



RETAIL MARKET REPORT  
SAN DIEGO, CA | Q1 OF 2023

**NAI** San Diego

SOURCE: COSTAR

| 12 Mo Deliveries in SF | 12 Mo Net Absorption in SF | Vacancy Rate | 12 Mo Rent Growth |
|------------------------|----------------------------|--------------|-------------------|
| 167K                   | 519K                       | 4.3%         | 5.2%              |

There has been general agreement among market participants that San Diego's retail sector finds itself in a position of strength. Net absorption has been positive during the past seven quarters, which has been the longest consecutive quarterly streak in the past 10 years. That has resulted in a year-over-year vacancy change of -0.4% to 4.3%, which is in line with historical norms, after a net of about 520,000 SF was absorbed in the past 12 months. More notably, the availability rate is trending at its lowest level in the past 10 years at 4.4%. That metric may be a better barometer of inventory due to many dark spaces not being advertised for lease.

New leasing activity has slipped over the past two quarters as occupancy has fully recovered. Given the strength of overall demand, waning leasing activity is more a function of less space than of less interest. Even prior to that, leasing behavior among retailers has shifted relative to pre-pandemic norms. The average new retail lease is trending at its smallest size in nearly 10 years as many adapt to shifting consumer preferences toward e-commerce, a shift that accelerated due to the pandemic.

Rents are up 5.2% year over year, compared to the long-term average of 3.0%. Even so, when accounting for inflation, rents are still falling in real terms. Landlords of high-end or well-located space are expected to have pricing power in 2023, while landlords with stale space may have to begin lowering rents. That could give leverage to tenants for the first time in several years.

The current pipeline of around 530,000 SF is filled primarily with the retail portion of the Campus at Horton in Downtown, a 300,000-SF lifestyle center. It has reportedly lined up several letters of intent to occupy the property. Otherwise, most projects are smaller infill developments, single-tenant pads, or smaller freestanding buildings from Oceanside to Imperial Beach

that have been pre-leased. Among the largest of those projects is a new BMW dealership in Car Country Carlsbad covering 65,000 SF that is scheduled to open in 2023.

There have been a few announcements about impending closures. Among the most recent were five Bed Bath & Beyond branches totaling roughly 165,000 SF which was announced in early 2023. That was roughly half of the retailer's local footprint and spread from 4S Ranch and San Marcos to Chula Vista and Carlsbad. Tuesday Morning also announced that it's closing five stores in San Diego in 2023, covering approximately 50,000 SF. And while store closures may rise above the level from 2022, there is an expectation that it will not reach the level seen in the years prior to the pandemic.

Many of those vacant anchors and big-box sites, of which there are few, could provide an opportunity for owners to redevelop into multifamily or mixed-use that would not only help the housing picture in San Diego, but it would also help boost occupancy. Several of these sites have been purchased since 2021 with the intent of repositioning into housing, and those redevelopment deals account for more than 1% of the market's inventory. The State of California passed a law at the end of 2022 which would streamline the process to allow for the development of affordable housing on vacant and underutilized commercial properties such as big boxes, strip centers or office buildings.

With interest rates on the rise, deal flow and investment volume have slowed since the middle of 2022. Buyers are being more selective as the cost of debt has made for a more challenging investment market. Local participants anticipate that cap rates could rise upwards of 100 basis points to reflect the current environment.

### KEY INDICATORS

| Current Quarter     | RBA                | Vacancy Rate | Market Rent    | Availability Rate | Net Absorption SF | Deliveries SF | Under Construction |
|---------------------|--------------------|--------------|----------------|-------------------|-------------------|---------------|--------------------|
| Malls               | 13,431,944         | 6.9%         | \$43.70        | 3.4%              | 0                 | 0             | 300,000            |
| Power Center        | 11,833,116         | 4.6%         | \$38.22        | 3.4%              | 7,400             | 0             | 5,000              |
| Neighborhood Center | 44,506,035         | 5.3%         | \$34.42        | 6.3%              | (28,847)          | 0             | 12,950             |
| Strip Center        | 11,221,858         | 4.6%         | \$28.81        | 5.3%              | (14,693)          | 0             | 0                  |
| General Retail      | 55,913,853         | 2.8%         | \$31.35        | 3.3%              | (25,924)          | 0             | 210,376            |
| Other               | 1,586,020          | 3.4%         | \$38.17        | 4.9%              | 0                 | 0             | 0                  |
| <b>Market</b>       | <b>138,492,826</b> | <b>4.3%</b>  | <b>\$34.01</b> | <b>4.4%</b>       | <b>(62,064)</b>   | <b>0</b>      | <b>528,326</b>     |

| Annual Trends        | 12 Month | Historical Average | Forecast Average | Peak      | When    | Trough      | When    |
|----------------------|----------|--------------------|------------------|-----------|---------|-------------|---------|
| Vacancy Change (YOY) | -0.4%    | 4.5%               | 4.4%             | 5.7%      | 2010 Q4 | 3.2%        | 2007 Q2 |
| Net Absorption SF    | 519K     | 331,329            | 154,178          | 2,276,300 | 2007 Q2 | (1,826,825) | 2009 Q3 |
| Deliveries SF        | 167K     | 662,320            | 572,703          | 1,570,233 | 2006 Q4 | 168,492     | 2023 Q1 |
| Rent Growth          | 5.2%     | 1.8%               | 2.0%             | 5.3%      | 2023 Q1 | -4.6%       | 2009 Q4 |
| Sales Volume         | \$1.2B   | \$992.1M           | N/A              | \$2.1B    | 2022 Q1 | \$244.6M    | 2009 Q4 |



Consumers and retailers are both dealing with persistent inflation and high interest rates, which could begin to impact consumer demand. Yet that is juxtaposed against San Diego's retail market navigating 2023 in one of its strongest positions in years.

A few big boxes have newly opened up after Bed Bath & Beyond announced a wave of closures across the United States at the start of 2023. Five locations were in San Diego County totaling about 165,000 SF.

Although several big boxes are dark, from Chula Vista to North County, many are not actively being marketed for lease which has narrowed the spread between vacancy and availability to its tightest level in 10 years. For that reason, San Diego's availability rate of 4.4% may be a better metric to watch. That rate is nearly 100 basis points lower than what trended before 2020 and trending near its lowest level in 10 years.

Instead, redevelopment and adaptive reuse are likely in many of their collective futures.

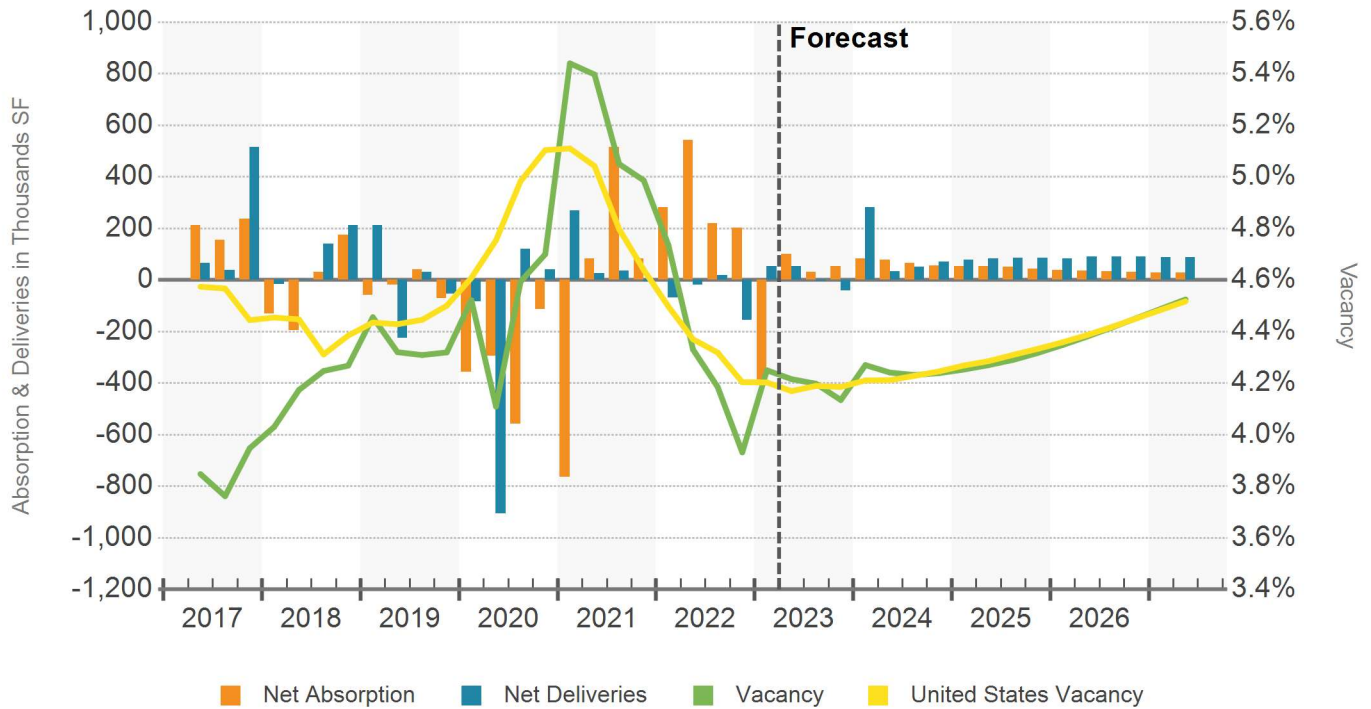
The two Fry's locations that closed in early 2021 opened up more than 300,000 SF of vacant space in Kearny Mesa and San Marcos. The Kearny Mesa location sits on 15 acres beside Interstate 15 and could be redeveloped into housing in the coming years according to local chatter. Zoning at the site would permit more than 1,600 dwelling units. The 140,000-SF San Marcos location was leased by Costco Business Center at the end of 2021, making it one of the rare big-box sites to lease to a single retail tenant over that period. A traditional Costco store is also lined up to take the former 150,000-SF Sears space at Westfield North County in Escondido after getting city approval in mid-2022. That Sears location had closed ahead of the pandemic,

although it is still likely several years from opening.

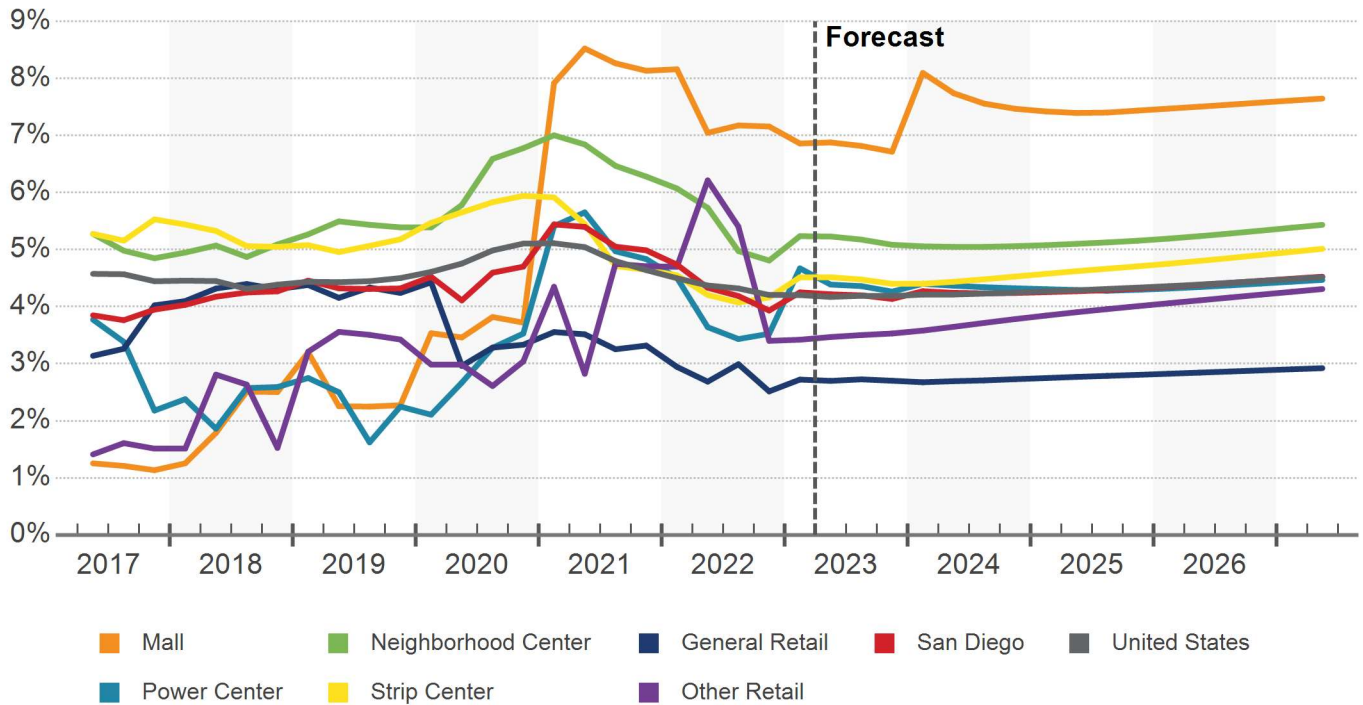
Amid a secular shift in how retailers have responded to e-commerce and consumer preferences, the average new lease size has fallen by 20% compared to the five years ahead of the pandemic. That has also been reinforced by the rise in leasing activity by quick-service restaurants. Even so, local brokers point to strong retail sites increasingly diminishing, "all of the best spaces have been leased," is a common vernacular, and much of the space that has been sitting on the market for extended periods is less competitive. Those spaces have become staler and are often in less desirable locations, resulting in the median months on market rising to its highest level in five years during the second quarter.

