

MARKET TRENDS | SAN DIEGO

OFFICE

MARKET DRIVERS

SUBLET SPACE continues to rise as a result of office employees still working from home and tenants reassessing their space needs. Approximately 2.4M SF of sublease availability was on the market at the end of the 1Q. This is an increase of 44% over the past 12 months and the most amount of sublet space on the market in over 15 years.

ALTHOUGH LEASING ACTIVITY DROPPED SIGNIFICANTLY YOY major tech firms appear to be behind a few of the larger spaces that have been leased, among them being Apple and Google with the top two lease transactions in Q1. Though these companies have successfully transitioned to work from home, it still appears they see value in the face-to-face collaboration and problem solving in the long-term future.

ALTHOUGH AVERAGE ASKING RENTAL RATES HIT AN ALL-TIME HIGH rent growth has notably cooled when compared to the five-year average. While many landlords remained steadfast on their asking rents in anticipation of the market recovering, many others lowered their asking price towards the end of last year. Landlords are facing pressure in achieving their market rents from the increasing amount of sublet space coming online that averages \$.30/SF less than direct space.

ECONOMIC OVERVIEW

DESPITE AN ECONOMIC SLOWDOWN in 4Q of 2020 due to the spike in cases of the novel coronavirus at year end, the outlook for 2021 is headed in a positive direction. With the federal and state stimulus packages, coupled with historically low interest rates, it is predicted that economic activity in the region will increase steadily over the next few quarters.

UNEMPLOYMENT RATE in January increased one basis point to 8.1% month-over-month and above the year-ago rate of 3.4%. This compares with an unadjusted unemployment rate of 9.2% for California and 6.8% for the nation. San Diego's total nonfarm employment fell by 153,700 jobs year over year, with the leisure and hospitality sector taking the biggest hit as a result from the statewide mandated stay-at-home orders and travel restrictions.

Market Summary

	1Q 2021	4Q 2020	1Q 2020	Annual Change
Vacancy Rate	12.8%	12.3%	10.1%	26.73%
Availability Rate	17.6%	16.7%	12.9%	36.43%
Asking Lease Rate	\$2.94	\$2.93	\$2.92	0.68%
Lease Transactions	1,218,336	1,065,379	1,913,273	-36.32%
Sale Transactions	415,022	1,298,504	1,387,427	-70.09%
Net Absorption	-485,797	-9,448	-309,426	N/A

▼ 1.22M
LEASING ACTIVITY
▼ -486K
NET ABSORPTION (SF)
▲ 12.8%
VACANCY RATE
▲ \$2.94
AVERAGE ASKING RENT
YEAR-OVER-YEAR CHANGE

Market Highlights

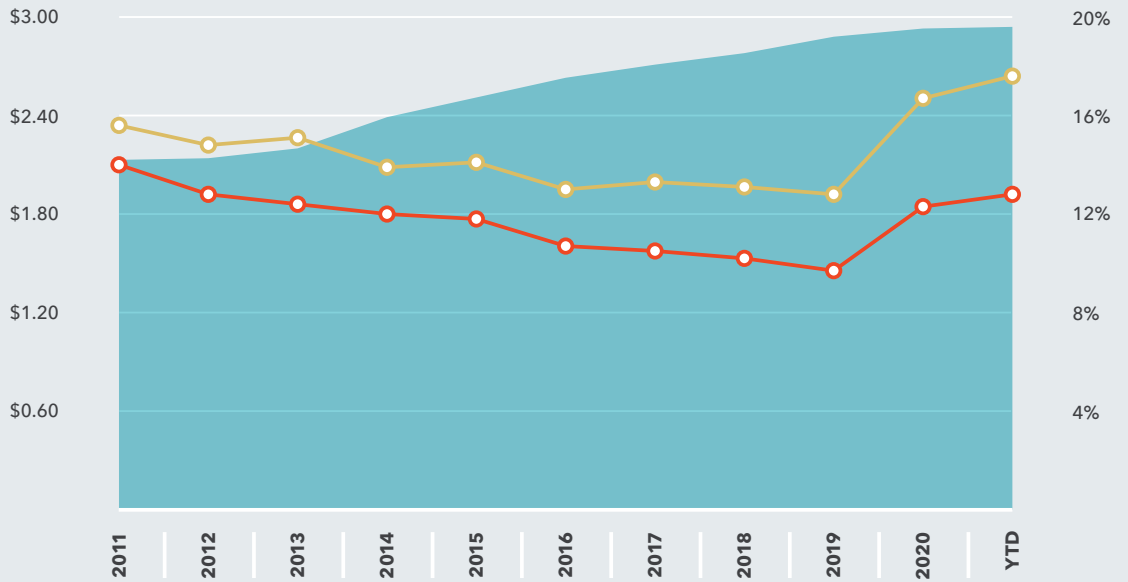
VACANCY RATE hit a post-recession high of 12.8%

