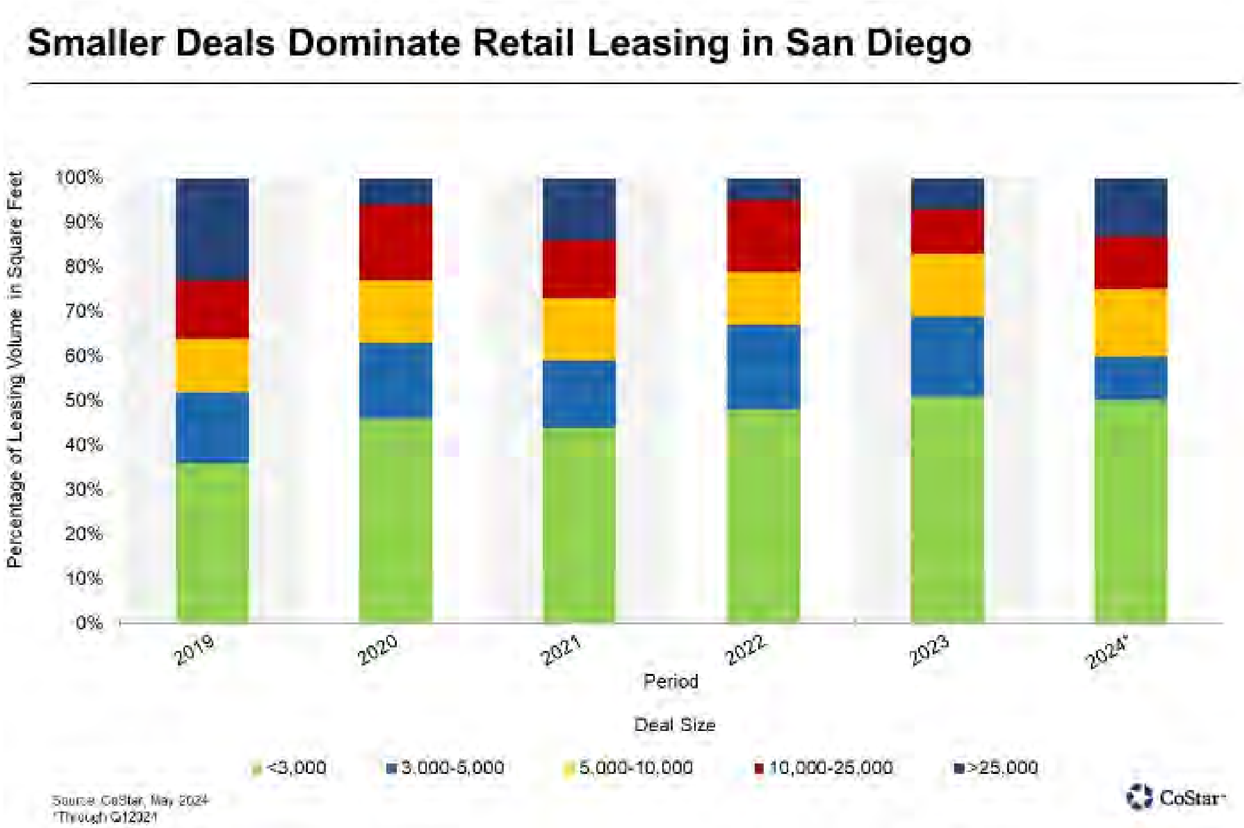
Small-Box Retail Properties Drive Leasing Activity in San Diego
Food-And-Beverage Tenants Spur Leasing



By Joshua Ohl

Even with 99 Cents Only stores being added to the leasing and sales markets since the retailer announced it was closing, San Diego's retail market is as strong as it has been in years.

San Diego's availability rate of 4.7% at the end of the first quarter is trending at one of its lowest positions in the past 15 years. Through the first quarter, every retail subtype, with the exception of malls, fell year over year, with freestanding availability seeing only a marginal upward adjustment. The availability rate for retail space built in the past decade is 30% below San Diego's overall rate.

Small-box spaces continue to drive demand. Leasing in buildings below 3,000 square feet accounted for more than 50% of leasing volume in the first quarter, a trend that carried over from 2023, when those properties also accounted for more than 50% of annual leasing volume.

Over the past two years, the share of leasing among service-related and food-and-beverage retailers has increased by an average of 5%, making up close to 45% of leasing activity in the past 12 months.

Conversely, home improvement, furniture and home furnishing retailers have seen their share of leasing activity fall compared to the pre-pandemic norm, and they represented less than 10% of leasing volume in the past year.

With little leasing activity in big-box spaces, leasing volume is notably depressed compared with the pre-pandemic norm. Although it could shift if some of the former department-store available spaces were leased, a big if, it has not been a measure of waning demand, but limited availability for suitable space.

“All of the best spaces have been leased,” according to multiple market participants. Tenants searching for visible end-cap space and shopping center pads are finding few options.

With historically low availability and little new development to secure additional demand, existing tenants will likely continue occupying their space, even if consumer confidence wanes. That should keep San Diego’s availability rate in check, even if bankruptcies and store closings due to poor sales ripple across the region.

We’ve seen in the past how those closures allow other retailers to expand, such as RH Outlet and a small-concept Macy’s, both of which occupied Bed Bath & Beyond locations that closed in 2023.