

MARKET TRENDS | **SAN DIEGO**

# OFFICE

**MARKET DRIVERS**

**RECENT LEASING ACTIVITY** highlights the trend of companies being attracted more to the suburban markets in the county, closer to where their employees live to help prioritize work-life balance. Downtown has been experiencing the repercussions of the migration away from the urban market, with availabilities sitting at an all-time high of over 40%.

**SUBLET SPACE** was on the decline for the second half of 2021 but is on the rise again in the first half of this year, back up to almost 2M SF. The continued ebbs and flows of the level of sublease availabilities in the past two years indicates there is no one-size-fits-all solution for businesses, as they continue to figure out the best long-term approach for their operations.

**THE MARKET** has seen a significant rise in office purchases during the past year, especially as investors look to repurpose older properties to suit the growing needs of life science and technology companies. One of the most active investors in San Diego over the past few years has been Alexandria Real Estate Equities, investing in approximately \$1.2B over the last three years.

**ECONOMIC OVERVIEW**

**THE SAN DIEGO COUNTY** unemployment rate in May dropped to a 20-year low of 2.7%, a sharp decrease from the YOY estimate of 6.6% and is lower than pre-pandemic levels. It is down three basis points month-over-month, adding 8,400 jobs within the last month. This compares with an unadjusted unemployment rate of 3.4% for California and 3.4% for the nation during the same period.

**THE COUNTY'S** month-over-month job gains were led by the leisure and hospitality services with 3,200 jobs added, driven by the influx of tourists for the summer season. Increased leasing activity among life science firms and tech firms have been driving demand in the market and hiring will continue to rise as these tenants expand further.

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## Market Summary

|                    | 2Q22      | 1Q21      | 2Q21      | Annual % Change |
|--------------------|-----------|-----------|-----------|-----------------|
| Vacancy Rate       | 11.7%     | 12.2%     | 12.7%     | <b>-7.87%</b>   |
| Availability Rate  | 17.2%     | 17.0%     | 18.1%     | <b>-4.97%</b>   |
| Asking Lease Rate  | \$3.07    | \$3.06    | \$2.97    | <b>3.37%</b>    |
| Lease Transactions | 1,605,335 | 2,396,569 | 1,595,447 | <b>0.62%</b>    |
| Sale Transactions  | 1,066,270 | 1,395,919 | 3,448,219 | <b>-69.08%</b>  |
| Net Absorption     | 878,801   | 171,456   | 124,426   | <b>N/A</b>      |

▲ **1.6M**  
LEASING ACTIVITY (SF)

▲ **878K**  
NET ABSORPTION (SF)

▼ **11.7%**  
VACANCY RATE

▲ **\$3.07**  
AVERAGE ASKING RENT

▼ **77K**  
NEW DELIVERIES (SF)

