



RESEARCH Q2 2021

San Diego Office Market Report

Absorption Turns Positive as Pandemic Eases

- Net absorption turned positive after five consecutive quarters of losses, posting 127,007 square feet in gains.
- Rent growth finally leveled off after 11 quarters of record highs, even while leasing activity slowed during the past four quarters and vacancy increased due to the pandemic. The current average of \$3.23/SF is down slightly from the first quarter average of \$3.24/SF.
- Total vacancy fell to 15.1% after peaking at 15.3% last quarter. Direct vacancy increased slightly, but this was offset by a more sizeable decline in sublet vacancy.
- Sublease availability fell to 2.1 million square feet after reaching an all-time high of nearly 2.6 million square feet last quarter.
- The amount of space under construction decreased to 1.8 million square feet after 250,492 square feet of projects delivered. Construction activity remains significantly elevated compared with the five-year average of 1.0 million square feet.
- Life science conversions continue to be a popular strategy for older office projects. Diversified Healthcare Trust completed its life science renovation of the three-building Muse campus in Torrey Pines in June.

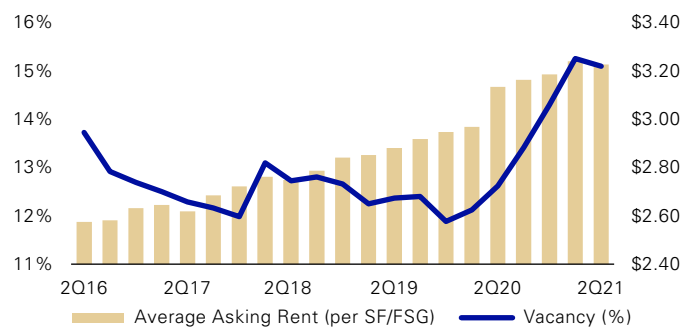
Downtown is Back in Business

Leasing activity has started to pick up in Downtown after the submarket struggled to attract tenants during the pandemic and vacancy rose to 23.4%. Workplace productivity startup ClickUp leased two entire floors at DiamondView totaling 36,556 square feet, and financial advisor Commonwealth renewed its 31,196-square-foot space at 110 Plaza.

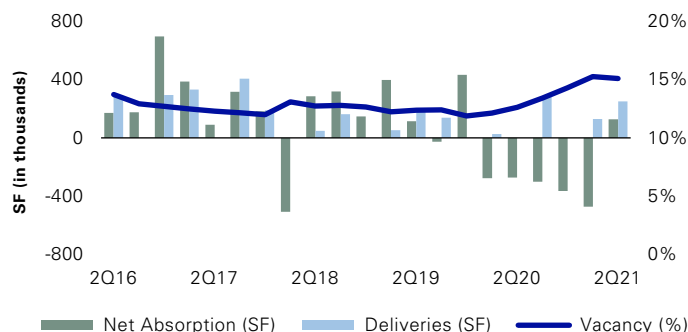
Downtown also continues to be a target for development, including owners looking to expand their footprints in the

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)	72.8M	72.8M	72.0M	↑
Total Vacancy Rate	15.1%	15.3%	11.6%	↓
Quarterly Net Absorption (SF)	127,007	-472,949	-271,913	↑
Average Asking Rent/SF/Month	\$3.23 FSG	\$3.24 FSG	\$3.13 FSG	↓
Deliveries (SF)	250,492	129,000	0	↑
Under Construction (SF)	1.8M	2.0M	1.7M	↓

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submarket. LeBeau Realty & Associates delivered the new Twenty by Six mid-rise project in the heart of Downtown, an expansion to the owner's existing high-rise building on the same block. In Little Italy, Kilroy Realty Corporation acquired a 1.3-acre site that can accommodate approximately 275,000 square feet of new office space across the street from its 2100 Kettner project, which is nearing completion.

Capital markets activity in San Diego came roaring back in the second quarter after a year of diminished sales. Total sales volume for the quarter was \$1.2 billion, the second highest quarterly volume in San Diego's history and greater than the sales volume of the four preceding quarters combined.

A significant portion of this sales volume came from a \$420.0 million portfolio acquisition in Downtown. Regent Properties acquired 1 and 2 Columbia Place, 701 B Street and 707 Broadway from EMMES.

