

OVERVIEW. The office market is currently a story of the haves and the have nots. Class A office drove the vast majority of positive net absorption in 2021, and vacancy levels in the most desirable submarkets are lower than historical averages. On the other end of the spectrum Class B office had a very modest bounce back from 2020, and Class C office had negative net absorption in 2021. The strength of the top end outweighed the weakness at the bottom. Overall, in 2021 the office occupancy rate increased, as did the average asking rental rate. The market appears to have begun its recovery, but it was a steep descent in 2020. Much like the employment levels, the climb back to where things were is not happening as quickly as the decline.

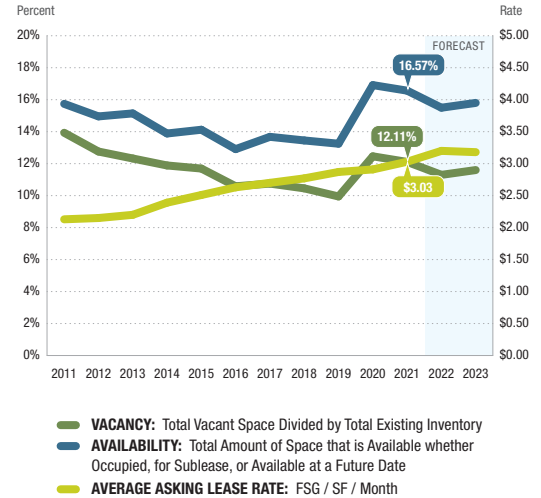
VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished the year at 12.1%, a significant increase from the pre-pandemic vacancy rate of 10.3%. Among the county's major submarkets (minimum of 5 MSF of inventory), Sorrento Mesa and UTC are now the only submarkets with a vacancy rate below 10%, owing to the strength of the biotech sector. Meanwhile, the vacancy rate in Downtown is now greater than 20% and the availability rate there is greater than 30%. Available office space being marketed (regardless of occupancy status) was 16.6% of the county's inventory at the end of 4Q. Sublease availability averaged 1.62 MSF per quarter in the two years leading up to COVID. In 4Q 2020 sublease availability peaked at 2.39 MSF and has since receded to 1.81 MSF at the end of 4Q.

LEASE RATES. The average asking full-service-gross (FSG) lease rate per square foot per month in San Diego County was \$3.03 at the end of 4Q, which is a 4.1% increase from 4Q 2020's rate of \$2.91. Despite all of the calamity from the past 20 months, the average asking rate for the county is now above \$3.00 for the first time ever. Asking rates do not tell the whole story, as landlords are offering more lease concessions which lowers the effective rental rates. The surge in new construction also increases the proportion of high-end office space, pushing up the county's average asking rental rate. The concessions being given by landlords are much more indicative of office tenants' leverage in the market than the stated rental rates.

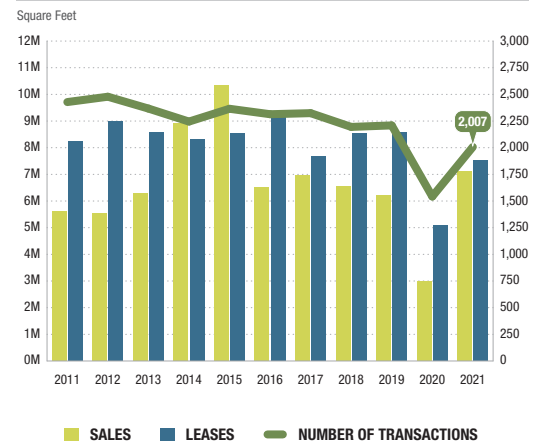
TRANSACTION ACTIVITY. Sale and lease transactions totaled 3.5 MSF in 4Q, a marked improvement from the 2.1 MSF of transactions seen in 4Q 2020. Overall, in 2021 there were 1,879 lease transactions recorded, for a total of 7.5 MSF. These figures were massive increases from activity levels in 2020, but still lower than historical levels. The past two calendar years were the first with fewer than 2,000 lease transactions and 8 MSF of leases since 2009. Tenants are still unsure about their next moves because of changes to the overall work environment resulting from pandemic protocols. Many are considering making these changes permanent, which would allow them to substantially reduce their space footprint. Fewer full-time employees in the office every day will change workplace design going forward, as well.

