SD Q2 25

SECOND QUARTER 2025 MARKET REPORT

SAN DIEGO RETAIL

Voit REAL ESTATE SERVICES

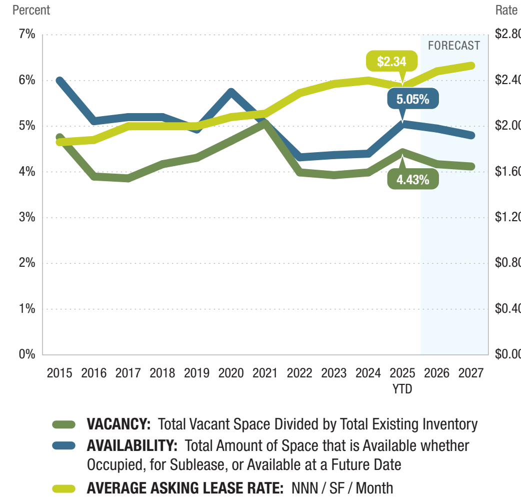
OVERVIEW. Overall supply and demand in the San Diego retail real estate market have been in balance for the past two years, albeit this balance has come from proportional reduction rather than growth. There has been a shift in the first half of 2025 resulting in the availability rate increasing by more than half a percentage point. The pace of store closures remains elevated, and consumer confidence is down due to economic uncertainty.

VACANCY & AVAILABILITY. Direct / sublease space (unoccupied) finished Q2 2025 at 4.43%, 24 basis points above the vacancy rate of Q1 2025. 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 5.05% at the end of Q2. This is a 10.8% increase compared to Q2 2024. The surge of store closures over the past year has moved the vacancy and availability rates significantly higher. 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. The total retail inventory for the county is slightly below the level of a decade ago, despite the millions of square feet of new retail buildings that were constructed during that time. San Diego real estate remains highly desirable, and obsolete retail sites continue to find higher and better uses. This culling of the retail property inventory has helped keep overall vacancy low.

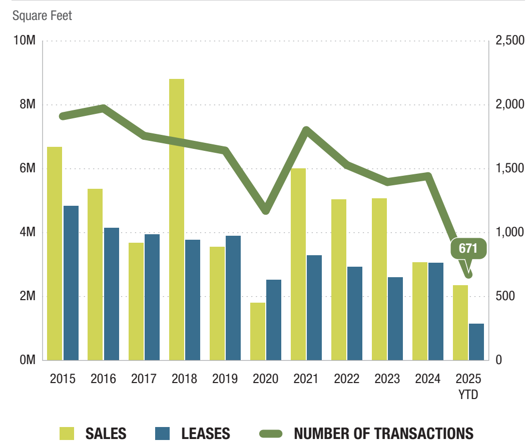
LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County ended Q2 at $2.34, a five-cent, or 2.1% decrease from the prior quarter and year which both saw an average asking rate of $2.39. The average asking lease rate has increased a total of 17% from the pre-pandemic level of five years ago. The 17% increase is a modest figure when considering that it falls short of total CPI inflation over the same time span. 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 Q2 was approximately 1.67 MSF, a 2% increase from Q2 2024's total of 1.65 MSF. In Q2, 81 retail buildings sold for a total of $254 million, which is below the average over the past three years of $320 million in sales per quarter. The Q2 final tally will likely end up closer to an average level when the sales totals are revised and finalized. There are sales which close at the end of the quarter which do not get pulled into the initial quarterly tally. The largest retail sales of Q2 were headlined by Nuveen's acquisition of an InvenTrust Properties portfolio. The largest lease reported in Q2 was Hobby Lobby's expansion into a space that Party City vacated following bankruptcy. Discount retailers have been a stalwart among expanding retailers in recent years.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

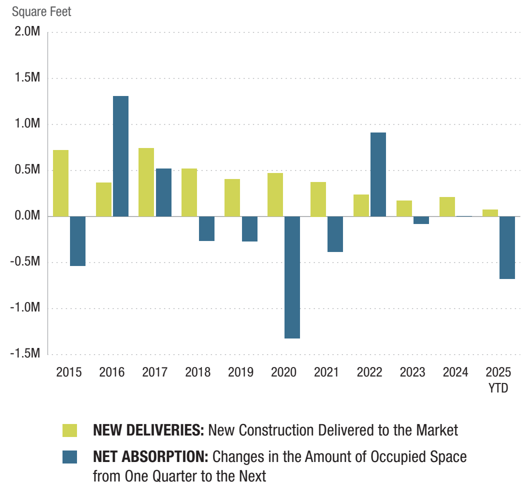
	Change Over Last Quarter		Q2 2025	Q1 2025	Q2 2024	% Change Over Last Year
Vacancy Rate	▲	UP	4.43%	4.19%	4.16%	6.54%
Availability Rate	▲	UP	5.05%	4.87%	4.56%	10.81%
Average Asking Lease Rate	▼	DOWN	$2.34	$2.39	$2.39	(2.09%)
Sale & Lease Transactions	▼	DOWN	1,674,362	1,827,029	1,648,522	1.57%
Gross Absorption	▲	UP	733,096	672,790	722,887	1.41%
Net Absorption	▼	NEGATIVE	(318,864)	(356,886)	124,754	N/A

