

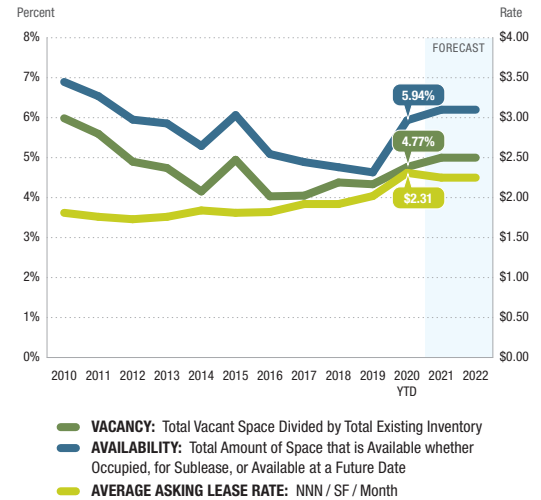
OVERVIEW. Availability increased significantly, transaction volume was down, and there was a wave of negative net absorption in 3Q. Retail real estate had the highest percentage of business disruption from coronavirus and the government lockdowns, possibly second only to hotels. Until the affected businesses are able to fully resume operations, retail real estate will experience a continued downward pressure on market fundamentals.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 3Q 2020 at 4.77%, a minor 33 basis point increase from 3Q 2019's vacancy rate of 4.44%. However, this statistic has not yet come to reflect the reality in the market because of the moratorium on evictions. Vacancy measures the amount of space which is unoccupied regardless of whether it is being marketed for sale or lease. Availability measures the amount of space which is on the market, regardless of whether it is occupied. Direct/sublease space being marketed was 5.94% at the end of 3Q 2020. This is a 29.4% increase, year-over-year. Despite the availability rate increase of nearly a third, 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.

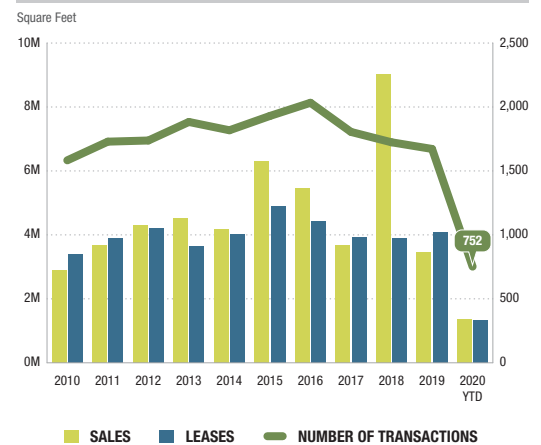
LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County was \$2.31. The reported average asking rental rate in the county actually increased in 3Q. This was not due to a true increase in rates but is a result of asking rates at the low end getting changed to "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 3Q was approximately 0.8 MSF, a decrease from the 1.1 MSF transacted in each of the first two quarters of the year. The total amount of square feet leased and sold is down 63% from the 2.1 MSF of transactions in 3Q 2019. Four of the five largest sales transactions in 3Q involved single-tenant net leased investment properties: two drug stores, a dialysis center, and a transaction involving a McDonald's and adjacent gas station. While overall sales volume has fallen dramatically, the single-tenant net lease sales have not gone away. There were 206 lease transactions in 3Q, following 154 lease transactions in 2Q. In 2019 there was not a single quarter with fewer than 325 lease transactions. There has been an increase in blend-and-extend transactions being structured as landlords and tenants try and find a solution for getting through these trying times.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



