

Vacancy Remains Tight As Demand Increases

▶ 4.6%

Vacancy Rate

▲ 48,047

SF Net Absorption

▲ 137,000

SF Construction Delivered

▲ \$2.28

NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

Vacancy Remains Steady

- Although Vacancy has been the same for four consecutive quarters, it remains only 30 basis points (bps) higher than the all-time low of 4.3% experienced in Q4 2018.
- 137,000 sq. ft. delivered vacant in Q2 2024, increasing Downtown’s overall vacancy to an all-time high of 20.4%.
- With no significant retail projects currently under construction, occupancy remains tight. The retail space delivered in Q2 was the largest development completed in over five years.

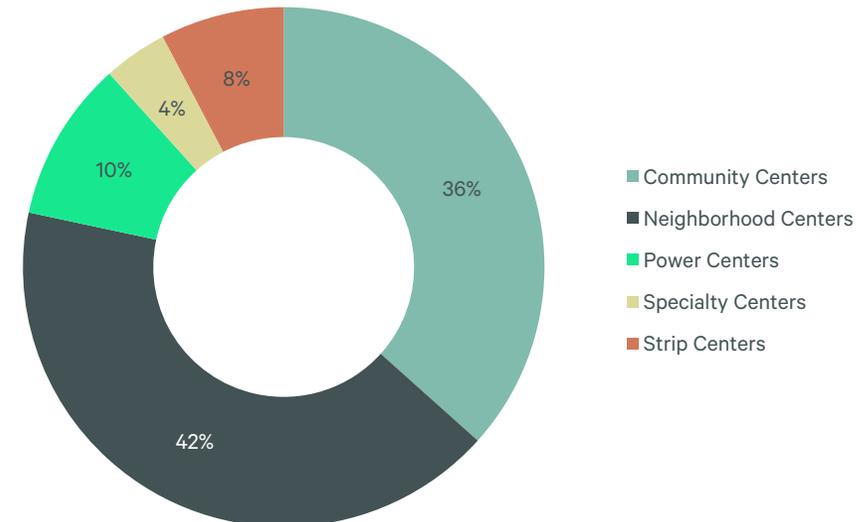
Demand Turns Positive Once Again

- Four of San Diego’s six submarkets posted positive net absorption, with North County reflecting the largest increase.
- Neighborhood Centers accounted for the highest net absorption among all center types in Q2.

Asking Rents Bounce Back

- In Q2 2024, the average asking rent improved by \$0.04 to \$2.28, a quarter-over-quarter (Q-o-Q) increase of 1.9%.

FIGURE 1: Vacancy Distribution



Source: CBRE Research, Q2 2024

Market Overview

San Diego is an attractive market for retailers thanks to the area’s healthy employment landscape and wealth of high-paying jobs, plus its numerous attractions and temperate weather that draw tourists year-round. Boasting a population of 3.3 million, the county is the fifth largest in the U.S. and empty retail space has become increasingly hard to find. Midway through 2024, vacancies remained below the market’s 2017-19 average, and prime spaces in desirable centers continue to be scarce. A lack of new construction has greatly influenced occupancy, and it does not appear that trend will end any time soon. Over the past 10 years, retail inventory has only increased by 2.4%, and has delivered just one substantial project in five years.

UNEMPLOYMENT

San Diego’s unemployment experienced a significant decline in Q2, ending May, the most recent month for which data was available, at 3.6%. That marked a 110-basis point (bp) decrease from February and was lowest since May of 2023. For the first time since March 2023, unemployment fell below the national average of 3.7%, and for the 48th consecutive month, it remained lower than the California average (4.5%). Nonfarm payrolls increased by 8,900 positions compared to the end of Q1 2024.