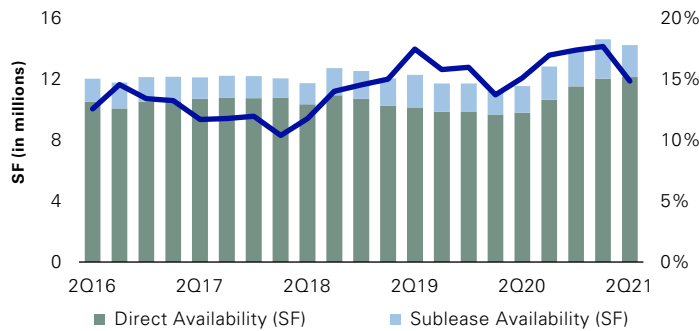
Outlook

San Diego's unemployment rate was 6.4% in May 2021, the lowest level since March of 2020 before businesses began layoffs in the face of public health closures. Although the region has recovered 108,300 jobs since the height of layoffs in 2020, employment remains lower, with 104,500 less jobs than the pre-pandemic mark. There are 18,300 fewer office-using jobs than in February 2020.

San Diego's economy is well-positioned to recover as the challenges posed by the pandemic recede. The region remains extremely attractive to national technology companies, financial institutions and defense contractors, due to its educated workforce and robust venture capital investment. Landlords have largely stuck to near-record asking rates during the pandemic but will be forced to make concessions as they contend with elevated vacancy levels and employers adapting to a new hybrid home/office work environment that is increasingly popular with workers.

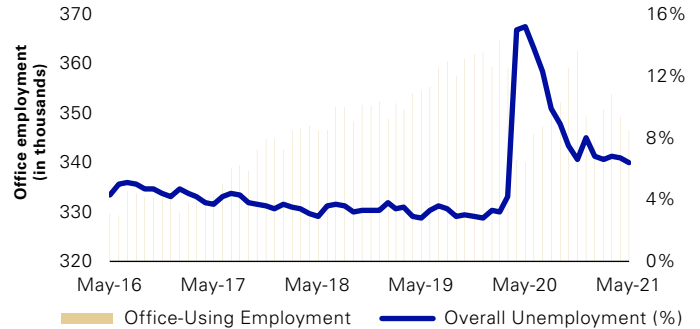
Sublease vs. Direct Availability (SF)

AND SUBLEASE AS A % OF OVERALL AVAILABLE SF



Office-Using Employment

SAN DIEGO-CARLSBAD



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
AppFolio	8620 Spectrum Center Boulevard	Kearny Mesa	New	40,141
ClickUp	350 10th Avenue	Downtown	New	36,446
Commonwealth Financial Network	110 W. A Street	Downtown	Renewal	31,196

