

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 transaction volume which reached a ten-year low in 2019. 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.

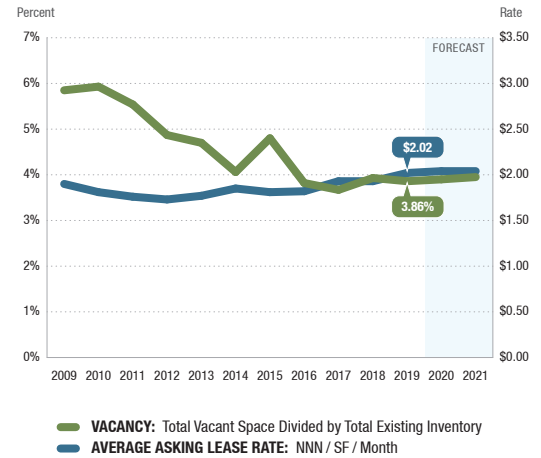
VACANCY. Direct/sublease space (unoccupied) finished the fourth quarter of 2019 at 3.86%, a decrease of 12 basis points from the third quarter of 2019's vacancy rate of 3.98%. The fourth quarter's vacancy rate is well below the ten-year average of 4.72%.

LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County was \$2.02, a five-cent increase from the fourth quarter of 2018's rate of \$1.97.

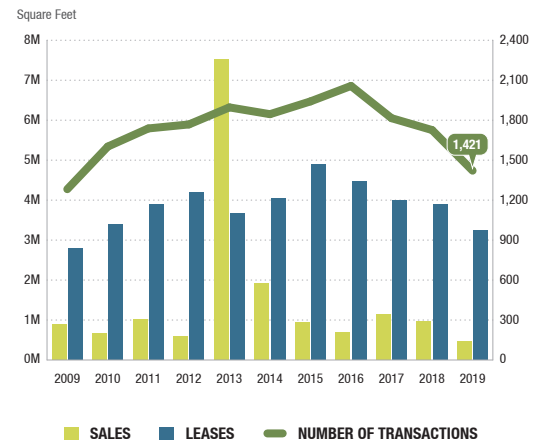
TRANSACTION ACTIVITY. The combined amount of retail property sold and leased during the fourth quarter was approximately 1.8 MSF, an increase from the 1.3 MSF transacted in the third quarter of 2019. The transaction activity statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report.

EMPLOYMENT. The unemployment rate in San Diego County was 2.9% in November 2019, unchanged from a revised 2.9% in October 2019, and below the year-ago estimate of 3.1%. This compares with an unadjusted unemployment rate of 3.7% for California and 3.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 34,300 payroll jobs between November 2018 and November 2019, including 8,200 from the professional and business sector, which reported the largest overall gain. The government sector reported a growth of 7,800 jobs, the second most among the major employment sectors. The largest year-over-year loss was in trade, transportation, and utilities which reported 1,000 fewer jobs than the prior year.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	4Q 2019	3Q 2019	4Q 2018	% Change Over Last Year
Vacancy Rate	▼ DOWN	3.86%	3.98%	3.93%	(1.61%)
Availability Rate	▲ UP	4.64%	4.58%	4.90%	(5.24%)
Average Asking Lease Rate	▲ UP	\$2.02	\$1.97	\$1.93	4.66%
Sale & Lease Transactions	▲ UP	1,823,165	1,341,858	8,683,151	(79.00%)
Gross Absorption	▲ UP	1,113,737	1,101,010	945,865	17.75%
Net Absorption	▲ POSITIVE	113,361	(16,119)	180,293	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, and closer to 1% growth is projected in 2020. With the local stalwarts of Defense and Biotech remaining strong, look for these sectors to lead the way for employment gains, along with Technology.

LEASE RATES. San Diego is a supply-constrained market, and availability remains low. Expect average asking rates to remain stable, with select segments seeing increases, resulting in a minimal increase in the overall market average in the coming quarters.