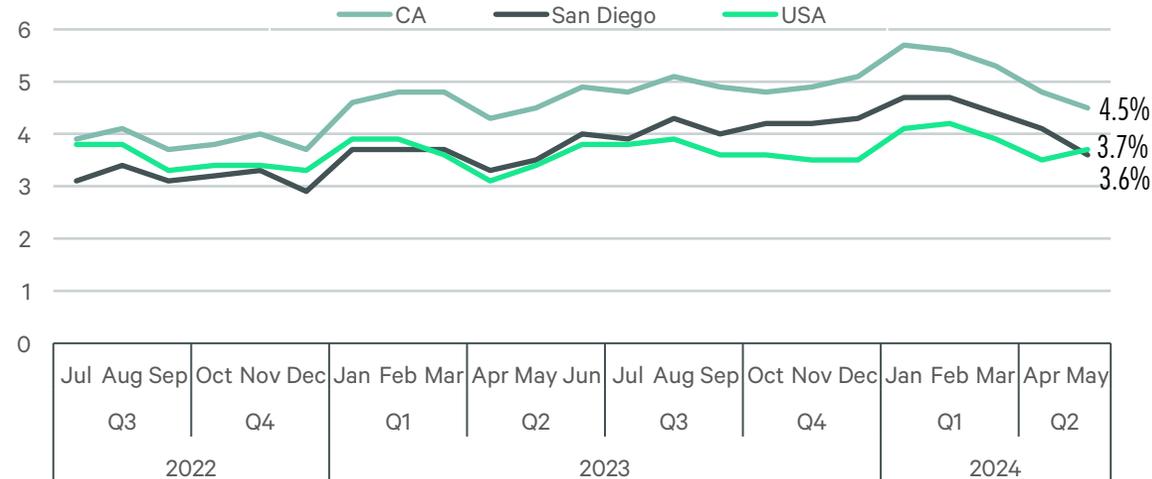
LEASE RATE ANALYSIS

Q2’s resurgence boosted the average asking rent to \$2.28 NNN, an increase of 1.9% quarter-over-quarter (Q-o-Q), and 1.1% Year-over-year (Y-o-Y). However, it remained well below the all-time high of \$2.54 experienced in Q1 2020.

Two submarkets (South San Diego & Southwest Riverside) saw rents move significantly higher in Q2. South San Diego’s asking rents rose from \$2.17 to \$2.34, while Southwest Riverside’s increased from \$2.10 to \$2.19, an improvement of 7.9% and 4.5%, respectively.

Only one of the five center types experienced a decline in rent growth in Q2, with neighborhood centers realizing the strongest gains. Q-o-Q, the average neighborhood center rent increased to \$2.17 NNN, an increase of 6.0% Q-o-Q. However, two center types (Power Center & Specialty Center) average asking rents remained unchanged from Q1.

FIGURE 2: Unemployment Rate (%)



Source: U.S. Bureau of Labor Statistics, Q2 2024

FIGURE 3: Average Asking Lease Rate (\$PSF/MO/NNN)



Source: CBRE Research, Q2 2024

VACANCY

The total vacancy rate was unchanged for a fourth-consecutive quarter, remaining at 4.6%. Over the past 12 months, vacancies fell by 30 bps and after Q2, remained 80 bps below the decade’s 5.4% average. However, it remains only 30 bps higher than the all-time low of 4.3% recorded in Q4 2018.

Despite continuing remaining flat countywide, the vacancy rate decreased in four submarkets, with Central San Diego leading the way. Average vacancies in Central San Diego dropped by 20 bps in Q2 to 2.6%, matching its all-time low recorded in Q4 2018. North County also experienced a noticeable reduction dropping 30 bps to 4.9% and is only 60 bps higher than its all-time low of 4.3% reported in Q3 2018.

NET ABSORPTION & ACTIVITY

In Q2 2024, retail recorded 48,047 sq. ft. of positive net absorption. Going back to Q2 2021, it was the 10th time in 13 quarters that retail experienced positive net absorption.

Only two submarkets recorded negative net absorption in Q2. Downtown’s 17,945 sq. ft. of negative net absorption was primarily due to 137,000 sq. ft. of retail space delivering vacant at IQHQ. Southwest Riverside was the other submarket with 9,708 sq. ft. of negative net absorption. Conversely, North County posted 35,052 sq. ft. of positive net absorption.

