

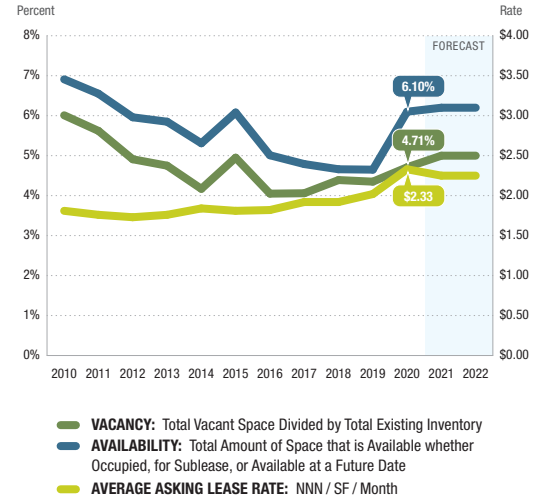
**OVERVIEW.** Availability increased significantly, transaction volume was down, and there was a huge wave of negative net absorption in 2020. Retail real estate had the highest percentage of business disruption from coronavirus and the government lockdowns, possibly second only to hotels. Until the 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 2020 at 4.71%, a modest 36 basis point increase from 4Q 2019's vacancy rate of 4.35%. 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 6.10% at the end of 2020. This is a 31.2% 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.

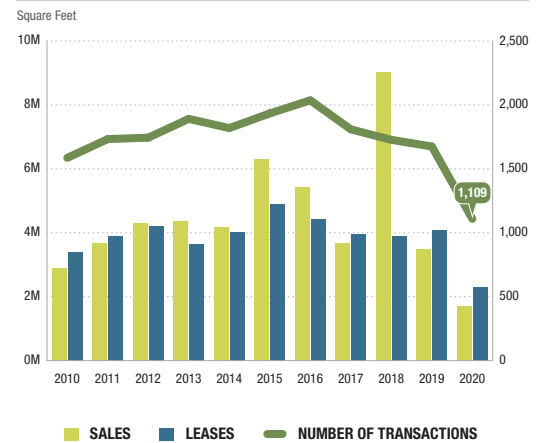
**LEASE RATES.** The average asking triple-net lease rate per month per square foot in San Diego County was \$2.33. The reported average asking rental rate in the county actually increased in 4Q. This was not due to a true increase in rates but is a result of asking rates at the low end getting changed 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 4Q was approximately 1.0 MSF, a slight increase from the 0.9 MSF transacted in 3Q. The total amount of retail space leased and sold in 4Q was 43% lower than the 1.8 MSF of 4Q 2019. Throughout 2020 there was not a single quarter with more than 250 lease transactions executed. Prior to 2020, the last time there were fewer than 250 lease transactions in a quarter was 1Q 2009. By the same measure, the 215 sales in 2020 was the lowest annual tally since 2009. This current recession reached Great Recession-level impacts on the retail real estate market in every quarter of 2020, and we have not yet turned the corner. The number of tenants which are in the market looking for space is paltry compared to pre-Covid times. At the end of the year, there was an uptick in small tenants looking for new locations, which is a bright spot. For the retail companies that have not been decimated by the recession, there are new available locations, and there are more desirable sites available now than at this time last year.

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



### Market Statistics

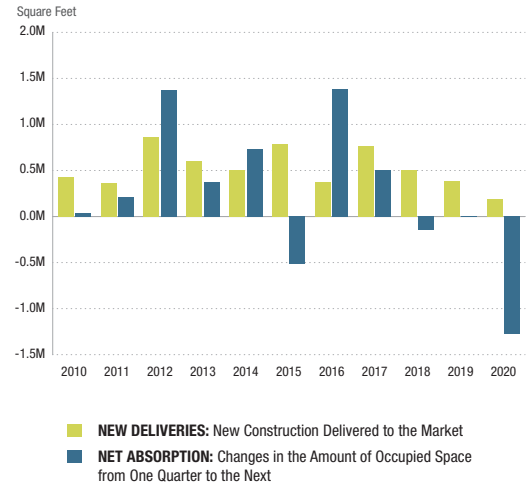
	Change Over Last Quarter	4Q 2020	3Q 2020	4Q 2019	% Change Over Last Year
Vacancy Rate	■ FLAT	4.71%	4.74%	4.35%	8.39%
Availability Rate	▲ UP	6.10%	6.03%	4.65%	31.33%
Average Asking Lease Rate	▲ UP	\$2.33	\$2.30	\$2.02	15.35%
Sale & Lease Transactions	▲ UP	1,020,676	908,073	1,805,905	(43.48%)
Gross Absorption	▲ UP	871,737	665,639	862,972	1.02%
Net Absorption	▲ POSITIVE	15,635	(577,222)	83,402	N/A

**ABSORPTION.** The San Diego retail market saw 1,277,887 SF of negative net absorption in 2020. This is 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 see positive net absorption in 2020, while all other areas of the county have significant negative net absorption totals. 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 with few restrictions. Absorption is the measure of the growth or contraction of the business footprint, and the retail sector is in a long-term trend of contraction.

