

MARKETBEAT SAN DIEGO



Office Q1 2021

	YoY Chg	12-Mo. Forecast
14.0% Vacancy Rate	▲	▼
196K Net Absorption, SF	▲	▲
\$3.44 Asking Rent, PSF	▲	▲

(Direct, All Property Classes)

ECONOMIC INDICATORS Q1 2021

	YoY Chg	12-Mo. Forecast
1.4M San Diego Employment	▼	▲
7.8% San Diego Unemployment Rate	▲	▼
6.0% U.S. Unemployment Rate	▲	▼

Source: BLS

ECONOMIC OVERVIEW: Unemployment Rate Declining

The San Diego employment market has recovered nearly half (47%) of the 248,000 jobs lost during the beginning of pandemic between March and April of 2020. Nonfarm employment fell by 131,700 or -8.7% year-over-year (YOY) through February 2021, with the leisure and hospitality sector accounting for 66,100 jobs lost. During the same time, the monthly unemployment rate increased from 3.2% last year to 7.2%. The current rate is 870 basis points (bps) lower compared to the 15.9% high recorded in April of 2020 and 60 bps below the Q1 2021 quarterly average of 7.8%.¹ All employment sectors are expected to grow at a combined rate of 2.1% in 2021 and 3.8% in 2022. Office employment is forecasted to grow 3.5% in 2021 and 3.0% in 2022. San Diego's economy of \$250.6 billion as measured by gross regional product is forecasted to return to growth of 4.8% in 2021 and 6.4% in 2022, above its 10-year average of 2.6%.²

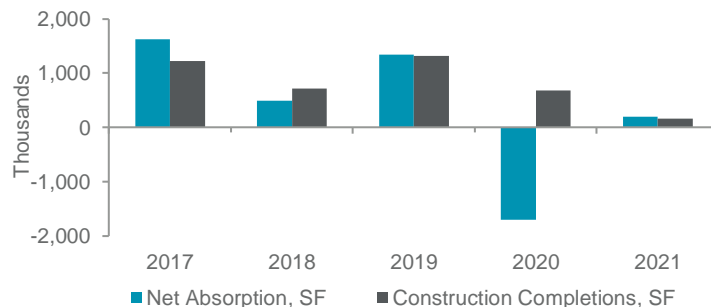
SUPPLY AND DEMAND: Apple, Biotech Drive Positive Absorption

At the end of Q1 2021, San Diego's direct office vacancy was 14.0%, a decrease of 20 bps from the previous quarter and an increase of 200 bps from a year ago. Sublease vacancy decreased 20 bps from last quarter (QOQ) and increased 50 bps YOY. Tenants absorbed 196,000 square feet (sf) in Q1 2021, after four consecutive quarters of negative absorption. Class A buildings absorbed the most space in Q1 2021 (+188,600 sf), followed by class B product (71,000 sf), while tenants returned 64,300 sf of Class C space. Rancho Bernardo recorded the most positive absorption in Q1 2021 (+175,000 sf), followed by Eastgate (166,200 sf). Apple drove absorption in these two submarkets, with the tech giant occupying 197,000 sf at Summit Rancho Bernardo and 9455 Towne Centre Drive. Sorrento Mesa (+85,500 sf) and Carlsbad (+78,000 sf) recorded the next strongest absorption numbers, driven by life sciences and medical device companies, including Alphatec Spine, AnaptysBio and Dexcom. Downtown (-122,200 sf), Kearny Mesa (-93,000 sf) and Del Mar Heights (-75,000 sf) recorded the most negative absorption in Q1 2021, primarily driven by mid-sized tenants vacating or downsizing.

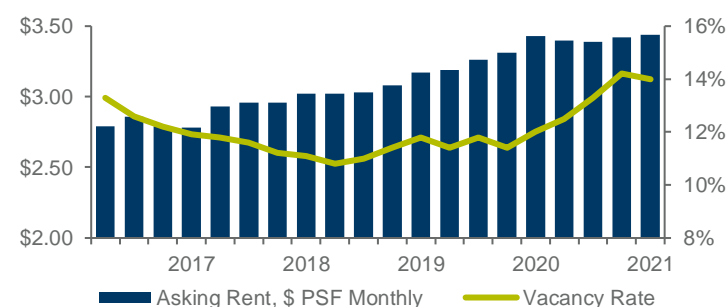
TENANT TRENDS: Future Occupancies Provide Optimism

