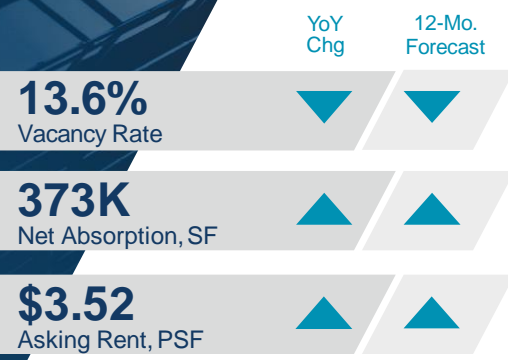


# MARKETBEAT SAN DIEGO

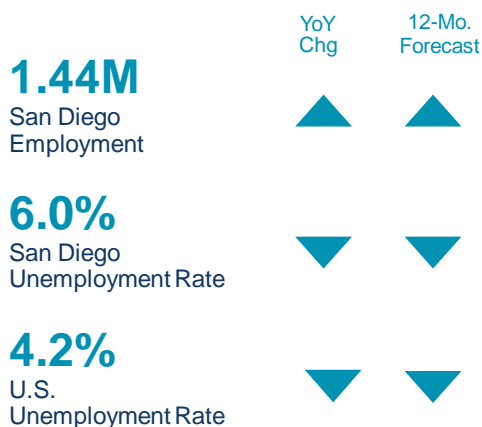


Office Q4 2021



(Direct, All Property Classes)

## ECONOMIC INDICATORS Q4 2021



Source: BLS

## ECONOMIC OVERVIEW: Employment Fundamentals Rebounding

The San Diego employment market has recovered 193,400 (83%) of the 248,000 jobs lost during the beginning of the pandemic between March and April of 2020. Nonfarm employment grew by 64,900 or +4.6% year-over-year (YOY) between November 2020 through November 2021, with the leisure and hospitality sector accounting for 28,500 jobs added (+20.2% YOY). During the same time, the monthly unemployment rate decreased from 6.8% last year to 4.6% and is notably lower compared to the 15.9% high recorded in April of 2020. The current monthly rate is also 140 bps (basis points) lower compared to the Q4 2021 quarterly average of 6.0%.<sup>1</sup> All employment sectors are expected to grow at a combined rate of 4.5% in 2022, while office employment is forecasted to grow 2.3% and high-tech employment 2.7%. San Diego's economy of \$252.7 billion as measured by 2021 gross regional product is forecasted to grow 4.9% in 2022 and 3.3% in 2023, above its 10-year average of 3.1%.<sup>2</sup>

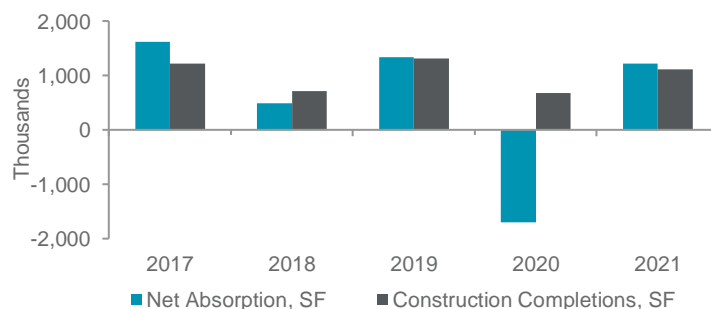
## SUPPLY AND DEMAND: Tech Takes Their Turn

At the end of Q4 2021, San Diego's direct office vacancy was 13.6%, a decrease of 30 bps from the previous quarter and 60 bps from a year ago. Tenants absorbed 373,400 square feet (sf) in Q4 2021, marking the fourth consecutive quarter of occupancy gains since the beginning of the COVID-19 pandemic and bringing annual occupancy gains to 1.2 million square feet (msf). Class A buildings absorbed the most space in Q4 2021 (+157,600 sf), followed by class B buildings (+146,400 sf) as employers seek to incentivize their employees to return to the office via high-end, amenitized office space. Rancho Bernardo recorded the most positive absorption in Q4 2021 (+85,200 sf), followed by Encinitas (+61,900 sf) and UTC (+53,900 sf). Large technology tenants like Apple, ClickUp and Flock Freight were the primary drivers of absorption. Two submarkets – Del Mar Heights (-31,800 sf) and Kearny Mesa (-23,200 sf) - recorded the most negative absorption in Q4 2021, primarily driven by mid-sized tenants vacating or downsizing.

