

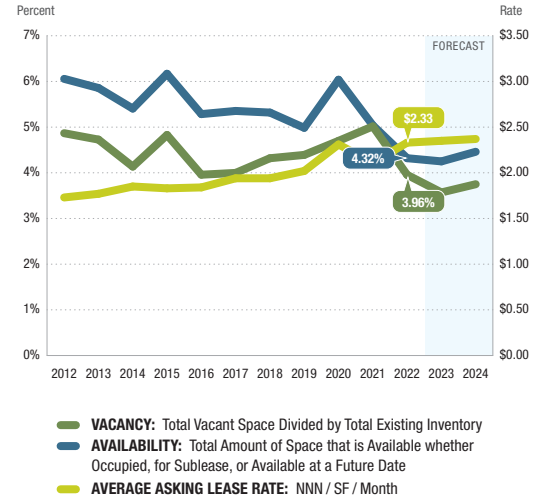
OVERVIEW. There has been a significant amount of positive net absorption over the past seven quarters, and the county's vacancy rate is now back in line with pre-pandemic levels. We have found a stabilization in the retail market, but this is also due to a decrease in the retail real estate inventory over the past four years. Leasing volume remains lower than normal. Average asking lease rates moved erratically following the 2020 pandemic as landlords struggled to navigate through unprecedented market conditions. 2022 saw asking rates return to steady increases. 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 2022 at 3.96%, a full percentage point decrease from 4Q 2021's vacancy rate of 5.02%. 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 4.32% at the end of 4Q. This is a 14.3% decrease versus 4Q 2021. Despite this recorded decrease in the availability rate, the reported number underrepresents the "true" availability rate as many landlords, primarily mall owners, are not marketing all of their available space. The vacancy rate dipped below 4% for the first time since 2017, a clear demonstration of the stabilization in the retail market.

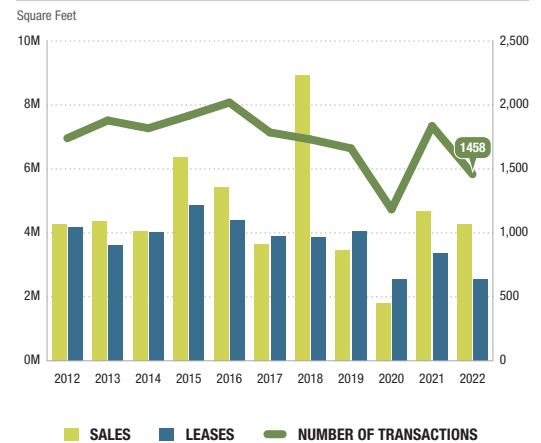
LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County ended 4Q at \$2.33 which is an increase of 10.4% compared to 4Q 2021's rate of \$2.11. There was a significant increase in the average asking rental rate following the COVID-19 outbreak. This was not due 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 4Q was approximately 850,893 SF, a 55% decrease from 4Q 2021's total of 1.9 MSF. Retail lease volume for 2022 as a whole was 2.5 MSF. This was the third straight year of leasing activity well short of the 4.2 MSF average of the five years prior to COVID-19. The largest leases of 4Q include two restaurants, demonstrating that retail experiences which cannot be moved online have taken prominence in the modern retail market. Retail sales volume made a strong showing in 2022. There were 434 retail buildings sold, with a total sales value of \$1.9 billion. These figures are elevated compared with typical pre-pandemic volumes. Among the largest sales of 4Q was a retail property acquired by a residential developer—this is a recurring theme. 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



