

MARKET TRENDS

SAN DIEGO OFFICE

MARKET DRIVERS

Vacancy rates continued their steady rise, increasing by 90 basis points (bps) year-over-year (YOY) and 80 bps quarter-over-quarter (QOQ), resulting in a 12.9% vacancy rate. Total availability rates fell slightly YOY by 40 bps to 19.1%, while QOQ availability rates remained relatively flat. Office availability remains significantly elevated.

Total leasing activity fell YOY by 28.5%, posting 1.2M SF throughout the quarter. Year-to-date leasing activity totals 2.3M SF, falling from the 3.5M SF of leasing activity reported throughout the first half of 2023, resulting in the region's second consecutive quarter of negative direct net absorption.

2023 reported historically low levels of sales volume not seen in San Diego since 2009. Year-to-date sales volume totaled just over 1M SF, less than half of the 2.25M SF reported last year. Over 600K SF of office properties traded hands this quarter, a 30% YOY increase, but still trails the region's 5-year quarterly average of 1.2M SF.

ECONOMIC REVIEW

The United States recorded an unadjusted unemployment rate of 3.7% in May, just lower than the 4.5% recorded in California. San Diego County's 3.6% unemployment rate is up from the 3.3% posted last May but fell month-over-month. Between April and May, the County added 3,600 jobs in total non-farm employment.

The County's month-over-month job gains were led by leisure and hospitality, with 2,600 jobs added. Year-over-year private education and health services led all sectors by adding 11,400 jobs. The professional and business service industry had the largest year-over-year loss in jobs of 10,400.

NEAR-TERM OUTLOOK

Vacancies are expected to increase throughout the second half of 2024 due to a large amount of new office supply anticipated to be delivered with a significant portion of the space still available for lease. The construction activity is largely concentrated in the Downtown submarket, which is currently experiencing an elevated availability rate of 44.3%.

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Market Summary

	2Q24	1Q24	2Q23	YOY Change
Vacancy Rate	12.9%	12.1%	12.0%	90 bps
Availability Rate	19.2%	19.1%	19.6%	- 40 bps
Asking Lease Rate	\$3.00	\$3.00	\$3.06	-1.96%
	2Q24	2024 YTD	2023 YTD	YOY Change
Lease Transactions	1,241,537	2,351,562	3,497,096	-32.76%
Sale Transactions	623,866	1,011,099	1,113,778	-9.22%
Net Absorption	-321,425	-742,126	-562,514	N/A

↓ **1.2M SF**
LEASING ACTIVITY

↓ **-321KSF**
NET ABSORPTION

↑ **12.9%**
VACANCY RATE

↓ **\$3.00**
ASKING RENT (AVG)

