

SAN DIEGO OFFICE MARKET

DIMINISHED LEASING ACTIVITY HASN'T STOPPED RENT GROWTH

- In spite of economic headwinds caused by the pandemic, the average asking rent increased for the ninth consecutive quarter to a new high of \$3.19/SF. Rent is up 8.6% year-over-year.
- Vacancy increased to 13.4%, up 80 basis points from last quarter.
- Absorption was negative for the third quarter in a row, posting 291,878 square feet of losses and bringing the year-to-date total to negative 841,547 square feet.
- Sublease availability has steadily increased since the beginning of 2020 to nearly 2.2 million square feet, the largest amount of sublease space on the market since 2014.
- Construction activity reached a 10-year high, with 1.9 million square feet of product under way.
- Kilroy Realty Corporation delivered 288,494 square feet at One Paseo in Del Mar Heights. Stockdale Capital Partner began construction on its 700,000-square-foot Campus at Horton project in Downtown, and Lincoln Property Company commenced construction on 217,235 square feet with Phase 1 of Aperture Del Mar in Carmel Valley.

BRIGHT SPOTS AMID THE PANDEMIC

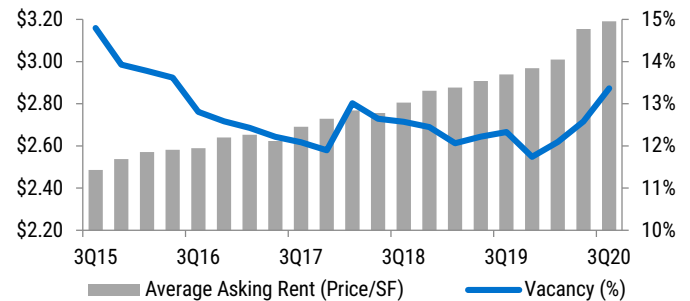
Two new office buildings delivered at One Paseo in Del Mar Heights after delays earlier in the year. The buildings are 90.0% leased and have already contributed over 128,000 square feet of positive absorption as tenants begin to move in. Acadia Pharmaceuticals is the largest tenant at the project, which will serve as the biopharmaceutical company's new corporate headquarters.

The biotech industry continues to be a major investment driver in San Diego. Alexandria Real Estate Equities purchased The Pointe at Torrey Pines, an 11.4-acre project, for \$97.5 million to secure the site for eventual redevelopment. In Sorrento Valley, Longfellow Real Estate Partners continued to expand its San Diego portfolio with the \$42.75-million acquisition of the three-building Creekside campus.

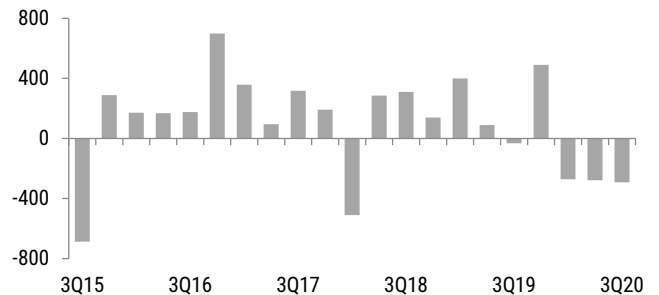
Several tech giants are expanding office footprints in UTC. Stockdale Capital Partners, which is in the process of transforming the old Horton Plaza shopping center into a 700,000-square-foot creative office project, is trying to attract technology and life science tenants to move Downtown, a submarket that has not traditionally been a major hub for these sectors.

