

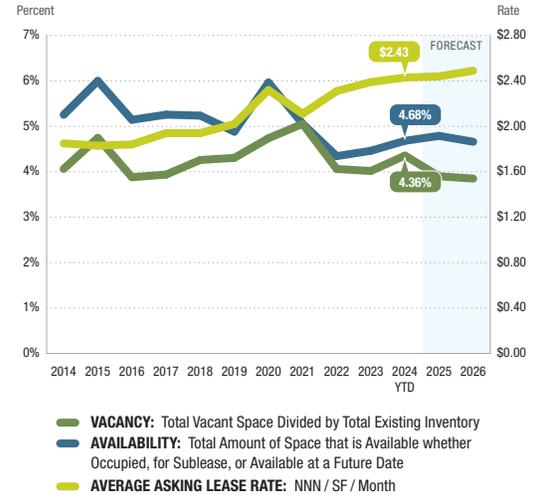
OVERVIEW. The local retail market has largely recovered from the pandemic-induced dip in occupancy, though activity remains light across leasing, sales, and construction measures. Average asking lease rates moved inconsistently following the 2020 pandemic as landlords struggled to navigate through unprecedented market conditions. 2022 saw asking rates return to steady increases which continued into the start of 2024. 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 Q1 2024 at 4.36%, six basis points below the vacancy rate of Q1 2023. 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 4.68% at the end of Q1. This is a 2.5% increase versus Q1 2023. The gap between the vacancy rate and the availability rate was 32 basis points at the end of Q1. 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. Despite more than 4 MSF of new retail construction since the start of 2015, the total retail inventory for the county is the same now as it was then. San Diego real estate remains highly desirable, and obsolete retail sites will find higher and better uses going forward. 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 Q1 at \$2.43, which is an increase of 2.5% compared with Q1 2023’s rate of \$2.34. The average asking lease rate has increased a total of 20% 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 Q1 was approximately 1.1 MSF, a 58% decrease from Q1 2023’s total of 2.6 MSF. There were 603,804 SF of leasing activity in Q1. The average quarterly leasing volume of the last year and a half was 642,625 SF, while the preceding year and a half had an average

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	Q1 2024	Q4 2023	Q1 2023	% Change Over Last Year
Vacancy Rate	▲ UP	4.36%	4.02%	4.42%	(1.46%)
Availability Rate	▲ UP	4.68%	4.46%	4.57%	2.52%
Average Asking Lease Rate	▲ UP	\$2.43	\$2.39	\$2.34	3.85%
Sale & Lease Transactions	▼ DOWN	1,072,629	1,396,282	2,578,383	(58.40%)
Gross Absorption	▼ DOWN	794,709	866,978	545,027	45.81%
Net Absorption	▼ NEGATIVE	(435,480)	209,983	(452,020)	N/A

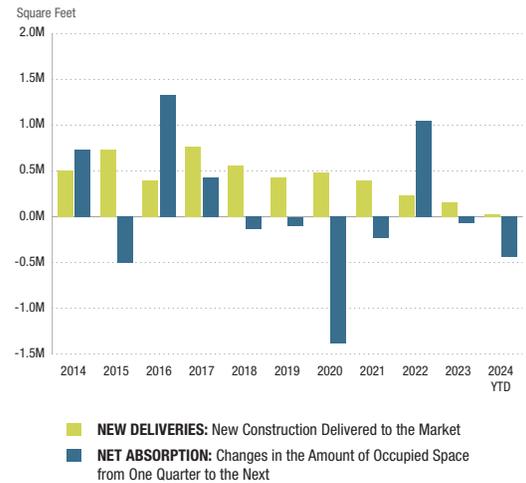
quarterly leasing volume of 805,191 SF. 44 retail buildings sold for a total of \$146 million in Q1. Notably, none of the four largest sale transactions in Q1 involved shopping center investment sales. Three of the top four sales involved automotive dealerships, while the largest sale of the quarter was a retail property acquired by a medical services group.

ABSORPTION. There were 435,480 SF of negative net absorption in Q1, following the 65,934 SF of negative net absorption in 2023. The decrease in the total retail footprint was spread out across the market, with every area of the county recording negative net absorption in Q1.

CONSTRUCTION. There were 29,162 SF of new construction deliveries in Q1, the lowest quarterly total in 11 years. Over the four most recent calendar years the market has seen an average of 318,778 SF of annual deliveries, compared to the 539,150 SF annual average in the preceding four-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 Q1, with 300,000 SF coming from the repositioning of Horton Plaza mall in Downtown San Diego. San Diego has perennially been a supply-constrained market for retail real estate. Amidst the ongoing competition from e-commerce, there remains little appetite by developers to ramp up any large-scale brick-and-mortar developments at this time. Additionally, new retail property development often follows new residential development, and in San Diego County there is very little residential development occurring.

EMPLOYMENT. The unemployment rate in San Diego County was 4.7% in February 2024, unchanged from a revised 4.7% in April 2023, and above the year-ago estimate of 3.7%. This compares with an unadjusted unemployment rate of 5.6% for California and 4.2% for the nation during the same period. Over the 12-month period between February 2023 and February 2024, San Diego County employment increased by 13,600 jobs, an increase of 0.9%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. For the nation as a whole, 303,000 jobs were added in March, exceeding consensus expectations.