Downtown San Diego's retail scene has largely recovered, even as it maintains one of the highest retail vacancy rates in the region, a similar burden shared by the local office market here. Target is opening its first location there in the bottom of The Radian, an apartment development in the East Village. That will bring the retailer's small-store concept to the CBD. But one significant challenge for Downtown has been the spread of homelessness. That has proven challenging for landlords with premier restaurant and retail space, many of which have sat vacant for long stretches. Even near Petco Park, where fans are swarming the stadium pre- and post-Padres games, vacancies are common due to the prevalence of the homeless and more open illicit activity. Private security for apartment buildings and other spaces has become a more common sight to clean up debris and prevent tents from being erected. That is one of the primary reasons that has led to the median time on the market for available space rising to its highest level in a decade there.

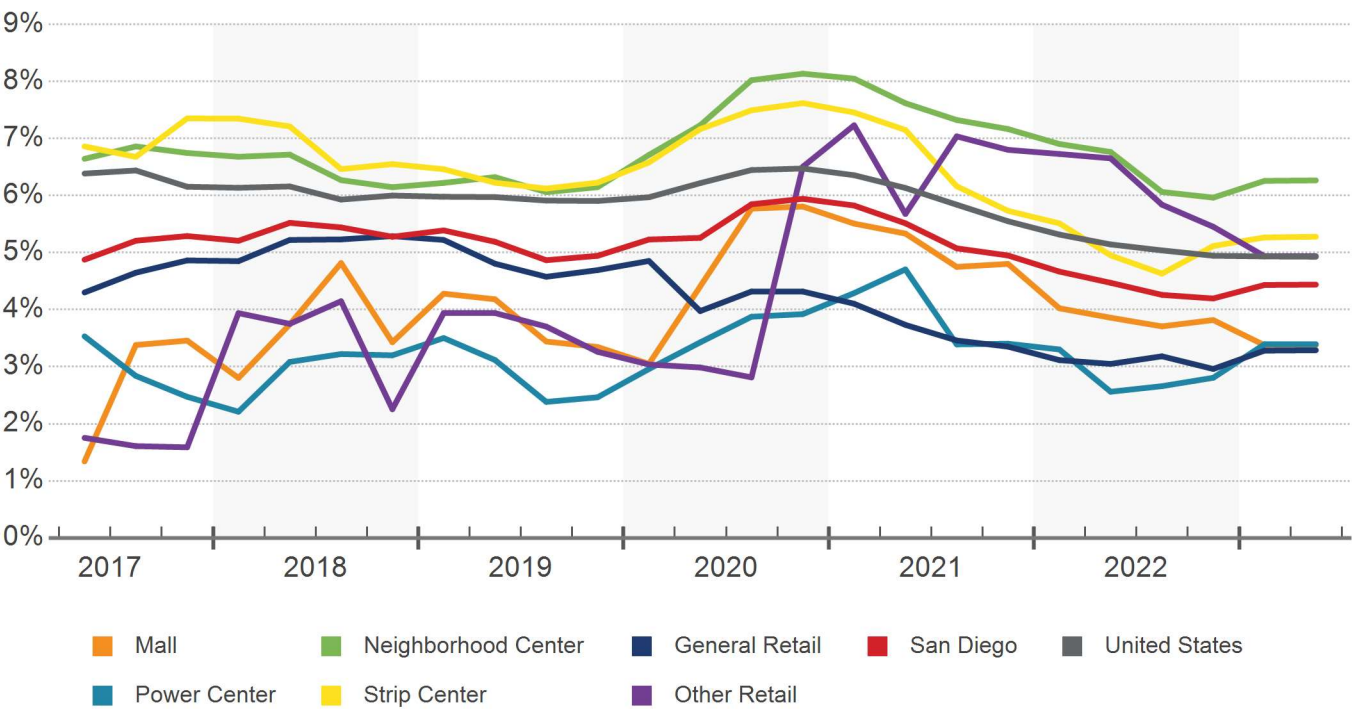
## NET ABSORPTION, NET DELIVERIES & VACANCY



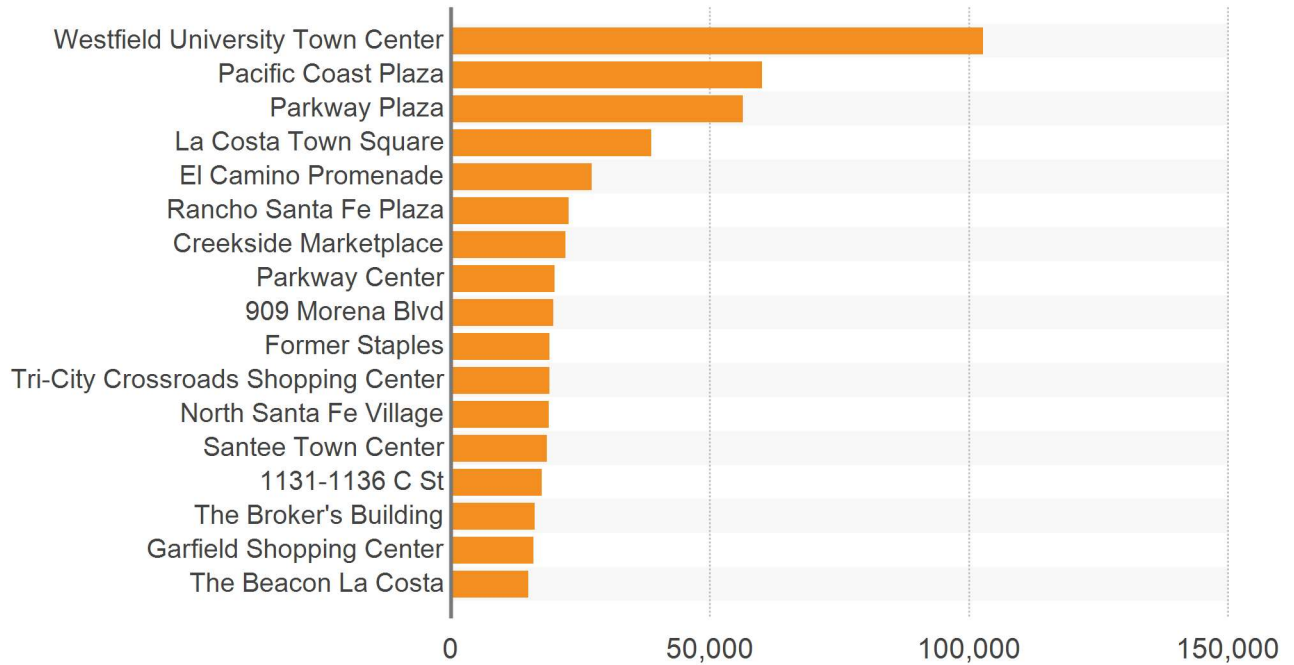
## VACANCY RATE



AVAILABILITY RATE



### 12 MONTH NET ABSORPTION SF IN SELECTED BUILDINGS



| Building Name/Address               | Submarket              | Bldg SF            | Vacant SF        | Net Absorption SF |                 |          |          |                |
|-------------------------------------|------------------------|--------------------|------------------|-------------------|-----------------|----------|----------|----------------|
|                                     |                        |                    |                  | 1st Qtr           | 2nd Qtr         | 3rd Qtr  | 4th Qtr  | 12 Month       |
| Westfield University Town Center    | UTC Ret                | 187,000            | 0                | 0                 | 0               | 0        | 0        | 102,800        |
| Pacific Coast Plaza                 | Oceanside Ret          | 80,903             | 1,625            | 0                 | 0               | 0        | 0        | 60,171         |
| Parkway Plaza                       | El Cajon Ret           | 455,781            | 0                | 0                 | 0               | 0        | 0        | 56,458         |
| La Costa Town Square                | Carlsbad Ret           | 86,580             | 28,000           | 0                 | 0               | 0        | 0        | 38,702         |
| El Camino Promenade                 | Cardiff/Encinitas Ret  | 91,152             | 0                | 0                 | 0               | 0        | 0        | 27,261         |
| Rancho Santa Fe Plaza               | San Marcos Ret         | 49,177             | 1,800            | (1,800)           | 0               | 0        | 0        | 22,754         |
| Creekside Marketplace               | San Marcos Ret         | 89,603             | 0                | 0                 | 0               | 0        | 0        | 22,202         |
| Parkway Center                      | El Cajon Ret           | 76,140             | 21,800           | (5,400)           | 0               | 0        | 0        | 20,035         |
| 909 Morena Blvd                     | Pacific Beach/Moren... | 20,500             | 0                | 0                 | 0               | 0        | 0        | 19,824         |
| Former Staples                      | Poway Ret              | 19,080             | 0                | 0                 | 0               | 0        | 0        | 19,080         |
| Tri-City Crossroads Shopping C...   | Oceanside Ret          | 34,152             | 0                | 15,000            | 0               | 0        | 0        | 19,036         |
| North Santa Fe Village              | Vista Ret              | 46,643             | 0                | 0                 | 0               | 0        | 0        | 19,000         |
| Santee Town Center                  | Santee Ret             | 42,175             | 0                | 0                 | 0               | 0        | 0        | 18,594         |
| 1131-1136 C St                      | Downtown Ret           | 17,567             | 0                | 0                 | 0               | 0        | 0        | 17,567         |
| The Broker's Building               | Downtown Ret           | 43,297             | 26,556           | 0                 | 0               | 0        | 0        | 16,194         |
| Garfield Shopping Center            | Clarmnt/KM/Tierras...  | 28,000             | 0                | 0                 | 0               | 0        | 0        | 16,000         |
| The Beacon La Costa                 | Carlsbad Ret           | 31,465             | 11,657           | 0                 | 0               | 0        | 0        | 15,034         |
| <b>Subtotal Primary Competitors</b> |                        | <b>1,399,215</b>   | <b>91,438</b>    | <b>7,800</b>      | <b>0</b>        | <b>0</b> | <b>0</b> | <b>510,712</b> |
| Remaining San Diego Market          |                        | 137,253,820        | 5,866,242        | (395,464)         | (62,064)        | 0        | 0        | (1,262)        |
| <b>Total San Diego Market</b>       |                        | <b>138,653,035</b> | <b>5,957,680</b> | <b>(387,664)</b>  | <b>(62,064)</b> | <b>0</b> | <b>0</b> | <b>509,450</b> |

