

# MARKETBEAT SAN DIEGO



CUSHMAN &  
WAKEFIELD

Office Q4 2019

**11.4%**  
Vacancy Rate

YoY Chg: — 12-Mo. Forecast: ▲

**768K**  
Net Absorption, SF

YoY Chg: ▲ 12-Mo. Forecast: ▼

**\$3.31**  
Asking Rent, PSF

YoY Chg: ▲ 12-Mo. Forecast: ▲

(Direct, All Property Classes)

## ECONOMIC INDICATORS Q4 2019

**1.5M**  
San Diego  
Employment

YoY Chg: ▲ 12-Mo. Forecast: ▲

**2.9%**  
San Diego  
Unemployment Rate

YoY Chg: ▼ 12-Mo. Forecast: ▲

**3.6%**  
U.S.  
Unemployment Rate

YoY Chg: ▼ 12-Mo. Forecast: ▲

Source: BLS, November 2019

## ECONOMIC OVERVIEW: Unemployment Rate Remains Low

The San Diego employment market continued to record job growth, adding 34,300 jobs (+2.3%) year-over-year (YOY) through November 2019.<sup>1</sup> Of the 34,300 jobs added, 8,200 or 24% were in the professional and business services sector, a primary sector driving demand for office space. During the same time period, the unemployment rate decreased 20 basis points (bps) to 2.9% and is currently 280 bps below the 30-year average of 5.7%. All employment sectors are forecasted to grow at a combined growth rate of 1.6% in 2020 and 1.2% in 2021. San Diego's economy of \$245.1 billion<sup>2</sup> as measured by gross regional product is forecasted to grow an additional 1.9% in 2020 and 2.3% in 2021, below its 10-year average of 3.7%.<sup>3</sup>

## SUPPLY AND DEMAND: A Big Quarter in Central County

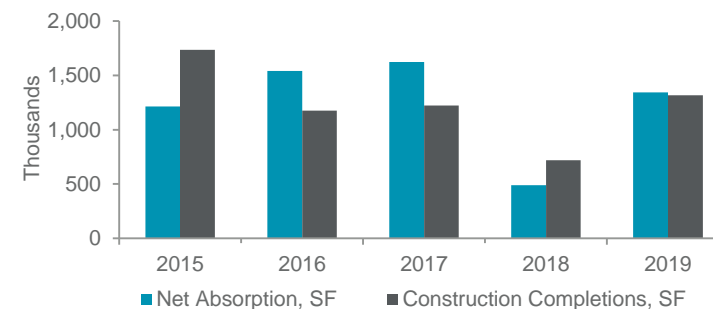
At the end of 2019, San Diego's direct office vacancy was 11.4%, a decrease of 40 bps from the previous quarter. Vacancy remained unchanged from a year ago due to 1.3 million square feet (msf) of new product being added to the existing inventory. Tenants absorbed 768,000 sf in Q4 2019, the largest positive change in occupancy since mid-2014. Comparing quarterly activity since the end of the last recession 10 years ago, there have only been seven of 41 quarters during which tenants returned more space to the market than occupied, averaging 281,000 sf returned per quarter. On an annual basis, 2019 marked the 10<sup>th</sup> year of positive occupancy growth, during which tenants have absorbed 11.0 msf combined, of which 8.4 msf is Class A. Compared to 2018 when 489,000 sf were absorbed, tenants occupied more than double or 1.3 msf in 2019.

A mix of technology and life science tenants drove absorption this quarter, occupying Central County submarkets like Sorrento Mesa, Campus Point and Eastgate. Among technology and life science companies contributing to absorption in the fourth quarter, TriLink BioTechnologies moved into 100,000 sf in Sorrento Mesa. Also in Sorrento Mesa, Brain Corporation expanded by 43,000 sf, Deceipher Biosciences moved into 27,000 sf and Cue occupied 21,000 sf. In Campus Point, Truvian occupied 33,000 sf, and Heron Therapeutics expanded by 21,000 sf. In Del Mar Heights, Seismic expanded by 39,000 sf.