↑ **289K SF**
NEW DELIVERIES

Year-Over-Year Trend

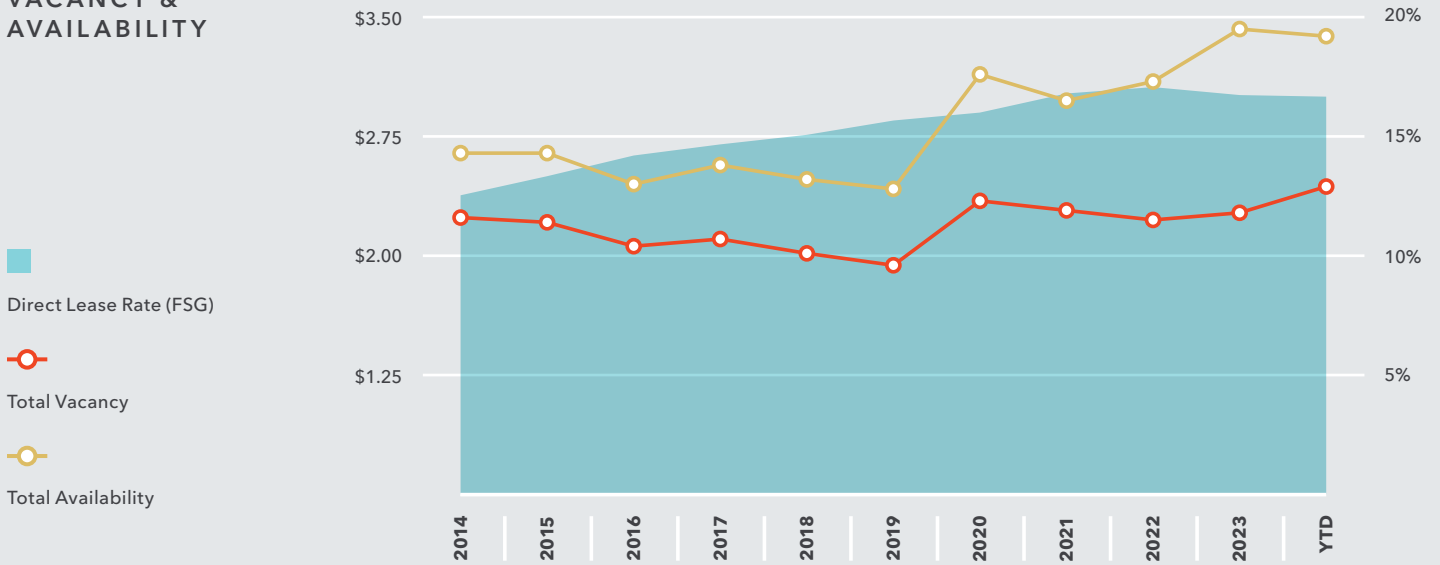
Market Highlights

LEASING VOLUME fell YOY to 1.2M SF

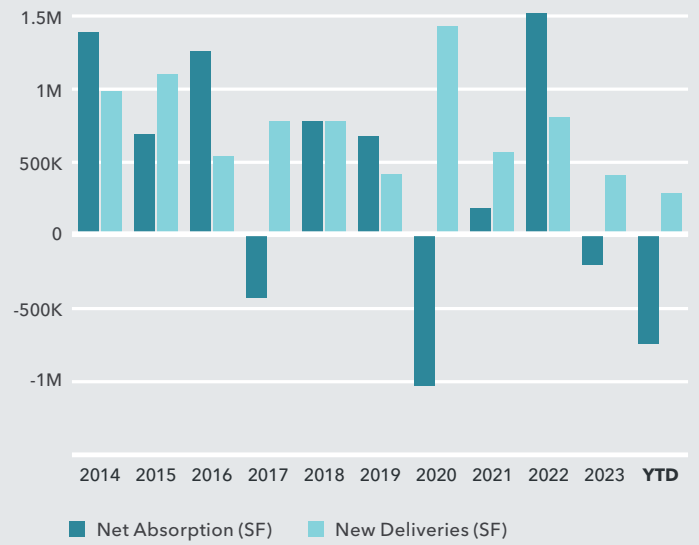
RENTAL RATES remained steady QOQ at \$3.00/SF FSG

