

# San Diego Office Market Report

## Steady Gains Continue to Reverse Pandemic Losses

- Rent growth resumed, largely due to increased demand for office space from life science and tech companies. The average asking rate hit an all-time high of \$3.31/SF, up 3.5% over last year. Rent growth has averaged 5.1% annually over the past three years and 4.8% annually over the past 10 years.
- Vacancy fell 40 basis points to 14.4% on the back of strong absorption gains. Vacancy is still higher than year-end 2019's pre-pandemic average of 12.0%.
- Quarterly absorption posted 488,580 square feet in net gains, bringing the annual total to positive 549,737 square feet. This is a sharp contrast to 2020's 1.2 million square feet in net losses.
- Rancho Bernardo and Torrey Pines contributed to half of this quarter's positive absorption as several large technology and biotech tenants moved in.
- Sublease availability ticked up slightly to 2.0 million square feet but remains down from the peak of 2.6 million square feet reached in the first quarter of 2021.
- Construction activity accelerated, with 2.5 million square feet underway; the largest active pipeline in more than 10 years.

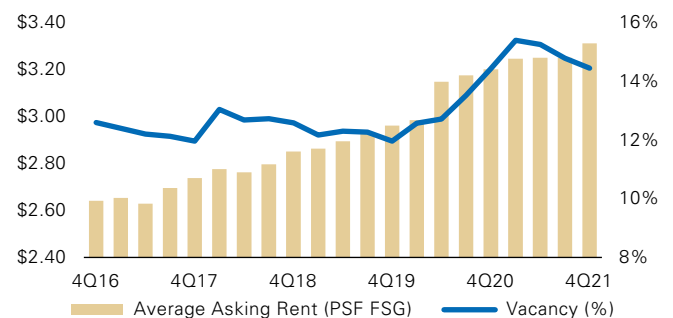
### Large Redevelopment Deals Drive New Records

Sales volume totaled more than \$1.2 billion during the quarter, topping \$3.7 billion for the year, both setting new records for the market. Of the top 10 buyers in San Diego over the past two years, seven are focused on life science.

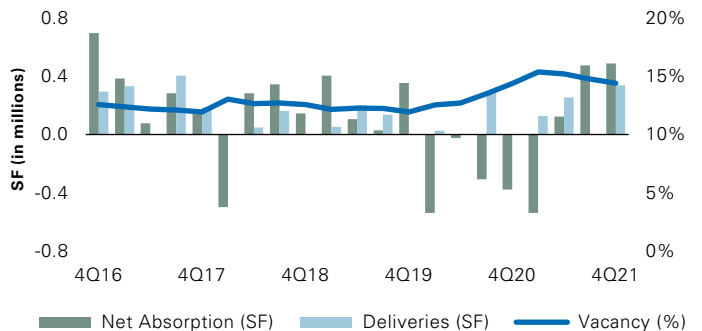
Sterling Bay West and Harrison Street purchased eight buildings in Sorrento Mesa near Pacific Center Court for \$576.0 million. Longfellow Real Estate Partners purchased nine buildings in Sorrento Mesa near Lusk Boulevard for \$315.4 million. In UTC, IQHQ purchased the office and retail buildings at The Aventine for \$205.0 million. All three projects are expected to be redeveloped for life science.

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



### Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	73.0M	72.7M	72.6M	↑
Total Vacancy Rate	14.4%	14.8%	14.4%	↓
Quarterly Net Absorption (SF)	489K	475K	-377K	→
Average Asking Rent/SF/Month	\$3.31 FSG	\$3.25 FSG	\$3.20 FSG	↑
Deliveries (SF)	340K	0	0	↑
Under Construction (SF)	2.5M	2.0M	1.9M	↓

### Life Science and Tech Buoy the Market

The absorption gains and leasing activity fueling San Diego’s recovery are being led chiefly by life science and technology companies. Although resurgent demand from these companies has not yet been enough to completely erase the increased vacancy caused by the pandemic, strong leasing activity seems to indicate that this positive trend will continue into next year. The largest lease signed during the quarter was Becton Dickinson’s 220,000-square-foot pre-lease for one of three buildings at Breakthrough Properties’ Torrey View project, currently under construction in Del Mar Heights/Carmel Valley. In Carlsbad, video game studio Rockstar Games signed an 82,000-square-foot, 10-year lease for the entire Pacific View Corporate Center project.

