

San Diego Office Market Report

Pre-leasing Bodes Well for Historically Large Development Pipeline

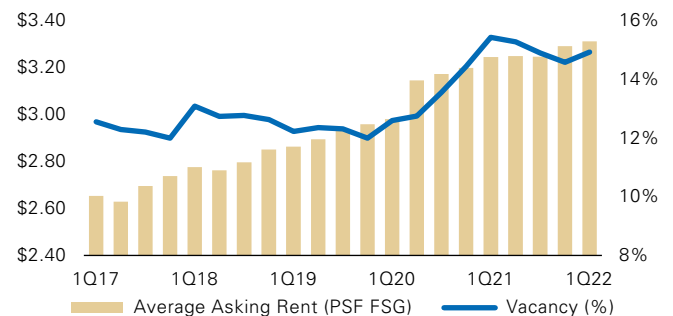
- The average asking rent coasted to an all-time high of \$3.31/SF, although year-over-year rent growth was only 2.1% after two years of landlords holding fast on aggressive rents despite heightened vacancy.
- Vacancy climbed 30 basis points to 14.9% as move-ins slowed at the start of the year. Current vacancy remains above the 10-year average of 13.7% but below the recent peak of 15.4% reached in 2021.
- Absorption turned slightly negative with 102,010 square feet of losses. Losses for the quarter were largely driven by large vacancies in the submarkets of Poway and Rancho Bernardo.
- The UTC submarket posted another solid quarter with 107,205 square feet of net absorption, lowering the vacancy rate to 6.8%, the lowest of the major office submarkets.
- Sublease availability increased to 2.8% of existing inventory, only slightly higher than the 10-year average of 2.6%.
- Construction climbed to a new 10-year high, with nearly 3.1 million square feet of projects underway. Most of this construction, almost 1.6 million square feet, is located in Downtown, which already has the highest vacancy rate in the market at 25.2%.
- Planned and under construction life science projects have seen a surge in pre-leasing activity, while the speculative traditional office projects that are currently underway have yet to announce any significant leases.

Major Pre-leasing Deals for Life Science Projects

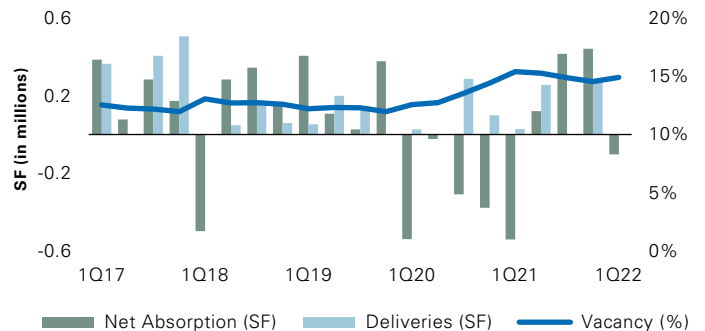
Continuing high demand for life science space and the low availability of existing product has led to several high-profile pre-leasing deals for future projects. Neurocrine Biosciences signed a 637,000-square-foot lease for all five of the buildings at Aperture Del Mar, which will serve as the neuroscience research company's new headquarters. Lincoln Property Company had

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	72.7M	72.7M	72.3M	↑
Total Vacancy Rate	14.9%	14.6%	15.4%	↓
Quarterly Net Absorption (SF)	-102K	443K	-541K	↑
Average Asking Rent/SF/Month	\$3.31 FSG	\$3.29 FSG	\$3.24 FSG	↑
Deliveries (SF)	0	287K	29K	↑
Under Construction (SF)	3.1M	2.7M	2.0M	↓

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already begun construction on a speculative basis on two buildings in the project, which is located along the 56 Freeway on the pioneering eastern edge of the Del Mar Heights submarket. The buildings currently under construction are set to deliver by the end of the year, and construction on the rest of the project is set to move forward quickly now that a lease agreement is in place.

In UTC, Bristol Myers Squibb pre-leased a 427,000-square-foot building at Alexandria Point, a redevelopment project by Alexandria Real Estate Equities planned to eventually encompass up to 2.0 million square feet of life science space. In Torrey Pines, Alexandria also pre-leased 209,000 square feet to Singular Genomics at the planned redevelopment of One Alexandria Square, which is slated to deliver in 2024.

Employment and Economic Outlook

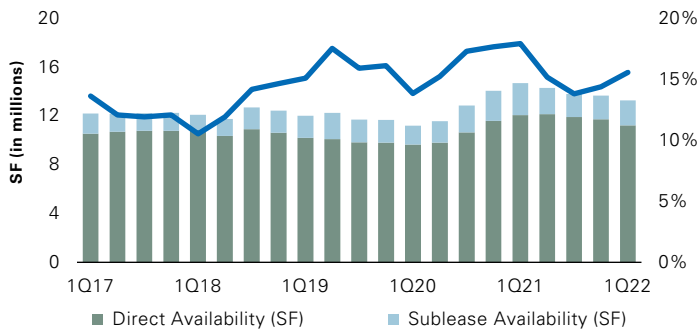
San Diego's unemployment rate was 4.0% in February, down 320 basis points from the previous year and only 80 basis points

off the pre-pandemic rate of 3.2% from February 2020. Office-using employment was at an all-time high of 376,900 workers, compared to the previous peak of 362,000 in February 2020. Total nonfarm employment remains 38,200 jobs lower than the previous high-water mark, as other sectors have recovered more slowly.

