

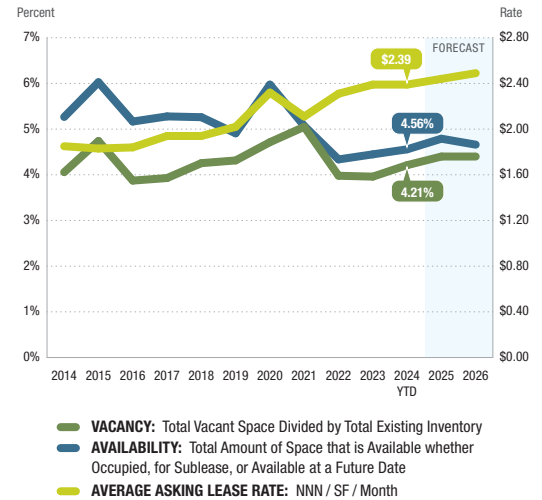
OVERVIEW. There was positive net absorption in Q3, with sales volume on par with recent norms, while leasing activity was slower in the quarter. The themes for the San Diego retail market remain the limited construction pipeline and ongoing redevelopment of obsolete retail sites. The dramatic growth 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 modest pace, and increasingly retailers are pursuing an omnichannel strategy, integrating physical and online strategies. Store closures have increased in 2024, which provides a supply of available sites in lieu of new construction. Overall, the San Diego market remains largely stable, with the vacancy rate midway through 2024 falling in line with the levels seen in 2018 and 2019.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q3 2024 at 4.21%, 15 basis points above the vacancy rate of Q3 2023. 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 4.56% at the end of Q3. This is a 1% increase compared to Q3 2023. The gap between the vacancy rate and the availability rate was 35 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 figure for available space underrepresents the “true” availability rate as many mall owners are not marketing all of their available space in the open market. Notwithstanding more than 4.5 MSF of new retail construction since the start of 2015, the total retail inventory for the county is the same now as it was then. 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.

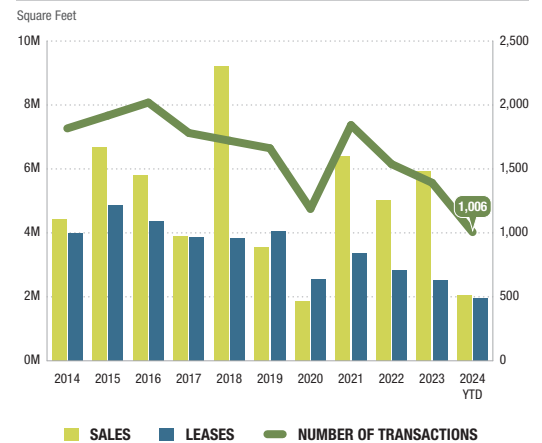
LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County ended Q3 at \$2.39, which is an increase of 2.6% compared with Q3 2023's rate of \$2.33. The average asking lease rate has increased a total of 18% from the pre-pandemic level. Typically, new construction 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 1.4 MSF, a 53% decrease from Q3 2023's total of 3 MSF. 80

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	Q3 2024	Q2 2024	Q3 2023	% Change Over Last Year
Vacancy Rate	▼ DOWN	4.21%	4.27%	4.06%	3.82%
Availability Rate	▼ DOWN	4.56%	4.67%	4.51%	0.96%
Average Asking Lease Rate	▼ DOWN	\$2.39	\$2.40	\$2.33	2.58%
Sale & Lease Transactions	▼ DOWN	1,391,036	1,499,880	2,962,971	(53.05%)
Gross Absorption	▼ DOWN	641,331	710,783	782,118	(18.00%)
Net Absorption	▲ POSITIVE	96,653	42,328	223,672	N/A