### Employment and the Outlook

San Diego’s unemployment rate was 4.6% in November, down 70 basis points from October and the lowest rate since layoffs due to the pandemic caused unemployment to spike last year. Since April of 2020, 193,400 jobs have been recovered, including

24,100 office jobs. Total nonfarm employment remains 54,600 jobs short of the February 2020 peak, including 5,600 less office-using jobs.

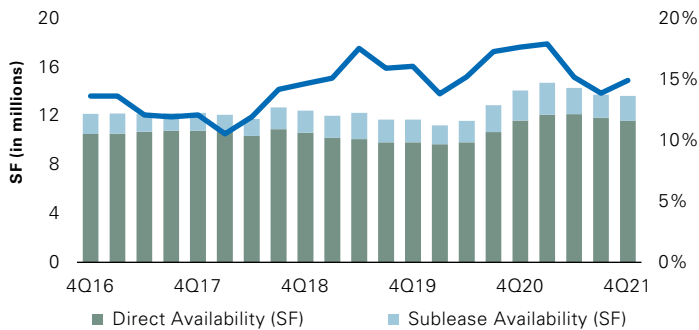
Venture capital raised an astounding \$14.6 billion for San Diego-based companies in 2021, 77.9% higher than the previous record set just the year before, fueling optimism for the short- and long-term growth of local companies in a wide range of fields, but especially in biotechnology.

Absorption and rent growth are projected to stay positive next year but will begin to decelerate as employment and occupancy approach pre-pandemic levels. New speculative developments Downtown will test whether companies’ appetite for large lease commitments has returned.

On the investment side, if life science demand continues to outstrip existing supply, developers will continue to pay a steep premium for centrally located projects for conversion to lab space.

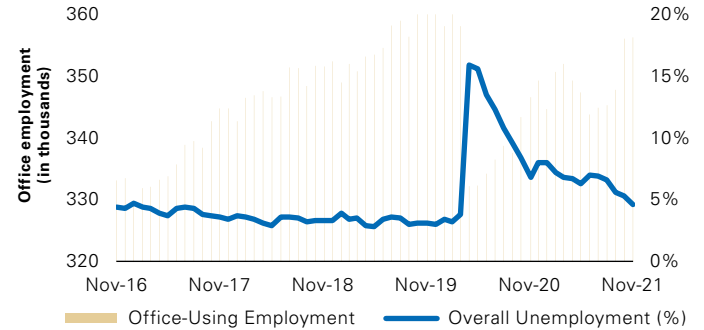
### Sublease vs. Direct Availability (SF)

AND SUBLEASE AS A % OF OVERALL AVAILABLE SF



### Office-Using Employment

SAN DIEGO COUNTY



Source: U.S. Bureau of Labor Statistics (Preliminary data, not seasonally adjusted). Includes information, financial activities and professional and business services jobs.

### Lease Transactions

Tenant	Building	Market Area	Lease Type	Square Feet
Becton, Dickinson and Company	11202 El Camino Real	Carmel Valley	Pre-lease	220,000
Rockstar Games	5759 Fleet Street	Carlsbad	New	82,163
Encodia	5785 Oberlin Drive	Sorrento Mesa	New	65,878