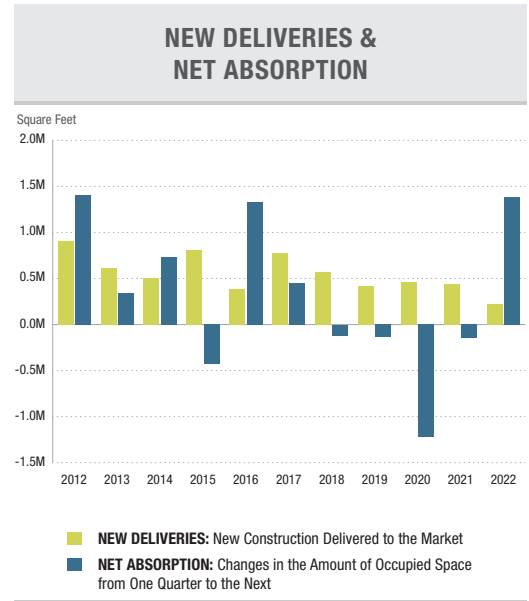
Market Statistics

	Change Over Last Quarter	4Q 2022	3Q 2022	4Q 2021	% Change Over Last Year
Vacancy Rate	▼ DOWN	3.96%	4.07%	5.02%	(21.15%)
Availability Rate	▼ DOWN	4.32%	4.43%	5.04%	(14.29%)
Average Asking Lease Rate	▲ UP	\$2.33	\$2.27	\$2.11	10.43%
Sale & Lease Transactions	▼ DOWN	850,893	1,526,783	1,902,731	(55.28%)
Gross Absorption	▼ DOWN	714,807	944,663	962,196	(25.71%)
Net Absorption	▲ POSITIVE	206,511	363,553	98,024	N/A

ABSORPTION. There were 206,511 SF of positive net absorption in 4Q, marking the seventh consecutive quarter of positive net absorption, following six consecutive quarters of negative net absorption. The seven consecutive quarters of growth to the retail tenant footprint in the market is a welcome change leading to 2.1 MSF of positive net absorption. This represents a full recovery from the 2.1 MSF of negative net absorption in the first five quarters following the COVID outbreak. 2022 was also the first calendar year with more than 1 MSF of positive net absorption since 2016. The retail market has clearly stabilized following the COVID-19 downturn.

CONSTRUCTION. There were 223,512 SF of new construction deliveries in 2022, which is nearly entirely composed of ground floor retail space in residential developments, or small freestanding buildings (primarily fast-food developments). This was the lowest annual total in well over a decade. 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 2022, 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 3.3% in November 2022, up from a revised 3.2% in October 2022, and below the year-ago estimate of 4.5%. This compares with an unadjusted unemployment rate of 4.0% for California and 3.4% for the nation during the same period. Over the 12-month period between November 2021 and November 2022, San Diego County employment increased by 48,400 jobs, an increase of 3.2%. 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, 223,000 jobs were added in December, the smallest monthly gain in two years.



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 was very strong in 2022, leasing volume was still below historic norms, which should dampen net absorption for the start of 2023. 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
2770 Via de la Valle	Del Mar	29,779	\$19,500,000	Kleege Enterprises	P&G Company
3535–3677 Camino Del Rio W.	Sports Arena	60,085	\$18,850,000	St. James Hotel, LLC*	P&G Company*
6171 Mission Gorge Rd.	Mission Gorge	23,760	\$13,100,000	Universal Standard Housing	Sidney Properties
3247–3727 Convoy St.	Kearny Mesa	24,995	\$6,578,000	Vital 1031, LLC	Strategic Assets Group
621 I St.	Chula Vista	15,120	\$5,358,500	National Retail Properties, LP	Walgreen Co

