

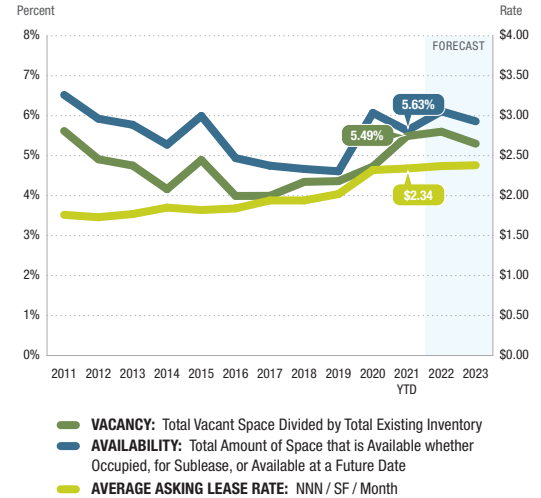
OVERVIEW. Availability and vacancy rates are much higher than pre-pandemic levels. The COVID-19 pandemic has accelerated e-commerce's already dramatic growth. On the other side of this coin is brick-and-mortar retail, which has been in a long-term trend of contracting demand. The opening up of the economy 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. For San Diego retail property, there was an increase in total transaction volume due to pent up demand.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 2Q 2021 at 5.49%, a 1.27 percentage point increase from 2Q 2020's vacancy rate of 4.22%. However, this statistic has not yet come to reflect the reality in the market because of the moratorium on evictions which was still in effect through the end of 2Q. 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 5.63% at the end of 2Q. This is a 16.7% increase versus 1Q 2020. Despite this recorded rise in the availability rate, 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 moratorium on evictions was extended until June 30, and we should see an increase in vacancy in the coming quarters.

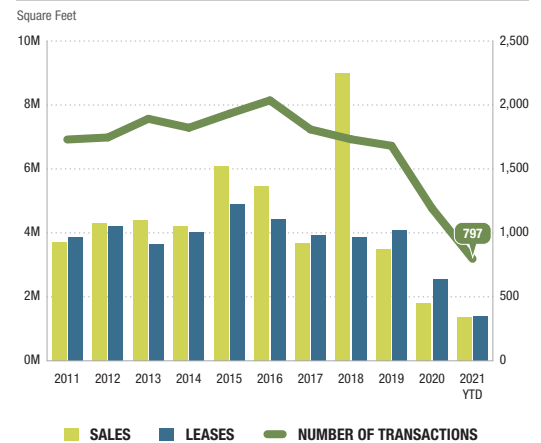
LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County ended 2020 14.9% higher than the 2019 year-end figure. This was not due to a true increase in rates, however. It was a result of asking rates at the low end getting changed to "undisclosed" or "negotiable" which removes them from the calculation of average asking rates, making the statistics for asking rental rates opaque. The reported average asking rental rate has moved down over the past quarter, from \$2.37 in 1Q to \$2.34 in 2Q.

TRANSACTION ACTIVITY. The combined amount of retail property sold or leased during 2Q was approximately 1.8 MSF, a 144% increase from 2Q 2020's total of 0.7 MSF. For the second consecutive quarter there were more than 300 lease transactions recorded, which compares with the quarterly average of 236 lease transactions in 2020. Throughout the pandemic many of the tenants who had the ability to look for new locations held back due to the economic uncertainty. Now that the government restrictions are mostly behind

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

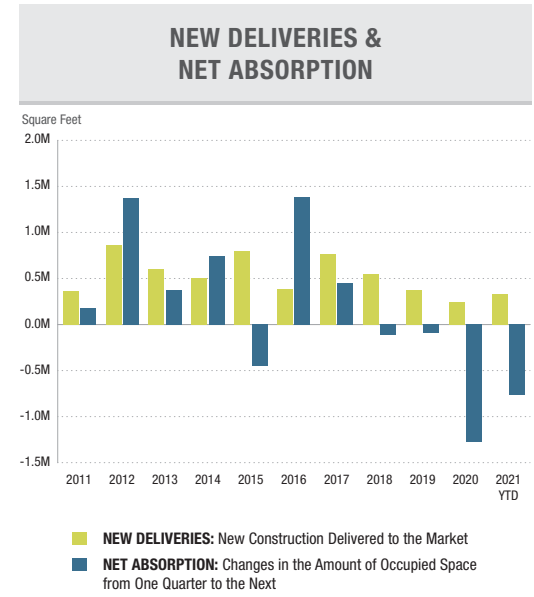
	Change Over Last Quarter	2Q 2021	1Q 2021	2Q 2020	% Change Over Last Year
Vacancy Rate	FLAT	5.49%	5.50%	4.22%	30.08%
Availability Rate	DOWN	5.63%	5.99%	5.36%	5.00%
Average Asking Lease Rate	DOWN	\$2.34	\$2.37	\$2.20	6.36%
Sale & Lease Transactions	UP	1,752,737	1,017,280	717,071	144.43%
Gross Absorption	UP	997,860	799,597	668,720	49.22%
Net Absorption	POSITIVE	51,852	(815,184)	(265,892)	N/A

