

MARKET OVERVIEW. The San Diego retail market remains stable with a vacancy rate below 4%, and an availability rate which is decreasing, as we continue to buck the trend of the struggling national retail market. Some signs of softness appear when you look at average asking rental rates, which have dipped slightly since the start of the year, and transaction volume is on pace for an anemic year-end total. However, the limited amount of retail product under construction highlights the supply-constrained nature of the San Diego market, which has kept it on solid footing thus far.

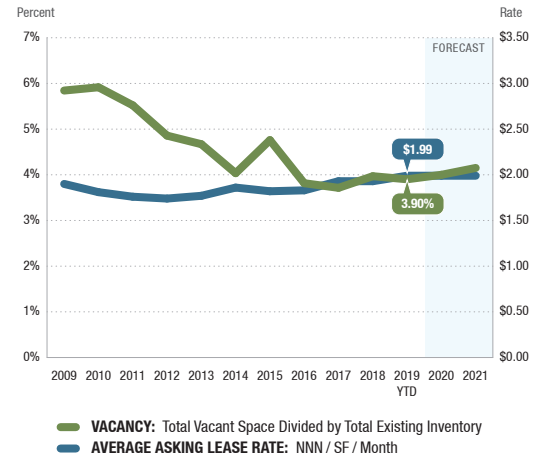
VACANCY. Direct/sublease space (unoccupied) finished the third quarter of 2019 at 3.90%, a decrease of 10 basis points from the second quarter of 2019's vacancy rate of 4.00%. The third quarter's vacancy rate is nearly unchanged from the level of one year ago, and it is still well below the ten-year average of 4.69%.

LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County was \$1.99, a five-cent decrease from the third quarter of 2018's rate of \$2.04. The highest average asking rate in the market was in the I-15 Corridor, posting \$3.21 per square foot per month, on a triple-net basis.

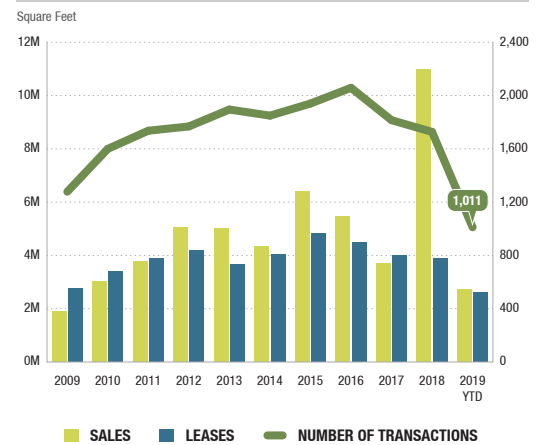
TRANSACTION ACTIVITY. The combined amount of retail property sold or leased during the third quarter was approximately 1.8 million square feet, a slight decrease from the 1.9 million square feet transacted in the second quarter of 2019. The transaction activity statistic can have some lag time in being 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 3.4% in August 2019, down from a revised 3.6% in July 2019, and below the year-ago estimate of 3.5%. This compares with an unadjusted unemployment rate of 4.2% for California and 3.8% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 27,400 payroll jobs between August 2018 and August 2019, including 8,400 from the Government sector, which reported the largest overall gain. The professional and business services sector reported a growth of 6,600 jobs, the second most among the major employment sectors. The largest year-over-year loss was in trade, transportation, and utilities which reported 2,900 fewer jobs than the prior year.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	3Q 2019	2Q 2019	3Q 2018	% Change Over Last Year
Vacancy Rate	▼ DOWN	3.90%	4.00%	3.94%	(0.88%)
Availability Rate	▼ DOWN	4.59%	4.92%	5.13%	(10.60%)
Average Asking Lease Rate	▲ UP	\$1.99	\$1.87	\$2.04	(2.45%)
Sale & Lease Transactions	▼ DOWN	1,753,823	1,886,906	8,398,987	(79.12%)
Gross Absorption	▲ UP	1,204,049	1,069,376	1,194,822	0.77%
Net Absorption	▲ POSITIVE	133,920	(101,499)	(26,982)	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 as a whole. However, San Diego is a supply-constrained market, and availability remains low. Expect average asking rates to remain stable, with select segments seeing increases, but minimal increases in the overall market average in the coming quarters.

