

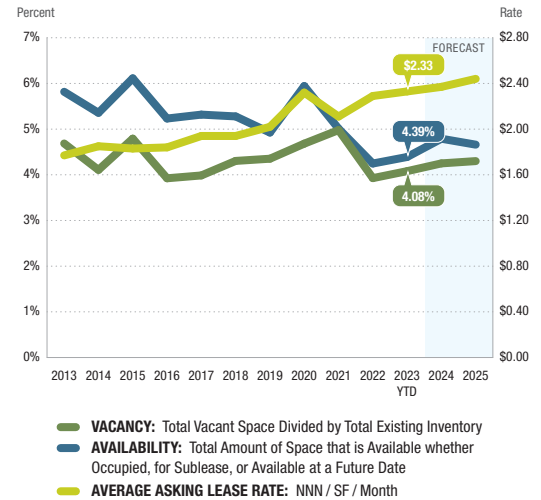
OVERVIEW. The local retail market has largely recovered from the pandemic-induced dip in occupancy. Activity remains light across leasing, sales, and construction measures. Average asking lease rates moved inconsistently following the 2020 pandemic as landlords struggled to navigate through unprecedented market conditions. 2022 saw asking rates return to steady increases which continued into the first half of 2023. The dramatic growth of e-commerce came at the expense of brick-and-mortar retail locations for many years. E-commerce growth is now tapering off to a more modest pace, and increasingly retailers are pursuing an omnichannel strategy, integrating physical and online strategies.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q3 2023 at 4.08%, eight 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 4.39% at the end of Q3. This is a 2.6% increase versus Q3 2022. The gap between the vacancy rate and the availability rate was 31 basis points at the end of Q3. Over the past decade, the average gap between these two figures has been 95 basis points. Some of this change can be attributed to the anemic construction pipeline. Available properties under construction count towards the availability rate, but not the vacancy rate. The reported number underrepresents the “true” availability rate as many mall owners are not marketing all of their available space in the open market.

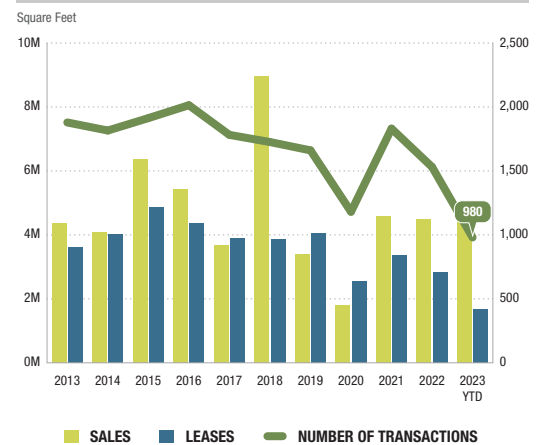
LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County ended Q3 at \$2.33, which is an increase of 4% compared with Q3 2022's rate of \$2.24. The average asking lease rate has increased a total of 14.2% from the pre-pandemic level. Typically, new construction 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 rate higher.

TRANSACTION ACTIVITY. The combined amount of retail property sold or leased during Q3 was approximately 2.8 MSF, a 71.4% increase from Q3 2022's total of 1.6 MSF. There were 523,167 SF of leasing activity in Q3. Leasing activity has slowed significantly. The average quarterly leasing volume of the last four quarters was 521,661 SF, while the preceding eight quarters had an average quarterly leasing volume of 808,019 SF. 86 retail buildings sold for a total of \$505 million in Q3. This sales total was bolstered by the sale of the Westfield Mission Valley regional mall. Larger sales have been rare in recent years. However, the Mission Valley mall was acquired by a developer with the intention of adding a significant number of apartments to the site. This acquisition of retail properties for residential redevelopment or expansion has been a recurring theme, quarter 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.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



