

Asking rents on the rise, particularly in Class A space

In the second quarter of 2019, office rents increased in San Diego by 9.7% year-over-year, the highest increase in five years. Overall rent now stands at a five-year high of \$2.98 per square foot (psf), reflecting a quarterly increase of 2.0%. Regional rents range from a low of \$1.86 psf in the Highway 78 Corridor submarket, to \$3.29 in Downtown San Diego. Class A rents are following a similar trend and have increased 8.4% year over year to \$3.34 psf.

Availability, and options, increase for the first time in five years

In the second quarter of 2019, San Diego's overall office availability rate saw a year-over-year increase of 110 basis points, to 17.1%, reflecting the first annual rise in five years. The class A availability rate of 17.5% increased by 10 basis points over the year. CBD (17.8%) and suburban (16.9%) availability rates are comparable but moved in different directions over the last year, with CBD availability declining 80 basis points and suburban availability increasing 150 basis points. Submarket availability rates range from 4.6% in the South/Southeast Corridor to 21.7% in the I-15 Corridor.

Leasing activity is still below five-year average but picking up

Total second-quarter 2019 leasing activity was 1.1 million square feet (msf), up 5.8% during the quarter but down 39% from 1.8 msf leased in the second quarter last year. It is 28.9% below the five-year average of 1.5 msf per quarter but has risen over the last three quarters. Technology, advertising, media and information sector tenants were particularly active this quarter, accounting for five of the largest 10 leases signed. DNA technology company, Omniome, is relocating 74,558 square feet (sf) to 6965 Lusk Boulevard from 10275 Science Center Drive. Sales software platform, Seismic, is shifting a short distance, leaving 12770 El Camino Real in North Cities for 12390 El Camino real. Home services technology platform, Housecall, renewed 35,000 sf at 9808 Scranton Road in the North Cities submarket. The North Cities submarket garnered most of the large-lease activity for the quarter, seeing 75.8% of major transactions.

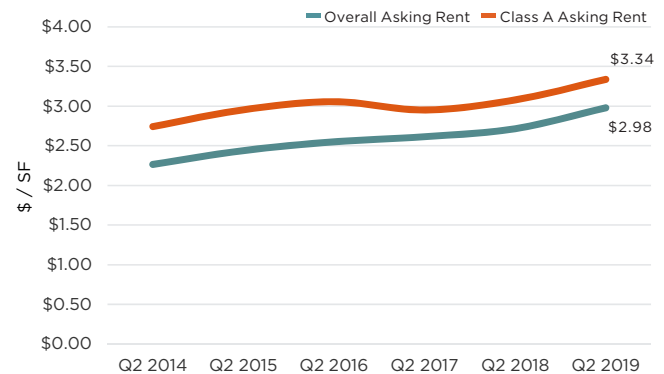
Outlook

- The pace of leasing activity has dropped over the last year, but is slowly reverting back to the five-year average and showing signs of strength
- Despite high availabilities, asking rents are on the rise as new space is advertised on market, however a larger number of available options should keep terms flexible
- San Diego MSA employment is projected to grow by 1.9% per year over the next five years, resulting in an estimated 138,000 new jobs through the first quarter of 2024

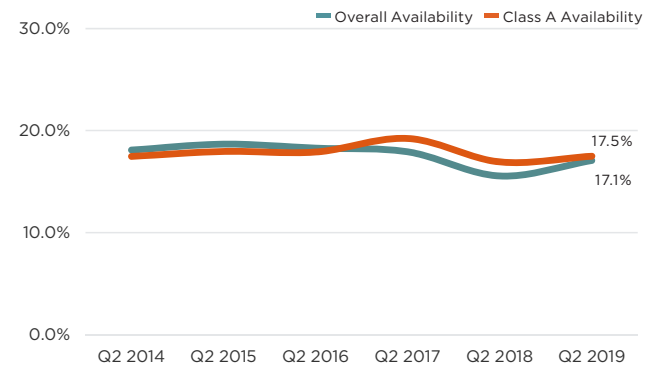
KEY STATISTICS

	Q2 2018	Q2 2019	y-o-y Change
Inventory	63.7 MSF	63.7 MSF	◀▶
Availability Rate	15.6%	17.1%	▲
Asking Rental Rate	\$2.72	\$2.98	▲
Class A Asking Rental Rate	\$3.08	\$3.34	▲
Quarterly Leasing Activity	1.8 MSF	1.1 MSF	▼

