

**MARKET OVERVIEW.** The office market continues to remain on solid footing, with balance between availability and demand. After starting the year with more than 200,000 square feet of positive net absorption, the vacancy rate is now nearly identical to the 2017 year-end rate, a sign of the steady nature of the San Diego office market in recent years. Lease rates continue to press upward at a modest rate, and speculative office construction is minimal.

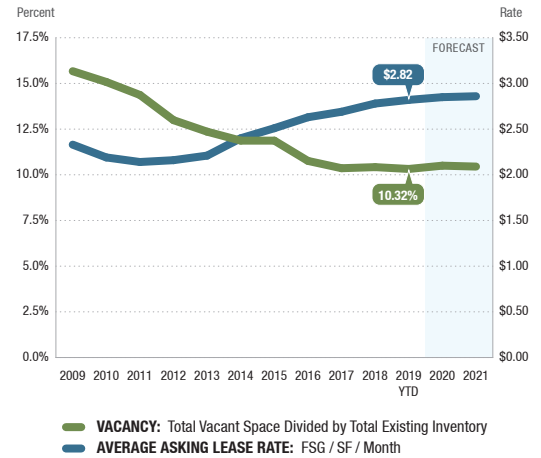
**VACANCY.** Direct/sublease space (unoccupied) finished the quarter at 10.32%, 32 basis points lower than a year prior in the first quarter of 2018. Kearny Mesa posted the lowest vacancy rate of any major submarket (minimum of four million square feet of inventory) at 7.08%, while Carlsbad, Del Mar Heights, and Downtown all had vacancy rates greater than 15% at the end of the first quarter of 2019.

**LEASE RATES.** The average asking full-service gross (FSG) lease rate per square foot per month in San Diego County was \$2.82 at the end of first quarter, a four-cent increase over the previous quarter's rate, and an annual increase of 3.68% from the first quarter of 2018's rate of \$2.72. The overall San Diego office market average asking rate is now at an all-time high, surpassing the previous peak of \$2.74 from 2007.

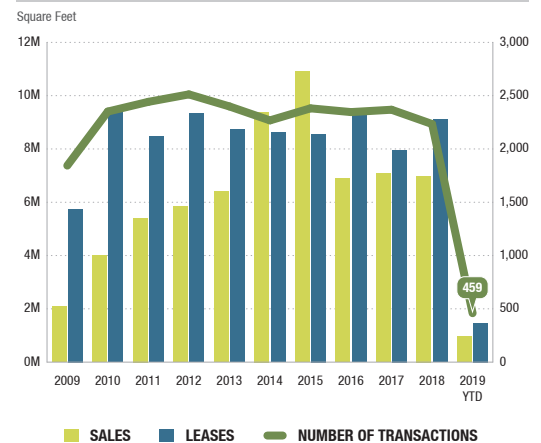
**TRANSACTION ACTIVITY.** Sale and lease transactions totaled 2.4 million square feet in first quarter, a decrease from the 4.4 million square feet which transacted in the fourth quarter. The transaction activity statistic can have some lag time in being reported, so look for figures to end up even higher in the next report.

**EMPLOYMENT.** The unemployment rate in San Diego County was 3.5% in February 2019, down from a revised 3.8% in January 2019, and unchanged from the year-ago estimate of 3.5%. This compares with an unadjusted unemployment rate of 4.4% for California and 4.1% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 19,900 payroll jobs between February 2018 and February 2019, including 6,900 from education and health services, which reported the largest overall gain. The professional and business services sector reported a growth of 5,400 jobs, the second most among the major employment sectors. The largest year-over-year loss was in trade, transportation, and utilities which reported 2,600 fewer jobs than the prior year.

