

San Diego Office

MARKET OVERVIEW

Q2 2023

ECONOMIC SNAPSHOT FOR SAN DIEGO

AVERAGE WAGE GROWTH 2.5%

UNEMPLOYMENT RATE 3.5%

INFLATION RATE 5.2%

SAN DIEGO OFFICE SNAPSHOT

YTD NET ABSORPTION (440,270) SF

UNDER CONSTRUCTION 4,092,503 SF

TOTAL VACANCY RATE 12.4%

SUBLEASE VACANCY RATE 1.4%

DIRECT ASKING RATE \$36.72/SF

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.

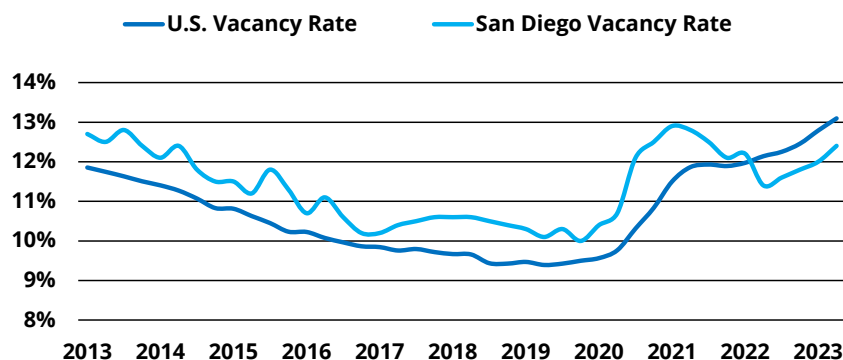
2022 Q1	\$36.55	2022 Q4	\$36.80
2022 Q2	\$36.41	2023 Q1	\$36.49
2022 Q3	\$36.41	2023 Q2	\$36.72

San Diego Office 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	↓

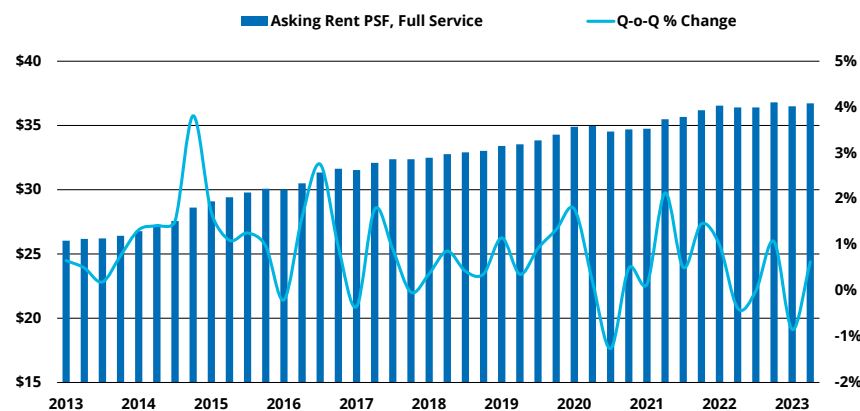
Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

