

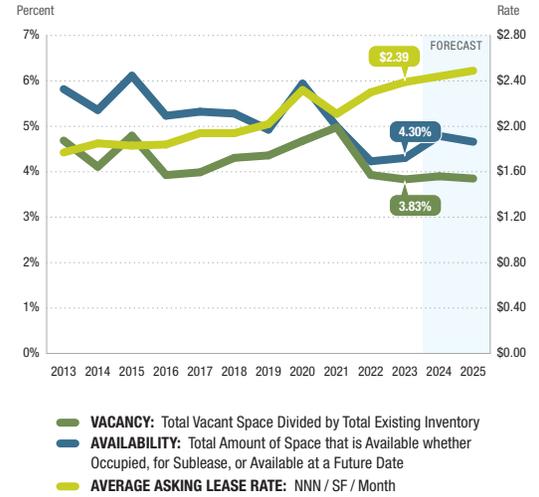
OVERVIEW. The local retail market has recovered from its pandemic-induced dip in occupancy, though activity remains light across leasing, sales, and construction measures. Average asking lease rates moved inconsistently following the 2020 pandemic as landlords struggled to navigate through unprecedented market conditions. 2022 saw asking rates return to steady increases which continued through 2023. 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 more modest pace, and increasingly retailers are pursuing an omnichannel strategy, integrating physical and online strategies.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 2023 at 3.83%, 10 basis points below the vacancy rate of a year ago. 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 4.30% at the end of Q4. This is a 1.7% increase versus Q4 2022. The gap between the vacancy rate and the availability rate was 47 basis points at the end of Q4. 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 number underrepresents the “true” availability rate as many mall owners are not marketing all of their available space in the open market.

LEASE RATES. The average asking triple-net lease rate per month per square foot in San Diego County ended 2023 at \$2.39, which is an increase of 4% compared with Q4 2022’s rate of \$2.30. The average asking lease rate has increased a total of 17% 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 Q4 2023 was approximately 1.1 MSF, equivalent to Q4 2022’s total. There was 540,348 SF of leasing activity in Q4. Leasing activity has slowed significantly. The average quarterly leasing volume in 2023 was 590,886 SF, while the preceding two years had an average quarterly leasing volume of 774,804 SF. 69 retail buildings sold for a total of \$145 million in Q4, bringing the 2023 total sales volume to \$1.1 billion dollars. This sales total was bolstered by the sale of the Westfield Mission Valley regional mall, as well as the Westfield North County Mall. The seller of these two properties was the French company Unibail-Rodamco-Westfield. At one time, Australian based Westfield Group owned almost all of the regional malls in San Diego County. Since its acquisition by Unibail-Rodamco in 2014, the successor company has deleveraged and sold a majority of its U.S. properties. URW’s last remaining holdings in San Diego County are the UTC mall and Plaza Bonita in National City.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	Q4 2023	Q3 2023	Q4 2022	% Change Over Last Year
Vacancy Rate	▼ DOWN	3.83%	3.96%	3.93%	(2.45%)
Availability Rate	▼ DOWN	4.30%	4.39%	4.23%	1.73%
Average Asking Lease Rate	▲ UP	\$2.39	\$2.34	\$2.30	3.91%
Sale & Lease Transactions	▼ DOWN	1,117,783	2,893,965	1,124,126	(0.56%)
Gross Absorption	▲ UP	844,070	776,442	686,330	22.98%
Net Absorption	▲ POSITIVE	240,559	233,074	163,753	N/A

ABSORPTION. The retail market finished 2023 with 33,255 SF of positive net absorption. This equates to a 0.03% change in the total retail tenant footprint in San Diego County. So the market was quite stable in 2023, following 1.2 MSF of positive net absorption in 2022.

