Kidder Mathews

MARKET TRENDS

SAN DIEGO *OFFICE*

MARKET DRIVERS

LEASING ACTIVITY fell YOY and QOQ in 3Q and hovers around the record low, posting at 1.1M SF across the county. Sublet and direct available space has steadily risen since the pandemic, both hitting record high numbers of 3M SF and 20M SF respectively.

ALTHOUGH RENTS have continued to increase the past couple years, even as other fundamentals have weakened, Q3 noted a decrease YOY and QOQ to $3.01 on a full-service basis. However, when compared to other major California markets, San Diego continues to be a top performer in rent growth.

THE CONTINUED RISE in interest rates has impacted the region, and sales volume decreased dramatically YOY in 3Q, posting an all-time record low of 197K SF, with the total number of transactions in the single digits. Investors may be holding out and waiting to see if properties turn over to banks and default, to take advantage of the discounted prices.

ECONOMIC OVERVIEW

THE SAN DIEGO COUNTY UNEMPLOYMENT RATE in August was 4.3%, above the year-ago estimate of 3.5%. It is up 2 basis points month-over-month, adding 4,900 jobs from April to May. This compares with an unadjusted unemployment rate of 5.1% for California and 3.9% for the nation during the same period.

COMPANIES ACROSS THE COUNTY continue to lay off employees, as reflected in the recent rise in unemployment, with the manufacturing industry showing the largest drop, down 800 employees month-over-month. Additional sectors that that saw reductions included professional services, down 600, and leisure and hospitality down by 300.

NEAR TERM OUTLOOK

THE AVERAGE LEASE SIZE has shrunk about 15% following the pandemic in the past couple years, which is seen across the country not just locally. Firms will continue to right size their footprints as they recognize the new office environment of the hybrid work model.

WHILE SUBLEASE SPACE has skyrocketed to historical highs since the pandemic, it may be peaking in the near term as many of those spaces are now rolling over to direct space. Newer buildings continue to fare better with the trend of flight to quality, and as new supply comes online in the next year, vacancies will rise as demand is expected to remain low through the rest of the year.

Market Summary

	3Q23	2Q23	3Q22	Annual Change
Vacancy Rate	12.1%	11.8%	11.5%	**5.22%**
Availability Rate	19.0%	18.6%	16.3%	**16.56%**
Asking Lease Rate	$3.01	$3.06	$3.04	**-0.99%**
Lease Transactions	1,197,965	1,527,078	1,485,153	**-19.34%**
Sale Transactions	197,415	435,144	1,820,066	**-89.15%**
Net Absorption	-142,938	-311,065	-131,449	**N/A**

3Q 2023

↓ *1.19M SF*
LEASING ACTIVITY

↓ *-142K SF*
NET ABSORPTION

↑ *12.1%*
VACANCY RATE

↓ *$3.01*
ASKING RENT (AVG)

