

**MARKET TRENDS | SAN DIEGO**

# OFFICE

**MARKET DRIVERS**

**LEASING ACTIVITY PICKED UP** in the first half of 2021, although still below pre-pandemic levels. Much of the activity in the San Diego market comes from the tech industry, with further commitments from tech giants such as Google and Apple, as well as startups expanding into the market such as Flock Freight in Encinitas.

**SUBLET SPACE HAS INCREASED BY 30%** since 20Q2, however it decreased in the second quarter for the first time since the COVID-19 pandemic hit last year. With nearly 1M SF of sublease space that has come on the market due to the COVID-19 pandemic, large corporations have been able to take advantage of the opportunity of the discounted sublet space.

**SALES VOLUME IN THE SECOND QUARTER SOARED TO 3.4M SF**, a number the market hasn't experienced in over five years. This can be largely attributed to the sale of a four-building office portfolio in Downtown, totaling 1.5M SF. Regent Properties purchased the properties in what is the largest sale in Downtown in over a decade.

**ECONOMIC OVERVIEW**

**THE SAN DIEGO MARKET CONTINUES TO GAIN FURTHER TRACTION** from tech giants such as Apple and Google, and with the expansions and commitments come employment gains. Apple has pledged to hire 5,000 new employees in the region over the next five years and Google announced plans to create at least 10,000 new jobs throughout the U.S. (it did not give specifics about local jobs).

**THE SAN DIEGO COUNTY UNEMPLOYMENT RATE** in May dropped three basis points to 6.4% month-over-month, adding 2,000 jobs within the last month. This compares with an unadjusted unemployment rate of 7.5% for California and 5.5% for the nation. The leisure and hospitality sector added the most jobs, as the hotel occupancy rate continues to rise to almost double the rates from last year.

## Market Summary

	2Q 2021	1Q 2021	2Q 2020	Annual % Change
Vacancy Rate	12.9%	12.9%	10.7%	<b>20.56%</b>
Availability Rate	17.0%	17.2%	14.6%	<b>16.44%</b>
Asking Lease Rate	\$2.95	\$2.94	\$2.91	<b>1.37%</b>
Lease Transactions	1,481,459	1,497,905	1,128,870	<b>31.23%</b>
Sale Transactions	3,407,919	517,743	418,857	<b>713.62%</b>
Net Absorption	151,530	-487,079	-161,854	<b>N/A</b>

**▲ 1.48M**
**LEASING ACTIVITY**
**▲ 151.5K**
**NET ABSORPTION (SF)**
**▲ 12.9%**
**VACANCY RATE**
**▲ \$2.95**
**AVERAGE ASKING RENT**
YEAR-OVER-YEAR CHANGE

