

MARKET TRENDS

SAN DIEGO OFFICE

MARKET DRIVERS

LEASING ACTIVITY picked up slightly in terms of number of deals in Q2, but the total volume hovered around the record low, posting at 1.3M SF across the county. The low lease volume indicates the trend of businesses downsizing and occupying smaller spaces, as many companies have adopted hybrid and remote work schedules for their employees.

RENT GROWTH has slowed in the past couple years, down over 50% of the five-year average rate of 3.5%. With the availability rate at a historical high of 19.6%, rental rates are softening through the county, although not drastic. Tenants have been able to negotiate more concessions such as higher TI's and free rent, even in renewals.

SALES VOLUME in Q2 dropped drastically YOY, posting at a low 425K SF, only second to 3Q 2020's low volume when the pandemic first hit. Investors have shown much more caution amid higher interest rates and the economic cooldown.

ECONOMIC OVERVIEW

THE SAN DIEGO COUNTY unemployment rate in May was 3.5%, above the year-ago estimate of 2.9%. It is up 2 basis points month-over-month, adding 4,900 jobs from April to May. This compares with an unadjusted unemployment rate of 4.5% for California and 3.4% for the nation during the same period.

PROFESSIONAL AND BUSINESS SERVICES added 900 jobs month-over-month, yet companies across the county continue to lay off employees into the year. Tech and life science firms, such as Qualcomm and Illumina, have announced more layoffs in Q2.

NEAR TERM OUTLOOK

ALTHOUGH THE SAN DIEGO office market is buoyed by tech companies, healthcare providers, and defense contractors, as well as several top universities, the region has not been spared from challenges that have been felt across major markets throughout the country, which is expected to persist through the near term.

THE SHIFT IN TENANTS migrating from downtown to coastal and suburban markets began shortly after the pandemic, but the market will continue to experience this trend going forward. While coastal regions command higher rents, it is expected that tenants will still have an advantage to negotiate concessions.

Market Summary

	2Q23	1Q23	2Q22	Annual Change
Vacancy Rate	12.2%	11.8%	11.3%	7.96%
Availability Rate	19.6%	18.6%	16.3%	20.25%
Asking Lease Rate	\$3.06	\$3.04	\$3.04	0.66%
Lease Transactions	1,374,522	2,042,677	1,880,467	-26.91%
Sale Transactions	425,137	571,849	1,345,173	-68.40%
Net Absorption	-389,018	-135,364	1,153,876	N/A

2Q 2023

1.3M SF
LEASING ACTIVITY

-389K SF
NET ABSORPTION

12.2%
VACANCY RATE

\$3.06
ASKING RENT (AVG)

