

# MARKET REPORT

Retail  
San Jose Metro Area

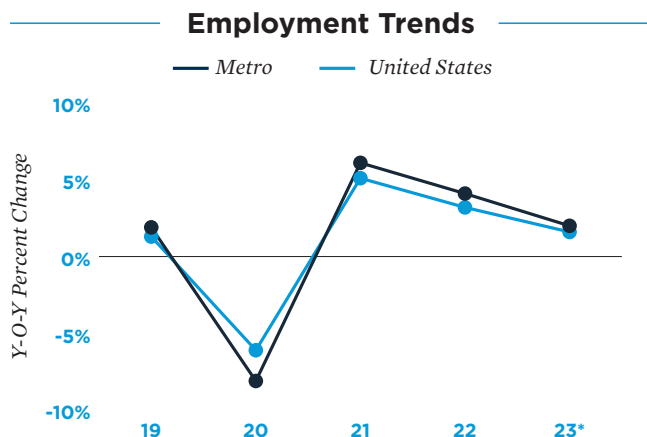
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4Q/23

## South San Jose Leads About-Face in Rising Vacancy Trend as New Supply Pressure Tempers

**Standout submarket backed by residential growth.** Retail vacancy in San Jose is set to contract in 2023, ending a five-year climb. This turnaround is being led by increasing tenant demand in the metro's largest submarket by inventory, South San Jose. The first quarter represented the strongest three-month span for net absorption in the area since early 2020, helping reduce the local amount of vacant retail space to below the year-end 2019 level. Leasing in South San Jose includes several restaurants, fitness concepts and other retail services, positioned to meet the demand of a growing, higher density local population. The number of apartments in and around the submarket has risen by 8 percent since 2019 as new households continue to form in the area. A minimal pipeline of active retail projects, in turn, will direct tenant demand to existing floor plans.

**Interplay between office and retail foot traffic is nuanced.** Improving tenant demand was not confined to South San Jose. Vacancy also fell year-over-year in June across North San Jose, Morgan Hill-Gilroy and Sunnyvale-Cupertino. The latter contraction occurred even amid rising office vacancy, with prominent tech firms listing space. Signings by restaurants along El Camino Real reflect ongoing consumer demand for eateries and social spaces near key thoroughfares. Elsewhere, office underutilization may prove more of a challenge to retail operations in Downtown San Jose, where less pass-through foot traffic is contributing to a rise in retail vacancy.



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2023 Outlook



**23,000  
JOBS**  
*will be created*

### EMPLOYMENT:

A small payroll contraction in August was not enough to dispel the creation of over 10,000 jobs during the preceding seven months. The metro's employment base is on track to grow by 2.0 percent this year.



**105,000  
SQ. FT.**  
*will be completed*

### CONSTRUCTION:

Deliveries for 2023 will fall to the lowest level for an annual period since before 2007. A 43,600-square-foot Restoration Hardware in Palo Alto denotes the largest project that is still underway this year.



**20  
BASIS POINT**  
*decrease in vacancy*

### VACANCY:

Moderating supply pressure will align with improving tenant demand this year to hold the marketwide vacancy rate at 4.6 percent. While below the 2022 mark of 4.8 percent, the measure is 10 basis points above the 2021 level.

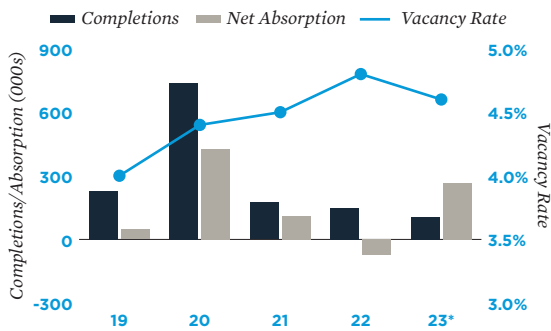


**0.8%  
INCREASE**  
*in asking rent*

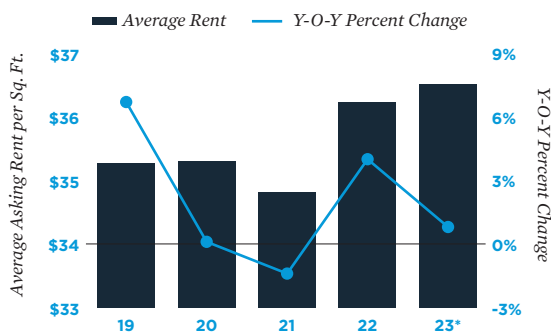
### RENT:

Above typical vacancy will reduce the pace of rent growth this year. The average asking rent will nudge forward to \$36.52 per square foot, whereas in San Francisco and Oakland, mean rents are decreasing.

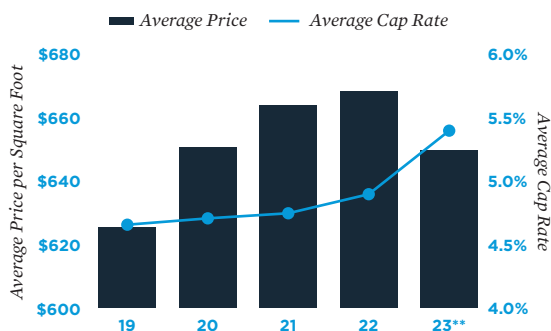
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q 2023 - 12-Month Period



### CONSTRUCTION

**187,000 sq. ft. completed**

- The modest 0.3 percent increase to inventory over the year ended in June was weighted toward late 2022. A 55,000-square-foot restaurant in Los Gatos constituted the only delivery of note in the first half of 2023.
- Near-term supply pressure is low, with less than 120,000 square feet underway, although multiple large shopping centers have been proposed.



### VACANCY

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

- The metrowide vacancy rate was unchanged through the first six months of 2023 at 4.6 percent, after ending 2022 at 4.8 percent.
- Between July 2022 and June 2023, the overall single-tenant vacancy rate fell 30 basis points to 4.4 percent. The multi-tenant metric, meanwhile, dropped 40 basis points to 5.5 percent over the same span.



### RENT

**0.1% increase in the average asking rent Y-O-Y**

- During the year ended in June, a 0.1 percent dip in the mean single-tenant asking rent largely offset a 0.8 percent bump in the average multi-tenant metric. The overall average payment inched up to \$35.88 per square foot.
- South San Jose recorded a mean rent gain of 1.3 percent over the year ended in the second quarter, offsetting dips in most other submarkets.

## Investment Highlights

- Elevated transaction activity in the first half of last year gave way to more deliberate decision-making as interest rates rose. This prompted the total number of retail properties that changed hands over the four-quarter span ended in September 2023 to drop 45 percent from the prior period. The slowdown was more apparent among multi-tenant trades than in the single-tenant sector, with declines of roughly 50 and 40 percent, respectively.
- Despite the temperament from last year, sales velocity held fairly consistent through the first half of 2023. A small drop in the average sale price over the 12-month span ended in the second quarter may indicate more buyers and sellers are coming to agreement on terms, resulting in a 60-basis-point lift to the mean cap rate to 5.4 percent.
- Based on preliminary data through the first nine months of 2023, retail properties have changed hands most frequently across South San Jose, consistent with past years. Other areas of interest include Campbell and the Sunnyvale-Cupertino area. Farther south in Gilroy, a small number of auto repair shops and other storefronts were traded for yields sometimes exceeding 6 percent, reflecting the influence of higher lending rates.

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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