YEAR-OVER-YEAR CHANGE

## Market Highlights

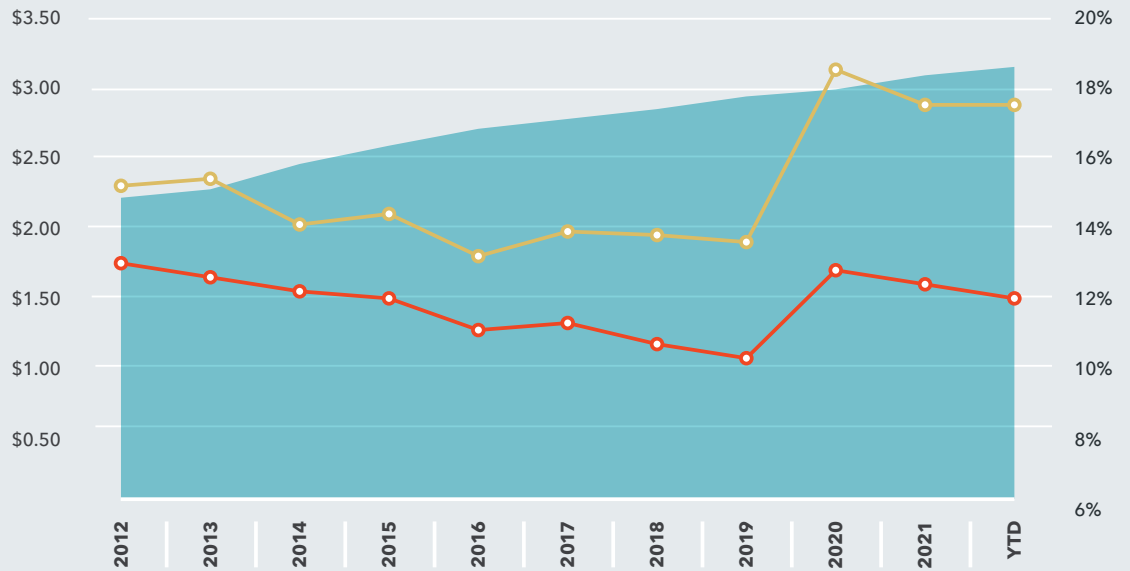
**NET ABSORPTION** reached a post-pandemic high of 878K SF

**RENTAL RATES** soared to a record high of \$3.07 PSF on a full-service basis

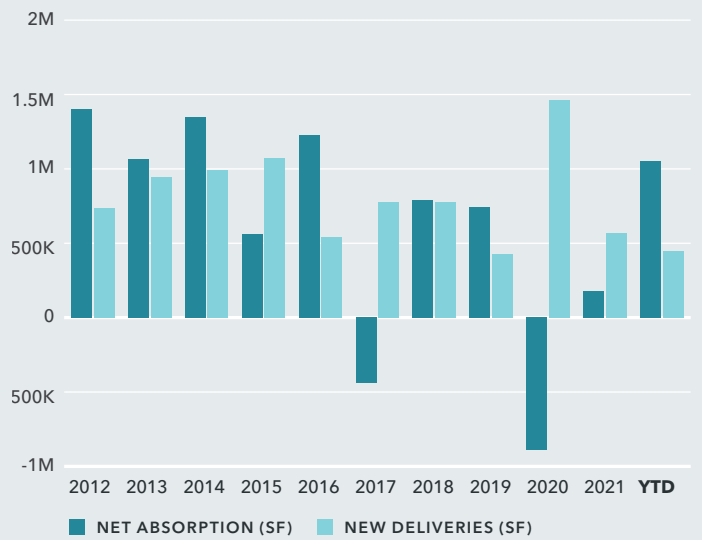
**AVERAGE SALE PRICE PER SF** posted at a healthy \$417/SF

