

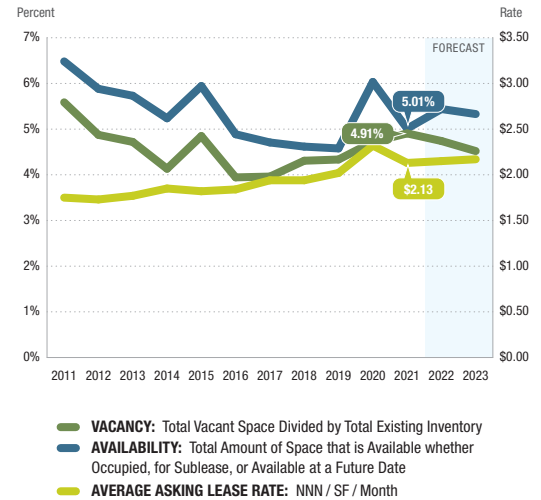
OVERVIEW. There was a modest amount of positive net absorption in 2021, but the county's vacancy rate remains much higher than pre-pandemic levels. Leasing volume picked up from the previous year, but still remains lower than normal. Sales volume was quite healthy in 2021 as there is an abundance of capital in the market, and properties are being acquired to be repositioned for the future. 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 reopening 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.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 4Q 2021 at 4.91%, a 19-basis-point increase from 4Q 2020's vacancy rate of 4.72%. 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 5.01% at the end of 4Q. This is a 16.9% decrease versus 4Q 2020. Despite this recorded decrease 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.

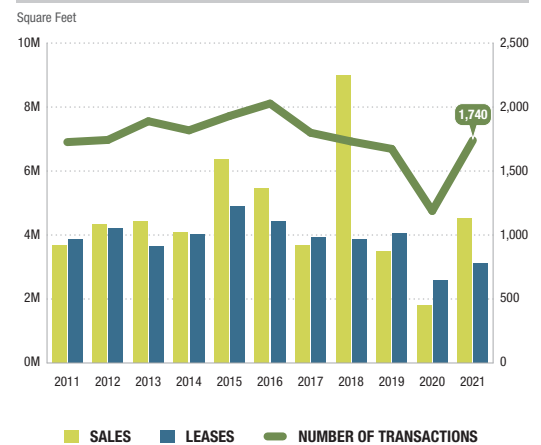
LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County ended 4Q at \$2.13 which is 8.19% lower than the 4Q 2020 rate of \$2.32. There was a significant increase in the average asking rental rate following the COVID-19 outbreak. This was not due to a true increase 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. The county's average asking rate is now moving back towards a metric more reflective of the reality in the market.

TRANSACTION ACTIVITY. The combined amount of retail property sold or leased during 4Q was approximately 1.9 MSF, a 49% increase from 4Q 2020's total of 1.3 MSF. Retail leases totaled 3.1 MSF in 2021, up from 2020's 2.6 MSF but less than any other yearly total of the past decade. Sales volume topped 4.5 MSF in 2021, which comes in as the second largest annual total of the past five years. Despite the retail market remaining relatively weak, investors are placing their confidence in the long-term strength of the San Diego market. Two of the top three sales of 4Q were retail properties in Chula Vista and Hillcrest that were acquired for redevelopment. San Diego real estate remains highly desirable, and obsolete retail sites will find higher and better uses going forward. This culling of the retail property inventory has been ongoing with the largest such example being the redevelopment of Horton Plaza in Downtown San Diego.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



