

# San Diego Office Market Report

## Mixed Signs at the End of a Trying Year

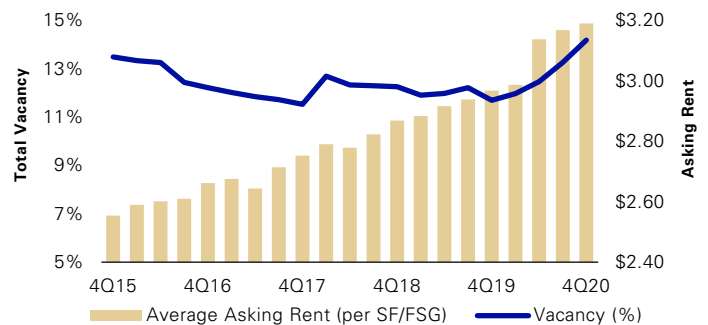
- Landlords maintained higher asking rents in the face of slower economic activity as the average asking rent climbed to \$3.19/SF, up from \$3.17/SF last quarter and up 7.5% over the past year. Rents are expected to bow to pressure from increased vacancy and decline next year.
- Tenants have adapted to the pandemic by signing shorter leases, downsizing space requirements due to employees working from home or being laid off and subleasing an increasing amount of space that is no longer needed.
- Vacancy increased to 14.2%, up 250 basis points from last year. This represents an additional 1.9 million square feet of vacant space since 2019.
- Absorption was sharply negative for the quarter, with 532,091 square feet. Four consecutive quarters of losses brought 2020's total net absorption to negative 1.3 million square feet.
- Sublet space has been rising steadily as companies list excess space. There was 2.4 million square feet available for sublease at the end of 2020, up 29.4% from 2019.
- Construction activity continued at record-setting levels, although no new projects delivered this quarter. 1.9 million square feet of projects are currently under construction, with more than half of this square footage located in the Downtown submarket.

### Planning for the Future

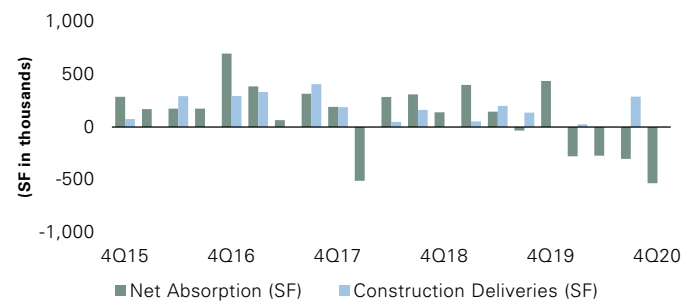
Life science companies have been notably active during the pandemic. Zentalis Pharmaceuticals leased two entire buildings, totaling 117,000 square feet, at The Boardwalk in Torrey Pines, HealthPeak Properties's three-building campus that is under construction and scheduled for delivery in 2021.

### Market Analysis

#### TOTAL VACANCY AND MONTHLY AVERAGE ASKING RENT



#### NET ABSORPTION AND CONSTRUCTION DELIVERIES



### Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	72.1M	72.0M	71.4M	↑
Total Vacancy Rate	14.2%	13.3%	11.7%	↑
Quarterly Net Absorption (SF)	-532,091	-302,370	437,889	→
Average Asking Rent/SF/Month	\$3.19 FSG	\$3.17 FSG	\$2.97 FSG	↓
Deliveries (SF)	0	288,484	0	↑
Under Construction (SF)	1.9M	1.9M	1.2M	↓

## RESEARCH Q4 2020

Several massive development projects have been announced across the region. Brookfield Properties will redevelop Pechanga Arena, renovating or replacing the more-than-50-year-old stadium as well as adding 2,100 housing units, 590,000 square feet of retail and five acres of parks. The city council has approved Hines's redevelopment of Riverwalk in Mission Valley to break ground in 2021, which will replace the golf course with 4,300 apartments, 1.0 million square feet of office, 152,000 square feet of retail, a new trolley station, an 80-acre park and 100 acres of open space. In UTC, Alexandria Real Estate Equities has partnered with Regency Centers to transform the Costa Verde shopping center into a mixed-use biotech campus, with plans to add 400,000 square feet of life science space and a 200-room hotel next to an under-construction trolley station.

