

# SAN DIEGO OFFICE MARKET

## Q3 2023



### ECONOMIC SNAPSHOT FOR SAN DIEGO

UNEMPLOYMENT RATE 4.1%  
INFLATION RATE 4.7%

### OFFICE SNAPSHOT

YTD NET ABSORPTION SF (478,779)  
VACANCY RATE 12.3%  
UNDER CONSTRUCTION SF 3,678,318  
SUBLEASE VACANT SF 3,061,731  
DIRECT ASKING RATE \$3.06/SF

## San Diego Office Rents Held Steady Despite The 3rd Straight Quarter of Negative Net Absorption

After two years of growth following the COVID-19 pandemic, San Diego's office market regressed for the third consecutive quarter; net absorption was negative 34,121 SF and vacancy increased to 12.3%. The current apprehension of an impending recession, fueled by the Federal Reserve's interest rate hikes and inflation, has prompted tenants to downsize their footprints, or take a wait-and-see approach. Asking rents held steady at \$3.06 per SF and have increased 0.8% year-over-year as owners attempt to maintain property values.

Downtown San Diego, with a vacancy rate of 25.2%, is providing concessions and TI allowances to attract tenants. Central County, which had positive net absorption of 63,638 SF, is asking an average of \$3.48 per SF, the highest in San Diego. Suburban, well-equipped, Class A properties in safe submarkets, like La Jolla, is what has attracted occupiers to transact in San Diego during an increasingly uncertain economic period.

Sales volume was half of its total from Q2, and 78.5% below the 5-year quarterly average, at \$101 million in Q3. The most notable sale was at 2127 W Citracado Parkway, purchased for \$60 million by Harrison Street Capital. Low sales volume was expected and will continue as investors are reluctant to make deals in the current lending environment.

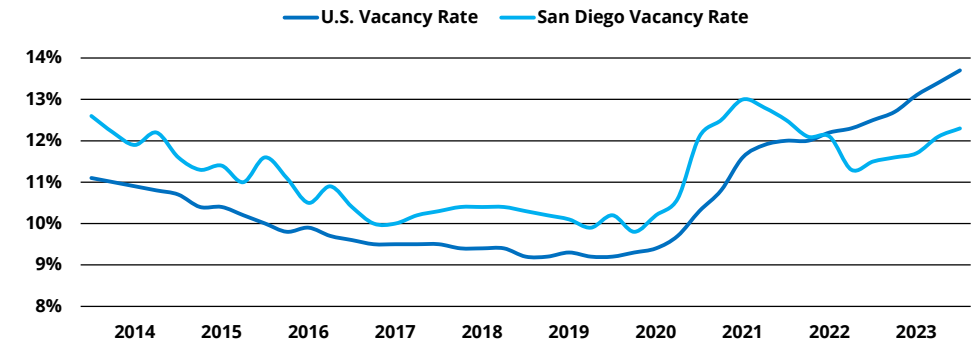
### Trendlines

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Unemployment Rate	4.1%	3.4%	↑	5.2%	↑
Net Absorption (Thousands Sf)	(34.1)	(86.3)	↑	83.6	↓
Overall Vacancy Rate	12.3%	11.5%	↑	11.4%	↑
Overall Vacant Sf (Msf)	12.4	11.5	↑	11.2	↑
Under Construction (Msf)	3.7	3.9	↓	2.9	↓
Asking Rent, Full Service (Psf)	\$3.06	\$3.04	↑	\$2.93	↔
Sales Volume (Millions)	\$101.1	\$630	↓	\$469.0	↔

