SD3Q22

THIRD QUARTER 2022 MARKET REPORT

SAN DIEGO RETAIL

Voit REAL ESTATE SERVICES

OVERVIEW. There has been a significant amount of positive net absorption over the past six quarters, and the county's vacancy rate is now back in line with pre-pandemic levels. We have found a stabilization in the retail market, but this is also due to a decrease in the retail real estate inventory over the past four years. Leasing volume remains lower than normal. Average asking lease rates ticked up this quarter, and remain higher than pre-pandemic levels. 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.

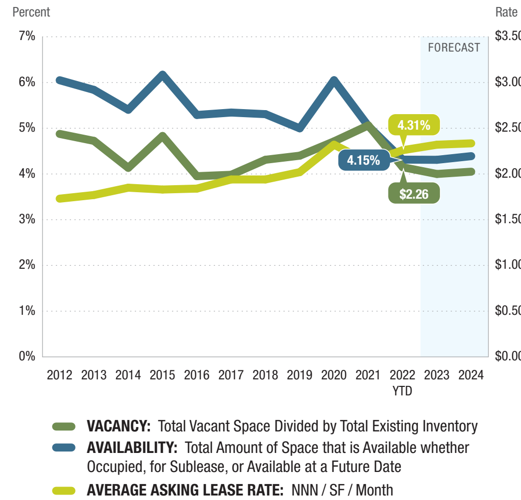
VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 3Q 2022 at 4.15%, a full percentage point decrease from 3Q 2021's vacancy rate of 5.14%. Vacancy measures the amount of space which is unoccupied regardless of whether it is being marketed for sale or lease. Availability measures the amount of space which is on the market, regardless of whether it is occupied. Direct/sublease space being marketed was 4.31% at the end of 3Q. This is a 17.2% decrease versus 3Q 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 3Q at $2.26 which is 5% lower than the 3Q 2021 rate of $2.38. 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.

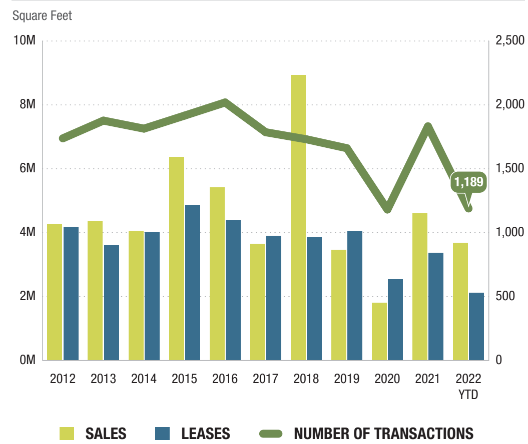
TRANSACTION ACTIVITY. The combined amount of retail property sold or leased during 3Q was approximately 1.3 MSF, a 53% decrease from 3Q 2021's total of 2.8 MSF. Through three quarters of the year, retail lease volume is at an annual pace of 2.8 MSF of leases. This will lead to another year well short 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 home furnishing retailers and a Dollar Tree. Retail sales volume made a strong showing in 3Q. There were 100 retail buildings sold, with a total sales value of $316 million. These figures are elevated compared with typical pre-pandemic quarterly volumes. 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.

ABSORPTION. There were 360,039 SF of positive net absorption in 3Q, marking the sixth consecutive quarter of positive net absorption. This was also the third highest quarter

