

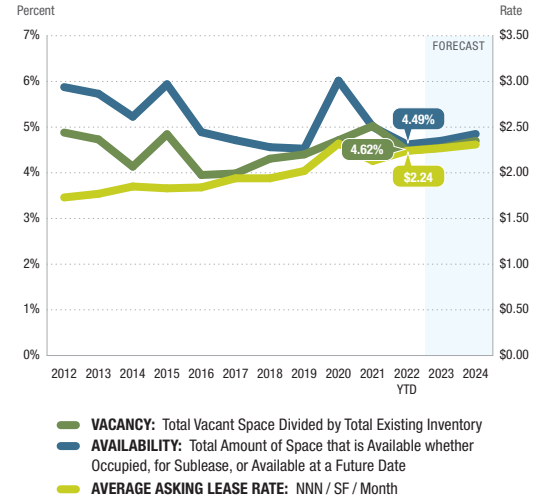
OVERVIEW. There has been significant positive net absorption over the past five quarters, and the county's vacancy rate is now back in line with pre-pandemic levels. We have found stability in the retail market, but this is largely due to a decrease in the retail real estate inventory over the past four years. Leasing volume remains lower than normal, but average asking lease rates ticked up this quarter. 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 2Q 2022 at 4.49%, practically a full percentage point decrease from 2Q 2021's vacancy rate of 5.45%. 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 4.62% at the end of 2Q. This is a 17.3% decrease versus 2Q 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 unexpected side effect in the post-pandemic retail market, and we will be monitoring this.

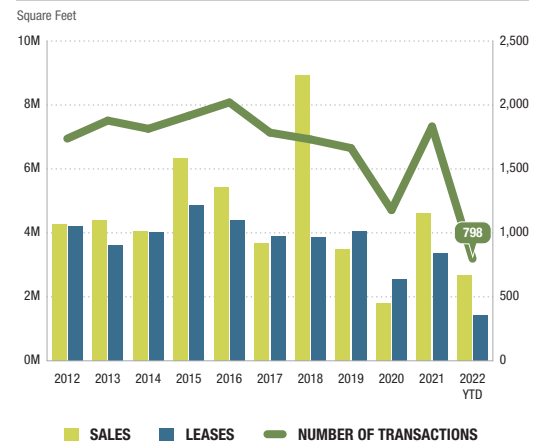
LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County ended 2Q at \$2.24 which is 4.7% lower than the 2Q 2021 rate of \$2.35. There was a significant increase in the average asking rental rate following the COVID-19 outbreak. This was not due to a true increase 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 2Q was approximately 1.2 MSF, a 44% decrease from 2Q 2021's total of 2.2 MSF. Retail leases totaled 1.4 MSF in the first half of 2022, which will lead to another year well short of the 4.2 MSF average of the five years prior to COVID-19. The largest leases of the quarter were indicative of the typical retail tenants which remain active in the market with two discount retailers and a gym. Retail sales volume also saw a slowdown in 2Q. There were 77 retail buildings sold in 2Q, compared to a quarterly average of 98 sales in the five years prior to COVID-19. For the third consecutive quarter, two of the top three sales were retail properties 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 helped keep overall vacancy low.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



