

ECONOMIC INDICATORS

National

	Q2 17	Q2 18*	12-Month Forecast**
GDP Growth	2.2%	3.0%	▲
CPI Growth	1.9%	2.8%	▲
Consumer Spending Growth	2.7%	2.5%	▲
Retail Sales Growth	4.3%	5.3%	▲

*Q2 18 estimates. Values represent year-over-year % change. **Forecast by Cushman & Wakefield.

Regional

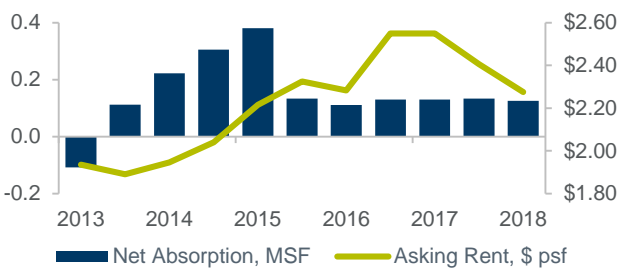
	H1 17	H1 18	12-Month Forecast**
Household Income	\$72,347	\$74,467*	▲
Population Growth	0.6%	0.7%*	▲
Unemployment	4.2%	2.9%***	▼

*Q2 18 estimates. **Forecast by Cushman & Wakefield. ***May 2018 value. Source: Moody's Analytics, Ca. EDD

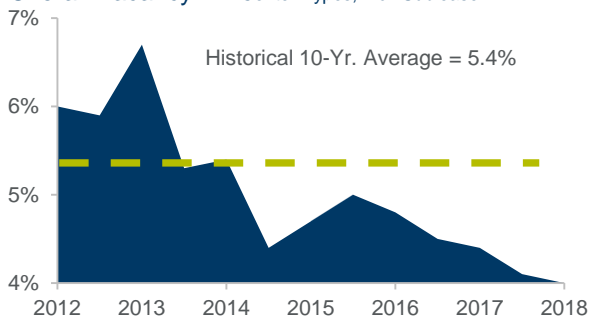
Market Indicators

	H1 17	H1 18	12-Month Forecast
Overall Vacancy - incl. Sublease	4.4%	4.0%	▼
Direct Net Absorption sf	57,015	41,955	▲
Under Construction sf	305,188	1,017,903	▼
Average Asking Rent (NNN)	\$2.58	\$2.32	▲

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 32,500 jobs (+2.2%) year-over-year through May 2018.¹ During the same time period, the unemployment rate decreased 80 basis points (bps), dropping to 2.9%. Also worth noting, the current rate is 300 bps below the 28-year average of 5.9%.

All employment sectors are expected to grow at a combined growth rate of 1.7% in 2018. San Diego's economy of \$215.3 billion² as measured by gross regional product is forecasted to grow an additional 4.3% in 2018, above its 10-year average of 2.3%.³

Market Overview

Retail vacancy (including sublease) decreased 10 bps from year-end 2017 and 40 bps from a year ago to 4.0% in the first half of 2018. Current vacancy is 320 bps below the peak rate of 7.2% recorded eight and a half years ago at the end of the last recession as a result of tenants absorbing 2.1 million square feet (msf) across the county since then.

In the first half of 2018, occupancy grew by 42,000 square feet (sf) across all center types. Thus, the first half of 2018 followed a six-year trend of positive occupancy growth (since 2012). As vacancy continues to decrease below the 5% threshold, we may see slowing, but not negative, absorption. This bottleneck will not be due to an unhealthy market, but simply will be the result of a lack of supply of quality space until more space is delivered to the market via new construction or renovations.

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. In fact, many chains from trend-setting areas like Los Angeles and New York are eyeing San Diego for their next expansion. 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 first half of 2018 were Oceanside (+56,000 sf), Carlsbad (+16,000 sf) and La Mesa/Lemon Grove (+15,000 sf). Tenants contributing to the positive absorption across these submarkets highlight established retail trends: expansion of specialty grocers as well as food and beverage/event spaces.

