

MARKET OVERVIEW. Most of the first quarter was in the books by the time that shelter-in-place orders took effect in March. The first quarter will primarily act as a benchmark from which to compare the pandemic effects on the market over the subsequent quarters. The retail sector of the economy will be one of the hardest hit in the current crisis, although up to this point the local retail market has been slow and steady overall, benefitting from extremely limited supply of new construction.

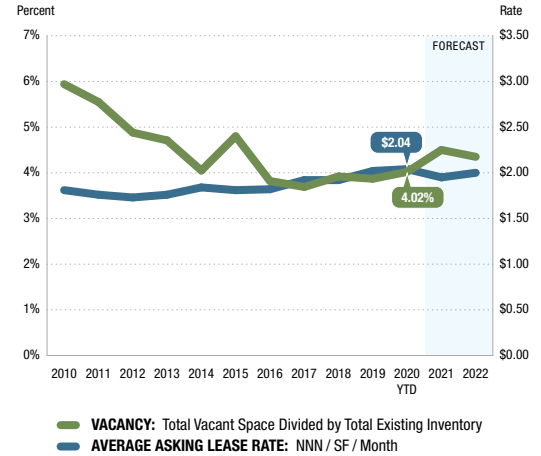
VACANCY. Direct / sublease space (unoccupied) finished the first quarter of 2020 at 4.02%, an increase of 15 basis points from the fourth quarter of 2019's vacancy rate of 3.87%. The first quarter's vacancy rate is well below the ten-year average of 4.52%.

LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County was \$2.04, a two-cent increase from the fourth quarter of 2019's rate of \$2.02. The market average has yet to eclipse the all-time high of \$2.08 per square foot which was achieved in 2006.

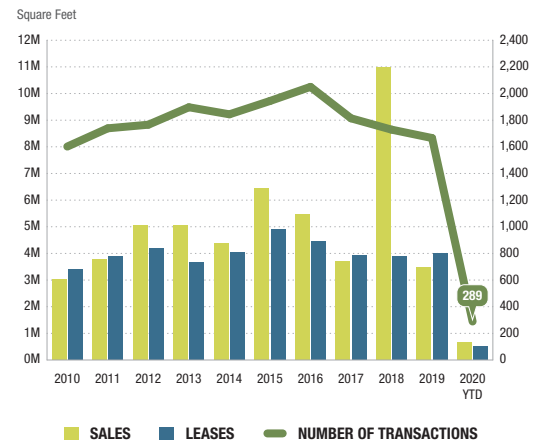
TRANSACTION ACTIVITY. The combined amount of retail property sold or leased during the first quarter was approximately 1.0 MSF, a decrease from the 1.8 MSF transacted in the fourth quarter of 2019. The transaction activity statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report.

EMPLOYMENT. The unemployment rate in San Diego County was 3.2% in February 2020, down from a revised 3.3% in January 2020, and below the year-ago estimate of 3.4%. This compares with an unadjusted unemployment rate of 4.3% for California and 3.8% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 26,400 payroll jobs between February 2019 and February 2020. In mid-March the unemployment claims for the United States as a whole came in at 3.28 million claims for a single week which was a record claim for a single week, nearly five times greater than the previous record which was set in 1982. Subsequent weeks had even more unemployment claims. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. Suffice it to say stay-at-home orders related to the COVID-19 pandemic will lead to an increase in local unemployment over the coming months.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

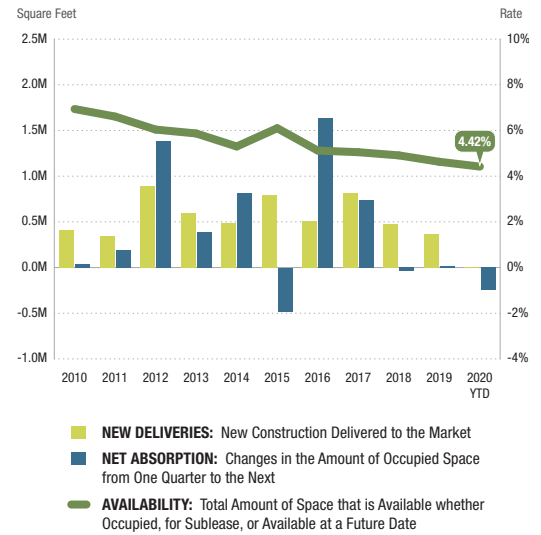
	Change Over Last Quarter	1Q 2020	4Q 2019	1Q 2019	% Change Over Last Year
Vacancy Rate	▲ UP	4.02%	3.87%	4.08%	(1.45%)
Availability Rate	▼ DOWN	4.42%	4.63%	5.05%	(12.45%)
Average Asking Lease Rate	▲ UP	\$2.04	\$2.02	\$1.89	7.94%
Sale & Lease Transactions	▼ DOWN	1,096,308	1,816,487	1,927,030	(43.11%)
Gross Absorption	▬ FLAT	854,589	864,116	1,059,631	(19.35%)
Net Absorption	▼ NEGATIVE	(248,317)	81,746	1,207	N/A