ABSORPTION. There were 318,864 SF of negative net absorption in Q2 2025, bringing the total for the first half of the year to nearly 675,750 SF of negative net absorption. There has only been one calendar year with positive net absorption in the retail market since 2017. Coresight Research forecasts 15,000 retail stores will shut down in 2025, more than double the number of closures they registered for 2024. 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 Joann Fabrics, to Walgreens, to Forever 21.

CONSTRUCTION. There were 73,743 SF of new construction deliveries in the first half of 2025, which represents an annualized pace just shy of 150,000 SF. Over the four most recent calendar years the market has seen an average of 248,680 SF of annual deliveries, compared to the 561,301 SF annual average in the preceding four-year period. At the end of Q2, there were 563,157 SF of retail properties under construction. The stalled redevelopment at Horton Plaza in Downtown accounted for 300,000 SF of this total. Stockdale's mixed-use redevelopment of Downtown San Diego's regional mall is now in limbo under the threat of foreclosure with a trustee's sale scheduled for July at the time of this report's publication. Traditional ground-up shopping center development constitutes less of the construction pipeline than in the past. Beyond the redevelopments, the largest property under construction at the end of Q2 was an 85,000-square-foot Lifetime Fitness in Eastern Chula Vista. The ongoing growth of Ecommerce has translated into an increase in warehouse development and a decrease of new retail construction.

EMPLOYMENT. The unemployment rate in San Diego County was 4.0% in May 2025, down from a revised 4.1% in Aril 2025, and above the year-ago estimate of 3.6%. This compares with an unadjusted unemployment rate of 4.9% for California and 4.0% for the nation during the same period. Over the 12-month period between May 2024 and May 2025, San Diego County employment increased by 16,200 jobs, an increase of 1%. 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, 147,000 jobs were added in June, while the seasonally adjusted U.S. unemployment rate decreased from 4.2% to 4.1%.

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 market fundamentals will remain under pressure heading into the second half of 2025, as retailers and consumers navigate the trade war.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
300-344 S. Twin Oaks Valley Rd.	San Marcos	144,142	$85,000,000	Nuveen	InvenTrust Properties Corp.
101–175 Old Grove Rd.	Oceanside	81,279	$26,850,000	Nuveen	InvenTrust Properties Corp.
5901–5999 Severin Dr.	La Mesa	57,593	$21,600,000	The Institute for Effective Education	La Mesa Village Station Trust
4750–4760 Oceanside Blvd.	Oceanside	35,013	$11,650,000	Natoma Court, LLC	Capital Investment Network, Inc.
13314–13382 Poway Rd.	Poway	22,424	$11,600,000	BBM Real Estate, LLC	Capstone Advisors, Inc.

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
40 N. 4th Ave.	Chula Vista	64,900	May-2025	Hobby Lobby (Expansion)	American Assets Trust
1655 Euclid Ave.	Southeast San Diego	30,000	May-2025	Red, White, & Blue Thrift	Red Mountain Group
137–151 S. Las Posas Rd.	San Marcos	16,500	Jun-2025	Five Below	World Premier Investments
4181 Oceanside Blvd.	Oceanside	13,795	Jun-2025	Ace Hardware	(Sublease)
3305–3357 Rosecrans St.	Sports Arena / Midway	12,000	May-2025	Sketchers	Kimco Realty

