

# San Diego Office

## MARKET OVERVIEW

### Q2 2023



## Rent Growth Slowing

After experiencing two years of growth following the COVID-19 pandemic, San Diego's office market struggled in the second quarter of 2023. Deteriorating tenant demand led to negative absorption, increased vacancy rates, and below-average sales volume. The current apprehension of an impending recession, fueled by the Federal Reserve's interest rate hikes and soaring inflation, has prompted numerous tenants to reevaluate their office footprints. Although, despite shrinking demand, rents increased 0.6% quarter-over-quarter and will hold steady or increase as owners remain steadfast that the market will rebound.

### TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.5	3.2	↑	5.2	↑
NET ABSORPTION (Thousands SF)	(365.2)	1073.2	↓	91.5	↓
OVERALL VACANCY RATE	12.4%	11.4%	↑	11.4%	↑
OVERALL VACANT SF (MSF)	12.4	11.4	↑	11.2	↑
UNDER CONSTRUCTION (MSF)	4.1	3.9	↑	2.8	↓
ASKING RENT, FULL SERVICE (PSF)	\$36.72	\$36.41	↑	\$34.97	↔
SALES VOLUME (Millions)	\$211.7	\$518	↓	\$493.2	↓

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern



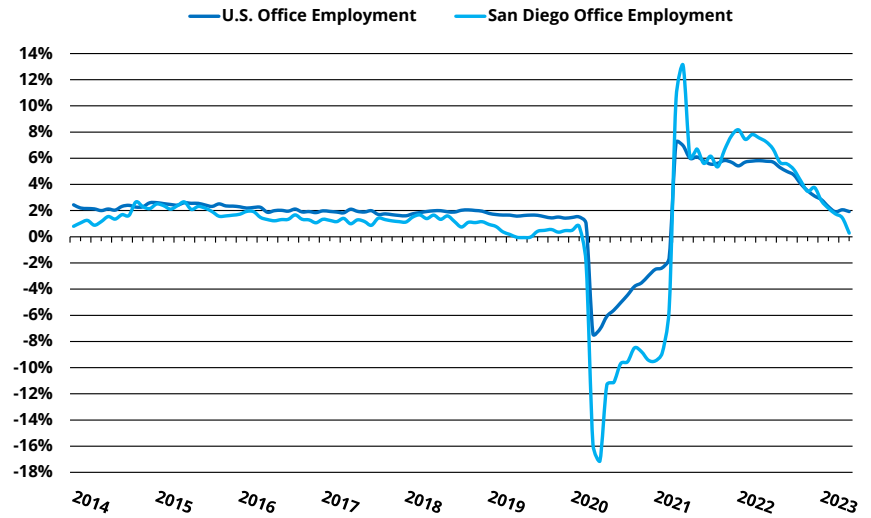
### ECONOMY

#### Rocky Seas on the Horizon

- Amid economic turbulence over the past three months, San Diego lost 19,000 jobs and the office employment rate declined by 1.23%.
- The unemployment rate increased by 30 basis points year-over-year to 3.5% which is slightly below the national unemployment rate of 3.6%.
- Despite regressing Q2 2023, San Diego's office employment remains healthy and stronger than the national average. Job growth has had limited layoffs and is likely to grow modestly.