ABSORPTION. There were 696,189 SF of positive net absorption in 2021 which was on par with the annual average of 667,896 SF in the five years preceding the Covid outbreak. This however does not regain all of the occupancy losses of 2020, which tallied 1,372,086 SF of negative net

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



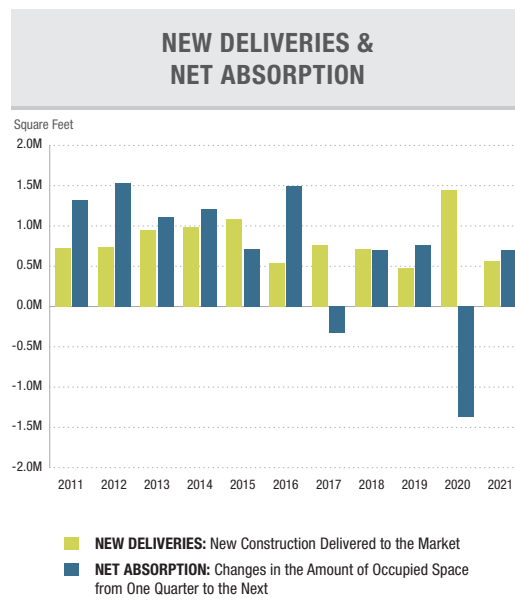
Market Statistics

| | Change Over Last Quarter | 4Q 2021 | 3Q 2021 | 4Q 2020 | % Change Over Last Year |
|---------------------------|--------------------------|-----------|-----------|-----------|-------------------------|
| Vacancy Rate | ▼ DOWN | 12.11% | 12.57% | 12.46% | (2.80%) |
| Availability Rate | ▲ UP | 16.57% | 16.24% | 16.91% | (2.05%) |
| Average Asking Lease Rate | ▲ UP | \$3.03 | \$2.99 | \$2.91 | 4.12% |
| Sale & Lease Transactions | ▼ DOWN | 3,517,860 | 3,981,215 | 2,099,413 | 67.56% |
| Gross Absorption | ▲ UP | 2,298,461 | 1,996,961 | 1,984,682 | 15.81% |
| Net Absorption | ▲ POSITIVE | 604,736 | 307,651 | (16,187) | N/A |

absorption. The Class A office market is driving the vast majority of the positive net absorption, accounting for more than 87% of the total increase in the market's tenant base.

CONSTRUCTION. The office market has 3.8 MSF under construction at the end of 2021. This marks the largest amount of office under construction since 2006. Approximately 56% of the office space under construction is located in Downtown. The current office vacancy rate of 25% in Downtown hasn't dampened the long-term optimism for the submarket. IQHQ and Stockbridge, who have large projects underway in Downtown, have stated they are looking to attract high-tech or biotech tenants, which have not historically been a significant driver of demand in Downtown. Holland Partners is also taking an untraditional approach with their current downtown development Courthouse Commons. This project at the site of the former San Diego County Courthouse will be a unique mixed-use project with ground-floor retail, office on floors 2-8, amenities on floor 9, and apartments on floors 10-37. New office developments in UTC and Carmel Valley are similarly being positioned to attract tenants beyond the traditional stalwarts of legal, insurance, and financial sectors.

EMPLOYMENT. The unemployment rate in San Diego County was 4.6% in November 2021, down from a revised 5.3% in October 2021, and below the year-ago estimate of 6.8%. This compares with an unadjusted unemployment rate of 5.4% for California and 3.9% for the nation during the same period. Over the 12-month period between November 2020 and November 2021, San Diego County employment increased by 64,900 jobs, an increase of 4.6%. With the normal delay in reporting from the California EDD, employment figures from December were unavailable at the time of publishing this report. In December the U.S. unemployment rate fell below 4% for the first time since February 2020. The total employment for the U.S. is still 3.6 million jobs fewer than the pre-pandemic level.



