

San Diego

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San Diego office market faces continued pullback in leasing activity

In the second quarter 2024, the San Diego office market experienced a decline in leasing activity for the third consecutive quarter. Leasing activity decreased by 20.4% from the previous quarter to just under 0.9 million square feet (msf). This is also down from 1.1 msf reported a year ago. While the local economy continues to grow, office leasing conditions remain soft due to higher inflation, slowing office-using job growth and the ongoing correction in the tech and life sciences sectors. With two current office conversion projects, office inventory could decrease by 500,000 sf. This is a trend being observed throughout Southern California as functionally obsolete office buildings are targeted by investors for conversion or redevelopment.

Total availability rate now at 21.0%

Overall availability decreased 70 basis points from 21.7% reported last quarter to 21.0% in the second quarter. Class A availability closed the quarter at 26.2%, up 140 bps from 24.8% reported a year ago. Available sublease space has decreased by 4.6% and now totals 2.3 msf. Given the high availability rates, concession packages have increased as tenants have gained the advantage in lease negotiations. Availability rates are expected to remain high as larger new development projects such as the 1.5 million-square-foot RaDD project in Downtown remain unleased. Average asking rental rates ended the quarter at \$3.46 per square foot (psf) per month, a 6.8% increase from last year due largely to newer Class A office projects which have recently been completed.

Expect market activity to remain largely expiration-driven

With the technology and life sciences sectors both in a correction, expect office leasing activity to remain mostly expiration-driven through the second half of 2024. Many occupiers also remain cautious and, in most cases, have delayed their real estate decision-making as they seek to control costs amidst a local economy which has seen office-using employment growth turn negative over the past year, indicating slowing demand for office space.

Key Statistics

	Q2 2023	Q2 2024	Y-0-Y
Inventory*	62.8 msf	64.3 msf	+1.5 msf
Availability Rate	21.0%	21.0%	0 bps
Asking Rental Rate	\$3.24	\$3.46	+6.8%
Class A Asking Rental Rate	\$3.58	\$3.82	+6.7%
Quarterly Leasing Activity	1.1 msf	0.9 msf	-0.2 msf
Available Sublease Space	2.4 msf	2.3 msf	-0.1 msf

*Inventory includes office buildings over 20,000 sf and greater.

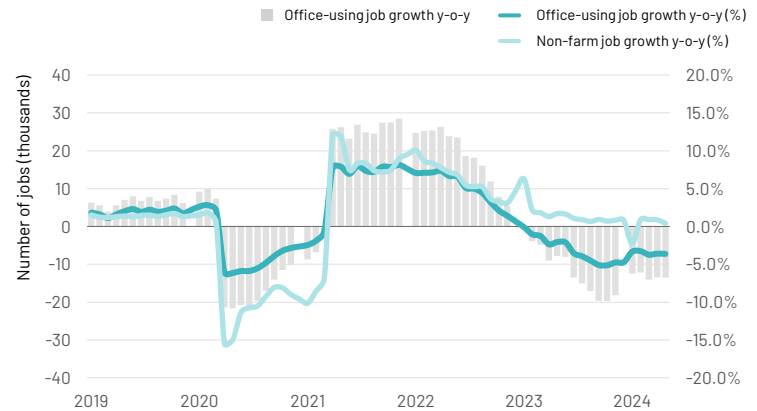
Outlook

01 Leasing activity is expected to remain largely expiration-driven through the second half of 2024 amidst a correction in the technology and life sciences sectors

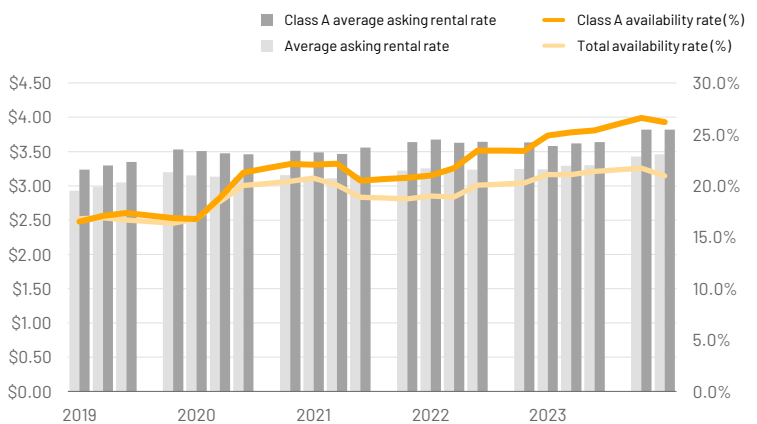
02 Availability levels are forecasted to remain high amidst the recently delivery of large speculative projects mostly concentrated in Downtown

