



San Diego Office Market Report

Strong Leasing Activity Sustains Rent Growth

- The average asking rent ticked up to an all-time high of \$3.34/SF, up 2.8% over the past year. Rent growth has averaged 4.9% annually over the past 10 years.
- Vacancy fell to 14.5% after a solid quarter of absorption, although the current rate remains higher than the 10-year average of 13.6%.
- Net absorption gains were the highest since 2014, with 549,589 square feet absorbed.
- Sublease availability increased for the third quarter in a row, reaching 2.1 million square feet, although it remains below the peak of 2.5 million square feet reached at the start of 2021.
- A 152,000-square-foot project delivered, bringing this quarter’s under-construction activity to 4.5 million square feet. Construction’s total is near a record high and 62.6% of it is based in Downtown, which has the highest vacancy rate (26.0%) in the county.

Technology Companies Take the Lead

The submarkets that saw the most absorption activity – Carlsbad, Torrey Pines, UTC and Sorrento Mesa – have been a focus for biotech and technology companies, which have continued to lease new space while traditional office users have slowed or paused new lease commitments.

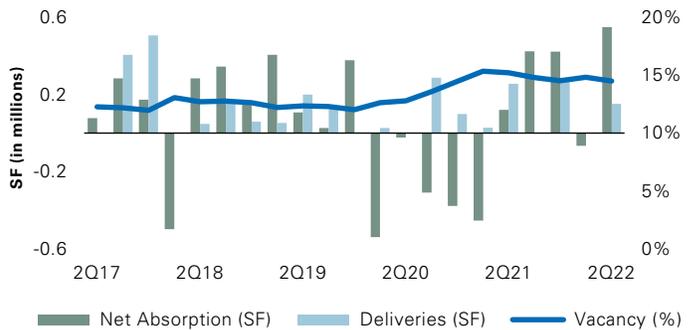
In the largest lease transaction of the quarter, Leidos pre-leased 170,000 square feet at Alexandria Real Estate’s Campus Point project in UTC, which has broken ground with completion scheduled for 2024. The defense contractor plans to use the new project as a research and development facility, including classified projects. Google leased 106,000 square feet at Verge in Sorrento Mesa, where it already fully occupies one building. In Rancho Bernardo, Apple signed leases at two new projects, totaling 148,000 square feet, which will grow the tech giant’s footprint in the submarket to more than 620,000 square feet.

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	72.4M	71.9M	↑
Total Vacancy Rate	14.5%	14.8%	15.2%	↑
Quarterly Net Absorption (SF)	550K	-65K	-121K	↓
Average Asking Rent/SF/Month	\$3.34 FSG	\$3.32 FSG	\$3.25 FSG	↑
Deliveries (SF)	152K	0	257K	↑
Under Construction (SF)	4.5M	4.6M	3.5M	↓

RESEARCH Q2 2022

Quarterly sales volume recovered to \$539.3 million after dipping to \$276.2 million during the first quarter. Sales volume for the trailing four quarters remained elevated at \$3.3 billion, well above the 10-year average of \$2.1 billion. The largest sales transactions of the quarter were Breakthrough Properties' acquisition of two buildings in Governor Park, which will be redeveloped for life science use, and Divco West's acquisition of a building fully leased to Intel located in Scripps Ranch.

Employment and Economic Outlook

San Diego's unemployment rate was 2.7% in May 2022, the lowest level since December 1999, although total nonfarm employment remains slightly below the highwater mark achieved in November 2019 due to a decrease in the labor force of 13,400 workers since that time. Office-using employment totaled 379,200 jobs, slightly lower than the historical record established the previous month. The San Diego region has recovered 237,800 jobs since May 2020, when unemployment peaked at 16.2%.

Although the quarter posted very strong results for the office sector, several developing trends cast uncertainty on its outlook for the future.

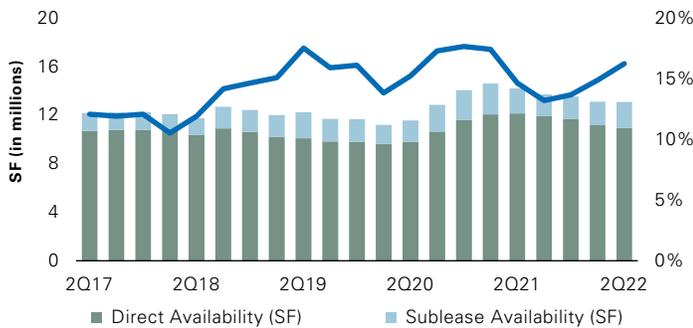
The transformation of the workplace due to the rise in remote work is still in progress. A recent nationwide survey found that 35.0% of American workers have been given the option to work from home fulltime, while an additional 23.0% have been given the option to work from home parttime. Approximately 8.4% of California's workforce currently works from home for more than half of their work hours.