## Market Highlights

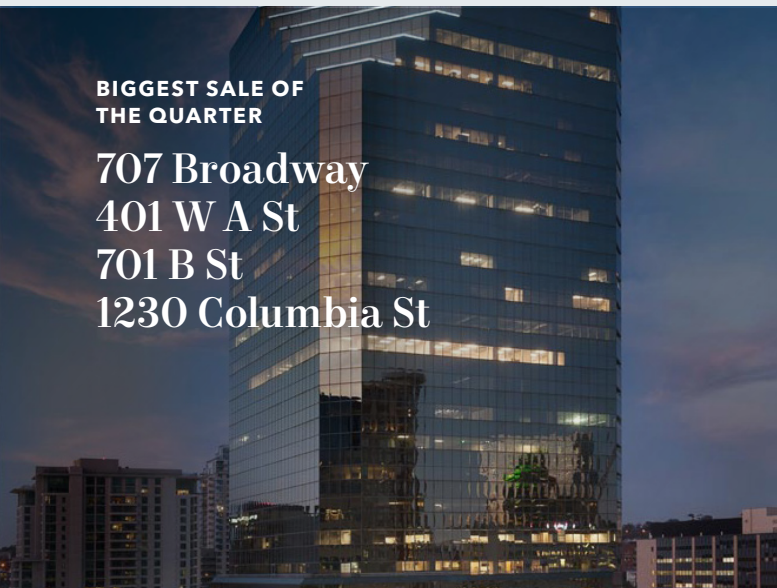
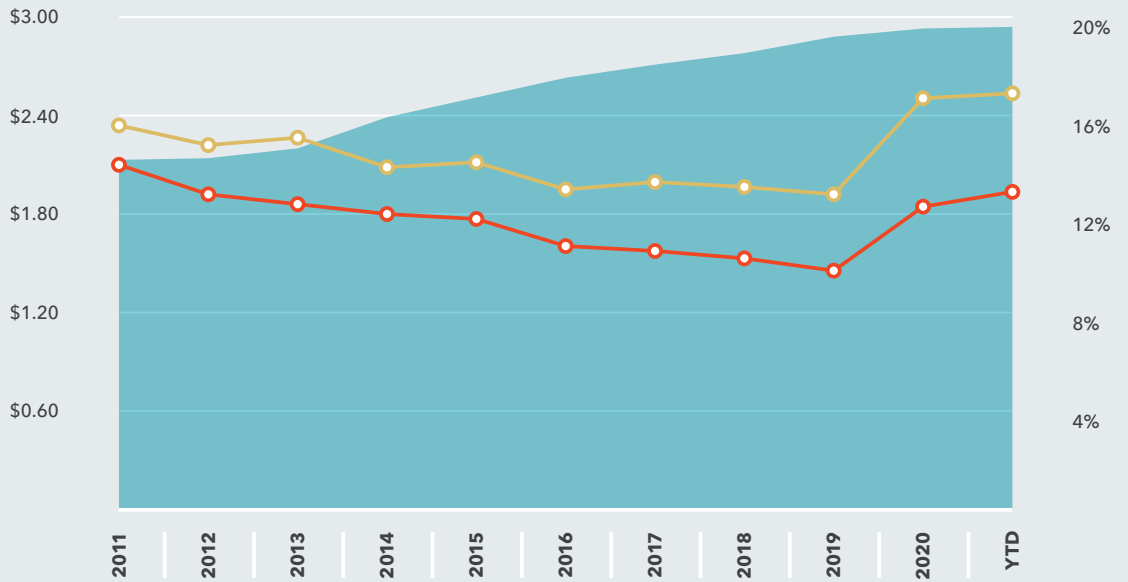
**VACANCY RATE** held steady from the previous quarter at a high of 12.9%

**RENTAL RATES** reached an all-time historic high of \$2.95 PSF on a full-service basis.

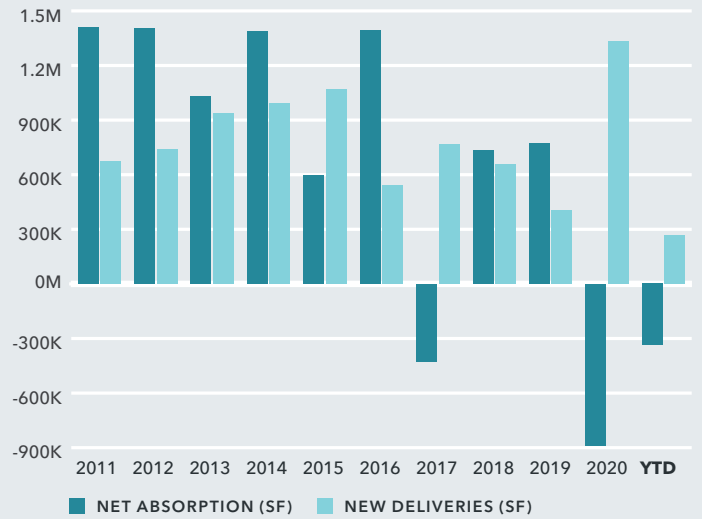
**SALES TRANSACTION** volume soared to 3.4M SF

