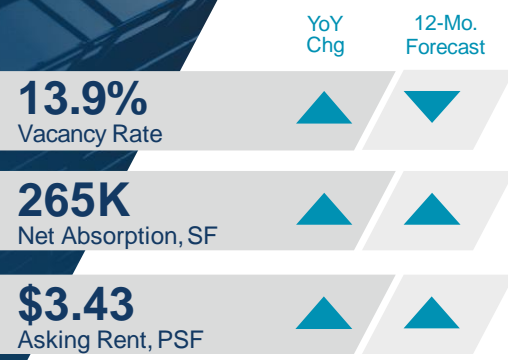


MARKETBEAT SAN DIEGO

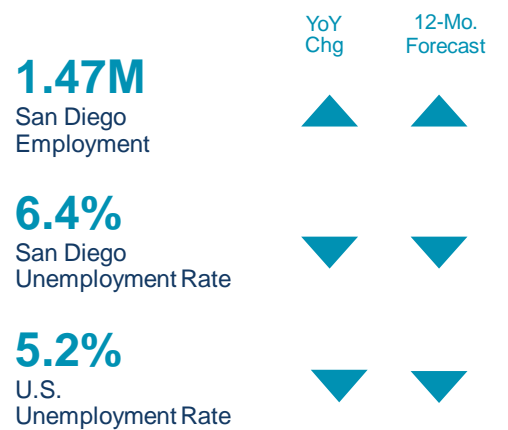


Office Q3 2021



(Direct, All Property Classes)

ECONOMIC INDICATORS Q3 2021



Source: BLS

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

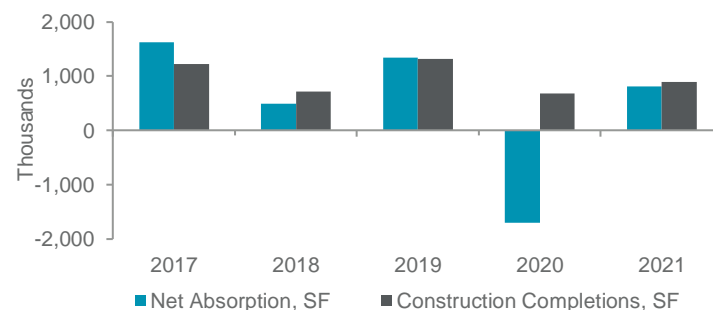
SUPPLY AND DEMAND: Life Sciences Drive Positive Growth

At the end of Q3 2021, San Diego's direct office vacancy was 13.9%, a decrease of 10 bps from the previous quarter and an increase of 60 bps from a year ago. Tenants absorbed 264,601 square feet (sf) in Q3 2021, marking the third consecutive quarter of occupancy gains since the beginning of the COVID-19 pandemic and bringing year-to-date occupancy gains to 808,171 sf. Class B buildings absorbed the most space in Q3 2021 (+190,862 sf), followed by class A product (54,990 sf) as employers seek to incentivize their employees to return to the office via high-end, amenitized office space. Sorrento Mesa recorded the most positive absorption in Q3 2021 (+134,700 sf), followed by Del Mar Heights (+105,008 sf) and Torrey Pines (+92,900 sf). Large life sciences tenants like Altos Labs, Quantum-Si and ViaCyte were the primary drivers of absorption, occupying Genesis Morehouse in Sorrento Mesa. Three submarkets - UTC (-75,400 sf), Downtown (-62,500 sf) and Rancho Bernardo (-43,200 sf) - recorded the most negative absorption in Q3 2021, primarily driven by mid-sized tenants vacating or downsizing.

