

San Diego



Quick Stats

9.0%

San Diego County
Unemployment Rate
as of Sept 2020

-508,117 SF

Negative Net Absorption
Current Quarter

Negative 701,813 SF
Past 12 Months

12.6%

Total Vacancy Rate
Up from 11.2% in Q2 2020

2,082,306 SF

Under Construction
Current Quarter

\$3.01 PSF

Asking Rental Rate
Weighted Average

The San Diego office market is seeing green shoots as of the end of the third quarter of 2020. Economic disruptions from the Covid-19 pandemic, while rippling through every sector of the market, have been slower to impact the office inventory in San Diego. During the third quarter, unemployment dropped to 9.0%, decreasing from a peak of 15.2% in the previous quarter, yet still significantly elevated from 2.9% one year ago. San Diego figures remained below the state average; currently California's unemployment rate is at 11.0%, ranking the third highest in the U.S.

Office sales volume, total year-to-date, is down 54% from the same time period in the previous year, as buyers and sellers struggle to find common ground on pricing expectations. Additional pressure is expected over the long term, as flexible workspace and remote working influence decisions regarding office lease renewals and new development well beyond the current pandemic. Meanwhile, downward pressure on office rental rates has yet to materialize significant across the county.

Vacancy in San Diego's office market increased to 12.6%, up 140 bps from the previous quarter, and up 160 bps as compared to one year ago. After minimal movement in vacancy over the past three years, and minimal movement early in the pandemic, the third quarter marks a strong uptick in response to increased move-outs. Subleases specifically increased to 2.2%, up 10 basis points from the previous quarter, and 40 basis points from the previous year. The county recorded net negative absorption of 508,117 sf in the third quarter, bringing the 2020 year-to-date absorption to negative 1,124,548 sf.

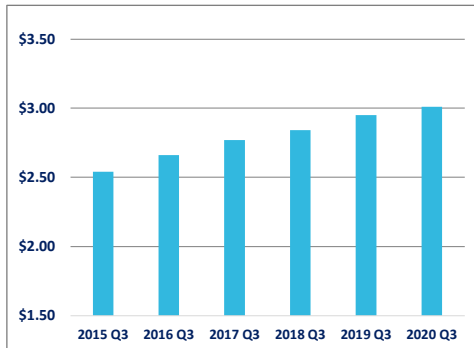
A total of 12 investment-grade office projects were under construction in the third quarter, amounting to 2.1m sf of new inventory, approximately 40% of which is pre-committed. Construction activity in San Diego is experiencing minor delays, due to labor disruptions and shortage of construction materials, for projects that had already commenced during the surge of development starts over the past year. While the majority of current projects are expected to complete by 2021, The Campus at Horton is slated for the second half of 2022, being the most sizeable construction undertaking and involving a long-awaited renovation and reinvention into an office tech-hub.

The 372k sf U.S. Navy headquarters located Downtown completed construction during the third quarter. The building is the first of six planned buildings within the Manchester Financial Group owned campus at the North Embarcadero. Meanwhile, a surge in demand for medical office, which existed prior to the pandemic, has resulted in an increase in construction for the sector, and three major facilities came online during the third quarter: 90k sf for Kaiser in Kearny Mesa, 86k sf for Sharp Rees-Stealy in Santee, and 80k sf for Palomar Health in Escondido.

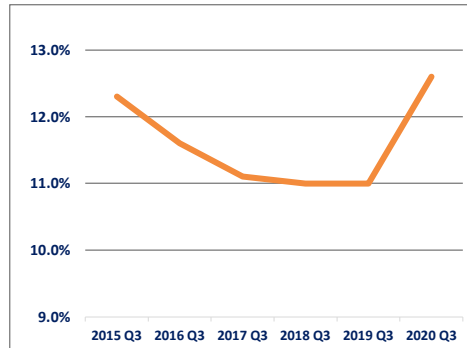
Rental rates remain near a record high at \$3.01 psf FSG in the third quarter, down only \$0.01 from the previous quarter, and elevated from \$2.95 psf FSG at the same time in the previous year. The highest submarket rents were found in the Central Coast area averaging \$3.60 psf FSG. The Central Coast area also contains the highest volume of office inventory in the county. And, within that area, the micromarkets of Torrey Pines and Carmel Valley recorded the highest premium asking rates at \$5.50 psf FSG, driven largely by strong demand from life sciences, and mid-sized and start-up tech companies supported by strong venture capital interest.

The largest office sale to take place in the market was Alexandria Real Estate's purchase of The Point at Torrey Pines for \$97.5M. The deal was a sale-leaseback with National University's headquarters campus, after which the two office buildings totaling 139k sf will be redeveloped into a life science facility. The second largest ranking deal, Creekside in Sorrento Valley, was also purchased with the intent to redevelop for life science use.