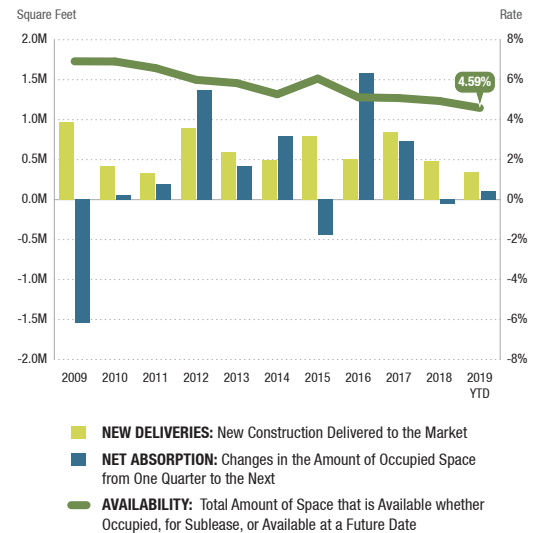
VACANCY. We anticipate the vacancy rate to remain stable and low, with much of the occupancy gains already captured. Availability has continued to decrease over the past four quarters, and with minimal construction underway, we do not anticipate significant increases in vacancy.

CONSTRUCTION. Following the 464,118 square feet of new retail projects completed in 2018 (the lowest annual total since 2011), there has only been 48,381 square feet of new construction through the first three quarters 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.

ABSORPTION. The San Diego retail market saw 133,920 square feet of positive net absorption in the third quarter of 2019, which moves the annual total into positive territory. The low transaction volume level in the market will likely lead to a low level of positive net absorption at year end.

AVAILABILITY. Direct/sublease space being marketed was 4.59% at the end of the third quarter of 2019. This was a substantial decrease from the second quarter of 2019's availability rate of 4.92%. The availability rate has been on a constant march downward, as opposed to the vacancy rate which is up slightly from the rate it posted two years ago.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
7710–7770 El Camino Real	Carlsbad	123,297	\$57,600,000	Asana Partners	Angelo, Gordon & Co.
1002–1068 Mission Ave.	Oceanside	183,716	\$37,000,000	Monro Capital	Pacific Development Partners, LLC
770 Dennery Rd.	South San Diego	61,005	\$32,300,000	Realty Income Corp.	Hutensky Capital Partners, LLC
3951 Camino de la Plaza	San Ysidro	98,123	\$24,700,000	Pacific Castle, Inc.	The Shamrock Group
7788 Regents Rd.	UTC	40,000	\$18,550,000	Levine Investments, LP	Vons Companies (Albertsons)

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
7788 Regents Rd.	UTC	40,000	Aug-2019	Vons	Levine Investments, LP
6331 University Ave.	East San Diego	18,346	Sept-2019	Doggie Day Care	Furniture Outlet
881 Showroom Pl.	Chula Vista	14,690	Sept-2019	Undisclosed	Leviton Manufacturing Co.
459 College Blvd.	Oceanside	12,218	Aug-2019	Spirit Halloween	NewMark Merrill
2949 Coronado Ave.	South San Diego	11,800	Sept-2019	Undisclosed	JND, LP