**CONSTRUCTION.** There were 193,407 SF of retail construction completed in 2020, which is the lowest yearly total in well over a decade. The woes of the San Diego retail market are not due to the supply side of the equation. Retail construction in San Diego is a shadow of the annual average of new construction completions over the past decade, which was more than 0.5 MSF per year. Even that level of construction was considered meager compared to earlier historical development levels. This limited amount of new construction coming to the market had acted as a stabilizing force up to the start of the pandemic, and limited construction has really been a hallmark of the San Diego market in recent years. At year's end there are 915,356 SF under construction. The two largest portions of this are from former retail sites that are being redeveloped: 300,000 SF of retail space coming back to the Horton Plaza development Downtown, and 233,000 SF at the redevelopment of the former Sears in UTC.

**EMPLOYMENT.** The unemployment rate in San Diego County was 6.6% in November 2020, down from a revised 7.5% in October 2020, and substantially greater than the year-ago estimate of 2.9%. This compares with an unadjusted unemployment rate of 7.9% for California and 6.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 14,300 jobs between October 2020 and November 2020. With the normal delay in reporting from the California EDD, employment figures from December were unavailable at the time of publishing this report. In December, the employment data for the United States as a whole came in with 140,000 jobs lost, which was the first month of net job losses for the nation since April 2020.

## NEW DELIVERIES & NET ABSORPTION



## Forecast

Given the fact that the year ended in another pandemic lockdown, current market trends are expected to continue into 2021. The market cannot begin to fully recover until society, and therefore all impacted retailers, can get reopened.

## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
360 E. H St.	Chula Vista	37,196	\$14,800,000	B5 Terra Nova, LLC	Spirit Realty Capital
1060-1310 E. Vista Way	Vista	15,808	\$10,670,000	Woodman Property Investments, LP	Black Lion Investment Group
3018 Jefferson Rd.	Jamul	18,800	\$8,098,500	ROIC	Hix Scedeker Jamul, LLC
4610&4620 Alvarado Canyon Rd.	Mission Gorge	62,770	\$7,650,000	The Caster Group	Alvarado Canyon, LLC
309-357 W. Mission Ave.	Escondido	23,436	\$4,500,000	Performance Wealth Investments II, LLC	Hudson Family Trust

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
355 Fletcher Pkwy.	El Cajon	153,047	Nov-2020	JC Penney	Starwood Retail Partners
14721-14857 Pomerado Rd.	Poway	44,686	Nov-2020	Undisclosed	Regency Centers
845 Lazo Ct.	Chula Vista	42,700	Oct-2020	Bowlero	iStar, Inc.
680 Hacienda Dr.	Vista	41,000	Nov-2020	LA Fitness	Capricine Investment Group
320 3rd Ave.	Cuhla Vista	29,958	Oct-2020	TG The Gym	AVG Chula Vista, LLC