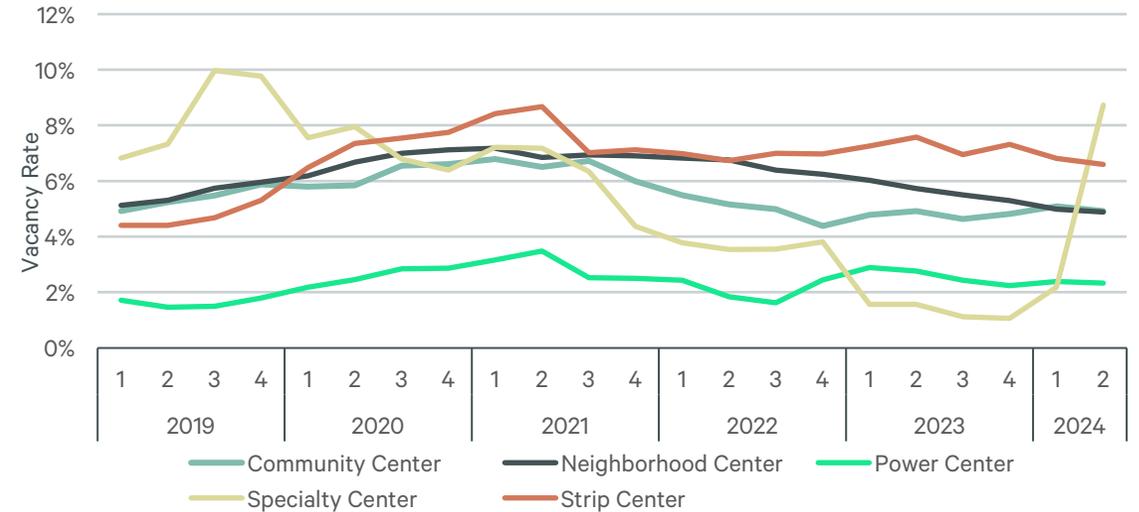
Among center types, neighborhood center, community center and strip centers all had positive demand in Q2. Neighborhood center accounted for the lion’s share with 35,149 sq. ft. of positive net absorption, thanks in part to O’Reilly Auto. The automotive parts retailer signed one of the quarter’s largest new leases, picking up 44,047 sq. ft. in Escondido.

DEVELOPMENT

New retail space has been a rare sight this decade in San Diego, and it appears that will continue beyond 2024. While 137,000 sq. ft. was delivered to the market in Q2, it was in IQHQ, in Downtown’s Research and Development District (RaDD).

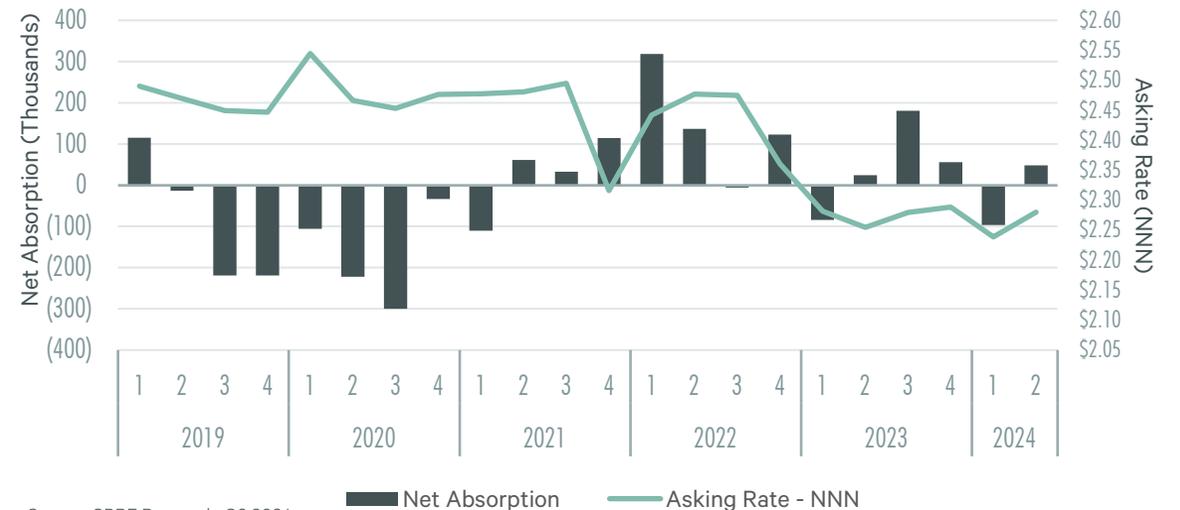
RaDD is situated on more than 10 acres and will occupy six blocks and encompass 1.7 million-sq.-ft. of lab, office, and retail space. RaDD is scheduled to be delivered sometime in the latter part of 2024.