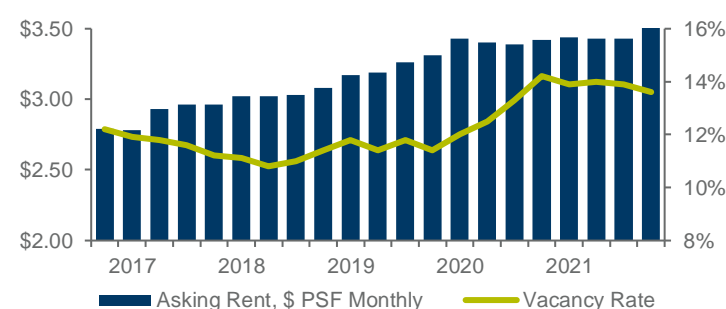
## TENANT TRENDS: Life Sciences Build-to-Suits Drive Demand

Leasing activity remained strong in Q4 2021 at 1.7 million square feet (msf) across 106 deals, excluding renewals, compared to 2.0 msf (156 deals) in Q3 2021, and 797,000 sf (112 deals) in Q4 2020. Torrey Pines (24%), Del Mar Heights (20%) and Sorrento Mesa (12%) accounted for 56% or 969,256 sf of new deals leased in Q4 2021. Multiple life sciences tenants committed to build-to-suit (BTS) properties across Central County in Torrey Pines, Del Mar Heights and Scripps, totaling 671,000 sf, including a 218,000-sf building for Becton Dickinson. In Sorrento Mesa, Codex DNA and Encodia both committed to 65,000-sf speculative (SPEC) lab conversions. Apple continues to grow in the region taking a 45,000-sf building in Eastgate and an additional two floors at La Jolla Commons in UTC after subleasing three floors in the building from Illumina in Q3 2021.

## 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 Shoreline Biosciences, Biolineq 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**

The countywide average asking rent across all classes rose 2.6% from the previous quarter to \$3.52 per square foot (psf) on a monthly full-service basis and increased \$0.10 (+2.9% YOY) from a year ago. Over the past 12 months, Class A average rent has increased by 9.0% to \$4.12 psf, while Class B rent has decreased by 9.2% to \$3.05 psf. New 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 23 properties totaling over 4.1 msf, currently under construction countywide, 41% are pre-leased and 1.9 msf (13 buildings) are expected to be delivered by the end of 2022. The majority or 72% of inventory is SPEC with the remaining 28% 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. Nearly 45% or 1.8 msf of inventory currently under construction is in the Downtown submarket.

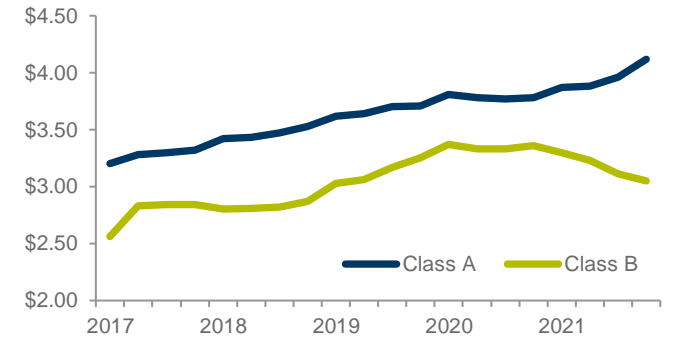
As of Q4 2021, Torrey Pines direct vacancy dipped to 2.8%, requiring tenants and landlords to seek opportunities outside of the traditional life sciences nucleus. Biotech landlords continue to pursue different opportunities across the market. This quarter in Sorrento Mesa, Longfellow Real Estate Partners acquired Lusk Business Park, Bioscience Properties and Harrison Street Capital purchased Sorrento Heights and Healthpeak Properties acquired Wateridge Pavilion. IQHQ acquired the Aventine in UTC and Phase 3 Real Estate purchased Scripps Northridge Technology Plaza in Scripps. These notable transactions coupled with diminishing supply in the core life sciences submarkets are causing life sciences 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.

Sources: <sup>1</sup>[www.bls.gov](http://www.bls.gov)<sup>2</sup>Moody's Analytics [economy.com](http://economy.com) 12/28/2021.