CONSTRUCTION. Following the 470,897 square feet of new retail projects completed in 2018 (the lowest annual total since 2011), there were only 371,588 square feet of new construction in 2019, and there are currently only 322,923 square feet under construction. The limited amount of new construction coming to the market has acted as a stabilizing force up to this point.

AVAILABILITY. Direct/sublease space being marketed was 4.42% at the end of the first quarter of 2020. This was a decrease of 21 basis points from the fourth quarter of 2019's availability rate of 4.63%, and a 12.45% decrease from the first quarter of 2019's rate. The Central South section of the county, which primarily consists of the City of San Diego south of Highway 52, had the lowest availability rate of any section of the county at 2.43%.

ABSORPTION. The San Diego retail market saw 248,317 square feet of negative net absorption in the first quarter of 2020. The previous two calendar years were flat for the San Diego retail market, with the last year of impactful positive net absorption coming in 2017.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Forecast

Last quarter we were most concerned about warnings of a global slowdown, US GDP growth and trade relations between the US and China. But the world has changed, and we are finally able to identify the Black Swan that economists have been hedging their forecasts with for years. The COVID-19 virus, first identified in China, has circled the planet in a matter of weeks, causing leaders around the world to take aggressive steps to stop it. Entire countries are on lockdown and our own federal and state governments have taken steps similar to our neighbors in Asia and Europe.

It's too early to tell what the exact long-term impact the reaction to the virus will have on the San Diego retail market, but we do predict a significant near-term decrease in occupancy rates and transaction volume. We should see the statistical evidence of that in the second quarter numbers. We expect a decrease in occupancy to place downward pressure on retail rental rates in the next quarter, and all eyes will be fixed upon the depth of the downturn and the speed of the recovery to formulate forward guidance.

Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
4888-4898 Convoy St.	Kearny Mesa	86,918	\$30,967,000	Merlone Geier*	McGrath Development*
3930-3964 5th Ave.	Uptown/Hillcrest	28,528	\$13,300,000	Paragon Real Estate Investment	Carleton Management
1527 Mission Ave.	Oceanside	108,400	\$12,300,000	Milan Capital Management	Doerken Properties
781-801 Palm Ave.	Imperial Beach	15,934	\$12,150,000	Gershman Properties	Sudberry Properties
7700 El Camino Real	Carlsbad	19,400	\$10,500,000	221 North Cedar Street Associates	Sperry Commercial

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
652 Palomar St.	Chula Vista	24,957	Feb-2020	DD's Discounts	Sunbelt Investment Holdings, Inc.
3535 Sports Arena Blvd.	Sports Arena	20,706	Jan-2020	Forever 21	Sunbelt Investment Holdings, Inc.
1527 Mission Ave.	Oceanside	13,400	Feb-2020	Oceanside Appliance	Doerken Properties, Inc.
2949 Coronado Ave.	South San Diego	11,800	Feb-2020	Fresenius	JND, LP
6091 University Ave.	East San Diego	10,044	Feb-2020	Undisclosed	Win Properties

