

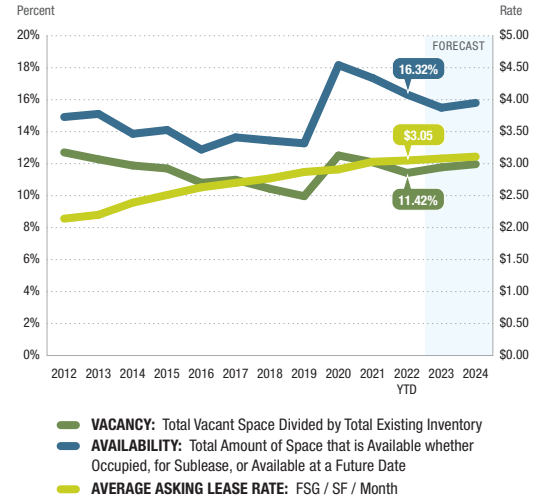
OVERVIEW. Through the first half of 2022 there has been positive net absorption of more than 1 MSF, and the vacancy rate is down to its lowest level in two years. Rental rate increases are slowing, and office construction is historically elevated. Transaction volume cooled down in 2Q as the office market is staring down a decelerating national economy. 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 2Q at 11.42%, a significant increase from the pre-pandemic vacancy rate of 10.3%, but a 131-basis point decrease from the level of a year ago. Available office space being marketed (regardless of occupancy status) was 16.32% of the county's inventory at the end of 2Q. Among the county's major submarkets (minimum of 5 MSF of inventory), Sorrento Mesa is now the only submarket with an availability rate below 10%, owing to the strength of the biotech sector. Meanwhile, the availability rate in Downtown is approaching 40% and the vacancy rate there is greater than 25%. Sublease availability averaged 1.6 MSF per quarter in the two years leading up to COVID-19 and finished 2Q 2022 at 2.1 MSF.

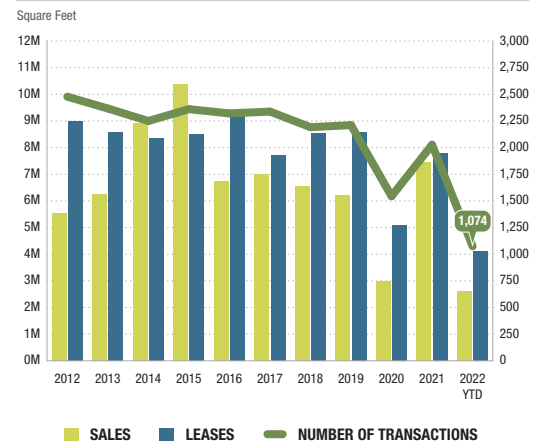
LEASE RATES. The average asking full-service-gross (FSG) lease rate per square foot per month in San Diego County was \$3.05 at the end of 2Q, which is a one-cent decrease from the prior quarter's rate, and a 2.7% increase from 2Q 2021's rate of \$2.97. Despite all the calamity from the past two years, the average asking rate for the county remains near 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 pointing towards the high inflation environment when justifying their posture on holding or pushing rental rates, and there has been a noticeable increase in the annual rent escalations in leases. Landlords in the most desirable submarkets in the suburban core of the county are pulling back on the amount of concessions being offered. These landlords often have enough tenant interest to allow them to choose a tenant that requires less TI allowance, for example.

TRANSACTION ACTIVITY. Sale and lease transaction levels were both subdued in 2Q. The number of leases and sales recorded in 2Q were each the lowest quarterly totals since 1Q 2021. The current high inflation and rising interest rate environment has thrown some cold water on market sentiment following the encouraging transaction volume level of 1Q. The hi-tech and life sciences sectors dominated the largest transactions in 2Q. Two of the largest sales of the quarter were sold to buyers planning on lab conversions, and one of the largest sales was a building occupied by Intel. Additionally, two of the largest spaces leased were taken by Apple. The biotech conversion acquisitions are just the latest in an ongoing trend. However, the 2Q leasing activity by a blue-chip technology company is a strong signal of confidence in the local office market because expansion in the hi-tech sector slowed significantly when COVID-19 restrictions began.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