SD Q2 25 RETAIL

	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 2025	Square Feet Available	Availability Rate Q2 2025	Average Asking Lease Rate	Net Absorption Q2 2025	Net Absorption 2025	Gross Absorption Q2 2025	Gross Absorption 2025
Central South													
General Retail	3,643	19,970,217	11,209	663,709	697,261	3.49%	870,159	4.35%	$2.84	(91,858)	(64,638)	111,854	258,706
Malls	65	3,468,516	300,000	0	39,115	1.13%	312,538	8.29%	-	(3,206)	(7,334)	0	5,872
Power Centers	89	3,206,480	0	6,975	31,557	0.98%	66,545	2.08%	-	(4,151)	(13,136)	0	3,015
Shopping Centers	713	11,106,939	0	0	593,133	5.34%	700,256	6.30%	$2.18	(55,564)	(78,893)	120,251	192,344
Specialty Centers	6	240,606	0	0	13,352	5.55%	13,864	5.76%	-	(703)	(1,017)	2,354	3,268
Central South Total	4,516	37,992,758	311,209	670,684	1,374,418	3.62%	1,963,362	5.13%	$2.55	(155,482)	(165,018)	234,459	463,205
East County													
General Retail	1,455	7,568,416	6,077	44,070	170,245	2.25%	188,254	2.49%	$1.95	(16,957)	(53,257)	17,915	48,673
Malls	22	2,114,627	0	38,100	404,943	19.15%	300,223	14.20%	-	0	6,500	0	6,500
Power Centers	55	1,517,979	0	0	38,789	2.56%	33,971	2.24%	-	(2,164)	(8,564)	2,459	5,459
Shopping Centers	564	8,179,180	0	239,173	411,145	5.03%	435,906	5.33%	$1.73	(25,336)	(45,066)	41,328	81,597
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	2,098	19,414,760	6,077	321,343	1,025,122	5.28%	958,354	4.93%	$1.81	(44,457)	(100,387)	61,702	142,229
I-15 Corridor													
General Retail	171	1,696,035	18,802	178,292	19,364	1.14%	44,534	2.60%	$3.75	(6,686)	(2,086)	0	7,000
Malls	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Power Centers	24	575,544	0	0	1,627	0.28%	2,827	0.49%	-	1,800	2,700	1,800	2,700
Shopping Centers	293	4,225,306	0	11,393	136,598	3.23%	192,612	4.56%	$3.14	(1,549)	(37,663)	21,670	39,152
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
I-15 Corridor Total	488	6,496,885	18,802	189,685	157,589	2.43%	239,973	3.68%	$3.30	(6,435)	(37,049)	23,470	48,852
North County													
General Retail	1,682	11,678,407	98,664	95,534	631,615	5.41%	647,596	5.50%	$1.89	(72,178)	(101,074)	61,930	109,679
Malls	26	2,800,847	0	0	426,150	15.22%	150,544	5.37%	$1.69	0	0	0	0
Power Centers	104	3,087,331	0	4,000	172,545	5.59%	260,650	8.44%	$3.00	(2,496)	(11,305)	9,994	32,994
Shopping Centers	986	14,983,096	0	268,745	708,108	4.73%	948,606	6.33%	$1.99	(58,962)	(32,249)	49,359	166,520
Specialty Centers	5	368,640	0	0	4,595	1.25%	4,595	1.25%	-	(4,595)	(4,595)	0	0
North County Total	2,803	32,918,321	98,664	368,279	1,943,013	5.90%	2,011,991	6.09%	$1.95	(138,231)	(149,223)	121,283	309,193
Central North													
General Retail	862	7,178,827	24,479	5,000	170,093	2.37%	223,135	3.10%	$3.90	13,101	8,537	64,436	109,912
Malls	19	1,710,501	0	0	110,341	6.45%	59,472	3.48%	$1.65	6	(8,578)	2,403	2,403
Power Centers	67	2,205,378	0	0	45,704	2.07%	81,026	3.67%	-	51,049	7,142	51,049	54,348
Shopping Centers	445	6,453,032	0	333,500	387,688	6.01%	519,865	8.06%	$2.54	(46,066)	(137,115)	34,384	66,648
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Central North Total	1,393	17,547,738	24,479	338,500	713,826	4.07%	883,498	5.03%	$3.00	18,090	(130,014)	152,272	233,311
South County													
General Retail	1,136	5,847,298	103,926	130,846	122,397	2.09%	138,948	2.33%	$2.55	3,005	(4,857)	23,452	49,706
Malls	44	2,408,296	0	0	85,505	3.55%	64,180	2.66%	-	(4,758)	(64,180)	59,422	59,422
Power Centers	32	1,027,842	0	3,000	0	0.00%	0	0.00%	-	0	0	0	0
Shopping Centers	548	9,230,279	0	95,423	501,375	5.43%	518,477	5.62%	$2.19	7,589	(25,022)	55,221	98,153
Specialty Centers	27	755,044	0	0	0	0.00%	0	0.00%	$4.00	1,815	0	1,815	1,815
South County Total	1,787	19,268,759	103,926	229,269	709,277	3.68%	721,605	3.72%	$2.29	7,651	(94,059)	139,910	209,096
San Diego Total	**13,085**	**133,639,221**	**563,157**	**2,117,760**	**5,923,245**	**4.43%**	**6,778,783**	**5.05%**	**$2.34**	**(318,864)**	**(675,750)**	**733,096**	**1,405,886**
General Retail	8,949	53,939,200	263,157	1,117,451	1,810,975	3.36%	2,112,626	3.90%	$2.60	(171,573)	(217,375)	279,587	583,676
Malls	176	12,502,787	300,000	38,100	1,066,054	8.53%	886,957	6.93%	$1.68	(7,958)	(73,592)	61,825	74,197
Power Centers	371	11,620,554	0	13,975	290,222	2.50%	445,019	3.83%	$3.00	44,038	(23,163)	65,302	98,516
Shopping Centers	3,549	54,177,832	0	948,234	2,738,047	5.05%	3,315,722	6.12%	$2.16	(179,888)	(356,008)	322,213	644,414
Specialty Centers	40	1,398,848	0	0	17,947	1.28%	18,459	1.32%	$4.00	(3,483)	(5,612)	4,169	5,083
San Diego Total	**13,085**	**133,639,221**	**563,157**	**2,117,760**	**5,923,245**	**4.43%**	**6,778,783**	**5.05%**	**$2.34**	**(318,864)**	**(675,750)**	**733,096**	**1,405,886**

