Kidder Mathews

1Q 2023

MARKET TRENDS

SAN DIEGO *OFFICE*

MARKET DRIVERS

LEASING ACTIVITY fell to its lowest level in over 15 years, recording less than 350 deals across the county and dropping over 50% YOY in volume, posting at 1.1M SF. Sublet space has hit a historic high of almost 3M SF, driving availability rates to a record high of 19.1%.

ALTHOUGH RENTS have steadily increased in recent years, even as other fundamentals have somewhat weakened, Q1 noted a slight decrease. Class A and Class B rents have fallen accordingly, although Class C held steady from the end of 2022. When compared to the national average, local rent growth is still outperforming.

HIGHER INTEREST RATES and economic uncertainty have resulted in a decrease in sales volume the past couple quarters. Prices have, in turn, softened to respond to the slowdown in activity. Q1 posted an average sales price of $227/SF, a 10-year record low on an annual basis.

ECONOMIC REVIEW

THE SAN DIEGO COUNTY unemployment rate in February was 3.7%, below the year-ago estimate of 4.1%, back to pre-pandemic levels. This compares with an unadjusted unemployment rate of 4.8% for California and 3.9% for the nation during the same period.

THE IMPACT of the cooling in the economy can be felt in the San Diego office market, as demand slows, and vacancies and availabilities continue to hover at record highs. Layoffs have been rising in the start of the new year across the nation and many local firms have announced layoffs in the recent months.

NEAR TERM OUTLOOK

THE SAN DIEGO OFFICE MARKET has been battling to find its footing since the pandemic first hit, mirroring the national retrenchment in office markets across the country. The office market is projected to experience less leasing activity and smaller requirements in the coming year.

BUYERS HAVE SHOWN more caution in their investments in the current economic climate. It is expected that investment activity will slow, and pricing is anticipated to soften as cap rates rise to compensate for the high cost of debt.

Market Summary

	1Q23	4Q22	1Q22	Annual Change
Vacancy Rate	11.9%	11.7%	12.0%	-0.83%
Availability Rate	19.1%	17.9%	16.5%	15.76%
Asking Lease Rate	$3.04	$3.06	$3.05	-0.33%
Lease Transactions	1,103,077	1,268,642	2,419,646	-54.41%
Sale Transactions	321,762	798,452	1,394,587	-76.93%
Net Absorption	-183,401	201,810	211,107	N/A

↓ *1.1M SF*
LEASING ACTIVITY

↓ *-183K SF*
NET ABSORPTION

↓ *11.9%*
VACANCY RATE

↓ *$3.04*
ASKING RENT (AVG)

↓ *0 SF*
NEW DELIVERIES

Year-Over-Year Trend

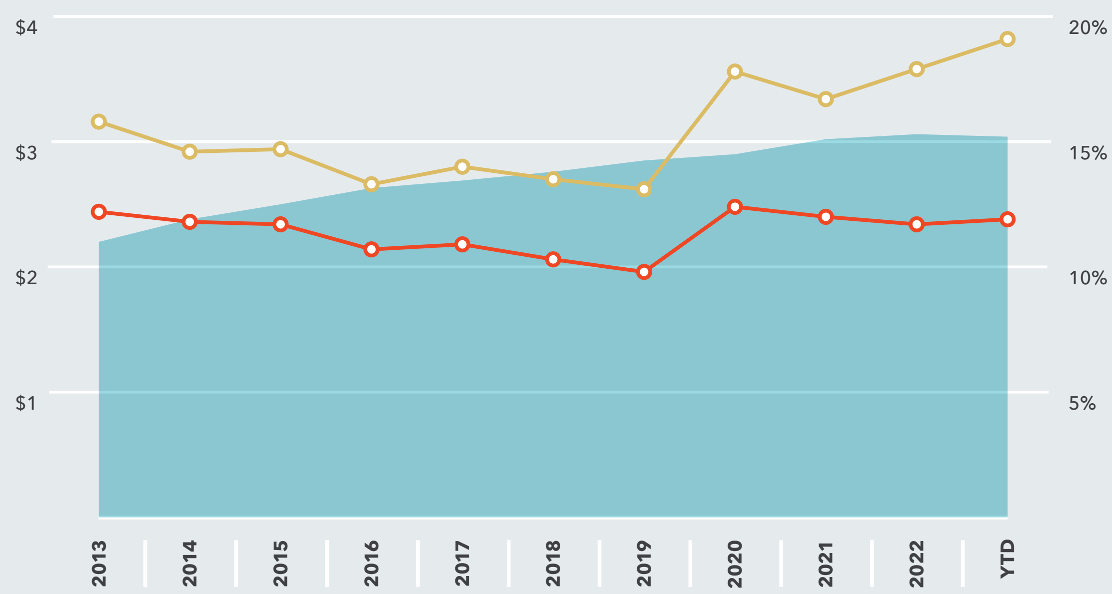
Market Highlights

LEASING VOLUME fell over 50% YOY to 1.1M SF.

