

## Total availability rate ends 2020 at its highest level in nine years

At year's end, the total availability rate in San Diego's office market increased to 20.2%, up 150 basis points (bps) over the previous quarter and up 330 bps from a year ago. Class A availability increased 250 bps over last quarter to 21.9%. Overall average asking rents were flat from the previous quarter at \$3.13 per square foot (psf) per month but still up 2.8% year over year. Class A average asking rents have now decreased for three consecutive quarters to \$3.46 psf but are still up 3.4% year over year. With availability levels now back to where they were a decade ago, expect continued downward pressure on rental rates through 2021.

### Leasing activity continues to be low as real estate decisions remain on hold until there is more economic certainty

Quarterly leasing activity totaled just 746,425 square feet (sf), down 16% from a year ago. This brought total leasing activity in 2020 to over 3.7 million square feet (msf) which is down 13.6% from the 4.3 msf of reported leasing activity in 2019. With so much uncertainty in the overall economy due to the path of the virus during most of 2020, many local companies have put their hiring plans on hold. However, and as mentioned in previous reports, the region's life sciences sector has continued to see growth as biotech startups continue to raise venture capital but mostly have leased space in specialized life science/R&D buildings.

### Underlying market fundamentals are expected to remain soft as vaccine begins rolling out

Since peaking at a high of 15.2% in May, the seasonally adjusted unemployment rate in San Diego decreased to 6.6% in November as the economy began reopening. However, due to a second COVID-19 surge and stricter lockdowns to control infections, the overall economy is seeing another slowdown which will keep leasing activity low. While recent vaccine rollout has created optimism that there could be an end to the pandemic in the next several months, underlying office market fundamentals are expected to remain soft through the first half of 2021 as occupiers continue work-from-home policies and most companies delay their long-term real estate decisions until there is sustained economic growth again.

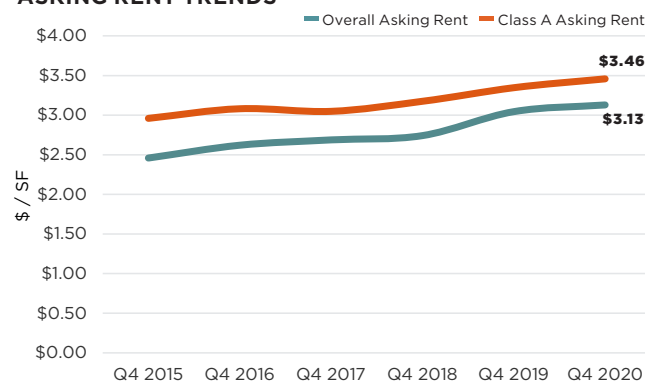
### Outlook

- 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 first half of 2021
- Average asking rental rates are now decreasing market-wide and are expected to continue declining into 2021
- The life science sector remains a bright spot in the local economy, however, with many active requirements seeking out converted R&D properties instead of office buildings, more office landlords could be looking to convert their properties in order to attract this demand

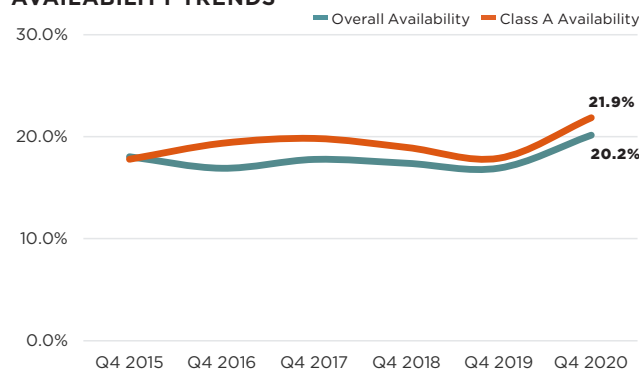
### KEY STATISTICS

	Q4 2019	Q4 2020	y-o-y Change
Inventory	63.8 MSF	<b>63.8 MSF</b>	◀▶
Availability Rate	16.9%	<b>20.2%</b>	▲
Asking Rental Rate (Monthly)	\$3.04	<b>\$3.13</b>	▲
Class A Asking Rental Rate (Monthly)	\$3.35	<b>\$3.46</b>	▲
Quarterly Leasing Activity	0.9 MSF	<b>0.7 MSF</b>	▼