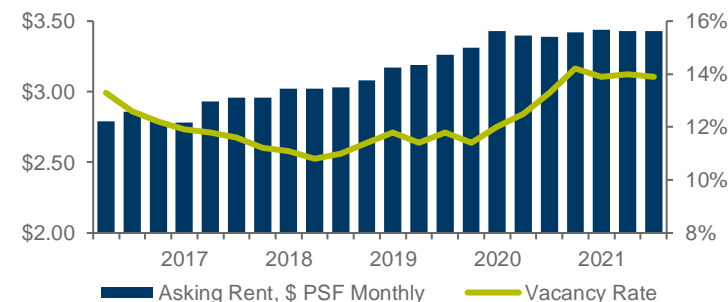
TENANT TRENDS: Demand Remains Strong in Mid-Cities

Leasing activity trended upward in Q3 2021 at 1.6 million square feet (msf) across 95 deals, excluding renewals, compared to 1.3 msf (112 deals) in Q2 2021 and 919,600 sf (100 deals) in Q3 2020. Sorrento Mesa (23%), Del Mar Heights (19%) and UTC (14%) accounted for 56% or 930,200 sf of new deals leased in Q3 2021. Tandem Diabetes signed a 182,000-sf lease at Del Mar Corporate Centre for the largest deal signed this quarter, neighboring a 96,000-sf lease by DermTech at the same project. In Sorrento Mesa, Sorrento Therapeutics committed to a 163,000-sf build-to-suit (BTS) project, while also extending four leases at other projects with the same landlord. Apple also continues to grow in the region, leasing 140,000 sf at La Jolla Reserve in UTC in addition to expanding their footprint in UTC, Eastgate and Rancho Bernardo. Most of the expected future absorption from previously signed leases will come from

SPACE DEMAND / DELIVERIES



DIRECT VACANCY / ASKING RENT



the life sciences sector, including tenants like Shoreline Biosciences, Biolog and TriLink Biotechnologies. 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: Class A Rents on the Rise

Countywide asking rent across all classes remained unchanged from the previous quarter to \$3.43 per square foot (psf) on a monthly full-service basis but increased \$0.04 (+1.2% YOY) from a year ago. Over the past 12 months, Class A average rent has increased by 5.0% to \$3.96 psf, while the Class B rent has decreased by 6.6% to \$3.11 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: Life Sciences Radius Expanding

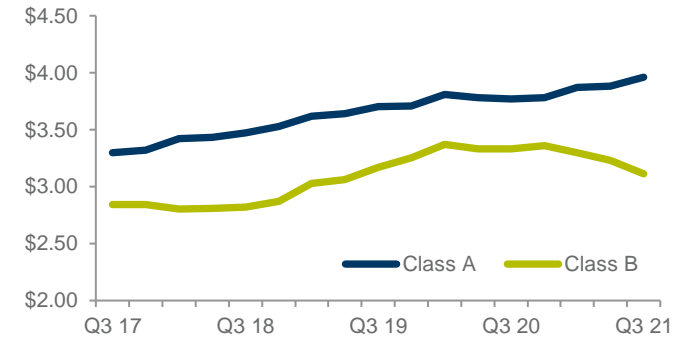
Of the 19 properties totaling nearly 3.3 msf, currently under construction countywide, 31.3% are pre-leased and 695,000 sf (10 buildings) are expected to be delivered by the end of 2021. The majority or 89% of inventory is SPEC with the remaining 11% BTS. Landlords continue to be aggressive with SPEC development, as plans move forward for American Assets Trust on the third building at La Jolla Commons in UTC. Over 53% or 1.8 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. As of Q3 2021, Torrey Pines vacancy dipped to 3.4%, requiring tenants and landlords to seek opportunities outside of the traditional life science nucleus. Though biotech landlords continue to acquire projects in Sorrento Valley and Sorrento Mesa for life sciences conversion or redevelopment, they are also looking elsewhere. In Q3 2021, Alexandria acquired the creative office Make and the multi-tenant industrial Commerce projects in Carlsbad. In Del Mar Heights, Phase 3 Real Estate purchased Champs Plaza. In Scripps, Alexandria plans to build a new lab project at the Scripps Corporate Plaza site. These notable transactions coupled with diminishing supply in the core life sciences submarkets are causing life sciences tenants to expand to new frontiers. Current demand will outpace new supply coming online in the next 24 months in the mid-cities, forcing life sciences users to expand their search parameters and continue this trend.

Sources: ¹www.bls.gov GDP as of 2020. Moody's Analytics economy.com 9/22/2021.

