

# MARKETBEAT SAN DIEGO

Office Q2 2020



**12.6%**

Vacancy Rate

YoY  
Chg



12-Mo.  
Forecast



**-495K**

Net Absorption, SF



**\$3.40**

Asking Rent, PSF



(Direct, All Property Classes)

## ECONOMIC INDICATORS Q2 2020

**1.3M**

San Diego  
Employment

YoY  
Chg



12-Mo.  
Forecast



**15.3%**

San Diego  
Unemployment Rate



**13.0%**

U.S.  
Unemployment Rate



Source: BLS

## ECONOMIC OVERVIEW: Unemployment Remains High as Outbreaks Reverse Reopening Plans

The San Diego employment market was significantly affected by COVID-19 stay-at-home orders, resulting in loss of 195,800 jobs (-13.0%) year-over-year (YOY) through May 2020.<sup>1</sup> Of the 195,800 jobs lost, 91,200 or 47% were in the leisure and hospitality sector. Professional and business services sector lost 3,800 jobs (-1.5% YOY). During the same time period, monthly unemployment rate increased to 15.0% from 2.8% a year ago and is currently 930 basis points (bps) above the 30-year average of 5.7% and 30 bps below the Q2 2020 quarterly average of 15.3%. All employment sectors are expected to shrink at a combined rate of -6.6% in 2020 and grow 0.4% in 2021. San Diego's economy of \$244.9 billion as measured by gross regional product is forecasted to shrink by 5.7% in 2020 and return to growth 1.7% in 2021, below its 10-year average of 3.2%.<sup>2</sup>

The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID [here](#).

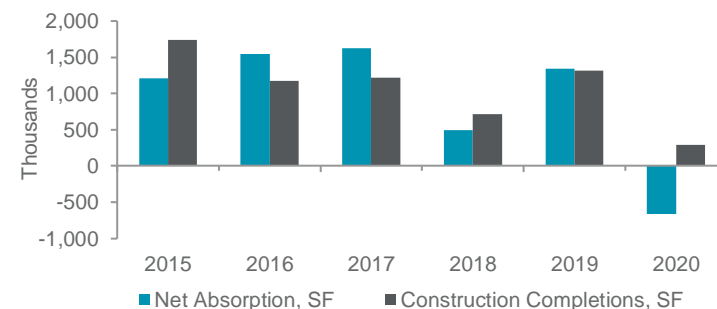
## SUPPLY AND DEMAND: Large Vacancies and Limited Occupancies

At the end of Q2 2020, San Diego's direct office vacancy was 12.6%, an increase of 40 bps from the previous quarter and 120 bps from a year ago. Sublease vacancy increased 60 bps from last quarter and 10 bps YOY. Tenants returned 495,000 square feet (sf) in Q2 2020, the most negative absorption seen since Q2 2009. Year-to-date, tenants have returned 665,000 sf across all submarkets with Kearny Mesa recording the most (-281,500 sf). Ashford University vacated most of their building in Kearny Mesa, adding 248,000 sf back to vacancy. Class A space experienced the most negative absorption, returning 296,300 sf, followed by Class B space (130,000 sf). Though the market experienced significant negative absorption, a number of companies did occupy this quarter, primarily from the biotech industry, including Pacira Pharmaceuticals, LabFellows, BPS Bioscience and Kumquat Bioscience. Previously signed deals for large blocks of space by companies such as Apple, Fate Therapeutics, Wawanesa Insurance and Guild Mortgage will contribute positively to absorption in future quarters.

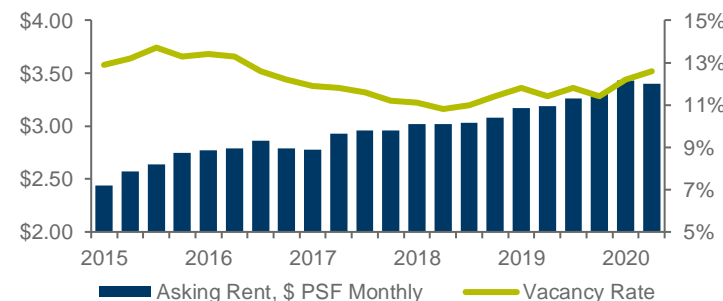
## PRICING: Sticker Prices Decrease Slightly

Countywide asking rent across all classes reached \$3.40 per square foot (psf) on a monthly full-service basis. This metric decreased 0.9% over the last three months but increased 6.6% from where it stood a year ago. Over the past 12 months, Class A

## SPACE DEMAND / DELIVERIES



## DIRECT VACANCY & ASKING RENT





average rent has increased by 3.8% to \$3.78 psf, while the Class B rate has increased by 8.8% to \$3.33 psf, largely benefitting from significant acquisitions and conversions of older product to lab space.

