Kidder Mathews

MARKET TRENDS

SAN DIEGO *OFFICE*

MARKET DRIVERS

AVAILABILITY RATES continue to rise across San Diego's office market to historical highs at year-end, breaking past 19% for the first time on record to 19.5% in 4Q. Additionally, leasing volume slowed considerably and was down over 35% YOY to a 15-year record low, posting at 1M SF.

AS THE OFFICE MARKET continues to face challenges of record high vacancies and availabilities, it is against this backdrop that the county is scheduled to receive its largest injection of new inventory at almost 4.5M SF, with almost 90% of the pipeline yet to have commitments delivering early next year.

ECONOMIC INSTABILITY and the explosive interest rate growth since last year have led to historically low levels of sales in 2023, posting only 2M SF of transaction volume, over a 60% drop when compared to 5.5M SF in 2022.

ECONOMIC OVERVIEW

THE SAN DIEGO COUNTY UNEMPLOYMENT RATE was 4.2% in November, above the year-ago estimate of 3.3% and unchanged month-over-month, adding 7,500 jobs from October to November. This compares with an unadjusted unemployment rate of 4.9% for California and 3.5% for the nation during the same period.

TRADE, TRANSPORTATION, AND UTILITIES were up 4,400, which led the way for month-over job gains, followed by seasonal hiring in retail trade which was up 3,600 jobs. On a year-over basis, job reductions were strongest in the professional and business services industry which was down 6,600 jobs from November 2022 to November 2023.

NEAR-TERM OUTLOOK

IT IS ANTICIPATED that investors become more active in the new year, taking advantage of properties that turn over to banks and default, to benefit from discounted prices of office products. However, the market has yet to see an increase in those distressed sales due to the rising interest rates and declining occupancy.

AS A LARGE AMOUNT OF NEW SUPPLY comes on-line in the next year, vacancies will rise as demand will continue to experience a slowdown. Tenants are expected to remain cautious in the new year, likely continuing to downsize their footprints. New lease sizes have been roughly 18% smaller in recent quarters when compared to pre-pandemic times and expect this trend to continue into the coming quarters.

Market Summary

	4Q23	3Q23	4Q22	Annual Change
Vacancy Rate	11.8%	12.1%	11.5%	**2.61%**
Availability Rate	19.5%	18.7%	17.3%	**12.72%**
Asking Lease Rate	$3.01	$3.01	$3.06	**-1.63%**
Lease Transactions	1,035,748	1,649,199	1,604,884	**-35.46%**
Sale Transactions	815,983	210,508	816,866	**-0.11%**
Net Absorption	339,920	-110,264	199,498	**N/A**

4Q 2023

↓ *1.04M SF* LEASING ACTIVITY

↑ *339K SF* NET ABSORPTION

↓ *11.8%* VACANCY RATE

↔ *$3.01* ASKING RENT (AVG)