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

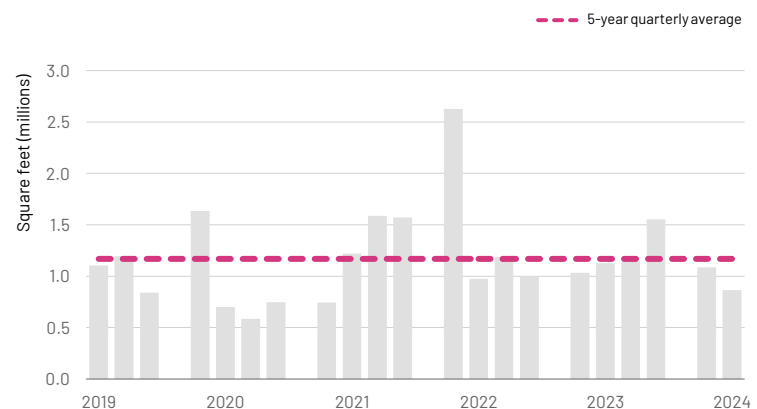
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Top Transactions

*Trophy Building

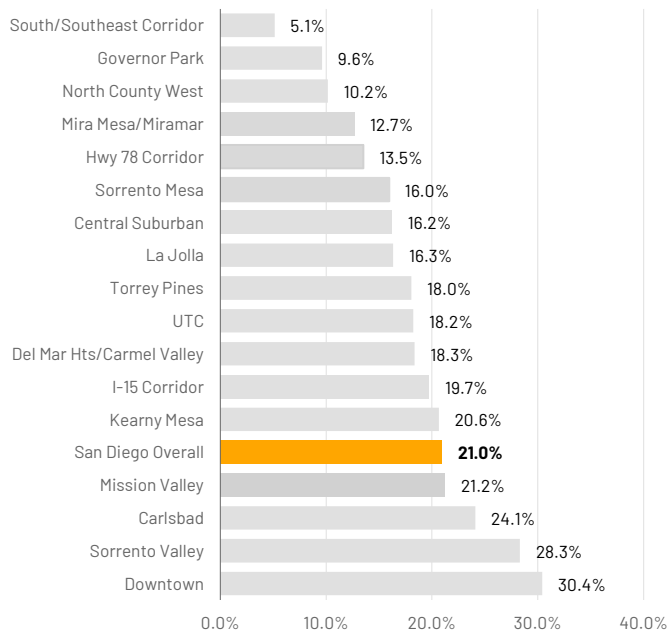
**Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
DRS Daylight Solutions	● Manufacturing	I-15 Corridor	16465 Via Exprillo	83,000	Renewal
City of San Diego	● Government	Mission Valley	7650 Mission Valley Road	73,970	Relocation**
SAIC	● Business, Professional and Consulting Services	Mission Valley	1455 Frazee Road	64,455	Renewal
Engineering Partners	● Architecture, Engineering and Construction	I-15 Corridor	10620 Treena Street	23,497	New Location
HNTB	● Architecture, Engineering and Construction	Downtown	1011 Union Street	18,500	Relocation
Neos Partners	● Financial Services and Insurance	Del Mar Heights/Carmel Valley	12400 High Bluff Drive	18,415	Relocation
SimplerSpace	● Coworking and Executive Suite Operators	Carlsbad	1959 Palomar Oaks Way	16,600	New Location
Empirico	● Pharmaceuticals	Del Mar Heights/Carmel Valley	10955 Vista Sorrento Parkway	15,270	Relocation
Fennemore	● Legal Services	Downtown	600 B Street	15,209	Renewal
Belharrá Therapeutics	● Pharmaceuticals	Sorrento Valley	3931 Sorrento Valley Boulevard	15,079	Renewal

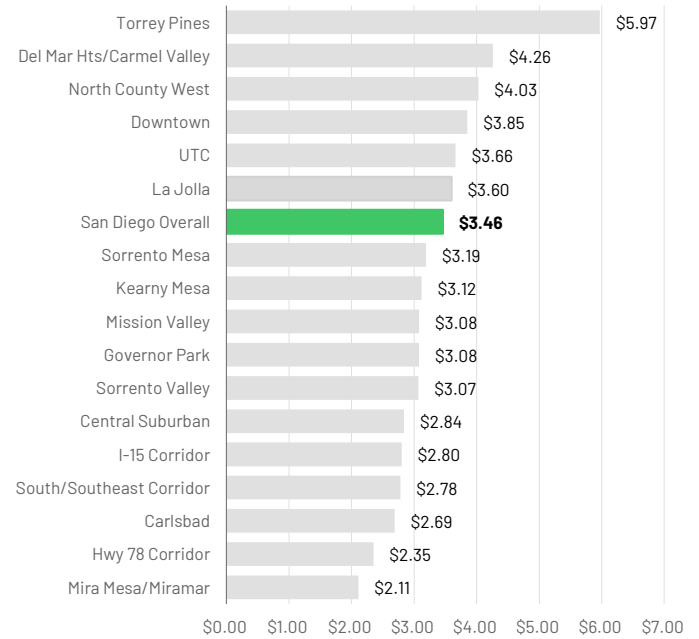
Availability Rate Comparison (%)

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Rental Rate Comparison (\$/sf)

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San Diego Q2 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.

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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