

SAN DIEGO COUNTY | OFFICE Q1 2020

Office market faces uncertainty during global pandemic

Behind the Numbers

- > 207,962 SF of negative net absorption recorded countywide in Q1 2020 - the first quarter of negative net absorption in nearly three years.
- > Class A average asking rental rates remained flat during the quarter at \$3.43/SF/month. However, overall average rates for all classes increased by 3.6% to \$2.91/SF/month – the highest rate on record, driven by increases in Class B and C rents.
- > After dropping below 10% for the first time in more than 13 years, overall countywide vacancy increased to 10.5% in Q1.

Net Absorption

San Diego County net absorption for Q1 2020 equaled a negative 207,962 SF. Class A and B demand contributed to drop in demand with 116,607 SF and 91,842 SF of negative net absorption, respectively. Class C demand remained flat.

The drop in demand was concentrated in few submarkets, primarily Miramar (-70,908 SF), Carlsbad (-63,639 SF), Downtown (-57,570 SF), and South Bay (-45,105 SF). But in each of these submarkets, the move-outs were concentrated in only a few buildings. Notably, the Fashion Institute of Design and Merchandising vacated 32,563 SF at DiamondView East Village in Downtown and Verve Wireless vacated 29,367 SF at MAKE in Carlsbad. While most of the move-outs occurred early in Q1, it is likely that Q2 will see additional negative demand as a result of the effects novel coronavirus (COVID-19) has on the economy and specifically office tenants.

Potentially, we could see some business closures and space contraction due to the pandemic in the next couple of quarters, but it is not entirely certain to what magnitude that will be.

Vacancy

The countywide vacancy of 10.5% in Q1 2020 is a 73-basis point increase from the prior quarter. Direct and sublease vacancy rates are 9.7% and 0.7%, respectively.

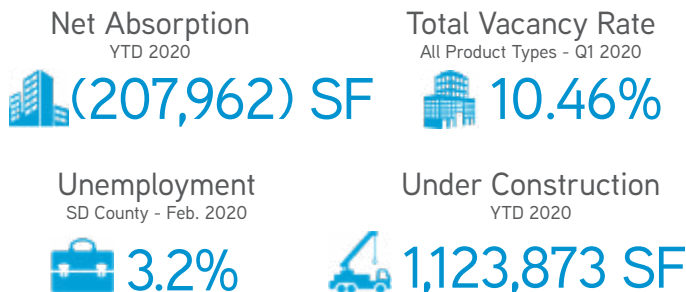
Vacancy in Downtown increased from 15.1% in Q4 2019 to 19.5% in Q1 2020, driven partially by negative net absorption of 57,570 SF. Additionally, two buildings under major renovation – 1010 2nd Ave and 1420 Kettner Blvd – were completed. This added 468,078 SF back into the Class A inventory along with 95% vacancy.

Overall vacancy in the Suburban markets increased just 19 basis points to 9.2%. Within the core submarkets (those with more than 5 million SF of inventory), UTC (4.7%) and Kearny Mesa (5.3%) posted the lowest rates and Downtown (19.7%) and Carlsbad (15.9%) had the highest rate.

MARKET INDICATORS

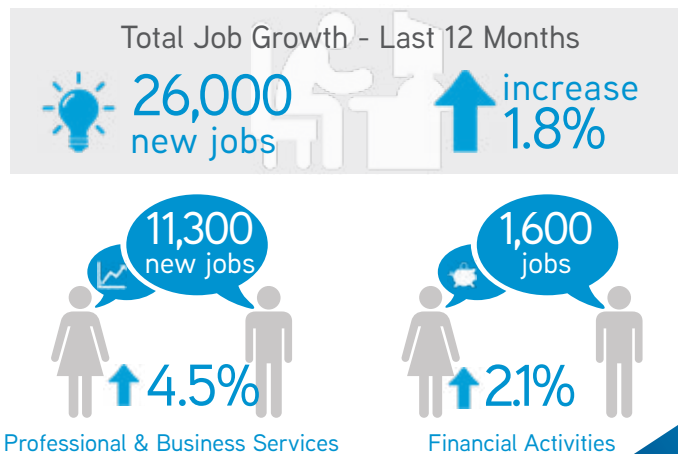
All Office Markets & Classes, Q1 2020

	Q1 2020	Q1 2019	Change
Overall Vacancy (incl. sublease)	10.46%	10.23%	↑
Net Absorption SF	(207,962)	729,731	—
Under Construction SF	1,123,873	511,260	↑
Average Asking Rent (FSG)	\$2.91	\$2.75	↑