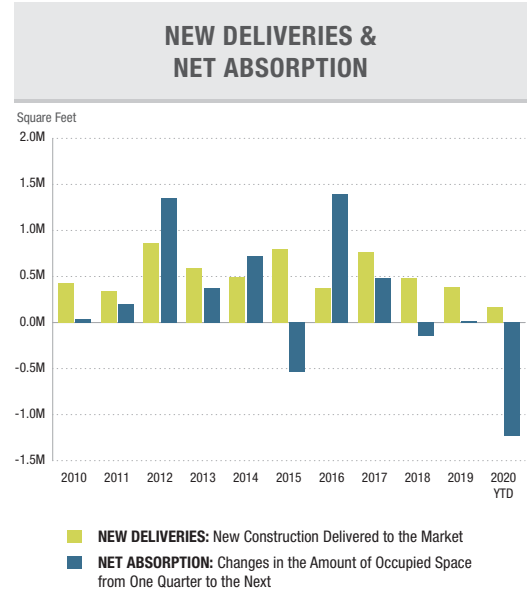
Market Statistics

	Change Over Last Quarter	3Q 2020	2Q 2020	3Q 2019	% Change Over Last Year
Vacancy Rate	▲ UP	4.77%	4.31%	4.44%	7.46%
Availability Rate	▲ UP	5.94%	5.42%	4.59%	29.42%
Average Asking Lease Rate	▲ UP	\$2.31	\$2.21	\$1.92	20.31%
Sale & Lease Transactions	▼ DOWN	771,505	1,127,124	2,074,300	(62.81%)
Gross Absorption	▼ DOWN	504,520	653,550	878,624	(42.58%)
Net Absorption	▼ NEGATIVE	(574,667)	(270,680)	-24,350	N/A

CONSTRUCTION. Following the 477,281 SF of new retail projects completed in 2018 (the lowest annual total since 2011), there was only 387,603 SF of new construction in 2019, and there has been only 169,257 SF of new retail construction through the first three quarters 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 market in recent years.

ABSORPTION. The San Diego retail market saw 574,667 SF of negative net absorption in 3Q 2020. Through the first three quarters of 2020, the San Diego retail market has already experienced more than double the largest annual negative net absorption total reported in the past decade. The East County Area is the only section of San Diego County to be relatively flat for the year thus far, while all other areas of the county have significant negative net absorption. The present trajectory of the market does not portend positive net absorption in the coming months, and possibly even beyond if the economy is not opened back up.

EMPLOYMENT. The unemployment rate in San Diego County was 9.9% in August 2020, down from a revised 12.4% in July 2020, and substantially greater than the year-ago estimate of 3.4%. This compares with an unadjusted unemployment rate of 11.6% for California and 8.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 20,500 jobs between July 2020 and August 2020. With the normal delay in reporting from the California EDD, employment figures from September were unavailable at the time of publishing this report. In September, the employment data for the United States as a whole came in with 661,000 jobs added which was the fifth straight month of net job gains.



Forecast

The road forward heavily depends on factors outside of traditional free market considerations, including COVID-19 vaccine development, state and local government restrictions on business operations, and economic stimulus actions. At this point, the lack of supply on the new construction side seen in recent years has little chance to outweigh the lack of tenant demand in the market. Until the daily life in San Diego can get back closer to normal, vacancy and availability will continue to increase, and until a full reopening of the economy, we anticipate retailers will continue to go out of business, placing pressure on rental rates.

Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
4182 Oceanside Blvd.	Oceanside	10,655	\$8,371,000	Walling, Stephens, Stephens	Centres, Inc.
2804 Garnet Ave. & 4711 Mission Bay Dr. *	Pacific Beach	5,563	\$8,000,000	Mission Day, LLC *	J. R. & C. Harris *
28535 Cole Grade Rd.	Valley Center	11,900	\$6,700,000	Clayton Del Secco Trust	Peto Family Trust
6780 Miramar Rd.	Miramar	24,260	\$6,185,000	H & J Kaemai, LLC	Miracrest Plaza Associates, LP
111 W. Washington Ave.	Escondido	14,998	\$4,500,000	Neeka Investments, LLC	Barnese Savonarola, Et Al

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2707-2717 Via De La Valle	Del Mar	28,000	Jul-2020	Undisclosed	Spirit Realty Capital
3018 Jefferson Rd.	Jamul	18,800	Aug-2020	Tractor Supply Company	Hix Snedeker Companies
10740 Westview Pkwy.	Mira Mesa	18,461	Jul-2020	La-Z-Boy	Stockbridge Capital Group
4341 El Cajon Blvd.	East San Diego	17,000	Sep-2020	United Cerebral Palsy Thrift Store	Kornfeld & Levy
447-475 College Blvd.	Oceanside	12,218	Aug-2020	Five Below	NewMark Merrill Companies

