

## Key Takeaways

- San Diego County has recorded a fourth consecutive quarter of positive net absorption (+96,881 SF), bringing total demand to +780,997 SF over the last twelve months.
- Countywide overall vacancy increased 5 basis points (BPS) in Q1, leaving vacancy relatively unchanged at 13.42%.
- Office inventory in certain submarkets – notable Del Mar Heights/ Carmel Valley – continues to contract as office projects continue to be converted or renovated into life science/wet lab space.
- Asking rental rates continue to increase, reaching countywide “full service” average of \$3.05/SF across all classes and \$3.62/SF for Class A space. This equated to year-over-year (YoY) increase of 4.5% and 4.9%, respectively.



San Diego County  
Office  
**22Q1**



## San Diego office market poised for positive demand in 2022

From mid-2021 and into the first quarter of 2022, the dual pandemic surges brought on by two new COVID variants have appeared to subside. Long discussed and planned return-to-work policies appear to be underway – or will be soon – for many companies who have seen some or all of their employees working from home. The effects of the pandemic reduced overall demand by nearly 2.3 million SF of negative absorption in the five-quarter period from Q1 2020 through Q1 2021. The office market has slowly been recovering over the last four quarters from Q2 2021 through Q1 2022, increasing demand by 780,997 SF of positive absorption, effectively restoring over a third of the demand that was lost. While Q1 has had a slow start, it is expected to continue this trend throughout the remainder of the year. The traditional office inventory continues to contract in core markets as life science owners and developers are still acquiring and converting suitable properties into life science/wet lab buildings.

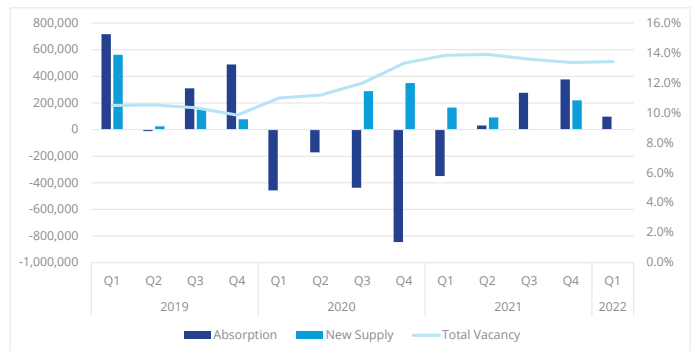
## Market Indicators



## Historic Comparison

	21Q1	21Q4	22Q1
<b>Total Inventory (in Thousands of SF)</b>	85,298.0	85,609.6	84,013.8
<b>New Supply (in Thousands of SF)</b>	165.0	220.0	0.0
<b>Net Absorption (in Thousands of SF)</b>	(349.1)	376.5	96.9
<b>Overall Vacancy</b>	13.85%	13.37%	13.42%
<b>Under Construction (in Thousands of SF)</b>	1,855.2	1,456.5	1,227.3
<b>Overall Asking Lease Rates (FSG)</b>	\$2.92	\$3.02	\$3.05

## Historical Market Trends



The office sector was the hardest hit of all commercial real estate categories during the COVID pandemic that began in early-2020. By mid-2021, vacancy peaked at 13.91%, adding 405 basis points (BPS) of vacancy in just a year. Steady demand has allowed the office sector to recover slowly since then, potentially dropping vacancy just below 13% by year-end. Construction deliveries this year are expected to be 483,000 SF, which is less than the annual average of 516,000 SF completed over the past decade. Therefore, the office sector has no significant risk of being overbuilt which should bolster a continued steady decrease in vacancy.

## Recent Transactions



**Lease**  
4575 La Jolla Village Dr  
UTC | 94k SF



**Lease**  
11455 El Camino Real  
Del Mar Hts/Carmel Vly | 24k SF



**Lease**  
9868 Scranton Rd  
Sorrento Mesa | 16k SF



**Sale**  
The Pinnacle  
Rancho Bernardo | \$443/SF



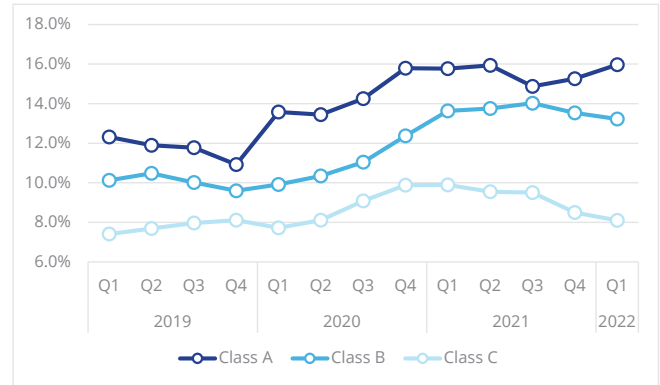
**Sale**  
Sorrento Heights  
Sorrento Mesa | \$308/SF