MARKET ANALYSIS

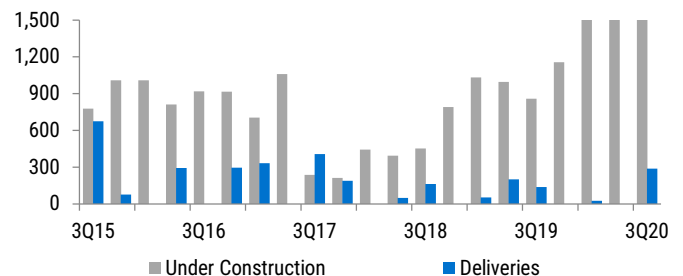
Asking Rent and Vacancy



Net Absorption (SF, Thousands)



Construction and Deliveries (SF, Thousands)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	72.0 MSF	71.7 MSF	71.1 MSF	↑
Vacancy Rate	13.4%	12.6%	12.3%	↑
Quarterly Net Absorption	-291,878	-280,163	-32,579	↑
Average Asking Rent	\$3.19	\$3.16	\$2.94	↓
Under Construction	1,904,584	1,661,068	858,550	↓
Deliveries	288,484	0	137,500	↑

OUTLOOK

San Diego's unemployment rate fell to 9.9% in August, down from a peak of 15.2% in May. Total nonfarm employment remains down 135,800 jobs compared to one year ago, a 9.0% decline. Office-using employment is down only 7,400 jobs over the same period, a 2.1% decrease, demonstrating the relative resiliency of the office sector in the region.

San Diego has now experienced three consecutive quarters of negative absorption that also set new record highs for the average asking rent. As rent trends typically trail vacancy by a year, the region can expect to see rates start to decline in the beginning of 2021.

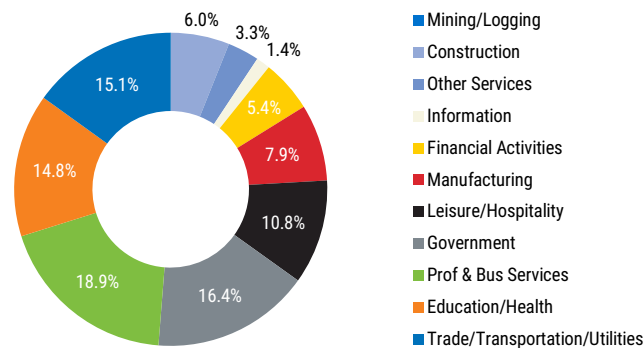
The region is actively engaged in the global effort to combat the pandemic. UC San Diego is helping to enroll local participants for both Moderna and AstraZeneca's Phase 3 trials for a coronavirus vaccine. Several local biotech firms also have vaccine candidates in Phase 1 or 2 trials, and at least 11 local companies are producing coronavirus testing kits.

The speed of recovery for the region's economy, as well as the office market, depend on safely reopening businesses and public services. San Diego has been able to open additional indoor operations under California's new, tiered risk level criteria, and reducing the number of new cases will allow even more businesses to reopen.

EMPLOYMENT BY INDUSTRY

Not Seasonally Adjusted

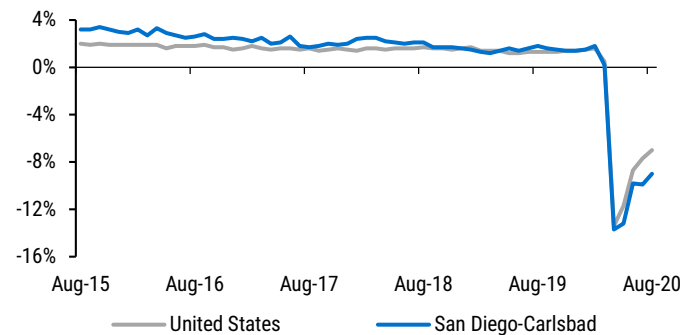
San Diego-Carlsbad, August 2020



Source: U.S. Bureau of Labor Statistics (Preliminary Data)

PAYROLL EMPLOYMENT

Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics (Preliminary Data)

LEASE TRANSACTIONS

Tenant	Building	Market Area	Type	Square Feet
CoreLogic	10277 Scripps Ranch Blvd	Scripps Ranch	Renewal	32,775
CUSO Financial Services	10150 Meanley Dr	Scripps Ranch	Renewal	30,245
Zeku	3570 Carmel Mountain Rd	Del Mar Heights	Expansion	25,343
Helix	6925 Lusk Blvd	Sorrento Mesa	New Lease	22,497
T.Y. Lin International Group	404 Camino Del Rio S	Mission Valley	Renewal	21,354