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4760–4796 Clairemont Mesa Blvd.	Clairemont	27,000	Nov-2022	Lighthouse Bible Church	Deutsch Company
3829–3837 Plaza Dr.	Oceanside	15,000	Dec-2022	Modern Airsoft	VOC Realty Investments, Inc.
687–693 Palomar St.	Chula Vista	9,226	Oct-2022	Ojos Locos Sports Cantina	Winterhawk Dev. Corp.
805–885 W. Harbor Dr.	Downtown	7,989	Oct-2022	Cork & Batter	Port of San Diego
10761 Woodside Ave.	Santee	7,650	Nov-2022	Undisclosed	Woodside-Santee Assoc., 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 4Q2022	Square Feet Available	Availability Rate 4Q2022	Average Asking Lease Rate	Net Absorption 4Q2022	Net Absorption 2022	Gross Absorption 4Q2022	Gross Absorption 2022
Central South													
General Retail	3,748	20,464,621	16,000	924,387	563,013	2.75%	772,668	3.77%	\$2.95	65,880	213,314	162,415	674,434
Malls	70	3,827,634	300,000	0	22,569	0.59%	323,845	7.85%	\$3.25	2,842	6,801	4,500	18,153
Power Centers	87	3,341,690	0	16,000	194,095	5.81%	37,095	1.11%	-	0	6,326	0	9,726
Shopping Centers	713	11,010,817	0	5,275	458,955	4.17%	539,181	4.90%	\$2.39	444	98,493	43,508	351,109
Specialty Centers	6	259,783	0	0	37,283	14.35%	37,283	14.35%	-	6,138	7,470	6,138	8,463
Central South Total	4,624	38,904,545	316,000	945,662	1,275,915	3.28%	1,710,072	4.36%	\$2.77	75,304	332,404	216,561	1,061,885
East County													
General Retail	1,441	7,348,936	25,841	9,185	71,051	0.97%	88,483	1.20%	\$2.66	25,564	(193)	36,309	128,262
Malls	22	2,241,374	0	16,862	172,362	7.69%	64,412	2.87%	-	0	51,843	0	58,383
Power Centers	55	1,387,434	0	0	64,763	4.67%	64,763	4.67%	\$2.25	(24,374)	31,671	12,109	68,154
Shopping Centers	574	8,273,435	0	188,529	327,967	3.96%	388,470	4.70%	\$1.82	(6,409)	62,945	35,452	221,758
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	2,094	19,285,737	25,841	214,576	636,143	3.30%	606,128	3.14%	\$1.98	(5,219)	146,266	83,870	476,557
I-15 Corridor													
General Retail	174	1,663,251	194,163	8,774	16,559	1.00%	193,051	10.39%	\$1.71	2,900	22,656	2,900	37,015
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%	-	0	8,160	0	10,601
Shopping Centers	289	4,202,393	0	9,688	178,851	4.26%	226,746	5.40%	\$3.14	18,775	30,322	26,161	113,850
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
I-15 Corridor Total	487	6,441,188	194,163	18,462	201,578	3.13%	440,254	6.63%	\$2.68	21,675	61,138	29,061	161,466
North County													
General Retail	1,683	11,752,110	89,736	161,780	455,129	3.87%	379,931	3.21%	\$1.86	(9,920)	54,006	21,459	268,554
Malls	26	2,916,678	0	0	333,573	11.44%	39,193	1.34%	-	0	(1,750)	0	0
Power Centers	108	3,210,409	5,000	4,000	90,518	2.82%	143,976	4.48%	-	(2,329)	96,496	4,083	181,597
Shopping Centers	971	14,880,389	34,350	380,807	846,371	5.69%	1,027,058	6.89%	\$1.98	(5,292)	334,142	120,259	647,403
Specialty Centers	5	369,833	0	0	0	0.00%	0	0.00%	-	0	370	0	1,583
North County Total	2,793	33,129,419	129,086	546,587	1,725,591	5.21%	1,590,158	4.78%	\$1.95	(17,541)	483,264	145,801	1,099,137
Central North													
General Retail	847	6,732,244	8,757	30,650	177,233	2.63%	216,121	3.21%	\$4.52	(12,725)	24,182	15,762	139,504
Malls	20	1,709,643	0	0	222,991	13.04%	75,380	4.41%	\$1.50	(244)	95,722	0	132,708
Power Centers	69	2,237,688	0	0	60,424	2.70%	64,730	2.89%	-	15,744	19,491	15,744	36,400
Shopping Centers	453	6,749,719	0	333,500	300,222	4.45%	375,120	5.56%	\$3.62	28,887	98,425	62,011	268,384
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Central North Total	1,389	17,429,294	8,757	364,150	760,870	4.37%	731,351	4.19%	\$3.37	31,662	237,820	93,517	576,996
South County													
General Retail	1,122	5,804,191	3,198	175,495	86,818	1.50%	150,496	2.59%	\$1.59	48,666	68,724	58,677	175,277
Malls	45	2,590,725	0	0	209,675	8.09%	21,325	0.82%	-	0	(21,325)	0	649
Power Centers	33	1,025,738	0	3,000	1,112	0.11%	1,112	0.11%	-	0	4,800	0	1,195
Shopping Centers	553	9,309,563	0	101,773	412,651	4.43%	535,759	5.75%	\$2.00	26,391	56,955	61,747	221,504
Specialty Centers	22	763,697	0	0	16,655	2.18%	60,622	7.94%	\$1.60	25,573	12,879	25,573	38,452
South County Total	1,775	19,493,914	3,198	280,268	726,911	3.73%	769,314	3.95%	\$1.90	100,630	122,033	145,997	437,077
San Diego Total													
San Diego Total	13,162	134,684,097	677,045	2,369,705	5,327,008	3.96%	5,847,277	4.32%	\$2.33	206,511	1,382,925	714,807	3,813,118
General Retail	9,015	53,765,353	337,695	1,310,271	1,369,803	2.55%	1,800,750	3.33%	\$2.63	120,365	382,689	297,522	1,423,046
Malls	183	13,286,054	300,000	16,862	961,170	7.23%	524,155	3.86%	\$1.60	2,598	131,291	4,500	209,893
Power Centers	376	11,778,503	5,000	23,000	417,080	3.54%	332,133	2.82%	\$2.25	(10,959)	166,944	31,936	307,673
Shopping Centers	3,553	54,426,316	34,350	1,019,572	2,525,017	4.64%	3,092,334	5.68%	\$2.18	62,796	681,282	349,138	1,824,008
Specialty Centers	35	1,427,871	0	0	53,938	3.78%	97,905	6.86%	\$1.60	31,711	20,719	31,711	48,498
San Diego Total	13,162	134,684,097	677,045	2,369,705	5,327,008	3.96%	5,847,277	4.32%	\$2.33	206,511	1,382,925	714,807	3,813,118

