

MARKET TRENDS | **SAN DIEGO**

OFFICE

4TH QUARTER
2019

▲ **ABSORPTION** | ▼ **VACANCY** | ▲ **RENTAL RATE** | ▲ **CONSTRUCTION DELIVERIES**

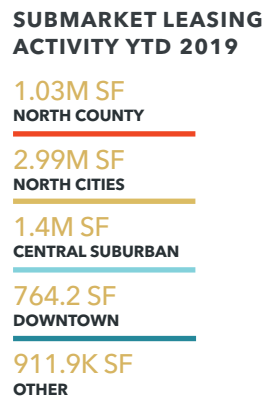
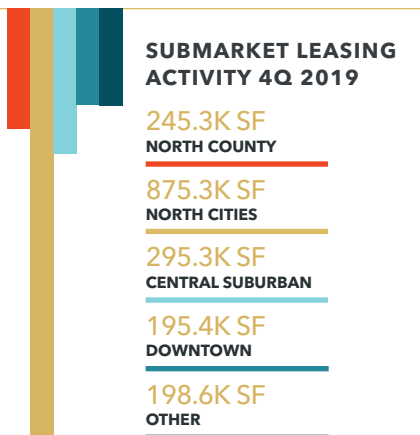
The San Diego office market experienced a record breaking year to end the decade with its lowest vacancy rate in 15 years as well as recording an all-time historical high in asking rental rates. San Diego's robust local economy has supported an equally strong local office market. With a solid employment base supported by the tech, life sciences and healthcare sectors, the market has been able to thrive.

Occupancy levels continue to remain at the highest they've been in almost 15 years, with strong positive net absorption and incredibly low availability rates. Additionally, market pricing for San Diego office sales transactions posted a new record high. Overall employment growth remains positive, as the San Diego County unemployment rate remains unchanged at a low 2.9% month-over-month, and below the year-ago estimate of 3.1%. The unemployment rate continuously beats that of the state and the nation, comparing at 3.7% and 3.3% respectively. According to the State of California's Employment Development Department, San Diego County's total nonfarm employment increased by 34,300 jobs year over year between November 2018 and November 2019. Apple, the tech giant, has committed to providing 1,200 jobs in San Diego by the end of 2021 after signing multiple lease deals in the past two years to expand their San Diego footprint.

The office market reflected healthy positive net absorption for the year at approximately 798,000 square feet. Class A office space made up most of the overall market's positive net absorption, posting over 1 million square feet in positive absorption, while net absorption for

Class B space at the end of 2019 was approximately negative 258,000 square feet. Although leasing volume decreased year-over-year, posting 7.1 million square feet in 2019, there were several notable leases that occurred of large size and high-profile tenants. Apple signed two of the largest leases this year for 204,000 square feet at 9775 Towne Centre Dr. and 165,000 square feet down the street at 9455 Towne Centre Dr. Both buildings are currently under construction and Apple plans to move in when completed in the next two years into 2021. Another noteworthy office deal was executed at Kearny Mesa's renovation at Aero Corporate Center, where the U.S. Veterans Administration signed on for 20 years for the entire 141,000 square feet.

Asking lease rates soared to a new all-time record-breaking rate of \$2.86 per square foot on a full service basis, a number the San Diego office market has never experienced, further reflecting the vastly competitive nature of the market. The Class A space averaged an astounding



2019 MARKET HIGHLIGHTS

VACANCY decreased 40 basis points from 2018 to 10.1%

RENTAL RATES are on their 32nd consecutive quarter of positive growth, posting an all-time high of \$2.86/s.f. on a full service basis

AVG SALE PRICE holds at a post-recession record high of \$363/s.f. year-to-date

new high of \$3.46 per square foot and Class B office product averaged a record number as well at \$2.60 per square foot on a full service basis across the San Diego market. Many of the submarkets that are in high demand from office users are posting well above \$3.00 per square foot, with both Del Mar Heights/Carmel Valley and Torrey Pines at a staggering average of \$4.36 and \$4.40 per square foot, respectively. Del Mar Heights/Carmel Valley was the strongest-performing submarket in 2019, attributed to the new development at Kilroy's One Paseo, followed by UTC, Sorrento Mesa and Kearny Mesa. With continued high demand for life science and tech properties, rent growth is expected to remain above the historical benchmark into the next year.

