

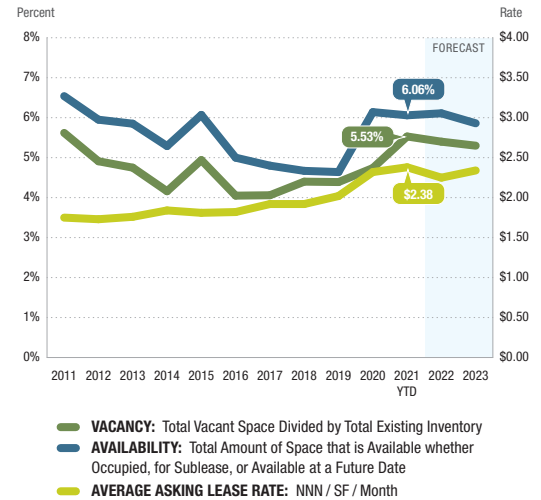
**OVERVIEW.** Availability increased significantly, transaction volume was down, and there was a huge wave of negative net absorption to start 2021. The COVID-19 pandemic has accelerated e-commerce's already dramatic growth. The other side of this coin is brick-and-mortar retail real estate, which has been in a long-term trend of contracting demand. The opening up of the economy will not stop this trend, and retail real estate will be dominated by the well located properties, while inferior locations will get left behind, and some will become obsolete to the point that they get redeveloped.

**VACANCY & AVAILABILITY.** Direct/sublease space (unoccupied) finished 1Q 2021 at 5.53%, a significant 79 basis point increase from 4Q 2020's vacancy rate of 4.74%. 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 6.14% at the end of 1Q. This is a 24.3% increase, year-over-year. Despite the availability rate increase of nearly a quarter, the reported number underrepresents the "true" availability rate as many landlords, especially mall owners, are not marketing all their available space to the market. Additionally, some 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. The current moratorium on evictions has been extended until June 30, and we should see an increase in vacancy when the eviction moratorium is lifted.

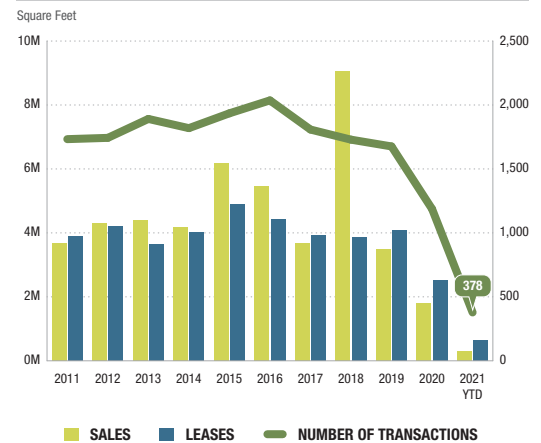
**LEASE RATES.** The average asking triple-net lease rate per month per square foot in San Diego County was \$2.38. The reported average asking rental rate in the county surprisingly increased in 1Q, but this was not due to a true increase in rates. It is a result of asking rates at the low end getting 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 1Q was approximately 0.9 MSF, a decrease from the 1.2 MSF transacted in 4Q. The total amount of retail space leased and sold in 1Q was 34% lower than the 1.4 MSF of 1Q 2020. There were 327 lease transactions recorded in 1Q which was the highest quarterly total since 4Q 2019. Throughout the pandemic many of the tenants that had the ability to look for new locations held back due to the economic uncertainty. Now that the government restrictions are lifting and vaccine distribution is in full swing to help consumers feel safe, these companies have enough confidence to move forward on expansion plans which were previously on the back burner. Among the largest transactions of the quarter, DaVita, a dialysis service provider, leased 19,103 SF in National City. Medical users coming into the retail setting has been a trend in recent years. Gyms are also making a big expansion push now that restrictions are lifting, and two of the top lease transactions of the quarter were fitness centers.

