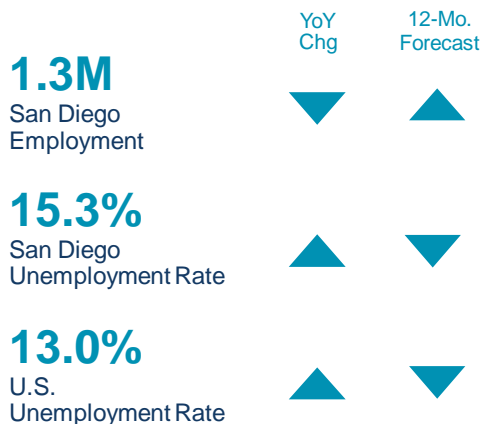


(Direct, All Property Classes)

ECONOMIC INDICATORS Q2 2020



Source: BLS, May 2020

ECONOMIC OVERVIEW: Unemployment Remains High as Outbreaks Reverse Reopening Plans

The San Diego employment market was significantly affected by COVID-19 stay-at-home orders, resulting in loss of 195,800 jobs (-13.0% year-over-year (YOY) through May 2020.¹ Of the 195,800 jobs lost, 91,200 or 47% were in the leisure and hospitality sector. Professional and business services sector lost 3,800 jobs (-1.5% YOY). During the same time period, monthly unemployment rate increased to 15.0% from 2.8% a year ago and is currently 930 basis points (bps) above the 30-year average of 5.7% and 30 bps below the Q2 2020 quarterly average of 15.3%. All employment sectors are expected to shrink at a combined rate of -6.6% in 2020 and grow 0.4% in 2021. San Diego's economy of \$244.9 billion as measured by gross regional product is forecasted to shrink by 5.7% in 2020 and return to growth 1.7% in 2021, below its 10-year average of 3.2%.²

The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID [here](#).

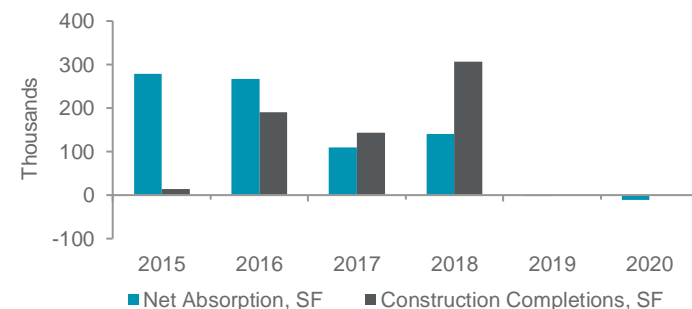
SUPPLY AND DEMAND: A Soft Quarter in Spite of COVID-19 Concerns

San Diego's medical office direct vacancy was 5.4% at the Q2 2020, an increase of 10 bps from Q1 2020 and a decrease of 10 bps from a year ago. The highest vacancy was recorded in the North County submarket and the lowest in South County submarket. Vacancy rates for every submarket remained in the single digits for the seventh consecutive quarter. Combined occupancy gains of 35,670 square feet (sf) in Class A and C space were enough to offset losses in Class B (-34,942 sf), resulting in overall growth of 800 sf in Q2 2020. While smaller providers have been shifting around multi-tenant medical office buildings, large provider groups have been obligated to seek larger build-to-suit projects. Major health systems such as UCSD, Scripps, Kaiser Permanente, Sharp Healthcare and the Department of Veterans Affairs all have build-to-suit projects planned or under construction across the county. The Central Suburban submarket will add the most to inventory with 270,000 sf under construction, all due in 2021 or later.