Forecast

The office market has experienced ebbs and flows of optimism since the onset of Covid-19. One sign of long-term optimism was while Apple announced a delay in their return-to-office plans, they simultaneously continued to lease large office blocks in San Diego in 2021. Conversely, many office tenants are executing new workplace plans that reflect the changes in the way they now do business. We expect many businesses to reduce facility size but reinvent interiors that reflect new ways to be more productive and promote growth. Similar to the way Covid-19 accelerated the growth of e-commerce, the office market has been forever altered by Covid's shock to the system.

Significant Transactions

| Sales | | | | | | | * Voit Real Estate Services Deal |
|------------------------------------|-----------------|-------|-------------|--------------|---|---------------------------------------|----------------------------------|
| Property Address | Submarket | Class | Square Feet | Sale Price | Buyer | Seller | |
| 13280 & 13290 Evening Creek Dr. S. | Rancho Bernardo | B | 102,376 | \$37,000,000 | Menlo Equities | Kilroy Realty | |
| 7310 Miramar Rd.* | Miramar | B | 133,195 | \$30,500,000 | Global Equity Finance | San Diego Innovation Center, LLC* | |
| 10636 Scripps Summit Ct. | Scripps Ranch | B | 98,550 | \$30,000,000 | BP3-SD9 10636 Scripps Ranch Summit, LLC | LA County Employees Retirement Assoc. | |
| 10435 Sorrento Valley Rd. | Sorrento Valley | B | 42,628 | \$27,834,000 | MDC Coastal 17, LLC | Veterinary Facility Associates | |
| 1955 Citracado Pkwy | Escondido | B | 44,261 | \$26,000,000 | New York Life RE Investors | Makena Medical Buildings | |

| Property Address | Submarket | Class | Square Feet | Transaction Date | Tenant | Owner |
|--------------------------|-----------------|-------|-------------|------------------|-------------|-------------------------|
| 5898 Copley Dr. | Kearny Mesa | A | 45,401 | Nov-2021 | Undisclosed | California Credit Union |
| 4747 Executive Dr. | UTC | A | 40,706 | Dec-2021 | Undisclosed | American Assets Trust |
| 15253 Avenue of Science | Rancho Bernardo | B | 37,437 | Oct-2021 | Undisclosed | (Sublease) |
| 12121 Scripps Summit Dr. | Scripps Ranch | A | 30,765 | Dec-2021 | Undisclosed | (Sublease) |
| 11682 El Camino Real | Del Mar Heights | A | 30,346 | Dec-2021 | Undisclosed | American Assets Trust |