At the end 2019, the vacancy rate slid to a post-recession record low of 10.1%, down 40 basis points from year end 2018 while the availability rate hovered at the low of 13.6%. The Vista submarket keeps the highest rate of 22.9%, followed by Downtown at 17%. Although new supply has been minimal throughout the years and a majority of the current projects are build-to-suits for tech firms rather than spec developments, Stockdale began the redevelopment of Horton Plaza into a tech campus that could help in revamping the area in terms of employment and community growth. Kilroy is also underway on the largest spec project in San Diego that broke ground earlier this year that will include approximately 300,000 square feet of office space.

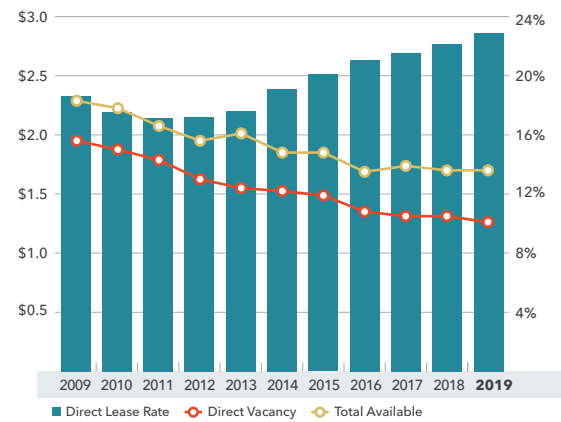
Low vacancies coupled with consistent rent growth and a diverse tenant roster have attributed to the ongoing confidence of investors in the San Diego County. The average price per square foot posted at the post-recession record high of \$363 per square foot in 2019. American Assets Trust purchased La Jolla Commons for \$525 million in June contributing to the increase in average market prices for the county. Hines and JP Morgan Chase sold the two office towers, along with an entitled development parcel and two parking structures, in what is not just the biggest office deal in 2019 but in the past 20 years. One of the towers was fully leased to LPL Financial. Market cap rates have held steady at 6.2%, a higher yield than in either industrial or apartment sectors.

Source: CoStar, KM Research, and SDBJ

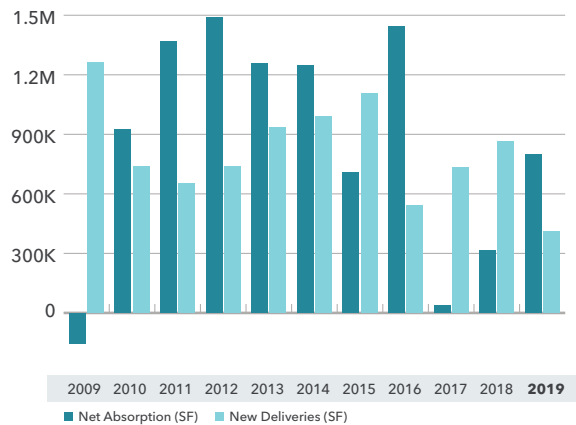
Market Breakdown

	2019	2018	2017	Annual % Change
Vacancy Rate	10.10%	10.50%	10.50%	-3.81%
Availability Rate	13.60%	13.60%	13.90%	-2.16%
Asking Lease Rate	\$2.86	\$2.77	\$2.69	6.32%
Leased SF	7,094,699	9,202,053	7,943,615	-10.69%
Sold SF	6,536,562	6,997,263	7,226,975	-9.55%
Net Absorption	798,118	317,189	37,665	N/A

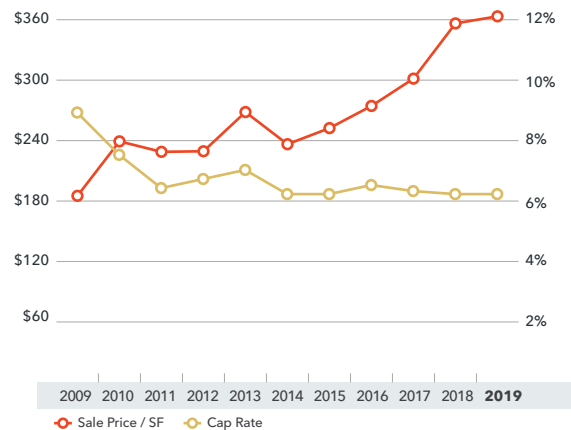
LEASE RATE, VACANCY & AVAILABILITY



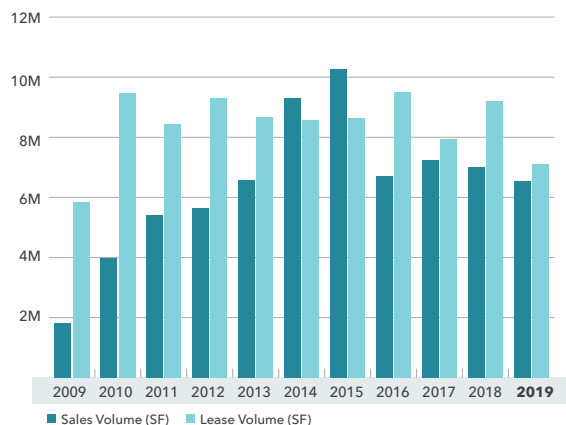
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALE PRICE & CAP RATES

