

San Diego



Quick Stats

13.9%

San Diego County
Unemployment Rate
as of June 2020

-110,372 SF

Negative Net Absorption
Current Quarter

Negative 292,546 SF
Past 12 Months

11.2%

Total Vacancy Rate
Up from 11.0% in Q1 2020

2,621,608 SF

Under Construction
Current Quarter

\$3.02 PSF

Asking Rental Rate
Weighted Average

The San Diego office market is proving resilient as of the end of the second quarter of 2020. Economic disruptions from the Covid-19 pandemic, while rippling through every sector of the market, are slower to impact the office inventory in San Diego. Market fundamentals for the county are strengthened by long-time market drivers including the U.S. military, defense contractors, high-tech manufacturing, and life sciences; and desirable coastal geography on the international border with Mexico serves as an advantage for the evolving logistics needs of trade and e-commerce. Minimal pressure on rental rates is expected in San Diego, despite the pending necessity to absorb the surge of new deliveries pending in the coming year. Additional pressure is expected over the long term, as flexible workspace and remote working influence decisions regarding office lease renewals, asset investments and new development well beyond the current pandemic. Meanwhile, sale transactions are down by 32% in the county, as some buyers tend to expect more of a discount than many sellers are willing to meet, particularly as rental income has not yet registered a significant decline across the board.

During the second quarter, the number of unemployment claims recorded a steep climb to unprecedented levels as the economy incurred job losses related to the coronavirus pandemic. The county's unemployment rate was 13.9% as of June, increasing from 4.2% in the previous quarter, and 2.8% one year ago. San Diego figures remained just below the state average; currently California's

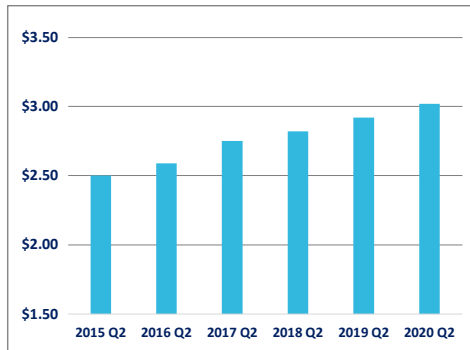
unemployment rate is at 14.9%, ranking the fifth highest in the U.S.

Vacancy in San Diego's office market increased to 11.2%, up 20 bps from the previous quarter, and up 50 bps as compared to one year ago. After minimal movement in vacancy over the past three years, the second quarter marks a slight uptick, in modest response to current headwinds. The county recorded net negative absorption of 110,372 sf in the second quarter, bringing year-to-date absorption to negative 587,875 sf.

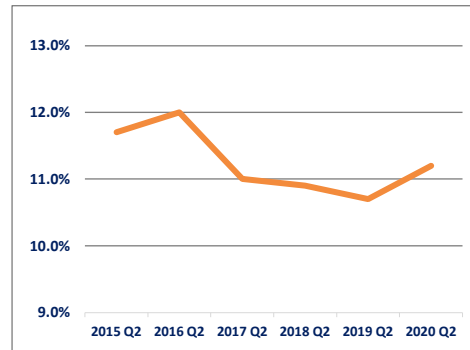
A total of 16 investment-grade office projects were under construction in the second quarter, amounting to 2.6m sf of new inventory on track to deliver before the end of the 2021. As construction is deemed essential work in California, construction activity in San Diego continues at a steady pace for projects that had already commenced during the surge of development starts over the past year.

Rental rates remain at a record high of \$3.02 psf FSG in the second quarter, flat from the previous quarter, and up from \$2.92 psf FSG at the same time in the previous year. The highest submarket rents were found in the Central Coast area averaging \$3.59 psf FSG, driven largely by demand from life sciences, and mid-sized and start-up tech companies supported by strong venture capital interest. The Central Coast area also contains the highest volume of office inventory in the county. While rents are high in this submarket, it remains an attractive alternative to higher priced tech-focused metropolitan areas in the U.S.

