# Available Retail Space in San Diego Up Slightly From Historic Low

## New Construction Likely Won't Provide Much of a Lifeline

By Joshua Ohl

San Diego’s retail availability rate is inching up in 2023 after falling to its lowest level in 15 years at the end of 2022.

The retail availability rate increased to 4.6% in the market to end the first half of the year, according to CoStar data. That is up from a low of 4.2%.

Yet even as the rate has been rising, it’s still low from a historical perspective. Between 2015 and 2019, San Diego’s retail availability rate averaged 5.3% and never fell below 4.8%.

Single-tenant properties are trending at their lowest availability rate in more than a decade, at 2%. The largest and smallest of those single-tenant buildings, above 50,000 square feet and below 3,000 square feet, are below 1% and trending downward.

Multitenant availabilities have ticked above 6%, representing a 40-basis-point jump since the end of 2022. That’s still low from a historical perspective though, as it averaged 7% between 2015 and 2019.

As the availability rate has risen, the spread between vacancy and availability has widened modestly. After marching in lockstep for more than a year, roughly 25 basis points now separate the two figures.

The reason the rates haven't widened further is that many of the larger spaces that have become available in recent years are not being marketed for lease. For instance, the 160,000-square-foot Fry’s that closed in Murphy Canyon in 2021 is not available. Meanwhile, the 250,000-square-foot Sears that closed in 2020 in Chula Vista is being held for potential redevelopment into more than 250 for-sale townhouses.

With low availability, leasing activity has moderated in recent quarters. The average quarterly leasing volume during the past four quarters is roughly half of the quarterly average in San Diego between 2015 and 2019. There simply isn’t the available space right now to accommodate many tenant requirements, and most of the best retail space has already been leased, according to several market participants.

Gross leasing has fallen to roughly half the level from last year. Fewer tenants are returning their keys and looking for new storefronts given the lack of available space. That, in turn, is providing fewer opportunities to secure new space.

New construction is unlikely to come to the rescue. Aside from the Campus at Horton downtown, there is less than 30,000 square feet available in the pipeline.

Over the past four years, net supply, which measures the change in demolitions versus completions, has been negative for three years. Properties are increasingly being repositioned into other asset types, such as the 46,000-square-foot Dixieline Lumber in Kearny Mesa that was bulldozed at the end of 2022 to make way for more than 500 market-rate apartments.

Even if retail consumption pulls back in the coming months, retailers are likely to continue hoarding space given the dearth of available inventory.