

## Key Takeaways

- San Diego County has recorded a second consecutive quarter of positive net absorption (+269,099 SF), continuing a recovery from five prior quarters of negative demand.
- Countywide overall vacancy decreased 32 basis points (BPS) in Q3 to reach 13.54%.
- Sublease vacancy fell 26 BPS to 0.89% - the first time it has been below 1% since the COVID-19 pandemic began.
- Asking rental rates across all classes continue to increase, reaching countywide average of \$2.98/SF full service. Core Class A submarkets such as Carmel Valley (\$4.34/SF) and UTC (\$3.93/SF) are the market leaders.



San Diego County

Office

21Q3



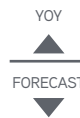
Vacancy Rate  
13.5%



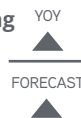
Net Absorption  
+269K SF



Under Construction  
1.4M SF



Overall Class A Asking Lease Rates (FSG)  
\$3.53/SF



## San Diego office market picks up demand after six challenging quarters

Since the beginning of the COVID-19 pandemic in Q1 2020, countywide office demand every quarter has been significantly negative, with minimal positive net absorption that began to emerge in Q2 2021. Q3 2021 marked a significant turnaround in demand with over 260,000 SF of net absorption – levels nearing that of 2019 and 2018. It appears San Diego has turned the corner and is starting to see an uptick in demand that has resulted in new Class A speculative projects under development by companies such as Kilroy Realty, American Assets Trust, and Lincoln Property Company. The traditional office inventory has been slowly shrinking over the past two years as premier life science developers have snatched up key properties for redevelopment or renovation into buildings featuring wet lab and biotech improvements that will accommodate San Diego's accelerating life science industry growth.

### Market Indicators



6.6%  
Unemployment Rate



8.48%  
GDP - Quarterly % change yr/yr

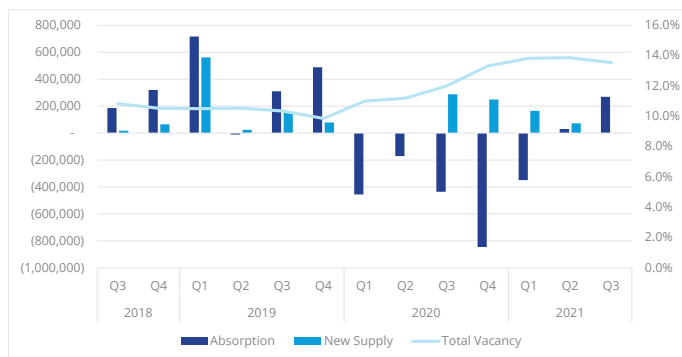


1.483%  
U.S. 10 Year Treasury Note

### Historic Comparison

	20Q3	21Q2	21Q3
Total Inventory (in Thousands of SF)	86,721.0	85,268.6	85,268.6
New Supply (in Thousands of SF)	288.5	73.0	0.0
Net Absorption (in Thousands of SF)	(429.3)	30.6	269.1
Overall Vacancy	12.00%	13.86%	13.54%
Under Construction (in Thousands of SF)	1,383.8	1,218.0	1,430.8
Overall Asking Lease Rates (FSG)	\$2.92	\$2.96	\$2.98

### Historical Market Trends



Demand contracted during the five quarters from Q1 2020 through Q1 2021 resulting in 2.3 million SF of negative absorption. After a minor uptick in demand during Q2 of this year (+73,962 SF), Q3 saw a significant rise in Q3 with 269,999 SF of net absorption. No new construction was completed during the quarter, so consequently, demand led to a drop in vacancy to 13.54%. Vacancy is expected to fall in the low-13% range as demand continues to increase but is offset by new building completions in Q4 that have seen only 31% pre-leasing.

