



	YoY Chg	12-Mo. Forecast
13.3% Vacancy Rate	▼	▼
147K Net Absorption, SF	▲	▲
\$3.62 Asking Rent, PSF	▲	▲

(Direct, All Property Classes)

ECONOMIC INDICATORS Q1 2022

	YoY Chg	12-Mo. Forecast
1.49M San Diego Employment	▲	▲
4.9% San Diego Unemployment Rate	▼	▼
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS

ECONOMIC OVERVIEW: Employment Fundamentals Rebounding

The total nonfarm employment in San Diego grew by 104,300 or +7.5% year-over-year (YOY) between February 2021 through February 2022, with the leisure and hospitality sector accounting for the most significant gains or 52,700 jobs added (+40.2% YOY). During the same time, the monthly unemployment rate decreased from 7.2% last year to 4.0% and is currently 90 basis points (bps) below the quarterly average of 4.9%.¹ All employment sectors are expected to grow at a combined rate of 4.7% (+66,010 jobs) in 2022, while office employment is forecasted to grow by 2.8% (+10,390 jobs) and high-tech employment by 3.6% (+5,060 jobs). The annual unemployment rate is forecasted to decrease from 6.5% in 2021 to 4.2% in 2022 and 3.1% in 2023. San Diego's economy of \$252.7 billion as measured by 2021 gross regional product is forecasted to grow 3.9% in 2022 and 3.5% in 2023, above its 10-year average of 3.1%.²

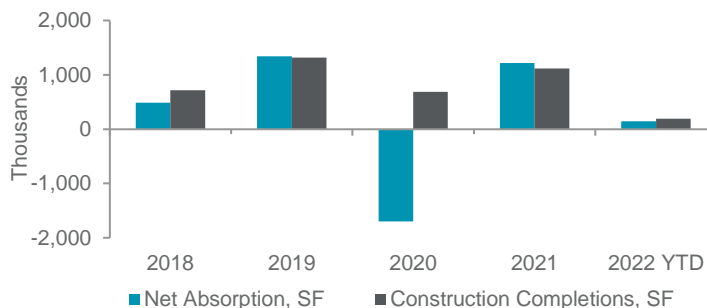
SUPPLY AND DEMAND: Life Sciences and Tech Sectors Grow, while Defense Shrinks

At the end of Q1 2022, San Diego's direct office vacancy was 13.3%, a decrease of 10 bps from the previous quarter and 40 bps from a year ago. Tenants absorbed 147,200 square feet (sf) in Q1 2022, marking the fifth consecutive quarter of occupancy gains since the beginning of the COVID-19 pandemic. All classes experienced positive absorption, with class C buildings absorbing the most space in Q1 2022 (+84,700 sf), followed by class A buildings (+47,200 sf). Torrey Pines recorded the most positive absorption in Q1 2022 (+197,200 sf) thanks to the delivery of the Boardwalk, a flexible multi-tenant science research campus at Science Center Drive, followed by UTC (+73,800 sf) and Eastgate (+49,600 sf). Life sciences companies Zentalis Pharmaceuticals and Arcturus Therapeutics as well as law firm Cooley leased and occupied the Boardwalk in Torrey Pines, while Apple continued its growth by occupying another 54,000-sf building in Rancho Bernardo. Rancho Bernardo submarket also experienced the most negative absorption (-226,500 sf), tempering occupancy growth, which were planned vacates by both General Atomics (-137,000 sf) and Northrop Grumman (-94,000 sf) both vacating buildings. However, this negative absorption will be offset by leases already signed by Apple but planned to occupy later in 2022.

