

MARKET TRENDS | SAN DIEGO

OFFICE

MARKET DRIVERS

LEASING ACTIVITY ACCELERATED in the third quarter with almost 2M SF of leasing volume, the highest level the San Diego office market has experienced since the start of the pandemic. The tech industry has accounted for a large portion of the recent activity, with further commitments from tech giants such as Apple, who inked two significant deals this past quarter at La Jolla Commons and La Jolla reserve.

SUBLET SPACE HAS INCREASED BY ALMOST 35% since the COVID-19 pandemic hit last year, however it is on a steady decline for the second consecutive quarter since 2Q 2020. Many sublease listings have either converted to direct space or tenants have taken advantage while they can and leased the discounted sublet space.

INVESTORS ARE CONFIDENT AND BULLISH in the market as sales volume in the third quarter posted at roughly 1.6M SF, on par with pre-pandemic levels and YTD sales volume is already well over the total from 2020 overall. Average sale prices posted at \$358/SF, still hovering near the record high price set in 2019 at \$376/SF.

ECONOMIC OVERVIEW

THE SAN DIEGO COUNTY UNEMPLOYMENT RATE in August dropped three basis points to 6.6% month-over-month, adding 5,300 jobs within the last month. This compares with an unadjusted unemployment rate of 7.5% for California and 5.3% for the nation. Government led all industry sectors in month-over job gains at 3,500.

WHILE UNEMPLOYMENT RATES ARE GRADUALLY DECREASING, San Diego still has a long road to recover the loss of jobs since the start of the pandemic last year. Many businesses are struggling to hire workers locally and nationally, some offering hiring incentives and bonuses to attract potential employees. As such, it may take some time for certain industries to return to what it was before the pandemic.

Market Summary

	3Q 2021	2Q 2021	3Q 2020	Annual % Change
Vacancy Rate	12.5%	12.8%	12.0%	4.17%
Availability Rate	16.8%	16.8%	15.8%	6.33%
Asking Lease Rate	\$2.99	\$2.95	\$2.89	3.46%
Lease Transactions	1,970,716	1,516,613	965,334	104.15%
Sale Transactions	1,598,083	3,449,954	207,892	668.71%
Net Absorption	217,279	120,834	-544,605	N/A

▲ 1.9M
LEASING ACTIVITY
▲ 217K
NET ABSORPTION (SF)
▲ 12.5%
VACANCY RATE
▲ \$2.99
AVERAGE ASKING RENT
▼ 151K
NEW DELIVERIES (SF)
YEAR-OVER-YEAR CHANGE

Market Highlights

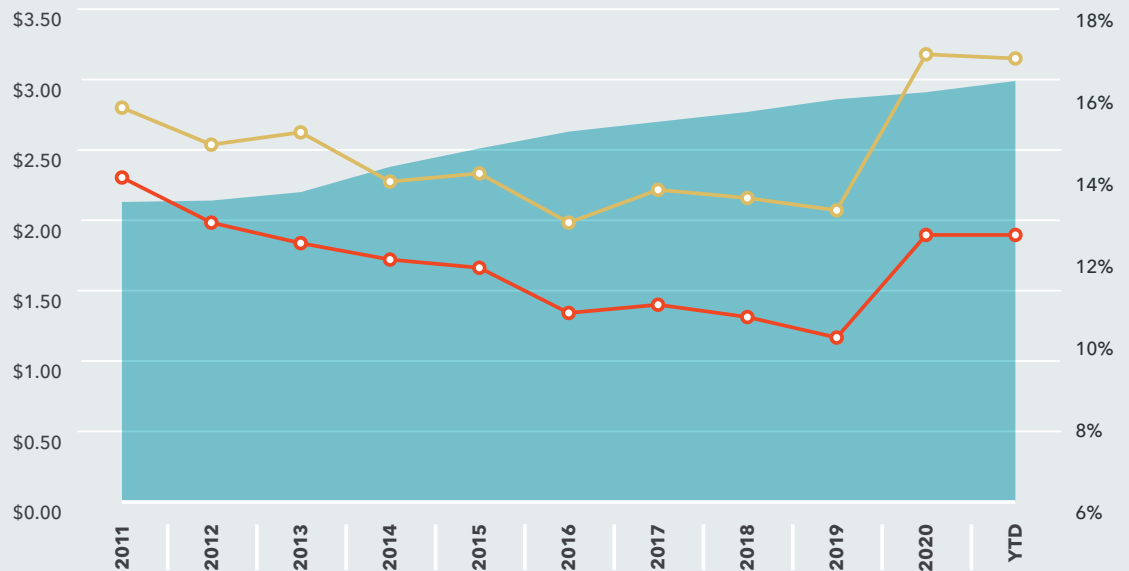
VACANCY RATE decreased from the previous quarter to 12.5%

RENTAL RATES reached an all-time historic high of \$2.99 PSF on a full-service basis.

