THE RESTAURANTS ARE COMING TO SAN DIEGO

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Nearly 600,000 square feet of new retail space is currently under construction in San Diego County, according to CoStar. This number does not account for any of the many mixed-use projects we see coming out of the ground. There is so much change and growth going on in our city and it's all happening at a dizzying rate. Short-attention-span Millennials are going to have many new retail options coming in for some time, especially when it comes to restaurants and bars.

Downtown is bustling big time. Little Italy continues its push toward cool food domination with several new projects delivering, including Bosa's Savina, City Mark's AV8, and HG Fenton's Little Italy Piazza, which includes leases signed by Farmers Table and the Little Italy Food Hall. "Papa Doug" Manchester has his most ambitious project to date, which broke ground this past May. It's a $1.5 billion, 3-million-square-foot mixed-use project that includes 290,000 square feet of retail. East Village has more than $1 billion in mixed-use construction all delivering new restaurant and retail space. Most notably, Punchbowl Social opened a 23,500-square-foot, two-story complex inside a long-abandoned boxing gym.

The Uptown neighborhoods of Bankers Hill, Mission Hills, Hillcrest, North Park, Normal Heights and University Heights are where we continue to see significant increases in residential density, with the majority of these new buildings delivering ground-floor restaurant and retail spaces. The little known, yet prolific architect and developer Foundation for Form built another showstopper on University Avenue in Hillcrest where it leased ground-floor space to a new restaurant and bar called Inside Out. These neighborhoods are littered with new mixed-use projects both small and large.

The greatest concentration of retail change is occurring in North San Diego County. This includes a massive and overdue renaissance of coastal Oceanside. The downtown Oceanside area is buzzing with nine blocks of construction, from hotels to apartments, all delivering retail and restaurant spaces. One notable project is Pelican Properties' SALT. This is an upscale apartment community with two signature ground-floor restaurant spaces. This project surrounds a 325-space public parking garage so parking will not be an issue for tenants who call this site home.

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Carmel Valley and Del Mar are achieving record rents with multiple inbound projects delivering early next year. Del Mar Highlands is adding 120,000 square feet of additional retail, with an ambitious second-level indoor restaurant collective. One Paseo has leased all its restaurant spaces and has announced some top-level foodie talent, including International Smoke, Salt & Straw Ice Cream, Blue Bottle Coffee, Shake Shack and many others. Next up is Del Mar Plaza, which recently traded hands to Brixton Capital with extensive plans to significantly revitalize the iconic ocean view project in Downtown Del Mar.

Solana Beach has Zephyr's Solana 101 coming online, which will include about 10,500 square feet of new restaurant space. RAF Pacifica is building 330 Cedros, which will include a signature 3,200-square-foot restaurant as well.

By 2020, San Diego's dining landscape will look vastly different. The large shift in our industry from a demand for large chain credit tenants to more local, emerging and unique offerings is changing the retail business around the country. We are shifting fast here in San Diego to accommodate the next generation of consumers. The jury is still out on how sustainable all this new retail product will be and whether rents will continue to climb.

FOUR TRENDS IMPACTING SAN DIEGO'S OFFICE MARKET

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A focus on tenants and the tenant's employees has caused a few noteworthy trends to emerge in San Diego's office market. They include:

1. It's All About the People

Unemployment in San Diego dropped 80 basis points year-over-year (YOY) to 2.9 percent. Office-user jobs increased 4.2 percent YOY, with more than half of this increase taking place within the PST (professional, scientific and technical) sector, which increased 6.8 percent. Employers in San Diego who want to remain successful in this job market are now relying heavily on where their current and target employees live and/or how their employees will travel to their selected location. Unlike the past, real estate locations are much less about where the decision-maker lives or commutes.

I like to ask diagnostic questions at the outset of a tenant relocation project, such as how would you define success? A typical answer would have been that the company has reduced their occupancy costs by 10 percent. Today, the more common answer is that their employees are happier in the new space.

2. It's Also About the Experience

How the employees get to the selected location is important. However, once they are there, how is the workplace experience? Today's employers realize an optimized workplace contributes to employee productivity, engagement and retention. Experience is important, and tenants are focusing on all the attributes that impact how work gets done, how employees develop relationships and build networks, and how well the environment helps them balance the personal and professional demands of their time. We see tenants gravitate more than ever to buildings with a selection of attractive, walkable food and retail options. They also want access to outside working and collaboration spaces. We are seeing upgrades in common areas like the kitchen, which is the new social hub, because an employee's experience matters! This trend is most relevant when building owners construct the increasingly large number of "ready now" speculative suites.

3. Tenant Improvement Costs Have Increased Dramatically

There are three main drivers here. First, the strength of the economy has resulted in higher prices across the board for contractors, architects, permits and materials. Second, the cost for new Title 24 code requirements is increasing the cost of remodels and build-outs from shell by up to $15 per square foot to $20 per square foot. Third, the new look desired by tenants today is more expensive with extensive glass-fronted offices, carpet, tile, upgraded kitchens, and many opting for completely or partially "open" ceilings rather than traditional ceiling tiles. Again, this is most apparent when looking at the typical speculative suites that building owners are offering. Rather than fighting these more expensive trends, owners are encouraging it if they believe they can offer the space to future tenants with little or no reconstruction costs.

4. There is Pressure for Longer Lease Terms

Tenant improvement costs are rising, and tenants still expect the building owner to pay for all or most of these costs. This has led to sticker shock given that rental rates are rising strongly in most San Diego submarkets. One way to deal with this is for the tenant to give the owner a longer term. For some time, the San Diego market has been dealing with free rent periods by adding them "outside the term." We are now also seeing terms that are often one or two years longer than the most typical five-year term as a way to amortize these higher tenant improvement costs at acceptable rental rates. Fortunately, greater optimism and confidence in the economy are allowing parties to reach agreement in this regard.