

SAN DIEGO COUNTY | OFFICE Q4 2018

Office Demand Remained Strong In 2018

Behind the Numbers

- > Q4 2018 net absorption of 344,428 SF capped off a strong year of 912,254 SF.
- > Class A average asking rental rates remained at an all-time peak of \$3.31/SF/month, a 1.8% year-over-year increase. The overall average increased by \$0.01 to end the quarter at \$2.72/SF/month and stood at peak rate recorded 11 years ago (Q4 2007).
- > Countywide overall vacancy dropped to the lowest level in 12 years (10.3%).

Net Absorption

San Diego County net absorption for Q4 2018 equaled 344,428 SF. Class B inventory recorded the most activity with 236,154 SF of net absorption, Class A at 165,464 SF, and Class C with negative net absorption of 57,190 SF. For all of 2018, net absorption totaled 912,254 SF of which 668,074 SF was in Class B space and another 263,258 SF in Class A space.

The Sorrento Mesa submarket posted the most positive net absorption (+224,639 SF) in Q4. In particular, Sony occupied nearly 116,000 SF at The Park located at 9645 Scranton Road. Curology occupied 54,232 SF at Pacific Technology Center located at 5717 Pacific Center Blvd.

Scripps Ranch (+81,367 SF) and Mission Valley (+72,593 SF) had the second and third highest levels of absorption, respectively. In Scripps Ranch, TrellisWare Technologies occupied 72,331 SF at Summit Pointe while Horizon Center saw Crown Castle USA moving into 12,561 SF. Major Mission Valley move-ins included Global Equity Finance (20,391 SF) at Mission Valley Crossroads 404, HDR Engineering (15,638 SF) at Tower 591, and C&S occupying 13,670 SF at Mission City Corporate Center.

Vacancy

The countywide vacancy of 10.3% in Q4 2018 is a 34 basis point decrease from the prior quarter. The vacancy rate includes direct vacant space (9.9%) and minimal sublease space (0.4%).

Overall vacancy in Downtown bumped up to 13.3% in Q4, driven by negative net absorption of 104,276 SF. Overall vacancy in the Suburban markets dropped to 9.9% with core submarkets such as Kearny Mesa (7.3%) and UTC (8.8%) posting the lowest rates and Carlsbad (16.9%) with the highest rate. For a third consecutive quarter, Carlsbad – and all other submarkets – posted vacancy rates below 20%.

Countywide Class A and Class B vacancy rates ended the year at 13.1% and 9.1%, respectively. Class C posted the lowest vacancy rate at 7.0%.

MARKET INDICATORS

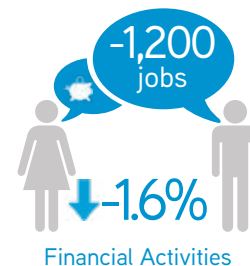
All Office Markets & Classes, Q4 2018

	Q4 2018	Q4 2017	Change
Overall Vacancy (incl. sublease)	10.31%	11.24%	↓
Net Absorption SF	344,428	152,019	↑
Under Construction SF	1,072,906	320,444	↑
Average Asking Rent (FSG)	\$2.72	\$2.64	↑



JOB GROWTH

Source: Bureau of Labor Statistics, 12-month change (11/2017-11/2018), San Diego County



New Supply

New construction completions for the quarter included the 60,000 SF creative-office building at Makers Quarter in Downtown (33,806 SF was leased to International Workplace Group) and a 5,000 SF creative-office project at The Millennium in Mission Valley. There are currently seven projects totaling 1.1 million SF under construction countywide, all of which are expected to be completed by year-end. 2019 will have the second highest level of new construction completed in the last nine years.

