



YoY Chg 12-Mo. Forecast

14.0%

Vacancy Rate



324K

Net Absorption, SF



\$3.43

Asking Rent, PSF



(Direct, All Property Classes)

ECONOMIC INDICATORS Q2 2021

YoY Chg 12-Mo. Forecast

1.4M

San Diego Employment



6.6%

San Diego Unemployment Rate



5.9%

U.S. Unemployment Rate



Source: BLS

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

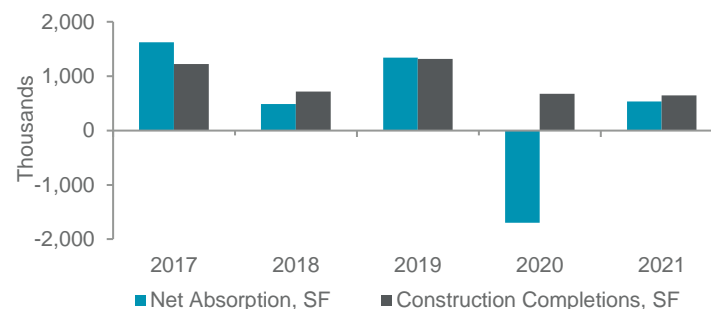
SUPPLY AND DEMAND: New Development Drives Absorption

At the end of Q2 2021, San Diego's direct office vacancy was 14.0%, an increase of 10 bps from the previous quarter and an increase of 150 bps from a year ago. Tenants absorbed 324,000 square feet (sf) in Q2 2021, marking the second consecutive quarter of positive absorption since the beginning of the COVID-19 pandemic and bringing year-to-date occupancy gains to 536,000 sf. Class A buildings absorbed the most space in Q2 2021 (+265,302 sf), followed by class B product (40,644 sf) as employers seek to incentivize their employees to return to the office via high-end, amenitized office space. Torrey Pines recorded the most positive absorption in Q2 2021 (+299,500 sf), followed by Oceanside (121,500 sf). Large life sciences tenants like Mirati Therapeutics and Surgalign were the primary drivers of absorption, occupying newly delivered Spectrum V and Muse Torrey Pines. In Oceanside, the County Department of Health and Human Services moved into a new 100,000-sf build-to-suit (BTS) project. Downtown (-108,000 sf), Kearny Mesa (-42,000 sf) and Mission Valley (-41,000 sf) recorded the most negative absorption in Q2 2021, primarily driven by mid-sized tenants vacating or downsizing.

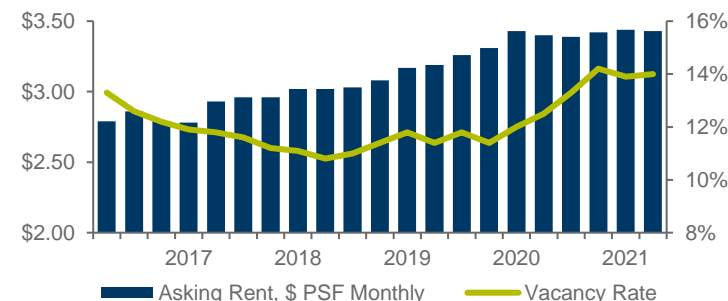
TENANT TRENDS: Demand Remains Strong in Mid-Cities, I-15 Corridor

Leasing activity trended upward in Q2 2021 at 1.1 million square feet (msf) across 77 deals, excluding renewals, compared to 990,000 sf (98 deals) in Q1 2021 and 869,000 sf (96 deals) in Q2 2020. Torrey Pines (26%), Sorrento Mesa (20%) and Rancho Bernardo (11%) accounted for 57% or 610,000 sf of new deals leased in Q2 2021. These three submarkets combined also accounted for 56% or 1.2 msf of 2.1 msf leased during the first six months of 2021. Turning Point Therapeutics signed the largest lease this quarter, committing to a 185,000-sf development in Torrey Pines. In Rancho Bernardo, Apple leased a 92,000-sf building at Discovery Corporate Center and is expected to continue to expand in the submarket as well as in UTC.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY / ASKING RENT



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 Biocept. Though activity from traditional office tenants has largely been limited to renewals, Apple has nearly 350,000 sf of leases that are expected to occupy over the next 12 months across existing and under construction projects, with further plans for a major San Diego campus.

