

Availability rate continues to increase ending the quarter at a six-year high

Overall availability in San Diego increased to 18.7% in the second quarter – up 170 basis points over the quarter and up 150 basis points from this point last year. Class A availability increased 210 basis points over last quarter to 19.4%. Overall average asking rents decreased for the second consecutive quarter to \$3.13 per square foot (psf) per month, down 0.7% from last quarter but still up 4.9% year over year. Class A average asking rents also decreased to \$3.48 psf per month, down 0.9% from last quarter but still up 5.4% year over year. With continued uncertainty in the economy putting many real estate decisions on hold, expect sustained downward pressure on rents in the months ahead.

Leasing activity remains dormant and drops to the lowest level since the Great Recession

Quarterly leasing activity totaled just 611,553 square feet (sf), down 50.1% from the 1.2 msf in leasing activity reported a year ago. As reported last quarter, leasing activity remains low as local companies put their hiring plans on hold due to continued COVID-19-related uncertainty. However, the region's life sciences sector has remained a bright spot although many companies active in the market have looked increasingly at specialized R&D buildings with lab space. As a result, it is no surprise that landlords and developers in key submarkets such as Sorrento Mesa have evaluated converting their office properties to life sciences buildings in order to service this demand.

Expect office availability to continue to increase as area companies take a wait-and-see approach

As mentioned in previous reports, compared to overall availability rates in L.A. (20.1%) and Orange County (19.1%), availability of 18.7% in the San Diego office market is the lowest in Southern California. However, as more companies take a wait-and-see approach with regards to their hiring plans, as well as continuing to have their employees work from home, it is no surprise that leasing activity is expected to remain subdued as long as pandemic-related uncertainty remains. Combined with rising sublease space (over 2.0 msf available now), tenant-favorable conditions are expected to remain in place for the foreseeable future.

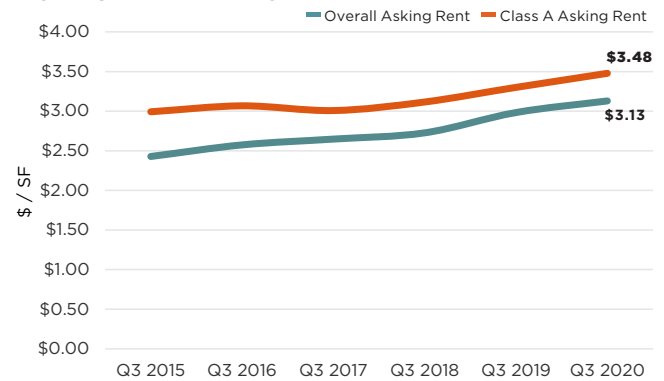
Outlook

- With economic activity and office leasing activity highly dependent on the path of the virus, expect continued uncertainty in the market for at least the next few months
- Average asking rental rates are now decreasing market-wide and are expected to continue a downward trend into 2021
- The life sciences sector remains a bright spot in the local economy, however, with many active requirements seeking converted R&D properties instead of traditional office buildings, more office landlords could be looking to convert properties in order to attract this demand

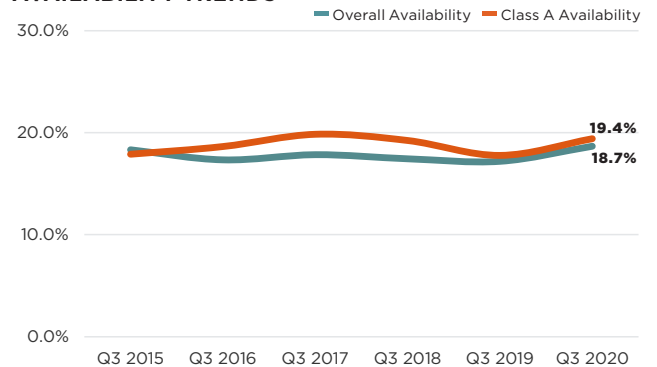
KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	63.8 MSF	63.9 MSF	▲
Availability Rate	17.2%	18.7%	▲
Asking Rental Rate (Monthly)	\$2.98	\$3.13	▲
Class A Asking Rental Rate (Monthly)	\$3.30	\$3.48	▲
Quarterly Leasing Activity	1.2 MSF	0.6 MSF	▼