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



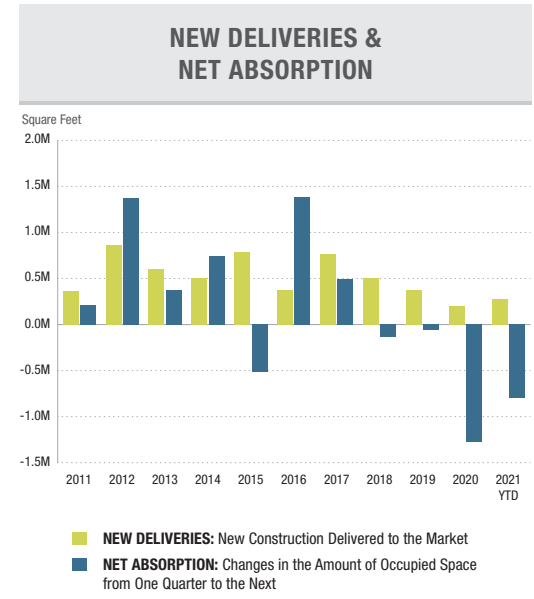
### Market Statistics

	Change Over Last Quarter	1Q 2021	4Q 2020	1Q 2020	% Change Over Last Year
Vacancy Rate	▲ UP	5.53%	4.74%	4.68%	18.03%
Availability Rate	▼ DOWN	6.06%	6.14%	4.88%	24.25%
Average Asking Lease Rate	▲ UP	\$2.38	\$2.32	\$2.04	16.67%
Sale & Lease Transactions	▼ DOWN	1,027,362	1,103,855	1,179,980	(12.93%)
Gross Absorption	▼ DOWN	933,585	1,243,206	1,409,650	(33.77%)
Net Absorption	▼ NEGATIVE	(804,198)	13,676	(453,026)	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. In 1Q 2021 there were 804,198 SF of negative net absorption.

**CONSTRUCTION.** There were only 200,555 SF of retail construction completed in 2020, which is the lowest yearly total in well over a decade. There have been 279,113 SF of new construction completed in 1Q, most of which came from the completion of Seritage's redevelopment of the former Sears at UTC mall. Another redevelopment accounts for most of the space under construction in 1Q, with 300,000 SF coming from the repositioning of Horton Plaza mall in Downtown San Diego. New construction has not been close to outpacing retail properties that have been taken down for redevelopment. The 135.3 MSF of retail property inventory in San Diego County is lower than the county's inventory level of 3Q 2017.

**EMPLOYMENT.** The unemployment rate in San Diego County was 7.2% in February 2021, down from a revised 8.0% in January 2021, and substantially greater than the year-ago estimate of 3.2%. This compares with an unadjusted unemployment rate of 8.4% for California and 6.6% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 31,900 jobs between January 2021 and February 2021. Over the 12-month period between February 2020 and February 2021, San Diego County employment fell by 131,700 jobs, or 8.7%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. The jobs report for the U.S. overall showed a gain of 916,000 jobs in March, the largest monthly increase of jobs since August.



## Forecast

Within less than a month of this report being published all California adults will be eligible to get a COVID-19 vaccine, and the Governor has announced the intention to have the California economy “fully reopen” before the end of 2Q. U.S. Treasury Secretary Janet Yellen recently predicted a return to full employment in 2022. Based upon these and other predictions from prominent analysts, the economy is projected to have a period of strong growth for at least the upcoming 12-18 months. Retail businesses have felt the pain of the pandemic as much as any other sector of the economy, and they have the farthest to go to return to normalcy. The coming quarters will certainly see an increase in macro business fundamentals, but retailers will balance optimism against concern about consumers’ possible hesitance to go right back to former behavior patterns.