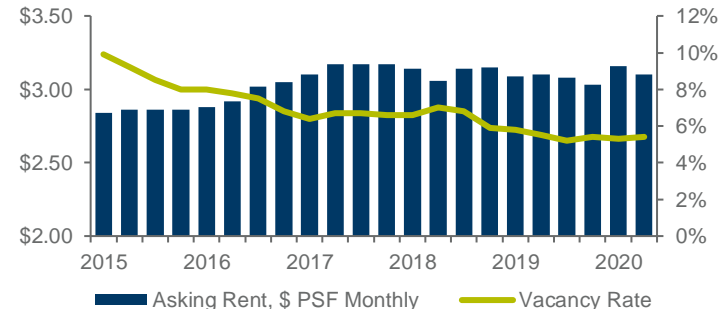
PRICING: Rents are Stable Year-Over-Year

Average countywide asking rent across all classes was \$3.10 per square foot (psf) on a monthly full-service basis in Q2 2020, the same as a year ago, but decreased 1.9% from the previous quarter. Average asking rent for Class A remained stable at \$3.66 psf compared to the previous quarter, while Class B rent dropped by 2.8% to \$3.09 psf, driving the quarterly decrease.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY & ASKING RENT



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	DIRECT VACANCY RATE	CURRENT QTR DIRECT NET ABSORPTION (SF)	YTD DIRECT NET ABSORPTION (SF)	YTD LEASING ACTIVITY** (SF)	YTD CONSTR COMPLETIONS (SF)	UNDER CNSTR (SF)	DIRECT AVG ASKING RENT (ALL CLASSES)*	DIRECT AVG ASKING RENT (CLASS A)*
Class A	3,550,834	10,069	172,383	4.9%	3,856	927	64,566	0	311,317	\$3.66	
Class B	7,456,583	7,969	431,481	5.8%	-34,942	-19,434	127,022	0	200,100	\$3.08	
Class C	1,972,790	0	103,150	5.2%	31,814	6,802	27,843	0	0	\$2.03	
North County	3,355,438	8,172	223,804	6.7%	5,585	4,628	53,886	0	155,317	\$2.91	\$3.59
Mid City	2,447,431	9,866	145,084	5.9%	-8,142	-7,806	44,150	0	0	\$3.87	\$4.37
I-15 Corridor	1,113,743	0	91,723	8.2%	-19,078	-24,222	31,930	0	0	\$2.89	\$4.00
Central Suburban	3,375,425	0	134,765	4.0%	23,766	2,405	48,095	0	270,100	\$2.88	\$3.71
East County	1,114,102	0	58,119	5.2%	-2,107	-1,221	10,961	0	86,000	\$2.83	\$3.23
South County	1,574,068	0	53,519	3.4%	704	14,511	30,409	0	0	\$2.81	\$3.52
On Campus	4,618,459	6,822	272,283	5.9%	1,191	3,002	44,236	0	175,000	\$2.87	\$3.69
Off Campus	8,361,748	11,216	434,731	5.2%	-463	-14,707	175,195	0	336,417	\$3.24	\$3.66
SAN DIEGO TOTALS	12,980,207	18,038	707,014	5.4%	728	-11,705	219,431	0	511,417	\$3.10	\$3.66

*Rental rates reflect full service asking. **Leasing includes renewals.

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
111 Campus Way	North County	Scripps Health	14,156	New
641 E. Pennsylvania Ave.	North County	EcoVivarium	10,240	New
8950 Villa La Jolla Dr.	Mid City	Psycare of San Diego	4,627	New
11770 Bernardo Plaza Ct.	I-15 Corridor	Genesis Health Care Partners	3,208	New
591 Camino de la Reina	Central Suburban	Healthy Minds	2,651	New

KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Frost Street Medical Center	Central Suburban	Healthpeak Properties / Sharp HealthCare	176,000	\$106.0M / \$602
Pomerado Professional Plaza	I-15 Corridor	Milan Capital Management / Healthcare Realty Trust	46,083	\$16.5M / \$358
3434 Midway Dr.	Central Suburban	Summit Circle Properties / Synovation Medical Group	26,500	\$6.0M / \$226
240 S. Hickory St.	North County	Bright Hill Investments / Hotel Investment Group	19,277	\$2.0M / \$104

Sources: ¹www.bls.gov ² GDP as of 2019. Moody's Analytics economy.com 6/2020.

JUSTIN BALAGTAS

Research Analyst

+1 858 625 5245 / justin.balagtas@cushwake.com

JOLANTA CAMPION

Director of Research – Nevada, Utah & San Diego

+1 858 625 5235 / jolanta.campion@cushwake.com

cushmanwakefield.com

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of \$8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2020 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.