

MARKET REPORT

Retail
San Diego Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

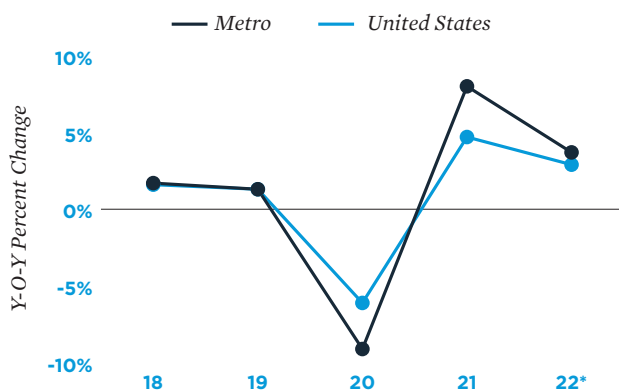
3Q/22

Growing Universities and Large-Scale Revitalization Enhance San Diego's Retail Outlook

Academic expansions prove influential. Retailers are renewing leases or expanding their San Diego footprints at a noteworthy pace, evidenced by the 1.7 million square feet absorbed on a net basis over the past year ended in June. Improving tourism and household formation are fueling vendors' bullish outlook; however, other emerging factors are supplementing their confidence. The concurrent growth of local universities is heightening retailer demand for space proximate to campuses, as vendors anticipate an increase in future consumer spending here. San Diego State University is underway on its Mission Valley campus expansion, and will welcome its largest freshman class this academic year. In North County, Cal State San Marcos opened its first dorms this fall, and will break ground on a student housing village in anticipation of rapid enrollment growth. Elsewhere, the University of California San Diego has numerous projects underway, perpetuated by its growing student body.

Golf course conversions boost suburban prospects. Demand for available retail space is also improving along the I-15 Corridor, with local vacancy compressing 110 basis points over the past 12 months. Here, a group of four large-scale housing projects — most of them involving the redevelopment of shuttered golf courses — are currently in various stages of construction. Together, these communities are slated to notably boost local consumer demand, as a project in Carmel Mountain is slated to include 1,200 units, while a community in Poway is expected to add 160 single-family residences.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**55,500
JOBS**
will be created

EMPLOYMENT:

Health and hospitality hiring helped increase San Diego's worker count by over 34,000 people in the first seven months of 2022. Continued job creation in these sectors, along with tech and life science expansions, support a 3.7 percent annual growth rate.



**485,000
SQ. FT.**
will be completed

CONSTRUCTION:

For the fourth time in the past five years, developers finalize less than 500,000 square feet throughout the metro, expanding inventory by 0.4 percent. Retail additions at the Campus at Horton highlight the list of 2022 project completions.



**70
BASIS POINT**
decrease in vacancy

VACANCY:

Scant supply additions in most sub-markets force expanding retailers to browse the metro's existing stock. This supports the net absorption of nearly 1.4 million square feet, activity that lowers vacancy to 4.6 percent.

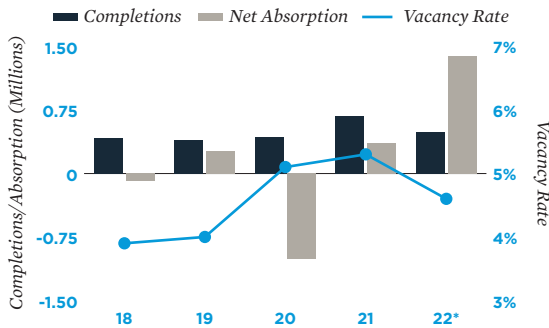


**5.9%
INCREASE**
in asking rent

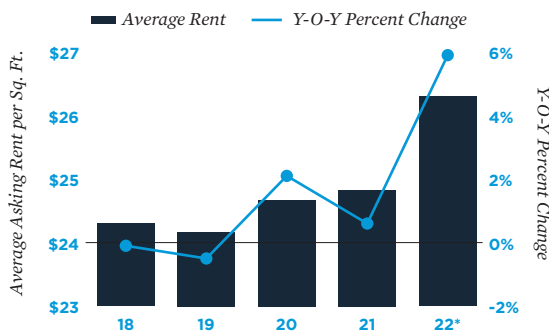
RENT:

Supported by strong demand for single-tenant space, San Diego records the largest asking rent growth among major Southern California markets during 2022. This gain places the metro's year-end market rate at an average of \$26.30 per square foot.

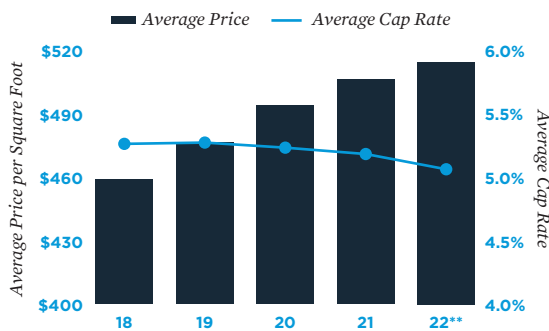
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

Daniel Taub

Senior Vice President, Director

Tel: (212) 430-5100 | dtaub@ipausa.com

For information on national retail trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

2Q 2022 - 12-Month Period



CONSTRUCTION

162,000 sq. ft. completed

- Delivery volume over the 12-month interval ended in June was the lowest total for any four-quarter period on record. Among submarkets, only Central San Diego added more than 60,000 square feet.
- Apart from retail space at the Campus at Horton, less than 140,000 square feet was underway throughout the county at the onset of August.



VACANCY

120 basis point decrease in vacancy Y-O-Y

- Single- and multi-tenant vacancy each compressed by more than 100 basis points over the past year, lowering overall retail availability to 4.8 percent.
- Vacancy fell by at least 70 basis points across all submarkets with more than 15 million square feet of inventory. Central San Diego's 3.8 percent rate at the onset of the second half was the lowest among these locales.



RENT

4.4% increase in the average asking rent Y-O-Y

- The average single-tenant asking rent sat at \$26.95 per square foot in June, following a 6.7 percent year-over-year increase. This gain allowed the overall marketed rate to reach a mean of \$25.82 per square foot.
- Central San Diego's average asking rate elevated by 9.0 percent, the largest gain among submarkets, apart from East County's 14.5 percent rise.

Investment Highlights

- Record asking rent, a moderate construction pipeline and a collective of future demand drivers are encouraging private investors to acquire San Diego retail assets. Data from the past 12 months ended in June reflects this. During this span, deal flow improved by roughly 35 percent relative to the prior yearlong interval, supported primarily by sub-\$5 million trades. The rise in sales activity translated to more than \$2.2 billion in sales volume and coincided with a 5 percent increase in property valuations, which lifted the metro's mean price point to \$573 per square foot.
- Properties that feature small retail spaces and a residential or office component are garnering buyer attention, namely in Central San Diego beach communities and neighborhoods proximate to Balboa Park. In these locales, assets of this distinction often trade for more than \$500 per square foot, with minimum yields falling into the high-2 to low-3 percent range.
- Restaurants and fast food operations are also in demand, with first-year returns hovering in the 4 percent band. Central San Diego, and cities along Highway 78 and Interstate 8, account for the bulk of single-tenant net lease sales. Throughout, restaurants rarely trade below \$500 per square foot, with fast food chains commanding more than \$1,000 per square foot.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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