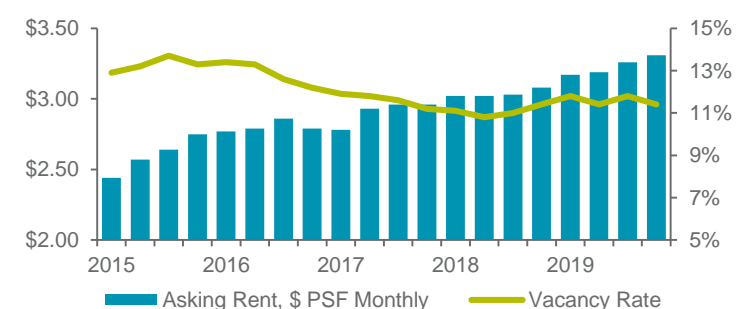
## PRICING: Asking Rents Push Aggressive Pricing

Countywide asking rent across all classes reached \$3.31 per square foot (psf) on a monthly full service basis. This metric increased 1.5% over the last three months and is up 7.5% from where it stood a year ago, driven by the addition of large Class A availabilities. Over the past 12 months, Class A average rent has increased by 5.1% to \$3.71 psf, while the Class B rate has increased by 13.2% to \$3.25 psf, largely benefitting from significant acquisitions and conversions of older product to lab space.

## SPACE DEMAND / DELIVERIES



## DIRECT VACANCY / ASKING RENT





Submarkets with highest Class A average asking rent in Q4 2019, ranging between \$4.67 and \$5.49, including biotech, were Campus Point, Torrey Pines and Del Mar. Projects such as One Paseo in Del Mar and DiamondView in Downtown are setting records while achieving highest rents in suburban and CBD submarkets.

### TENANT TRENDS: A Tech Giant Grows in America's Finest City

Apple occupied 97,000 sf in Eastgate in Q4 2019 and recently leased an additional 360,000 sf in Eastgate which it is anticipated to occupy in 2021. Last March, the company publicly announced their intent to hire 1,200 employees in San Diego with an expectation to grow further in Central County. The tech titan's presence is expected to have a lasting and ripple effect in myriad ways in San Diego. With Apple growing and the continued expansion of biotech companies into UTC and Eastgate, these submarkets are nearly at full occupancy at 95%. This is driving upward pressure on rents and causing tenants to consider other submarkets or leasing space in UTC and Eastgate defensively. Biotech landlords have been investing in nearby Sorrento Mesa for repurposing older buildings into lab space, alleviating the restricted supply in traditional life science submarkets.

### FUTURE INVENTORY: Developers Believe in Downtown

Of the 11 properties totaling nearly 1.7 msf, currently under construction countywide, 46% are pre-leased and 729,000 sf are expected to be delivered in 2020. Over half or 867,000 sf of inventory currently under construction is located in the Downtown submarket with only 5.3% pre-leased. Kettner & Ash and the Paladion all are expected to enter inventory in Q1 2020. Additional Downtown projects such as 2100 Kettner, Courthouse Commons and the second building located at 450 B St. have also begun development. These projects are expected to add significantly to the Downtown vacancy in a near future until they are absorbed.

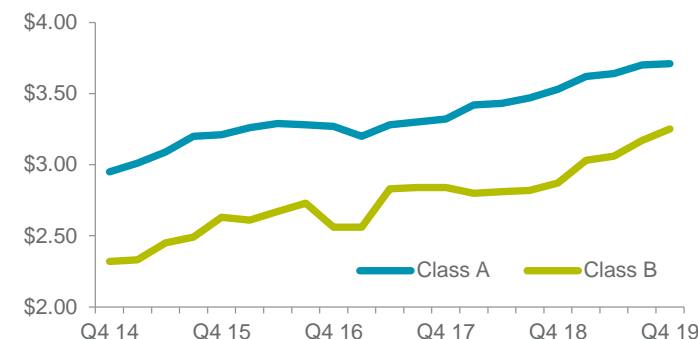
Much of future absorption will come from leases signed for projects currently under construction. In Del Mar Heights, One Paseo is 80% pre-leased and drawing continued interest. In Downtown, at Kettner & Ash, Spaces has another location ready to open once the project is completed. Another coworking provider, Industrious, has an agreement to operate out of 29,000 sf at the Collection in UTC. In Oceanside, a 100,000 sf BTS project for the County of San Diego Health & Human Services department is estimated to be completed in 2020.

Sources: <sup>1</sup>[www.bls.gov](http://www.bls.gov) <sup>2</sup> bea.gov GDP as of 2018. <sup>3</sup> Moody's Analytics economy.com 11/2019.

