

Key Takeaways

- After five consecutive quarters of negative net absorption, the San Diego County office market moved into positive territory with nearly 16,000 SF of net absorption in Q2 2021.
- Countywide overall vacancy increased 5 basis points (BPS) in Q2 to reach 14.24%. While overall absorption was positive, it was not enough to counter nearly 73,000 SF of vacant new supply.
- Recovery from the COVID-19 pandemic led to some relief in sublease vacancy. As of Q2, sublease vacancy dipped 21 BPS down to 1.13% after topping 1.34% for the last two quarters.
- Increased demand for life science space has been bolstering the conversion of existing office space, which will mitigate any long-term vacancy trend over the next few years.



San Diego County Office 21Q2



San Diego office market begins steady post-COVID recovery

As the COVID-19 pandemic subsides and vaccinations levels increase in San Diego County, businesses have reopened with minimal restrictions. Many office tenants are now implementing plans to bring back their workforce – at least partially – to the office in the late-summer/early-fall. This will allow the office market to continue stabilizing and recovering throughout the year and into next year, providing increased space demand and rising rental rates. In Q2, average asking rental rates were beginning to rise. Additionally, the amount of space under construction has reached pre-2009 levels.

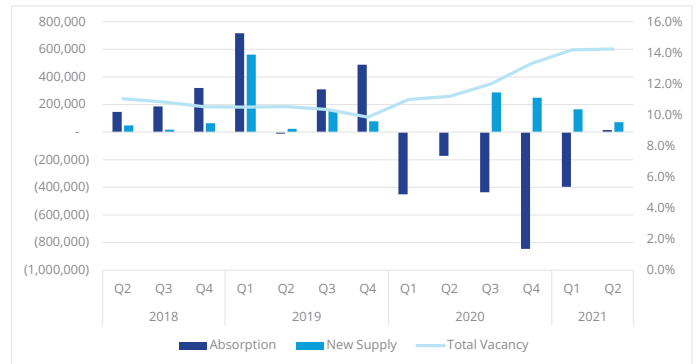
Market Indicators



Historic Comparison

	20Q2	21Q1	21Q2
Total Inventory (in Thousands of SF)	86,432.3	85,885.5	85,958.5
New Supply (in Thousands of SF)	0.0	165.0	73.0
Net Absorption (in Thousands of SF)	(171.7)	(396.2)	15.7
Overall Vacancy	11.19%	14.19%	14.24%
Under Construction (in Thousands of SF)	2,362.0	1,755.2	2,074.2
Overall Asking Lease Rates (NNN)	\$2.93	\$2.92	\$2.96

Historical Market Trends



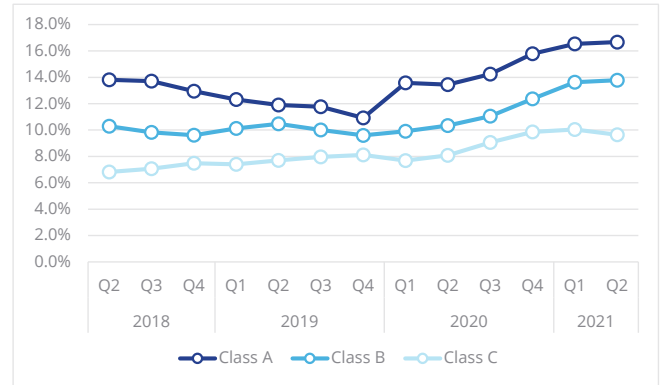
Five consecutive quarters of negative net absorption totaling 2.3 million SF has caused vacancy to rise from 9.86% in Q4 2019 to 14.19% in Q1 2021. The market in Q2 remained generally level with 16,000 SF of positive net absorption and 73,000 SF of net supply delivered,

Recent Transactions

 Lease 8620 Spectrum Center Blvd Kearny Mesa 40k SF	 Lease 350 10th Ave Downtown 36k SF	 Lease 2365 Northside Dr Mission Valley 33k SF	 Sale Summit Pointe Scripps Ranch \$466/SF	 Sale Pacific Plaza at Torrey Hills Carmel Valley \$565/SF	 Sale Emme's Portfolio (4 bldgs) Downtown \$275/SF
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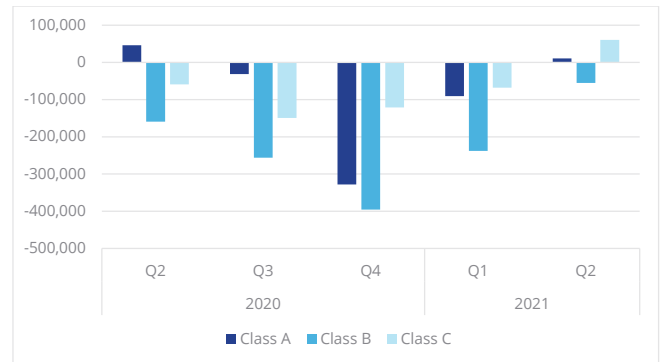
Vacancy

