

# San Diego Office Market Report

## All Eyes on the Future and a Hopeful Recovery

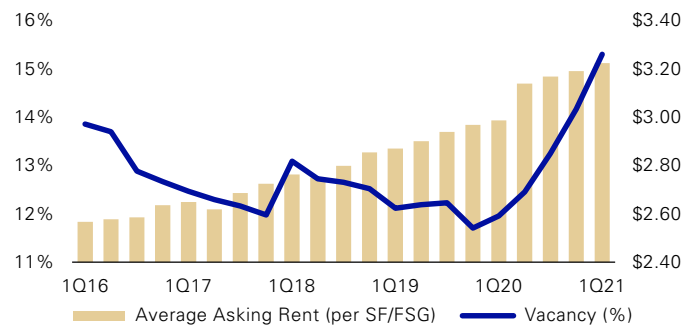
- The average asking rent increased for the 12<sup>th</sup> consecutive quarter, reaching \$3.22/SF. This represents a year-over-year increase of 7.9% and an annual increase of 5.3% over the past three years.
- Vacancy increased to 15.3%, up 110 basis points over the last quarter. Vacancy is at its highest level since 2012.
- Absorption was negative this quarter, posting 477,238 square feet in net losses, similar to last quarter's loss of 473,293 square feet. The expectation is that absorption will turn positive later this year as a recovery begins.
- Sublease availability reached a 10-year high of nearly 2.6 million square feet as companies continue to shed unneeded space. The average remaining term for sublets has also been increasing, with 35.3% of available space having more than three years left on the master lease. Sublet spaces with longer terms can compete with direct availabilities and put downward pressure on direct rents.
- Construction activity climbed to another consecutive all-time high of nearly 2.2 million square feet.
- Landlords have held fast to higher asking rents despite rising vacancy, counting on an economic rebound this year to bring increased office requirements.
- Tenants continue to prefer short-term renewals, although biotech and large tech companies that have experienced increased demand during the pandemic have taken advantage of market conditions to make large lease commitments at renovated or newly constructed projects.

### Tech and Biotech Make the Biggest Moves

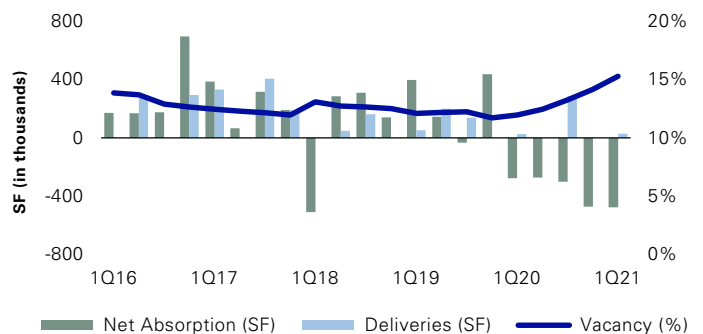
This quarter's biggest leases came from tech and life science companies. Element Biosciences pre-leased another floor at the new Alexandria Tech Center building under construction

### Market Analysis

#### VACANCY AND ASKING RENT



#### NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



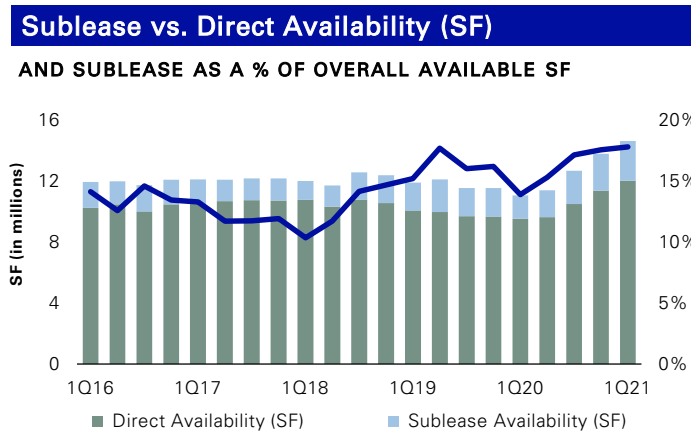
### Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	72.5M	72.1M	71.5M	↑
Total Vacancy Rate	15.3%	14.2%	12.0%	↓
Quarterly Net Absorption (SF)	-477,238	-473,293	-277,035	↑
Average Asking Rent/SF/Month	\$3.22 FSG	\$3.19 FSG	\$2.99 FSG	↓
Deliveries (SF)	29,000	0	26,353	↑
Under Construction (SF)	2.2M	1.9M	1.6M	↓

