

1Q24

San Diego Office Market Overview



NEWMARK

Market Observations

Economy

- The region’s labor market added 13,600 nonfarm jobs in the 12-month period ending February 2024. Office-using industries shed 2,700 jobs during this period.
- Local unemployment was 4.7% in February 2024, up 100 basis points over the past year and slightly higher than the U.S. average of 3.7%. Increasing unemployment amid nonfarm job growth is typically a sign that less people are reporting self-employment.
- High interest rates enacted by the Federal Reserve to combat inflation have had some success in cooling the labor market but have also dampened sales of commercial and residential properties.

Major Transactions

- Sales activity was slow during the first quarter, with the largest transaction being the \$17.0 million sale of 9573 Chesapeake Drive in Kearny Mesa to private investor Arrimus Capital.
- Pharmaceutical giant Pfizer leased 230,000 SF at the under-construction Torrey View project in Carmel Valley. Breakthrough Properties is developing the three-building project, which is scheduled for delivery this year.
- In Sorrento Mesa, medical diagnostics company Natus Medical assumed a 27,450-SF sublease space that had previously been occupied by CUE Health.

Leasing Market Fundamentals

- Rent growth has stalled out as the average asking rate dipped one cent to \$3.37/SF in the first quarter, barely up from the average of \$3.35/SF a year ago.
- Net absorption posted 243,769 SF in losses this quarter.
- Total vacancy climbed to 16.2%, up from 14.6% in the year-ago quarter. Historically high construction levels and impending deliveries suggest vacancy will climb for the rest of the year.
- Construction hovered near the all-time record, with 5.9 MSF of projects still underway. Almost half of this total is based Downtown, and most of the pipeline is being built on a speculative basis.
- Sublease availability reached a new high of 3.2 MSF. Few sublease deals are being executed, and sublease listings are more likely to be taken to market directly by the landlord than to be leased.

Outlook

- A record amount of office space is under construction even as demand has softened due to new work habits and corporate strategies. Vacancy has steadily increased over the past five quarters and new deliveries will exacerbate this trend.
- Rent growth has died out as vacancy has climbed, and asking rates are likely to decline if demand for new space does not pick up significantly.
- The Fed has signaled its intention to cut interest rates starting in 2024, which will bring much-welcomed relief to investors deterred by the high cost of lending and should spur increased acquisitions.

-
1. Economy
 2. Leasing Market Fundamentals
 3. Submarkets
 4. Capital Markets & Life Science