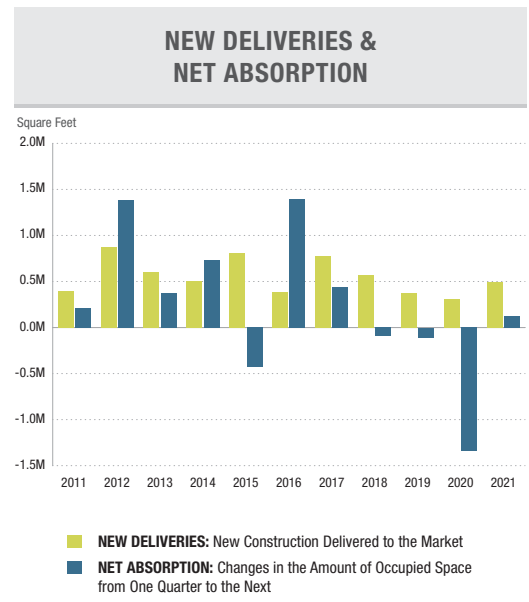
Market Statistics

	Change Over Last Quarter	4Q 2021	3Q 2021	4Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	4.91%	5.11%	4.72%	3.95%
Availability Rate	▼ DOWN	5.01%	5.18%	6.03%	(16.94%)
Average Asking Lease Rate	▼ DOWN	\$2.13	\$2.38	\$2.32	(8.19%)
Sale & Lease Transactions	▼ DOWN	1,938,134	2,491,942	1,300,801	49.00%
Gross Absorption	▼ DOWN	983,555	1,048,754	750,947	30.98%
Net Absorption	▲ POSITIVE	291,411	481,523	(99,030)	N/A

ABSORPTION. There was 291,411 SF of positive net absorption in 4Q, marking the third consecutive quarter of positive net absorption. This was also the second highest quarter for absorption in the last five years, and follows six consecutive quarters of negative net absorption. Three consecutive quarters of growth to the retail tenant footprint in the market is a welcome change leading to 121,574 SF of positive net absorption for the year. However, 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 373,865 of negative net absorption in 2021.

CONSTRUCTION. There have been 497,264 SF of new construction deliveries in 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 more than half of the space under construction at the end of 4Q, 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 4.6% in November 2021, down from a revised 5.3% in October 2021, and below the year-ago estimate of 6.8%. This compares with an unadjusted unemployment rate of 5.4% for California and 3.9% for the nation during the same period. Over the 12-month period between November 2020 and November 2021, San Diego County employment increased by 64,900 jobs, an increase of 4.6%. 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 U.S. unemployment rate fell below 4% for the first time since February 2020. The total employment for the U.S. is still 3.6 million jobs fewer than the pre-pandemic level.



