

MARKET OVERVIEW. Availability increased significantly, transaction volume was steadily down, and there was a wave of negative net absorption in the second quarter. Retail real estate had the highest percentage of business disruption from coronavirus and the government lockdowns, possibly second only to hotels. Until the affected businesses are able to fully resume operations, retail real estate will experience a continued downward pressure on market fundamentals.

VACANCY. Direct / sublease space (unoccupied) finished the second quarter of 2020 at 4.20%, right in line with vacancy rates from the past few years. This is a statistic that has not yet come to reflect the reality in the market because of the moratorium on evictions that has occurred.

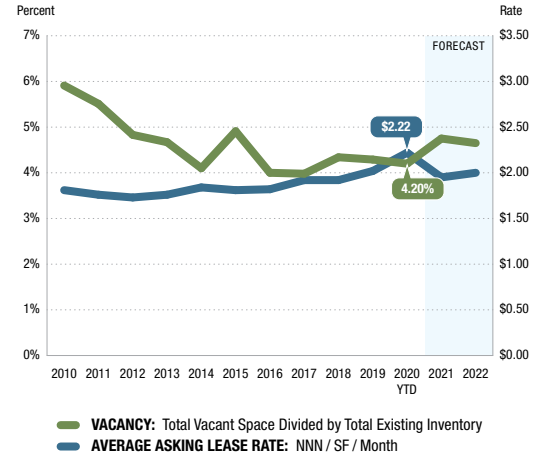
LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County was \$2.22. The reported average asking rental rate in the county actually increased in the second quarter. This was not due to a true increase in rates but is a result of asking rates at the low end getting changed to “undisclosed” or “negotiable” which removes them from the calculation of average asking rates.

TRANSACTION ACTIVITY. The combined amount of retail property sold or leased during the second quarter was approximately 1.1 MSF, roughly equivalent to the first quarter's total, and a decrease from the 2.1 MSF transacted in the second quarter of 2019. Three of the five largest sales transactions in the second quarter involved investment properties leased to grocery stores, one of the retail segments that has fared better than average through the first half of 2020.

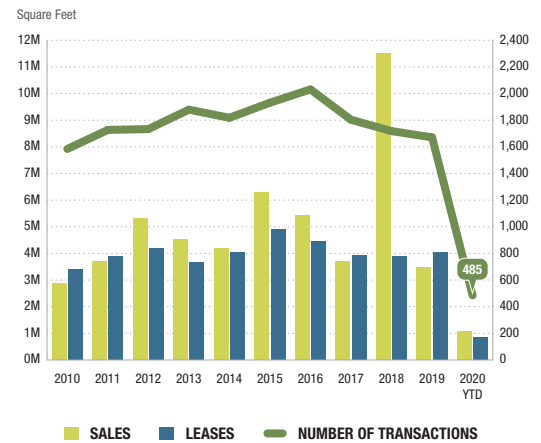
EMPLOYMENT. The unemployment rate in San Diego County was 15.0% in May 2020, unchanged from a revised 15.0% in April 2020, and above the year-ago estimate of 2.8%. This compares with an unadjusted unemployment rate of 15.9% for California and 13.0% for the nation during the same period. According to the State of California Employment Development Department, San Diego County lost 195,800 payroll jobs between May 2019 and May 2020 and gained 18,200 jobs between April 2020 and May 2020. In June, the employment data the United States as a whole came in with 4.8 million jobs added which was a record for the most jobs added in a month. With the normal delay in reporting from the California EDD, employment figures from June were unavailable at the time of publishing this report.

CONSTRUCTION. Following the 477,281 square feet of new retail projects completed in 2018 (the lowest annual total since 2011), there was only 387,603 square feet of