### Y-O-Y CHANGE IN OFFICE JOBS

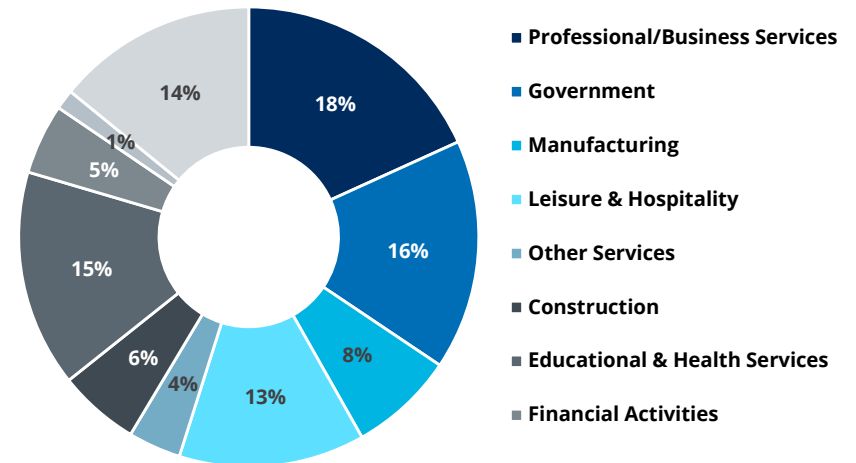
San Diego MSA | June 2023



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

San Diego MSA | June 2023



Source: Bureau of Labor Statistics, Transwestern



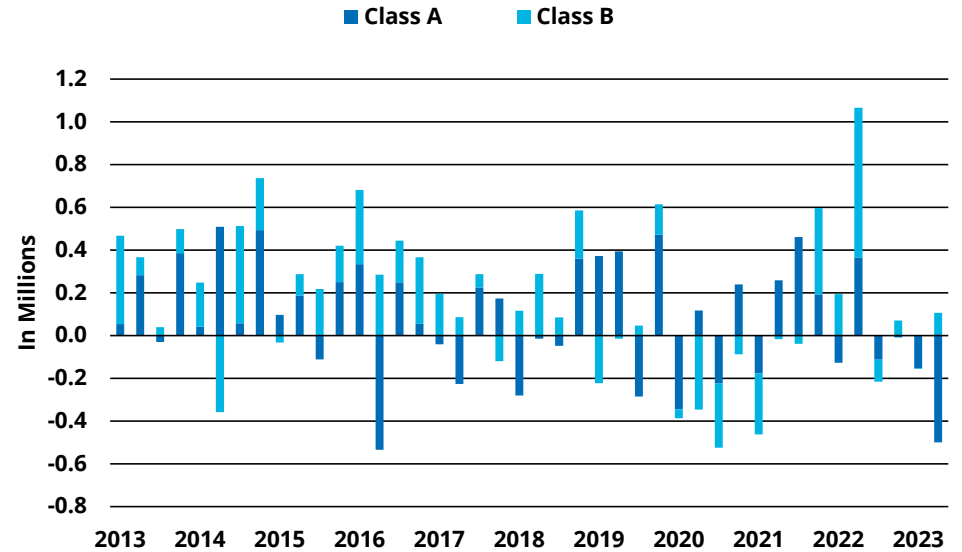
### MARKET FUNDAMENTALS

#### Supply & Demand

- Occupancy levels in the San Diego area have declined because of concerns over an economic recession. Absorption regressed for the second consecutive quarter at negative 365,000 SF, bringing the total over the past two quarters to negative 570,000 SF.
  - Central County and Downtown San Diego had the weakest demand during the quarter with negative 207,000 SF and negative 190,000 SF of net absorption. The I15 Corridor also regressed with negative 20,000 SF of net absorption.
  - North County and South Bay SD had positive net absorption of 7,000 SF and 44,000 SF.
- San Diego office construction reached historic elevation during the past two years following the COVID-19 pandemic. There are 17 buildings and 4.1M SF under construction, which is the most ever in the area.
  - The most notable project, IQHQ's RaDD at 800 Pacific Coast Hwy, is a 770,000 SF 15-story office and life sciences building delivering by the end of September 2023.
  - Despite the current speed of construction, expect activity to flatten or decrease as many developers are reluctant to build in the current lending environment.