## TOP RETAIL LEASES PAST 12 MONTHS

| Building Name/Address               | Submarket             | Leased SF | Qtr   | Tenant Name                  | Tenant Rep Company       | Leasing Rep Company        |
|-------------------------------------|-----------------------|-----------|-------|------------------------------|--------------------------|----------------------------|
| Metroplex Shopping Center *         | Miramar/M Mesa/S Rnch | 42,318    | Q3 22 | Woodbridge Interiors         | -                        | Omninet Capital            |
| 1280 N Melrose Dr                   | Vista                 | 35,214    | Q2 22 | American Marble              | -                        | -                          |
| 1170 W Morena Blvd *                | Pacific Beach/Morena  | 30,464    | Q2 22 | Coles Fine Flooring          | -                        | -                          |
| Diane Shopping Center               | Clarmnt/KM/Tierrasnta | 27,000    | Q4 22 | Lighthouse Bible Church      | DUHS Commercial          | Pacific Coast Commercial   |
| Plaza De Las Palmas                 | El Cajon              | 21,440    | Q1 23 | -                            | -                        | Inland Pacific             |
| Creekside Marketplace               | San Marcos            | 20,388    | Q2 22 | Total Wine & More            | -                        | Retail Insite              |
| Former Staples                      | Poway                 | 19,080    | Q2 22 | City Fun Center              | Kidder Mathews           | Lee & Associates Com...    |
| The Pavilion Shopping Center *      | Vista                 | 17,851    | Q2 22 | North Park Produce           | -                        | -                          |
| The Broker's Building               | Downtown              | 17,332    | Q2 22 | Wonderspaces                 | -                        | PE Management Group        |
| 3893-3993 54th St                   | Mid City/SE San Diego | 15,527    | Q2 22 | -                            | -                        | Retail Insite              |
| Rancho Bernardo Town Center         | Carmel Mountain Ranch | 15,430    | Q2 22 | The Boxing Club              | -                        | Boardwalk Developme...     |
| 2770 Glebe Rd                       | East County           | 15,148    | Q4 22 | Greater Life SD Church       | -                        | DUHS Commercial            |
| Tri-City Crossroads Shopping Center | Oceanside             | 15,000    | Q4 22 | Modern Airsoft               | Pacific Coast Comm...    | CBRE                       |
| Commerce Square Shopping Center     | San Marcos            | 14,792    | Q3 22 | Harbor Freight Tools         | -                        | CBRE                       |
| El Norte Parkway Plaza              | Escondido             | 14,384    | Q2 22 | Ace Hardware                 | -                        | Springstead & Associates   |
| Carmel Mountain Plaza               | Carmel Mountain Ranch | 14,289    | Q1 23 | Sola Salon Studios           | -                        | Retail Insite              |
| Central Lakeside Shopping Center    | Lakeside              | 13,969    | Q2 22 | Grocery Outlet               | -                        | Voit Real Estate Services  |
| Del Oro Marketplace                 | Oceanside             | 13,795    | Q3 22 | Dollar Tree                  | -                        | Highland Partners          |
| 1 Columbia Place                    | Downtown              | 12,913    | Q3 22 | -                            | -                        | CBRE                       |
| 212 N Tremont St                    | Oceanside             | 12,710    | Q1 23 | FCH                          | -                        | Next Wave Commercial       |
| Coronado Village Center             | Imperial Bch/South SD | 11,800    | Q2 22 | ABO Plasma                   | DUHS Commercial          | DUHS Commercial            |
| Castle Park Retail Center           | Chula Vista           | 11,300    | Q2 22 | AutoZone                     | -                        | Flocke & Avoyer Comm...    |
| Miramar Center                      | Mira Mesa/Miramar     | 10,368    | Q3 22 | Luxury Outdoor Solutions,... | -                        | Voit Real Estate Services  |
| Exchange at Miramar Road            | Miramar/M Mesa/S Rnch | 10,287    | Q2 22 | CrossFit Fortius             | -                        | Cushman & Wakefield        |
| Marketplace del Rio                 | Oceanside             | 10,200    | Q3 22 | Crab Pub                     | Retail Opportunity In... | Retail Opportunity Inve... |
| Los Coches Village                  | Carlsbad              | 10,080    | Q1 23 | -                            | -                        | CBRE                       |
| The Headquarters                    | Downtown              | 10,031    | Q1 23 | -                            | -                        | Retail Property Advisors   |
| Fifth Avenue                        | Downtown              | 9,903     | Q1 23 | -                            | -                        | Flocke & Avoyer Comm...    |
| El Camino Promenade                 | Cardiff/Encinitas     | 9,771     | Q2 22 | 5 Below                      | Retail Insite            | Kimco Realty Corporation   |
| Westfield University Town Center    | UTC                   | 9,608     | Q2 22 | -                            | -                        | Star Retail Advisors       |
| Palomar Village                     | Chula Vista           | 9,226     | Q4 22 | Ojos Locos Sports Cantina    | -                        | DUHS Commercial            |
| Bernardo Center                     | Carmel Mountain Ranch | 8,855     | Q3 22 | Discount Tire                | -                        | Flocke & Avoyer Comm...    |
| 1 Columbia Place                    | Downtown              | 8,845     | Q3 22 | Balanced Fitness             | -                        | CBRE                       |
| 2704 Highland Ave                   | National City         | 8,400     | Q1 23 | Elite Furniture              | -                        | Woodbridge Investmen...    |
| Navajo Shopping Center              | La Mesa               | 8,000     | Q2 22 | Sola Salon Studios           | -                        | Regency Centers            |
| Mira Mesa Shopping Center West      | Miramar/M Mesa/S Rnch | 8,000     | Q3 22 | Shake Shack                  | Flocke & Avoyer Co...    | Mesa Centers;Newmark       |
| Seaport Village San Diego           | Downtown              | 7,989     | Q4 22 | Cork & Batter                | Retail Insite            | Retail Insite              |
| Plaza San Marcos *                  | San Marcos            | 7,518     | Q2 22 | Club Tropics                 | -                        | Retail Insite              |
| Fire Mountain Center                | Oceanside             | 7,500     | Q1 23 | Ortho Mattress               | -                        | Retail Insite              |
| 2002 S Coast Hwy 101                | Oceanside             | 7,400     | Q3 22 | -                            | -                        | Location Matters           |

\*Renewal



Retail rents have grown 5.2% year over year, compared to the long-term average of 3.0%. However, when adjusting for inflation, rent growth in real terms is still in negative territory. For more high-profile space, landlords are continuing to push the envelope on rents while offering very little in the way of concessions. There is an expectation that rents in B and C locations will see a downward revision in 2023, and tenants are likely to have some leverage, unlike the past few quarters. But concessions generally don't rise above three months free for a five-year term and TI allowances are seldom offered. Amid that environment, brokers have reported that more local retailers are struggling to pay their rent.

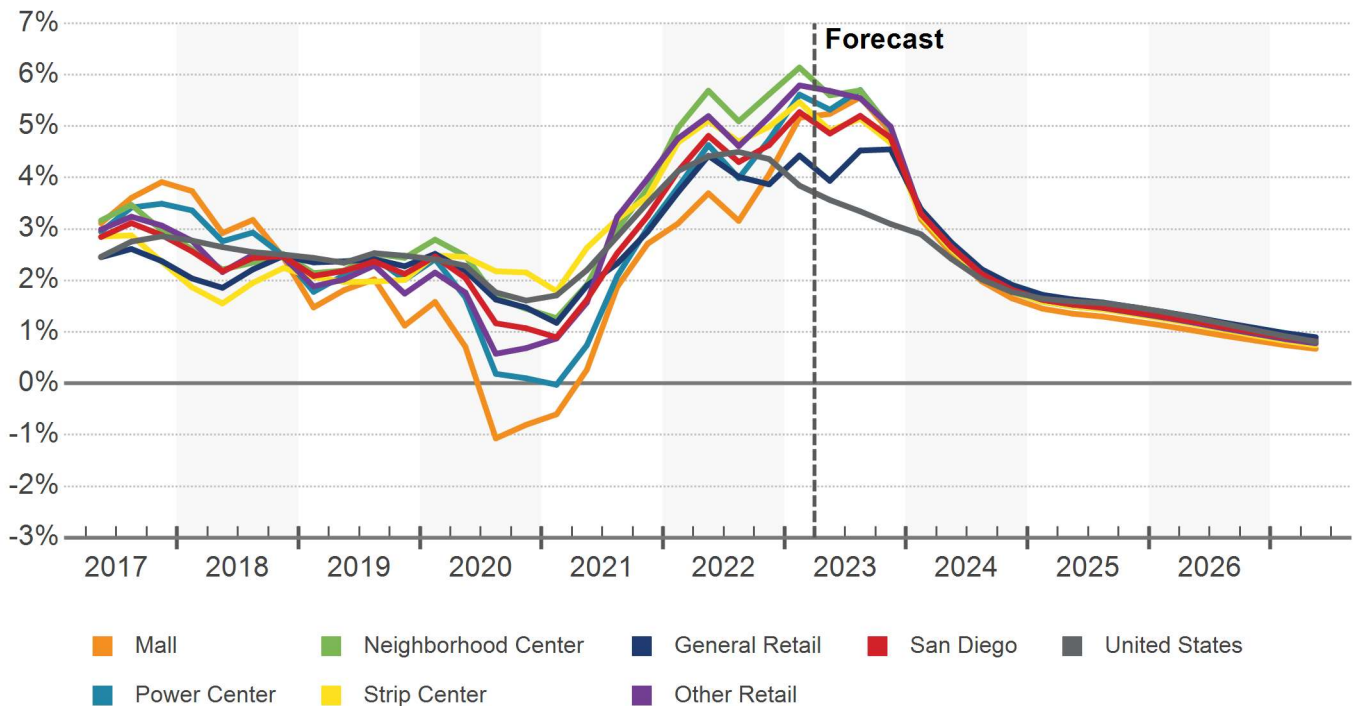
Rent growth in mall continues to struggle at 5.1% on an annualized basis. As the vacancy rate in power centers

has stabilized, rents have grown by 5.5% year over year after facing a similar drop in rents as malls did earlier in the pandemic.

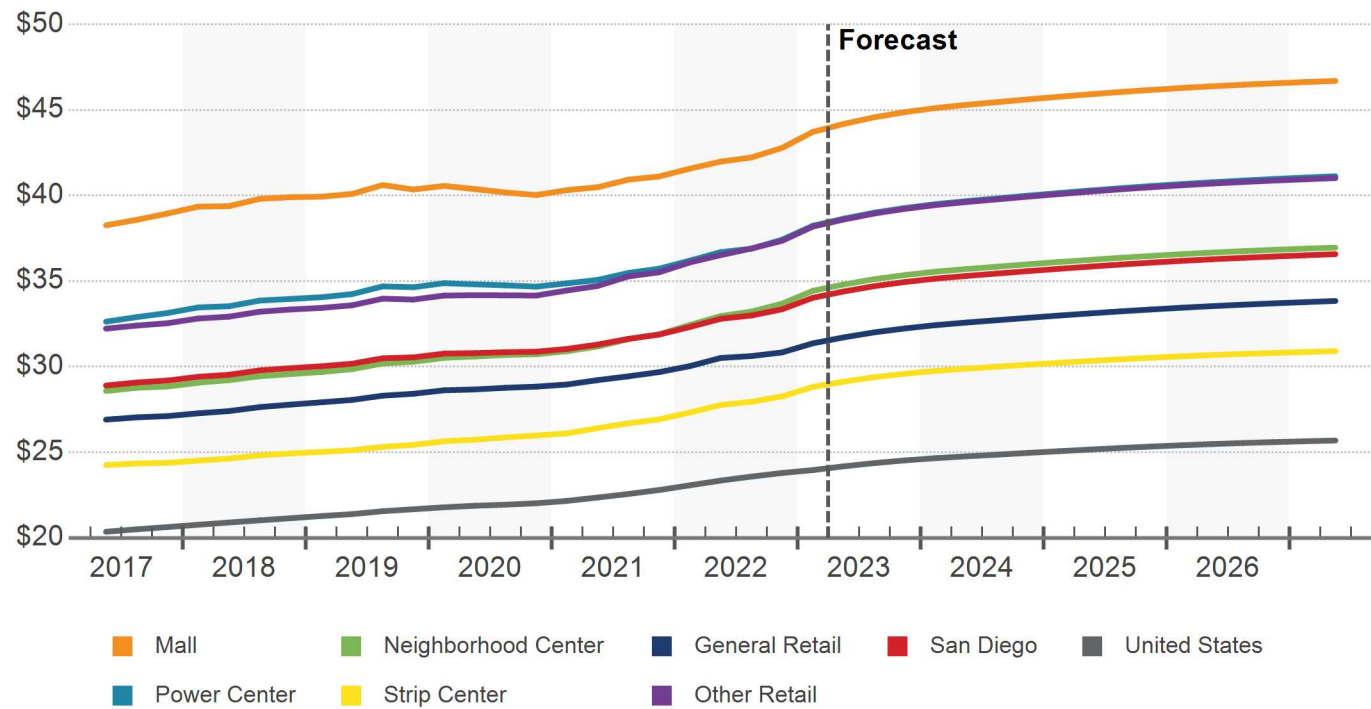
Rents in general retail space have grown by 4.3% year over year, while rents in strip centers are up 5.4%. Strip centers often include more internet-proof tenant mixes, which has helped that segment maintain stability.