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

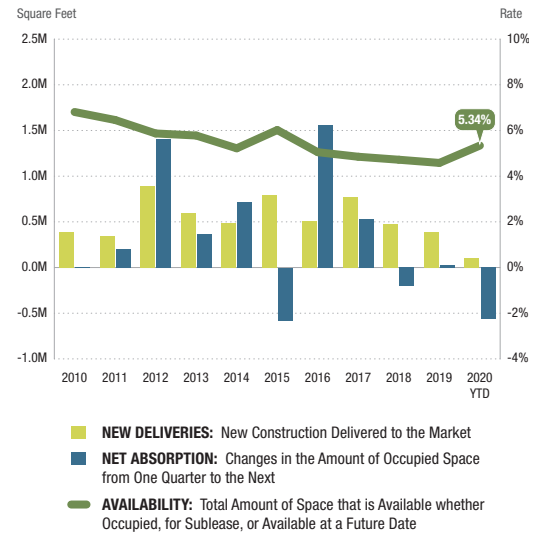
	Change Over Last Quarter	2Q 2020	1Q 2020	2Q 2019	% Change Over Last Year
Vacancy Rate	▼ DOWN	4.20%	4.56%	4.38%	(4.01%)
Availability Rate	▲ UP	5.34%	4.80%	4.83%	10.42%
Average Asking Lease Rate	▲ UP	\$2.22	\$2.04	\$1.86	19.35%
Sale & Lease Transactions	▬ FLAT	1,112,697	1,127,434	2,050,029	(45.72%)
Gross Absorption	▼ DOWN	693,859	866,632	914,065	(24.09%)
Net Absorption	▼ NEGATIVE	(170,911)	(397,227)	(55,919)	N/A

new construction in 2019, and there has been only 104,346 square feet of new retail construction through the first half of 2020. The limited amount of new construction coming to the market has acted as a stabilizing force up to this point, and limited construction has really been a hallmark of the San Diego retail market in recent years.

AVAILABILITY. Direct/sublease space being marketed was 5.34% at the end of the second quarter of 2020. This is a 16.6% increase since the end of 2019. The reported number actually underrepresents the “true” availability rate as many landlords, especially mall owners, are not marketing all of their available space to the market. There are a few cases of tenants being enticed to leave in order for the landlord to get the space back, but many of the spaces that would otherwise be reported as available are encumbered by tenants which are no longer able to pay rent, but are not walking away from their premises.

ABSORPTION. The San Diego retail market saw 170,911 square feet of negative net absorption in the second quarter of 2020. The market is currently on pace to double the largest annual negative net absorption reported in the past decade. The rate of negative net absorption will likely increase in the second half of the year, as moratoriums on evictions expire, barring additional legislative action.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Forecast

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 it is evident that lockdowns have been a shot in the arm to the ongoing growth of e-commerce. Retail has clearly been hit the hardest of major commercial real estate sectors, and we do expect some rebound once all retail businesses are able to fully reopen. However, there has been some damage which will be lasting. We expect conversion and redevelopment of retail properties into other uses will counteract the coming increase in vacancy, to an extent. We anticipate the decrease in occupancy and leasing volume 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. Early indications are that as the economy opens up and principals feel more comfortable making business decisions, leasing activity will begin to increase.

Based upon the current conditions and outlook, we anticipate a decrease in net effective rental rates in the second half of the year as concessions will increase in a diminished transaction- volume environment. The situation remains fluid and any potential government actions such as further lockdowns or additional economic stimuli can influence the market.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
4145 30th St.	North Park	44,000	\$27,700,000	30th Street SDV, LP	Fortress Investment Group, LLC
801-835 College Blvd.	Oceanside	43,750	\$24,500,000	Gershman Properties, LLC	Angelo, Gordon & Co.
655 14th St.	Downtown	42,973	\$22,177,142	221 North Cedar Street Associates	LLJ Ventures
318-330 N. El Camino Real	Encinitas	47,609	\$14,200,000	HP Investors	Interstate Properties Group
1400 E. Vista Way	Vista	26,616	\$11,300,000	JR Investments, LLC	Black Lion Investment Group

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1919 Apple St.	Oceanside	9,600	Jun-2020	Undisclosed	Pary Ghamaty Investments
917 E Vista Way	Vista	8,400	Apr-2020	Catholic Charities	Zarrabian
3223 Mission Cove	Oceanside	7,142	May-2020	Bull and Barrel	City of Oceanside