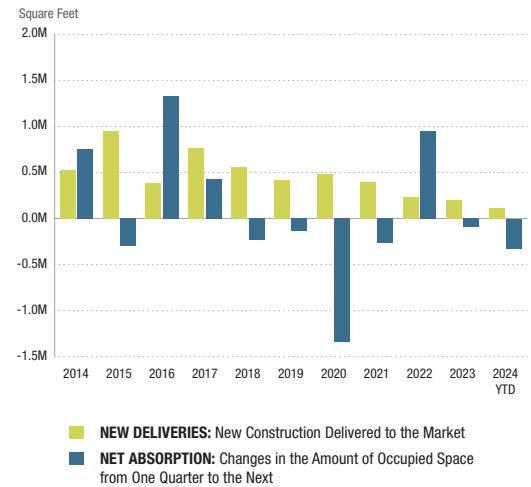
retail buildings sold for a total of \$347 million in Q3, which is right in line with the average over the past five years of \$332 million in sales per quarter. The largest sales of the quarter included a former Walmart grocery store which is being acquired for conversion by a medical services provider. This has been a recurring theme, with significant redevelopment sales showing up in San Diego County nearly every quarter.

ABSORPTION. There were 96,653 SF of positive net absorption in Q3 bringing the total net absorption through the first three quarters of 2024 to negative 325,620. Store closures across the U.S. outpaced openings in 2024, which leads to a decrease in the total retail tenant footprint. Retailers closing stores run the gamut from Big Lots to Rite Aid, to Express.

CONSTRUCTION. There were 109,854 SF of new construction deliveries in the first three quarters of 2024. This pace of construction would be the fourth consecutive year of reaching a new low for the last decade. Over the four most recent calendar years the market has seen an average of 328,278 SF of annual deliveries, compared to the 535,495 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. Amidst the ongoing competition from E-Commerce, there remains little appetite by developers to ramp up any large-scale brick-and-mortar developments at this time. Additionally, new retail property development often follows new residential development, and in San Diego County there is little residential development occurring.

EMPLOYMENT. The unemployment rate in San Diego County was 5.0% in August 2024, up from a revised 4.9% in July 2024, and above the year-ago estimate of 4.4%. This compares with an unadjusted unemployment rate of 5.9% for California and 4.4% for the nation during the same period. Over the 12-month period between August 2023 and August 2024, San Diego County employment increased by 10,800 jobs, an increase of 0.7%. 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, 254,000 jobs were added in September, the highest monthly payroll increase in six months.

NEW DELIVERIES & NET ABSORPTION



Forecast

The limited supply pipeline in San Diego keeps the market stable. 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. Cap rates rose in 2024, but the recent rate cut by the Fed should stunt this trend going forward.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
3762-3784 Mission Ave.	Oceanside	183,292	\$56,600,000	Mission El Camino, LLC	ROIC
4120-4196 Oceanside Blvd.	Oceanside	79,348	\$34,311,000	M26 Asset Management	A&C Properties
7510-7610 Hazard Center Dr.	Mission Valley	135,000	\$28,000,000	BH Properties, LLC	Principal Real Estate Investors
2121 E. Imperial Ave.	Central	45,800	\$22,500,000	Family Health Centers of SD	Imperial Delaware, LLC
1392-1394 E. Palomar St.	Chula Vista	36,101	\$14,700,000	Palomar Heritage, LLC	Paragon Real Estate Investment

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4241 Oceanside Blvd.	Oceanside	28,700	Aug-2024	Undisclosed	Developers Resource Companies
153-197 Las Posas Rd.	San Marcos	23,000	Aug-2024	HomeGoods	World Premier Investments, Inc.
2800 Roosevelt St.	Carlsbad	15,083	Jul-2024	Barons Market	Yelland Properties
1640-1666 Garnet Ave.	Pacific Beach	14,945	Sep-2024	San Diego Board Shop	PacTrust
13630-13650 Poway Rd.	Poway	11,631	Jul-2024	Five Below	Kimco Realty

