

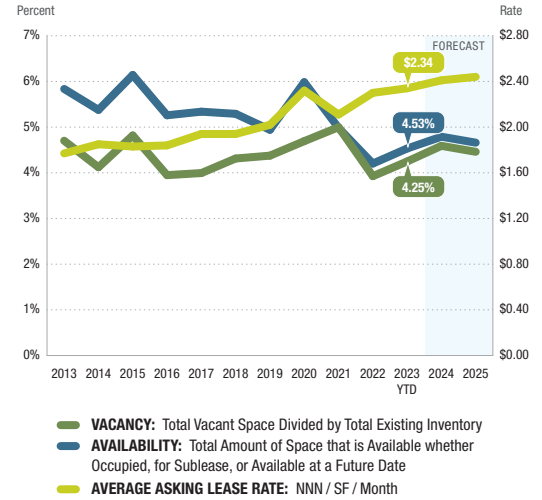
OVERVIEW. The local retail market has largely recovered from the pandemic-induced dip in occupancy. Activity remains light across leasing, sales, and construction measures. Average asking lease rates moved erratically following the 2020 pandemic as landlords struggled to navigate through unprecedented market conditions. 2022 saw asking rates return to steady increases which continued into the first half 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 Q2 2023 at 4.25%, practically unchanged from the previous quarter, but seven 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 4.53% at the end of Q2. This is a 1.4% increase versus Q2 2022. The gap between the vacancy rate and the availability rate was 28 basis points at the end of Q2. 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.

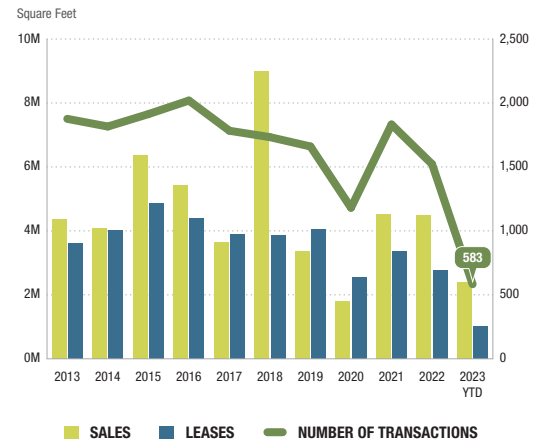
LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County ended Q2 at \$2.34, which is an increase of 5.4% compared with Q2 2022’s rate of \$2.22. The average asking lease rate has increased a total of 14.7% above the pre-pandemic level. Typically, new construction 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 Q2 was approximately 1 MSF, a 41.5% decrease from Q2 2022’s total of 1.6 MSF. There were 454,715 SF of leasing activity in Q2, only the second quarter of the past three years with less than 0.5 MSF of leasing activity. 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 are elevated compared with typical pre-pandemic volumes. Conversely, 137 retail buildings sold for a total of \$428 million in the first half of 2023, which puts the market on pace for the lowest annual totals since 2011, excluding the pandemic outbreak year of 2020. Rising interest rates and tightening lending standards are acting as headwinds in the current commercial property sales market. Among the largest sales of Q2 there were two retail properties acquired by residential developers, which has been a recurring theme, quarter