SALES TRANSACTION volume reached 5.6M SF YTD

Lease Rate, Vacancy & Availability

LEASE RATE (FS)
TOTAL VACANCY
TOTAL AVAILABILITY

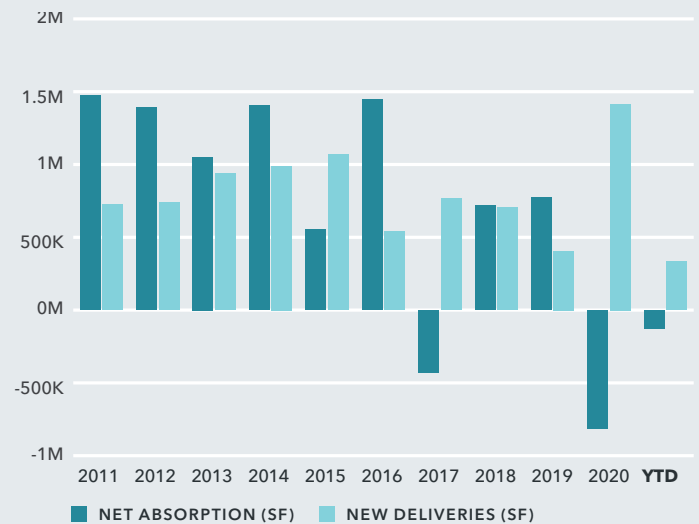


BIGGEST SALE OF THE QUARTER

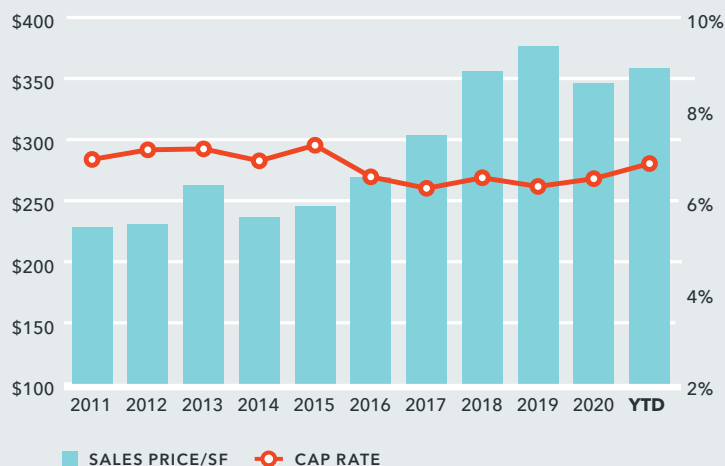
Sorrento Office Towers



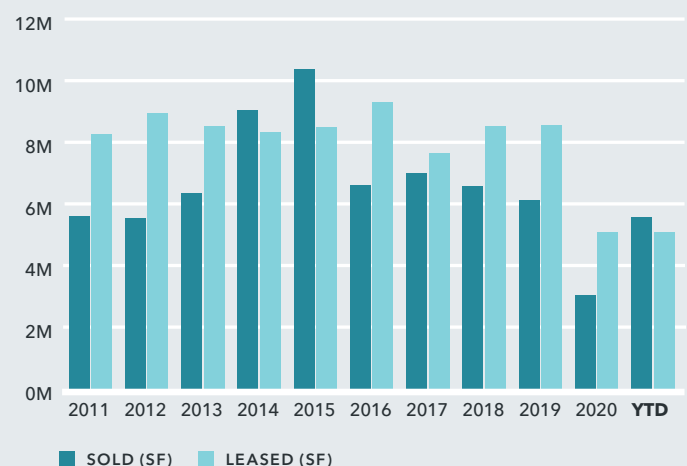
Net Absorption & New Deliveries



Average Sales Price/SF & Cap Rate



Sale Volume & Lease Volume



SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Sublet Available Rate	Total Available Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Total Leasing Activity	YTD Total Leasing Activity	Avg Direct Rental Rate (F5)
Carlsbad	6,923,014	15.4%	0.9%	18.9%	(17,459)	(31,053)	234,179	439,984	\$2.73
Escondido	1,759,542	14.4%	2.2%	17.2%	(55,944)	(43,480)	14,939	64,229	\$2.12
Oceanside	1,549,560	3.3%	0.1%	6.9%	37,527	57,136	1,123	62,376	\$2.20
San Marcos	1,453,297	7.5%	1.6%	11.9%	25,675	25,070	51,634	69,492	\$2.58
Vista	1,265,121	21.0%	2.0%	13.3%	(124,531)	(87,103)	9,064	30,656	\$2.23
North County	12,950,534	13.5%	1.1%	15.9%	(134,732)	(79,430)	310,939	666,737	\$2.52
Poway	1,393,621	4.2%	0.5%	6.7%	(11,439)	(13,324)	9,712	31,554	\$2.16
Rancho Bernardo	6,892,802	13.0%	1.8%	16.4%	101,488	78,416	131,438	475,801	\$2.94
Scripps Ranch	2,875,843	13.6%	1.7%	17.0%	(57,715)	94,422	63,382	97,566	\$2.89
I-15 Corridor	11,162,266	12.1%	1.6%	15.3%	32,334	159,514	204,532	604,921	\$2.83
Del Mar Heights/Carmel Valley	5,129,135	13.9%	2.9%	24.3%	45,768	(13,384)	268,390	645,542	\$4.34
Governor Park	899,234	17.0%	16.0%	31.6%	3,377	(13,690)	46,386	66,765	\$2.66
La Jolla	1,331,621	14.2%	0.8%	17.6%	45,304	72,341	22,591	113,994	\$3.30
Miramar	1,422,598	6.8%	0.0%	11.3%	20,102	(22,918)	14,218	72,531	\$2.04
North Beach Cities	2,446,356	7.8%	1.0%	11.4%	63,731	67,330	42,561	150,398	\$3.67
Sorrento Mesa	8,886,294	9.0%	4.1%	13.9%	2,235	37,923	120,547	313,918	\$3.22
Sorrento Valley	669,752	23.0%	0.0%	17.2%	12,652	(44,268)	10,480	24,007	\$2.07
Torrey Pines	3,253,939	5.9%	0.0%	3.1%	15,887	68,048	23,496	173,304	\$4.42