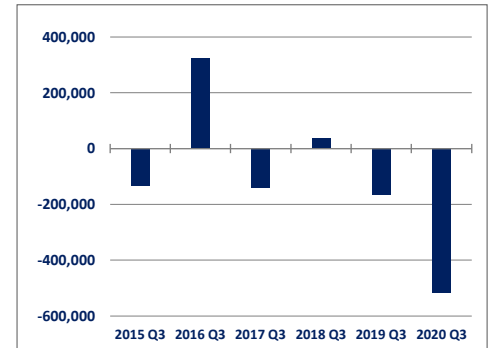
Asking Rent



Vacancy Rate



Net Absorption



Top Leases

Tenant	Type	Address	Submarket	SF
Tanvex	Renewal	10421 Pacific Center Court	Sorrento Mesa	119,581
Zentalis Pharmaceuticals	New	10275-10285 Science Center Drive	Torrey Pines	117,709
GenMark Diagnostics	New	6221 El Camino Real	Carlsbad	73,057
CUSO Financial Services	Renewal	10150 Meanley Drive	Scripps Ranch	30,245
Helix	New	6925 Lusk Boulevard	Sorrento Mesa	22,497

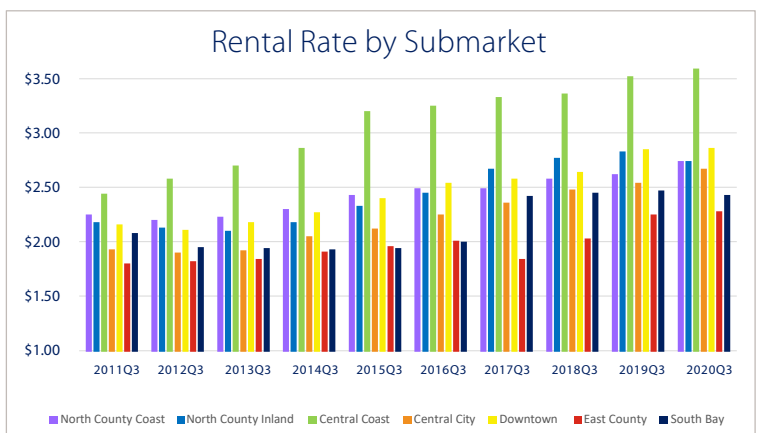
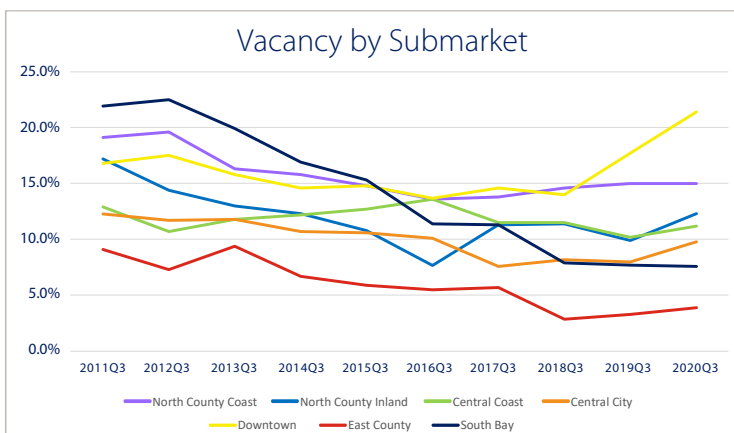
Top Sales

Address	Submarket	Buyer	Seller	Price	SF
The Pointe at Torrey Pines	Torrey Pines	Alexandria Real Estate	National University	\$97,500,000	139,135
Creskide	Sorrento Valley	Longfellow Real Estate Partners	Blackstone	\$42,750,000	131,123
6059 Cornerstone Court West	Sorrento Mesa	6059 Cornerstone Partners, LLC	Buchanan Street Partners	\$20,600,000	51,690
Pomerado Professional Plaza	Poway	HR of California	Milan Capital Management	\$17,000,000	46,183
6349 Palomar Oaks Court	Carlsbad	Grand Prairie Isuzu Parkway, LLC	B & C, LP	\$6,779,650	27,904

Under Construction

Address	Submarket	Developer	SF	Completion
The Campus at Horton	Downtown	Stockdale Capital Partners	750,000	Q3 2022
Carmel Valley Road, Aperture Del Mar, Bldgs 1 & 2	Del Mar Heights	Lincoln Property	217,235	Q4 2021
2100 Kettner Boulevard	Downtown	Kilroy Realty Corporation	234,000	Q2 2021
9775 Towne Centre Drive, Apex	UTC	BioMed Realty	204,000	Q4 2021
10265 - 10285 Science Center Dr, The Boardwalk	Torrey Pines	Healthpeak Properties	198,302	Q3 2021

