

# MARKETBEAT SAN DIEGO



Office Q2 2022

	YoY Chg	12-Mo. Forecast
<b>12.3%</b> Vacancy Rate	▼	▼
<b>1.0M</b> Net Absorption, SF	▲	▲
<b>\$3.68</b> Asking Rent, PSF	▲	▲

(Direct, All Property Classes)

## ECONOMIC INDICATORS Q2 2022

	YoY Chg	12-Mo. Forecast
<b>1.5M</b> San Diego Employment	▲	▲
<b>3.7%</b> San Diego Unemployment Rate	▼	▼
<b>3.6%</b> U.S. Unemployment Rate	▼	▼

Source: BLS

## ECONOMIC OVERVIEW

The total nonfarm employment in San Diego grew by 83,900 or +5.9% year-over-year (YOY) between May 2021 through May 2022, with the leisure and hospitality sector accounting for the most significant gains or 36,900 jobs added (+23.3% YOY). During the same time, the monthly unemployment rate decreased from 6.6% last year to 2.7% and is currently 100 basis points (bps) below the quarterly average of 3.7%.<sup>1</sup> All employment sectors are expected to grow at a combined rate of 5.4% (+77,340 jobs) in 2022, while office employment is forecasted to grow by 3.3% (+12,500 jobs) and high-tech employment by 0.2% (+4,880 jobs). The annual unemployment rate is forecasted to decrease from 6.6% in 2021 to 3.8% in 2022 and 3.1% in 2023. San Diego's economy of \$252.3 billion as measured by 2021 gross regional product is forecasted to grow 5.2% in 2022 and 3.3% in 2023, above its 10-year average of 3.1%.<sup>2</sup>

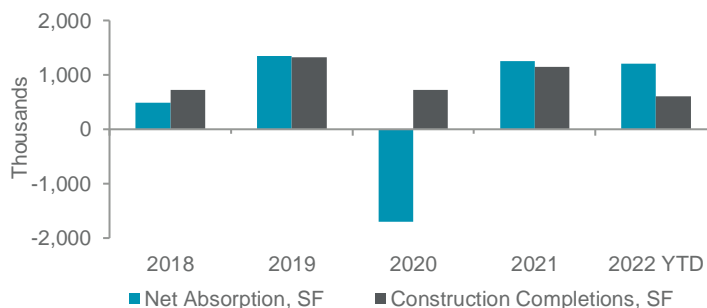
## SUPPLY AND DEMAND

At the end of Q2 2022, San Diego's direct office vacancy was 12.3%, a decrease of 80 bps from the previous quarter and 140 bps from a year ago. Tenants absorbed 1.0 million square feet (sf) in Q2 2022, marking the sixth consecutive quarter of occupancy gains since the beginning of the COVID-19 pandemic. All classes experienced positive absorption, with class A buildings absorbing the most space in Q2 2022 (+629,000 sf), followed by class B buildings (+328,400 sf). Sorrento Mesa recorded the most positive absorption in Q2 2022 (+238,800 sf) thanks to the delivery of a build-to-suit (BTS) for Element Biosciences and the occupancy of several other life sciences tenants, followed by Eastgate (+204,000 sf) entirely from the delivery of a building for Apple and Carlsbad (+123,900 sf). Few submarkets experienced negative absorption this quarter with the largest decrease in occupancy in Downtown (-46,400 sf).

