

Ahead of COVID-19, rents in San Diego spike; growth likely to stall going forward

Prior to any COVID-19 related market disruption, San Diego's average office asking rent (monthly) stood at \$3.20 per square foot (psf). This reflects annual and quarterly increases of 11.4% and 5.0%, respectively. Rents ranged from a low of \$2.04 psf in the Highway 78 Corridor and \$2.30 psf in the South/Southeast Corridor, to \$3.39 psf in North Cities and \$3.44 psf in Downtown San Diego. Class A rents increased by 10.2% year over year and 5.6% over the quarter, to \$3.53 psf. Central Business District (\$3.44 psf) and suburban (\$3.12 psf) rents increased by 8.4% and 10.5%, respectively, year over year through the first quarter. As uncertainty stemming from the ongoing pandemic situation looms, activity is sure to drop, and as options return to market, rent growth is likely to stall or reverse.

Overall availability was on the decline but will reverse course due to market disruption

San Diego's overall availability rate decreased by 40 basis points over the year and 50 basis points over the quarter, to 16.6% in the first quarter of 2020. In comparison, the average Class A availability rate decreased by 60 basis points year over year and 50 basis points over the quarter, to 17.4%. Central Business District and suburban market availability rates in the first quarter were 20.6% and 15.7%, respectively. Q1 2020 submarket availability rates ranged from 4.3% in South/Southeast Corridor and 15.0% in North Cities, to 20.6% in Downtown San Diego and 22.3% along the Highway 78 Corridor. However, in such uncertain economic times, the impact of COVID-19 will undoubtedly result in a sharp slowdown in business activity in the near term and space is expected to return to market.

Leasing activity spiked in the first quarter, pace will not continue into the second quarter

Total first-quarter 2020 leasing activity was 1.6 msf, sharply up by 58.3% year over year and 85.1% over the quarter. Pharmaceutical and technology sector tenants were particularly active. The largest leases in the quarter were signed by Fate Therapeutics (191,677 sf) at 12278 Scripps Summit Drive in the I-15 Corridor submarket, Alphatec Spine, Inc. (121,541 sf) at 1950 Camino Vida Roble in the North County West submarket, and Fairfield Residential (57,783 sf) at 5355 Mira Sorrento Place in the North Cities submarket. Activity will not keep pace going into the second quarter as many tenants in the market now are putting a hold on decisions until there is more economic and office market clarity.

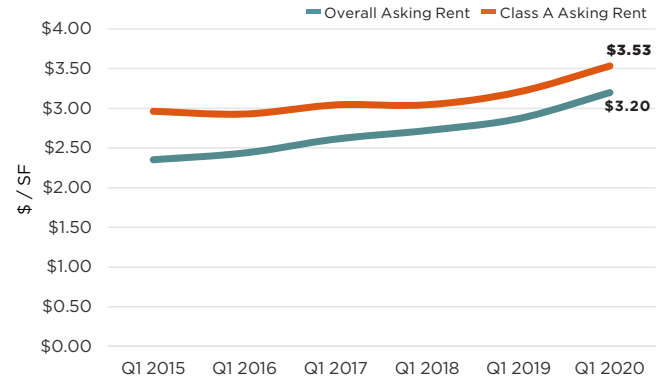
Outlook

- Already the strength of the San Diego office market, the region's life sciences sector is expected to be even more critical to the health of the market once the lockdown ends
- An estimated 718,000 sf are currently under construction, accounting for 1.1% of total office inventory in the region
- Prior to the shutdown, San Diego employment was projected to grow by 2.0% per year over the next five years, resulting in an aggregate of 152,000 new jobs through year-end 2024; revised projections, which assume a 20% net decline in U.S. employment in 2020, imply a 19.5% job loss in the region over the same period

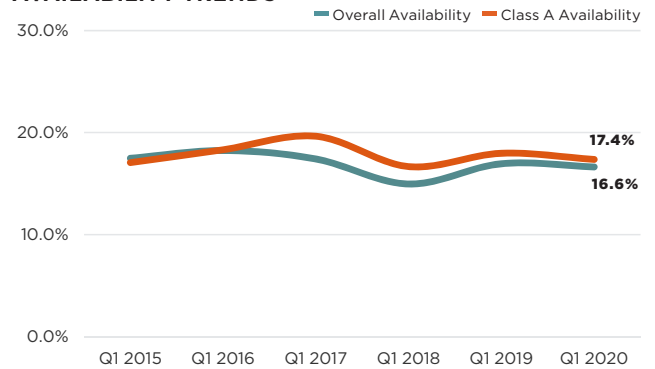
KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	63.9 MSF	63.7 MSF	▼
Availability Rate	17.0%	16.6%	▼
Asking Rental Rate (Monthly)	\$2.87	\$3.20	▲
Class A Asking Rental Rate (Monthly)	\$3.21	\$3.53	▲
Quarterly Leasing Activity	1.0 MSF	1.6 MSF	▲