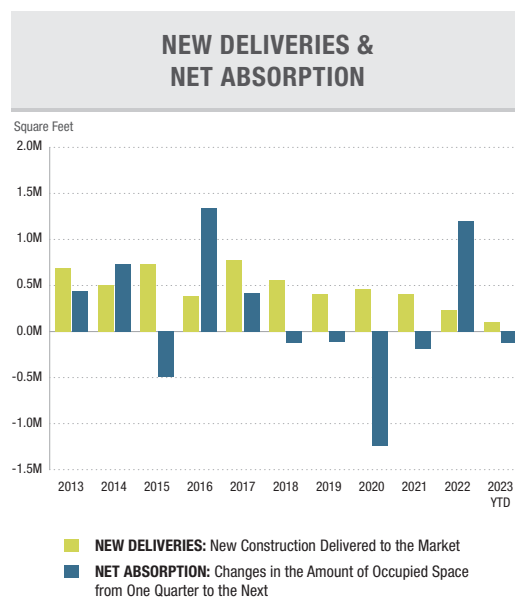
Market Statistics

	Change Over Last Quarter	Q3 2023	Q2 2023	Q3 2022	% Change Over Last Year
Vacancy Rate	▼ DOWN	4.08%	4.24%	4.16%	(1.77%)
Availability Rate	▼ DOWN	4.39%	4.60%	4.28%	2.58%
Average Asking Lease Rate	▲ UP	\$2.33	\$2.32	\$2.24	4.02%
Sale & Lease Transactions	▲ UP	2,762,640	1,259,361	1,611,802	71.40%
Gross Absorption	▲ UP	771,573	620,199	941,104	(18.01%)
Net Absorption	▲ POSITIVE	226,955	34,666	220,935	N/A

ABSORPTION. There were 226,955 SF of positive net absorption in Q3, bringing the net absorption total for the first three quarters of 2023 to negative 121,808 SF. The total retail tenant footprint in San Diego County has shrunk by a mere 0.10% thus far in 2023.

CONSTRUCTION. There were 21,665 SF of new construction deliveries in Q3, 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 Q3, 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 remains little appetite by developers to ramp up any large-scale developments at this time.

EMPLOYMENT. The unemployment rate in San Diego County was 4.3% in August 2023, up from a revised 3.9% in April 2023, and above the year-ago estimate of 3.5%. This compares with an unadjusted unemployment rate of 5.1% for California and 3.9% for the nation during the same period. Over the 12-month period between August 2022 and August 2023, San Diego County employment increased by 33,800 jobs, an increase of 2.2%. 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, 336,000 jobs were added in September, the second highest monthly total of the past year.



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. Leasing volume was and is below historic norms, which will dampen net absorption for the coming quarters. High interest rates and tightened lending standards are acting as headwinds in the current commercial property sales market.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1700 Camino Del Rio N.	Mission Valley	1,169,468	\$165,000,000	Lowe / Real Capital Solutions	Unibal-Rodamco-Westfield
1000 Camino Del Rio N.	Mission Valley	191,415	\$125,150,000	Sunbelt Investment Holdings	Unibal-Rodamco-Westfield
701 5th Ave.	Downtown	54,600	\$35,000,000	701 Fifth Ave Properties, LLC	OliverBuchananGroup
1601-1661 S. Melrose Dr.	Vista	136,475	\$28,525,000	Merlone Geier Management	Kimco Realty Corporation
600-644 W. Mission Ave. (Ground Lease, Leased Fee)	Escondido	180,112	\$28,500,000	Safco Capital Corporation	Mar & Associates

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
10511-10543 4S Commons Dr.	Rancho Bernardo	27,045	Jul-2023	RH Outlet	Regency Centers
9340-9396 Mira Mesa Blvd.	Mira Mesa	24,473	Jul-2023	Aldi	La Jolla Management
1410 E. Plaza Blvd.	National City	15,780	Sep-2023	Big Lots (Renewal)	Blue Owl
10512 Mission Gorge Rd.	Santee	14,758	Jul-2023	Extra Storage Space	(Sublease)
2355 E. Valley Pkwy.	Escondido	10,500	Jul-2023	Children's Choice	Arileus Capital*