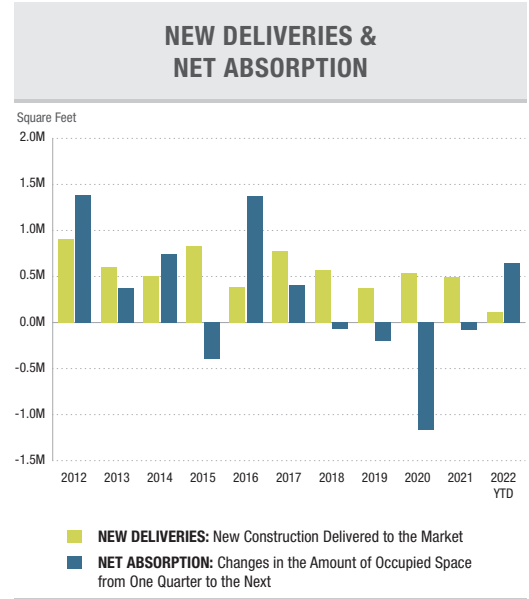
Market Statistics

| | Change Over Last Quarter | 2Q 2022 | 1Q 2022 | 2Q 2021 | % Change Over Last Year |
|---------------------------|--------------------------|-----------|-----------|-----------|-------------------------|
| Vacancy Rate | ▼ DOWN | 4.49% | 4.81% | 5.45% | (17.68%) |
| Availability Rate | ▼ DOWN | 4.62% | 4.76% | 5.58% | (17.25%) |
| Average Asking Lease Rate | ▲ UP | \$2.24 | \$2.18 | \$2.35 | (4.68%) |
| Sale & Lease Transactions | ▼ DOWN | 1,205,930 | 2,907,165 | 2,161,192 | (44.20%) |
| Gross Absorption | ▬ FLAT | 1,010,080 | 1,023,880 | 1,079,086 | (6.39%) |
| Net Absorption | ▲ POSITIVE | 414,640 | 234,601 | 149,586 | N/A |

ABSORPTION. There was 414,640 SF of positive net absorption in 2Q, marking the fifth consecutive quarter of positive net absorption. This was also the second highest quarter for absorption in the last six years, and came after six consecutive quarters of negative net absorption. Five consecutive quarters of growth to the retail tenant footprint in the market is a welcome change leading to 1.4 MSF of positive net absorption. However, this is still less than the 2.1 MSF of negative net absorption in the first five quarters following the COVID outbreak, so we have a way to go. There has not been a calendar year with more than 100,000 SF of positive net absorption since 2017, but 2022 is well on track to exceed that mark. The retail market has clearly stabilized following the COVID-19 downturn.

CONSTRUCTION. There have been 118,679 SF of new construction deliveries in the first half of 2022 which is entirely composed of ground floor retail space in residential developments, or small freestanding buildings, (primarily fast-food developments.) Traditional ground-up shopping center development composes 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 2.7% in May 2022, down from a revised 3.0% in April 2022, and below the year-ago estimate of 6.6%. This compares with an unadjusted unemployment rate of 3.4% for California and 3.4% for the nation during the same period. Over the 12-month period between May 2021 and May 2022, San Diego County employment increased by 83,900 jobs, an increase of 5.9%. With the normal delay in reporting from the California EDD, employment figures from June were unavailable at the time of publishing this report. After 27 months, the total employment figure for San Diego County finally exceeded the pre-pandemic level in 2Q.



Forecast

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 from rising significantly. While net absorption has been very strong through the first half of 2022, leasing volume has slowed, which should moderate absorption in the back half of the year. On the sales side, rising interest rates will apply upward pressure on cap rates going forward.