UTC	8,901,406	10.2%	2.3%	10.5%	115,869	55,761	362,272	660,196	\$3.93
North Cities	32,940,335	10.3%	2.7%	13.9%	324,925	207,143	910,941	2,220,655	\$3.65
Kearny Mesa	11,424,707	13.0%	0.4%	14.5%	(1,932)	(114,127)	119,826	266,205	\$2.58
Mission Gorge	581,130	1.0%	0.0%	2.9%	1,793	(1,140)	0	3,787	\$2.25
Mission Valley	7,274,353	15.2%	1.2%	18.2%	(1,207)	(18,699)	111,242	366,692	\$2.88
Old Town/Sports Arena/Pt. Loma	2,373,866	5.8%	3.9%	13.9%	(11,583)	(39,259)	23,652	59,394	\$2.69
PB/Rose Canyon/Morena	1,297,671	5.9%	3.1%	10.1%	16,315	(2,301)	28,325	42,502	\$2.05
Central Suburban	22,951,727	12.2%	1.1%	15.1%	3,386	(175,526)	283,045	738,580	\$2.65
College Area	1,213,132	4.2%	0.1%	5.4%	19,099	33,566	26,615	67,750	\$2.18
East County	3,767,329	3.7%	0.1%	4.2%	15,003	39,753	2,251	89,457	\$2.27
East County	4,980,461	3.8%	0.1%	4.5%	34,102	73,319	28,866	157,207	\$2.25
Park East	117,084	3.0%	0.0%	3.0%	0	3,735	0	3,615	\$2.51
Uptown East	117,238	0.9%	0.0%	0.9%	0	5,640	0	3,515	\$2.03
Uptown West/Park West	2,176,953	9.6%	2.2%	13.2%	(206)	(11,855)	17,560	70,279	\$2.63
Uptown	2,411,275	8.9%	2.0%	12.1%	(206)	(2,480)	17,560	77,409	\$2.60
Downtown	13,671,840	23.6%	1.9%	36.8%	(69,970)	(289,791)	176,507	481,249	\$2.90
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Chula Vista	2,849,947	5.9%	0.0%	9.1%	24,541	26,296	36,890	110,579	\$2.62
Coronado	133,926	1.9%	0.0%	1.9%	0	190	0	2,400	\$3.89
National City	528,493	0.4%	0.0%	0.8%	2,899	8,652	1,436	10,115	\$2.00
Otay Mesa	187,078	4.3%	0.0%	4.3%	0	2,271	0	0	\$2.30
San Ysidro/Imperial Beach	132,746	0.0%	0.0%	0.0%	0	640	0	500	\$2.50
Southeast San Diego	460,835	13.7%	0.0%	13.7%	0	4,901	0	4,901	\$2.06
South County	4,293,025	5.7%	0.0%	7.9%	27,440	42,950	38,326	128,495	\$2.31
San Diego Total	105,361,463	12.5%	1.7%	16.8%	217,279	(64,301)	1,970,716	5,075,253	\$2.99
Class A	39,889,281	14.8%	2.4%	23.2%	410,190	361,143	1,013,256	2,584,293	\$3.52
Class B	51,629,617	12.4%	1.6%	14.4%	(169,396)	(432,398)	851,283	0	\$2.71
Class C	13,842,565	6.4%	0.3%	7.2%	(23,515)	6,954	139,477	408,914	\$2.11