PRICING: Sticker Prices Remain Stable

Countywide asking rent across all classes dipped only a single cent from the previous quarter to \$3.43 per square foot (psf) on a monthly full-service basis but increased \$0.03 (+0.9% YOY) from a year ago. Over the past 12 months, Class A average rent has increased by 2.6% to \$3.88 psf, while the Class B rent has decreased by 3.0% to \$3.23 psf. New speculative (SPEC) construction and life sciences conversions of older buildings are expected to push rents higher over the next twelve months.

FUTURE INVENTORY: Developers Seek Out Life Sciences

Of the 21 properties totaling nearly 3.6 msf, currently under construction countywide, 28.4% are pre-leased and 854,000 sf (11 buildings) are expected to be delivered by the end of 2021. The majority or 90% of inventory is SPEC with the remaining 10% BTS. Landlords continue to be aggressive with SPEC development, as plans move forward for American Assets Trust on the third building at La Jolla Commons in UTC. Over 55% or 2.0 msf of inventory currently under construction is located in the Downtown submarket. In addition, Kilroy Realty Corporation announced the acquisition of land across the street from their existing project in Little Italy.

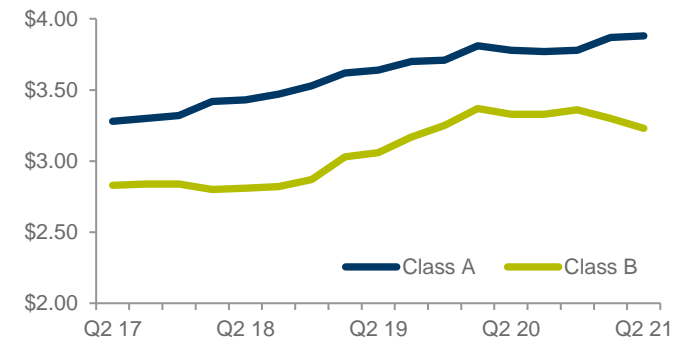
Since the beginning of 2020, over 1.6 msf of SPEC life sciences product has broken ground. In Torrey Pines, Cooley leased 73,776 sf, an entire building at The Boardwalk, while Zentalis Pharmaceuticals took the remaining two buildings, totaling 117,929 sf. Turning Point Therapeutics committed to a 185,000-sf lease of a new development on Callan Ridge. In Sorrento Mesa, Element Biosciences expanded their lease for an entire new building at Alexandria Tech Center that broke ground in Q3 2020. Much of future absorption will come from leases signed for projects currently under construction.

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

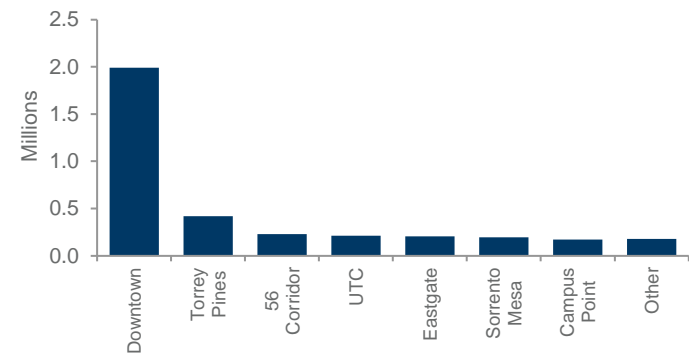
OUTLOOK

- 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 55% of total sf in lease obligations set to expire over the next 18 months.
- Active tenant requirements of all sizes remain robust at 5.6 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 reactivated their requirement or begun exploring the market. While not all current tenants in the market will transact in the short term, these levels provide a barometer to leasing activity in subsequent quarters.