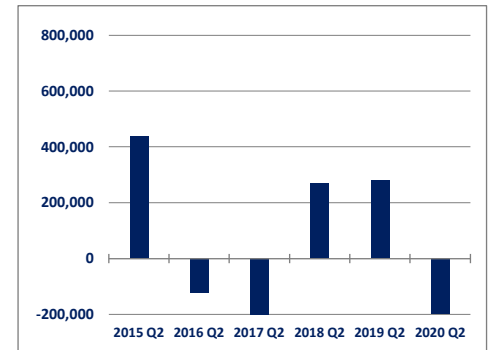
Asking Rent



Vacancy Rate



Net Absorption



Top Leases

Tenant	Type	Address	Submarket	SF
MilliporeSigma	New	2827 Whiptail Loop	Carlsbad	146,108
Cooley	New	10265 Science Center Drive	Torrey Pines	74,000
Cue Health	New	9877 Waples Street	Sorrento Mesa	62,392
Mirati Therapeutics	New	3545 Cray Court	Torrey Pines	54,606
AnaptysBio	New	10770 Wateridge Circle	Sorrento Mesa	43,694

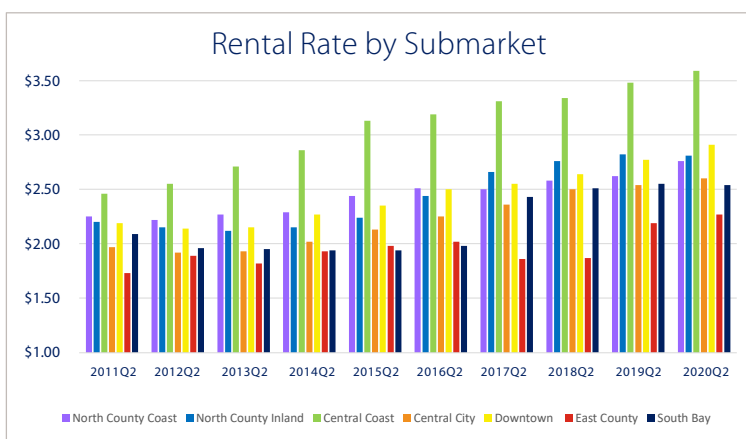
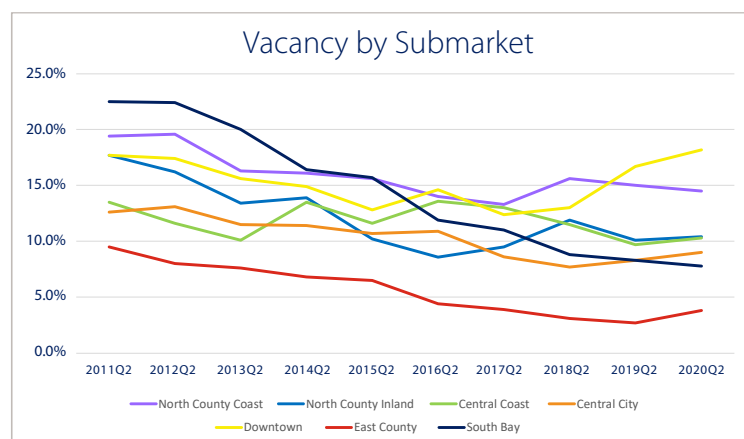
Top Sales

Address	Submarket	Buyer	Seller	Price	SF
10700 Wateridge & 6325 Lusk	Sorrento Mesa	Harrison Street Capital	Bioscience Properties	\$158,500,000	233,570
Frost Street Medical Center	Kearny Mesa	Sharp Healthcare	Healthpeak Properties	\$106,000,000	176,000
2827 Whiptail Loop	Carlsbad	BLT Enterprises	RAF Pacifica Group	\$40,450,000	146,108
5796 Armada Drive	Carlsbad	Sentre	Miller Global Properties	\$28,250,000	75,000
9877 Waples Street	Sorrento Mesa	Alexandria Real Estate	Lincoln Property	\$17,000,000	62,392

Under Construction

Address	Submarket	Developer	SF	Completion
The Campus at Horton	Downtown	Stockdale Capital Partners	550,000	Q4 2021
937 N Harbor Drive, Manchester Pacific Gateway	Downtown	Manchester Financial Group	372,000	Q4 2020
12830-12860 El Camino Real, One Paseo	Del Mar Heights	Kilroy Realty Corporation	288,484	Q4 2020
Carmel Valley Road, Aperture Del Mar	Del Mar Heights	Lincoln Property	217,235	Q4 2021
2100 Kettner Boulevard	Downtown	Kilroy Realty Corporation	204,754	Q2 2021