Forecast

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. The retail market will continue to adapt, and as ever, the limited supply pipeline in San Diego keeps the market stable. We predict the overall retail property inventory will contract somewhat in the coming years, helping to keep occupancy levels stable.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
3715-3795 6th Ave.	Uptown/Hillcrest	61,881	\$29,000,500	Carmel Partners	The Greenwald Company
945-1065 Carlsbad Village Dr.	Carlsbad	58,735	\$23,500,000	Tooley Investment Company	Balboa Retail Partners
565 Broadway	Chula Vista	250,000	\$19,300,000	Brookfield Properties	Seritage
12740 & 12724 Poway Rd.	Poway	36,786	\$14,000,000	LMS 2021, LLC, Et Al	Falk Properties, LLC
14033-14057 Midland Rd.	Poway	35,191	\$13,750,000	Lisa Llewellyn, LLC	HCV Old Poway Village, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3409-3427 Via Montebello	Carlsbad	40,022	Dec-2021	24 Hour Fitness	TRC Retail
9158 Fletcher Pkwy.	La Mesa	24,900	Oct-2021	Undisclosed	George Thomas Enterprises
9910-9938 Mission Gorge Rd.	Santee	22,500	Nov-2021	Barnes & Noble	Kimco Realty Corp.
621-701 S. Rancho Santa Fe Rd.	San Marcos	21,687	Oct-2021	ALDI	Kimco Realty Corp.
503 W Mission Ave.	Escondido	19,000	Nov-2021	Undisclosed	503 W Mission 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 4Q2021	Square Feet Available	Availability Rate 4Q2021	Average Asking Lease Rate	Net Absorption 4Q2021	Net Absorption 2021	Gross Absorption 4Q2021	Gross Absorption 2021
Central South													
General Retail	3,757	20,656,652	51,470	1,179,199	757,565	3.67%	901,935	4.36%	\$2.60	33,084	78,329	130,298	556,398
Malls	70	3,817,275	300,000	0	29,370	0.77%	334,953	8.14%	-	3,097	55,039	7,033	77,632
Power Centers	89	3,375,729	0	16,000	200,421	5.94%	43,421	1.29%	-	(2,150)	(166,188)	0	4,839
Shopping Centers	708	11,042,607	19,230	9,635	544,252	4.93%	587,928	5.31%	\$2.09	8,382	23,278	99,949	289,845
Specialty Centers	6	252,283	0	0	44,753	17.74%	45,406	18.00%	-	5,312	(15,420)	7,060	32,433
Central South Total	4,630	39,144,546	370,700	1,204,834	1,576,361	4.03%	1,913,643	4.84%	\$2.42	47,725	(24,962)	244,340	961,147
East County													
General Retail	1,446	7,446,593	1,100	13,255	98,449	1.32%	130,734	1.76%	\$1.84	33,341	42,360	39,233	173,106
Malls	15	2,261,674	0	9,200	224,205	9.91%	123,988	5.48%	-	0	(166,312)	0	6,612
Power Centers	52	1,460,020	0	4,900	96,434	6.60%	70,793	4.85%	\$2.25	(29,200)	(38,055)	1,300	43,569
Shopping Centers	574	8,320,212	0	193,529	397,212	4.77%	467,359	5.62%	\$1.72	11,924	57,211	45,782	194,177
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	2,089	19,523,057	1,100	220,884	816,300	4.18%	792,874	4.06%	\$1.75	16,065	(104,796)	86,315	417,464
I-15 Corridor													
General Retail	172	1,653,162	43,300	183,566	39,215	2.37%	38,539	2.27%	\$2.01	5,217	11,000	5,217	23,017
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	4,212,822	0	0	209,173	4.97%	263,201	6.25%	\$3.03	69,639	60,654	86,945	148,854
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
I-15 Corridor Total	486	6,447,504	43,300	183,566	262,716	4.07%	330,357	5.09%	\$2.61	74,856	72,167	92,162	178,071
North County													
General Retail	1,709	11,762,534	5,800	198,960	474,314	4.03%	339,298	2.88%	\$1.93	44,420	(85,875)	75,190	356,663
Malls	26	2,916,678	0	0	331,823	11.38%	37,443	1.28%	-	0	(147,355)	0	1,608
Power Centers	108	3,181,022	7,900	8,900	182,514	5.74%	175,840	5.51%	-	(1,942)	11,464	14,293	87,545
Shopping Centers	970	14,889,403	39,950	442,857	1,166,740	7.84%	1,298,056	8.69%	\$1.84	49,903	89,899	150,190	496,918
Specialty Centers	5	369,833	0	0	370	0.10%	370	0.10%	-	0	0	0	0
North County Total	2,818	33,119,470	53,650	650,717	2,155,761	6.51%	1,851,007	5.58%	\$1.87	92,381	(131,867)	239,673	942,734
Central North													
General Retail	864	7,177,027	0	28,000	217,260	3.03%	278,633	3.88%	\$3.00	21,476	130,605	82,565	305,508
Malls	18	1,504,866	0	0	270,878	18.00%	109,007	7.24%	-	10,220	73,113	12,141	149,515
Power Centers	71	2,268,039	0	0	79,915	3.52%	85,090	3.75%	-	49,052	39,563	54,355	88,910
Shopping Centers	444	6,747,598	4,124	333,500	410,087	6.08%	507,313	7.51%	\$3.24	(16,773)	40,802	79,983	306,637
Specialty Centers	2	203,547	0	0	47,835	23.50%	52,146	25.62%	\$1.38	4,205	4,205	6,308	6,308
Central North Total	1,399	17,901,077	4,124	361,500	1,025,975	5.73%	1,032,189	5.76%	\$2.67	68,180	288,288	235,352	856,878
South County													
General Retail	1,125	5,940,251	25,770	109,289	142,047	2.39%	220,771	3.70%	\$1.84	(30,849)	45,137	7,788	182,101
Malls	45	2,590,725	0	0	188,350	7.27%	0	0.00%	-	0	(188,350)	0	0
Power Centers	32	1,020,938	4,800	3,000	1,112	0.11%	2,307	0.22%	-	17,482	33,855	17,482	34,902
Shopping Centers	545	9,267,452	9,000	104,300	460,457	4.97%	609,794	6.57%	\$1.98	10,197	143,117	56,618	299,705
Specialty Centers	22	763,697	0	0	29,534	3.87%	73,501	9.62%	\$1.85	(4,626)	(11,015)	3,825	17,028
South County Total	1,769	19,583,063	39,570	216,589	821,500	4.19%	906,373	4.62%	\$1.93	(7,796)	22,744	85,713	533,736
San Diego Total													
San Diego Total	13,191	135,718,717	512,444	2,838,090	6,658,613	4.91%	6,826,443	5.01%	\$2.13	291,411	121,574	983,555	3,890,030
General Retail	9,073	54,636,219	127,440	1,712,269	1,728,850	3.16%	1,909,910	3.49%	\$2.30	106,689	221,556	340,291	1,596,793
Malls	174	13,091,218	300,000	9,200	1,044,626	7.98%	605,391	4.52%	\$4.00	13,317	(373,865)	19,174	235,367
Power Centers	376	11,887,268	12,700	32,800	574,724	4.83%	406,068	3.41%	\$2.25	33,242	(118,848)	87,430	265,965
Shopping Centers	3,531	54,480,094	72,304	1,083,821	3,187,921	5.85%	3,733,651	6.84%	\$2.04	133,272	414,961	519,467	1,736,136
Specialty Centers	37	1,623,918	0	0	122,492	7.54%	171,423	10.56%	\$1.41	4,891	(22,230)	17,193	55,769
San Diego Total	13,191	135,718,717	512,444	2,838,090	6,658,613	4.91%	6,826,443	5.01%	\$2.13	291,411	121,574	983,555	3,890,030

