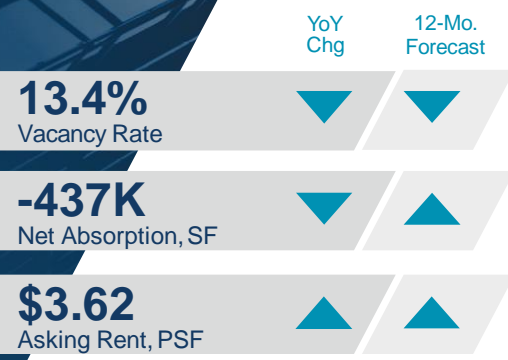


MARKETBEAT SAN DIEGO

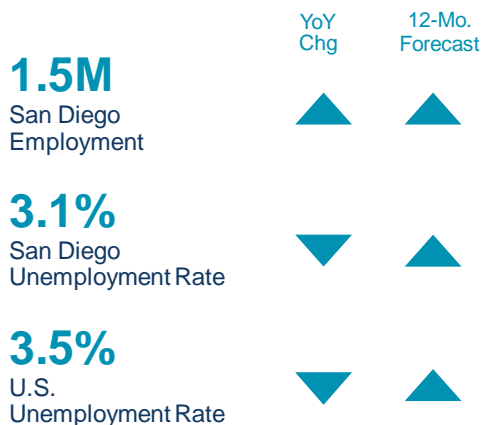


Office Q3 2022



(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2022



Source: BLS

ECONOMIC OVERVIEW

The total nonfarm employment in San Diego grew by 59,600 or +4.1% year-over-year (YOY) between August 2021 through August 2022, with the leisure and hospitality sector accounting for the most significant gains or 25,300 jobs added (+14.1% YOY). During the same time, the monthly unemployment rate decreased from 6.5% last year to 3.4% and is currently 30 basis points (bps) above the quarterly average of 3.1%.¹ All employment sectors are expected to grow at a combined rate of 5.3% (+76,370 jobs) in 2022, while office employment is forecasted to grow by 3.0% (+11,260 jobs) and high-tech employment by 2.9% (+4,140 jobs). The annual unemployment rate is forecasted to decrease from 6.5% in 2021 to 3.6% in 2022 and 3.3% in 2023. San Diego's economy of \$252.1 billion as measured by 2021 gross regional product is forecasted to grow 3.9% in 2022 and 1.9% in 2023.²

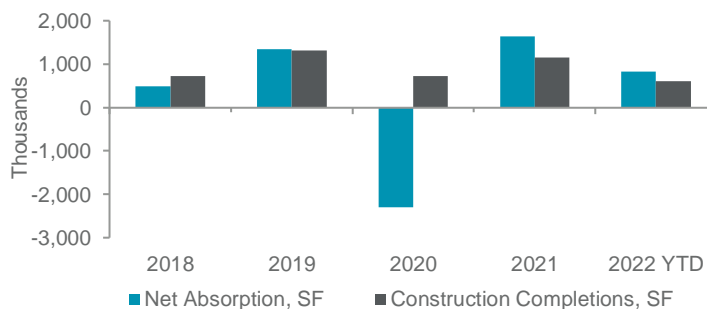
SUPPLY AND DEMAND

San Diego's overall office vacancy rate increased 60 bps quarter-over-quarter (QOQ) and decreased 90 bps YOY to 13.4% in Q3 2022. Tenants returned 437,318 square feet (sf) to the market due to the addition of a notable amount of sublease space. Sublease vacancy increased 50 bps QOQ and 60 bps YOY to 1.4%. Year-to-date, occupancy gains totaled 828,000 sf, with Class A gains accounting for more than half of the total gains. Excluding sublease, tenants absorbed 17,606 sf on a direct basis in Q3 2022, marking the seventh consecutive quarter of occupancy gains since the beginning of the COVID-19 pandemic. Direct net absorption was positive among Class A buildings (+114,000 sf), while space was returned to both class B (-51,000 sf) and class C (-46,000 sf) inventory. Consequently, the direct vacancy rate remained unchanged QOQ and decreased 150 bps YOY to 12.0% in Q3 2022. Del Mar Heights recorded the most positive direct net absorption in Q3 2022 (+116,000 sf) thanks to the occupancy of DermTech in their new headquarters, followed by Carlsbad (+37,000 sf) where Rockstar Games moved into 82,000 sf and Torrey Pines (+27,000 sf). Few submarkets experienced negative direct absorption this quarter, with the largest decrease in occupancy in Kearny Mesa (-59,000 sf).

