

**MARKET TRENDS | SAN DIEGO**

# OFFICE

**MARKET DRIVERS**

**THE SAN DIEGO** Office market recorded approximately 7.5M SF of leasing volume, reflecting almost 50% increase when compared to last year. Activity was most notable during the second half of 2021. The tech industry and healthcare sector has accounted for a large portion of the year's activity, with multiple commitments from Apple as well as biotech firms such as DermTech and Tandem Diabetes.

**RENT** growth in the office market is still below the five-year average but the worst of the losses since the beginning of the pandemic have ended for the most part, as we saw a slight increase in rental rates by the end of this year when compared to last year. Even Downtown returned to positive rent growth, amidst having the highest vacancy and availability rate in the county.

**SAN DIEGO** has seen a significant rise in office purchases during the past year, recording a record post-recession sales volume of \$2.7B. Many buyers are looking to repurpose older properties to suit the growing needs of life science and technology companies. Life science in particular has fueled office acquisitions in neighborhoods such as Sorrento Mesa and University Town Center to accommodate the increase in demand in that area.

**ECONOMIC OVERVIEW**

**ON THE** strength of 15,000 new jobs in the county, the San Diego unemployment rate in November dropped to a pandemic low of 4.6%, down seven basis points from 5.3% month-over-month. This compares with an unadjusted unemployment rate of 5.4% for California and 3.9% for the nation. Driving the majority of the job additions in the county were retail trade with notable advancements in general merchandise stores (up 2,200) and clothing stores (up 1,600).

**E-COMMERCE** and online retail are expected to have record years, reflecting in the employment gains in transportation and warehousing. Additionally, the thriving life sciences sector is driving growth of high-paying, quality jobs that have a significant effect on the rest of the local economy, as every job in R&D supports additional jobs in supportive industries.

## Market Summary

	2021	2020	2019	Annual % Change
Vacancy Rate	12.2%	12.5%	10.0%	-2.40%
Availability Rate	17.4%	16.9%	13.2%	2.96%
Asking Lease Rate	\$3.01	\$2.91	\$2.86	3.44%
Lease Transactions	7,514,651	5,084,449	8,546,450	47.80%
Sale Transactions	1,598,083	3,449,954	207,892	-53.68%
Net Absorption	152,014	(777,697)	772,654	N/A

**▲ 7.5M**
**LEASING ACTIVITY**
**▲ 152K**
**NET ABSORPTION (SF)**
**▼ 12.2%**
**VACANCY RATE**
**▲ \$3.01**
**AVERAGE ASKING RENT**
**▼ 566K**
**NEW DELIVERIES (SF)**
**YEAR-OVER-YEAR CHANGE**

## Market Highlights

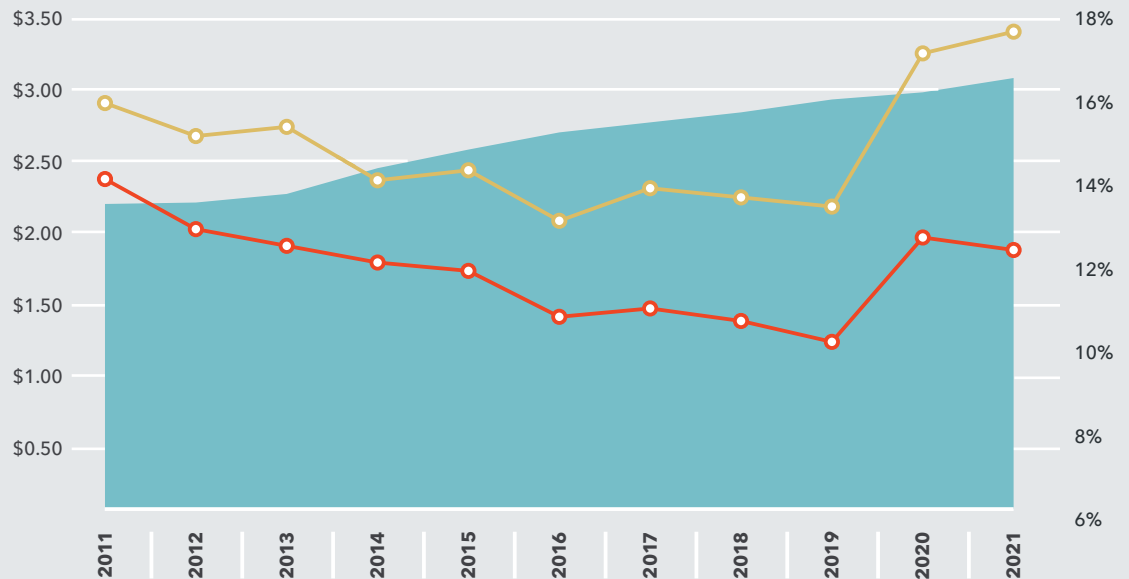
**LEASING ACTIVITY** increased almost 50% YOY to 7.5M SF