These projects include a four-building 357,000 SF build-to-suit on Town Garden Road in Carlsbad for ViaSat, a 150,000 SF office building being built by Alexandria Real Estate Equities at 9625 Towne Centre Drive (pre-leased to Takeda), Lift which is a 54,646 SF two-building project on Innovation Way in Carlsbad being developed by RAF Pacifica Group, The Watermark – a 158,994 SF building on Scripps Gateway Court in Scripps Ranch (pre-leased to MedImpact), The Heights at One Paseo – a two-building 300,266 SF project being developed by Kilroy Realty in Carmel Valley, Sorrento Summit III – a 28,000 SF project pre-leased to Nuvasive and being developed by HCP, Inc., and a 24,000 SF building on S. Coast Highway 101 in Encinitas.

Prior to the recession, new construction consistently was around two million SF per year. However, over the last decade, annual construction has averaged around 490,000 SF annually.

Annual net absorption has been consistently strong, outpacing new construction over the last nine years. This is indicative of an office market that is not at risk of being over-built. In fact, of the nearly 1.1 million SF currently under construction, 70% is either pre-leased or build-to-suit.

Trends, Forecast & Outlook

Vacancy will continue to decrease throughout 2019, potentially falling below 10% by year-end. The aforementioned pace of demand exceeding new supply will drive the trend this year. Assuming the local economy continues to remain strong, vacancy could be at its lowest level in 13 years. Additionally, average asking rental rates will continue to increase 3% to 4% by year-end.

Significant Office Activity - Q4 2018

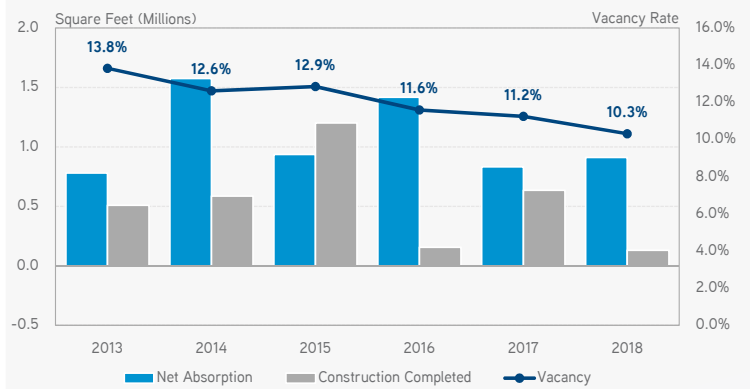
Leasing

Property/Address	Tenant	Submarket	Class	Size (SF)	Deal Type
Gateway at Torrey Hills	Mintz	Carmel Valley	A	54,232	Lease renewal.
Kettner & Ash	Spaces	Downtown	A	43,540	New lease in a building under renovation.
Bridge Point Corporate Centre	Intercept Pharmaceuticals	UTC	B	47,000	Lease renewal.
AMP&RSAND	Qdoba	Mission Valley	A	34,000	Relocation from Kearny Mesa submarket.
Sky Park Office Plaza	Borrego Community Health	Kearny Mesa	A	22,414	Relocation from two San Diego County locations.
Vista La Jolla Corporate Center	Jumper Media	Rose Canyon	B	10,159	Relocation from Pacific Beach.

Sales

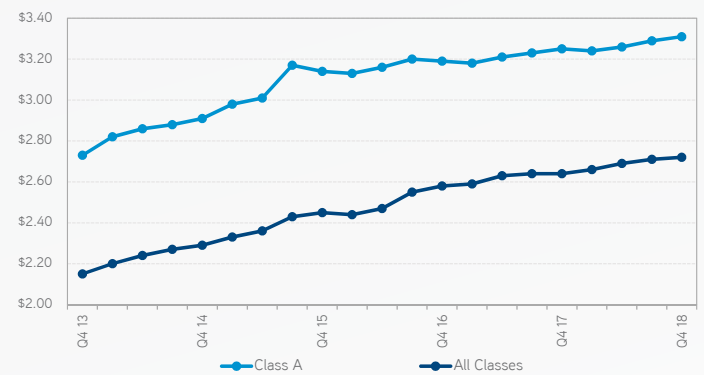
Property/Address	Submarket	Class	Size (SF)	Sale Price	\$/SF	Buyer	Seller
Paseo Del Mar	Carmel Valley	A	232,035	\$166,000,000	\$715	The Irvine Company	Union Investment
One Del Mar	Carmel Valley	A	115,376	\$73,350,000	\$636	The Irvine Company	Clarion Partners
Regents Park Financial Centre	UTC	A	94,162	\$39,500,000	\$419	Regent Properties	Bollert Lebeau
Monarch Corporate Center	Scripps Ranch	A	112,269	\$33,550,000	\$299	Peregrine Realty Partners	Eagle Realty Group
The Yard	Sorrento Mesa	B	60,518	\$24,787,500	\$410	TH Real Estate	Locale Advisors
The Bluffs	Rancho Bernardo	A	68,708	\$21,350,000	\$311	Navarra Family Trust	Davlyn Investments

