

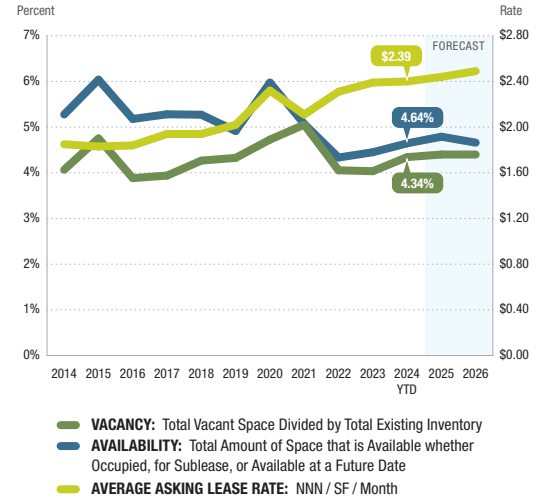
**OVERVIEW.** There was positive net absorption in Q2, with a slight increase in the sales and leasing volume compared with recent quarters. The theme for the San Diego retail market remains the limited construction pipeline, and ongoing redevelopment of obsolete retail product. The dramatic growth of 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. Overall, the San Diego market remains largely stable, with the vacancy rate midway through 2024 falling in line with the levels seen in 2018 and 2019.

**VACANCY & AVAILABILITY.** Direct/sublease space (unoccupied) finished Q2 2024 at 4.34%, eleven basis points below the vacancy rate of Q2 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 4.64% at the end of Q2. This is a 1.21% decrease compared with Q2 2023. The gap between the vacancy rate and the availability rate was 30 basis points at the end of Q2. 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 figure for available space 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.

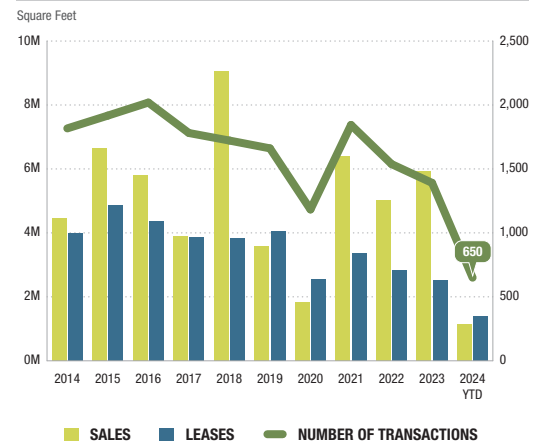
**LEASE RATES.** The average asking triple-net lease rate per month per square foot in San Diego County ended Q2 at \$2.40, which is an increase of 3% compared with Q2 2023's rate of \$2.33. The average asking lease rate has increased a total of 19% from the pre-pandemic level. Typically, new construction 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 Q2 was approximately 1.5 MSF, a 9% decrease from Q2 2023's total of 1.6 MSF. 70 retail buildings sold for a total of \$307 million in Q2, the second highest quarterly total since the start of 2023. Two of the five largest sales in Q2 were retail properties acquired

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



### Market Statistics

	Change Over Last Quarter	Q2 2024	Q1 2024	Q2 2023	% Change Over Last Year
Vacancy Rate	FLAT	4.34%	4.37%	4.45%	(2.43%)
Availability Rate	FLAT	4.64%	4.67%	4.70%	(1.21%)
Average Asking Lease Rate	DOWN	\$2.40	\$2.44	\$2.33	3.00%
Sale & Lease Transactions	UP	1,465,290	1,086,795	1,607,027	(8.82%)
Gross Absorption	DOWN	700,352	788,853	595,549	17.60%
Net Absorption	POSITIVE	31,627	(464,535)	(62,030)	N/A

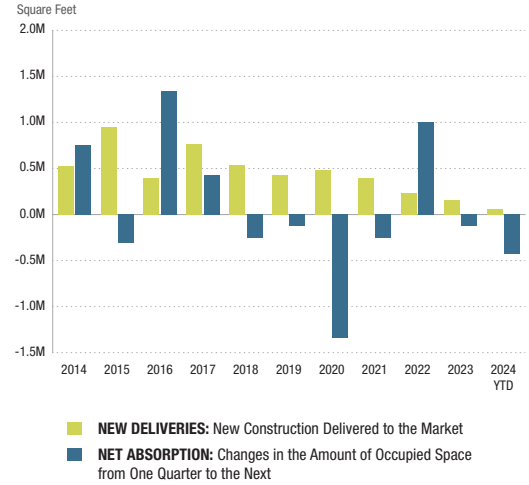
by residential developers for future redevelopment. This has been a recurring theme, with residential developers showing up nearly every quarter as buyers of retail real estate in San Diego County.