**RENTAL RATES** reached an all-time historic high of \$3.01 PSF on a full-service basis.

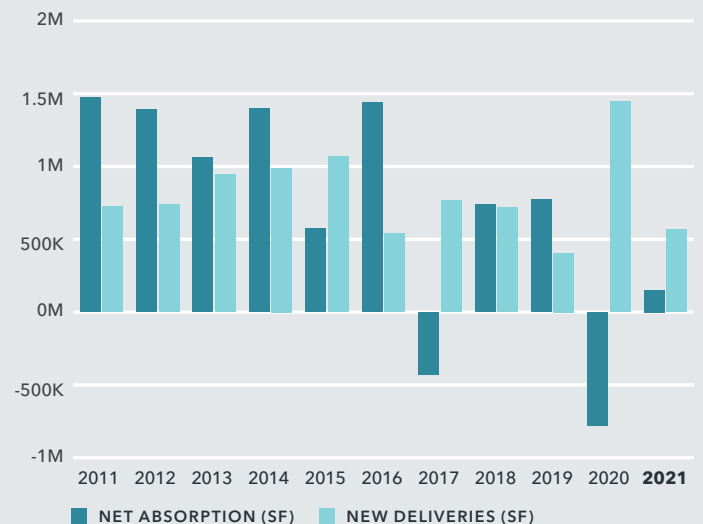
**SALES VOLUME** reached a post-recession annual high of \$2.7B