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2019	Square Feet Available	Availability Rate 3Q2019	Average Asking Lease Rate	Net Absorption 3Q2019	Net Absorption 2019	Gross Absorption 3Q2019	Gross Absorption 2019
Central South													
General Retail	3,746	20,438,050	13,277	892,690	614,230	3.01%	832,183	4.07%	\$2.85	(2,380)	(144,084)	153,025	445,840
Malls	64	5,095,974	0	0	218,250	4.28%	48,797	0.96%	–	0	(18,370)	1,001	4,101
Power Centers	98	3,568,245	0	6,000	20,686	0.58%	16,686	0.47%	–	(1,411)	35,635	4,500	50,711
Shopping Centers	700	10,897,801	0	34,635	405,929	3.72%	492,172	4.52%	\$2.14	53,992	9,886	129,833	296,863
Specialty Centers	7	294,915	0	0	40,430	13.71%	40,430	13.71%	–	0	(21,821)	0	1,711
Central South Total	4,615	40,294,985	13,277	933,325	1,299,525	3.23%	1,430,268	3.55%	\$2.65	50,201	(138,754)	288,359	799,226
East County													
General Retail	1,449	7,439,607	4,423	59,270	163,006	2.19%	311,554	4.19%	\$1.46	(31,125)	(37,182)	19,754	128,469
Malls	14	2,788,820	0	0	64,317	2.31%	144,462	5.18%	–	(714)	(16,059)	43,297	84,382
Power Centers	61	1,704,563	0	4,900	21,564	1.27%	29,237	1.72%	\$2.25	0	639	1,000	9,000
Shopping Centers	570	8,219,269	0	232,529	549,680	6.69%	515,204	6.27%	\$1.55	7,260	(25,155)	90,564	251,804
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	–	0	0	0	0
East County Total	2,096	20,186,817	4,423	296,699	798,567	3.96%	1,000,457	4.96%	\$1.53	(24,579)	(77,757)	154,615	473,655
I-15 Corridor													
General Retail	176	1,665,519	39,800	17,500	31,983	1.92%	44,694	2.68%	\$3.17	2,789	(13,779)	8,354	14,970
Malls	0	0	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Power Centers	24	581,357	0	0	15,891	2.73%	18,945	3.26%	–	103,183	96,233	107,210	107,210
Shopping Centers	287	4,258,794	0	229,532	150,158	3.53%	156,756	3.68%	\$3.22	44,931	33,942	61,617	128,539
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	–	0	0	0	0
I-15 Corridor Total	487	6,505,670	39,800	247,032	198,032	3.04%	220,395	3.39%	\$3.21	150,903	116,396	177,181	250,719
North County													
General Retail	1,698	11,665,624	0	514,715	438,983	3.76%	353,024	3.03%	\$1.09	59,073	67,673	127,310	261,522
Malls	24	3,176,626	0	50,340	12,538	0.39%	25,526	0.80%	–	1,500	(1,565)	1,500	29,449
Power Centers	109	3,080,573	9,312	9,000	120,700	3.92%	129,513	4.20%	–	7,125	(13,636)	26,869	72,138
Shopping Centers	973	15,104,412	48,609	429,159	1,025,317	6.79%	1,320,510	8.74%	\$1.65	(48,943)	6,116	125,843	507,405
Specialty Centers	5	369,833	0	0	1,210	0.33%	1,210	0.33%	–	0	0	0	0
North County Total	2,809	33,397,068	57,921	1,003,214	1,598,748	4.79%	1,829,783	5.48%	\$1.40	18,755	58,588	281,522	870,514
Central North													
General Retail	861	7,053,578	11,600	87,908	198,772	2.82%	247,575	3.51%	\$3.12	6,073	(29,978)	49,104	163,243
Malls	20	1,252,286	177,000	0	122,610	9.79%	76,049	6.07%	–	0	14,500	0	14,500
Power Centers	66	2,134,983	25,300	101,235	18,483	0.87%	45,666	2.14%	–	(8,788)	(4,954)	750	7,745
Shopping Centers	431	6,557,106	7,100	347,042	331,521	5.06%	392,260	5.98%	\$2.37	(33,505)	88,352	177,794	404,399
Specialty Centers	9	247,646	0	0	52,040	21.01%	56,125	22.66%	\$1.33	0	15,014	0	15,014
Central North Total	1,387	17,245,599	221,000	536,185	723,426	4.19%	817,675	4.74%	\$2.45	(36,220)	82,934	227,648	604,901
South County													
General Retail	1,123	6,204,270	4,097	392,862	124,164	2.00%	303,058	4.88%	\$1.61	(15,380)	23,975	23,744	115,677
Malls	41	2,508,207	0	0	10,008	0.40%	17,939	0.72%	–	0	(6,417)	0	25,790
Power Centers	28	972,480	0	75,500	4,575	0.47%	4,575	0.47%	–	7,400	10,225	7,400	29,970
Shopping Centers	545	9,256,979	3,500	131,445	587,817	6.35%	660,315	7.13%	\$1.99	(17,985)	50,964	42,755	268,808
Specialty Centers	22	759,698	0	0	13,957	1.84%	17,091	2.25%	\$2.65	825	(9,600)	825	825
South County Total	1,759	19,701,634	7,597	599,807	740,521	3.76%	1,002,978	5.09%	\$1.91	(25,140)	69,147	74,724	441,070
San Diego Total	13,153	137,331,773	344,018	3,616,262	5,358,819	3.90%	6,301,556	4.59%	\$1.99	133,920	110,554	1,204,049	3,440,085
General Retail	9,053	54,466,648	73,197	1,964,945	1,571,138	2.88%	2,092,088	3.84%	\$2.10	19,050	(133,375)	381,291	1,129,721
Malls	163	14,821,913	177,000	50,340	427,723	2.89%	312,773	2.11%	\$0.00	786	(27,911)	45,798	158,222
Power Centers	386	12,042,201	34,612	196,635	201,899	1.68%	244,622	2.03%	\$2.25	107,509	124,142	147,729	276,774
Shopping Centers	3,506	54,294,361	59,209	1,404,342	3,050,422	5.62%	3,537,217	6.51%	\$1.92	5,750	164,105	628,406	1,857,818
Specialty Centers	45	1,706,650	0	0	107,637	6.31%	114,856	6.73%	\$1.60	825	(16,407)	825	17,550
San Diego Total	13,153	137,331,773	344,018	3,616,262	5,358,819	3.90%	6,301,556	4.59%	\$1.99	133,920	110,554	1,204,049	3,440,085