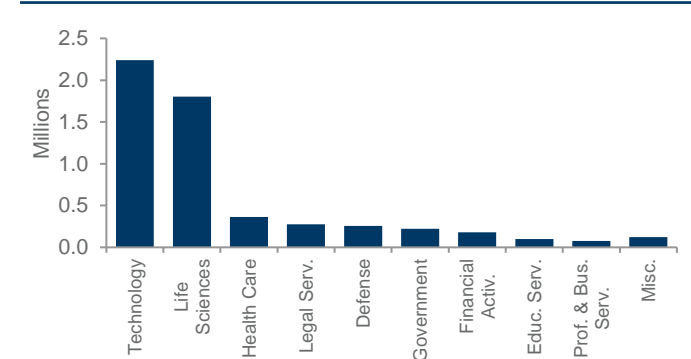
AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



UNDER CONSTRUCTION INVENTORY BY SUBMARKET - MSF



TENANT DEMAND BY INDUSTRY SECTOR - MSF



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	11,575,231	46,914	1,675,935	14.5%	169,363	236,612	197,308	100,000	167,532	\$2.78	\$3.12
Central County	53,840,156	661,074	6,842,873	12.7%	249,819	512,262	1,771,315	465,428	1,441,783	\$3.60	\$4.06
South County	17,802,924	101,338	3,138,853	17.6%	-95,338	-212,714	96,455	83,500	1,990,000	\$3.38	\$3.87
Class A	37,572,339	491,353	5,563,127	14.8%	265,302	458,649	1,142,468	548,928	3,479,743	\$3.88	
Class B	35,584,991	277,488	4,876,863	13.7%	40,644	120,812	880,697	100,000	119,572	\$3.23	
Class C	10,060,981	40,485	1,217,671	12.1%	17,898	-43,301	41,913	0	0	\$2.10	
SAN DIEGO TOTALS	83,218,311	809,326	11,657,661	14.0%	323,844	536,160	2,065,078	648,928	3,599,315	\$3.43	

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

KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Callan Ridge	Torrey Pines	Turning Point Therapeutics	185,000	New
Discovery Corporate Center	Rancho Bernardo	Apple	92,442	New
5505 Morehouse Dr.	Sorrento Mesa	Artiva Biotherapeutics	51,621	New
Sunroad Centrum	Kearny Mesa	Appfolio	40,141	New
Diamondview East Village	Downtown	ClickUp	36,466	New