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q3 2023	Square Feet Available	Availability Rate Q3 2023	Average Asking Lease Rate	Net Absorption Q3 2023	Net Absorption 2023	Gross Absorption Q3 2023	Gross Absorption 2023
Central South													
General Retail	3,735	20,494,809	26,000	1,036,732	616,096	3.01%	872,957	4.25%	\$2.66	(5,616)	(58,192)	98,039	273,581
Malls	70	3,822,207	300,000	0	11,864	0.31%	315,637	7.66%	-	3,830	10,705	10,642	22,957
Power Centers	87	3,341,690	0	16,000	196,320	5.87%	36,320	1.09%	-	0	(2,225)	0	0
Shopping Centers	713	11,047,381	0	800	490,459	4.44%	596,191	5.40%	\$2.26	(20,186)	(65,210)	45,761	162,868
Specialty Centers	6	259,783	0	0	24,906	9.59%	54,168	20.85%	-	0	12,377	0	12,683
Central South Total	4,611	38,965,870	326,000	1,053,532	1,339,645	3.44%	1,875,273	4.77%	\$2.53	(21,972)	(102,545)	154,442	472,089
East County													
General Retail	1,443	7,346,757	0	0	124,550	1.70%	113,798	1.55%	\$1.98	3,154	(40,050)	26,690	59,666
Malls	22	2,241,374	0	9,200	167,680	7.48%	59,730	2.66%	-	0	4,682	0	4,682
Power Centers	55	1,387,434	0	0	80,558	5.81%	52,058	3.75%	\$3.00	22,841	(15,795)	22,841	22,841
Shopping Centers	574	8,289,743	0	176,529	310,535	3.75%	388,927	4.69%	\$1.76	48,660	36,432	60,812	154,135
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	2,096	19,299,866	0	185,729	683,323	3.54%	614,513	3.18%	\$1.82	74,655	(14,731)	110,343	241,324
I-15 Corridor													
General Retail	175	1,666,751	0	189,166	15,679	0.94%	17,379	1.04%	\$3.25	2,000	4,380	2,800	6,300
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%	11,239	1.95%	-	0	(2,413)	0	16,730
Shopping Centers	289	4,184,583	12,964	22,889	187,486	4.48%	255,325	6.08%	\$3.80	24,797	(8,635)	50,823	92,428
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
I-15 Corridor Total	488	6,426,878	12,964	212,055	211,746	3.29%	283,943	4.41%	\$3.75	26,797	(6,668)	53,623	115,458
North County													
General Retail	1,682	11,724,119	131,432	132,600	534,576	4.56%	487,406	4.11%	\$2.24	(23,946)	(64,935)	44,220	119,444
Malls	26	2,916,678	0	0	294,380	10.09%	0	0.00%	-	1,750	39,193	1,750	39,193
Power Centers	111	3,306,309	0	4,000	141,383	4.28%	184,062	5.57%	-	15,517	(45,865)	15,517	69,400
Shopping Centers	975	15,040,479	0	396,070	755,215	5.02%	1,027,824	6.83%	\$2.03	86,482	120,301	181,233	379,195
Specialty Centers	5	369,833	0	0	370	0.10%	370	0.10%	-	(370)	(370)	0	0
North County Total	2,799	33,357,418	131,432	532,670	1,725,924	5.17%	1,699,662	5.08%	\$2.09	79,433	48,324	242,720	607,232
Central North													
General Retail	860	7,037,859	7,187	5,000	119,643	1.70%	231,246	3.28%	\$2.81	44,619	59,540	72,727	121,275
Malls	20	1,684,394	0	0	204,399	12.13%	56,788	3.37%	\$1.50	13,874	18,592	13,874	18,592
Power Centers	68	2,211,421	0	0	71,565	3.24%	71,430	3.23%	-	3,928	(11,141)	5,678	11,846
Shopping Centers	451	6,759,922	0	333,500	323,302	4.78%	360,659	5.34%	\$3.68	3,308	(23,080)	33,770	123,790
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Central North Total	1,399	17,693,596	7,187	338,500	718,909	4.06%	720,123	4.07%	\$2.71	65,729	43,911	126,049	275,503
South County													
General Retail	1,131	5,852,192	18,330	150,629	115,105	1.97%	193,216	3.29%	\$1.86	11,015	(4,078)	32,090	82,758
Malls	45	2,590,725	0	0	209,675	8.09%	0	0.00%	-	0	0	0	0
Power Centers	33	1,030,668	0	3,000	1,112	0.11%	1,112	0.11%	-	0	0	0	0
Shopping Centers	550	9,252,986	10,500	30,550	496,877	5.37%	518,641	5.60%	\$2.20	(8,702)	(84,226)	52,306	144,897
Specialty Centers	27	755,238	0	0	18,450	2.44%	50,543	6.69%	\$1.60	0	(1,795)	0	0
South County Total	1,786	19,481,809	28,830	184,179	841,219	4.32%	763,512	3.91%	\$2.11	2,313	(90,099)	84,396	227,655
San Diego Total													
San Diego Total	13,179	135,225,437	506,413	2,506,665	5,520,766	4.08%	5,957,026	4.39%	\$2.33	226,955	(121,808)	771,573	1,939,261
General Retail	9,026	54,122,487	182,949	1,514,127	1,525,649	2.82%	1,916,002	3.53%	\$2.48	31,226	(103,335)	276,566	663,024
Malls	183	13,255,378	300,000	9,200	887,998	6.70%	432,155	3.19%	\$1.50	19,454	73,172	26,266	85,424
Power Centers	378	11,853,066	0	23,000	499,519	4.21%	356,221	3.01%	\$3.00	42,286	(77,439)	44,036	120,817
Shopping Centers	3,552	54,575,094	23,464	960,338	2,563,874	4.70%	3,147,567	5.76%	\$2.25	134,359	(24,418)	424,705	1,057,313
Specialty Centers	40	1,419,412	0	0	43,726	3.08%	105,081	7.40%	\$1.60	(370)	10,212	0	12,683
San Diego Total	13,179	135,225,437	506,413	2,506,665	5,520,766	4.08%	5,957,026	4.39%	\$2.33	226,955	(121,808)	771,573	1,939,261

