous averages. For Q1 2015, there was a total of \$233.2 M worth of retail product sold which was 23.5% higher than the four quarter average for 2014 of \$188.9 M. The largest sale for the quarter, on both a per sq. ft. and total price basis, was the multi-property sale of four contiguous buildings off Girard St in La Jolla. Ruben Coppel Bernal purchased the 36,745-sq.-ft. high-street storefronts for \$26.5 M, or \$721.19 per sq. ft.

Figure 6: Net Absorption



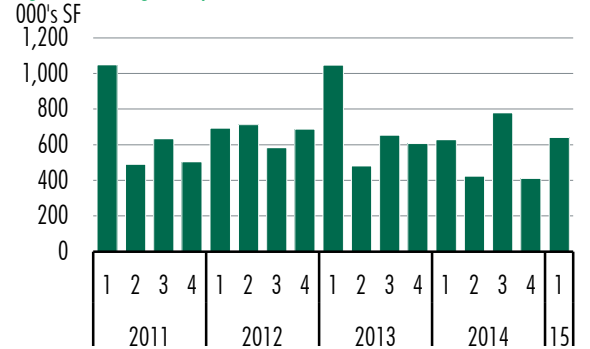
Source: CBRE Research, Q1 2015.

Figure 7: Overall Vacancy



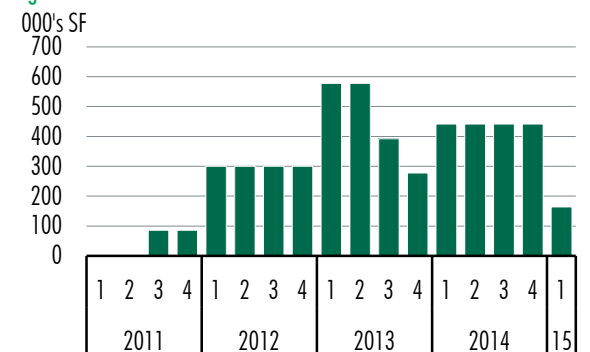
Source: CBRE Research, Q1 2015.

Figure 8: Leasing Activity



Source: CBRE Research, Q1 2015.

Figure 9: Under Construction



Source: CBRE Research, Q1 2015.

Figure 10: Market Statistics

Region	RBA	Direct Vacancy %	Overall Vacancy %	Qtr Net Absorption	Under Const.	Const. Deliveries	Asking Lease Rate \$
Central San Diego	16,541,825	3.3	3.3	(14,497)	0	0	2.18
Downtown	620,417	6.6	6.7	138	0	0	5.00
East County	11,334,538	5.1	5.2	(32,961)	0	0	1.63
North County	21,607,497	6.4	6.5	364,109	163,560	277,500	2.24
South San Diego	9,757,424	3.9	4.6	(12,311)	0	0	1.82
SW Riverside	9,364,407	8.9	9.2	28,998	0	0	1.82
San Diego Totals	69,226,108	5.4	5.6	333,476	163,560	277,500	1.99
Community	23,628,096	4.9	5.0	279,155	0	277,500	2.13
Neighborhood	27,377,960	6.8	7.1	101,199	0	0	1.85
Power	13,365,158	2.6	2.7	(10,051)	0	0	2.93
Specialty	1,270,777	6.1	6.1	(6,047)	163,560	0	2.33
Strip	3,584,117	8.5	8.5	(30,780)	0	0	1.48

Source: CBRE Research, Q1 2015

Figure 11: Key Lease Transactions

Occupier	Industry Sector	Location	Building Class	Sq. Ft. Leased
County of San Diego	Government	Escondido	Neighborhood	92,161
Smart & Final	Grocery	East County	Neighborhood	37,400
Dollar Tree	Grocery	Clairemont	Neighborhood	14,000
Big 5	Sporting Goods	Carlsbad	Neighborhood	10,080
Union Bank *	Bank	Point Loma	Free-Standing	10,000

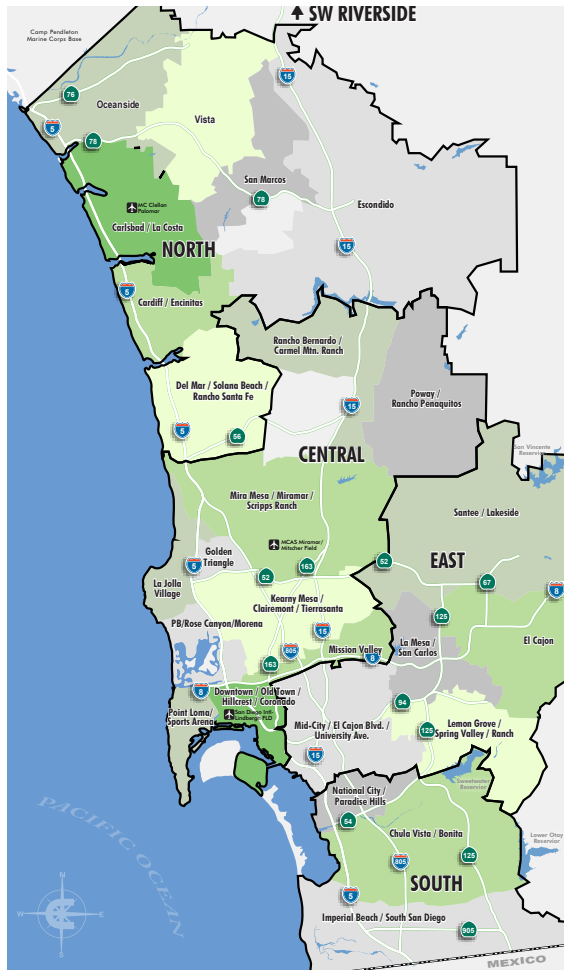
renewals indicated by*

Source: CBRE Research, Q1 2015

Figure 12: Key Sales Transactions

Property	Buyer	Location	Total Price/Sq. Ft.	RBA
Girard Plaza	RCB Retail, LLC	La Jolla	\$26.5 M / \$721	36,745
Naples Plaza	Milan Capital	Chula Vista	\$18.5 M / \$218	84,856
Vons	Spirit Realty Capital	El Cajon	\$17.4 M / \$307	56,525
Albertsons	N/A	North Park	\$12.8 M / \$454	28,085
Dave & Busters	Store Capital	Mission Valley	\$11.9 M / \$264	45,000

Source: CBRE Research, Q1 2015


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