San Diego Historical Office Market Trends



San Diego Historical Office Rental Rates

Average Asking Monthly Rate per SF, Full Service



Office Market Overview - Q4 2018

San Diego County | CBD and Suburban by Class

EXISTING INVENTORY (SF)		VACANCY (%)				NET ABSORPTION (SF)		NEW SUPPLY (SF)			Avg Asking Rate
Type/ Submarket	Total Inventory	Direct	Sublet	Total	Prior Qtr	Current Qtr	YTD	Completed Current Qtr	Completed YTD	Under Construction	
DOWNTOWN / CBD											
A	6,601,356	9.7%	0.5%	10.2%	9.1%	(13,685)	(29,252)	60,000	60,000	0	\$2.96
B	2,777,933	19.0%	0.8%	19.8%	16.7%	(85,042)	(59,522)	0	0	0	\$2.64
C	396,498	16.8%	2.4%	19.2%	17.8%	(5,549)	(5,914)	0	0	0	\$2.28
TOTAL	9,775,787	12.6%	0.6%	13.3%	11.7%	(104,276)	(94,688)	60,000	60,000	0	\$2.75
SUBURBAN											
A	26,400,655	13.3%	0.5%	13.9%	14.5%	179,149	292,510	0	48,954	994,260	\$3.37
B	33,852,505	7.9%	0.4%	8.3%	9.2%	321,196	727,596	5,000	22,654	78,646	\$2.50
C	14,647,310	6.5%	0.2%	6.7%	6.4%	(51,641)	(13,164)	0	0	0	\$1.94
TOTAL	74,900,470	9.5%	0.4%	9.9%	10.5%	448,704	1,006,942	5,000	71,608	1,072,906	\$2.72
SAN DIEGO COUNTY TOTAL (CBD + SUBURBAN)											
A	33,002,011	12.6%	0.5%	13.1%	13.5%	165,464	263,258	60,000	108,954	994,260	\$3.31
B	36,630,438	8.7%	0.4%	9.1%	9.8%	236,154	668,074	5,000	22,654	78,646	\$2.51
C	15,043,808	6.8%	0.2%	7.0%	6.7%	(57,190)	(19,078)	0	0	0	\$1.98
TOTAL	84,676,257	9.9%	0.4%	10.3%	10.7%	344,428	912,254	65,000	131,608	1,072,906	\$2.72