CONSTRUCTION. There were 180,217 SF of new construction deliveries in 2023, the lowest annual total in decades. The two largest retail buildings constructed in 2023 were both auto dealerships: a 65,000 SF BMW dealership in Carlsbad, and an 18,000 SF Carvana in Mission Valley. Car dealerships being the largest construction completions of the year is a clear demonstration that the construction pipeline is at a trickle. Over the five most recent calendar years the market has seen an average of 345,686 SF of annual deliveries, compared with the 589,445 SF annual average in the preceding five-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 2023, with 300,000 SF coming from the repositioning of the Horton Plaza mall in Downtown San Diego. San Diego has perennially been a supply-constrained market for retail real estate. After the drubbing retailers took following the COVID outbreak, and with the ever-present growth of E-commerce, there remains little appetite by developers to ramp up any large-scale developments at this time.

EMPLOYMENT. The unemployment rate in San Diego County was 4.2% in November 2023, unchanged from a revised 4.2% in October 2023, and above the year-ago estimate of 3.3%. This compares with an unadjusted unemployment rate of 4.9% for California and 3.5% for the nation during the same period. Over the 12-month period between November 2022 and November 2023, San Diego County employment increased by 21,900 jobs, an increase of 1.4%. With the normal delay in reporting from the California EDD, employment figures from December were unavailable at the time of publishing this report. For the nation as a whole, 216,000 jobs were added in December, and weekly new jobless benefit claims finished the year at their lowest level in two months.

Forecast

The limited supply pipeline in San Diego keeps the market stable. There have been more than 2 MSF of new retail properties completed in the last six years, and yet the total market size has decreased during that time frame with tear-down redevelopments outpacing new construction. 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. High interest rates and tight lending standards are acting as headwinds in the current commercial property sales market, though the rate cuts anticipated in 2024 will help.

Significant Transactions

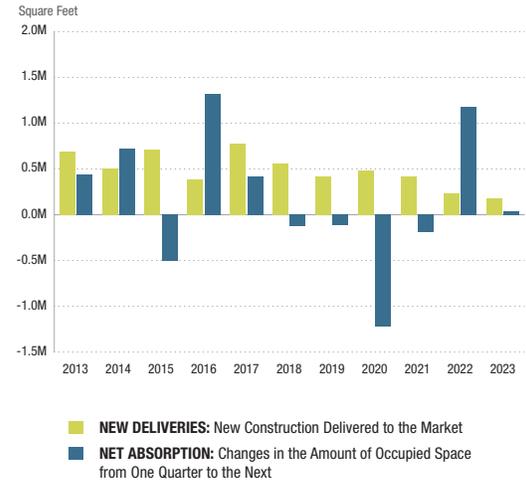
Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
4455-4463 Camino de la Paz	San Ysidro	135,000	\$39,000,000	Simon Property Group	Bridge33 Capital
160 S. Rancho Santa Fe Rd.	Encinitas	60,492	\$26,000,000	Space Investment Partners	P&G Company
4650 Mission Bay Dr.	Pacific Beach	20,987	\$11,025,000	Family Health Centers of SD	J.P. Morgan Chase & Co.
3865-3895 Mission Ave.	Oceanside	11,588	\$9,300,000	Reverse 101823, LLC	Jones Family Trust
1900 N. Coast Hwy. 101	Encinitas	2,982	\$7,000,000	Encinitas Beach Land Venture I, LLC	Dewitt Trust

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1715 Hacienda Dr.	Vista	32,045	Nov-2023	Fisker	City of Vista
1527 Mission Ave.	Oceanside	17,000	Nov-2023	Amvets	Milan Capital Management
1529 E. Valley Pkwy.	Escondido	14,700	Oct-2023	Wheelhouse Athletics	Escondido 24, LLC
2983 Jamacha Rd.	El Cajon	12,000	Nov-2023	SleepMor	Vestar
1014-1022 N. El Camino Real	Encinitas	9,851	Dec-2023	MOR Furniture For Less	Zelman Development Co.