In fact, one of the largest move-ins this half was Punch Bowl Social, a 20,500-sf bar/restaurant/arcade/bowling alley/bocce court/karaoke lounge/billiard lounge that provides a self-described complete "eatertainment" experience. The San Diego Punch Bowl Social location, is the chain's 12th site and is located in the former Coliseum Athletic Club, a boxing arena from the 1920s and 30s. While over two years in development, the food & beverage venue opened in June 2018 and further contributes to the redevelopment of the East Village area of downtown.

Both coastal and high-income suburban locations remain popular and command premium rents for their locations. Del Mar, with a 2.4% vacancy rate, remains the premier target trade area for expanding retailers, keeping rents among the highest in the county, averaging \$4.69 per square foot (psf) per month on a triple net basis, largely due to the high asking rates at the prestigious Del Mar Highlands shopping center. Among other high-cost coastal submarkets are Solana Beach (\$3.50 psf) and Encinitas (\$3.19 psf). In comparison, the countywide average asking rent was \$2.32 psf as of mid-year 2018, a 4% increase from year-end 2017.

With just over 1.0 msf currently under construction, San Diego has not seen this development volume in 12 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 29 projects currently under construction, the majority are located in urban locations. In fact, 18 retail projects are currently under construction in Downtown or Uptown submarkets, mostly on the ground floor of multi-family or hospitality buildings. By square footage, Mira Mesa has the most space under construction (302,000 sf) due to The Watermark, a massive mixed-use development set for 2019 delivery.

Notably, Park 12, located in Downtown, is a mixed-use development adjacent to Petco Park. Set to be delivered in H2 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”. Delivery is estimated for H2 2018.

CONSTRUCTION VOLUME OF 1.0 MSF IS THE HIGHEST LEVEL FOR SAN DIEGO IN 12 YEARS

An example of trophy retail development is Kilroy’s One Paseo. Despite being scaled down from its original plan, the 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 nearly 111,000 sf of retail and the initial segment of apartments. Dubbed “The Shops at One Paseo”, the retail portion is nearly fully pre-leased. Announced tenants include many food and beverage concepts - some from New York, Los Angeles and San Francisco - that will be opening their first San Diego location. Tenants include International Smoke, Tocaya Organica, Ways & Means Oyster House, Parakeet Café, Shake Shack, Sweetfin Poke and Tender Greens.

Deliveries in the first half of 2018 were all located Downtown: Punch Bowl Social delivered 20,500 sf of occupied space, AV8’s 7,800 sf was delivered nearly-fully occupied and Pacific Gate’s 15,000 sf was 100% available upon its completion this half.

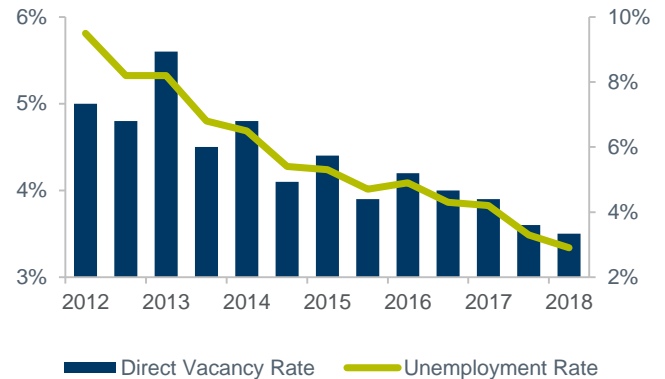
Sources: ¹www.bls.gov ²bea.gov GDP as of 2016. ³Moody’s Analytics economy.com

Outlook

- Demand for space in San Diego will continue to be strong. 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.
- The gap between class A shopping centers and the rest will widen as creative concepts are drawn to anchor vacancies at the best and most well-located centers. These large anchor availabilities will attract non-traditional yet innovative tenants such as gyms, medical uses, specialty grocers, food halls or educational uses.