Concerns about the economy have led some companies to pause or even rescind job offers, while rising interest rates could put a damper on sales activity.

The large development pipeline in San Diego will cause increased vacancy in the near term, particularly in Downtown, where recently delivered properties are already struggling to secure tenants.

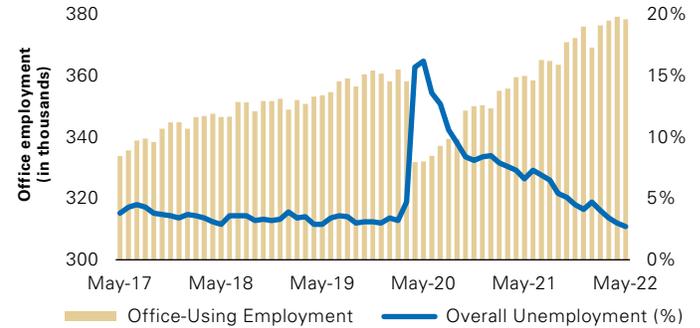
Sublease vs. Direct Availability (SF)

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
Leidos	4150 Campus Point Court	UTC	Pre-lease	170,000
Google	6450 Sequence Drive	Sorrento Mesa	New	105,740
MaxLinear	5966 La Place Court	Carlsbad	Renewal	68,639

Sale Transactions

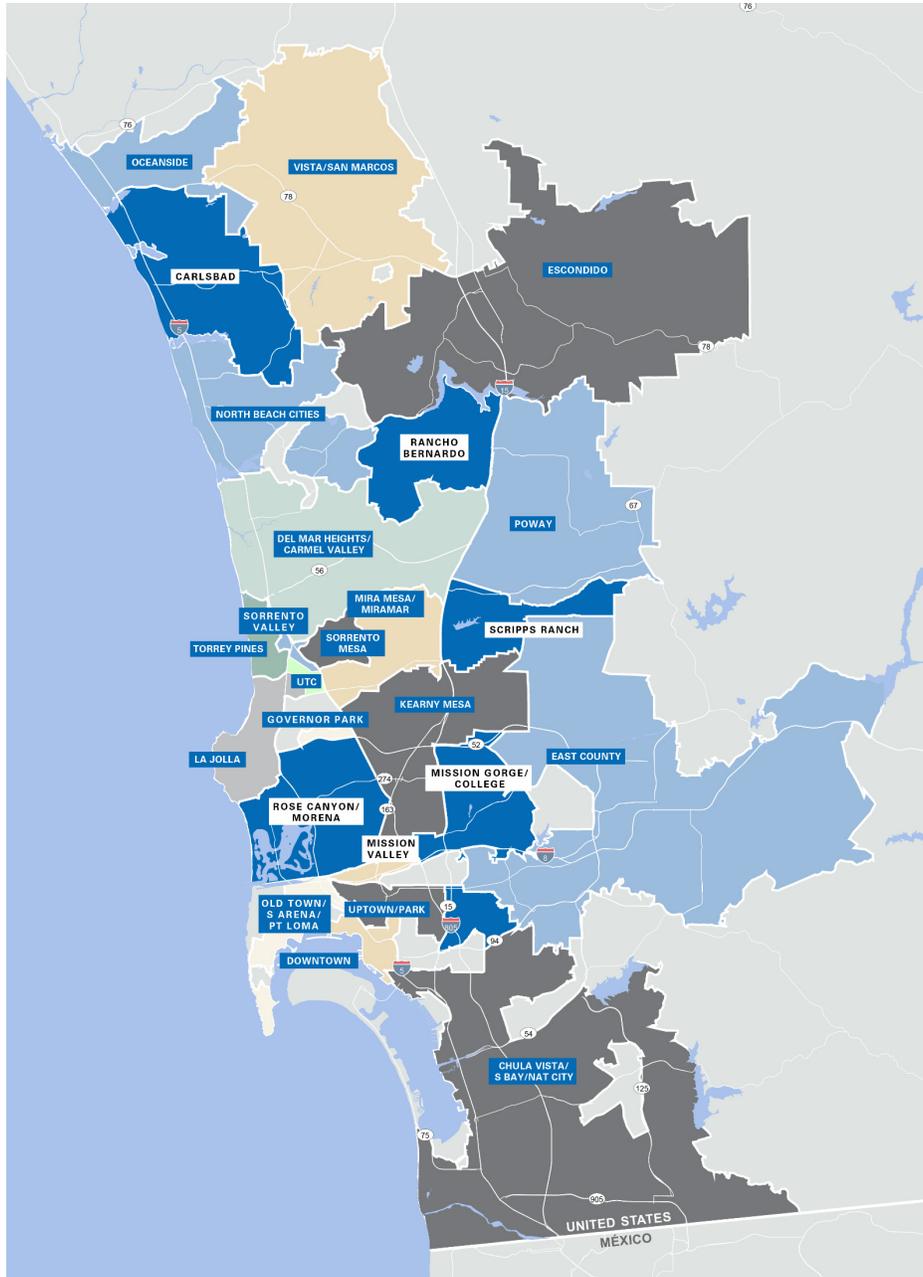
Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
Breakthrough Properties	6220 Greenwich Drive	Governor Park	\$145,000,000 (\$693/SF)	212,201
Divco West	12220 Scripps Summit Drive	Scripps Ranch	\$76,100,000 (\$596/SF)	129,916
Clarion Partners	1950 Camino Vida Roble	Carlsbad	\$54,000,000 (\$444/SF)	121,541

