

MARKET TRENDS | **SAN DIEGO**

# OFFICE

**3RD QUARTER**  
**2019**

- ▲ **ABSORPTION**
- ▲ **VACANCY**
- ▲ **RENTAL RATE**
- ▲ **CONSTRUCTION DELIVERIES**

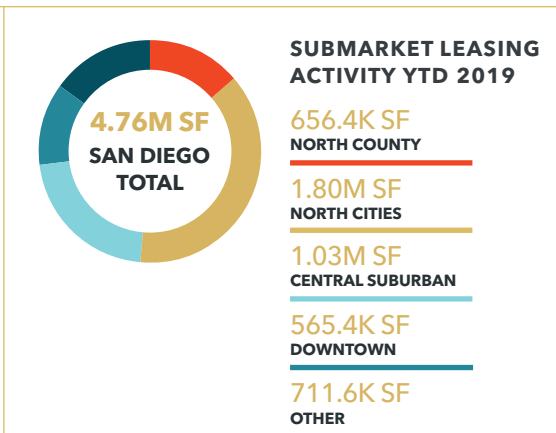
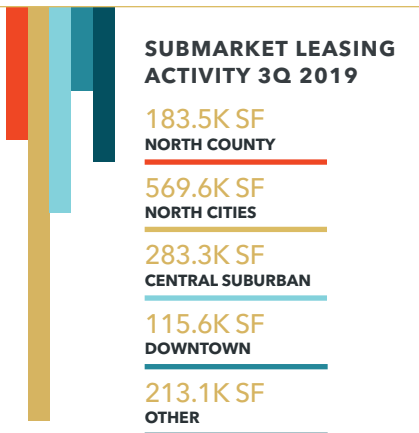
After a record-breaking second quarter, the San Diego office market cooled off a bit in the third quarter but demand remains steady. The vacancy rate continues to hover around the record low, and on the other end of the spectrum, asking rental rates soared to yet another all-time record high. Market pricing for sales transactions this quarter remain at an all-time high as well. Although the quarter ended with slight negative absorption for the office market, the overall year-to-date net absorption still remains positive.

The foundation of San Diego’s office market remains sturdy, with a strong employment base sustained by tech, life sciences, and healthcare. Occupancy levels continue to remain at the highest they’ve been in over 10 years, helping with strong positive net absorption on an annual basis and low availability rates. With these solid fundamentals, paired with a robust local economy and diverse employment base, the office market is anticipated to persist and grow in demand, albeit at a slower pace than previous years in the cycle.

Overall employment growth remains positive, as the San Diego County unemployment rate drops 20 basis points (bps) to 3.4% month-over-month, and below the year-ago estimate of 3.5%. The unemployment rate continuously beats that of the state and the nation, comparing at 4.2% and 3.8% respectively. According to the State of California’s Employment Development Department, San Diego County’s total non-farm employment increased by 27,400 jobs year over year between August 2018 and August 2019. Apple, the tech giant, committed to providing 1,200 jobs in San Diego by the end of 2021 after signing a 100,000 s.f. deal in UTC in 2018, into which they plan on moving by year’s end.

The office market reflected slight negative absorption at the end of the third quarter at approximately 174,276 s.f. However, year-to-date absorption for the year remains positive at 518,083 s.f. Net absorption for Class B space at the end of the quarter was approximately -162,000 s.f., which had the most impact on absorption for the office market. Class A office space did post positive absorption, although it had almost no bearing on the overall negative absorption for the quarter as it was a minimal 2,000 s.f. While leasing volume decreased from last quarter and year-over-year, posting 1.36M s.f. in the third quarter, the number of deals has kept pace reflecting that tenants may be taking relatively smaller spaces than in previous years. While Class A space showed a higher demand in the past few quarters, tenants showed a renewed interest in the Class B office market. Class A posted just over 580,000 s.f. in leasing activity while Class B took the lead with nearly 676,000 s.f.