## Lease Rate, Vacancy & Availability

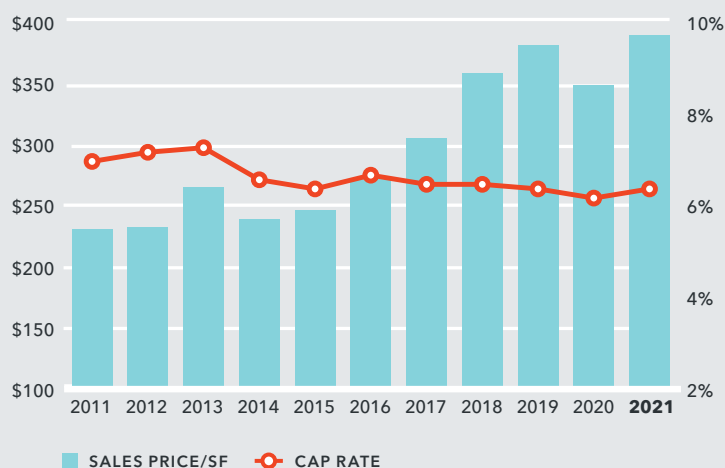
 DIRECT LEASE RATE (FSG)  
 TOTAL VACANCY  
 TOTAL AVAILABILITY



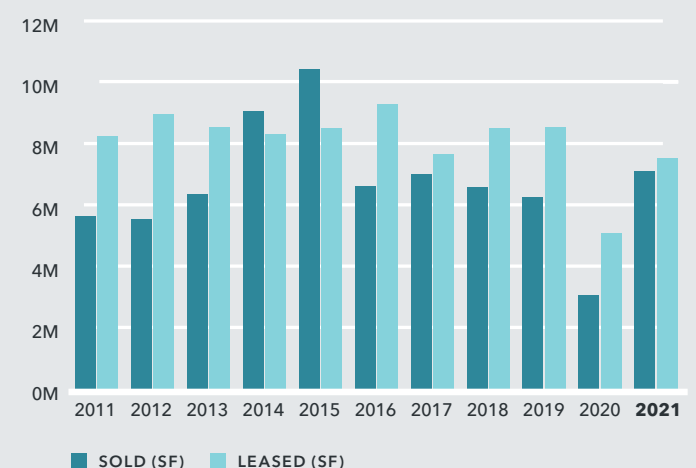
## Net Absorption & New Deliveries



## Average Sales Price/SF & Cap Rate



## Sale Volume & Leasing Activity



## SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Total Available Rate	4Q Direct Net Absorption	2021 Direct Net Absorption	4Q Total Leasing Activity	2021 Total Leasing Activity	Avg Direct Rental Rate (FS)
Carlsbad	6,926,258	15.5%	19.0%	4,491	(29,863)	101,246	550,108	\$2.73
Escondido	1,744,635	12.9%	15.4%	25,046	(33,707)	45,234	109,988	\$2.07
Oceanside	1,549,560	5.5%	7.6%	(4,550)	52,586	7,621	69,997	\$2.17
San Marcos	1,469,365	8.3%	11.7%	(17,149)	7,921	8,096	74,678	\$2.24
Vista	1,265,121	21.2%	20.9%	(3,889)	(90,992)	24,196	54,852	\$2.15
<b>North County</b>	<b>12,954,939</b>	<b>13.7%</b>	<b>16.5%</b>	<b>3,949</b>	<b>(94,055)</b>	<b>186,393</b>	<b>859,623</b>	<b>\$2.46</b>
Poway	1,391,381	4.0%	6.0%	3,436	(9,888)	3,954	36,728	\$2.19
Rancho Bernardo	6,442,191	12.5%	15.6%	119,387	197,803	159,218	635,737	\$2.96
Scripps Ranch	2,875,843	13.6%	14.5%	(16,330)	81,265	91,669	197,930	\$2.88
<b>I-15 Corridor</b>	<b>10,709,415</b>	<b>11.7%</b>	<b>14.0%</b>	<b>106,493</b>	<b>269,180</b>	<b>254,841</b>	<b>870,395</b>	<b>\$2.84</b>
Del Mar Heights/Carmel Valley	5,604,225	12.1%	25.7%	17,319	17,488	425,167	1,248,264	\$4.48
Governor Park	901,503	13.9%	30.9%	25,954	13,897	18,628	96,135	\$2.64
La Jolla	1,332,290	13.8%	16.6%	4,772	78,942	21,713	140,083	\$3.18
Miramar	1,422,598	7.7%	11.1%	(9,264)	(32,182)	9,112	78,836	\$2.06
North Beach Cities	2,446,356	8.2%	13.4%	(14,455)	54,001	39,944	197,145	\$3.70
Sorrento Mesa	8,885,111	7.9%	10.4%	(21,424)	16,499	73,614	476,760	\$3.27
Sorrento Valley	647,448	18.8%	13.5%	20,131	(24,137)	21,105	45,112	\$2.08
Torrey Pines	3,163,969	5.8%	2.5%	7,130	(14,822)	28,494	229,066	\$4.42
UTC	8,968,934	8.8%	12.6%	75,054	130,815	268,109	1,000,122	\$3.97
<b>North Cities</b>	<b>33,372,434</b>	<b>9.3%</b>	<b>13.9%</b>	<b>105,217</b>	<b>240,501</b>	<b>905,886</b>	<b>3,511,523</b>	<b>\$3.71</b>
Kearny Mesa	11,422,852	11.6%	13.3%	164,991	56,711	141,556	437,289	\$2.59
Mission Gorge	581,130	2.6%	1.1%	(9,582)	(10,722)	1,346	15,236	\$2.34
Mission Valley	7,296,742	14.6%	19.1%	29,662	14,908	139,331	516,535	\$2.90
Old Town/Sports Arena/Pt. Loma	2,383,866	6.7%	14.1%	(15,869)	(54,628)	16,666	76,060	\$2.66
PB/Rose Canyon/Morena	1,297,671	5.9%	10.4%	644	(1,657)	10,742	53,244	\$2.11
<b>Central Suburban</b>	<b>22,982,261</b>	<b>11.5%</b>	<b>14.8%</b>	<b>169,846</b>	<b>4,612</b>	<b>309,641</b>	<b>1,098,364</b>	<b>\$2.66</b>
College Area	1,213,132	3.7%	5.3%	5,902	39,468	1,598	69,348	\$2.18
East County	3,764,683	3.6%	4.3%	174	39,927	9,492	103,269	\$2.27
<b>East County</b>	<b>4,977,815</b>	<b>3.7%</b>	<b>4.5%</b>	<b>6,076</b>	<b>79,395</b>	<b>11,090</b>	<b>172,617</b>	<b>\$2.25</b>
Park East	117,084	5.4%	2.3%	(2,724)	1,011	3,565	7,177	\$2.41
Uptown East	117,238	0.0%	0.9%	1,000	6,640	1,000	4,515	\$2.11
Uptown West/Park West	2,175,940	9.0%	12.7%	6,907	(4,948)	39,115	109,394	\$2.64
<b>Uptown</b>	<b>2,410,262</b>	<b>8.4%</b>	<b>11.6%</b>	<b>5,183</b>	<b>2,703</b>	<b>43,680</b>	<b>121,086</b>	<b>\$2.60</b>
Downtown	13,919,754	24.8%	42.4%	(18,933)	(308,724)	196,804	679,145	\$2.97
<b>Downtown</b>	<b>13,919,754</b>	<b>24.8%</b>	<b>42.4%</b>	<b>(18,933)</b>	<b>(308,724)</b>	<b>196,804</b>	<b>679,145</b>	<b>\$2.97</b>
Chula Vista	2,915,269	6.5%	7.1%	(23,141)	3,155	69,255	181,844	\$2.63
Coronado	133,926	1.9%	1.2%	0	190	932	3,332	\$3.41
National City	528,493	0.7%	9.0%	(1,463)	7,189	936	11,051	\$2.43
Otay Mesa	187,078	3.4%	3.4%	1,664	3,935	0	0	\$2.30
San Ysidro/Imperial Beach	132,746	0.0%	0.0%	0	640	0	500	-
Southeast San Diego	460,835	13.7%	13.7%	0	4,901	0	4,901	\$2.06
<b>South County</b>	<b>4,358,347</b>	<b>6.1%</b>	<b>7.5%</b>	<b>(22,940)</b>	<b>20,010</b>	<b>71,123</b>	<b>201,628</b>	<b>\$2.37</b>
<b>San Diego Total</b>	<b>105,685,227</b>	<b>12.2%</b>	<b>17.4%</b>	<b>354,891</b>	<b>213,622</b>	<b>1,979,458</b>	<b>7,514,381</b>	<b>\$3.01</b>
Class A	39,862,329	14.8%	24.9%	(37,864)	320,607	1,200,742	3,984,939	\$3.58
Class B	51,988,995	11.6%	14.4%	400,387	(97,516)	686,449	3,018,611	\$2.73
Class C	13,833,873	6.6%	7.6%	(7,632)	(9,469)	92,267	511,101	\$2.15