**Sale**  
Centerpoint  
Mission Valley | \$236/SF

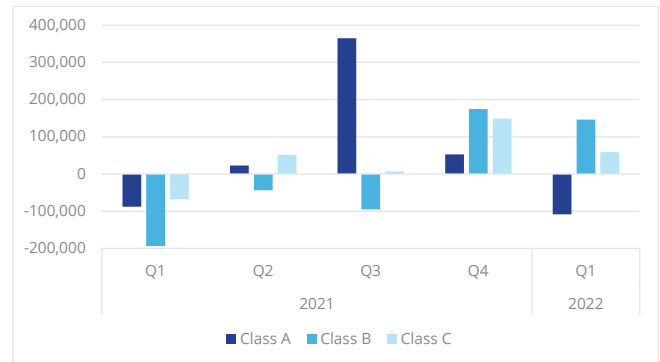
## Vacancy

Countywide office vacancy rate across all classes stood at 13.42% at the end of Q1. Class A vacancy increased by 70 BPS to 15.97% whereas Class B decreased to 13.22% (-32 BPS) and Class C dropped to 8.10% (-40 BPS). While Class A has been generally in the 15%-16% range over last year-and-a-half, the average asking rents have continued to increase by around 6.2% over the same period. In fact, most of the rent growth has been in Class A space even as vacancies have been higher than the other classes.



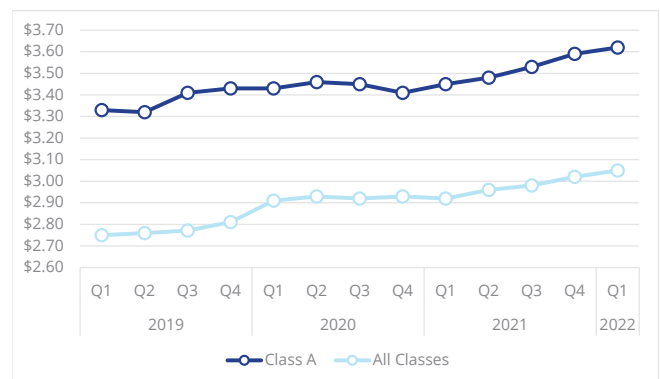
## Net Absorption

Countywide office net absorption totaled +96,881 SF in Q1. While Class A space saw a dip in demand (-108,458 SF), Class B space recorded +146,291 SF. Most of the decrease in Class A demand can be attributed to General Atomics and Northrop Grumman vacating a combined 232,000 SF in Rancho Bernardo. With the exception of Rancho Bernardo and Kearny Mesa, all of the core office markets recorded positive net absorption.



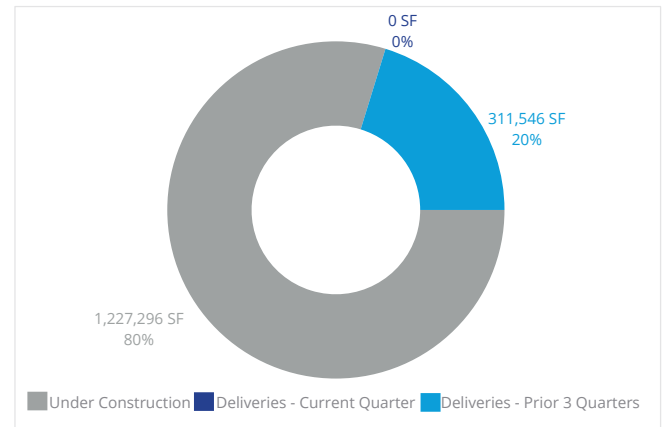
## Rental Rates

Countywide average asking rental rates have continued to trend upward over the last five quarters. The countywide average asking rental rate across all classes increased by \$0.03 during the quarter to reach \$3.05/SF full service. The Class A average increased \$0.03 to reach \$3.62/SF. Rents are expected to continue their increasing trends throughout 2022 even as demand continues to be modest.