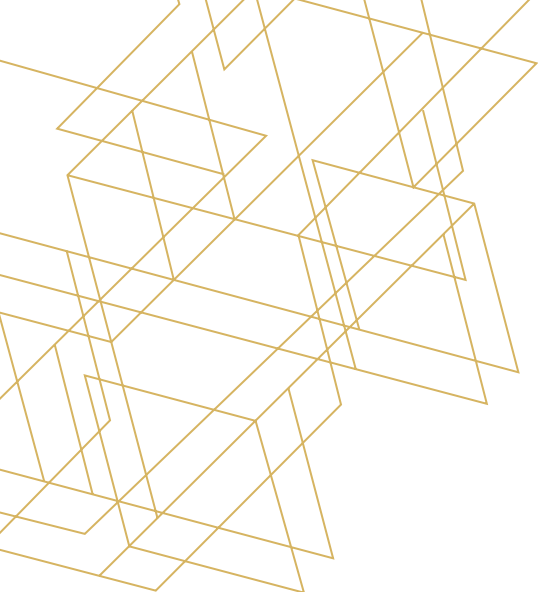


SALES VOLUME VS. LEASE VOLUME



SAN DIEGO SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	4Q Direct Net Absorption	2019 Direct Net Absorption	4Q Total Leasing Activity	2019 Total Leasing Activity	Direct Rental Rate (FS)
Carlsbad	6,807,825	15.5%	15.8%	17.1%	10,959	312,252	214,360	713,289	\$2.62
Escondido	1,686,007	8.6%	9.3%	14.1%	(18,952)	20,123	14,260	59,805	\$2.39
Oceanside	1,349,020	9.2%	9.2%	13.0%	14,928	15,789	12,037	144,125	\$2.07
San Marcos	1,407,116	6.5%	6.5%	7.7%	653	13,377	3,916	50,823	\$2.45
Vista	1,243,343	13.9%	22.9%	25.4%	(3,622)	36,000	700	61,262	\$1.75
North County	12,493,311	12.7%	13.8%	16.0%	3,966	397,541	245,273	1,029,304	\$2.42
Poway	1,325,923	1.4%	1.4%	4.7%	4,901	16,628	6,781	32,728	\$2.33
Rancho Bernardo	6,800,918	9.7%	9.7%	15.7%	62,452	80,787	87,421	270,650	\$3.11
Scripps Ranch	2,897,182	14.7%	16.6%	20.5%	14,665	211,968	32,335	197,902	\$2.64
I-15 Corridor	11,024,023	10.0%	10.5%	15.7%	82,018	309,383	126,537	501,280	\$2.89
Del Mar Heights/Carmel Valley	4,765,280	13.4%	14.2%	18.5%	(10,081)	140,236	188,640	1,033,288	\$4.36
Governor Park	897,461	8.9%	8.9%	14.8%	7,181	(1,030)	957	48,026	\$2.73
La Jolla	1,342,740	13.0%	13.8%	17.8%	(23,823)	(112,125)	7,529	51,460	\$3.44
Miramar	1,487,988	5.7%	7.3%	10.7%	(3,197)	(7,582)	17,436	64,920	\$1.73
North Beach Cities	2,355,002	4.8%	4.8%	9.2%	32,530	77,913	43,122	203,945	\$3.58
Sorrento Mesa	9,783,325	10.1%	12.0%	15.2%	62,504	65,476	90,060	570,996	\$2.90
Sorrento Valley	772,789	13.9%	15.7%	19.9%	(10,956)	(31,901)	0	26,473	\$2.83
Torrey Pines	3,192,191	6.5%	7.5%	10.1%	(4,602)	(154,834)	6,718	41,006	\$4.40
UTC	8,797,386	5.0%	5.6%	7.7%	177,056	164,732	520,814	945,227	\$3.56
North Cities	33,394,162	8.5%	9.6%	12.8%	226,612	140,885	875,276	2,985,341	\$3.44
Kearny Mesa	11,007,875	6.3%	6.5%	11.1%	69,504	78,076	82,234	554,280	\$2.28
Mission Gorge	567,430	1.1%	1.1%	1.8%	4,689	3,921	4,483	18,906	\$1.97
Mission Valley	7,220,560	10.1%	10.7%	14.7%	33,187	(66,682)	180,800	661,725	\$2.75
Old Town/Sports Arena/Pt. Loma	2,408,771	3.3%	3.3%	5.0%	19,889	47,514	16,987	96,223	\$2.84
PB/Rose Canyon/Morena	1,233,791	5.3%	5.4%	8.1%	(19,149)	(1,781)	10,811	72,788	\$1.95
Central Suburban	22,438,427	7.0%	7.3%	11.2%	108,120	61,048	295,315	1,403,922	\$2.47
College Area	1,216,139	4.6%	4.6%	7.7%	(5,351)	(15,255)	14,516	30,747	\$2.31