# Lease Rate, Vacancy & Availability

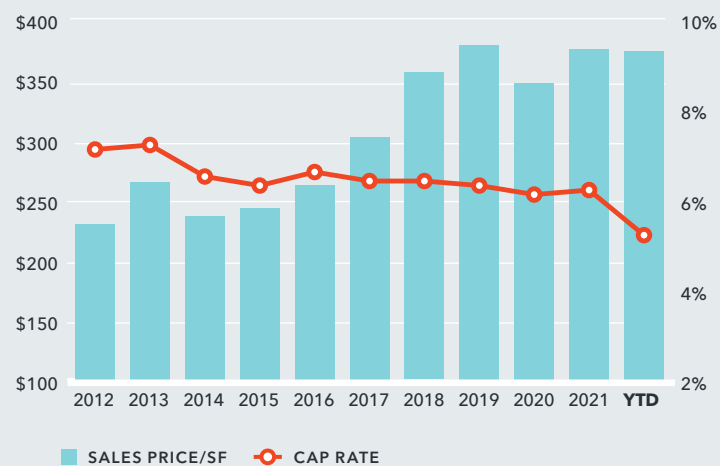
- DIRECT LEASE RATE (FSG)
- TOTAL VACANCY
- TOTAL AVAILABILITY



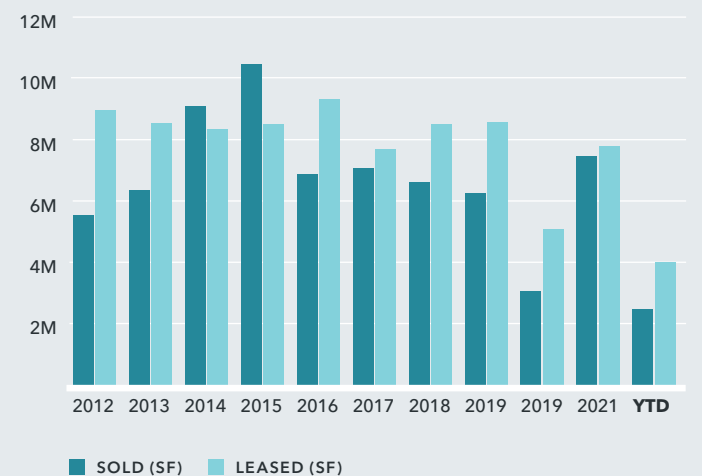
# Net Absorption & New Deliveries



# Average Sales Price/SF & Cap Rate



# Sale Volume & Leasing Activity



## SUBMARKET STATISTICS

| Submarket                      | Total Inventory    | Total Vacancy Rate | 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                       | 6,985,925          | 12.3%              | 1.3%                  | 16.8%                | 96,694                   | 204,288                   | 183,871                   | 303,782                    | \$2.74                      |
| Escondido                      | 1,732,171          | 9.3%               | 5.5%                  | 20.0%                | 31,914                   | 53,448                    | 9,282                     | 45,612                     | \$2.09                      |
| Oceanside                      | 1,541,682          | 7.6%               | 0.2%                  | 10.2%                | (2,893)                  | (9,121)                   | 21,494                    | 35,748                     | \$2.21                      |
| San Marcos                     | 1,455,192          | 7.6%               | 2.6%                  | 8.6%                 | 15,727                   | 38,879                    | 6,546                     | 29,894                     | \$2.25                      |
| Vista                          | 1,265,121          | 20.2%              | 1.8%                  | 22.9%                | 9,508                    | 3,391                     | 12,043                    | 23,874                     | \$2.24                      |
| <b>North County</b>            | <b>12,980,091</b>  | <b>11.6%</b>       | <b>1.9%</b>           | <b>16.1%</b>         | <b>150,950</b>           | <b>290,885</b>            | <b>233,236</b>            | <b>438,910</b>             | <b>\$2.49</b>               |
| Poway                          | 1,391,381          | 5.5%               | 0.0%                  | 6.7%                 | (1,917)                  | (23,185)                  | 2,436                     | 14,563                     | \$2.29                      |
| Rancho Bernardo                | 6,434,614          | 13.7%              | 1.1%                  | 13.3%                | 95,315                   | (96,762)                  | 297,722                   | 379,505                    | \$3.13                      |
| Scripps Ranch                  | 2,871,219          | 12.2%              | 1.5%                  | 15.1%                | 86,399                   | 38,697                    | 74,818                    | 136,063                    | \$2.85                      |
| <b>I-15 Corridor</b>           | <b>10,697,214</b>  | <b>12.2%</b>       | <b>1.1%</b>           | <b>12.9%</b>         | <b>179,797</b>           | <b>(81,250)</b>           | <b>374,976</b>            | <b>530,131</b>             | <b>\$2.95</b>               |
| Del Mar Heights/Carmel Valley  | 5,831,636          | 18.7%              | 4.0%                  | 20.3%                | 33,391                   | 28,900                    | 98,684                    | 603,026                    | \$4.59                      |
| Governor Park                  | 909,875            | 11.3%              | 0.0%                  | 9.8%                 | 30                       | 14,849                    | 34,550                    | 66,848                     | \$2.74                      |
| La Jolla                       | 1,331,932          | 14.5%              | 3.3%                  | 18.9%                | 12,509                   | 20,611                    | 16,160                    | 31,426                     | \$3.27                      |
| Miramar                        | 1,486,377          | 6.3%               | 0.4%                  | 8.0%                 | 37,653                   | 27,810                    | 28,892                    | 51,714                     | \$1.93                      |