Significant Transactions

| Sales | | | | | | * Voit Real Estate Services Deal |
|--|-----------------|-------------|------------------|------------------------------|---------------------------------|----------------------------------|
| Property Address | Submarket | Square Feet | Sale Price | Buyer | Seller | |
| 7215 Clairemont Mesa Blvd., 4840 & 4995 Shawline St. | Kearny Mesa | 194,303 | \$89,800,500 | KMPC, LLC | Clarion Partners / HP Investors | |
| 4901-4915 El Camino Real | Carlsbad | 13,136 | \$61,000,000 | KB Home | Hoffman Trust | |
| 1170 W. Morena Blvd. | Morena | 30,464 | \$24,000,000 | Lauretta Apartments, LLC | Coles Fine Flooring | |
| 1745-1765 Euclid Ave. | City Heights | 70,423 | \$12,150,000 | K-Town Property, LLC, Et Al* | Euclid Ave SD, LLC, Et Al* | |
| 3148-3194 Midway Dr. | Sports Arena | 29,718 | \$11,500,000 | Ortho Properties, LLC | Mohoff Trust | |
| Leases | | | | | | * Voit Real Estate Services Deal |
| Property Address | Submarket | Square Feet | Transaction Date | Tenant | Owner | |
| 561-567 Grand Ave. | San Marcos | 20,388 | May-2022 | Total Wine & More | City of San Marcos | |
| 4220 Balboa Ave. | Clairemont | 16,000 | May-2022 | Bridge Thrift | (Sublease) | |
| 3993 54th St. | City Heights | 15,527 | Apr-2022 | Undisclosed | Sears Roebuck & Co | |
| 11985 Bernardo Plaza Dr. | Rancho Bernardo | 15,430 | Apr-2022 | The BXNG Club | Boardwalk Development | |
| 9720 Winter Gardens Blvd. | Lakeside | 13,969 | May-2022 | Grocery Outlet | Mar, 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 2Q2022 | Square Feet Available | Availability Rate 2Q2022 | Average Asking Lease Rate | Net Absorption 2Q2022 | Net Absorption 2022 | Gross Absorption 2Q2022 | Gross Absorption 2022 |
| Central South | | | | | | | | | | | | | |
| General Retail | 3,750 | 20,600,137 | 22,470 | 679,099 | 715,531 | 3.47% | 821,486 | 3.98% | \$2.86 | 40,876 | 102,479 | 155,676 | 315,680 |
| Malls | 70 | 3,827,634 | 300,000 | 0 | 31,699 | 0.83% | 326,018 | 7.90% | \$3.25 | (6,764) | (2,329) | 0 | 7,365 |
| Power Centers | 89 | 3,374,018 | 0 | 16,000 | 194,256 | 5.76% | 37,256 | 1.10% | - | 0 | 6,165 | 0 | 6,165 |
| Shopping Centers | 711 | 10,968,063 | 0 | 5,275 | 508,042 | 4.63% | 565,751 | 5.16% | \$2.26 | (7,933) | 49,406 | 68,985 | 200,737 |
| Specialty Centers | 6 | 259,783 | 0 | 0 | 43,421 | 16.71% | 43,421 | 16.71% | - | 340 | 1,332 | 340 | 2,325 |
| Central South Total | 4,626 | 39,029,635 | 322,470 | 700,374 | 1,492,949 | 3.83% | 1,793,932 | 4.56% | \$2.67 | 26,519 | 157,053 | 225,001 | 532,272 |
| East County | | | | | | | | | | | | | |
| General Retail | 1,441 | 7,371,089 | 15,000 | 9,185 | 78,489 | 1.06% | 84,699 | 1.15% | \$2.25 | 6,190 | (13,003) | 39,386 | 67,820 |
| Malls | 22 | 2,241,374 | 0 | 16,862 | 224,205 | 10.00% | 123,988 | 5.53% | - | 0 | 0 | 0 | 0 |
| Power Centers | 52 | 1,460,457 | 0 | 0 | 60,566 | 4.15% | 40,389 | 2.77% | \$2.25 | 10,060 | 35,868 | 10,060 | 35,868 |
| Shopping Centers | 573 | 8,313,797 | 0 | 188,529 | 374,730 | 4.51% | 450,130 | 5.41% | \$1.79 | 32,997 | 16,182 | 50,139 | 111,215 |
| Specialty Centers | 2 | 34,558 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | - | 0 | 0 | 0 | 0 |
| East County Total | 2,090 | 19,421,275 | 15,000 | 214,576 | 737,990 | 3.80% | 699,206 | 3.60% | \$1.88 | 49,247 | 39,047 | 99,585 | 214,903 |
| I-15 Corridor | | | | | | | | | | | | | |
| General Retail | 174 | 1,661,651 | 19,371 | 183,566 | 45,254 | 2.72% | 42,395 | 2.52% | \$1.72 | 520 | (6,039) | 2,820 | 5,520 |
| Malls | 0 | 0 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | - | 0 | 0 | 0 | 0 |