JOB GROWTH

Source: Bureau of Labor Statistics, 12-month change (02/2019-02/2020), San Diego



New Supply

No new buildings were completed in Q1 2020. However, there are currently seven projects totaling more than 1.1 million SF under construction countywide. These projects include three being developed by Kilroy Realty: One Paseo - a two-building 288,484 SF project in Carmel Valley (90% pre-leased), the 160,400 SF 9455 TCD building in UTC preleased to Apple, and the 204,754 SF 2100 Kettner building in Little Italy (Downtown submarket). Also, under construction are Sorrento Summit III - a 28,000 SF project pre-leased to Nuvasive and being developed by HCP. A 125,000 SF build-to-suit for Cubic on Balboa Ave in Kearny Mesa is being developed by Cisterra. This is the first of two buildings being built for Cubic that will eventually total 250,000 SF. Hamann Companies is developing a 100,000 SF build-to-suit for the County of San Diego in Oceanside. Finally, ground was broken on two buildings in the Aperture Del Mar project in Carmel Valley, totaling 217,235 SF and being developed by Lincoln Property Company.

New ground-up construction has been subject to high demand. However, the current COVID-19 pandemic will likely delay the start of new projects that are proposed throughout the county until there is a better understanding of what office demand will be until the pandemic subsides.

Trends, Forecast & Outlook

As we publish this report, the U.S. and the world at large are facing a tremendous challenge, the scale of which is unprecedented in recent history. The spread of the novel coronavirus (COVID-19) is significantly altering day-to-day life, impacting society, the economy and, by extension, commercial real estate.

The extent, length and severity of this pandemic is unknown and continues to evolve at a rapid pace. The scale of the impact and its timing varies between locations. To better understand trends and emerging adjustments, please subscribe to [Colliers' COVID-19 Knowledge Leader page for resources and recent updates.](#)

Under the current conditions, the office market faces significant challenges as many companies considered "non-essential" require their workforces to work from home as well as co-working operators configuring their spaces to accommodate "social distancing."

As the pandemic subsides over the course of the year, office users, operators, and owners will not only need to contend with the immediate effects of the COVID-19 aftermath on their businesses, but at long-term effect on office workplace culture, work-style, and space utilization.

Significant Office Activity - Q1 2020

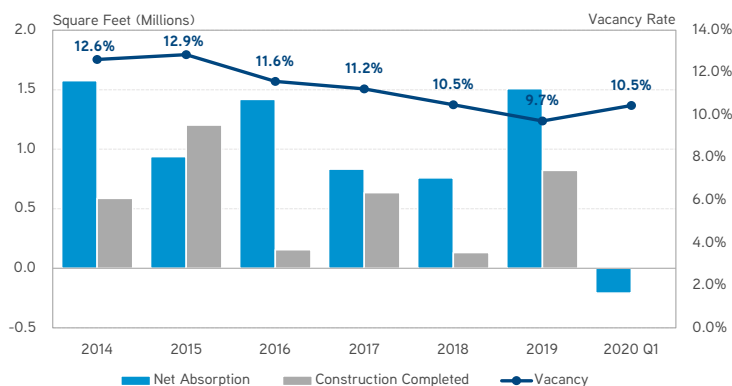
Leasing

Property/Address	Tenant	Submarket	Class	Size (SF)	Deal Type
12278 Scripps Summit Drive	Fate Therapeutics	Scripps Ranch	A	198,880	New location.
16620 W Bernardo Drive	Apple	Rancho Bernardo	A	196,734	Fourth building leased in San Diego County.
5355 Mira Sorrento Place	Fairfield Residential	Sorrento Mesa	A	57,783	Relocation within the existing submarket.
16409 W Bernardo Drive	Intel Corporation	Rancho Bernardo	B	53,301	Sublease.
9525 Towne Centre Drive	Epsilon Data Management	UTC	B	31,706	Lease renewal.
4921 Directors Place	Mapp Biopharmaceutical	Sorrento Mesa	B	27,885	Relocation within the existing submarket.

