INVESTMENT FORECAST

Retail

San Diego

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Bevy of Demand Drivers Hasten San Diego's Recovery; Buyer Pool Expansion Underway in North County

Vacancy compresses for the first time in five years. Positive absorption returned to San Diego's retail sector last year, as did tourism, with summer visitor volumes nearly matching the tally recorded in 2019. These improvements signal the onset of a larger retail recovery that is poised to gain steam this year, thanks to a collection of additional demand drivers. Entering 2022, the metro represented one of the tightest multifamily markets in the nation. Out-of-reach home prices are poised to maintain this standing moving forward, benefiting retailers in submarkets with high concentrations of apartments. Expectations for diverse job creation are also brightening the retail outlook. The projected near-term increase in life science and tech positions will lift the metro's median household income, while an overall boost in hiring supports a strong rate of household formation. Retailers motivated to expand will sift through the county's existing available stock, as apart from 300,000 square feet at the Campus at Horton Plaza in Downtown San Diego, projects slated for delivery this year are largely pre-leased.

Mixed-use assets and northern centers provide upside. Transaction activity spiked in San Diego during the second half of last year, as the metro's collection of improving demand drivers bolstered investor confidence in the long-term performance of its retail sector. Buyers focused on single-tenant assets are targeting submarkets with large millennial populaces or areas that offer some of the lowest multifamily rents in the metro. Properties that feature a mix of residential and retail space are coveted throughout Central San Diego neighborhoods and East County cities proximate to Interstate 8, with these assets trading at 4 percent to high-5 percent returns. Multi-tenant buyers are concentrating on North County cities along the 78 Corridor, an area of population and commercial growth that accounted for most of the larger lease executions over the past year. Here, investors target neighborhood centers at mid-5 percent to low-6 percent yields.

2022 Market Forecast

Employment up 3.8% — The metro's rate of job growth exceeds the national increase for a second consecutive year, as employers add 55,000 positions.

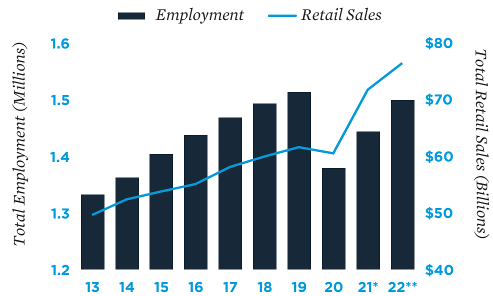
Construction 490,000 sq. ft. — For the fourth time in five years, less than 500,000 square feet of space is finalized throughout the metro. This translates to inventory expansion of just 0.4 percent in 2022.

Vacancy down 20 bps — After rising by 140 basis points over the prior two years, San Diego's vacancy rate compresses to 5.3 percent in 2022 on net absorption of more than 700,000 square feet.

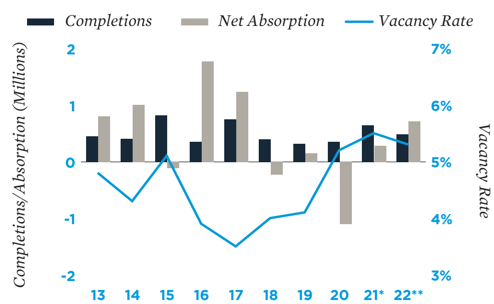
Rent up 2.8% — A reduction in vacancy allows the pace of asking rent growth to double on a year-over-year basis, elevating the metro's average marketed rate to a record mark of $25.90 per square foot.

Investment — Tight apartment vacancy and sparse land availability throughout the metro attract more investors to retail assets positioned for redevelopment into multifamily or mixed-use properties.

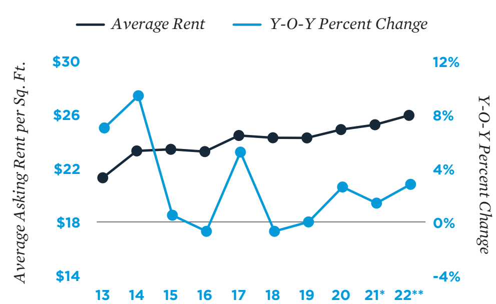
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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