1Q24

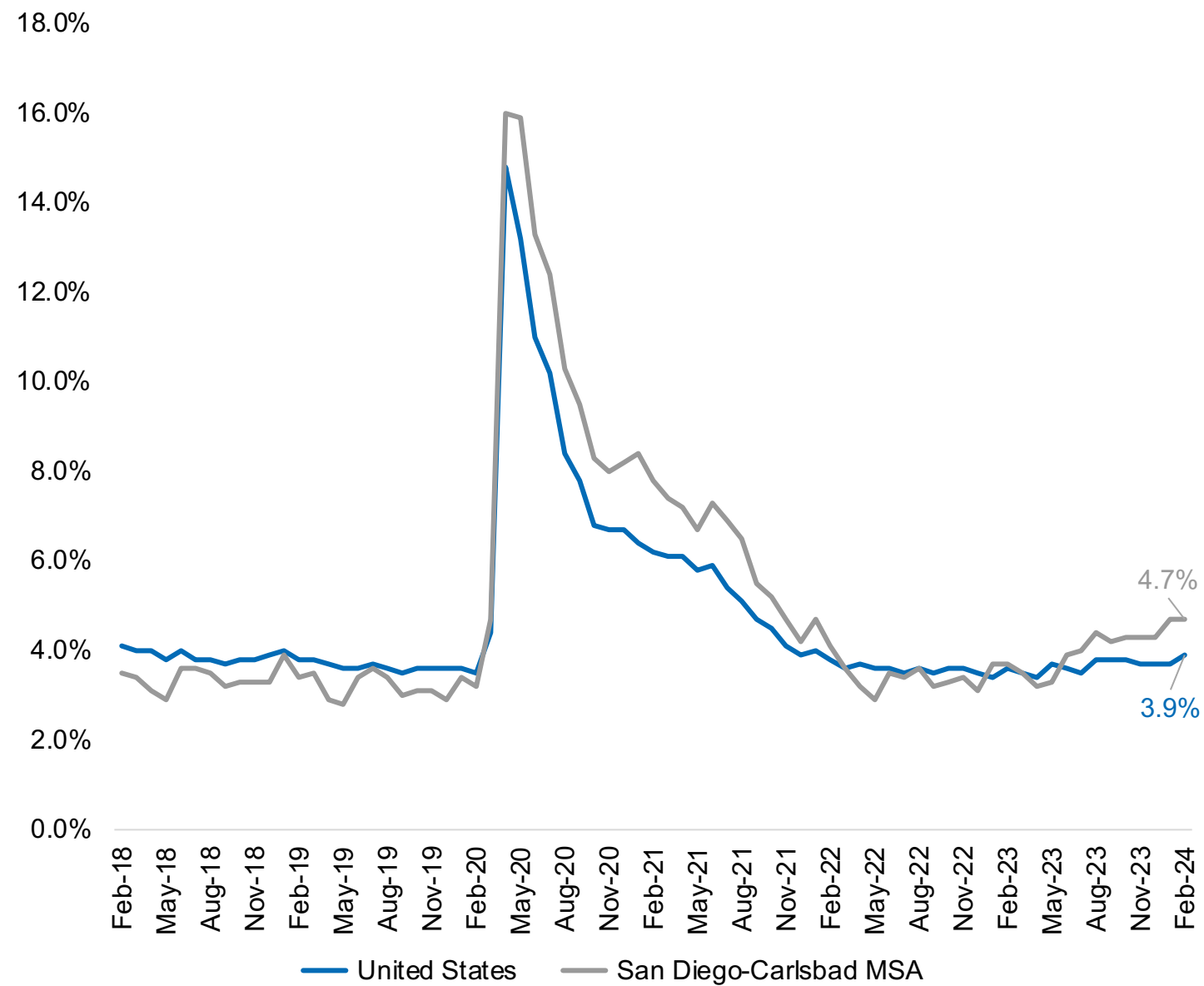
Economy



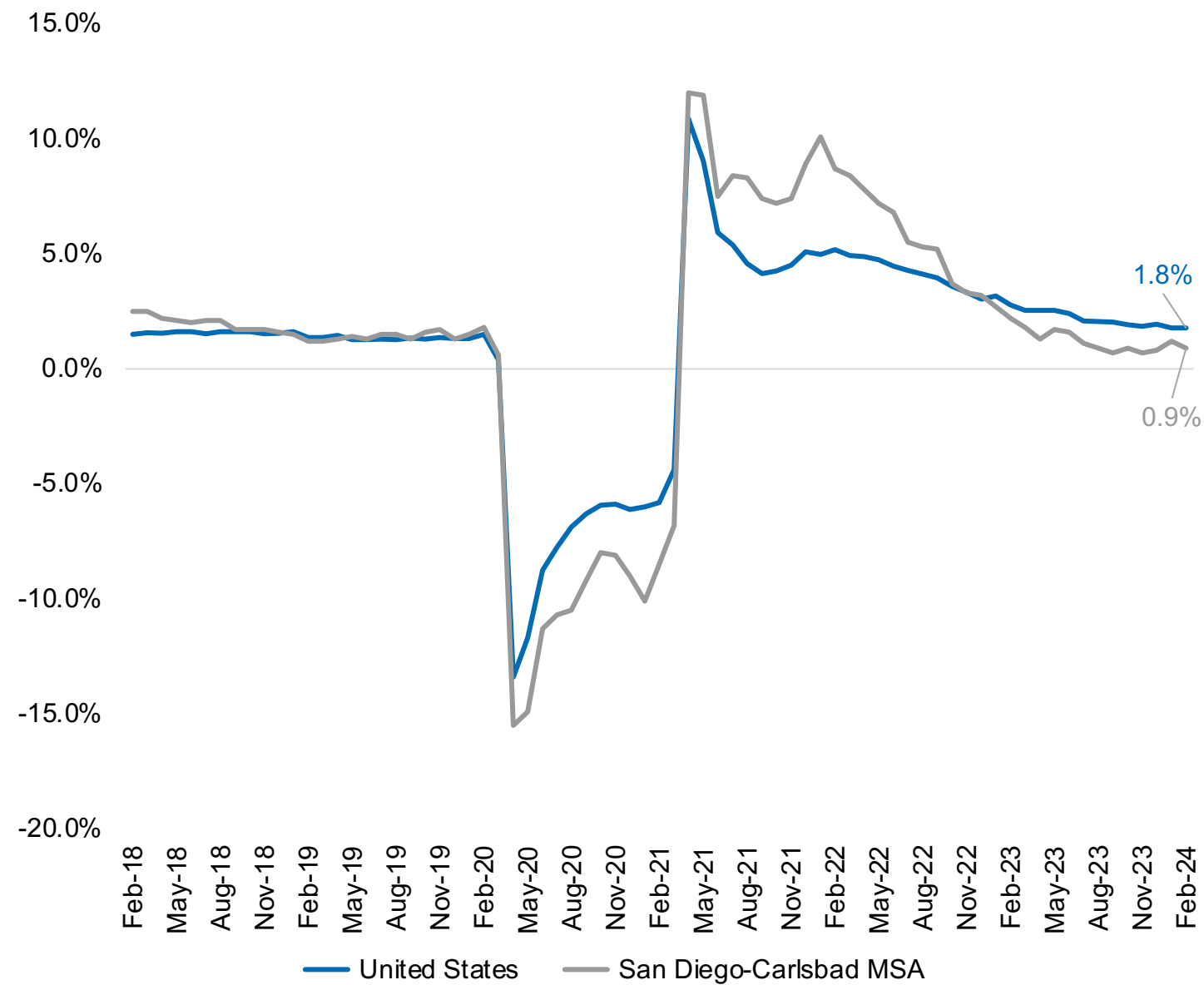
Metro Unemployment Climbs As Job Growth Slows

At the onset of the pandemic, the San Diego Metro experienced higher rates of unemployment than the national average due to the region's large tourism and hospitality sectors, but it also recovered jobs more quickly starting in 2021. Since April 2023 unemployment has trended upward as the region's job growth lagged the national average and the unemployment rate stood at 4.7% as of February 2024.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



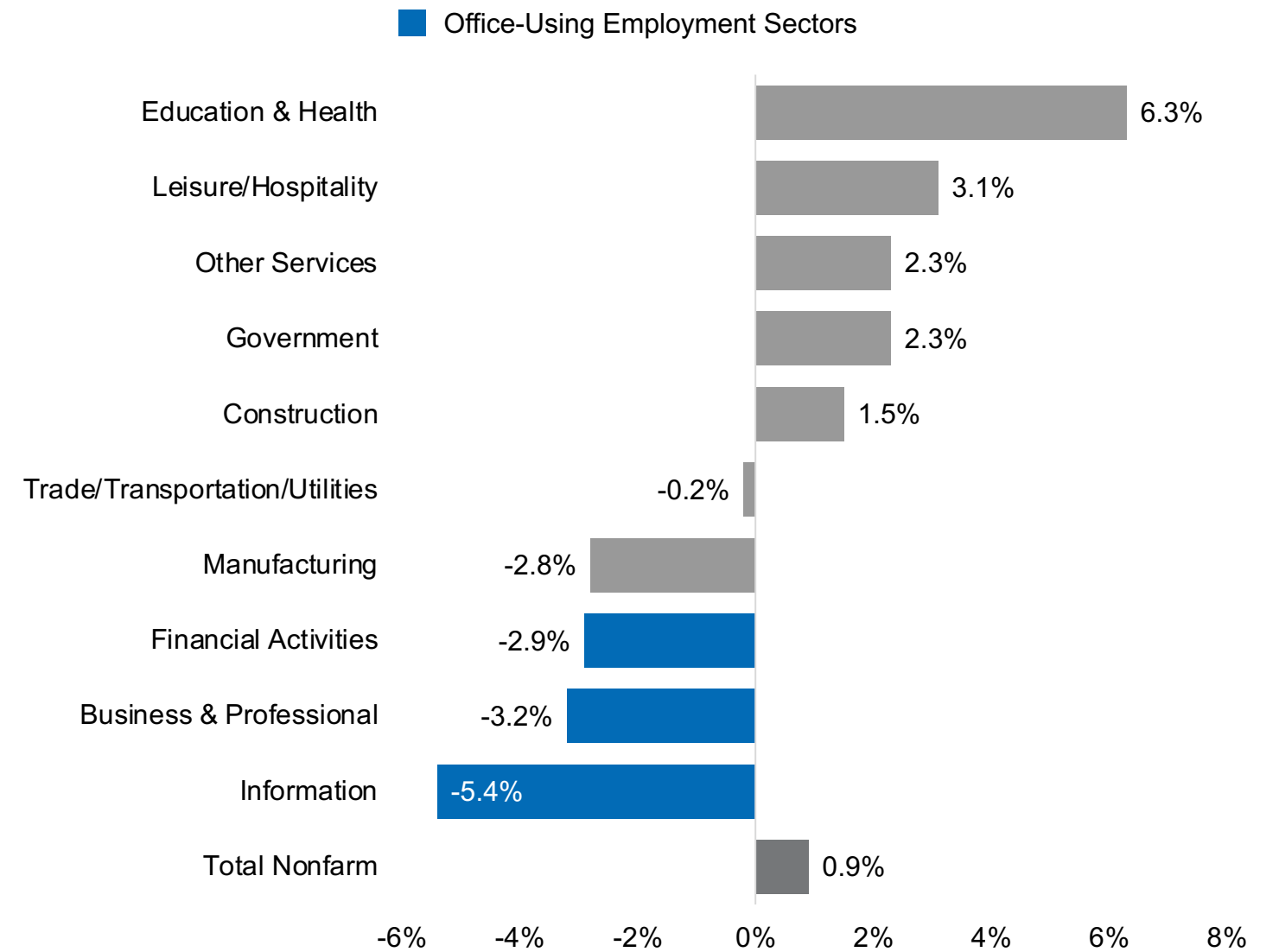
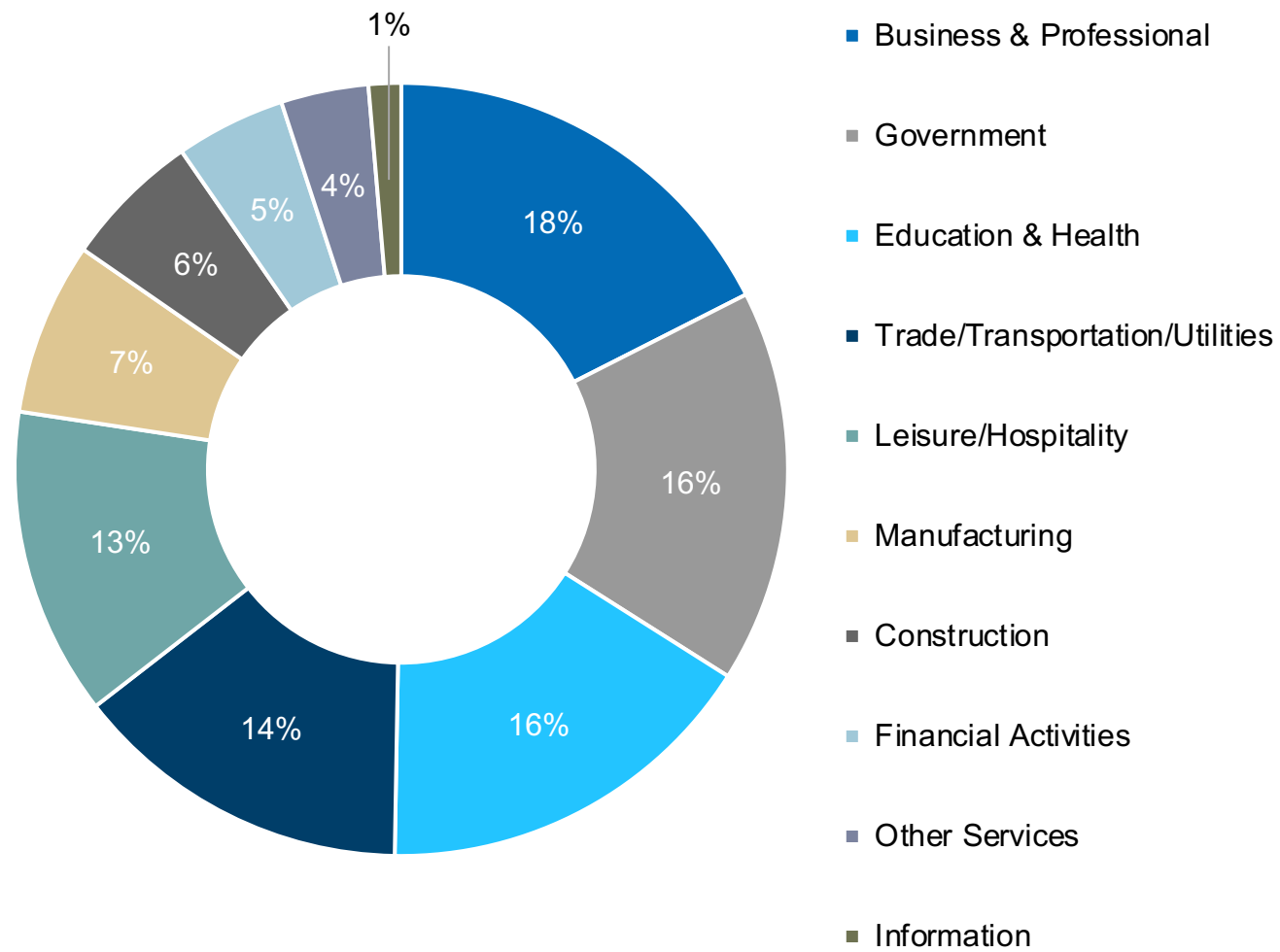
Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

