SD Q1 23

FIRST QUARTER 2023 MARKET REPORT

SAN DIEGO RETAIL

Voit REAL ESTATE SERVICES

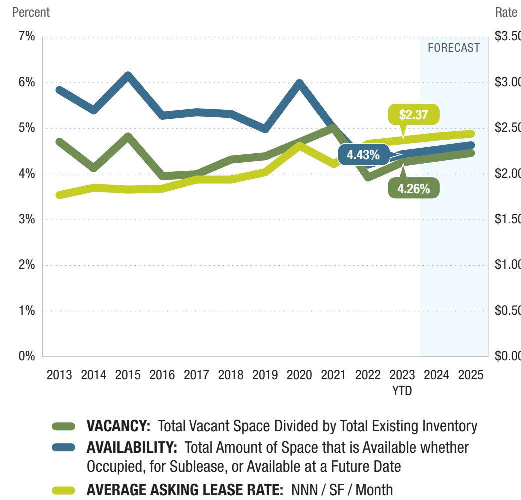
OVERVIEW. Leasing volume has been subdued in recent quarters, leading to negative net absorption for the start of 2023. Even with the increase in vacancy in Q1, the local retail market has largely recovered from the pandemic-induced dip in occupancy. Activity remains light across leasing, sales, and construction measures. 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 which continued into the first quarter of 2023. Retail real estate will be dominated by well located properties. Inferior locations will get left behind, and some are becoming obsolete to the point they get redeveloped.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q1 2023 at 4.26%, an increase from Q4's rate of 3.93%, but 49 basis points below the vacancy rate of a year ago. 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 4.43% at the end of Q1. This is a 5.6% decrease versus Q1 2022. The gap between the vacancy rate and the availability rate was 17 basis points at the end of Q1. Over the past decade, the average gap between these two figures has been 96 basis points. Despite this recorded decrease of the spread between vacancy and availability, the reported number underrepresents the "true" availability rate as many landlords, primarily mall owners, are not marketing all of their available space in the open market.

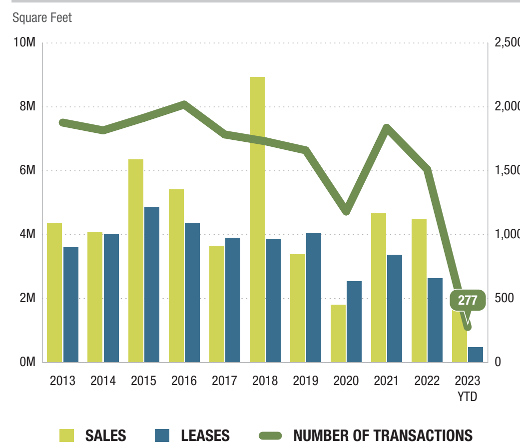
LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County ended Q1 at $2.37 which is an increase of 9.2% compared with Q1 2022's rate of $2.17. The average asking lease rate has increased a total of 16.2% above the pre-pandemic level. Typically, new construction acts as a catalyst for raising the average rental rate. In San Diego the construction pipeline has been below historical norms in recent years, but there has been an ongoing trend of redevelopment of functionally obsolete retail properties. This removes properties with the lowest rental rates from the market, pushing the average asking rates higher.

TRANSACTION ACTIVITY. The combined amount of retail property sold or leased during Q1 was approximately 2.3 MSF, a 21.8% decrease from Q1 2022's total of 3 MSF. There was 474,160 SF of leasing activity in Q1, only the second quarter of the past three years with less than 0.5 MSF of leasing activity. The largest leases of Q1 include a salon and a gymnastics studio, 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 453 retail buildings sold, with a total sales value of $2 billion. These figures

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter		Q1 2023	Q4 2022	Q1 2022	% Change Over Last Year
Vacancy Rate	▲	UP	4.26%	3.93%	4.75%	(10.47%)
Availability Rate	▲	UP	4.43%	4.21%	4.70%	(5.63%)
Average Asking Lease Rate	▲	UP	$2.37	$2.33	$2.17	9.22%
Sale & Lease Transactions	▲	UP	2,320,653	954,867	2,969,217	(21.84%)
Gross Absorption	▼	DOWN	542,206	694,932	1,041,449	(47.94%)
Net Absorption	▼	NEGATIVE	(394,774)	183,203	275,998	N/A