The outlook for the office sector is clouded by the uncertainty presented by several micro- and macroeconomic factors. Plans for the long-delayed return to the office for major corporations finally seem to be moving forward, although the speed and scope of these efforts to return workers to traditional office environments remains to be seen. On a global scale, the effects of inflation and the war in Ukraine could hurt corporate demand for office space. If these issues do not overwhelm the ongoing recovery, San Diego is poised to experience increased absorption and continued rent growth.

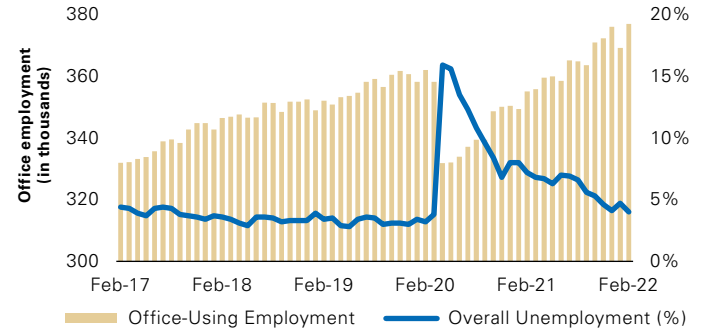
Sublease vs. Direct Availability (SF)

AND SUBLEASE AS A % OF OVERALL AVAILABLE SF



Office-Using Employment

SAN DIEGO COUNTY



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
Neurocrine Biosciences	Aperture Del Mar	Carmel Valley	Pre-lease	637,495
Bristol Myers Squibb	Alexandria Point	UTC	Pre-lease	427,000
Singular Genomics	One Alexandria Square	Torrey Pines	Pre-lease	208,666

Sale Transactions

Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
Hines	2280-2488 Historic Decatur Road	Point Loma	\$120,000,000 (\$621/SF)	193,223
Innovatus Capital Partners	10920 Via Frontera	Rancho Bernardo	\$48,800,000 (\$443/SF)	110,110
Sterling Bay & Harrison Street	6138-6150 Nancy Ridge Drive	Mira Mesa	\$34,000,000 (\$572/SF)	59,478