SAN DIEGO	Vacancy				Net Absorption		Avg. Advertised Rates			Construction Pipeline	
	Q3 2020 Inventory (SF)	Q3 2020 Vacancy (SF)	Q3 2020 Vacancy (%)	Q2 2020 Vacancy (%)	Current Quarter Absorption	12 Month Total Absorption	Q3 2020 Rental Rates FSG	Q2 2020 Rental Rates FSG	Qtr/Qtr Change (%)	Current Qtr Deliveries	Under Construction Quarter-End
Carlsbad	5,721,657	956,600	16.7%	16.3%	-6,376	47,427	\$2.72	\$2.71	0.37%	0	0
Encinitas/Solana Beach	1,621,781	127,130	7.8%	7.1%	-11,503	80,715	\$3.77	\$3.81	-1.05%	0	0
Oceanside	782,573	69,328	8.9%	8.9%	70	1,528	\$1.90	\$1.95	-2.56%	0	100,000
San Marcos	1,209,354	100,812	8.3%	6.6%	-6,433	-22,024	\$2.64	\$2.72	-2.94%	0	0
Vista	833,988	280,725	33.7%	33.6%	-13,000	-13,527	\$2.16	\$2.19	-1.37%	0	0
North County Coast TOTAL	10,169,353	1,534,595	15.1%	14.5%	-37,242	94,119	\$2.75	\$2.76	-0.4%	0	100,000
Escondido	980,135	162,485	16.6%	11.0%	16,857	-21,571	\$1.87	\$2.53	-26.09%	80,064	0
Miramar/Mira Mesa	1,284,467	73,353	5.7%	7.8%	14,336	-7,891	\$2.02	\$1.96	3.06%	0	0
Poway	1,108,987	22,814	2.1%	2.8%	386	-5,102	\$2.20	\$2.06	6.80%	0	0
Rancho Bernardo/Carmel Mtn Rch	6,446,873	822,547	12.8%	10.0%	-184,747	-165,430	\$3.02	\$3.08	-1.95%	0	0
Scripps Ranch	2,624,054	463,978	17.7%	16.0%	-48,092	-28,079	\$2.77	\$2.77	0.00%	0	0
North County Inland TOTAL	12,444,516	1,545,177	12.4%	10.4%	-201,260	-228,073	\$2.75	\$2.81	-2.14%	80,064	0
Carmel Valley/Del Mar	5,027,259	805,595	16.0%	13.1%	100,575	144,198	\$4.30	\$4.35	-1.15%	288,484	217,235
Governor Park	800,128	99,818	12.5%	12.3%	15,620	-12,535	\$2.67	\$2.83	-5.65%	0	0
La Jolla	1,006,605	205,958	20.5%	14.8%	-55,719	-101,183	\$3.33	\$3.37	-1.19%	0	0
Sorrento Mesa	8,962,949	1,059,463	9.6%	9.2%	-18,208	-105,823	\$3.24	\$3.22	0.62%	28,000	0
Sorrento Valley	431,830	85,311	19.8%	20.3%	-2,581	-42,689	\$1.97	\$2.23	-11.66%	0	0
Torrey Pines	2,882,171	261,837	9.1%	8.1%	-31,222	-31,630	\$4.43	\$4.46	-0.67%	0	198,302
UTC	8,597,688	614,321	7.1%	6.7%	-12,025	119,092	\$3.68	\$3.74	-1.60%	0	369,000
Central Coast TOTAL	27,708,630	3,132,303	11.3%	10.3%	-3,560	-30,570	\$3.60	\$3.59	0.28%	316,484	784,537
North Park/Uptown	1,686,560	145,957	8.7%	7.0%	-28,280	-31,151	\$2.63	\$2.62	0.38%	0	0
Kearny Mesa	10,192,463	1,034,563	10.2%	9.7%	19,486	-236,532	\$2.61	\$2.42	7.85%	90,000	125,000
Mission Valley	6,849,457	819,624	12.0%	10.4%	-110,601	-31,330	\$2.74	\$2.77	-1.08%	0	0
Midway/Point Loma/Coronado	1,949,483	64,543	3.3%	3.1%	-1,288	29,658	\$3.04	\$2.96	2.70%	0	0
Pacific Beach/Bay Ho/Morena	835,677	67,976	8.1%	6.8%	-11,387	-29,637	\$2.12	\$2.08	1.92%	0	0
Central City TOTAL	21,513,640	2,132,663	9.9%	9.0%	-132,070	-298,992	\$2.68	\$2.60	3.08%	90,000	125,000
Downtown Business District	12,981,396	2,788,930	21.5%	18.2%	-128,514	-207,127	\$2.87	\$2.91	-1.37%	372,000	1,072,769
Downtown CBD TOTAL	12,981,396	2,788,930	21.5%	18.2%	-128,514	-207,127	\$2.87	\$2.91	-1.37%	372,000	1,072,769
La Mesa/College Area	2,068,173	120,169	5.8%	4.9%	-18,452	-19,358	\$2.28	\$2.24	1.79%	0	0
El Cajon	779,415	13,500	1.7%	2.1%	3,180	-7,814	\$2.85	\$2.85	0.00%	0	0
Mission Gorge/Santee	635,812	6,735	1.1%	2.4%	8,612	6,352	\$1.98	\$1.95	1.54%	86,000	0
East County TOTAL	3,483,400	140,404	4.0%	3.8%	-6,660	-20,820	\$2.29	\$2.27	0.88%	86,000	0
Chula Vista	1,889,424	150,460	8.0%	8.0%	195	5,547	\$2.54	\$2.56	-0.78%	0	0
National City/Southeast SD	728,564	58,277	8.0%	8.1%	994	-4,283	\$2.07	\$2.12	-2.36%	0	0
Otay Mesa/San Ysidro	231,413	11,663	5.0%	5.1%	-	1,134	\$2.02	\$2.30	-12.17%	0	0
South Bay TOTAL	2,849,401	220,400	7.7%	7.8%	1,189	2,398	\$2.44	\$2.54	-3.94%	0	0
San Diego County TOTAL OFFICE	91,150,336	11,494,472	12.6%	11.2%	-508,117	-689,065	\$3.01	\$3.02	-0.33%	944,548	2,082,306