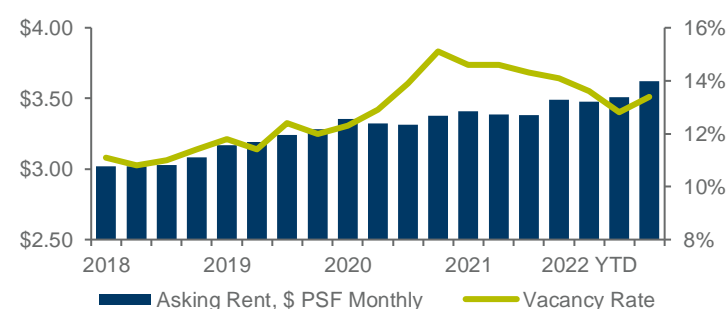
TENANT TRENDS

Leasing activity tempered slightly in Q3 2022 at 925,000 across 69 deals, excluding renewals, compared to 1.3 million square feet (msf) across 147 deals in Q2 2022 and 2.0 msf (157 deals) in Q3 2021. Sorrento Mesa was the most active market, accounting for 28% of new deals, followed by Eastgate (21%) and Scripps (8%). Life sciences companies like Crinetics Pharmaceuticals and Plexium in Sorrento Mesa, the continued expansion of Apple in Eastgate and a wide variety of mid-sized tenants in North and Central Counties contributed to tenant activity in these submarkets. Other notable deals include Firmenich leasing 38,600 sf and

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



Phase 3's life sciences conversion of Scripps Northridge and Gomez Trial Attorneys taking the first floor of the Paladion in Downtown. Most of the expected future absorption from previously signed leases will come from the life sciences sector, including tenants like PetDx, Native Microbials and Biolabs. Though Apple comprises much of the tenant activity for large blocks of traditional space, other office users, including the State of California and Reef, committed to leases and are expected to occupy in the upcoming quarters.

PRICING

The countywide average direct asking rent across all classes increased 7.0% from \$3.43 per square foot (psf) to \$3.67 psf on a monthly full-service basis from a year ago, while the overall average asking rent, including sublease space, increased 7.0% from \$3.38 psf to \$3.62 psf. Over the past 12 months, Class A direct average rent has increased by 5.3% to \$4.17 psf, while Class B average rent has increased by 7.4% to \$3.34 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

Of the 36 properties, totaling nearly 6.1 msf, currently under construction countywide, 34% are pre-leased and 158,600 sf (two buildings) are expected to be delivered by the end of 2022. The majority or 69% of inventory, totaling 4.2 msf across 24 buildings, is SPEC with the remaining 31% build-to-suit. Approximately 42% or 2.6 msf of inventory currently under construction is in the Downtown submarket. Additionally, there are 79 proposed projects, totaling 23.9 msf, across all classes. The active development total increased significantly this quarter thanks to a number of life sciences projects breaking ground, including One Alexandria Square in Torrey Pines, Bioterra and an additional building at Alexandria Technology Center in Sorrento Mesa.

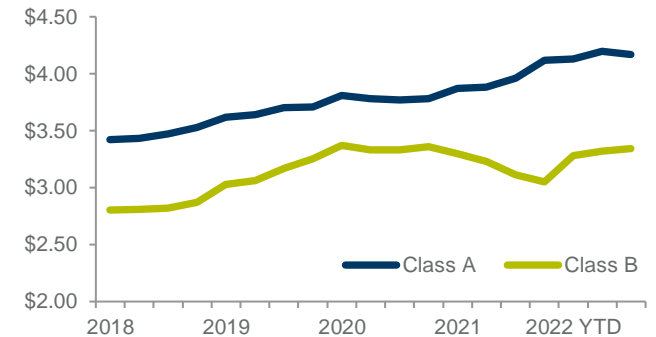
Developers continue to acquire projects for potential conversion and redevelopment, such as Breakthrough Properties' acquisitions of Governor Pointe in Governor and the industrial multi-tenant project Environmental Plaza in Sorrento Valley. Life sciences represent most of the new development as developers 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, 16707 Via Del Campo in Rancho Bernardo and the Sandbox in Solana Beach.

Sources: ¹www.bls.gov² Moody's Analytics economy.com 10/2022.