### VACANCY vs. AVERAGE ASKING LEASE RATE



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



### Market Statistics

	Change Over Last Quarter	1Q 2019	4Q 2018	1Q 2018	% Change Over Last Year
Vacancy Rate	▼ DOWN	10.32%	10.42%	10.64%	(3.05%)
Availability Rate	▲ UP	13.90%	13.61%	13.85%	0.35%
Average Asking Lease Rate	▲ UP	\$2.82	\$2.78	\$2.72	3.68%
Sale & Lease Transactions	▼ DOWN	2,442,317	4,414,639	3,116,675	(21.64%)
Gross Absorption	▼ DOWN	1,995,339	2,410,712	1,973,805	1.09%
Net Absorption	▲ POSITIVE	219,913	(3,686)	(345,137)	N/A

**EMPLOYMENT.** The labor market in San Diego County will continue to improve, although we anticipate job growth to slow. In 2018 there was a 1.7% increase in total employment, and a 1.0–1.2% increase is projected for 2019. With the local stalwarts of defense and biotech remaining strong, look for these sectors to lead the way for employment gains, followed by healthcare.

**LEASE RATES.** Expect the average asking lease rate to increase by a modest 2.0–2.5% over the next four quarters.

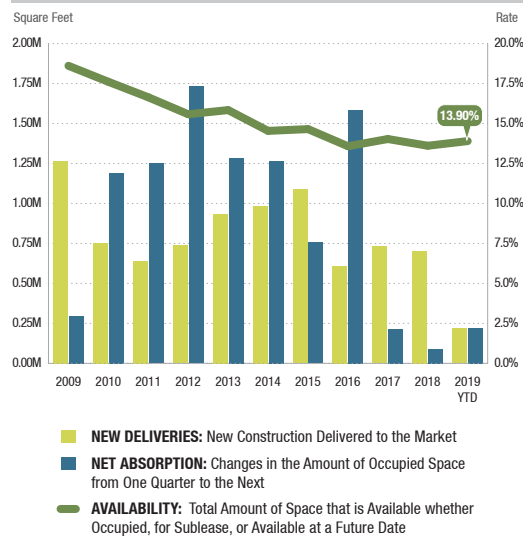
**VACANCY.** While landlords were happy to see hundreds of thousands of square feet absorbed by co-working companies in the past 12–18 months, these new operators in the market will be competing for tenants and could act as a headwind to future occupancy gains. Conversely, a number of companies have committed to expanding into build-to-suit office buildings currently underway, which will add to the market’s occupancy level. We anticipate the countywide vacancy to remain relatively stable around the 10–11% range.

**CONSTRUCTION.** New office development remains weighted towards build-to-suit projects. MedImpact has 160,000 square feet under construction in Scripps Ranch, and there are 175,000 square feet under construction for ViaSat in Carlsbad. Manchester is underway on the Downtown bayfront project which will include a new regional office for the U.S. Navy with additional Class A office towers to follow.

**AVAILABILITY.** Direct/sublease space being marketed was 13.90% at the end of the first quarter, effectively no change year-over-year, but an increase of 29 basis points from the previous quarter.

**ABSORPTION.** The San Diego office market recorded 219,913 square feet of positive net absorption in first quarter. This one-quarter total surpasses the annual total from both 2017 and 2018. There are hundreds of thousands of square feet of preleased office space under construction, so this will add significant levels of positive net absorption in the coming quarters, as these new construction projects come on line.

### NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



## Significant Transactions

### Sales

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
2280–2488 Historic Decatur Rd.	Point Loma	B	181,171	\$76,800,000	IDS Real Estate Group	The Corky McMillin Companies
9350 Waxie Way	Kearny Mesa	A	111,268	\$39,100,000	Coast Income Properties	Stockbridge Capital Group
3911 & 3931 Sorrento Valley Blvd.	Sorrento Valley	B	53,220	\$23,250,000	Alexandria Real Estate Equities	Cruzan
6160 & 6170 Cornerstone Ct. E.	Sorrento Mesa	B	97,316	\$18,850,000	Bridge Investment Group Partners, LLC	Omninet Capital
2888 Loker Ave. E.	Carlsbad	A	80,659	\$17,600,000	Zoe Office Center, LLC	Global CRES