SALES VOLUME grew 30% YOY but remains low compared to historical averages

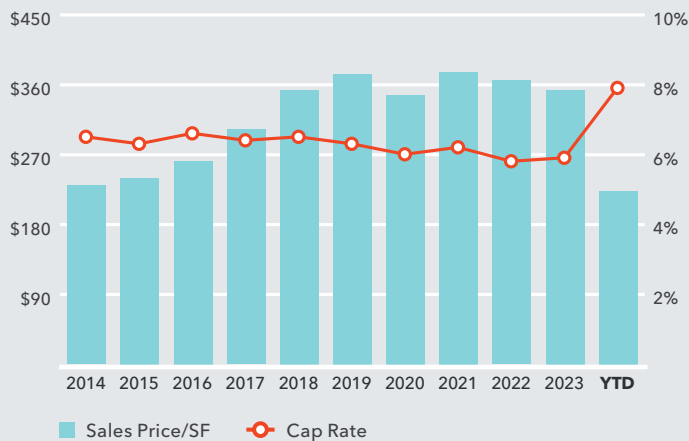
LEASE RATE, VACANCY & AVAILABILITY



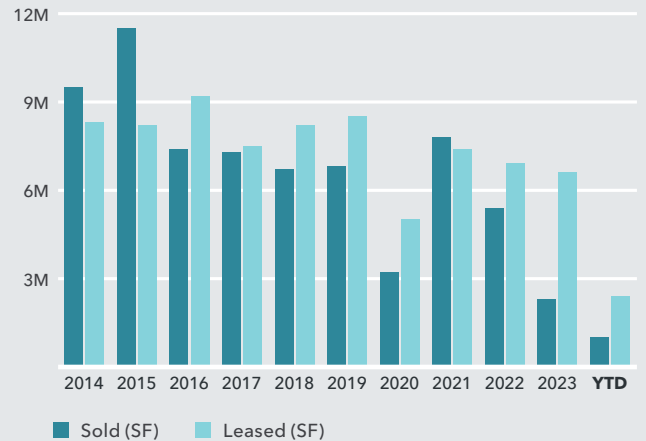
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Sublet Available Rate	Total Available Rate	2Q24 Direct Net Absorption	YTD Direct Net Absorption	2Q Total Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate (F5)
Carlsbad	7,063,991	14.5%	6.0%	24.9%	(58,843)	(127,846)	81,149	152,478	\$2.72
Escondido	1,740,262	13.2%	6.0%	21.9%	18,553	(14,402)	53,315	78,921	\$2.32
Oceanside	1,491,916	10.2%	0.1%	11.2%	14,618	(2,028)	16,503	30,464	\$2.63
San Marcos	1,482,054	4.6%	0.5%	7.8%	990	(3,220)	5,105	10,547	\$2.33
Vista	1,255,156	19.4%	2.1%	12.4%	(10,141)	(4,350)	8,008	12,820	\$2.42
North County	13,033,379	13.2%	4.3%	19.8%	(34,823)	(151,846)	164,080	285,230	\$2.58
Poway	1,246,715	8.0%	0.4%	8.2%	(5,787)	1,861	480	11,817	\$1.84
Rancho Bernardo	6,454,144	13.1%	1.5%	14.8%	43,508	(28,018)	148,106	213,997	\$3.20
Scrapps Ranch	2,742,662	17.0%	1.6%	14.5%	(18,447)	(31,400)	31,477	45,860	\$3.00
I-15 Corridor	10,443,521	13.5%	1.4%	13.9%	19,274	(57,557)	180,063	271,674	\$2.99
Del Mar Heights/Carmel Valley	5,711,614	14.2%	8.3%	20.2%	(2,801)	(92,924)	96,085	189,423	\$4.58
Governor Park	768,582	10.4%	1.0%	13.4%	(214)	(370)	19,347	43,172	\$2.96
La Jolla	1,350,248	14.8%	0.8%	18.7%	(15,829)	(3,573)	13,382	58,476	\$3.55
Miramar	1,508,065	6.0%	0.3%	40.3%	5,838	(21,262)	28,278	59,038	\$2.33
North Beach Cities	2,490,038	9.3%	1.9%	10.7%	(15,719)	(30,526)	35,479	62,458	\$4.03
Sorrento Mesa	8,486,289	7.3%	2.8%	11.9%	(49,857)	(89,516)	38,160	53,584	\$2.92
Sorrento Valley	610,215	23.0%	1.0%	13.9%	(8,753)	(37,145)	627	627	\$2.71
Torrey Pines	3,020,942	1.4%	0.5%	2.0%	6,844	9,110	2,377	3,521	\$4.26
UTC	9,161,301	10.1%	6.4%	21.1%	8,866	(13,732)	124,160	311,932	\$3.91
North Cities	33,107,294	9.5%	4.2%	16.5%	(71,625)	(279,938)	357,895	782,231	\$3.68
Kearny Mesa	11,403,125	7.9%	1.8%	14.5%	(18,814)	(6,091)	63,801	136,903	\$2.97
Mission Gorge	586,866	0.9%	0.0%	1.1%	(1,245)	(2,723)	4,070	6,937	\$2.11
Mission Valley	7,499,505	17.7%	3.1%	19.9%	(87,801)	(20,763)	193,035	335,354	\$2.94
Old Town/Sports Arena/Pt. Loma	2,306,052	9.2%	3.9%	14.4%	19,335	(12,452)	19,943	44,182	\$2.64
PB/Rose Canyon/Morena	1,188,527	6.1%	0.7%	9.3%	4,768	(36,954)	15,556	35,516	\$2.37
Central Suburban	22,984,075	10.9%	2.4%	15.7%	(83,757)	(78,983)	296,405	558,892	\$2.87
College Area	1,251,082	3.8%	0.1%	5.7%	3,961	1,289	9,098	9,098	\$2.52
East County	3,826,289	4.3%	0.5%	6.4%	(63,267)	(36,219)	28,615	46,953	\$2.42
East County	5,077,371	4.1%	0.4%	6.2%	(59,306)	(34,930)	37,713	56,051	\$2.44
Park East	117,084	0.0%	0.0%	0.0%	985	985	7,698	7,698	-
Uptown East	104,010	0.0%	0.0%	0.0%	400	0	9,015	9,015	\$1.98
Uptown West/Park West	2,179,768	6.1%	0.1%	8.6%	(7,503)	9,731	20,082	35,710	\$2.92
Uptown	2,400,862	5.6%	0.1%	7.8%	(6,118)	10,716	36,795	52,423	\$2.74
Downtown	14,223,994	30.0%	1.6%	44.3%	(67,006)	(148,088)	104,069	234,743	\$2.67
Chula Vista	2,972,610	4.6%	0.0%	8.3%	(10,002)	(16,932)	60,923	83,631	\$2.49
Coronado	84,540	0.0%	0.0%	0.0%	0	0	0	0	\$3.25
National City	583,906	2.2%	0.5%	10.7%	(7,925)	(3,777)	1,263	1,263	\$2.47
Otay Mesa	182,007	27.1%	0.0%	26.7%	783	1,903	711	5,578	-
San Ysidro/Imperial Beach	168,703	3.5%	0.0%	2.5%	(920)	(920)	1,620	1,620	\$4.40
Southeast San Diego	481,066	0.5%	0.0%	0.5%	0	18,226	0	18,226	\$2.33
South County	4,472,832	4.6%	0.1%	8.2%	(18,064)	(1,500)	64,517	110,318	\$2.46
San Diego Total	105,743,328	12.9%	2.7%	19.2%	(321,425)	(742,126)	1,241,537	2,351,562	\$3.00
Class A	40,232,526	17.0%	4.4%	27.6%	(50,089)	(289,179)	493,140	929,227	\$3.34
Class B	51,625,611	11.4%	2.1%	15.4%	(245,867)	(415,062)	658,658	1,229,037	\$2.79
Class C	13,885,191	6.6%	0.2%	8.7%	(25,469)	(37,885)	89,739	193,298	\$2.28

