

MARKETBEAT

San Diego

Retail H2 2018



ECONOMIC INDICATORS

National

	Q4 17	Q4 18*	12-Month Forecast**
GDP Growth	2.5%	3.3%	▲
CPI Growth	2.1%	2.3%	▲
Consumer Spending Growth	2.7%	2.7%	▲
Retail Sales Growth	5.9%	4.6%	▲

*Q4 18 estimates. Values represent year-over-year % change. **Forecast by Cushman & Wakefield.

Regional

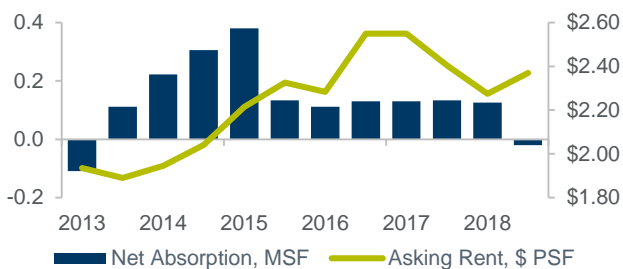
	Q4 17	Q4 18	12-Month Forecast*
Median Household Income	\$78,040	\$80,465	▲
Population Growth	0.6%	0.6%	■
Unemployment	3.5%	3.2%**	▼

*Forecast by Cushman & Wakefield. **November 2018 value. Source: Moody's Analytics, Ca. EDD

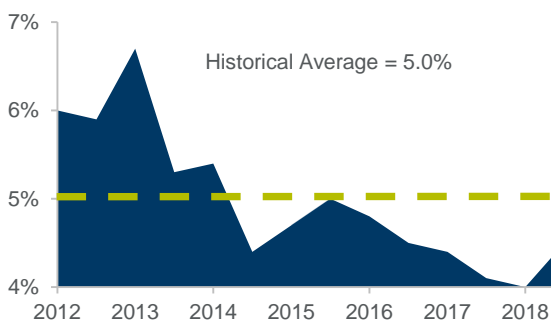
Market Indicators

	H2 17	H2 18	12-Month Forecast
Overall Vacancy	4.1%	4.5%	▼
YTD Direct Net Absorption sf	210k	-82k	▲
Under Construction sf	896k	536k	▼
Average Asking Rent (NNN)	\$2.23	\$2.42	▲

Net Absorption/Asking Rent 2-HALF TRAILING AVERAGE



Overall Vacancy



Economy

The San Diego employment market continued to record job growth, adding 26,400 jobs (+1.8%) year-over-year through November 2018.¹ During the same time period, the unemployment rate decreased 30 basis points (bps), dropping to 3.2%. Also worth noting, the current rate is 270 bps below the 28-year average of 5.9%.

All employment sectors are expected to grow at a combined growth rate of 1.3% in 2019. San Diego's economy of \$231.8 billion² – as measured by gross regional product – is forecasted to grow an additional 3.1% in 2019, above its 10-year average of 2.7%.³

Market Overview

Retail vacancy (including sublease) increased 50 bps from mid-year 2018 and 40 bps from a year ago to 4.5% at year-end 2018. Current vacancy is 270 bps below the peak rate of 7.2% recorded nine years ago at the end of the last recession (H2 2009) as a result of tenants absorbing 2.0 million square feet (msf) across the county since then.

Through H2 2018, occupancy decreased by 40,000 square feet (sf) across all center types. This relatively-flat year follows six years of positive occupancy growth (since 2012), during which the market absorbed over 1.8 msf. As vacancy continues to hover below the 5% threshold, we may continue to see sluggish absorption in existing product. 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 class A, new construction is delivered to market.

The best performing submarkets by square feet absorbed in the second half of 2018 were Downtown (+117,000 sf), Escondido (+49,000 sf) Mira Mesa/Miramar (+21,000 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 El Super at 999 N Broadway in Escondido. Delivered this half, the 43,500-sf building within the Centerpoint-78 neighborhood center was built for this specialty, Hispanic supermarket. The market features a tortillería, panadería (bakery), carnicería (meat market) and quick-serve restaurant with salsa bar.