### Leases

\* Voit Real Estate Services Deal

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
8875 Aero Dr.	Kearny Mesa	B	141,000	Mar-2019	VA Outpatient Clinic	Protea*
12860 El Camino Real	Del Mar Heights/ Carmel Valley	A	30,133	Feb-2019	Undisclosed	Kilroy Realty Corporation
10641 Scripps Summit Ct.	Scripps Ranch	A	26,920	Mar-2019	TrellisWare Technologies	Newport National Corporation
10935 Vista Sorrento Pkwy.	Del Mar Heights/ Carmel Valley	A	25,332	Jan-2019	Tandem Diabetes	TIAA-CREF
9444 Balboa Ave.	Kearny Mesa	A	25,234	Feb-2019	Columbia Care	Admiral Capital Group

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2019	Square Feet Available	Availability Rate 1Q2019	Average Asking Lease Rate	Net Absorption 1Q2019	Net Absorption 2019	Gross Absorption 1Q2019	Gross Absorption 2019
<b>Downtown</b>													
Downtown	127	12,906,485	372,000	3,599,248	1,940,945	15.04%	2,615,071	20.26%	\$2.79	(8,813)	(8,813)	298,697	298,697
Downtown Total	127	12,906,485	372,000	3,599,248	1,940,945	15.04%	2,615,071	20.26%	\$2.79	(8,813)	(8,813)	298,697	298,697
<b>Central</b>													
City Heights / University	31	1,216,139	0	0	28,667	2.36%	49,394	4.06%	\$2.45	2,435	2,435	3,710	3,710
Coronado	6	124,831	0	0	6,313	5.06%	10,085	8.08%	\$3.87	0	0	0	0
Kearny Mesa	236	10,905,504	0	104,000	772,407	7.08%	1,119,670	10.27%	\$2.35	6,024	6,024	152,451	152,451
Mission Gorge	19	567,430	0	0	19,116	3.37%	20,597	3.63%	\$1.90	(9,187)	(9,187)	7,291	7,291
Mission Valley	128	7,281,668	0	0	767,350	10.54%	1,059,054	14.54%	\$2.59	(173)	(173)	119,058	119,058
Old Town / Point Loma	81	2,449,444	0	230,000	131,217	5.36%	189,295	7.73%	\$2.68	(2,855)	(2,855)	17,286	17,286
Park East	17	273,122	0	0	19,002	6.96%	28,760	10.53%	\$2.58	(12,239)	(12,239)	0	0
Rose Canyon / Morena	52	1,190,226	0	0	53,752	4.52%	63,638	5.35%	\$2.01	8,605	8,605	34,699	34,699
Uptown / Hillcrest	78	2,217,984	0	0	121,576	5.48%	212,785	9.59%	\$2.67	252	252	19,428	19,428
Central Total	648	26,226,348	0	334,000	1,919,400	7.32%	2,753,278	10.50%	\$2.47	(7,138)	(7,138)	353,923	353,923
<b>I-15 Corridor</b>													
Escondido	74	1,685,940	0	121,614	184,455	10.94%	223,074	13.23%	\$2.10	(7,763)	(7,763)	21,426	21,426
Poway	30	1,323,600	0	160,000	33,481	2.53%	74,238	5.61%	\$2.29	1,577	1,577	3,069	3,069
Rancho Bernardo	106	6,829,803	0	2,308,747	654,731	9.59%	987,400	14.46%	\$3.08	87,118	87,118	156,520	156,520
Scripps Ranch	51	2,730,536	158,994	137,000	467,891	17.14%	530,422	19.43%	\$2.48	22,354	22,354	57,683	57,683
I-15 Corridor Total	261	12,569,879	158,994	2,727,361	1,340,558	10.66%	1,815,134	14.44%	\$2.79	103,286	103,286	238,698	238,698
<b>North County Coastal</b>													
Carlsbad	161	6,647,525	177,000	10,000	1,200,196	18.05%	1,440,414	21.67%	\$2.59	36,385	36,385	193,484	193,484