Asking lease rates climbed to a record-breaking rate of \$2.82/s.f. on a full service basis, passing second quarter’s previous record high of \$2.80, further reflecting the



**3Q 2019 MARKET HIGHLIGHTS**

**VACANCY** ticks up 20 bps from 2Q 2019 to 10.5%

**RENTAL RATES** are on the 31st consecutive quarter of positive growth, at an all-time high of \$2.82/s.f. FS

**AVG SALE PRICE** is at a post-recession record high of \$367/s.f. YTD

vastly competitive nature of the San Diego market. Additionally, the office market has not experienced a rent loss for 31 consecutive quarters. The Class A space averaged an astounding new high of \$3.41/s.f. and Class B office product averaged a record number as well at \$2.56/s.f. on a full service basis across the San Diego market. Many of the submarkets that are in high demand from office users are posting well above \$3.00/s.f., with both Del Mar Heights/Carmel Valley and Torrey Pines at a staggering average of \$4.39/s.f. Kilroy's One Paseo project in Carmel Valley, currently underway and projected to deliver in 1Q 2020, includes office asking rates that are upwards of \$5.00/s.f. Low vacancies and limited spec construction have aided the market's rent growth, which is still recording above the long-term average.

At the end of this quarter, the vacancy rate rose slightly to 10.5%, up 20 bps from last quarter, but holding firm at the record low annual rate from 2017, which posted at the same rate of 10.5%. The Vista submarket keeps the highest rate of 22.6%, the highest vacancy rate in San Diego, a result from DJO Global's move out in the first quarter of their 111,000 s.f. at 1430 Decision Street, which is still available on the market and has yet to ink a new tenant. New supply has been minimal throughout the years and a majority of the current projects are build-to-suits for tech firms rather than spec developments, neither of which aid in the relief of the downward pressure of record low vacancy rates. However, the city council recently approved the redevelopment of Horton Plaza downtown which will be repositioned into a tech campus that could help in revamping the area in terms of employment and community growth.

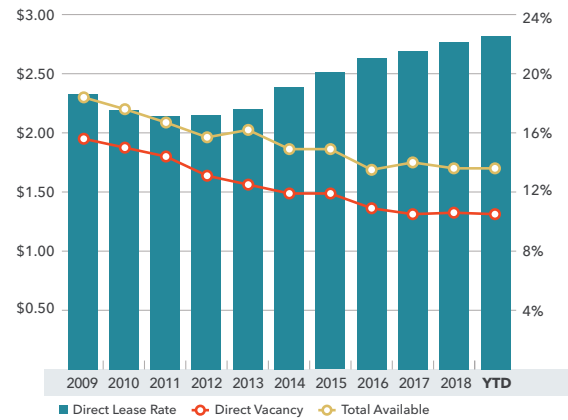
Tightened vacancies, lack of new supply and consistent rent growth have contributed to the confidence of investors in the San Diego County. The average price per square foot holds at the record high of \$367/s.f. foot year-to-date. American Assets Trust purchased La Jolla Commons for \$525M in June contributing to the increase in average market prices for the county. Hines and JP Morgan Chase sold the two office towers, along with an entitled development parcel and two parking structures, in what is the biggest office deal in the past 20 years. One of the towers was fully leased to LPL Financial. Market cap rates have held steady at 6%, a higher yield than in either industrial or apartment sectors.

Source: CoStar, KM Research, and SDBJ

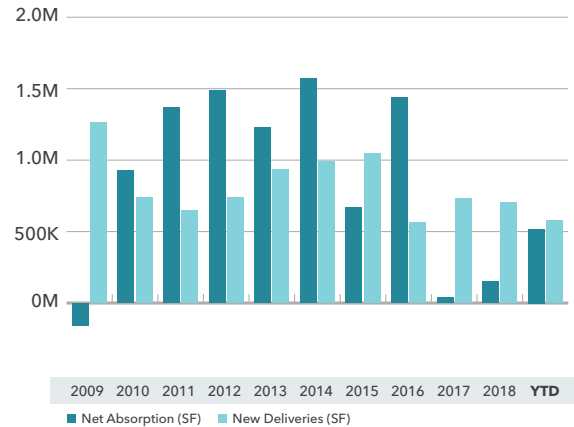
## Market Breakdown

	3Q 2019	2Q 2019	3Q 2018	Annual % Change
Vacancy Rate	10.50%	10.30%	10.50%	0%
Availability Rate	13.60%	13.80%	13.60%	0%
Asking Lease Rate	\$2.82	\$2.80	\$2.75	2.55%
Leased SF	1,361,711	1,782,145	1,998,384	-31.86%
Sold SF	1,591,472	1,877,517	2,388,643	-33.37%
Net Absorption	-174,276	209,566	53,793	N/A