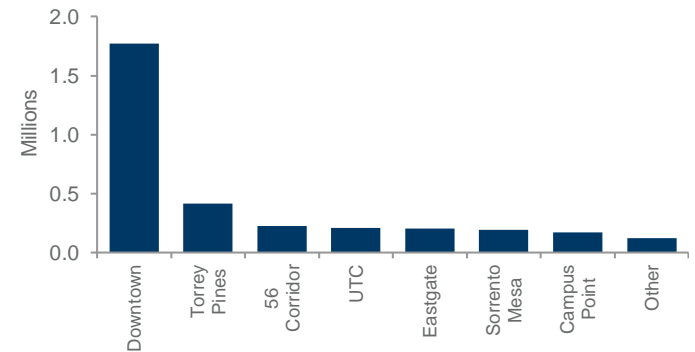
OUTLOOK

- 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 5.9 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.

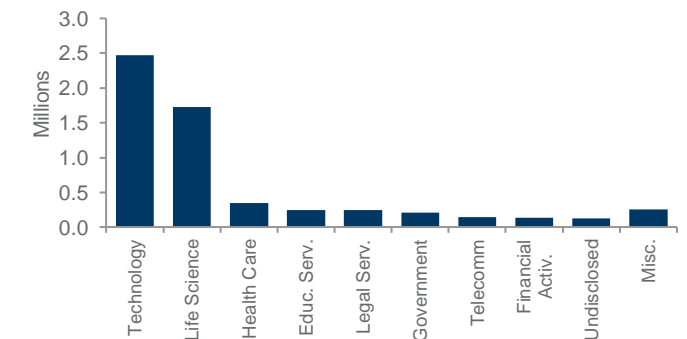
AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



UNDER CONSTRUCTION INVENTORY IN SF BY SUBMARKET



TENANT DEMAND IN SF 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	11,575,014	41,057	1,579,713	13.6%	86,864	319,109	458,260	100,000	122,532	\$2.80	\$3.18
Central County	53,930,588	539,010	6,564,147	12.2%	271,606	793,945	3,377,414	477,000	1,428,279	\$3.53	\$4.08
South County	18,030,697	85,695	3,454,352	19.2%	-93,869	-304,883	114,310	311,603	1,770,000	\$3.51	\$4.04
Class A	37,808,883	336,511	5,699,591	15.1%	54,990	522,147	2,214,439	788,603	3,212,811	\$3.96	
Class B	35,666,870	315,975	4,687,186	13.1%	190,862	323,778	1,668,067	100,000	108,000	\$3.11	
Class C	10,060,546	13,276	1,211,435	12.0%	18,749	-37,754	67,478	0	0	\$2.13	
SAN DIEGO TOTALS	83,536,299	665,762	11,598,212	13.9%	264,601	808,171	3,949,984	888,603	3,320,811	\$3.43	

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

KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Del Mar Corporate Centre	Del Mar Heights	Tandem Diabetes	181,949	New
4930 Directors Pl.	Sorrento Mesa	Sorrento Therapeutics	163,205	New
La Jolla Reserve	UTC	Apple	140,105	New
Del Mar Corporate Centre	Del Mar Heights	DermTech	95,997	New
PacView	Carlsbad	Rockstar Games	82,845	New

KEY SALES TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Make & Commerce	Carlsbad	Cruzan / Alexandria Real Estate Equities	302,727	\$135.5M / \$448
Sorrento Towers	Sorrento Mesa	Shorenstein Properties / Prime US REIT	296,327	\$146.0M / \$493
Centerpark Plaza	Sorrento Mesa	Montana Avenue Capital Partners / Longfellow Real Estate Partners	255,599	\$149.3M / \$584
Champs Plaza	Del Mar Heights	Meissner Jacquet / Phase 3 Real Estate	74,620	\$34.8M / \$467
Pacific Tech Center	Sorrento Mesa	Montana Avenue Capital Partners / BioMed Realty	67,832	\$46.7M / \$688

