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SAN DIEGO'S OFFICE MARKET GETS CREATIVE

San Diego has carved out a niche for itself among tech, life sciences and other savvy companies that appreciate the area's appeal and creative office environments.

By Nellie Day

San Diego's office market has experienced a slew of construction activity as of late, with a particular focus on the creative supply. Much of that activity is thanks to two companies. Locally based RAF Pacifica Group has broken ground on three new developments in the North County submarket of Carlsbad that total more than $75 million. These endeavors include Lift, the first ground-up creative office project in the submarket.

Lift will feature 44,797 square feet of unique office space and 8,496 square feet of restaurant space. The $26 million project will offer on-site entertainment and wellness options, with ocean views and one-of-a-kind outdoor amenities once it's completed in 2018.

Santa Monica, Calif.-based BLT Enterprises recently leased 24,000 square feet to CV Sciences at its Sorrento Tech III flex R&D and industrial property. Torrey Cove Capital Partners has also signed on for 8,093 square feet at BLT's adjacent Sorrento Tech II creative office and R&D campus in the Sorrento Mesa submarket. The company has further plans to build spec creative office space on the site's remaining 6,097 square feet.

WREB recently sat down with Bernard Huberman, president and founder of BLT Enterprises, and Adam Robinson, president and founder of RAF Pacifica Group, to discuss San Diego's ravenous appetite for all things creative as more and more companies discover what may be California's best hidden gem for the tech and creative communities.

BLT Enterprises recently leased 24,000 square feet to CV Sciences at its Sorrento Tech III flex R&D and industrial property in the San Diego submarket of Sorrento Mesa.

RAF's Lift will feature 44,797 square feet of unique office space and 8,496 square feet of restaurant space when it opens in Carlsbad next year.

Why did RAF decide to build the first ground-up creative office project in the Carlsbad submarket?

Robinson

Robinson: Carlsbad is one of the most dynamic submarkets in San Diego. Companies across a diverse range of industries are relocating to the region, driving rapid expansion that is fueling demand for higher quality office space. That demand for quality is the true driver for our new project. The value that creative office delivers to office tenants and to local communities is evident in urban cores throughout the U.S., however, no creative office has broken ground in this submarket to date.

Why do you think Carlsbad has the highest population of tech firms in San Diego?

Robinson: Tech firms are constantly chasing top talent, which means they seek locations where they can tap into a strong, motivated, well-educated labor pool. San Diego's North County continues to deliver an extremely high quality of life, which is attracting a highly educated and diverse workforce. Because of this, tech firms and companies across a variety of industries are relocating to the region. Carlsbad provides these companies with a strong value alternative to other areas throughout San Diego, while still providing access to top-tier talent.

What makes Sorrento Mesa's office market unique?

Huberman: Sorrento Mesa is quickly becoming a regional hub for the technology sector, home to some of the largest tech companies, such as Qualcomm, Verizon and Sony. The submarket has also experienced tremendous growth within the life science sector, recently surpassing Torrey Pines as the submarket with the highest occupancy among San Diego's life science clusters.

Sorrento Mesa's central location provides easy access to the interstates, 805 and 5. This, coupled with the ongoing growth throughout the region, will continue to attract large, high-quality tenants to the area.

What made this the right time for BLT to construct a spec creative office property in the area?

Huberman: With more than 19,000 jobs added to San Diego over the past 12 months, according to a State of California Development Department report, there is increasing demand for office space throughout the region, particularly creative office space.

Tenants are seeking state-of-the-art creative workspaces that provide them with the flexibility to evolve and grow along with their changing needs, in addition to amenities that allow them to attract and retain top talent.

As a long-term owner, we take a "last landlord" approach. What this means is that we hope our tenants will rent with us for the entirety of their business life cycle as we grow and evolve with them. We are approaching this space in the same way we do all our properties: we create extremely high-quality office space with best-in-class amenities that cater to the overall needs of today's tenants.

Where do you see the creative office trend going in San Diego?

Robinson: Creative office will emerge as the product of choice in Carlsbad and throughout San Diego in the years to come. We will start to see older, traditional office space repositioned or renovated into creative workspaces, as well as an increase in new ground-up creative development. The challenge for ground-up development will be locating sites. Carlsbad and San Diego overall are extremely supply constrained with very little available developable land.

Huberman: Carlsbad is a submarket that boasts a diversity of industries, making it appealing to several different sectors, including tech, biotech and manufacturing industries, among others. The region also boasts incredibly strong market fundamentals, including low office vacancy, quality demographics and a growing population.

Tenants are looking to relocate to Carlsbad as the region provides a strong value alternative compared to other parts of San Diego County. This submarket also delivers a high quality of life, attracting a strong labor pool for these companies. In fact, Carlsbad has been dubbed one of the 10 wealthiest cities in the nation and has nearly doubled its population since 1990. This rapid migration of companies and residents to the area, coupled with the region's strong economic drivers, will result in increased demand for creative workspaces over time. Office owners and investors will continue to renovate and reposition existing office stock into creative workspaces. We will also start to see a gradual increase in ground-up development of creative office space throughout Carlsbad.

Do you think a larger supply of creative office inventory will attract more companies to the San Diego market?

Huberman

Huberman: Several established companies and startups have already begun to relocate to areas throughout San Diego as it gains a reputation as a hub for several thriving industries and offers an appealing quality of life.

Due to tight vacancy rates and skyrocketing rents in LA, it is harder and harder for businesses to find affordable spaces that suit their needs. By offering more creative office options as an alternative to nearby Los Angeles — especially those that include large, open and flexible spaces — the San Diego market will continue to attract more and more businesses, further solidifying its place in the overall fabric of Southern California's office market.

Robinson: An influx in creative office supply will certainly play a role in attracting more companies to the San Diego market. We've already begun to see a migration of companies to the region. This is particularly true in North County. Carlsbad, Escondido, Oceanside, San Marcos and Vista have all experienced significant growth over the past few years. The addition of more creative space will only further this growth and expansion throughout the region. ■

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