↓ *70K SF* NEW DELIVERIES

Year-Over-Year Trend

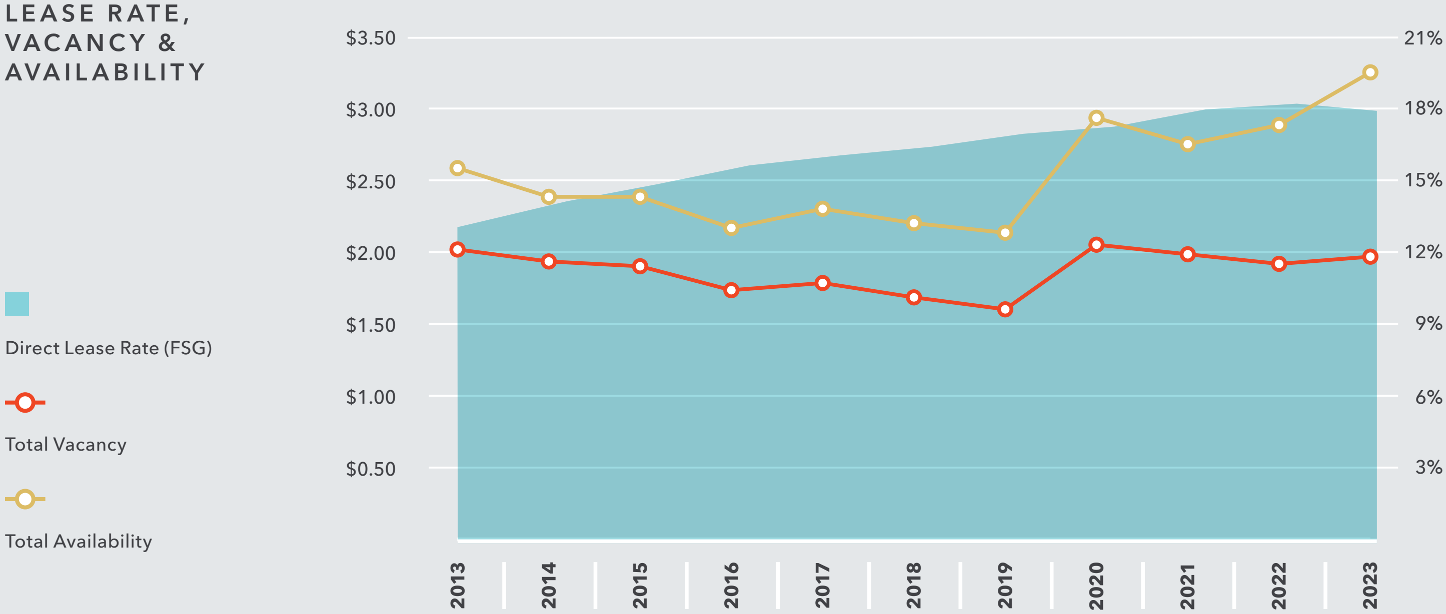
Market Highlights

LEASING VOLUME hit a 15-year record low at 1M SF

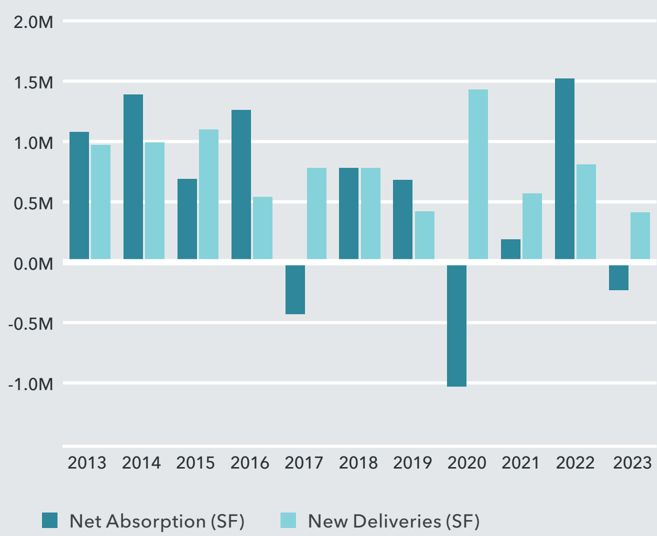
RENTAL RATES remained unchanged QOQ at $3.01/SF FSG