Direct Vacancy vs. Unemployment Rate

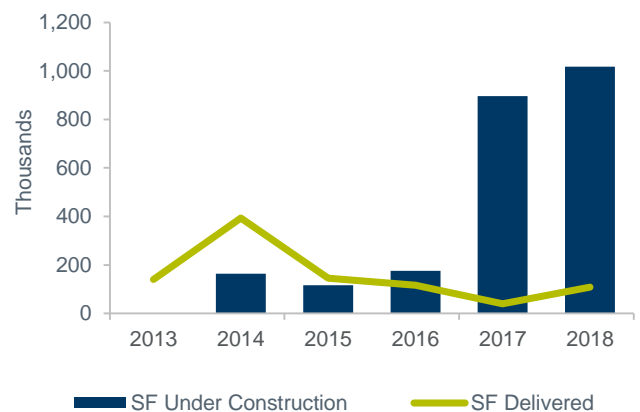
VACANCY AT 3.6% - BELOW 10-YR. AVG. RATE OF 4.5%



Retail Tenant Categories 2018/2017

New to Market/Expanding	Downsizing/Consolidating
Discount & Outlet Retailers	Department Stores
Small-format/Urban Footprint Superstores	Drug Stores
Food Halls/Artisanal Markets	Mid-priced Apparel, Shoes
Grocery Stores – Specialty, Organic, Off-price/Discount, Small-format	Mid-priced/Unionized Grocery Stores
Boutique Fitness/Health Clubs	Toy Stores
Home Improvement/Furnishings	Office Supply/Cellular Storefronts

Under Construction vs. Deliveries in Thousands



MARKETBEAT

San Diego

Retail H1 2018



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	133	19,622,687	57,365	837,282	4.6%	31,032	31,032	219,497	\$2.16
Central County	95	14,034,902	95,378	342,550	3.1%	6,583	6,583	412,436	\$2.68
South County	204	16,568,459	87,292	726,244	4.9%	7,235	7,235	385,970	\$2.59
East County	65	8,819,966	57,181	181,785	2.7%	-2,895	-2,895	0	\$1.76
TOTAL	497	59,046,014	297,216	2,087,861	4.0%	41,955	41,955	1,017,903	\$2.32
Community	96	17,219,494	68,285	602,580	3.9%	-27,874	-27,874	301,600	\$2.28
Freestanding	20	670,875	0	40,385	6.0%	7,903	7,903	42,494	\$2.50
Neighborhood	234	23,569,928	165,282	977,733	4.8%	39,025	39,025	446,307	\$2.31
Power	28	11,464,298	25,070	142,061	1.4%	6,314	6,314	0	\$1.99
Regional	7	2,793,239	11,633	34,054	1.6%	15,363	15,363	-	\$2.97
Strip	112	3,328,180	26,946	291,048	9.5%	1,224	1,224	227,502	\$2.49
TOTAL	497	59,046,014	297,216	2,087,861	4.0%	41,955	41,955	1,017,903	\$2.32

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

Key Lease Transactions H1 2018

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
Naples Plaza	57,000	Northgate Gonzalez Market	Pelican Investments Naples LLC	Direct	Chula Vista
Palm Tree Plaza	45,750	EoS Fitness	Vishvarupa, Inc.	Direct	Oceanside
3029 University Ave.	39,450	Target	CKL Investments	Direct	Uptown/Hillcrest
San Carlos Village	38,000	24 Hour Fitness	Monterey Property Associates Anaheim LLC	Direct	La Mesa
El Camino Real Shopping Center	33,338	Aldi	Encinitas PFA LLC	Direct	Encinitas

