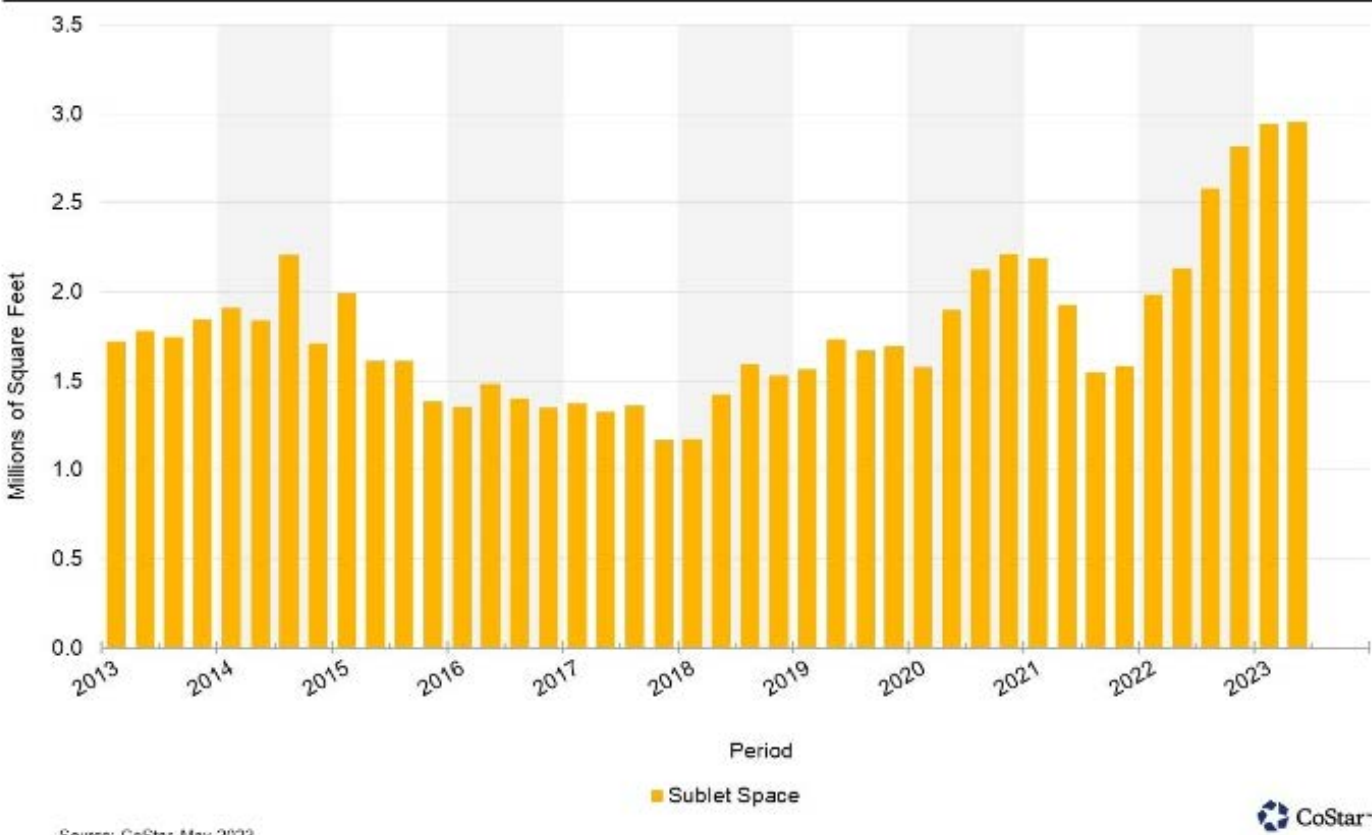


Office Sublet Space Reaches Another High in San Diego

Sublease Availability Increases for Seven Straight Quarters

Firms Continue to Place Underutilized Office Space Up for Sublet



By Joshua Ohl

The amount of sublet space in the San Diego office market has reached yet another record high during the second quarter.

Rising for seven straight quarters, sublease availability has reached 3 million square feet, representing 2.4% of existing inventory. That is the highest percentage seen in the past 20 years and is 1 million square feet more than 12 months earlier. It’s also an increase of 600,000 square feet above a peak seen during the Great Recession.

It has become clear that there has been no one-size-fits-all approach to using office space over the past several years, as firms continue to relinquish underutilized space.

University Town Center has the most sublet space on the market in San Diego, with nearly 500,000 square feet available. That represents 5% of the total office footprint there and a 33% jump in

available sublet space in the past 12 months. The space added to the sublease market has come from a cluster of industries including biotech, high tech and finance. The largest of those spaces is for 100,000 square feet at 4785 Executive Drive added by Illumina with a term through 2027. That space was added as Illumina announced that it was cutting 5% of its global workforce, including 200 positions in the region.

Paradoxically, downtown has the highest vacancy and availability rates among San Diego's primary office-using nodes, at 26% and 38%, respectively, though it has the lowest amount of available sublet space among those same primary office nodes. There is only about 140,000 square feet of sublease space available, a 60% drop compared with one year earlier. Part of that can be tied to the San Diego Union-Tribune pulling its 60,000-square-foot listing at 600 B St. off the market, with some of that space going back to the landlord.

The amount of sublet space in San Diego could have been higher, too.

Sorrento Therapeutics filed for bankruptcy protection in February and laid off more than 500 local workers. A bankruptcy court approved Sorrento Therapeutics' rejection of some of its leases during the second quarter, according to court filings. The biotech firm's local footprint is spread across more than 600,000 square feet of office and flex space, and most of its existing portfolio was extended for a 15-year term last year. So far, two of its offices, including the under-construction property at Sorrento Gateway, have been placed on the market as new and relet space, not sublet space, amounting to more than 220,000 square feet.

It's probably too soon to tell if San Diego has reached a peak level of sublet space, but as long as firms continue to rightsize their operations, more sublet space could be on its way.