	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 2024	Square Feet Available	Availability Rate Q3 2024	Average Asking Lease Rate	Net Absorption Q3 2024	Net Absorption 2024	Gross Absorption Q3 2024	Gross Absorption 2024
Central South													
General Retail	3,714	21,635,170	39,312	603,173	697,486	3.22%	842,534	3.89%	\$2.78	(6,085)	(18,384)	85,500	413,382
Malls	64	3,750,422	300,000	0	28,908	0.77%	284,374	7.02%	-	(1,771)	(13,271)	1,048	4,503
Power Centers	90	3,366,564	0	6,000	182,460	5.42%	57,704	1.71%	-	4,025	13,860	4,025	24,731
Shopping Centers	726	11,238,948	0	0	509,598	4.53%	649,585	5.78%	\$2.33	29,300	(18,507)	77,009	223,571
Specialty Centers	6	259,783	0	0	24,079	9.27%	15,813	6.09%	-	(89)	(9,204)	2,800	29,330
Central South Total	4,600	40,250,887	339,312	609,173	1,442,531	3.58%	1,850,010	4.56%	\$2.61	25,380	(45,506)	170,382	695,517
East County													
General Retail	1,446	7,368,243	6,077	30,442	127,121	1.73%	150,235	2.04%	\$1.77	(7,355)	(17,326)	30,528	107,217
Malls	22	2,317,041	0	38,100	404,502	17.46%	288,890	12.47%	-	0	(160,000)	0	0
Power Centers	55	1,518,151	0	0	30,225	1.99%	36,306	2.39%	\$3.00	(3,000)	7,473	0	12,000
Shopping Centers	573	8,286,418	0	282,752	344,628	4.16%	447,208	5.40%	\$1.91	23,119	(4,457)	52,035	110,862
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	2,098	19,524,411	6,077	351,294	906,476	4.64%	922,639	4.72%	\$1.86	12,764	(174,310)	82,563	230,079
I-15 Corridor													
General Retail	174	1,647,647	5,274	197,420	29,811	1.81%	31,630	1.91%	\$3.69	(4,600)	(19,959)	2,400	7,300
Malls	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Power Centers	24	575,544	0	0	7,381	1.28%	6,985	1.21%	-	1,200	0	1,200	1,200
Shopping Centers	294	4,225,820	0	11,167	122,941	2.91%	162,704	3.85%	\$3.24	(11,095)	26,205	16,353	114,301
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
I-15 Corridor Total	492	6,449,011	5,274	208,587	160,133	2.48%	201,319	3.12%	\$3.35	(14,495)	6,246	19,953	122,801
North County													
General Retail	1,684	11,844,476	39,028	178,074	505,935	4.27%	460,757	3.88%	\$2.25	58,566	64,341	92,673	226,223
Malls	26	2,893,354	0	0	427,150	14.76%	132,770	4.59%	-	0	0	0	0
Power Centers	104	3,087,845	0	4,000	167,410	5.42%	179,368	5.81%	-	4,253	(44,460)	13,168	41,861
Shopping Centers	979	15,000,279	5,220	429,648	786,029	5.24%	971,612	6.48%	\$1.97	9,619	(33,847)	108,200	347,416
Specialty Centers	5	368,640	0	0	0	0.00%	0	0.00%	-	0	370	0	370
North County Total	2,798	33,194,594	44,248	611,722	1,886,524	5.68%	1,744,507	5.25%	\$2.04	72,438	(13,596)	214,041	615,870
Central North													
General Retail	861	7,051,387	31,666	5,000	212,455	3.01%	272,998	3.85%	\$3.36	10,697	(79,055)	52,237	112,833
Malls	19	1,711,365	0	0	101,763	5.95%	50,894	2.97%	\$1.65	(7,136)	(7,136)	0	0
Power Centers	67	2,205,378	0	0	56,556	2.56%	66,950	3.04%	-	(3,432)	6,099	4,053	23,967
Shopping Centers	451	6,571,851	0	333,500	336,266	5.12%	436,814	6.65%	\$3.46	8,264	(50,447)	48,451	158,253
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Central North Total	1,398	17,539,981	31,666	338,500	707,040	4.03%	827,656	4.71%	\$3.19	8,393	(130,539)	104,741	295,053
South County													
General Retail	1,132	6,021,530	26,526	233,304	126,646	2.10%	161,900	2.68%	\$2.55	(14,550)	(2,834)	19,213	65,116
Malls	43	2,340,725	0	0	21,325	0.91%	0	0.00%	-	1,576	0	1,576	1,576
Power Centers	33	1,030,668	0	3,000	0	0.00%	0	0.00%	-	0	0	0	0
Shopping Centers	553	9,271,910	0	94,683	492,621	5.31%	528,444	5.70%	\$2.28	5,147	32,686	28,862	104,020
Specialty Centers	27	755,044	0	0	0	0.00%	0	0.00%	-	0	2,233	0	3,597
South County Total	1,788	19,419,877	26,526	330,987	640,592	3.30%	690,344	3.55%	\$2.35	(7,827)	32,085	49,651	174,309
San Diego Total													
San Diego Total	13,174	136,378,761	453,103	2,450,263	5,743,296	4.21%	6,236,475	4.56%	\$2.39	96,653	(325,620)	641,331	2,133,629
General Retail	9,011	55,568,453	147,883	1,247,413	1,699,454	3.06%	1,920,054	3.45%	\$2.64	36,673	(73,217)	282,551	932,071
Malls	174	13,012,907	300,000	38,100	983,648	7.56%	756,928	5.69%	\$1.65	(7,331)	(180,407)	2,624	6,079
Power Centers	373	11,784,150	0	13,000	444,032	3.77%	347,313	2.95%	\$3.00	3,046	(17,028)	22,446	103,759
Shopping Centers	3,576	54,595,226	5,220	1,151,750	2,592,083	4.75%	3,196,367	5.85%	\$2.22	64,354	(48,367)	330,910	1,058,423
Specialty Centers	40	1,418,025	0	0	24,079	1.70%	15,813	1.12%	\$1.60	(89)	(6,601)	2,800	33,297
San Diego Total	13,174	136,378,761	453,103	2,450,263	5,743,296	4.21%	6,236,475	4.56%	\$2.39	96,653	(325,620)	641,331	2,133,629