Del Mar Heights / Carmel Valley	76	4,751,256	295,197	679,648	777,827	16.37%	1,162,323	24.46%	\$4.26	21,495	21,495	139,105	139,105
North Beach Cities	109	2,518,925	84,000	114,933	169,660	6.74%	216,256	8.59%	\$3.63	15,395	15,395	46,978	46,978
North County Total	346	13,917,706	556,197	804,581	2,147,683	15.43%	2,818,993	20.25%	\$3.33	73,275	73,275	379,567	379,567
<b>North City</b>													
Governor Park	20	889,275	0	0	92,872	10.44%	153,280	17.24%	\$2.71	(10,537)	(10,537)	14,614	14,614
La Jolla	47	1,395,954	0	0	109,985	7.88%	228,189	16.35%	\$3.39	(4,728)	(4,728)	26,356	26,356
Miramar	34	1,591,313	0	0	161,961	10.18%	214,137	13.46%	\$1.80	(42,873)	(42,873)	23,500	23,500
Sorrento Mesa	122	9,640,708	0	2,339,446	1,001,495	10.39%	1,408,622	14.61%	\$2.77	49,247	49,247	230,838	230,838
Sorrento Valley	29	799,045	0	0	76,180	9.53%	120,781	15.12%	\$2.57	(975)	(975)	1,556	1,556
Torrey Pines	43	3,018,906	0	0	102,289	3.39%	276,699	9.17%	\$4.22	(13,959)	(13,959)	0	0
UTC	92	8,901,760	0	303,124	898,699	10.10%	866,959	9.74%	\$3.21	162,806	162,806	288,973	288,973
North City Total	387	26,236,961	0	2,642,570	2,443,481	9.31%	3,268,667	12.46%	\$2.87	138,981	138,981	585,837	585,837
<b>Southern &amp; Eastern Areas</b>													
Chula Vista	90	2,904,899	0	1,418,000	202,266	6.96%	273,935	9.43%	\$2.54	23,754	23,754	50,258	50,258
National City	15	528,472	0	0	994	0.19%	1,829	0.35%	\$2.69	0	0	0	0
Otay Mesa	13	319,824	0	0	7,646	2.39%	42,979	13.44%	\$2.09	(3,356)	(3,356)	1,002	1,002
Southeast San Diego	15	528,472	0	290,000	994	0.19%	1,829	0.35%	\$2.69	0	0	0	0
East County	148	3,578,642	0	86,800	122,379	3.42%	156,648	4.38%	\$2.09	12,784	12,784	45,206	45,206
Southern & Eastern Areas Total	281	7,860,309	0	1,794,800	334,279	4.25%	477,220	6.07%	\$2.40	33,182	33,182	96,466	96,466
<b>Highway 78 Corridor</b>													
Oceanside	62	1,350,464	0	302,749	155,859	11.54%	231,335	17.13%	\$2.05	(9,939)	(9,939)	14,305	14,305
San Marcos	38	1,394,870	0	1,991,538	105,956	7.60%	118,654	8.51%	\$2.37	(1,074)	(1,074)	1,379	1,379
Vista	51	1,243,540	0	0	312,073	25.10%	317,161	25.50%	\$1.85	(101,847)	(101,847)	26,467	26,467
Highway 78 Corridor Total	151	3,988,874	0	2,294,287	573,888	14.39%	667,150	16.73%	\$2.05	(112,860)	(112,860)	42,151	42,151
Class A	289	36,689,348	1,003,191	10,519,118	4,485,016	12.22%	5,918,779	16.13%	\$3.33	355,651	355,651	1,058,692	1,058,692
Class B	1,253	52,653,430	84,000	3,677,729	5,374,703	10.21%	7,378,601	14.01%	\$2.56	(193,192)	(193,192)	724,787	724,787
Class C	659	14,363,784	0	0	840,515	5.85%	1,118,133	7.78%	\$2.00	57,454	57,454	211,860	211,860
<b>San Diego County Total</b>	<b>2,201</b>	<b>103,706,562</b>	<b>1,087,191</b>	<b>14,196,847</b>	<b>10,700,234</b>	<b>10.32%</b>	<b>14,415,513</b>	<b>13.90%</b>	<b>\$2.82</b>	<b>219,913</b>	<b>219,913</b>	<b>1,995,339</b>	<b>1,995,339</b>

