

San Diego

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San Diego office market activity stays flat in the first quarter

In the first quarter 2024, the San Diego office market saw relatively flat leasing activity from last quarter at 1.1 million square feet (msf). This remains slightly below the 5-year quarterly average of 1.2 msf. Due to higher inflation, slowing office-using job growth, and economic uncertainty, companies such as Illumina, Bristol Myers Squibb, NuVasive, and Scripps Health have all announced layoffs recently. Along with the slowdown in leasing in the local biotech sector, demand for office space has remained lower than expected. As a result, expect tenant-favorable market conditions to remain for the foreseeable future.

Total availability rate now at a historical high of 21.7%

Overall availability increased 30 basis points to an all-time high of 21.7%, while Class A availability closed the quarter at 26.5%. In addition, available sublease space now totals more than 2.4 msf, which is the same level reported a year ago. Given the high availability rates, concession packages have increased as tenants have gained the advantage in lease negotiations. Availability rates are expected to increase with another 2.7 msf currently under construction with much of this space slated to be delivered by the end of the year. Asking rental rates ended the quarter at \$3.43 per square foot (psf) per month, a 5.8% increase from last year, as newer and higher-priced space has come to market.

Expect market activity to remain muted in 2024

Office leasing activity is expected to remain low in 2024 as demand continues to be largely expiration-driven. While the largest deal of the quarter was Pfizer leasing over 230,000 square feet (sf) in Del Mar Heights/Carmel Valley, this is not indicative of the entire market where most transactions continue to be under 20,000 sf. In addition, office-using employment growth has slowed over the past year and has recently turned negative as the correction in the larger technology sector has adversely affected the overall market. On the other hand, San Diego remains a top-3 life sciences market nationally with a startup ecosystem ready to take advantage of the next boom.

Key Statistics

	Q1 2023	Q1 2024	Y-0-Y
Inventory	62.6 msf	63.3 msf	+0.7 msf
Availability Rate	20.3%	21.7%	+140 bps
Asking Rental Rate	\$3.25	\$3.43	+5.6%
Class A Asking Rental Rate	\$3.63	\$3.82	+5.3%
Quarterly Leasing Activity	1.0 msf	1.1 msf	+0.1 msf
Available Sublease Space	2.4 msf	2.4 msf	0.0 msf

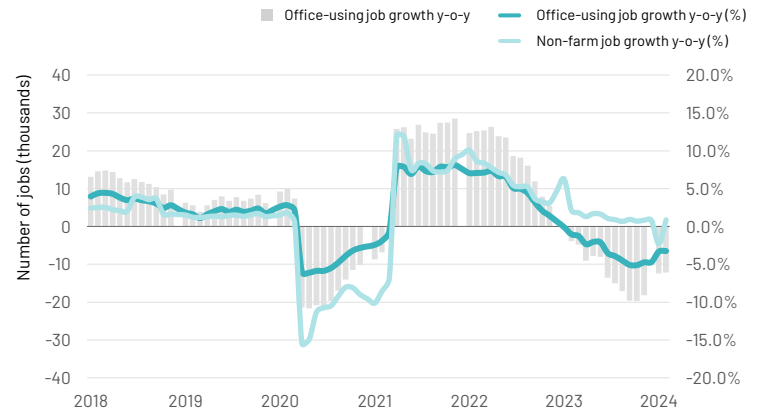
Outlook

01 Leasing activity is expected to remain muted in 2024 as most transactions continue to be largely expiration-driven amidst a correction in the technology sector

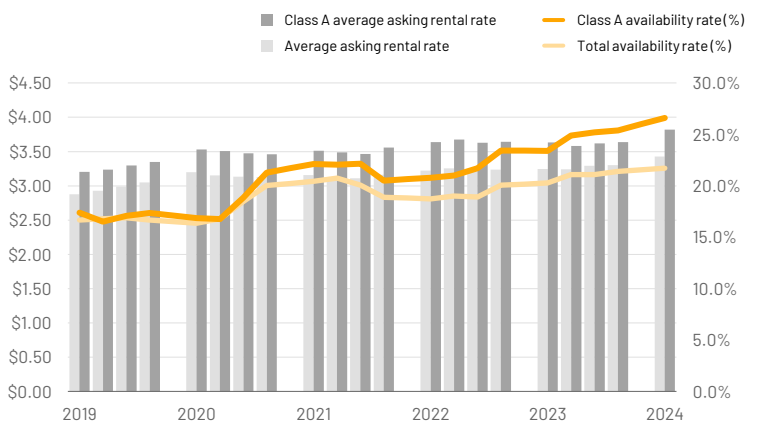
02 With over 2.7 msf expected to be delivered before year-end, availability levels are forecasted to increase as the development boom which started pre-pandemic comes to a conclusion

03 Average asking rents are forecasted to remain high as most landlords have been offering larger concession packages such as free rent and higher tenant improvement allowances