### NET ABSORPTION

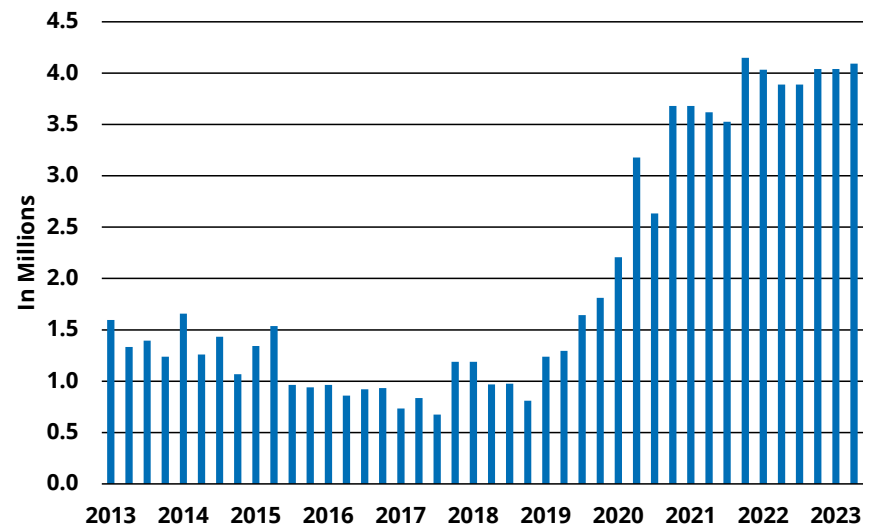
San Diego | Millions SF



Source: CoStar, Transwestern

### UNDER CONSTRUCTION

San Diego | Millions SF



Source: CoStar, Transwestern.



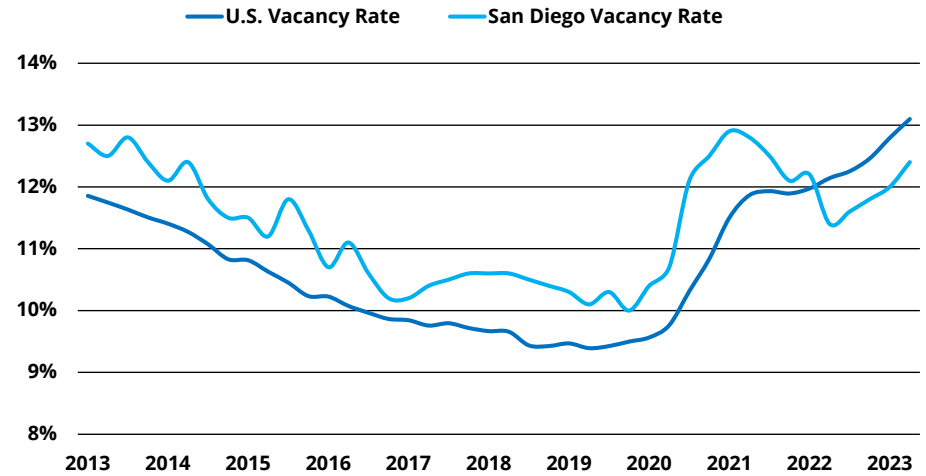
### MARKET FUNDAMENTALS

#### Vacancy

- San Diego vacancy rates increased 1.0% year-over-year and 0.4% quarter-over-quarter to 12.4% in Q2 2023. San Diego vacancy remains below the national average of 13.1%.
- Class A vacancy increased to 17.3% while Class B steadied at 10%.
- Vacancy rates had stabilized at around 10.5% in quarters prior to COVID-19, increased throughout the pandemic, had begun to come back down in months post-pandemic, and are now climbing again.