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2020	Square Feet Available	Availability Rate 4Q2020	Average Asking Lease Rate	Net Absorption 4Q2020	Net Absorption 2020	Gross Absorption 4Q2020	Gross Absorption 2020
<b>Central South</b>													
General Retail	3,769	20,709,749	420,740	1,001,958	781,349	3.77%	1,357,461	6.55%	\$3.19	(29,934)	(246,843)	134,475	590,622
Malls	70	3,789,326	0	0	125,409	3.31%	86,740	2.29%	-	(2,530)	(39,553)	0	4,708
Power Centers	89	3,376,657	0	16,000	34,233	1.01%	37,233	1.10%	-	(5,127)	(23,751)	0	7,810
Shopping Centers	699	10,973,082	0	37,365	569,146	5.19%	603,390	5.50%	\$2.31	(60,082)	(192,684)	46,450	188,608
Specialty Centers	7	294,915	0	0	29,333	9.95%	32,536	11.03%	-	0	9,088	0	9,088
<b>Central South Total</b>	<b>4,634</b>	<b>39,143,729</b>	<b>420,740</b>	<b>1,055,323</b>	<b>1,539,470</b>	<b>3.93%</b>	<b>2,117,360</b>	<b>5.41%</b>	<b>\$3.02</b>	<b>(97,673)</b>	<b>(493,743)</b>	<b>180,925</b>	<b>800,836</b>
<b>East County</b>													
General Retail	1,446	7,411,172	18,900	59,755	138,147	1.86%	278,976	3.76%	\$1.53	56,857	53,327	90,756	287,277
Malls	14	2,252,048	0	21,800	57,893	2.57%	94,576	4.20%	-	21,543	10,047	21,543	35,042
Power Centers	59	1,641,973	0	4,900	58,379	3.56%	74,069	4.51%	\$1.94	7,700	(30,852)	9,000	13,361
Shopping Centers	570	8,201,836	0	173,529	484,313	5.90%	617,315	7.53%	\$1.76	(17,361)	63,046	37,957	284,937
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
<b>East County Total</b>	<b>2,091</b>	<b>19,541,587</b>	<b>18,900</b>	<b>259,984</b>	<b>738,732</b>	<b>3.78%</b>	<b>1,064,936</b>	<b>5.45%</b>	<b>\$1.67</b>	<b>68,739</b>	<b>95,568</b>	<b>159,256</b>	<b>620,617</b>
<b>I-15 Corridor</b>													
General Retail	175	1,686,060	43,300	8,774	57,819	3.43%	67,349	3.99%	\$2.84	(6,574)	(17,907)	4,141	10,289
Malls	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Power Centers	24	581,520	0	0	14,841	2.55%	32,184	5.53%	-	0	1,050	0	1,950
Shopping Centers	290	4,214,542	0	214,150	264,827	6.28%	257,095	6.10%	\$3.38	(12,327)	(122,979)	7,532	55,108
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
<b>I-15 Corridor Total</b>	<b>489</b>	<b>6,482,122</b>	<b>43,300</b>	<b>222,924</b>	<b>337,487</b>	<b>5.21%</b>	<b>356,628</b>	<b>5.50%</b>	<b>\$3.17</b>	<b>(18,901)</b>	<b>(139,836)</b>	<b>11,673</b>	<b>67,347</b>
<b>North County</b>													
General Retail	1,701	11,732,525	28,574	455,892	332,170	2.83%	440,348	3.75%	\$2.08	78,441	(26,723)	117,627	277,492
Malls	25	2,802,002	0	0	184,468	6.58%	32,480	1.16%	-	(17,749)	(162,299)	0	6,457
Power Centers	109	3,085,483	9,312	8,900	192,566	6.24%	197,180	6.39%	-	(14,983)	(63,196)	31,995	46,514
Shopping Centers	974	15,046,311	61,900	386,929	1,289,283	8.57%	1,592,379	10.58%	\$1.71	(33,142)	(250,412)	102,001	414,465
Specialty Centers	5	369,833	0	0	370	0.10%	370	0.10%	-	0	840	0	1,210
<b>North County Total</b>	<b>2,814</b>	<b>33,036,154</b>	<b>99,786</b>	<b>851,721</b>	<b>1,998,857</b>	<b>6.05%</b>	<b>2,262,757</b>	<b>6.85%</b>	<b>\$1.81</b>	<b>12,567</b>	<b>(501,790)</b>	<b>251,623</b>	<b>746,138</b>
<b>Central North</b>													
General Retail	862	7,141,164	6,600	28,000	315,309	4.42%	361,268	5.06%	\$3.05	(15,852)	(141,705)	31,335	122,415
Malls	16	1,262,743	233,000	14,000	110,991	8.79%	135,416	10.72%	-	0	(1,219)	0	0
Power Centers	69	2,226,774	0	35,915	88,246	3.96%	88,505	3.97%	-	5,072	25,489	28,033	122,571
Shopping Centers	438	6,647,076	17,530	337,000	434,253	6.53%	582,786	8.77%	\$2.37	13,987	(94,450)	86,690	251,550
Specialty Centers	2	203,547	0	0	52,040	25.57%	56,125	27.57%	\$1.33	0	0	0	0
<b>Central North Total</b>	<b>1,387</b>	<b>17,481,304</b>	<b>257,130</b>	<b>414,915</b>	<b>1,000,839</b>	<b>5.73%</b>	<b>1,224,100</b>	<b>7.00%</b>	<b>\$2.39</b>	<b>3,207</b>	<b>(211,885)</b>	<b>146,058</b>	<b>496,536</b>
<b>South County</b>													
General Retail	1,129	6,247,796	0	265,038	147,025	2.35%	345,462	5.53%	\$1.72	27,790	(38,575)	41,997	103,245
Malls	44	2,361,383	0	0	0	0.00%	0	0.00%	-	0	7,997	0	7,997
Power Centers	27	953,026	72,500	3,000	17,537	1.84%	26,037	2.73%	-	(8,924)	(12,962)	0	0
Shopping Centers	547	9,253,746	3,000	83,500	574,912	6.21%	780,030	8.43%	\$1.99	35,671	21,186	74,660	231,017
Specialty Centers	22	759,698	0	0	18,519	2.44%	77,840	10.25%	\$1.82	(6,841)	(3,847)	5,545	8,539
<b>South County Total</b>	<b>1,769</b>	<b>19,575,649</b>	<b>75,500</b>	<b>351,538</b>	<b>757,993</b>	<b>3.87%</b>	<b>1,229,369</b>	<b>6.28%</b>	<b>\$1.89</b>	<b>47,696</b>	<b>(26,201)</b>	<b>122,202</b>	<b>350,798</b>
<b>San Diego Total</b>													
<b>San Diego Total</b>	<b>13,184</b>	<b>135,260,545</b>	<b>915,356</b>	<b>3,156,405</b>	<b>6,373,378</b>	<b>4.71%</b>	<b>8,255,150</b>	<b>6.10%</b>	<b>\$2.33</b>	<b>15,635</b>	<b>(1,277,887)</b>	<b>871,737</b>	<b>3,082,272</b>
General Retail	9,082	54,928,466	518,114	1,819,417	1,771,819	3.23%	2,850,864	5.19%	\$2.71	110,728	(418,426)	420,331	1,391,340
Malls	169	12,467,502	233,000	35,800	478,761	3.84%	349,212	2.80%	-	1,264	(185,027)	21,543	54,204
Power Centers	377	11,865,433	81,812	68,715	405,802	3.42%	455,208	3.84%	\$1.94	(16,262)	(104,222)	69,028	192,206
Shopping Centers	3,518	54,336,593	82,430	1,232,473	3,616,734	6.66%	4,432,995	8.16%	\$2.00	(73,254)	(576,293)	355,290	1,425,685
Specialty Centers	38	1,662,551	0	0	100,262	6.03%	166,871	10.04%	\$1.41	(6,841)	6,081	5,545	18,837
<b>San Diego Total</b>	<b>13,184</b>	<b>135,260,545</b>	<b>915,356</b>	<b>3,156,405</b>	<b>6,373,378</b>	<b>4.71%</b>	<b>8,255,150</b>	<b>6.10%</b>	<b>\$2.33</b>	<b>15,635</b>	<b>(1,277,887)</b>	<b>871,737</b>	<b>3,082,272</b>