Office-Using Job Sectors Decline Across the Board

Business and professional services is the single largest employment sector in the region, fueling white-collar jobs and office demand, but the industry contracted by 3.2% over the past year while the other top five industries grew or remained flat. Office-using jobs in the smaller financial activities and information industries contracted by 2.9% and 5.4% over the same period, respectively.

Employment by Industry, February 2024

Employment Growth by Industry, 12-Month % Change, February 2024

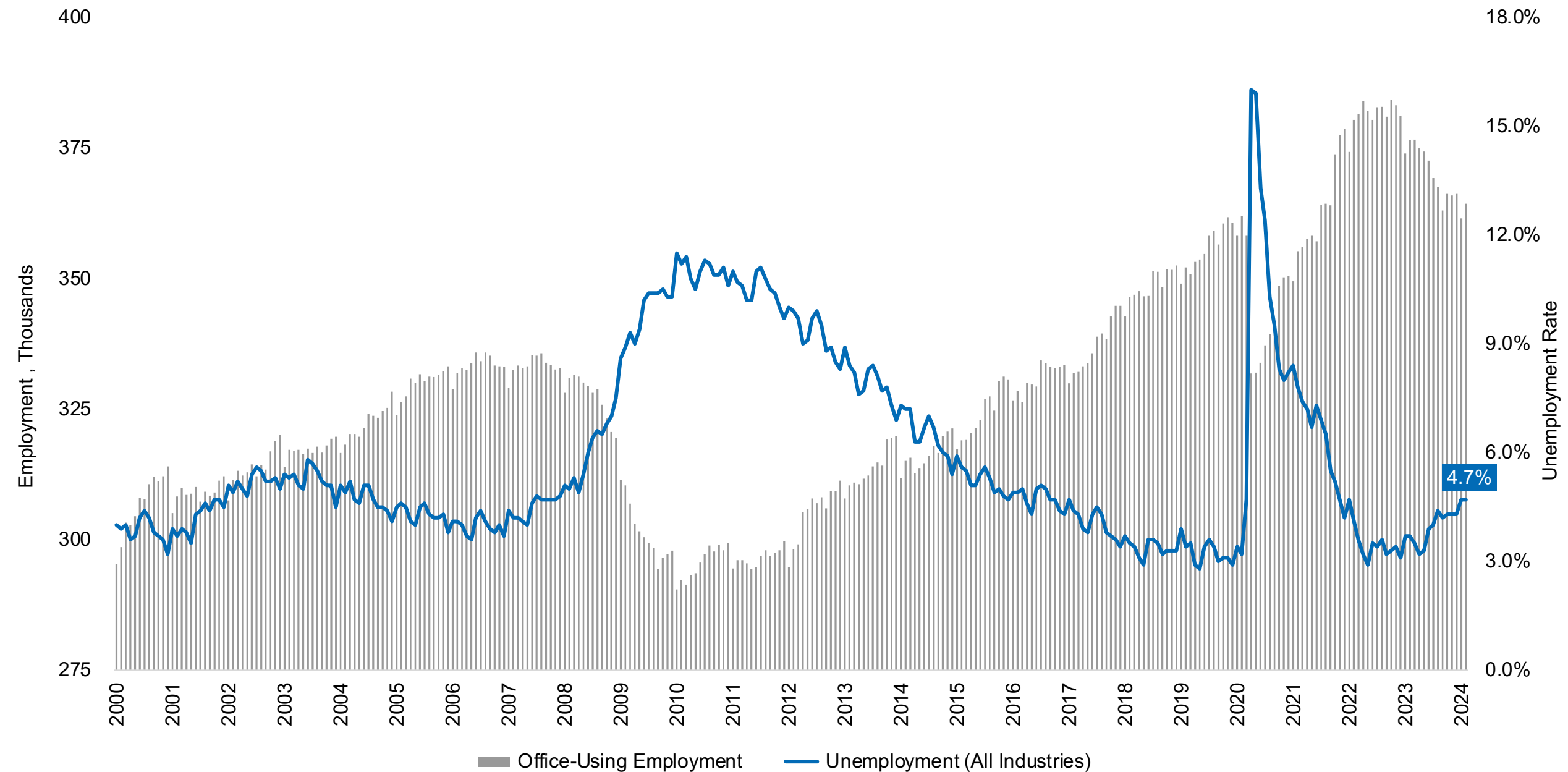


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

Office-Using Employment Has Declined After Peaking At the End of 2022

In 2022 San Diego surpassed its pre-pandemic peak of office-using jobs, but employment in these sectors has steadily fallen since this time as the market continues to adjust to new work habits and corporate real estate strategies. The region has experienced some modest layoffs, including an announcement by wireless chipmaker Qualcomm that it would shed 1,000 local workers, but was mostly spared from high-profile layoffs at tech giants.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

Note: February 2024 data is preliminary.