↑ *267K SF*
NEW DELIVERIES

Year-Over-Year Trend

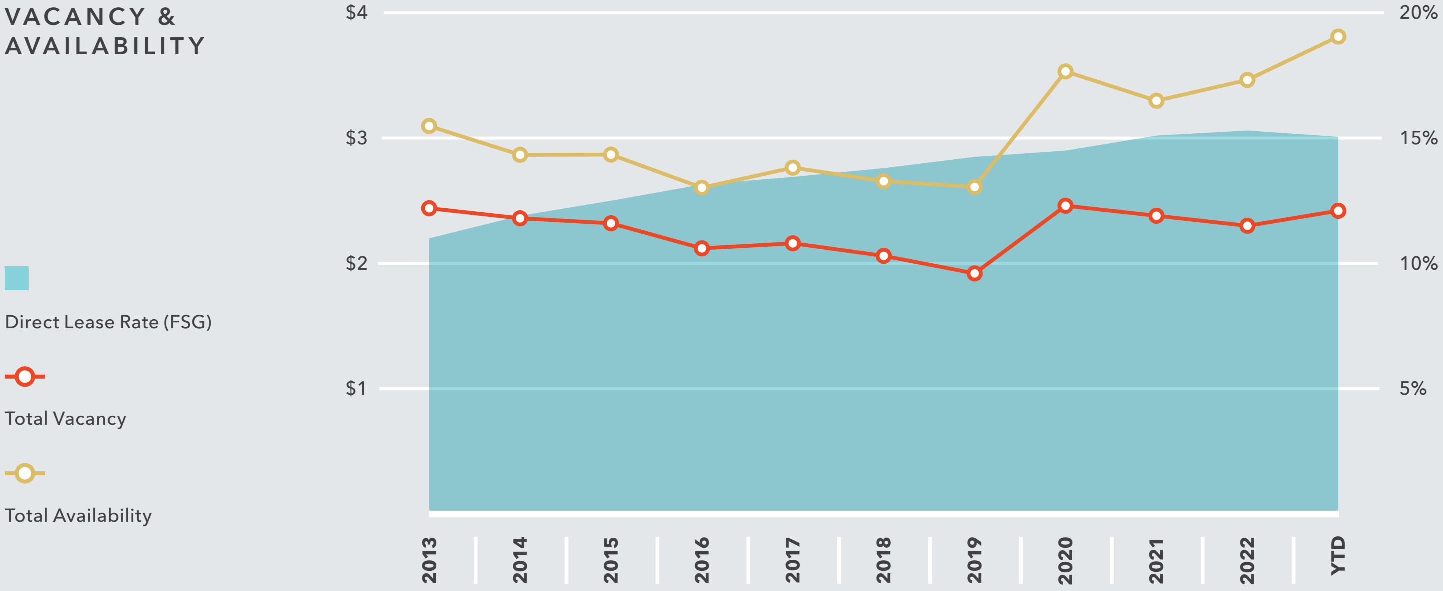
Market Highlights

LEASING VOLUME remained low at 1.2M SF

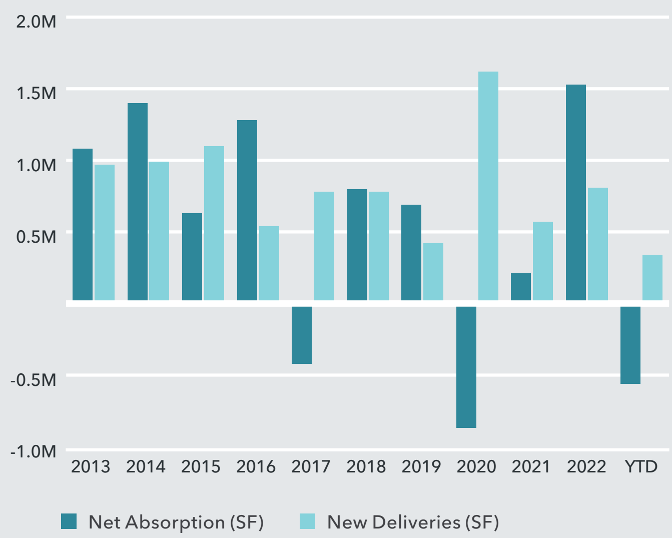
RENTAL RATES decreased to $3.01/SF on a full-service basis