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter		3Q 2022	2Q 2022	3Q 2021	% Change Over Last Year
Vacancy Rate	▼	DOWN	4.15%	4.38%	5.14%	(19.27%)
Availability Rate	▼	DOWN	4.31%	4.59%	5.21%	(17.17%)
Average Asking Lease Rate	▲	UP	$2.26	$2.24	$2.38	(5.04%)
Sale & Lease Transactions	▼	DOWN	1,323,187	1,475,366	2,837,706	(53.37%)
Gross Absorption	▼	DOWN	958,352	1,129,816	1,029,036	(6.87%)
Net Absorption	▲	POSITIVE	360,039	577,465	452,888	N/A

for absorption in the last five years, and came after six consecutive quarters of negative net absorption. Six consecutive quarters of growth to the retail tenant footprint in the market is a welcome change leading to 1.8 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 ways to go. There has not been a calendar year with more than 1 MSF of positive net absorption since 2016, 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 179,932 SF of new construction deliveries in the first half of 2022, which is nearly entirely composed of ground floor retail space in residential developments, or small freestanding buildings (primarily fast-food developments). Traditional ground-up shopping center development constitutes 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 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 following the COVID outbreak, 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 3.4% in August 2022, up from a revised 3.1% in July 2022, and below the year-ago estimate of 6.5%. This compares with an unadjusted unemployment rate of 4.1% for California and 3.8% for the nation during the same period. Over the 12-month period between August 2021 and August 2022, San Diego County employment increased by 59,600 jobs, an increase of 4.1%. With the normal delay in reporting from the California EDD, employment figures from September were unavailable at the time of publishing this report. For the nation as a whole, the unemployment rate declined to 3.3% in September, demonstrating that the labor market remains tight.

NEW DELIVERIES & NET ABSORPTION

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 vacancy levels from rising significantly. While net absorption has been very strong through the first nine months of 2022, leasing volume has slowed, which should curtail additional positive net absorption in the coming quarters. On the sales side, rising interest rates will apply upward pressure on cap rates going forward.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1400–2097 Eastlake Pkwy.	Chula Vista	60,972	$47,800,000	Gershman Properties	Crow Holdings
4101–4171 Oceanside Blvd.	Oceanside	87,115	$33,000,000	Cong Thanh, LLC	Oceanside 5, LLC
2007–2041 Mission Ave.	Oceanside	123,518	$32,000,000	MSM Global Ventures, LLC	Mission Oceanside, LLC
214–294 Town Center Pkwy.	Santee	104,609	$27,100,000	Brixton Capital	Public Investment Corp.
770–804 Dennery Rd.	South San Diego	77,505	$25,800,000	Lake 1925, LP	Citivest, Inc.

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
7480 Miramar Rd.	Miramar	42,318	Jul-2022	Woodbridge Interiors	Omninet Capital
170 Knoll Rd.	San Marcos	15,000	Sep-2022	(Undisclosed)	Karlovich
4181 Oceanside Blvd.	Oceanside	13,795	Sep-2022	Dollar Tree	(Sublease)
401 W. A St.	Downtown	12,913	Sep-2022	(Undisclosed)	Regent Properties
8400 Miramar Rd.*	Miramar	10,368	Aug-2022	Luxury Outdoor Solutions	8400 Miramar, LP*