Overall Vacancy Rate



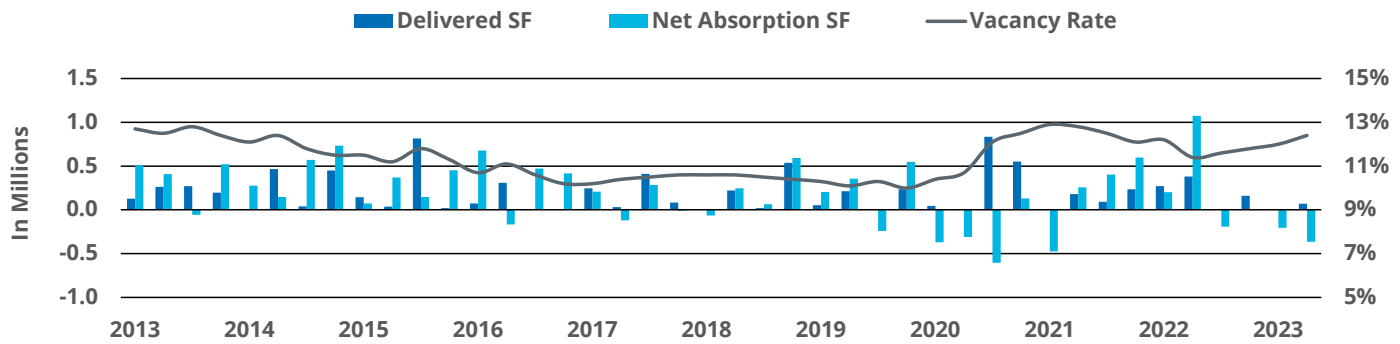
Source: CoStar, Transwestern

Asking Rent



Source: CoStar, Transwestern

Delivery Impact on Key Indicators



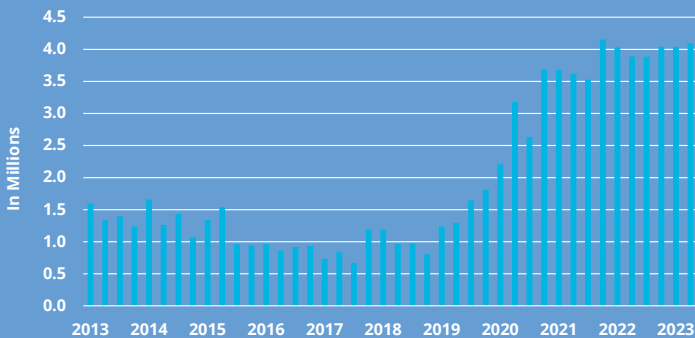
Source: CoStar, Transwestern

Market Indicators: All Classes of Space | Q2 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF, 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
TOTAL	99,863,720	10,968,129	12.1%	13.2%	4,092,503	(73,221)	(64,984)	\$34.49

Source: CoStar, Transwestern

Under Construction

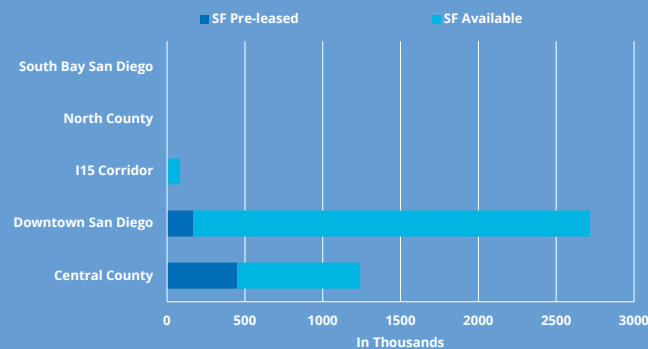


Source: CoStar, Transwestern

Historic Levels of Construction

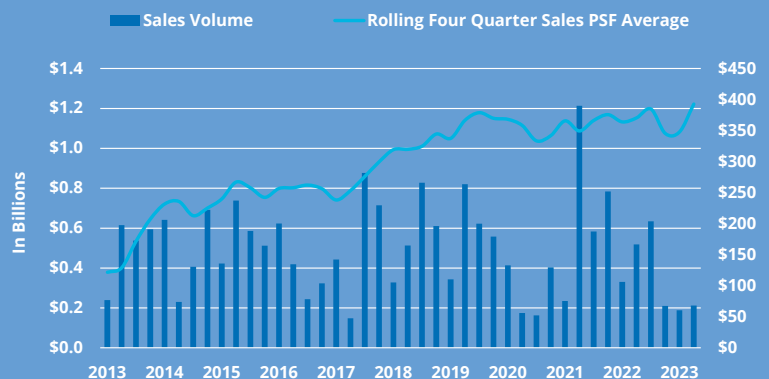
- San Diego office construction reached historic elevation during the past two years following the COVID-19 pandemic. There are 17 buildings and 4.1M SF under construction, which is the most ever in the area.
- The most notable project, IQHQ's RaDD at 800 Pacific Coast Hwy, is a 770,000 SF 15-story office 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.

Under Construction by Submarket



Source: CoStar, Transwestern

Sales Volume



Source: CoStar, Transwestern

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