RENTAL RATES dropped QOQ and YOY to $3.04/SF on a full-service basis.

AVG SALE PRICE PER SF dipped to a 5-year low of $227/SF.

LEASE RATE, VACANCY & AVAILABILITY

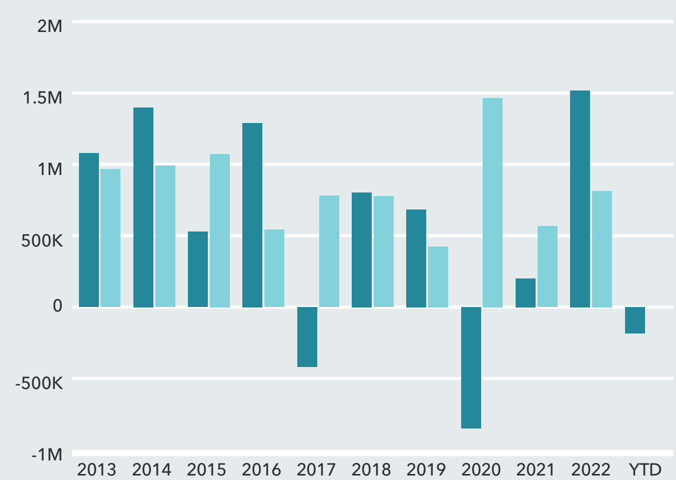


Direct Lease Rate (FSG)

Total Vacancy

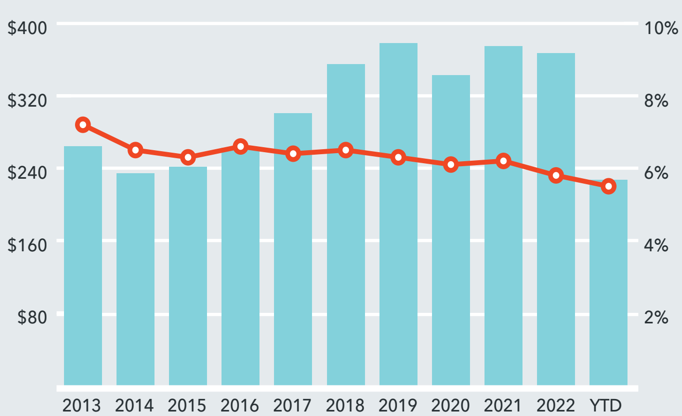
Total Availability

NET ABSORPTION & NEW DELIVERIES



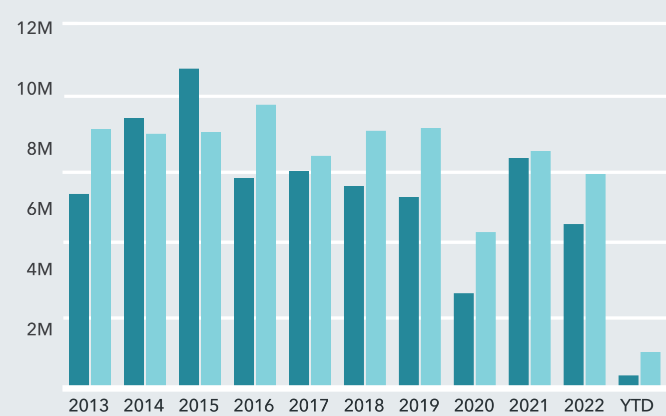
Net Absorption (SF) New Deliveries (SF)

AVERAGE SALES PRICE/SF & CAP RATE



Sales Price/SF Cap Rate

SALE VOLUME & LEASING ACTIVITY



Sold (SF) Leased (SF)

SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Sublet Available Rate	Total Available Rate	1Q Direct Net Absorption	2022 Direct Net Absorption	1Q Total Leasing Activity	2022 Leasing Activity	Average Rental Rate (FS)
Carlsbad	6,967,921	12.8%	3.1%	20.9%	(23,740)	241,022	59,650	452,711	$2.77
Escondido	1,805,934	11.8%	6.1%	21.9%	(35,297)	112,139	11,582	52,672	$2.31
Oceanside	1,524,773	6.8%	0.1%	9.1%	(23,355)	7,787	6,977	51,084	$2.31
San Marcos	1,453,695	5.2%	0.2%	6.6%	(4,425)	45,119	10,676	51,121	$2.34
Vista	1,265,121	18.4%	2.2%	24.7%	12,345	13,539	2,697	53,275	$2.42
North County	**13,017,444**	**11.7%**	**2.8%**	**18.4%**	**(74,472)**	**419,606**	**91,582**	**660,863**	**$2.57**
Poway	1,390,271	5.8%	0.1%	7.2%	11,167	(38,691)	1,762	37,934	$1.84
Rancho Bernardo	6,362,008	14.6%	1.5%	19.6%	106,293	(267,025)	140,466	517,627	$3.23
Scripps Ranch	2,753,182	16.3%	7.7%	20.0%	16,730	25,799	14,568	233,557	$2.93
I-15 Corridor	**10,505,461**	**13.9%**	**2.9%**	**18.1%**	**134,190**	**(279,917)**	**156,796**	**789,118**	**$2.97**
Del Mar Heights/Carmel Valley	5,695,387	10.6%	8.5%	22.7%	53,688	465,728	76,521	747,331	$4.69
Governor Park	769,855	10.0%	0.4%	13.7%	7,622	(121,714)	17,310	97,355	$2.94
La Jolla	1,341,636	14.0%	1.9%	17.5%	(21,755)	44,025	14,731	72,344	$3.44
Miramar	1,474,065	5.5%	0.3%	8.3%	12,080	29,730	26,062	100,090	$1.78
North Beach Cities	2,459,481	7.9%	0.7%	11.3%	(9,509)	9,854	42,329	156,141	$3.89
Sorrento Mesa	9,018,707	8.5%	2.8%	14.5%	(35,154)	137,937	252,541	458,596	$3.17
Sorrento Valley	648,668	18.7%	0.0%	11.4%	(24,101)	31,192	12,342	73,099	$2.80
Torrey Pines	3,241,075	5.8%	3.4%	7.7%	(17,219)	198,191	0	9,624	$4.38
UTC	9,192,421	6.8%	5.3%	15.2%	(77,531)	362,629	48,837	1,114,045	$4.16
North Cities	**33,841,295**	**8.4%**	**4.1%**	**15.0%**	**(111,879)**	**1,157,572**	**490,673**	**2,828,625**	**$3.80**
Kearny Mesa	11,406,171	9.7%	2.1%	14.0%	40,971	164,625	43,168	523,550	$2.72
Mission Gorge	593,130	1.1%	0.8%	4.5%	(3,116)	12,221	0	9,346	$2.02
Mission Valley	7,422,145	17.7%	2.8%	21.3%	(13,530)	(103,194)	123,638	559,052	$2.96
Old Town/Sports Arena/Pt. Loma	2,268,131	5.7%	5.8%	15.1%	11,925	31,939	10,749	142,525	$2.66
PB/Rose Canyon/Morena	1,258,986	4.9%	1.4%	8.8%	7,682	1,427	17,407	102,573	$2.42
Central Suburban	**22,948,563**	**11.4%**	**2.6%**	**15.9%**	**43,932**	**107,018**	**194,962**	**1,337,046**	**$2.76**
College Area	1,213,132	3.1%	0.0%	5.2%	4,811	2,203	4,066	26,764	$2.33
East County	3,788,950	4.0%	0.3%	5.8%	(13,907)	37,997	14,744	124,974	$2.46
East County	**5,002,082**	**3.8%**	**0.2%**	**5.7%**	**(9,096)**	**40,200**	**18,810**	**151,738**	**$2.43**
Park East	117,084	10.9%	0.0%	10.5%	(11,634)	5,146	480	4,010	-
Uptown East	101,852	7.2%	0.0%	7.2%	0	(7,354)	0	1,000	$2.16
Uptown West/Park West	2,166,747	6.4%	0.9%	10.1%	22,121	35,517	16,775	89,942	$2.62
Uptown	**2,385,683**	**6.7%**	**0.8%**	**10.0%**	**10,487**	**33,309**	**17,255**	**94,952**	**$2.47**
Downtown	**13,862,902**	**25.8%**	**1.5%**	**46.1%**	**(97,911)**	**(35,247)**	**114,561**	**777,510**	**$2.85**
Chula Vista	2,892,008	3.9%	0.3%	5.4%	(14,531)	94,695	14,401	90,893	$2.58
Coronado	84,540	1.9%	0.0%	1.9%	0	0	0	0	$3.25
National City	550,315	4.5%	5.4%	15.0%	(12,194)	(6,603)	4,037	21,977	$2.19
Otay Mesa	187,078	31.8%	0.0%	31.8%	(51,927)	(1,110)	0	1,940	$2.64
San Ysidro/Imperial Beach	132,746	1.6%	0.0%	1.6%	0	(2,140)	0	900	$2.96
Southeast San Diego	461,460	3.6%	0.0%	3.6%	0	46,518	0	3,716	$2.33
South County	**4,308,147**	**5.1%**	**0.9%**	**7.4%**	**(78,652)**	**131,360**	**18,438**	**119,426**	**$2.53**
San Diego Total	**105,871,577**	**11.9%**	**2.8%**	**19.1%**	**(183,401)**	**1,573,901**	**1,103,077**	**6,759,278**	**$3.04**
Class A	40,528,353	15.6%	4.6%	29.2%	43,435	611,042	405,040	3,318,992	$3.52
Class B	51,295,629	10.3%	2.0%	14.4%	(158,521)	862,744	594,128	2,961,812	$2.78
Class C	14,047,595	6.9%	0.2%	7.2%	(68,315)	100,115	103,909	478,474	$2.30