70K SF
NEW DELIVERIES

Year-Over-Year Trend

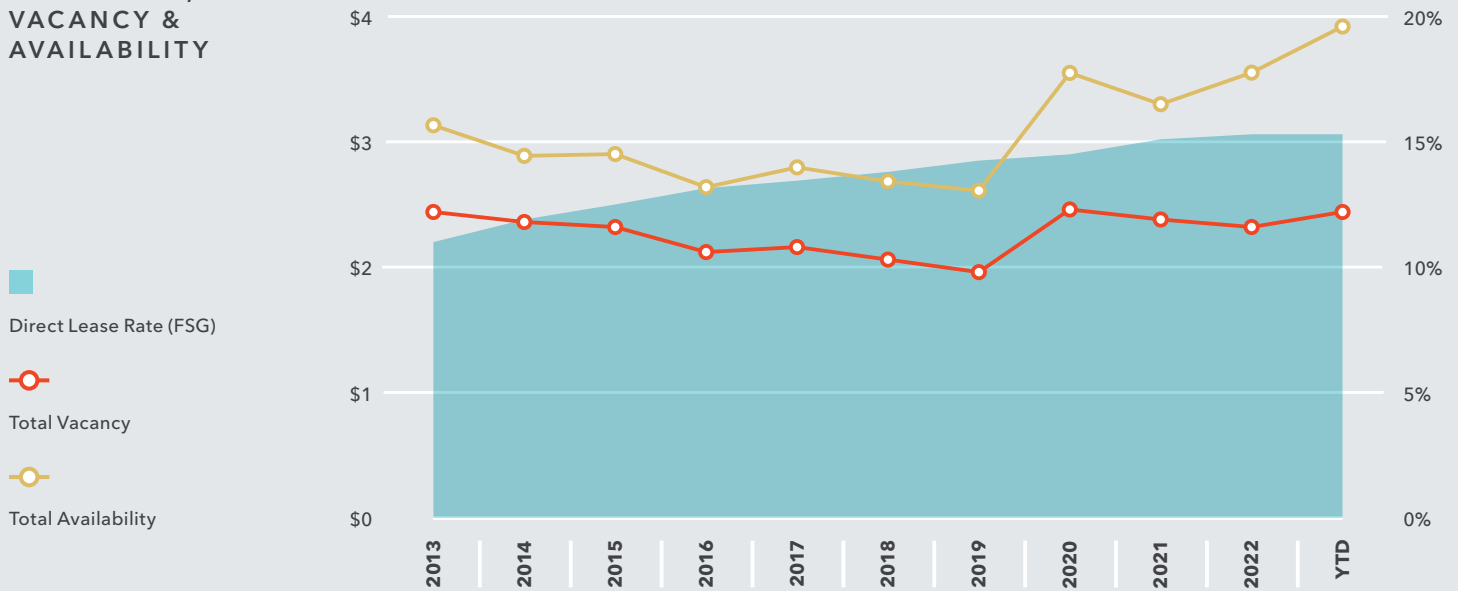
Market Highlights

LEASING VOLUME dropped to 1.3M SF

RENTAL RATES increased slightly YOY to \$3.06/SF on a full-service basis

SALES VOLUME fell over 68% YOY posting at 425K SF

LEASE RATE, VACANCY & AVAILABILITY

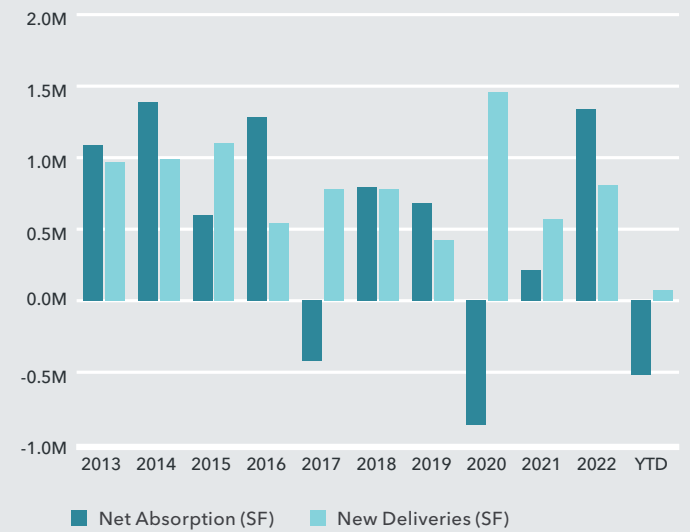


BIGGEST SALE OF THE QUARTER

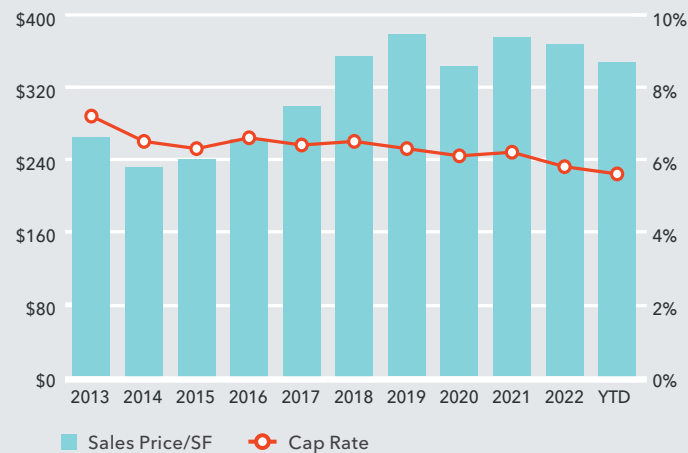
5825 Oberlin Dr



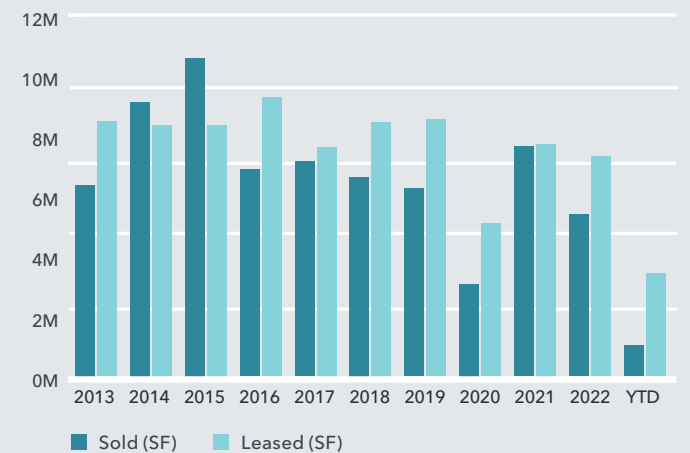
NET ABSORPTION & NEW DELIVERIES



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 Leasing Activity	Average Rental Rate (FS)
Carlsbad	6,972,035	13.1%	3.5%	22.3%	(39,817)	(54,388)	80,735	143,162	\$2.79
Escondido	1,800,613	10.8%	5.4%	22.4%	11,049	(20,775)	19,105	30,687	\$2.33
Oceanside	1,525,779	6.8%	0.2%	9.0%	(4,177)	(24,547)	7,917	14,894	\$2.37
San Marcos	1,482,054	4.3%	0.3%	6.0%	11,657	7,232	10,696	21,372	\$2.38
Vista	1,269,587	18.4%	2.1%	21.6%	(1,271)	11,074	9,425	12,871	\$2.38
North County	13,050,068	11.6%	2.9%	18.8%	(22,559)	(81,404)	127,878	222,986	\$2.59
Poway	1,390,271	6.7%	0.1%	7.5%	(6,077)	5,090	4,565	6,327	\$1.85
Rancho Bernardo	6,362,008	15.0%	1.8%	18.8%	(15,180)	97,339	81,612	314,881	\$3.18
Scripps Ranch	2,753,182	15.5%	7.8%	18.9%	27,171	43,901	42,172	56,740	\$2.95
I-15 Corridor	10,505,461	14.0%	3.1%	17.3%	5,914	146,330	128,349	377,948	\$2.94
Del Mar Heights/Carmel Valley	5,695,387	10.4%	7.8%	22.1%	(17,730)	39,834	70,079	170,191	\$4.70
Governor Park	769,855	10.6%	0.1%	12.5%	(7,990)	(368)	7,206	24,516	\$2.96
La Jolla	1,353,422	13.8%	2.5%	19.8%	(1,635)	(21,392)	15,070	29,939	\$3.43
Miramar	1,474,065	4.7%	0.3%	8.3%	5,200	23,325	11,565	37,627	\$2.09
North Beach Cities	2,459,428	6.8%	0.8%	9.9%	26,587	17,771	59,505	102,480	\$3.95
Sorrento Mesa	8,942,515	7.8%	2.9%	14.5%	21,884	(9,217)	106,672	482,934	\$3.28
Sorrento Valley	648,616	18.5%	0.0%	12.4%	(22,370)	(22,971)	1,775	14,117	\$2.80
Torrey Pines	3,197,075	5.8%	3.4%	8.1%	(599)	(17,818)	39,145	39,145	\$4.37