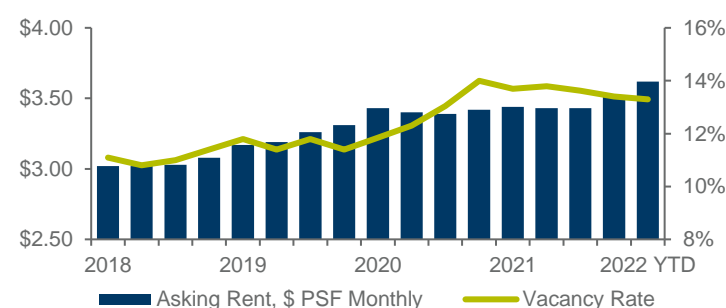
TENANT TRENDS: Life Sciences Construction Bolsters Leasing Activity

Leasing activity remained strong in Q1 2022 at 2.0 million square feet (msf) across 77 deals, excluding renewals, compared to 2.0 msf (127 deals) in Q4 2021 and 1.0 msf (102 deals) in Q1 2021. 56 Corridor (27%), Campus Pointe (22%) and Torrey Pines (11%) accounted for 60% or 1.2 msf of new deals leased in Q1 2022 due to three life sciences tenants: Neurocrine Biosciences leasing two existing building and committing to two more at Aperture Del Mar, Bristol Myers Squibb leasing a build-to-suit (BTS) in Campus Point, and Singular Genomics leasing a two-building BTS at One Alexandria Square.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY / ASKING RENT



SAN DIEGO

Office Q1 2022



Most of the expected future absorption from previously signed leases will come from the life sciences sector, including tenants like Neurocrine Biosciences, Dermtech and Encodia. Though Apple comprises much of the tenant activity for large blocks of traditional space, other office users, including Rockstar Games and Appfolio, committed to leases and are expected to occupy in the upcoming quarters.

PRICING: Biotech Drives Rents

The countywide average asking rent across all classes rose 2.8% from the previous quarter to \$3.62 per square foot (psf) on a monthly full-service basis and increased 5.2% from a year ago. Over the past 12 months, Class A average rent has increased by 6.7% to \$4.13 psf, while Class B rent has decreased by 0.6% to \$3.28 psf. New speculative (SPEC) construction and life sciences conversions of older buildings are expected to push rents higher over the next 12 months.

FUTURE INVENTORY: Biotech Development Moving Office Tenants

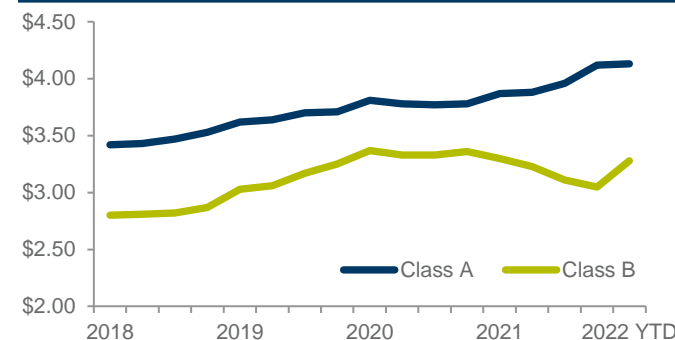
Of the 28 properties totaling nearly 5.1 msf, currently under construction countywide, 35% are pre-leased and 566,000 sf (5 buildings) are expected to be delivered by the end of 2022. The majority or 72% of inventory, totaling 3.6 msf across 19 buildings, is SPEC with the remaining 28% BTS. Approximately half or 2.6 msf of inventory currently under construction is in the Downtown submarket. Additionally, there are 82 proposed projects, totaling 22.7 msf, across all classes. While new leases for BTS spaces for Neurocrine Biosciences, Bristol Myers Squibb and Singular Genomics were signed this quarter, life sciences landlords continue to be aggressive towards new development in neighboring submarkets. Phase 3 Real Estate's conversions of Champs Plaza in Del Mar Heights and Scripps Northridge Tech Plaza in Scripps are already underway, while Breakthrough Properties is building two fully speculative buildings alongside a build-to-suit for BD in Del Mar Heights. Life sciences represent most of the new development as developers look at existing office sites for opportunities, pushing existing tenancy to other submarkets, which is anticipated to increase tenant activity throughout the next 12-15 months. The traditional office remains just a quarter of new development, including La Jolla Commons III in UTC, portions of the Campus at Horton in Downtown and the Sanbox in Solana Beach.

Sources: ¹www.bls.gov ² Moody's Analytics economy.com 2/2022.