Sales

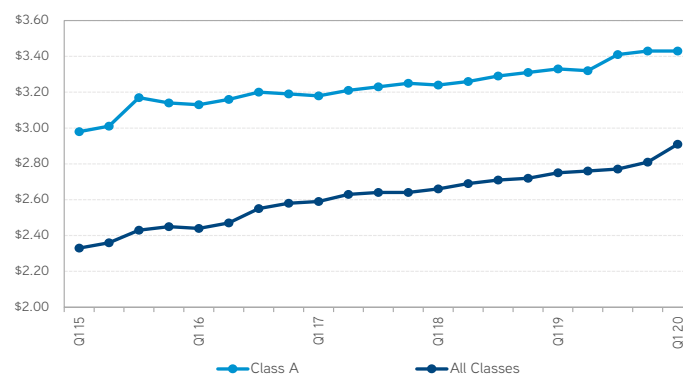
Property/Address	Submarket	Class	Size (SF)	Sale Price	\$/SF	Buyer	Seller
Enclave Sorrento (2 bldgs)	Sorrento Mesa	A	213,098	\$102,250,000	\$480	Alexandria Real Estate Equities	Alliance Bernstein LP
Cornerstone Corporate Center (4 bldgs)	Carlsbad	A	177,917	\$34,200,000	\$192	Harbor Associates LLC	Wasatch Group
La Place Court (2 bldgs)	Carlsbad	B	81,521	\$15,775,000	\$194	Intersection	Swift Real Estate Partners
5405 Morehouse Drive	Sorrento Mesa	B	51,589	\$14,600,000	\$283	Cedar Realty Group	Swift Real Estate Partners
5505 Morehouse Drive	Sorrento Mesa	B	75,424	\$12,783,000	\$169	Alexandria Real Estate Equities	SteelWave
4250 Pacific Highway	Point Loma	C	75,401	\$9,500,000	\$126	The Casey Brown Company	Swanston Properties

San Diego Historical Office Market Trends



San Diego Historical Office Rental Rates

Average Asking Monthly Rate per SF, Full Service



Office Market Overview - Q1 2020

San Diego County | CBD and Suburban by Class

EXISTING INVENTORY (SF)		VACANCY (%)				NET ABSORPTION (SF)		NEW SUPPLY (SF)			Avg Asking Rate
Type/ Submarket	Total Inventory	Direct	Sublet	Total	Prior Qtr	Current Qtr	YTD	Completed Current Qtr	Completed YTD	Under Construction	
DOWNTOWN / CBD											
A	7,248,103	18.5%	1.0%	19.4%	13.0%	(60,724)	(60,724)	0	0	204,754	\$3.10
B	2,777,933	19.3%	0.1%	19.4%	19.4%	1,624	1,624	0	0	0	\$2.77
C	398,934	16.4%	4.8%	21.3%	21.7%	1,530	1,530	0	0	0	\$2.40
TOTAL	10,424,970	18.6%	0.9%	19.5%	15.1%	(57,570)	(57,570)	0	0	204,754	\$2.89
SUBURBAN											
A	27,077,679	9.7%	0.9%	10.6%	10.4%	(55,883)	(55,883)	0	0	819,119	\$3.48
B	33,798,374	8.2%	0.8%	8.9%	8.7%	(93,466)	(93,466)	0	0	100,000	\$2.73
C	14,572,893	7.1%	0.2%	7.3%	7.3%	(1,043)	(1,043)	0	0	0	\$2.13
TOTAL	75,448,946	8.5%	0.7%	9.2%	9.0%	(150,392)	(150,392)	0	0	919,119	\$2.91
SAN DIEGO COUNTY TOTAL (CBD + SUBURBAN)											
A	34,325,782	11.5%	0.9%	12.5%	10.9%	(116,607)	(116,607)	0	0	1,023,873	\$3.43
B	36,576,307	9.0%	0.7%	9.7%	9.5%	(91,842)	(91,842)	0	0	100,000	\$2.73
C	14,971,827	7.4%	0.3%	7.7%	7.7%	487	487	0	0	0	\$2.16
TOTAL	85,873,916	9.7%	0.7%	10.5%	9.7%	(207,962)	(207,962)	0	0	1,123,873	\$2.91