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

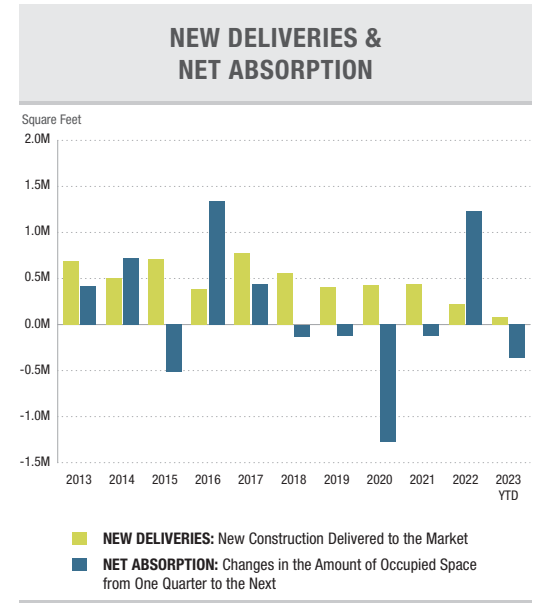
	Change Over Last Quarter	Q2 2023	Q1 2023	Q2 2022	% Change Over Last Year
Vacancy Rate	FLAT	4.25%	4.24%	4.32%	-1.76%
Availability Rate	UP	4.53%	4.43%	4.47%	1.41%
Average Asking Lease Rate	DOWN	\$2.34	\$2.35	\$2.22	5.41%
Sale & Lease Transactions	DOWN	956,964	2,451,290	1,636,972	(41.54%)
Gross Absorption	FLAT	562,709	542,206	1,100,667	(48.88%)
Net Absorption	POSITIVE	18,351	(382,207)	551,270	N/A

after quarter. 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 18,351 SF of positive net absorption in Q2, following 382,207 SF of negative net absorption in Q1 (which broke a streak of seven consecutive quarters of positive net absorption.) The General Retail segment of the market (retail properties not within a shopping center) accounted for 13,131 SF of negative net absorption in Q2, while the shopping center segments of the market modestly offset this with growth in their tenant footprints.

CONSTRUCTION. There were 28,129 SF of new construction deliveries in Q2, the lowest quarterly total in 11 years. The largest completion thus far in 2023 was the 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 Q2, 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 3.5% in May 2023, up from a revised 3.3% in April 2023, and above the year-ago estimate of 2.9%. This compares with an unadjusted unemployment rate of 4.5% for California and 3.4% for the nation during the same period. Over the 12-month period between May 2022 and May 2023, San Diego County employment increased by 42,500 jobs, an increase of 2.8%. With the normal delay in reporting from the California EDD, employment figures from June were unavailable at the time of publishing this report. For the nation as a whole, 209,000 jobs were added in June, the lowest monthly total in the past two and a half years.



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 second half of 2023.

Significant Transactions

Sales						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
1300 Orange Ave.	Coronado	41,949	\$40,000,000	Park 1	Paragon Real Estate Investment	
300 El Cajon Blvd.	El Cajon	35,200	\$21,200,000	KB Home	City Ventures	
1900 E. Plaza Blvd.	National City	55,321	\$11,250,000	Weiss Development	CIRE Partners	
5625 Paseo Del Norte	Carlsbad	10,262	\$10,300,000	Creekside Shops, LLC	Washington Capital Management	
6690-6696 Miramar Rd. & 8440 Miracrest Pl.	Miramar	34,015	\$9,910,000	CES Remington, LLC*	Four-Sher Development Company	

