

# Vacancy Stays at Decade-Low Thanks to Healthy Demand, Lack of Construction

▶ 4.6%  
Vacancy Rate

▼ 79,640  
SF Net Absorption

▶ 137,000  
SF Construction

▲ \$2.30  
NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

## Vacancy Approaches Record Lows in 2023

- From the start of the year, total vacancies decreased by 30 basis points.
- Central San Diego vacancies at year-end matched the submarket’s lowest figure on record.
- A lack of construction has helped keep occupancy tight, as only two small-scale projects have delivered since 2020, including one in Q1 2023.

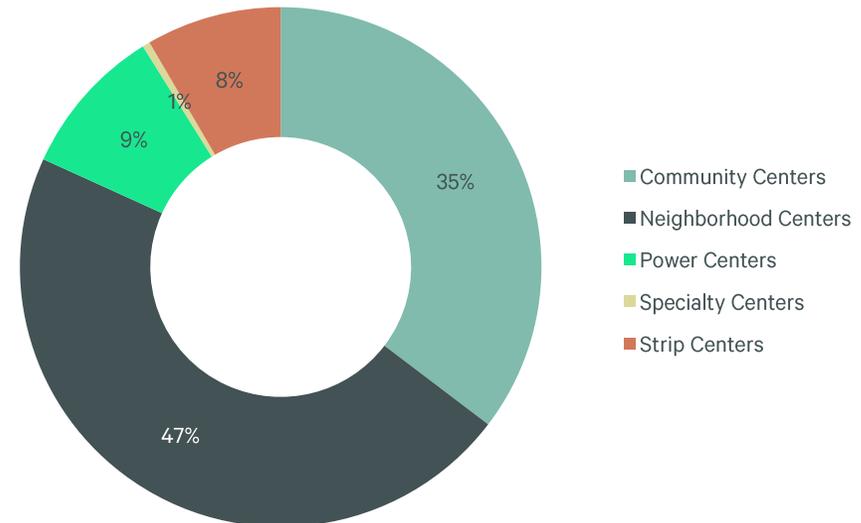
## Demand Positive for a Third-Consecutive Year

- The year concluded with three consecutive quarters of positive net absorption.
- Established areas led the way, with San Diego’s three largest submarkets posting the strongest demand in 2023.
- New leases of 15,000 sq. ft and greater increased dramatically compared to 2021-22.

## Asking Rents Again Move Higher

- The average asking rent expanded by \$0.02 in Q4, marking the second consecutive quarter rates increased.
- Rent gains were relatively widespread, with three submarkets realizing growth in Q4.

FIGURE 1: Vacancy Distribution



Source: CBRE Research, Q4 2023

## 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 people, the county is the fifth largest in the U.S. and empty retail space has become increasingly hard to find. At the end of 2023, vacancies were below the market’s 2017-19 average, and well-located spaces in desirable centers were virtually nonexistent. A lack of construction has helped buttress occupancy, and it does not appear that trend will end any time soon. Over the past 10 years, retail inventory has increased by just 2%, and only one project was underway in Q4.

### UNEMPLOYMENT

San Diego’s unemployment rate expanded in Q4, ending November, the most recent month for which data was available, at 4.2%. That marked a 20-basis point (bp) increase from September and the second-highest reading of the past two years. As has been typical since March, unemployment exceeded the national average, which was 3.5%, but for a 42nd consecutive month, it came in below the California norm of 4.9%. Thanks in part to retailers hiring for the holiday season, nonfarm payrolls had expanded by 23,500 workers compared to the end of Q3.