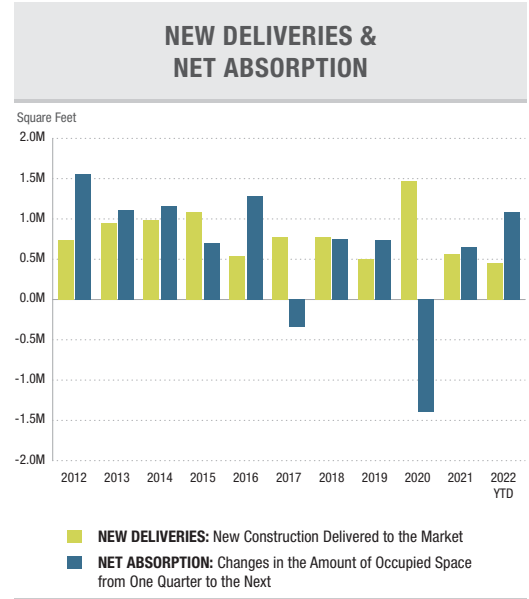
Market Statistics

	Change Over Last Quarter	2Q 2022	1Q 2022	2Q 2021	% Change Over Last Year
Vacancy Rate	▼ DOWN	11.42%	12.16%	12.73%	(10.29%)
Availability Rate	▼ DOWN	16.32%	16.99%	18.09%	(9.78%)
Average Asking Lease Rate	▼ DOWN	\$3.05	\$3.06	\$2.97	2.69%
Sale & Lease Transactions	▼ DOWN	2,934,446	3,797,553	5,062,582	(42.04%)
Gross Absorption	▲ UP	2,533,177	2,168,133	1,796,871	40.98%
Net Absorption	▲ POSITIVE	946,674	144,473	237,821	N/A

ABSORPTION. There was 946,674 SF of positive net absorption in 2Q, marking the fifth consecutive quarter of growth in the office tenant base. The five-quarter total of positive net absorption is 2.2 MSF. This was preceded by five consecutive quarters of negative net absorption totaling 1.8 MSF that began at the onset of COVID-19. Growth to the market's total tenant footprint in the first half of 2022 has been spread between Class A, B, and C offices.

CONSTRUCTION. The office market has 4.1 MSF under construction at the end of 2Q. 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 2.7 MSF under construction at the end of 1Q, with a little more than 10% of the space preleased. The submarkets of UTC and Carmel Valley in the suburban core of the county have a combined total of 1.0 MSF under construction, of which 50% 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 2.7% in May 2022, down from a revised 3.0% in April 2022, and below the year-ago estimate of 6.6%. This compares with an unadjusted unemployment rate of 3.4% for California and 3.4% for the nation during the same period. Over the 12-month period between May 2021 and May 2022, San Diego County employment increased by 83,900 jobs, an increase of 5.9%. With the normal delay in reporting from the California EDD, employment figures from June were unavailable at the time of publishing this report. After 27 months, the total employment figure for San Diego County finally exceeded the pre-pandemic level in 2Q.



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 return to office from working remotely has happened in fits and starts. While this varies by industry, broadly speaking office usage is substantially below pre-pandemic levels. The labor market remains tight, but a rise in unemployment could return some leverage to employers for getting employees back into the office. The life science industries have nearly single-handedly kept San Diego office fundamentals on solid ground, as opposed to the soft office market fundamentals seen in many parts of the country. Locally, the current surge in office construction will push the vacancy rate up, however that will have the most direct impact on the market for larger tenants. On the sales side, rising interest rates will apply upward pressure on cap rates going forward.

Significant Transactions

Sales							* Voit Real Estate Services Deal
Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller	
6200 & 6220 Greenwich Dr.	Governor Park	B	212,201	\$145,000,000	Breakthrough Properties	Regents of U.C.	
12220 Scripps Summit Dr.	Scripps Ranch	A	129,916	\$76,100,000	Divco West Services	Davlyn Investments	
5540 & 5541 Fermi Ct.	Carlsbad	B	115,000	\$42,000,000	Menlo Equities	Regent Properties	
6602-6694 Convoy Ct.	Kearny Mesa	B	100,033	\$30,500,000	SD Convoy Ct RE, Inc.	Chesnut Properties*	
10089 Willow Creek Rd.	Scripps Ranch	B	121,496	\$25,300,000	The Sason Organization / Leste Group	Cypress Office Properties / Harbert Mgmt. Corp.	

Leases						
Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
16765 W. Bernardo Dr.	Rancho Bernardo	A	95,166	May-2022	Apple	Prudential Financial
5717 Pacific Center Ct.	Sorrento Mesa	B	54,232	Jul-2022	Undisclosed	(Sublease)
8620 Spectrum Center Blvd.	Kearny Mesa	A	52,897	Apr-2022	State of CA	Sunroad Holding Corporation
16409 W. Bernardo Dr.	Rancho Bernardo	A	52,800	Apr-2022	Apple	Swift Real Estate Partners
5600 Avenida Encinas	Carlsbad	A	49,130	Apr-2022	Undisclosed	Carlsbad1-Make Holding, LLC