Although there was a commercial eviction moratorium that has since expired, many local landlords successfully negotiated rent payment schedules with tenants that were instrumental in maintaining stable occupancy in these retail sectors, which are often filled with local businesses.

MARKET RENT GROWTH (YOY)



MARKET RENT PER SQUARE FEET



San Diego's pipeline is filled with roughly 530,000 SF of retail space under construction, representing 0.4% of total inventory. Over a longer period, San Diego's pipeline has averaged roughly 600,000 SF actively under construction and inventory has fallen by -350,000 SF over the past five years due to a steady diet of demolitions and redevelopments. Among major markets in the United States, San Diego has one of the lowest levels of retail square footage per capita.

The Campus at Horton, the 1 million-SF mixed-use project being built at the site of the former Horton Plaza in Downtown, headlines San Diego's pipeline. The addition will inject 300,000 SF of retail space into downtown's core and complement the tech space being built alongside it on 10 city blocks. That redevelopment of Horton Plaza was responsible for net supply falling by roughly 800,000 SF in 2020.

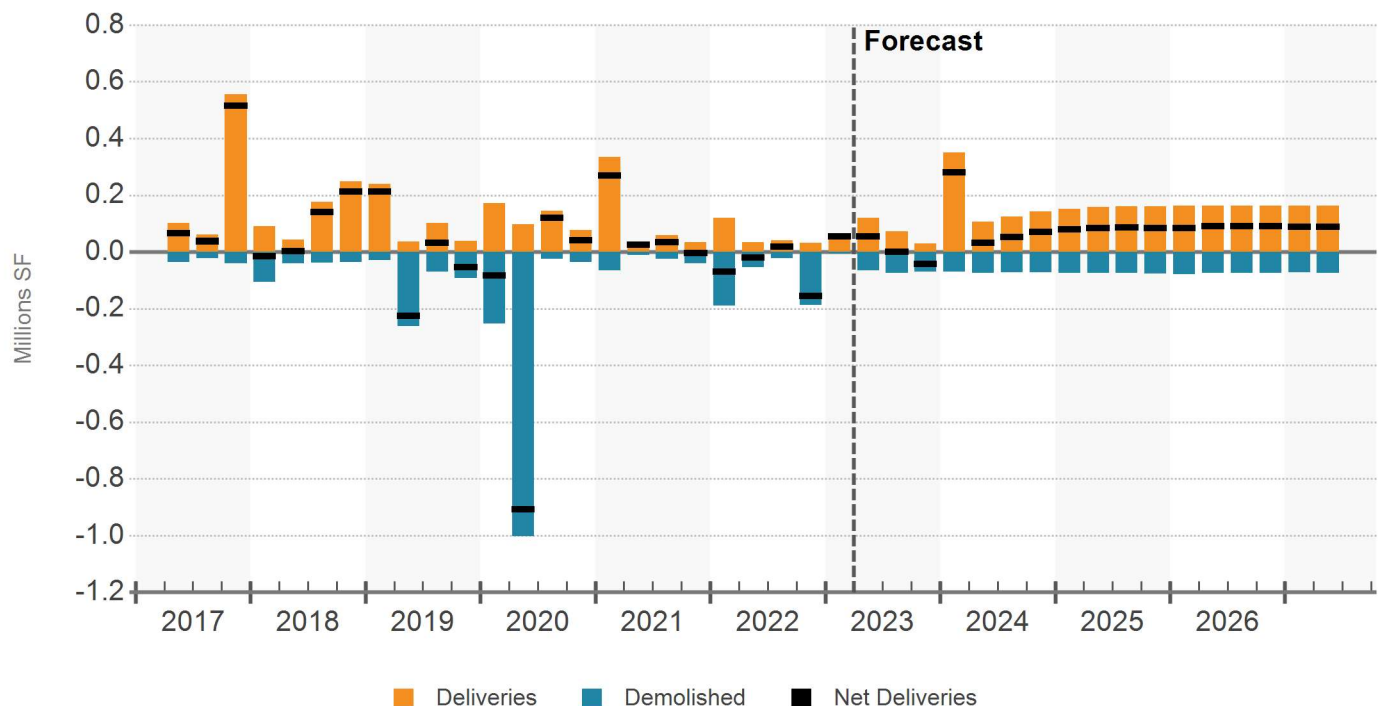
The retail portion will be built as a lifestyle center with the hope of being filled with a mix of food, fitness, shopping, entertainment, and health and wellness options. The

Campus at Horton accounts for the majority of available space in the pipeline, and as of the second quarter, no tenants have been announced. However, several tenants have reportedly signed letters of intent.

Aside from those projects, smaller developments across the region from north to south county fill the pipeline, many of which are pre-leased, and these are unlikely to apply supply-side pressure to vacancy or rent growth in the near-term forecast due to most recent suburban projects being smaller infill developments.

The mid-coast trolley extension that runs from Old Town to UTC could eventually spur retail development, particularly near the three trolley stops along the Morena corridor across from Mission Bay. These areas have received community plan updates that would allow for considerably more housing, but the city also envisions this area growing into more urban-village-type neighborhoods that include dense apartment communities combined with a retail or office component.

### DELIVERIES & DEMOLITIONS



### SUBMARKET CONSTRUCTION

| No.    | Submarket             | Under Construction Inventory |          |                     |              |      | Average Building Size |              |      |
|--------|-----------------------|------------------------------|----------|---------------------|--------------|------|-----------------------|--------------|------|
|        |                       | Bldgs                        | SF (000) | Pre-Leased SF (000) | Pre-Leased % | Rank | All Existing          | Under Constr | Rank |
| 1      | Downtown              | 3                            | 316      | 5                   | 1.6%         | 9    | 9,296                 | 105,333      | 1    |
| 2      | Carlsbad              | 2                            | 71       | 71                  | 100%         | 1    | 15,835                | 35,539       | 2    |
| 3      | Escondido             | 1                            | 26       | 26                  | 100%         | 1    | 11,352                | 26,455       | 3    |
| 4      | Vista                 | 1                            | 22       | 13                  | 57.4%        | 7    | 9,639                 | 22,280       | 4    |
| 5      | Imperial Bch/South SD | 2                            | 18       | 0                   | 0%           | 10   | 8,919                 | 8,800        | 7    |
| 6      | Poway                 | 1                            | 16       | 16                  | 100%         | 1    | 11,825                | 15,871       | 5    |
| 7      | La Mesa               | 2                            | 14       | 14                  | 100%         | 1    | 9,741                 | 6,921        | 8    |
| 8      | Outlying SD County N  | 2                            | 13       | 5                   | 41.9%        | 8    | 5,313                 | 6,475        | 9    |
| 9      | Mission Valley        | 1                            | 10       | 10                  | 100%         | 1    | 44,679                | 10,000       | 6    |
| 10     | San Marcos            | 2                            | 5        | 5                   | 100%         | 1    | 14,609                | 2,649        | 10   |
|        | All Other             | 4                            | 17       | 8                   | 48.4%        |      | 9,447                 | 4,239        |      |
| Totals |                       | 21                           | 528      | 174                 | 32.9%        |      | 10,024                | 25,158       |      |



# Under Construction Properties

San Diego Retail

Properties

Square Feet

Percent of Inventory

Released

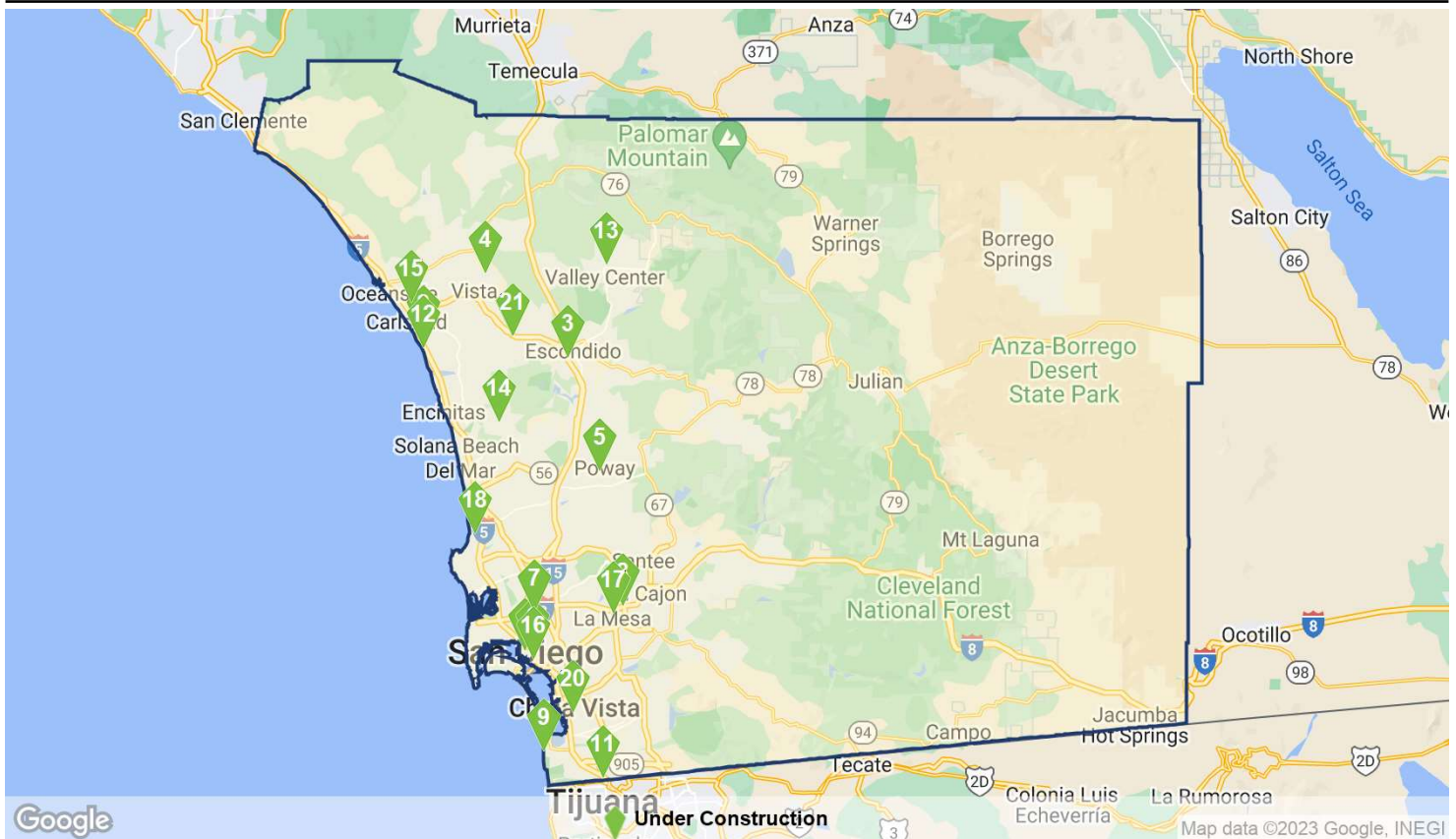
21

528,326

0.4%

32.9%

## UNDER CONSTRUCTION PROPERTIES



## UNDER CONSTRUCTION

| Property Name/Address   | Rating | Bldg SF | Stories | Start    | Complete | Developer/Owner                             |
|---|--------|---------|---------|----------|----------|---|
| 1 <a href="#">The Campus at Horton</a><br>324 Horton Plz                    | ★★★★★  | 300,000 | 4       | Jun 2020 | Dec 2023 | -<br>Stockdale Capital Partners             |
| 2 <a href="#">1060 Auto Center Ct</a>                                       | ★★★★★  | 65,400  | 2       | Jan 2022 | May 2023 | -<br>Commercial Development Resou...        |
| 3 <a href="#">1103 W 9th Ave</a>  | ★★★★★  | 26,455  | 2       | Dec 2022 | Aug 2023 | -<br>-                                      |
| 4 <a href="#">NEC Monte Mar Rd &amp; E V...</a><br>Vista Way & Monte Mar Rd | ★★★★★  | 22,280  | 1       | Dec 2022 | Nov 2023 | -<br>Hagop Kofdarali                        |
| 5 <a href="#">The Poway Outpost</a><br>13247 Poway Rd                       | ★★★★★  | 15,871  | 1       | Mar 2019 | May 2023 | KD Stahl Construction Group<br>Capexco Inc. |
| 6 <a href="#">1508 E St</a>   | ★★★★★  | 12,000  | 1       | Apr 2020 | Aug 2023 | -<br>R&V Management                         |
| 7 <a href="#">1551 Camino Del Rio North</a>                                 | ★★★★★  | 10,000  | 4       | Sep 2022 | Aug 2023 | -<br>-                                      |