## Construction

Office development continues to be strong with nearly 1.3 million SF is currently under construction. Only 6% of the space has been reported to be preleased as of the end of the quarter. While nothing was completed in Q1, nearly 1 million SF is expected to be completed this year and in 2023. There is a proposed future supply of over 8.2 million SF, but likely a small fraction of that will commence construction unless demand starts to get closer to pre-pandemic levels and vacancies steadily fall.



## Recent & Near Future Deliveries

*Partial List*

Submarket	Project / Address	Class	Total SF	Availability	Developer	Status
Downtown	20/6 - Bldg 2 450 B St	A	91,546	100%	LeBeau Realty	Completed Q2 2021
Downtown	2100 Kettner 2100 Kettner Blvd	A	220,000	100%	Kilroy Realty	Completed Q4 2021
UTC	Apex 9775 Towne Centre Dr	A	204,000	0% Leased to Apple	BioMed Realty / The Blackstone Group	Under Construction Est. Q2 2022
Torrey Pines	The Boardwalk 10265 Science Center Dr	A	74,000	0% Leased to Cooley LLP	Healthpeak Properties	Under Construction Est. Q2 2022
Downtown	The Campus at Horton - Bldg 200 324 Horton Plaza (Creative Office)	A	205,000	100%	Stockdale Capital	Under Construction Est. Q3 2022
UTC	La Jolla Commons Tower III 4727 Executive Dr	A	212,851	100%	American Assets Trust	Under Construction Est. Q2 2023
Solana Beach	Sandbox NWC Highway 101 & Dahlia Dr	B	54,845	100%	Zephyr Partners	Under Construction Est. Q3 2023
Downtown	Jefferson Makers Quarter - Block A 1508 15th St	A	206,600	100%	R&V Management	Under Construction Est. Q4 2023
Downtown	Courthouse Commons / WEST 1011 Union St	A	270,000	100%	Holland Partner Group	Under Construction Est. Q1 2024

