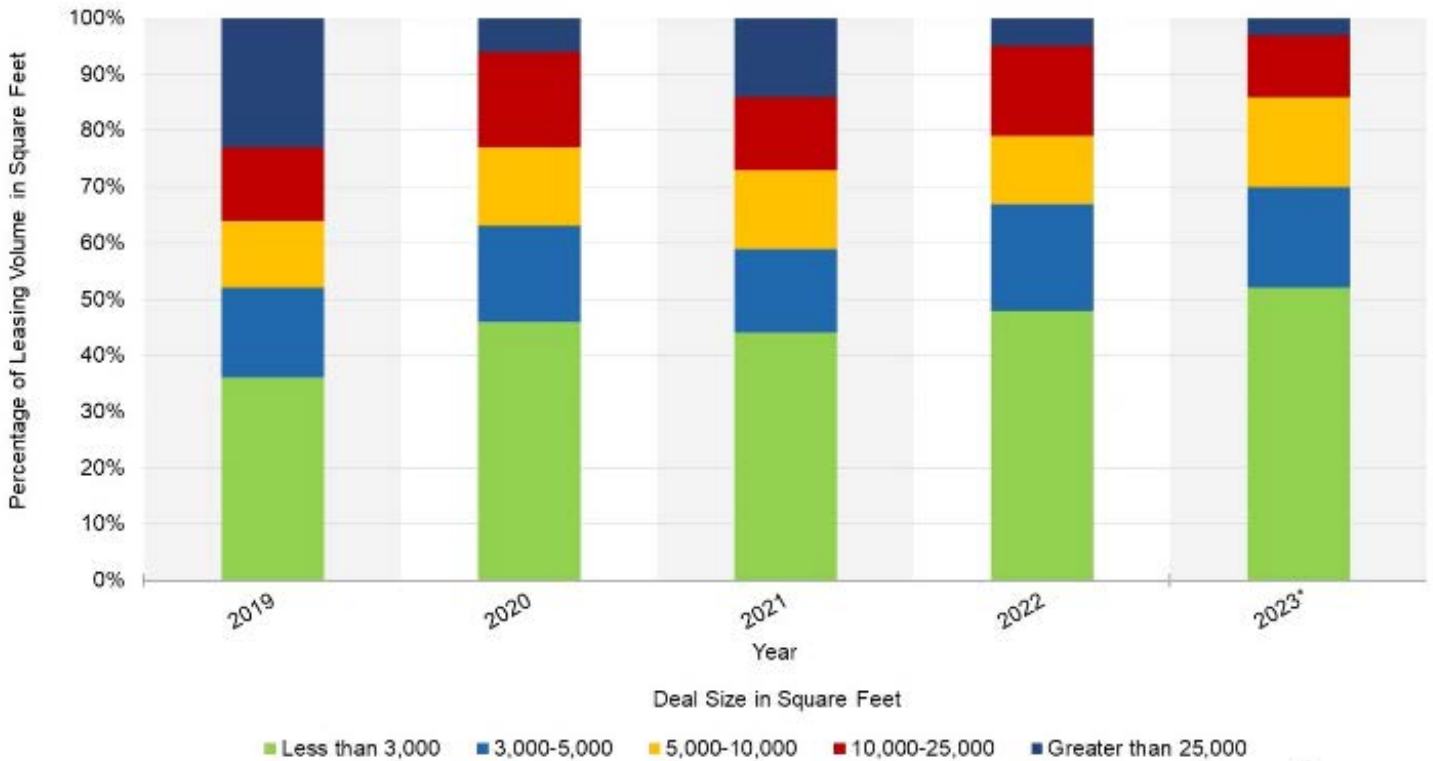


Small Tenants Drive Bulk of Recent Retail Leasing in San Diego

Large Tenants Leasing More Than 25,000 Square Feet Account for Just 3% of New Leasing Volume in 2023

Small Retail Engagements Make Up Majority of New Leasing



Source: CoStar, December 2023
* Through Q3 2023



By Joshua Ohl

San Diego’s retail market has shown few signs of cracking under the weight of rising household debt, persistent inflation and high housing costs that have eaten into household budgets.

Yet retail leasing activity across San Diego through the third quarter of this year is down substantially from the quarterly average between 2015 and 2019. New leasing activity averaged less than 550,000 square feet quarterly through the first three quarters, a 42% drop compared to the quarterly leasing average during those five years. It’s also a 27% drop compared with new leasing activity in 2021 and 2022.

But that decline in leasing activity has less to do with waning interest among retailers, according to local market participants. Instead, a dearth of new brick-and-mortar retail options coupled with a drop in gross leasing activity and redevelopments have coalesced to stifle any significant new demand.

One trend that has accelerated this year in San Diego's retail sector has been elevated leasing among the smallest tenants, or those occupying 3,000 square feet or less. Between 2019 and 2022, leases in that size segment averaged 44% of the total annual leasing volume, with the 2019 average of 36% marking a five-year nadir.

However, in 2023, those small tenants accounted for 52% of the total leasing volume in San Diego through three quarters. That has followed a shift in consumer spending that has driven purchases away from physical goods and toward service-related expenditures locally.

If that trend persists through the end of the year, this will be the first time in the past decade that engagements below 3,000 square feet account for the majority of leasing volume in San Diego.

As that shift has happened, leasing for the largest spaces, those measuring 25,000 square feet or more, which often anchor shopping centers or freestanding big-box buildings, has shrunk. Retail leases in this category accounted for 23% of new leasing volume in 2019, and 12% between 2019 and 2022 and only 3% in 2023. This reflects the dearth of big box locations available across the region.

San Diego's retail market remains in one of its strongest positions in years. Availability is historically low, and limited new construction is not expected to provide an outlet for retailers seeking to secure new space in the region. Instead, more retailers are likely to continue occupying their existing store space, even if consumer confidence wanes, which will further depress gross leasing activity as fewer retailers opt to relocate to new digs.