Leases					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
Civita Blvd. & Qualcomm Way	Mission Valley	25,000	Apr-2023	Jimbo's Naturally	Sudberry Properties
2445 Vista Way	Oceanside	16,556	May-2023	La-Z Boy	Oceanside America, LLC
275 Town Center Pkwy.	Santee	10,841	May-2023	Undisclosed	500 N. Magnolia Avenue, LLC
307 N. Coast Hwy.	Oceanside	8,685	Jun-2023	(Restaurant TBA)	JCT Properties, LLC
1177 Broadway	Chula Vista	7,187	May-2023	Alternative Behavior Strategy	Sunburst Capital, 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 Q2 2023	Square Feet Available	Availability Rate Q2 2023	Average Asking Lease Rate	Net Absorption Q2 2023	Net Absorption 2023	Gross Absorption Q2 2023	Gross Absorption 2023
Central South													
General Retail	3,743	20,481,668	26,000	908,417	627,118	3.06%	872,999	4.26%	\$2.74	2,335	(63,620)	103,272	167,027
Malls	70	3,827,813	300,000	0	15,694	0.41%	320,678	7.77%	-	4,800	6,875	6,300	12,315
Power Centers	87	3,341,690	0	16,000	196,320	5.87%	36,320	1.09%	-	0	(2,225)	0	0
Shopping Centers	711	10,970,949	0	800	458,358	4.18%	563,035	5.13%	\$2.26	(30,328)	(45,109)	45,973	108,822
Specialty Centers	6	259,783	0	0	24,906	9.59%	64,199	24.71%	-	12,683	12,377	12,683	12,683
Central South Total	4,617	38,881,903	326,000	925,217	1,322,396	3.40%	1,857,231	4.74%	\$2.58	(10,510)	(91,702)	168,228	300,847
East County													
General Retail	1,444	7,367,327	10,000	0	119,041	1.62%	140,510	1.90%	\$2.31	(10,022)	(44,541)	11,758	31,639
Malls	22	2,241,374	0	16,862	167,680	7.48%	59,730	2.66%	-	4,682	4,682	4,682	4,682
Power Centers	55	1,387,434	0	0	93,339	6.73%	40,498	2.92%	-	(10,841)	(28,576)	0	0
Shopping Centers	574	8,284,984	0	176,529	364,193	4.40%	384,045	4.64%	\$1.80	(8,950)	(36,226)	37,644	87,935
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	2,097	19,315,677	10,000	193,391	744,253	3.85%	624,783	3.23%	\$1.90	(25,131)	(104,661)	54,084	124,256
I-15 Corridor													
General Retail	175	1,666,751	0	189,166	16,559	0.99%	15,459	0.93%	\$3.25	0	3,500	0	3,500
Malls	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Power Centers	24	575,544	0	0	8,581	1.49%	8,581	1.49%	-	11,235	(2,413)	14,289	16,730
Shopping Centers	289	4,198,170	0	22,889	210,493	5.01%	255,690	6.09%	\$3.42	7,433	(31,642)	17,419	40,905
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
I-15 Corridor Total	488	6,440,465	0	212,055	235,633	3.66%	279,730	4.34%	\$3.40	18,668	(30,555)	31,708	61,135
North County													
General Retail	1,682	11,661,340	137,109	142,600	466,336	4.00%	411,376	3.49%	\$2.07	(458)	2,355	43,152	73,496
Malls	26	2,916,678	0	0	296,130	10.15%	1,750	0.06%	-	0	37,443	0	37,443
Power Centers	109	3,292,930	5,000	4,000	166,766	5.06%	192,879	5.85%	-	14,626	(76,248)	17,076	37,317
Shopping Centers	976	15,008,581	0	381,578	848,895	5.66%	1,159,352	7.72%	\$2.01	30,623	30,273	111,606	196,107
Specialty Centers	5	369,833	0	0	0	0.00%	0	0.00%	-	0	0	0	0
North County Total	2,798	33,249,362	142,109	528,178	1,778,127	5.35%	1,765,357	5.29%	\$2.02	44,791	(6,177)	171,834	344,363
Central North													
General Retail	854	6,746,275	3,757	5,000	161,462	2.39%	234,459	3.47%	\$3.73	8,007	18,421	24,260	45,612
Malls	20	1,716,835	0	0	218,273	12.71%	70,662	4.12%	\$1.50	4,321	4,718	4,321	4,718
Power Centers	69	2,237,688	0	0	75,493	3.37%	79,891	3.57%	-	(3,926)	(15,069)	2,093	6,168
Shopping Centers	451	6,738,401	0	333,500	333,884	4.95%	385,260	5.72%	\$3.68	(9,989)	(33,662)	40,694	84,710
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Central North Total	1,394	17,439,199	3,757	338,500	789,112	4.52%	770,272	4.42%	\$3.17	(1,587)	(25,592)	71,368	141,208
South County													
General Retail	1,127	5,844,370	17,600	151,750	130,192	2.23%	212,385	3.62%	\$1.73	(12,993)	(20,294)	19,017	45,467
Malls	45	2,590,725	0	0	209,675	8.09%	0	0.00%	-	0	0	0	0
Power Centers	33	1,000,149	0	3,000	1,112	0.11%	1,112	0.11%	-	0	0	0	0
Shopping Centers	550	9,251,087	11,223	30,550	495,731	5.36%	569,036	6.14%	\$2.20	6,908	(83,080)	46,470	87,639
Specialty Centers	27	755,240	0	0	18,450	2.44%	50,983	6.75%	\$1.60	(1,795)	(1,795)	0	0
South County Total	1,782	19,441,571	28,823	185,300	855,160	4.40%	833,516	4.28%	\$2.04	(7,880)	(105,169)	65,487	133,106
San Diego Total													
San Diego Total	13,176	134,768,177	510,689	2,382,641	5,724,681	4.25%	6,130,889	4.53%	\$2.34	18,351	(363,856)	562,709	1,104,915
General Retail	9,025	53,767,731	194,466	1,396,933	1,520,708	2.83%	1,887,188	3.50%	\$2.55	(13,131)	(104,179)	201,459	366,741
Malls	183	13,293,425	300,000	16,862	907,452	6.83%	452,820	3.33%	\$1.50	13,803	53,718	15,303	59,158
Power Centers	377	11,835,435	5,000	23,000	541,611	4.58%	359,281	3.03%	\$2.25	11,094	(124,531)	33,458	60,215
Shopping Centers	3,551	54,452,172	11,223	945,846	2,711,554	4.98%	3,316,418	6.09%	\$2.22	(4,303)	(199,446)	299,806	606,118
Specialty Centers	40	1,419,414	0	0	43,356	3.05%	115,182	8.11%	\$1.60	10,888	10,582	12,683	12,683
San Diego Total	13,176	134,768,177	510,689	2,382,641	5,724,681	4.25%	6,130,889	4.53%	\$2.34	18,351	(363,856)	562,709	1,104,915

