MARKETBEAT

SAN DIEGO

Medical Office Q2 2021

	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

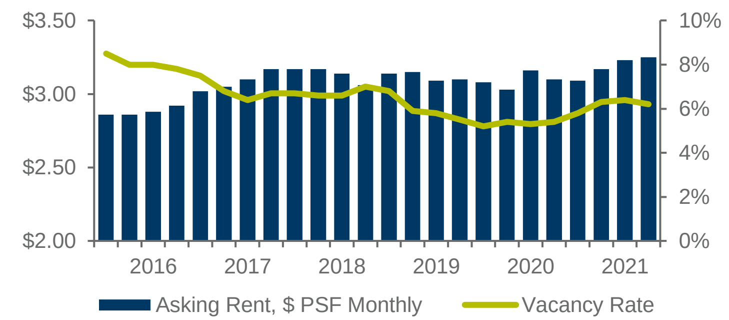
San Diego's medical office direct vacancy was 6.2% at the end of Q2 2021, a decrease of 20 bps from Q1 2021 but an increase of 80 bps from a year ago. The market absorbed 119,892 sf as all classes experienced positive absorption, with class A absorbing 95,538 sf primarily as a result of the delivery 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 Q2 2021, 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



MARKETBEAT

SAN DIEGO

Medical Office Q2 2021

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
8200 La Mesa Blvd.	East County	Prime Plastic Surgery & Medical Spa	7,480	New Lease
5776 Ruffin Rd.	Central Suburban	Rady Children's Hospital	5,717	Renewal
3760 Convoy St.	Central Suburban	San Diego Spine & Sport	5,046	Renewal
2888 Loker Ave. E.	North County	Autism Outreach Southern California	3,600	New Lease
4130 La Jolla Village Dr.	Mid City	JD Imaging	2,780	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.

Sources: [1]www.bls.gov [2] GDP as of 2020. Moody's Analytics economy.com 6/2021.

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

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