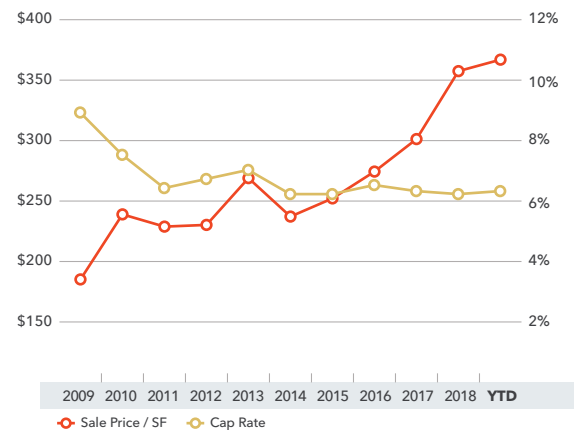
### LEASE RATE, VACANCY & AVAILABILITY



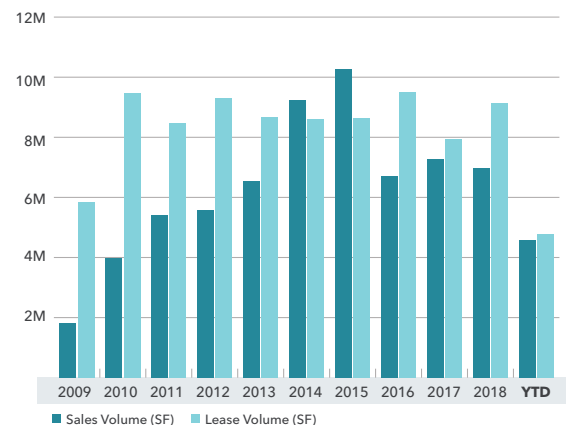
### NET ABSORPTION & NEW DELIVERIES



### AVERAGE SALE PRICE & CAP RATES

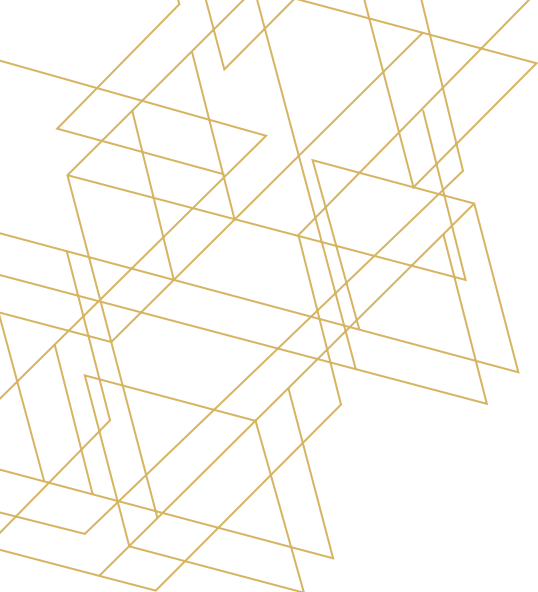


### SALES VOLUME VS. LEASE VOLUME



## SAN DIEGO SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Leasing Activity	YTD Leasing Activity	Direct Rental Rate (FS)
Carlsbad	6,809,620	15.7%	15.9%	19.1%	9,756	302,734	130,841	476,182	\$2.59
Escondido	1,685,940	7.4%	8.3%	11.8%	(4,093)	39,075	17,712	43,110	\$2.05
Oceanside	1,349,020	10.3%	10.3%	15.3%	25,072	861	12,374	30,392	\$2.08
San Marcos	1,407,116	6.5%	6.5%	6.9%	9,504	12,724	14,342	46,157	\$2.39
Vista	1,243,540	13.6%	22.6%	26.0%	12,269	39,622	8,213	60,562	\$1.72
<b>North County</b>	<b>12,495,236</b>	<b>12.8%</b>	<b>13.9%</b>	<b>17.0%</b>	<b>52,508</b>	<b>395,016</b>	<b>183,482</b>	<b>656,403</b>	<b>\$2.35</b>
Poway	1,325,923	1.8%	1.8%	4.7%	3,373	11,727	5,508	24,857	\$2.35
Rancho Bernardo	6,796,745	10.6%	10.7%	16.0%	(66,221)	18,355	66,233	172,818	\$3.07
Scripps Ranch	2,896,434	15.2%	15.4%	21.6%	184,254	197,303	25,140	165,567	\$2.63
<b>Suburban Total</b>	<b>11,019,102</b>	<b>10.8%</b>	<b>10.8%</b>	<b>16.1%</b>	<b>121,406</b>	<b>227,385</b>	<b>96,881</b>	<b>363,242</b>	<b>\$2.87</b>
Del Mar Heights/Carmel Valley	4,758,981	13.2%	13.6%	20.5%	35,963	150,317	144,241	569,076	\$4.39
Governor Park	889,275	9.8%	9.8%	12.3%	5,863	(8,211)	14,793	47,069	\$2.70
La Jolla	1,342,740	11.2%	11.5%	15.4%	16,810	(88,302)	4,848	38,454	\$3.48
Miramar	1,487,988	5.4%	6.7%	10.3%	(10,911)	(4,385)	15,617	47,484	\$1.74
North Beach Cities	2,344,002	6.2%	6.3%	10.0%	6,435	45,383	42,405	159,617	\$3.57
Sorrento Mesa	9,747,279	10.8%	12.5%	15.0%	52,048	2,969	188,241	487,467	\$2.70
Sorrento Valley	800,871	12.0%	12.1%	13.1%	(32,549)	(20,945)	4,194	26,473	\$2.64
Torrey Pines	2,964,680	6.9%	7.9%	10.9%	(141,266)	(150,232)	5,417	34,288	\$4.39
UTC	8,814,742	7.0%	8.1%	7.8%	(160,560)	151,289	149,823	394,767	\$3.44
<b>North Cities</b>	<b>33,150,558</b>	<b>9.2%</b>	<b>10.3%</b>	<b>12.8%</b>	<b>(228,167)</b>	<b>77,883</b>	<b>569,579</b>	<b>1,804,695</b>	<b>\$3.34</b>
Kearny Mesa	11,006,451	6.9%	7.2%	11.1%	(2,265)	8,572	115,702	472,178	\$2.26
