

MARKET TRENDS

SAN DIEGO OFFICE

MARKET DRIVERS

ALTHOUGH LEASING activity was on an upward trajectory at the end of 2021 and beginning of 2022, the second half of the year experienced a notable dip in volume, dropping almost 50% YOY posting at 1.1M SF, the lowest level experienced since the end of 2020. As more leases set to expire, firms are likely to look at more prime space with better amenities, although with smaller footprints.

SAN DIEGO is one of the few major markets in the state that has seen positive net absorption in the office market since the pandemic hit. This can be attributed to the demand seen in the upscale, prime properties from high-tech firms such as Apple and biotech firms. Rents have also been rising, although that is expected to slow as demand softens.

DEAL FLOW in the San Diego office market slowed in the last half of 2022 amid high interest rates, as buyers have begun to show more caution. Investments for life science conversions have continued, reducing the inventory for office tenants further, but it is expected to slow as venture capital fell by more than 50% in 2022.

ECONOMIC REVIEW

UNEMPLOYMENT RATE for San Diego County in November was 3.3%, below the year-ago estimate of 4.5% and is on par with pre-pandemic levels. It is up ten basis points month-over-month, adding 16,100 jobs within the last month. This compares with an unadjusted unemployment rate of 4% for California and 3.4% for the nation during the same period.

ALTHOUGH SAN DIEGO'S office market is supported by a strong employment pool with diverse jobs in the tech, defense and life science industries, challenges will be met in the coming year with the cooldown in the economy. Many local firms, such as Bristol-Myers Squibb and Cue Health, are among firms that have announced layoffs in recent months.

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Market Summary

	4Q22	3Q22	4Q21	Annual Change
Vacancy Rate	11.8%	11.7%	12.0%	-1.67%
Availability Rate	18.2%	16.8%	16.9%	7.69%
Asking Lease Rate	\$3.06	\$3.03	\$3.02	1.32%
Lease Transactions	1,103,142	1,366,627	2,056,585	-46.36%
Sale Transactions	790,985	1,808,822	1,754,624	-54.92%
Net Absorption	203,495	-174,263	319,704	N/A

1.1M SF
LEASING ACTIVITY

203K SF
NET ABSORPTION

11.8%
VACANCY RATE

\$3.06
ASKING RENT (AVG)