FIGURE 4: Vacancy Rate by Center Type (%)



Source: CBRE Research, Q2 2024

FIGURE 5: Net Absorption vs. Asking Lease Rate



Source: CBRE Research, Q2 2024

MARKET OUTLOOK

While a highly-volatile political landscape and conflicting economic indicators could greatly impact most retailers’ short-term plans, San Diego continues to hold a desirable standing among competitive retail markets, and that trend is expected to continue long-term.

Economic growth slowed somewhat in the first half of 2024. However, it has remained stable, partially buoyed by the Federal Reserve holding interest rates steady, between 5.25% and 5.50%. It is speculated that the Federal Reserve will cut rates once in 2024, and potentially four times in 2025, in hopes of stimulating economic activity and growth.

Locally, residents have had to contend with surging gas prices that consistently rank among the highest in the nation, as well as recently enduring median home prices surpassing \$1 million for the first time ever. Despite these challenges, San Diego’s total retail sales is still estimated to grow by 4.2% in 2024.

Spending is boosted by San Diego’s lofty incomes, which are bolstered by a growing tech environment, an expansive life science industry, and the lucrative income those sectors offer. The region further enjoys the benefits of tourism and the recreational spending that comes along with it.

Operators have clearly taken note of the county’s positive landscape, as retail vacancies have sat well-below the market’s 10-year average since Q2 2022. Like in the wider U.S., market fundamentals have been challenged by big box retailers announcing store closures, but those outsized vacancies have typically represented opportunity. Available, prime spaces in vibrant submarkets, as big box stores often occupy, have been almost nonexistent, and that has meant vacancies are usually backfilled in short order.

Normally, a dynamic market with low vacancy would encourage new construction. But given the cost of capital and ongoing uncertainty surrounding the economy, plus the county’s lack of undeveloped land, few projects of note are expected to break ground in the near-term. That should help mitigate any outsized vacancy expansion and preserve San Diego’s sound retail fundamentals.

FIGURE 6: Market Statistics

Submarket	Sq. Ft. GLA	Overall Vacancy (%)	Q1 2024 Net Absorption	YTD Net Absorption	Under Construction	Construction Deliveries	Avg. Asking Lease Rates (\$PSF/MO/NNN)
Central San Diego	17,011,047	2.6%	10,157	(33,985)	0	0	\$2.80
Downtown	868,235	25.1%	(17,945)	(13,025)	0	137,000	\$3.25
East County	11,278,546	4.4%	10,636	(753)	0	0	\$1.78
North County	21,880,077	4.9%	35,052	(42,182)	0	0	\$2.19
South San Diego	9,887,821	4.6%	19,855	26,014	0	0	\$2.34
Southwest Riverside	9,221,177	6.1%	(9,708)	15,379	0	0	\$2.19
San Diego	70,146,903	4.6%	48,047	(48,552)	0	137,000	\$2.28

Source: CBRE Research, Q2 2024

FIGURE 7: Key Transactions

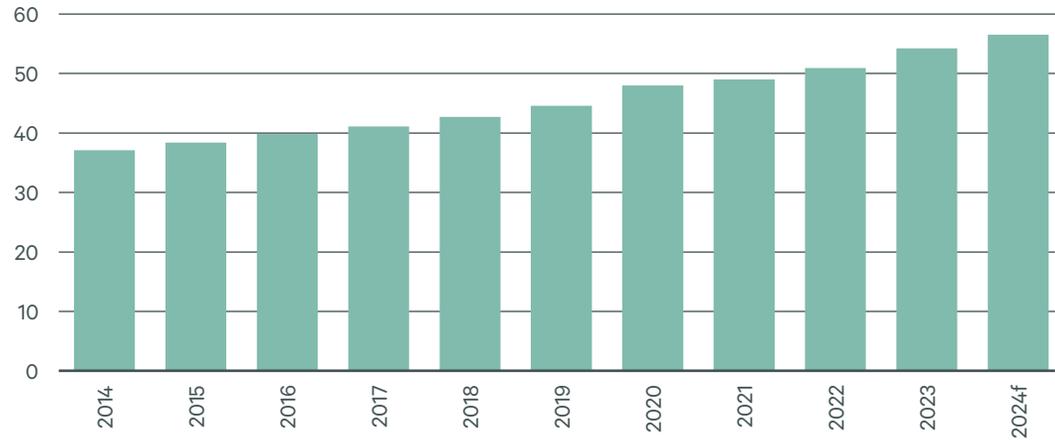
Occupier	Industry Sector	Location	Total Sq. Ft.
O’Reilly Auto Enterprises	Neighborhood Center	Escondido	44,047
Recreational Equipment, Inc.	Community Center	Carlsbad	28,000
Sprouts	Strip Center	El Cajon	23,875
*Dollar Tree Stores, Inc.	Neighborhood Center	East County	13,715
Goodwill Industries, Inc.	Specialty Center	Temecula	11,845