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2022	Square Feet Available	Availability Rate 3Q2022	Average Asking Lease Rate	Net Absorption 3Q2022	Net Absorption 2022	Gross Absorption 3Q2022	Gross Absorption 2022
Central South													
General Retail	3,749	20,529,499	19,830	929,099	662,532	3.23%	861,002	4.19%	$2.88	49,107	160,820	190,960	522,798
Malls	70	3,827,634	300,000	0	25,411	0.66%	321,994	7.80%	$3.25	6,288	3,959	6,288	13,653
Power Centers	87	3,341,690	0	16,000	194,095	5.81%	37,095	1.11%	-	161	6,326	3,561	9,726
Shopping Centers	712	11,008,908	0	5,275	459,399	4.17%	515,779	4.69%	$2.27	29,737	98,049	98,998	307,601
Specialty Centers	6	259,783	0	0	43,421	16.71%	43,421	16.71%	-	0	1,332	0	2,325
Central South Total	4,624	38,967,514	319,830	950,374	1,384,858	3.55%	1,779,291	4.53%	$2.68	85,293	270,486	299,807	856,103
East County													
General Retail	1,447	7,381,537	12,000	9,185	92,544	1.25%	79,699	1.08%	$2.66	(24,717)	(24,058)	26,062	91,953
Malls	22	2,241,374	0	16,862	172,362	7.69%	64,412	2.87%	-	(6,540)	51,843	0	58,383
Power Centers	55	1,387,433	0	0	40,389	2.91%	40,389	2.91%	$2.25	18,594	56,045	18,594	56,045
Shopping Centers	573	8,279,155	0	188,529	321,558	3.88%	371,438	4.49%	$1.78	49,699	69,354	80,217	193,137
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	2,099	19,324,057	12,000	214,576	626,853	3.24%	555,938	2.88%	$1.93	37,036	153,184	124,873	399,518
I-15 Corridor													
General Retail	174	1,661,651	19,371	183,566	19,459	1.17%	21,159	1.26%	$1.72	25,795	19,756	28,595	34,115
Malls	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Power Centers	24	575,544	0	0	6,168	1.07%	20,457	3.55%	-	5,687	8,160	5,687	10,601
Shopping Centers	289	4,202,393	0	9,688	197,626	4.70%	233,129	5.55%	$3.13	26,437	11,547	40,594	87,689
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
I-15 Corridor Total	487	6,439,588	19,371	193,254	223,253	3.47%	274,745	4.25%	$2.69	57,919	39,463	74,876	132,405
North County													
General Retail	1,690	11,780,732	98,352	176,140	460,317	3.91%	361,649	3.04%	$1.80	(20,173)	64,355	46,691	258,532
Malls	26	2,916,678	0	0	333,573	11.44%	39,193	1.34%	-	(1,750)	(1,750)	0	0
Power Centers	106	3,132,592	0	8,900	87,189	2.78%	144,648	4.62%	-	(870)	99,825	1,200	176,514
Shopping Centers	972	14,893,917	29,950	362,007	841,079	5.65%	1,018,733	6.83%	$1.93	151,685	339,434	210,980	527,144
Specialty Centers	5	369,833	0	0	0	0.00%	0	0.00%	-	0	370	0	1,583
North County Total	2,799	33,093,752	128,302	547,047	1,722,158	5.20%	1,564,223	4.71%	$1.89	128,892	502,234	258,871	963,773
Central North													
General Retail	848	6,737,321	8,757	28,000	164,508	2.44%	212,315	3.15%	$4.34	(8,349)	41,987	21,994	123,742
Malls	20	1,709,643	0	0	222,747	13.03%	62,106	3.63%	$1.63	5,287	95,966	9,608	132,708
Power Centers	69	2,237,688	0	0	76,168	3.40%	69,943	3.13%	-	872	3,747	3,121	20,656
Shopping Centers	448	6,694,789	0	333,500	357,109	5.33%	409,246	6.11%	$3.37	55,726	44,937	95,893	209,772
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Central North Total	1,385	17,379,441	8,757	361,500	820,532	4.72%	753,610	4.33%	$2.93	53,536	186,637	130,616	486,878
South County													
General Retail	1,118	5,766,697	18,375	120,495	117,109	2.03%	232,774	4.02%	$1.67	(3,770)	20,058	19,771	116,100
Malls	45	2,590,725	0	0	209,675	8.09%	21,325	0.82%	-	(20,676)	(21,325)	649	649
Power Centers	32	1,020,938	4,800	3,000	1,112	0.11%	1,112	0.11%	-	1,195	0	1,195	1,195
Shopping Centers	553	9,319,083	0	101,773	439,042	4.71%	558,157	5.99%	$1.99	7,735	30,564	34,815	159,757
Specialty Centers	22	763,697	0	0	42,228	5.53%	90,064	11.79%	$1.60	12,879	(12,694)	12,879	12,879
South County Total	1,770	19,461,140	23,175	225,268	809,166	4.16%	903,432	4.64%	$1.91	(2,637)	16,603	69,309	290,580
San Diego Total	**13,164**	**134,665,492**	**511,435**	**2,492,019**	**5,586,820**	**4.15%**	**5,831,239**	**4.31%**	**$2.26**	**360,039**	**1,168,607**	**958,352**	**3,129,257**
General Retail	9,026	53,857,437	176,685	1,446,485	1,516,469	2.82%	1,768,598	3.27%	$2.58	17,893	282,918	334,073	1,147,240
Malls	183	13,286,054	300,000	16,862	963,768	7.25%	509,030	3.75%	$1.67	(17,391)	128,693	16,545	205,393
Power Centers	373	11,695,885	4,800	27,900	405,121	3.46%	313,644	2.68%	$2.25	25,639	174,103	33,358	274,737
Shopping Centers	3,547	54,398,245	29,950	1,000,772	2,615,813	4.81%	3,106,482	5.71%	$2.12	321,019	593,885	561,497	1,485,100
Specialty Centers	35	1,427,871	0	0	85,649	6.00%	133,485	9.35%	$1.60	12,879	(10,992)	12,879	16,787
San Diego Total	**13,164**	**134,665,492**	**511,435**	**2,492,019**	**5,586,820**	**4.15%**	**5,831,239**	**4.31%**	**$2.26**	**360,039**	**1,168,607**	**958,352**	**3,129,257**

