

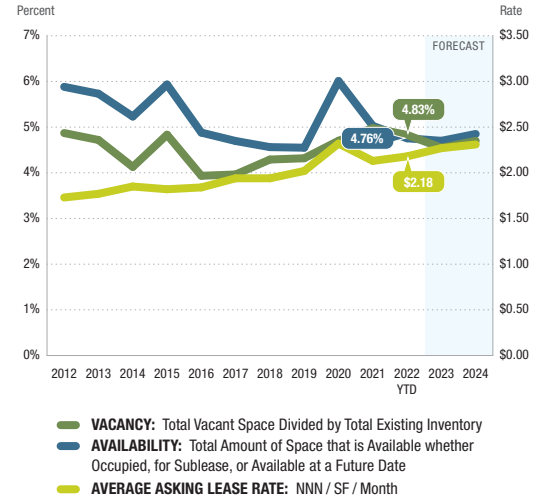
**OVERVIEW.** There has been a significant amount of positive net absorption over the past four quarters, but the county's vacancy rate remains much higher than pre-pandemic levels. Leasing volume remains lower than normal, but sales volume remains quite healthy as there is an abundance of capital in the market and properties are being acquired to be repositioned for the future. COVID-19 accelerated e-commerce's already dramatic growth, but in response 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 1Q 2022 at 4.83%, a half a percentage point decrease from 1Q 2021's vacancy rate of 5.49%. 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 4.76% at the end of 1Q. This is a 20% decrease versus 1Q 2021. 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 of 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.

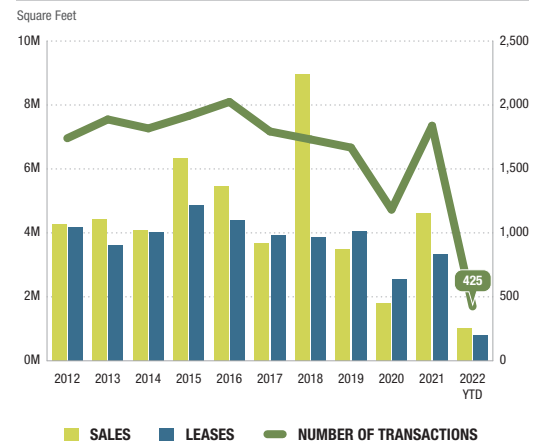
**LEASE RATES.** The average asking triple-net lease rate per month per square foot in San Diego County ended 1Q at \$2.18 which is 8% lower than the 1Q 2021 rate of \$2.37. There was a significant increase in the average asking rental rate following the COVID-19 outbreak. This was not due to a true increase in rates but 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. 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 1Q was approximately 1.8 MSF, a 61% increase from 1Q 2021's total of 1.1 MSF. Retail leases totaled 0.8 MSF in 1Q, which is an annual pace lower than 2021's 3.3 MSF of leasing activity. The decade leading up to the outbreak of COVID had an annual average leasing volume of 4 MSF. Conversely retail sale volume is right around pre-pandemic levels. For the second consecutive quarter, two of the top three sales were retail properties acquired for redevelopment. Alexandria bought out Regency Center's stake of the Costa Verde center in UTC for conversion to biotech use, and G.H. Palmer Associates acquired 14 acres in Kearny Mesa for residential 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 helped keep overall vacancy low.

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



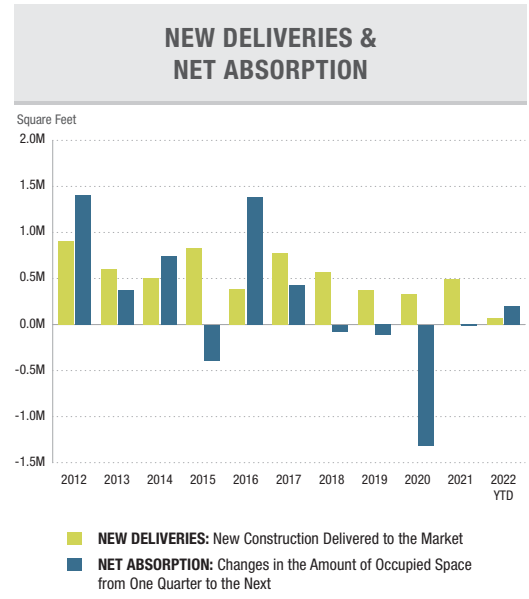
### Market Statistics

	Change Over Last Quarter	1Q 2022	4Q 2021	1Q 2021	% Change Over Last Year
Vacancy Rate	▼ DOWN	4.83%	4.98%	5.49%	(12.12%)
Availability Rate	▼ DOWN	4.76%	5.03%	5.93%	(19.81%)
Average Asking Lease Rate	▲ UP	\$2.18	\$2.13	\$2.37	(8.02%)
Sale & Lease Transactions	■ FLAT	1,822,119	1,819,652	1,135,173	60.51%
Gross Absorption	■ FLAT	979,300	960,002	752,437	30.15%
Net Absorption	▲ POSITIVE	195,946	192,833	-819,896	N/A