Leasing activity remained low in Q1 2021 at 1.1 msf (103 deals), including renewals compared to 1.3 msf (152 deals) in Q4 2020 and 2.0 msf (291 deals) in Q1 2020. Torrey Pines (21%), Sorrento Mesa (17%) and Rancho Bernardo (13%) accounted for 51% or 560,000 sf leased in Q1 2021. Apple signed the largest office lease this quarter, taking a 135,000-sf building at Rancho Vista Corporate Center in Rancho Bernardo. They also signed a 63,000-sf deal in Eastgate and look to continue to grow in the market. Life sciences tenants continue to drive demand. In Sorrento Mesa, Quidel expanded into Abbott Laboratories' space at Summers

SPACE DEMAND / DELIVERIES



DIRECT VACANCY / ASKING RENT



SAN DIEGO

Office Q1 2021



Ridge Science Park taking 124,000 sf. In Torrey Pines, Surgalign leased an entire building at Muse for 95,000 sf. Most of the expected future absorption from previously signed leases will come from the life sciences sector, including tenants like Foundation Medicine (Roche), Erasca and Mirati Therapeutics. Many of these tenants listed are expected to expand over the next few years. Though activity from traditional office tenants has largely been limited to renewals, Apple has nearly 350,000 sf of leases they are expected to occupy over the next 12 months across existing and under construction product, with further plans for a major San Diego campus.

PRICING: Sticker Prices Remain Stable

Countywide asking rent across all classes increased slightly to \$3.44 per square foot (psf) on a monthly full-service basis. This metric increased by \$0.02 over the last three months (+0.6% QOQ) and \$0.01 over the last 12 months (+0.3% YOY). Over the past 12 months, Class A average rent has increased by 1.6% to \$3.87 psf, while the Class B rent has decreased by 2.1% to \$3.30 psf. New speculative construction and biotech conversions of older buildings are expected to push rents higher over the next twelve months.

FUTURE INVENTORY: Developers Seek Out Life Sciences

Of the 25 properties totaling over 3.7 msf, currently under construction countywide, 34% are pre-leased and 1.4 msf (20 buildings) are expected to be delivered by the end of 2021. The majority or 85% of inventory is speculative with the remaining 15% build-to-suit. Over 54% or 2.0 msf of inventory currently under construction is located in the Downtown submarket.

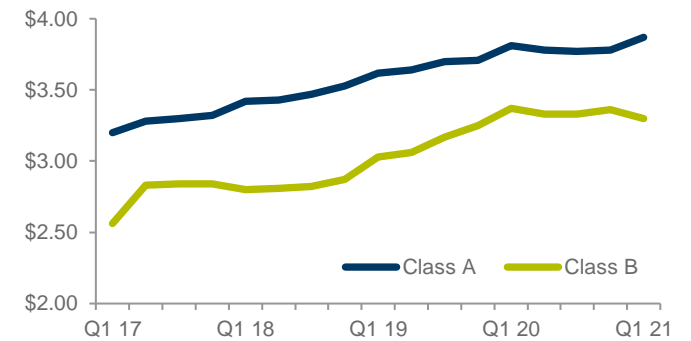
Since the beginning of 2020, over 1.6 msf of speculative life sciences product has broken ground. In Torrey Pines, Cooley leased 73,776 sf, an entire building at The Boardwalk, while Zentalis Pharmaceuticals took the remaining two buildings, totaling 117,929 sf. Element Biosciences expanded their lease for an entire new building at Alexandria Tech Center that broke ground in Q3 2020. At Muse Torrey Pines, Surgalign leased a 94,457-sf building, Prometheus leased 27,834 sf and Organogenesis took 22,966 sf. Much of future absorption will come from leases signed for projects currently under construction. In Eastgate, Apple leased a 204,000-sf building due by Q4 2021. In Oceanside, a 100,000-sf built-to-suit project for the County of San Diego Health & Human Services department is estimated to be completed in Q2 2021.

Sources: www.bls.gov GDP as of 2020. Moody's Analytics economy.com 3/2021.