TOP SALE TRANSACTIONS 1Q 2023

Property	Submarket	SF	Sale Price	$/SF	Buyer	Seller
Office & Industrial Portfolio	Kearny Mesa	513,820	$200,000,000	$389.24	Rexford Industrial Realty, Inc.	Cubic
8760 Cuyamaca St	East County	25,219	$8,200,000	$325.15	Yang Zhang	John Davidson Trust
3969 4th Ave	Uptown West/Park West	38,937	$6,415,000	$164.75	Eli Ben-Moshe	4-Z Properties, LP
504 W Mission Ave	Escondido	14,383	$4,200,000	$292.01	Bassham Family Trust	Vicky Schoenfeld
2111 S El Camino Real	Oceanside	10,538	$2,910,000	$276.14	Christopher Walters	Employers Choice Insurance Serv., Inc.

TOP LEASE TRANSACTIONS 1Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
16340 W Bernardo Dr	Rancho Bernardo	90,610	January 2023	Drawbridge Realty	Broadcom Corporation
13480 Evening Creek Dr N	Rancho Bernardo	63,781	January 2023	Kilroy Realty Corporation	MediaTek USA
5880 Oberlin Dr	Sorrento Mesa	30,192	January 2023	LeBeau Realty & Associates	Innoflight
4747 Executive Dr	UTC	18,174	March 2023	American Assets Trust, Inc.	Undisclosed - Law Firm
12230 World Trade Dr	Rancho Bernardo	16,661	March 2023	Cal-Sorrento Ltd.	Lensure Mortgage Corp.

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
RaDD - Alley/Rise/Vida/Edge	Waterfront Pl & Pacific Coast Hwy	Downtown	1,422,203	IQHQ	3Q23
The Campus at Horton	100 & 200 Horton Plz	Downtown	767,781	Stockdale Capital Partners	4Q23
West - Office	1011 Union St	Downtown	289,206	Holland Partner Group	1Q24
RaDD - Core	950 Waterfront Pl	Downtown	236,238	IQHQ	4Q24
La Jolla Commons Tower III	4727 Executive Dr	UTC	212,851	American Assets Trust, Inc.	2Q23

Data Source: CoStar, EDD, SDBJ, SD Union-Tribune

Kidder Mathews

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 20 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, project and construction management, and debt equity finance services for all property types.

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COMMERCIAL BROKERAGE	$12B TRANSACTION VOLUME ANNUALLY	32.1M ANNUAL SALES SF	41.2M ANNUAL LEASING SF
ASSET SERVICES	52M MANAGEMENT PORTFOLIO SF	771+ ASSETS UNDER MANAGEMENT	250+ ASSET SERVICES CLIENTS
VALUATION ADVISORY	2,600+ ASSIGNMENTS ANNUALLY	46 TOTAL APPRAISERS	23 WITH MAI DESIGNATIONS