Lease rates are on a triple-net basis.



The Walls are Closing In...

by **Max Stone**

SENIOR ASSOCIATE, SAN DIEGO

858.458.3348 · mstone@voitco.com · Lic. #01944151

San Diego has seen population growth return to post-pandemic levels in 2023. While media outlets have been quick to highlight California's overall population decline, it's important to put California's modest losses into perspective, given the consistent influx of newcomers in San Diego. What will we do to keep up with this growth in the consumer base?

While this is a retail discussion, we can't talk about retail consumerism without talking about where consumers live. Over the past decade, the San Diego housing shortage has been met with construction and growth driven by leniency among municipalities for high-rise residential development. Geographically, San Diego doesn't have much expansion space, and this forces residential projects to go vertical. However, as we build upwards, single-story properties such as retail get caught in the crosshairs. As a result, we've witnessed the demolition of retail buildings throughout the city with few or no new retail buildings to take their place. Recent headwinds such as the escalating cost of capital, insurance complications, rising construction costs, and overwhelmed city planning desks have effectively put a halt on any new retail construction.

It's no secret that California has its share of challenges, as we have seen highly publicized relocations of major companies to other states. Yet, despite California's perceived political and economic woes, the local population continues to swell, as San Diego has a vibrant economy and is one of the only cities in the sunbelt where people can live comfortably without an HVAC system. We have the most temperate climate in the country and a beautiful coastline. It's no wonder that San Diego continues to attract ambitious entrepreneurs eager to establish new businesses in the hospitality or technology sectors.

The current state of the retail market in San Diego can be summarized as a supply shortage, driven by geographical and financial limitations, juxtaposed with an influx of enterprising professionals. In this economic landscape, it's only natural for our market to trend upward. San Diego will remain a safe haven for investors seeking reliable appreciation over the next several years. When you buy in San Diego, you aren't just buying the hard corner or the grocery anchored shopping center, you are buying into the beach, climate and people who want to be here. The walls are closing in and the number of available properties is shrinking--a trend that savvy investors should keep an eye on.

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