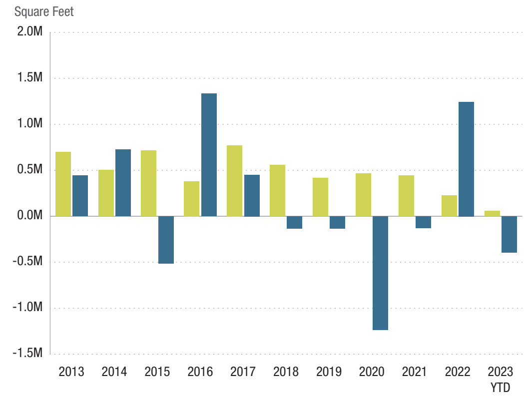
are elevated compared with typical pre-pandemic volumes. Conversely, 56 retail buildings sold for a total of $174 million in Q1, the lowest quarterly totals since 2020. Rising interest rates and tightening lending standards are acting as a headwind in the current commercial property sales market.

ABSORPTION. There were 394,774 SF of negative net absorption in Q1, breaking the streak of seven consecutive quarters of positive net absorption. The negative net absorption was spread out across the market with every region of the county recording a contraction of the total retail tenant footprint in Q1.

CONSTRUCTION. There were 56,937 SF of new construction deliveries in Q1. The largest completion of Q1 was 27,000 SF "Arroyo Verde" strip center located at the northeast corner of Oceanside Boulevard and Rancho Del Oro Drive in Oceanside. Tenants announced for the center thus far include The Habit Burger Grill, an orthodontics group, and a taco shop. The posted asking rental rate for the Arroyo Verde shopping center is $3.75 per square foot, per month, triple net. Over the four most recent calendar years the market has seen an average of 386,668 SF of annual deliveries, compared to the 605,883 SF annual average in the preceding four-year period. 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 Q1, 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 little appetite by developers to ramp up any large-scale developments at this time.

EMPLOYMENT. The unemployment rate in San Diego County was 3.7% in February 2023, unchanged a revised 3.7% in January 2023, and below the year-ago estimate of 4.1%. This compares with an unadjusted unemployment rate of 4.8% for California and 3.9% for the nation during the same period. Over the 12-month period between February 2022 and February 2023, San Diego County employment increased by 52,900 jobs, an increase of 3.5%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. For the nation as a whole, 236,000 jobs were added in March, the lowest monthly total since December 2020.

NEW DELIVERIES & NET ABSORPTION



NEW DELIVERIES: New Construction Delivered to the Market

NET ABSORPTION: Changes in the Amount of Occupied Space from One Quarter to the Next

Forecast

The limited supply pipeline in San Diego keeps the market stable. There have been more than 2 MSF of new retail properties completed in the last five years, and yet the total market size has decreased during that time frame with tear-down redevelopments outpacing new construction. We predict the overall retail property inventory will continue contracting somewhat in the coming years, helping to keep vacancy levels from rising significantly. While net absorption was very strong in 2022, leasing volume was and is below historic norms, which will dampen net absorption for the first half of 2023.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
Via Rancho Pkwy & I-15 (Leasehold)	Escondido	1,249,690	$57,000,000	Steerpoint Capital	Unibal-Rodamco-Westfield
2310 Proctor Valley Rd.	Chula Vista	52,442	$13,350,000	Black Lion Investment Group	Merlone Geier
2318-2334 Proctor Valley Rd.	Chula Vista	51,106	$11,150,000	PacWest Management	Merlone Geier
2170 & 2174 Vista Way	Oceanside	88,903	$11,000,000	Citivest Commercial Investments	Angelo, Gordon & Co
2588 S. Coast Hwy. 101	North Beach Cities	15,120	$8,700,000	Landrys	George's Rstaurant

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1135 Avocado Ave.	El Cajon	21,440	Mar-2023	Undisclosed	9346 Abraham, LLC
12004 Carmel Mountain Rd.	Carmel Mountain Ranch	14,289	Jan-2023	Sola Salon Studios	American Assets Trust
212 N. Tremont St.	Oceanside	12,710	Jan-2023	FCH	Mission Tremont Properties, LLC
3235 Camino De Los Coches	Carlsbad	10,080	Feb-2023	Gyminny Kids	Los Coches Properties, LLC
789 W. Harbor Dr.	Downtown	10,031	Mar-2023	Undisclosed	(Sublease)