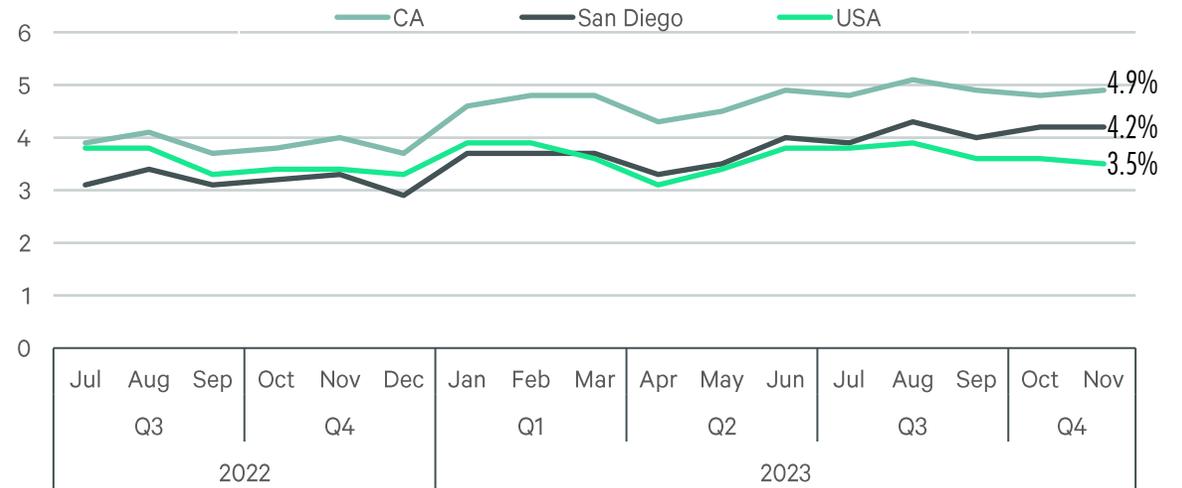
### LEASE RATE ANALYSIS

Given the county’s lack of vacancies, the average asking rent increased to \$2.30 NNN in Q4, a modest 0.9% quarter-over-quarter (Q-o-Q) gain. Three of the six local submarkets saw rents move higher, including East County and North County. But the strongest growth came in Southwest Riverside, where rents expanded by 8.9% in Q4.

At \$2.98 NNN, Central San Diego is home to the county’s priciest rents. That figure topped the San Diego average by 29.6% and moreover, it is one of only two submarkets, along with East County, where rents have returned to pre-pandemic levels. Asking rent in Central San Diego exceeds the Q4 2019 amount by 22.6%, and in East County, rents are at a 15.3% premium compared to the end of 2019.

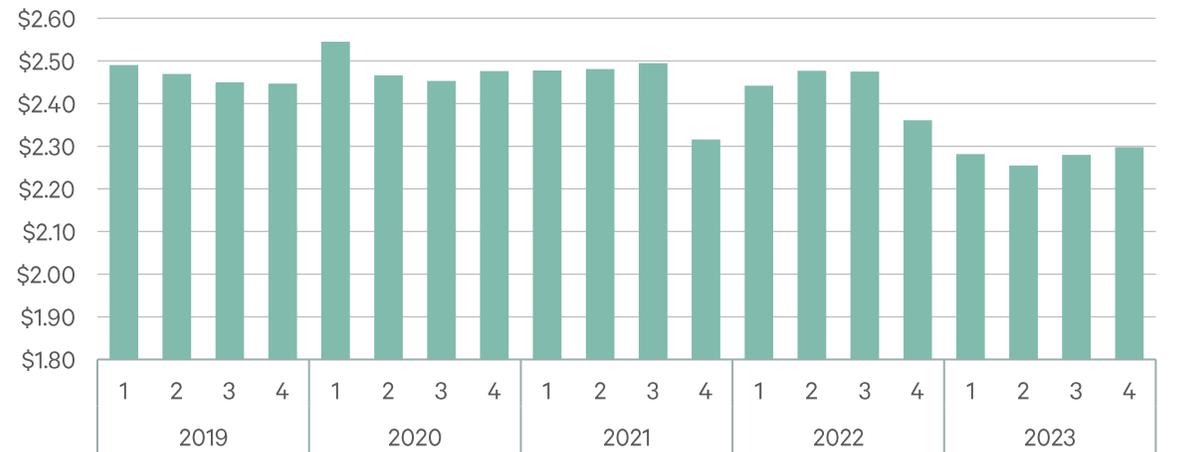
Three of the five center types saw rents grow or remain stable in Q4, with neighborhood centers realizing the strongest gains. Q-o-Q, the average neighborhood center rent increased by 4.7%, to \$2.01 NNN. Strip centers had the highest annual growth, with rents expanding by 4.9%, to \$2.15 NNN.