Lease rates are on a triple-net basis.



Looking Ahead

by **Spencer Kerrigan**

VICE PRESIDENT / PARTNER, SAN DIEGO

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As we approach the end of 2024, all eyes are fixed toward 2025. Thus far, the 2023 and 2024 transaction volume has proven to be substantially down from the recent peak reached in 2022. Still, San Diego remains in demand for value-add properties. Commercial offerings with “meat on the bone” are driving strong interest and offers, if they even make it to the market before an offer is accepted. However, stabilized properties are more reflective of the interest rate environment, with buyers demanding a higher cap rate to compete with the increased interest rates. Falling rates will help slightly, but we’re a long way from ZIRP (zero interest rate policy). Single-tenant net leased (STNL) properties both locally and nationwide are also reflective of the interest rate market. As an alternative investment to the stock and bond market, the cap rates have had to rise to garner buyers’ attention. The 10-year Treasury is generally the closest benchmark to STNL properties, and with it bobbing between 4.0% and 4.7% for the first three quarters of the year, a premium must be offered for the additional risk in real estate. Hence the sub-4% cap rates are much rarer than over the past couple years, although, some do still transact.

The retail leasing market remains robust in San Diego. Newer and better-quality retail space still demands a premium, and the availability rate for retail space built within the last ten years is 40% below the overall market retail rate. Rents generally seem to have plateaued a bit, with the year-over-year rent increase around 3%, compared to the peaks of over 5% over the last couple years. Most of the activity in retail is in space under 3,000 square feet, although a large chunk of 2024’s reported new leasing was the takeover of 99-cent Only Stores by Dollar Tree. Roughly a dozen of those boxes were released by Dollar Tree around San Diego. There is still a demand for new, well-located brick-and-mortar retail space, but delivering this product proves challenging with land and building costs remaining elevated. When and if new product is delivered, it has great likelihood of leasing quickly.

Many outlook indicators remain positive, but optimism looks more toward 2025 than the end of 2024. While the holidays are good for retailers, real estate sales and lease transactions generally seem to slow, with buyers, sellers, and tenants looking to table new deals until the new year.

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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