Another large move-in this quarter was the Little Italy Food Hall, which took over nearly 18,000 sf on the ground floor of a newly-constructed apartment building in the trendy Little Italy neighborhood, an area known for its walkability and excellent eateries (both Italian and non-Italian). The Little Italy Food Hall is located off of the Piazza della Famiglia, a 10,000-sf open-air urban piazza. The food hall features six locally-driven food stations, a mobile outdoor chefs' area featuring pop-up cooking demonstrations from local chefs such as Sam the Cooking Guy and a full bar program complete with local beers and craft cocktails. Food halls are a national trend in its infancy. We expect food halls to soon-be considered the ultimate amenity in both urban environments and suburban malls. Liberty Public Market at Liberty Station is a very successful existing food hall in San Diego. Others in development include Windmill Food Hall in Carlsbad, Park Commons in Sorrento Valley, Pan y Sal in Barrio Logan and The Outpost Urban Food Hall in Poway.

Other notable move-ins this quarter include CVS (19,000 sf in Downtown) and The Boxing Club (15,000 sf of newly-constructed space in Downtown). Both coastal and high-income suburban locations remain popular and command premium rents for their locations. Del Mar, with a 3.9% vacancy rate, remains the premier target trade area for expanding retailers, keeping rents among the highest in the county, averaging \$4.80 per square foot (psf) per month on a triple net basis, largely due to the high asking rates at the

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prestigious Del Mar Highlands shopping center. Among other high-cost coastal submarkets are Carlsbad (\$3.88 psf) and Encinitas (\$3.86 psf). In comparison, the countywide average asking rent is \$2.42 psf as of year-end 2018, an 8.5% increase from year-end 2017.

Currently, over 500,000 sf is under construction, including centers like The Shoppes at One Paseo in Del Mar, Millenia Town Center in Chula Vista and the Square at Bressi Ranch in Carlsbad.

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. Examples of this type of development include the Millenia development; while located in a suburban submarket, the 131,000-sf retail center strives to mimic urban development with walkable promenades, parks, services, shops and restaurants. It is billed as a "pedestrian paradise". Delivery is estimated for 2019.

CURRENT COUNTYWIDE AVERAGE ASKING RENT IS \$2.42 PSF, AN 8.5% INCREASE FROM YEAR-END 2017

Another 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 second half of 2018 totaled 204,000 sf bringing 2018's deliveries to 248,000 sf. The majority of activity was focused in Downtown with the completion of urban projects such as Park 12 (45,000 sf), BRIC South at the Intercontinental Hotel (33,000 sf) and Shift (19,000 sf).

Sources: ¹www.bls.gov ²bea.gov GDP as of 2017. ³Moody's Analytics economy.com 11/2018.

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 properties and everything else will continue to widen as creative concepts are drawn to anchor vacancies at the best and most well-located centers and malls. Additionally, savvy landlords of class B properties will start the process of repositioning their properties to function better within today's retail atmosphere, focusing their space on entertainment, specialty concepts and food halls.

Direct Vacancy vs. Unemployment Rate

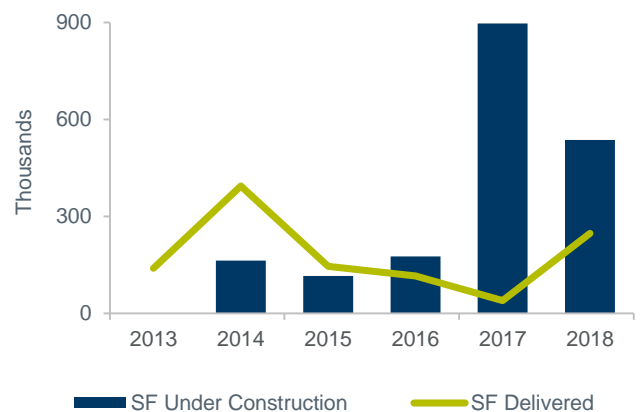
VACANCY AT 4% - BELOW 10-YR. AVG. RATE OF 4.7%