## Significant Transactions

### Sales

\* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
7585-7655 Clairemont Mesa Blvd. *	Kearny Mesa	128,134	\$66,500,000	Hammer Ventures	McGrath Development*
12845 Poway Rd.	Poway	56,061	\$15,650,000	Fairfield Residential	Gildred Family Properties, LLC
7863-7877 Girard Ave. - Ground Leasehold	La Jolla	30,333	\$11,000,000	Regent Properties	La Plaza Associates, LLC
1450 N. Santa Fe Ave.	Vista	19,780	\$7,650,000	Thi Enterprises, Inc.	DTR Vista, LLC
7200 Parkway Dr.	La Mesa	24,404	\$6,800,000	Galanoudes Trust	Alcatraz475, LP

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
621-701 S. Rancho Santa Fe Rd.	San Marcos	24,100	Mar-2021	Planet Fitness	Weingarten Realty Investors
1220 E. Plaza Blvd.	National City	19,103	Feb-2021	DaVita	National Plaza, LLC
600 Broadway	East County	17,000	Jan-2021	VCA Animal Hospitals	Sukut Development
5448 Mission Center Rd.	Mission Valley	15,404	Mar-2021	Super Star Car Wash	Frazee S R Co.
7680 Girard Ave.	La Jolla	12,337	Mar-2021	Balanced Fitness	E. Plant