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

## Overall Vacancy Rate

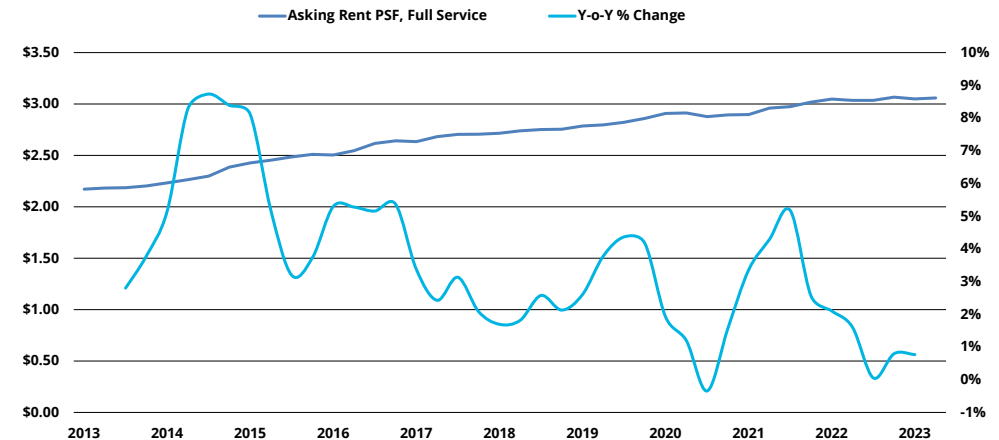
San Diego | Q3 2023



Source: Bureau of Labor Statistics, Transwestern

## Asking Rents

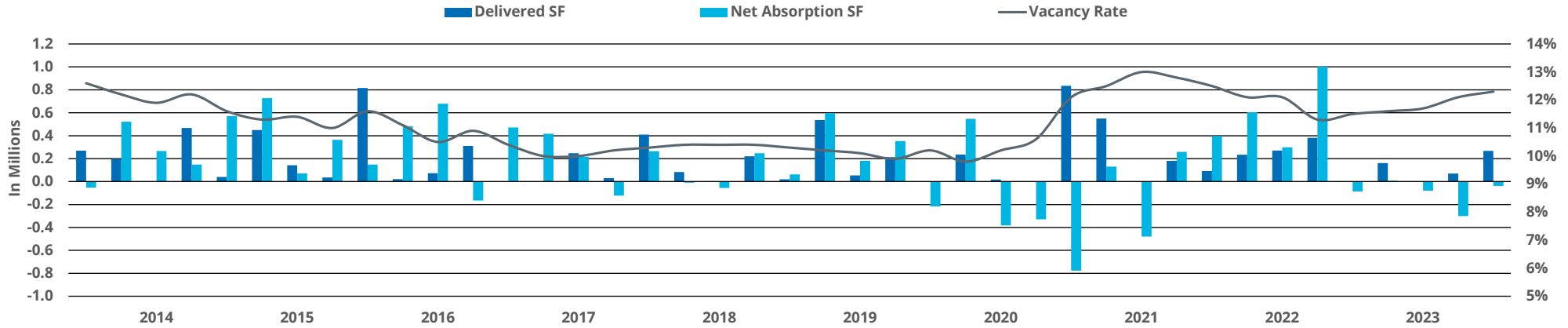
San Diego | Q3 2023



Source: Bureau of Labor Statistics, Transwestern



### Delivery Impact on Key Indicators



Source: CoStar, Transwestern

### Market Indicators All Classes of Space | Q3 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	54,557,789	4,624,139	8.5%	8.9%	711,318	63,638	(30,305)	\$3.48
Downtown San Diego	13,409,891	3,305,478	24.6%	23.2%	2,715,518	(47,086)	(279,056)	\$3.05
I15 Corridor	10,427,373	1,198,123	11.5%	13.7%	83,482	40,695	(74,744)	\$3.21
North County	14,547,771	1,649,757	11.3%	11.2%	0	(79,640)	(184,555)	\$2.92
South Bay San Diego	7,112,966	335,954	4.7%	4.6%	168,000	(11,728)	(78,795)	\$2.64
<b>Total</b>	<b>100,055,790</b>	<b>11,113,451</b>	<b>12.1%</b>	<b>12.3%</b>	<b>3,678,318</b>	<b>(6,824)</b>	<b>(129,491)</b>	<b>\$3.06</b>

Source: CoStar, Transwestern

### Market Indicators Class A | Q3 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	22,226,384	2,079,984	9.4%	11.8%	711,318	183,904	(167,095)	\$3.88
Downtown San Diego	9,130,016	2,482,876	27.2%	28.0%	2,715,518	(8,079)	(246,356)	\$3.15
I15 Corridor	4,669,143	662,565	14.2%	18.4%	0	(9,394)	(144,276)	\$3.46
North County	3,305,651	503,938	15.2%	18.4%	0	(31,099)	(194,677)	\$3.07
South Bay San Diego	714,967	80,118	11.2%	11.2%	168,000	7,460	(11,659)	\$3.01
<b>Total</b>	<b>40,046,161</b>	<b>5,809,481</b>	<b>15.4%</b>	<b>17.6%</b>	<b>3,594,836</b>	<b>28,558</b>	<b>(152,813)</b>	<b>\$3.31</b>

Source: CoStar, Transwestern



### Notable Leases

Tenant	Address	Submarket	Type	SF Leased
San Diego Association of Gov.	1011 Union St	Downtown SD	New	87,309
ASML	16705 Via del Campo Ct.	I15 Corridor	New	55,227
Malin Space Science Systems	15253 Avenue of Science	I15 Corridor	New	37,437
ClickUp	350 10th Ave.	Downtown SD	Renewal	30,807
Capital Partner Services Corp	5928 Pascal Ct.	North County	Renewal	25,341
Farmers Insurance	3111 Camino del Rio	Central County	Renewal	20,871