Submarket/ Class	Total Inventory SF	Direct Vacancy Rate	Sublease Vacancy Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (FSG)
<b>Downtown / CBD</b>										
A	7,642,474	25.24%	0.70%	25.95%	26.86%	56,136	56,136	681,600	0	\$3.26
B	2,833,230	24.02%	0.04%	24.06%	24.85%	22,492	22,492	0	0	\$2.53
C	435,440	35.53%	0.00%	35.53%	29.67%	(25,511)	(25,511)	0	0	\$2.39
<b>TOTAL</b>	<b>10,911,144</b>	<b>25.34%</b>	<b>0.50%</b>	<b>25.84%</b>	<b>26.45%</b>	<b>53,117</b>	<b>53,117</b>	<b>681,600</b>	<b>0</b>	<b>\$2.92</b>
<b>Suburban</b>										
A	26,098,374	11.98%	1.07%	13.05%	12.04%	(164,594)	(164,594)	490,851	0	\$3.71
B	32,526,015	11.54%	0.74%	12.28%	12.57%	123,799	123,799	54,845	0	\$2.81
C	14,478,287	7.02%	0.26%	7.28%	7.86%	84,559	84,559	0	0	\$2.20
<b>TOTAL</b>	<b>73,102,676</b>	<b>10.80%</b>	<b>0.76%</b>	<b>11.56%</b>	<b>11.46%</b>	<b>43,764</b>	<b>43,764</b>	<b>545,696</b>	<b>0</b>	<b>\$3.07</b>
<b>Total</b>										
A	33,740,848	14.98%	0.99%	15.97%	15.27%	(108,458)	(108,458)	1,172,451	0	\$3.62
B	35,359,245	12.54%	0.69%	13.22%	13.54%	146,291	146,291	54,845	0	\$2.78
C	14,913,727	7.85%	0.25%	8.10%	8.50%	59,048	59,048	0	0	\$2.22
<b>TOTAL</b>	<b>84,013,820</b>	<b>12.69%</b>	<b>0.73%</b>	<b>13.42%</b>	<b>13.37%</b>	<b>96,881</b>	<b>96,881</b>	<b>1,227,296</b>	<b>0</b>	<b>\$3.05</b>
<b>Suburban Markets by Class</b>										
<b>Central San Diego</b>										
A	5,215,884	18.67%	1.15%	19.82%	20.49%	34,764	34,764	0	0	\$3.34
B	10,166,752	12.94%	0.30%	13.24%	13.14%	(9,896)	(9,896)	0	0	\$2.65
C	6,102,543	6.77%	0.21%	6.98%	6.97%	(492)	(492)	0	0	\$2.15
<b>TOTAL</b>	<b>21,485,179</b>	<b>12.58%</b>	<b>0.48%</b>	<b>13.06%</b>	<b>13.17%</b>	<b>24,376</b>	<b>24,376</b>	<b>0</b>	<b>0</b>	<b>\$2.73</b>
<b>North City</b>										
A	13,002,069	7.91%	1.20%	9.12%	9.00%	44,949	44,949	490,851	0	\$4.37
B	8,014,369	8.84%	1.44%	10.29%	10.57%	57,960	57,960	0	0	\$3.09
C	2,261,720	9.48%	0.67%	10.15%	11.88%	39,199	39,199	0	0	\$2.33
<b>TOTAL</b>	<b>23,278,158</b>	<b>8.39%</b>	<b>1.23%</b>	<b>9.62%</b>	<b>9.79%</b>	<b>142,108</b>	<b>142,108</b>	<b>490,851</b>	<b>0</b>	<b>\$3.72</b>
<b>North County</b>										
A	3,830,624	16.01%	0.75%	16.76%	15.90%	(32,687)	(32,687)	0	0	\$3.00
B	6,924,164	13.20%	1.15%	14.35%	16.02%	85,463	85,463	54,845	0	\$2.81
C	2,611,032	7.91%	0.15%	8.06%	9.69%	42,539	42,539	0	0	\$2.19
<b>TOTAL</b>	<b>13,365,820</b>	<b>12.97%</b>	<b>0.84%</b>	<b>13.81%</b>	<b>14.75%</b>	<b>95,315</b>	<b>95,315</b>	<b>54,845</b>	<b>0</b>	<b>\$2.77</b>
<b>I-15 Corridor</b>										
A	3,487,522	13.62%	0.95%	14.57%	8.72%	(204,025)	(204,025)	0	0	\$3.31
B	4,951,804	13.60%	0.26%	13.86%	12.58%	(39,811)	(39,811)	0	0	\$2.68
C	888,033	6.19%	0.69%	6.88%	5.44%	(12,810)	(12,810)	0	0	\$2.09
<b>TOTAL</b>	<b>9,327,359</b>	<b>12.90%</b>	<b>0.56%</b>	<b>13.46%</b>	<b>10.50%</b>	<b>(256,646)</b>	<b>(256,646)</b>	<b>0</b>	<b>0</b>	<b>\$2.96</b>
<b>South County</b>										
A	353,926	6.62%	0.00%	6.62%	6.61%	(40)	(40)	0	0	\$2.78
B	1,564,632	5.66%	0.00%	5.66%	7.40%	27,172	27,172	0	0	\$2.60
C	740,632	4.34%	0.00%	4.34%	5.49%	8,483	8,483	0	0	\$2.26
<b>TOTAL</b>	<b>2,659,190</b>	<b>5.42%</b>	<b>0.00%</b>	<b>5.42%</b>	<b>6.76%</b>	<b>35,615</b>	<b>35,615</b>	<b>0</b>	<b>0</b>	<b>\$2.61</b>
<b>East County</b>										
A	208,349	6.00%	0.33%	6.33%	2.71%	(7,555)	(7,555)	0	0	\$2.68
B	904,294	5.78%	0.31%	6.09%	6.41%	2,911	2,911	0	0	\$2.42
C	1,874,327	5.04%	0.00%	5.04%	5.44%	7,640	7,640	0	0	\$2.30
<b>TOTAL</b>	<b>2,986,970</b>	<b>5.33%</b>	<b>0.12%</b>	<b>5.45%</b>	<b>5.55%</b>	<b>2,996</b>	<b>2,996</b>	<b>0</b>	<b>0</b>	<b>\$2.37</b>