Lease rates are on a triple-net basis.

Voit REAL ESTATE SERVICES

American As Apple Pie – From Door Dash

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Real estate is classically all about “location, location, location.” In commercial real estate, this often carries the most weight in the retail sector. Retail real estate even has an expression of its own: the most desirable areas with the greatest visibility and highest traffic locations are described as being at “Main and Main”—the busiest and most prominent intersections. In the current market, the properties at Main and Main are doing just fine. The relatively solid fundamentals of the retail leasing market following the brief Covid-era collapse have gone largely under the radar. There has been an increase in the San Diego County retail vacancy rate in the first half of 2025, but the current 4.5% vacancy rate is in line with the pre-Covid vacancy rate of 4.3% at the end of 2019. The big-picture view of the retail real estate market in San Diego is that the best properties still find demand, and the least desirable properties are steadily being redeveloped. This reflects a clear divide between the haves and the have-nots among retail properties. Notably, the retail market’s inventory in prime locations remains tight despite an increase in available mid-sized retail spaces within malls and power centers due to recent closures.

From the 30,000-foot perspective, there are areas of weakness within the retail market. The continued growth of e-commerce doesn’t command the headlines that it once did. But the ubiquitous sight of Amazon packages on doorsteps has become as American as apple pie. This and other ongoing shifts in consumer behavior have left a trail of store closures by debt-laden, slow-to-adapt retailers. Currently a number of retailers are downsizing or have filed for bankruptcy, including JOANN, Rite Aid, and Party City, all of which have closed locations in San Diego County in recent months. These longer-term trends have collided with present-day economic uncertainty to produce a pullback in the retail market mid-2025. Consumer confidence dipped in June, largely due to an opaque outlook for the economy. The broader public does not yet have clarity on the timing and outcome of tariffs being introduced under President Trump’s administration, and this is weighing on the market. We remain optimistic that the cloud of trade uncertainty may dissipate in the coming months. A rebound in consumer confidence remains possible in the second half of the year—especially if we see any momentum toward resolving trade negotiations.

The recent passage of the federal tax and spending bill introduces several provisions expected to benefit the retail investment market in San Diego. Notably, the bill permanently reinstates 100% bonus depreciation for qualifying assets placed in service after January 19, 2025. This allows investors in retail properties to immediately expense the full cost of eligible business equipment purchases in the first year—a substantial incentive for capital investment. Additionally, the Section 179 expensing cap for small businesses has been significantly increased to $2.5 million, with a phase-out threshold of $4 million, which will benefit smaller retail operators looking to upgrade or expand. The permanent extension of the Qualified Business Income (QBI) deduction at 20% also provides greater certainty and tax relief for many commercial real estate investors and small business owners, including those in the retail sector, as it applies to pass-through entities. These tax changes are designed to stimulate investment and provide more flexibility for business owners—potentially driving increased demand for well located retail spaces and improved viability for redevelopment projects. The broader pro-business tone of the bill, including the restoration of a more favorable calculation for the business interest deduction limit, is expected to encourage domestic investment, which may in turn boost consumer activity and benefit the retail market overall.

Submarkets

CENTRAL SOUTH
Central San Diego, Clairemont, Coronado, Downtown, Mission Gorge, Mid City / Southeast San Diego, Mission Valley, Pacific Beach / Morena, Point Loma / Sports Arena

EAST COUNTY
El Cajon, La Mesa, Lemon Grove / Spring Valley, Santee / Lakeside

I-15 CORRIDOR
Carmel Mountain Ranch, Poway, Rancho Bernardo, Rancho Penasquitos

CENTRAL NORTH
Cardiff / Encinitas, Del Mar Heights, La Jolla / Torrey Pines, Miramar, UTC

NORTH COUNTY
Carlsbad, Escondido, Oceanside, San Marcos, Vista

SOUTH COUNTY
Chula Vista, Eastlake, Imperial Beach / South San Diego, National City

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