

Availability increases at mid-year 2020 as COVID-related lockdown slows leasing activity dramatically

Overall availability in San Diego increased to 17.0% in the second quarter – up 40 basis points over the quarter but still down 20 basis points from this point last year. Class A availability ticked down 10 basis points over the quarter to 17.3%. Overall asking rents decreased for the first time in several years to \$3.15 per square foot (psf) per month, down 1.5% from last quarter but still up 6.8% year over year. Despite the modest increase in availability and slight decrease in average rents, the San Diego regional economy is now in recession and the full impact on the office market has not yet been fully realized. As a result, expect availability to increase over the next few quarters with continued downward pressure on asking rental rates.

Leasing activity plummets 55% from the previous quarter

Quarterly leasing activity totaled just over 740,000 square feet (sf), the lowest level of quarterly leasing activity since at least the Great Recession. As expected, leasing activity is anticipated to continue to be at a lower level in the second half of the year as local companies put hiring plans on hold due to COVID-related uncertainty. On a positive note, the area's biotech and life sciences industry remains a bright spot in an otherwise lackluster leasing market. With billions of dollars being poured into healthcare and pharmaceutical start-ups, expect companies in this sector to continue to grow while other sectors are projected to contract.

Despite lack of new office supply, availability has remained elevated and is expected to increase

Compared to overall availability rates in L.A. (18.6%) and Orange County (18.4%), availability of 17.0% in the San Diego office market remains the lowest in Southern California. Compared to previous real estate cycles, office supply continues to be low with most of the space delivered over the past several years being either pre-leased or owner-occupied. However, despite the relative lack of new supply, the leasing market has softened dramatically and it is now a tenant's market. As a result, landlords are likely to become increasingly aggressive at attracting and retaining tenants as lower levels of demand inevitably cause landlords to compete more forcefully for deals.

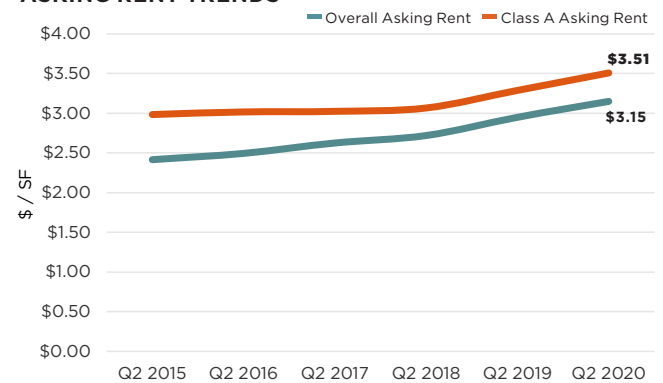
Outlook

- Office demand will continue to be low in the second half of 2020 as economic uncertainty has put many requirements on hold
- Expect landlords to continue to be aggressive in attracting and retaining tenants with an increased amount of concessions in order to keep face rents high
- With the overall economy now in recession, expect the next-generation of hot start-ups and disruptors to be seeded over the next 1-2 years locally

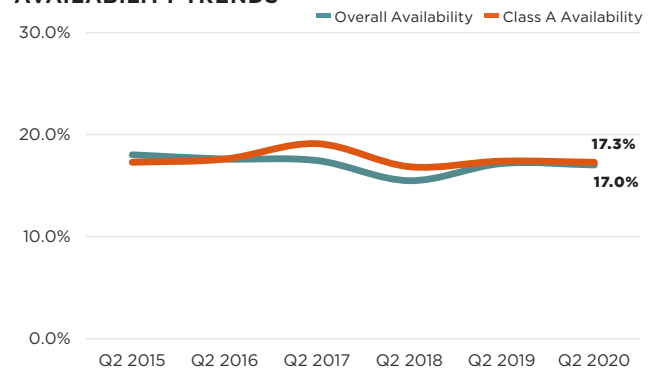
KEY STATISTICS

	Q2 2019	Q2 2020	y-o-y Change
Inventory	63.9 MSF	63.8 MSF	▼
Availability Rate	17.2%	17.0%	▼
Asking Rental Rate (Monthly)	\$2.95	\$3.15	▲
Class A Asking Rental Rate (Monthly)	\$3.29	\$3.51	▲
Quarterly Leasing Activity	1.2 MSF	0.74 MSF	▼