| Power Centers | 24 | 575,544 | 0 | 0 | 11,855 | 2.06% | 26,144 | 4.54% | - | 0 | 2,473 | 0 | 4,914 |
| Shopping Centers | 289 | 4,201,666 | 0 | 9,688 | 224,552 | 5.34% | 245,275 | 5.84% | \$3.07 | (15,674) | (15,379) | 10,207 | 45,378 |
| Specialty Centers | 0 | 0 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | - | 0 | 0 | 0 | 0 |
| I-15 Corridor Total | 487 | 6,438,861 | 19,371 | 193,254 | 281,661 | 4.37% | 313,814 | 4.86% | \$2.63 | (15,154) | (18,945) | 13,027 | 55,812 |
| North County | | | | | | | | | | | | | |
| General Retail | 1,691 | 11,800,380 | 22,539 | 171,140 | 430,428 | 3.65% | 342,004 | 2.89% | \$1.78 | 30,943 | 71,806 | 91,925 | 187,119 |
| Malls | 26 | 2,916,678 | 0 | 0 | 331,823 | 11.38% | 37,443 | 1.28% | - | 0 | 0 | 0 | 0 |
| Power Centers | 106 | 3,132,592 | 0 | 8,900 | 91,519 | 2.92% | 121,115 | 3.87% | - | 86,082 | 95,495 | 100,088 | 174,314 |
| Shopping Centers | 968 | 14,863,875 | 42,700 | 378,607 | 999,463 | 6.72% | 1,212,850 | 8.14% | \$1.89 | 103,493 | 168,812 | 162,164 | 308,931 |
| Specialty Centers | 5 | 369,833 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | - | 1,213 | 370 | 1,213 | 1,583 |
| North County Total | 2,796 | 33,083,358 | 65,239 | 558,647 | 1,853,233 | 5.60% | 1,713,412 | 5.17% | \$1.86 | 221,731 | 336,483 | 355,390 | 671,947 |
| Central North | | | | | | | | | | | | | |
| General Retail | 853 | 6,769,375 | 8,757 | 28,000 | 168,467 | 2.49% | 211,645 | 3.12% | \$3.92 | 11,959 | 42,278 | 34,101 | 84,562 |
| Malls | 18 | 1,506,096 | 0 | 0 | 170,249 | 11.30% | 0 | 0.00% | - | 97,600 | 100,629 | 97,600 | 100,629 |
| Power Centers | 69 | 2,238,403 | 0 | 0 | 83,769 | 3.74% | 87,944 | 3.93% | - | (8,608) | (3,854) | 2,856 | 10,806 |
| Shopping Centers | 445 | 6,681,053 | 0 | 333,500 | 401,364 | 6.01% | 443,420 | 6.64% | \$3.19 | 29,122 | 682 | 62,966 | 128,747 |
| Specialty Centers | 2 | 203,547 | 0 | 0 | 57,785 | 28.39% | 100,103 | 49.18% | \$1.63 | 965 | (9,950) | 22,471 | 22,471 |
| Central North Total | 1,387 | 17,398,474 | 8,757 | 361,500 | 881,634 | 5.07% | 843,112 | 4.84% | \$2.82 | 131,038 | 129,785 | 219,994 | 347,215 |
| South County | | | | | | | | | | | | | |
| General Retail | 1,118 | 5,830,108 | 31,315 | 96,895 | 111,364 | 1.91% | 196,979 | 3.36% | \$1.73 | 3,948 | 21,503 | 35,392 | 92,884 |
| Malls | 45 | 2,590,725 | 0 | 0 | 188,999 | 7.30% | 649 | 0.03% | - | (649) | (649) | 0 | 0 |
| Power Centers | 32 | 1,020,938 | 4,800 | 3,000 | 2,307 | 0.23% | 2,307 | 0.22% | - | 0 | (1,195) | 0 | 0 |
| Shopping Centers | 549 | 9,294,541 | 22,473 | 88,300 | 448,874 | 4.83% | 592,097 | 6.36% | \$1.97 | 23,533 | 11,732 | 61,691 | 118,927 |
| Specialty Centers | 22 | 763,697 | 0 | 0 | 55,107 | 7.22% | 99,074 | 12.97% | \$1.85 | (25,573) | (25,573) | 0 | 0 |
| South County Total | 1,766 | 19,500,009 | 58,588 | 188,195 | 806,651 | 4.14% | 891,106 | 4.56% | \$1.91 | 1,259 | 5,818 | 97,083 | 211,811 |
| San Diego Total | | | | | | | | | | | | | |
| General Retail | | | | | | | | | | | | | |
| Malls | 181 | 13,082,507 | 300,000 | 16,862 | 946,975 | 7.24% | 488,098 | 3.65% | \$3.25 | 90,187 | 97,651 | 97,600 | 107,994 |
| Power Centers | 372 | 11,801,952 | 4,800 | 27,900 | 444,272 | 3.76% | 315,155 | 2.67% | \$2.25 | 87,534 | 134,952 | 113,004 | 232,067 |
| Shopping Centers | 3,535 | 54,322,995 | 65,173 | 1,003,899 | 2,957,025 | 5.44% | 3,509,523 | 6.45% | \$2.09 | 165,538 | 231,435 | 416,152 | 913,935 |
| Specialty Centers | 37 | 1,631,418 | 0 | 0 | 156,313 | 9.58% | 242,598 | 14.87% | \$1.64 | (23,055) | (33,821) | 24,024 | 26,379 |
| San Diego Total | 13,152 | 134,871,612 | 489,425 | 2,216,546 | 6,054,118 | 4.49% | 6,254,582 | 4.62% | \$2.24 | 414,640 | 649,241 | 1,010,080 | 2,033,960 |