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

1Q24

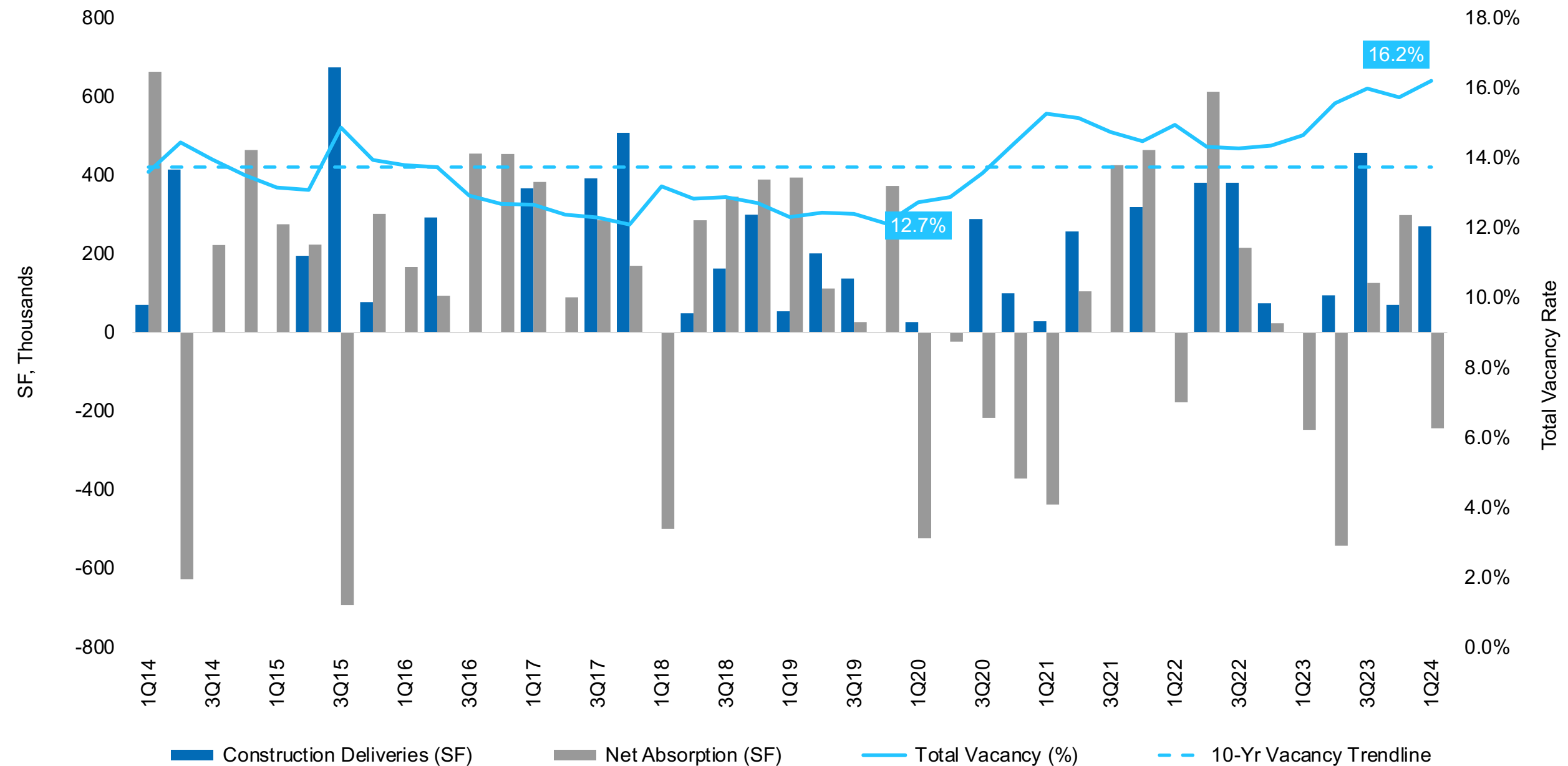
Leasing Market Fundamentals



Absorption Dips into Negative Territory As New Supply Remains a Threat

Net absorption turned negative during the first quarter with 243,769 SF of losses. San Diego's total vacancy has climbed from 12.1% in 2019 to 16.2% in the first quarter of 2024 as new supply and declining demand have compounded over time. The historically high level of construction means vacancy will likely continue to climb throughout 2024.