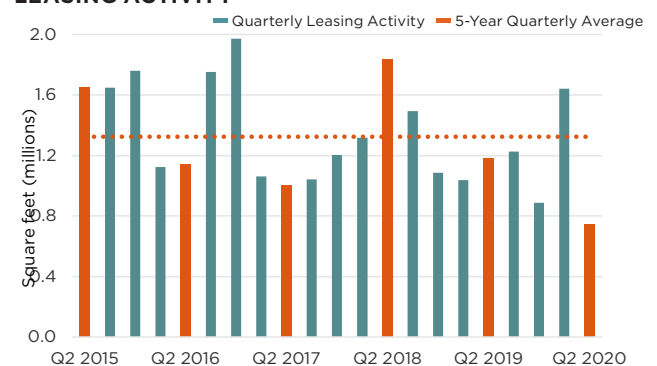
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

8 of 10

of major transactions were new locations

36.4%

of large transactions occurred in the North County West submarket

35.1%

TAMI sector tenants represented 35.1% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Cooley LLP	74,000	10265 Science Center Drive	New Location	North County West	Legal Services
Development Inc	46,823	5541 Fermi Court	New Location	North County West	Professional Services
ABC Company	40,431	6602-6694 Convoy Court	New Location	Central Suburban	Non-profit
CoreLogic Credco	32,774	10277 Scripps Ranch Boulevard	Renewal	I-15 Corridor	Professional Services
Apple	28,374	9875-9885 Towne Centre Drive	New Location	North Cities	TAMI
Zovio	25,628	10180 Telesis Court	New Location	North Cities	TAMI
Apple	22,833	4435 Eastgate Mall	New Location	North Cities	TAMI
T Y Lin International Group	21,354	404 Camino Del Rio S	Renewal	Central Suburban	Engineering
Hitachi	20,543	10089 Willow Creek Road	New Location	I-15 Corridor	TAMI
Unisoc	19,108	10180 Telesis Court	New Location	North Cities	TAMI

Source Savills Research

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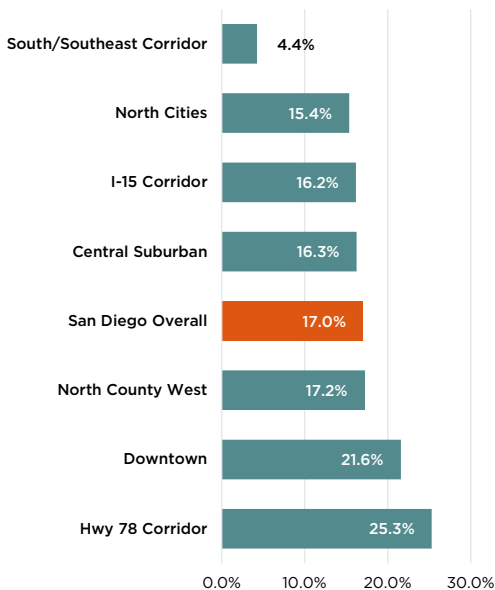
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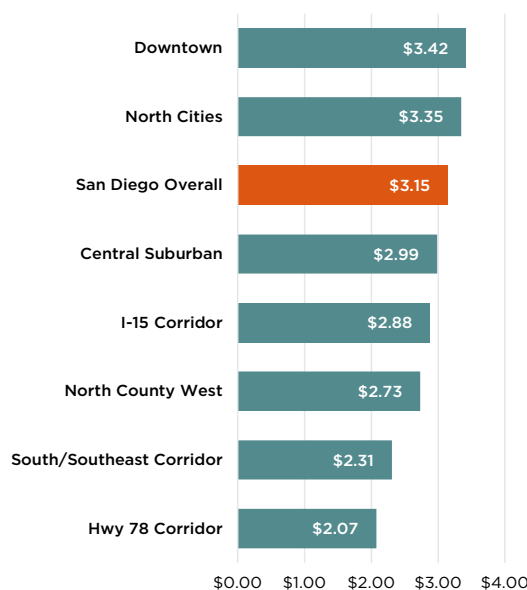
AVAILABILITY RATE COMPARISON

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.

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