UTC	9,141,100	8.4%	7.1%	17.7%	(138,789)	(216,230)	212,196	271,533	\$4.13
North Cities	33,681,463	8.5%	4.5%	15.5%	(135,442)	(207,066)	523,213	1,172,482	\$3.84
Kearny Mesa	11,542,882	10.1%	2.1%	15.0%	5,439	47,482	115,836	826,827	\$2.78
Mission Gorge	640,497	2.9%	0.7%	3.9%	(1,611)	(7,844)	6,694	6,694	\$1.98
Mission Valley	7,423,384	18.8%	3.1%	21.8%	(102,982)	(105,925)	193,798	321,790	\$2.99
Old Town/Sports Arena/Pt. Loma	2,309,860	5.8%	5.7%	15.1%	(6,554)	5,791	6,626	17,375	\$2.76
PB/Rose Canyon/Morena	1,256,358	4.7%	1.3%	9.6%	1,374	9,822	10,031	29,583	\$2.34
Central Suburban	23,172,981	12.0%	2.7%	16.6%	(104,334)	(50,674)	332,985	1,202,269	\$2.80
College Area	1,224,665	3.0%	0.0%	5.2%	(1,306)	5,728	2,301	6,367	\$2.35
East County	3,790,747	3.5%	0.7%	5.2%	31,119	10,745	41,489	58,458	\$2.40
East County	5,015,412	3.4%	0.5%	5.2%	29,813	16,473	43,790	64,825	\$2.39
Park East	117,084	9.5%	0.0%	8.8%	1,143	(10,011)	1,876	2,356	-
Uptown East	101,852	0.0%	0.0%	0.0%	7,354	7,354	0	0	-
Uptown West/Park West	2,166,747	5.8%	0.9%	10.3%	12,320	34,441	25,160	41,935	\$2.68
Uptown	2,385,683	5.7%	0.8%	9.7%	20,817	31,784	27,036	44,291	\$2.68
Downtown	13,864,397	27.1%	1.1%	47.5%	(190,892)	(306,906)	151,521	274,210	\$2.84
Chula Vista	2,892,008	3.9%	0.2%	5.6%	(5,237)	(17,557)	33,889	48,290	\$2.57
Coronado	84,540	1.9%	0.0%	1.9%	0	0	0	0	\$3.25
National City	550,315	1.5%	4.7%	7.1%	16,198	4,004	3,661	7,698	\$2.16
Otay Mesa	187,078	31.8%	0.0%	31.8%	0	(51,927)	0	0	\$2.64
San Ysidro/Imperial Beach	132,746	4.1%	0.0%	4.1%	(3,296)	(3,296)	2,200	2,200	\$2.96
Southeast San Diego	476,159	3.5%	0.0%	3.5%	0	0	0	0	\$2.33
South County	4,322,846	4.7%	0.7%	6.6%	7,665	(68,776)	39,750	58,188	\$2.52
San Diego Total	105,998,311	12.2%	2.9%	19.6%	(389,018)	(520,239)	1,374,522	3,417,199	\$3.06
Class A	40,759,259	16.8%	5.2%	30.2%	(462,640)	(441,597)	701,275	1,578,817	\$3.50
Class B	51,104,302	9.9%	1.8%	14.5%	46,335	(54,321)	570,487	1,552,894	\$2.82
Class C	14,122,750	6.6%	0.2%	7.2%	27,287	(24,411)	102,760	285,488	\$2.24