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2020	Square Feet Available	Availability Rate 3Q2020	Average Asking Lease Rate	Net Absorption 3Q2020	Net Absorption 2020	Gross Absorption 3Q2020	Gross Absorption 2020
Central South													
General Retail	3,764	20,570,006	393,740	1,303,958	723,738	3.52%	1,325,972	6.45%	\$3.23	(51,084)	(185,539)	124,946	420,449
Malls	72	4,096,446	0	0	266,879	6.51%	85,578	2.09%	-	(24,220)	(37,023)	4,708	4,708
Power Centers	89	3,349,386	0	6,000	29,106	0.87%	32,106	0.96%	-	(2,528)	(18,624)	2,200	7,810
Shopping Centers	700	10,976,050	0	37,365	525,860	4.79%	545,615	4.97%	\$2.29	(67,199)	(149,398)	25,754	125,557
Specialty Centers	7	294,915	0	0	29,333	9.95%	32,536	11.03%	-	4,057	9,088	4,057	9,088
Central South Total	4,632	39,286,803	393,740	1,347,323	1,574,916	4.01%	2,021,807	5.15%	\$3.05	(140,974)	(381,496)	161,665	567,612
East County													
General Retail	1,448	7,408,196	1,900	59,755	208,366	2.81%	276,133	3.73%	\$1.50	(13,294)	(10,454)	24,208	181,847
Malls	13	2,402,082	0	21,800	70,048	2.92%	94,194	3.92%	-	(12,730)	(8,308)	0	7,299
Power Centers	58	1,638,898	0	4,900	63,175	3.85%	81,769	4.99%	\$2.17	0	(35,648)	0	4,361
Shopping Centers	570	8,218,526	0	173,529	490,522	5.97%	613,167	7.46%	\$1.52	(40,373)	61,829	32,632	228,350
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	2,091	19,702,260	1,900	259,984	832,111	4.22%	1,065,263	5.41%	\$1.52	(66,397)	7,419	56,840	421,857
I-15 Corridor													
General Retail	178	1,708,263	43,300	11,774	48,949	2.87%	59,537	3.49%	\$2.80	476	(9,037)	2,148	6,148
Malls	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Power Centers	24	581,520	0	0	16,791	2.89%	32,184	5.53%	-	(900)	(900)	0	0
Shopping Centers	286	4,186,789	0	214,150	248,674	5.94%	282,874	6.76%	\$3.46	(102,697)	(106,826)	7,141	47,576
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
I-15 Corridor Total	488	6,476,572	43,300	225,924	314,414	4.85%	374,595	5.78%	\$3.20	(103,121)	(116,763)	9,289	53,724
North County													
General Retail	1,699	11,652,795	22,000	479,166	347,997	2.99%	469,245	4.03%	\$1.94	(6,125)	(49,426)	34,330	139,878
Malls	25	2,802,002	0	0	169,712	6.06%	22,420	0.80%	-	(3,620)	(147,543)	0	6,457
Power Centers	109	3,086,385	9,312	8,900	177,583	5.75%	210,815	6.83%	-	(40,881)	(48,213)	394	14,519
Shopping Centers	972	15,132,570	63,369	375,229	1,268,245	8.38%	1,590,119	10.51%	\$1.72	(69,074)	(224,967)	113,598	289,165
Specialty Centers	5	369,833	0	0	370	0.10%	370	0.10%	-	0	840	0	1,210
North County Total	2,810	33,043,585	94,681	863,295	1,963,907	5.94%	2,292,969	6.94%	\$1.79	(119,700)	(469,309)	148,322	451,229
Central North													
General Retail	866	7,073,903	6,600	28,000	276,305	3.91%	345,642	4.89%	\$3.03	(46,292)	(99,332)	32,728	90,027
Malls	16	1,262,743	233,000	14,000	110,991	8.79%	118,018	9.35%	-	(1,219)	(1,219)	0	0
Power Centers	69	2,237,369	0	35,915	98,978	4.42%	85,632	3.83%	-	(20,948)	14,757	7,015	87,279
Shopping Centers	438	6,686,429	17,530	337,000	442,998	6.63%	545,682	8.16%	\$2.31	(23,888)	(103,195)	44,138	155,857
Specialty Centers	2	203,547	0	0	52,040	25.57%	56,125	27.57%	\$1.33	0	0	0	0
Central North Total	1,391	17,463,991	257,130	414,915	981,312	5.62%	1,151,099	6.59%	\$2.31	(92,347)	(188,989)	83,881	333,163
South County													
General Retail	1,127	6,208,607	2,491	265,393	166,915	2.69%	310,855	5.01%	\$1.62	(30,041)	(59,430)	14,449	58,141
Malls	44	2,361,359	0	0	0	0.00%	0	0.00%	-	3,591	7,997	3,591	7,997
Power Centers	28	972,633	72,500	3,000	12,733	1.31%	29,613	3.04%	-	(6,014)	(8,158)	0	0
Shopping Centers	545	9,227,115	3,000	103,772	600,423	6.51%	784,249	8.50%	\$1.97	(21,561)	(24,597)	24,586	132,892
Specialty Centers	22	759,698	0	0	11,678	1.54%	11,708	1.54%	\$1.77	1,897	2,994	1,897	2,994
South County Total	1,766	19,529,412	77,991	372,165	791,749	4.05%	1,136,425	5.82%	\$1.87	(52,128)	(81,194)	44,523	202,024
San Diego Total													
San Diego Total	13,178	135,502,623	868,742	3,483,606	6,458,409	4.77%	8,042,158	5.94%	\$2.31	(574,667)	(1,230,332)	504,520	2,029,609
General Retail	9,082	54,621,770	470,031	2,148,046	1,772,270	3.24%	2,787,384	5.10%	\$2.71	(146,360)	(413,218)	232,809	896,490
Malls	170	12,924,632	233,000	35,800	617,630	4.78%	320,210	2.48%	-	(38,198)	(186,096)	8,299	26,461
Power Centers	377	11,866,191	81,812	58,715	398,366	3.36%	472,119	3.98%	\$2.17	(71,271)	(96,786)	9,609	113,969
Shopping Centers	3,511	54,427,479	83,899	1,241,045	3,576,722	6.57%	4,361,706	8.01%	\$1.96	(324,792)	(547,154)	247,849	979,397
Specialty Centers	38	1,662,551	0	0	93,421	5.62%	100,739	6.06%	\$1.40	5,954	12,922	5,954	13,292
San Diego Total	13,178	135,502,623	868,742	3,483,606	6,458,409	4.77%	8,042,158	5.94%	\$2.31	(574,667)	(1,230,332)	504,520	2,029,609

