MARKETBEAT

SAN DIEGO

Medical Office Q4 2020

	YoY Chg	12-Mo. Forecast
6.3% Vacancy Rate		
153K Net Absorption, SF		
$3.17 Asking Rent, PSF		

(Direct, All Property Classes)

ECONOMIC INDICATORS Q4 2020

	YoY Chg	12-Mo. Forecast
183K San Diego Health Care Employment		
7.2% San Diego Unemployment Rate		
6.7% U.S. Unemployment Rate		

Source: BLS, Moody's Analytics Economy.com.

ECONOMIC OVERVIEW: Unemployment Drops as Vaccine Distribution Begins

The San Diego employment market has been significantly impacted by COVID-19 stay-at-home orders, resulting in a loss of 97,700 jobs or -6.4% year-over-year (YOY) through November 2020. Of the 97,700 jobs lost, 45,100 (-22.3% YOY) or 46.2% of losses were in the leisure and hospitality sector. Professional and business services sector added 7,300 jobs (+2.8% YOY). During the same time, the monthly unemployment rate increased from 2.9% last year to 6.6% and is currently 90 basis points (bps) above the 30-year monthly average of 5.7% and 40 bps below the Q4 2020 quarterly average of 7.2%.[1] On the bright side, total monthly job gains have been positive for the last four consecutive months and in health care sector for the last seven months. All employment sectors are expected to grow at a combined rate of 1.3% in 2021 and 2.8% in 2022. San Diego's economy of $241.2 billion as measured by gross regional product is forecasted to grow by 4.3% in 2021 and 5.5% in 2022, above its 10-year average of 2.7%.[2]

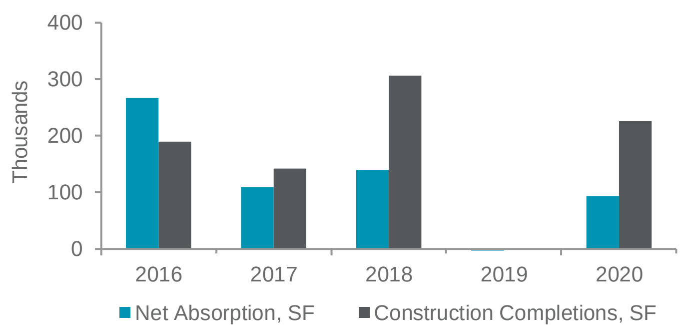
SUPPLY AND DEMAND: New Inventory Comes Online, Vacancy Remains Up

San Diego's medical office direct vacancy was 6.3% at the end of Q4 2020, an increase of 50 bps from Q3 2020 and of 90 bps from a year ago. Direct vacancy landed at the highest point since Q3 2018 while 226,064 square feet (sf) of new inventory delivered in 2020. Net absorption in Q4 2020 was 152,996 sf, with Class A and Class B properties absorbing 118,044 sf and 54,652 sf respectively, bringing the annual net absorption to 93,066 sf. Build-to-suit (BTS) deliveries were the primary contributor to fourth quarter's strong absorption numbers. Sharp Healthcare delivered an 86,000-sf building in East County while Palomar Health, and Scripps Health delivered 80,000-sf and 60,000-sf buildings in North County, respectively. Vacancy rates for every submarket also remained in the single digits for the ninth consecutive quarter. The highest vacancy was recorded in the North County submarket at 8.3% and the lowest in South County submarket at 4.1%. Major health systems such as Scripps, Kaiser Permanente and the Department of Veterans Affairs all have BTS projects under construction or planned across the county, while demand for speculative development is limited. The Central Suburban submarket will add the most to inventory with 270,100 sf under construction, all due 2021 or later.