Countywide office vacancy rate across all classes stood at 14.24% at the end of Q2. Class A vacancy increased slightly, and now stands at 16.67% (+0.14%), followed by Class B with 13.78% (+0.15%). Class C dropped by 40 BPS to stand at 9.64%. With a 25.48% vacancy rate, Downtown San Diego/CBD has the highest vacancy of all the core office submarkets. The Class A and B rates Downtown stood at 26.02% and 23.91%, respectively. The combined vacancy rate for Suburban markets was 12.63% with Class A (14.12%) and Class B (12.93%) vacancy rates slightly higher.



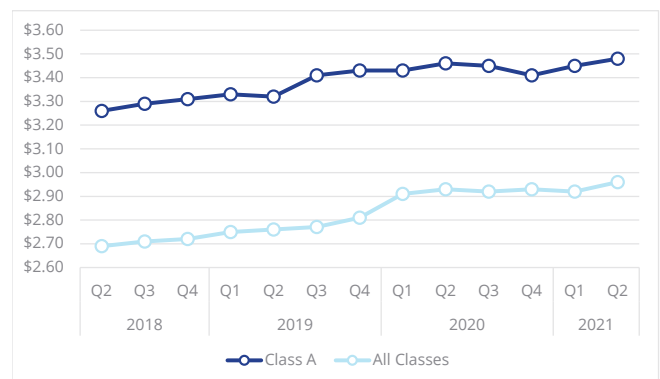
Net Absorption

The prior three quarters has been marked by negative absorption in all three office classes. The early stages of the pandemic recovery have turned around demand and yielded 16,000 SF of positive absorption in Q2. Class A (+10,000 SF) and Class C (+60,000) space added to overall demand while Class B (-55,000 SF) continues to drop, albeit at a much lower level. Class B space has seen the largest drop in demand over past five quarters, giving back nearly 1.1 million SF back to the market. Over the following quarters, we can expect to see all three classes to post positive net absorption.



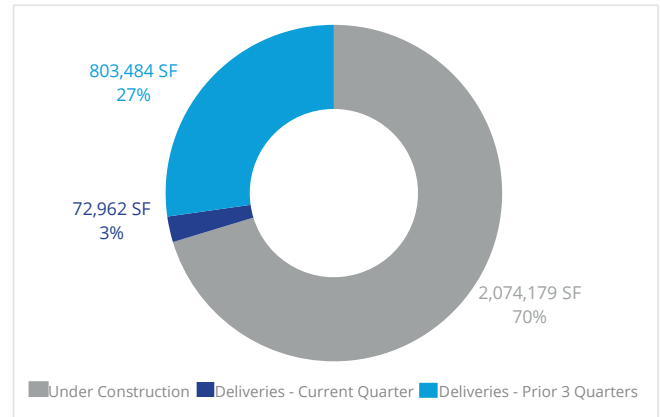
Rental Rates

Countywide average asking rental rates are beginning to rise after a year of relatively flat rates. The countywide average asking rental rate across all classes increased by \$0.04 during the quarter to reach \$2.96/SF. The Class A average increased \$0.03 to reach \$3.48/SF. Even with the challenges of increased vacancies and diminished demand in 2020, rental rates still managed to achieve small but measurable year-over-year increases in rent across all classes (+0.6%) and Class A space (1.0%).



Construction

Office construction continues to be strong countywide. Approximately 876,000 SF was delivered in the past year (projects listed below) with an additional 2.1 million SF currently under construction. 773,000 SF of the space under construction is expected to be completed by year-end for a total of 1.0 million SF completed in 2021 – the most active year for office development since 2015. Even as more space continues to be built, the office market is challenged by a slowly diminishing overall inventory as some of the base gets converted into wet lab/life science space – especially in the North City submarkets.



Recent & Near Future Deliveries

Partial List

Submarket	Project / Address	Class	Total SF	Availability	Developer	Status
Carmel Valley	One Paseo 12830 & 12860 El Camino Real	A	288,484	7.5%	Kilroy Realty	Completed Q3 2020
Kearny Mesa	Cubic HQ 9333 Balboa Ave	A	250,000	0% Build-To-Suit	Cubic Corporation	Completed Q4 2020
Oceanside	County of San Diego 3708 Ocean Ranch Blvd	B	100,000	0% Leased to County of San Diego	Hamann Companies	Completed Q4 2020
UTC	9455 TCD 9455 Towne Centre Dr	A	165,000	0% Leased to Apple	Kilroy Realty	Completed Q1 2021
Downtown	20/6 450 B St	A	72,962	100%	LeBeau Realty	Completed Q2 2021
Downtown	2100 Kettner 2100 Kettner Blvd	A	219,000	100%	Kilroy Realty	Under Construction Est. Q3 2021
Carmel Valley	Aperture Del Mar Carmel Valley Rd	A	228,662	100%	Lincoln Property Company	Under Construction Est. Q3 2021
UTC	Apex 9775 Towne Centre Dr	A	204,000	0% Leased to Apple	BioMed Realty / The Blackstone Group	Under Construction Est. Q4 2021
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 324 Horton Plaza	A	750,000	100%	Stockdale Capital Partners	Under Construction Est. Q3 2022