*Renewal

Source: CBRE Research, Q2 2024

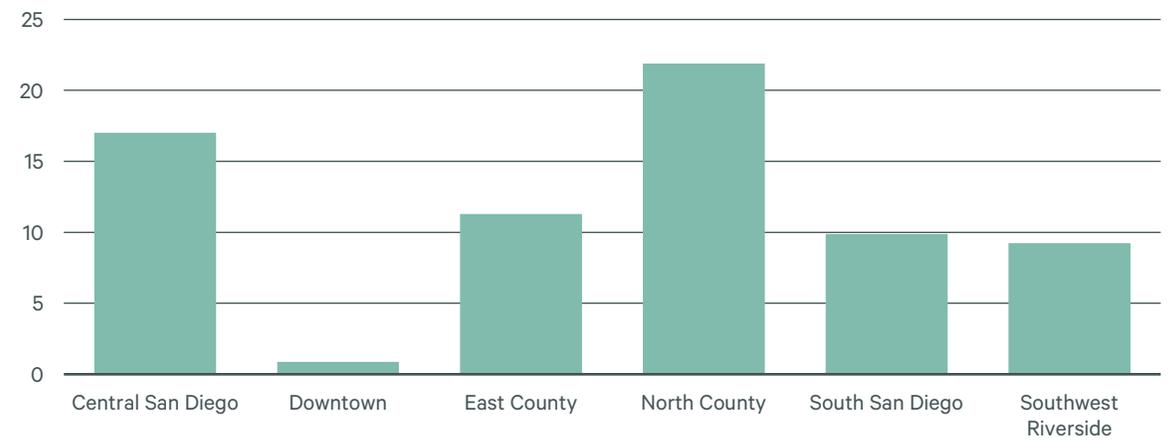
FIGURES INSERT | SAN DIEGO | Q1 2024

FIGURE 1: Total Retail Sales (\$Billions)



Source: CBRE Econometric Advisors, Q2 2024

FIGURE 2: Retail GLA per Submarket (Million SF)



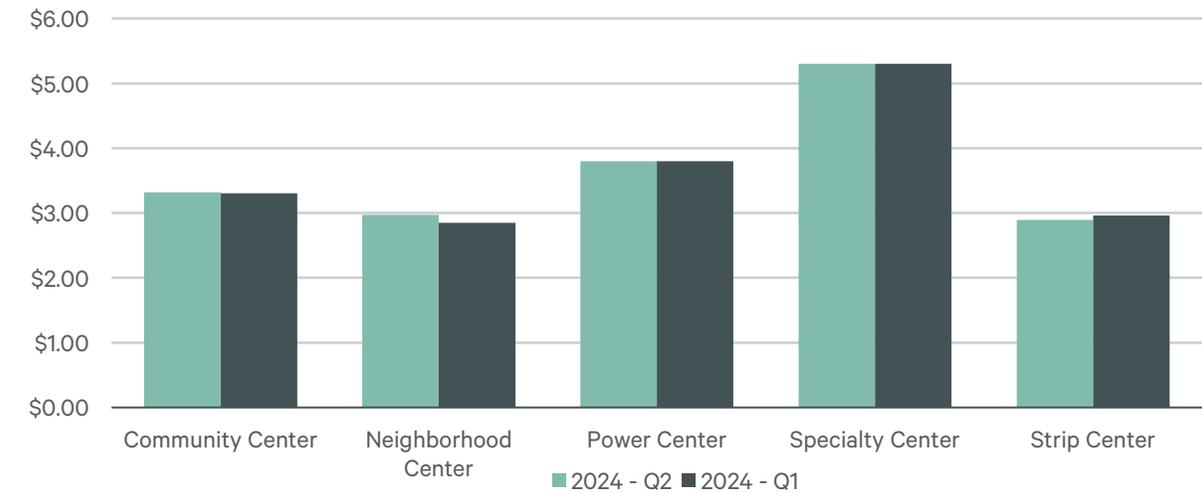
Source: CBRE Research, Q2 2024

FIGURE 3: Vacancy Rate by Center Type (%)