| North Beach Cities             | 2,446,326          | 7.5%               | 0.7%                  | 13.2%                | 1,436                    | (223)                     | 15,372                    | 72,702                     | \$3.94                      |
| Sorrento Mesa                  | 9,132,543          | 6.6%               | 1.2%                  | 8.9%                 | 247,088                  | 194,863                   | 65,216                    | 201,151                    | \$3.25                      |
| Sorrento Valley                | 648,668            | 15.7%              | 0.5%                  | 9.8%                 | 8,210                    | 26,413                    | 6,099                     | 37,821                     | \$2.36                      |
| Torrey Pines                   | 3,163,939          | 1.9%               | 0.0%                  | 3.7%                 | (6,011)                  | 123,997                   | 1,722                     | 9,624                      | \$4.51                      |
| UTC                            | 8,984,510          | 6.5%               | 4.0%                  | 13.0%                | 33,316                   | 98,709                    | 158,333                   | 779,710                    | \$4.11                      |
| <b>North Cities</b>            | <b>33,935,806</b>  | <b>8.9%</b>        | <b>2.3%</b>           | <b>12.1%</b>         | <b>367,622</b>           | <b>535,929</b>            | <b>425,028</b>            | <b>1,854,022</b>           | <b>\$3.79</b>               |
| Kearny Mesa                    | 11,423,632         | 10.1%              | 0.8%                  | 11.5%                | 241,621                  | 173,164                   | 181,605                   | 290,955                    | \$2.61                      |
| Mission Gorge                  | 581,130            | 0.9%               | 0.0%                  | 1.3%                 | (3,480)                  | 10,012                    | 0                         | 4,215                      | \$2.29                      |
| Mission Valley                 | 7,308,072          | 16.1%              | 2.7%                  | 20.8%                | (40,100)                 | (9,502)                   | 131,089                   | 246,623                    | \$2.94                      |
| Old Town/Sports Arena/Pt. Loma | 2,268,131          | 5.7%               | 5.4%                  | 13.6%                | (66)                     | 24,875                    | 31,211                    | 71,027                     | \$2.57                      |
| PB/Rose Canyon/Morena          | 1,268,679          | 7.6%               | 3.9%                  | 12.9%                | 1,173                    | (16,712)                  | 15,330                    | 37,590                     | \$2.10                      |
| <b>Central Suburban</b>        | <b>22,849,644</b>  | <b>11.2%</b>       | <b>2.0%</b>           | <b>14.5%</b>         | <b>199,148</b>           | <b>181,837</b>            | <b>359,235</b>            | <b>650,410</b>             | <b>\$2.68</b>               |
| College Area                   | 1,213,132          | 3.7%               | 0.0%                  | 4.9%                 | 3,561                    | 179                       | 4,000                     | 7,711                      | \$2.19                      |
| East County                    | 3,811,803          | 3.6%               | 0.2%                  | 5.6%                 | (4,920)                  | 41,140                    | 37,692                    | 66,354                     | \$2.45                      |
| <b>East County</b>             | <b>5,024,935</b>   | <b>3.6%</b>        | <b>0.2%</b>           | <b>5.4%</b>          | <b>(1,359)</b>           | <b>41,319</b>             | <b>41,692</b>             | <b>74,065</b>              | <b>\$2.39</b>               |
| Park East                      | 117,084            | 0.5%               | 0.0%                  | 2.8%                 | 1,073                    | 5,716                     | 573                       | 2,724                      | -                           |