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q1 2023	Square Feet Available	Availability Rate Q1 2023	Average Asking Lease Rate	Net Absorption Q1 2023	Net Absorption 2023	Gross Absorption Q1 2023	Gross Absorption 2023
Central South													
General Retail	3,748	20,575,447	26,000	883,417	631,750	3.07%	869,804	4.22%	$2.95	(69,072)	(69,072)	63,755	63,755
Malls	70	3,827,634	300,000	0	20,494	0.54%	321,705	7.79%	$3.25	2,075	2,075	6,015	6,015
Power Centers	87	3,341,690	0	16,000	196,320	5.87%	36,320	1.09%	-	(2,225)	(2,225)	0	0
Shopping Centers	711	10,967,440	0	800	428,030	3.90%	565,297	5.15%	$2.30	(14,781)	(14,781)	62,849	62,849
Specialty Centers	6	259,783	0	0	37,589	14.47%	27,558	10.61%	-	(306)	(306)	0	0
Central South Total	4,622	38,971,994	326,000	900,217	1,314,183	3.37%	1,820,684	4.63%	$2.75	(84,309)	(84,309)	132,619	132,619
East County													
General Retail	1,440	7,329,631	13,841	0	108,250	1.48%	129,822	1.77%	$2.42	(34,519)	(34,519)	19,881	19,881
Malls	22	2,241,374	0	16,862	172,362	7.69%	64,412	2.87%	-	0	0	0	0
Power Centers	55	1,387,434	0	0	82,498	5.95%	82,498	5.95%	-	(17,735)	(17,735)	0	0
Shopping Centers	575	8,285,414	0	188,529	355,243	4.29%	398,026	4.80%	$1.79	(27,276)	(27,276)	50,291	50,291
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	2,094	19,278,411	13,841	205,391	718,353	3.73%	674,758	3.50%	$1.89	(79,530)	(79,530)	70,172	70,172
I-15 Corridor													
General Retail	175	1,666,751	15,871	189,166	16,559	0.99%	18,259	1.09%	$1.71	3,500	3,500	3,500	3,500
Malls	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Power Centers	24	575,544	0	0	19,816	3.44%	5,527	0.96%	-	(13,648)	(13,648)	2,441	2,441
Shopping Centers	289	4,198,170	0	17,889	217,926	5.19%	254,524	6.06%	$3.55	(39,075)	(39,075)	23,486	23,486
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
I-15 Corridor Total	488	6,440,465	15,871	207,055	254,301	3.95%	278,310	4.31%	$2.83	(49,223)	(49,223)	29,427	29,427
North County													
General Retail	1,680	11,671,330	125,109	139,500	465,678	3.99%	399,424	3.39%	$1.79	2,813	2,813	30,344	30,344
Malls	26	2,916,678	0	0	296,130	10.15%	1,750	0.06%	-	37,443	37,443	37,443	37,443
Power Centers	109	3,265,022	5,000	4,000	181,392	5.56%	202,495	6.19%	-	(90,874)	(90,874)	20,241	20,241
Shopping Centers	977	14,898,998	0	380,598	879,518	5.90%	1,048,497	7.04%	$2.01	(350)	(350)	84,501	84,501
Specialty Centers	5	369,833	0	0	0	0.00%	0	0.00%	-	0	0	0	0
North County Total	2,797	33,121,861	130,109	524,098	1,822,718	5.50%	1,652,166	4.97%	$1.95	(50,968)	(50,968)	172,529	172,529
Central North													
General Retail	846	6,715,667	8,757	2,650	166,819	2.48%	203,632	3.03%	$4.46	10,414	10,414	21,352	21,352
Malls	20	1,709,643	0	0	222,594	13.02%	75,841	4.44%	$1.50	397	397	397	397
Power Centers	69	2,237,688	0	0	71,567	3.20%	73,780	3.30%	-	(11,143)	(11,143)	4,075	4,075
Shopping Centers	453	6,746,477	0	333,500	323,895	4.80%	390,913	5.79%	$3.71	(23,673)	(23,673)	44,016	44,016
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Central North Total	1,388	17,409,475	8,757	336,150	784,875	4.51%	744,166	4.27%	$3.38	(24,005)	(24,005)	69,840	69,840
South County													
General Retail	1,130	5,917,172	20,798	152,750	108,714	1.84%	194,871	3.28%	$1.62	(16,751)	(16,751)	26,450	26,450
Malls	45	2,590,725	0	0	209,675	8.09%	0	0.00%	-	0	0	0	0
Power Centers	33	1,025,738	0	3,000	1,112	0.11%	1,112	0.11%	-	0	0	0	0
Shopping Centers	551	9,259,241	0	41,773	502,639	5.43%	578,098	6.24%	$2.17	(89,988)	(89,988)	41,169	41,169
Specialty Centers	22	666,846	0	0	16,655	2.50%	50,734	7.61%	$1.60	0	0	0	0
South County Total	1,781	19,459,722	20,798	197,523	838,795	4.31%	824,815	4.23%	$2.01	(106,739)	(106,739)	67,619	67,619
San Diego Total	**13,170**	**134,681,928**	**515,376**	**2,370,434**	**5,733,225**	**4.26%**	**5,994,899**	**4.43%**	**$2.37**	**(394,774)**	**(394,774)**	**542,206**	**542,206**
General Retail	9,019	53,875,998	210,376	1,367,483	1,497,770	2.78%	1,815,812	3.36%	$2.61	(103,615)	(103,615)	165,282	165,282
Malls	183	13,286,054	300,000	16,862	921,255	6.93%	463,708	3.41%	$1.60	39,915	39,915	43,855	43,855
Power Centers	377	11,833,116	5,000	23,000	552,705	4.67%	401,732	3.39%	$2.25	(135,625)	(135,625)	26,757	26,757
Shopping Centers	3,556	54,355,740	0	963,089	2,707,251	4.98%	3,235,355	5.95%	$2.22	(195,143)	(195,143)	306,312	306,312
Specialty Centers	35	1,331,020	0	0	54,244	4.08%	78,292	5.88%	$1.60	(306)	(306)	0	0
San Diego Total	**13,170**	**134,681,928**	**515,376**	**2,370,434**	**5,733,225**	**4.26%**	**5,994,899**	**4.43%**	**$2.37**	**(394,774)**	**(394,774)**	**542,206**	**542,206**