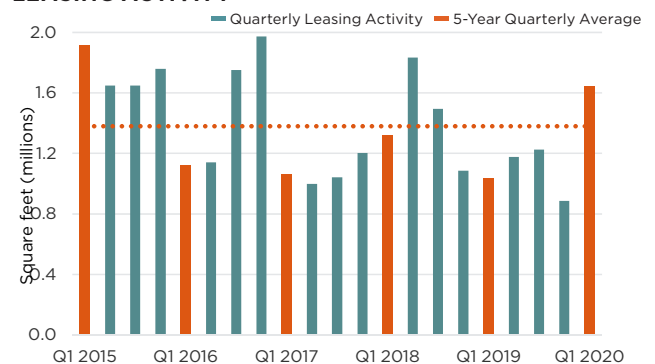
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

7 of 10

of major transactions were new locations

52.5%

of large transactions occurred in the I-15 Corridor submarket

43.7%

TAMI sector tenants represented 43.7% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Fate Therapeutics	191,677	12278 Scripps Summit Dr	New Location	I-15 Corridor	Pharmaceuticals
Alphatec Spine, Inc	121,541	1950 Camino Vida Roble	New Location	North County West	TAMI
Fairfield Residential	57,783	5355 Mira Sorrento Pl	New Location	North Cities	Real Estate
Intel	53,642	16409 W Bernardo Dr	New Location	I-15 Corridor	TAMI
Covance	53,301	16409 W Bernardo Dr	New Location	I-15 Corridor	Pharmaceuticals
Intuit	48,835	13500 Evening Creek Dr N	New Location	I-15 Corridor	TAMI
Kimley-Horn & Associates	38,853	401 B St	Expansion	Downtown	Professional Services
Houzz	33,563	350 10th Ave	New Location	Downtown	TAMI
Epsilon	31,706	9525 Towne Centre Dr	Renewal	North Cities	TAMI
Acadia Pharmaceuticals	30,608	12770 El Camino Real	Expansion	North Cities	Pharmaceuticals

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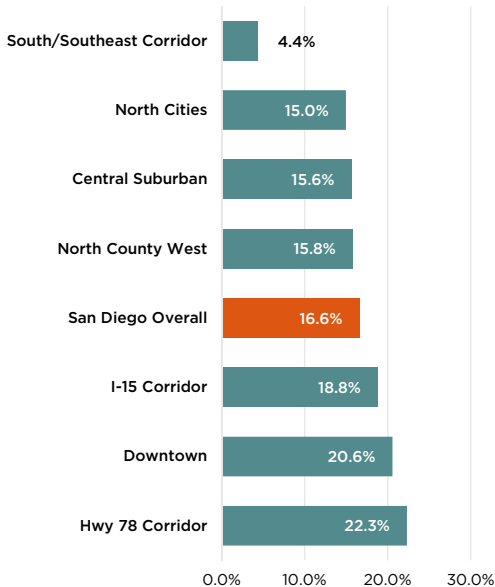
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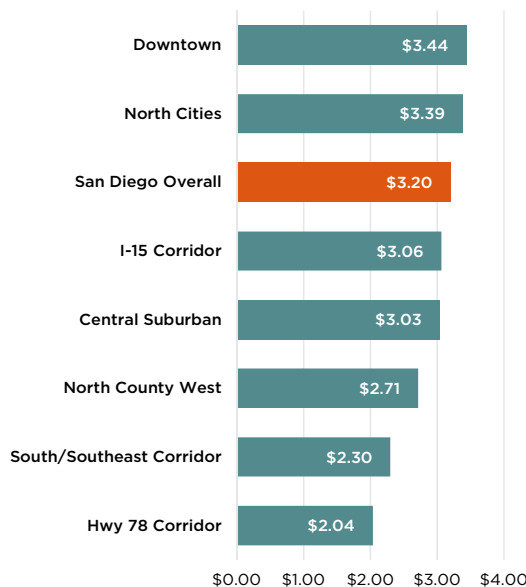
AVAILABILITY RATE COMPARISON

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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