# Lease Rate, Vacancy & Availability

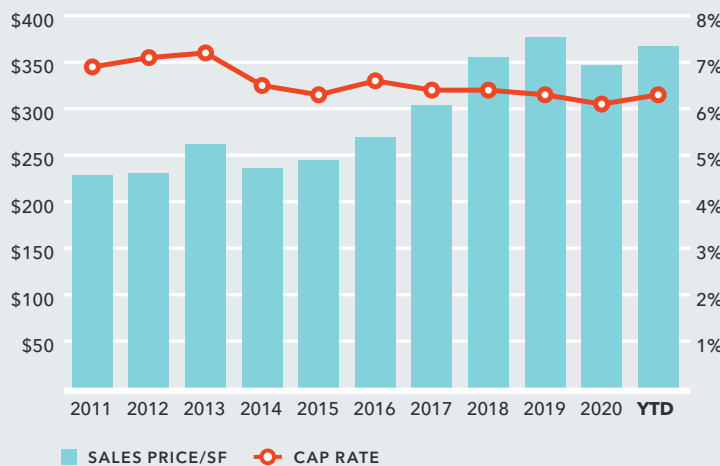
LEASE RATE (FS)  
TOTAL VACANCY  
TOTAL AVAILABILITY



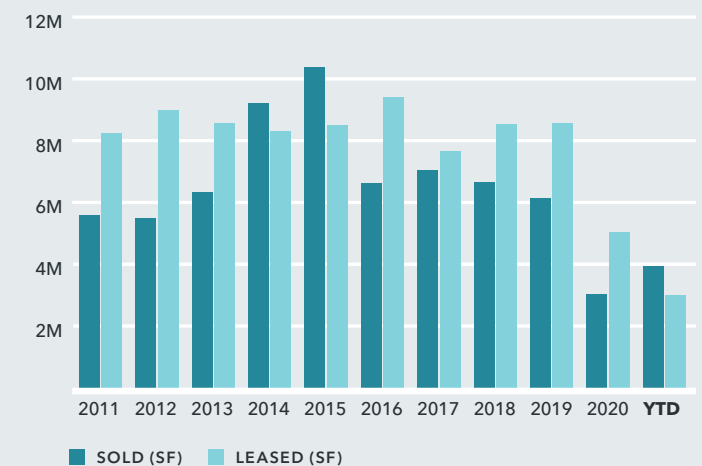
# Net Absorption & New Deliveries



# Average Sales Price/SF & Cap Rate



# Sale Volume & Lease Volume



## SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Sublet Available Rate	Total Available Rate	2Q Direct Net Absorption	YTD Direct Net Absorption	2Q Total Leasing Activity	YTD Total Leasing Activity	Avg Direct Rental Rate (FS)
Carlsbad	6,909,458	15.4%	0.9%	21.0%	12,642	(25,421)	86,230	178,418	\$2.70
Escondido	1,760,383	11.2%	2.2%	14.2%	15,594	12,464	21,173	54,329	\$2.27
Oceanside	1,464,560	8.2%	0.1%	9.3%	24,247	19,035	41,327	48,253	\$2.22
San Marcos	1,465,135	8.7%	1.1%	14.3%	(13,790)	(605)	9,079	19,534	\$2.55
Vista	1,257,793	20.2%	11.0%	21.6%	21,335	37,488	9,997	21,592	\$2.19
<b>North County</b>	<b>12,857,329</b>	<b>13.7%</b>	<b>2.0%</b>	<b>18.0%</b>	<b>60,028</b>	<b>42,961</b>	<b>167,806</b>	<b>322,126</b>	<b>\$2.52</b>
Poway	1,388,007	3.3%	2.1%	6.7%	4,393	(1,885)	13,622	21,842	\$2.21
Rancho Bernardo	6,894,695	14.9%	2.1%	17.6%	(5,489)	(23,072)	140,845	342,951	\$2.95
Scripps Ranch	2,875,843	11.5%	1.3%	18.9%	176,928	152,484	24,332	34,184	\$2.92
<b>I-15 Corridor</b>	<b>11,158,545</b>	<b>12.6%</b>	<b>1.9%</b>	<b>16.6%</b>	<b>175,832</b>	<b>127,527</b>	<b>178,799</b>	<b>398,977</b>	<b>\$2.85</b>
Del Mar Heights/Carmel Valley	5,104,145	15.1%	2.8%	26.8%	66,777	(59,152)	161,242	311,177	\$4.32
Governor Park	899,234	18.0%	0.9%	20.4%	(7,955)	(17,067)	6,790	20,379	\$2.64
La Jolla	1,331,621	17.5%	0.8%	17.8%	5,301	28,866	34,094	95,779	\$3.27
Miramar	1,451,242	8.6%	0.3%	12.0%	(10,607)	(43,020)	44,691	56,765	\$2.07
North Beach Cities	2,386,356	8.2%	1.5%	11.3%	3,817	3,599	60,702	107,237	\$3.70
Sorrento Mesa	8,998,761	9.2%	4.8%	13.8%	18,341	13,756	109,931	193,371	\$3.12
Sorrento Valley	658,534	25.3%	0.0%	18.0%	(15,195)	(56,920)	9,947	13,527	\$2.08
Torrey Pines	3,195,684	6.5%	0.3%	3.8%	26,959	52,161	26,149	149,808	\$4.42
UTC	8,905,560	11.5%	3.4%	14.1%	(33,690)	(59,252)	126,566	297,924	\$3.88
<b>North Cities</b>	<b>32,931,137</b>	<b>11.3%</b>	<b>2.9%</b>	<b>15.1%</b>	<b>53,748</b>	<b>(137,029)</b>	<b>580,112</b>	<b>1,245,967</b>	<b>\$3.61</b>
Kearny Mesa	11,401,504	12.8%	0.8%	13.7%	(55,149)	(127,029)	37,309	143,135	\$2.57