**ABSORPTION.** There were 31,627 SF of positive net absorption in Q2, following the 464,535 SF of negative net absorption in Q1 2024. Store closures across the U.S. have increased in 2024, which leads to a decrease in the total retail tenant footprint. Retailers closing stores run the gamut from Family Dollar, to Rite Aid, to Express.

**CONSTRUCTION.** There were 58,536 SF of new construction deliveries in the first half of 2024. This pace of construction would be the fourth consecutive year of reaching a new decade low. Over the four most recent calendar years the market has seen an average of 318,778 SF of annual deliveries, compared with the 532,409 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 Q2, 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. Amid 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 3.6% in May 2024, down from a revised 4.1% in April 2024, and above the year-ago estimate of 3.3%. This compares with an unadjusted unemployment rate of 4.5% for California and 3.7% for the nation during the same period. Over the 12-month period between May 2023 and May 2024, San Diego County employment increased by 6,900 jobs, an increase of 0.4%. With the normal delay in reporting from the California EDD, employment figures from June were unavailable at the time of publishing this report. For the nation as a whole, the unemployment rate rose to 4.1% in June, matching the highest level since October 2021.

## 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 will continue to act as headwinds in the current commercial property sales market.

## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
10604–10788 Westview Pkwy.	Mira Mesa	238,821	\$99,000,000	Decron Properties	Stockbridge Capital
2623–2681 Gateway Rd.	Carlsbad	116,000	\$70,100,000	ROIC	Clarion Partners
1020–1080 W. San Marcos Blvd.	San Marcos	53,845	\$16,000,000	Lennar	JMB Capital Partners, LP
6024 Paseo Delicias	Rancho Santa Fe	9,475	\$11,247,000	Maui Partners, LLC	Block C Properties, LLC
1602 S. Coast Hwy.	Oceanside	66,211	\$10,250,000	Shea Homes	Hallmark Communities

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3409–3427 Via Montebello	Carlsbad	28,000	Jun-2024	Undisclosed	TRC Retail
5403–405 University Ave.	City Heights	26,591	Jun-2024	Undisclosed	Elliot Megdal & Associates (Leasehold)
6501–6585 Mission Gorge Rd.	Mission Gorge	20,100	Jun-2024	Consignment Classics	REEF Real Estate Services
1211–1219 Garnet Ave.	Pacific Beach	12,500	Jun-2024	Grocery Outlet	RSR Holdings, LLC
4525–4545 La Jolla Village Dr.	UTC	11,000	Apr-2024	UNIQLO	Unibail-Rodamco-Westfield