SALES VOLUME dropped to a record low posting at 197K SF

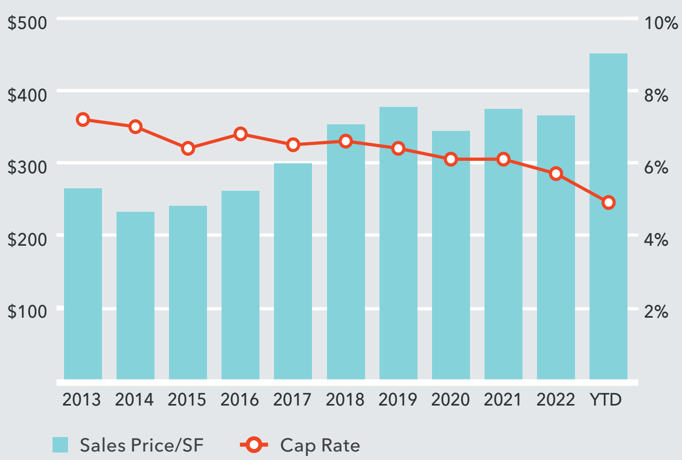
LEASE RATE, VACANCY & AVAILABILITY



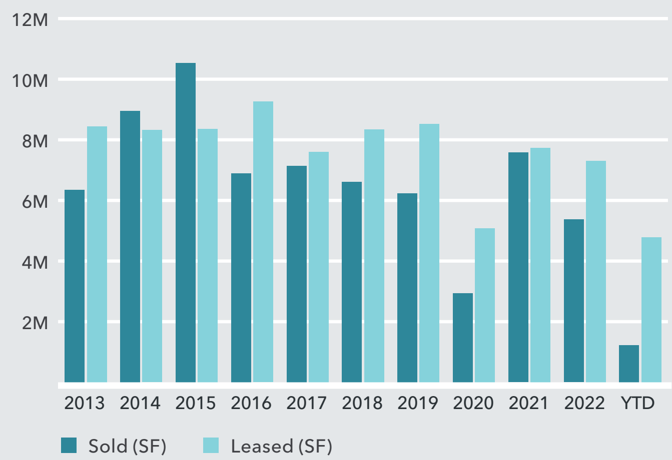
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Sublet Available Rate	Total Available Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Total Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Carlsbad	6,995,045	13.5%	4.3%	21.8%	68	(53,279)	144,741	270,470	$2.74
Escondido	1,800,970	10.6%	5.8%	22.4%	9,384	(10,686)	6,229	43,826	$2.32
Oceanside	1,525,779	7.0%	0.2%	8.9%	(4,743)	(27,623)	9,650	24,544	$2.35
San Marcos	1,482,054	5.6%	0.3%	6.0%	(18,029)	(10,797)	7,109	32,207	$2.40
Vista	1,253,421	19.1%	2.2%	22.8%	(5,484)	5,590	2,637	28,108	$2.40
North County	**13,057,269**	**12.0%**	**3.3%**	**18.7%**	**(18,804)**	**(96,795)**	**170,366**	**399,155**	**$2.57**
Poway	1,390,271	7.0%	0.2%	7.2%	(3,695)	(2,797)	7,538	13,865	$1.94
Rancho Bernardo	6,367,784	14.5%	1.8%	17.1%	23,428	125,301	170,059	490,528	$3.22
Scripps Ranch	2,883,688	14.3%	7.3%	17.8%	12,217	56,508	5,039	64,532	$2.96
I-15 Corridor	**10,641,743**	**13.5%**	**3.1%**	**16.0%**	**31,950**	**179,012**	**182,636**	**568,925**	**$2.98**
Del Mar Heights/Carmel Valley	5,695,387	11.6%	7.3%	21.7%	(98,144)	(54,000)	113,534	307,837	$4.69
Governor Park	768,582	9.7%	0.1%	14.3%	7,453	3,968	986	25,502	$2.92
La Jolla	1,341,343	12.4%	1.2%	21.1%	(3,263)	(24,655)	17,739	49,470	$3.42
Miramar	1,474,065	5.0%	0.7%	8.6%	(1,616)	21,709	8,669	46,296	$2.12
North Beach Cities	2,517,789	9.7%	1.0%	13.0%	(23,647)	(4,256)	10,167	112,647	$3.78
Sorrento Mesa	8,767,400	6.5%	2.8%	10.3%	28,110	(1,817)	15,429	547,855	$3.15
Sorrento Valley	626,341	19.3%	0.0%	13.0%	(324)	(23,295)	2,420	16,537	$2.80
Torrey Pines	3,252,335	2.0%	0.4%	4.8%	26,412	8,594	6,445	45,590	$4.37
UTC	9,346,654	9.6%	6.3%	17.2%	43,333	(178,201)	74,556	417,879	$3.98
North Cities	**33,789,896**	**8.5%**	**3.9%**	**14.3%**	**(21,686)**	**(251,953)**	**249,945**	**1,569,613**	**$3.76**
Kearny Mesa	11,517,562	9.8%	2.7%	15.0%	24,309	82,675	69,638	906,926	$2.81
Mission Gorge	652,826	1.7%	0.0%	3.5%	424	(726)	7,023	13,717	$1.98
Mission Valley	7,403,847	18.0%	3.9%	23.2%	12,706	(84,874)	102,754	401,695	$2.99
Old Town/Sports Arena/Pt. Loma	2,309,860	8.3%	5.7%	17.6%	(59,400)	(53,609)	29,544	56,835	$2.51
PB/Rose Canyon/Morena	1,256,358	6.8%	1.8%	8.5%	(20,580)	(9,829)	11,133	41,756	$2.44
Central Suburban	**23,140,453**	**11.9%**	**3.3%**	**17.2%**	**(42,541)**	**(66,363)**	**220,092**	**1,420,929**	**$2.79**
College Area	1,224,665	4.4%	0.0%	4.5%	(16,593)	(10,865)	0	19,070	$2.37
East County	3,815,877	3.7%	0.5%	5.0%	(8,364)	310	35,750	98,041	$2.37
East County	**5,040,542**	**3.9%**	**0.4%**	**4.9%**	**(24,957)**	**(10,555)**	**35,750**	**117,111**	**$2.37**
Park East	117,084	3.0%	0.0%	3.0%	7,604	(2,407)	0	2,356	-
Uptown East	101,852	0.0%	0.0%	0.0%	0	7,354	0	0	-
Uptown West/Park West	2,166,232	6.8%	0.9%	11.2%	(21,291)	13,150	40,181	82,616	$2.78
Uptown	**2,385,168**	**6.3%**	**0.8%**	**10.3%**	**(13,687)**	**18,097**	**40,181**	**84,972**	**$2.78**
Downtown	**13,864,954**	**26.7%**	**0.9%**	**46.0%**	**(45,431)**	**(259,308)**	**270,997**	**544,159**	**$2.78**
Chula Vista	2,892,008	4.3%	0.2%	10.3%	(13,416)	(27,422)	16,663	66,453	$2.63
Coronado	84,540	1.9%	0.0%	0.0%	0	0	1,610	0	$3.25
National City	583,906	1.4%	4.4%	7.9%	(1,757)	2,247	0	7,698	$2.18
Otay Mesa	187,078	27.4%	0.0%	27.4%	8,231	(43,696)	9,725	9,725	$2.64
San Ysidro/Imperial Beach	154,203	4.1%	0.0%	4.1%	(840)	(4,136)	0	2,200	$2.94
Southeast San Diego	476,159	3.5%	0.0%	3.5%	0	0	0	0	$2.33
South County	**4,377,894**	**4.7%**	**0.7%**	**9.5%**	**(7,782)**	**(73,007)**	**27,998**	**86,076**	**$2.56**
San Diego Total	**106,297,919**	**12.1%**	**2.9%**	**19.0%**	**(142,938)**	**(560,872)**	**1,197,965**	**4,790,940**	**$3.01**
Class A	41,152,541	16.5%	5.0%	29.4%	42,664	(334,791)	550,201	2,276,414	$3.40
Class B	51,297,479	10.1%	1.9%	14.1%	(155,601)	(185,753)	546,724	2,121,923	$2.80
Class C	13,823,570	6.7%	0.1%	6.8%	(30,001)	(40,328)	99,509	392,682	$2.20