Mission Gorge	581,130	1.3%	0.0%	2.9%	(5,561)	(2,933)	3,787	3,787	\$2.08
Mission Valley	7,274,353	15.2%	0.9%	17.3%	(21,643)	(17,492)	164,221	254,022	\$2.89
Old Town/Sports Arena/Pt. Loma	2,346,410	5.7%	1.5%	11.3%	8,733	(27,676)	16,465	34,599	\$2.72
PB/Rose Canyon/Morena	1,297,671	7.2%	3.2%	11.4%	(7,759)	(18,616)	6,300	14,177	\$1.98
<b>Central Suburban</b>	<b>22,901,068</b>	<b>12.2%</b>	<b>1.0%</b>	<b>14.2%</b>	<b>(81,379)</b>	<b>(193,746)</b>	<b>228,082</b>	<b>449,720</b>	<b>\$2.64</b>
College Area	1,217,320	5.7%	0.1%	7.0%	12,302	14,467	38,986	40,611	\$2.21
East County	3,767,329	4.1%	0.0%	5.0%	(632)	19,600	30,028	66,906	\$2.19
<b>East County</b>	<b>4,984,649</b>	<b>4.5%</b>	<b>0.0%</b>	<b>5.5%</b>	<b>11,670</b>	<b>34,067</b>	<b>69,014</b>	<b>107,517</b>	<b>\$2.19</b>
Park East	117,084	3.0%	0.0%	3.0%	451	3,735	451	3,612	\$2.51
Uptown East	117,238	0.9%	0.0%	0.9%	1,985	5,640	0	3,515	\$2.03
Uptown West/Park West	2,238,561	9.2%	1.4%	11.6%	(13,382)	(12,299)	28,214	47,135	\$2.65
<b>Uptown</b>	<b>2,472,883</b>	<b>8.5%</b>	<b>1.3%</b>	<b>10.7%</b>	<b>(10,946)</b>	<b>(2,924)</b>	<b>28,665</b>	<b>54,262</b>	<b>\$2.61</b>
Downtown	13,608,975	23.3%	2.5%	33.6%	(67,681)	(219,535)	190,331	311,720	\$2.89
<b>Downtown</b>	<b>13,608,975</b>	<b>23.3%</b>	<b>2.5%</b>	<b>33.6%</b>	<b>(67,681)</b>	<b>(219,535)</b>	<b>190,331</b>	<b>311,720</b>	<b>\$2.89</b>
Chula Vista	2,850,836	6.8%	0.2%	10.1%	(70)	(2,025)	35,387	72,595	\$2.40
Coronado	133,926	1.9%	0.0%	1.9%	2,400	190	1,800	2,400	\$3.89
National City	528,493	1.0%	0.0%	0.9%	5,017	5,753	1,463	8,679	\$2.00
Otay Mesa	187,078	4.3%	0.0%	4.3%	2,271	2,271	0	0	\$2.01
San Ysidro/Imperial Beach	132,746	0.0%	0.0%	0.0%	640	640	0	500	\$2.50
Southeast San Diego	460,835	13.7%	0.0%	13.7%	0	4,901	0	4,901	\$2.06
<b>South County</b>	<b>4,293,914</b>	<b>6.4%</b>	<b>0.2%</b>	<b>8.5%</b>	<b>10,258</b>	<b>11,730</b>	<b>38,650</b>	<b>89,075</b>	<b>\$2.15</b>
<b>San Diego Total</b>	<b>105,208,500</b>	<b>12.9%</b>	<b>1.9%</b>	<b>17.0%</b>	<b>151,530</b>	<b>(336,949)</b>	<b>1,481,459</b>	<b>2,979,364</b>	<b>\$2.95</b>
Class A	39,584,570	16.0%	2.9%	23.0%	180,486	(50,502)	826,600	1,498,275	\$3.48
Class B	51,717,347	12.2%	1.6%	14.9%	(28,112)	(306,170)	556,258	1,219,455	\$2.70
Class C	13,096,583	6.8%	0.3%	8.1%	1,580	19,723	101,845	261,634	\$2.10

