

OVERVIEW. Availability and vacancy rates are much higher than pre-pandemic levels. COVID-19 accelerated e-commerce's already dramatic growth, but brick-and-mortar retail saw an exacerbation of its 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. Inferior locations will get left behind, and some will become obsolete to the point they get redeveloped. For San Diego retail property, there was an increase in total transaction volume due to pent-up demand.

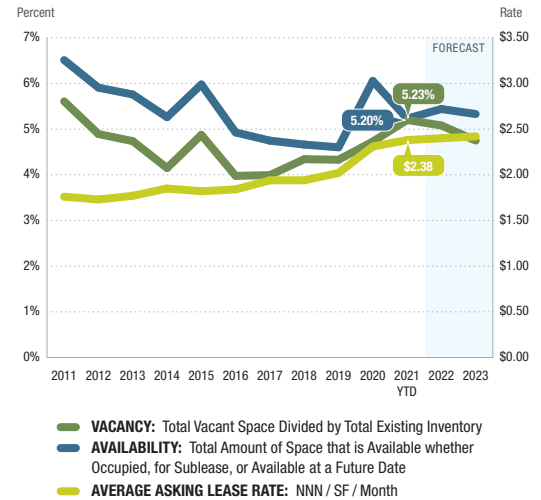
VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 3Q 2021 at 5.20%, a 57-basis-point increase from 3Q 2020's vacancy rate of 4.63%. Vacancy measures the amount of space which is unoccupied regardless of whether it is being marketed for sale or lease. Availability measures the amount of space which is on the market, regardless of whether it is occupied. Direct/sublease space being marketed was 5.23% at the end of 2Q. This is a 11.9% decrease versus 3Q 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. The gap between the market's vacancy rate and availability rate is historically low. This is an expected side effect in the post-pandemic retail market, and we will be monitoring this.

LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County ended 3Q at \$2.38 which is 3.93% higher than the 3Q 2020 rate of \$2.29. There has been a significant increase in the average asking rental rate since the COVID-19 outbreak. 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.

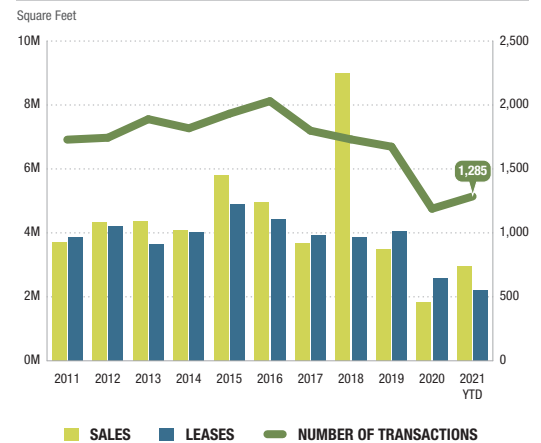
TRANSACTION ACTIVITY. The combined amount of retail property sold or leased during 3Q was approximately 2.1 MSF, a 119% increase from 3Q 2020's total of 1 MSF. For the third consecutive quarter there were more than 300 lease transactions recorded, which compares with the quarterly average of 236 lease 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 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 hold. The sales volume in 2021 has reached \$1.2 billion dollars through three quarters of 2021 which puts the market on pace for the highest dollar volume of the past two decades. Much of this can be contributed to pent-up demand following the \$635 million of transaction volume in 2020, which was the lowest annual total since 2009. Despite the retail market remaining relatively weak, investors are placing their confidence in the long-term strength of the San Diego market.

ABSORPTION. There was 373,319 SF of positive net absorption this past quarter, which was the most positive net absorption since 4Q 2016. Two consecutive quarters of growth to the retail tenant footprint in the market is a welcome on the heels of five consecutive quarters of six-figure