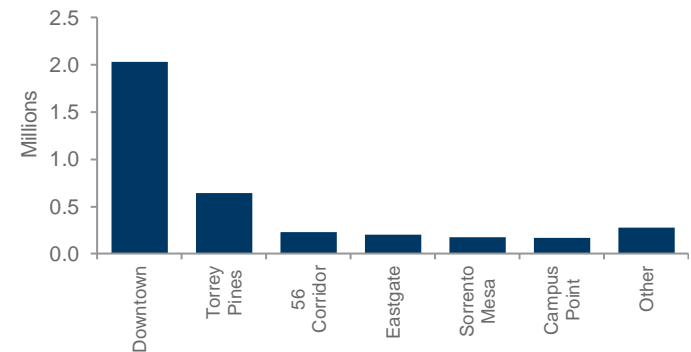
Outlook

- Expanding COVID-19 vaccine eligibility in California and throughout the country will result in increased activity through the year. However, tenants are reassessing their real estate footprint based on work-from-home policies as well as assessing both short and long-term needs working through and after the pandemic. Leasing within the 10,000 to 50,000 sf range will continue to be the main driver of activity, accounting for 59% of total sf in lease obligations set to expire over the next 18 months.
- Active tenant requirements of all sizes remain robust at 4.4 msf over the next 24 months countywide, led by Apple's search for a San Diego campus. While many of these tenants paused their plans due to COVID-19, a majority have activated their requirement or begun exploring the market. While not all of the current tenants in the market will transact in the short term, these levels provide a barometer to leasing activity in quarters to follow.

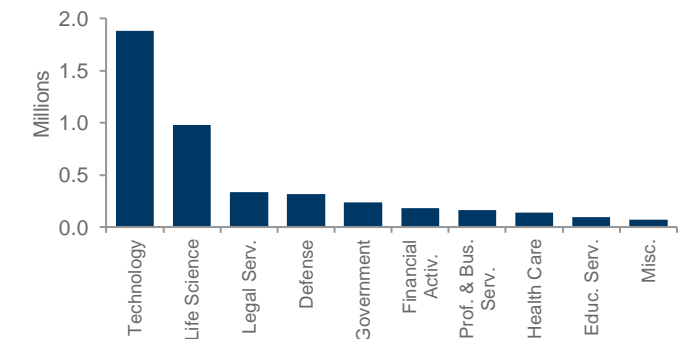
AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



UNDER CONSTRUCTION INVENTORY BY SUBMARKET



TENANT DEMAND BY INDUSTRY SECTOR



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)*
North County	11,468,935	69,650	1,755,545	15.3%	58,606	58,606	81,111	0	267,532	\$2.76	\$3.09
Central County	53,645,792	756,326	6,841,397	12.8%	254,182	254,182	769,045	160,444	1,434,909	\$3.63	\$4.07
South County	17,684,703	168,070	2,965,129	16.8%	-117,276	-117,276	13,880	0	2,032,491	\$3.35	\$3.85
Class A	37,252,027	613,852	5,469,486	14.7%	188,595	188,595	405,491	160,444	3,595,360	\$3.87	
Class B	35,527,142	359,111	4,853,958	13.7%	71,202	71,202	427,835	0	139,572	\$3.30	
Class C	10,020,261	21,083	1,238,627	12.4%	-64,285	-64,285	30,710	0	0	\$2.06	
SAN DIEGO TOTALS	82,799,430	994,046	11,562,071	14.0%	195,512	195,512	864,036	160,444	3,734,932	\$3.44	

*Rental rates reflect full service asking. **Renewals not included in leasing statistics.

KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Rancho Vista Corporate Center	Rancho Bernardo	Apple	134,748	New
Summers Ridge Science Park	Sorrento Mesa	Quidel	124,461	Expansion
Muse Torrey Pines	Torrey Pines	Surgalign	94,457	New
Campus Pointe 1	Campus Point	UCSD	87,556	Renewal**
Eastgate Technology Park	Eastgate	Apple	63,412	New