Lease rates are on a triple-net basis.



Rising Interest Rates

by **Spencer Kerrigan**

VICE PRESIDENT, SAN DIEGO

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

With the recent increase in interest rates, many people are asking us what this means for retail real estate. The most obvious answer is that buyers who are heavily, or even just moderately, reliant on financing will be affected the most and their buying power will reduce. We generally see this first in the housing market, and sure enough, the increase in mortgage rates by over fifty basis points in the last month or so has reduced the number of residential buyers, and the inevitable cooling seems imminent.

With that said, because supply still remains fairly low across many product types, including housing, the demand should offset some of the pullback from the debt buyers. Additionally, 1031 and cash buyers, who either have to satisfy an exchange or are in for the long term and believe heavily in Southern California real estate, are probably not really taking their foot too far off the gas. The caliber of the real estate, whether it be credit driven or location driven, should keep cap rates mostly stable or at least delay any increases. It seems, however, that something has to give. We're all wondering what that will be and when. Can the world of sub-4 cap rate deals for creditworthy net leased property remain indefinitely? Many think not, but with supply constrained and the demand generally stable, it may indeed keep prices high.

While on the surface this seems to be a straightforward supply and demand issue, we are also seeing consumer sentiment down overall. Investors we talk to are starting to pull back, waiting for something to happen. Homeowners are hurrying to get property on the market to capitalize on what seems to be the waning days of a hot market. An active real estate investor I just spoke with this week mentioned that while he is still looking for deals they are hard to come by, and he just put some money into corporate bonds, which are returning roughly 5%.

With the commercial world so often following the housing market, it should be a leading indicator for us to keep an eye on in the coming months. If we start to see houses sit on the market, or have their asking prices reduced, it could very well be an indicator of a cooling in the broader real estate market. Due to sustained demand, I think prices will drop slowly or simply level out, but certainly the increase in debt cost appears to be causing some rumblings. The sentiment has been very bullish for nearly a decade following the Great Recession. Maybe the curtain is finally closing on what had been a very long bull market.

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.

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