### Outlook

San Diego's unemployment rate fell to 6.6% in November, less than half of May's peak of 15.2%, although this welcome improvement came before the third wave of COVID-19 cases brought renewed stay-at-home orders to California.

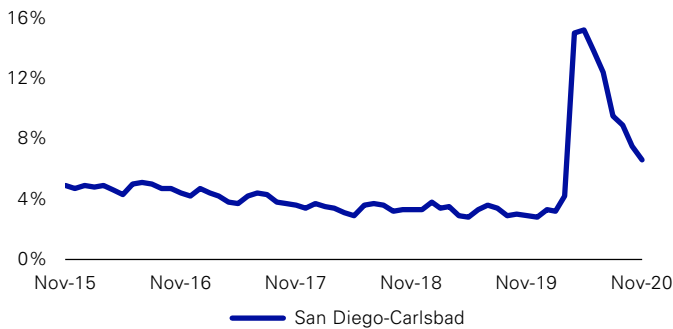
Annual sales volume was \$1.3 billion in 2020, down sharply from the \$2.5 billion seen in both 2019 and 2018. Investors have been biding their time and focusing on development and redevelopment acquisitions, while occupiers in a strong financial position have made a limited number of owner-user purchases.

The beginning of vaccinations in San Diego and across the U.S. has fueled hope for a recovery in 2021, although the process will take the better part of the year. Investors will continue to take advantage of short-term slowdowns to seek out opportunistic acquisitions, while occupiers will slowly ramp up leasing as economic conditions improve. This will likely be a long and gradual improvement as opposed to the sudden rebound observers had hoped for early in the pandemic.

San Diego has endured tough times, particularly in its retail and tourism industries, but is poised and ready for a recovery that is hopefully coming sooner rather than later.

### Unemployment Rate

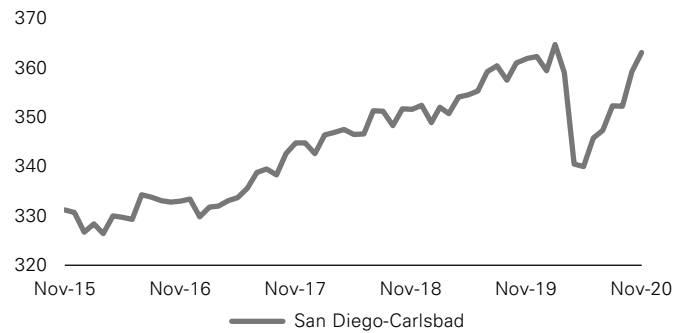
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics (Preliminary data, not seasonally adjusted)

### Office-Using Employment

(IN THOUSANDS)



Source: U.S. Bureau of Labor Statistics (Preliminary data, not seasonally adjusted). Includes information, financial activities and professional and business services jobs.

### Lease Transactions

Tenant	Building	Market Area	Lease Type	Square Feet
Zentalis Pharmaceuticals	10275 & 10285 Science Center Dr.	Torrey Pines	New	117,929
ServiceNow	4810 Eastgate Mall	UTC	Renewal	94,542
Mid-Coast Transit Constructors	4690 Executive Dr.	UTC	Extension	32,106

### Sale Transactions

Buyer	Building(s)	Market Area	Sale Price/SF	Square Feet
Alexandria Real Estate Equities	Verge	Sorrento Mesa	\$528	321,471
Longfellow Real Estate Partners	The Foundry	Sorrento Mesa	\$463	280,631
Endeavor Real Estate Group	444 W Beech St.	Downtown	\$458	28,275

