MARKETBEAT

SAN DIEGO

Medical Office Q4 2022

	YoY Chg	12-Mo. Forecast
6.0% Vacancy Rate	▼	▼
82K Net Absorption, SF	▲	▲
$3.66 Asking Rent, PSF	▲	▬

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2022

	YoY Chg	12-Mo. Forecast
199K San Diego Health Care Employment	▲	▲
3.2% San Diego Unemployment Rate	▼	▲
3.7% U.S. Unemployment Rate	▼	▲

Source: BLS

ECONOMIC OVERVIEW

The total nonfarm employment in San Diego grew by 48,400 or +3.2% year-over-year (YOY) between November 2021 through November 2022, with the leisure and hospitality sector accounting for the most significant gains or 19,900 jobs added (+10.9% YOY), followed by professional and business services adding 12,700 jobs (+4.6% YOY). The healthcare sector added 5,000 jobs (+2.6% YOY). During the same time, the monthly unemployment rate decreased from 4.5% last year to 3.3% and is currently 10 basis points (bps) above the quarterly average of 3.2%.[1] All employment sectors are expected to grow at a combined rate of 0.8% (+12,340 jobs) in 2023, while office employment is forecasted to contract by 1.5% (-5,610 jobs) and return to growth of 0.2% in 2024 (+670 jobs). The annual unemployment rate is forecasted to decrease from 3.6% in 2022 and 3.5% in 2023. San Diego's economy of $260.0 billion as measured by 2022 gross regional product is forecasted to grow 1.2% in 2023.[2]

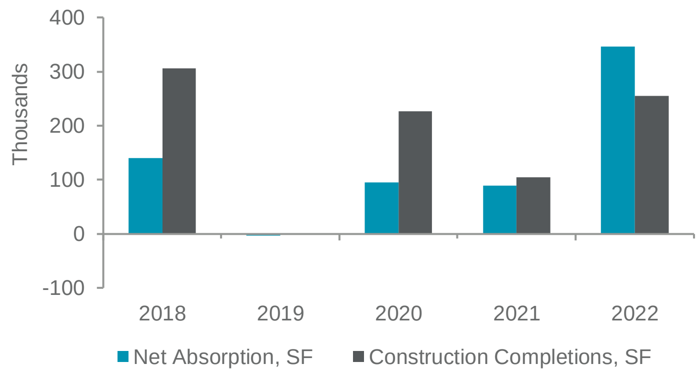
SUPPLY AND DEMAND

In the face of past economic headwinds, the healthcare industry has been noticeably resilient. Through today's economic turmoil, we can expect rising demand for care nationwide as well as in San Diego, providing opportunities for investors and occupiers who are able to manage costs and offer services that match patient demographics and diagnosed needs. San Diego's medical office overall vacancy was 6.0% at the end of Q4 2022, unchanged quarter-over-quarter and an 80 bps decrease YOY. The market absorbed 82,249 square feet (sf) in Q4 2022, with class A space absorbing 92,684 sf primarily as a result of the delivery of a building for Palomar Health in Escondido. As a result, North County had the highest occupancy gains, followed by Mid City and South County. Vacancy rates for all submarkets also remained in the single digits for the 17th consecutive quarter. The highest vacancy was recorded in the I-15 Corridor submarket at 7.7% followed by North County at 7.2%. The lowest vacancy was recorded in the South County submarket at 3.1%. Speculative construction is limited to a 10,000-sf medical office project as part of Village North in Del Mar Heights.

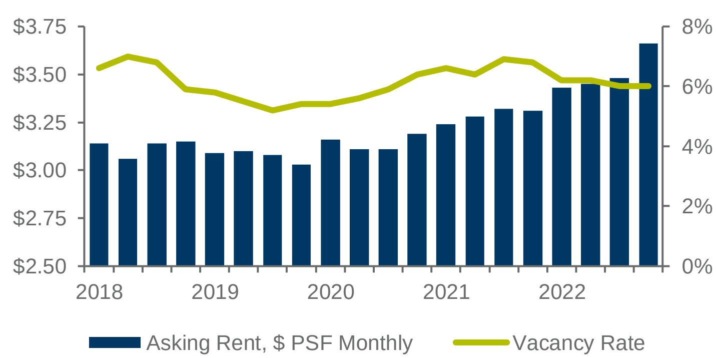
PRICING

The average countywide asking rent across all classes was $3.66 per square foot (psf) on a monthly full-service basis in Q4 2022, a 5.2% increase from the previous quarter and a 10.6% increase from a year ago. The average asking rent is at its highest level since the data was first reported. Class B rents rose 6.1% from the previous quarter, while Class A rents rose 1.8%. The Mid City submarkets experienced the most rent growth this quarter, rising 8.4%, followed by North County where rents grew by 7.4%.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



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SAN DIEGO

Medical Office Q4 2022

CUSHMAN & WAKEFIELD

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD DIRECT NET ABSORPTION (SF)	YTD LEASING ACTIVITY ** (SF)	YTD CONSTR COMPLETIONS (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Class A	4,176,172	0	189,690	4.5%	92,684	127,727	130,740	115,000	0	$3.95	
Class B	7,893,852	38,272	508,509	6.9%	-4,553	206,556	295,207	140,100	10,000	$3.67	
Class C	1,969,798	0	101,943	5.2%	-5,882	11,463	44,190	0	0	$2.51	
North County	3,573,978	10,680	248,361	7.2%	74,043	126,493	119,104	75,000	0	$3.76	$3.97
Mid City	2,570,811	12,265	130,004	5.5%	11,016	38,909	94,317	0	10,000	$4.25	$4.45
I-15 Corridor	1,134,951	0	87,589	7.7%	-7,457	19,035	66,253	0	0	$3.65	$4.21
Central Suburban	3,824,141	13,175	228,377	6.3%	-5,516	117,991	151,097	180,100	0	$3.39	$4.13
East County	1,196,698	2,152	52,278	4.5%	3,104	26,155	16,387	0	0	$3.27	$3.73
South County	1,739,243	0	53,533	3.1%	7,059	17,163	22,979	0	0	$3.25	$3.56
On Campus	4,932,392	3,802	275,656	5.7%	65,952	224,052	0	40,000	0	$3.51	$3.82
Off Campus	9,107,430	34,470	524,486	6.1%	16,297	121,694	470,137	215,100	10,000	$3.73	$3.98
SAN DIEGO TOTALS	**14,039,822**	**38,272**	**800,142**	**6.0%**	**82,249**	**345,746**	**470,137**	**255,100**	**10,000**	**$3.66**	**$3.95**

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

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
6260 El Camino Real	North County	Lansara	5,214	Renewal / Expansion
8825 Aero Dr.	Central Suburban	Psychiatry Health San Diego	4,899	New
502 Euclid Ave.	South County	Paradise Pharmacy	1,267	Renewal

KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / $ PSF
800 W. Valley Pky.	North County	Showprop Pico Rivera LLC / The Elizabeth Hospice	26,945	$8.1M / $301
8530 La Mesa Blvd.	East County	Misco Building Association / Family Health Centers	25,916	$8.4M / $325
963 Lane Ave.	South County	Otay Lakes Partners LLC / Chesnut Funds	10,500	$5.25M / $500

KEY CONSTRUCTION COMPLETIONS 2022

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]Moody's Analytics economy.com 12/2022.

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