**ABSORPTION.** There was 195,946 SF of positive net absorption in 1Q, marking the fourth consecutive quarter of positive net absorption. This was also the second highest quarter for absorption in the last five years, and came after six consecutive quarters of negative net absorption. Four consecutive quarters of growth to the retail tenant footprint in the market is a welcome change leading to 1 MSF of positive net absorption for past 12 months. However, this is less than half of 2.1 MSF of negative net absorption in the first five quarters following the COVID outbreak, so we have a long way to go. There has not been a calendar year with more than 100,000 SF of positive net absorption since 2017.

**CONSTRUCTION.** There have been 75,590 SF of new construction deliveries in 1Q, of which 63% came from the ground floor retail space in residential developments. Traditional ground up shopping center development comprises less of the construction pipeline than in the past. One redevelopment accounts for more than half of the space under construction at the end of 1Q, 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 over the past two years, 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 4.0% in February 2022, down from a revised 4.7% in January 2022, and below the year-ago estimate of 7.9%. This compares with an unadjusted unemployment rate of 4.8% for California and 4.1% for the nation during the same period. Over the 12-month period between February 2021 and February 2022, San Diego County employment increased by 104,300 jobs, an increase of 7.5%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. The total employment figures for San Diego County and the U.S. are now within 1% of their pre-pandemic levels. The U.S. added an average of 562,000 jobs per month in the first quarter of 2022.



## 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						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
7585-7655 Clairemont Mesa Blvd., & 4930 Convoy St.	Kearny Mesa	128,134	\$165,000,000	G.H. Palmer Associates	Hammer Ventures	
8505 Costa Verde Blvd., Et Al	UTC	178,619	\$125,000,000	Alexandria R.E. Equities	Regency Centers Corp.	
5801-5975 University Ave.	City Heights	211,797	\$68,750,000	MSM Global Ventures, LLC	Fortress Development	
708-775 Center Dr.	San Marcos	305,146	\$55,587,500	Miracle Day Investments	United American Properties	
2111 Morena Blvd.*	Morena/Rose Canyon	19,019	\$31,000,000	Pacifica Companies*	JFBuono, LLC JCBO Properties, LLC	

Leases						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner	
157-199 Virginia Ave.	San Ysidro	23,404	Jan-2022	Deal Hunterz	NJ Units, LLC	
909 Morena Blvd.	Morena/Rose Canyon	20,500	Jan-2022	TC Lifting Club	Wosk Levin Co, LLC	
230-240 Town Center Pkwy.	Santee	18,594	Jan-2022	Sportsman's Warehouse	Public Investment Corporation	
2137-2141 5th Ave.*	Uptown/Hillcrest	14,400	Mar-2022	Funko	5th & Ivy Creative House, LLC*	
291 Fletcher Pkwy.	El Cajon	12,600	Mar-2022	Undisclosed	Tourmaline Capital	