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 volume was and is below historic norms, which will dampen net absorption for the coming quarters. High interest rates and tightened lending standards are acting as headwinds in the current commercial property sales market.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
850 E. Main St.	El Cajon	75,000	\$17,102,000	Family Health Centers of SD	Tucker Trust
12740 Poway Rd.	Poway	22,924	\$14,000,000	Aaron Ford of Poway	Sherman Trust
889 Arnele Ave.	El Cajon	35,350	\$12,500,000	Toyota of El Cajon	Tipton Trust
2940 & 3150 National City Blvd.	National City	51,470	\$12,100,000	Dalton Automotive	Frank Motors
8053-8099 Broadway	Lemon Grove	33,276	\$10,700,000	CIF La Mesa, LP	Burger Trust

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
635 N. Broadway	Escondido	44,047	Jan-2024	O'Reilly Auto Parts	Escooz, LLC
9680 Mission Gorge Rd.	Santee	30,000	Feb-2024	Trader Joe's	Mission Gorge Square, LLC
3535 Sports Arena Blvd.	Sports Arena	20,706	Feb-2024	Golf Galaxy	Sunbelt Investment Holdings, Inc.
5256 S. Mission Rd.	Bonsall	17,095	Feb-2024	Stumps Marketplace	Mission Road Partners, LP
13630-13650 Poway Rd.	Poway	11,304	Mar-2024	Boot Barn	Kimco Realty Corp.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q1 2024	Square Feet Available	Availability Rate Q1 2024	Average Asking Lease Rate	Net Absorption Q1 2024	Net Absorption 2024	Gross Absorption Q1 2024	Gross Absorption 2024
Central South													
General Retail	3,723	21,424,377	21,162	1,037,397	693,676	3.24%	912,704	4.26%	\$2.75	(42,671)	(42,671)	174,088	174,088
Malls	73	3,979,373	300,000	0	27,718	0.70%	333,365	7.79%	-	(12,081)	(12,081)	0	0
Power Centers	87	3,341,690	0	6,000	178,629	5.35%	35,700	1.07%	-	17,691	17,691	20,706	20,706
Shopping Centers	716	10,995,530	0	800	511,464	4.65%	611,938	5.57%	\$2.32	(20,373)	(20,373)	81,033	81,033
Specialty Centers	6	259,783	0	0	16,017	6.17%	15,202	5.85%	-	(1,142)	(1,142)	24,819	24,819
Central South Total	4,605	40,000,753	321,162	1,044,197	1,427,504	3.57%	1,908,909	4.73%	\$2.62	(58,576)	(58,576)	300,646	300,646
East County													
General Retail	1,447	7,395,197	2,377	30,442	95,852	1.30%	118,399	1.60%	\$1.68	38,827	38,827	67,041	67,041
Malls	22	2,317,041	0	38,100	404,502	17.46%	288,890	12.47%	-	(160,000)	(160,000)	0	0
Power Centers	55	1,383,887	0	2,400	27,177	1.96%	27,177	1.96%	\$3.00	10,521	10,521	12,000	12,000
Shopping Centers	573	8,277,246	0	282,173	362,559	4.38%	369,513	4.46%	\$1.95	(22,388)	(22,388)	21,449	21,449
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	2,099	19,407,929	2,377	353,115	890,090	4.59%	803,979	4.14%	\$1.90	(133,040)	(133,040)	100,490	100,490
I-15 Corridor													
General Retail	175	1,674,687	0	189,166	30,464	1.82%	30,032	1.79%	\$2.85	(20,569)	(20,569)	900	900
Malls	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Power Centers	24	575,544	0	0	8,581	1.49%	10,039	1.74%	-	(1,200)	(1,200)	0	0
Shopping Centers	282	4,113,834	12,964	11,167	134,969	3.28%	175,207	4.25%	\$3.94	(882)	(882)	36,998	36,998
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	-	0	0	0	0
I-15 Corridor Total	481	6,364,065	12,964	200,333	174,014	2.73%	215,278	3.38%	\$3.81	(22,651)	(22,651)	37,898	37,898
North County													
General Retail	1,683	11,765,381	60,735	187,674	578,974	4.92%	571,188	4.83%	\$2.37	(36,022)	(36,022)	45,407	45,407
Malls	26	2,916,678	0	0	450,474	15.44%	156,094	5.35%	-	0	0	0	0
Power Centers	104	3,087,846	0	4,000	164,394	5.32%	174,508	5.65%	-	(41,444)	(41,444)	20,581	20,581
Shopping Centers	979	15,018,563	0	393,655	856,118	5.70%	1,066,268	7.10%	\$2.08	(100,861)	(100,861)	115,586	115,586
Specialty Centers	5	638,917	0	0	0	0.00%	0	0.00%	-	370	370	370	370
North County Total	2,797	33,427,385	60,735	585,329	2,049,960	6.13%	1,968,058	5.88%	\$2.17	(177,957)	(177,957)	181,944	181,944
Central North													
General Retail	864	7,104,329	13,156	5,000	185,726	2.61%	250,492	3.52%	\$3.27	(61,480)	(61,480)	20,263	20,263
Malls	20	1,684,394	0	0	204,399	12.13%	43,758	2.60%	\$1.65	0	0	0	0
Power Centers	67	2,205,452	0	0	57,878	2.62%	73,237	3.32%	-	4,777	4,777	11,450	11,450
Shopping Centers	454	6,711,731	0	333,500	280,432	4.18%	382,819	5.70%	\$3.52	15,375	15,375	80,260	80,260
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Central North Total	1,405	17,705,906	13,156	338,500	728,435	4.11%	750,306	4.23%	\$3.17	(41,328)	(41,328)	111,973	111,973
South County													
General Retail	1,131	6,182,551	18,396	224,980	129,092	2.09%	177,411	2.86%	\$2.08	2,171	2,171	24,680	24,680
Malls	44	2,340,725	0	0	22,901	0.98%	1,576	0.07%	-	(1,576)	(1,576)	0	0
Power Centers	33	1,030,668	0	3,000	0	0.00%	0	0.00%	-	0	0	0	0
Shopping Centers	551	9,258,737	10,500	79,300	520,123	5.62%	581,735	6.28%	\$2.24	(2,715)	(2,715)	35,522	35,522
Specialty Centers	27	755,244	0	0	2,041	0.27%	2,041	0.27%	\$1.60	192	192	1,556	1,556
South County Total	1,786	19,567,925	28,896	307,280	674,157	3.45%	762,763	3.89%	\$2.20	(1,928)	(1,928)	61,758	61,758
San Diego Total													
San Diego Total	13,173	136,473,963	439,290	2,828,754	5,944,160	4.36%	6,409,293	4.68%	\$2.43	(435,480)	(435,480)	794,709	794,709
General Retail	9,023	55,546,522	115,826	1,674,659	1,713,784	3.09%	2,060,226	3.70%	\$2.61	(119,744)	(119,744)	332,379	332,379
Malls	185	13,238,211	300,000	38,100	1,109,994	8.38%	823,683	6.08%	\$1.65	(173,657)	(173,657)	0	0
Power Centers	370	11,625,087	0	15,400	436,659	3.76%	320,661	2.76%	\$3.00	(9,655)	(9,655)	64,737	64,737
Shopping Centers	3,555	54,375,641	23,464	1,100,595	2,665,665	4.90%	3,187,480	5.86%	\$2.31	(131,844)	(131,844)	370,848	370,848
Specialty Centers	40	1,688,502	0	0	18,058	1.07%	17,243	1.02%	\$1.60	(580)	(580)	26,745	26,745
San Diego Total	13,173	136,473,963	439,290	2,828,754	5,944,160	4.36%	6,409,293	4.68%	\$2.43	(435,480)	(435,480)	794,709	794,709