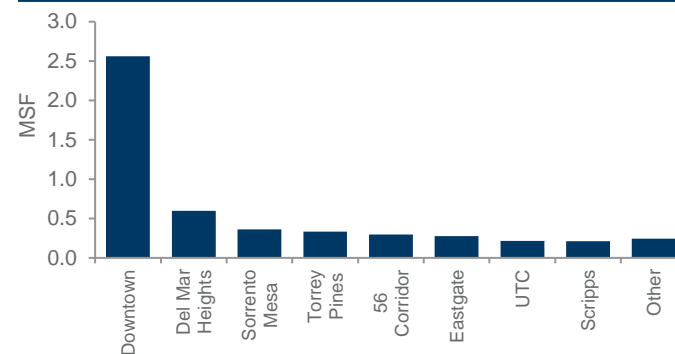
OUTLOOK

- 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 46% of total sf in lease obligations set to expire over the next 18 months.
- Active tenant requirements of all sizes remain robust at 4.9 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 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.

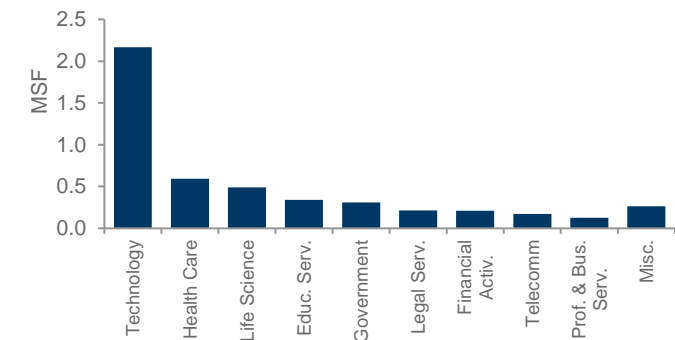
AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



UNDER CONSTRUCTION INVENTORY BY SUBMARKET



TENANT DEMAND 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	11,665,836	86,020	1,570,452	13.5%	-4,372	-4,372	118,434	0	70,317	\$2.80	\$3.16
Central County	53,803,439	447,187	6,228,120	11.6%	162,693	162,693	1,815,989	191,705	2,447,568	\$3.86	\$4.46
South County	17,927,321	140,642	3,306,232	18.4%	-11,086	-11,086	24,924	0	2,558,500	\$3.53	\$4.01
Class A	38,467,891	420,803	5,809,207	15.1%	47,172	47,172	1,610,310	191,705	4,938,165	\$4.13	
Class B	35,112,228	248,173	4,316,026	12.3%	15,406	15,406	345,656	0	138,220	\$3.28	
Class C	9,816,477	4,873	979,571	10.0%	84,657	84,657	3,381	0	0	\$2.14	
SAN DIEGO TOTALS	83,396,596	673,849	11,104,804	13.3%	147,235	147,235	1,959,347	191,705	5,076,385	\$3.62	

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

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Aperture Del Mar	56 Corridor	Neurocrine Biosciences	535,000	New
Campus Pointe	Campus Point	Bristol Myers Squibb	426,927	New
One Alexandria Square	Torrey Pines	Singular Genomics	205,666	New
The Collection at UTC	UTC	Undisclosed eCommerce	123,386	New
First Allied Plaza	Downtown	Robbins Geller Rudman & Dowd	114,182	Renewal**