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



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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	137	19,450,712	176,570	1,010,055	6.1%	-114,758	-83,726	176,482	\$2.39
Central County	95	14,034,902	8,117	364,110	2.7%	-21,560	-14,977	110,836	\$2.81
South County	212	16,714,792	65,328	802,025	5.2%	70,572	77,807	249,097	\$2.43
East County	65	8,819,966	41,552	198,415	2.7%	-16,630	-19,525	0	\$1.75
TOTAL	509	59,020,372	291,567	2,374,605	4.5%	-82,376	-40,421	536,415	\$2.42
Community	96	17,219,494	44,984	657,500	4.1%	-54,920	-82,794	0	\$2.20
Freestanding	22	699,013	0	35,798	5.1%	32,725	40,628	15,894	\$2.50
Neighborhood	235	23,383,418	109,308	1,122,273	5.3%	-101,040	-62,015	402,807	\$2.48
Power	28	11,464,298	123,970	203,697	2.9%	-61,636	-55,322	0	\$2.71
Regional	7	2,793,239	2,888	21,867	0.9%	12,187	27,550	0	\$2.88
Strip	121	3,460,910	10,417	333,470	9.9%	90,308	91,532	117,714	\$2.29
TOTAL	509	59,020,372	291,567	2,374,605	4.5%	-82,376	-40,421	536,415	\$2.42

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

Key Lease Transactions H2 2018

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
935 Sweetwater Rd.	94,500	Target	Arnold Feuerstein	Direct	Rancho San Diego/Spring Valley
1055 Wall St.	46,500	Life Time	Madison Marquette	Direct	La Jolla
Liberty Station	41,000	Performing Arts Center	City of San Diego	Direct	Point Loma/Sports Arena
The Trading Post	39,800	Urge Common House	Poway Property LP	Direct	Poway
The Square at Bressi Ranch	28,000	Sprouts	JF Shea Co.	Direct	Carlsbad

Key Sale Transactions H2 2018

PROPERTY	SF	BUYER	SELLER	PRICE / PSF	SUBMARKET
Broadway Plaza	356,335	Protea Properties	Kimco Realty Corporation	\$58,500,000 / \$164	Chula Vista
Encinitas Marketplace	124,411	Encinitas Marketplace LLC	Kimco Realty Corporation	\$43,000,000 / \$346	Encinitas
4750 & 4760 Oceanside Blvd.	37,725	Capital Investment Network, Inc.	Aspen Management.	\$8,200,000 / \$217	Oceanside
Bernardo Center	27,511	Pacifica Companies	Equity Real Estate Services	\$9,000,000 / \$327	Rancho Bernardo
9500-9530 Miramar Rd.	18,770	Dhahir Sliwo Shamoon Yaldo	Anderson Realty	\$8,000,000 / \$426	Mira Mesa/Mira Mar

Under Construction H2 2018 – select projects 50,000 SF

PROPERTY	RELEASED			ADDRESS	CENTER TYPE	ESTIMATED COMPLETION	SUBMARKET
	SF	SF	%				
Millenia Town Center	130,489	112,234	86%	SEC. SR-125 Toll Rd. & Birch Rd.	Neighborhood	2019	Chula Vista
The Shops at One Paseo	110,836	105,294	95%	3275 Del Mar Heights Rd.	Neighborhood	2019	Del Mar
The Square at Bressi Ranch	90,094	78,213	87%	2656-2674 Gateway Rd.	Neighborhood	2019	Carlsbad