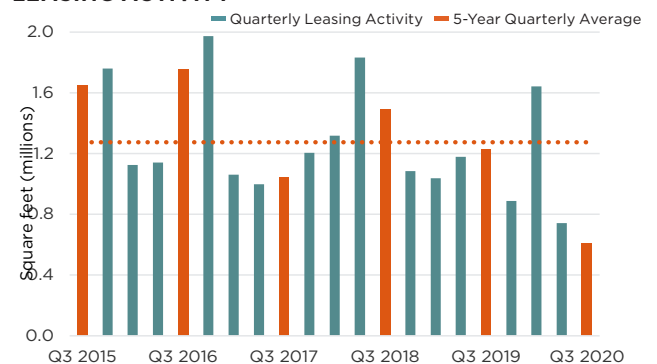
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

6 of 10

of major transactions were new locations

47.8%

of large transactions occurred in the I-15 Corridor submarket by square footage

30.9%

Professional Services sector tenants represented 30.9% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Northrop Grumman	70,617	15051 Avenue of Science	New Location	I-15 Corridor	Professional Services
Kimball Tirey & St John LLP	36,665	7676 Hazard Center Drive	Renewal	Central Suburban	Legal Services
CUSO Financial Services	30,245	10150 Meanley Drive	Renewal	I-15 Corridor	Financial Services
Helix	22,497	6925 Lusk Boulevard	New Location	North Cities	Healthcare
Dexcom	19,978	5375 Mira Sorrento Place	Expansion	North Cities	Healthcare
Zeku	19,105	3570 Carmel Mountain Road	New Location	North Cities	TAMI
Statrad, LLC	8,316	13280 Evening Creek Drive S	Renewal	I-15 Corridor	Healthcare
Liberty Woods International	7,309	1800 Aston Avenue	New Location	North County West	Retail
Marcus & Millichap	7,238	12544 High Bluff Drive	New Location	North Cities	Real Estate
Discovery Practice Management	6,552	5414 Oberlin Drive	New Location	North Cities	Healthcare

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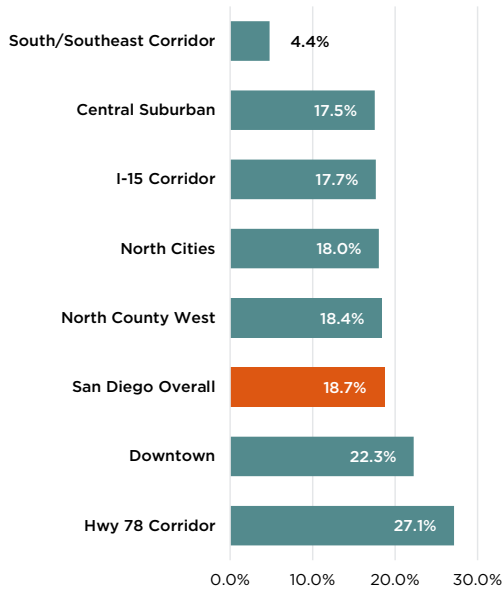
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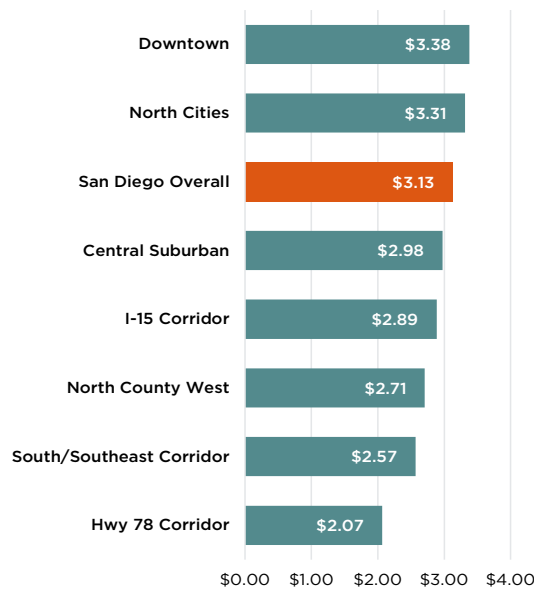
AVAILABILITY RATE COMPARISON

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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