

**MARKET OVERVIEW.** The retail sector is in the midst of a transformation resulting from the boon in e-commerce, and this has caused a paradigm shift in real estate requirements for many traditional retailers. Retail real estate metrics for the San Diego market have outperformed the national averages due to the supply-constrained nature of this coastal metro. The top first quarter leases are a perfect representation of what is taking place in the San Diego market—the top four leases from the first quarter, three occurred in former Toys “R” Us and Sears spaces, and one was in a residential development. This confirms what our reports have been saying, that there is significant demand for the vacancies left behind by retailers that are going bankrupt, and new retail construction is increasingly coming to the market via mixed-use development. Additionally, these tenants in the top four leases of the quarter were two furniture stores, a discount clothing store, and a gym. This encapsulates the most active types of retailers for junior anchor or big box spaces. Overall, new construction is minimal which has led to stability in the San Diego market, demonstrated by the vacancy rate which remains low.

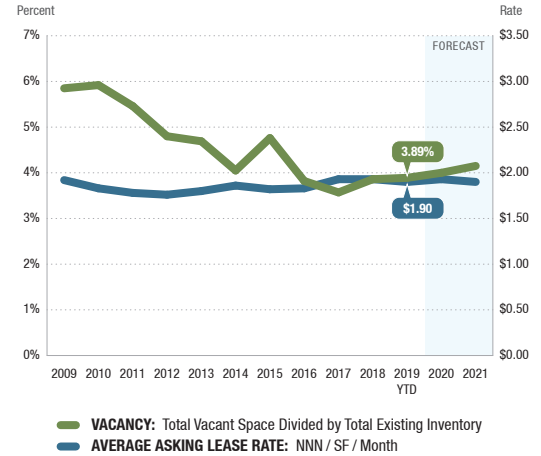
**VACANCY.** Direct/sublease space (unoccupied) finished the first quarter of 2019 at 3.89%, a slight increase from the first quarter of 2018’s vacancy rate of 3.64%, but at the same level as one quarter ago, and it is still well below the ten-year average of 4.69% vacancy rate.

**LEASE RATES.** The average asking triple-net lease rate per month per square foot in San Diego County was \$1.90, the exact same rate from a year ago in the first quarter of 2018. The highest average asking rate in the market was in the I-15 Corridor, posting \$3.13 per square foot per month, on a triple-net basis.

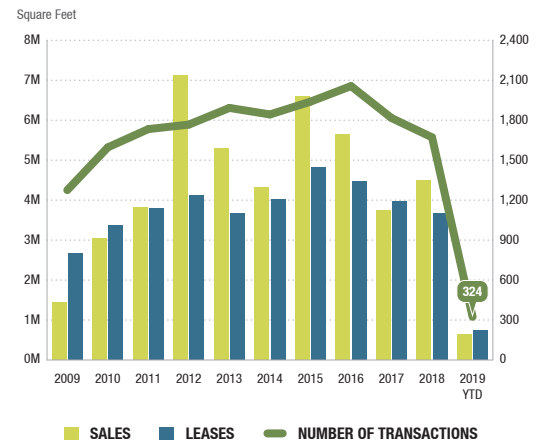
**TRANSACTION ACTIVITY.** The combined amount of retail property sold or leased during the first quarter was approximately 1.7 million square feet, a decrease from last quarter, but very similar to the 1.9 million square feet of combined transaction activity recorded in the first quarter of 2018. The transaction activity statistic can have some lag time in being reported, so look for this quarter’s figures to end up somewhat higher in the next report.

**EMPLOYMENT.** The unemployment rate in San Diego County was 3.5% in February 2019, down from a revised 3.8% in January 2019, and unchanged from the year-ago estimate of 3.5%. This compares with an unadjusted unemployment rate of 4.4% for California and 4.1% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 19,900 payroll jobs between February 2018 and February 2019, including 6,900 from education and health services, which reported the largest overall gain. The professional and business services sector reported a growth of 5,400 jobs, the second most among the major employment sectors. The largest year-over-year loss was in trade, transportation, and utilities which reported 2,600 fewer jobs than the prior year.

### VACANCY vs. AVERAGE ASKING LEASE RATE



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



### Market Statistics

	Change Over Last Quarter	1Q 2019	4Q 2018	1Q 2018	% Change Over Last Year
Vacancy Rate	FLAT	3.89%	3.86%	3.64%	6.85%
Availability Rate	DOWN	4.70%	4.93%	4.90%	(4.24%)
Average Asking Lease Rate	DOWN	\$1.90	\$1.93	\$1.90	0.00%
Sale & Lease Transactions	DOWN	1,721,631	2,920,132	1,910,486	(9.89%)
Gross Absorption	UP	1,145,543	932,365	921,431	24.32%
Net Absorption	POSITIVE	61,112	180,830	(97,339)	N/A

**EMPLOYMENT.** The labor market in San Diego County will continue to improve, although we anticipate job growth to slow. In 2018 there was a 1.7% increase in total employment, and a 1.0–1.2% increase is projected for 2019. With the local stalwarts of defense and biotech remaining strong, look for these sectors to lead the way for employment gains, followed by healthcare.