Lease rates are on a triple-net basis.



Challenges Ahead

by **Josh Simms**

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With a recession growing more likely, many people are asking us what this means for retail real estate. The retail industry may face a challenging year ahead. As of November 2022, the US inflation rate was 7.1%, and it has recently reached levels not seen since the 1980s. At the most recent meeting in December, the Fed raised its benchmark rate to the highest level in 15 years. The Fed also anticipates more increases in 2023 which will negatively impact commercial real estate owners.

Although these numbers are concerning, retail property still largely depends on location and retail category. This won't change due to a recession as families still need to shop for groceries, they still need to get their nails done, they still need to eat at their favorite restaurants or grab coffee. We haven't seen a decline in the neighborhood shopping centers and we don't foresee a decline occurring as they are essential to our daily lives.

Each market has rebounded differently after the effects of the pandemic and shutdowns. A positive to note is a (limited) return to the office has increased demand for retail in the core business areas. Additionally, in 2022, San Diego saw a rebound in tourism versus the previous two years, which benefitted local retailers.

Retail tenant demand has surged tremendously over the past three quarters, with vacancy returning to our pre-pandemic levels in San Diego. Restaurants are nearly back to where they once were, and many of the restaurants that were vacant are being leased to new concepts looking to take advantage of the infrastructure left behind by the companies that didn't make it through the pandemic. With the rise of construction costs, existing infrastructure becomes highly desirable. The decline in vacancy has been led by a few exceptional categories — grocery stores and fitness facilities have made a huge impact by leasing large vacant spaces in shopping centers.

With commercial real estate so often following the housing market, we should be keeping an eye on this leading indicator in the coming months. If we start to see houses sit on the market, or have their asking prices reduced regularly, it could very well be a gauge of the commercial retail real estate market. With the pandemic in recent memory, the fear of a recession and the spike in interest rates, many retail real estate owners are bracing for a challenging year in 2023.

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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