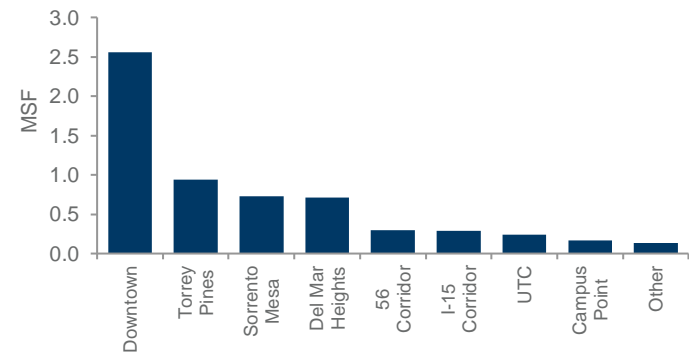
OUTLOOK

- 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 40% of total sf in lease obligations set to expire 12 to 24 months from the end of the quarter.
- Active tenant requirements of all sizes remain robust at 3.3 msf over the next 24 months countywide. 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 for leasing activity in subsequent quarters.

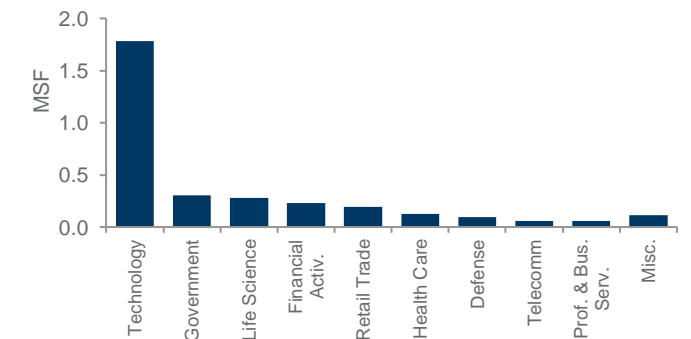
AVERAGE DIRECT ASKING RENT \$PSF MONTHLY



UNDER CONSTRUCTION INVENTORY BY SUBMARKET



TENANT DEMAND BY INDUSTRY SECTOR



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL ABSORPTION (SF)	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY** (SF)	YTD CNSTR COMPLETIONS (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
North County	11,691,626	102,341	1,355,638	12.5%	7,284	177,759	382,548	8,000	62,177	\$2.89	\$3.24
Central County	54,049,221	875,148	5,299,015	11.4%	-336,065	773,385	3,942,702	591,140	3,459,424	\$3.81	\$4.37
South County	17,961,511	189,537	3,353,894	19.7%	-108,537	-122,842	199,863	0	2,558,500	\$3.59	\$4.10
Class A	38,940,327	737,451	5,398,592	15.8%	-211,837	457,851	3,215,330	599,140	6,080,101	\$4.11	
Class B	35,244,685	410,828	3,662,064	11.6%	-180,658	251,137	1,261,833	0	0	\$3.31	
Class C	9,517,346	18,747	947,891	10.2%	-44,823	119,314	47,950	0	0	\$2.12	
SAN DIEGO TOTALS	83,702,358	1,167,026	10,008,547	13.4%	-437,318	828,302	4,525,113	599,140	6,080,101	\$3.62	

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

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
6055 Lusk Blvd.	Sorrento Mesa	Crinetics Pharmaceuticals	94,230	New
Paseo Del Mar	Del Mar Heights	Sheppard Mullin	72,993	Renewal** & Expansion
Eastgate Summit	Eastgate	Apple	64,832	New
Biovista	Sorrento Mesa	Plexium	50,831	New
Pacific Corporate Center	Sorrento Mesa	Qualcomm	48,709	Renewal**