Historical Construction Deliveries, Net Absorption, and Vacancy

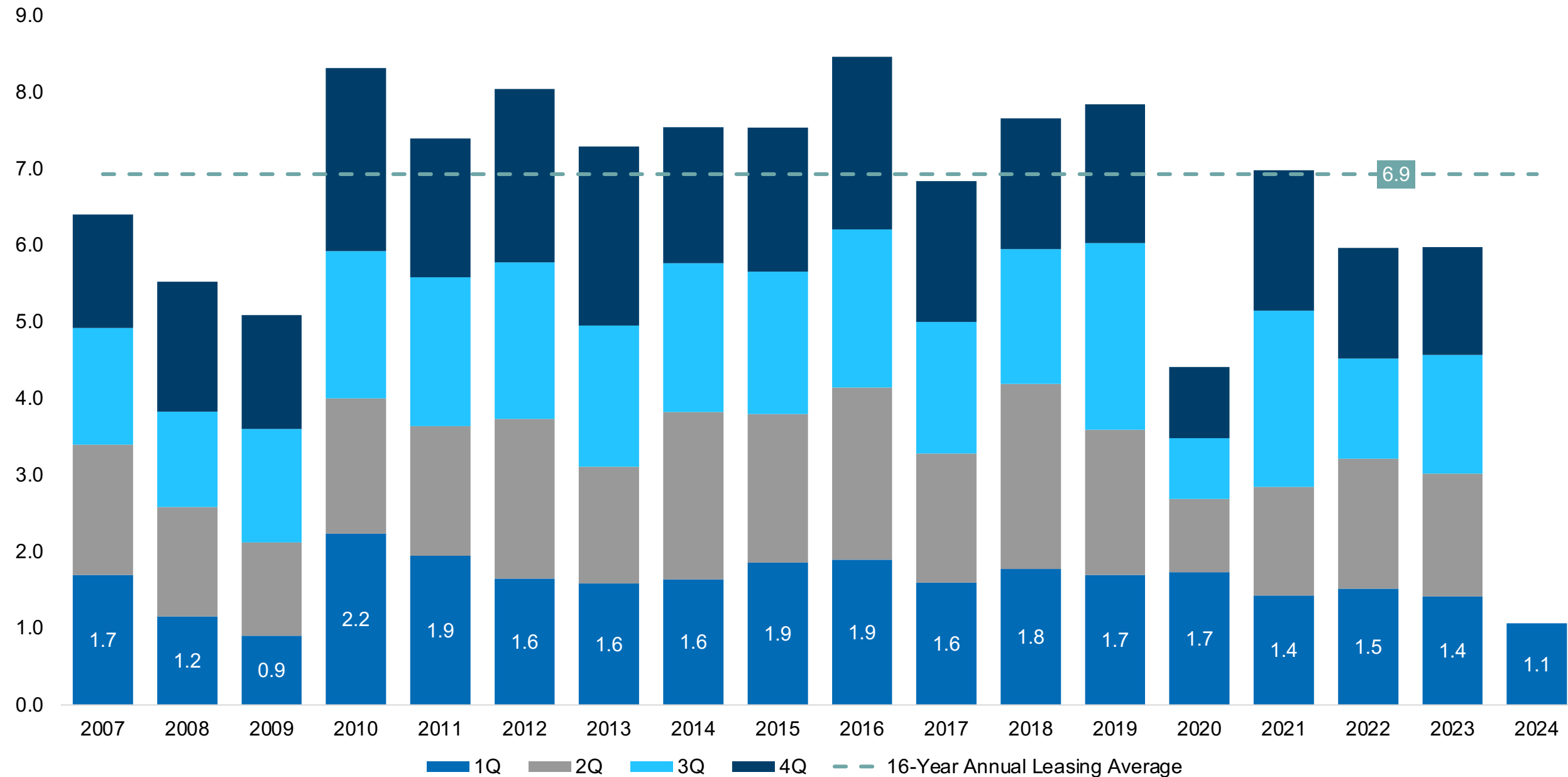


Source: Newmark Research

Leasing Activity Slowed Over the Past Two Years

Leasing activity has lagged the historical annual average since 2021, totaling 6.0 MSF in 2022 and 2023. The first quarter of 2024 saw 1.1 MSF in leasing activity, the worst first quarter performance in 15 years. Demand has softened as occupiers reduce their footprints in response to shifting work habits that now include a larger percentage of employees either working from home or spending less time in the office due to a hybrid work schedule.

Total Leasing Activity (MSF)

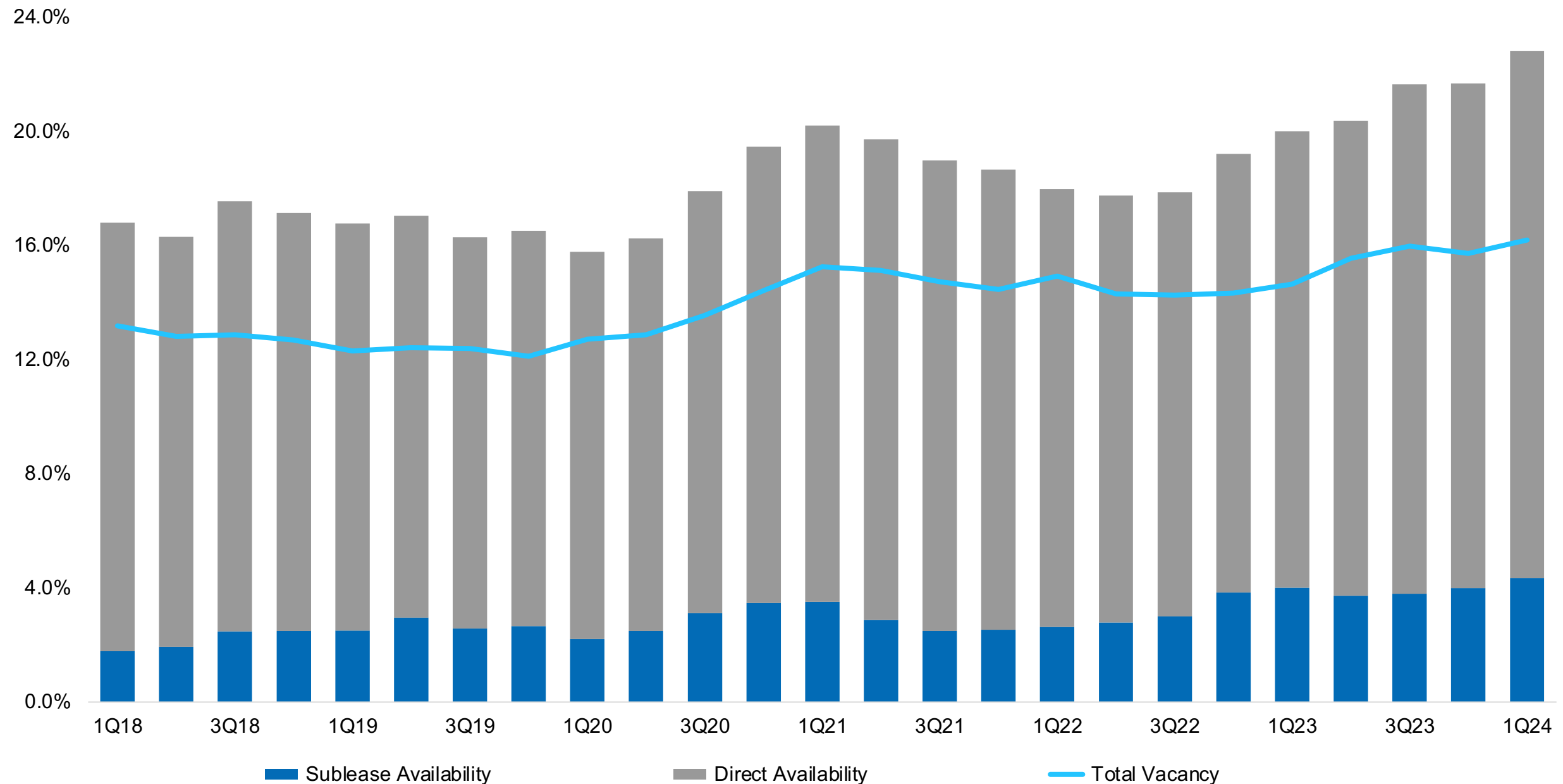


Source: Newmark Research, CoStar

Vacancy and Availability at Highest Levels in a Decade

Vacancy has climbed after a period of increased availability that exceeded the market's appetite for new space. Sublease availability has remained relatively stable over the past year, but direct availability has steadily increased during the same period. Some of this new direct availability represents former sublease space being taken directly to market by landlords after failing to find subtenants. Total vacancy and total availability are now both at their highest levels in more than 10 years.