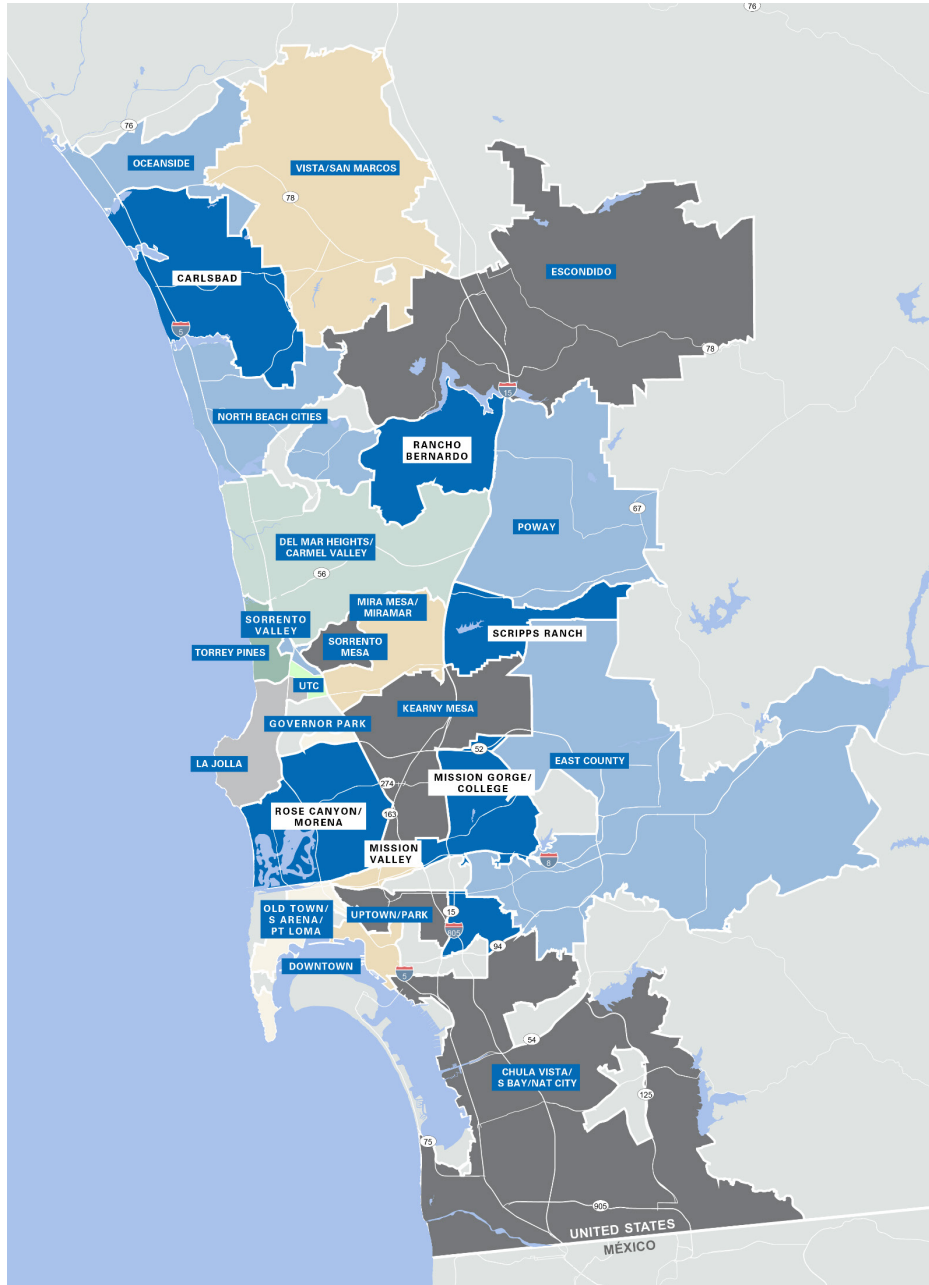
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Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Downtown San Diego	11,857,774	1,586,607	25.2%	12,927	12,927	\$3.89	\$3.04	\$3.52
Suburban Total	60,848,338	1,503,357	12.9%	-114,937	-114,937	\$3.77	\$2.74	\$3.22
Carlsbad	5,639,133	0	17.9%	-8,674	-8,674	\$3.05	\$2.60	\$2.83
Chula Vista/South Bay/ National City	1,432,994	0	2.9%	8,584	8,584	\$2.80	\$2.50	\$2.69
Del Mar Heights/ Carmel Valley	5,276,397	747,962	13.4%	39,466	39,466	\$4.68	\$4.13	\$4.57
East County	1,120,935	0	2.8%	-10,124	-10,124	\$2.73	\$2.33	\$2.44
Escondido	511,722	0	18.7%	-17,174	-17,174	\$2.35	\$2.16	\$2.34
Governor Park	846,865	0	10.0%	48,240	48,240	\$2.97	\$2.74	\$2.76
Kearny Mesa	7,303,837	0	14.1%	-24,227	-24,227	\$3.41	\$2.56	\$2.87
La Jolla	1,308,000	0	8.4%	3,965	3,965	\$3.77	\$2.61	\$3.16
Mira Mesa/Miramar	795,006	0	12.1%	35,609	35,609	\$2.16	\$2.16	\$2.09
Mission Gorge/College	660,115	0	1.1%	970	970	-	\$2.54	\$2.30
Mission Valley	6,065,538	0	15.3%	46,866	46,866	\$3.66	\$2.86	\$3.22
North Beach Cities	1,107,487	55,000	11.3%	4,352	4,352	\$4.21	\$3.79	\$4.10
Oceanside	524,182	0	10.5%	-22,787	-22,787	\$2.15	\$1.58	\$1.69
Old Town/Sports Arena/ Point Loma	1,090,526	0	9.9%	-18,174	-18,174	-	\$2.73	\$2.62
Poway	1,071,188	0	22.9%	-168,101	-168,101	\$4.09	\$2.44	\$3.65
Rancho Bernardo	4,032,312	0	16.5%	-128,759	-128,759	\$3.47	\$2.76	\$2.86
Rose Canyon/Morena	545,943	0	13.0%	-24,017	-24,017	-	\$1.99	\$2.01
Scripps Ranch	2,223,309	0	16.9%	-3,325	-3,325	\$3.18	\$2.83	\$2.93
Sorrento Mesa	6,408,167	176,428	13.5%	655	655	\$4.21	\$2.78	\$3.50
Sorrento Valley	395,489	0	16.1%	21,501	21,501	-	\$2.13	\$2.35
Torrey Pines	1,111,941	78,116	19.2%	-35,609	-35,609	\$4.23	\$3.20	\$4.14

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Uptown/Park	912,049	29,000	8.6%	13,118	13,118	-	\$2.91	\$2.67
UTC	9,118,109	416,851	6.8%	107,205	107,205	\$4.30	\$3.56	\$4.21
Vista/San Marcos	1,347,094	0	17.1%	15,503	15,503	\$2.34	\$2.01	\$2.18
Market	72,706,112	3,089,964	14.9%	-102,010	-102,010	\$3.82	\$2.79	\$3.31

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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