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2021	Square Feet Available	Availability Rate 1Q2021	Average Asking Lease Rate	Net Absorption 1Q2021	Net Absorption 2021	Gross Absorption 1Q2021	Gross Absorption 2021
<b>Central South</b>													
General Retail	3,768	20,673,213	97,000	1,149,529	867,008	4.19%	1,092,415	5.28%	\$2.64	(64,594)	(64,594)	107,466	107,466
Malls	70	3,808,852	300,000	0	87,053	2.29%	397,182	10.43%	\$4.00	38,356	38,356	52,405	52,405
Power Centers	89	3,376,657	0	16,000	194,233	5.75%	37,233	1.10%	-	(160,000)	(160,000)	0	0
Shopping Centers	702	10,989,853	12,000	16,865	608,777	5.54%	719,787	6.55%	\$2.24	(39,631)	(39,631)	39,459	39,459
Specialty Centers	7	294,915	0	0	42,016	14.25%	45,219	15.33%	-	(12,683)	(12,683)	0	0
<b>Central South Total</b>	<b>4,636</b>	<b>39,143,490</b>	<b>409,000</b>	<b>1,182,394</b>	<b>1,799,087</b>	<b>4.60%</b>	<b>2,291,836</b>	<b>5.85%</b>	<b>\$3.04</b>	<b>(238,552)</b>	<b>(238,552)</b>	<b>199,330</b>	<b>199,330</b>
<b>East County</b>													
General Retail	1,450	7,430,417	18,900	56,505	131,133	1.76%	235,690	3.17%	\$1.49	11,044	11,044	40,512	40,512
Malls	14	2,252,048	0	21,800	166,893	7.41%	87,964	3.91%	-	(109,000)	(109,000)	6,612	6,612
Power Centers	59	1,641,973	0	4,900	94,674	5.77%	93,352	5.69%	\$1.50	(36,295)	(36,295)	5,904	5,904
Shopping Centers	570	8,201,836	0	173,529	500,821	6.11%	590,576	7.20%	\$1.71	(16,508)	(16,508)	29,417	29,417
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
<b>East County Total</b>	<b>2,095</b>	<b>19,560,832</b>	<b>18,900</b>	<b>256,734</b>	<b>893,521</b>	<b>4.57%</b>	<b>1,007,582</b>	<b>5.15%</b>	<b>\$1.62</b>	<b>(150,759)</b>	<b>(150,759)</b>	<b>82,445</b>	<b>82,445</b>
<b>I-15 Corridor</b>													
General Retail	175	1,686,274	43,300	183,566	57,119	3.39%	72,875	4.32%	\$2.64	700	700	7,500	7,500
Malls	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Power Centers	24	581,520	0	0	20,528	3.53%	34,817	5.99%	-	(5,687)	(5,687)	0	0
Shopping Centers	290	4,210,731	0	28,958	280,795	6.67%	269,935	6.41%	\$3.35	(15,968)	(15,968)	12,130	12,130
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>6,478,525</b>	<b>43,300</b>	<b>212,524</b>	<b>358,442</b>	<b>5.53%</b>	<b>377,627</b>	<b>5.83%</b>	<b>\$3.06</b>	<b>(20,955)</b>	<b>(20,955)</b>	<b>19,630</b>	<b>19,630</b>
<b>North County</b>													
General Retail	1,704	11,744,051	76,014	366,712	500,103	4.26%	437,470	3.73%	\$2.05	(169,433)	(169,433)	41,697	41,697
Malls	25	2,801,678	0	0	328,468	11.72%	32,480	1.16%	-	(144,000)	(144,000)	0	0
Power Centers	109	2,942,320	9,312	8,900	200,303	6.81%	226,487	7.70%	-	(7,737)	(7,737)	26,795	26,795
Shopping Centers	971	15,012,599	61,900	393,129	1,277,981	8.51%	1,493,668	9.95%	\$1.80	11,302	11,302	115,858	115,858
Specialty Centers	5	369,833	0	0	370	0.10%	370	0.10%	-	0	0	0	0
<b>North County Total</b>	<b>2,814</b>	<b>32,870,481</b>	<b>147,226</b>	<b>768,741</b>	<b>2,307,225</b>	<b>7.02%</b>	<b>2,190,475</b>	<b>6.66%</b>	<b>\$1.87</b>	<b>(309,868)</b>	<b>(309,868)</b>	<b>184,350</b>	<b>184,350</b>
<b>Central North</b>													
General Retail	863	7,153,353	59,100	28,000	306,007	4.28%	349,628	4.89%	\$3.07	31,910	31,910	64,665	64,665
Malls	18	1,495,743	0	14,000	243,969	16.31%	134,197	8.97%	-	100,022	100,022	100,022	100,022
Power Centers	68	2,225,724	0	35,915	96,830	4.35%	88,099	3.96%	-	(8,584)	(8,584)	3,916	3,916
Shopping Centers	443	6,671,790	7,488	337,000	483,542	7.25%	628,099	9.41%	\$2.62	(37,747)	(37,747)	37,148	37,148
Specialty Centers	2	203,547	0	0	52,040	25.57%	56,125	27.57%	\$1.35	0	0	0	0
<b>Central North Total</b>	<b>1,394</b>	<b>17,750,157</b>	<b>66,588</b>	<b>414,915</b>	<b>1,182,388</b>	<b>6.66%</b>	<b>1,256,148</b>	<b>7.08%</b>	<b>\$2.50</b>	<b>85,601</b>	<b>85,601</b>	<b>205,751</b>	<b>205,751</b>
<b>South County</b>													
General Retail	1,126	6,138,267	0	266,923	326,792	5.32%	224,714	3.66%	\$1.84	(179,767)	(179,767)	49,681	49,681
Malls	44	2,361,383	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Power Centers	28	957,827	72,500	3,000	13,499	1.41%	18,594	1.94%	-	8,839	8,839	8,839	8,839
Shopping Centers	546	9,235,213	3,000	81,300	565,588	6.12%	754,154	8.17%	\$2.07	9,324	9,324	50,536	50,536
Specialty Centers	22	759,698	0	0	26,580	3.50%	76,671	10.09%	\$1.82	(8,061)	(8,061)	0	0
<b>South County Total</b>	<b>1,766</b>	<b>19,452,388</b>	<b>75,500</b>	<b>351,223</b>	<b>932,459</b>	<b>4.79%</b>	<b>1,074,133</b>	<b>5.52%</b>	<b>\$2.00</b>	<b>(169,665)</b>	<b>(169,665)</b>	<b>109,056</b>	<b>109,056</b>
<b>San Diego Total</b>													
<b>San Diego Total</b>	<b>13,194</b>	<b>135,255,873</b>	<b>760,514</b>	<b>3,186,531</b>	<b>7,473,122</b>	<b>5.53%</b>	<b>8,197,801</b>	<b>6.06%</b>	<b>\$2.38</b>	<b>(804,198)</b>	<b>(804,198)</b>	<b>800,562</b>	<b>800,562</b>
General Retail	9,086	54,825,575	294,314	2,051,235	2,188,162	3.99%	2,412,792	4.40%	\$2.33	(370,140)	(370,140)	311,521	311,521
Malls	171	12,719,704	300,000	35,800	826,383	6.50%	651,823	5.12%	\$4.00	(114,622)	(114,622)	159,039	159,039
Power Centers	377	11,726,021	81,812	68,715	620,067	5.29%	498,582	4.25%	\$1.50	(209,464)	(209,464)	45,454	45,454
Shopping Centers	3,522	54,322,022	84,388	1,030,781	3,717,504	6.84%	4,456,219	8.20%	\$2.05	(89,228)	(89,228)	284,548	284,548
Specialty Centers	38	1,662,551	0	0	121,006	7.28%	178,385	10.73%	\$1.43	(20,744)	(20,744)	0	0
<b>San Diego Total</b>	<b>13,194</b>	<b>135,255,873</b>	<b>760,514</b>	<b>3,186,531</b>	<b>7,473,122</b>	<b>5.53%</b>	<b>8,197,801</b>	<b>6.06%</b>	<b>\$2.38</b>	<b>(804,198)</b>	<b>(804,198)</b>	<b>800,562</b>	<b>800,562</b>