Available Space and Total Vacancy as Percent of Overall Market

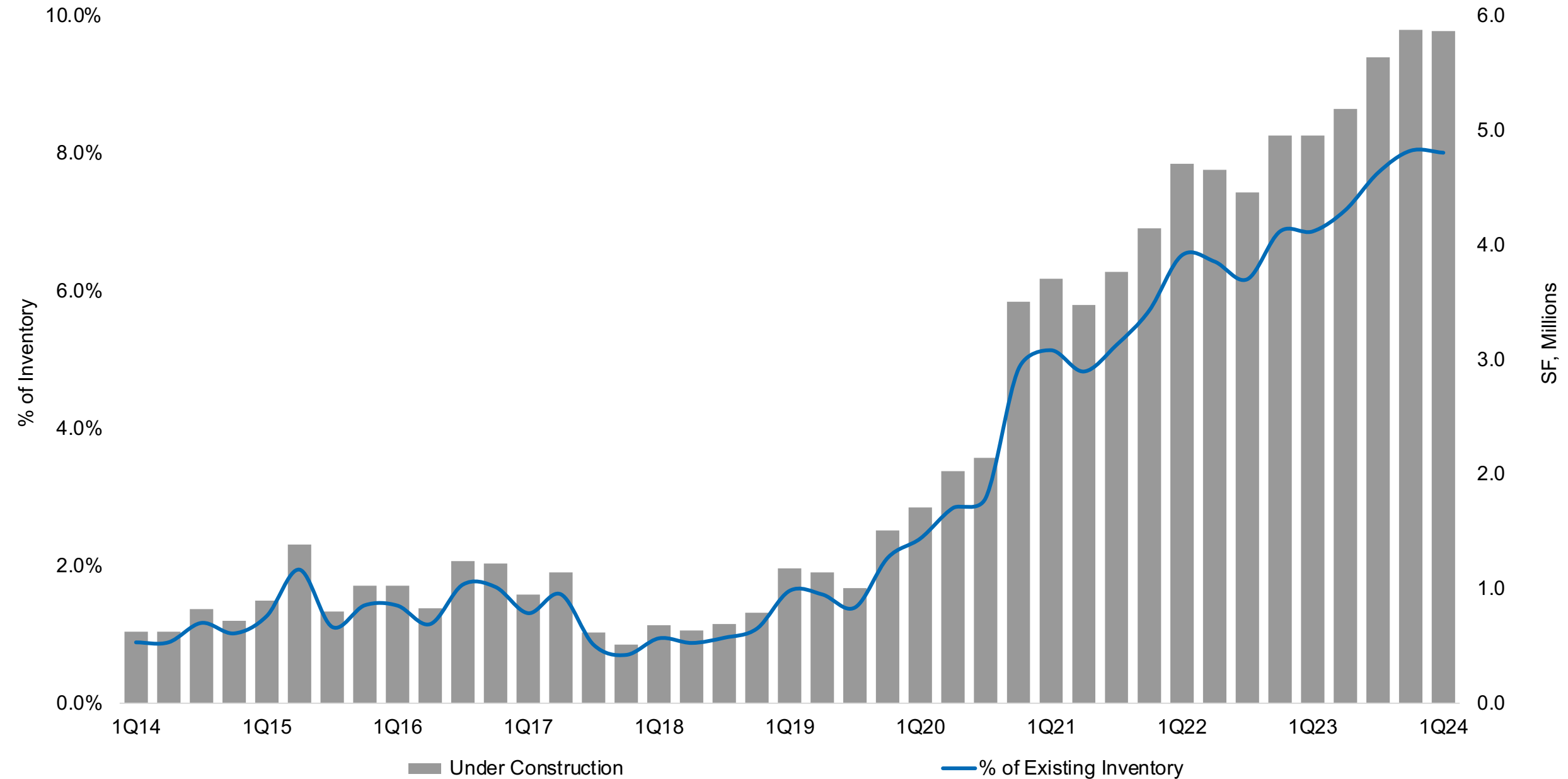


Source: Newmark Research

New Construction Remains Near Record High

Office construction boomed during the recovery and is now at record levels, currently at 5.9 MSF, slightly off the all-time high set at the end of 2023. Downtown has the most construction activity, including IQHQ's Research and Development District (a ground-up, 1.7-MSF life science campus) and Stockdale Capital's Horton Plaza (a 700,000-SF creative-office conversion of an old shopping mall).