### Recent Transactions



Lease

La Jolla Reserve  
UTC | 140k SF



Lease

5759 Fleet St  
Carlsbad | 82k SF



Lease

11020 Via Frontera  
UTC | 54k SF



Sale

Sorrento Towers North  
Sorrento Mesa | \$493/SF



Sale

5717 Pacific Center Blvd  
Sorrento Mesa | \$688/SF

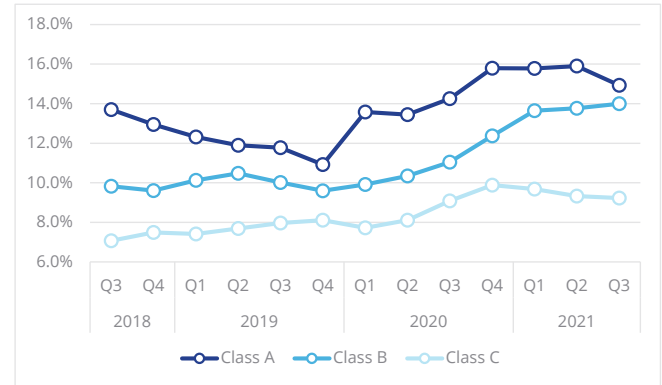


Sale

12250 El Camino Real  
Carmel Valley | \$467/SF

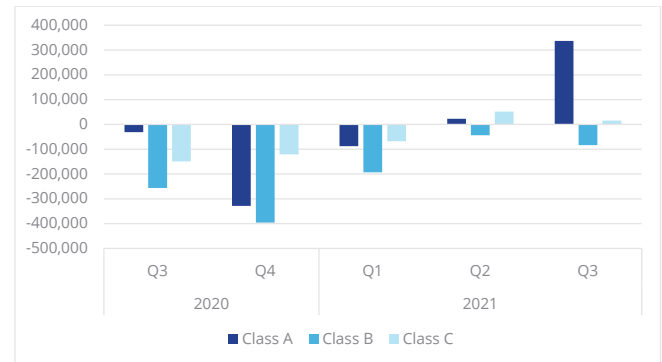
## Vacancy

Countywide office vacancy rate across all classes stood at 13.54% at the end of Q3. Class A vacancy decreased by nearly a full percentage point (-97 BPS) to 14.93% while Class C dropped by 10 BPS to stand at 9.23%. Class B vacancy increased slightly to 14.00% (+24 BPS). With a 24.76% 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 24.14% and 25.49%, respectively. The combined vacancy rate for Suburban markets was 11.95% with Class A (12.45%) and Class B (13.01%) vacancy rates slightly higher.



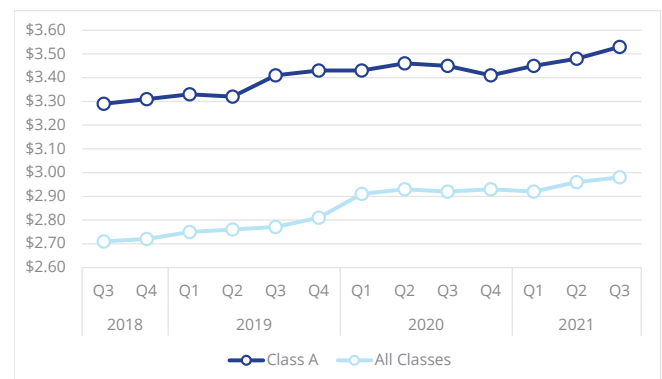
## Net Absorption

After nearly a year-and-a-half of negative activity, Q2 of this year showed some promising signs of a turn-around in demand which were realized in Q3. 269,099 SF of net absorption cut into the negative demand for the first part of the year bringing YTD net absorption to a negative 49,400 SF; Class A net absorption totaled a positive 271,711 SF YTD. The current rate of demand will likely result in net positive demand for the entire year, with Class A space making up the largest part.