**LEASE RATES.** The average asking lease rate has remained fairly flat over the past couple of years, due in large part to the volatility in the retail sector’s demand drivers. However, San Diego is a supply constrained market, and availability remains low. Expect average asking rates to increase by a moderate 1–2% over the next four quarters.

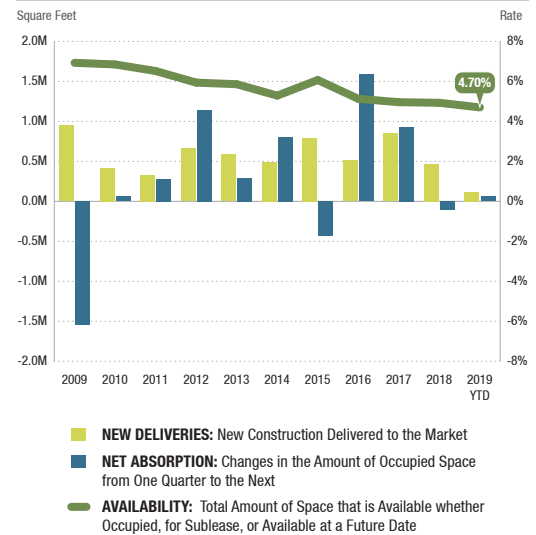
**VACANCY.** We anticipate the vacancy rate to remain stable and low, with much of the occupancy gains already captured. Availability has remained steady over the past four quarters, and with no buildup in availability, and minimal construction under way, we do not anticipate significant increases in vacancy.

**CONSTRUCTION.** Following the 464,118 square feet of new retail projects completed in 2018 (the lowest annual total since 2011), there were only 250,462 square feet under construction at the end of the first quarter of 2019. The limited amount of new construction coming to the market has acted as a stabilizing force during this period of dramatic change in retail.

**AVAILABILITY.** Direct / sublease space being marketed was 4.70% at the end of the first quarter of 2019. This was a slight decrease from the fourth quarter of 2018’s availability rate of 4.93%. The Central South area of the county posted the lowest availability rate in the county, at 2.69%.

**ABSORPTION.** The San Diego retail market saw a modest 61,112 square feet of positive net absorption in the first quarter, which was a change in course following the 112,557 square feet of negative net absorption the market saw in 2018.

### NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
225–401 Vista Village Dr.; 15–40 Main St.	Vista	164,829	\$66,200,000	Cherng Family Trust	SITE Centers
1346–1358 W. Valley Pkwy.	Escondido	124,411	\$24,930,000	Goldman Trust	Paragon Commercial Group
330 Third Ave.	Downtown	42,810	\$13,600,000	Tower Investments, Inc.	One Harbor, LLC
13255 Black Mountain Rd.	Rancho Penasquitos	40,000	\$12,050,500	Kimco Realty Corp.	Albertsons Companies
750 N. Escondido Blvd.	Escondido	10,102	\$7,300,000	Rancho Girard, LLC	M.M.K. Pacific Petroleum, Inc.

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1100 E. 30th St.	National Ciy	45,515	Jan-2019	Burlington Coat Factory	PNN Holdings, LP
1990 University Dr.	Vista	38,060	Jan-2019	Restoration Hardware Outlet	Valcenters, LLC
8310 Rio San Diego Dr.	Mission Valley	37,000	Feb-2019	LA Fitness	Sudberry Properties
575 Fletcher Pkwy	El Cajon	35,300	Jan-2019	Ashley Furniture	Seritage Growth Properties
1210 W. Morena Blvd.	Morena/Rose Canyon	28,022	Mar-2019	Undisclosed	1210 Morena West, LLC

