

	YoY Chg	12-Mo. Forecast
6.2% Vacancy Rate	▲	▼
120K Net Absorption, SF	▲	▲
\$3.25 Asking Rent, PSF	▲	▬

(Direct, All Property Classes)

ECONOMIC INDICATORS Q2 2021

	YoY Chg	12-Mo. Forecast
188K San Diego Health Care Employment	▲	▲
6.6% San Diego Unemployment Rate	▼	▼
5.9% U.S. Unemployment Rate	▼	▼

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

ECONOMIC OVERVIEW: Unemployment Rate Declining

The San Diego employment market has recovered more than half (54%) of the 248,000 jobs lost during the beginning of the pandemic between March and April of 2020. Nonfarm employment grew by 119,500 or +9.3% year-over-year (YOY) between May 2020 through May 2021, with the leisure and hospitality sector accounting for 46,100 jobs added. During the same time, the monthly unemployment rate decreased from 15.6% last year to 6.4%. The current rate is 950 basis points (bps) lower compared to the 15.9% high recorded in April of 2020 and 20 bps below the Q2 2021 quarterly average of 6.6%.¹ All employment sectors are expected to grow at a combined rate of 2.2% in 2021 and 4.5% in 2022. Office employment is forecasted to grow 3.0% in 2021 and 3.5% in 2022. San Diego's economy of \$241.7 billion as measured by 2020 gross regional product is forecasted to return to growth of 8.4% in 2021 and 5.9% in 2022, above its 10-year average of 2.7%.²

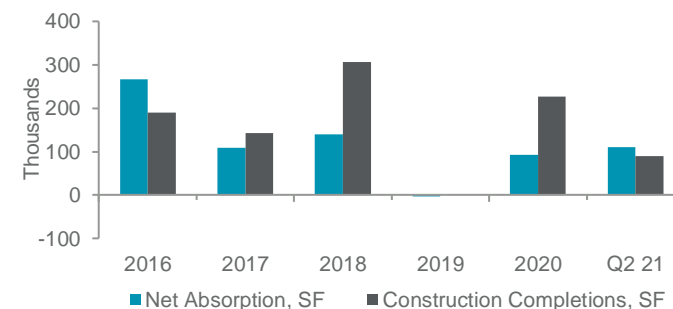
SUPPLY AND DEMAND: New Construction Drives Absorption

San Diego's medical office direct vacancy was 6.2% at the end of Q2 2021, a decrease of 20 bps from Q1 2021 but an increase of 80 bps from a year ago. The market absorbed 119,892 sf as all classes experienced positive absorption, with class A absorbing 95,538 sf primarily as a result of the delivery of a 90,000-sf build-to-suit project for Kaiser in Kearny Mesa. Vacancy rates for every submarket also remained in the single digits for the eleventh consecutive quarter. The highest vacancy was recorded in the North County submarket at 8.8% though tenants absorbed just 840 sf. The lowest vacancy was recorded in the Central Suburban submarket at 4.2%. Major health systems, such as Scripps 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 180,100 sf under construction, all due 2021 or later.

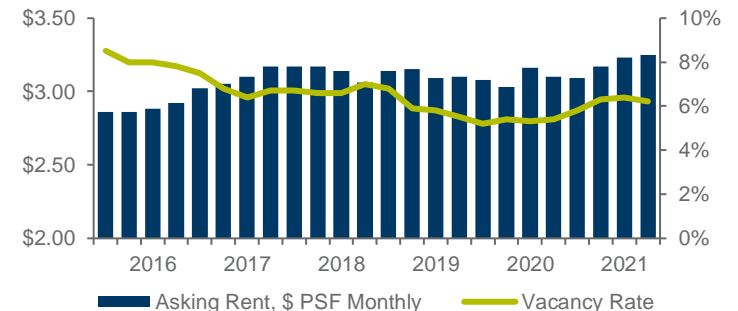
PRICING: Class B Activity Drives Rent Growth

Average countywide asking rent across all classes was \$3.25 per square foot (psf) on a monthly full-service basis in Q4 2020, a 2-cent increase from previous quarter (+0.6% QOQ) and a 15-cent increase from a year ago (+4.8% YOY). Class B Rents drove this increase, rising 0.6% from the previous quarter and 4.9% year-over-year to \$3.23 as a result of the addition of available space in higher rent markets, including Mid City and the I-15 Corridor. Class A rents increased 2.2% from the previous quarter and 1.4% from a year ago to \$3.71, with rents highest in Mid City and I-15 Corridor submarkets.

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	3,924,490	9,847	215,003	5.5%	95,538	141,710	14,981	90,000	135,317	\$3.71	
Class B	7,525,351	19,045	507,592	6.7%	23,788	-29,278	73,802	0	140,100	\$3.23	
Class C	1,974,430	1,650	111,755	5.7%	566	-2,737	12,109	0	0	\$2.26	
North County	3,518,479	5,297	309,704	8.8%	840	-6,385	26,641	0	95,317	\$3.16	\$3.66
Mid City	2,459,616	14,721	148,512	6.0%	13,679	7,118	11,266	0	0	\$3.99	\$4.43
I-15 Corridor	1,116,937	2,824	70,582	6.3%	28,373	10,043	16,831	0	0	\$3.43	\$4.25
Central Suburban	3,548,269	7,700	148,110	4.2%	101,792	111,094	36,293	90,000	180,100	\$3.05	\$3.84
East County	1,196,402	0	80,329	6.7%	-19,727	734	8,711	0	0	\$2.74	\$3.40
South County	1,584,568	0	77,113	4.9%	-5,065	-12,909	1,150	0	0	\$2.91	\$3.10
On Campus	4,761,632	4,474	300,616	6.3%	14,823	42,644	24,293	0	40,000	\$3.12	\$3.85
Off Campus	8,662,639	26,068	533,734	6.2%	105,069	67,051	76,599	90,000	235,417	\$3.33	\$3.67
SAN DIEGO TOTALS	13,424,271	30,542	834,350	6.2%	119,892	109,695	100,892	90,000	275,417	\$3.25	\$3.71

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

KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
277 Rancheros Dr.	North County	Graybill Medical Group	5,931	Renewal
380 S. Melrose Dr.	North County	Logistics Health	4,256	New Lease
10805 Rancho Bernardo Rd,	I-15 Corridor	Psycare	4,045	New Lease
8950 Villa La Jolla Dr.	Mid City	Field Trip Health USA	3,868	New Lease
9909 Mira Mesa Blvd.	I-15 Corridor	Pacific Coast Psychiatric Associates	3,854	New Lease

KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
15611 Pomerado Rd.	I-15 Corridor	Ventas, Inc. / Health Care Realty Trust	163,094	\$102.7M / \$630
9095 Rio San Diego Dr.	Central Suburban	BlackRock / Anchor Health Properties	81,236	\$25.3M / \$311

KEY UNDER CONSTRUCTION Q2 2021

PROPERTY	SUBMARKET	TENANT	SF	OWNER / DEVELOPER
8875 Aero Dr.	Central Suburban	Department of Veterans Affairs	140,100	Protea Properties
2130 W. Citracado Pkwy.	North County	Palomar Pomerado Health	75,000	JRMC Real Estate, Inc.

JUSTIN BALAGTAS

Senior Research Analyst

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

JOLANTA CAMPION

Senior 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 50,000 employees in 400 offices and 60 countries. In 2020, the firm had revenue of \$7.8 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.

©2021 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.

cushmanwakefield.com