# Under Construction Properties

San Diego Retail

## UNDER CONSTRUCTION

| Property Name/Address                             | Rating | Bldg SF | Stories | Start    | Complete | Developer/Owner                          |
|---|--------|---------|---------|----------|----------|--|
| 8 8932 La Mesa Blvd                               | ★★★★☆  | 10,000  | 1       | May 2022 | May 2023 | -  |
| 9 Lighthouse Point<br>951 Seacoast Dr             | ★★★☆☆  | 10,000  | 3       | Jan 2023 | May 2024 | -  |
| 10 Building B<br>28900 Valley Center Rd           | ★★★★☆  | 7,650   | 2       | May 2022 | May 2023 | Iberia Enterprises                       |
| 11 4575 Camino De La Plaza                        | ★★★★☆  | 7,600   | 1       | Dec 2022 | Jun 2023 | -<br>Fred B Sobke                        |
| 12 6018 Avenida Encinas                           | ★★★★☆  | 5,677   | 1       | May 2022 | Jul 2023 | -  |
| 13 Future Circle K<br>28900 Valley Center Rd      | ★★★★☆  | 5,300   | 1       | May 2022 | May 2023 | Iberia Enterprises                       |
| 14 6105 El Tordo                                  | ★★★★☆  | 5,000   | 1       | Jan 2022 | May 2023 | -  |
| 15 Starbucks and Pacific D...<br>2158 Vista Way   | ★★★★☆  | 5,000   | 1       | Nov 2022 | Jun 2023 | -  |
| 16 Roscoe's House of Chic...<br>1678 National Ave | ★★★★☆  | 4,000   | 1       | Oct 2022 | Jul 2023 | -<br>Roscoe's House Of Chicken N W...    |
| 17 8233 La Mesa Blvd                              | ★★★★☆  | 3,841   | 2       | Jan 2022 | May 2023 | -  |
| 18 Revelle College Drive                          | ★★★★☆  | 3,757   | 1       | Jun 2021 | Sep 2023 | -<br>The Regents of the University of... |
| 19 Panera Bread<br>NWC San Marcos Blvd &...       | ★★★★☆  | 3,500   | 1       | Apr 2022 | May 2023 | -  |
| 20 Raising Cane's<br>H St                         | ★★★★☆  | 3,198   | 1       | Dec 2022 | May 2023 | -  |
| 21 Starbucks<br>SWC San Marcos Blvd &...          | ★★★★☆  | 1,797   | 1       | Jun 2022 | Jul 2023 | -<br>Jeffrey David & Linda Von Hurley    |

There has been a noticeable drop in transaction count and investment volume since mid-2022, particularly among owner/user deals. That has coincided with rising interest rates and concerns about the broader economy. There are bid-ask spreads everywhere across the market, and buyers have shown more caution until cap rates stabilize. Several sources speculate that cap rates could rise from 50 to 100 basis points in the coming year.

Typically, national institutional, private equity and REIT entities account for about 25% of buying capital in any given 12-month stretch, although that level has fallen over the past four quarters. Foreign capital is often minimal and has more often been targeted toward other commercial assets such as industrial campuses or multifamily properties.

The average transactional price has been about \$290/SF over the past 12 months at a cap rate of around 5.4%. San Diego retail properties, on average, still offer investors a higher yield compared with other coastal California markets and compared with local industrial and multifamily investments. Buyers have received an average discount of 5% off the asking price over the past year.

Unibail-Rodamco-Westfield sold the leasehold interest in Westfield North County in Escondido, rebranded as North County Mall, at the beginning of 2023 for \$57 million, or about \$46/SF. Although the deal included only the leasehold interest, it was one of the lowest prices paid per SF for a deal of that nature in the past several years. The 1.2 million-SF mall was sold to a partnership involving the private equity fund Steerpoint Capital and Bridge Group Investments. Target, Macy's and JCPenney anchored the mall that lost Nordstrom as an anchor in 2020. The mall had been bleeding tenants over the years, and the buyer is expected to reinvigorate the retail environment.

Well-anchored centers have been a popular target among investors. An investor purchased East County Square at the end of 2022 in El Cajon for \$19.7 million,

or about \$348/SF, at a 6% cap rate. The 57,000-SF shopping center was anchored by Smart & Final and Dollar Tree. The seller, Spirit Realty Capital, acquired the property in 2015 as part of a larger portfolio.

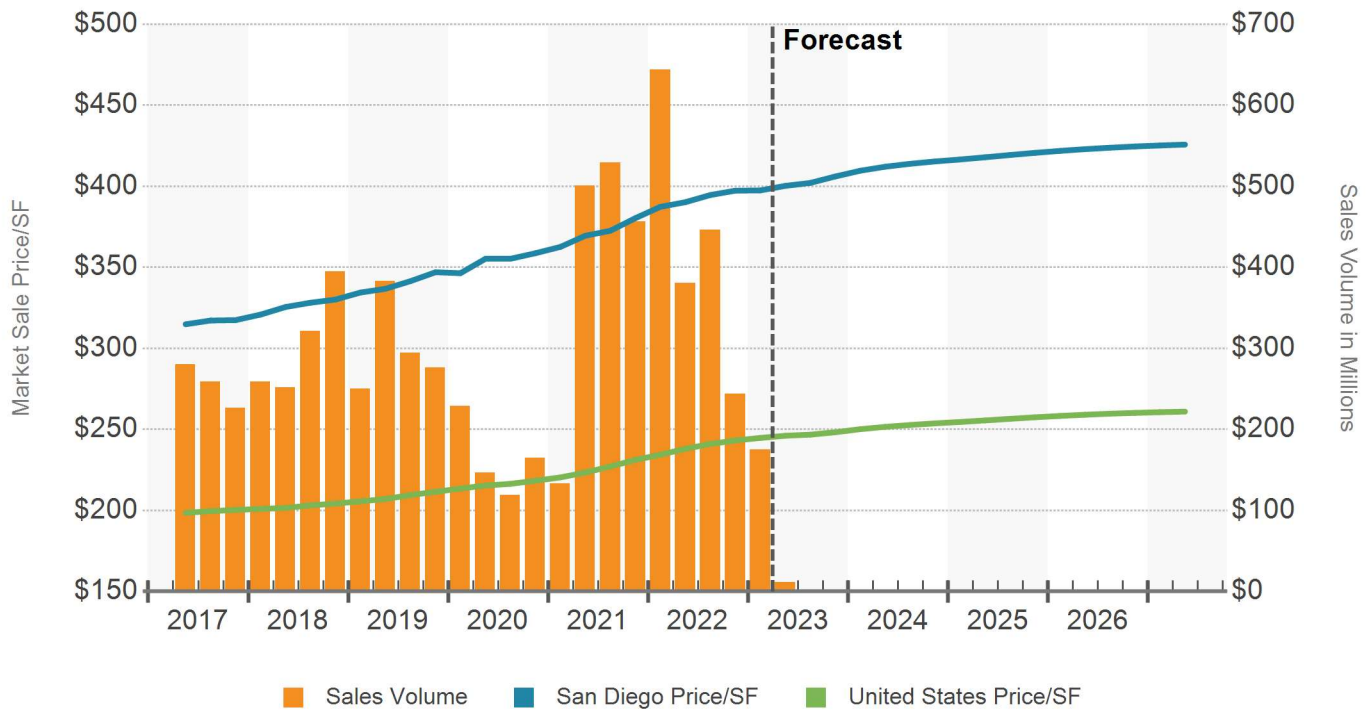
Although it wasn't anchored by a grocer, the center is anchored by a 50,000-SF UEI College location, Oceanside Plaza sold during 22Q3 for \$32 million, or about \$259/SF, at a 6.9% cap rate. That was one of the higher cap rates in 2022 for a stabilized asset. MSM Global Ventures acquired the 125,000-SF shopping center due to their belief that "it was simply a good deal." The property had only a few small vacancies at the time of the sale. The seller, Heslin Holdings, acquired the asset in 2014 for \$11.25 million.

Other deals point to the likelihood of retail space being repositioned to add housing or include developable land that could accommodate housing.

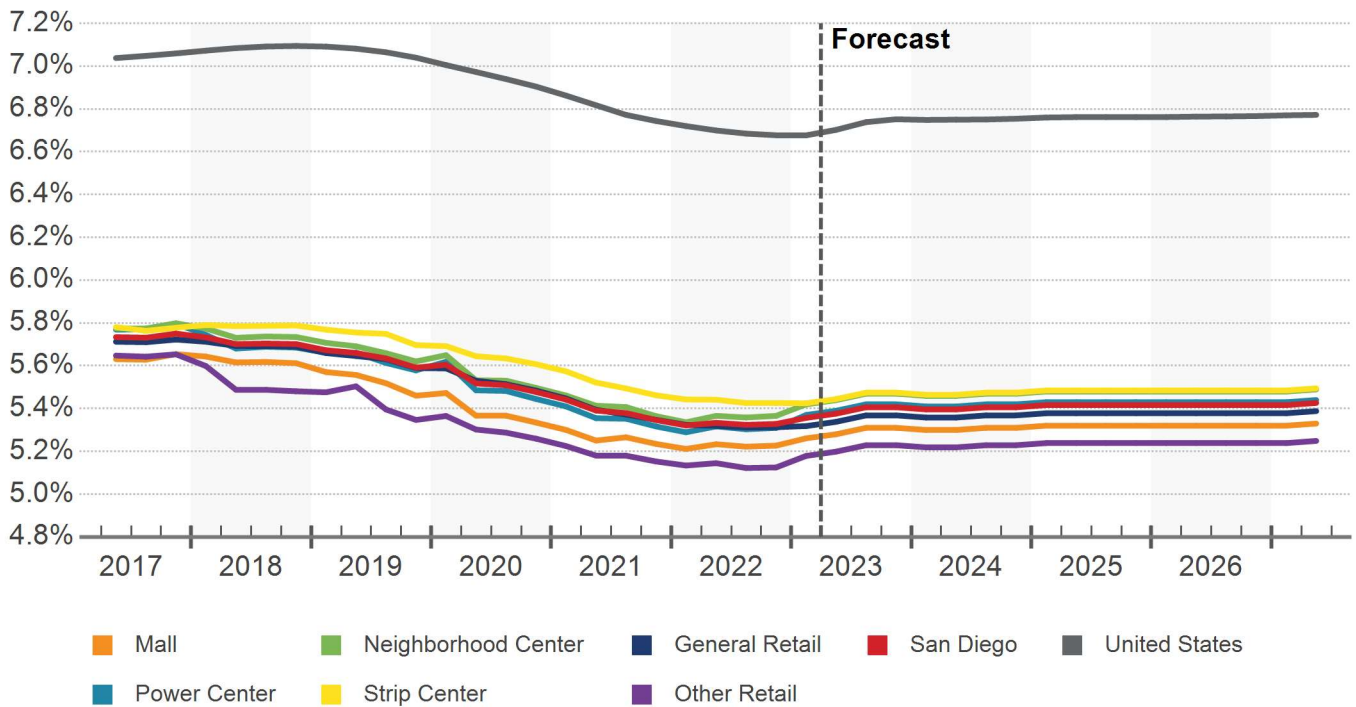
A private investor acquired three retail buildings in the middle of 2022 located in Kearny Mesa for \$89.8 million. The buildings were leased to tenants including Walmart, Jiffy Lube and discount grocer Food 4 Less. The deal did not include several other buildings at the 30-acre center, which is also home to LA Fitness, McDonald's, Verizon Wireless and Starbucks. The buildings were sold as part of long-term plans by Clarion Partners, the seller, to turn a portion of the Gateway at Kearny Mesa center into apartments. Clarion Partners acquired the entire 12-building center for roughly \$107 million in 2015.

In early 2022, GH Palmer purchased the nearly 14-acre site on which Kearny Mesa Bowl and Zion Market sit for \$165 million. The site sold a year earlier for \$66.5 million. The property's recent sale included entitlements for more than 1,600 housing units on the site. A new community plan was approved by the city council for Kearny Mesa at the end of 2020. The plan envisions making retail areas more pedestrian-friendly through the development of residential mixed-use villages. It also called for increasing the number of housing units from 4,300 to 26,000 over the next 30 years.