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2022	Square Feet Available	Availability Rate 1Q2022	Average Asking Lease Rate	Net Absorption 1Q2022	Net Absorption 2022	Gross Absorption 1Q2022	Gross Absorption 2022
<b>Central South</b>													
General Retail	3,747	20,565,021	22,470	727,799	755,585	3.67%	860,263	4.18%	\$2.81	55,459	55,459	142,754	142,754
Malls	70	3,827,634	300,000	0	24,935	0.65%	332,782	8.06%	\$3.25	4,435	4,435	7,365	7,365
Power Centers	89	3,374,018	0	16,000	194,256	5.76%	37,256	1.10%	-	6,165	6,165	6,165	6,165
Shopping Centers	707	11,024,210	7,230	9,635	495,123	4.49%	578,822	5.25%	\$2.19	61,129	61,129	131,633	131,633
Specialty Centers	6	259,783	0	0	43,761	16.85%	43,421	16.71%	-	992	992	1,985	1,985
<b>Central South Total</b>	<b>4,619</b>	<b>39,050,666</b>	<b>329,700</b>	<b>753,434</b>	<b>1,513,660</b>	<b>3.88%</b>	<b>1,852,544</b>	<b>4.70%</b>	<b>\$2.62</b>	<b>128,180</b>	<b>128,180</b>	<b>289,902</b>	<b>289,902</b>
<b>East County</b>													
General Retail	1,444	7,429,917	19,100	9,185	94,612	1.27%	108,736	1.46%	\$2.12	7,907	7,907	27,334	27,334
Malls	22	2,241,374	0	16,862	224,205	10.00%	123,988	5.53%	-	0	0	0	0
Power Centers	52	1,460,020	0	2,500	70,626	4.84%	41,972	2.87%	\$2.25	25,808	25,808	25,808	25,808
Shopping Centers	573	8,302,312	0	188,529	410,680	4.95%	489,517	5.90%	\$1.72	(19,768)	(19,768)	58,651	58,651
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
<b>East County Total</b>	<b>2,093</b>	<b>19,468,181</b>	<b>19,100</b>	<b>217,076</b>	<b>800,123</b>	<b>4.11%</b>	<b>764,213</b>	<b>3.92%</b>	<b>\$1.79</b>	<b>13,947</b>	<b>13,947</b>	<b>111,793</b>	<b>111,793</b>
<b>I-15 Corridor</b>													
General Retail	172	1,654,421	43,300	183,566	45,774	2.77%	60,895	3.59%	\$1.70	(6,559)	(6,559)	2,700	2,700
Malls	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Power Centers	24	581,520	0	0	11,855	2.04%	26,144	4.50%	-	2,473	2,473	4,914	4,914
Shopping Centers	290	4,206,500	0	9,688	208,878	4.97%	241,172	5.73%	\$3.02	295	295	35,171	35,171
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
<b>I-15 Corridor Total</b>	<b>486</b>	<b>6,442,441</b>	<b>43,300</b>	<b>193,254</b>	<b>266,507</b>	<b>4.14%</b>	<b>328,211</b>	<b>5.06%</b>	<b>\$2.55</b>	<b>(3,791)</b>	<b>(3,791)</b>	<b>42,785</b>	<b>42,785</b>
<b>North County</b>													
General Retail	1,703	11,737,003	8,600	161,140	458,839	3.91%	333,415	2.84%	\$1.77	18,115	18,115	72,151	72,151
Malls	26	2,916,678	0	0	331,823	11.38%	37,443	1.28%	-	0	0	0	0
Power Centers	111	3,185,088	0	8,900	177,601	5.58%	202,240	6.35%	-	9,413	9,413	74,226	74,226
Shopping Centers	973	14,902,187	39,950	430,057	1,149,846	7.72%	1,247,531	8.35%	\$1.89	22,498	22,498	141,366	141,366
Specialty Centers	5	369,833	0	0	1,213	0.33%	1,213	0.33%	-	(843)	(843)	370	370
<b>North County Total</b>	<b>2,818</b>	<b>33,110,789</b>	<b>48,550</b>	<b>600,097</b>	<b>2,119,322</b>	<b>6.40%</b>	<b>1,821,842</b>	<b>5.49%</b>	<b>\$1.85</b>	<b>49,183</b>	<b>49,183</b>	<b>288,113</b>	<b>288,113</b>
<b>Central North</b>													
General Retail	860	7,086,143	8,757	28,000	201,458	2.84%	209,795	2.96%	\$3.30	15,802	15,802	50,461	50,461
Malls	18	1,506,096	0	0	267,849	17.78%	11,587	0.77%	-	3,029	3,029	3,029	3,029
Power Centers	70	2,234,484	0	0	75,161	3.36%	80,336	3.60%	-	4,754	4,754	7,950	7,950
Shopping Centers	445	6,762,967	4,124	333,500	437,427	6.47%	515,844	7.62%	\$2.98	(27,340)	(27,340)	68,682	68,682
Specialty Centers	2	203,547	0	0	58,750	28.86%	46,771	22.98%	\$1.38	(10,915)	(10,915)	0	0
<b>Central North Total</b>	<b>1,395</b>	<b>17,793,237</b>	<b>12,881</b>	<b>361,500</b>	<b>1,040,645</b>	<b>5.85%</b>	<b>864,333</b>	<b>4.85%</b>	<b>\$2.66</b>	<b>(14,670)</b>	<b>(14,670)</b>	<b>130,122</b>	<b>130,122</b>
<b>South County</b>													
General Retail	1,123	5,898,085	27,430	104,280	110,176	1.87%	168,167	2.84%	\$1.82	32,760	32,760	57,916	57,916
Malls	45	2,590,725	0	0	188,350	7.27%	0	0.00%	-	0	0	0	0
Power Centers	32	1,020,938	4,800	3,000	2,307	0.23%	2,307	0.22%	-	(1,195)	(1,195)	0	0
Shopping Centers	547	9,304,328	10,000	103,300	468,925	5.04%	588,837	6.32%	\$1.96	(8,468)	(8,468)	58,669	58,669
Specialty Centers	22	763,697	0	0	29,534	3.87%	73,501	9.62%	\$1.85	0	0	0	0
<b>South County Total</b>	<b>1,769</b>	<b>19,577,773</b>	<b>42,230</b>	<b>210,580</b>	<b>799,292</b>	<b>4.08%</b>	<b>832,812</b>	<b>4.24%</b>	<b>\$1.92</b>	<b>23,097</b>	<b>23,097</b>	<b>116,585</b>	<b>116,585</b>
<b>San Diego Total</b>													
<b>San Diego Total</b>	<b>13,180</b>	<b>135,443,087</b>	<b>495,761</b>	<b>2,335,941</b>	<b>6,539,549</b>	<b>4.83%</b>	<b>6,463,955</b>	<b>4.76%</b>	<b>\$2.18</b>	<b>195,946</b>	<b>195,946</b>	<b>979,300</b>	<b>979,300</b>
General Retail	9,049	54,370,590	129,657	1,213,970	1,666,444	3.06%	1,741,271	3.19%	\$2.42	123,484	123,484	353,316	353,316
Malls	181	13,082,507	300,000	16,862	1,037,162	7.93%	505,800	3.78%	\$3.25	7,464	7,464	10,394	10,394
Power Centers	378	11,856,068	4,800	30,400	531,806	4.49%	390,255	3.29%	\$2.25	47,418	47,418	119,063	119,063
Shopping Centers	3,535	54,502,504	61,304	1,074,709	3,170,879	5.82%	3,661,723	6.71%	\$2.05	28,346	28,346	494,172	494,172
Specialty Centers	37	1,631,418	0	0	133,258	8.17%	164,906	10.11%	\$1.41	(10,766)	(10,766)	2,355	2,355
<b>San Diego Total</b>	<b>13,180</b>	<b>135,443,087</b>	<b>495,761</b>	<b>2,335,941</b>	<b>6,539,549</b>	<b>4.83%</b>	<b>6,463,955</b>	<b>4.76%</b>	<b>\$2.18</b>	<b>195,946</b>	<b>195,946</b>	<b>979,300</b>	<b>979,300</b>