NEAR-TERM OUTLOOK

THE TECH INDUSTRY accounts for much of the activity in the office market, although there has been a recent trend of increasing interest from biotech and pharmaceutical companies inking large office spaces and converting into lab and life

science. The market may continue to experience conversions into the following year, especially in the life science hubs around the Sorrento Mesa and Del Mar Heights areas.

ALTHOUGH THERE IS STILL A DEGREE OF UNCERTAINTY around the

pandemic's long-term effect on office space use, decision makers seem to be more comfortable making long-term leasing decisions again whether it is moving forward to lease more space or finding that remote working has performed well and relinquishing space they no longer need.

TOP SALE TRANSACTIONS FOR 3Q 2021

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Sorrento Office Towers	Sorrento Mesa	296,327	\$146,000,000	\$492.70	Prime US REIT	Shorenstein Properties, LLC
Make and Commerce Portfolio	Carlsbad	302,727	\$135,500,000	\$447.60	Carlsbad1-Make LLC	Cruzan
Pacific Tech Center	Sorrento Mesa	67,832	\$46,650,000	\$687.73	BioMed Realty	Montana Avenue Capital Partners, LLC
Champs Plaza	Del Mar Hts/Carmel Valley	74,620	\$34,825,000	\$466.70	Phase 3 Real Estate Partners, Inc.	Meissner Jacquet CRE Services
Vista Medical Plaza	Vista	54,703	\$26,750,000	\$489.00	Anchor Health Properties	AmeriCare Medical Properties

TOP LEASE TRANSACTIONS FOR 3Q 2021

Property	Submarket	SF	Transaction Date	Landlord	Tenant
San Diego Corporate Center	Del Mar Hts/Carmel Valley	181,175	September 2021	Kilroy Realty Corporation	Tandem Diabetes Care, Inc.
Del Mar Corporate Center	Del Mar Hts/Carmel Valley	95,997	July 2021	Kilroy Realty Corporation	DermTech
La Jolla Reserve	UTC	92,446	August 2021	The Irvine Company	Apple
5759 Fleet St	Carlsbad	82,163	September 2021	Drawbridge Realty	Rockstar Games, Inc.
La Jolla Commons	UTC	73,176	September 2021	American Assets Trust, Inc.	Apple

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
RaDD - Bldg 4B	937 N Harbor Dr	Downtown	337,000	IQHQ	July 2022
West - Office	1011 Union St	Downtown	270,000	Holland Partner Group	January 2024
2100 Kettner	2100 Kettner Blvd	Downtown	234,198	Kilroy Realty Corporation	October 2021
Apex	9775 Towne Centre Dr	UTC	204,000	The Blackstone Group Inc.	December 2021

DATA SOURCE: COSTAR

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**Commercial
Brokerage**

\$8B
TRANSACTION

23M
SALES SF

42M
LEASING SF

**Valuation
Advisory**

1,800+
ASSIGNMENTS

39/20
TOTAL NO.

**Asset
Services**

70M
MANAGEMENT

\$12B
IN ASSETS UNDER

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