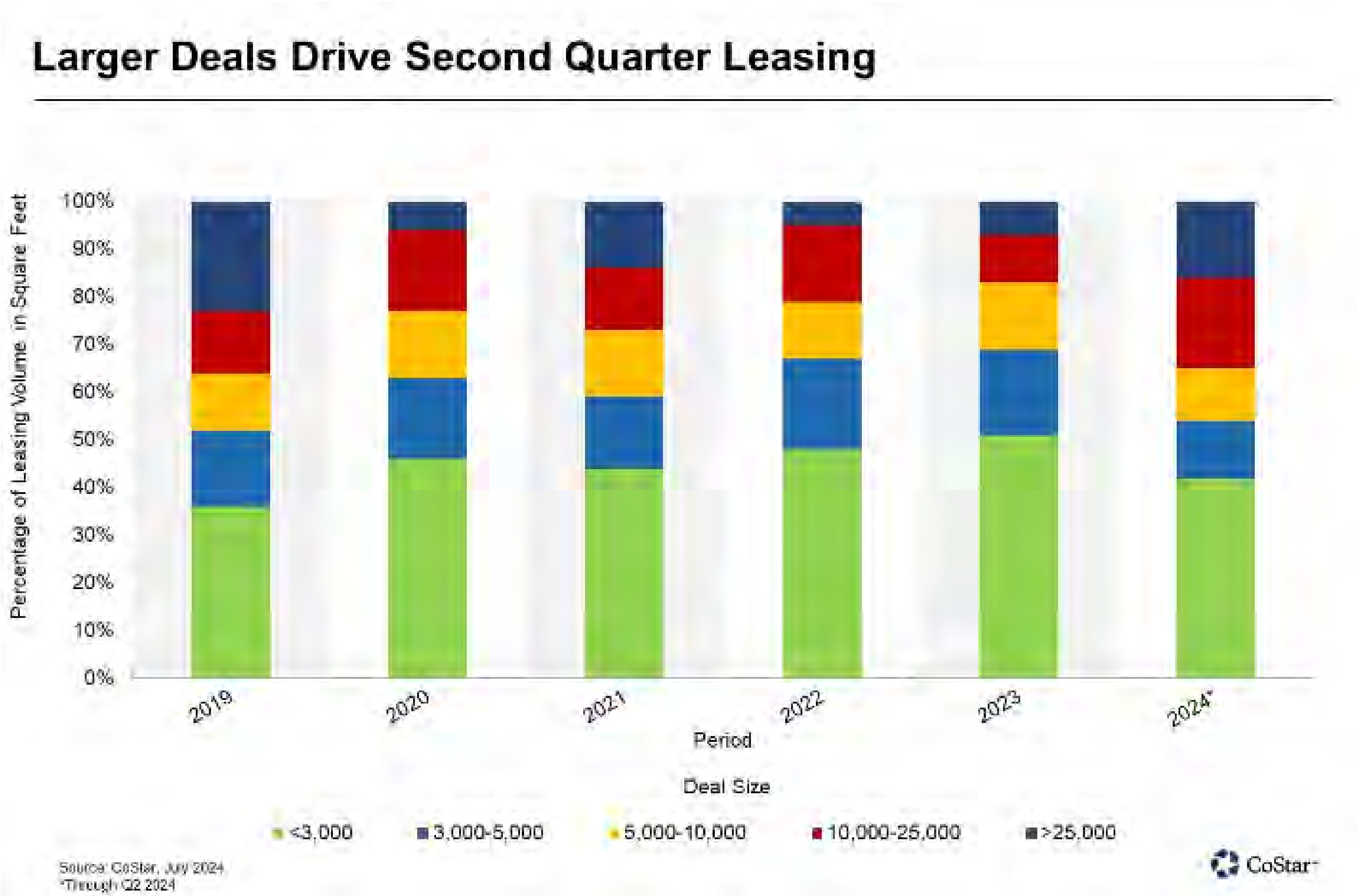
Retail Leasing Surges in San Diego During the Second Quarter

Dollar Tree Drives Leasing at the Top of the Market



By Joshua Ohl

The second quarter saw the highest new retail leasing volume in San Diego in two years, driven by Dollar Tree's acquisition of a dozen 99 Cents Only stores that had closed during the past three months.

More than 800,000 square feet of retail space was leased during the second quarter. That marked the first time since 2022 that volume exceeded 700,000 square feet, and that number will continue to rise as CoStar research collects additional lease transactions.

Dollar Tree accounted for more than 250,000 square feet of quarterly leasing volume, as the discount retailer stepped in to secure a majority of the 20 locations shuttered by 99 Cents Only during the second quarter.

Those deals helped to materially shift demand volume to the largest tranche of space. Volume for lease transactions above 10,000 square feet consumed more than 40% of the new leasing volume during the second quarter, reversing a few trends that have taken hold since the start of 2023.

In 2023 through the first quarter of 2024, 17% of leasing volume was among spaces larger than 10,000 square feet, compared with 26% between 2019 and 2022.

Small-box deals for under 3,000 square feet accounted for 52% of leasing volume from 2023 through the first quarter and only 37% during the second quarter. That was below the average level between 2019 and 2022. Food and beverage and food service tenants have been among the most active tenant sectors over the past few years. And while operating costs, including higher minimum wages, will likely weigh on business formation, local market participants anticipate they will continue to be among the most active sectors hunting for retail space.

According to market participants, volume had been tempered by a lack of good available space, not waning demand. Landlords have been able to be more selective in choosing their tenants, often holding out for businesses with strong credit histories. In recent years, there have been few large spaces, or even well-located ones, for retailers to source. That has driven leasing volume more than 30% below the pre-pandemic period of 2015 and 2019.

Outside of downtown, the pipeline offers little available space. Only around 50,000 square feet is available for lease outside of the central business district in new construction, and San Diego’s newest spaces built in the past decade have seen positive net absorption, which measures the change in occupancy over time, nearly every quarter over the past five years. Conversely, space built last century has seen negative absorption nearly every quarter during that period.

While store closures often make the headlines, they provide local retailers an opportunity to source much-needed space in a low-availability environment.