Mission Gorge	567,430	1.9%	1.9%	2.4%	5,102	(768)	1,524	14,423	\$1.96
Mission Valley	7,221,846	10.5%	11.2%	13.7%	(23,752)	(100,899)	129,945	402,603	\$2.71
Old Town/Sports Arena/Pt. Loma	2,411,291	4.1%	4.1%	5.1%	39,483	27,625	22,261	75,073	\$2.70
PB/Rose Canyon/Morena	1,233,791	3.8%	3.8%	4.9%	12,040	17,368	13,858	61,031	\$2.01
<b>Central Suburban</b>	<b>22,440,809</b>	<b>7.5%</b>	<b>7.8%</b>	<b>10.7%</b>	<b>30,608</b>	<b>(48,102)</b>	<b>283,290</b>	<b>1,025,308</b>	<b>\$2.43</b>
College Area	1,216,139	4.2%	4.2%	8.3%	(7,832)	(9,904)	9,460	16,531	\$2.39
East County	3,609,149	3.9%	4.0%	4.3%	(16,725)	(8,865)	73,309	136,536	\$2.09
<b>East County</b>	<b>4,825,288</b>	<b>4.0%</b>	<b>4.0%</b>	<b>5.3%</b>	<b>(24,557)</b>	<b>(18,769)</b>	<b>82,769</b>	<b>153,067</b>	<b>\$2.17</b>
Park East	155,884	7.4%	7.4%	7.4%	(9,253)	(10,400)	0	6,408	\$2.46
Uptown East	117,238	9.5%	9.5%	9.5%	818	(10,304)	0	0	\$2.07
Uptown West/Park West	2,212,048	5.3%	5.3%	8.5%	1,995	2,319	5,927	42,057	\$2.67
<b>Uptown</b>	<b>2,485,170</b>	<b>5.7%</b>	<b>5.7%</b>	<b>8.5%</b>	<b>(6,440)</b>	<b>(18,385)</b>	<b>5,927</b>	<b>48,465</b>	<b>\$2.63</b>
<b>Downtown</b>	<b>13,024,034</b>	<b>16.7%</b>	<b>17.3%</b>	<b>20.6%</b>	<b>(116,911)</b>	<b>(125,863)</b>	<b>115,572</b>	<b>565,412</b>	<b>\$2.86</b>
Chula Vista	2,840,906	6.6%	6.6%	9.4%	5,670	38,421	19,411	138,713	\$2.47
Coronado	124,831	6.0%	6.0%	3.3%	(300)	(1,214)	6,313	6,313	\$4.03
National City	528,472	1.4%	1.4%	2.9%	(5,645)	(6,480)	1,806	1,806	\$1.73
Otay Mesa	187,078	4.6%	4.6%	23.0%	0	(4,309)	0	0	\$2.09
San Ysidro/Imperial Beach	132,746	3.2%	3.2%	3.2%	(2,448)	(4,198)	0	0	-
Southeast San Diego	444,085	11.9%	11.9%	11.9%	0	6,698	0	0	\$2.35
<b>South County</b>	<b>4,258,118</b>	<b>6.3%</b>	<b>6.3%</b>	<b>9.1%</b>	<b>(2,723)</b>	<b>28,918</b>	<b>27,530</b>	<b>146,832</b>	<b>\$2.20</b>
Class A	37,273,555	11.3%	12.1%	15.4%	2,708	922,627	587,871	2,084,191	\$3.41
Class B	52,296,337	10.1%	10.7%	13.8%	(162,476)	(434,912)	675,966	2,353,438	\$2.56
Class C	14,116,023	5.9%	6.0%	8.1%	(14,508)	30,348	101,193	325,795	\$2.07
<b>San Diego Total</b>	<b>103,698,315</b>	<b>9.9%</b>	<b>10.5%</b>	<b>13.6%</b>	<b>(174,276)</b>	<b>518,063</b>	<b>1,365,030</b>	<b>4,763,424</b>	<b>\$2.82</b>