East County	3,620,718	3.2%	3.2%	4.2%	16,873	18,308	14,894	139,644	\$1.99
East County	4,836,857	3.6%	3.6%	5.1%	11,522	3,053	29,410	170,391	\$2.07
Park East	155,884	7.4%	7.4%	5.8%	0	(10,400)	0	6,408	\$2.46
Uptown East	117,238	9.6%	9.6%	9.6%	(1,220)	(10,424)	0	0	\$2.29
Uptown West/Park West	2,211,113	5.2%	5.2%	8.4%	3,023	5,342	11,852	55,304	\$2.71
Uptown	2,484,235	5.6%	5.6%	8.3%	1,803	(15,482)	11,852	61,712	\$2.67
Downtown	13,024,935	16.6%	17.0%	21.0%	12,271	(113,592)	195,362	764,219	\$2.83
Chula Vista	2,840,906	6.5%	6.6%	9.4%	1,565	39,986	22,991	162,604	\$2.52
Coronado	124,831	1.0%	1.0%	2.2%	7,395	5,081	1,327	7,640	\$4.22
National City	528,472	0.2%	0.2%	1.7%	6,480	0	6,480	8,286	\$1.62
Otay Mesa	187,078	6.2%	6.2%	24.6%	(3,064)	(7,373)	0	0	\$2.30
San Ysidro/Imperial Beach	132,746	3.2%	3.2%	3.2%	0	(4,198)	0	0	-
Southeast San Diego	460,835	17.0%	17.0%	17.0%	(25,409)	(18,214)	0	0	\$2.00
South County	4,274,868	6.6%	6.6%	9.5%	(13,033)	15,282	30,798	178,530	\$2.19
Class A	37,330,653	10.5%	11.2%	15.7%	326,563	1,041,542	783,057	3,186,917	\$3.43
Class B	52,510,247	9.7%	10.5%	13.6%	157,773	(258,006)	944,853	3,500,990	\$2.60
Class C	14,128,518	6.0%	6.1%	7.8%	(51,057)	14,582	81,913	406,792	\$2.04
San Diego Total	103,969,418	9.5%	10.1%	13.6%	433,279	798,118	1,809,823	7,094,699	\$2.86



Notable Sale Transactions

AMERICAN ASSETS TRUST purchased La Jolla Commons in UTC
724,000 s.f. | \$513.5M or \$709/s.f.

LASALLE INVESTMENT MANAGEMENT purchased Illumina World HQ
Campus in UTC (mix of R&D and office)
792,687 s.f. | \$286.75M or \$738.25/s.f.

CIM GROUP LP purchased Terraces at Copley Point in Kearny Mesa
205,725 s.f. | \$90.4M or \$439/s.f.

Notable Lease Transactions

APPLE 9455 & 9775 Towne Centre Dr, UTC
369,000 s.f. leased

VA OUTPATIENT CLINIC. 8875 Aero Dr, Kearny Mesa
141,000 s.f. leased

NEUROCRINE BIOSCIENCES, INC. 12780 El Camino Real, Del Mar Heights/
Carmel Valley
140,591 s.f. leased



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COMMERCIAL BROKERAGE

20M	ANNUAL SALES SF	420+	NO. OF BROKERS
\$9B	ANNUAL TRANSACTION VOLUME	40M	ANNUAL LEASING SF

VALUATION ADVISORY

1,600+	APPRAISALS ANNUALLY	39/24	TOTAL NO. APPRAISERS/MAI'S
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PROPERTY MANAGEMENT

70M+	MANAGEMENT PORTFOLIO SF
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