us 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 hold.

ABSORPTION. There was finally a modicum of positive net absorption this past quarter. A 51,852 SF bounce-back is very modest, but after five consecutive quarters of six-figure negative net absorption, it is a welcome sign. However, the market remains firmly in the red for the year and is on pace to record more negative net absorption than 2020. The 1,277,138 SF of negative net absorption in 2020 was more than double the largest annual negative net absorption total reported in the past decade. Malls especially continue to struggle, and this segment of the market recorded the greatest amount of negative net absorption in 2Q. This is evidence that consumers' shopping habits have not suddenly gone back to exactly what they were before.

CONSTRUCTION. There were only 244,400 SF of retail construction completed in 2020, which is the lowest yearly total in well over a decade. There have been 334,178 SF of new construction completed in the first half of 2021, most of which came from the completion of Seritage's redevelopment of the former Sears at UTC mall. Another redevelopment accounts for nearly half of the space under construction in 2Q, with 300,000 SF coming from the repositioning of Horton Plaza mall in Downtown San Diego. San Diego has perennially been a supply- constrained market for retail real estate. After the drubbing retailers took last year, there is no appetite by developers to ramp up any large-scale developments at this time.

EMPLOYMENT. The unemployment rate in San Diego County was 6.4% in May 2021, down from a revised 6.7% in April 2021, and below the year-ago estimate of 15.6%. This compares with an unadjusted unemployment rate of 7.5% for California and 5.5% for the nation during the same period. Over the 12-month period between May 2020 and May 2021, San Diego County employment increased by 119,500 jobs, or 9.3%. 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 850,000 jobs in June, and total U.S. employment remains 7.13 million jobs below the February 2020 level.