RENTAL RATES reached an all-time historic high of \$2.94 PSF on a full-service basis

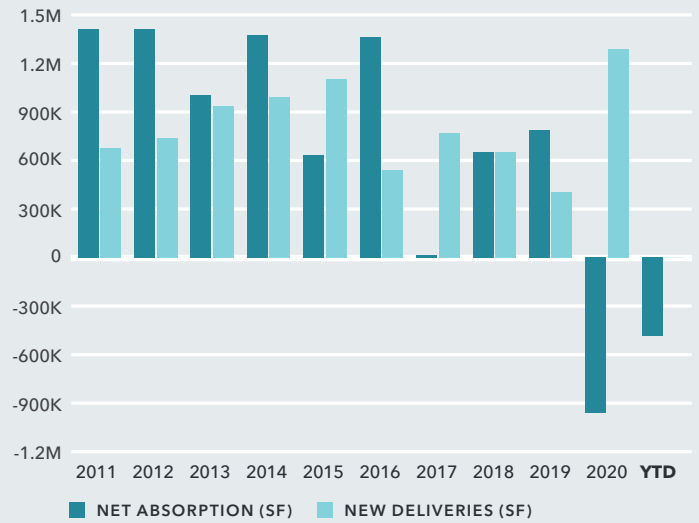
SUBLEASE AVAILABILITY climbed to a new record high of approx. 2.4M SF