FIGURE 2: Unemployment Rate (%)



Source: U.S. Bureau of Labor Statistics, Q4 2023

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



Source: CBRE Research, Q4 2023

### VACANCY

The total vacancy rate was unchanged in Q4, remaining at 4.6%. In 2023, vacancies compressed by 30 bps and landed 70 bps below the decade’s 5.4% average.

Vacancy fell in three submarkets, with South San Diego leading the way. The average vacancy rate in South San Diego decreased 30 bps in Q4, to 4.8%. In Central San Diego, vacancies declined by 10 bps Q-o-Q to 2.6%, matching the submarket’s Q4 2018 all-time low, and easily the lowest figure among all areas. The vacancy rate in North County similarly compressed by 10 bps from Q3, to 5.0%.

### NET ABSORPTION & ACTIVITY

Demand for retail space remained healthy in Q4. Net absorption totaled 80,000 sq. ft., a figure that helped push demand to the highest second half total (260,000 sq. ft.) since 2018. In sum, the county realized 200,000 sq. ft of net absorption in 2023, the second loftiest annual figure of the past five years.

Neighborhood centers were the most popular landing spot for retail operators in both Q4 and 2023. The category accounted for 71,000 sq. ft. of demand in the year’s final quarter and 203,000 sq. ft. for the full 12 months. O’Reilly Auto Parts signed two of the year’s largest new leases in neighborhood centers, picking up 44,000 sq. ft. in North County-located Escondido and 32,000 sq. ft. in Chula Vista, part of South San Diego.

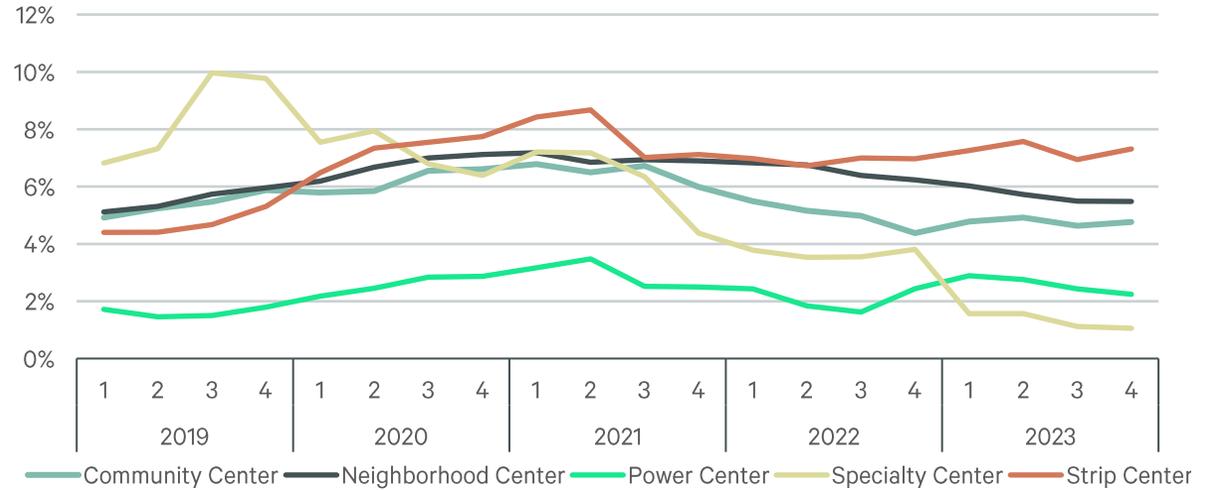
Among county submarkets, three of San Diego’s six areas posted positive demand in 2023. North County led the way with 179,000 sq. ft. of net absorption, a total that was fueled by 123,000 sq. ft. of demand in Q4.