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)
Downtown / CBD										
A	7,555,627	24.21%	1.81%	26.02%	25.66%	26,621	(97,568)	1,446,093	72,962	\$3.15
B	2,789,933	23.85%	0.06%	23.91%	23.11%	(22,252)	(51,731)	0	0	\$2.68
C	432,961	26.27%	0.00%	26.27%	28.07%	7,792	12,393	0	0	\$2.36
TOTAL	10,778,521	24.20%	1.28%	25.48%	25.09%	12,161	(136,906)	1,446,093	72,962	\$2.90
Suburban										
A	27,633,676	12.71%	1.41%	14.12%	14.06%	(16,132)	17,382	628,086	165,000	\$3.53
B	33,019,166	11.75%	1.18%	12.93%	12.82%	(33,071)	(241,396)	0	0	\$2.71
C	14,527,139	8.76%	0.39%	9.14%	9.51%	52,700	(19,630)	0	0	\$2.14
TOTAL	75,179,981	11.52%	1.11%	12.63%	12.64%	3,497	(243,644)	628,086	165,000	\$2.96
Total										
A	35,189,303	15.18%	1.50%	16.67%	16.53%	10,489	(80,186)	2,074,179	237,962	\$3.48
B	35,809,099	12.69%	1.09%	13.78%	13.63%	(55,323)	(293,127)	0	0	\$2.71
C	14,960,100	9.26%	0.37%	9.64%	10.04%	60,492	(7,237)	0	0	\$2.17
TOTAL	85,958,502	13.11%	1.13%	14.24%	14.19%	15,658	(380,550)	2,074,179	237,962	\$2.96
Suburban Markets by Class										
Central San Diego										
A	5,215,884	19.37%	0.77%	20.14%	20.46%	16,629	22,842	0	0	\$3.24
B	10,161,624	12.48%	0.29%	12.77%	12.48%	(29,374)	(149,790)	0	0	\$2.61
C	6,101,602	8.20%	0.16%	8.35%	8.43%	4,784	(46,871)	0	0	\$2.07
TOTAL	21,479,110	12.93%	0.37%	13.30%	13.27%	(7,961)	(173,819)	0	0	\$2.66
North City										
A	14,545,243	9.62%	1.90%	11.52%	11.17%	(50,796)	(27,100)	628,086	165,000	\$4.13
B	8,282,272	11.12%	1.55%	12.67%	13.04%	30,246	10,481	0	0	\$2.91
C	2,285,960	14.48%	1.66%	16.14%	15.35%	(17,970)	(16,126)	0	0	\$2.16
TOTAL	25,113,475	10.56%	1.76%	12.32%	12.16%	(38,520)	(32,745)	628,086	165,000	\$3.52
North County										
A	3,830,624	15.50%	0.57%	16.07%	16.72%	24,858	3,906	0	0	\$2.81
B	6,964,235	14.34%	2.73%	17.07%	15.90%	(81,392)	(93,720)	0	0	\$2.69
C	2,611,032	8.31%	0.33%	8.63%	11.13%	65,216	71,715	0	0	\$2.33
TOTAL	13,405,891	13.49%	1.65%	15.14%	15.20%	8,682	(18,099)	0	0	\$2.70
I-15 Corridor										
A	3,479,650	13.74%	1.48%	15.22%	15.06%	(5,508)	21,183	0	0	\$3.25
B	5,142,109	10.01%	0.78%	10.79%	11.59%	40,829	(19,814)	0	0	\$2.63
C	913,586	6.13%	0.00%	6.13%	6.31%	1,698	(2,860)	0	0	\$2.20
TOTAL	9,535,345	11.00%	0.96%	11.96%	12.35%	37,019	(1,491)	0	0	\$2.91
South County										
A	353,926	6.45%	0.00%	6.45%	6.17%	(982)	(3,116)	0	0	\$2.31
B	1,564,632	8.15%	0.00%	8.15%	8.35%	3,121	5,718	0	0	\$2.62
C	740,632	7.11%	0.00%	7.11%	7.36%	1,863	(9,959)	0	0	\$2.04
TOTAL	2,659,190	7.63%	0.00%	7.63%	7.79%	4,002	(7,357)	0	0	\$2.34
East County										
A	208,349	4.04%	0.00%	4.04%	3.88%	(333)	(333)	0	0	\$2.59
B	904,294	5.45%	0.00%	5.45%	5.84%	3,499	5,729	0	0	\$2.39
C	1,874,327	6.16%	0.00%	6.16%	6.00%	(2,891)	(15,529)	0	0	\$2.17
TOTAL	2,986,970	5.80%	0.00%	5.80%	5.81%	275	(10,133)	0	0	\$2.29

