# MARKET REPORT

**Retail**

*San Diego Metro Area*

IPA INSTITUTIONAL PROPERTY ADVISORS

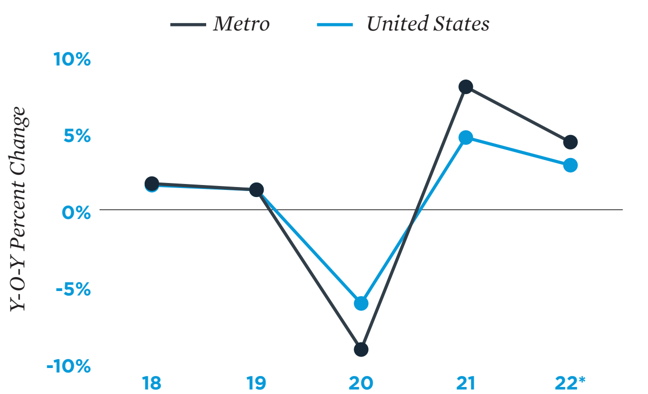
2Q/22

## Retail Spending Facilitators Emerge, Brightening Outlook for Key Submarkets

**Travel revival a boon for downtown vendors.** Home to an economy deeply tied to tourism, San Diego County is expected to welcome nearly 31 million visitors this year, a total nearly on par with 2019. The influx of outside consumers this spring and summer is poised to have the largest impact on retailers in Central San Diego, a submarket that includes downtown, beach communities and neighborhoods proximate to Balboa Park. Here, vacancy sat at 4 percent entering April, following compression of 90 basis points over the prior 12 months. The anticipated improvement in tourism, aided by the return of Comic-Con International this July, will bolster consumer spending in the submarket, potentially sparking heightened retailer demand for available space. Area vacancy, however, may be skewed by the upcoming delivery of The Campus at Horton, whose sizable volume of retail space was unaccounted for as of late April.

**Biotech sector revives midweek consumer demand.** The rapid expansion of San Diego's life science industry is positioned to boost the metro's median household income and support a strong rate of office-using job creation this year. The positive effects of this growth on retailers will be most apparent in North San Diego. Here, a host of biotech firms, including Neurocrine Biosciences, DermTech, and Becton, Dickinson and Company, have recently inked full-building or sizable leases, the precursor to staff expansions. The rise in midweek foot traffic that results will bolster vendor demand for space in medical-centric business hubs, supporting vacancy compression.

### Employment Trends




* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2022 Outlook

**65,000 JOBS**
*will be created*

### EMPLOYMENT:

The recovery of the leisure and hospitality sector, paired with job creation in the life sciences segment, supported the addition of 19,600 positions in the first quarter, placing the metro on track to record a 4.4 percent annual rate of employment growth.

**530,000 SQ. FT.**
*will be completed*

### CONSTRUCTION:

For a 15th straight year, developers finalize less than 1 million square feet, increasing inventory by 0.4 percent during 2022. The 300,000-square-foot retail component of The Campus at Horton spotlights the list of upcoming completions.

**30 BASIS POINT**
*decrease in vacancy*

### VACANCY:

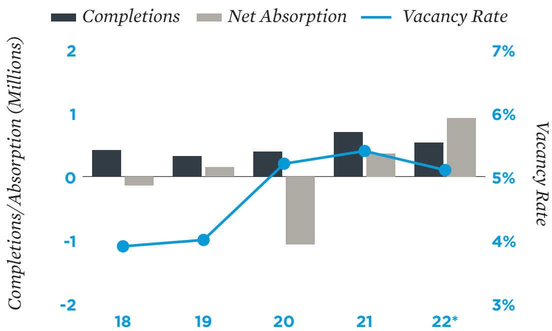
Household income gains and improving visitorship motivate retailer expansions, enabling absorption to surpass completions for the first time since 2017. At 5.1 percent, year-end vacancy is 70 basis points above the trailing five-year average.