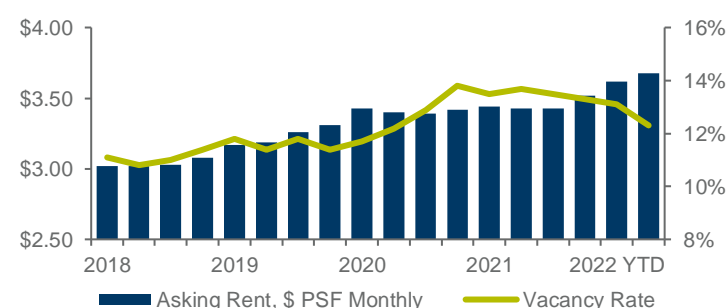
## TENANT TRENDS

Leasing activity remained strong in Q2 2022 at 1.2 msf across 103 deals, excluding renewals, compared to 2.3 msf (146 deals) in Q1 2022 and 1.2 msf (122 deals) in Q2 2021. Sorrento Mesa (23%), Rancho Bernardo (20%) and Carlsbad (10%) accounted for 53% or 637,000 sf of new deals leased in Q2 2022. Life sciences companies like Biolabs and Genalyte in Sorrento Mesa, the continued expansion of Apple in the I-15 Corridor, and a wide variety of mid-sized tenants in North County contributed to tenant activity in these submarkets. Notably, Phase 3 Real Estate's life sciences conversion of the former Thomas Jefferson School of Law building signed their first tenant this quarter, with Native Microbials taking a full floor at the project, a positive sign for the Downtown submarket.

## SPACE DEMAND / DELIVERIES



## DIRECT VACANCY / ASKING RENT



Most of the expected future absorption from previously signed leases will come from the life sciences sector, including tenants like PetDx, Dermtech and Biolabs. Though Apple comprises much of the tenant activity for large blocks of traditional space, other office users, including the State of California and Reef, committed to leases and are expected to occupy in the upcoming quarters.

## PRICING

The countywide average asking rent across all classes rose 1.7% from the previous quarter to \$3.68 per square foot (psf) on a monthly full-service basis and increased +7.3% from a year ago. Over the past 12 months, Class A average rent has increased by 8.2% to \$4.20 psf, while Class B rent has increased by 2.8% to \$3.32 psf. New speculative (SPEC) construction and life sciences conversions of older buildings are expected to push rents higher over the next 12 months.

## FUTURE INVENTORY

Of the 30 properties totaling nearly 4.9 msf, currently under construction countywide, 29% are pre-leased and 158,600 sf (two buildings) are expected to be delivered by the end of 2022. The majority or 75% of inventory, totaling 3.7 msf across 22 buildings, is SPEC with the remaining 25% BTS. Approximately half or 2.6 msf of inventory currently under construction is in the Downtown submarket. Additionally, there are 84 proposed projects, totaling 24.6 msf, across all classes. Many of these are life sciences developments expected to break ground in the next year, including BTS projects for multiple tenants at One Alexandria Square in Torrey Pines and a BTS for Bristol Myers Squibb in Campus Point.

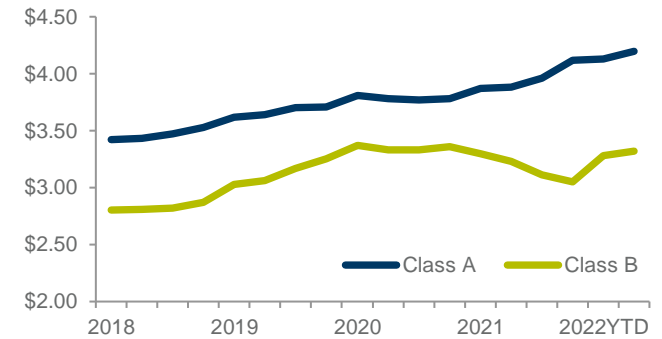
Developers continue to acquire projects for potential conversion and redevelopment, such as Breakthrough Properties' acquisitions of Governor Pointe in Governor and the industrial multi-tenant project Environmental Plaza in Sorrento Valley. Life sciences represent most of the new development as developers look at existing office sites for opportunities, pushing existing tenancy to other submarkets, which is anticipated to increase tenant activity throughout the next 12-15 months. The traditional office remains just a quarter of new development, including La Jolla Commons III in UTC, 16707 Via Del Campo in Rancho Bernardo and the Sandbox in Solana Beach.

Sources: <sup>1</sup>[www.bls.gov](http://www.bls.gov) <sup>2</sup>Moody's Analytics [economy.com](http://economy.com) 6/2022.