### TENANT TRENDS: Biotech Drives Activity Through the Pandemic

Expectedly, leasing activity diminished significantly in the second quarter. However, the Life Science sector continued moving forward. Life sciences companies, including companies like Cue Health and AnaptysBio, increased their share of activity from 23% in Q1 to 31% in Q2, including five of the ten largest deals signed this quarter. Biotech also comprises several expected occupancies in future quarters, including Fate Therapeutics, Acadia Pharmaceuticals and Mirati Therapeutics. Other companies, are also expected to occupy as county reopens including Northrop Grumman, Day Break Games and Guild Mortgage. Apple has nearly 600,000 sf of leases for existing and under construction product that they are expected to occupy over the next twelve months, with further plans for a major San Diego campus.

### FUTURE INVENTORY: New Projects Target Life Sciences

Of the 22 properties totaling nearly 2.8 million square feet (msf), currently under construction countywide, 37% are pre-leased and 486,000 sf are expected to be delivered in 2020. Compared to the Great Recession, current under construction projects feature higher preleasing rates overall. Nearly 41% or 1.1 msf of inventory currently under construction is located in the Downtown submarket without any pre-leasing. These projects are expected to add significantly to the Downtown vacancy in a near future until they are absorbed. Since the beginning of the year, over 622,000 sf of speculative biotech product has broken ground. Cooley leased 73,776 sf, a full building at The Boardwalk, Healthpeak Properties' newest Class A life science development in Torrey Pines. This quarter, Element Biosciences leased 104,000 sf for a new Building at San Diego Tech Center that will break ground in a near future.

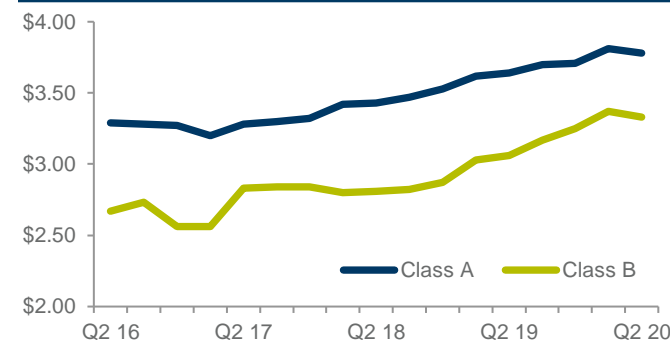
Much of future absorption will come from leases signed for projects currently under construction. In Del Mar Heights, One Paseo is 90% pre-leased and drawing continued interest. Coworking provider, Industrious, has an agreement to operate out of 29,000 sf at the Collection in UTC. In Oceanside, a 100,000-sf built-to-suit 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> GDP as of 2019. Moody's Analytics economy.com 6/2020.

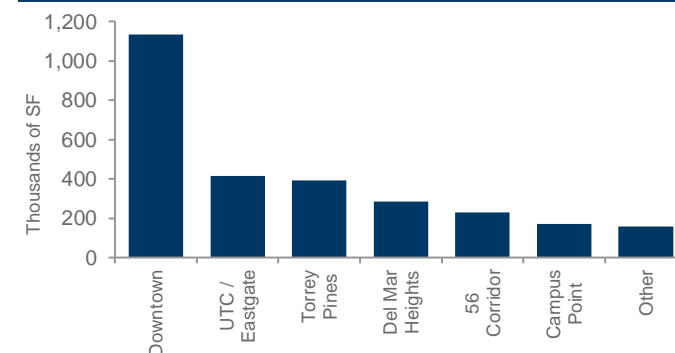
### Outlook

- Rising positivity rates for COVID-19 are delaying reopening plans in California, continuing slow activity through the summer. Tenants are reassessing their footprint based on work-from-home policies of their employees as well as both short and long-term needs working through and after the pandemic. Leasing within the 10,000 to 50,000 sf range will continue to be the main driver of activity, accounting for 43% of total sf in lease obligations set to expire over the next 18 months.
- Active tenant requirements of all sizes remain robust at 4.4 msf over the next 24 months countywide, led by Apple's search for a San Diego campus. While many of these tenants paused their plans due to COVID-19, most of them have returned to exploring the market. Most 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.