## Notable Sale Transactions

**JLL INCOME PROPERTY TRUST** purchased Genesee Plaza in UTC  
161,184 s.f. | \$90.0M or \$558/s.f.

**PARALLEL CAPITAL PARTNERS, INC.** purchased Sky Park Office Plaza in Kearny Mesa  
203,258 s.f. | \$50.6M or \$249/s.f.

**BIOMED REALTY** purchased Wateridge in Sorrento Mesa  
125,276 s.f. | \$41.5M or \$331/s.f.

## Notable Lease Transactions

**ILLUMINA** 4747 Executive Dr, UTC  
76,000 s.f. leased

**VIASAT, INC.** 2548 Campbell Pl, Carlsbad  
47,500 s.f. leased

**BRAIN CORP.** 10182 Telesis Ct, Sorrento Mesa  
43,052 s.f. leased expansion



Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 800 real estate professionals and staff in 22 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt equity finance services for all property types.

The information in this report was composed by the Kidder Mathews Research Group.

**JERRY HOLDNER**  
Director of Research  
949.557.5050  
[jerry.holdner@kidder.com](mailto:jerry.holdner@kidder.com)

**MARK READ**  
Regional President, Brokerage Southwest  
858.509.1200  
[mark.read@kidder.com](mailto:mark.read@kidder.com)  
LIC N° 00572743

[KIDDER.COM](http://KIDDER.COM)

### COMMERCIAL BROKERAGE

<b>20M</b>	<b>ANNUAL SALES SF</b>	<b>420+</b>	<b>NO. OF BROKERS</b>
<b>\$9B</b>	<b>ANNUAL TRANSACTION VOLUME</b>	<b>40M</b>	<b>ANNUAL LEASING SF</b>

### VALUATION ADVISORY

<b>1,600+</b>	<b>APPRAISALS ANNUALLY</b>	<b>39/24</b>	<b>TOTAL NO. APPRAISERS/MAI'S</b>
---------------	----------------------------	--------------	-----------------------------------

### PROPERTY MANAGEMENT

<b>70M+</b>	<b>MANAGEMENT PORTFOLIO SF</b>
-------------	--------------------------------

This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.