

OVERVIEW. The office market started 2022 on a bright note with leasing in line with historical norms for the first time since the onset of COVID. Fundamental metrics point towards a healthy office market in 1Q with positive net absorption, rising rental rates, and a decrease in the availability rate. The current health of the office market is being buoyed by the rapid expansion of San Diego's biotech industry.

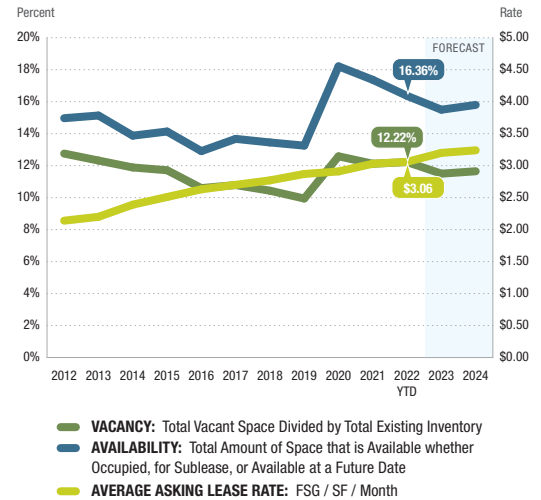
VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 1Q at 12.2%, a significant increase from the pre-pandemic vacancy rate of 10.3%, but a 66 basis point decrease from the level of a year ago. Available office space being marketed (regardless of occupancy status) was 16.4% of the county's inventory at the end of 1Q. Among the county's major submarkets (minimum of five MSF of inventory), Sorrento Mesa and UTC are now the only submarkets with an availability rate below 12%, owing to the strength of the biotech sector. Meanwhile, the availability rate in Downtown remains greater than 30% and the vacancy rate there is greater than 20%. Sublease availability averaged 1.6 MSF per quarter in the two years leading up to COVID and finished 1Q 2022 at 2.1 MSF.

LEASE RATES. The average asking full-service-gross (FSG) lease rate per square foot per month in San Diego County was \$3.06 at the end of 1Q, which is a 4.8% increase from 1Q 2021's rate of \$2.92. Despite all of the calamity from the past two years, the average asking rate for the county remains at an all-time high. The surge in new construction also increases the proportion of high-end office space, pushing up the county's average asking rental rate. Landlords are also pointing towards the high inflation environment when justifying their posture on holding or pushing rental rates. Beyond the asking rates that are being marketed, landlords in the most desirable submarkets in the suburban core of the county are also pulling back on the amount of concessions being offered. These landlords are seeing an uptick in the number of tenants interested in their available space, sometimes allowing them to choose a tenant that requires less TI allowance, for example.

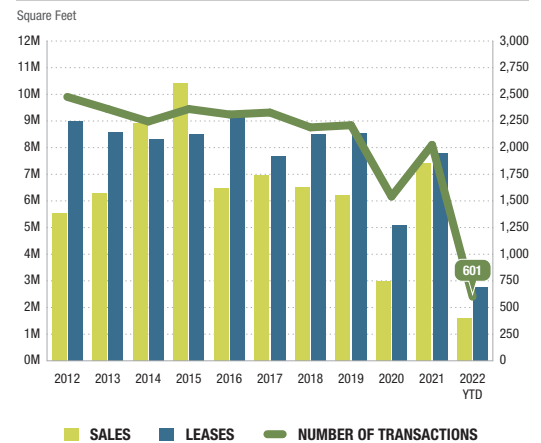
TRANSACTION ACTIVITY. Sale and lease transactions totaled 4.3 MSF in 1Q, a marked improvement from the 2.1 MSF of transactions seen in 1Q 2021. In 1Q 2021 there were 566 lease transactions recorded, for a total of 2.7 MSF. These figures were the highest quarterly totals in two and a half years. Many 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. Tenants are adapting to the new normal in the office workplace. Fewer full-time employees in the office every day is changing office designs, allowing companies to reduce their space footprint. In San Diego, the space reduction in stable industries is being offset by expansion in growing sectors.