NEAR-TERM OUTLOOK CONTINUED

Nationally, major office markets have been experiencing elevated vacancy rates since 2020. Despite these widespread challenges, San Diego's office market has not experienced as significant of a shift in vacancy when compared to California's other major office markets. San Diego's 12.9% vacancy only remains slightly elevated from the region's pre-pandemic 10-year average of 11.6%.

SIGNIFICANT SALE TRANSACTIONS 2Q 2024

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
9275 & 9325 Sky Park Ct	Kearny Mesa	205,000	\$18,968,000	\$92.53	Orum Capital	TPG Angelo Gordon & Co, L.P.
Polo Plaza	Del Mar	63,629	\$18,500,000	\$290.75	Brixton Capital	Lincoln Property Group & ASB Capital Management
6719 Alvarado Rd	College Area	53,781	\$16,350,000	\$304.01	Sharp Healthcare	TDA Investment Group
3990 Ruffin Rd	Kearny Mesa	45,940	\$12,248,500	\$266.62	VEBA	CONAM Management Corporation
9265 Sky Park Ct	Kearny Mesa	44,020	\$11,500,000	\$261.24	Optima Medical Management Group	Omninet Capital

SIGNIFICANT LEASE TRANSACTIONS 2Q 2024

Property	Submarket	SF	Transaction Date	Landlord	Tenant
16465 Via Esprillo	Rancho Bernardo	82,999	May 2024	Drawbridge Realty	DRS Daylight Solutions*
7650 Mission Valley Rd	Mission Valley	74,000	June 2024	H.G. Fenton Company	City of San Diego
10620 Treena St	Scripps Ranch	23,388	June 2024	Joyce Snell	Engineering Partners
12400 High Bluff Dr	Del Mar Hts/ Carmel Valley	18,415	April 2024	Kilroy Realty	Neos Partners
600 W Broadway	Downtown	17,679	June 2024	Irvine Company	Shield AI*

*Renewal

SIGNIFICANT UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
RaDD - Alley/Rise/Vida/Edge	Waterfront Pl & Pacific Coast Hwy	Downtown	1,422,203	IQHQ	3Q24
The Campus at Horton	100 & 200 & 600 Horton Plz	Downtown	767,871	Stockdale Capital Partners	3Q24
RaDD - Core	950 Waterfront Pl	Downtown	236,238	IQHQ	4Q24
Thnk @ Millenia - Phase I	1785 Millenia Ave	Chula Vista	168,000	Chesnut Properties	4Q25
4555 Executive Dr	4555 Executive Dr	UTC	131,183	Scripps Health	4Q24

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



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COMMERCIAL BROKERAGE	<i>\$10B</i> 3-YEAR AVERAGE TRANSACTION VOLUME	<i>31.7M</i> ANNUAL SALES SF	<i>42.4M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>55M SF</i> MANAGEMENT PORTFOLIO SIZE	<i>800+</i> ASSETS UNDER MANAGEMENT	<i>260+</i> CLIENTS SERVED
VALUATION ADVISORY	<i>2,600</i> 3-YEAR AVERAGE ASSIGNMENTS	<i>43</i> TOTAL APPRAISERS	<i>27</i> WITH MAI DESIGNATIONS

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