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a full-service gross basis.



## High-Tech and Innovative Companies Continue to Grow in San Diego

by **Jessica Greene**

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Despite fears of a slowdown, San Diego's office market held its ground while the economy remained strong through the first quarter of 2019. The county's unadjusted unemployment rate sits at a near-historic low of 3.5%, one of the lowest among the top 25 metro areas in the US. Year-over-year nonfarm employment rose to 1,489,800, an increase of 19,900 jobs.

Office demand countywide is still solid as evidenced by the uptick in positive net absorption compared with the previous quarter, notwithstanding Vista's massive negative net absorption due to DJO Global's corporate headquarters move to Texas at the beginning of the year. The closure of their 110,000 square foot facility also accounts for Vista recording the highest vacancy among all submarkets in the county.

Even with DJO Global's departure, San Diego continues to mature as a technology and innovation hub. According to the U.S. Patent Office, the county ranks second in the nation, just behind Santa Clara County, for the number of patents issued between 2000 and 2015. World class research institutions coupled with a highly educated workforce mean that more companies are making an effort to take advantage of the highly skilled labor pool. Apple recently signed a lease for 95,000 square feet in UTC's Eastgate Terrace with plans to eventually lease additional space in the area and make San Diego their principal engineering hub, adding an additional 1,200 jobs to the economy. On the other end of the tech spectrum, Takeda relocated from 80,000 square feet in the Torrey Pines Science Center to their new 150,000 square foot build-to-suit facility located on Towne Center Drive in UTC.

One of the things that I'm most excited about is the announcement of Alexandria Real Estate Equities' new turnkey office/laboratory product called "Alexandria GradLabs" designed for post-seed-stage life science companies. The 98,000 square foot project will be located at Alexandria's Campus Pointe at 9880 Campus Point Drive and is scheduled to be delivered by 2020.

Overall, the office market started the year off on a positive note. We are currently in the second longest period of growth in U.S. history, soon to be the longest if the expansion lasts past July 2019. Many claim that the momentum should be expected to continue beyond 2020. If correct, San Diego is poised to become one of the most innovative cities in the world.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services. ©2019 Voit Real Estate Services, Inc. DRE License #01991785.

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## Product Type

**CLASS A:** Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

**CLASS B:** Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

**CLASS C:** Buildings competing for tenants requiring functional space at rents below the area average.

## Submarkets

**DOWNTOWN:** Downtown

**CENTRAL:** City Heights/University, Coronado, Kearny Mesa, Mission Gorge, Mission Valley, Old Town/Point Loma, Park East, Rose Canyon/Morena, Uptown/Hillcrest

**I-15 CORRIDOR:** Escondido, Poway, Rancho Bernardo, Scripps Ranch

**NORTH COUNTY COASTAL:** Carlsbad, Del Mar Heights/Carmel Valley, North Beach Cities

**NORTH CITY:** Governor Park, La Jolla, Miramar, Sorrento Mesa, Sorrento Valley, Torrey Pines, UTC

**SOUTHERN & EASTERN AREAS:** Chula Vista, East County, National City, Otay Mesa, Southeast San Diego

**HIGHWAY 78 CORRIDOR:** Oceanside, San Marcos, Vista