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2020	Square Feet Available	Availability Rate 1Q2020	Average Asking Lease Rate	Net Absorption 1Q2020	Net Absorption 2020	Gross Absorption 1Q2020	Gross Absorption 2020
Central South													
General Retail	3,750	20,496,165	15,648	1,306,496	606,558	2.96%	849,618	4.15%	\$2.56	23,006	23,006	183,684	183,684
Malls	64	5,089,974	0	0	239,827	4.71%	64,676	1.27%	-	(9,971)	(9,971)	0	0
Power Centers	98	3,537,106	0	6,000	4,872	0.14%	29,578	0.84%	-	5,610	5,610	5,610	5,610
Shopping Centers	700	10,855,217	0	34,635	437,191	4.03%	0	0.00%	\$2.17	(54,729)	(54,729)	51,325	51,325
Specialty Centers	7	294,915	0	0	33,390	11.32%	33,390	11.32%	-	5,031	5,031	5,031	5,031
Central South Total	4,619	40,273,377	15,648	1,347,131	1,321,838	3.28%	977,262	2.43%	\$2.44	(31,053)	(31,053)	245,650	245,650
East County													
General Retail	1,449	7,426,945	11,783	52,370	215,584	2.90%	239,307	3.22%	\$1.55	(2,559)	(2,559)	75,966	75,966
Malls	13	2,782,857	0	9,200	64,617	2.32%	101,300	3.64%	-	(2,877)	(2,877)	0	0
Power Centers	59	1,644,898	0	4,900	46,007	2.80%	46,007	2.80%	\$2.17	(18,480)	(18,480)	4,361	4,361
Shopping Centers	573	8,234,019	0	198,529	454,041	5.51%	555,777	6.75%	\$1.57	98,310	98,310	152,881	152,881
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	2,096	20,123,277	11,783	264,999	780,249	3.88%	942,391	4.68%	\$1.58	74,394	74,394	233,208	233,208
I-15 Corridor													
General Retail	174	1,654,334	43,300	6,500	38,315	2.32%	47,230	2.85%	\$3.08	(2,423)	(2,423)	0	0
Malls	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Power Centers	24	581,357	0	0	15,891	2.73%	18,945	3.26%	-	0	0	0	0
Shopping Centers	290	4,228,258	0	223,324	151,506	3.58%	158,124	3.74%	\$3.51	(5,638)	(5,638)	20,896	20,896
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
I-15 Corridor Total	488	6,463,949	43,300	229,824	205,712	3.18%	224,299	3.47%	\$3.42	(8,061)	(8,061)	20,896	20,896
North County													
General Retail	1,704	11,648,356	11,900	457,515	297,651	2.56%	407,215	3.50%	\$1.83	(1,762)	(1,762)	63,291	63,291
Malls	24	3,176,626	0	50,340	169,157	5.33%	21,865	0.69%	-	(146,988)	(146,988)	3,392	3,392
Power Centers	109	3,081,308	9,312	9,000	130,610	4.24%	154,041	5.00%	-	(1,240)	(1,240)	9,925	9,925
Shopping Centers	971	15,066,984	13,850	397,230	1,090,010	7.23%	1,345,209	8.93%	\$1.60	(52,401)	(52,401)	103,871	103,871
Specialty Centers	5	369,833	0	0	370	0.10%	370	0.10%	-	840	840	1,210	1,210
North County Total	2,813	33,343,107	35,062	914,085	1,687,798	5.06%	1,928,700	5.78%	\$1.66	(201,551)	(201,551)	181,689	181,689
Central North													
General Retail	861	7,041,703	15,100	57,408	241,826	3.43%	308,011	4.37%	\$2.92	(41,853)	(41,853)	17,768	17,768
Malls	20	1,252,286	177,000	14,000	109,772	8.77%	60,599	4.84%	-	0	0	0	0
Power Centers	67	2,167,332	4,000	101,235	47,513	2.19%	82,515	3.81%	-	(3,636)	(3,636)	7,039	7,039
Shopping Centers	440	6,663,083	17,530	337,000	352,823	5.30%	456,585	6.85%	\$2.55	(33,434)	(33,434)	58,996	58,996
Specialty Centers	2	203,547	0	0	52,040	25.57%	56,125	27.57%	\$1.33	0	0	0	0
Central North Total	1,390	17,327,951	213,630	509,643	803,974	4.64%	963,835	5.56%	\$2.43	(78,923)	(78,923)	83,803	83,803
South County													
General Retail	1,127	6,205,812	0	367,810	110,767	1.78%	324,924	5.24%	\$1.55	(3,282)	(3,282)	19,311	19,311
Malls	41	2,508,207	0	0	7,997	0.32%	7,997	0.32%	-	0	0	0	0
Power Centers	28	972,633	0	75,500	6,719	0.69%	6,719	0.69%	-	(2,144)	(2,144)	0	0
Shopping Centers	545	9,233,671	3,500	101,772	572,641	6.20%	678,852	7.35%	\$1.99	1,206	1,206	68,935	68,935
Specialty Centers	22	759,698	0	0	13,575	1.79%	14,430	1.90%	\$1.86	1,097	1,097	1,097	1,097
South County Total	1,763	19,680,021	3,500	545,082	711,699	3.62%	1,032,922	5.25%	\$1.86	(3,123)	(3,123)	89,343	89,343
San Diego Total													
San Diego Total	13,169	137,211,682	322,923	3,810,764	5,511,270	4.02%	6,069,409	4.42%	\$2.04	(248,317)	(248,317)	854,589	854,589
General Retail	9,065	54,473,315	97,731	2,248,099	1,510,701	2.77%	2,176,305	4.00%	\$2.23	(28,873)	(28,873)	360,020	360,020
Malls	162	14,809,950	177,000	73,540	591,370	3.99%	256,437	1.73%	-	(159,836)	(159,836)	3,392	3,392
Power Centers	385	11,984,634	13,312	196,635	251,612	2.10%	337,805	2.82%	\$2.17	(19,890)	(19,890)	26,935	26,935
Shopping Centers	3,519	54,281,232	34,880	1,292,490	3,058,212	5.63%	3,194,547	5.89%	\$1.93	(46,686)	(46,686)	456,904	456,904
Specialty Centers	38	1,662,551	0	0	99,375	5.98%	104,315	6.27%	\$1.42	6,968	6,968	7,338	7,338
San Diego Total	13,169	137,211,682	322,923	3,810,764	5,511,270	4.02%	6,069,409	4.42%	\$2.04	(248,317)	(248,317)	854,589	854,589