### DEVELOPMENT

Retail construction has been rare in San Diego for many years, and that continued in 2023. The year’s only notable delivery was in Q2, when the North County-located Arroyo Verde Shopping Center came online. Located in Oceanside, the strip/in-line center measures 27,200 sq. ft.

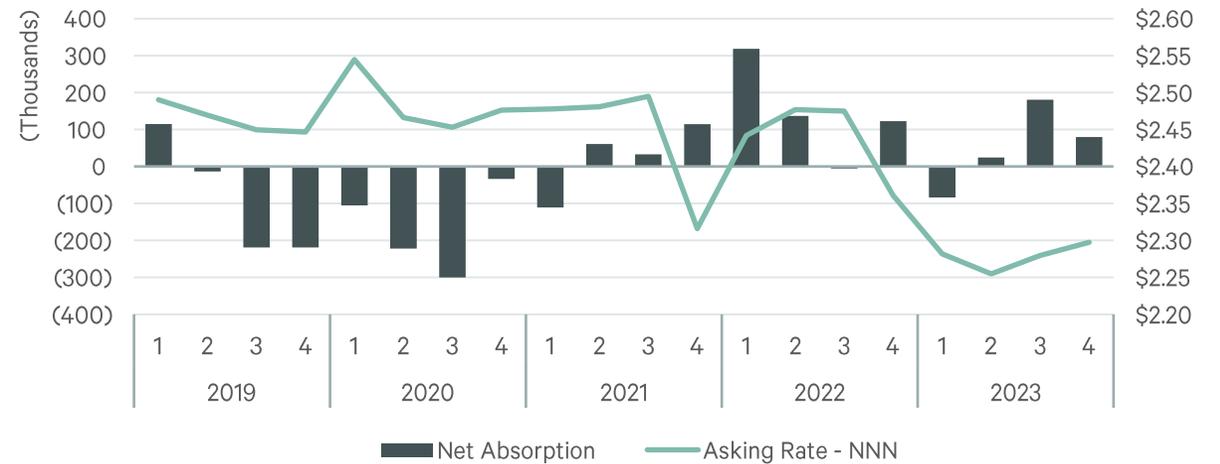
While 137,000 sq. ft. was under construction countywide at the end of Q4, well above the five-year average of 92,000 sq. ft., it was solely attributable to one project, IQHQ’s Research and Development District (RaDD). Located Downtown, IQHQ is well underway on the transformational RaDD, a 1.7 million-sq.-ft. lab, office, and retail development. Situated on more than 10 acres and occupying six blocks, the retail segment could deliver in early-2024.

FIGURE 4: Vacancy Rate by Center Type (%)



Source: CBRE Research, Q4 2023

FIGURE 5: Net Absorption vs. Asking Lease Rate



Source: CBRE Research, Q4 2023

## MARKET OUTLOOK

While ongoing economic uncertainty could impact retailers' plans, San Diego holds a desirable standing among retail markets and long-term, nearly all indications are that trend will continue.

In 2023, economic growth slowed amid the Federal Reserve's litany of rate hikes to tamp out 40-year high inflation, and the economy may further decelerate in 2024. Locally, residents have had to endure whipsawing gas prices that consistently rank among the highest in the nation, as well as housing costs that have increased dramatically since 2021, but retail spending has been resilient in the face of these challenges.

Spending is boosted by San Diego's lofty incomes, which are buttressed by a growing tech environment, an expansive life science industry, and the high-paying jobs 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 at the end of 2023 sat well below the market's 10-year average. 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 high interest rate environment and the ongoing economic uncertainty, 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 (%)	Q4 2023 Net Absorption	YTD Net Absorption	Under Construction	Construction Deliveries	Avg. Asking Lease Rates (\$PSF/MO/NNN)
Central San Diego	17,011,047	2.6%	16,173	41,587	0	0	\$2.98
Downtown	731,235	12.3%	0	(1,961)	137,000	0	\$0.00
East County	11,278,546	4.7%	(12,868)	20,030	0	0	\$1.96
North County	21,880,077	5.0%	122,994	179,264	0	0	\$2.27
South San Diego	9,887,821	4.8%	9,863	(12,529)	0	0	\$2.15
Southwest Riverside	9,221,177	6.4%	(56,522)	(25,896)	0	0	\$2.08
San Diego	70,009,903	4.6%	79,640	166,633	137,000	0	\$2.30