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2020	Square Feet Available	Availability Rate 2Q2020	Average Asking Lease Rate	Net Absorption 2Q2020	Net Absorption 2020	Gross Absorption 2Q2020	Gross Absorption 2020
Central South													
General Retail	3,751	20,481,692	242,277	1,298,791	624,019	3.05%	1,135,152	5.54%	\$3.04	(6,291)	(124,575)	106,354	290,538
Malls	63	4,348,733	0	0	244,752	5.63%	73,154	1.68%	-	(4,925)	(14,896)	0	0
Power Centers	98	3,538,506	0	6,000	26,578	0.75%	27,378	0.77%	-	(21,706)	(16,096)	0	5,610
Shopping Centers	700	10,917,374	0	41,865	460,761	4.22%	541,793	4.96%	\$2.24	(25,970)	(78,299)	55,378	109,103
Specialty Centers	7	294,915	0	0	33,390	11.32%	33,390	11.32%	-	0	5,031	0	5,031
Central South Total	4,619	39,581,220	242,277	1,346,656	1,389,500	3.51%	1,810,867	4.58%	\$2.86	(58,892)	(228,835)	161,732	410,282
East County													
General Retail	1,448	7,406,205	3,683	57,870	192,256	2.60%	274,508	3.71%	\$1.58	23,110	3,873	81,040	157,006
Malls	13	2,402,082	0	21,800	57,318	2.39%	94,001	3.91%	-	7,299	4,422	7,299	7,299
Power Centers	58	1,638,898	0	4,900	63,175	3.85%	63,175	3.85%	\$2.17	(17,168)	(35,648)	0	4,361
Shopping Centers	573	8,235,511	0	173,529	450,149	5.47%	617,199	7.49%	\$1.49	5,242	102,202	41,187	195,718
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	2,094	19,717,254	3,683	258,099	762,898	3.87%	1,048,883	5.32%	\$1.54	18,483	74,849	129,526	364,384
I-15 Corridor													
General Retail	174	1,655,858	43,300	6,500	44,755	2.70%	52,962	3.20%	\$3.05	(6,440)	(8,863)	4,000	4,000
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	4,244,099	0	219,424	146,892	3.46%	173,311	4.08%	\$3.46	4,563	(1,024)	18,899	40,435
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
I-15 Corridor Total	488	6,481,314	43,300	225,924	207,538	3.20%	245,218	3.78%	\$3.32	(1,877)	(9,887)	22,899	44,435
North County													
General Retail	1,706	11,680,184	22,000	392,732	319,207	2.73%	481,807	4.12%	\$1.91	(21,556)	(11,418)	42,257	105,548
Malls	25	4,283,139	0	50,340	166,092	3.88%	18,800	0.44%	-	3,065	(143,923)	3,065	6,457
Power Centers	109	3,080,779	9,312	9,000	136,702	4.44%	168,059	5.46%	-	(6,092)	(7,332)	4,200	14,125
Shopping Centers	970	15,106,133	64,960	342,929	1,143,670	7.57%	1,408,230	9.32%	\$1.70	(56,660)	(106,061)	109,943	216,814
Specialty Centers	5	369,833	0	0	370	0.10%	370	0.10%	-	0	840	0	1,210
North County Total	2,815	34,520,068	96,272	795,001	1,766,041	5.12%	2,077,266	6.02%	\$1.76	(81,243)	(267,894)	159,465	344,154
Central North													
General Retail	865	7,041,921	6,600	37,408	265,160	3.77%	341,956	4.86%	\$3.04	(14,848)	(56,187)	39,531	57,299
Malls	19	1,250,158	177,000	14,000	109,772	8.78%	60,599	4.85%	-	0	0	0	0
Power Centers	68	2,232,614	4,000	35,915	74,030	3.32%	111,313	4.99%	-	45,825	35,705	71,455	80,264
Shopping Centers	440	6,697,696	17,530	337,000	404,480	6.04%	542,835	8.10%	\$2.40	(53,632)	(85,091)	41,201	102,172
Specialty Centers	2	203,547	0	0	52,040	25.57%	56,125	27.57%	\$1.33	0	0	0	0
Central North Total	1,394	17,425,936	205,130	424,323	905,482	5.20%	1,112,828	6.39%	\$2.34	(22,655)	(105,573)	152,187	239,735
South County													
General Retail	1,129	6,234,503	2,491	292,810	136,874	2.20%	283,623	4.55%	\$1.57	(23,159)	(29,389)	24,273	43,692
Malls	44	2,456,339	0	0	3,591	0.15%	3,591	0.15%	-	4,406	4,406	4,406	4,406
Power Centers	28	972,633	0	75,500	6,719	0.69%	6,719	0.69%	-	0	(2,144)	0	0
Shopping Centers	544	9,224,323	6,500	103,772	578,615	6.27%	730,923	7.92%	\$1.98	(5,974)	(4,768)	39,371	108,306
Specialty Centers	22	759,698	0	0	13,575	1.79%	13,605	1.79%	\$1.77	0	1,097	0	1,097
South County Total	1,767	19,647,496	8,991	472,082	739,374	3.76%	1,038,461	5.29%	\$1.87	(24,727)	(30,798)	68,050	157,501
San Diego Total													
San Diego Total	13,177	137,373,288	599,653	3,522,085	5,770,833	4.20%	7,333,523	5.34%	\$2.22	(170,911)	(568,138)	693,859	1,560,491
General Retail	9,073	54,500,363	320,351	2,086,111	1,582,271	2.90%	2,570,008	4.72%	\$2.57	(49,184)	(226,559)	297,455	658,083
Malls	164	14,740,451	177,000	86,140	581,525	3.95%	250,145	1.70%	-	9,845	(149,991)	14,770	18,162
Power Centers	385	12,044,787	13,312	131,315	323,095	2.68%	395,589	3.28%	\$2.17	859	(25,515)	75,655	104,360
Shopping Centers	3,517	54,425,136	88,990	1,218,519	3,184,567	5.85%	4,014,291	7.38%	\$1.96	(132,431)	(173,041)	305,979	772,548
Specialty Centers	38	1,662,551	0	0	99,375	5.98%	103,490	6.22%	\$1.42	0	6,968	0	7,338
San Diego Total	13,177	137,373,288	599,653	3,522,085	5,770,833	4.20%	7,333,523	5.34%	\$2.22	(170,911)	(568,138)	693,859	1,560,491