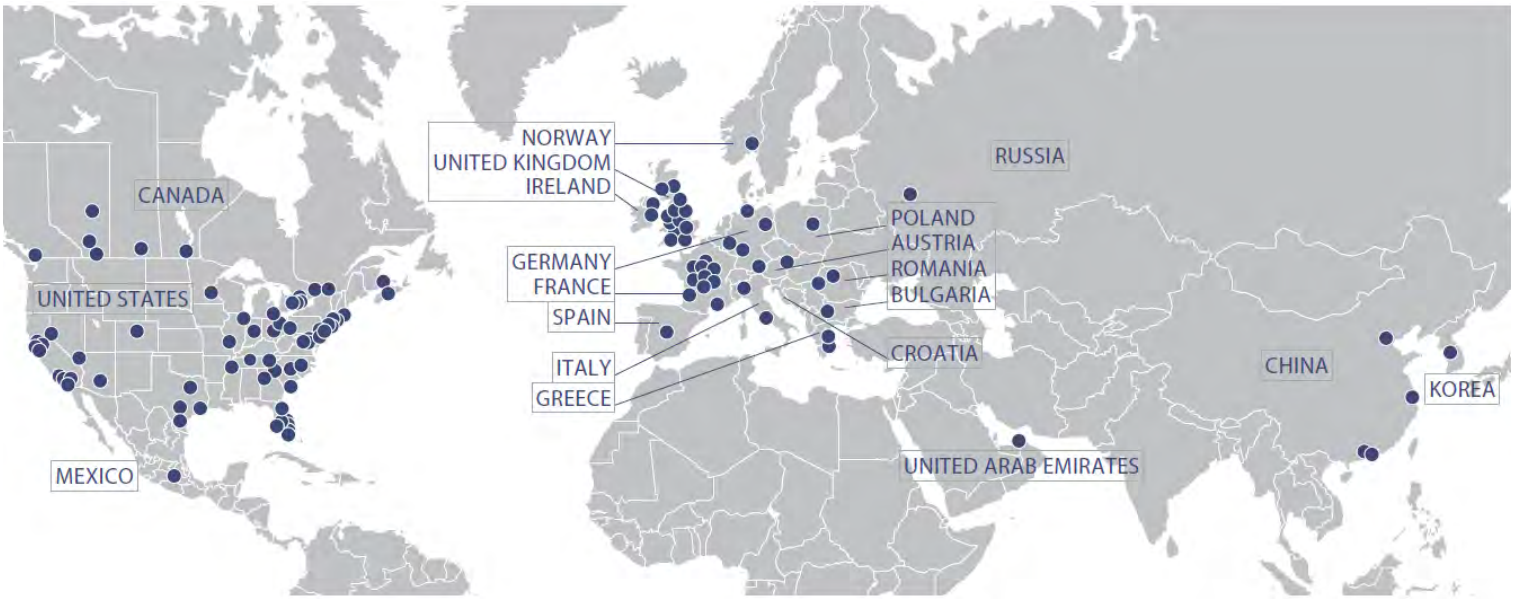


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