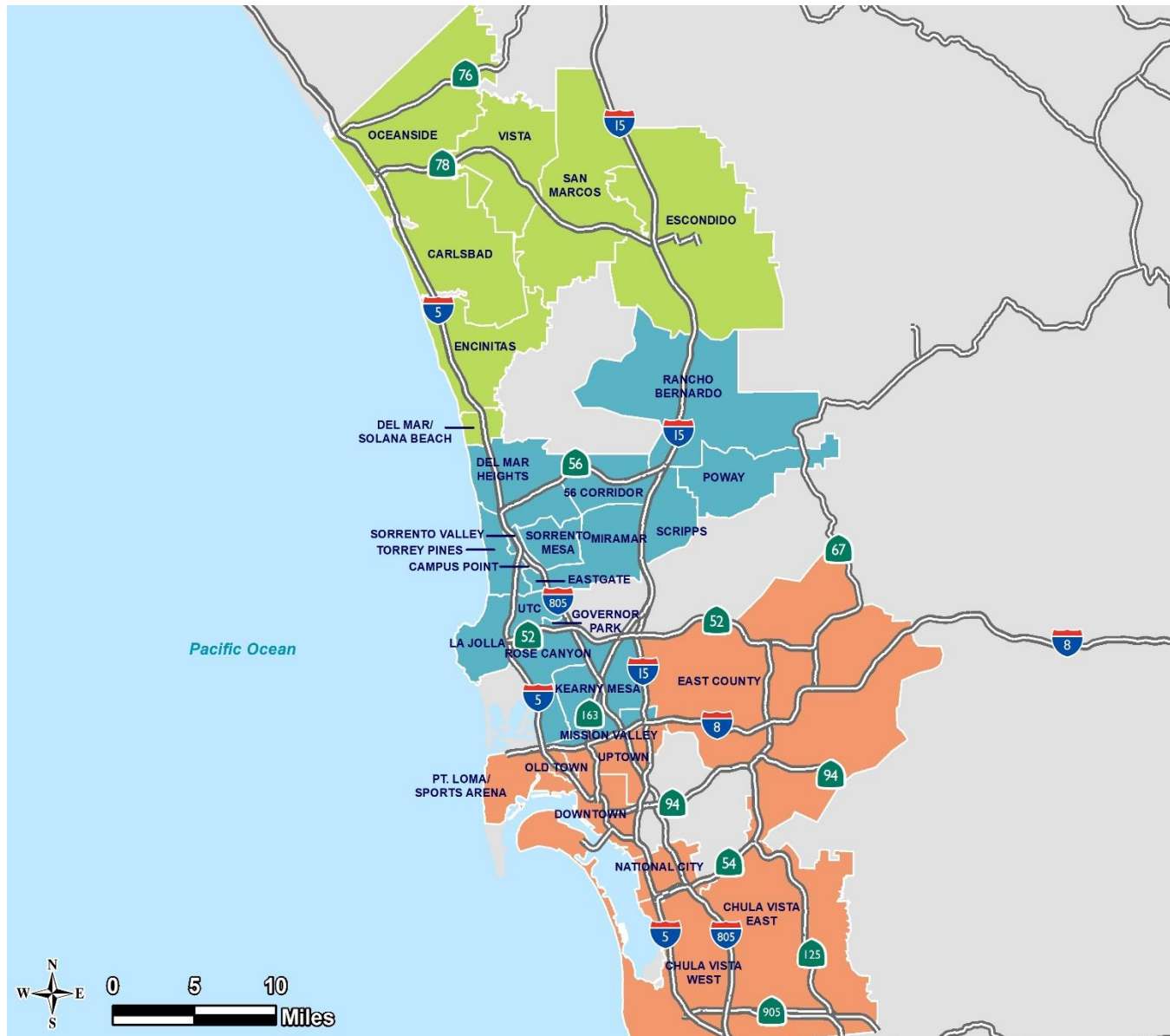
KEY SALES TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
The Pinnacle	Rancho Bernardo	Harbor Associates & Ascentris / Lincoln Property Co. & Innovatus Capital	110,110	\$48.8M / \$443
10509 Vista Sorrento Pkwy.	Sorrento Mesa	Schnitzer Properties / Trammel Crow & Healthpeak	78,000	\$24.0M / \$308
Sorrento Ridge Science Park	Sorrento Mesa	Alvarez & Marsal / Sterling Bay	59,478	\$34.0M / \$572
9555 Chesapeake Dr.	Kearny Mesa	Radius Commercial Real Estate / The Sason Organization	59,175	\$12.3M / \$207
10256 Meanley Dr.	Scripps	Anchor General Insurance / Alexandria Real Estate Equities	54,664	\$20.5M / \$375

KEY CONSTRUCTION COMPLETIONS 2022 YTD

PROPERTY	SUBMARKET	TENANT	SF	OWNER
The Boardwalk	Torrey Pines	Cooley LLP, Zentalis Pharmaceuticals, Arcturus	191,705	Healthpeak Properties

OFFICE SUBMARKETS



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