Lease rates are on a triple-net basis.



## Moving Forward Again

by **Bob Brady**

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The question of the past two years has been “how will retail change in the post-COVID era?” The simplest answer is that shifts that had been ongoing since the rise of E-commerce have accelerated. However, that’s not the whole story. COVID brought in new changes as well.

Before COVID, restaurants had taken increasing prominence in the retail world because eating is not something you can do online. During the height of COVID, sit-down restaurants floundered, and drive-thru restaurants flourished. One Southern California fast-food chain I work with went from grossing \$1.5 million annually to over \$2.1 million dollars. The growth in the fast-food drive-thru business was predictable. To avoid exposure to the virus, families put the kids in the car for some drive-thru rather than get them masked up and go into a restaurant.

COVID forced everyone to step up their game and adapt. Retailers had to do more with less, facing shortages of both product and workforce. Sit-down restaurants that used to look for locations in the 6,000-8,000 SF range were moving into 3,500 SF, while smaller restaurants previously in the 3,000 SF range were looking for spaces closer to 1,500 SF. Menus have been streamlined, takeout orders have secured a larger role, and labor is still tight.

Across the broader retail market, the Class ‘A’ shopping centers have fared better. The landlords of the ‘A’ centers, by and large, have been repositioning themselves successfully. With COVID waning, the focus on entertainment uses in the shopping center has picked back up. On the other hand, the Class ‘B’ and ‘C’ shopping centers are grasping for options. More and more the answer for some of these sites has been to convert to residential or mixed-use.

Southern California has a chronic housing shortage, and, in the more densely populated areas, a retail site can be a viable way to bring in more housing. Many retail sites have only about 10-20% of their land area covered. Conversion of retail to residential causes local municipalities to lose sales tax revenue, but in return they can more fully satisfy the demand for housing in their communities, and development fees help to offset the revenue loss (although it is nonrecurring). The end result is that, for the first time in my career, my clients are now competing with residential developers for expansion opportunities.

There is still a base level of demand for the historic retail model. I suspect a portion of this demand will have an inverse relationship to demographic changes. As the younger generation grows, demand for traditional retail will gradually shrink over time given their penchant for on-line shopping. The retailers who will endure successfully are the ones who fulfil a unique need — you have to differentiate yourself.

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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