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



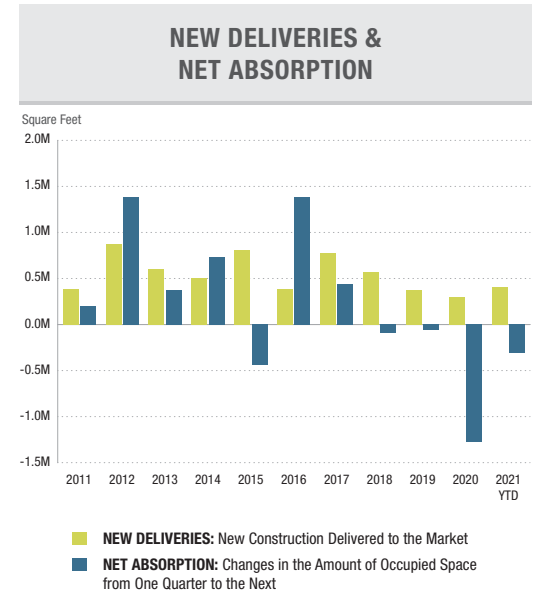
Market Statistics

	Change Over Last Quarter	3Q 2021	2Q 2021	3Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	5.20%	5.46%	4.63%	12.26%
Availability Rate	▼ DOWN	5.23%	5.63%	5.94%	(11.93%)
Average Asking Lease Rate	▲ UP	\$2.38	\$2.35	\$2.29	3.93%
Sale & Lease Transactions	■ FLAT	2,098,077	2,048,119	956,913	119.25%
Gross Absorption	■ FLAT	988,319	1,057,413	672,037	47.06%
Net Absorption	▲ POSITIVE	373,319	140,134	(509,668)	N/A

negative net absorption. However, the market remains firmly in the red for the year. 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, so there is plenty of ground still left to make up. Malls especially continue to struggle, and this segment of the market recorded the greatest amount of negative net absorption for the year thus far. This is evidence that consumers' shopping habits have not suddenly gone back to exactly what they were before.

CONSTRUCTION. There have been 405,090 SF of new construction completed in the first three quarters of 2021, most of which came from the completion of Seritage's redevelopment of the former Sears at UTC mall. This pace of construction is right in line with the average of 479,188 SF of annual construction over the past five years. One redevelopment accounts for nearly half of the space under construction in 3Q, 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 6.6% in August 2021, down from a revised 6.9% in July 2021, and below the year-ago estimate of 10.8%. This compares with an unadjusted unemployment rate of 7.5% for California and 5.3% for the nation during the same period. Over the 12-month period between August 2020 and August 2021, San Diego County employment increased by 59,200 jobs, or 4.4%. With the normal delay in reporting from the California EDD, employment figures from September were unavailable at the time of publishing this report. At the end of September, the 4-week average of initial unemployment claims in the U.S. dropped to 336,000, the lowest figure since the start of the pandemic. The total employment for the U.S. is still 5.3 million jobs fewer than the pre-pandemic level.



Forecast

During 2Q all California adults became eligible to get a COVID-19 vaccine, and California lifted most COVID-19 restrictions two weeks before the end of July. Coming into 3Q, optimism was at the highest level it had been since the onset of COVID-19. Then the Delta variant came in and put another damper on the recovery. One positive thing for the retail sector in San Diego County was that no new government restrictions were added in 3Q, in contrast to nearby Los Angeles, and Las Vegas. Even prior to the onset of COVID-19, the retail sector was undergoing a long-term contraction to the level of tenant demand due to the rise of e-commerce.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
12880 & 12900 Gregg Ct.	Poway	107,328	\$27,500,000	Aardema Family Trust	AVR Realty Company, LLC
1545-1551 Camino del Rio	Mission Valley	68,505	\$21,690,000	Carvana	John Hine
939-1015 N. Coast Hwy.	Oceanside	10,870	\$20,343,000	Wood Partners	Edick Family Trust
3905-3945 Mission Ave.	Oceanside	88,923	\$19,800,000	3905-3945 Mission Douglas Plaza, LP	Missoin Douglas Investments
6004-6008 Paseo Delicias & 16975 Avenida De Acacia	Rancho Santa Fe	13,620	\$19,500,000	RSF REI Holdings, LLC	CBRE Global Investors, Ltd.