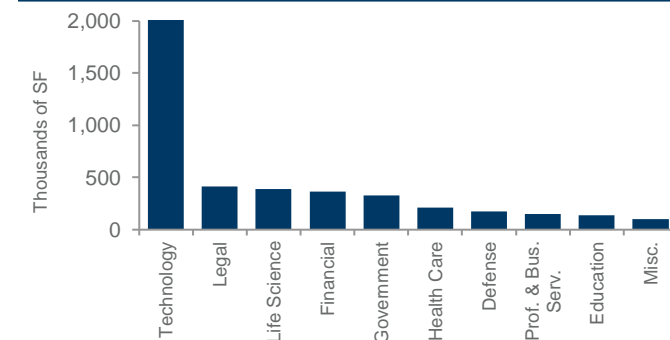
### AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



### 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)	YTD CONSTR COMPLETIONS (SF)	UNDER CNSTR (SF)	DIRECT AVG ASKING RENT (ALL CLASSES)*	DIRECT AVG ASKING RENT (CLASS A)*
North County	11,504,140	35,328	1,801,838	15.7%	-42,807	-123,530	306,154	0	148,000	\$2.73	\$3.13
Central County	52,659,907	585,793	5,919,890	11.5%	-284,425	-347,983	1,563,406	0	1,507,816	\$3.62	\$3.98
South County	17,634,436	125,356	2,622,396	14.9%	-167,347	-193,542	129,214	290,260	1,133,767	\$3.28	\$3.74
Class A	36,423,748	319,012	4,869,538	13.4%	-296,299	-335,607	1,086,409	290,260	2,630,011	\$3.78	
Class B	35,254,459	385,262	4,436,383	12.6%	-129,603	-224,287	872,704	0	159,572	\$3.33	
Class C	10,120,276	42,203	1,038,203	10.3%	-68,677	-105,161	39,661	0	0	\$2.07	
<b>SAN DIEGO TOTALS</b>	<b>81,798,483</b>	<b>746,477</b>	<b>10,344,124</b>	<b>12.6%</b>	<b>-494,579</b>	<b>-665,055</b>	<b>1,998,774</b>	<b>290,260</b>	<b>2,789,583</b>	<b>\$3.40</b>	

\*Rental rates reflect full service asking. \*\*Renewals not included in leasing statistics.

## KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
10300 Campus Point Dr.	Campus Point	Undisclosed	129,356	Renewal*/Expansion
3545 Cray Ct.	Torrey Pines	Mirati Therapeutics	118,255	Renewal*/Expansion
10055 Barnes Canyon Rd.	Sorrento Mesa	Element Biosciences	104,178	New
3010 Science Park Rd.	Torrey Pines	Singular Genomics	76,778	New
10265 Science Center Dr.	Torrey Pines	Cooley, LLP	73,776	New