### VACANCY RATE

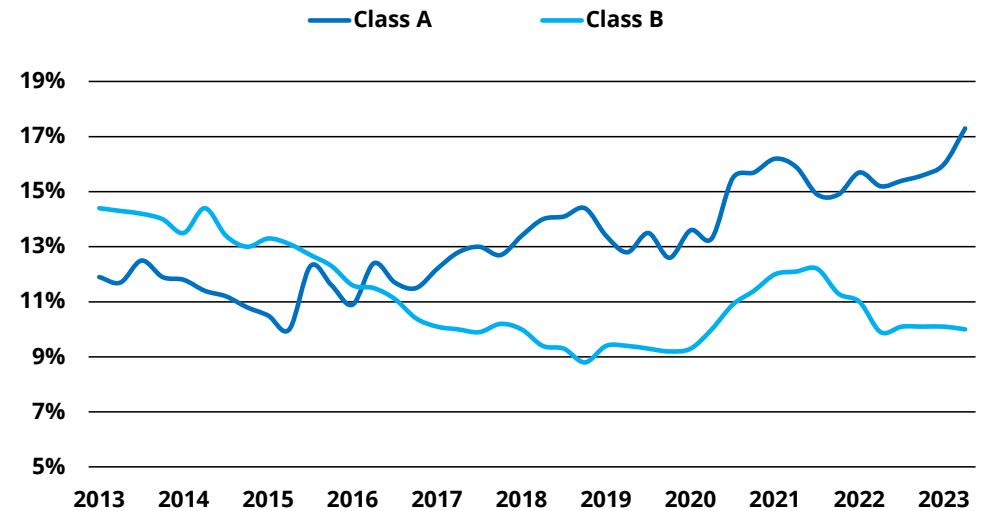
San Diego | % of Stock



Source: CoStar, Transwestern

### OVERALL VACANCY RATE BY CLASS

San Diego | % of Stock



Source: CoStar, Transwestern



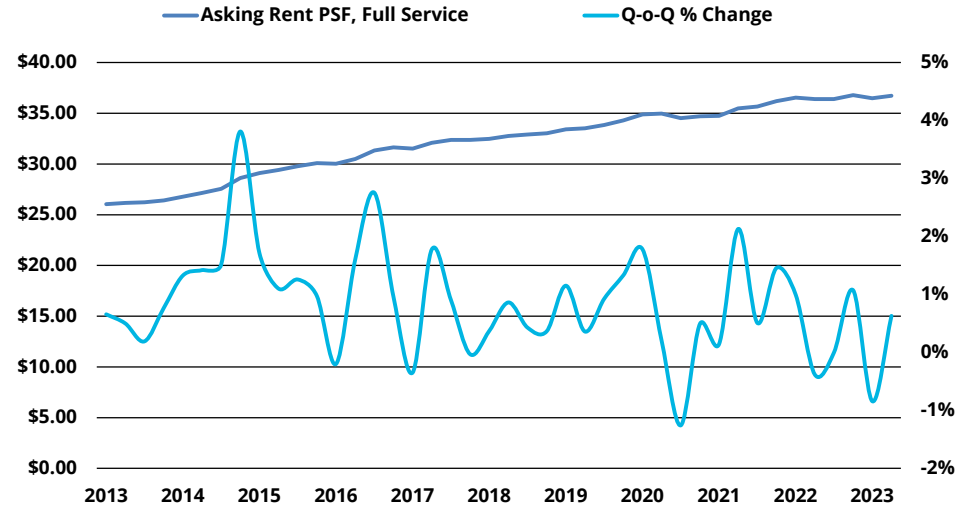
### MARKET FUNDAMENTALS

#### Rents

- Asking rents increased by 0.6% quarter-over-quarter to \$36.72 PSF. Year-over-year, rents have grown 0.85%.
- Central County has the highest rent in the area at an average of \$39.90 PSF. South Bay has the lowest rent at an average of \$28.87 PSF.
- San Diego office rents will continue to grow despite the second consecutive quarter of negative absorption as owners are hesitant to diminish the value of their assets and new Class A deliveries hit the market.