San Diego County | Suburban Markets and Submarkets

CENTRAL COUNTY											
Campus Point	620,187	0.0%	0.0%	0.0%	0.0%	0	0	0	0	0	\$2.58
Carmel Valley	5,226,250	13.2%	0.4%	13.6%	14.4%	40,052	27,056	0	0	300,266	\$4.31
Governor Park	905,556	8.8%	0.4%	9.1%	7.7%	(12,521)	(12,319)	0	0	0	\$2.75
Kearny Mesa	8,842,209	7.0%	0.2%	7.3%	7.0%	(24,155)	(96,952)	0	0	0	\$2.27
La Jolla	1,134,167	7.1%	1.1%	8.2%	9.9%	18,705	9,325	0	0	0	\$3.22
Miramar	1,398,307	9.9%	1.3%	11.3%	13.7%	33,516	2,217	0	0	0	\$1.78
Mission Gorge	302,042	2.3%	0.0%	2.3%	1.4%	(2,671)	(4,736)	0	0	0	\$1.71
Mission Valley	7,087,965	10.7%	0.5%	11.2%	12.1%	72,593	91,675	5,000	5,000	0	\$2.48
Old Town / SA / PL	2,385,827	4.3%	0.0%	4.4%	5.6%	30,374	37,436	0	0	0	\$2.61
Rose Cyn / Morena	859,873	4.7%	0.3%	5.0%	3.6%	(12,266)	(23,503)	0	0	0	\$2.04
Sorrento Mesa	9,366,898	9.3%	0.2%	9.5%	11.9%	224,639	253,489	0	0	28,000	\$2.74
Sorrento Valley	414,099	3.2%	0.0%	3.2%	4.4%	4,769	22,068	0	0	0	\$2.42
Torrey Pines	815,477	6.6%	4.2%	10.8%	10.2%	(5,206)	10,578	0	0	0	\$3.98
Uptown	1,731,815	3.7%	0.3%	4.0%	4.5%	8,724	46,040	0	0	0	\$2.43
UTC	5,747,962	8.1%	0.6%	8.8%	9.3%	31,807	219,709	0	0	150,000	\$3.51
TOTAL	46,838,634	8.5%	0.4%	9.0%	9.8%	408,360	582,083	5,000	5,000	478,266	\$2.88
NORTH COUNTY											
Carlsbad	6,486,708	16.1%	0.8%	16.9%	17.0%	8,034	249,224	0	48,954	411,646	\$2.52
Escondido	1,619,050	8.6%	0.8%	9.4%	8.4%	(15,456)	(4,032)	0	0	0	\$2.11
I-5 Corridor	1,630,473	7.3%	0.0%	7.3%	8.5%	19,382	(7,739)	0	0	24,000	\$3.50
Oceanside	1,196,677	8.7%	0.7%	9.4%	10.1%	8,475	(17,190)	0	0	0	\$2.04
San Marcos / Vista	2,086,499	14.5%	0.0%	14.6%	12.8%	(38,284)	1,931	0	0	0	\$1.94
TOTAL	13,019,407	13.1%	0.6%	13.7%	13.6%	(17,849)	222,194	0	48,954	435,646	\$2.44
I-15 CORRIDOR											
Poway	1,177,227	4.7%	0.0%	4.7%	3.2%	(17,162)	11,766	0	0	0	\$2.34
Rancho Bernardo	5,877,334	14.8%	0.0%	14.9%	14.7%	(12,172)	(53,865)	0	0	0	\$3.02
Scripps Ranch	2,270,504	10.0%	0.3%	10.3%	13.9%	81,367	169,155	0	0	158,994	\$2.48
TOTAL	9,325,065	12.4%	0.1%	12.5%	13.0%	52,033	127,056	0	0	158,994	\$2.85
SOUTH/EAST COUNTY											
East County	3,011,426	3.5%	0.2%	3.6%	3.9%	7,237	6,337	0	17,654	0	\$1.91
South Bay	2,705,938	6.7%	0.0%	6.8%	6.7%	(1,077)	69,272	0	0	0	\$2.43
TOTAL	5,717,364	5.0%	0.1%	5.1%	5.2%	6,160	75,609	0	17,654	0	\$2.18

Average rental rates are defined as the average asking monthly rate per square foot across all direct available spaces quoted on a "full service gross" basis.