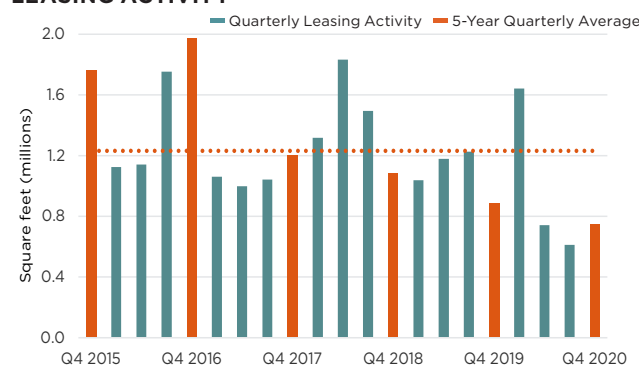
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



## MAJOR TRANSACTIONS

7 of 10

major transactions were **renewals**

70.8%

of large transactions occurred in the **North Cities** submarket by square footage

56.0%

**TAMI** sector tenants represented 56.0% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
ServiceNow	94,542	4810 Eastgate Mall	Renewal	North Cities	TAMI
Google	60,432	6450 Sequence Drive	Expansion	North Cities	TAMI
West Health Institute	37,960	10350 N Torrey Pines Road	Renewal	North Cities	Healthcare
Plaza Home Mortgage	34,295	9808 Scranton Road	New Location	North Cities	Real Estate
Mid-Coast Transit Constructors	32,106	4690 Executive Drive	Renewal	North Cities	Construction
Daybreak	26,143	13500 Evening Creek Drive N	New Location	I-15 Corridor	TAMI
Cisco Systems	24,092	3115 Melrose Drive	Renewal	North County West	TAMI
General Services Administration-TSA	21,798	2305 Historic Decatur Road	Renewal	Central Suburban	Government
Granite Construction	20,095	5860 El Camino Real	Renewal	North County West	Manufacturing
Moffatt & Nichol Inc	14,993	1660 Hotel Circle N	Renewal	Central Suburban	Engineering

Source Savills Research

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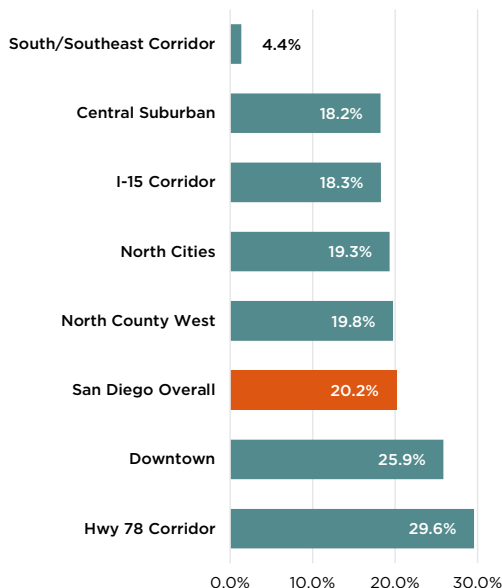
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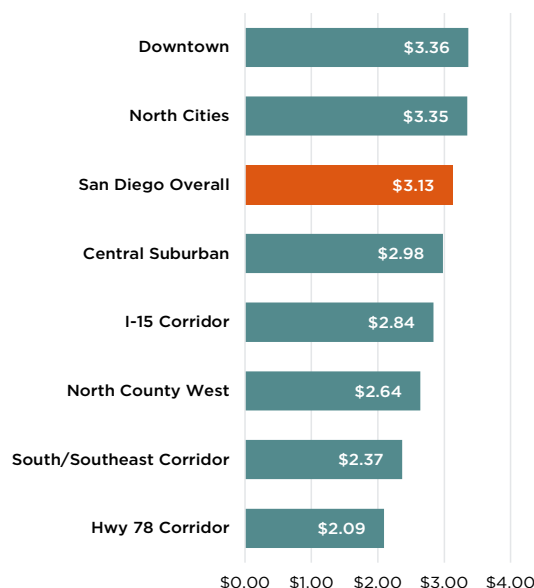
## AVAILABILITY RATE COMPARISON

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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