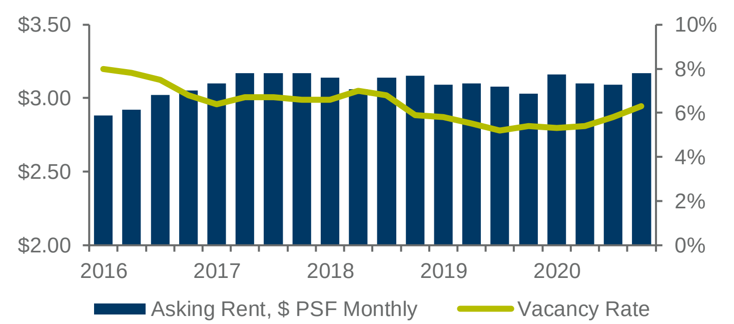
PRICING: Rents Rise Slightly

Average countywide asking rent across all classes was $3.17 per square foot (psf) on a monthly full-service basis in Q4 2020, an 8-cent increase from previous quarter and a 14-cent increase from a year ago. Average asking rent for Class A increased 1.1% to $3.72 psf compared to the previous quarter, while Class B rent increased by 2.3% to $3.11 psf, driving this quarter's increase.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY / ASKING RENT



MARKETBEAT

SAN DIEGO

Medical Office Q4 2020

CUSHMAN & WAKEFIELD

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	3,729,287	5,097	240,975	6.5%	118,044	98,399	230,467	166,064	150,317	$3.72	
Class B	7,525,442	6,380	478,314	6.4%	54,652	-6,267	350,649	60,000	140,100	$3.11	
Class C	1,978,130	1,650	109,018	5.5%	-19,700	934	51,665	0	0	$2.09	
North County	3,509,805	8,247	292,967	8.3%	86,933	75,529	154,409	140,064	20,317	$3.13	$3.72
Mid City	2,459,916	4,880	155,630	6.3%	-2,950	-18,352	231,681	0	0	$3.86	$4.34
I-15 Corridor	1,113,843	0	80,625	7.2%	11,490	-13,124	67,308	0	0	$3.32	$4.04
Central Suburban	3,375,425	0	153,818	4.6%	667	-16,648	118,507	0	270,100	$2.90	$3.72
East County	1,200,102	0	81,063	6.8%	67,661	61,835	30,467	86,000	0	$2.68	$3.30
South County	1,574,068	0	64,204	4.1%	-10,805	3,826	30,409	0	0	$2.75	$3.01
On Campus	4,758,538	1,650	343,260	7.2%	90,134	72,089	59,670	140,064	40,000	$3.09	$3.86
Off Campus	8,474,321	11,477	485,047	5.7%	62,862	20,977	573,111	86,000	250,417	$3.24	$3.63
SAN DIEGO TOTALS	**13,232,859**	**13,127**	**828,307**	**6.3%**	**152,996**	**93,066**	**632,781**	**226,064**	**290,417**	**$3.17**	**$3.72**

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

KEY LEASE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
17190 Bernardo Center Dr.	I-15 Corridor	Pomerado Outpatient Surgical Center	9,306	Renewal
3870 Murphy Canyon Rd.	Central Suburban	Exodus Recovery	6,287	New Lease
9565 Waples St.	Mid City	Functional Integrated Therapeutics Services	6,215	New Lease
6305 Lusk Blvd.	Mid City	Casa Palmera Care Center, LLC	5,531	New Lease

KEY SALES TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / $ PSF
4765 Carmel Mountain Rd.	Mid City	Coast Income Properties / Health Care Realty Trust	47,596	$37.4M / $785
600 Broadway	East County	Randn, LLC / Sukut Real Properties	17,000	$8.6M / $506
700 W El Norte Pkwy.	North County	Massengill Family Trust / Acuity Eye Group	15,105	$4.6M / $301

KEY CONSTRUCTION COMPLETIONS 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
8701 Cuyamaca St.	East County	Sharp Healthcare	86,000	Sharp Healthcare
2130 W. Citracado Pkwy.	North County	Palomar Health Outpatient Center	80,064	Palomar Pomerado Health
326 Santa Fe Dr.	North County	Scripps MD Anderson Cancer Center	60,000	Scripps Health

Sources: [1]www.bls.gov [2] GDP as of 2020. Moody's Analytics economy.com 12/2020.

JUSTIN BALAGTAS
Senior 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

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.

cushmanwakefield.com