Office Under Construction and % of Existing Inventory

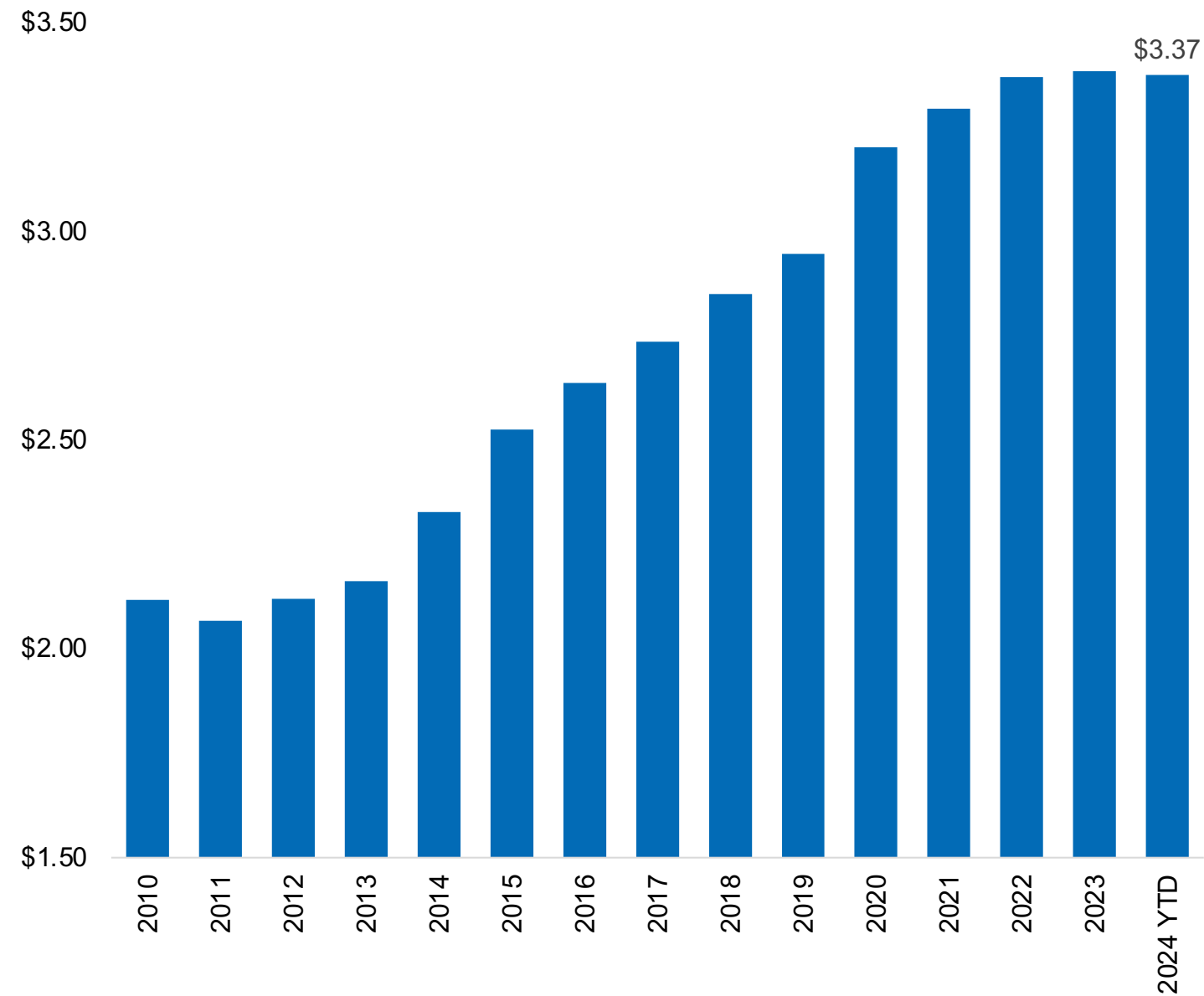


Source: Newmark Research, CoStar

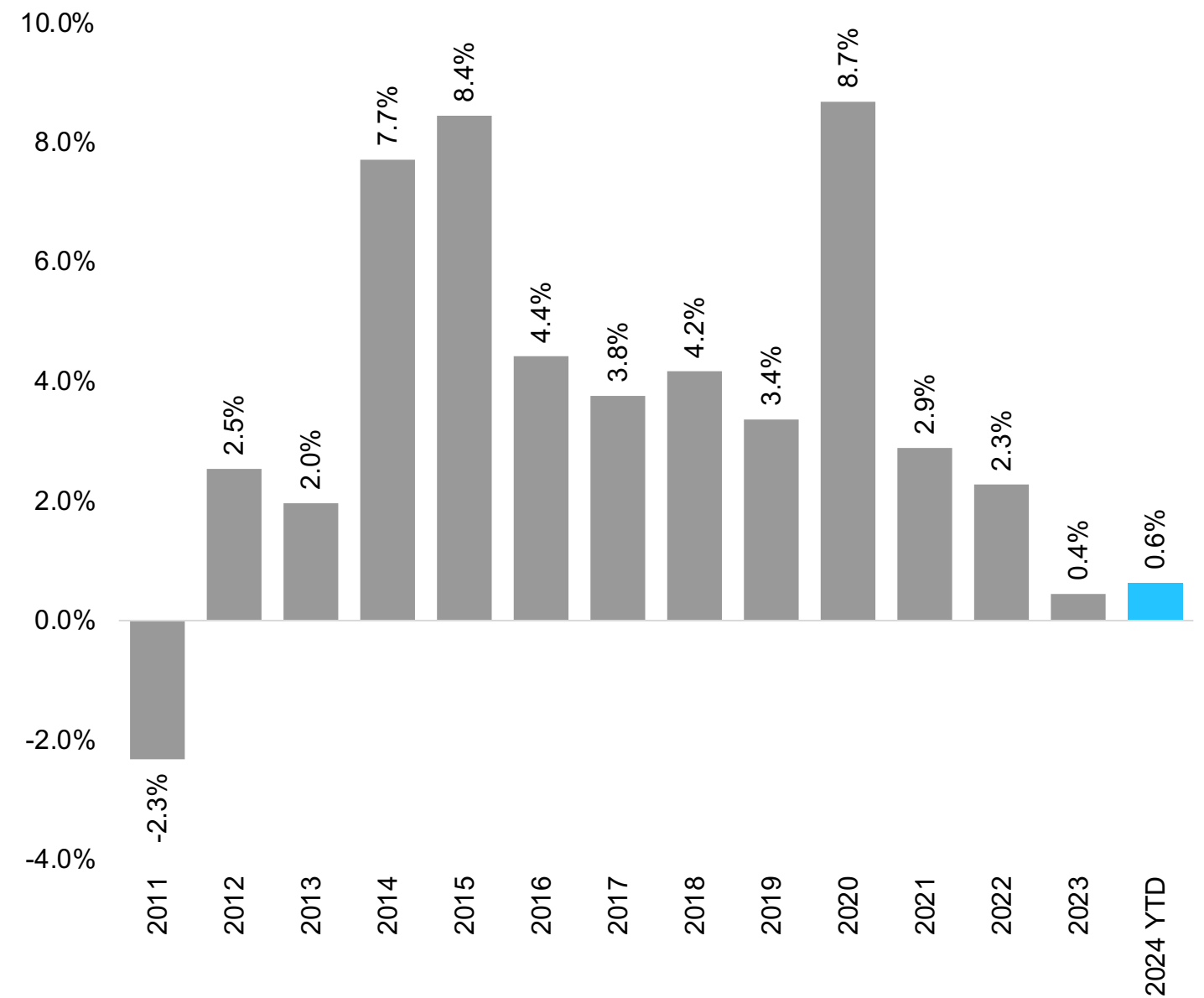
Rent Growth Levels Off After a Decade of Steady Increases

Rising vacancy and declining demand have taken their toll on asking rates, which dipped slightly in the first quarter to \$3.37/SF. Modest increases in 2022 and 2023 were less than the rate of inflation. Landlords have mostly stuck by high asking rates, although many are issuing more concessions to secure deals with tenants.