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on Barnes Canyon Road, bringing its total commitment at the project to four floors and 139,000 square feet. Google announced plans to occupy all of 6420 Sequence Drive in Sorrento Mesa as part of its \$7.0 billion nationwide office expansion, doubling its space in the project where it has had a presence since 2016. In Torrey Pines, Surgalign Spine Technologies leased 94,000 square feet at Muse Torrey Pines, while drug design startup Turning Point Therapeutics has reportedly submitted an LOI to lease the entirety of Healthpeak Properties' planned 185,000-square-foot redevelopment at Callan Ridge.

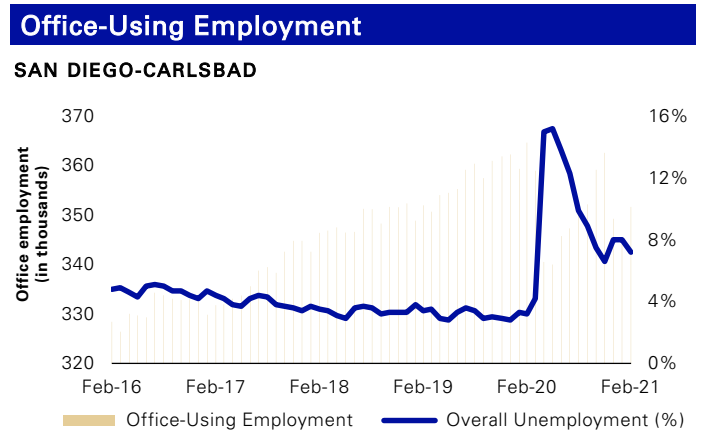
A sluggish quarter of sales followed a slow year for capital markets activity. The largest single-property transactions were for medical office buildings: Harrison Street Capital Partners purchased the Palomar Health Outpatient Center in Escondido for \$53.6 million and Healthcare Realty Trust purchased the UCSD Medical Building in Hillcrest for \$17.15 million. Sales volume for the quarter was \$161.0 million, down 62.0% from the year-ago quarter.



## Outlook

San Diego's unemployment rate was 7.2% in February, down from an all-time high of 15.2% in May, while office-using employment was down 122,000 jobs over the past year. Office demand is expected to ramp up over the course of the year as vaccinations accelerate, more businesses reopen and more workers return. After initially expressing high interest in continuing remote work even after the eventual end of the pandemic, more companies are now planning for an increased number of employees returning to a traditional office environment.

San Diego continues to be a hotspot for technology and life science companies due to its strong intellectual capital and research funding, and demand for these services has been one of the only avenues of growth during the pandemic. These strong fundamentals are likely to help catalyze the region's economic recovery, along with the return of tourism and the resulting economic ripple effects from the hospitality sector.



Source: U.S. Bureau of Labor Statistics (Preliminary data, not seasonally adjusted). Includes information, financial activities and professional and business services jobs.