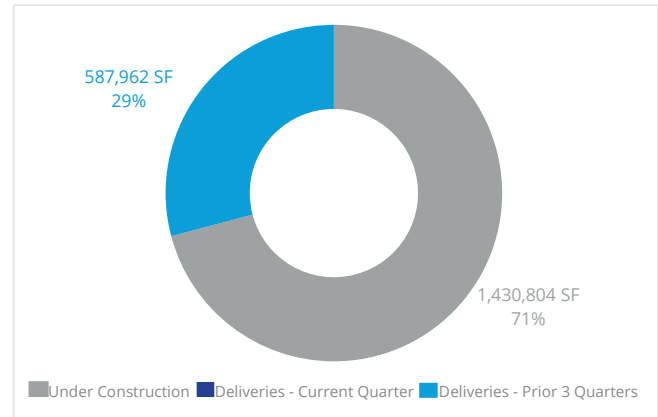
## Rental Rates

Countywide average asking rental rates are rising for a second consecutive quarter. The countywide average asking rental rate across all classes increased by \$0.02 during the quarter to reach \$2.98/SF full service. The Class A average increased \$0.05 to reach \$3.53/SF. Even though San Diego experienced a major drop in demand in 2020 and into the first quarter of 2021, rents managed to hold and stay relatively flat and are now beginning to see positive growth again.