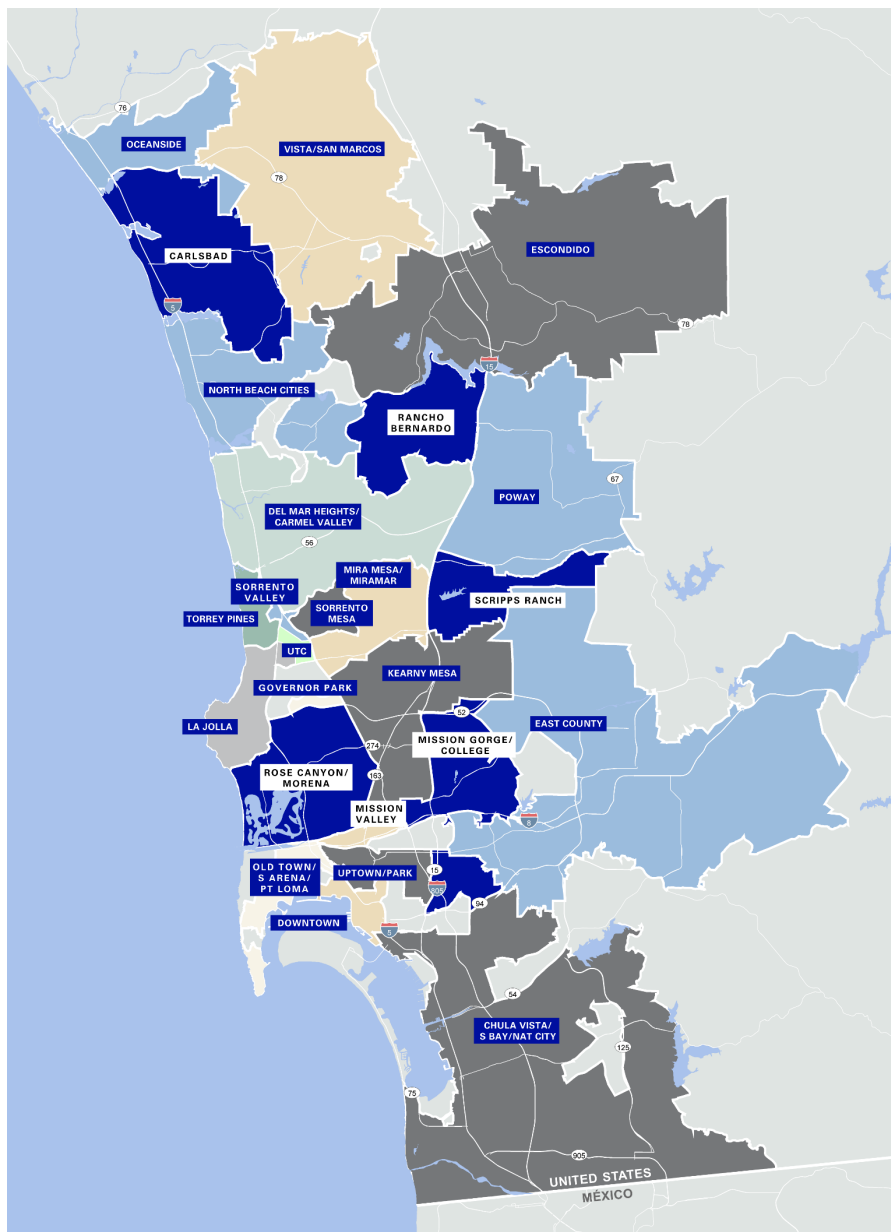
Sale Transactions

Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
Regent Properties	Four-Building Downtown Portfolio	Downtown	\$420,000,000 (\$275/SF)	1,529,687
Alexandria Real Estate Equities	Lusk Mira Mesa Business Park	Sorrento Mesa	\$298,500,000 (\$619/SF)	482,153
Breakthrough Properties	Pacific Plaza at Torrey Hills	Carmel Valley	\$123,100,000 (\$565/SF)	217,902

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	11,774,410	904,754	23.4%	-103,222	-198,714	\$3.69	\$3.24	\$3.40
Suburban Total	60,985,509	888,916	13.5%	230,229	-149,728	\$3.68	\$2.79	\$3.17
Carlsbad	5,701,990	0	18.7%	-45,193	-98,764	\$2.86	\$2.63	\$2.71
Chula Vista/South Bay/ National City	1,526,288	0	4.1%	-2,142	-19,626	\$2.83	\$2.48	\$2.74
Del Mar Heights/ Carmel Valley	5,041,728	228,662	15.7%	-4,475	-83,822	\$4.55	\$3.56	\$4.38
East County	1,210,335	0	2.1%	197	114	\$2.62	\$2.35	\$2.48
Escondido	511,722	0	8.4%	16,057	20,005	\$2.49	\$2.34	\$2.47
Governor Park	846,865	0	16.1%	-11,557	-14,532	\$2.82	\$2.69	\$2.71
Kearny Mesa	7,339,587	0	13.2%	-26,856	-71,805	\$3.07	\$2.58	\$2.63
La Jolla	1,369,800	0	13.7%	14,351	-2,057	\$3.67	\$2.78	\$3.18
Mira Mesa/Miramar	795,006	0	18.1%	-24,809	-19,387	\$1.81	\$2.29	\$2.18
Mission Gorge/College	843,406	0	1.1%	767	835	-	\$2.19	\$2.16
Mission Valley	6,129,147	0	16.3%	-35,058	-1,713	\$3.71	\$2.91	\$3.22
North Beach Cities	1,107,487	55,000	11.6%	-7,126	-18,510	\$3.79	\$3.49	\$3.68
Oceanside	524,182	0	11.3%	13,204	-2,522	\$2.10	\$1.55	\$1.77
Old Town/Sports Arena/ Point Loma	1,249,258	0	5.7%	6,335	-12,093	-	\$2.77	\$2.59
Poway	1,071,188	0	8.6%	17,990	4,676	\$3.90	\$2.82	\$3.58
Rancho Bernardo	3,924,588	0	12.0%	151,970	144,013	\$3.08	\$2.79	\$2.82
Rose Canyon/Morena	545,943	0	11.4%	1,926	-4,936	-	\$2.01	\$2.03
Scripps Ranch	2,065,517	0	15.0%	240,809	221,667	\$3.01	\$2.88	\$2.91
Sorrento Mesa	6,524,951	176,428	14.9%	15,365	-56,577	\$3.98	\$3.06	\$3.45
Sorrento Valley	440,374	0	17.3%	1,295	-7,138	-	\$2.01	\$2.03
Torrey Pines	1,031,020	195,826	21.9%	-79	25,202	\$4.24	\$3.20	\$4.16

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)
Uptown/Park	912,049	29,000	11.5%	-14,082	-23,232	-	\$2.93	\$2.83
UTC	8,905,984	204,000	10.5%	-64,182	-114,645	\$3.99	\$3.47	\$3.91
Vista/San Marcos	1,367,094	0	20.4%	-14,478	-14,881	\$2.47	\$2.32	\$2.44
Market	72,759,919	1,793,670	15.1%	127,007	-348,442	\$3.68	\$2.88	\$3.23

*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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