ABSORPTION. There was 130,122 SF of positive net absorption in 1Q, marking the fourth consecutive quarter of growth in the office tenant base. The 12-month total of positive net

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



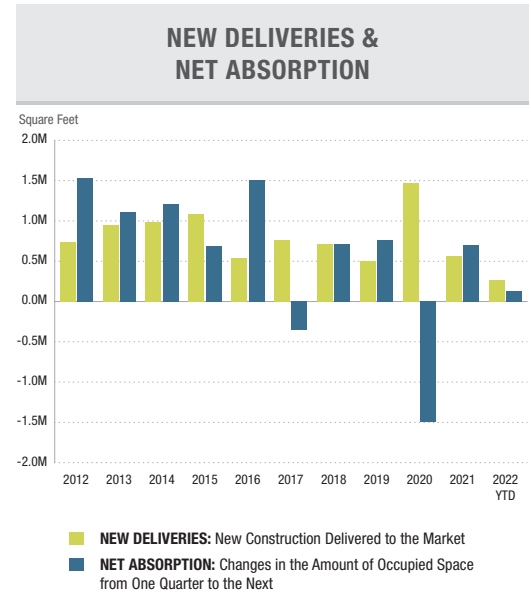
Market Statistics

	Change Over Last Quarter	1Q 2022	4Q 2021	1Q 2021	% Change Over Last Year
Vacancy Rate	▲ UP	12.22%	12.12%	12.88%	(5.10%)
Availability Rate	▼ DOWN	16.36%	17.37%	18.53%	(11.67%)
Average Asking Lease Rate	▲ UP	\$3.06	\$3.03	\$2.92	4.79%
Sale & Lease Transactions	▲ UP	4,282,491	3,921,402	2,106,213	103.33%
Gross Absorption	■ FLAT	2,164,294	2,293,257	1,173,016	84.51%
Net Absorption	▲ POSITIVE	130,122	598,707	(451,067)	N/A

absorption was 1.3 MSF. This follows five consecutive quarters of negative net absorption totaling 1.9 MSF that began at the onset of COVID-19. The only geographic area in the county with significant negative net absorption in 1Q was the I-15 Corridor, but more than half of this negative net absorption was General Atomics' lease expiring at the former Bridgepoint Education headquarter building.

CONSTRUCTION. The office market has 4.1 MSF under construction at the end of 1Q. 4Q 2021 was the first time since 2006 that the local office market had more than 4 MSF under construction. There is a distinct difference in the level of demand for office space in the county's urban core versus the suburban core. The Downtown submarket has 2.5 MSF under construction at the end of 1Q, with a little more of 10% of the space preleased. The submarkets of UTC, Sorrento Mesa, and Carmel Valley in the suburban core of the county have a combined total of 1.3 MSF under construction, of which 60% has been preleased. Nearly all of the largest projects under construction in the county are being positioned to attract tenants beyond the traditional stalwarts of legal, insurance, and financial sectors. Specifically, life sciences tenants are in the crosshairs of every major developer.

EMPLOYMENT. The unemployment rate in San Diego County was 4.0% in February 2022, down from a revised 4.7% in January 2022, and below the year-ago estimate of 7.9%. This compares with an unadjusted unemployment rate of 4.8% for California and 4.1% for the nation during the same period. Over the 12-month period between February 2021 and February 2022, San Diego County employment increased by 104,300 jobs, an increase of 7.5%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. The total employment figures for San Diego County and the U.S. are now within 1% of their pre-pandemic levels. The U.S. added an average of 562,000 jobs per month in the first quarter of 2022.



Forecast

The office market has been forever changed. We are transitioning into a post-pandemic world with many office tenants executing new workplace plans that reflect the changes in the way they now do business. The life science industries have nearly single-handedly kept local office fundamentals on solid ground, as opposed to the soft office market fundamentals seen across much of the country. The wild card is the hi-tech industry which was really starting to ramp up in San Diego prior to COVID. The coming quarters will indicate how much of that growth is going to return.

Significant Transactions

Sales

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
10920 Via Frontera	Rancho Bernardo	A	110,110	\$48,800,000	Innovatus Capital Partners Lincoln Property Group	Ascentris, LLC Harbor Associates
10509 Vista Sorrento Pkwy.	Sorrento Mesa	B	78,000	\$24,000,000	Trammell Crow Company	Schnitzer Properties
10256 Meanley Dr.	Scripps Ranch	B	54,664	\$20,500,000	Alexandria RE Equities	Anchor Gen. Ins. Agency
3110-3160 Camino Del Rio S.	Mission Valley	C	76,000	\$17,961,000	M.C. Strauss Company	City Group
6727 Flanders Dr.	Sorrento Mesa	B	24,949	\$13,900,000	Hammer Ventures	Lee Real Estate, LLC

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
4575 La Jolla Village Dr.	UTC	A	94,391	Jan-2022	Amazon	Seritage
12390 El Camino Real	Del Mar Heights/Carmel Valley	A	72,534	Mar-2022	Halozyme Therapeutics	(Sublease)
11455 El Camino Real	Del Mar Heights/Carmel Valley	A	24,123	Mar-2022	OwnBackup	American Assets Trust
110 W. A St.	Downtown	A	17,464	Mar-2022	G.S.A.	Forester Properties, Inc.
3661 Valley Centre Dr.	Del Mar Heights/Carmel Valley	A	16,568	Feb-2022	Dividend Finance	Kilroy Realty