Lease rates are on a triple-net basis.



Innovation and Resilience Fueling Retail

by **Josh Simms**

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As we sail through the first quarter of 2024, the state of retail in San Diego finds itself at the crossroads of evolution and resilience. Despite the persistent challenges posed by the ever-changing landscape of consumer behavior and economic fluctuations, the spirit of innovation and adaptability continues to define the local retail scene. San Diego's retail sector has weathered the storms of the past years with remarkable fortitude. The disruptions brought forth by the COVID-19 pandemic accelerated the adoption of e-commerce and digital platforms, fundamentally altering the way consumers engage with retail establishments. Yet, amidst this digital transformation, the charm of San Diego's brick-and-mortar stores remains steadfast, offering unique experiences that cannot be replicated online.

Throughout Q1 2024, we have witnessed a concerted effort among retailers to embrace technology while preserving the essence of in-person shopping. The integration of augmented reality, virtual try-on features, and interactive displays has enhanced the allure of physical stores, creating immersive environments that captivate and engage shoppers. However, it would be remiss to overlook the challenges that persist. Stubborn inflationary pressures, supply chain disruptions, and labor shortages continue to cast a shadow over the retail landscape. Small and independent retailers, in particular, find themselves grappling with mounting operational costs and fierce competition from corporate giants.

Yet adversity breeds innovation, and San Diego's retail community has risen to the occasion with resilience and creativity. Local businesses are forging partnerships, leveraging social media influencers, and tapping into the burgeoning trend of sustainability to carve out their niche in the market. Moreover, the revival of experiential retail concepts is breathing new life into traditional shopping districts. From artisanal pop-up markets to curated food halls, San Diego is witnessing a renaissance of immersive retail spaces that celebrate community and culture.

As we navigate the currents of Q1 2024, it is imperative for stakeholders across the retail ecosystem to foster collaboration and adaptability. Government support, strategic investments in infrastructure, and initiatives to promote workforce development are essential in ensuring the long-term vitality of San Diego's retail sector. In conclusion, while the challenges facing San Diego's retail industry are formidable, the spirit of resilience and innovation that defines our community offers a beacon of hope. By embracing change, fostering collaboration, and staying true to our roots, we can navigate these turbulent waters and emerge stronger together.

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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.

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