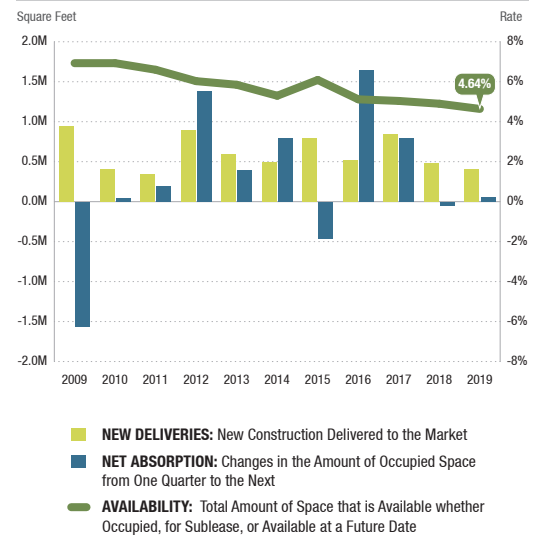
VACANCY. We anticipate the vacancy rate to remain stable and low, with much of the occupancy gains already captured. Availability has continued to decrease over the past four quarters, and with minimal construction underway, we do not anticipate significant increases in vacancy.

CONSTRUCTION. Following the 479,704 square feet of new retail projects completed in 2018 (the lowest annual total since 2011), there was only 411,487 square feet of new delivery in 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 113,361 square feet of positive net absorption in the fourth quarter of 2019, which moved the annual total into positive territory. The combined total absorption for 2018 and 2019 is just 15,187 square feet which points to the stable dynamics of the market.

AVAILABILITY. Direct/sublease space being marketed was 4.64% at the end of the fourth quarter of 2019. This was an increase of 6 basis points from the third quarter of 2019's availability rate of 4.58%, and a 5.24% decrease from the fourth quarter of 2018's rate. The I-15 Corridor had the lowest availability rate of any section of the county at 3.27%.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
700–790 Otay Lakes Rd.	Chula Vista	58,761	\$30,650,000	SENTRÉ	Sudberry Properties
1620–1646 San Elijo Rd.	San Marcos	23,076	\$16,000,000	Gershman Properties, LLC	Ambient Communities, Inc.
13432–13504 Poway Rd.	Poway	29,620	\$15,850,000	Poway BP Partners, LLC	Poway Town & Country Shopping
2450 5th Ave.	Uptown/Hillcrest	17,660	\$9,950,000	Paragon Real Estate Investment	Thomas Funke Properties
2800–2828 El Cajon Blvd.	North Park	12,623	\$9,400,000	MC 33rd Street, LLC	2800 El Cajon Blvd, LLC*

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
960 Sherman St.	Morena	117,500	Dec-2019	Floor & Décor	LBA Realty
2007–2041 Mission Ave.	Oceanside	42,000	Oct-2019	UEI College	Heslin Holdings, Inc.
5601 Grossmont Center Dr.	La Mesa	33,520	Nov-2019	Undisclosed	Rainbow Investment Co.
3813 Plaza Dr.	Oceanside	21,025	Oct-2019	Rite Aid	Thrifty Payless
538–678 Jamacha Rd.	El Cajon	14,352	Nov-2019	Lulus Internatoinal Market	Mabee Properties