Source: CoStar, Transwestern

### Notable Sales

Tenant	Submarket	Sales Price	Building SF	Price PSF	Buyer	Seller
2127 W Citracado Pky.	N. County	\$60,200,000	75,000	\$803	Harrison Street Capital	JRMC Real Estate Inc
9555 Chesapeake Dr.	Cntl. County	\$17,750,000	60,000	\$296	SD Unified School District	The Sason Organization
4933 Paramount Dr.	Cntl. County	\$7,650,000	18,752	\$408	HC Integrated Systems	American Council on Exercise
3636 4th Ave.	Cntl. County	\$6,680,000	26,607	\$251	Dorit Miller PSYD	Artiano Shinoff
1530 Faraday Ave.	N. County	\$4,420,000	13,093	\$338	Core Contracting Inc	Premier Realty Management
5958 Priestly Dr.	North County	\$4,360,000	17,056	\$256	Conjupro Biotherapeutics Inc	Bobbi Marin

Source: CoStar, Transwestern

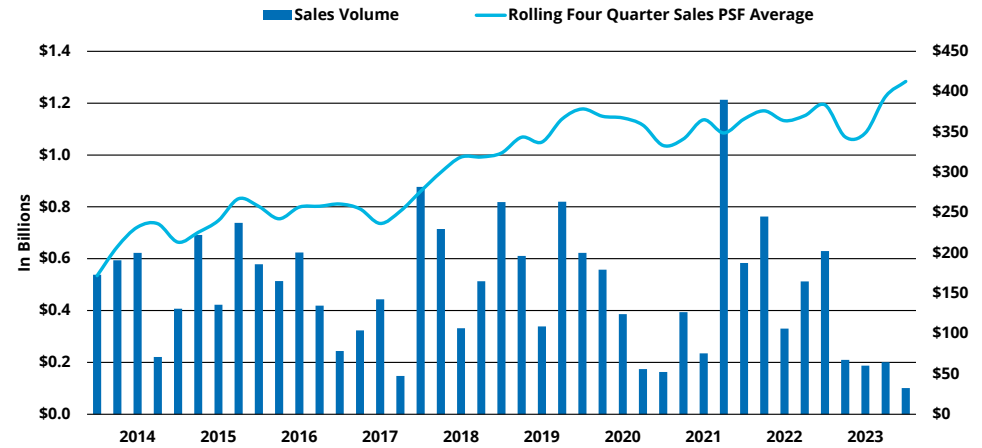
### RESEARCH METHODOLOGY

The information in this report is a compilation of single- 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

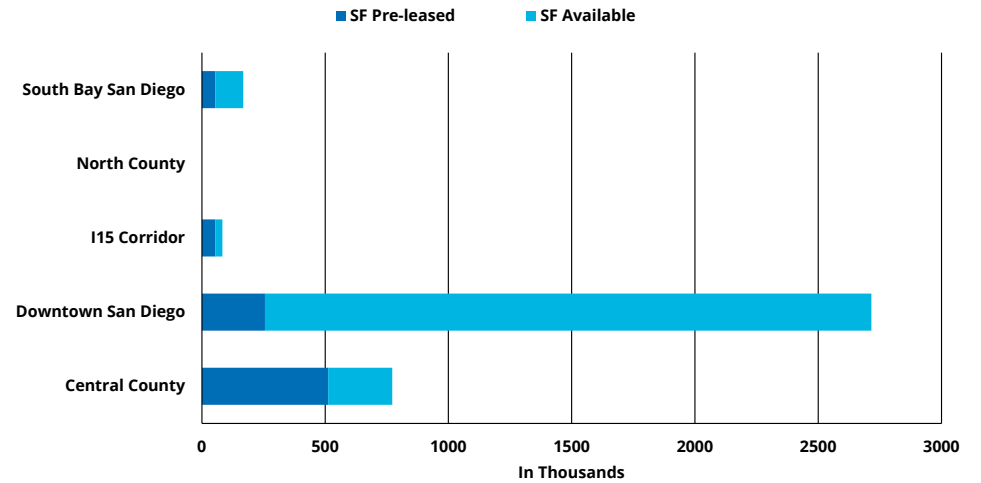
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### Sales Volume



Source: CoStar, Real Capital Analytics, Transwestern

### Under Construction by Submarket



Source: CoStar, Transwestern



### FOR MORE INFORMATION

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