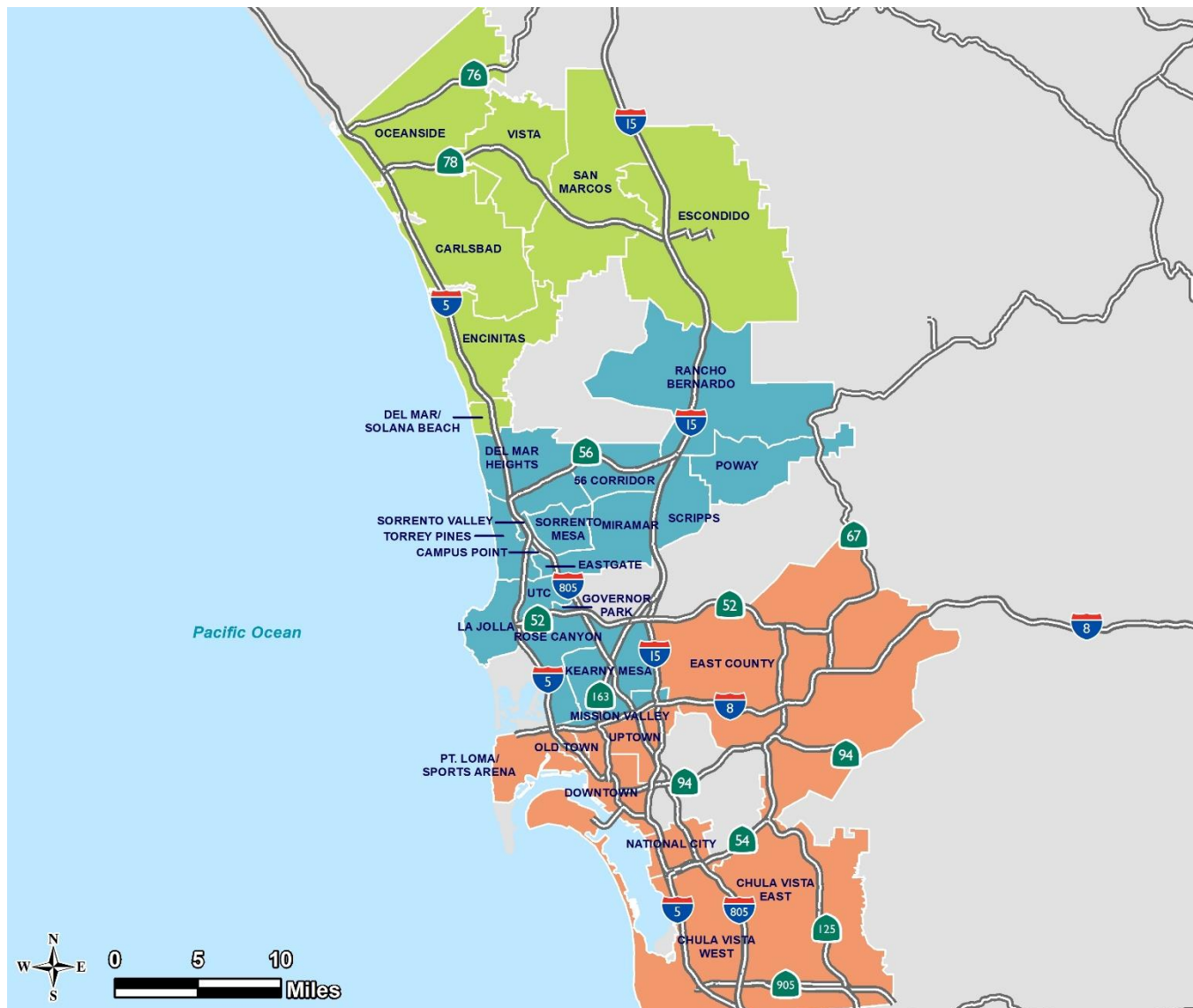
## KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
10770 Wateridge Cir. & 6325 Lusk Blvd.	Sorrento Mesa	Bioscience Properties / Harrison Street Capital	233,570	\$158.5M / \$679
Sorrento Tech Center	Sorrento Mesa	BLT Enterprises / Longfellow Real Estate Partners	93,840	\$39.0M / \$416
Ocean Ridge	Carlsbad	Miller Global / SENTRE, Inc.	75,937	\$28.3M / \$372
4275-4283 El Cajon Blvd. & 4270 43 <sup>rd</sup> St.	Uptown	SDSU Research Foundation / The Casey Brown Company	65,608	\$14.5M / \$221
4555 Executive Dr. (Land Sale)	UTC	Braille Institute of America / Alexandria Real Estate Equities, Inc.	41,475	\$43.0M / NA

## KEY CONSTRUCTION COMPLETIONS YTD 2020

PROPERTY	SUBMARKET	TENANT	SF	OWNER
The Paladion	Downtown	N/A	167,181	Bosa Development
Kettner & Ash	Downtown	SPACES (43,540 sf)	123,079	DivcoWest / Ocean West



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