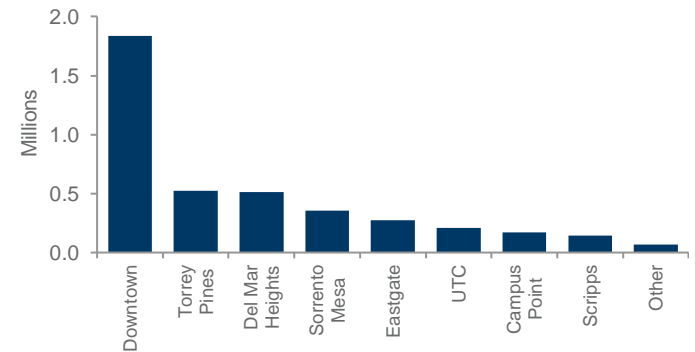
**OUTLOOK**

- Expanding COVID-19 vaccine eligibility in California and throughout the country will result in increased activity throughout 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 50% of total sf in lease obligations set to expire over the next 18 months.
- Active tenant requirements of all sizes remain robust at 5.2 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 requirements 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.

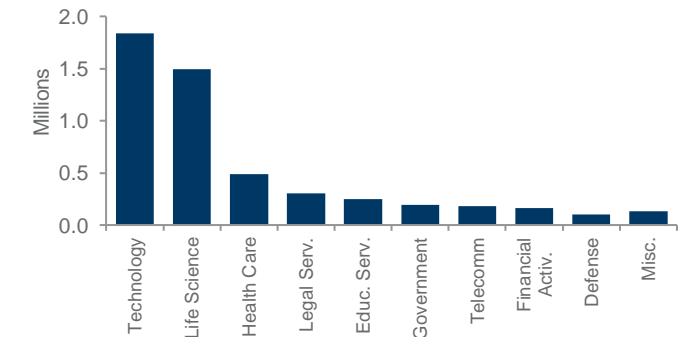
**AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE**



**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	11,625,800	68,831	1,579,630	13.6%	69,635	376,766	639,939	152,215	70,317	\$2.79	\$3.20
Central County	54,177,707	535,670	6,478,702	12.0%	235,420	1,075,103	5,291,747	705,662	2,199,483	\$3.69	\$4.39
South County	17,987,604	85,922	3,324,925	18.5%	68,372	-232,817	147,040	259,190	1,839,000	\$3.51	\$4.02
Class A	38,012,208	327,812	5,686,994	15.0%	157,609	698,076	3,476,026	977,495	3,923,800	\$4.12	
Class B	35,708,730	333,372	4,555,525	12.8%	146,395	488,402	2,522,581	139,572	185,000	\$3.05	
Class C	10,070,173	29,239	1,140,738	11.3%	69,423	32,574	80,119	0	0	\$2.15	
<b>SAN DIEGO TOTALS</b>	<b>83,791,111</b>	<b>690,423</b>	<b>11,383,257</b>	<b>13.6%</b>	<b>373,427</b>	<b>1,219,052</b>	<b>6,078,726</b>	<b>1,117,067</b>	<b>4,108,800</b>	<b>\$3.52</b>	

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

## KEY LEASE TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
One Alexandria Square North	Torrey Pines	Confidential	309,094	New
Torrey View	Del Mar Heights	BD	218,000	New
Scripps Ranch Technology Park	Scripps	Arrowhead Pharmaceuticals	144,113	New
The Labs at Oberlin	Sorrento Mesa	Encodia	65,878	New
The Terraces at Copley	Kearny Mesa	Rady Children's Hospital	48,466	New