## Construction

Office construction continues to be strong countywide. Approximately 588,000 SF was delivered in the past year (select projects listed below) with an additional 1.4 million SF currently under construction. 667,000 SF of the space under construction is expected to be completed by year-end for nearly 905,000 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
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	234,198	100%	Kilroy Realty	Under Construction Est. Q4 2021
Carmel Valley	Aperture Del Mar 6027 & 6029 Edgewood Bend Ct	A	228,662	100%	Lincoln Property Company	Under Construction Est. Q4 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
UTC	La Jolla Commons Tower III 4727 Executive Dr	A	212,851	100%	American Assets Trust	Under Construction Est. 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	7,352,188	22.95%	1.18%	24.14%	24.38%	17,949	(80,320)	711,291	72,962	\$3.16
B	2,833,230	25.10%	0.39%	25.49%	25.07%	(11,969)	(63,700)	0	0	\$2.69
C	432,961	30.52%	0.00%	30.52%	26.27%	(18,429)	(6,036)	0	0	\$2.29
<b>TOTAL</b>	<b>10,618,379</b>	<b>23.83%</b>	<b>0.92%</b>	<b>24.76%</b>	<b>24.64%</b>	<b>(12,449)</b>	<b>(150,056)</b>	<b>711,291</b>	<b>72,962</b>	<b>\$2.90</b>
<b>Suburban</b>										
A	27,312,607	11.16%	1.29%	12.45%	13.62%	319,109	352,031	719,513	165,000	\$3.59
B	32,929,211	12.21%	0.80%	13.01%	12.79%	(71,650)	(257,040)	0	0	\$2.73
C	14,408,421	8.25%	0.34%	8.59%	8.82%	34,089	5,665	0	0	\$2.19
<b>TOTAL</b>	<b>74,650,239</b>	<b>11.06%</b>	<b>0.89%</b>	<b>11.95%</b>	<b>12.33%</b>	<b>281,548</b>	<b>100,656</b>	<b>719,513</b>	<b>165,000</b>	<b>\$2.99</b>
<b>Total</b>										
A	34,664,795	13.66%	1.27%	14.93%	15.90%	337,058	271,711	1,430,804	237,962	\$3.53
B	35,762,441	13.23%	0.77%	14.00%	13.76%	(83,619)	(320,740)	0	0	\$2.73
C	14,841,382	8.90%	0.33%	9.23%	9.33%	15,660	(371)	0	0	\$2.20
<b>TOTAL</b>	<b>85,268,618</b>	<b>12.65%</b>	<b>0.89%</b>	<b>13.54%</b>	<b>13.86%</b>	<b>269,099</b>	<b>(49,400)</b>	<b>1,430,804</b>	<b>237,962</b>	<b>\$2.98</b>
<b>Suburban Markets by Class</b>										
<b>Central San Diego</b>										
A	5,215,884	19.61%	0.92%	20.52%	20.58%	2,629	2,672	0	0	\$3.27
B	10,164,707	12.74%	0.28%	13.02%	12.89%	(12,613)	(175,298)	0	0	\$2.61
C	6,101,822	7.87%	0.13%	8.00%	8.30%	18,865	(20,368)	0	0	\$2.09
<b>TOTAL</b>	<b>21,482,413</b>	<b>13.02%</b>	<b>0.39%</b>	<b>13.41%</b>	<b>13.45%</b>	<b>8,881</b>	<b>(192,994)</b>	<b>0</b>	<b>0</b>	<b>\$2.68</b>
<b>North City</b>										
A	14,224,174	7.93%	1.72%	9.65%	10.40%	106,424	107,957	719,513	165,000	\$4.20
B	8,189,234	10.23%	1.70%	11.93%	12.20%	21,669	82,662	0	0	\$2.96
C	2,193,360	11.50%	1.47%	12.97%	14.37%	30,617	(1,941)	0	0	\$2.21
<b>TOTAL</b>	<b>24,606,768</b>	<b>9.01%</b>	<b>1.69%</b>	<b>10.71%</b>	<b>11.35%</b>	<b>158,710</b>	<b>188,678</b>	<b>719,513</b>	<b>165,000</b>	<b>\$3.55</b>
<b>North County</b>										
A	3,830,624	15.03%	0.22%	15.25%	15.64%	15,144	35,212	0	0	\$2.84
B	6,964,235	15.65%	1.17%	16.81%	16.81%	(61)	(75,781)	0	0	\$2.74
C	2,611,032	8.97%	0.30%	9.27%	8.63%	(16,550)	55,165	0	0	\$2.40
<b>TOTAL</b>	<b>13,405,891</b>	<b>14.17%</b>	<b>0.73%</b>	<b>14.90%</b>	<b>14.89%</b>	<b>(1,467)</b>	<b>14,596</b>	<b>0</b>	<b>0</b>	<b>\$2.74</b>
<b>I-15 Corridor</b>										
A	3,479,650	8.52%	1.48%	10.00%	15.40%	188,112	202,839	0	0	\$3.28
B	5,142,109	12.46%	0.29%	12.75%	10.90%	(95,009)	(120,249)	0	0	\$2.60
C	887,248	7.30%	0.08%	7.39%	6.31%	(9,573)	(12,433)	0	0	\$2.17
<b>TOTAL</b>	<b>9,509,007</b>	<b>10.54%</b>	<b>0.70%</b>	<b>11.24%</b>	<b>12.12%</b>	<b>83,530</b>	<b>70,157</b>	<b>0</b>	<b>0</b>	<b>\$2.89</b>
<b>South County</b>										
A	353,926	4.53%	0.00%	4.53%	6.45%	6,800	3,684	0	0	\$2.78
B	1,564,632	6.68%	0.00%	6.68%	7.78%	17,192	28,725	0	0	\$2.62
C	740,632	6.87%	0.00%	6.87%	7.11%	1,743	(8,216)	0	0	\$2.14
<b>TOTAL</b>	<b>2,659,190</b>	<b>6.45%</b>	<b>0.00%</b>	<b>6.45%</b>	<b>7.42%</b>	<b>25,735</b>	<b>24,193</b>	<b>0</b>	<b>0</b>	<b>\$2.59</b>
<b>East County</b>										
A	208,349	4.04%	0.00%	4.04%	4.04%	0	(333)	0	0	\$2.70
B	904,294	5.76%	0.00%	5.76%	5.45%	(2,828)	2,901	0	0	\$2.45
C	1,874,327	5.68%	0.00%	5.68%	6.16%	8,987	(6,542)	0	0	\$2.25
<b>TOTAL</b>	<b>2,986,970</b>	<b>5.59%</b>	<b>0.00%</b>	<b>5.59%</b>	<b>5.80%</b>	<b>6,159</b>	<b>(3,974)</b>	<b>0</b>	<b>0</b>	<b>\$2.37</b>