15,400 professionals in
69 countries on
6 continents

\$2.7 billion in annual revenue
2.0 billion square feet managed
68,000 lease and sale transactions

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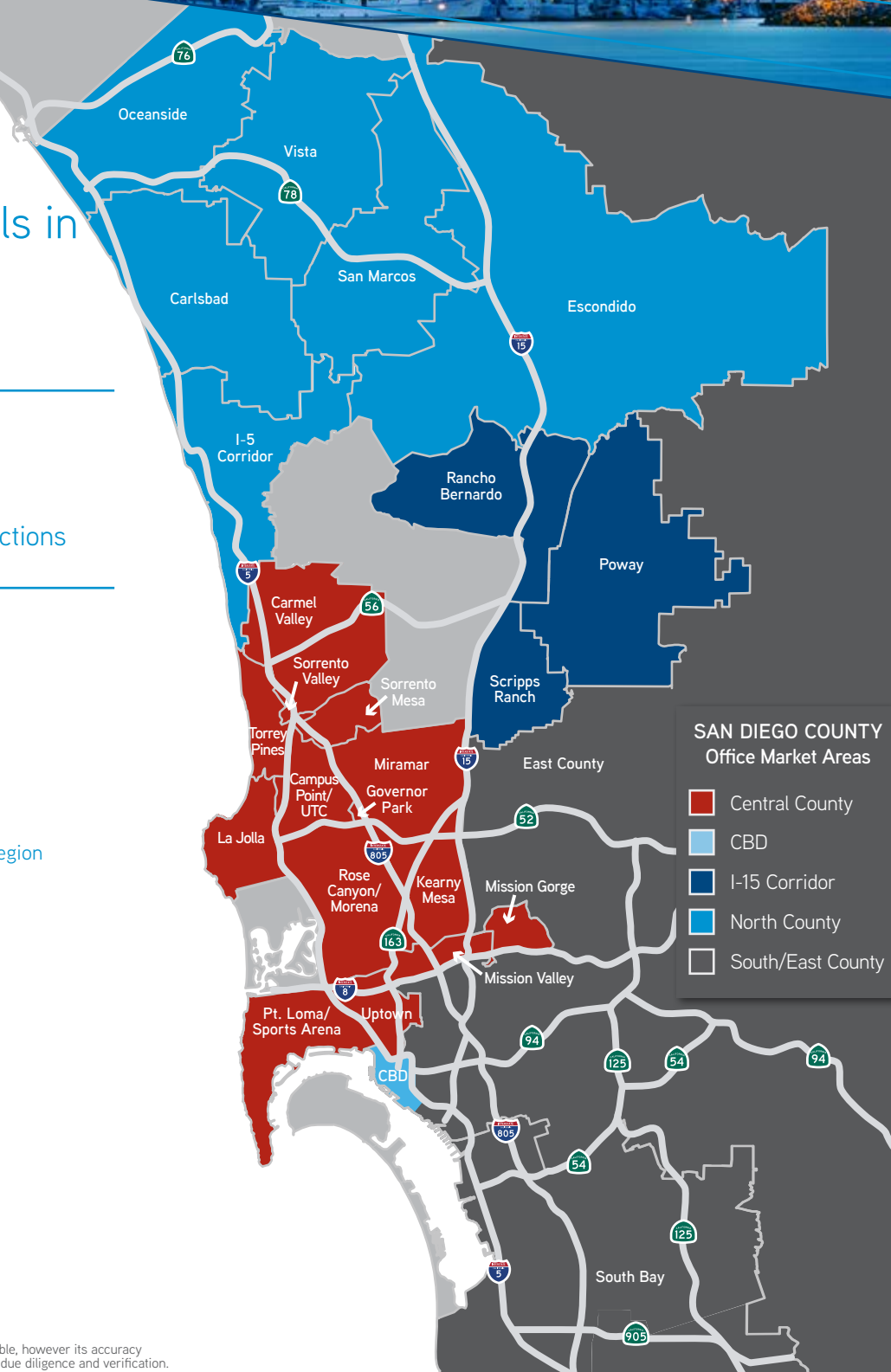
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**SAN DIEGO COUNTY
Office Market Areas**

- Central County
- CBD
- I-15 Corridor
- North County
- South/East County

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