Lease Rate, Vacancy & Availability

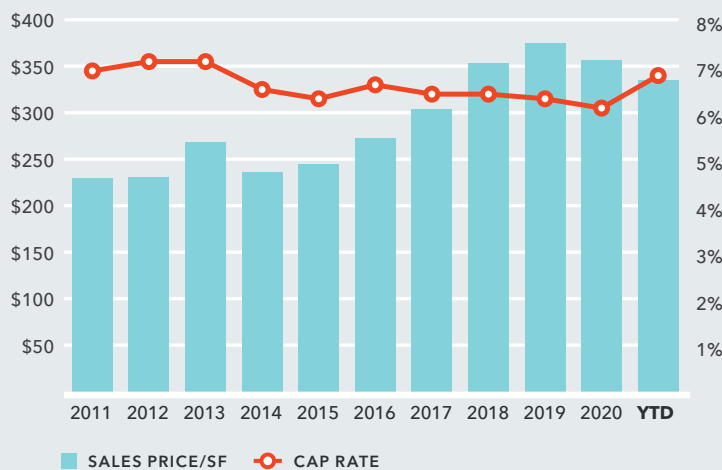
- LEASE RATE (FS)
- TOTAL VACANCY
- TOTAL AVAILABILITY



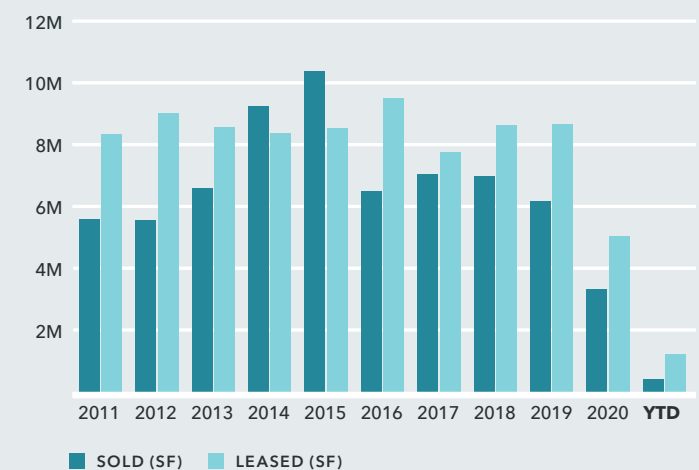
Net Absorption & New Deliveries



Average Sales Price/SF & Cap Rate



Sale Volume & Lease Volume



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Sublet Available Rate	Total Available Rate	1Q Direct Net Absorption	2020 Direct Net Absorption	1Q Total Leasing Activity	2020 Total Leasing Activity	Avg Direct Rental Rate (FS)
Carlsbad	6,907,278	15.0%	15.7%	1.9%	21.3%	(36,663)	82,553	53,298	379,715	\$2.69
Escondido	1,761,051	11.6%	12.2%	0.7%	14.2%	(3,130)	23,919	33,156	54,389	\$2.63
Oceanside	1,449,672	9.9%	10.0%	0.1%	12.1%	(5,212)	(14,047)	6,926	56,248	\$2.25
San Marcos	1,465,135	7.6%	7.8%	1.1%	12.1%	13,185	(36,603)	10,455	44,914	\$2.56
Vista	1,309,540	14.7%	25.3%	11.1%	27.0%	16,153	(22,788)	11,595	32,901	\$2.22
North County	12,892,676	13.1%	14.7%	2.4%	18.8%	(15,667)	33,034	115,430	568,167	\$2.57
Poway	1,384,913	3.6%	3.6%	2.0%	7.5%	(6,278)	(26,690)	8,220	15,885	\$2.21
Rancho Bernardo	6,750,254	12.0%	12.9%	1.6%	17.4%	(17,583)	(143,736)	71,457	491,902	\$2.86
Scripps Ranch	2,915,214	17.0%	19.3%	3.3%	18.1%	(25,140)	(42,159)	10,500	299,799	\$2.88
I-15 Corridor	11,050,381	12.3%	13.4%	2.1%	16.4%	(49,001)	(212,585)	90,177	807,586	\$2.78
Del Mar Heights/Carmel Valley	5,103,366	15.9%	16.5%	3.4%	28.2%	(125,929)	243,122	81,331	209,084	\$4.28
Governor Park	899,234	16.4%	17.5%	0.9%	19.9%	(9,325)	(62,056)	13,589	37,295	\$2.57
La Jolla	1,328,629	17.6%	17.7%	0.2%	17.9%	23,565	(91,179)	59,685	43,569	\$3.21
Miramar	1,451,242	7.6%	7.7%	0.1%	14.5%	(32,413)	(16,989)	12,074	52,981	\$2.07
North Beach Cities	2,443,989	7.3%	8.6%	2.6%	14.1%	(218)	(38,332)	46,535	21,124	\$3.65
Sorrento Mesa	9,324,078	7.8%	10.7%	5.1%	15.4%	(4,325)	(20,788)	82,738	338,621	\$2.99
Sorrento Valley	658,534	23.0%	24.0%	2.4%	20.6%	(41,725)	(42,768)	3,580	17,774	\$2.10
Torrey Pines	3,194,830	7.3%	7.3%	0.3%	4.6%	25,202	(53,578)	123,659	181,963	\$4.43
UTC	8,750,913	6.8%	9.6%	3.5%	14.2%	(25,562)	(152,269)	171,358	344,561	\$3.88
North Cities	33,154,815	9.6%	11.4%	3.2%	16.2%	(190,730)	(234,837)	594,549	1,246,972	\$3.55
Kearny Mesa	11,401,308	12.2%	12.6%	0.9%	13.7%	(71,880)	(281,716)	65,539	388,996	\$2.55
Mission Gorge	581,130	0.3%	0.3%	0.0%	1.6%	2,628	1,587	0	8,550	\$1.62
Mission Valley	7,267,887	14.3%	15.5%	1.7%	17.9%	4,151	(419,325)	89,801	365,222	\$2.74
Old Town/Sports Arena/Pt. Loma	2,394,771	5.7%	6.4%	4.6%	14.3%	(34,569)	(23,091)	19,349	64,393	\$2.82
PB/Rose Canyon/Morena	1,297,671	6.6%	6.9%	3.2%	10.9%	(10,857)	(2,535)	7,877	54,472	\$1.94
Central Suburban	22,942,767	11.6%	12.2%	1.7%	14.6%	(110,527)	(725,080)	182,566	881,633	\$2.58
College Area	1,202,320	5.7%	5.7%	0.1%	9.1%	2,165	(24,125)	1,625	20,247	\$2.21
East County	3,767,329	4.3%	4.3%	0.1%	5.5%	20,323	58,498	36,878	88,298	\$2.24
East County	4,969,649	4.6%	4.6%	0.1%	6.4%	22,488	34,373	38,503	108,545	\$2.23
Park East	117,084	3.4%	3.4%	0.0%	3.4%	3,284	1,734	3,161	4,453	\$2.51
Uptown East	117,238	2.5%	2.5%	0.0%	2.0%	3,655	4,634	3,515	16,689	\$2.18
Uptown West/Park West	2,242,003	8.5%	8.6%	2.0%	12.5%	1,083	(76,622)	18,921	78,447	\$2.68
Uptown	2,476,325	7.9%	8.1%	1.8%	11.6%	8,022	(70,254)	25,597	99,589	\$2.65
Downtown	13,537,563	19.2%	20.5%	2.9%	33.8%	(151,854)	83,105	121,389	244,632	\$2.88
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Chula Vista	2,852,717	6.8%	6.8%	0.2%	10.6%	(1,955)	(7,142)	37,208	68,159	\$2.39
Coronado	133,926	3.7%	3.7%	0.0%	3.5%	(2,210)	(1,500)	300	1,831	\$3.89
National City	528,493	1.9%	1.9%	0.0%	1.0%	736	(9,919)	7,216	2,000	\$2.00
Otay Mesa	187,078	5.5%	5.5%	0.0%	5.5%	0	1,328	0	1,634	\$2.01
San Ysidro/Imperial Beach	132,746	0.5%	0.5%	0.0%	0.5%	0	4,198	500	0	\$2.50
Southeast San Diego	460,835	13.7%	13.7%	0.0%	13.7%	4,901	10,242	4,901	17,193	\$2.06
South County	4,295,795	6.6%	6.6%	0.2%	9.0%	1,472	(2,793)	50,125	90,817	\$2.14
San Diego Total	105,319,971	11.6%	12.8%	2.3%	17.6%	(485,797)	(1,095,037)	1,218,336	4,047,941	\$2.94
Class A	39,608,304	14.6%	16.4%	3.4%	23.9%	(230,728)	(82,303)	541,044	1,650,136	\$3.43
Class B	51,631,545	10.6%	11.6%	2.0%	15.3%	(274,330)	(812,578)	517,988	2,050,378	\$2.72
Class C	14,080,122	6.8%	6.8%	0.4%	8.2%	4,387	(200,156)	159,304	433,206	\$2.17