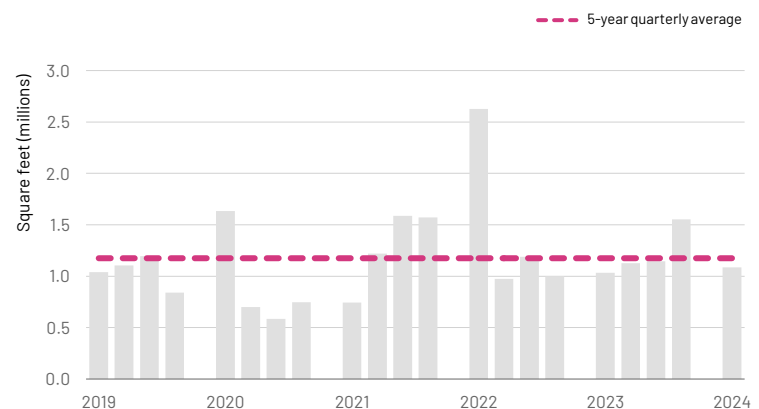
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Top Transactions

*Trophy Building

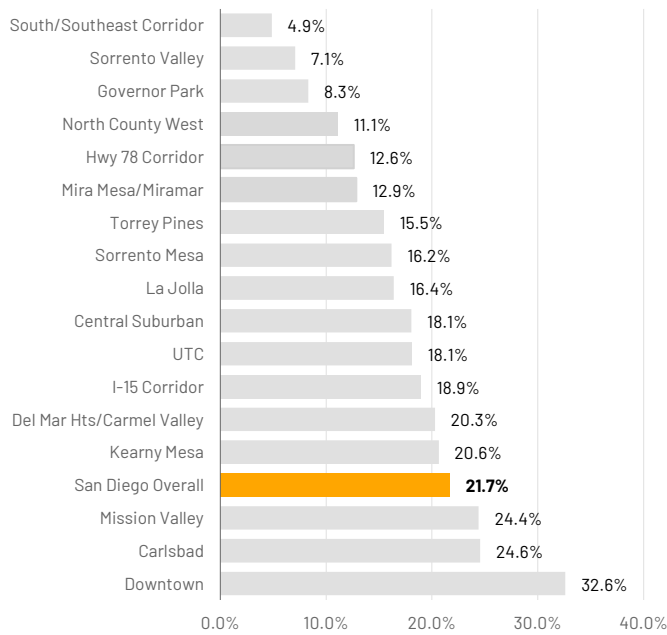
**Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE(SF)	TRANSACTION TYPE
Pfizer	Pharmaceuticals	Del Mar Heights/Carmel Valley	11202 & 11208 El Camino Real	230,133	New Location
Lytx	TAMI	UTC	9785 & 9791 Towne Centre Drive	126,003	Renewal
Neos Partners	Financial Services and Insurance	Del Mar Heights/Carmel Valley	12770 El Camino Real	26,043	New Location
Quarles & Brady	Legal Services	Downtown	101 W Broadway	20,788	Renewal
AnaBios	Pharmaceuticals	Downtown	1155 Island Avenue	19,962	New Location
Rady Children's Physician Management Services	Associations and Non-Profit Organizations	Kearny Mesa	3880 Murphy Canyon Road	25,886	New Location
ARM	TAMI	I-15 Corridor	13500 Evening Creek Dr N	17,391	New Location
Microsoft	TAMI	UTC	9255 Towne Centre Drive	15,030	Renewal
Rain Bird	Manufacturing	Kearny Mesa	9325 Sky Park Court	14,102	New Location
Laurel Hill	Real Estate	Kearny Mesa	9655 Granite Ridge Drive	10,048	New Location

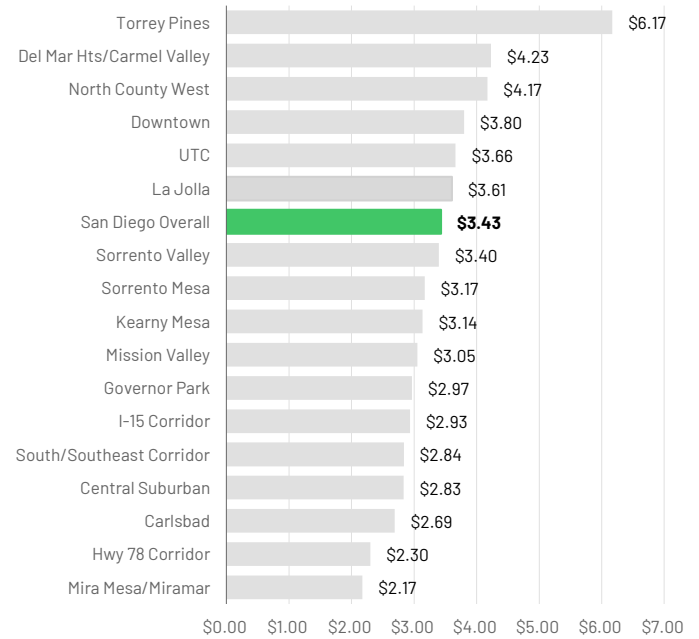
Availability Rate Comparison (%)

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Rental Rate Comparison (\$/sf)

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San Diego Q1 2024 - Office

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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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