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2022	Square Feet Available	Availability Rate 1Q2022	Average Asking Lease Rate	Net Absorption 1Q2022	Net Absorption 2022	Gross Absorption 1Q2022	Gross Absorption 2022
Downtown													
Downtown	130	13,931,475	2,506,807	912,100	3,409,997	24.48%	5,976,734	36.36%	\$2.91	42,717	42,717	225,346	225,346
Downtown Total	130	13,931,475	2,506,807	912,100	3,409,997	24.48%	5,976,734	36.36%	\$2.91	42,717	42,717	225,346	225,346
Central													
City Heights / University	31	1,213,132	0	0	48,342	3.98%	63,440	5.23%	\$2.19	(3,382)	(3,382)	550	550
Coronado	6	133,926	0	0	1,610	1.20%	1,610	1.20%	\$3.25	932	932	932	932
Kearny Mesa	243	11,420,999	70,000	60,186	1,384,320	12.12%	1,537,499	13.38%	\$2.60	(64,031)	(64,031)	100,732	100,732
Mission Gorge	19	581,130	0	0	1,651	0.28%	2,900	0.50%	\$2.26	13,492	13,492	14,318	14,318
Mission Valley	126	7,296,193	0	1,130,925	1,034,555	14.18%	1,381,620	18.94%	\$2.94	31,951	31,951	154,539	154,539
Old Town / Point Loma	76	2,268,131	0	230,000	134,695	5.94%	319,142	14.07%	\$2.61	24,941	24,941	42,390	42,390
Park East	16	234,322	0	0	1,646	0.70%	573	0.24%	\$2.11	4,643	4,643	4,643	4,643
Rose Canyon / Morena	54	1,267,659	0	0	93,888	7.41%	157,582	12.43%	\$2.19	(17,885)	(17,885)	17,637	17,637
Uptown / Hillcrest	78	2,185,758	0	0	171,550	7.85%	237,747	10.88%	\$2.63	23,818	23,818	45,773	45,773
Central Total	649	26,601,150	70,000	1,421,111	2,872,257	10.80%	3,702,113	13.88%	\$2.73	14,479	14,479	381,514	381,514
I-15 Corridor													
Escondido	73	1,733,167	75,000	36,614	192,994	11.14%	322,203	17.82%	\$2.07	21,534	21,534	54,701	54,701
Poway	31	1,391,381	0	0	76,666	5.51%	91,843	6.60%	\$2.26	(21,268)	(21,268)	7,810	7,810
Rancho Bernardo	100	6,437,583	80,720	165,747	972,680	15.11%	1,130,641	17.35%	\$3.06	(168,310)	(168,310)	203,185	203,185
Scripps Ranch	52	2,875,842	0	531,000	432,610	15.04%	457,266	15.90%	\$2.88	(45,683)	(45,683)	54,627	54,627
I-15 Corridor Total	256	12,437,973	155,720	733,361	1,674,950	13.47%	2,001,953	15.90%	\$2.88	(213,727)	(213,727)	320,323	320,323
North County Coastal													
Carlsbad	165	6,922,158	0	50,000	954,091	13.78%	1,178,879	17.03%	\$2.73	110,973	110,973	219,193	219,193
Del Mar Heights / Carmel Valley	85	5,837,588	529,570	2,030,580	993,266	17.02%	1,081,738	16.99%	\$4.54	(92,844)	(92,844)	157,593	157,593
North Beach Cities	113	2,736,009	67,022	51,911	214,889	7.85%	342,061	12.20%	\$3.83	10,193	10,193	58,996	58,996
North County Total	363	15,495,755	596,592	2,132,491	2,162,246	13.95%	2,602,678	16.17%	\$3.54	28,322	28,322	435,782	435,782
North City													
Governor Park	20	906,370	0	0	103,068	11.37%	116,024	12.80%	\$2.72	17,087	17,087	45,819	45,819
La Jolla	45	1,332,290	0	0	189,314	14.21%	252,240	18.93%	\$3.30	(4,868)	(4,868)	20,697	20,697
Miramar	32	1,451,631	0	1,007,050	122,431	8.43%	130,722	9.01%	\$1.95	(10,411)	(10,411)	23,661	23,661
Sorrento Mesa	113	8,907,760	176,910	2,199,000	732,182	8.22%	953,818	10.50%	\$3.34	(29,760)	(29,760)	126,806	126,806
Sorrento Valley	23	642,855	0	0	110,278	17.15%	60,157	9.36%	\$2.19	18,203	18,203	19,342	19,342
Torrey Pines	43	3,163,939	74,000	0	95,138	3.01%	114,547	3.54%	\$4.76	89,144	89,144	134,881	134,881
UTC	92	8,971,927	596,851	827,000	669,139	7.46%	1,130,515	11.81%	\$4.06	103,155	103,155	233,577	233,577
North City Total	368	25,376,772	847,761	4,033,050	2,021,550	7.97%	2,758,023	10.52%	\$3.40	182,550	182,550	604,783	604,783
Southern & Eastern Areas													
Chula Vista	93	2,922,017	0	1,203,000	146,204	5.00%	188,758	6.46%	\$2.63	43,729	43,729	60,283	60,283
National City	15	528,126	0	0	6,593	1.25%	45,837	8.68%	\$2.75	(2,869)	(2,869)	1,912	1,912
South San Diego	13	319,824	0	0	10,280	3.21%	10,280	3.21%	\$2.78	(3,880)	(3,880)	0	0
Southeast San Diego	13	461,460	0	290,000	63,266	13.71%	63,266	13.71%	\$2.06	0	0	0	0
East County	153	3,811,803	0	300,300	132,154	3.47%	137,477	3.61%	\$2.41	46,738	46,738	83,332	83,332
Southern & Eastern Areas Total	287	8,043,230	0	1,793,300	358,497	4.46%	445,618	5.54%	\$2.54	83,718	83,718	145,527	145,527
Highway 78 Corridor													
Oceanside	66	1,542,681	0	218,235	111,193	7.21%	138,174	8.96%	\$2.18	(24,765)	(24,765)	9,211	9,211
San Marcos	39	1,469,365	0	1,488,287	98,502	6.70%	116,890	7.96%	\$2.35	23,152	23,152	29,382	29,382
Vista	52	1,265,121	0	0	266,931	21.10%	314,814	24.88%	\$2.21	(6,324)	(6,324)	12,426	12,426
Highway 78 Corridor Total	157	4,277,167	0	1,706,522	476,626	11.14%	569,878	13.32%	\$2.24	(7,937)	(7,937)	51,019	51,019
Class A	308	40,290,433	3,670,138	9,023,788	6,318,230	15.68%	9,885,275	22.49%	\$3.61	(66,053)	(66,053)	945,405	945,405
Class B	1,273	52,096,526	506,742	3,708,147	5,789,947	11.11%	7,165,471	13.62%	\$2.76	108,063	108,063	1,034,053	1,034,053
Class C	629	13,776,563	0	0	867,946	6.30%	1,006,251	7.30%	\$2.16	88,112	88,112	184,836	184,836
San Diego County Total	2,210	106,163,522	4,176,880	12,731,935	12,976,123	12.22%	18,056,997	16.36%	\$3.06	130,122	130,122	2,164,294	2,164,294