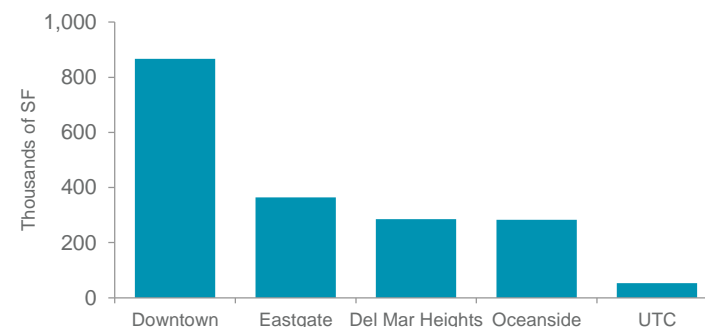
### Outlook

- Continued economic and job growth in combination with increasing tenant demand should provide continued occupancy and rent growth throughout 2020. Leasing within the 10,000 to 50,000 sf range will continue to be the main driver of activity, accounting for just under half of total sf in lease obligations set to expire over the next 18 months.
- Active tenant requirements of all sizes remain robust at 4.8 msf over the next 24 months countywide. A majority of these tenants have sent out proposals and are still in the intermediate stages of their search. While not all of the current tenants in the market will transact in the short term, these levels provide a barometer to leasing activity in quarters to follow.

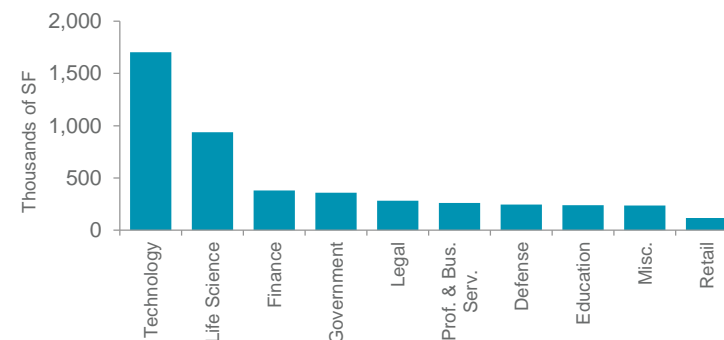
### AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



### SF UNDER CONSTRUCTION BY SUBMARKET



### TENANT DEMAND BY INDUSTRY SECTOR





## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	DIRECT VACANCY RATE	CURRENT QTR DIRECT NET ABSORPTION (SF)	YTD DIRECT NET ABSORPTION (SF)	YTD LEASING ACTIVITY** (SF)	CNSTR BLDGS (SF)	UNDER CNSTR (SF)	DIRECT AVG ASKING RENT (ALL CLASSES)*	DIRECT AVG ASKING RENT (CLASS A)*
North County	11,687,886	92,151	1,694,930	14.5%	65,042	636,909	1,011,576	548,970	100,000	\$2.65	\$3.03
Central County	51,632,717	1,287,236	5,306,875	10.3%	651,118	965,271	5,387,333	422,776	702,794	\$3.59	\$3.94
South County	17,269,137	152,459	2,153,019	12.5%	51,506	-260,507	997,259	346,343	866,929	\$3.08	\$3.56
Class A	35,760,061	743,961	4,279,483	12.0%	505,403	1,423,954	4,286,555	1,306,089	1,569,723	\$3.71	
Class B	34,457,078	693,126	3,953,306	11.5%	174,091	-232,298	2,872,242	12,000	100,000	\$3.25	
Class C	10,372,601	94,759	922,035	8.9%	88,172	150,017	237,371	0	0	\$1.97	
<b>SAN DIEGO TOTALS</b>	<b>80,589,740</b>	<b>1,531,846</b>	<b>9,154,824</b>	<b>11.4%</b>	<b>767,666</b>	<b>1,341,673</b>	<b>7,396,168</b>	<b>1,318,089</b>	<b>1,669,723</b>	<b>\$3.31</b>	<b>\$3.71</b>

\*Rental rates reflect full service asking. \*\*Leasing statistics include renewals.

## KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	SF	TYPE
APEX	Eastgate	Apple	204,000	Expansion
9455 TCD	Eastgate	Undisclosed	160,444	Expansion
Rio San Diego Plaza	Mission Valley	Kaiser Permanente	122,839	Renewal**
fu*sion	Carlsbad	Alphatec Spine	121,541	New
Kilroy Centre Del Mar	Del Mar Heights	Knobbe Martens	47,815	New

## KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
San Diego Tech Center*	Sorrento Mesa	CalSTRS / Alexandria Real Estate Equities	689,925	\$299,927,500 / NA
450 B St.	Downtown	Sumitomo Corporation / LeBeau Realty & Associates	283,786	\$71,000,000 / \$250
Terraces at Copley Point	Kearny Mesa	Prudential / CIM Group	205,725	\$90,400,000 / \$439
9040 & 9050 Friars Rd.	Mission Valley	Wawanesa Insurance / Westbrook Partners	152,944	\$33,919,500 / \$222
CP Two	Del Mar Heights	The Blackstone Group / Swift Real Estate Partners	119,504	\$59,000,000 / \$494

