San Diego

Office | Q1 2024 Market Report

Quarterly Snapshot

Average Rent
$3.10/SF

Vacancy
12.0%

Net Absorption
-333,256SF

Occupier's Perspective

Tenants have leverage in lease negotiations and are frequently receiving some rent abatement and build-out allowances. Concessions have inhibited effective rent growth, and it is not expected to recover in coming quarters.

About 60 percent of under construction space is available for lease. However, asking rents for new space will likely remain high due to landlords' financing structure, rising interest rates, and construction costs.

Early renewals are an ongoing topic of conversation between tenants and landlords. Given the softening of the market, landlords are eager to secure long-term commitments and are increasingly willing to negotiate early renewals with immediate effect. Tenants could potentially leverage this to right-size earlier than their lease expiration date.

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Despite occupancy losses in major U.S. office markets since 2020, San Diego has shown resilience due to its core industries linked to innovation and the military. Still, leasing activity is anticipated to remain below pre-pandemic levels. Rent growth is expected to stagnate further with the largest spec delivery pipeline in 20 years. Vacancy in San Diego is projected to reach over 14 percent, driven by new deliveries in Downtown. Despite the addition of 2.7 million square feet of space, leasing interest remains limited, with only one tenant announced.

Due to tenant leverage in the market, concession packages are more substantial. In turn, longer lease terms are on the rise due to rent abatement, and landlords are suffering rent losses in real terms. The availability of sublet space has also hindered rent growth, reaching a high of 2.7 million square feet in the first quarter. Momentum among large occupiers has slowed significantly, with a notable decrease in leases over 25,000 square feet. More than 50 percent of volume was under 5,000 square feet in 2023, which has continued in the first quarter. Concerns loom over prime office nodes like UTC, where leasing activity has dwindled, and vacancy rates have doubled since 2019. Suburban submarkets have seen slight increases in occupancy, but Downtown continues to struggle.

Recent Transactions

Tenant	Size (SF)	Submarket	Type	Building
Pfizer Inc.	230,133 SF	Del Mar Hts.	New Lease	Office
Lytx	126,607 SF	UTC	New Lease	Office
CoreLogic	22,266 SF	Mission Valley	New Lease	Office

Submarket Movement

Vacancy Rate	QOQ Change	Direct Asking Rent ($/SF)	Submarket
3.2%	◆	$2.59	East County
4.5%	◆	$2.70	Chula Vista
29.5%	◆	$2.72	Downtown
11.8%	◆	$2.74	Carlsbad
7.8%	▼	$2.96	Kearny Mesa
13.7%	▼	$2.97	Mission Valley
5.2%	◆	$3.00	Sorrento Mesa
14.1%	◆	$3.20	Rancho Bernardo
8.7%	◆	$3.64	UTC
7.5%	▲	$4.00	North Beach Cities
1.3%	◆	$4.44	Torrey Pines
8.9%	▲	$4.56	Del Mar Hts/Carmel Valley