RESEARCH Q4 2020

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
<b>Downtown San Diego</b>	<b>11,670,479</b>	<b>993,523</b>	<b>21.2%</b>	<b>-166,390</b>	<b>-389,911</b>	<b>\$3.76</b>	<b>\$3.26</b>	<b>\$3.46</b>
<b>Suburban Total</b>	<b>60,453,217</b>	<b>911,061</b>	<b>12.8%</b>	<b>-365,701</b>	<b>-853,219</b>	<b>\$3.55</b>	<b>\$2.76</b>	<b>\$3.09</b>
Carlsbad	5,679,198	0	17.0%	116,911	100,949	\$2.83	\$2.66	\$2.73
Chula Vista/South Bay/ National City	1,526,288	0	2.9%	22,996	7,480	\$2.75	\$2.51	\$2.69
Del Mar Heights/ Carmel Valley	5,036,435	217,235	14.1%	88,415	265,646	\$4.26	\$3.43	\$4.12
East County	1,210,335	0	2.1%	7,002	-8,339	\$2.74	\$2.26	\$2.50
Escondido	511,722	0	12.3%	12,504	-24,069	\$2.39	\$2.11	\$2.32
Governor Park	846,865	0	14.4%	-24,241	-45,245	\$3.27	\$2.82	\$2.89
Kearny Mesa	7,147,419	0	12.2%	-101,646	-419,667	\$3.04	\$2.51	\$2.56
La Jolla	1,368,354	0	13.6%	7,934	-67,491	\$3.73	\$3.05	\$3.32
Mira Mesa/Miramar	795,006	0	15.6%	15,542	-8,040	\$1.81	\$2.13	\$2.03
Mission Gorge/College	843,406	0	1.2%	996	15,233	-	\$2.32	\$2.27
Mission Valley	6,124,240	0	16.5%	-242,058	-254,323	\$3.74	\$2.60	\$3.09
North Beach Cities	1,107,487	0	9.9%	-3,670	-9,919	\$3.83	\$3.52	\$3.69
Oceanside	424,182	100,000	13.4%	-15,625	-34,615	\$2.08	\$1.61	\$1.67
Old Town/Sports Arena/ Point Loma	1,249,258	0	4.8%	-13,171	-21,228	-	\$2.89	\$2.71
Poway	1,069,029	0	9.1%	3,127	5,650	\$3.78	\$2.82	\$3.05
Rancho Bernardo	3,973,440	0	16.8%	-18,779	-86,920	\$2.98	\$2.81	\$2.85
Rose Canyon/Morena	545,943	0	10.5%	-2,131	-8,023	-	\$1.94	\$1.99
Scripps Ranch	2,066,531	0	25.7%	-66,983	-63,240	\$3.01	\$2.79	\$2.90
Sorrento Mesa	6,546,970	0	14.0%	9,499	51	\$3.76	\$2.95	\$3.24
Sorrento Valley	467,422	0	14.7%	10,801	-25,137	-	\$2.02	\$1.98
Torrey Pines	895,071	195,826	7.4%	-9,156	-22,854	\$4.43	\$3.20	\$4.25

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Uptown/Park	909,324	29,000	9.0%	-9,889	-13,648	-	\$2.88	\$2.85
UTC	8,739,753	369,000	7.5%	-141,564	-139,479	\$3.89	\$3.48	\$3.83
Vista/San Marcos	1,369,539	0	19.3%	-12,515	4,009	\$2.40	\$2.28	\$2.38
<b>Market</b>	<b>72,123,696</b>	<b>1,904,584</b>	<b>14.2%</b>	<b>-532,091</b>	<b>-1,243,130</b>	<b>\$3.61</b>	<b>\$2.86</b>	<b>\$3.19</b>

*Under construction totals include ground-up construction only; under renovation and/or converted product is excluded. The same applies to construction deliveries.  
Net absorption is the change in physically occupied space. A hypothetical vacant and available space could lease this quarter with the tenant set to take occupancy six months later; positive absorption is not recorded until this physical move-in occurs. The space will remain vacant, but not available, until occupancy.*