161K SF
NEW DELIVERIES

Year-Over-Year Trend

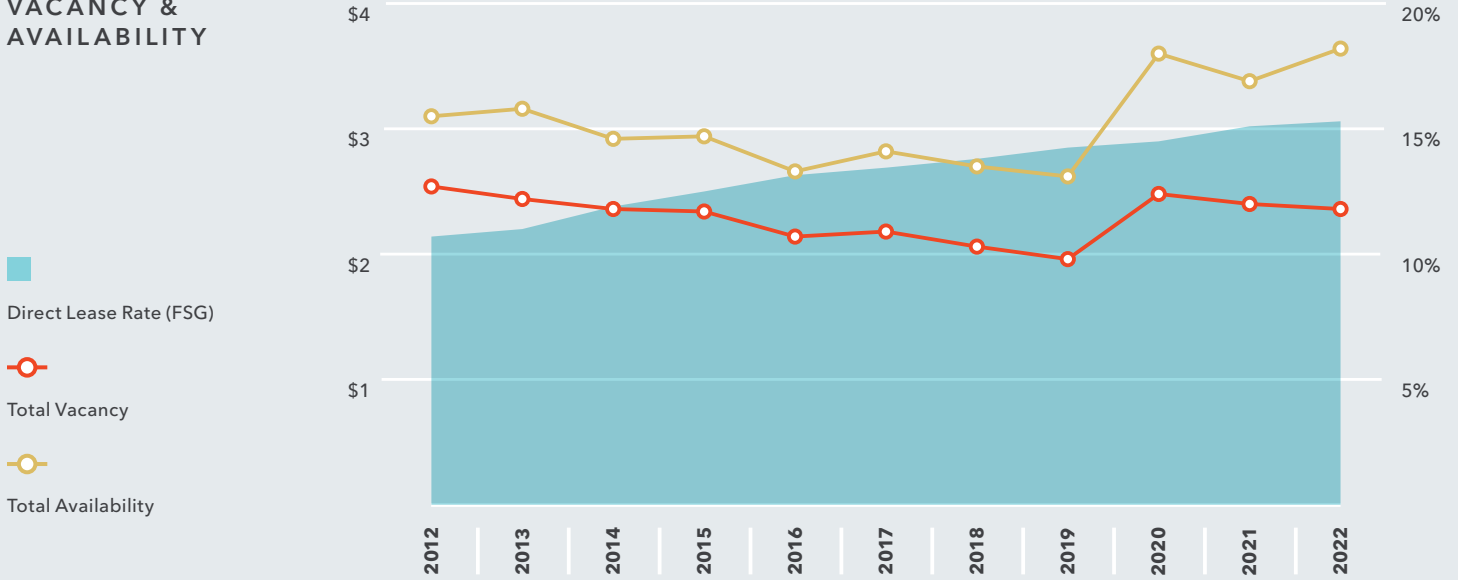
Market Highlights

LEASING VOLUME dropped almost 50% YOY to 1.1M SF

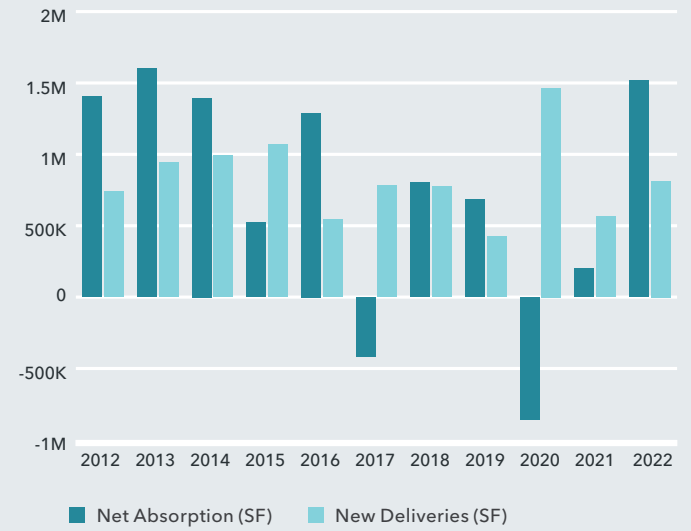
RENTAL RATES decreased from last quarter to \$3.04 PSF on a full-service basis