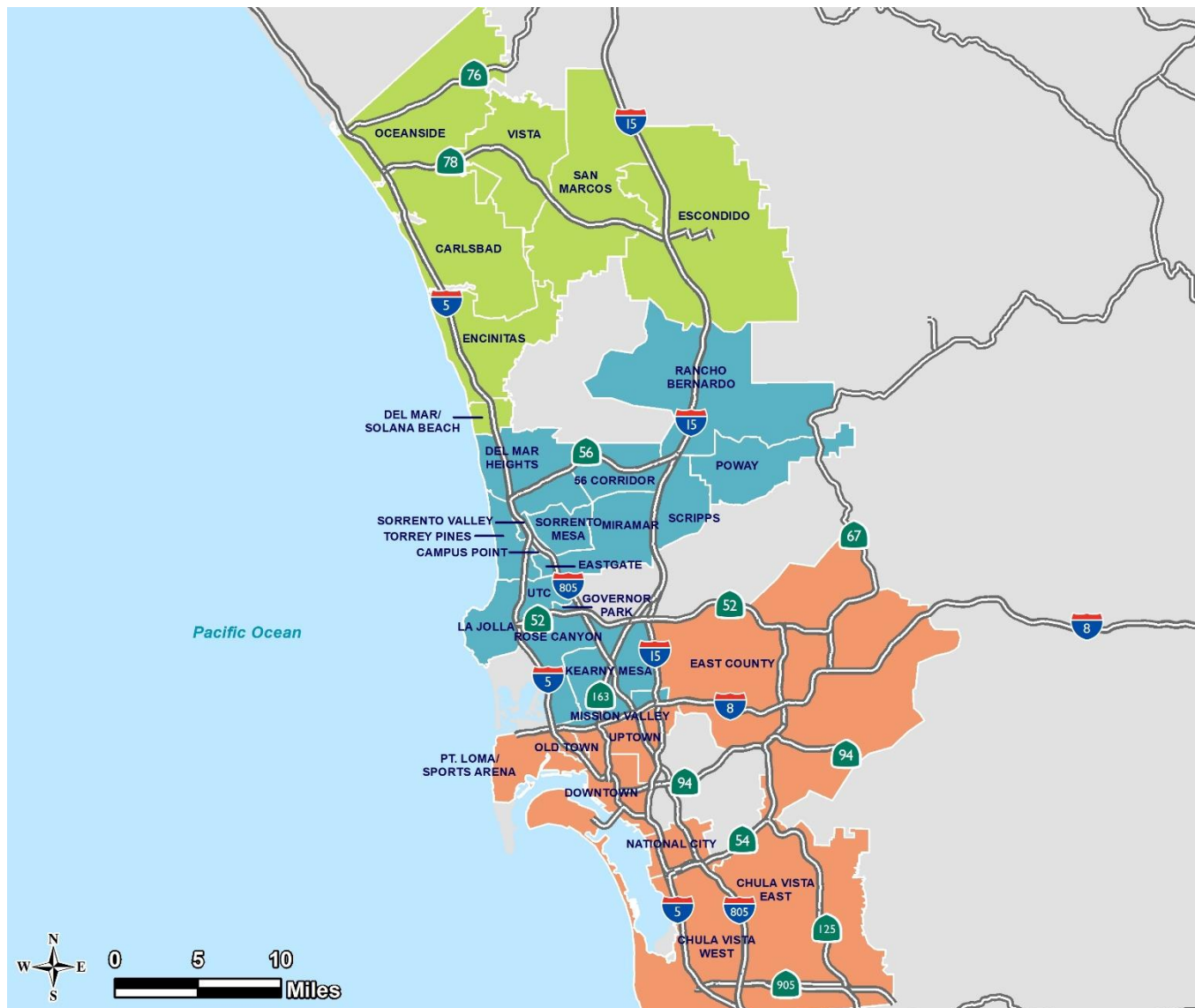
KEY SALES TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Rancho Bernardo Portfolio	Rancho Bernardo	Pain in San Diego, LLC / Montana Avenue Capital & Arsenale	195,272	\$45.5M / \$233
Palomar Health Outpatient Center	Escondido	JRMC Real Estate / Harrison Street Capital	80,064	\$53.6M / \$669
The Oberlin	Sorrento Mesa	Crown Realty & Development / Longfellow Real Estate Partners	62,424	\$25.8M / \$413
9955 Mesa Rim Rd.	Sorrento Mesa	Lincoln Property Company / BentallGreenOak	39,644	\$19.8M / \$498
2710 Loker Ave. W.	Carlsbad	EMU Properties / Bob Baker Auto Group	32,196	\$8.2M / \$255

KEY CONSTRUCTION COMPLETIONS 2021

PROPERTY	SUBMARKET	TENANT	SF	OWNER
9455 Towne Centre Dr.	Eastgate	Apple	160,444	Kilroy Realty Corporation

OFFICE SUBMARKETS



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