San Diego County | Suburban Markets and Submarkets

CENTRAL COUNTY											
Campus Point	620,187	0.0%	0.0%	0.0%	0.0%	0	0	0	0	0	\$3.36
Carmel Valley	5,224,058	11.9%	0.4%	12.3%	12.1%	(10,872)	(10,872)	0	0	505,719	\$4.34
Governor Park	907,259	10.7%	0.0%	10.7%	8.2%	(23,056)	(23,056)	0	0	0	\$2.82
Kearny Mesa	8,693,734	5.1%	0.1%	5.3%	5.3%	1,546	1,546	0	0	125,000	\$2.34
La Jolla	1,133,835	15.6%	0.3%	15.8%	15.1%	(8,251)	(8,251)	0	0	0	\$3.39
Miramar	1,398,307	14.9%	1.8%	16.8%	11.7%	(70,908)	(70,908)	0	0	0	\$1.89
Mission Gorge	302,042	1.4%	0.0%	1.4%	1.4%	0	0	0	0	0	\$2.24
Mission Valley	7,091,778	9.1%	0.6%	9.6%	9.9%	19,020	19,020	0	0	0	\$2.77
Old Town / SA / PL	2,359,527	2.5%	0.0%	2.5%	2.7%	4,226	4,226	0	0	0	\$2.97
Rose Cyn / Morena	860,403	7.3%	0.0%	7.3%	7.1%	(1,960)	(1,960)	0	0	0	\$2.12
Sorrento Mesa	9,209,584	7.9%	2.0%	9.9%	10.4%	44,998	44,998	0	0	28,000	\$3.11
Sorrento Valley	418,267	14.5%	3.5%	18.0%	16.4%	(6,742)	(6,742)	0	0	0	\$2.43
Torrey Pines	815,477	4.7%	0.0%	4.7%	4.6%	(726)	(726)	0	0	0	\$4.40
Uptown	1,775,996	7.2%	0.0%	7.3%	6.3%	(16,305)	(16,305)	0	0	0	\$2.69
UTC	5,897,962	4.3%	0.4%	4.7%	4.6%	(8,038)	(8,038)	0	0	160,400	\$3.69
TOTAL	46,708,416	7.5%	0.7%	8.2%	8.1%	(77,068)	(77,068)	0	0	819,119	\$3.10
NORTH COUNTY											
Carlsbad	6,898,985	15.5%	0.4%	15.9%	15.0%	(63,639)	(63,639)	0	0	0	\$2.66
Escondido	1,628,926	9.8%	0.0%	9.8%	11.2%	22,600	22,600	0	0	0	\$2.19
I-5 Corridor	1,654,473	5.8%	0.4%	6.2%	6.4%	3,459	3,459	0	0	0	\$3.82
Oceanside	1,196,677	8.7%	0.0%	8.7%	9.8%	13,216	13,216	0	0	100,000	\$2.05
San Marcos / Vista	2,082,051	12.1%	5.4%	17.5%	17.4%	(300)	(300)	0	0	0	\$2.17
TOTAL	13,461,112	12.5%	1.1%	13.6%	13.4%	(24,664)	(24,664)	0	0	100,000	\$2.64
I-15 CORRIDOR											
Poway	1,177,227	1.9%	0.0%	1.9%	1.2%	(9,086)	(9,086)	0	0	0	\$2.11
Rancho Bernardo	5,954,600	11.0%	0.1%	11.1%	11.3%	14,477	14,477	0	0	0	\$3.09
Scripps Ranch	2,429,499	7.8%	2.1%	9.8%	10.0%	4,798	4,798	0	0	0	\$2.74
TOTAL	9,561,326	9.0%	0.6%	9.6%	9.8%	10,189	10,189	0	0	0	\$2.94
SOUTH/EAST COUNTY											
East County	3,011,426	4.3%	0.1%	4.5%	4.0%	(13,744)	(13,744)	0	0	0	\$2.13
South Bay	2,706,666	8.0%	0.0%	8.0%	6.4%	(45,105)	(45,105)	0	0	0	\$2.60
TOTAL	5,718,092	6.1%	0.1%	6.2%	5.1%	(58,849)	(58,849)	0	0	0	\$2.37

Average rental rates are defined as the average asking monthly rate per square foot across all direct available spaces quoted on a "full service gross" basis.