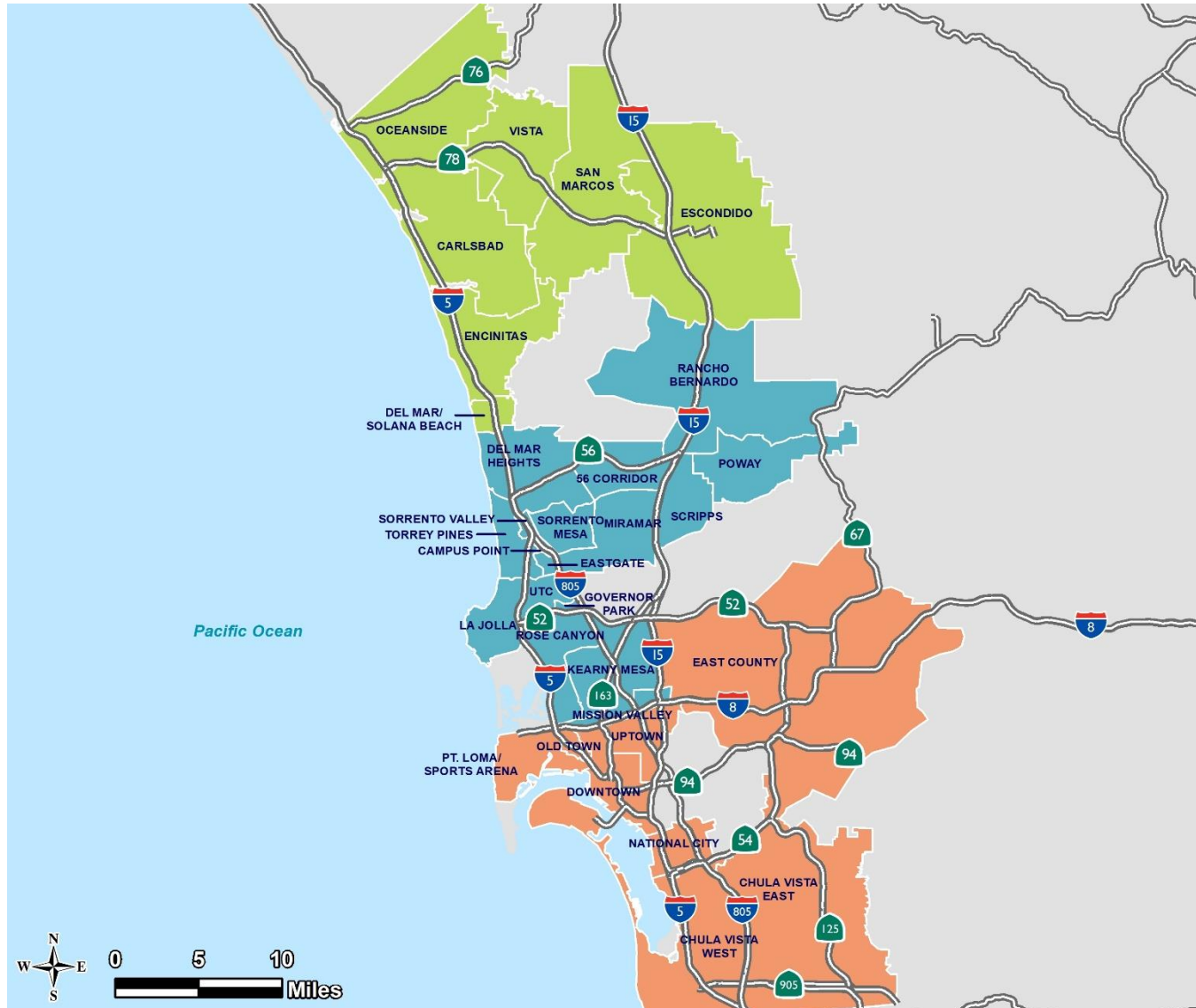
KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Emmes Downtown Portfolio	Downtown	Emmes Group of Companies / Regent Properties	1,529,687	\$420.0M / \$275
Sequence Drive Portfolio	Sorrento Mesa	John Hancock Real Estate / Alexandria Real Estate Equities	482,153	\$298.5M / \$619
Pacific Plaza at Torrey Hills	Del Mar Heights	Nuveen / Breakthrough Properties	217,902	\$123.1M / \$565
Pomerado Outpatient Pavilion	Rancho Bernardo	Ventas, Inc. / Healthcare Realty Trust	163,094	\$102.7M / \$630
Summit Pointe	Scripps	Newport National Corporation / Rockwood Capital & Lincoln Property Co.	146,626	\$68.4M / \$466

KEY CONSTRUCTION COMPLETIONS 2021

PROPERTY	SUBMARKET	TENANT	SF	OWNER
Muse Torrey Pines	Torrey Pines	Surgalign, Prometheus, Organogenesis	186,759	Diversified Healthcare Trust
9455 Towne Centre Dr.	Eastgate	Apple	160,444	Kilroy Realty Corporation
Spectrum V	Torrey Pines	Mirati Therapeutics	118,225	Alexandria Real Estate Equities
Ocean Ranch	Oceanside	Department of Health & Human Services	100,000	Hamann Companies

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