### ASKING RENT

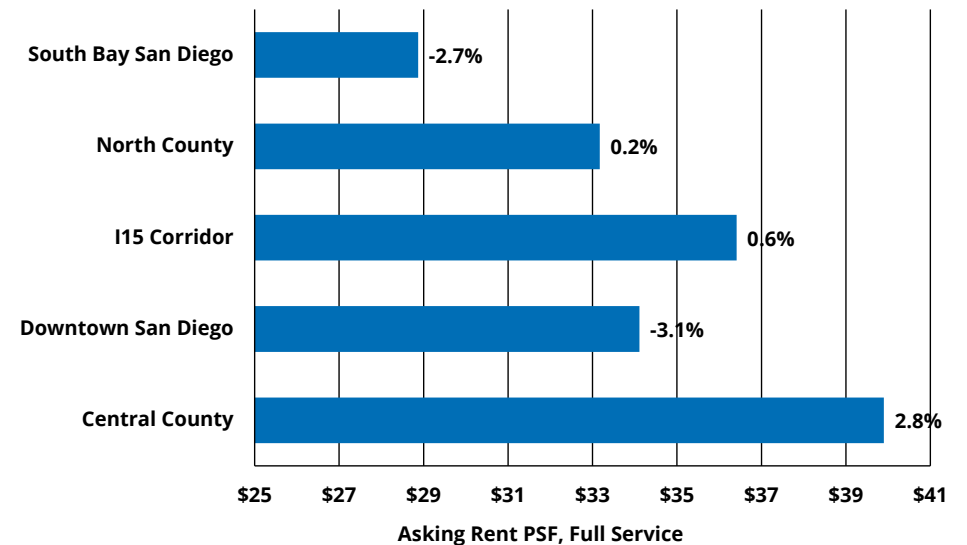
San Diego | \$/SF, Direct Rents



Source: CoStar, Transwestern

### ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH

San Diego | % of Change



Source: CoStar, Transwestern



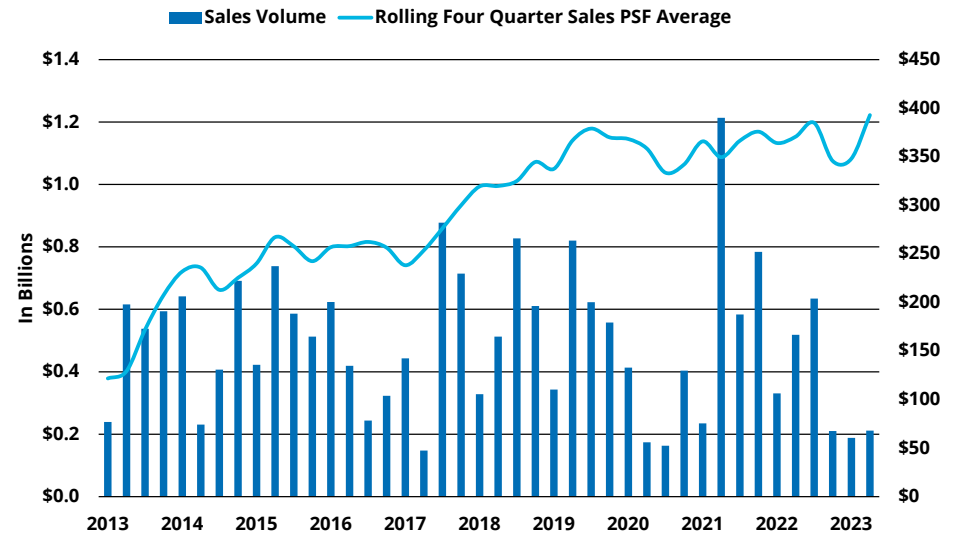
### CAPITAL MARKETS

#### Decrease in Overall Volume

- There were 14 sales totaling \$212M in the quarter, the largest being a 164,000 SF building purchased by Clarion Partners for \$112M at 9625 Towne Centre Dr in Central County.
- Sales volume has steadied at around \$200M over the past three quarters which is less than half the average quarterly sales volume over the last five years, at \$490M.
- Low sales volume was expected as investors are reluctant to make deals in the current lending environment.

### INVESTMENT VOLUME

#### San Diego Market



Source: Transwestern Research,



## NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SQUARE FEET LEASED
SAMSUNG	9869 Scranton Rd	Central County	Renewal	46,101
COSTAR GROUP	4655 Executive Dr	Central County	New	45,706
MCCARTHY BUILDING COMPANIES, INC	12830 El Camino Real	Central County	New	30,294
SANFORD LABRATORIES FOR INNOVATIVE MEDICINES	3535 General Atomics Ct	Central County	New	19,013
RAYTHEON	15110 Avenue of Science	I15 Corridor	New	17,315
SHOPCORE PROPERTIES	10920 Via Frontera	I15 Corridor	Renewal	14,231

## NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
9625 TOWNE CENTRE DR	Central County	\$112,350,000	163,648	\$981	Clarion Partners	Nuveen
5825 OBERLIN DR	Central County	\$36,000,000	60,518	\$595	King Street Properties	Nuveen
5670 OBERLIN DR	Central County	\$11,250,000	20,000	\$563	BioMed Realty	Lawrence Schnadig
3710 RUFFIN RD	Central County	\$7,890,000	20,060	\$393	Cabrillo Federal Credit Union	Council of Community Clinics
10717 SORRENTO VALLEY RD	Central County	\$7,300,000	16,126	\$453	Ankur Bindal	Dong Yi Chen
1011 DEVONSHIRE DR	Central County	\$6,735,000	10,007	\$673	Mknotoma Holdings Inc	Tata Beachside LLC