Source: CBRE Research, Q4 2023

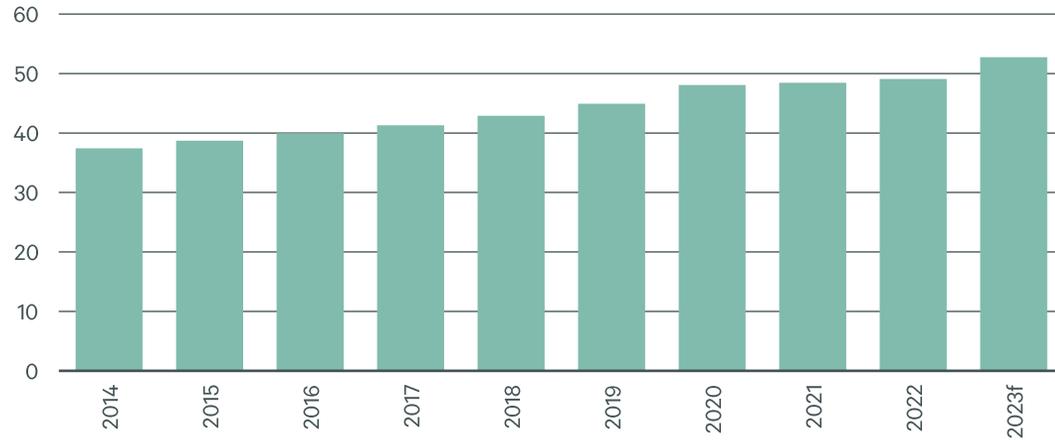
FIGURE 7: Key Transactions

Occupier	Industry Sector	Location	Total Sq. Ft.
O'Reilly Auto Parts	Neighborhood Center	Escondido	44,047
Ninja Factory	Power Center	Vista	38,327
O'Reilly Auto Parts	Neighborhood Center	Chula Vista	31,688
AMVETS Thrift Store	Community Center	Oceanside	17,000
Pho Leo	Community Center	Sports Arena/Point Loma	6,374

Source: CBRE Research, Q4 2023

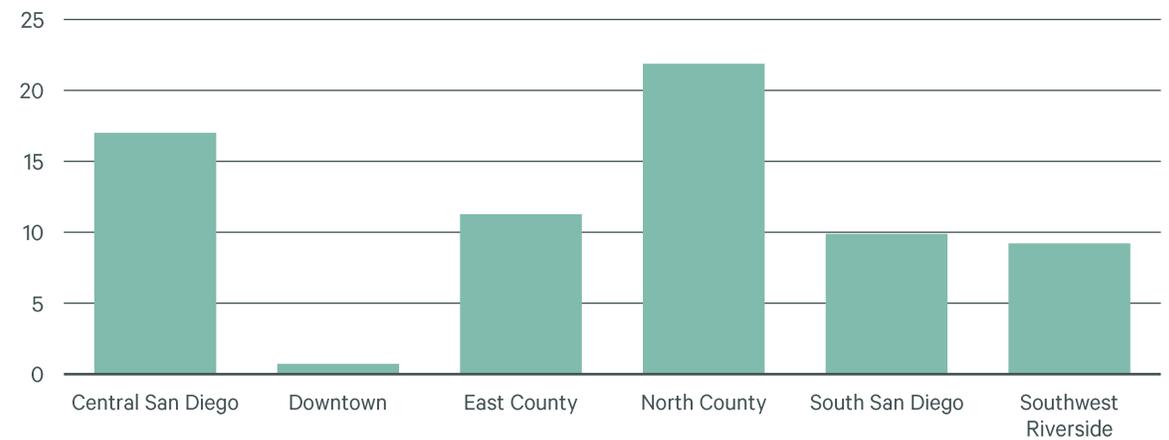
FIGURES INSERT | SAN DIEGO | Q4 2023

FIGURE 1: Total Retail Sales (\$Billions)