Forecast

During the second quarter all California adults became eligible to get a COVID-19 vaccine, and California lifted most COVID-19 restrictions. This has eased some of the pressure on retailers, but the moratorium on evictions has been extended through the end of 3Q. Once this is lifted, there will be more vacant space returning to the market. On top of everything else, a labor shortage has emerged as another headwind in the retail market. It will be many months before the retail market can fully stabilize.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
4627-4853 Carmel Mountain Rd.	Carmel Valley	99,545	\$51,925,000	First Washington Realty, Inc.	Sea Breeze Properties
885-901 Euclid Ave. & 2525-2531 E. Plaza Blvd.	National City	77,044	\$25,800,000	Plaza Fiesta RE Investment Co.	ROIC
330 & 340 Rancheros Dr.	San Marcos	160,000	\$16,300,000	Vertical Ventures	San Marcos Plaza of JVP, LLC
4344 Convoy St.	Kearny Mesa	42,338	\$16,200,000	CEG Capital Partners	The G. Harbaugh Foundation
5910-6020 Santo Rd.	Tierrasanta	42,192	\$15,500,000	IAC Management	TGSC, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
659 9th Ave.	Downtown	36,000	May-2021	Target	Cisterra
324 Sycamore Ave.	Vista	35,000	Apr-2021	Esporta Fitness	Martin Trust
212-222 N El Camino Real	North Beach Cities	20,488	Jun-2021	Burlington Coat Factory	Weingarten Realty Investors
2750 Dewey Rd.	Point Loma	15,724	Apr-2021	Undisclosed	Seligman & Associates
453 Santa Fe Dr.	North Beach Cities	15,000	Apr-2021	Chuze Fitness	K&K Lumber Co.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2021	Square Feet Available	Availability Rate 2Q2021	Average Asking Lease Rate	Net Absorption 2Q2021	Net Absorption 2021	Gross Absorption 2Q2021	Gross Absorption 2021
Central South													
General Retail	3,761	20,578,384	141,830	1,109,199	821,870	3.99%	985,610	4.79%	\$2.50	39,720	(20,706)	137,433	244,536
Malls	71	3,854,608	300,000	0	58,825	1.53%	348,684	9.05%	\$4.00	28,815	66,584	36,886	88,704
Power Centers	89	3,376,587	0	16,000	198,582	5.88%	41,582	1.23%	-	(4,349)	(164,349)	1,763	1,763
Shopping Centers	710	11,050,500	19,230	9,635	609,568	5.52%	707,380	6.40%	\$2.33	1,286	(40,423)	66,618	106,077
Specialty Centers	6	249,159	0	0	17,830	7.16%	20,571	8.26%	-	24,186	11,503	25,373	25,373
Central South Total	4,637	39,109,238	461,060	1,134,834	1,706,675	4.36%	2,103,827	5.38%	\$3.03	89,658	(147,391)	268,073	466,453
East County													
General Retail	1,450	7,432,266	18,100	19,755	117,054	1.57%	134,732	1.81%	\$1.53	15,979	27,943	53,298	94,730
Malls	14	2,252,048	0	9,200	224,205	9.96%	108,593	4.82%	-	(57,312)	(166,312)	0	6,612
Power Centers	59	1,641,973	0	4,900	100,527	6.12%	87,984	5.36%	\$1.50	(5,853)	(42,148)	1,322	7,226
Shopping Centers	570	8,192,944	0	173,529	455,254	5.56%	542,039	6.62%	\$1.61	18,767	3,959	60,087	91,204
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	2,095	19,553,789	18,100	207,384	897,040	4.59%	873,348	4.47%	\$1.58	(28,419)	(176,558)	114,707	199,772
I-15 Corridor													
General Retail	172	1,662,791	43,300	8,774	46,315	2.79%	47,243	2.84%	\$2.55	3,200	3,900	3,200	10,700
Malls	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Power Centers	24	581,520	0	0	15,428	2.65%	28,617	4.92%	-	5,100	(587)	5,100	5,100
Shopping Centers	290	4,231,840	5,000	0	295,593	6.98%	270,102	6.38%	\$3.33	(14,798)	(30,766)	12,172	26,276
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
I-15 Corridor Total	486	6,476,151	48,300	8,774	357,336	5.52%	345,962	5.34%	\$3.07	(6,498)	(27,453)	20,472	42,076
North County													
General Retail	1,706	11,661,899	5,800	217,060	554,727	4.76%	434,488	3.73%	\$2.05	(28,028)	(200,653)	127,509	171,184
Malls	25	2,801,678	0	0	331,079	11.82%	37,443	1.34%	-	(2,611)	(146,611)	1,608	1,608
Power Centers	106	2,958,075	17,212	8,900	211,138	7.14%	256,044	8.66%	-	(10,835)	(26,472)	15,774	34,669
Shopping Centers	975	15,004,051	35,270	435,629	1,257,939	8.38%	1,353,131	9.02%	\$1.79	26,414	37,627	144,766	260,707
Specialty Centers	5	369,833	0	0	370	0.10%	370	0.10%	-	0	0	0	0
North County Total	2,817	32,795,536	58,282	661,589	2,355,253	7.18%	2,081,476	6.35%	\$1.87	(15,060)	(336,109)	289,657	468,168
Central North													
General Retail	866	7,182,017	59,100	28,000	281,288	3.92%	355,004	4.94%	\$2.97	29,001	56,163	91,200	155,865
Malls	18	1,495,743	0	14,000	296,264	19.81%	133,699	8.94%	-	(52,295)	47,727	22,186	122,208
Power Centers	69	2,255,609	18,000	0	131,038	5.81%	129,472	5.74%	-	(20,091)	(28,675)	12,916	16,832
Shopping Centers	443	6,671,231	7,488	333,500	433,154	6.49%	493,502	7.40%	\$2.58	50,798	13,071	97,211	134,789
Specialty Centers	2	203,547	0	0	52,040	25.57%	56,125	27.57%	\$1.35	0	0	0	0
Central North Total	1,398	17,808,147	84,588	375,500	1,193,784	6.70%	1,167,802	6.56%	\$2.42	7,413	88,286	223,513	429,694
South County													
General Retail	1,127	6,151,516	6,000	113,804	323,807	5.26%	223,907	3.64%	\$1.83	8,444	(171,323)	43,266	92,947
Malls	44	2,361,383	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Power Centers	29	964,127	66,200	3,000	16,958	1.76%	18,594	1.93%	-	2,841	11,680	2,841	11,680
Shopping Centers	545	9,243,162	0	84,300	547,535	5.92%	718,391	7.77%	\$2.05	(6,527)	3,597	35,331	86,667
Specialty Centers	22	763,697	0	0	26,580	3.48%	76,671	10.04%	\$1.82	0	(8,061)	0	0
South County Total	1,767	19,483,885	72,200	201,104	914,880	4.70%	1,037,563	5.33%	\$1.97	4,758	(164,107)	81,438	191,294
San Diego Total													
San Diego Total	13,200	135,226,746	742,530	2,589,185	7,424,968	5.49%	7,609,978	5.63%	\$2.34	51,852	(763,332)	997,860	1,797,457
General Retail	9,082	54,668,873	274,130	1,496,592	2,145,061	3.92%	2,180,984	3.99%	\$2.24	68,316	(304,676)	455,906	769,962
Malls	172	12,765,460	300,000	23,200	910,373	7.13%	628,419	4.92%	\$4.00	(83,403)	(198,612)	60,680	219,132
Power Centers	376	11,777,891	101,412	32,800	673,671	5.72%	562,293	4.77%	\$1.50	(33,187)	(250,551)	39,716	77,270
Shopping Centers	3,533	54,393,728	66,988	1,036,593	3,599,043	6.62%	4,084,545	7.51%	\$2.03	75,940	(12,935)	416,185	705,720
Specialty Centers	37	1,620,794	0	0	96,820	5.97%	153,737	9.49%	\$1.43	24,186	3,442	25,373	25,373
San Diego Total	13,200	135,226,746	742,530	2,589,185	7,424,968	5.49%	7,609,978	5.63%	\$2.34	51,852	(763,332)	997,860	1,797,457