Source: CBRE Research, Q2 2024

FIGURE 4: Lease Rates by Center Type (\$PSF/MO/NNN)



Source: CBRE Research, Q2 2024

FIGURE 5: San Diego Personal Income Growth (%)



Source: CBRE Econometric Advisors, Q2 2024

FIGURE 7: Year Over Year Rent Growth (%)



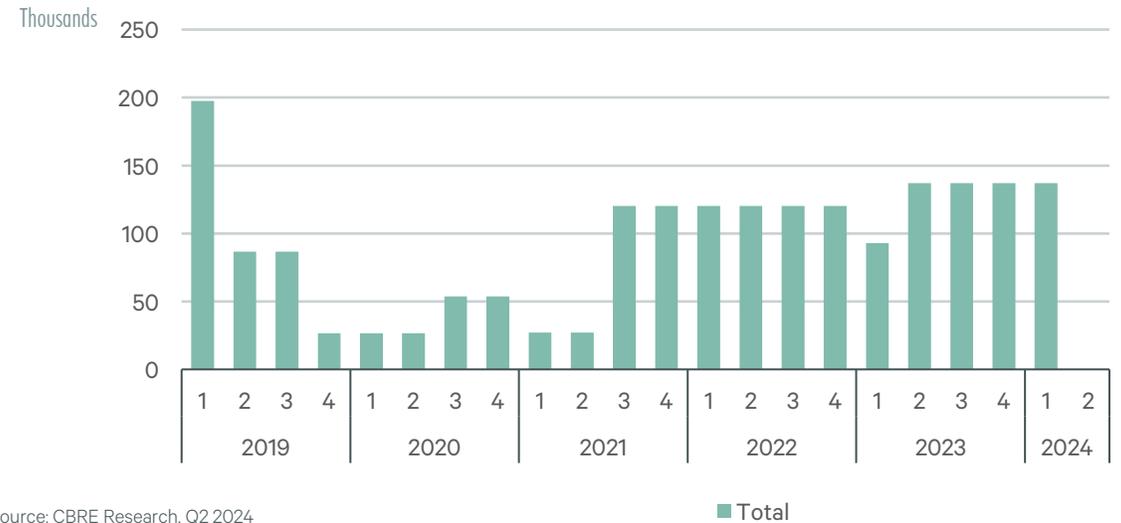
Source: CBRE Research, Q2 2024

FIGURE 6: San Diego Population (Millions)



Source: CBRE Econometric Advisors, Q2 2024

FIGURE 8: Under Construction SF (Thousands)



Source: CBRE Research, Q2 2024

Market Area Overview



Definitions

Average Asking Lease Rate: The rate determined by multiplying the asking Net Lease rate for each building in the summary by its associated available space, summing the products, then dividing by the sum of the available spaces with gross lease rates for all buildings in the summary. Direct leases only; excludes sublease space. **Gross Leaseable Area (GLA):** The total leaseable area in the property designed for tenant’s occupancy. **Net Absorption:** The change in Occupied Shop Space Sq. Ft. from one period to the next. Positive absorption is reflected when a lease is signed, which may not coincide with the date of occupancy. **Net Leases** Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property including utilities, insurance and/or maintenance expenses. **Occupied Sq. Ft.:** Total Sq. Ft. not considered Vacant. **Shop Space** The total leaseable area in the property excluding anchor tenants. **Vacancy Rate:** Vacant Sq. Ft. divided by the total GLA. **Vacant Sq. Ft.** Portion of Available Sq. Ft. which is either physically vacant or immediately available. Includes Subleases. **Normalization:** Due to a reclassification of the market, the base, number and square footage of buildings for previous quarters have been adjusted to match the current base. Availability and Vacancy figures for those buildings have been adjusted in previous quarters.

Survey Criteria

CBRE’s market report analyzes all retail centers 25,000 sq. ft. and greater in size. New construction includes buildings which have begun construction as evidenced by site excavation or foundation work.

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