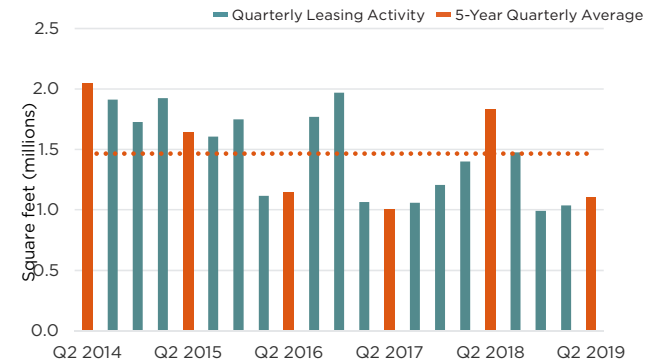
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

84.6%

of major transactions were **new market entrants, relocations and expansions**

75.8%

of large transactions occurred in the **North Cities** submarket

64.5%

TAMI sector represented 64.5% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Omnioeme	74,558	6965 Lusk Boulevard	Relocation	North Cities	TAMI
Seismic Software	70,140	12390 El Camino Real	Relocation	North Cities	TAMI
Housecall	35,000	9808 Scranton Road	Renewal	North Cities	TAMI
Industrious	28,382	401 W A Street	Relocation	Downtown	Coworking
TrellisWare Technologies	26,920	10641 Scripps Summit Court	New Location	I-15 Corridor	TAMI
Tandem Diabetes	24,875	10935 Vista Sorrento Parkway	Relocation	North Cities	Healthcare
Anokiwave	21,623	5355 Mira Sorrento Place	Expansion	North Cities	TAMI
Institutional Shareholder Services, Inc.	16,700	9276 Scranton Road	Relocation	North Cities	Financial Services
Brown & Caldwell	14,405	450 B Street	Renewal	Downtown	Professional Services
Dudek	7,664	2280 Historic Decatur Road	Relocation	Central Suburban	Professional Services

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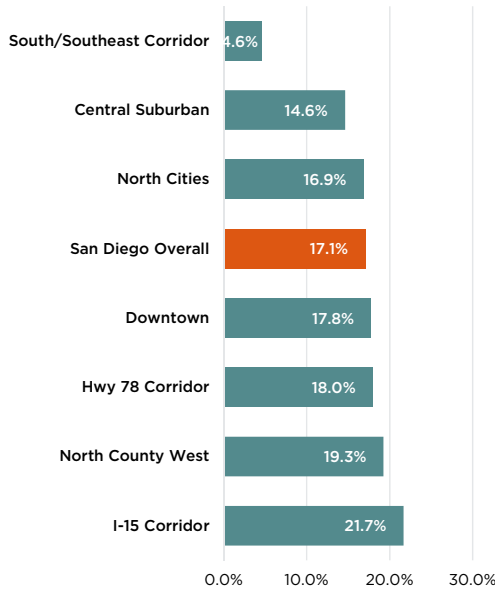
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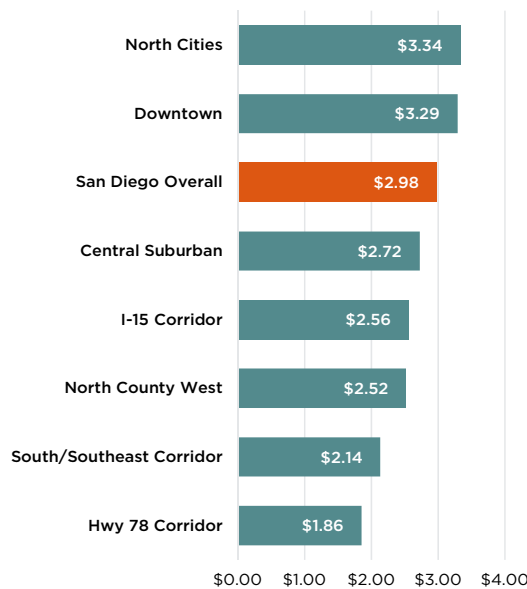
AVAILABILITY RATE COMPARISON

San Diego Submarkets



RENTAL RATE COMPARISON (\$/SF)

San Diego Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills research.

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