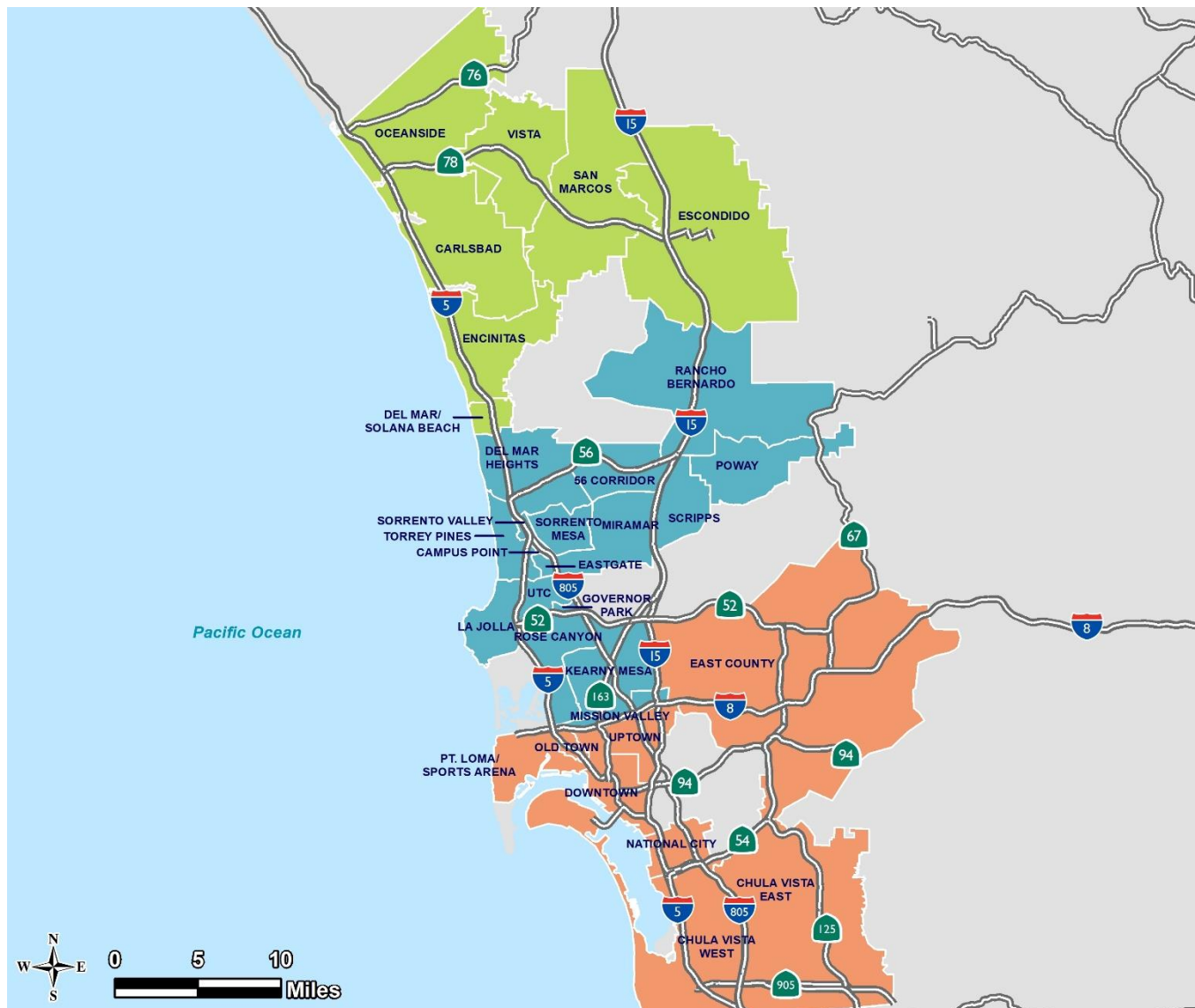
## KEY SALES TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Lusk Business Park	Sorrento Mesa	PS Business Parks / Longfellow Real Estate Partners	371,280	\$315.4M / \$849
The Aventine	UTC	Rockpoint Group / IQHQ	281,094	\$205.0M / \$729
Sabre Springs Corporate Center	Rancho Bernardo	Kilroy Realty Corporation / Menlo Equities	102,376	\$37.0M / \$361
Scripps Northridge Technology Plaza	Scripps	LACERA / Phase 3 Real Estate Partners	98,550	\$30.0M / \$304
Sorrento Heights	Sorrento Mesa	Bioscience Prop. & Harrison Street / DRA Advisors & Cypress Prop.	92,875	\$41.3M / \$445

## KEY CONSTRUCTION COMPLETIONS 2021

PROPERTY	SUBMARKET	TENANT	SF	OWNER
Aperture Del Mar	56 Corridor	N/A	228,662	Lincoln Property Company
Muse Torrey Pines	Torrey Pines	Surgalign, Prometheus, Organogenesis	186,759	Diversified Healthcare Trust
2100 Kettner	Downtown	N/A	167,587	Kilroy Realty Corporation
9455 Towne Centre Dr.	Eastgate	Apple	160,444	Kilroy Realty Corporation

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