

San Diego

Office | Q2 2024 Market Report

Quarterly Snapshot

↔ Average Rent
\$3.13/SF

↑ Vacancy
13.4%

↑ Net Absorption
-154,032 SF

Occupier's Perspective

Vacancy is expected to increase in the near term with space needs continuing to decrease and job growth receding.

While tenants hold the leverage in most of the office market currently, landlords' ability to offer out-of-pocket concessions may reach a ceiling. Landlords are offering increased rent abatement, averaging out at about five months of free rent on a seven-year lease.

With office buildings trading hands at lower numbers, tenants may see property taxes on their respective buildings decrease if sold and could lead to cutting rents in the surrounding area. This could lead to tenant savings in rent and pass through expenses.

San Diego's office market has been more resilient than other major U.S. markets since 2020 due to its core industries tied to innovation and the military. However, leasing activity remains about 17 percent below pre-pandemic levels, with rent growth stagnating. Downtown continues to heavily impact San Diego's vacancy and availability rates. Large new developments like Campus at Horton and RaDD have pushed Downtown's availability to 47.9 percent and these projects may cause Downtown's vacancy to exceed 50 percent.

Although Downtown leasing continues to struggle, suburban occupancy has grown by nearly 1.3 million square feet since 2020, with most new supply pre-leased or occupied. Occupier preferences have shifted to premier suburban office projects with walkable amenities.

Available sublet space has surged to its highest level in 20 years, contributing to rent stagnation. Small leases now dominate the market, with over 50 percent of leasing volume in the first half of 2024 coming from leases under 5,000 square feet. Large leases have significantly declined, with only three new leases above 25,000 square feet signed in early 2024, one of which was the City of San Diego's 74,000 square feet office space in Mission Valley. Overall, San Diego's office market faces challenges from high vacancy, increased sublet space, and slowing job growth, with vacancy expected to peak above fifteen percent, similar to levels seen during the Great Recession.

Recent Transactions

Tenant	Size (SF)	Submarket	Type	Building
DRS Daylight Solutions	82,999 SF	Rancho Bernardo	Renewal	Office
City of San Diego	74,000 SF	Mission Valley	New Lease	Office
Werfen	50,236 SF	Scripps Ranch	Renewal	Office
Engineering Partners	23,497 SF	Scripps Ranch	New Lease	Office

Submarket Movement

Vacancy Rate	QOQ Change	Direct Asking Rent (\$/SF)	Submarket
4.6%	▲	\$2.58	East County
3.5%	◆	\$2.69	Chula Vista
30.9%	▲	\$2.72	Downtown
13.0%	▲	\$2.75	Carlsbad
7.0%	▲	\$2.92	Sorrento Mesa
9.1%	▲	\$3.00	Kearny Mesa
17.7%	▲	\$3.04	Mission Valley
13.7%	◆	\$3.25	Rancho Bernardo
8.9%	◆	\$3.92	UTC
8.8%	▲	\$4.01	North Beach Cities
1.0%	◆	\$4.26	Torrey Pines
8.0%	◆	\$4.60	Del Mar Hts/Carmel Valley