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2019	Square Feet Available	Availability Rate 1Q2019	Average Asking Lease Rate	Net Absorption 1Q2019	Net Absorption 2019	Gross Absorption 1Q2019	Gross Absorption 2019
<b>Central South</b>													
General Retail	3,710	19,914,360	18,920	1,196,985	546,169	2.74%	764,101	3.84%	\$2.51	(42,657)	(42,657)	105,040	105,040
Malls	64	5,080,873	0	0	218,250	4.30%	194,362	3.83%	\$4.00	(18,370)	(18,370)	3,100	3,100
Power Centers	98	3,568,245	0	6,000	54,226	1.52%	66,973	1.88%	–	2,095	2,095	7,760	7,760
Shopping Centers	707	10,807,918	0	34,635	407,595	3.77%	0	0.00%	\$2.07	(37,865)	(37,865)	78,435	78,435
Specialty Centers	7	294,915	0	0	40,430	13.71%	40,430	13.71%	\$5.83	(21,821)	(21,821)	1,711	1,711
<b>Central South Total</b>	<b>4,586</b>	<b>39,666,311</b>	<b>18,920</b>	<b>1,237,620</b>	<b>1,266,670</b>	<b>3.19%</b>	<b>1,065,866</b>	<b>2.69%</b>	<b>\$2.36</b>	<b>(118,618)</b>	<b>(118,618)</b>	<b>196,046</b>	<b>196,046</b>
<b>East County</b>													
General Retail	1,451	7,344,205	0	51,970	130,479	1.78%	248,885	3.39%	\$1.44	43,183	43,183	77,511	77,511
Malls	15	2,800,820	0	0	20,153	0.72%	103,186	3.68%	–	28,105	28,105	41,085	41,085
Power Centers	60	1,702,163	0	7,300	24,564	1.44%	35,405	2.08%	–	(2,361)	(2,361)	5,000	5,000
Shopping Centers	563	8,301,021	15,834	246,731	465,121	5.60%	453,827	5.47%	\$1.65	20,493	20,493	82,513	82,513
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	–	0	0	0	0
<b>East County Total</b>	<b>2,091</b>	<b>20,182,767</b>	<b>15,834</b>	<b>306,001</b>	<b>640,317</b>	<b>3.17%</b>	<b>841,303</b>	<b>4.17%</b>	<b>\$1.59</b>	<b>89,420</b>	<b>89,420</b>	<b>206,109</b>	<b>206,109</b>
<b>I-15 Corridor</b>													
General Retail	174	1,659,240	0	62,925	33,129	2.00%	51,710	3.12%	\$2.95	(14,925)	(14,925)	4,200	4,200
Malls	0	0	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Power Centers	24	584,230	0	0	9,164	1.57%	116,374	19.92%	–	(4,250)	(4,250)	0	0
Shopping Centers	287	4,234,176	0	238,138	192,129	4.54%	177,327	4.19%	\$3.16	(13,654)	(13,654)	31,900	31,900
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	–	0	0	0	0
<b>I-15 Corridor Total</b>	<b>485</b>	<b>6,477,646</b>	<b>0</b>	<b>301,063</b>	<b>234,422</b>	<b>3.62%</b>	<b>345,411</b>	<b>5.33%</b>	<b>\$3.13</b>	<b>(32,829)</b>	<b>(32,829)</b>	<b>36,100</b>	<b>36,100</b>
<b>North County</b>													
General Retail	1,697	11,521,666	0	521,430	483,503	4.20%	594,012	5.16%	\$1.10	26,050	26,050	73,582	73,582
Malls	24	3,176,626	0	50,340	41,987	1.32%	50,464	1.59%	–	(31,014)	(31,014)	0	0
Power Centers	109	3,112,799	0	18,312	121,620	3.91%	122,870	3.95%	–	(14,556)	(14,556)	39,097	39,097
Shopping Centers	970	15,227,379	42,000	338,811	954,140	6.27%	1,248,811	8.20%	\$1.59	63,057	63,057	252,797	252,797
Specialty Centers	5	363,588	0	0	1,210	0.33%	1,210	0.33%	–	0	0	0	0
<b>North County Total</b>	<b>2,805</b>	<b>33,402,058</b>	<b>42,000</b>	<b>928,893</b>	<b>1,602,460</b>	<b>4.80%</b>	<b>2,017,367</b>	<b>6.04%</b>	<b>\$1.42</b>	<b>43,537</b>	<b>43,537</b>	<b>365,476</b>	<b>365,476</b>
<b>Central North</b>													
General Retail	870	7,105,287	0	96,408	201,998	2.84%	282,266	3.97%	\$3.12	25,894	25,894	58,277	58,277
Malls	21	1,445,994	110,836	0	297,818	20.60%	305,008	21.09%	–	21,792	21,792	21,792	21,792
Power Centers	66	2,094,287	21,300	101,235	8,484	0.41%	32,670	1.56%	–	5,045	5,045	6,995	6,995
Shopping Centers	420	6,443,793	0	480,213	237,583	3.69%	345,603	5.36%	\$2.68	46,454	46,454	107,024	107,024
Specialty Centers	9	232,667	0	0	67,054	28.82%	70,054	30.11%	\$1.75	0	0	0	0
<b>Central North Total</b>	<b>1,386</b>	<b>17,322,028</b>	<b>132,136</b>	<b>677,856</b>	<b>812,937</b>	<b>4.69%</b>	<b>1,035,601</b>	<b>5.98%</b>	<b>\$2.83</b>	<b>99,185</b>	<b>99,185</b>	<b>194,088</b>	<b>194,088</b>
<b>South County</b>													
General Retail	1,118	6,152,538	12,377	408,584	144,161	2.34%	284,421	4.62%	\$1.62	(11,411)	(11,411)	18,223	18,223
Malls	41	2,508,451	0	0	35,798	1.43%	52,035	2.07%	–	(32,207)	(32,207)	0	0
Power Centers	27	1,025,479	0	79,900	4,575	0.45%	19,745	1.93%	–	2,825	2,825	7,400	7,400
Shopping Centers	538	9,239,942	29,195	154,351	573,433	6.21%	738,165	7.99%	\$2.00	26,125	26,125	122,101	122,101
Specialty Centers	23	740,284	0	0	9,272	1.25%	20,861	2.82%	\$2.80	(4,915)	(4,915)	0	0
<b>South County Total</b>	<b>1,747</b>	<b>19,666,694</b>	<b>41,572</b>	<b>642,835</b>	<b>767,239</b>	<b>3.90%</b>	<b>1,115,227</b>	<b>5.67%</b>	<b>\$1.92</b>	<b>(19,583)</b>	<b>(19,583)</b>	<b>147,724</b>	<b>147,724</b>
<b>San Diego Total</b>	<b>13,100</b>	<b>136,717,504</b>	<b>250,462</b>	<b>4,094,268</b>	<b>5,324,045</b>	<b>3.89%</b>	<b>6,420,775</b>	<b>4.70%</b>	<b>\$1.90</b>	<b>61,112</b>	<b>61,112</b>	<b>1,145,543</b>	<b>1,145,543</b>
General Retail	9,020	53,697,296	31,297	2,338,302	1,539,439	2.87%	2,225,395	4.14%	\$1.91	26,134	26,134	336,833	336,833
Malls	165	15,012,764	110,836	50,340	614,006	4.09%	705,055	4.70%	\$4.00	(31,694)	(31,694)	65,977	65,977
Power Centers	384	12,087,203	21,300	212,747	222,633	1.84%	394,037	3.26%	\$3.11	(11,202)	(11,202)	66,252	66,252
Shopping Centers	3,485	54,254,229	87,029	1,492,879	2,830,001	5.22%	2,963,733	5.46%	\$1.89	104,610	104,610	674,770	674,770
Specialty Centers	46	1,666,012	0	0	117,966	7.08%	132,555	7.96%	\$2.49	(26,736)	(26,736)	1,711	1,711
<b>San Diego Total</b>	<b>13,100</b>	<b>136,717,504</b>	<b>250,462</b>	<b>4,094,268</b>	<b>5,324,045</b>	<b>3.89%</b>	<b>6,420,775</b>	<b>4.70%</b>	<b>\$1.90</b>	<b>61,112</b>	<b>61,112</b>	<b>1,145,543</b>	<b>1,145,543</b>