SAN DIEGO	Vacancy				Net Absorption		Avg. Advertised Rates			Construction Pipeline	
	Q2 2020 Inventory (SF)	Q2 2020 Vacancy (SF)	Q2 2020 Vacancy (%)	Q1 2020 Vacancy (%)	Current Quarter Absorption	12 Month Total Absorption	Q2 2020 Rental Rates FSG	Q1 2020 Rental Rates FSG	Qtr/Qtr Change (%)	Current Qtr Deliveries	Under Construction Quarter-End
Carlsbad	5,625,570	917,053	16.3%	17.0%	37,627	41,878	\$2.71	\$2.70	0.37%	0	0
Encinitas/Solana Beach	1,617,840	114,536	7.1%	6.3%	-12,462	85,239	\$3.81	\$3.83	-0.52%	0	0
Oceanside	782,573	69,398	8.9%	7.7%	-9,485	9,907	\$1.95	\$1.94	0.52%	0	100,000
San Marcos	1,209,354	80,405	6.6%	7.0%	3,658	9,992	\$2.72	\$2.73	-0.37%	0	0
Vista	799,851	269,025	33.6%	33.6%	-451	-8,078	\$2.19	\$2.19	0.00%	0	0
North County Coast TOTAL	10,035,188	1,450,417	14.5%	14.7%	18,887	138,938	\$2.76	\$2.75	0.4%	0	100,000
Escondido	899,047	99,278	11.0%	11.3%	2,042	-49,932	\$2.53	\$2.85	-11.23%	0	80,064
Miramar/Mira Mesa	1,319,213	102,319	7.8%	8.7%	13,020	-37,663	\$1.96	\$1.97	-0.51%	0	0
Poway	1,178,887	32,495	2.8%	2.7%	-1,047	-4,839	\$2.06	\$2.17	-5.07%	0	0
Rancho Bernardo/Carmel Mtn Rch	6,375,096	637,721	10.0%	10.0%	-1,687	-14,911	\$3.08	\$3.15	-2.22%	0	0
Scripps Ranch	2,624,414	418,622	16.0%	16.5%	15,138	214,685	\$2.77	\$2.76	0.36%	0	0
North County Inland TOTAL	12,396,657	1,290,435	10.4%	10.6%	27,466	107,340	\$2.81	\$2.87	-2.09%	0	80,064
Carmel Valley/Del Mar	4,734,962	619,760	13.1%	13.4%	13,546	66,092	\$4.35	\$4.34	0.23%	0	505,719
Governor Park	800,128	98,116	12.3%	10.7%	47,559	-1,702	\$2.83	\$2.82	0.35%	0	0
La Jolla	1,039,660	154,235	14.8%	13.0%	-19,354	-21,931	\$3.37	\$3.44	-2.03%	0	0
Sorrento Mesa	8,984,157	1,045,280	9.2%	12.1%	43,193	-58,796	\$3.22	\$3.16	1.90%	0	28,000
Sorrento Valley	447,338	90,595	20.3%	16.2%	-18,049	-39,497	\$2.23	\$2.35	-5.11%	0	0
Torrey Pines	2,882,171	232,615	8.1%	7.5%	-15,299	-138,419	\$4.46	\$4.40	1.36%	0	198,302
UTC	8,645,724	581,551	6.7%	5.9%	-70,837	46,592	\$3.74	\$3.60	3.89%	98,282	369,000
Central Coast TOTAL	27,534,140	2,822,152	10.3%	10.0%	-19,241	-147,661	\$3.59	\$3.56	0.84%	98,282	1,101,021
North Park/Uptown	1,686,552	117,585	7.0%	6.9%	-873	-19,677	\$2.62	\$2.61	0.38%	0	0
Kearny Mesa	10,109,121	977,832	9.7%	9.1%	-61,326	-251,350	\$2.42	\$2.41	0.41%	0	125,000
Mission Valley	6,846,796	713,902	10.4%	9.6%	-56,094	64,712	\$2.77	\$2.82	-1.77%	0	0
Midway/Point Loma/Coronado	1,949,483	60,236	3.1%	3.0%	-1,652	58,891	\$2.96	\$3.01	-1.66%	0	0
Pacific Beach/Bay Ho/Morena	835,677	56,589	6.8%	6.3%	-4,000	-8,088	\$2.08	\$1.99	4.52%	0	0
Central City TOTAL	21,427,629	1,926,144	9.0%	8.4%	-123,945	-155,512	\$2.60	\$2.61	-0.38%	0	125,000
Downtown Business District	12,599,205	2,288,631	18.2%	18.1%	-9,350	-210,309	\$2.91	\$2.90	0.34%	0	1,215,523
Downtown CBD TOTAL	12,599,205	2,288,631	18.2%	18.1%	-9,350	-210,309	\$2.91	\$2.90	0.34%	0	1,215,523
La Mesa/College Area	2,068,173	101,717	4.9%	3.9%	-20,881	-26,549	\$2.24	\$2.22	0.90%	0	0
El Cajon	779,415	16,680	2.1%	1.4%	-5,862	-13,364	\$2.85	\$2.85	0.00%	0	0
Mission Gorge/Santee	635,812	15,347	2.4%	1.9%	-3,123	-375	\$1.95	\$1.93	1.04%	0	0
East County TOTAL	3,483,400	133,744	3.8%	3.0%	-29,866	-40,288	\$2.27	\$2.26	0.44%	0	0
Chula Vista	1,889,246	150,655	8.0%	9.1%	21,479	21,537	\$2.56	\$2.62	-2.29%	0	0
National City/Southeast SD	728,564	59,271	8.1%	8.1%	-	-5,277	\$2.12	\$2.12	0.00%	0	0
Otay Mesa/San Ysidro	229,593	11,663	5.1%	6.9%	4,198	-1,314	\$2.30	\$2.30	0.00%	0	0
South Bay TOTAL	2,847,403	221,589	7.8%	8.7%	25,677	14,946	\$2.54	\$2.61	-2.68%	0	0
San Diego County TOTAL OFFICE	90,323,622	10,133,112	11.2%	11.0%	-110,372	-292,546	\$3.02	\$3.02	0.00%	98,282	2,621,608