| Uptown East                    | 101,852            | 0.0%               | 0.0%                  | 0.0%                 | 0                        | 0                         | 0                         | 0                          | -                           |
| Uptown West/Park West          | 2,185,758          | 6.5%               | 1.2%                  | 10.2%                | 29,280                   | 53,098                    | 37,667                    | 65,209                     | \$2.64                      |
| <b>Uptown</b>                  | <b>2,404,694</b>   | <b>5.9%</b>        | <b>1.1%</b>           | <b>9.4%</b>          | <b>30,353</b>            | <b>58,814</b>             | <b>38,240</b>             | <b>67,933</b>              | <b>\$2.64</b>               |
| Downtown                       | 13,871,051         | 25.2%              | 2.4%                  | 46.8%                | (67,149)                 | (33,696)                  | 112,707                   | 331,419                    | \$2.93                      |
| <b>Downtown</b>                | <b>13,871,051</b>  | <b>25.2%</b>       | <b>2.4%</b>           | <b>46.8%</b>         | <b>(67,149)</b>          | <b>(33,696)</b>           | <b>112,707</b>            | <b>331,419</b>             | <b>\$2.93</b>               |
| Chula Vista                    | 2,892,008          | 4.5%               | 0.0%                  | 6.3%                 | 16,540                   | 60,269                    | 18,320                    | 43,542                     | \$2.66                      |
| Coronado                       | 106,925            | 1.5%               | 0.0%                  | 1.5%                 | 0                        | 0                         | 0                         | 0                          | \$3.25                      |
| National City                  | 535,565            | 0.7%               | 4.8%                  | 9.0%                 | 2,899                    | 30                        | 1,120                     | 20,931                     | \$2.75                      |
| Otay Mesa                      | 187,078            | 3.4%               | 0.0%                  | 3.0%                 | 0                        | 0                         | 781                       | 781                        | \$2.31                      |
| San Ysidro/Imperial Beach      | 132,746            | 2.9%               | 0.0%                  | 2.9%                 | 0                        | (3,880)                   | 0                         | 0                          | \$2.78                      |
| Southeast San Diego            | 461,460            | 13.7%              | 0.0%                  | 13.7%                | 0                        | 0                         | 0                         | 0                          | \$2.06                      |
| <b>South County</b>            | <b>4,315,782</b>   | <b>4.8%</b>        | <b>0.6%</b>           | <b>7.1%</b>          | <b>19,439</b>            | <b>56,419</b>             | <b>20,221</b>             | <b>65,254</b>              | <b>\$2.44</b>               |
| <b>San Diego Total</b>         | <b>106,079,217</b> | <b>11.7%</b>       | <b>1.9%</b>           | <b>17.2%</b>         | <b>878,801</b>           | <b>1,050,257</b>          | <b>1,605,335</b>          | <b>4,012,144</b>           | <b>\$3.07</b>               |
| Class A                        | 40,438,385         | 15.1%              | 2.4%                  | 24.9%                | 488,900                  | 492,953                   | 809,683                   | 2,241,742                  | \$3.62                      |
| Class B                        | 51,798,373         | 10.5%              | 1.9%                  | 13.8%                | 371,047                  | 445,328                   | 676,613                   | 1,508,975                  | \$2.77                      |
| Class C                        | 13,842,459         | 6.2%               | 0.2%                  | 7.3%                 | 18,854                   | 111,976                   | 119,039                   | 261,427                    | \$2.13                      |