## SALES VOLUME & MARKET SALE PRICE PER SF



## MARKET CAP RATE





## Sales Past 12 Months

## San Diego Retail

## Sale Comparables

# 390

### Avg. Cap Rate

# 5.4%

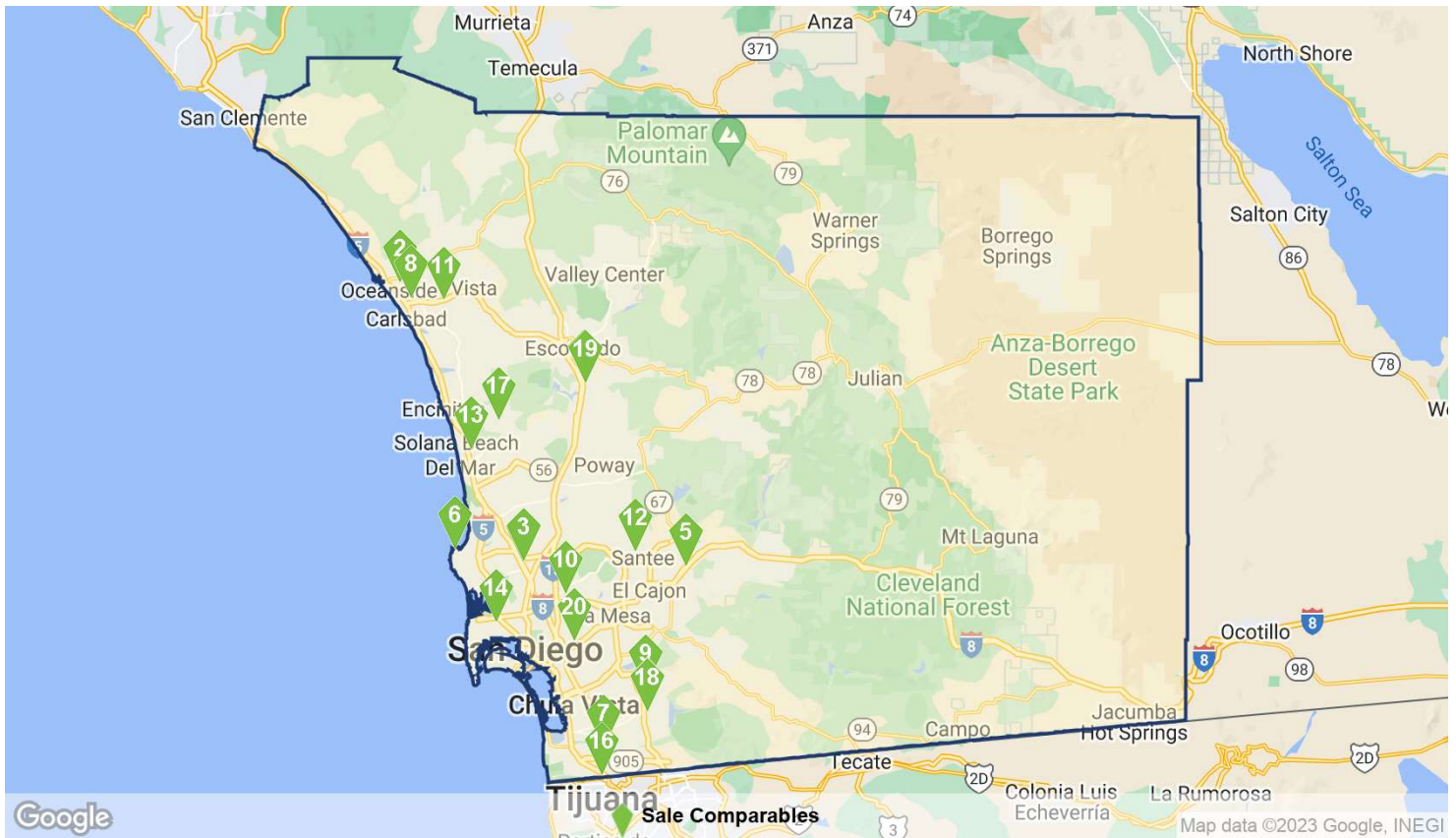
**Avg. Price/SF**

# \$294

### Avg. Vacancy At Sale

**9.7%**

## SALE COMPARABLE LOCATIONS



## SALE COMPARABLES SUMMARY STATISTICS

| Sales Attributes          | Low      | Average     | Median      | High         |
|---------------------------|----------|-------------|-------------|--------------|
| Sale Price                | \$43,503 | \$3,479,158 | \$2,184,000 | \$56,020,005 |
| Price/SF                  | \$34     | \$294       | \$431       | \$8,333      |
| Cap Rate                  | 2.0%     | 5.4%        | 5.0%        | 15.1%        |
| Time Since Sale in Months | 0.0      | 6.7         | 7.3         | 12.0         |
| Property Attributes       | Low      | Average     | Median      | High         |
| Building SF               | 50       | 11,857      | 4,800       | 387,550      |
| Stories                   | 1        | 1           | 1           | 3            |
| Typical Floor SF          | 1        | 8,886       | 4,419       | 129,183      |
| Vacancy Rate At Sale      | 0%       | 9.7%        | 0%          | 100%         |
| Year Built                | 1900     | 1975        | 1976        | 2023         |
| Star Rating               | ★☆☆☆☆    | ★★★★★ 2.4   | ★★★★★       | ★★★★★        |

# Sales Past 12 Months

San Diego Retail

## RECENT SIGNIFICANT SALES

| Property Name - Address                                  | Property |          |         |         | Sale       |              |          |          |
|--|----------|----------|---------|---------|------------|--------------|----------|----------|
|  | Rating   | Yr Built | Bldg SF | Vacancy | Sale Date  | Price        | Price/SF | Cap Rate |
| 1 <b>Wal-Mart</b><br>4840 Shawline St                    | ★★★★★    | 1994     | 130,531 | 0%      | 4/27/2022  | \$56,020,005 | \$429    | -        |
| 2 <b>2017-2041 Mission Ave</b>                           | ★★★★★    | 1970     | 114,546 | 0%      | 8/11/2022  | \$29,641,016 | \$259    | -        |
| 3 <b>Food 4 Less</b><br>4995 Shawline St                 | ★★★★★    | 1995     | 51,268  | 0%      | 4/27/2022  | \$26,812,622 | \$523    | -        |
| 4 <b>North County Mall</b><br>200-272 E Via Rancho Pky   | ★★★★★    | 1986     | 387,550 | 0%      | 2/5/2023   | \$19,839,177 | \$51     | -        |
| 5 <b>13439 Camino Canada</b>                             | ★★★★★    | 1997     | 56,731  | 0%      | 9/30/2022  | \$19,730,500 | \$348    | 6.0%     |
| 6 <b>7920 Herschel Ave</b>                               | ★★★★★    | 1962     | 22,706  | 0%      | 6/28/2022  | \$19,300,000 | \$850    | 5.0%     |
| 7 <b>Major A</b><br>760 Dennery Rd                       | ★★★★★    | 2020     | 45,000  | 0%      | 9/29/2022  | \$15,734,000 | \$350    | -        |
| 8 <b>2160 Vista Way</b>                                  | ★★★★★    | 1998     | 41,375  | 0%      | 8/24/2022  | \$15,067,500 | \$364    | -        |
| 9 <b>2310 Proctor Valley Rd</b>                          | ★★★★★    | 2007     | 52,442  | 100%    | 2/17/2023  | \$13,350,000 | \$255    | 9.8%     |
| 10 <b>Mission Square Center</b><br>6171 Mission Gorge Rd | ★★★★★    | 1977     | 23,760  | 0%      | 10/19/2022 | \$13,100,000 | \$551    | -        |
| 11 <b>Tri-City Crossroads</b><br>3817 Plaza Dr           | ★★★★★    | 1987     | 42,646  | 0%      | 7/7/2022   | \$12,800,000 | \$300    | 5.7%     |
| 12 <b>Santee Town Center</b><br>262-278 Town Center Pky  | ★★★★★    | 1994     | 48,731  | 0%      | 7/20/2022  | \$12,725,699 | \$261    | -        |
| 13 <b>2770 Via de la Valle</b>                           | ★★★★★    | -        | 19,224  | 0%      | 11/22/2022 | \$12,588,334 | \$655    | -        |
| 14 <b>3005 Midway Dr</b>                                 | ★★★★★    | 1964     | 15,033  | 0%      | 12/16/2022 | \$11,658,500 | \$776    | 4.9%     |
| 15 <b>Eastlake Terraces</b><br>1430 Eastlake Pky         | ★★★★★    | 2004     | 14,560  | 0%      | 7/22/2022  | \$11,414,551 | \$784    | -        |
| 16 <b>4455-4463 Camino de la...</b>                      | ★★★★★    | 2015     | 46,606  | 85.1%   | 4/20/2022  | \$11,262,375 | \$242    | -        |
| 17 <b>6106-6108 Paseo Delicias</b>                       | ★★★★★    | 1952     | 11,900  | 0%      | 4/3/2023   | \$11,200,000 | \$941    | -        |
| 18 <b>2127 Olympic Pky</b>                               | ★★★★★    | -        | 14,121  | 0%      | 7/22/2022  | \$11,070,390 | \$784    | -        |
| 19 <b>JCPenney</b><br>290 E Via Rancho Pky               | ★★★★★    | 1986     | 243,246 | 0%      | 2/5/2023   | \$11,010,112 | \$45     | -        |
| 20 <b>San Diego Marketplace</b><br>1745-1765 Euclid Ave  | ★★★★★    | 1957     | 62,368  | 51.7%   | 6/22/2022  | \$10,582,656 | \$170    | -        |

After ending 2022 with the second-lowest unemployment rate in 20 years, the rate surged to 3.7% in January following the loss of more than 16,000 nonfarm jobs, according to the latest jobs report released by the Bureau of Labor Statistics. The jump from a revised 3% is still below California's unemployment rate of 4.6%, although it's the highest local rate since February 2022.

Part of that increase in the unemployment rate can also be attributed to the rise in the civilian labor force. It climbed to the highest level since February 2020 in January, reaching 1.6 million people for the first time since then, nearly matching the pre-pandemic level.

In January, the government sector was the only employment industry to see more than marginal job growth, adding 4,900 positions during the month.

Conversely, nearly every other employment sector posted job losses, with none more than the professional and business services sector. It shed 6,900 jobs in January. That was the driving force behind the widely recognized office-using sectors that also includes information and financial activities to see a drop in 6,600 jobs.

That sector could see further turbulence in the coming months given that several notable high-tech and life science firms have announced layoffs in the past month, according to Work Adjustment and Retraining Notices, known as WARN notices, filed with the State of California.

Among the layoff notices that have spread across the region: Thermo Fisher Scientific announced 384 layoffs; Sorrento Therapeutics announced 538; Qualcomm filed a notice for 79 layoffs; and Pfizer laid off 196 workers.

That could spell further disruption in the office market, particularly in the sublease market that has already seen the level reach a record high during the first quarter.

Sorrento Therapeutics' announcement came after it filed for bankruptcy at the end of February. The biotech firm has a new 163,000-square-foot lab property nearing completion in Sorrento Mesa and extended all of its local leases in 2022, covering more than 350,000 square feet, for 15 years.

Thermo Fisher occupies more than 1 million square feet from Carlsbad to Sorrento Mesa. The firm announced the layoffs, citing the drop in demand for COVID-19 testing kits coupled with economic headwinds.

It's possible that those same economic headwinds could lead to further turbulence across San Diego's employment landscape as firms navigate a period of economic uncertainty.

More than 80 research institutes are located in San Diego, from Scripps Research Institute to Salk Institute for Biological Studies, in addition to five universities. This cluster of research in the Golden Triangle has created one of the strongest life science cores in the United States. Furthermore, Scripps Health has five campuses across the metro and announced that it is spending \$2.6 billion on upgrades to its facilities, further bolstering San Diego as a destination for "medical tourism."

San Diego is also home to more than 140,000 active duty and civilian military employees. The defense industry accounts for more than 350,000 jobs in the region according to the San Diego Military Advisory Council. That is close to 25% of the economy. And the Navy's renewed focus on the Pacific theater of operation will result in a 60/40 split between the Pacific and Atlantic fleets, further solidifying San Diego's status as a major Navy hub.