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
153-197 Las Posas Rd.	San Marcos	40,000	Jul-2021	Joann	World Premier Investments, Inc.
1527 Mission Ave.	Oceanside	25,000	Sept-2021	Grocery Outlet	Milan Capital Management
9910-9938 Mission Gorge Rd.	Santee	22,500	Aug-2021	Barnes & Noble	Kimco Realty Corp.
860-878 Eastlake Pkwy.	Eastlake	12,008	Jul-2021	Undisclosed	Sudberry Properties
5475 Grossmont Center Dr.	La Mesa	11,575	Aug-2021	David's Bridal	Cush Enterprises

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2021	Square Feet Available	Availability Rate 3Q2021	Average Asking Lease Rate	Net Absorption 3Q2021	Net Absorption 2021	Gross Absorption 3Q2021	Gross Absorption 2021
Central South													
General Retail	3,757	20,622,206	88,830	1,109,199	801,958	3.89%	931,571	4.52%	\$2.60	13,387	31,946	144,241	401,124
Malls	71	3,854,608	300,000	0	37,523	0.97%	343,106	8.90%	\$4.00	21,302	46,886	22,895	70,599
Power Centers	89	3,375,729	0	16,000	201,347	5.96%	41,271	1.22%	-	(2,765)	(167,114)	0	1,763
Shopping Centers	709	11,005,004	19,230	9,635	562,820	5.11%	622,063	5.65%	\$2.32	28,734	4,710	66,169	181,380
Specialty Centers	6	249,159	0	0	50,065	20.09%	52,806	21.19%	-	(32,235)	(20,732)	0	25,373
Central South Total	4,632	39,106,706	408,060	1,134,834	1,653,713	4.23%	1,990,817	5.09%	\$3.07	28,423	(104,304)	233,305	680,239
East County													
General Retail	1,450	7,466,944	1,100	13,255	137,215	1.84%	144,833	1.94%	\$1.62	(4,735)	24,782	34,099	131,798
Malls	14	2,252,048	0	9,200	224,205	9.96%	108,593	4.82%	-	0	(166,312)	0	6,612
Power Centers	59	1,641,973	0	4,900	67,234	4.09%	67,234	4.09%	\$1.78	27,790	(8,855)	29,540	42,269
Shopping Centers	570	8,193,492	0	193,529	427,840	5.22%	497,817	6.08%	\$1.65	21,484	31,373	42,307	133,241
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	2,095	19,589,015	1,100	220,884	856,494	4.37%	818,477	4.18%	\$1.65	44,539	(119,012)	105,946	313,920
I-15 Corridor													
General Retail	173	1,685,187	43,300	183,566	45,032	2.67%	49,052	2.91%	\$2.00	5,192	5,183	6,500	17,800
Malls	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Power Centers	24	581,520	0	0	14,328	2.46%	28,617	4.92%	-	0	513	0	6,200
Shopping Centers	290	4,232,737	5,000	0	273,212	6.45%	291,205	6.88%	\$2.97	12,736	(8,385)	28,739	61,070
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
I-15 Corridor Total	487	6,499,444	48,300	183,566	332,572	5.12%	368,874	5.68%	\$2.60	17,928	(2,689)	35,239	85,070
North County													
General Retail	1,714	11,765,364	5,800	217,060	526,413	4.47%	405,481	3.45%	\$1.97	45,561	(137,974)	84,404	276,614
Malls	26	2,420,110	0	0	331,823	13.71%	37,443	1.55%	-	(744)	(147,355)	0	1,608
Power Centers	108	3,181,607	7,900	8,900	186,880	5.87%	172,265	5.41%	-	29,681	7,098	33,081	68,644
Shopping Centers	970	14,910,014	48,120	442,857	1,215,978	8.16%	1,351,018	9.06%	\$1.87	6,118	32,491	98,422	341,673
Specialty Centers	5	369,833	0	0	370	0.10%	370	0.10%	-	0	0	0	0
North County Total	2,823	32,646,928	61,820	668,817	2,261,464	6.93%	1,966,577	6.02%	\$1.91	80,616	(245,740)	215,907	688,539
Central North													
General Retail	866	7,188,844	0	28,000	250,757	3.49%	285,249	3.97%	\$2.83	25,768	87,030	66,837	223,052
Malls	18	1,504,866	0	14,000	287,202	19.08%	122,750	8.16%	-	7,138	56,789	7,138	131,270
Power Centers	69	2,256,232	18,000	0	84,492	3.74%	89,176	3.95%	-	46,546	17,871	47,723	64,555
Shopping Centers	444	6,725,207	7,488	333,500	401,989	5.98%	476,636	7.09%	\$3.17	17,120	45,536	75,460	215,171
Specialty Centers	2	203,547	0	0	52,040	25.57%	49,817	24.47%	\$1.37	0	0	0	0
Central North Total	1,399	17,878,696	25,488	375,500	1,076,480	6.02%	1,023,628	5.73%	\$2.55	96,572	207,226	197,158	634,048
South County													
General Retail	1,125	5,906,758	8,640	123,779	127,594	2.16%	197,168	3.34%	\$1.80	(50)	24,890	26,666	125,017
Malls	45	2,590,368	0	0	188,350	7.27%	0	0.00%	-	0	(188,350)	0	0
Power Centers	32	1,020,938	4,800	3,000	18,594	1.82%	9,670	0.95%	-	4,693	16,373	5,740	17,420
Shopping Centers	545	9,243,162	0	84,300	492,722	5.33%	629,464	6.81%	\$2.03	98,926	110,852	155,155	244,289
Specialty Centers	22	763,697	0	0	24,908	3.26%	69,924	9.16%	\$1.85	1,672	(6,389)	13,203	13,203
South County Total	1,769	19,524,923	13,440	211,079	852,168	4.36%	906,226	4.64%	\$1.95	105,241	(42,624)	200,764	399,929
San Diego Total													
San Diego Total	13,205	135,245,712	558,208	2,794,680	7,032,891	5.20%	7,074,599	5.23%	\$2.38	373,319	(307,143)	988,319	2,801,745
General Retail	9,085	54,635,303	147,670	1,674,859	1,888,969	3.46%	2,013,354	3.69%	\$2.25	85,123	35,857	362,747	1,175,405
Malls	174	12,622,000	300,000	23,200	1,069,103	8.47%	611,892	4.85%	\$4.00	27,696	(398,342)	30,033	210,089
Power Centers	381	12,057,999	30,700	32,800	572,875	4.75%	408,233	3.39%	\$1.78	105,945	(134,114)	116,084	200,851
Shopping Centers	3,528	54,309,616	79,838	1,063,821	3,374,561	6.21%	3,868,203	7.12%	\$2.09	185,118	216,577	466,252	1,176,824
Specialty Centers	37	1,620,794	0	0	127,383	7.86%	172,917	10.67%	\$1.40	(30,563)	(27,121)	13,203	38,576
San Diego Total	13,205	135,245,712	558,208	2,794,680	7,032,891	5.20%	7,074,599	5.23%	\$2.38	373,319	(307,143)	988,319	2,801,745