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2022	Square Feet Available	Availability Rate 2Q2022	Average Asking Lease Rate	Net Absorption 2Q2022	Net Absorption 2022	Gross Absorption 2Q2022	Gross Absorption 2022
Downtown													
Downtown	130	13,871,051	2,763,107	702,000	3,478,758	25.08%	6,484,807	38.98%	\$2.93	(68,761)	(26,044)	215,617	440,963
Downtown Total	130	13,871,051	2,763,107	702,000	3,478,758	25.08%	6,484,807	38.98%	\$2.93	(68,761)	(26,044)	215,617	440,963
Central													
City Heights / University	31	1,213,132	0	0	44,781	3.69%	59,640	4.92%	\$2.19	3,561	179	3,761	4,311
Coronado	5	106,925	0	0	1,610	1.51%	1,610	1.51%	\$3.25	0	0	0	0
Kearny Mesa	242	11,402,701	70,000	0	1,112,643	9.76%	1,287,537	11.22%	\$2.61	271,676	207,646	345,560	446,292
Mission Gorge	19	581,130	0	0	5,131	0.88%	6,874	1.18%	\$2.29	(3,480)	10,012	0	14,318
Mission Valley	126	7,308,072	0	1,130,925	1,184,624	16.21%	1,545,965	21.15%	\$2.93	(150,069)	(118,118)	146,567	301,106
Old Town / Point Loma	76	2,268,131	0	230,000	128,345	5.66%	316,848	13.97%	\$2.59	6,350	31,291	36,770	79,160
Park East	15	218,936	0	0	573	0.26%	3,243	1.48%	\$2.11	1,073	5,716	1,073	5,716
Rose Canyon / Morena	54	1,268,679	0	0	98,998	7.80%	160,449	12.65%	\$2.13	(5,110)	(22,995)	18,309	35,946
Uptown / Hillcrest	78	2,188,950	0	0	142,451	6.51%	200,067	9.14%	\$2.63	29,099	52,917	37,447	83,220
Central Total	646	26,556,656	70,000	1,360,925	2,719,156	10.24%	3,582,233	13.45%	\$2.74	153,100	166,648	589,487	970,069
I-15 Corridor													
Escondido	73	1,732,171	75,000	36,614	163,663	9.45%	350,976	19.42%	\$2.06	29,331	50,865	51,042	105,743
Poway	31	1,390,271	0	0	69,503	5.00%	82,302	5.92%	\$2.28	7,163	(14,105)	15,584	23,394
Rancho Bernardo	100	6,434,614	83,482	165,747	818,779	12.72%	860,859	13.21%	\$3.14	153,901	(14,409)	263,734	466,919
Scripps Ranch	52	2,871,219	0	531,000	344,579	12.00%	425,462	14.82%	\$2.83	88,031	42,348	111,425	166,052
I-15 Corridor Total	256	12,428,275	158,482	733,361	1,396,524	11.24%	1,719,599	13.66%	\$2.90	278,426	64,699	441,785	762,108
North County Coastal													
Carlsbad	165	6,985,925	0	50,000	830,625	11.89%	1,084,732	15.53%	\$2.76	123,466	234,439	170,850	390,043
Del Mar Heights / Carmel Valley	85	5,831,636	529,570	2,067,642	1,013,478	17.38%	1,144,142	17.99%	\$4.53	(20,212)	(113,056)	137,760	295,353
North Beach Cities	113	2,735,979	67,022	51,911	210,914	7.71%	345,465	12.32%	\$3.92	3,975	14,168	44,442	103,438
North County Total	363	15,553,540	596,592	2,169,553	2,055,017	13.21%	2,574,339	15.94%	\$3.50	107,229	135,551	353,052	788,834
North City													
Governor Park	20	909,875	0	0	103,364	11.36%	114,678	12.60%	\$2.73	(296)	16,791	22,286	68,105
La Jolla	45	1,330,978	0	0	190,183	14.29%	251,667	18.91%	\$3.27	(1,197)	(6,065)	29,884	50,581
Miramar	32	1,474,065	0	1,007,050	89,462	6.07%	108,940	7.39%	\$1.94	29,852	34,723	43,005	71,437
Sorrento Mesa	115	9,132,543	0	2,315,000	601,255	6.58%	815,335	8.93%	\$3.25	246,435	216,675	292,027	418,833
Sorrento Valley	23	648,668	0	0	100,325	15.47%	81,707	12.60%	\$2.36	9,953	28,156	31,534	50,876
Torrey Pines	43	3,163,939	74,000	0	58,563	1.85%	117,448	3.63%	\$4.51	36,575	125,719	42,586	177,467
UTC	92	8,984,510	486,851	827,000	595,740	6.63%	1,188,514	12.55%	\$4.11	73,399	176,554	274,045	507,622
North City Total	370	25,644,578	560,851	4,149,050	1,738,892	6.78%	2,678,289	10.22%	\$3.48	394,721	592,553	735,367	1,344,921
Southern & Eastern Areas													
Chula Vista	92	2,892,008	0	1,203,000	128,910	4.46%	180,132	6.23%	\$2.65	17,294	61,023	25,297	85,580
National City	15	535,565	0	0	2,574	0.48%	28,460	5.31%	\$2.75	4,019	1,150	4,019	5,931
South San Diego	13	319,824	0	0	9,499	2.97%	9,499	2.97%	\$2.78	781	(3,099)	781	781
Southeast San Diego	13	461,460	0	290,000	10,266	2.22%	10,266	2.22%	\$2.06	53,000	53,000	53,000	53,000
East County	153	3,811,803	0	300,300	129,857	3.41%	207,696	5.45%	\$2.45	2,297	49,035	52,025	135,357
Southern & Eastern Areas Total	286	8,020,660	0	1,793,300	281,106	3.50%	436,053	5.44%	\$2.55	77,391	161,109	135,122	280,649
Highway 78 Corridor													
Oceanside	66	1,541,682	0	218,235	114,636	7.44%	156,694	10.16%	\$2.21	(3,443)	(28,208)	9,608	18,819
San Marcos	38	1,455,192	0	1,488,287	108,415	7.45%	125,451	8.62%	\$2.26	(9,913)	13,239	27,128	56,510
Vista	52	1,265,121	0	0	249,007	19.68%	279,256	22.07%	\$2.24	17,924	11,600	26,011	38,437
Highway 78 Corridor Total	156	4,261,995	0	1,706,522	472,058	11.08%	561,401	13.17%	\$2.24	4,568	(3,369)	62,747	113,766
Class A	308	40,436,270	3,639,528	8,966,750	5,970,393	14.76%	10,041,456	22.78%	\$3.56	431,327	365,274	1,231,377	2,176,782
Class B	1,269	52,058,026	509,504	3,647,961	5,306,488	10.19%	6,973,248	13.27%	\$2.78	503,164	620,494	1,127,710	2,158,095
Class C	630	13,842,459	0	0	864,630	6.25%	1,022,017	7.38%	\$2.14	12,183	105,379	174,090	366,433
San Diego County Total	2,207	106,336,755	4,149,032	12,614,711	12,141,511	11.42%	18,036,721	16.32%	\$3.05	946,674	1,091,147	2,533,177	4,701,310