Lease Transactions				
Tenant	Building	Market Area	Lease Type	Square Feet
Google	6420 Sequence Drive	Sorrento Mesa	Expansion	110,000
Surgalign Spine Technologies	3030 Science Park Road	Torrey Pines	New	94,457
Element Biosciences	Alexandria Tech Center	Sorrento Mesa	Expansion	70,000

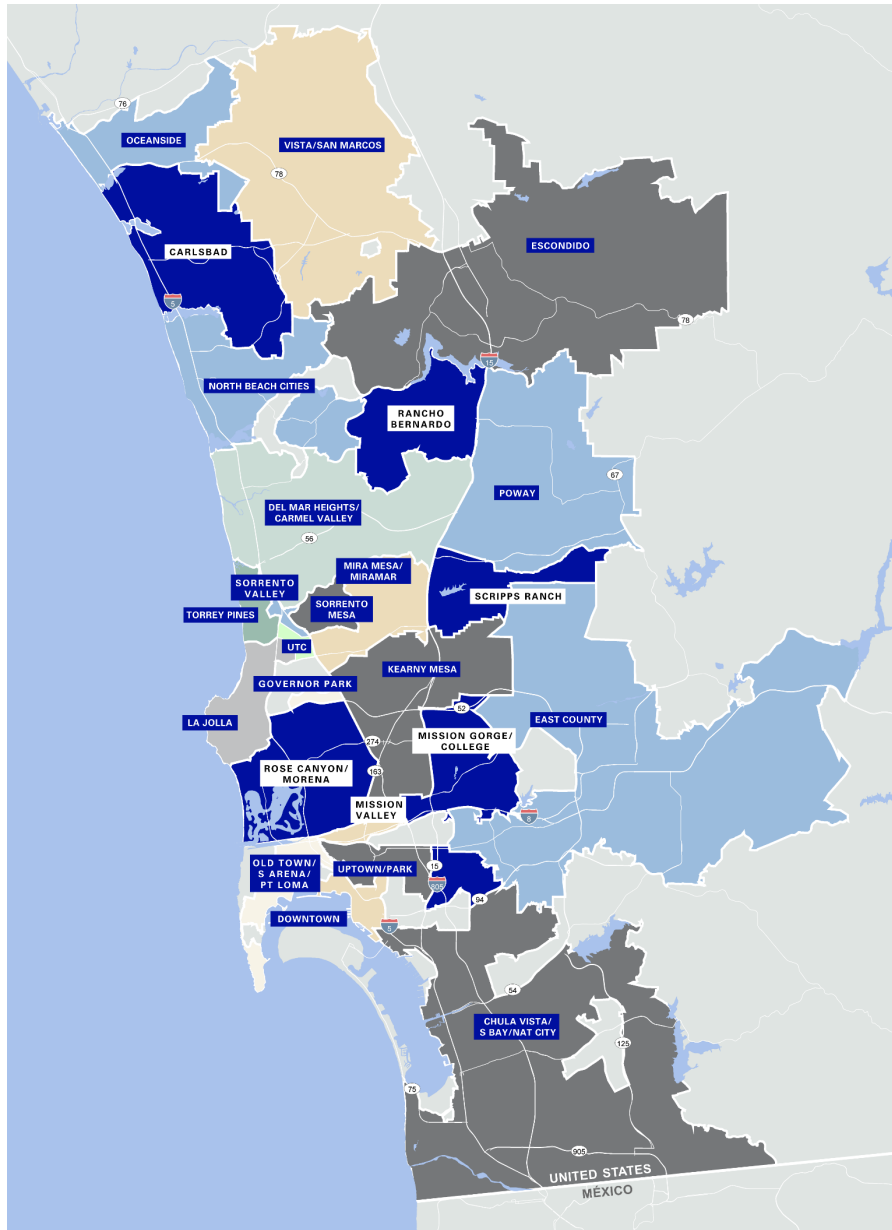
Sale Transactions				
Buyer	Building(s)	Market Area	Sale Price/SF	Square Feet
Harrison Street Capital	Palomar Health Phase II	Escondido	\$669	80,064
Montana Avenue Capital Partners	Four-property portfolio	Various	\$233	195,272
Healthcare Realty Trust	330 Lewis Street	Uptown	\$764	22,461