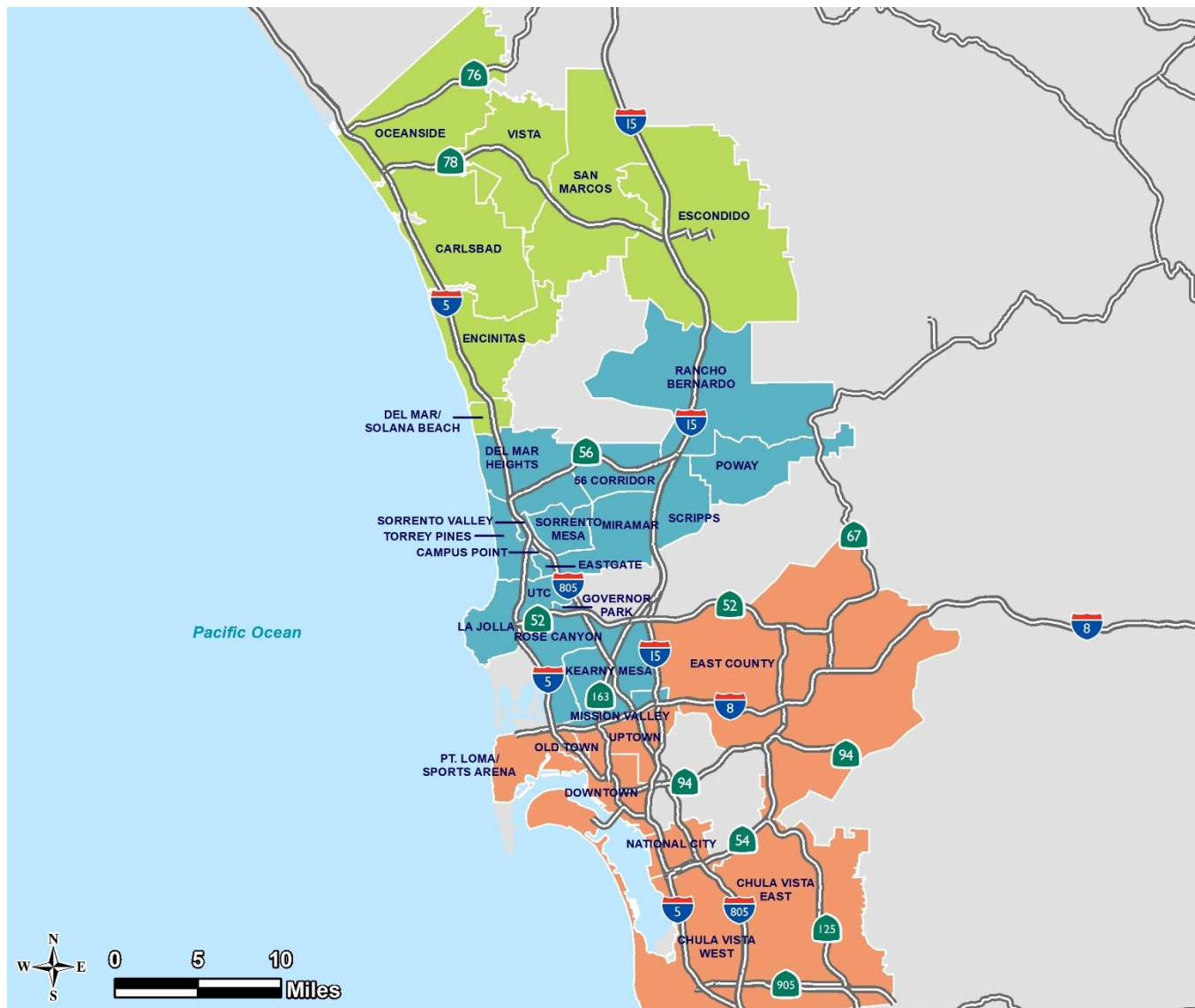
\*Represents acquisition of 50% interest

## KEY CONSTRUCTION COMPLETIONS Q4 2019

PROPERTY	SUBMARKET	MAJOR TENANT	RSF	OWNER
Tower 180	Downtown	N/A	346,343	Hammer Ventures
Alexandra GradLabs™	Campus Point	N/A	92,282	Alexandria Real Estate Equities
Sorrento Summit – NuVasive	Sorrento Mesa	NuVasive	28,000	Healthpeak Properties



## OFFICE SUBMARKETS

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