# San Diego County | 21Q3 | 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>	10,618,379	23.83%	0.92%	24.76%	24.64%	(12,449)	(150,056)	711,291	72,962	\$2.90
<b>Central San Diego</b>										
<b>Kearny Mesa</b>	9,098,282	14.38%	0.24%	14.62%	14.69%	7,054	(110,724)	0	0	\$2.56
<b>Mission Gorge</b>	251,840	1.67%	0.00%	1.67%	0.00%	(4,215)	(469)	0	0	\$2.35
<b>Mission Valley</b>	7,086,945	14.91%	0.70%	15.62%	15.91%	20,518	(45,658)	0	0	\$2.88
<b>Old Town/Pt Loma</b>	2,245,617	6.64%	0.05%	6.69%	5.48%	(27,285)	(40,614)	0	0	\$2.70
<b>Rose Cyn/Morena</b>	1,113,883	8.97%	0.52%	9.49%	9.53%	385	(1)	0	0	\$2.10
<b>Uptown</b>	1,685,846	10.65%	0.32%	10.97%	11.70%	12,424	4,472	0	0	\$2.54
<b>TOTAL</b>	21,482,413	13.02%	0.39%	13.41%	13.45%	8,881	(192,994)	0	0	\$2.68
<b>North City</b>										
<b>Carmel Valley</b>	5,456,942	11.62%	0.47%	12.08%	12.89%	44,048	(14,692)	228,662	0	\$4.34
<b>Governor Park</b>	906,853	14.40%	0.91%	15.31%	18.18%	26,001	9,782	0	0	\$2.66
<b>La Jolla</b>	1,117,143	17.05%	0.10%	17.16%	20.87%	41,529	48,730	0	0	\$3.32
<b>Miramar</b>	1,363,667	12.46%	0.67%	13.13%	13.03%	(1,450)	21,235	0	0	\$2.05
<b>Sorrento Mesa</b>	8,071,419	5.53%	3.01%	8.54%	8.32%	(17,895)	43,590	0	0	\$3.20
<b>Sorrento Valley</b>	428,787	16.33%	0.00%	16.33%	17.08%	3,230	(5,966)	0	0	\$2.11
<b>Torrey Pines</b>	827,115	6.75%	0.00%	6.75%	8.06%	10,851	13,955	74,000	0	\$4.42
<b>UTC</b>	6,434,842	8.10%	2.01%	10.11%	10.92%	52,396	72,044	416,851	165,000	\$3.93
<b>TOTAL</b>	24,606,768	9.01%	1.69%	10.71%	11.35%	158,710	188,678	719,513	165,000	\$3.55
<b>North County</b>										
<b>Carlsbad</b>	6,902,426	17.81%	0.62%	18.43%	18.03%	(27,307)	(77,292)	0	0	\$2.72
<b>Escondido</b>	1,640,963	8.19%	0.41%	8.60%	8.05%	(9,153)	(3,613)	0	0	\$2.06
<b>I-5 Corridor</b>	1,651,216	9.06%	1.04%	10.10%	10.60%	8,110	8,668	0	0	\$3.79
<b>Oceanside</b>	1,196,728	7.03%	0.00%	7.03%	7.92%	10,584	29,772	0	0	\$2.24
<b>San Marcos</b>	1,118,391	10.01%	0.76%	10.77%	10.77%	54	(10,727)	0	0	\$2.52
<b>Vista</b>	896,167	21.25%	2.48%	23.72%	25.53%	16,245	67,788	0	0	\$2.34
<b>TOTAL</b>	13,405,891	14.17%	0.73%	14.90%	14.89%	(1,467)	14,596	0	0	\$2.74
<b>I-15 Corridor</b>										
<b>Poway</b>	1,177,227	2.91%	0.00%	2.91%	3.12%	2,477	(22,020)	0	0	\$2.18
<b>Rancho Bernardo</b>	5,900,265	10.80%	0.83%	11.63%	14.32%	158,556	148,463	0	0	\$2.93
<b>Scripps Ranch</b>	2,431,515	13.59%	0.73%	14.32%	11.13%	(77,503)	(56,286)	0	0	\$2.88
<b>TOTAL</b>	9,509,007	10.54%	0.70%	11.24%	12.12%	83,530	70,157	0	0	\$2.89
<b>South County</b>										
<b>TOTAL</b>	2,659,190	6.45%	0.00%	6.45%	7.42%	25,735	24,193	0	0	\$2.59
<b>East County</b>										
<b>TOTAL</b>	2,986,970	5.59%	0.00%	5.59%	5.80%	6,159	(3,974)	0	0	\$2.37

## FOR MORE INFORMATION

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