## NEAR-TERM OUTLOOK

**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. However, because of the new

wide-spread variants of the COVID-19 virus, there is still a degree of uncertainty around the pandemic's long-term effect on office space use.

**WHILE** availability is still well above normal levels when compared to the start of 2020 before the pandemic, this could

be due to the construction pipeline being at post-recession highs with almost 4M SF currently underway and over 2M SF delivered in the past two years. As many of these projects are available with no commitments, there may be some upward pressure in vacancy rates in the coming quarters.

## TOP SALE TRANSACTIONS FOR 2021

Property	Submarket	SF	Sale Price	Price / SF	Buyer	Seller
Downtown Portfolio (5 properties)	Downtown	1,494,231	\$420,000,000	\$281.08	Regent Properties, Inc.	Emmes Realty Services, LLC
The Aventine Portfolio (2 properties)	UTC	281,094	\$205,000,000	\$729.29	IQHQ	Rockpoint Group, LLC
Sorrento Towers	Sorrento Mesa	296,327	\$146,000,000	\$492.70	Prime US REIT	Shorenstein Properties, LLC
Pacific Plaza at Torrey Hills	Del Mar Hts/Carmel Valley	228,601	\$123,100,000	\$538.49	Breakthrough Properties	Nuveen
Pomerado Outpatient Pavilion	Poway	163,094	\$102,700,000	\$629.70	Healthcare Realty Trust Inc.	Ventas, Inc.

## TOP LEASE TRANSACTIONS FOR 2021

Property	Submarket	SF	Transaction Date	Landlord	Tenant
Torrey View	Del Mar Hts/Carmel Valley	220,000	November 2021	Breakthrough Properties	Becton, Dickson and Co.
Del Mar Corporate Center III	Del Mar Hts/Carmel Valley	181,949	September 2021	Kilroy Realty Corporation	Tandem Diabetes Care, Inc.
Rancho Vista Corporate Ctr	Rancho Bernardo	130,649	January 2021	Swift Real Estate Partners	Apple
Del Mar Corporate Center II	Del Mar Hts/Carmel Valley	95,997	July 2021	Kilroy Realty Corporation	DermTech
La Jolla Reserve	UTC	92,446	August 2021	Irvine Company	Apple

## TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery Date
RaDD - Bldg 2B	937 N Harbor Dr	Downtown	840,000	IQHQ	December 2023
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
La Jolla Commons	4727 Executive Dr	UTC	212,851	American Assets Trust, Inc.	April 2023

DATA SOURCE: COSTAR

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**Commercial  
Brokerage**

**\$8B**  
TRANSACTION  
VOLUME (ANNUAL)

**23M**  
SALES SF  
(ANNUAL)

**42M**  
LEASING SF  
(ANNUAL)

**Valuation  
Advisory**

**1,800+**  
ASSIGNMENTS  
ANNUALLY

**47/23**  
TOTAL NO.  
APPRAISERS/MAI'S

**Asset  
Services**

**64M**  
MANAGEMENT  
PORTFOLIO SF

**\$11B**  
IN ASSETS UNDER  
MANAGEMENT

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

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