| | INVENTORY | | | | VACANCY & LEASE RATES | | | | | ABSORPTION | | | |
|-------------------------------------|------------------|--------------------------|-------------------|---------------------|-----------------------|---------------------|-----------------------|--------------------------|---------------------------|-----------------------|---------------------|-------------------------|-----------------------|
| | Number of Bldgs. | Net Rentable Square Feet | Square Feet U / C | Square Feet Planned | Square Feet Vacant | Vacancy Rate 4Q2021 | Square Feet Available | Availability Rate 4Q2021 | Average Asking Lease Rate | Net Absorption 4Q2021 | Net Absorption 2021 | Gross Absorption 4Q2021 | Gross Absorption 2021 |
| Downtown | | | | | | | | | | | | | |
| Downtown | 129 | 13,919,754 | 2,219,201 | 1,225,000 | 3,452,771 | 24.80% | 5,891,885 | 36.51% | \$2.97 | 12,944 | (257,253) | 238,201 | 671,017 |
| Downtown Total | 129 | 13,919,754 | 2,219,201 | 1,225,000 | 3,452,771 | 24.80% | 5,891,885 | 36.51% | \$2.97 | 12,944 | (257,253) | 238,201 | 671,017 |
| Central | | | | | | | | | | | | | |
| City Heights / University | 31 | 1,213,132 | 0 | 0 | 44,960 | 3.71% | 64,442 | 5.31% | \$2.18 | 5,902 | 39,468 | 6,502 | 73,034 |
| Coronado | 6 | 133,926 | 0 | 0 | 2,542 | 1.90% | 1,610 | 1.20% | \$3.41 | 0 | 190 | 0 | 2,400 |
| Kearny Mesa | 243 | 11,422,852 | 0 | 60,186 | 1,320,289 | 11.56% | 1,479,737 | 12.95% | \$2.59 | 157,256 | 67,923 | 347,446 | 633,160 |
| Mission Gorge | 19 | 581,130 | 0 | 0 | 15,143 | 2.61% | 6,289 | 1.08% | \$2.34 | (9,582) | (10,722) | 1,346 | 7,761 |
| Mission Valley | 126 | 7,296,742 | 0 | 1,130,925 | 1,066,506 | 14.62% | 1,391,949 | 19.08% | \$2.90 | 32,826 | 33,799 | 146,916 | 582,428 |
| Old Town / Point Loma | 77 | 2,383,866 | 0 | 230,000 | 159,636 | 6.70% | 326,439 | 13.69% | \$2.66 | (21,444) | (44,138) | 12,610 | 114,895 |
| Park East | 16 | 234,322 | 0 | 0 | 6,289 | 2.68% | 2,724 | 1.16% | \$1.98 | (1,724) | 7,651 | 1,000 | 11,920 |
| Rose Canyon / Morena | 56 | 1,297,671 | 0 | 0 | 76,003 | 5.86% | 135,583 | 10.45% | \$2.11 | 644 | 1,335 | 17,261 | 59,793 |
| Uptown / Hillcrest | 78 | 2,175,940 | 0 | 0 | 195,368 | 8.98% | 272,012 | 12.50% | \$2.64 | 13,801 | (62,544) | 40,559 | 121,392 |
| Central Total | 652 | 26,739,581 | 0 | 1,421,111 | 2,886,736 | 10.80% | 3,680,785 | 13.77% | \$2.71 | 177,679 | 32,962 | 573,640 | 1,606,783 |
| I-15 Corridor | | | | | | | | | | | | | |
| Escondido | 74 | 1,744,635 | 75,000 | 36,614 | 224,768 | 12.88% | 256,336 | 14.09% | \$2.07 | 28,996 | (36,424) | 42,687 | 152,474 |
| Poway | 31 | 1,391,381 | 0 | 0 | 55,398 | 3.98% | 84,013 | 6.04% | \$2.19 | 3,436 | (4,529) | 3,781 | 40,188 |
| Rancho Bernardo | 100 | 6,442,191 | 0 | 246,467 | 804,370 | 12.49% | 1,003,914 | 15.58% | \$2.96 | 94,858 | 214,122 | 254,407 | 633,366 |
| Scripps Ranch | 52 | 2,875,843 | 0 | 531,000 | 386,927 | 13.45% | 416,262 | 14.47% | \$2.88 | (348) | 146,764 | 56,627 | 360,527 |
| I-15 Corridor Total | 257 | 12,454,050 | 75,000 | 814,081 | 1,471,463 | 11.82% | 1,760,525 | 14.05% | \$2.85 | 126,942 | 319,933 | 357,502 | 1,186,555 |
| North County Coastal | | | | | | | | | | | | | |
| Carlsbad | 165 | 6,926,258 | 0 | 50,000 | 1,065,064 | 15.38% | 1,200,763 | 17.34% | \$2.73 | 4,829 | (13,501) | 158,674 | 530,589 |
| Del Mar Heights / Carmel Valley | 83 | 5,604,225 | 757,962 | 1,997,460 | 671,760 | 11.99% | 1,439,069 | 22.62% | \$4.48 | 32,247 | 31,834 | 189,000 | 541,278 |