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	11,781,861	2,788,107	26.0%	-74,130	-61,203	\$3.90	\$3.03	\$3.54
Suburban Total	60,874,175	1,667,382	12.3%	623,719	546,086	\$3.76	\$2.80	\$3.24
Carlsbad	5,508,413	0	15.2%	184,447	175,773	\$2.91	\$2.68	\$2.79
Chula Vista/South Bay/ National City	1,432,994	0	2.1%	11,845	20,429	\$2.82	\$2.42	\$2.70
Del Mar Heights/ Carmel Valley	5,525,453	519,300	17.7%	-78,614	-32,196	\$4.79	\$4.16	\$4.64
East County	1,069,049	0	4.5%	-17,077	-27,201	\$2.92	\$2.12	\$2.53
Escondido	511,722	0	11.8%	35,017	17,843	\$2.35	\$2.26	\$2.35
Governor Park	846,865	0	9.2%	6,952	55,192	\$3.07	\$2.72	\$2.76
Kearny Mesa	7,151,422	0	12.0%	72,905	53,447	\$3.38	\$2.55	\$2.81
La Jolla	1,314,425	0	12.3%	-42,460	-38,675	\$3.69	\$2.92	\$3.37
Mira Mesa/Miramar	795,006	0	8.8%	25,870	61,479	-	\$2.22	\$2.13
Mission Gorge/College	666,839	0	0.4%	4,015	4,985	-	\$2.54	\$2.36
Mission Valley	6,069,619	0	17.8%	-146,757	-99,002	\$3.68	\$2.88	\$3.21
North Beach Cities	1,107,487	55,000	10.6%	18,185	27,391	\$4.20	\$3.86	\$4.13
Oceanside	524,182	0	9.9%	3,142	-19,645	\$1.95	\$1.58	\$1.63
Old Town/Sports Arena/ Point Loma	1,071,724	0	5.4%	49,583	31,409	-	\$2.76	\$2.70
Poway	1,071,188	0	21.5%	15,345	-152,756	\$4.03	\$2.33	\$3.57
Rancho Bernardo	3,881,839	83,482	17.1%	39,243	-89,516	\$3.52	\$2.76	\$2.80
Rose Canyon/Morena	516,097	0	14.1%	-1,896	-25,913	-	\$1.90	\$1.92
Scripps Ranch	2,223,309	0	15.1%	40,779	37,454	\$3.11	\$2.83	\$2.89
Sorrento Mesa	6,431,453	339,633	10.4%	117,783	119,563	\$4.24	\$3.23	\$3.73
Sorrento Valley	409,035	0	13.3%	7,989	29,490	-	\$2.79	\$2.47
Torrey Pines	1,128,477	183,116	4.4%	136,186	127,845	\$4.25	\$3.20	\$4.15

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Uptown/Park	926,775	0	6.8%	44,292	57,410	-	\$2.92	\$2.90
UTC	9,374,584	486,851	7.0%	119,661	218,493	\$4.32	\$3.26	\$4.22
Vista/San Marcos	1,316,218	0	19.3%	-22,716	-7,213	\$2.35	\$2.17	\$2.32
Market	72,656,036	4,455,489	14.5%	549,589	484,883	\$3.82	\$2.85	\$3.34

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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