KEY CONSTRUCTION COMPLETIONS YTD 2021

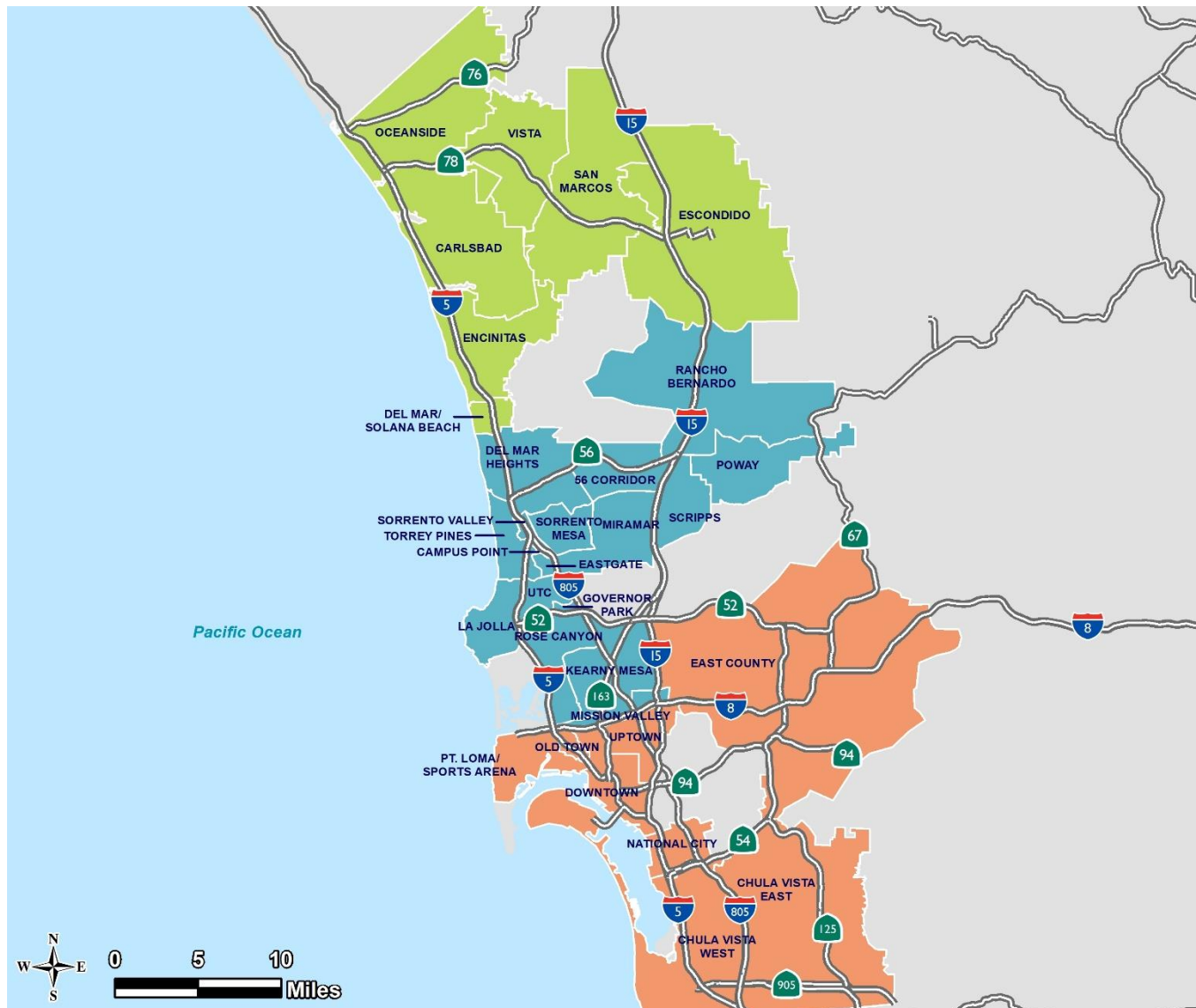
PROPERTY	SUBMARKET	TENANT	SF	OWNER
2100 Kettner	Downtown	N/A	220,000	Kilroy Realty Company
Muse Torrey Pines	Torrey Pines	Surgalign, Prometheus, Organogenesis	186,759	Diversified Healthcare Trust
9455 Towne Centre Dr.	Eastgate	Apple	160,444	Kilroy Realty Corporation
Spectrum V	Torrey Pines	Mirati Therapeutics	118,225	Alexandria Real Estate Equities

SAN DIEGO

Office Q3 2021



OFFICE SUBMARKETS



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