TOP SALE TRANSACTIONS 2Q 2023

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
5825 Oberlin Dr - Yard 5825	Sorrento Mesa	60,518	\$36,000,000	\$594.86	King Street Properties	Nuveen
521 E Elder St	Fallbrook	33,643	\$9,700,000	\$288.32	Unity Medical Properties	Fallbrook Medical Arts, LLC
3710 Ruffin Rd	Kearny Mesa	20,060	\$7,890,000	\$393.32	Cabrillo Federal Credit Union	Council of Community Clinics
10717 Sorrento Valley Rd	Sorrento Valley	16,126	\$7,300,000	\$452.69	Ankur Bindal	Dong Yi Chen
1011 Devonshire Dr	North Beach Cities	10,007	\$6,735,000	\$673.03	Gari Sirinian	Tata Beachside, LLC

TOP LEASE TRANSACTIONS 2Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
4655 Executive Dr	UTC	45,706	Jun-23	Irvine Company	CoStar Group
9808 Scranton Rd	Sorrento Mesa	43,268	May-23	Alexandria Real Estate Equities, Inc.	Samsung
12830 El Camino Real	Del Mar Hts/Carmel Valley	30,294	May-23	Kilroy Realty Corporation	McCarthy Bldg Companies, Inc.
4365 Executive Dr	UTC	19,988	May-23	Irvine Company	Axos Bank
9255 Towne Centre Dr	UTC	16,737	Apr-23	Irvine Company	Undisclosed

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
RaDD - Alley/Rise/Vida/Edge	Waterfront Pl & Pacific Coast Hwy	Downtown	1,422,203	IQHQ	3Q23
The Campus at Horton	100 & 200 Horton Plz	Downtown	767,781	Stockdale Capital Partners	4Q23
West - Office	1011 Union St	Downtown	289,206	Holland Partner Group	1Q24
RaDD - Core	950 Waterfront Pl	Downtown	236,238	IQHQ	4Q24
La Jolla Commons Tower III	4727 Executive Dr	UTC	212,851	American Assets Trust, Inc.	3Q23

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



Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 20 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

\$12B

TRANSACTION
VOLUME ANNUALLY

32.1M

ANNUAL
SALES SF

41.2M

ANNUAL
LEASING SFASSET
SERVICES

53M

MANAGEMENT
PORTFOLIO SF

771+

ASSETS UNDER
MANAGEMENT

250+

ASSET SERVICES
CLIENTSVALUATION
ADVISORY

2,600+

ASSIGNMENTS
ANNUALLY

46

TOTAL
APPRAISERS

23

WITH MAI
DESIGNATIONS