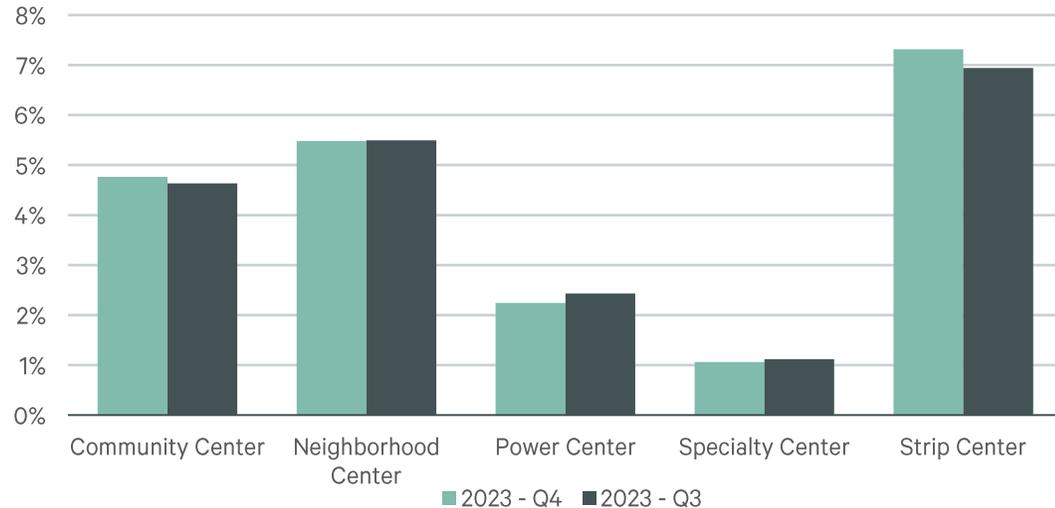
Source: CBRE Econometric Advisors, Q4 2023

FIGURE 2: Retail GLA per Submarket (Million SF)



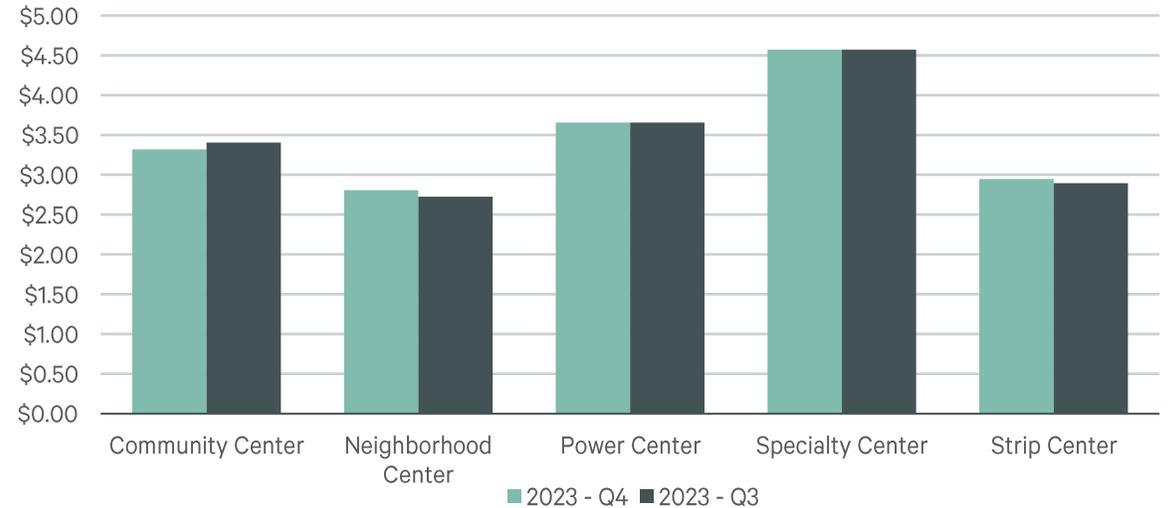
Source: CBRE Research, Q4 2023

FIGURE 3: Vacancy Rate by Center Type (%)