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



Return To Office Playing Out with Hybrid Compromise

by **Connor Wieck**

VICE PRESIDENT, SAN DIEGO

858.458.3329 · cwieck@voitco.com · Lic. #02007940

As we continue to move forward from the COVID-19 pandemic, business owners and operators continue to refine their expectations for the office market. It is evident that with high inflation, rising interest rates, and the residual effects of COVID-19, the dynamics of the office market continue to evolve.

Over the past 24 months, businesses have been contemplating the question of whether having a permanent office location is necessary for the company's performance. There is no question that it is possible to be productive from a remote location. However, companies realized that an office is more than just a place to plug in the computer and work. Offices provide companies an opportunity to build camaraderie and to build a culture that can be utilized to attract and retain the community's top talent. Having a gathering place for collaboration that helps coworkers and business operators build rapport is something that cannot be accomplished with a fully remote work environment. More recently, there are reports that major companies such as Tesla have elected to bring back all employees to the office. As the dynamic of the office market continues to evolve, we expect the hybrid work model to become adopted more and more by business operators. Millennials, who are becoming a larger part of the working community and are considered "tech savvy", find the flexibility of remote work as a desirable characteristic to their working schedule and often a necessity when pursuing a job. Having a hybrid approach has become the compromise that allows business operators to build their culture and employees to have some flexibility in their work week.

The dynamic for building owners continues to evolve as well. Tenants now more than ever are focusing on the attributes a building has for their employees compared with the environment they have at home. Amenities have been a historically consistent talking point that distinguish buildings from each other. However, these amenities are now being highlighted as a key difference between an employee's work-from-home and work-in-office experience. Amenities such as Amazon lockers, fitness facilities, and walkable retail are becoming significantly more important when evaluating an office space. Additionally, building operators are adjusting the economics offered to their lease transactions. Landlords are focused on sharing the costs of inflation by pushing rents and annual base rent adjustments.

Sale transactions in the office market slowed significantly in Q2. Capital markets investors are focused on finding adjusted cap rates that reflect the increased cost of capital. Similarly, owner/users have become less aggressive on pursuing purchases due to increased interest rates. The U.S. began 2022 with negative GDP growth and has since seen other indicators of a possible recession. We anticipate office sale transactions to slow as investors and business owners brace for these realities.

Please Contact Us for Further Information

Joshua Brant
Regional Director of Research
jbrant@voitco.com

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