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Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
<b>Downtown San Diego</b>	<b>11,670,479</b>	<b>993,523</b>	<b>22.0%</b>	<b>-95,492</b>	<b>-95,492</b>	<b>\$3.71</b>	<b>\$3.33</b>	<b>\$3.43</b>
<b>Suburban Total</b>	<b>60,810,566</b>	<b>1,164,916</b>	<b>14.0%</b>	<b>-381,746</b>	<b>-381,746</b>	<b>\$3.58</b>	<b>\$2.85</b>	<b>\$3.15</b>
Carlsbad	5,679,198	0	18.0%	-53,571	-53,571	\$2.83	\$2.63	\$2.71
Chula Vista/South Bay/ National City	1,526,288	0	4.0%	-17,484	-17,484	\$2.86	\$2.47	\$2.77
Del Mar Heights/ Carmel Valley	5,036,435	228,662	15.7%	-79,347	-79,347	\$4.37	\$3.59	\$4.24
East County	1,210,335	0	2.1%	-83	-83	\$2.77	\$2.31	\$2.53
Escondido	511,722	0	11.5%	3,948	3,948	\$2.43	\$2.16	\$2.37
Governor Park	846,865	0	14.8%	-2,975	-2,975	\$3.27	\$2.84	\$2.91
Kearny Mesa	7,147,419	0	12.9%	-49,238	-49,238	\$3.07	\$2.48	\$2.59
La Jolla	1,369,800	0	14.8%	-16,408	-16,408	\$3.66	\$2.79	\$3.22
Mira Mesa/Miramar	795,006	0	14.9%	5,422	5,422	\$1.81	\$2.21	\$2.12
Mission Gorge/College	843,406	0	1.2%	68	68	-	\$2.32	\$2.27
Mission Valley	6,129,147	0	15.9%	33,345	33,345	\$3.69	\$2.72	\$3.14
North Beach Cities	1,107,487	95,000	11.0%	-11,384	-11,384	\$3.78	\$3.56	\$3.71
Oceanside	424,182	100,000	17.1%	-15,726	-15,726	\$1.67	\$1.55	\$1.60
Old Town/Sports Arena/ Point Loma	1,249,258	0	6.3%	-18,428	-18,428	-	\$2.75	\$2.61
Poway	1,071,188	0	10.3%	-13,314	-13,314	\$3.73	\$2.74	\$3.03
Rancho Bernardo	3,953,118	0	16.6%	-7,957	-7,957	\$2.98	\$2.80	\$2.84
Rose Canyon/Morena	545,943	0	11.7%	-6,862	-6,862	-	\$1.90	\$1.92
Scripps Ranch	2,065,517	0	26.6%	-19,142	-19,142	\$3.02	\$2.84	\$2.91
Sorrento Mesa	6,747,144	176,428	17.4%	-71,942	-71,942	\$3.72	\$3.52	\$3.53
Sorrento Valley	440,374	0	17.6%	-8,433	-8,433	-	\$2.02	\$1.99
Torrey Pines	1,059,162	195,826	21.3%	25,281	25,281	\$4.30	\$3.20	\$4.16

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Uptown/Park	941,049	0	12.5%	-6,650	-6,650	-	\$2.91	\$2.90
UTC	8,740,984	369,000	8.0%	-50,463	-50,463	\$3.91	\$3.55	\$3.86
Vista/San Marcos	1,369,539	0	19.3%	-403	-403	\$2.47	\$2.23	\$2.43
<b>Market</b>	<b>72,481,045</b>	<b>2,158,439</b>	<b>15.3%</b>	<b>-477,238</b>	<b>-477,238</b>	<b>\$3.62</b>	<b>\$2.95</b>	<b>\$3.22</b>

*Under construction totals include ground-up construction only; under renovation and/or converted product is excluded. The same applies to construction deliveries.  
Net absorption is the change in physically occupied space. A hypothetical vacant and available space could lease this quarter with the tenant set to take occupancy six months later; positive absorption is not recorded until this physical move-in occurs. The space will remain vacant, but not available, until occupancy.*



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