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2019	Square Feet Available	Availability Rate 4Q2019	Average Asking Lease Rate	Net Absorption 4Q2019	Net Absorption 2019	Gross Absorption 4Q2019	Gross Absorption 2019
Central South													
General Retail	3,746	20,474,867	15,648	1,304,814	625,059	3.05%	886,609	4.33%	\$2.52	13,079	(153,542)	141,502	594,088
Malls	64	5,089,974	0	0	229,856	4.52%	58,217	1.14%	–	(11,606)	(29,976)	0	4,101
Power Centers	98	3,533,892	0	6,000	10,482	0.30%	29,578	0.84%	–	10,204	45,839	10,486	61,197
Shopping Centers	699	10,873,385	0	34,635	389,941	3.59%	414,585	3.81%	\$2.12	4,046	25,874	76,989	373,852
Specialty Centers	7	294,915	0	0	38,421	13.03%	34,970	11.86%	–	2,009	(19,812)	2,860	4,571
Central South Total	4,614	40,267,033	15,648	1,345,449	1,293,759	3.21%	1,423,959	3.54%	\$2.40	17,732	(131,617)	231,837	1,037,809
East County													
General Retail	1,448	7,433,935	5,783	51,370	196,582	2.64%	303,290	4.08%	\$1.48	(27,336)	(131,630)	20,453	154,922
Malls	13	2,782,857	0	9,200	61,740	2.22%	144,773	5.20%	–	2,577	(13,482)	111,152	195,534
Power Centers	59	1,644,898	0	4,900	27,527	1.67%	27,527	1.67%	\$2.17	(5,963)	(5,324)	0	9,000
Shopping Centers	574	8,258,352	0	232,529	569,767	6.90%	536,063	6.49%	\$1.54	(21,187)	(40,395)	59,205	314,456
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	–	0	0	0	0
East County Total	2,096	20,154,600	5,783	297,999	855,616	4.25%	1,011,653	5.02%	\$1.53	(51,909)	(190,831)	190,810	673,912
I-15 Corridor													
General Retail	176	1,665,194	39,800	17,500	38,575	2.32%	51,286	3.08%	\$3.13	(6,592)	(20,371)	1,720	16,690
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%	–	0	96,233	0	107,210
Shopping Centers	287	4,257,402	0	228,124	134,945	3.17%	142,260	3.34%	\$3.18	13,723	49,155	29,226	157,765
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	–	0	0	0	0
I-15 Corridor Total	487	6,503,953	39,800	245,624	189,411	2.91%	212,491	3.27%	\$3.17	7,131	125,017	30,946	281,665
North County													
General Retail	1,700	11,628,434	11,900	532,215	305,652	2.63%	415,058	3.57%	\$1.78	138,743	161,038	199,895	416,539
Malls	24	3,176,626	0	50,340	22,169	0.70%	23,473	0.74%	–	(9,631)	(11,196)	3,088	32,537
Power Centers	109	3,080,573	9,312	9,000	129,370	4.20%	126,463	4.11%	–	(12,045)	(22,306)	3,300	75,438
Shopping Centers	973	15,082,655	6,200	415,159	1,043,681	6.92%	1,262,524	8.37%	\$1.59	3,390	2,237	158,965	652,500
Specialty Centers	5	369,833	0	0	1,210	0.33%	1,210	0.33%	–	0	0	0	0
North County Total	2,811	33,338,121	27,412	1,006,714	1,502,082	4.51%	1,828,728	5.49%	\$1.64	120,457	129,773	365,248	1,177,014
Central North													
General Retail	865	7,078,617	15,100	87,908	219,868	3.11%	282,042	3.98%	\$2.94	(8,519)	(54,162)	58,861	227,359
Malls	20	1,252,286	177,000	0	122,610	9.79%	60,599	4.84%	–	0	14,500	12,838	27,338
Power Centers	67	2,167,332	4,000	101,235	43,877	2.02%	74,732	3.45%	–	(25,394)	(9,048)	4,408	12,153
Shopping Centers	430	6,522,738	17,530	337,000	318,173	4.88%	412,720	6.33%	\$2.41	11,379	61,865	70,128	479,776
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	1,391	17,268,619	213,630	526,143	756,568	4.38%	886,218	5.13%	\$2.38	(22,534)	28,169	146,235	761,640
South County													
General Retail	1,125	6,210,411	0	392,862	101,168	1.63%	294,125	4.74%	\$1.53	30,613	45,117	51,665	167,342
Malls	41	2,508,207	0	0	7,997	0.32%	15,928	0.64%	–	2,011	(4,406)	2,011	27,801
Power Centers	28	972,480	0	75,500	4,575	0.47%	4,575	0.47%	–	0	10,225	0	29,970
Shopping Centers	545	9,257,038	3,500	131,445	575,966	6.22%	674,377	7.29%	\$1.98	10,575	62,912	94,985	364,308
Specialty Centers	22	759,698	0	0	14,672	1.93%	15,527	2.04%	\$1.91	(715)	(10,315)	0	825
South County Total	1,761	19,707,834	3,500	599,807	704,378	3.57%	1,004,532	5.10%	\$1.86	42,484	103,533	148,661	590,246
San Diego Total	13,160	137,240,160	305,773	4,021,736	5,301,814	3.86%	6,367,581	4.64%	\$2.02	113,361	64,044	1,113,737	4,522,286
General Retail	9,060	54,491,458	88,231	2,386,669	1,486,904	2.73%	2,232,410	4.10%	\$2.21	139,988	(153,550)	474,096	1,576,940
Malls	162	14,809,950	177,000	59,540	444,372	3.00%	302,990	2.05%	–	(16,649)	(44,560)	129,089	287,311
Power Centers	385	11,980,532	13,312	196,635	231,722	1.93%	281,820	2.35%	\$2.17	(33,198)	115,619	18,194	294,968
Shopping Centers	3,508	54,251,570	27,230	1,378,892	3,032,473	5.59%	3,442,529	6.35%	\$1.90	21,926	161,648	489,498	2,342,657
Specialty Centers	45	1,706,650	0	0	106,343	6.23%	107,832	6.32%	\$1.43	1,294	(15,113)	2,860	20,410
San Diego Total	13,160	137,240,160	305,773	4,021,736	5,301,814	3.86%	6,367,581	4.64%	\$2.02	113,361	64,044	1,113,737	4,522,286