AVG SALE PRICE PER SF dipped to a low of \$252/SF

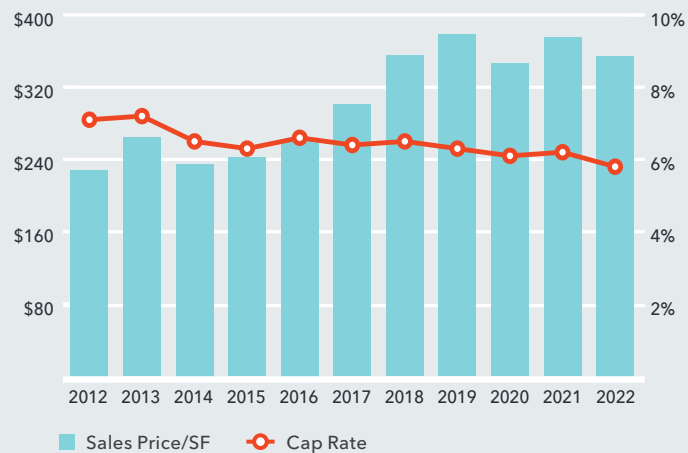
LEASE RATE, VACANCY & AVAILABILITY



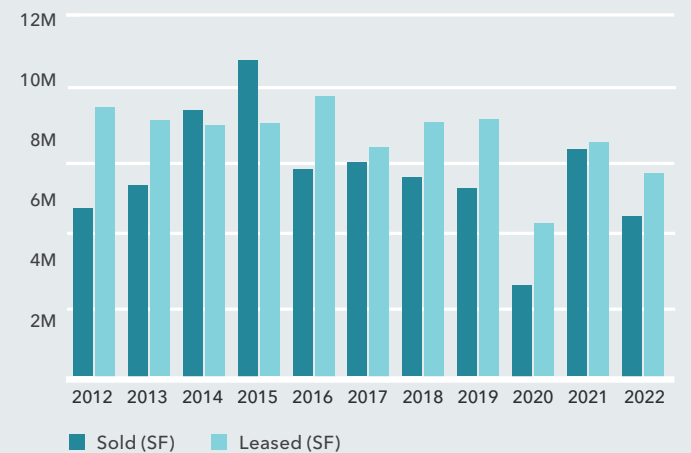
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Sublet Available Rate	Total Available Rate	4Q Direct Net Absorption	2022 Direct Net Absorption	4Q Total Leasing Activity	2022 Leasing Activity	Average Rental Rate (F5)
Carlsbad	6,960,242	12.3%	3.0%	19.6%	(52,775)	241,022	52,109	452,711	\$2.78
Escondido	1,807,171	9.8%	5.6%	21.1%	54,073	112,139	2,868	52,672	\$2.21
Oceanside	1,521,101	5.3%	0.3%	9.6%	1,232	7,787	9,006	51,084	\$2.33
San Marcos	1,455,192	7.1%	2.5%	8.7%	(1,505)	45,119	12,905	51,121	\$2.23
Vista	1,265,121	19.2%	2.0%	24.2%	13,162	13,539	19,541	53,275	\$2.36
North County	13,008,827	11.2%	2.9%	17.9%	14,187	419,606	96,429	660,863	\$2.55
Poway	1,390,271	6.6%	0.0%	7.1%	(7,063)	(38,691)	9,165	37,934	\$2.18
Rancho Bernardo	6,362,135	16.3%	1.7%	19.3%	(230,559)	(267,025)	34,702	517,627	\$3.25
Scripps Ranch	2,745,319	17.1%	7.3%	18.8%	(4,042)	25,799	49,856	233,557	\$2.93
I-15 Corridor	10,497,725	15.2%	3.0%	17.6%	(241,664)	(279,917)	93,723	789,118	\$3.02
Del Mar Heights/Carmel Valley	5,675,387	11.8%	7.6%	21.9%	304,206	465,728	73,225	747,331	\$4.70
Governor Park	929,661	26.4%	2.1%	30.4%	(6,088)	(121,714)	12,669	97,355	\$2.90
La Jolla	1,341,636	12.5%	2.0%	17.8%	28,485	44,025	19,658	72,344	\$3.39
Miramar	1,474,065	6.2%	0.2%	10.8%	(23,112)	29,730	23,132	100,090	\$2.22
North Beach Cities	2,466,556	7.7%	0.7%	11.5%	21,599	9,854	46,240	156,141	\$3.98
Sorrento Mesa	9,005,049	7.3%	2.0%	10.3%	20,402	137,937	43,665	458,596	\$3.30
Sorrento Valley	648,668	15.0%	0.0%	10.8%	1,349	31,192	30,072	73,099	\$2.76
Torrey Pines	3,238,075	1.9%	2.0%	6.1%	72,472	198,191	0	9,624	\$4.38
UTC	9,192,421	6.4%	4.9%	13.9%	13,079	362,629	66,577	1,114,045	\$4.12
North Cities	33,971,518	8.1%	3.5%	13.7%	432,392	1,157,572	315,238	2,828,625	\$3.84
Kearny Mesa	11,404,796	10.0%	1.9%	13.3%	29,027	164,625	97,848	523,550	\$2.65
Mission Gorge	593,130	0.5%	0.0%	4.4%	1,383	12,221	4,305	9,346	\$2.02
Mission Valley	7,417,954	17.8%	3.0%	20.7%	(47,579)	(103,194)	108,807	559,052	\$2.93
Old Town/Sports Arena/Pt. Loma	2,268,131	6.1%	5.7%	16.0%	(10,930)	31,939	16,023	142,525	\$2.65
PB/Rose Canyon/Morena	1,268,661	8.6%	1.7%	7.4%	(11,882)	1,427	43,561	102,573	\$2.14
Central Suburban	22,952,672	11.8%	2.6%	15.4%	(39,981)	107,018	270,544	1,337,046	\$2.70
College Area	1,213,132	3.5%	0.0%	4.0%	(2,654)	2,203	6,039	26,764	\$2.30
East County	3,788,975	3.8%	0.4%	4.2%	(888)	37,997	46,197	124,974	\$2.36
East County	5,002,107	3.7%	0.3%	4.1%	(3,542)	40,200	52,236	151,738	\$2.35
Park East	117,084	1.0%	0.0%	4.1%	480	5,146	0	4,010	-
Uptown East	101,852	7.2%	0.0%	7.2%	1,000	(7,354)	1,000	1,000	\$2.16
Uptown West/Park West	2,166,747	7.4%	1.3%	11.0%	8,881	35,517	16,092	89,942	\$2.49
Uptown	2,385,683	7.1%	1.2%	10.5%	10,361	33,309	17,092	94,952	\$2.35
Downtown	13,862,902	25.1%	1.8%	44.6%	22,329	(35,247)	217,157	777,510	\$2.85
Chula Vista	2,892,008	3.4%	0.1%	5.1%	24,986	94,695	33,902	90,893	\$2.49
Coronado	84,540	1.9%	0.0%	1.9%	0	0	0	0	\$3.25
National City	550,315	2.2%	5.4%	12.0%	(9,281)	(6,603)	1,046	21,977	\$2.22
Otay Mesa	187,078	4.0%	0.0%	9.3%	(1,350)	(1,110)	1,159	1,940	\$2.64
San Ysidro/Imperial Beach	132,746	1.6%	0.0%	1.6%	1,540	(2,140)	900	900	\$2.79
Southeast San Diego	461,460	3.6%	0.0%	3.6%	(6,482)	46,518	3,716	3,716	\$2.33
South County	4,308,147	3.2%	0.8%	5.8%	9,413	131,360	40,723	119,426	\$2.35
San Diego Total	105,989,581	11.8%	2.6%	18.2%	203,495	1,573,901	1,103,142	6,759,278	\$3.06
Class A	40,296,886	15.4%	4.1%	27.6%	88,086	611,042	402,551	3,318,992	\$3.55
Class B	51,611,087	10.5%	2.1%	13.7%	181,527	862,744	576,781	2,961,812	\$2.79
Class C	14,081,608	6.5%	0.2%	7.3%	(66,118)	100,115	123,810	478,474	\$2.30