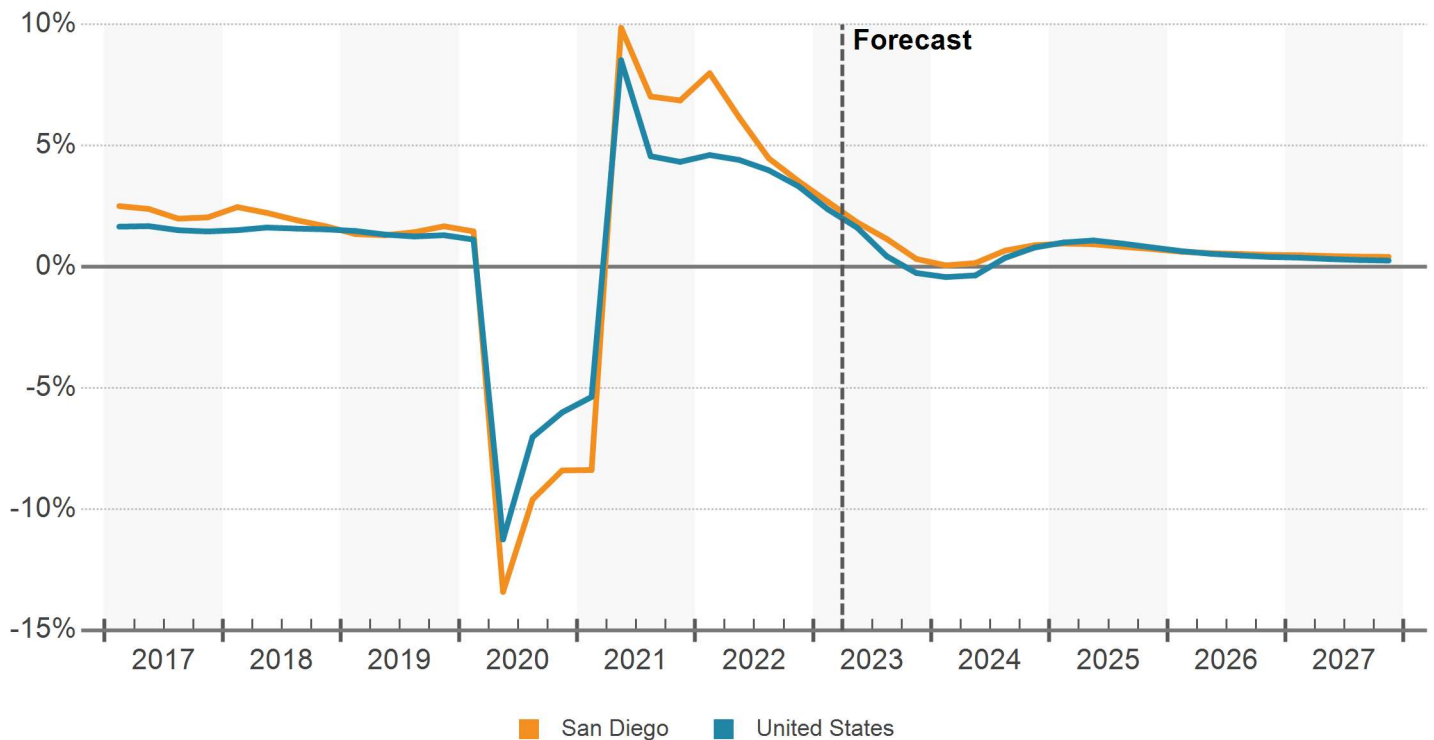
It is also why San Diego has one of the largest concentrations of millennials in the country, accounting for 25% of the population.

### SAN DIEGO EMPLOYMENT BY INDUSTRY IN THOUSANDS

| Industry                                   | CURRENT JOBS |            | CURRENT GROWTH |              | 10 YR HISTORICAL |              | 5 YR FORECAST |              |
|--|--------------|------------|----------------|--------------|------------------|--------------|---------------|--------------|
|  | Jobs         | LQ         | Market         | US           | Market           | US           | Market        | US           |
| Manufacturing                              | 115          | 0.9        | 0.58%          | 2.52%        | 1.50%            | 0.78%        | 0.18%         | -0.03%       |
| Trade, Transportation and Utilities        | 225          | 0.8        | 1.82%          | 0.89%        | 0.56%            | 1.17%        | 0.00%         | 0.07%        |
| Retail Trade                               | 145          | 0.9        | 1.99%          | -0.03%       | 0.41%            | 0.54%        | 0.05%         | 0.08%        |
| Financial Activities                       | 75           | 0.8        | -0.56%         | 1.39%        | 0.60%            | 1.39%        | 0.03%         | 0.08%        |
| Government                                 | 249          | 1.1        | 2.75%          | 1.18%        | 0.99%            | 0.25%        | 0.54%         | 0.55%        |
| Natural Resources, Mining and Construction | 88           | 1.0        | 3.79%          | 2.66%        | 3.83%            | 2.40%        | 0.71%         | 0.21%        |
| Education and Health Services              | 228          | 0.9        | 3.78%          | 3.38%        | 2.42%            | 1.72%        | 0.91%         | 0.53%        |
| Professional and Business Services         | 282          | 1.3        | 1.84%          | 2.41%        | 2.72%            | 2.07%        | 0.35%         | 0.33%        |
| Information                                | 23           | 0.7        | 3.90%          | 4.67%        | -0.47%           | 1.32%        | 0.40%         | 0.21%        |
| Leisure and Hospitality                    | 199          | 1.2        | 4.99%          | 4.75%        | 1.95%            | 1.35%        | 1.08%         | 1.03%        |
| Other Services                             | 55           | 1.0        | 3.71%          | 2.56%        | 1.10%            | 0.59%        | 0.46%         | 0.30%        |
| <b>Total Employment</b>                    | <b>1,540</b> | <b>1.0</b> | <b>2.66%</b>   | <b>2.35%</b> | <b>1.69%</b>     | <b>1.28%</b> | <b>0.50%</b>  | <b>0.37%</b> |

Source: Oxford Economics  
LQ = Location Quotient

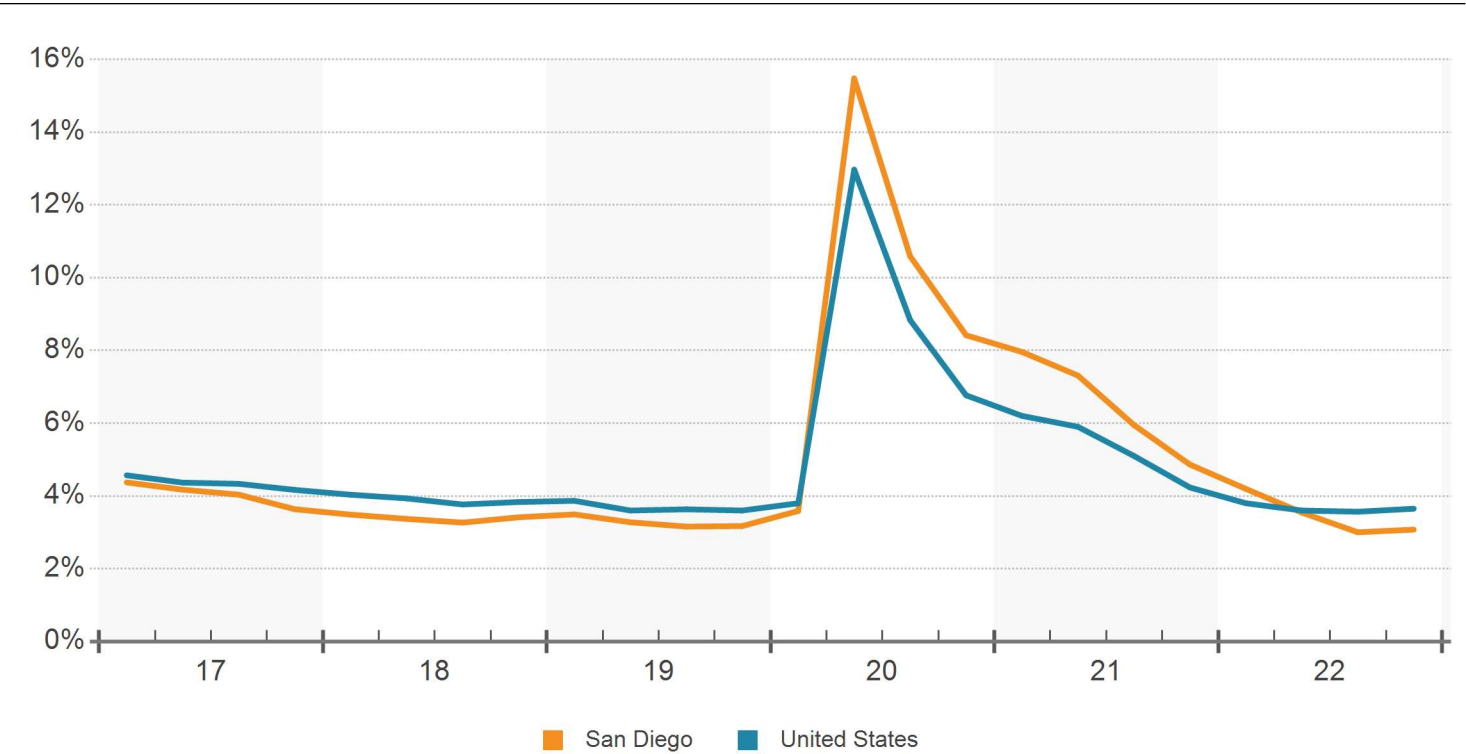
### JOB GROWTH (YOY)