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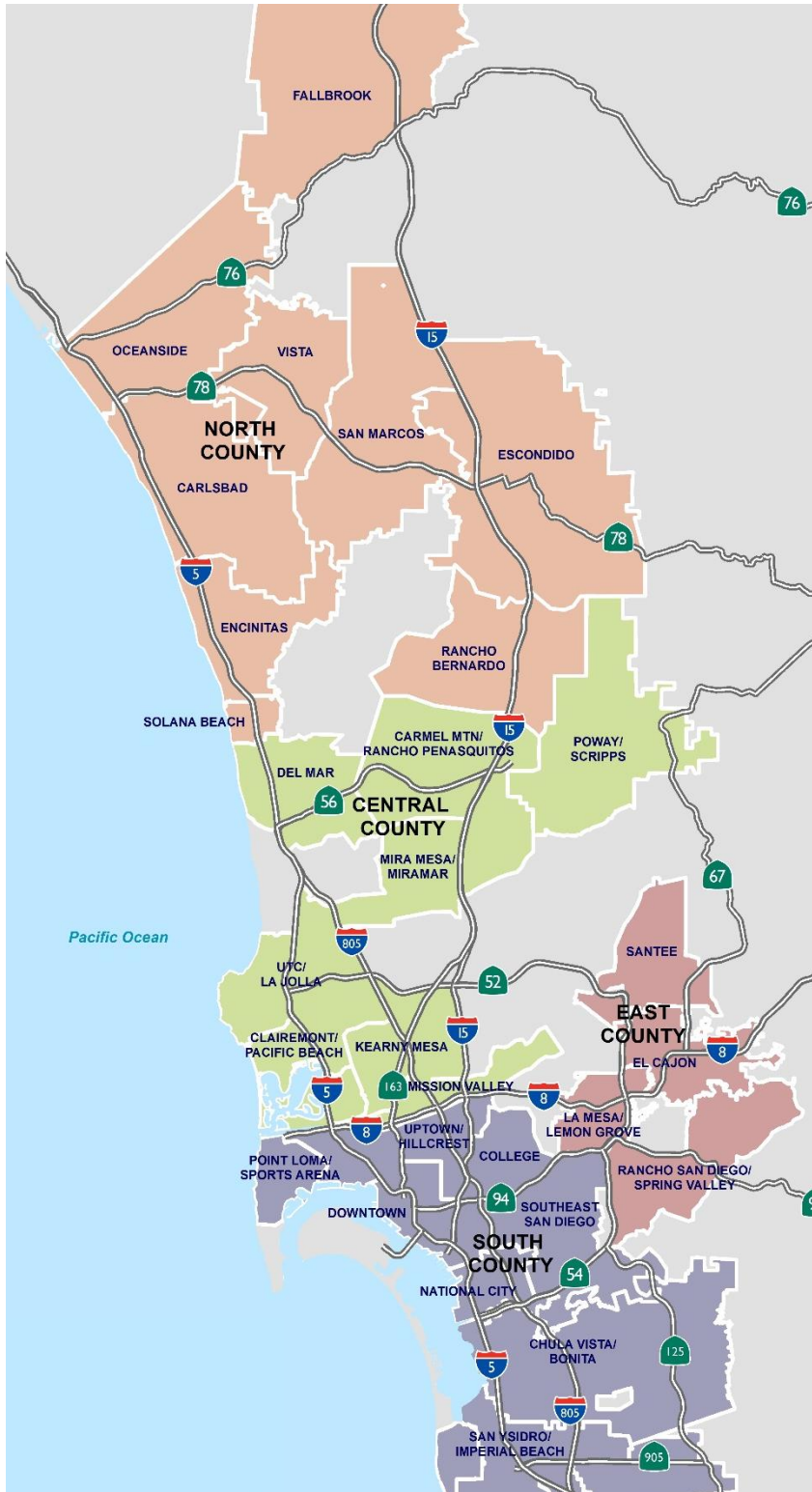
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RETAIL SUBMARKETS

SAN DIEGO



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Jolanta Campion

Director of Research, San Diego & Nevada
jolanta.campion@cushwake.com

Alexa Kruthers

Research Analyst
alexa.kruthers@cushwake.com

4747 Executive Drive, Suite 900
San Diego, CA 92121
Tel: 858.625.5235
Fax: 858.630.6320
CA License 01880493

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