Lease rates are on a triple-net basis.



2020 San Diego Retail Forecast: 72° and Sunny

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San Diego Retail ended 2019 steady and strong again. The fourth quarter overall vacancy rate was almost exactly the same as 2018, at 3.86%. Rental rates for quality retail product were higher, which pushed up the market's average asking rates, but most of the market's rental rates for San Diego remained flat relative to 2018.

San Diego County, with its limited land for development coupled with the demand for multi-family sites, saw very little increase in retail property supply, causing San Diego County retail properties to remain very stable in 2019. In fact, despite the 400,000 square feet of new retail properties that were constructed in 2019, the net market inventory growth is more like slim to nil. There are a number of storefront properties that are being razed to build infill apartment buildings. Not to mention larger projects such as Horton Plaza Mall which is on the chopping block to be converted into a creative office complex, with a much smaller retail footprint planned for its next iteration. Overall tenant demand has not been overwhelming, but it has been enough to keep the countywide occupancy level higher than the national average.

Nationally, there is a trend of downsizing of retailers. One recent article was titled "For many of today's retailers, less is more". For example, the typical CVS footprint was 25,000–30,000 square feet and is now 14,000 square feet. In San Diego, this shouldn't cause too much concern. Re-purposing of mall anchor spaces and demising of big box or junior anchor spaces will allow other tenants into this tight market and could potentially increase average rents with higher price per square foot rent rates for these smaller demised spaces. Even though store closures of national retailers were higher in 2019 and several retailers are announcing closures for 2020, like Walgreens, Victoria Secret and Lowes, to name a few, we will likely not see many in San Diego County. While store closures make the headlines, the average person walking down the street may not know that there are expanding grocers such as Aldi's, expanding discount clothiers such as Burlington, and even department stores like Target are opening new locations in San Diego County.

The forecast for San Diego County retail is much of the same for 2020 as in 2019.

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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