| North Beach Cities | 113 | 2,736,009 | 67,022 | 51,911 | 225,082 | 8.23% | 357,528 | 12.76% | \$3.67 | (794) | 62,264 | 54,721 | 276,686 |
| North County Total | 361 | 15,266,492 | 824,984 | 2,099,371 | 1,961,906 | 12.85% | 2,997,360 | 18.63% | \$3.51 | 36,282 | 80,597 | 402,395 | 1,348,553 |
| North City | | | | | | | | | | | | | |
| Governor Park | 20 | 901,503 | 0 | 0 | 120,155 | 13.33% | 278,288 | 30.87% | \$2.64 | 31,110 | 24,833 | 38,700 | 86,513 |
| La Jolla | 45 | 1,332,290 | 0 | 0 | 184,446 | 13.84% | 211,773 | 15.90% | \$3.18 | 2,922 | 76,657 | 17,374 | 158,123 |
| Miramar | 31 | 1,422,598 | 0 | 1,007,050 | 108,963 | 7.66% | 157,331 | 11.06% | \$2.06 | (11,766) | (33,136) | 5,261 | 69,081 |
| Sorrento Mesa | 112 | 8,885,111 | 176,910 | 2,369,000 | 702,423 | 7.91% | 914,358 | 10.09% | \$3.27 | 100,243 | 211,281 | 245,105 | 616,106 |
| Sorrento Valley | 23 | 647,448 | 0 | 0 | 120,711 | 18.64% | 87,278 | 13.48% | \$2.08 | 21,056 | 16,788 | 21,785 | 48,597 |
| Torrey Pines | 43 | 3,163,939 | 74,000 | 0 | 184,282 | 5.82% | 79,089 | 2.44% | \$4.42 | 7,130 | (14,822) | 10,622 | 95,986 |
| UTC | 92 | 8,968,934 | 526,851 | 470,000 | 772,294 | 8.61% | 1,125,853 | 11.86% | \$3.97 | 133,112 | 116,169 | 268,245 | 799,884 |
| North City Total | 366 | 25,321,823 | 777,761 | 3,846,050 | 2,193,274 | 8.66% | 2,853,970 | 10.93% | \$3.32 | 283,807 | 397,770 | 607,092 | 1,874,290 |
| Southern & Eastern Areas | | | | | | | | | | | | | |
| Chula Vista | 93 | 2,915,269 | 0 | 1,035,000 | 189,933 | 6.52% | 206,278 | 7.08% | \$2.63 | (23,141) | 3,155 | 36,050 | 129,019 |
| National City | 15 | 528,493 | 0 | 0 | 3,724 | 0.70% | 48,811 | 9.24% | \$2.43 | (1,463) | 7,189 | 936 | 11,051 |
| South San Diego | 13 | 319,824 | 0 | 0 | 6,400 | 2.00% | 6,400 | 2.00% | \$2.30 | 1,664 | 4,575 | 2,445 | 5,356 |
| Southeast San Diego | 13 | 460,835 | 0 | 290,000 | 63,266 | 13.73% | 63,266 | 13.73% | \$2.06 | 0 | 4,901 | 0 | 4,901 |
| East County | 152 | 3,764,683 | 0 | 300,300 | 136,068 | 3.61% | 161,287 | 4.28% | \$2.27 | 2,474 | 37,207 | 14,298 | 128,796 |
| Southern & Eastern Areas Total | 286 | 7,989,104 | 0 | 1,625,300 | 399,391 | 5.00% | 486,042 | 6.08% | \$2.48 | (20,466) | 57,027 | 53,729 | 279,123 |
| Highway 78 Corridor | | | | | | | | | | | | | |
| Oceanside | 65 | 1,549,560 | 0 | 250,749 | 85,603 | 5.52% | 118,230 | 7.63% | \$2.17 | (4,550) | 52,586 | 11,523 | 97,428 |
| San Marcos | 39 | 1,469,365 | 0 | 1,447,462 | 121,654 | 8.28% | 149,103 | 10.15% | \$2.24 | (13,382) | 2,273 | 40,656 | 107,229 |
| Vista | 52 | 1,265,121 | 0 | 0 | 260,607 | 20.60% | 264,622 | 20.92% | \$2.15 | 5,480 | 10,294 | 13,723 | 86,881 |
| Highway 78 Corridor Total | 156 | 4,284,046 | 0 | 1,698,211 | 467,864 | 10.92% | 531,955 | 12.42% | \$2.19 | (12,452) | 65,153 | 65,902 | 291,538 |
| Class A | 304 | 39,862,329 | 3,540,924 | 8,900,996 | 5,886,437 | 14.77% | 9,868,816 | 22.74% | \$3.58 | 152,832 | 608,395 | 903,245 | 3,164,686 |
| Class B | 1,272 | 52,278,648 | 356,022 | 3,828,128 | 6,027,811 | 11.53% | 7,306,592 | 13.88% | \$2.74 | 457,624 | 155,124 | 1,295,844 | 3,517,296 |
| Class C | 631 | 13,833,873 | 0 | 0 | 919,157 | 6.64% | 1,027,114 | 7.42% | \$2.15 | (5,720) | (67,330) | 99,372 | 575,877 |
| San Diego County Total | 2,207 | 105,974,850 | 3,896,946 | 12,729,124 | 12,833,405 | 12.11% | 18,202,522 | 16.57% | \$3.03 | 604,736 | 696,189 | 2,298,461 | 7,257,859 |