NEAR-TERM OUTLOOK

THE FLIGHT to high-quality office space is a trend that will continue into the coming year. Companies are prioritizing employee proximity and focusing on retention with plug-and-play buildings that provide attractive amenities.

SAN DIEGO'S office market declined in the 2nd half of 2022, as firms began layoffs in anticipation of the cooled economy. This slowdown will continue as high interest rates and uncertainty surrounding the recession impact the decision making of investors and businesses.

TOP SALE TRANSACTIONS 4Q 2022

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
3838 Camino Del Rio N	Mission Valley	94,612	\$21,575,000	\$228.04	William Dyck	HighBrook Investors
4180 Ruffin Rd & 9370 Sky Park	Kearny Mesa	71,070	\$18,500,000	\$260.31	Solar Turbines	Gleich Family Trust
10616 Scripps Summit Rd	Scripps Ranch	43,196	\$17,000,000	\$393.55	Phase 3 Real Estate Partners, Inc.	EQT Exeter
3645 & 3655 Ruffin Rd	Kearny Mesa	40,805	\$11,200,000	\$274.48	Tuan Tran	Manhattan Alliance
9210 Sky Park Ct	Kearny Mesa	39,583	\$10,450,000	\$264.00	Bill Howe Plumbing, Heating, and Air Restoration & Flo	Omninet Capital

TOP LEASE TRANSACTIONS 4Q 2022

Property	Submarket	SF	Transaction Date	Landlord	Tenant
4375 Jutland Dr	PB/Rose Canyon/Morena	31,530	November 2022	Apex Real Estate, Inc.	ComicCom
770 First Ave	Downtown	30,471	October 2022	Bosa Development	IWG/Regus
2100 Kettner Blvd	Downtown	28,387	December 2022	Kilroy Realty Corporation	Boston Consulting Group
9660 Granite Ridge Dr	Kearny Mesa	27,961	October 2022	Mallard Creek Capital Partners, Inc.	Quality First Real Est-Div of McCarthy Holthus
10089 Willow Creek Rd	Scripps Ranch	24,519	December 2022	The Sason Organization	Anchor Insurance

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
RaDD - Alley/Rise/Vida/Core/Edge	Waterfront Pl & Pacific Coast Hwy	Downtown	1,787,166	IQHQ	September 2023
The Campus at Horton	100 & 200 Horton Plz	Downtown	767,781	Stockdale Capital Partners	December 2023
West - Office	1011 Union St	Downtown	288,819	Holland Partner Group	March 2024
La Jolla Commons Tower III	4727 Executive Dr	UTC	212,851	American Assets Trust, Inc.	April 2023
16705 Via Del Campo Ct	16705 Via Del Campo Ct	Rancho Bernardo	83,482	Drawbridge Realty	March 2023

Data Source: CoStar, EDD, SDBJ, SD Union-Tribune



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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

ERIC PAULSEN

Regional President, Brokerage
Southern California & Arizona
858.509.1200
eric.paulsen@kidder.com

LIC N° 01001040

COMMERCIAL
BROKERAGE

\$10.9B

TRANSACTION
VOLUME ANNUALLY

49.7M

ANNUAL
SALES SF

43.7M

ANNUAL
LEASING SF

ASSET
SERVICES

52M

MANAGEMENT
PORTFOLIO SF

875+

ASSETS UNDER
MANAGEMENT

270+

ASSET SERVICES
CLIENTS

VALUATION
ADVISORY

2,600+

ASSIGNMENTS
ANNUALLY

48

TOTAL
APPRAISERS

25

WITH MAI
DESIGNATIONS

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