## NEAR-TERM OUTLOOK

**EMPLOYERS** across the tech industry and other office driven industries are finding it harder to fill the seats of in-office open positions, competing with those who are offering fully remote positions that many in the labor force now prefer. While remote opportunities are still leading the

way, many big tech companies such as Google and Tesla have asked employees back to the office and employees have followed suit.

**THE RECENT TREND** of converting outdated office and industrial buildings into lab and life science campuses has

grown over the past year, however, it may slow down especially as the venture capital industry is pulling back and funding has slowed in recent months across the country.

DATA SOURCE: COSTAR, EDD, SDBJ, TECHCRUNCH

## TOP SALE TRANSACTIONS FOR 2Q 2022

| Property                | Submarket     | SF      | Sale Price    | Price / SF | Buyer                                | Seller                         |
|-------------------------|---------------|---------|---------------|------------|--------------------------------------|--------------------------------|
| Governor Park Portfolio | Governor Park | 212,201 | \$145,000,000 | \$683.31   | Breakthrough Properties              | Manulife Investment Management |
| Northridge Summit       | Scripps Ranch | 129,916 | \$76,100,000  | \$585.76   | Divco West Services, LLC             | Davlyn Investments             |
| 5540 & 5541 Fermi Ct    | Carlsbad      | 115,000 | \$42,000,000  | \$365.22   | Menlo Equities                       | Regent Properties, Inc.        |
| 6602-6694 Convoy Ct     | Kearny Mesa   | 100,033 | \$30,500,000  | \$304.90   | Eurofins Advantar Laboratories, Inc. | Chestnut Properties            |
| Canvas on Willow        | Scripps Ranch | 121,496 | \$25,300,000  | \$208.24   | The Sason Organization               | Cypress Office Properties      |

## TOP LEASE TRANSACTIONS FOR 2Q 2022

| Property                      | Submarket       | SF      | Transaction Date | Landlord                              | Tenant              |
|-------------------------------|-----------------|---------|------------------|---------------------------------------|---------------------|
| 4150 Campus Point Ct          | UTC             | 170,000 | April 2022       | Alexandria Real Estate Equities, Inc. | Leidos              |
| The Point                     | Rancho Bernardo | 95,166  | May 2022         | Prudential Financial, Inc.            | Apple               |
| The Campus at Carlsbad        | Carlsbad        | 68,639  | April 2022       | Brookwood Financial Partners, LLC     | MaxLinear, Inc.     |
| Sunroad Centrum               | Kearny Mesa     | 52,897  | April 2022       | Sunroad Holding Corporation           | State of California |
| Rancho Vista Corporate Center | Rancho Bernardo | 52,800  | April 2022       | Swift Real Estate Partners            | Apple               |

## TOP UNDER CONSTRUCTION

| Property                   | Address                                   | Submarket | SF        | Owner                       | Delivery Date  |
|----------------------------|---|-----------|-----------|-----------------------------|----------------|
| RaDD - Bldg 2B & 4B        | 800 Pacific Coast Hwy & 925 Waterfront Pl | Downtown  | 1,225,700 | IQHQ                        | September 2023 |
| The Campus at Horton       | 100 & 200 Horton Plz                      | Downtown  | 612,415   | Stockdale Capital Partners  | July 2022      |
| West - Office              | 1011 Union St                             | Downtown  | 270,000   | Holland Partner Group       | January 2024   |
| RaDD - Bldg 2A             | 825 N Harbor Dr                           | Downtown  | 214,000   | IQHQ                        | April 2023     |
| La Jolla Commons Tower III | 4727 Executive Dr                         | UTC       | 212,851   | American Assets Trust, Inc. | April 2023     |

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.

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

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**Commercial  
Brokerage**

**\$10.9B**  
TRANSACTION  
VOLUME (ANNUAL)

**49.7M** **43.7M**  
SALES SF  
(ANNUAL) LEASING SF  
(ANNUAL)

**Valuation  
Advisory**

**2,600+**  
ASSIGNMENTS  
ANNUALLY

**46/24**  
TOTAL NO.  
APPRAISERS/MAI'S

**Asset  
Services**

**62M**  
MANAGEMENT  
PORTFOLIO SF

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

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