Lease rates are on a triple-net basis.



Inflation, Labor Shortage, and Pent-Up Demand, Oh My

by **Spencer Kerrigan**

VICE PRESIDENT, SAN DIEGO

858.458.3310 · skerrigan@voitco.com · Lic. #01921490

As the country seems to be putting the coronavirus situation in the rearview mirror, the retail market seems to be rallying back nicely. Thankfully, there is pent-up demand that had been building over the last year. However, there is also inflation we anticipated, and labor shortages we probably should have anticipated. So where does that leave retailers who are working to get back to full capacity and back to healthy sales volume?

The increase in demand, with static or even a reduced quantity of some goods, has proven to be a recipe for inflation. There is too much money chasing too few goods, and the prices are going up on everything from groceries, to gas, to real estate. Moreover, a labor shortage is leading retailers, particularly restaurants, to struggle to increase capacity. Many restaurateurs are struggling to fill available jobs, and the competition for labor has the potential to increase their operating costs. We all have seen surcharges or notices about reduced staffing, and our understanding and patience as customers is appreciated.

On the other hand, gyms and fitness companies are making a big comeback. For the second consecutive quarter, gyms account for two or more of the five largest lease transactions in the county. Fitness centers were among the hardest hit retailers during the COVID lockdowns. But, following the easing of restrictions in California, landlords are finding that there is no shortage of demand in the market for gym facilities. The retail market is not a monolith. The speed and strength of recovery in San Diego will vary based upon the tenant's industry, type of shopping center, property location, and more.

Generally, the retail market remains strong, even under the current pressures. One great hedge to inflation is real estate and the capital markets understand this. The flight to quality we have seen over the last year is continuing, and cap rates on high-credit tenants remain fairly low. Rents for quality real estate remain relatively high, and they will need to plateau, or we may start to see prices going up across the board. My guess would be the latter based on the items noted here.

Even with the cautionary tales above, owning real estate continues to be a smart move. Demand remains high for quality real estate, and San Diego continues to be a supply-constrained market.

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

Please Contact Us for Further Information

Joshua Brant
Regional Director of Research
jbrant@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.472.5620

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. ©2021 Voit Real Estate Services, Inc. DRE License #01991785.

Represented in 150 Markets
Nationally & Internationally.