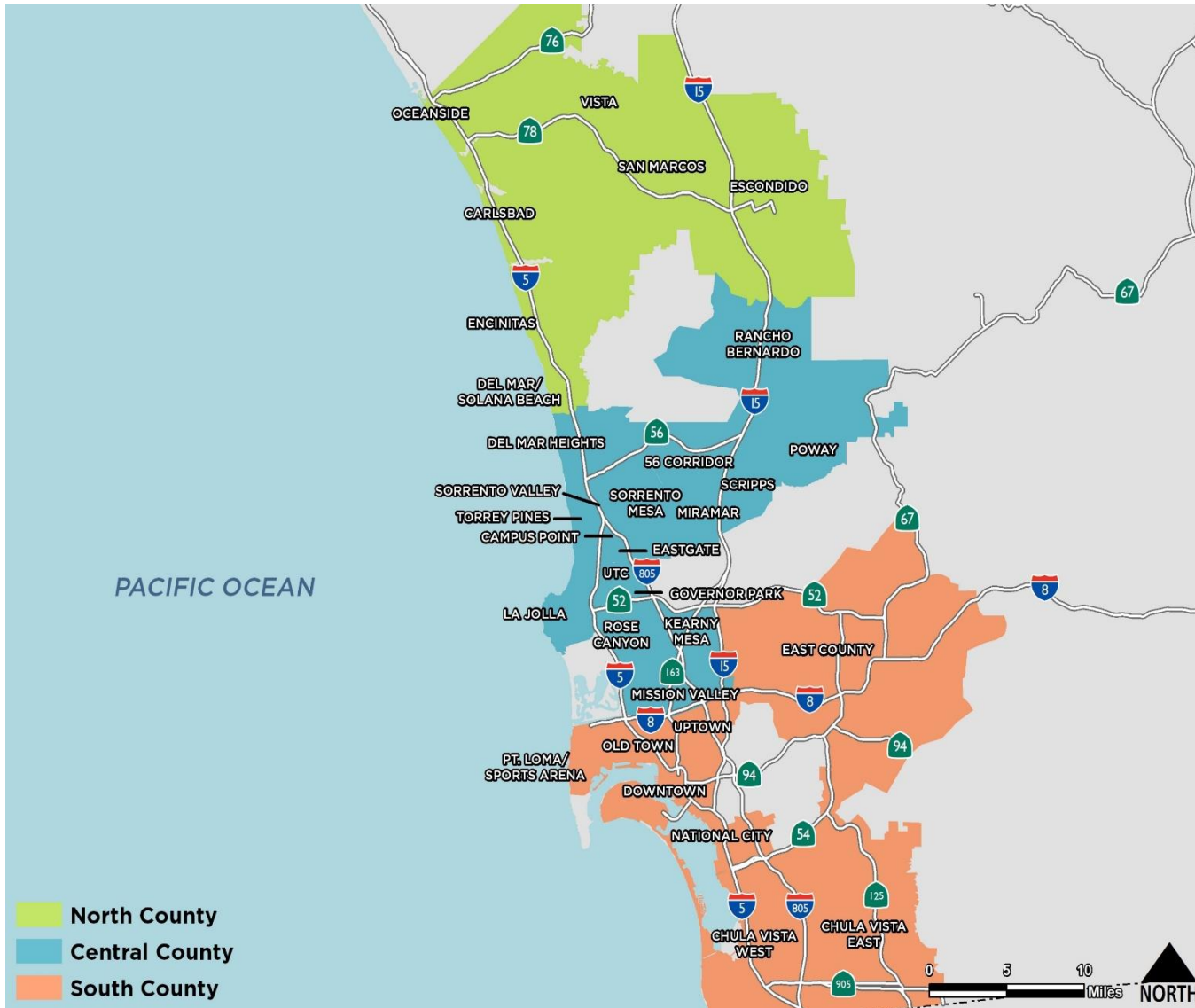
KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Rancho Vista Corporate Center	Rancho Bernardo	Swift Real Estate Partners / Apple	809,769	\$445.0M / \$550
Atlas	Carlsbad	Regent Properties / Tritower Financial Group	230,957	\$88.8M / \$384
Regents Park	UTC	Regent Properties / Welltower	100,000	\$57.0M / \$570
Lomas Pacific	Kearny Mesa	Brixton Capital / MC Strauss Company	89,784	\$22.8M / \$254
Pacific View Center	Del Mar / Solana Beach	Fenway Properties / IQHQ	21,564	\$17.1M / \$795

KEY CONSTRUCTION COMPLETIONS 2022YTD

PROPERTY	SUBMARKET	TENANT	SF	OWNER
APEX	Eastgate	Apple	204,000	BioMed Realty
Alexandria Tech Center	Sorrento Mesa	Element Biosciences	195,435	Alexandria Real Estate Equities
The Boardwalk	Torrey Pines	Cooley LLP, Zentalis Pharmaceuticals, Arcturus	191,705	Healthpeak Properties

OFFICE SUBMARKETS



JUSTIN BALAGTAS

Senior Research Analyst
 Tel: +1 858 625 5245
justin.balagtas@cushwake.com

JOLANTA CAMPION

Senior Research Director
 Southern California
 Tel: +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 over 400 offices and 60 countries. In 2021, the firm had revenue of \$9.4 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.

©2022 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.