### Sale Transactions

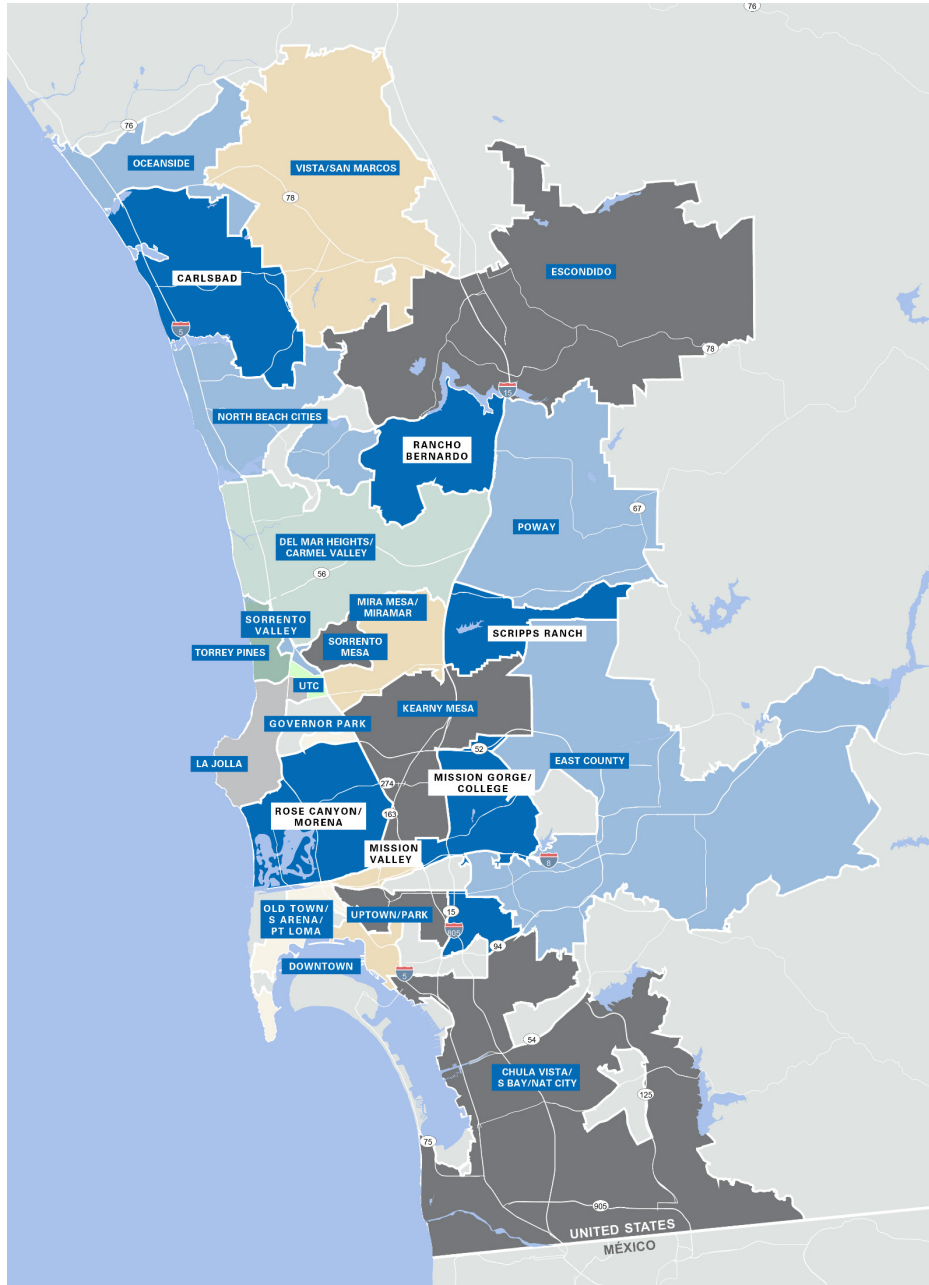
Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
Sterling Bay & Harrison Street	10390-10445 Pacific Center Court	Sorrento Mesa	\$576,000,000 (\$1,141/SF)	504,750
Longfellow Real Estate Partners	Lusk Business Park	Sorrento Mesa	\$315,400,000 (\$849/SF)	371,280
IQHQ	The Aventine	UTC	\$205,000,000 (\$729/SF)	281,094