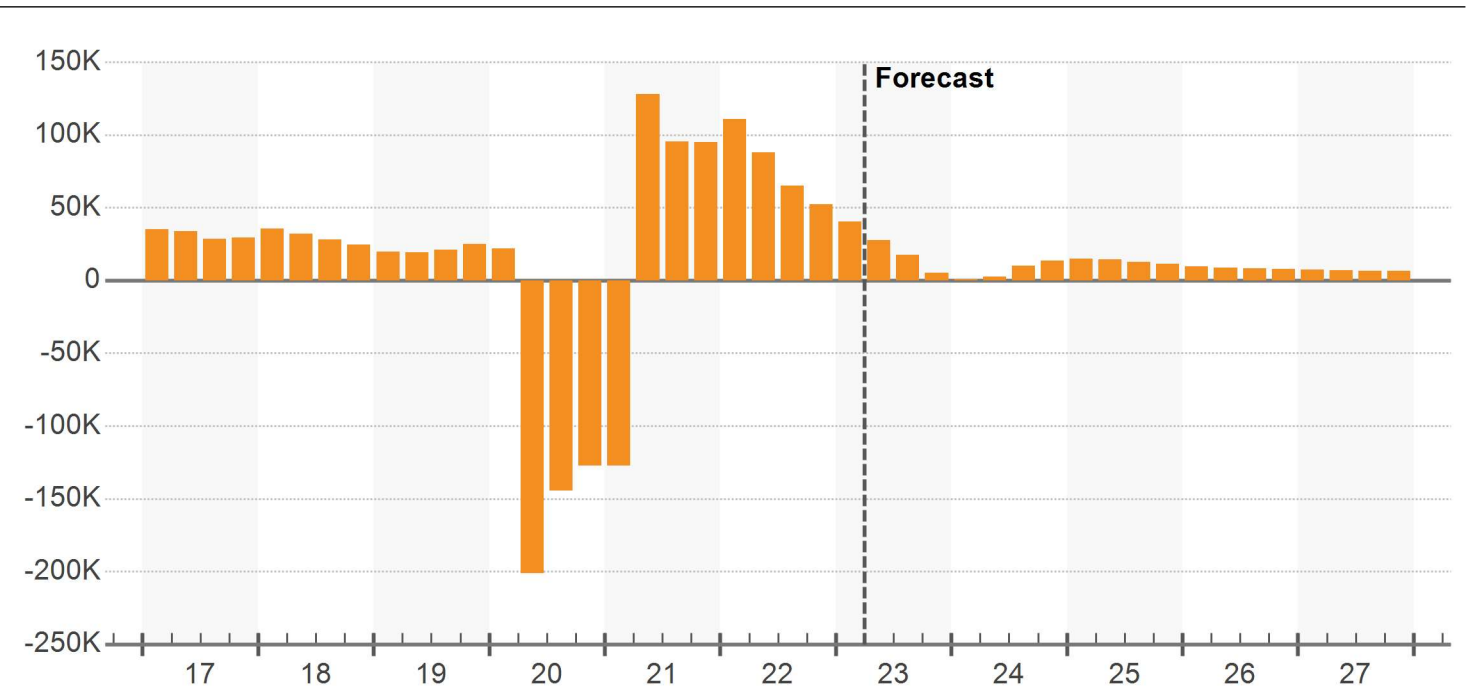
Source: Oxford Economics



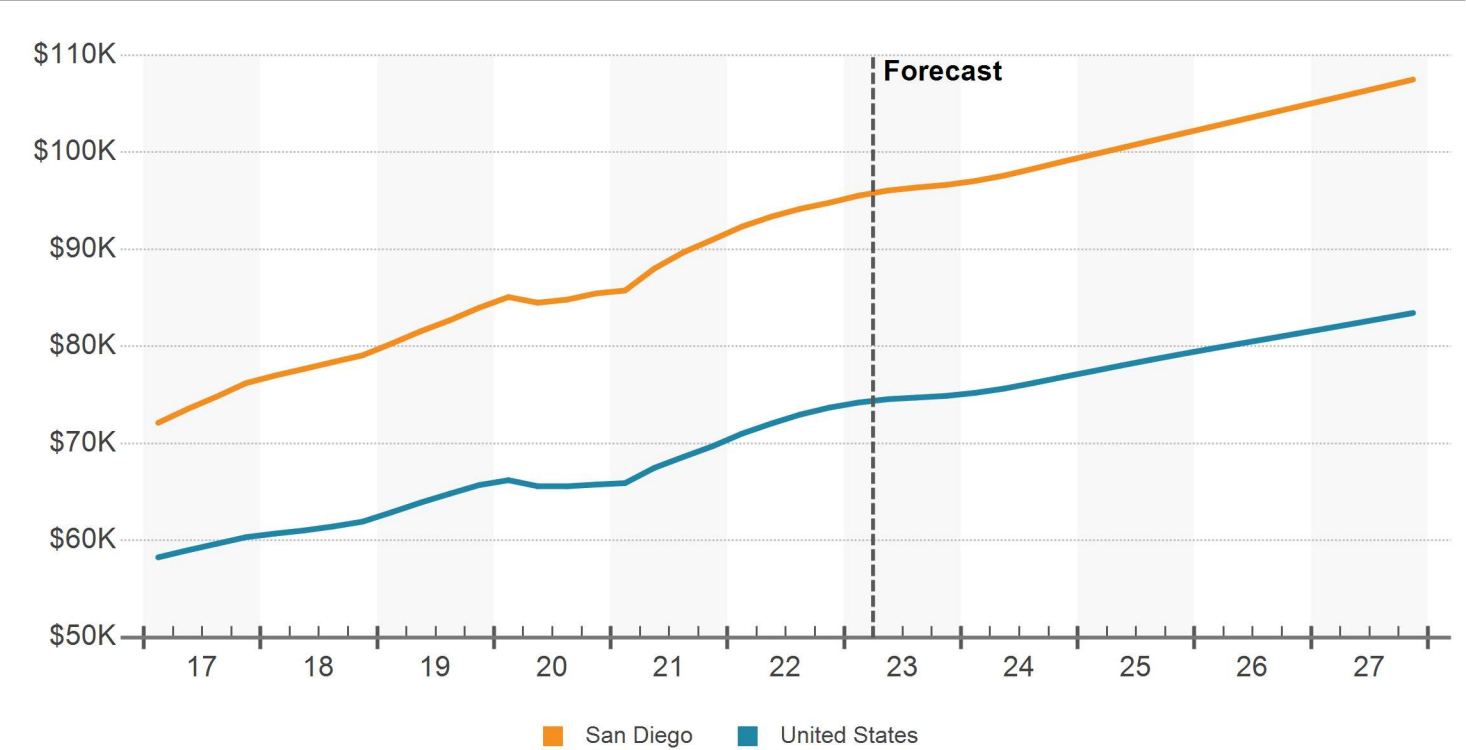
UNEMPLOYMENT RATE (%)



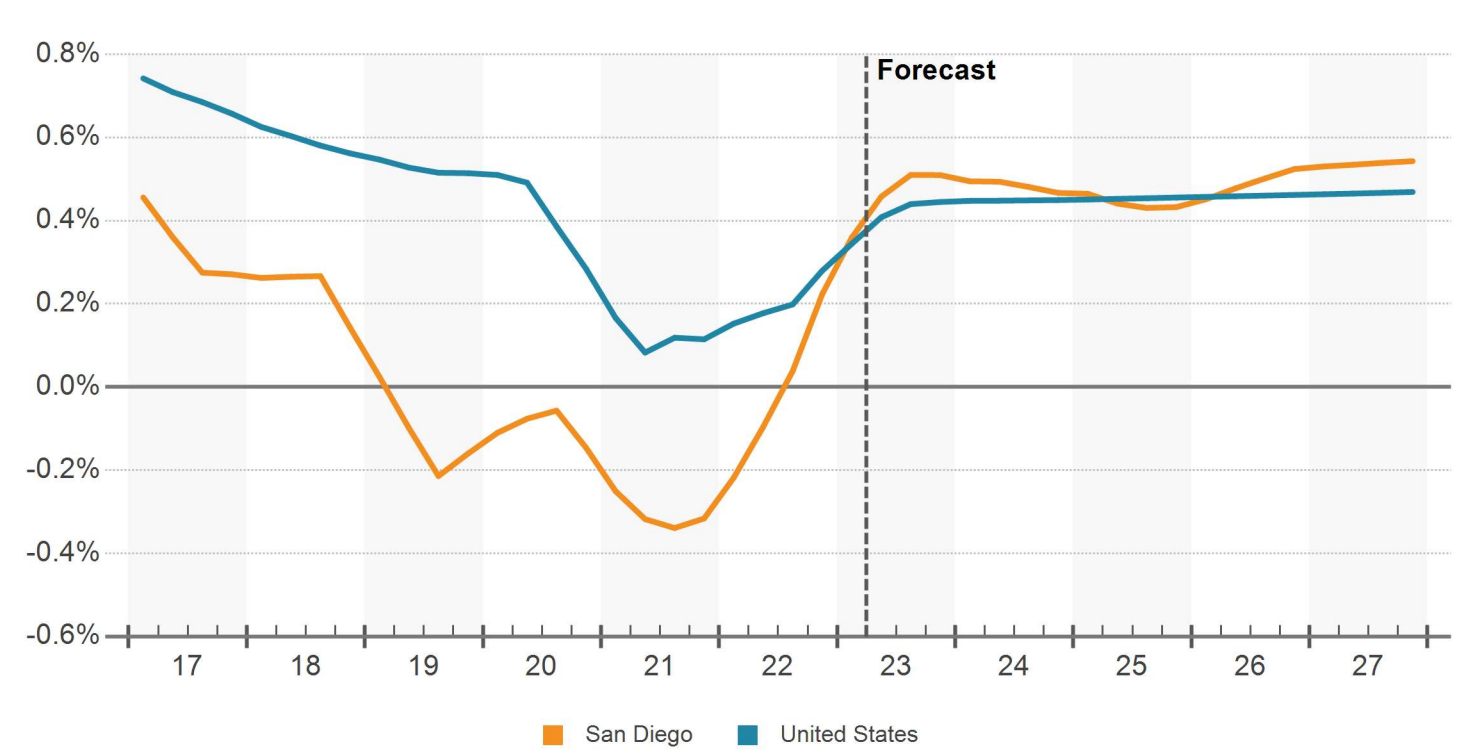
NET EMPLOYMENT CHANGE (YOY)



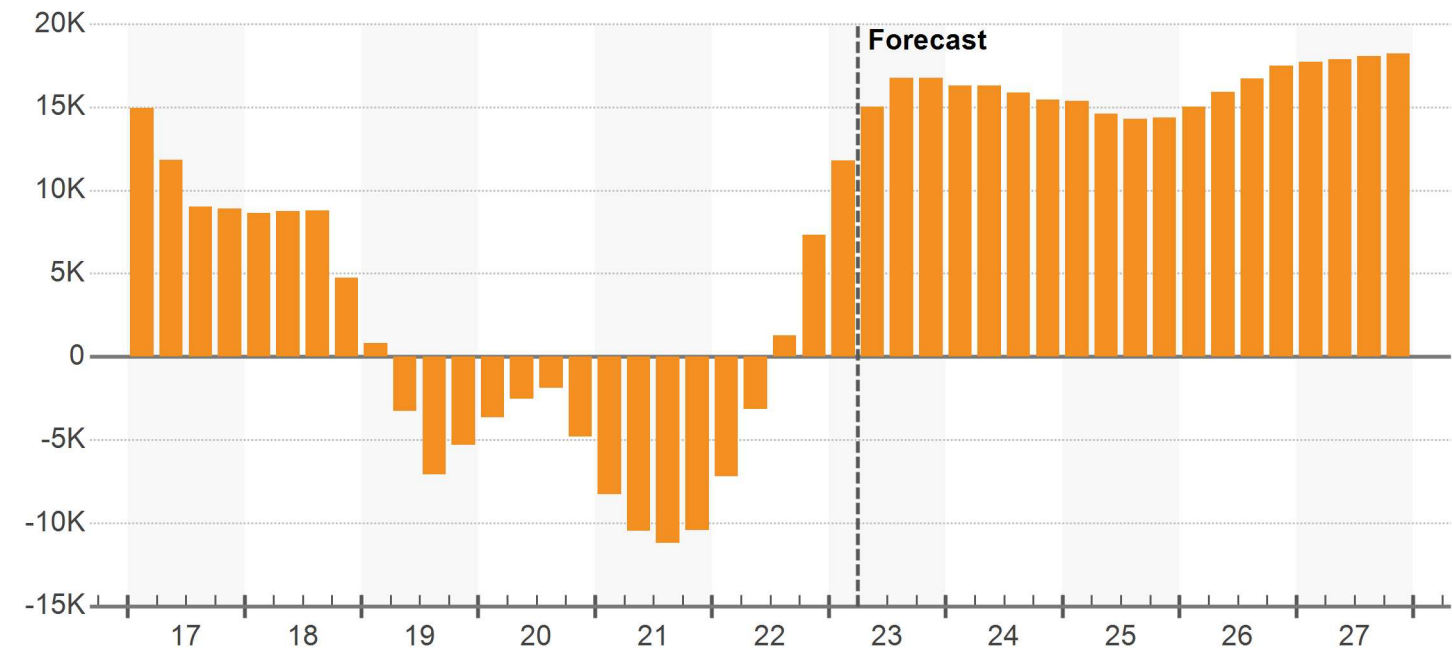
MEDIAN HOUSEHOLD INCOME



POPULATION GROWTH (YOY %)



NET POPULATION CHANGE (YOY)

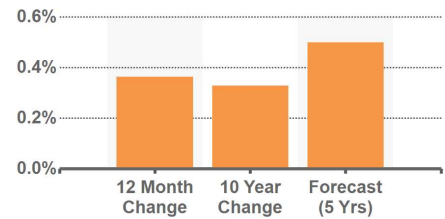


DEMOGRAPHIC TRENDS

| Demographic Category    | Current Level |             | 12 Month Change |       | 10 Year Change |       | 5 Year Forecast |      |
|-------------------------|---------------|-------------|-----------------|-------|----------------|-------|-----------------|------|
|                         | Metro         | US          | Metro           | US    | Metro          | US    | Metro           | US   |
| Population              | 3,295,919     | 333,309,000 | 0.4%            | 0.3%  | 0.3%           | 0.5%  | 0.5%            | 0.5% |
| Households              | 1,177,999     | 129,340,727 | 0.9%            | 0.9%  | 0.4%           | 0.8%  | 0.6%            | 0.6% |
| Median Household Income | \$95,555      | \$74,229    | 3.4%            | 4.5%  | 4.7%           | 3.7%  | 2.5%            | 2.5% |
| Labor Force             | 1,590,587     | 165,148,906 | 0.5%            | 0.7%  | 0.4%           | 0.6%  | 0.4%            | 0.4% |
| Unemployment            | 3.1%          | 3.7%        | -1.1%           | -0.1% | -0.5%          | -0.4% | -               | -    |

Source: Oxford Economics

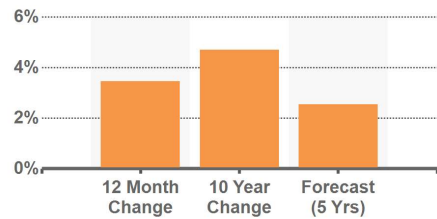
POPULATION GROWTH



LABOR FORCE GROWTH



INCOME GROWTH



Source: Oxford Economics