Source: CBRE Research, Q4 2023

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



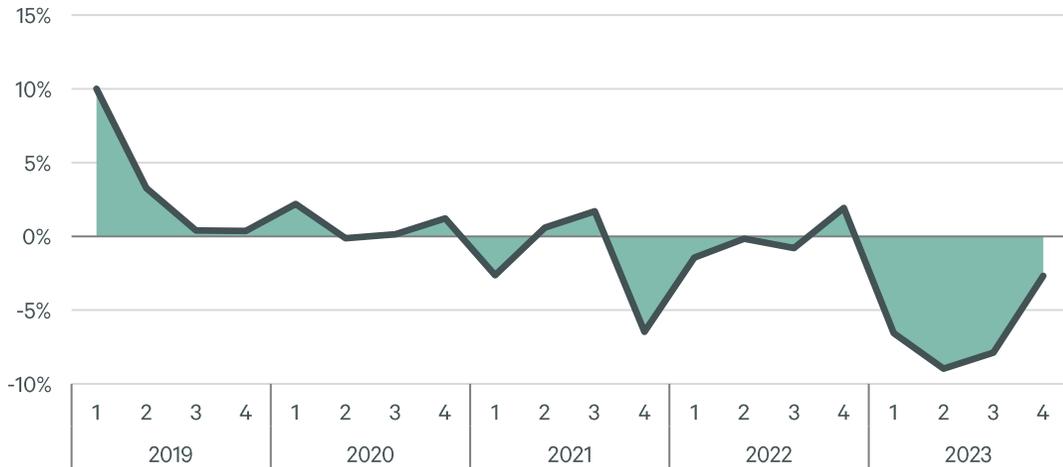
Source: CBRE Research, Q4 2023

FIGURE 5: San Diego Personal Income Growth (%)



Source: CBRE Research, Q4 2023

FIGURE 7: Year Over Year Rent Growth (%)



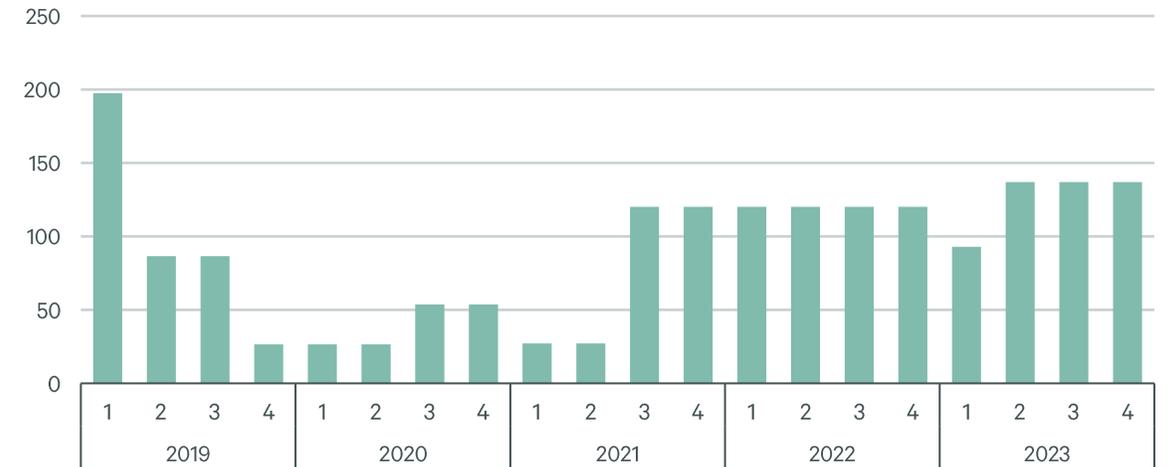
Source: CBRE Research, Q4 2023

FIGURE 6: San Diego Population (Millions)



Source: CBRE Econometric Advisors, Q4 2023

FIGURE 8: Under Construction SF (Thousands)



Source: CBRE Research, Q4 2023

## 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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