NEW DELIVERIES & NET ABSORPTION



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q4 2023	Square Feet Available	Availability Rate Q4 2023	Average Asking Lease Rate	Net Absorption Q4 2023	Net Absorption 2023	Gross Absorption Q4 2023	Gross Absorption 2023
Central South													
General Retail	3,728	20,504,759	26,000	1,038,212	634,284	3.09%	872,022	4.25%	\$2.70	(5,688)	(77,363)	126,635	399,233
Malls	70	3,822,207	300,000	0	11,864	0.31%	317,804	7.71%	-	0	10,705	0	22,957
Power Centers	87	3,341,690	0	16,000	196,320	5.87%	36,320	1.09%	-	0	(2,225)	0	0
Shopping Centers	713	11,040,677	0	800	469,499	4.25%	578,406	5.24%	\$2.33	20,960	(44,250)	77,634	240,502
Specialty Centers	6	259,783	0	0	14,875	5.73%	54,168	20.85%	-	10,031	22,408	10,031	22,714
Central South Total	4,604	38,969,116	326,000	1,055,012	1,326,842	3.40%	1,858,720	4.73%	\$2.58	25,303	(90,725)	214,300	685,406
East County													
General Retail	1,451	7,404,942	0	30,442	135,539	1.83%	134,396	1.81%	\$1.84	(10,989)	(51,039)	26,981	86,647
Malls	22	2,241,374	0	9,200	161,107	7.19%	83,595	3.73%	-	6,573	11,255	6,573	11,255
Power Centers	56	1,386,978	0	0	37,698	2.72%	27,198	1.96%	\$3.00	42,860	27,065	42,860	65,701
Shopping Centers	573	8,278,661	0	284,823	306,213	3.70%	413,923	5.00%	\$1.75	4,322	25,472	34,743	188,878
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	2,104	19,346,513	0	324,465	640,557	3.31%	659,112	3.41%	\$1.78	42,766	12,753	111,157	352,481
I-15 Corridor													
General Retail	176	1,680,269	0	189,166	19,154	1.14%	23,374	1.39%	\$3.25	(3,475)	905	1,700	8,000
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%	10,039	1.74%	-	1,200	(1,213)	1,200	17,930
Shopping Centers	289	4,181,681	12,964	11,167	134,087	3.21%	220,096	5.25%	\$3.84	53,399	44,764	56,177	148,605
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
I-15 Corridor Total	489	6,437,494	12,964	200,333	160,622	2.50%	253,509	3.93%	\$3.79	51,124	44,456	59,077	174,535
North County													
General Retail	1,683	11,774,355	64,235	143,250	537,416	4.56%	565,150	4.77%	\$2.28	66,482	1,847	122,393	240,887
Malls	26	2,916,678	0	0	294,380	10.09%	0	0.00%	-	0	39,193	0	39,193
Power Centers	110	3,280,809	0	4,000	122,950	3.75%	143,863	4.38%	-	15,058	(30,807)	15,058	84,458
Shopping Centers	980	15,021,091	0	387,955	721,924	4.81%	916,765	6.10%	\$2.08	33,791	159,611	150,871	535,585
Specialty Centers	5	369,833	0	0	370	0.10%	370	0.10%	-	0	(370)	0	0
North County Total	2,804	33,362,766	64,235	535,205	1,677,040	5.03%	1,626,148	4.86%	\$2.15	115,331	169,474	288,322	900,123
Central North													
General Retail	861	7,068,646	7,187	5,000	126,807	1.79%	191,685	2.71%	\$3.18	(5,134)	53,906	37,634	159,609
Malls	20	1,684,394	0	0	204,399	12.13%	43,758	2.60%	\$1.65	0	18,592	0	18,592
Power Centers	68	2,211,421	0	0	68,624	3.10%	63,814	2.89%	-	2,941	(8,200)	7,000	18,846
Shopping Centers	450	6,643,091	0	333,500	298,186	4.49%	383,697	5.78%	\$3.66	25,116	1,636	77,431	200,821
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Central North Total	1,399	17,607,552	7,187	338,500	698,016	3.96%	682,954	3.88%	\$3.14	22,923	65,934	122,065	397,868
South County													
General Retail	1,129	5,851,179	18,330	167,629	125,091	2.14%	180,584	3.08%	\$2.03	(10,686)	(14,764)	10,079	92,837
Malls	44	2,340,725	0	0	21,325	0.91%	1,576	0.07%	-	0	(61,650)	0	0
Power Centers	33	1,030,668	0	3,000	0	0.00%	0	0.00%	-	1,112	1,112	1,112	1,112
Shopping Centers	550	9,256,738	10,500	90,550	520,408	5.62%	562,970	6.07%	\$2.25	(23,531)	(107,757)	19,508	164,405
Specialty Centers	27	755,238	0	0	2,233	0.30%	1,657	0.22%	\$1.60	16,217	14,422	18,450	18,450
South County Total	1,783	19,234,548	28,830	261,179	669,057	3.48%	746,787	3.88%	\$2.18	(16,888)	(168,637)	49,149	276,804
San Diego Total													
San Diego Total	13,183	134,957,989	439,216	2,714,694	5,172,134	3.83%	5,827,230	4.30%	\$2.39	240,559	844,070	2,787,217	
General Retail	9,028	54,284,150	115,752	1,573,699	1,578,291	2.91%	1,967,211	3.62%	\$2.54	30,510	(86,508)	325,422	987,213
Malls	182	13,005,378	300,000	9,200	693,075	5.33%	446,733	3.36%	\$1.65	6,573	18,095	6,573	91,997
Power Centers	378	11,827,110	0	23,000	432,973	3.66%	281,234	2.38%	\$3.00	63,171	(14,268)	67,230	188,047
Shopping Centers	3,555	54,421,939	23,464	1,108,795	2,450,317	4.50%	3,075,857	5.65%	\$2.29	114,057	79,476	416,364	1,478,796
Specialty Centers	40	1,419,412	0	0	17,478	1.23%	56,195	3.96%	\$1.60	26,248	36,460	28,481	41,164
San Diego Total	13,183	134,957,989	439,216	2,714,694	5,172,134	3.83%	5,827,230	4.30%	\$2.39	240,559	33,255	844,070	2,787,217