SALES VOLUME dropped to a record low posting at 2M SF on an annual basis

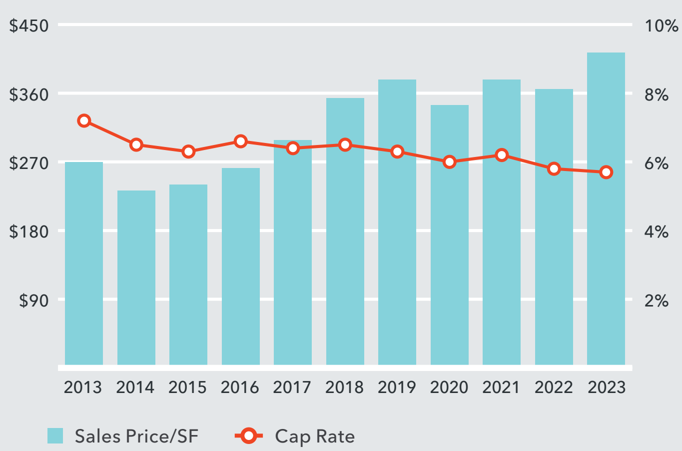
LEASE RATE, VACANCY & AVAILABILITY



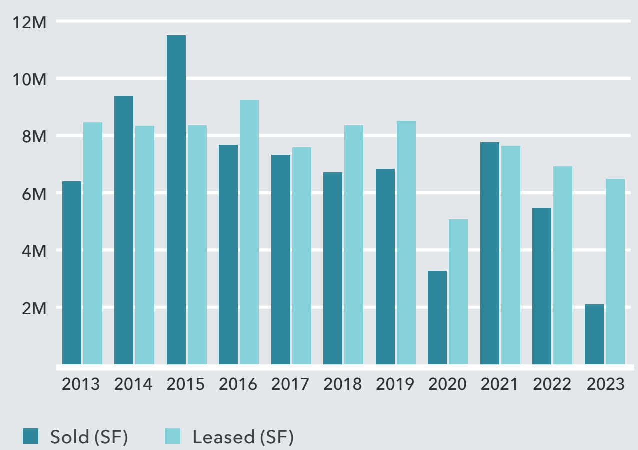
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Sublet Available Rate	Total Available Rate	4Q Direct Net Absorption	2023 Direct Net Absorption	4Q Total Leasing Activity	2023 Leasing Activity	Average Direct Rental Rate (FS)
Carlsbad	7,053,045	12.4%	4.0%	22.8%	35,323	(12,513)	68,337	402,689	$2.74
Escondido	1,798,276	11.8%	5.8%	23.1%	(20,410)	(30,696)	10,160	64,791	$2.32
Oceanside	1,531,240	9.9%	0.2%	11.3%	5,851	(14,805)	2,767	27,311	$2.54
San Marcos	1,482,054	4.5%	0.6%	6.3%	21,340	10,543	2,914	36,687	$2.41
Vista	1,255,156	19.0%	2.6%	20.1%	24,088	10,498	19,792	59,932	$2.33
North County	**13,119,771**	**11.8%**	**3.3%**	**19.4%**	**66,192**	**(36,973)**	**103,970**	**591,410**	**$2.58**
Poway	1,390,271	7.2%	0.2%	7.4%	1,661	(3,955)	3,982	24,681	$1.96
Rancho Bernardo	6,367,784	11.7%	1.8%	15.1%	171,974	300,331	47,101	694,986	$3.21
Scripps Ranch	2,881,137	9.4%	1.4%	13.6%	(30,019)	29,652	7,329	71,861	$2.94
I-15 Corridor	**10,639,192**	**10.5%**	**1.5%**	**13.6%**	**143,616**	**326,028**	**58,412**	**791,528**	**$2.97**
Del Mar Heights/Carmel Valley	5,706,773	12.0%	7.1%	22.0%	(26,486)	(75,770)	125,419	418,451	$4.65
Governor Park	768,582	10.2%	0.1%	12.2%	(4,312)	642	10,616	37,805	$2.86
La Jolla	1,353,342	14.8%	1.4%	18.9%	(31,892)	(50,072)	18,255	70,866	$3.47
Miramar	1,474,065	5.0%	0.9%	44.4%	(1,415)	20,294	5,352	57,534	$2.39
North Beach Cities	2,492,470	7.9%	0.7%	10.1%	50,254	45,483	36,981	152,380	$3.84
Sorrento Mesa	8,716,223	6.8%	3.2%	11.9%	9,978	4,336	6,529	560,913	$3.21
Sorrento Valley	610,215	16.9%	0.0%	10.4%	17,238	(6,057)	18,118	34,655	$2.75
Torrey Pines	3,252,335	1.5%	0.4%	4.6%	9,171	23,020	10,778	64,348	$4.37
UTC	9,416,567	10.6%	6.0%	19.5%	(16,688)	(184,622)	116,074	588,400	$3.97
North Cities	**33,790,572**	**8.8%**	**3.9%**	**16.6%**	**5,848**	**(222,746)**	**348,122**	**1,985,352**	**$3.78**
Kearny Mesa	11,509,401	8.5%	2.7%	14.5%	151,914	232,148	58,741	1,024,910	$2.91
Mission Gorge	641,890	0.6%	0.0%	3.5%	3,213	2,487	4,413	18,130	$2.06
Mission Valley	7,463,656	17.9%	4.2%	22.3%	(8,888)	(65,961)	133,482	554,338	$3.00
Old Town/Sports Arena/Pt. Loma	2,316,744	8.9%	6.3%	17.6%	(2,925)	(50,745)	17,012	78,475	$2.57
PB/Rose Canyon/Morena	1,257,086	7.1%	2.0%	10.6%	5,210	(13,737)	10,803	57,968	$2.43
Central Suburban	**23,188,777**	**11.3%**	**3.4%**	**16.8%**	**148,524**	**104,192**	**224,451**	**1,733,821**	**$2.86**
College Area	1,224,762	3.9%	0.0%	4.9%	(2,686)	(4,519)	1,872	26,885	$2.41
East County	3,815,877	3.4%	0.5%	4.6%	14,340	11,430	35,770	141,856	$2.35
East County	**5,040,639**	**3.5%**	**0.4%**	**4.6%**	**11,654**	**6,911**	**37,642**	**168,741**	**$2.36**
Park East	117,084	0.8%	0.0%	0.8%	2,565	158	0	2,356	-
Uptown East	101,852	0.0%	0.0%	15.2%	0	7,354	0	0	-
Uptown West/Park West	2,166,232	7.6%	0.8%	9.5%	(19,130)	(7,270)	39,061	125,141	$2.85
Uptown	**2,385,168**	**6.9%**	**0.7%**	**9.3%**	**(16,565)**	**242**	**39,061**	**127,497**	**$2.85**
Downtown	**13,777,496**	**26.9%**	**1.2%**	**46.1%**	**(21,361)**	**(336,604)**	**178,061**	**933,860**	**$2.75**
Chula Vista	2,892,008	4.2%	0.1%	9.8%	1,698	(23,825)	16,366	92,205	$2.63
Coronado	84,540	0.5%	0.0%	0.5%	1,162	1,162	0	1,610	$3.54
National City	583,906	1.2%	0.0%	9.8%	925	3,172	28,823	36,521	$2.25
Otay Mesa	187,078	27.4%	0.0%	27.4%	0	(43,696)	0	9,725	$2.64
San Ysidro/Imperial Beach	188,703	2.6%	0.0%	3.4%	1,940	(1,856)	840	3,880	$2.92
Southeast San Diego	481,066	4.3%	0.0%	4.3%	(3,713)	(3,713)	0	1,522	$2.33
South County	**4,417,301**	**4.6%**	**0.1%**	**9.5%**	**2,012**	**(68,756)**	**46,029**	**145,463**	**$2.58**
San Diego Total	**106,358,916**	**11.8%**	**2.7%**	**19.5%**	**339,920**	**(227,706)**	**1,035,748**	**6,477,672**	**$3.01**
Class A	40,952,266	15.2%	4.2%	28.3%	346,703	29,993	514,707	3,304,712	$3.36
Class B	51,561,784	10.5%	2.2%	15.9%	(94,790)	(297,295)	462,743	2,693,965	$2.80
Class C	13,820,537	6.1%	0.1%	6.7%	88,007	39,596	57,098	476,264	$2.28