TOP SALE TRANSACTIONS 3Q 2023

Property	Submarket	SF	Sale Price	$/SF	Buyer	Seller
2127 W Citracado Pky	Escondido	75,000	$60,800,000	$810.67	Harrison Street Capital	JRMC Real Estate, Inc.
9555 Chesapeake Dr	Kearny Mesa	60,000	$17,752,500	$295.88	San Diego Unified School District	The Sason Organization
4933 Paramount Dr	Kearny Mesa	18,752	$7,650,000	$407.96	HC Integrated Systems, Inc.	American Council on Exercise
3636 4th Ave	Uptown West	26,607	$6,675,500	$250.89	Dorit Miller PSYD	Artiano Shinoff
5958 Priestly Dr	Carlsbad	17,056	$4,359,840	$255.62	Conjupro Biotherapeutics, Inc.	Bobbi Marin

TOP LEASE TRANSACTIONS 3Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
1011 Union St	Downtown	87,309	August 2023	Lowe	San Diego Association of Governments
16705 Via Del Campo	Rancho Bernardo	55,227	August 2023	Drawbridge Realty	ASML
5600 Avenida Encinas	Carlsbad	51,495	September 2023	Alexandria Real Estate Equities, Inc.	Undisclosed
17190 Bernardo Center Dr	Rancho Bernardo	41,092	August 2023	Warner Lusardi Family Trust	Kiln
15253 Avenue of Science	Rancho Bernardo	37,437	August 2023	Ascendas-Singbridge Group	Malin Space Science Systems

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
RaDD - Alley/Rise/Vida/Edge	Waterfront Pl & Pacific Coast Hwy	Downtown	1,422,203	IQHQ	1Q24
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	2Q24
RaDD - Core	950 Waterfront Pl	Downtown	236,238	IQHQ	4Q24
Thnk @ Millenia - Phase I	1775 Millenia Ave	Chula Vista	168,000	Chestnut Properties	4Q25

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

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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	53M MANAGEMENT PORTFOLIO SF	771+ ASSETS UNDER MANAGEMENT	250+ ASSET SERVICES CLIENTS
VALUATION ADVISORY	2,800+ ASSIGNMENTS ANNUALLY	41 TOTAL APPRAISERS	23 WITH MAI DESIGNATIONS