Lease rates are on a triple-net basis.

An Issue That Cannot Be Ignored

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One of San Diego's biggest attractions, Petco Park, the home of the Padres, was named the best Major League Baseball park in the nation by USA Today. The stadium has hosted some of America's favorite artists, including Madonna, The Rolling Stones and Red Hot Chili Peppers. While inside the stadium, you may witness history in the form of a Musgrove no-hitter or a bass solo from Flea, however the East Village community where Petco Park resides turns into a different neighborhood when the stadium lights go out. Surrounding the city's crown jewel are streets littered with trash from the homeless encampments. On some days the streets are unwalkable, and the mental health issues can literally be heard all hours of the night.

On paper, East Village's population density and average income of $100,000 per year make it ideal for a high-volume retailer. However, several fully functional restaurants within blocks of the stadium have remained vacant for years. The primary reason is the presence of the transients that plague the area. There is the potential to unlock a booming hub for retailers and a live / work environment for individuals seeking an urban lifestyle, but local businesses are constantly battling theft, violence, and lewd behavior as they attempt to attract patrons for a sit-down dinner.

New developments such as Shift Apartments and The Meridian have on-site security and employees who clean their streets daily and deter homeless from camping along their sidewalks. These actions of private ownership successfully promote occupancy at high-cost developments. Without government intervention, however, homelessness will remain prominent along publicly owned land such as the Downtown Library, the Post Office, CalTrans and public transit areas.

Recent emails from Bill Walton to Mayor Todd Gloria echo many citizens' disapproval of the city's efforts (or lack thereof) to combat the homeless encampments throughout the city. "…you speak of the rights of the homeless, what about our rights, we follow the rules of a functioning society, why are others allowed to disregard those rules," Walton wrote.

Governor Newsom recently signed a bill to create the CARE Court program, which allows court-ordered treatment to homeless with mental illness throughout California. Todd Gloria is introducing "safe-lots" in Kearny Mesa and Mission Valley for individuals living out of their cars, and establishing homeless shelters (most notably a 150-bed shelter in the Midway District). It is tough to determine whether these programs and services will be utilized by the homeless or if there is enough availability to service the growing transient population. Transients are often the victims of unfortunate circumstances and it is important to provide aid to those in need, but it is crucial that we do not penalize vital contributors to our city by government's lack of action. This highly visible example in downtown is emblematic of a broader issue across the county that is an issue affecting retail landlords, tenants, and patrons alike.

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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