Lease rates are on a triple-net basis.

Tentative Market

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In the three years since the COVID-19 pandemic, a lot has happened in the retail real estate market. Initially, drive-thru and fast-food sales surged, as that was the most viable option for consumers, in a practical sense. Since then, the retail marketplace has transitioned towards stability and the fast-food operators have seen sales pull back from the peaks of the last couple of years. The spike in fast-food sales has waned, but other trends have endured. Inflation was supposed to be transitory, and here three years after the outbreak of COVID, the Fed is still trying to rein it in. In the commercial real estate realm, inflation typically has a greater effect in the retail sector where operating margins can be thin. Food costs remain an issue, with the most recent high-profile example being the avian flu which caused egg prices to skyrocket. Three years after the COVID outbreak, staffing also remains a challenge. The service sector employment was one of the hardest hit by the shutdowns. Many of the employees who were displaced transitioned into other sectors or left the service industry altogether. There is still a glut of job openings in the service industry. In order to bring people in to staff the stores, there have been some increases in pay offered, but this places additional pressure on the bottom line.

Another recent trend which has endured is the competition from residential use on the acquisition and development side. Southern California has a chronic housing shortage, and, in the more densely populated areas, redeveloping a retail site can be a viable way to bring in more housing. Many retail sites have only about 20–25% 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.

One trend that is a more recent development is the increasing costs of capital. Well-capitalized operators, who have cash on their balance sheets, are currently at an advantage to retail operators who are reliant on financing. Financing costs are significantly higher than even one year ago.

Faced with high labor costs, high product costs, and high finance costs, I believe much of the retail market will take a pause on growth plans in the coming months to evaluate market conditions.

I've been through recessions in 1980, 1991, 2001, and 2008. You have to be light on your feet and able to act decisively. During tough times, those who are well-positioned can benefit, and there will be opportunities ahead.

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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