Lease rates are on a triple-net basis.



Moving Forward Again

by **Mark Caston**

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For the fourth quarter of 2021 and the year as a whole, the retail sector is moving forward steadily! The market is shaking off the concerns of the pandemic — even with the recent rise in infections, retail has been and is improving. With increased absorption, increasing lease rates, and increased demand for leased retail investment properties, retail in San Diego County should continue moving forward through 2022.

Malls in San Diego County mirrored some of the national trends in 2021, with higher vacancies than in past years and fewer retailers to add to their tenant mix. However, San Diego County has a relatively low population of traditional malls, and they are spaced geographically so as not to compete directly with each other. Many have already transitioned by adding discount anchors/retailers, experiential tenant mixes, residential development, office components and larger destination restaurant tenants.

Community centers, strip retail and neighborhood storefront retail continued to improve in Q4 and 2021. New tenants, tenants that experienced strong sales during the pandemic and those wanting to expand continued to seek space that previously was just not available. Personal services have rebounded. Second generation food service space has been a bright spot in Q4 and all of 2021.

One of San Diego's largest industries is tourism which continued to rebound in 2021. Many people chose to keep their travels domestic in 2021, and this benefitted San Diego. Tourism helped drive improvement for many retailers in San Diego County. This trend will likely accelerate in 2022.

On the capital markets side, San Diego County retail investment property remained strong. 2021 experienced higher sales per square foot values and lower cap rates. Some sales were driven in Q4 as a result of concerns over proposed tax policy. Namely, a federal capital gains change from 20% to nearly 40% for those in the highest bracket. None of this tax policy made it into the Build Back Better Act. Retail properties offered for sale in San Diego County continued the trend of receiving multiple offers or trading off market in 2021. Looking to 2022, this trend will surely continue.

Labor shortages, pandemic surges, supply chain constraints and increased cost of goods all impacted the retail sector in Q4/2021. These impediments to the retail sector are predicted by most economists to improve in 2022. As such, we are very optimistic the results of 2021 will continue moving forward in 2022.

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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.

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