SALE TRANSACTIONS

Building(s)	Market Area	Sale Price	Price/SF	Square Feet
Frost Street Medical Center	Kearny Mesa	\$106,000,000	\$602	176,000
The Pointe at Torrey Pines	Torrey Pines	\$97,500,000	\$701	139,135
Creekside	Sorrento Valley	\$42,750,000	\$343	124,473
One Technology Pl	Rancho Bernardo	\$39,000,000	\$283	137,695
Cornerstone Heights	Sorrento Mesa	\$20,600,000	\$399	51,690

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Downtown	11,482,393	993,523	18.6%	-140,479	-206,502	\$3.92	\$3.46	\$3.58
Suburban Total	60,526,748	911,061	12.4%	-151,399	-635,045	\$3.50	\$2.80	\$3.07
Carlsbad	5,679,198	0	19.2%	10,533	-22,489	\$2.87	\$2.68	\$2.76
Chula Vista/South Bay/ National City	1,526,288	0	4.4%	19,079	-15,516	\$2.75	\$2.27	\$2.54
Del Mar Heights/ Carmel Valley	5,020,782	217,235	15.9%	110,501	177,231	\$4.23	\$3.35	\$4.08
East County	1,210,335	0	2.7%	-6,328	-15,341	\$2.68	\$2.31	\$2.48
Escondido	511,722	0	14.7%	-1,070	-36,573	\$2.31	\$2.04	\$2.29
Governor Park	846,865	0	11.5%	8,550	-21,004	\$3.27	\$2.80	\$2.87
Kearny Mesa	7,148,649	0	10.0%	-55,467	-459,021	\$3.05	\$2.46	\$2.54
La Jolla	1,361,104	0	14.3%	-57,051	-75,425	\$3.68	\$3.11	\$3.38
Mira Mesa/Miramar	795,006	0	17.6%	25,507	-23,582	\$2.21	\$2.17	\$2.10
Mission Gorge/College	843,406	0	1.4%	4,293	14,237	-	\$2.32	\$2.26
Mission Valley	6,124,240	0	12.5%	-22,606	-12,265	\$3.73	\$2.59	\$3.09
North Beach Cities	1,107,487	0	9.6%	-24,820	-6,249	\$3.65	\$3.49	\$3.58
Oceanside	424,182	100,000	9.7%	602	-18,990	\$1.95	\$1.66	\$1.79
Old Town/Sports Arena/Point Loma	1,249,146	0	3.7%	-82	-8,057	-	\$2.81	\$2.72
Poway	1,069,029	0	9.4%	-796	2,523	\$3.71	\$2.09	\$3.01
Rancho Bernardo	3,973,440	0	16.4%	-64,699	-68,141	\$2.99	\$2.81	\$2.84
Rose Canyon/Morena	545,943	0	10.1%	-16,931	-5,892	-	\$2.07	\$2.09
Scripps Ranch	2,066,531	0	22.5%	-33,462	3,743	\$2.97	\$2.62	\$2.77
Sorrento Mesa	6,642,286	0	15.9%	977	-9,448	\$3.85	\$3.32	\$3.43
Sorrento Valley	467,422	0	17.1%	1,722	-35,938	-	\$2.02	\$1.98
Torrey Pines	895,071	195,826	7.5%	-22,071	-13,698	\$4.36	\$3.20	\$4.19

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Uptown/Park	909,324	29,000	7.9%	-25,530	-3,759	-	\$2.97	\$2.92
UTC	8,739,753	369,000	5.8%	-4,758	2,085	\$3.97	\$3.84	\$3.95
Vista/San Marcos	1,369,539	0	18.4%	2,508	16,524	\$2.37	\$2.23	\$2.33
San Diego	72,009,141	1,904,584	13.4%	-291,878	-841,547	\$3.62	\$2.89	\$3.19



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