Lease rates are on a triple-net basis.



## Resetting Retail Standards

by **Max Stone**

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The San Diego Retail market kicked off 2019 with a strong start and retail owners continue to reap the benefits of low vacancy and strong rental rates.

First quarter vacancy rate overall was 3.89%, with some specific retail product types and areas with good demographics dipping below 3%. In some cases, owners are negotiating new leases prior to spaces being vacated by the former tenant. A lack of development sites has limited new construction which has also put pressure on rental rates.

Retail rental rates and vacancy rates have remained relatively flat; however, rates can be deceiving as operating expenses (NNN's) have been steadily increasing and this trend will in turn put pressure on base rent increases as we move later into the cycle. Landlords must work hard at managing their expense increases as tenants will be comparing aggregate rent when looking for new space.

As the economy continues to grow and wages increase, discretionary income will climb and help to further fuel interest in retail purchases. Retailers who combine a brick and mortar presence in combination with an internet strategy are competing well against "the Amazon effect." We have also seen a rise in QSR, quick service retail, as traditional retail moves out. All of this will continue to drive positive results in the San Diego Retail market.

The stabilization of interest rates is a positive for retail and the investment community continues to have an appetite for this product type. Investment in San Diego Retail product has remained strong. Supply is limited and cap rates should continue to compress for quality assets.

We believe the San Diego Retail market to be highly stabilized and very insulated from external influences.

## 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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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. ©2019 Voit Real Estate Services, Inc. DRE License #01991785.

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