Lease rates are on a triple-net basis.



## Greener Pastures

by **Max Stone**

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In Q1 of 2021, the retail market took a slight turn for the better with renewed confidence from the consumer. With the introduction of the COVID-19 vaccine in early January, the retail market began seeing the light at the end of the tunnel. What had been a long-fought battle, between retailers trying to keep their doors open and government agencies trying to reduce the number of COVID-19 infections, was now coming to an end. What was left behind was a staggering number of vacant retail spaces that we have yet to fully recognize in market data, due to the eviction moratoriums still in place for commercial tenants.

Tenancy for many non-essential businesses is still in question, as they continue to recover from the blows taken as a result of “Stay at Home” orders. Neighborhood and strip center sales have remained stagnant as most sellers are waiting for brighter days, when in-line tenants are more profitable, and banks are more willing to lend. While interest rates remain historically low, it is likely that loans on retail strip centers (non-grocery and non-drive thru) will carry interest rates 25 basis points above multi-family or industrial property and offer less loan to value.

In spite of all the chaos that ensued during the pandemic, it's safe to say retail is far from dead. The square footage that was released to the market in 2020 can be daunting, but the closures of stores like Souplantation, Chuck E. Cheese, Tuesday Morning, and Steinmart could have happened at any time within the next five years. Those tenants who have weathered the storm are coming out strong in 2021. Johan Engman (CEO/Founder) of Rise and Shine Hospitality Group announced in the San Diego Business Journal that the group has signed six new leases in San Diego for three of their many well-known restaurants (Figtree Café, Eggies and Breakfast Republic). Drive-throughs, grocery stores, packaging services, and home improvement stores saw an increase in sales throughout 2020.

Tenants with successful track records in years prior to the pandemic were able to work with landlords and also obtain PPP money to see through the dark times. Many tenants who had struggling operations prior to the pandemic took 2020 as an opportunity to exit the market. While the pain was felt on both ends (landlord and tenant), everyone seemed to be willing to work together to make it out of such a troubling year still intact. A landlord's success is a product of healthy tenants, and it is vital that we continue to work together as we see our way through the remnants of last year.

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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