NEAR-TERM OUTLOOK

AS NEW CASES OF THE VIRUS ARE FALLING at a precipitous rate, and more than 1M doses of the vaccine are being administered daily, it is likely that we could see a shift as employees may soon be returning to the office.

While this may be a slow transition in staggered phases, some companies may never return to their in-person daily office routine, pre-pandemic.

THE SAN DIEGO OFFICE MARKET will continue to face challenges due to

the impacts of COVID-19. Leasing activity is expected to remain low in the coming quarters and sublease availabilities will continue to rise, and as such, annual rent growth could turn negative as landlords face pressure to lease out their vacant spaces.

TOP SALE TRANSACTIONS FOR 1Q 2021

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Palomar Health Phase II	Escondido	80,064	\$53,600,000	\$669.46	Harrison Street Capital	JRMC Real Estate, Inc.
The Oberlin	Sorrento Mesa	99,747	\$25,750,000	\$258.15	Longfellow Real Estate Partners	Crown Realty and Development
UCSD Medical Building	Uptown West/Park West	22,461	\$17,150,000	\$763.55	Healthcare Realty Trust, Inc.	Coast Income Properties, Inc.
853 Camino Del Mar	North Beach Cities	11,757	\$8,500,000	\$722.97	Scantibodies Laboratory, Inc.	Charles & Sharon Dunn
Atrium II	Carlsbad	32,196	\$8,200,000	\$254.69	Bob Baker Auto Group	EMU Properties

TOP LEASE TRANSACTIONS FOR 1Q 2021

Property	Submarket	SF	Transaction Date	Landlord	Tenant
Rancho Vista Corporate Center	Rancho Bernardo	130,649	January 2021	Swift Real Estate Partners	Apple
Verge	Sorrento Mesa	63,000	March 2021	Alexandria Real Estate Equities, Inc.	Google
East Gate Technology Park	UTC	48,293	March 2021	The Irvine Company	Undisclosed (renewal)
Alexandria Tech Center	Sorrento Mesa	36,998	March 2021	Alexandria Real Estate Equities, Inc.	Element Biosciences, Inc.
16981 Via Tazon	Rancho Bernardo	34,661	February 2021	Montana Avenue Capital Partners	Millenium Health

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery Date
The Campus at Horton	324 Horton Plz	Downtown	750,000	Stockdale Capital Partners	July 2022
2100 Kettner	2100 Kettner Blvd	Downtown	234,000	Kilroy Realty Corporation	April 2021
Apex	9775 Towne Centre Dr	UTC	204,000	The Blackstone Group L.P.	December 2021
Alexandria Tech Center - Bldg E	Barnes Canyon Rd	Sorrento Mesa	194,910	Alexandria Real Estate Equities, Inc.	May 2022
9455 TCD	9455 Towne Centre Dr	UTC	165,000	Kilroy Realty Corporation	February 2021

DATA SOURCE: COSTAR

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 21 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt equity finance services for all property types.

The information in this report was composed by the Kidder Mathews Research Group.

GARY BARAGONA
 Director of Research
 415.229.8925
gary.baragona@kidder.com

MARK READ
 Regional President, Brokerage Southwest
 858.369.3010
mark.read@kidder.com
 LIC N° 00572743

**Commercial
 Brokerage**

\$8B
 TRANSACTION
 VOLUME (ANNUAL)

23M
 SALES SF
 (ANNUAL)

42M
 LEASING SF
 (ANNUAL)

**Valuation
 Advisory**

1,800+
 ASSIGNMENTS
 ANNUALLY

40/19
 TOTAL NO.
 APPRAISERS/MAI'S

**Property
 Management**

70M+
 MANAGEMENT
 PORTFOLIO SF

\$12B+
 IN ASSETS UNDER
 MANAGEMENT

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