Office Average Asking Rent, \$/SF/Month, FS



Year-over-Year Asking Rent Growth Rate

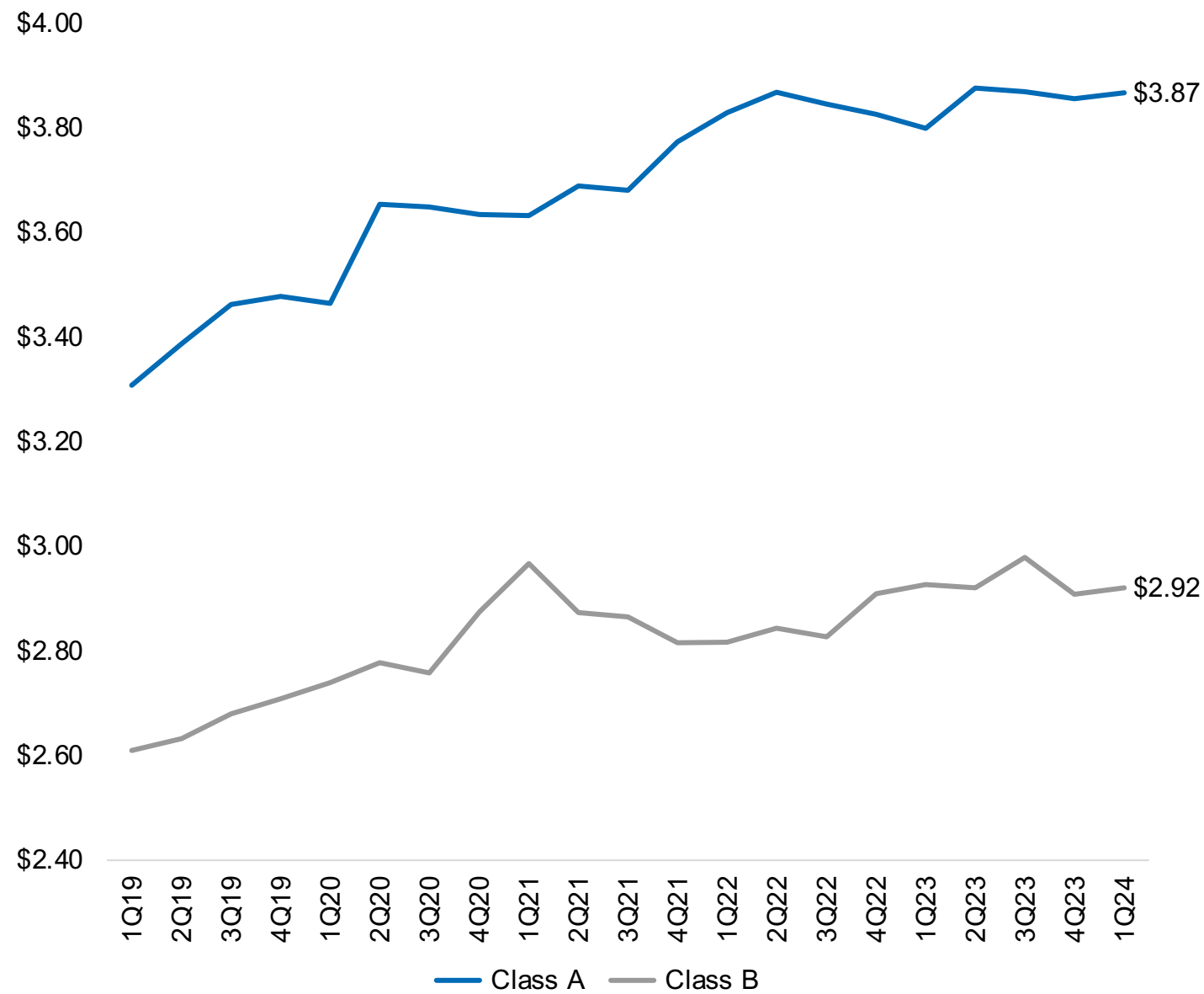


Source: Newmark Research, CoStar

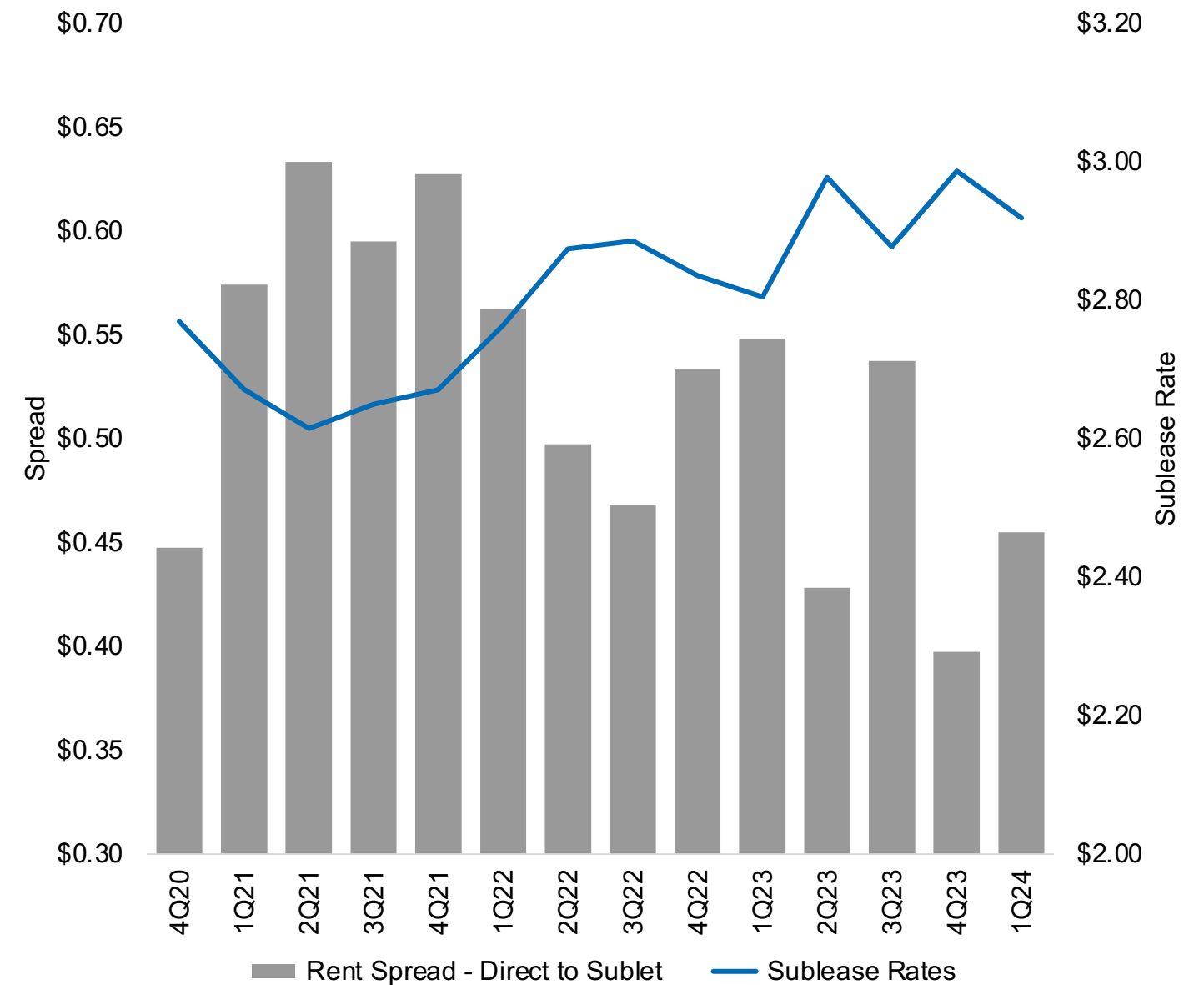
Class A Rates Barely Hold Steady While Class B Rates Dip

Class A asking rents have remained stubbornly high while Class B asking rents have softened. Sublease rates have fluctuated as large blocks of modern space hit the market; a fair share of which came from companies listing space leased right before the pandemic. Although sublease asking rates have trended upward, the spread between direct and sublease rates has generally tightened since 2021.

Class A and Class B Asking Rents, \$/SF/Month, FS



Sublease Asking Rates



Source: Newmark Research, CoStar

Pfizer Lease Was the Largest Deal of an Otherwise Slow Quarter

Pfizer leased 230,000 SF in two buildings at Breakthrough Properties' Torrey View project, which is nearing completion, in what was far and away the largest deal of the quarter. The other top deals were considerably smaller as leasing activity slowed.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Pfizer	11202 & 11208 El Camino Real	Carmel Valley	Prelease	230,000
<i>Pharmaceutical company Pfizer preleased the final remaining space in the three-building Torrey View life science project, which is nearing completion.</i>				
Natus Medical	6225 Nancy Ridge Dr	Sorrento Mesa	Sublease	27,450
<i>Medical diagnostic company executed a sublease assignment, assuming the sublease of Cue Health.</i>				
San Diego Workforce Partnership	1111 Bay Blvd	Chula Vista	Renewal	19,867
<i>Workforce development board renewed the lease for its Chula Vista career center.</i>				
Qpex Biopharma	10075 Barnes Canyon Rd	Sorrento Mesa	Prelease	17,718
<i>Antibiotic drug manufacturer preleased life science space at Building C, under construction in Alexandria Tech Center.</i>				
iRhythm Technologies	329 Highway 101	North Beach Cities	Expansion	16,797
<i>Digital healthcare company expanded in Zephyr Partners' Sandbox project.</i>				

Large Spaces Remain Rare Despite Record Availability

Please reach out to your
Newmark business contact for this information

1Q24

Submarkets



San Diego Submarket Map and High-Level Statistics | 1Q24

Please reach out to your
Newmark business contact for this information

Please reach out to your
Newmark business contact for this information

Please reach out to your
Newmark business contact for this information

Vacancy and Rents in the Top Office Submarkets

Please reach out to your
Newmark business contact for this information

Sublease Availability by Submarket

Please reach out to your
Newmark business contact for this information

Downtown Has the Most Construction, Portending More Vacancy to Come

Please reach out to your
Newmark business contact for this information

Downtown Also Has a Large Pipeline of Ground-Up Multifamily Projects

Please reach out to your
Newmark business contact for this information

1Q24

Capital Markets & Life Science



Office Sales Volume Has Declined Significantly

Please reach out to your
Newmark business contact for this information

Office Accounted for a Quarter of Total Sales Volume in the First Quarter

Please reach out to your
Newmark business contact for this information

Institutional Buyers Were Most Active During a Slow Quarter

Please reach out to your
Newmark business contact for this information

Despite Volatility, Cap Rates Show Long-Term Stability

Please reach out to your
Newmark business contact for this information

Life Science Funding

Please reach out to your
Newmark business contact for this information

Life Science Mergers & Acquisitions Off to a Strong Start

Please reach out to your
Newmark business contact for this information

For more information:

Brent Don

*Research Manager
San Diego*

brent.don@nmrk.com

Dain Fedora

*Head of Research
Southwest*

dain.fedora@nmrk.com

San Diego

4655 Executive Dr, Suite 800
San Diego, CA 92121
t 858-875-3600

New York Headquarters

125 Park Ave.
New York, NY 10017
t 212-372-2000

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

All information contained in this publication (other than that published by Newmark) is derived from third party sources. Newmark (i) has not independently verified the accuracy or completeness of any such information, (ii) does not make any warranties or representations, express or implied, concerning the same and (iii) does not assume any liability or responsibility for errors, mistakes or inaccuracies of any such information. Further, the information set forth in this publication (i) may include certain forward-looking statements, and there can be no guarantee that they will come to pass, (ii) is not intended to, nor does it contain sufficient information, to make any recommendations or decisions in relation to the information set forth therein and (iii) does not constitute or form part of, and should not be construed as, an offer to sell, or a solicitation of any offer to buy, or any recommendation with respect to, any securities. Any decisions made by recipient should be based on recipient's own independent verification of any information set forth in this publication and in consultation with recipient's own professional advisors. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains with any third party. This publication is for informational purposes only and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter. If you received this publication by mistake, please reply to this message and follow with its deletion, so that Newmark can ensure such a mistake does not occur in the future.

NEWMARK