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q2 2024	Square Feet Available	Availability Rate Q2 2024	Average Asking Lease Rate	Net Absorption Q2 2024	Net Absorption 2024	Gross Absorption Q2 2024	Gross Absorption 2024
<b>Central South</b>													
General Retail	3,709	21,597,194	151,281	1,041,154	645,087	2.99%	840,512	3.86%	\$2.76	39,966	(10,614)	153,611	327,067
Malls	73	3,940,595	300,000	0	27,137	0.69%	301,267	7.10%	-	581	(11,500)	3,455	3,455
Power Centers	87	3,341,527	0	6,000	186,485	5.58%	39,003	1.17%	-	(7,856)	9,835	0	20,706
Shopping Centers	717	11,045,565	0	800	539,998	4.89%	632,672	5.73%	\$2.29	(28,534)	(48,907)	66,629	147,662
Specialty Centers	6	259,783	0	0	23,990	9.23%	15,724	6.05%	-	(7,973)	(9,115)	1,711	26,530
<b>Central South Total</b>	<b>4,592</b>	<b>40,184,664</b>	<b>451,281</b>	<b>1,047,954</b>	<b>1,422,697</b>	<b>3.54%</b>	<b>1,829,178</b>	<b>4.50%</b>	<b>\$2.60</b>	<b>(3,816)</b>	<b>(70,301)</b>	<b>225,406</b>	<b>525,420</b>
<b>East County</b>													
General Retail	1,448	7,399,389	2,377	30,442	133,866	1.81%	165,069	2.23%	\$1.78	(35,475)	(1,287)	24,501	89,442
Malls	22	2,317,041	0	38,100	404,502	17.46%	288,890	12.47%	-	0	(160,000)	0	0
Power Centers	55	1,383,887	0	0	27,225	1.97%	30,225	2.18%	\$3.00	(48)	10,473	0	12,000
Shopping Centers	577	8,293,885	0	282,173	368,827	4.45%	392,075	4.73%	\$1.97	(6,268)	(28,656)	37,378	58,827
Specialty Centers	2	34,558	0	0	0	0.00%	0	0.00%	-	0	0	0	0
<b>East County Total</b>	<b>2,104</b>	<b>19,428,760</b>	<b>2,377</b>	<b>350,715</b>	<b>934,420</b>	<b>4.81%</b>	<b>876,259</b>	<b>4.51%</b>	<b>\$1.92</b>	<b>(41,791)</b>	<b>(179,470)</b>	<b>61,879</b>	<b>160,269</b>
<b>I-15 Corridor</b>													
General Retail	173	1,642,299	5,274	197,420	25,211	1.54%	27,030	1.64%	\$3.25	4,000	(15,359)	4,000	4,900
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%	-	0	(1,200)	0	0
Shopping Centers	288	4,178,463	0	11,167	111,846	2.68%	173,890	4.16%	\$3.74	39,392	37,300	60,950	97,948
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>6,396,306</b>	<b>5,274</b>	<b>208,587</b>	<b>145,638</b>	<b>2.28%</b>	<b>210,959</b>	<b>3.30%</b>	<b>\$3.70</b>	<b>43,392</b>	<b>20,741</b>	<b>64,950</b>	<b>102,848</b>
<b>North County</b>													
General Retail	1,677	11,744,532	43,203	209,954	540,601	4.60%	576,769	4.89%	\$2.37	51,639	360	82,728	128,135
Malls	26	2,893,354	0	0	427,150	14.76%	132,770	4.59%	-	0	0	0	0
Power Centers	104	3,087,845	0	4,000	173,363	5.61%	198,758	6.44%	-	(8,969)	(50,413)	6,412	26,993
Shopping Centers	980	15,012,449	5,220	438,545	796,635	5.31%	1,002,146	6.67%	\$1.97	56,408	(44,453)	122,643	238,229
Specialty Centers	13	441,568	0	0	0	0.00%	3,000	0.68%	-	0	370	0	370
<b>North County Total</b>	<b>2,800</b>	<b>33,179,748</b>	<b>48,423</b>	<b>652,499</b>	<b>1,937,749</b>	<b>5.84%</b>	<b>1,913,443</b>	<b>5.76%</b>	<b>\$2.10</b>	<b>99,078</b>	<b>(94,136)</b>	<b>211,783</b>	<b>393,727</b>
<b>Central North</b>													
General Retail	859	6,961,810	7,187	5,000	211,006	3.03%	262,756	3.77%	\$3.24	(19,311)	(80,791)	38,870	59,133
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	53,124	2.41%	64,556	2.93%	-	4,754	9,531	8,464	19,914
Shopping Centers	452	6,664,454	0	333,500	359,429	5.39%	436,504	6.55%	\$3.41	(80,559)	(66,746)	29,096	106,232
Specialty Centers	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>Central North Total</b>	<b>1,398</b>	<b>17,516,110</b>	<b>7,187</b>	<b>338,500</b>	<b>827,958</b>	<b>4.73%</b>	<b>807,574</b>	<b>4.61%</b>	<b>\$3.12</b>	<b>(95,116)</b>	<b>(138,006)</b>	<b>76,430</b>	<b>185,279</b>
<b>South County</b>													
General Retail	1,127	6,032,349	22,556	246,730	121,140	2.01%	161,849	2.67%	\$2.13	7,640	10,123	20,470	45,150
Malls	44	2,340,725	0	0	22,901	0.98%	1,576	0.07%	-	0	(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	9,256,713	0	90,523	499,924	5.40%	546,813	5.91%	\$2.31	20,199	17,484	37,393	72,915
Specialty Centers	27	755,044	0	0	0	0.00%	0	0.00%	\$1.60	2,041	2,233	2,041	3,597
<b>South County Total</b>	<b>1,782</b>	<b>19,415,499</b>	<b>22,556</b>	<b>340,253</b>	<b>643,965</b>	<b>3.32%</b>	<b>710,238</b>	<b>3.65%</b>	<b>\$2.25</b>	<b>29,880</b>	<b>28,264</b>	<b>59,904</b>	<b>121,662</b>
<b>San Diego Total</b>	<b>13,161</b>	<b>136,121,087</b>	<b>537,098</b>	<b>2,938,508</b>	<b>5,912,427</b>	<b>4.34%</b>	<b>6,347,651</b>	<b>4.64%</b>	<b>\$2.40</b>	<b>31,627</b>	<b>(432,908)</b>	<b>700,352</b>	<b>1,489,205</b>
General Retail	8,993	55,377,573	231,878	1,730,700	1,676,911	3.03%	2,033,985	3.66%	\$2.59	48,459	(97,568)	324,180	653,827
Malls	185	13,176,109	300,000	38,100	1,086,089	8.24%	768,261	5.70%	\$1.65	581	(173,076)	3,455	3,455
Power Centers	370	11,624,923	0	13,000	448,778	3.86%	342,581	2.95%	\$3.00	(12,119)	(21,774)	14,876	79,613
Shopping Centers	3,565	54,451,529	5,220	1,156,708	2,676,659	4.92%	3,184,100	5.85%	\$2.26	638	(133,978)	354,089	721,813
Specialty Centers	48	1,490,953	0	0	23,990	1.61%	18,724	1.26%	\$1.60	(5,932)	(6,512)	3,752	30,497
<b>San Diego Total</b>	<b>13,161</b>	<b>136,121,087</b>	<b>537,098</b>	<b>2,938,508</b>	<b>5,912,427</b>	<b>4.34%</b>	<b>6,347,651</b>	<b>4.64%</b>	<b>\$2.40</b>	<b>31,627</b>	<b>(432,908)</b>	<b>700,352</b>	<b>1,489,205</b>

