

	YoY Chg	12-Mo. Forecast
5.8% Vacancy Rate	▲	▲
-48K Net Absorption, SF	▼	▲
\$3.09 Asking Rent, PSF	▲	▬

(Direct, All Property Classes)

ECONOMIC INDICATORS Q3 2020

	YoY Chg	12-Mo. Forecast
1.4M San Diego Employment	▼	▲
11.9% San Diego Unemployment Rate	▲	▼
8.8% U.S. Unemployment Rate	▲	▼

Source: BLS.

ECONOMIC OVERVIEW: Decreasing Unemployment Shows Signs of Life

The San Diego employment market has been significantly affected by COVID-19 stay-at-home orders, resulting in loss of 135,800 jobs or -9.0% year-over-year (YOY) through August 2020.¹ Of the 135,800 jobs lost, 60,100 (-28.9% YOY) or 44% of losses were in the leisure and hospitality sector. Professional and business services sector lost just 300 jobs (-0.1% YOY). During the same time period, the monthly unemployment rate increased from 3.4% last year to 9.9% and is currently 420 basis points (bps) above the 30-year average of 5.7% and 200 bps below the Q3 2020 quarterly average of 11.9%. All employment sectors are expected to shrink at a combined rate of -7.5% in 2020 and -0.4% in 2021. San Diego's economy of \$244.9 billion as measured by gross regional product is forecasted to shrink by 4.9% in 2020 and return to growth of 3.6% in 2021, above its 10-year average of 3.2%.²

Upon the arrival of COVID-19 in the U.S., the economy entered a recession in March 2020, recording the worst decline in post-war history in Q2 2020. Mounting evidence indicates that the recovery began in May or June with Q3 2020 data likely reflecting that. But, until there is a public health resolution to the pandemic, the recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident. Access the most recent research on CRE and the state of economy [here](#).

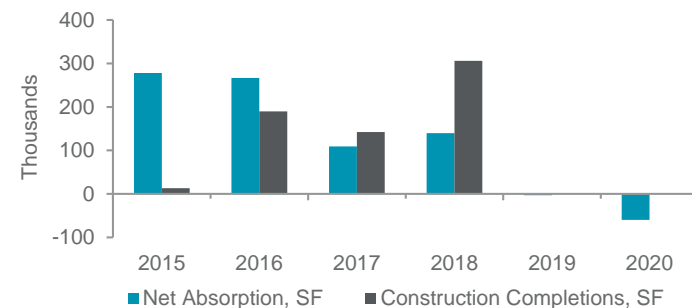
SUPPLY AND DEMAND: Vacancy Rises as Pandemic Continues

San Diego's medical office direct vacancy was 5.8% at the end of Q3 2020, an increase of 40 bps from Q2 2020 and of 60 bps from a year ago. The highest vacancy was recorded in the I-15 Corridor submarket and the lowest in South County submarket. Vacancy rates for every submarket remained in the single digits for the eighth consecutive quarter. Class B properties experienced the most negative absorption, returning 41,485 square feet (sf) this quarter, followed by Class A returning 20,572 sf. 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 2021 or later.

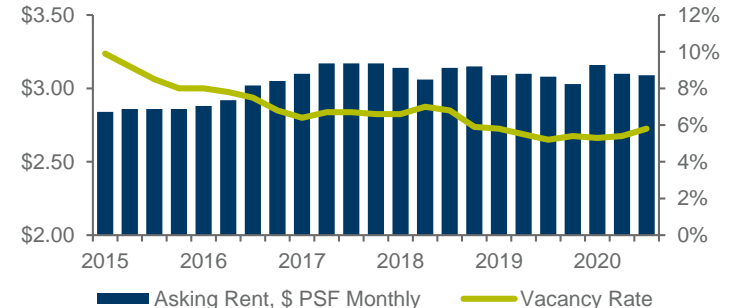
PRICING: Rents are Stable Year-Over-Year

Average countywide asking rent across all classes was \$3.09 per square foot (psf) on a monthly full-service basis in Q3 2020, a cent decrease from previous quarter and a cent increase from a year ago. Average asking rent for Class A increased 0.5% to \$3.68 psf compared to the previous quarter, while Class B rent dropped by 1.3% to \$3.04 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	3,563,223	4,300	192,955	5.4%	-20,572	-19,645	220,872	0	316,381	\$3.68	
Class B	7,456,598	8,234	472,966	6.3%	-41,485	-60,919	237,026	0	200,100	\$3.04	
Class C	1,972,790	0	89,318	4.5%	13,832	20,634	39,541	0	0	\$2.08	
North County	3,360,897	5,800	239,836	7.1%	-16,032	-11,404	117,528	0	160,381	\$2.85	\$3.59
Mid City	2,454,276	6,734	152,680	6.2%	-7,596	-15,402	192,265	0	0	\$3.86	\$4.37
I-15 Corridor	1,113,843	0	92,115	8.3%	-392	-24,614	53,477	0	0	\$3.24	\$3.99
Central Suburban	3,375,425	0	154,485	4.6%	-19,720	-17,315	89,856	0	270,100	\$2.92	\$3.72
East County	1,114,102	0	62,724	5.6%	-4,605	-5,826	13,904	0	86,000	\$2.72	\$3.30
South County	1,574,068	0	53,399	3.4%	120	14,631	30,409	0	0	\$2.70	\$3.06
On Campus	4,618,474	0	293,330	6.4%	-21,047	-18,045	50,343	0	180,064	\$2.85	\$3.75
Off Campus	8,374,137	12,534	461,909	5.5%	-27,178	-41,885	447,096	0	336,417	\$3.26	\$3.65
SAN DIEGO TOTALS	12,992,611	12,534	755,239	5.8%	-48,225	-59,930	497,439	0	516,481	\$3.09	\$3.68

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

KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
3811 Valley Centre Dr.	Mid City	Scripps Health	118,912	Renewal
3252 Holiday Ct.	Mid City	UCSD	7,092	Renewal
5414 Oberlin Dr.	Central Suburban	Discovery Practice Management	6,552	Renewal/Expansion
3838 Camino Del Rio N.	Central Suburban	Recovery Innovations	4,562	Renewal
4700 Spring St.	East County	Center for Autism and Related Disorders	3,513	New

KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
2176 Salk Ave.	North County	H.G. Fenton Company / Scripps Health	46,199	\$24.8M / \$536
704 E. Grand Ave.	South County	Matthew Belshin / San Ysidro Health	8,844	\$2.8M / \$320
405 Lexington Ave.	East County	Alejandro Campillo / San Ysidro Health	7,155	\$2.3M / \$325
8705 Complex Dr.	Central Suburban	Booming International / Mehran Moussavian	5,040	\$2.3M / \$456

Sources: ¹www.bls.gov ² GDP as of 2019. Moody's Analytics economy.com 9/2020.

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