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a full-service gross basis.



The Future of Office and The Biotech Effect

by **Brandon Keith**

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Since the onset of Covid 19 in March 2020, the office market locally and nationally has been the subject of intense debate. Will the office market be changed forever? Will companies give back large amounts of space in the coming years? Will flexible work schedules have big negative impacts on office space needs for companies? All good questions that have so far been answered with “not really.” Whether in New York City, San Francisco, or San Diego, companies of all sizes have concluded that in order to maintain a sense of corporate culture and operational efficiency, a permanent “in person” office presence is important. Moreover, many at-home employees would prefer to be in the office and out of their homes. That said, there is clearly a segment of the workforce that enjoys the flexibility of work from home and flex work schedules will most certainly become the norm throughout the American workforce. The net result will likely be a modest reduction in office demand from existing corporate entities over the next few years, which to date appears to be offset by increased demand from expanding companies. In short, the dire predictions for the demise of the office market have not come to pass local or nationally, and in fact, been supplanted by strong demand in many of San Diego’s office submarkets.

The largest force in the office market right now is the exponential growth of San Diego’s biotech sector. Unlike many office occupiers, research & development, life sciences and related biotechnology industries cannot be conducted from home. Employees must be in their highly specialized lab environments in order to conduct business. With record venture capital investments, government funding, grants, and general demand, the life science market has exploded in the last 24 months due to the Covid pandemic. In markets like Sorrento Valley/Mesa, Torrey Pines, and UTC, this has resulted in nearly 5 MSF of office building purchases for the purpose of conversion to life science, all in just the last 18 months.

This rapid conversion of existing office product has not only displaced office tenants, but reduced the available stock of office options for tenants by 15%–20% in these submarket areas—a huge change in a short period of time. The result has been historically low office vacancy rates in the Sorrento, Torrey Pines and UTC office markets.

This newly created demand from what we call “life science office refugees” bodes well for surrounding office markets like Scripps Ranch, Miramar, Kearny Mesa, and Mission Valley. As tenants look for reasonably affordable (by historic standards) office product, these will be the only central San Diego County office options for tenants to consider. As a result, we predict continued rent and demand increases for not only the Sorrento market, but all surrounding submarkets in 2022.

**Please Contact Us
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|--------------|--------------|-------------------|--------------|-----------------|---------------|
| Anaheim, CA | Carlsbad, CA | Inland Empire, CA | Irvine, CA | Los Angeles, CA | San Diego, CA |
| 714.978.7880 | 760.472.5620 | 909.545.8000 | 949.851.5100 | 424.329.7500 | 858.453.0505 |

This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services’ use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

Product Type

CLASS A: Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

CLASS B: Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C: Buildings competing for tenants requiring functional space at rents below the area average.

Submarkets

DOWNTOWN: Downtown

CENTRAL: City Heights/University, Coronado, Kearny Mesa, Mission Gorge, Mission Valley, Old Town/Point Loma, Park East, Rose Canyon/Morena, Uptown/Hillcrest

I-15 CORRIDOR: Escondido, Poway, Rancho Bernardo, Scripps Ranch

NORTH COUNTY COASTAL: Carlsbad, Del Mar Heights/Carmel Valley, North Beach Cities

NORTH CITY: Governor Park, La Jolla, Miramar, Sorrento Mesa, Sorrento Valley, Torrey Pines, UTC

SOUTHERN & EASTERN AREAS: Chula Vista, East County, National City, South San Diego, Southeast San Diego

HIGHWAY 78 CORRIDOR: Oceanside, San Marcos, Vista