Lease rates are on a triple-net basis.



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The state of the retail market at the end of the third quarter is miles away from what we were experiencing last year at this time. The supply of retail centers for sale is nowhere near the level of demand in the market. Last year, the market had no direction, and most everyone was afraid to make a multi-tenant retail purchase. Now most sales are occurring off-market with multiple buyers interested. The amount of capital chasing deals is so vast that due to the lack of anchored-center availability the unanchored “mom-and-pop” centers are garnering most of the attention in the market. REITs and large corporate owners now control 75% of the prime shopping centers, and this has condensed the demand because those large corporate landlords never sell. On the other hand, the smaller family ownerships are more willing to move on now after weathering the storm this past year. On top of that, there are limited options in the “coupon-clipper” triple-net leased assets, and the cap rates for these properties in tertiary markets across the west coast have moved closer to the cap rates seen on California properties. Many buyers would rather just acquire a local property if the cap rate isn’t that far off, even if it is unanchored and doesn’t have a rent roll full of national retail chains. Part of the thinking here is that these retailers might not be credit tenants, but they have proved their staying power by making it through COVID. Ultimately, right now people need to park capital and they’re not as laser focused on fundamentals as they were previously.

On the leasing side, shop space is more of a tenant’s market. There aren’t as many tenants in the market for new space as there have been historically. In lease negotiations, tenants are asking for the moon because they know landlords are more averse to getting back a vacant space in this market. There is more activity in the junior anchor spaces, which seem to be turning over at a rapid pace. Companies like Ulta and Pier 1 are giving back space, and this has opened up “Main-and-Main” type possibilities that haven’t been on the market in decades. These are win-win scenarios where the property owner is able to raise rents on space that was under market, and prime retail locations are becoming available that wouldn’t have without this shock to the retail market that they experienced.

We are moving on and putting last year in the rear-view mirror. Forward ho!

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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