Lease rates are on a triple-net basis.



Transitory Market

by **Spencer Kerrigan**

VICE PRESIDENT / PARTNER, SAN DIEGO

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

The headlines make it seem like commercial real estate is just waiting for the bottom to fall out. For some product types in some locations it very well might be—I don't think I'd like to be holding an office tower in San Francisco right now. However, that national headline is not reflective of the far smaller and more nimble San Diego market.

Yes, investors are less bullish now than they were when interest rates neared zero and money was abundant. Now, with debt rates outpacing cap rates, the number of investors willing to take on negative leverage is few. In some instances, when there is a clear pathway to stabilization and positive leverage, long-term investors are willing to take a hit for perhaps a year. However, the path has to be clear, with intrinsically strong real estate, and the capital partners must be confident. In an ever-changing world post-covid, only the strength of the real estate seems to shine through. The other factors—clear path and confidence—are a bit more challenging. Property lease-up is still strong, but by no means guaranteed. With investors earning more than 4% on the full faith and credit of the United States, the allure of commercial real estate at an equal or lower return is diminished. The bid-ask spread for retail property sales remains wide, and thus transaction volume has been reduced.

As an example, I recently had a buyer looking at a shopping center with some vacancy, but good real estate with quality tenants. Ultimately, the decision was made to bow out of the running when the road map to stabilization became less clear and the investors' confidence in the market wavered. Though the real estate was good, the risk of a prolonged lease-up period and some inherent lack of confidence in the tenants in place caused the group to pass on the opportunity.

The leasing side of market fundamentals further emphasizes the points above. Certain centers remain strong and in demand; however, the confidence and road maps ahead are hazy. This is in no small part the result of the cost of everything having gone up for the last few years. Consumers are seeing prices rise. Business owners are seeing labor challenges. And new tenants are finding their ballpark estimates for construction are always on the low end.

It's hard to know exactly what is to come. However, good real estate in our quaint "little" market seems to always have good interest. The question is whether or not the buyers are comfortable enough with the product, and the seller is willing to play ball on pricing. As long as rates remain elevated compared to previous years' levels, the debt buyers will remain reticent. The cash buyers are mostly on the sideline for now, waiting to enter the arena until the pricing starts to finally reflect the environment. It's a transitional time coming off an all-time red hot sellers' 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