Lease rates are on a triple-net basis.



## The 6th Inning

by **Spencer Kerrigan**

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The most contentious election in a long time is finally behind us, and although the hangover seems to linger, we finally seem to have a clear path moving forward with Biden at the helm. As with any new leadership, there may be some growing pains. Mixed with the ongoing response to a global pandemic, this contributes to near-term uncertainty about the financial and real estate markets. Although the stock market has rallied back to all-time highs, the unemployment and retail confidence levels are still struggling mightily.

San Diego experienced negative net absorption of more than 1.2 million square feet in 2020. This is a frightening statistic when you imagine the sheer volume of vacated space. With Macy's identifying more closures, including Parkway Plaza, the number may only increase. We have seen some velocity in the smaller, less risky retail leasing. Smaller shops with internet-resistant business models and experienced operators still seem to need space and are finding it at generally reduced asking rates, with material landlord concessions. There still seems to be a divide between some the asking rates for the best retail space and the rate tenants are willing to pay, but we may only be in the 6th inning of this pandemic, with more learning to do as we round the corner to a vaccinated 2021.

Capital markets remain strong with a continued flight to credit tenancy. Quick-service restaurants with drive-through components remain a hot commodity as they have been far less impacted by Covid, with some even seeing increased year-over-year sales. Cap rates for this segment have remained low and demand is solid. Conversely, sit-down restaurants seem to see cap rates creeping ever higher as Covid-19 has taken its toll. With retail multi-tenant centers, there seems to be a bit of a divide between market conditions and expectations. Sellers still believe their properties command a premium, whereas buyers are looking to get a deal due to the increased risk with strip center tenancies. We have heard reports ranging from consistent rent collection, to a minimal ability to collect rents from local operators. The general consensus from buyers is they fear unpredictable rent payments.

Although we know there is a light at the end of this long tunnel, it is hard to tell how much longer that will be. We are still in the thick of this pandemic and at the time of this editorial, indoor operations of most retail is substantially limited or prohibited altogether. At the end of the day, retail real estate isn't going anywhere as it remains the commercial product lining our best and busiest streets, and as we saw with the impact of technology, it will continue to adapt.

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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. ©2021 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