RESEARCH Q4 2021

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
<b>Downtown San Diego</b>	<b>11,921,769</b>	<b>1,374,872</b>	<b>25.4%</b>	<b>22,699</b>	<b>-240,009</b>	<b>\$3.83</b>	<b>\$3.05</b>	<b>\$3.51</b>
<b>Suburban Total</b>	<b>61,054,301</b>	<b>1,130,425</b>	<b>12.3%</b>	<b>465,881</b>	<b>811,667</b>	<b>\$3.76</b>	<b>\$2.76</b>	<b>\$3.22</b>
Carlsbad	5,628,703	0	17.4%	9,300	-11,103	\$3.02	\$2.57	\$2.80
Chula Vista/South Bay/ National City	1,526,288	0	3.3%	-1,637	-6,166	\$2.95	\$2.49	\$2.78
Del Mar Heights/ Carmel Valley	5,266,698	228,662	13.8%	49,944	-7,122	\$4.58	\$3.66	\$4.39
East County	1,142,935	0	1.8%	2,312	4,476	\$2.72	\$2.05	\$2.41
Escondido	511,722	0	15.3%	-24,586	-15,479	\$2.43	\$2.16	\$2.41
Governor Park	846,865	0	15.7%	-726	-10,912	\$2.92	\$2.71	\$2.73
Kearny Mesa	7,303,837	0	13.7%	-35,742	-90,727	\$3.44	\$2.60	\$2.90
La Jolla	1,308,000	0	9.1%	9,854	58,143	\$3.70	\$2.68	\$3.14
Mira Mesa/Miramar	795,006	0	16.6%	-20,024	-7,458	\$1.81	\$2.25	\$2.18
Mission Gorge/College	731,317	0	1.1%	4,786	2,471	-	\$2.27	\$2.22
Mission Valley	6,090,538	0	16.0%	40,043	23,840	\$3.68	\$2.85	\$3.23
North Beach Cities	1,107,487	55,000	11.7%	954	-19,470	\$3.98	\$3.54	\$3.84
Oceanside	524,182	0	6.1%	4,175	24,825	\$2.07	\$1.56	\$1.66
Old Town/Sports Arena/ Point Loma	1,074,648	0	6.1%	14,682	-6,250	-	\$2.85	\$2.68
Poway	1,071,188	0	7.2%	8,995	19,646	\$4.00	\$2.69	\$3.65
Rancho Bernardo	4,055,237	0	13.3%	137,812	236,012	\$3.66	\$2.80	\$2.86
Rose Canyon/Morena	545,943	0	8.6%	20,019	10,346	-	\$1.99	\$2.03
Scripps Ranch	2,153,268	0	15.6%	-6,190	158,487	\$3.17	\$2.76	\$2.90
Sorrento Mesa	6,331,051	176,428	12.3%	67,957	139,293	\$4.19	\$2.89	\$3.54
Sorrento Valley	375,689	0	22.2%	-6,706	-14,344	-	\$2.02	\$2.22
Torrey Pines	1,202,941	224,484	14.8%	131,810	191,235	\$4.25	\$3.20	\$4.16

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Uptown/Park	912,049	29,000	10.0%	2,258	-9,588	-	\$2.92	\$2.80
UTC	9,181,615	416,851	7.4%	36,393	123,832	\$4.11	\$3.65	\$4.05
Vista/San Marcos	1,367,094	0	18.0%	20,198	17,680	\$2.39	\$2.10	\$2.34
<b>Market</b>	<b>72,976,070</b>	<b>2,505,297</b>	<b>14.4%</b>	<b>488,580</b>	<b>571,658</b>	<b>\$3.78</b>	<b>\$2.81</b>	<b>\$3.31</b>

*Under construction totals include ground-up construction only; under renovation and/or converted product is excluded. The same applies to construction deliveries.  
Net absorption is the change in physically occupied space. A hypothetical vacant and available space could lease this quarter with the tenant set to take occupancy six months later; positive absorption is not recorded until this physical move-in occurs. The space will remain vacant, but not available, until occupancy.*



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