18,000+ professionals in
68 countries on
6 continents

\$3.5 billion in annual revenue
2.0 billion square feet managed
70,000 lease and sale transactions

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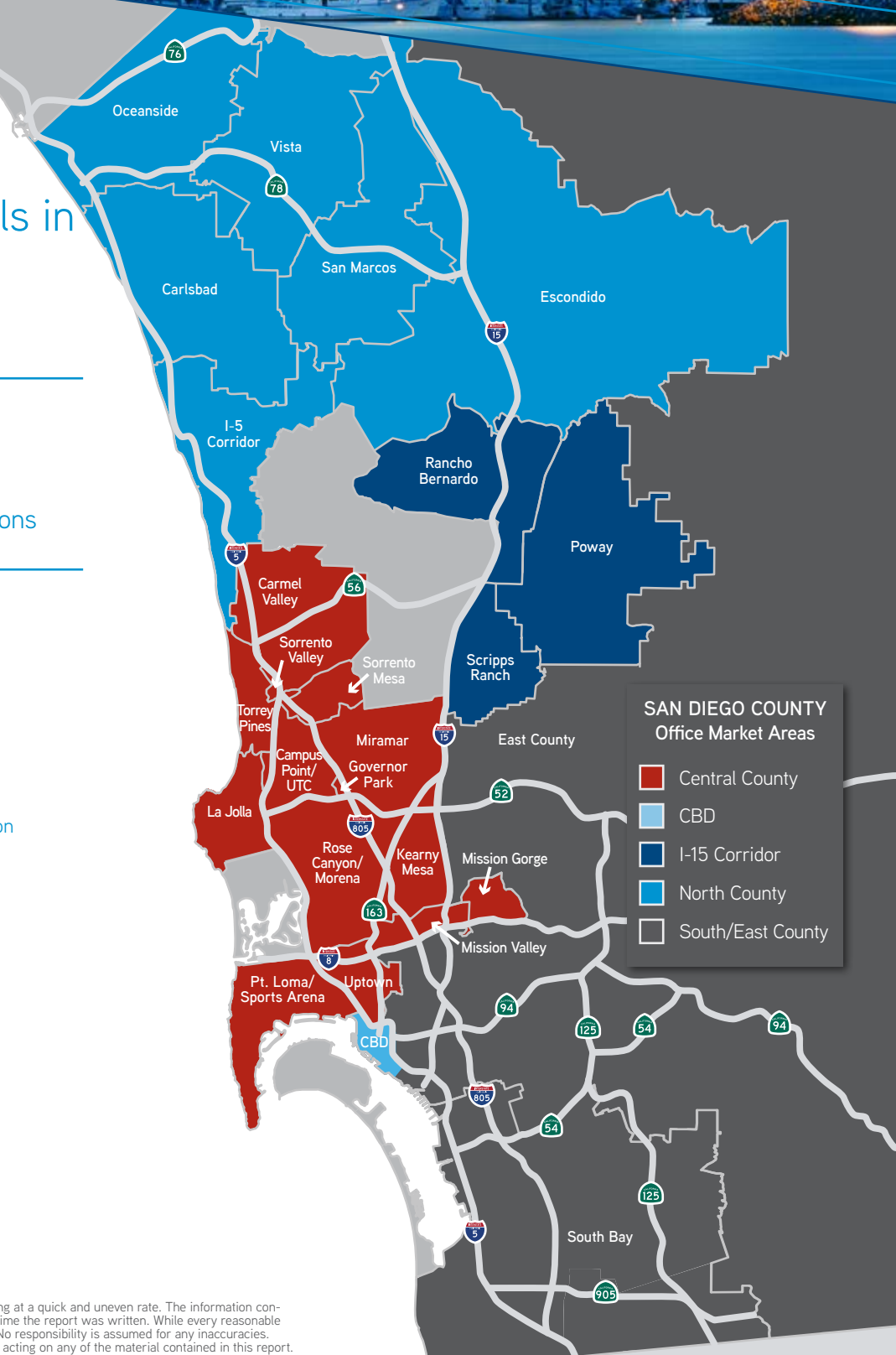
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SAN DIEGO COUNTY Office Market Areas

- Central County
- CBD
- I-15 Corridor
- North County
- South/East County

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