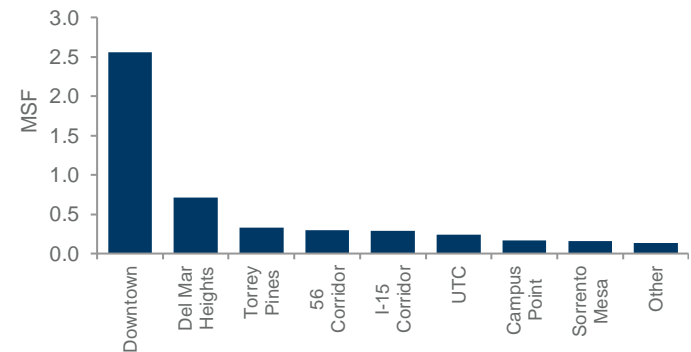
## OUTLOOK

- Expanding COVID-19 vaccine eligibility in California and throughout the country will result in increased activity throughout the year; however, tenants are reassessing their real estate footprint based on work-from-home policies as well as assessing 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 48% of total sf in lease obligations set to expire over the next 18 months.
- Active tenant requirements of all sizes remain robust at 4.0 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, a majority have reactivated their requirements or begun exploring the market. While not all current tenants in the market will transact in the short term, these levels provide a barometer for leasing activity in subsequent quarters.

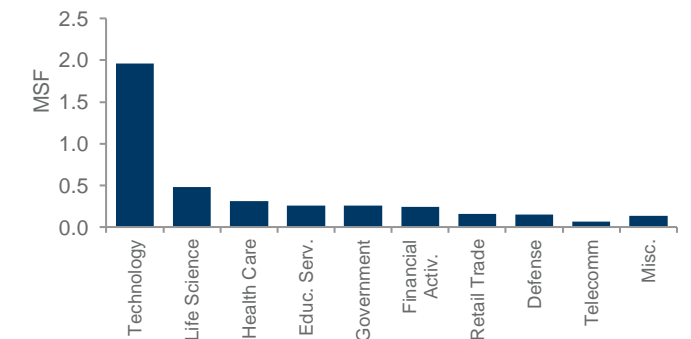
## AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



## UNDER CONSTRUCTION INVENTORY 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	11,681,548	84,212	1,403,432	12.0%	167,396	165,834	314,941	8,140	62,177	\$2.88	\$3.27
Central County	53,841,154	526,550	5,550,896	10.3%	819,305	1,010,509	3,048,150	591,140	2,279,688	\$3.95	\$4.63
South County	17,962,254	142,204	3,292,934	18.3%	44,490	32,899	121,126	0	2,558,500	\$3.55	\$4.00
Class A	38,843,727	411,455	5,566,957	14.3%	628,962	691,551	2,724,682	599,280	4,900,365	\$4.20	
Class B	34,849,136	321,727	3,776,461	10.8%	328,443	353,729	717,275	0	0	\$3.32	
Class C	9,792,093	19,784	903,844	9.2%	73,786	163,962	42,260	0	0	\$2.14	
<b>SAN DIEGO TOTALS</b>	<b>83,484,956</b>	<b>752,966</b>	<b>10,247,262</b>	<b>12.3%</b>	<b>1,031,191</b>	<b>1,209,242</b>	<b>3,484,217</b>	<b>599,280</b>	<b>4,900,365</b>	<b>\$3.68</b>	

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

## KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
The Point	Rancho Bernardo	Apple	144,746	New
Northridge Summit	Scripps	Apple	129,916	Renewal**
Rancho Vista Corporate Center	Rancho Bernardo	Apple	42,800	New
Biovista	Sorrento Mesa	Biolabs	42,074	New
1155 Island Ave.	Downtown	Native Microbials	27,000	New