Lease rates are on a triple-net basis.



The Uncertainty of Retail

by **Joshua Simms**

ASSOCIATE, SAN DIEGO

858.458.3336 · jsimms@voitco.com · Lic. #02080261

The evolution of retail into the e-commerce era has been widely publicized. Household names like eBay, Amazon, and Etsy are among the online retailers that have cut into “brick and mortar” sales in recent years. One of the strategies that landlords have employed to adapt to this new paradigm was to focus on experience and entertainment tenants. Restaurants and eateries have taken an increasing percentage of the tenant mix, along with trends such as axe-throwing venues, virtual reality centers, niche gyms and other entertainment and experience-focused retail businesses. The pandemic and the subsequent response have hit these retailers hard. One of the positions of strength in retail has become ground zero for the economic effects of COVID-19.

There have been some bright spots, though. Another trend to adapt to the e-commerce era has been for retailers to take the “join them” rather than the “beat them” strategy. Walmart, the largest employer in the U.S., has decided to take Amazon head on. Walmart has focused on increasing and improving online services. Walmart, Target and others now have new and larger dedicated areas for picking up online purchases. This is a trend that is thriving in the current environment and is poised to accelerate in a post-pandemic world. Retailers are understanding more than ever that an online presence is critical. Beyond delivery, and pick up, retailers have been tapping into their social media followings to stay in front of consumers. Anecdotally, a large local car dealership tallied more sales this May and June than in those months a year ago, and much if not most of that was through bringing in customers via online channels.

It's not all doom and gloom in the retail world, and there are trends that will carry on. But there is a lot of pain being felt by many retail businesses and landlords. It is undoubtedly a tenant's market out there. Many tenants have stopped paying rent or closed their doors forever, and there are but a small handful of tenants in the market to take on new space. Existing and prospective tenants have been very aggressive in their negotiations with landlords. Furthermore, the current landscape has produced new discussions regarding sales with property owners who haven't answered calls in years. For those that have the ability to capitalize on the moment, prime retail sites are opening up as tenants go dark. Activity has picked up in the last weeks of the quarter, so here's hoping that is a sign of things to come.

Please Contact Us for Further Information

Josh Brant
Regional Director of Research
jbrant@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.517.4000

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

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.

Represented in 150 Markets
Nationally & Internationally.



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