## NEAR-TERM OUTLOOK

**WITH WORKERS** slowly transitioning back to the office, whether hybrid or full-time, firms are removing their sublet space and recommitting to their previous offices. As the San Diego office market continues to play out and COVID-19 related restrictions

lift, we expect the market to continue its recovery well into 2021.

**MANY TECH AND ENGINEERING COMPANIES** are turning to San Diego because of its increasing talent pool from the nearby top universities, as well as the quality of life and cost of

living when compared to the Bay Area, known to be one of the biggest tech hubs in the nation. With solid employment base buoyed by the tech, life sciences and healthcare sectors, the San Diego office market will continue to see growth in a positive direction.

## TOP SALE TRANSACTIONS FOR 2Q 2021

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
707 Broadway/401 W A St/ 701 B St/1230 Columbia St	Downtown	1,529,687	\$420,000,000	\$274.57	Regent Properties, Inc.	Emmes Realty Services, LLC
Pacific Plaza at Torrey Hills	Del Mar Hts/Carmel Valley	217,902	\$123,100,000	\$564.93	Longfellow Real Estate Partners	Crown Realty and Development
Pomerado Outpatient Pavilion	Poway	163,094	\$102,700,000	\$629.70	Healthcare Realty Trust, Inc.	Ventas, Inc.
Summit Pointe	Scripps Ranch	146,626	\$68,350,000	\$466.15	Rockwood Capital, LLC	Newport National Corporation
5910 Pacific Center Blvd & 9985 Pacific Heights Blvd	Sorrento Mesa	102,143	\$43,300,000	\$423.92	Clarity Real Estate	DRA Advisors, LLC

## TOP LEASE TRANSACTIONS FOR 2Q 2021

Property	Submarket	SF	Transaction Date	Landlord	Tenant
Discovery Corporate Center	Rancho Bernardo	92,442	May-21	Menlo Equities	Apple
701 S Coast Hwy 101	North Beach Cities	40,000	Apr-21	3D Investments	Flock Freight
DiamondView	Downtown	36,446	Apr-21	Divco West Services, LLC	ClickUp
110 W A St	Downtown	31,196	Apr-21	Forester Properties, Inc.	Commonwealth Financial Network
770 First Ave	Downtown	26,944	May-21	Bosa Development	Kleinfelder Engineering

## TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery Date
The Campus at Horton	324 Horton Plz	Downtown	750,000	Stockdale Capital Partners	Jul-22
2100 Kettner	2100 Kettner Blvd	Downtown	234,000	Kilroy Realty Corporation	Jul-21
Apex	9775 Towne Centre Dr	UTC	204,000	The Blackstone Group L.P.	Dec-21
Alexandria Tech Center - Bldg E	Barnes Canyon Rd	Sorrento Mesa	194,910	Alexandria Real Estate Equities, Inc.	May-22
Aperture Del Mar - Phase I	Carmel Valley Rd	Del Mar Hts/ Carmel Valley	121,928	Lincoln Property Company	Sep-21

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, asset services, consulting, project and construction management, and debt equity finance services for all property types.

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**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

**Asset  
Services**

**70M**  
MANAGEMENT  
PORTFOLIO SF

**\$12B**  
IN ASSETS UNDER  
MANAGEMENT

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