Key Sale Transactions H1 2018

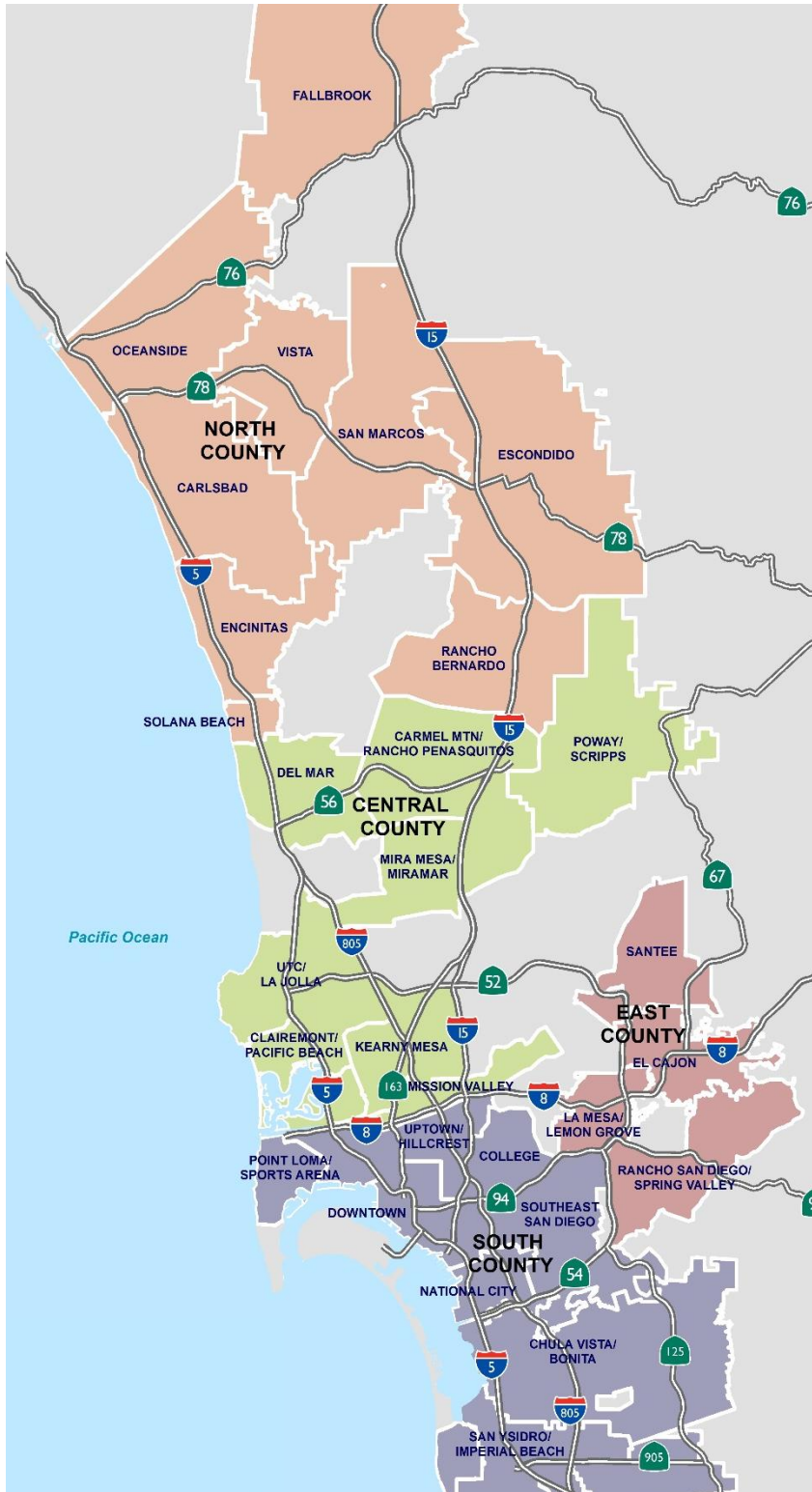
PROPERTY	SF	BUYER	SELLER	PRICE / PSF	SUBMARKET
Broadway Plaza	341,755	Protea Properties	Kimco Realty Corporation	\$58,500,000 / \$171	Chula Vista
Del Oro Marketplace	97,251	Tron D. Do	Del Oro College LLC	\$32,500,000 / \$334	Oceanside
Pacific Station (Retail Portion)	39,000	RAF Pacifica Group, Inc.	Loja Real Estate LLC	\$24,000,000 / \$615	Encinitas
7660 El Camino Real (Gelson's)	50,689	SJI Properties LLC	Frank Kavanaugh	\$21,900,000 / \$432	Carlsbad
643, 655, 665 5 th Ave.	17,462	Asana Partners	Blatteis & Schnur	\$19,850,000 / \$1,137	Downtown

Under Construction H1 2018 – select projects

PROPERTY	PRELEASED			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	108,062	83%	SEC. SR-125 Toll Rd. & Birch Rd.	Neighborhood	2018	Chula Vista
The Shops at One Paseo	110,836	105,294	95%	3275 Del Mar Heights Rd.	Neighborhood	2018	Del Mar
The Square at Bressi Ranch	90,094	78,455	87%	Gateway Rd & El Fuerte St.	Neighborhood	2019	Carlsbad
Centerpointe 78 - El Super	43,500	40,300	93%	999 N Broadway	Neighborhood	2018	Escondido

RETAIL SUBMARKETS

SAN DIEGO



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