## KEY SALES TRANSACTIONS Q2 2022

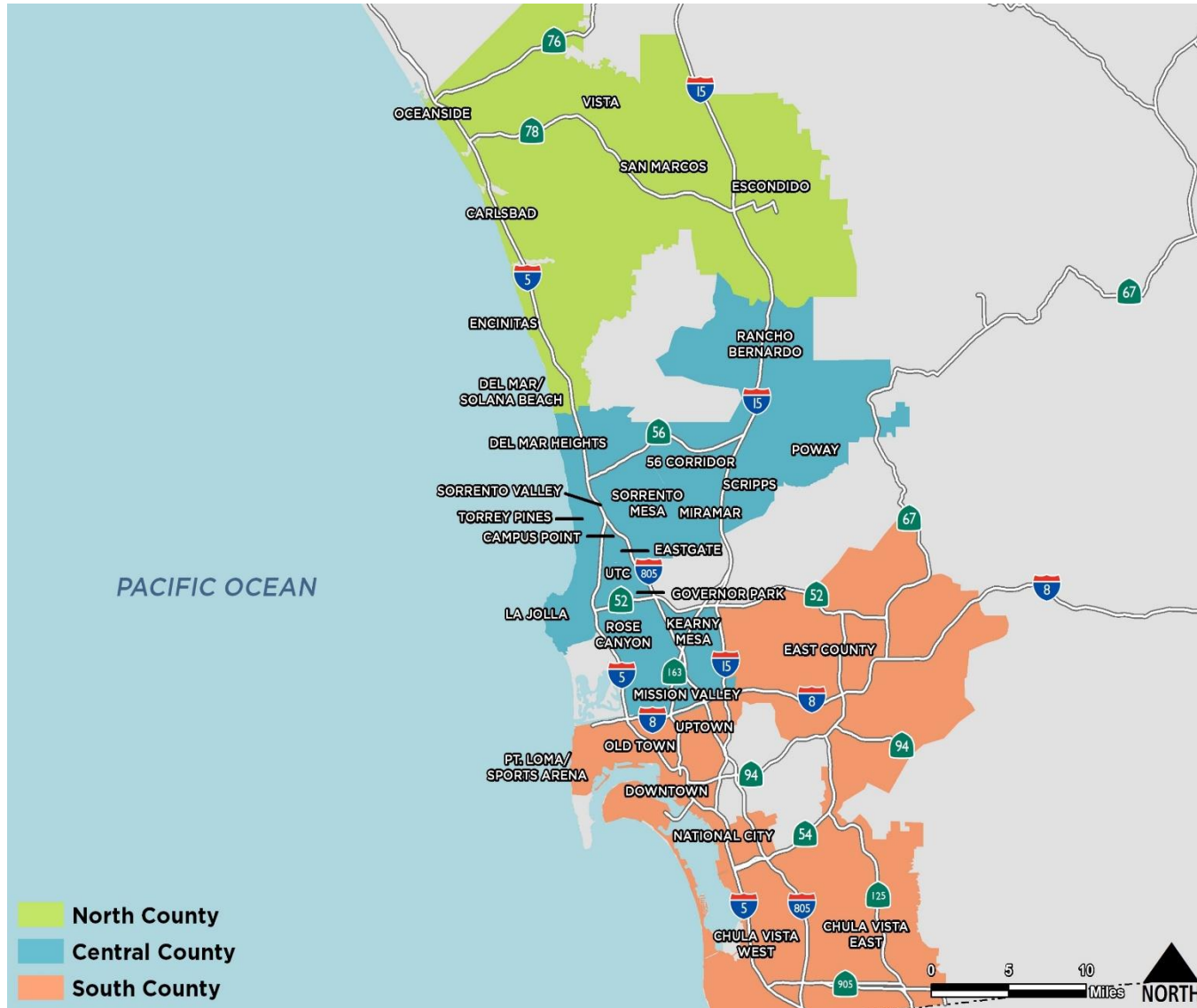
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Governor Pointe	Governor	Manulife Investments & UCSD / Breakthrough Properties	212,201	\$145.0M / \$683
Northridge Summit	Scripps	Davlyn Investments / Divco West	129,916	\$76.1M / \$586
Willow Creek Corporate Center	Scripps	Cypress Office & Harbert Management / Sason Organization & Leste Group	121,496	\$25.3M / \$208
Fairway Corporate Center South	Carlsbad	Regent Properties / Menlo Equities	115,000	\$42.0M / \$365
The Plaza at 505	Del Mar / Solana Beach	Beckman Properties / Lansing Companies	22,736	\$18.0M / \$792

## KEY CONSTRUCTION COMPLETIONS 2022YTD

PROPERTY	SUBMARKET	TENANT	SF	OWNER
APEX	Eastgate	Apple	204,000	BioMed Realty
Alexandria Tech Center	Sorrento Mesa	Element Biosciences	195,435	Alexandria Real Estate Equities
The Boardwalk	Torrey Pines	Cooley LLP, Zentalis Pharmaceuticals, Arcturus	191,705	Healthpeak Properties



OFFICE SUBMARKETS



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