Lease rates are on a triple-net basis.



SD Retail – It’s Competitive Out There.

by **Mark Caston**

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As we end 2023, San Diego County retail real estate remains very competitive in many ways.

Retail supply continues to change all over the county. The State and local municipalities are pushing to increase residential housing supply. The City of San Diego has established aggressive new zoning laws, increasing housing density. The most significant is the Complete Communities zoning standard, which indirectly makes retail properties in certain designated areas much more valuable, but not for their current use as retail. For example, in Kearny Mesa alone, there has been more than 450,000 SF of retail space already demolished, or scheduled in the near future, to make way for exclusively multi-family projects. There are many retail tenants that have been forced to relocate or close. Retail supply is rapidly diminishing, and this will result in higher rents and higher retail real estate values.

In addition, leasing vacancies have remained very low and are holding at about 4% in San Diego County. As a result, leasing volume dropped in 2023. San Diego County has traditionally suffered from “all the good space is already taken,” meaning the very strong retail submarkets are 97-99% occupied yet there is no new development in these specific markets. The new zoning strategy will only exacerbate this effect. Also, rents have only modestly increased in 2023 but this should positively change going forward.

On the capital markets side of retail, we have seen transactions slow, primarily due to the high cost of capital. Since most of 2023 was impacted by rapidly increasing interest rates, it caused a widening in the disconnect of “bid versus ask.” Leveraged buyers started requiring lower prices to compensate for their increased borrowing costs, yet sellers were not willing to let go of the high price expectations set in the preceding months. We believe rates will decrease and stabilize in the coming year. San Diego County retail has always been a desirable investment and that will not change.

Zoning impacts on the retail supply, low vacancy rates, anticipated acceleration of rent increases and the stabilizing cost of capital will all make for a very competitive retail market in 2024.

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.