**4.3% INCREASE**
*in asking rent*

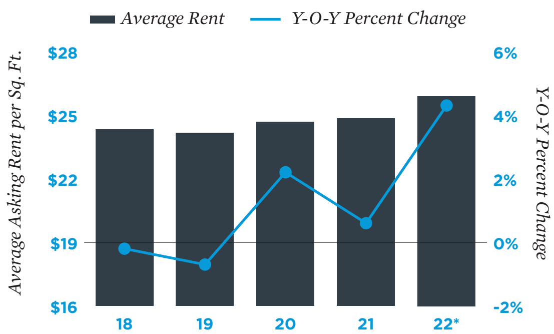
### RENT:

After rising by 1.9 percent over the past four years, the county's marketed rent advances at a heightened pace during 2022, supported by vacancy compression. The year-end average of $25.90 per square foot exceeds the prior peak by roughly 2.0 percent.

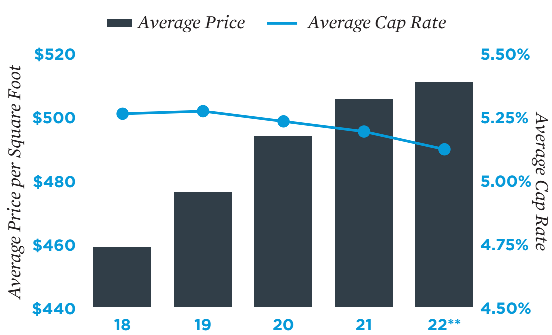
## Supply and Demand




## Rent Trends




## Sales Trends




** Forecast ** Through 1Q*

*Sources: CoStar Group, Inc.; Real Capital Analytics*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*Price: $250*

# 1Q 2022 - 12-Month Period

### CONSTRUCTION

**229,000 sq. ft. completed**

- Completions moderated during the 12-month period ended in March, with Central San Diego adding the most square footage among submarkets.
- Aside from The Campus at Horton, no ongoing project comprises more than 20,000 square feet. Outside the city of San Diego, only Chula Vista and Oceanside have active pipelines that exceed 40,000 square feet.

### VACANCY

**90 basis point decrease in vacancy Y-O-Y**

- Driven by single-tenant leasing, 1.3 million square feet was absorbed over the past year, lowering vacancy to 5.3 percent. This reduction partially offset the 190-basis-point increase notched during the prior 12-month span.
- Vacancy declined across all submarkets with at least 15 million square feet of stock, with North San Diego recording compression of 130 basis points.

### RENT

**1.7% increase in the average asking rent Y-O-Y**

- The mean marketed rent rose by 2.9 percent during the first quarter of this year, pushing the average asking rate to $25.57 per square foot in March.
- North San Diego registered the most pronounced rent growth among large submarkets, with a 5.8 percent gain lifting the average asking rate to a metro-high of $30.59 per square foot.

## Investment Highlights

- Trading velocity over the past 12 months returned to a pre-pandemic pace as a growing mix of local, regional and out-of-state investors jockeyed for assets. Heightened competition for available listings and notable increases in both single- and multi-tenant deal flow lifted the metro's average price point 3 percent to a record $511 per square foot. Nevertheless, the mean cap rate remained in the low-5 percent band for a seventh straight year.
- North County cities along Highway 78 are accounting for the bulk of the county's midsize and larger-scale lease executions. This is bolstering investor interest in the area, namely for multi-tenant listings with available space and upside potential. Here, neighborhood and community centers typically change hands at pricing well below the metrowide average of $490 per square foot, with sub-$300 per square foot price points still available in San Marcos and Escondido. Overall, cap rates for these assets fall in the mid-4 to mid-5 percent range.
- Central San Diego neighborhoods near Balboa Park are destinations for mixed-use investors. Minimum returns for assets featuring ground floor storefronts and apartments can dip below 4 percent. Properties with retail and office space often sell at low-5 to low-6 percent returns.