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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)
Downtown / CBD										
TOTAL	10,778,521	24.20%	1.28%	25.48%	25.09%	12,161	(136,906)	1,446,093	72,962	\$2.90
Central San Diego										
Kearny Mesa	9,098,062	14.26%	0.25%	14.50%	14.52%	2,132	(104,883)	0	0	\$2.55
Mission Gorge	251,840	0.00%	0.00%	0.00%	1.49%	3,746	3,746	0	0	\$2.17
Mission Valley	7,086,945	14.95%	0.63%	15.58%	15.35%	(16,232)	(43,377)	0	0	\$2.88
Old Town/Pt Loma	2,246,194	5.53%	0.28%	5.81%	6.38%	12,742	(20,967)	0	0	\$2.73
Rose Cyn/Morena	1,113,883	9.22%	0.31%	9.53%	9.33%	(2,235)	(386)	0	0	\$2.04
Uptown	1,682,186	11.58%	0.15%	11.73%	11.25%	(8,114)	(7,952)	0	0	\$2.49
TOTAL	21,479,110	12.93%	0.37%	13.30%	13.27%	(7,961)	(173,819)	0	0	\$2.66
North City										
Carmel Valley	5,519,556	13.60%	0.65%	14.25%	15.09%	46,550	(79,680)	350,086	0	\$4.32
Governor Park	906,853	17.27%	0.91%	18.18%	16.99%	(10,795)	(16,219)	0	0	\$2.64
La Jolla	1,117,143	20.77%	0.10%	20.87%	20.30%	(6,413)	7,201	0	0	\$3.28
Miramar	1,363,667	12.43%	0.60%	13.03%	13.90%	11,852	22,685	0	0	\$2.07
Sorrento Mesa	8,502,534	7.49%	2.90%	10.40%	10.48%	6,894	16,492	0	0	\$3.10
Sorrento Valley	458,563	16.90%	0.00%	16.90%	17.38%	2,237	(5,976)	0	0	\$2.12
Torrey Pines	827,115	8.06%	0.00%	8.06%	8.05%	(79)	3,104	74,000	0	\$4.42
UTC	6,418,044	8.74%	2.21%	10.95%	9.57%	(88,766)	19,648	204,000	165,000	\$3.88
TOTAL	25,113,475	10.56%	1.76%	12.32%	12.16%	(38,520)	(32,745)	628,086	165,000	\$3.52
North County										
Carlsbad	6,902,426	17.52%	0.74%	18.26%	17.54%	(50,239)	(66,147)	0	0	\$2.70
Escondido	1,640,963	7.64%	0.41%	8.05%	8.67%	10,308	5,540	0	0	\$2.04
I-5 Corridor	1,651,216	9.27%	1.33%	10.60%	10.38%	(3,524)	558	0	0	\$3.80
Oceanside	1,196,728	7.78%	0.14%	7.92%	9.04%	13,455	19,188	0	0	\$2.26
San Marcos	1,118,391	10.50%	0.27%	10.77%	10.26%	(5,728)	(10,781)	0	0	\$2.48
Vista	896,167	12.30%	15.24%	27.54%	32.50%	44,410	33,543	0	0	\$2.25
TOTAL	13,405,891	13.49%	1.65%	15.14%	15.20%	8,682	(18,099)	0	0	\$2.70
I-15 Corridor										
Poway	1,177,227	3.12%	0.00%	3.12%	2.54%	(6,815)	(24,497)	0	0	\$2.22
Rancho Bernardo	5,926,603	12.80%	1.26%	14.06%	14.02%	(1,904)	1,789	0	0	\$2.94
Scripps Ranch	2,431,515	10.44%	0.70%	11.13%	13.02%	45,738	21,217	0	0	\$2.92
TOTAL	9,535,345	11.00%	0.96%	11.96%	12.35%	37,019	(1,491)	0	0	\$2.91
South County										
TOTAL	2,659,190	7.63%	0.00%	7.63%	7.79%	4,002	(7,357)	0	0	\$2.34
East County										
TOTAL	2,986,970	5.80%	0.00%	5.80%	5.81%	275	(10,133)	0	0	\$2.29

FOR MORE INFORMATION

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