Lease rates are on a triple-net basis.



Coronavirus and its Effect on Retail Leasing

by **Spencer Kerrigan**

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As I sit here and write this while cooped up in my home office, listening to President Trump's briefing on the coronavirus, clearly this is more than a flu bug going around, like we may have thought just a few weeks ago. As is typical with national emergencies, it has a ripple effect through markets all the way down to the local level, and we are indeed seeing that as we wrap up the first quarter.

In the retail sector, as the statewide and national protocols mandate the closure of retail and restaurant doors, it is having a huge impact on tenants and landlords. The most obvious impact is on the tenants, especially the smaller local businesses. Small businesses already struggle to make ends meet some months, and mandates for city-wide operational restrictions make rent and wages nearly impossible to pay. Landlords therefore are already seeing requests for rent relief, although we are only through the first several weeks of this crisis. One thing that could be a saving grace for tenants and landlords is insurance for rent and business interruption. Without being an expert in this field, it is still worth checking into policies to what may or may not be covered during a declared state of emergency.

With regard to deal velocity and volume, we have seen this pandemic grind much of the market to a screeching halt, across all sectors. The stock market has lost much of the gain it made over the previous year, falling precipitously over the last few weeks. Especially in the retail sector, leasing activity has drastically slowed as well. As the nation encourages "social distancing" it becomes impossible to justify expansion of concepts that embrace bringing people together. We have seen everything from restaurants to churches rescinding Letters of Intent, pausing lease reviews, and requesting to delay delivery or rent commencement. As we wait for the full impact of the coronavirus to emerge over the coming weeks, and months, it could be a while before these deals in various stages rev back up to where they were just a few weeks ago.

With schools, restaurants, and even major sporting leagues putting things on pause for at least the remainder of April, and many into May, it seems like this will be the new norm for at least the start of the second quarter. However, we need to remember that we will emerge from this crisis and when we do, it will be important to try to jumpstart the retail world again. For those who have the luxury of being able to spend discretionary money at their local restaurant, nail salon, gym, and others, we all should try to make that a reality. An influx of business when the coast is clear will surely help your local small businesses get back to full speed and put the coronavirus in the rearview mirror.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services. ©2020 Voit Real Estate Services, Inc. DRE License #01991785.

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Submarkets

CENTRAL SOUTH

Central San Diego, Clairemont, Coronado, Downtown, Mission Gorge, Mid City/Southeast San Diego, Mission Valley, Pacific Beach/Morena, Point Loma/Sports Arena

EAST COUNTY

El Cajon, La Mesa, Lemon Grove/Spring Valley, Santee/Lakeside

I-15 CORRIDOR

Carmel Mountain Ranch, Poway, Rancho Bernardo, Rancho Penasquitos

CENTRAL NORTH

Cardiff/Encinitas, Del Mar Heights, La Jolla/Torrey Pines, Miramar, UTC

NORTH COUNTY

Carlsbad, Escondido, Oceanside, San Marcos, Vista

SOUTH COUNTY

Chula Vista, Eastlake, Imperial Beach/South San Diego, National City