# San Diego County | 22Q1 | Office | Market Statistics

Suburban Markets & Submarkets

Submarket/ Class	Total Inventory SF	Direct Vacancy Rate	Sublease Vacancy Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (FSG)
<b>Downtown / CBD</b>										
<b>TOTAL</b>	10,911,144	25.34%	0.50%	25.84%	26.45%	53,117	53,117	681,600	0	\$2.92
<b>Central San Diego</b>										
<b>Kearny Mesa</b>	9,098,450	14.80%	0.57%	15.37%	14.85%	(47,435)	(47,435)	0	0	\$2.58
<b>Mission Gorge</b>	251,840	2.00%	0.00%	2.00%	1.87%	(323)	(323)	0	0	\$2.34
<b>Mission Valley</b>	7,088,990	13.75%	0.62%	14.37%	14.95%	40,868	40,868	0	0	\$2.94
<b>Old Town/Pt Loma</b>	2,245,617	5.94%	0.25%	6.19%	6.64%	10,095	10,095	0	0	\$2.60
<b>Rose Cyn/Morena</b>	1,113,883	6.14%	0.21%	6.35%	7.50%	12,786	12,786	0	0	\$2.25
<b>Uptown</b>	1,686,399	10.33%	0.00%	10.33%	10.83%	8,385	8,385	0	0	\$2.63
<b>TOTAL</b>	21,485,179	12.58%	0.48%	13.06%	13.17%	24,376	24,376	0	0	\$2.73
<b>North City</b>										
<b>Del Mar Hts/Carmel Vy</b>	4,020,442	11.37%	0.70%	12.07%	11.09%	68,031	68,031	0	0	\$4.54
<b>Governor Park</b>	908,414	12.99%	0.00%	12.99%	13.24%	2,327	2,327	0	0	\$2.72
<b>La Jolla</b>	1,135,508	16.36%	1.01%	17.37%	15.98%	(2,057)	(2,057)	0	0	\$3.30
<b>Miramar</b>	1,365,052	9.84%	0.01%	9.85%	11.66%	24,475	24,475	0	0	\$1.97
<b>Sorrento Mesa</b>	8,079,586	5.44%	1.31%	6.75%	6.77%	1,559	1,559	0	0	\$3.33
<b>Sorrento Valley</b>	487,869	14.92%	0.00%	14.92%	19.11%	20,466	20,466	0	0	\$2.21
<b>Torrey Pines</b>	827,115	6.36%	4.94%	11.30%	7.00%	(35,609)	(35,609)	74,000	0	\$4.76
<b>UTC</b>	6,454,172	7.62%	1.56%	9.18%	10.15%	62,916	62,916	416,851	0	\$4.06
<b>TOTAL</b>	23,278,158	8.39%	1.23%	9.62%	9.79%	142,108	142,108	490,851	0	\$3.72
<b>North County</b>										
<b>Carlsbad</b>	6,862,070	15.50%	0.76%	16.25%	17.88%	82,018	82,018	0	0	\$2.72
<b>Escondido</b>	1,640,963	9.96%	0.17%	10.13%	10.05%	(1,344)	(1,344)	0	0	\$2.03
<b>I-5 Corridor</b>	1,651,516	7.86%	0.63%	8.48%	10.04%	25,625	25,625	54,845	0	\$3.96
<b>Oceanside</b>	1,196,728	5.62%	1.55%	7.17%	5.86%	(15,649)	(15,649)	0	0	\$2.20
<b>San Marcos</b>	1,118,376	9.76%	0.57%	10.33%	10.97%	7,073	7,073	0	0	\$2.27
<b>Vista</b>	896,167	22.41%	2.47%	24.88%	24.61%	(2,408)	(2,408)	0	0	\$2.28
<b>TOTAL</b>	13,365,820	12.97%	0.84%	13.81%	14.75%	95,315	95,315	54,845	0	\$2.77
<b>I-15 Corridor</b>										
<b>Poway</b>	1,177,227	2.51%	0.00%	2.51%	3.39%	10,264	10,264	0	0	\$2.25
<b>Rancho Bernardo</b>	5,909,454	13.75%	0.81%	14.56%	10.53%	(238,339)	(238,339)	0	0	\$3.07
<b>Scripps Ranch</b>	2,240,678	16.12%	0.19%	16.31%	13.86%	(28,571)	(28,571)	0	0	\$2.88
<b>TOTAL</b>	9,327,359	12.90%	0.56%	13.46%	10.50%	(256,646)	(256,646)	0	0	\$2.96
<b>South County</b>										
<b>TOTAL</b>	2,659,190	5.42%	0.00%	5.42%	6.76%	35,615	35,615	0	0	\$2.61
<b>East County</b>										
<b>TOTAL</b>	2,986,970	5.33%	0.12%	5.45%	5.55%	2,996	2,996	0	0	\$2.37

Note: The Del Mar Heights/Carmel Valley office inventory decreased by 1.42 million SF in Q1 since 14 existing office buildings have been reclassified as life science/wet lab buildings or are being renovated into that classification. This category appears as flex property classification of industrial market inventory.

## FOR MORE INFORMATION

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