Lease rates are on a triple-net basis.



Location, location, location...

by Spencer Kerrigan

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San Diego's retail market is as strong as ever. Rents are high, vacancy stays low, and in quality submarkets, owners are seeing their vacancies filled with relative ease. That said, there are other spaces locally that seem to sit, and sit, and sit, on the market. Rent reductions don't seem to spur activity, and some leasing agents wonder what more they can do to fill space. Well, in the ever-changing landscape of retail shopping centers, retailers are becoming more and more selective.

In markets where the demographics are lower (population density and income levels) the retailers seem to be of the mindset that if they can't get into the best center, they may not consider it at all. The national and major regional brands are not willing to sacrifice quality to attain locations. Unanchored strip centers struggle to get the name-brand tenants that occupy the grocery-anchored center that sits just down the street with all the national fast-food chains.

On the flip side, in markets where the demographics are strong, retail tenants will make some sacrifice in order to get a foothold in the marketplace. Being the smaller center nearby, but receiving easier parking, reasonable landscape, good signage, and more convenience than the bustling lifestyle center seems to be a play that works as long as they're in the right neck of the woods.

So, what's to come for each respective owner? The well-located centers seem to continue with healthy occupancy and climbing rents. Centers in inferior locations are seeing more action from the local tenants with maybe just one other location, or a relocation to this site to save a few dollars as rents climb around them. Ultimately there is a tenant for every space, but owners of the inferior product will have to sacrifice credit for occupancy, while the higher caliber property owner is able to achieve both occupancy and credit based on geography.

I'd say this leads back to the idiom as old as time with real estate — location, location, location.

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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