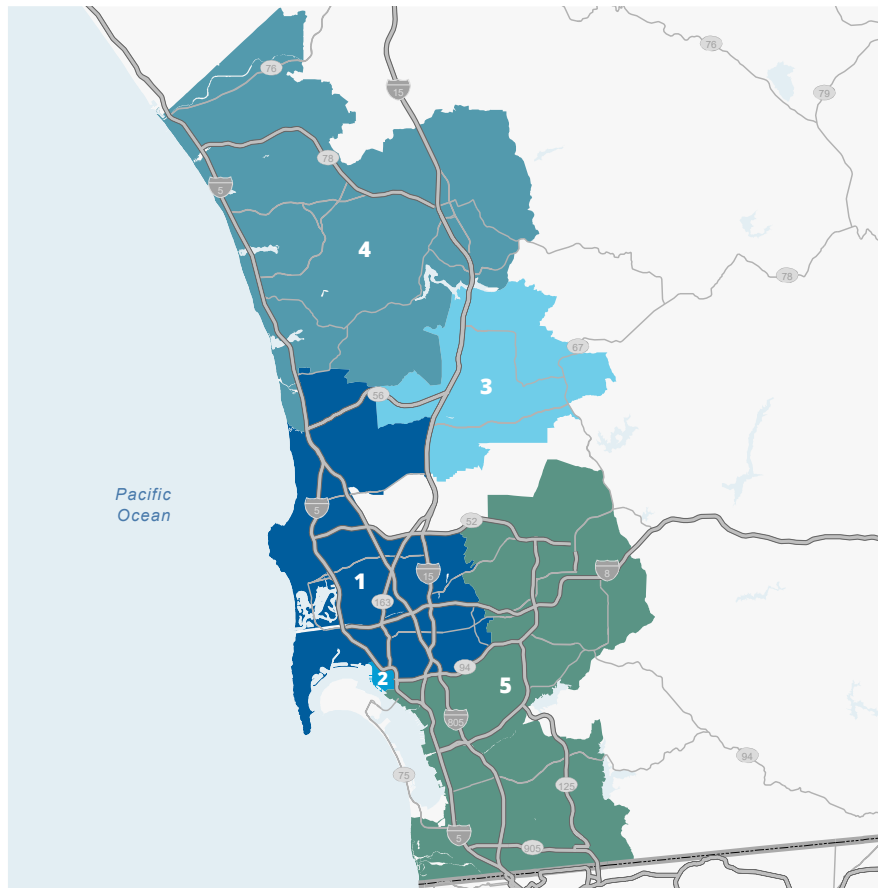
## SUBMARKET FUNDAMENTALS

SUBMARKET	INVENTORY SF	LEASING ACTIVITY SF	TOTAL VACANCY RATE	SUBLEASE AVAILABILITY RATE	QUARTERLY NET ABSORPTION SF	12-MO. NET ABSORPTION SF	UNDER CONSTRUCTION SF	ASKING RENT \$/SF, FULL-SERVICE
CENTRAL COUNTY	54,585,105	4,498,685	8.2%	10.0%	1,238,658	(207,437)	(259,350)	\$39.90
DOWNTOWN SAN DIEGO	13,409,334	3,382,407	25.2%	25.8%	2,715,518	(190,211)	(216,659)	\$34.11
I15 CORRIDOR	10,323,047	1,233,473	11.9%	14.2%	83,482	(19,563)	238,515	\$36.41
NORTH COUNTY	14,512,816	1,543,237	10.6%	11.6%	54,845	7,062	(40,455)	\$33.17
SOUTH BAY SAN DIEGO	7,033,418	310,327	4.4%	4.5%	0	44,046	(46,971)	\$28.87
<b>TOTAL</b>	<b>99,863,720</b>	<b>10,968,129</b>	<b>12.1%</b>	<b>13.2%</b>	<b>4,092,503</b>	<b>(73,221)</b>	<b>(64,984)</b>	<b>\$34.49</b>

## SUBMARKET MAP

### San Diego Office Submarkets

- 1** Central County SD
- 2** Downtown San Diego
- 3** I-15 Corridor
- 4** North County
- 5** South Bay SD



### FOR MORE INFORMATION

**Carter Clemmensen**

Research Analyst  
carter.clemmensen@transwestern.com  
(213) 258-4709

### RESEARCH METHODOLOGY

The information in this report is a compilation of single-tenant and multi-tenant office properties 10,000 SF and larger in San Diego. Medical offices and government-owned buildings are excluded from analysis.

### ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with fresh ideas, the firm drives value for clients across commercial real estate services, development, and investment management. Operating from 33 U.S. office, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at [transwestern.com](https://www.transwestern.com).