Lease rates are on a triple-net basis.



Retail is Not Going Away

by **Kipp Gstettenbauer, CCIM**

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The retail market has been on the front lines of dealing with the fallout from government shutdowns. Contrary to what you may hear from the naysayers, retail is down but not out. Certainly, there has been some turmoil and there has been pain, but retailers and landlords have been doing everything they can to work through this. One of the more common ways we have seen retailers and landlords working together to find a solution is through an early renewal, adding more term to the lease in exchange for rental abatement now, especially if it is a sophisticated landlord. Aside from some large national retailers, these issues have been handled out of court. The retailers understand that they have an obligation, but landlords are doing what they can to work with the tenants, just as many of the lenders are working with the landlords to get through to the other side of this.

Another trend we have been seeing is that more and more medical space is occupying retail space. As an example, we were able to backfill an entire former CVS location in Chula Vista with San Ysidro Health. Real estate is still about location, location, location. If you have a vacancy come up in a prime location, it is not going to stay vacant.

This recession is a lot different from the last one. There is a lot of money in the system right now, versus 2008. On the sales side there has been continued demand and transaction activity for single tenant net leased properties. However, beyond that, sales have been limited because there is nothing out there to buy.

We are starting to see a lot of traffic coming back to the shopping centers. You may be surprised if you haven't been out much in the past month or two, because if you go out shopping this weekend, you will see people are getting back out there. Tourists are starting to come back to San Diego which is a great road trip destination for Arizonans and Los Angelenos. The national retailers are mainly holding tight, but the mom and pop tenants are coming back. These are positive indicators, and things look to be trending in the right direction. Next year will be the big reset, especially once the kids get back in school.

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

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