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



Biotech Catalyzing the Local Market

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When I speak with business owners, I often find their impression of the office market is far from the reality. The average person sees the headlines about COVID supercharging the transition to remote work, and naturally they think that the office market is soft. That's probably true to some degree on the national level. But locally, in the San Diego office market and especially the central San Diego submarket, we are dealing with a whole different dynamic.

Over the past two years the biotech/life sciences industry in San Diego has absolutely exploded. The central San Diego market has limited options in terms of developable land and the result is that biotech developers have turned to converting offices into lab. There are between five and ten million square feet of office that has been or is in the process of being converted for biotech use. The core of this activity is in the Sorrento Mesa submarket, the epicenter of the local biotech market. This transformation of a once-dominant office market into one of the nation's largest biotech clusters is a phenomenon that will continue for several years. This has led to new challenges now for business owners and created increased competition for quality space as hundreds of office tenants are in the process of being displaced. The number of office tenants in the market for space in central county is extremely high right now and this will be a continuing trend through 2023 as these leases come to expiration. This is pushing tenants into the surrounding submarkets like UTC, Carmel Valley, Scripps Ranch, and Governor Park. The same thing is happening to the biotech developers as well — the limited amount of opportunity in core biotech submarkets around UCSD has pushed these developers into the same neighboring submarkets for new conversion opportunities.

Tenants in the market for office space are being forced to become more flexible with their search criteria. We may even start to see some of this demand from displaced office tenants spread into areas like Kearny Mesa and Mission Valley, the other core central county office markets. We are in the midst of this wave, not at the end of it. The biggest beneficiary of this has been the Class A offices, as evidenced by Class A offices accounting for almost 90% of the positive net absorption in 2021. As an example, Irvine Company's One La Jolla and La Jolla Commons office projects in UTC are effectively approaching 100% occupancy. When companies are forced to move in this current environment, they are focusing on a full evaluation of their space needs. Many office tenants are taking this opportunity to level up in their access to amenities, and their office build outs. As the Class A offices fill up, the next beneficiaries will be the higher quality Class B offices. This has already started — in Q1 more than 80% of the positive net absorption came from Class B offices.

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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