MARKETBEAT

SAN DIEGO

Medical Office Q3 2021

CUSHMAN & WAKEFIELD

	YoY Chg	12-Mo. Forecast
6.6% Vacancy Rate		
-9K Net Absorption, SF		
$3.31 Asking Rent, PSF		

(Direct, All Property Classes)

ECONOMIC INDICATORS
Q3 2021

	YoY Chg	12-Mo. Forecast
190K San Diego Health Care Employment		
6.4% San Diego Unemployment Rate		
5.2% U.S. Unemployment Rate		

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

ECONOMIC OVERVIEW: Employment Fundamentals Rebounding

The San Diego employment market has recovered more than half (57%) of the 248,000 jobs lost during the beginning of the pandemic between March and April of 2020. Nonfarm employment grew by 59,200 or +4.4% year-over-year (YOY) between August 2020 through August 2021, with the leisure and hospitality sector accounting for 31,000 jobs added (+23.2% YOY). During the same time, the monthly unemployment rate decreased from 10.8% last year to 6.6%. The current monthly rate is 930 basis points (bps) lower compared to the 15.9% high recorded in April of 2020 and 20 bps above the Q3 2021 quarterly average of 6.4%.[1]

All employment sectors are expected to grow at a combined rate of 2.0% in 2021 and 4.5% in 2022. Office employment is forecasted to grow 1.8% in 2021 and 2.7% in 2022. San Diego's economy of $241.7 billion as measured by 2020 gross regional product is forecasted to return to growth of 7.9% in 2021 and 5.1% in 2022, above its 10-year average of 2.7%.[2]

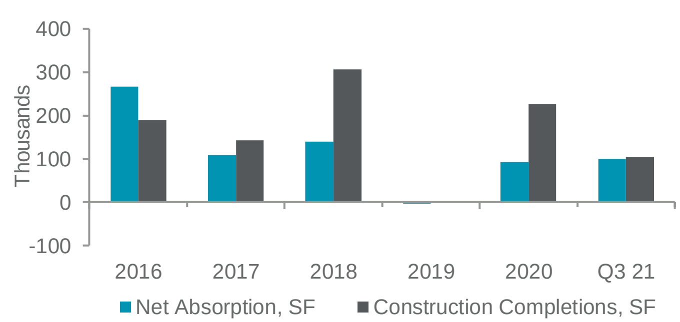
SUPPLY AND DEMAND: New Construction Drives Absorption

San Diego's medical office direct vacancy was 6.6% at the end of Q3 2021, an increase of 40 bps from Q2 2021 and 80 bps from a year ago. The market returned 9,251 sf with Class B space returning 14,791 sf, Class C returning 8,600 sf, but Class A absorbing 14,140 sf. Vacancy rates for every submarket also remained in the single digits for the 12th consecutive quarter. The highest vacancy was recorded in the I-15 Corridor submarket at 8.9% where tenants returned 12,145 sf. The lowest vacancy was recorded in the South County submarket at 4.4%. 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.

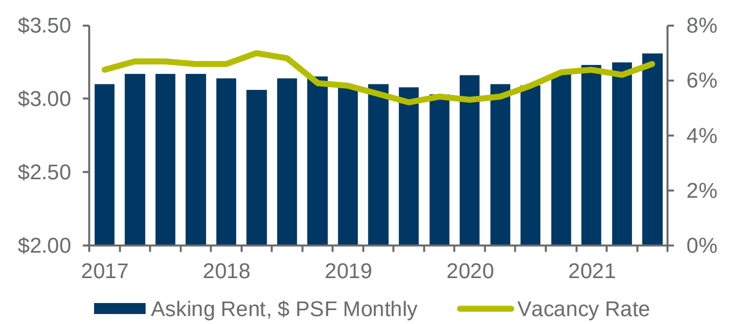
PRICING: Class B Activity Drives Rent Growth

Average countywide asking rent across all classes was $3.31 per square foot (psf) on a monthly full-service basis in Q3 2021, a 6-cent increase from previous quarter (+1.8% QOQ) and a 22-cent increase from a year ago (+7.1% YOY). Class B Rents drove this increase, rising 1.5% from the previous quarter and 7.9% YOY to $3.28 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 1.1% from the previous quarter and 1.9% from a year ago to $3.75, with rents highest in Mid City and I-15 Corridor submarkets.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY / ASKING RENT



MARKETBEAT

SAN DIEGO

Medical Office Q3 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	3,939,469	12,677	215,863	5.5%	14,140	155,850	37,623	105,000	135,317	$3.75	
Class B	7,581,930	20,504	557,962	7.4%	-14,791	-44,069	152,478	0	140,100	$3.28	
Class C	1,974,430	1,650	120,355	6.1%	-8,600	-11,337	28,591	0	0	$2.37	
North County	3,518,183	5,297	309,134	8.8%	570	-5,815	55,685	0	95,317	$3.22	$3.77
Mid City	2,459,616	14,539	166,701	6.8%	-18,189	-11,071	33,356	0	0	$3.96	$4.40
I-15 Corridor	1,134,791	4,465	100,581	8.9%	-12,145	-2,102	31,028	0	0	$3.53	$4.25
Central Suburban	3,602,269	7,700	167,750	4.7%	13,085	124,179	77,129	105,000	180,100	$3.07	$3.84
East County	1,196,402	2,830	80,374	6.7%	-45	689	17,313	0	0	$2.83	$3.36
South County	1,584,568	0	69,640	4.4%	7,473	-5,436	4,181	0	0	$2.92	$3.11
On Campus	4,761,357	6,115	315,194	6.6%	-14,578	28,066	40,547	0	40,000	$3.15	$3.83
Off Campus	8,734,472	28,716	578,986	6.6%	5,327	72,378	178,145	105,000	235,417	$3.41	$3.73
SAN DIEGO TOTALS	**13,495,829**	**34,831**	**894,180**	**6.6%**	**-9,251**	**100,444**	**218,692**	**105,000**	**275,417**	**$3.31**	**$3.75**

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

KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
2701 Loker Ave. W.	North County	Plum Healthcare Group	5,300	New Lease
12835-12865 Pointe Del Mar Way	Mid City	Jacquelyn Do, DDS	5,202	Renewal / Expansion
781 Garden View Ct.	North County	Genesis Healthcare Partners	4,879	New Lease
5565 Grossmont Center Dr.	East County	California Clinic Management	4,599	Renewal
15525 Pomerado Rd.	I-15 Corridor	North County Internists Medical Corporation	3,500	New Lease

KEY SALES TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / $ PSF
2067 W. Vista Way	North County	AmeriCare / Anchor Health & Carlyle Group	54,703	$26.8M / $489
3405 Kenyon St.	Central Suburban	JD Bols & Associates / Swanston Properties	47,300	$7.40M / $156

KEY UNDER CONSTRUCTION Q3 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 Health	75,000	JRMC Real Estate, Inc.

Sources: [1]www.bls.gov [2] GDP as of 2020. Moody's Analytics economy.com 9/2021.

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

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.

cushmanwakefield.com