TOP SALE TRANSACTIONS 4Q 2023

Property	Submarket	SF	Sale Price	$/SF	Buyer	Seller
3998 Vista Way	Oceanside	37,488	$12,500,000	$333.44	TrueCare	Robert Wailes
3043 4th Ave	Uptown West/Park West	17,300	$9,440,000	$545.66	Integrated Consultants Inc.	System Property Development Co., Inc.
47010 Spring St	East County	43,643	$8,675,000	$198.77	PenChecks Trust	Pacific View
5787 Cheasapeake Ct	Kearny Mesa	23,288	$7,250,000	$311.32	SRJ Investment Group, LLC	FEH Income Properties
1150 Silverado St	La Jolla	12,000	$6,037,500	$503.13	Broadway Salon Studios	Vincent Renda

TOP LEASE TRANSACTIONS 4Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
401 Mile of Cars Way	National City	25,886	October 2023	Bosa Development	County of San Diego
655 W Broadway	Downtown	24,333	October 2023	MetLife Real Estate	ESET
1081 Camino del Rio S	Mission Valley	23,400	November 2023	John Lyons	Undisclosed
655 W Broadway	Downtown	21,837	October 2023	MetLife Real Estate	Northwestern Mutual
401 W A St	Downtown	20,293	October 2023	Regent Properties	Undisclosed

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
RaDD - Alley/Rise/Vida/Edge	Waterfront Pl & Pacific Coast Hwy	Downtown	1,422,203	IQHQ	Q1 2024
The Campus at Horton	100 & 200 & 600 Horton Plz	Downtown	767,781	Stockdale Capital Partners	wQ1 2024
West - Office	1011 Union St	Downtown	289,206	Holland Partner Group	Q2 2024
RaDD - Core	950 Waterfront Pl	Downtown	236,238	IQHQ	Q4 2024
Thnk @ Millenia - Phase I	1785 Millenia Ave	Chula Vista	168,000	Chestnut Properties	Q4 2025

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	53M MANAGEMENT PORTFOLIO SF	771+ ASSETS UNDER MANAGEMENT	250+ ASSET SERVICES CLIENTS
VALUATION ADVISORY	2,800+ ASSIGNMENTS ANNUALLY	42 TOTAL APPRAISERS	23 WITH MAI DESIGNATIONS