Lease rates are on a triple-net basis.



## Resilience and Adaptability

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San Diego's retail market is experiencing a dynamic period of transformation, reflecting broader trends in the retail sector while also exhibiting unique local characteristics. As we navigate through 2024, the city's retail landscape shows resilience and adaptability.

San Diego's retail sales have seen a robust recovery post-pandemic, driven by a combination of pent-up consumer demand, an influx of tourism, and a vibrant local economy. According to recent data, retail sales in the region have grown by approximately 6% year over year, surpassing pre-pandemic levels. This growth is largely attributed to the thriving sectors of e-commerce integration and experiential retail, and to the rise of local artisan markets.

The food and beverage segment has been particularly strong, with upscale dining and specialty food stores leading the charge. Restaurants have embraced outdoor dining and innovative service models, contributing to a 10% increase in sales within this sector alone. Meanwhile, health and wellness retail, including fitness centers and organic-product stores, continues to expand, reflecting changing consumer priorities towards health-conscious living.

Leasing activity in San Diego's retail market is characterized by high demand for prime locations, especially in areas with high foot traffic such as downtown, coastal neighborhoods, and popular shopping districts like La Jolla and Gaslamp Quarter. Vacancy rates have decreased to an average of 4.3%, a significant drop from the 5.5% seen during the pandemic peak. This decline indicates a strong recovery and a competitive leasing environment.

New retail developments and redevelopments are contributing to the vibrancy of the market. Mixed-use developments that combine residential, office, and retail spaces are particularly popular, offering a live-work-play environment that attracts both tenants and consumers. Notable projects include the Seaport San Diego redevelopment and the ongoing expansion of Westfield UTC, which are set to bring new retail spaces and enhanced consumer experiences to the market.

While there has been strong demand and retail is a thriving asset class, rents are relatively flat, averaging \$2.40/SF NNN and just a 3% increase since Q2 '23. Landlords are increasingly offering flexible lease terms and incentives, such as rent abatement and tenant improvement allowances, to attract high-quality tenants and ensure long-term occupancy.

While the overall outlook for San Diego's retail market is positive, several challenges persist. The shift towards e-commerce continues to pressure brick-and-mortar stores to innovate and adapt. To stay competitive, retailers must invest in the creation of compelling in-store experiences and the integration of digital and physical shopping channels. Rising operational costs, including labor and utilities, pose additional challenges for retailers.

San Diego's retail market is in a state of dynamic growth, characterized by strong sales performance, competitive leasing activity, and a willingness to embrace change and innovation. The city's diverse consumer base and vibrant economic environment provide a solid foundation for continued success. Retailers and landlords who adapt to emerging trends and prioritize the customer experience will be well positioned to thrive in this evolving market landscape.

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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