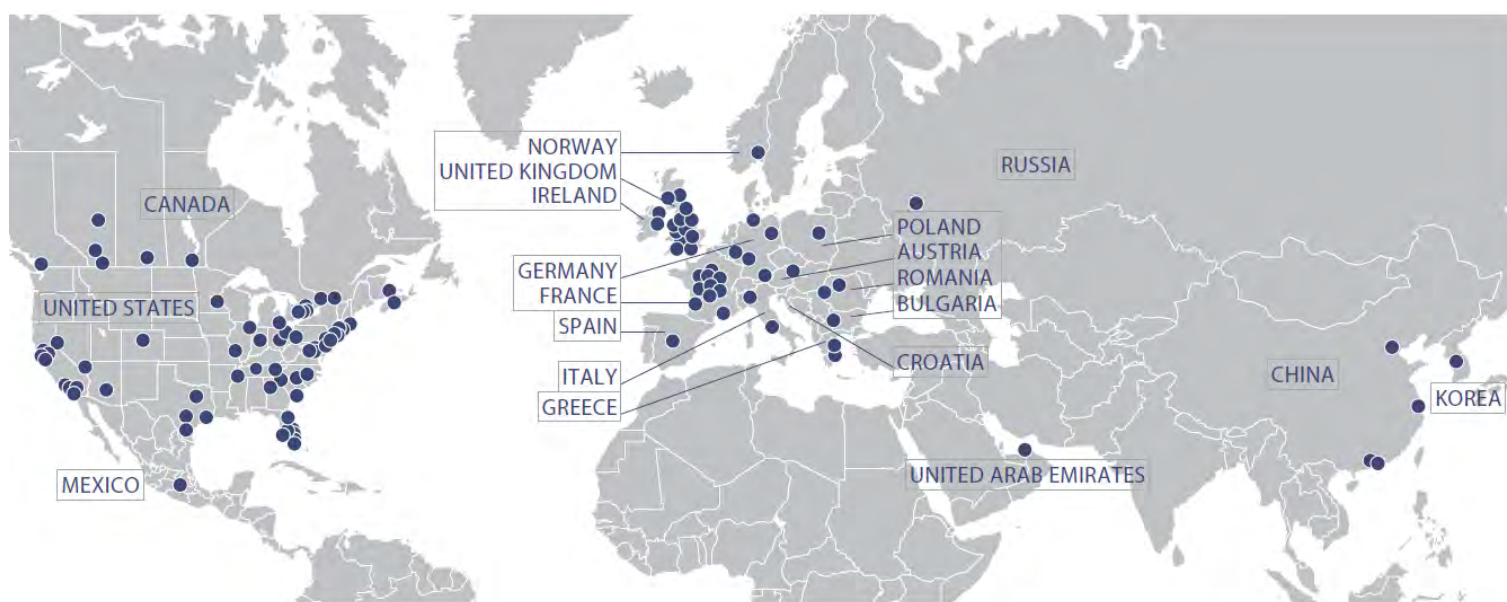


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