

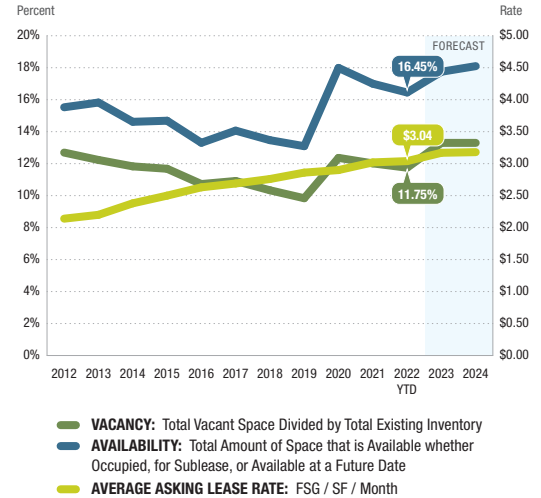
**OVERVIEW.** The vacancy level increased half a percentage point in 3Q and leasing activity was slow for the quarter. Through the first three quarters of 2022 there has been positive net absorption of more than 750,000 SF, and the vacancy rate is on track for a second consecutive year of decrease following a spike in 2020. Rental rate increases are slowing, and office construction is historically elevated. The current health of the office market is being buoyed by the rapid expansion of San Diego's biotech industry which has sent a wave of office tenants into the market from office buildings being cleared for lab conversion.

**VACANCY & AVAILABILITY.** Direct/sublease space (unoccupied) finished 3Q at 11.75%, a significant increase from the pre-pandemic vacancy rate of 10.3%, but a 64-basis point decrease from the level of a year ago. Available office space being marketed (regardless of occupancy status) was 16.45% of the county's inventory at the end of 3Q. 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 recent growth in the biotech sector. Meanwhile, the availability rate in Downtown is approaching 40% and the vacancy rate there is greater than 25%. Sublease availability increased by 0.5 MSF in 3Q. The largest new sublease availabilities in 3Q include MedImpact's 158,000 SF building in Scripps Ranch, a 100,000 SF Illumina building in UTC, and Tandem Diabetes' 74,000 SF building in Carmel Valley.

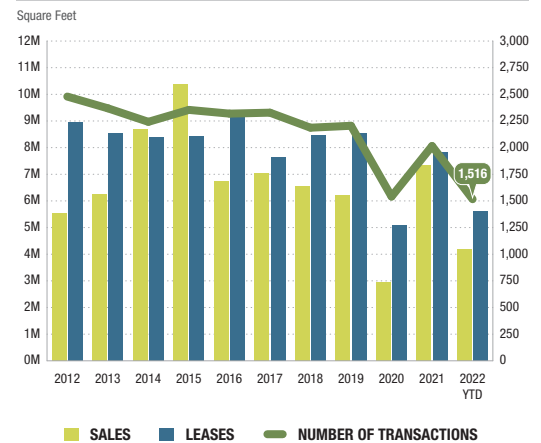
**LEASE RATES.** The average asking full-service-gross (FSG) lease rate per square foot per month in San Diego County was \$3.04 at the end of 3Q, unchanged from the prior quarter's rate, and a 2% increase from 3Q 2021's rate of \$2.98. Despite all the calamity from the past two years, the average asking 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, but the balance of leverage varies across the county.

**TRANSACTION ACTIVITY.** Leasing volume levels were subdued in 3Q. Both the number of leases recorded and the total area leased in 3Q were each the lowest quarterly totals since 4Q 2020. 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. Apple remains the most active company in the San Diego office market. In 2Q, two of the largest spaces leased were taken by Apple, and in 3Q Apple again showed up in the largest leases while also acquiring the 810,000 SF HP campus in Rancho Bernardo for \$445 million. This ongoing expansion 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



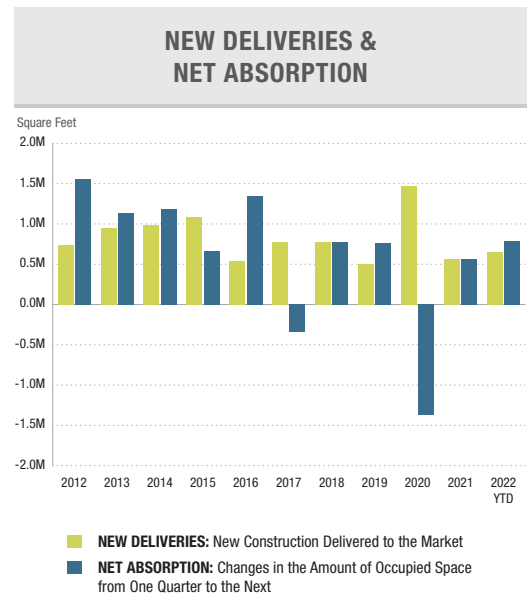
### Market Statistics

	Change Over Last Quarter	3Q 2022	2Q 2022	3Q 2021	% Change Over Last Year
Vacancy Rate	▲ UP	11.75%	11.27%	12.39%	(5.19%)
Availability Rate	▬ FLAT	16.45%	16.54%	16.84%	(2.31%)
Average Asking Lease Rate	▬ FLAT	\$3.04	\$3.04	\$2.98	2.01%
Sale & Lease Transactions	▼ DOWN	2,752,260	3,207,146	4,139,288	(33.51%)
Gross Absorption	▼ DOWN	1,425,602	2,516,478	2,003,390	(28.84%)
Net Absorption	▼ NEGATIVE	(509,826)	1,131,068	359,283	N/A

**ABSORPTION.** There was 509,826 SF of negative net absorption in 3Q, breaking the streak of five consecutive quarters of growth in the office tenant base. The 2022 calendar year total remains in the black, sitting at 792,880 SF of positive net absorption at the end of 3Q. The completion of BioMed Realty’s 204,000 SF building leased by Apple anchored the UTC submarket’s market-leading 405,614 SF of positive net absorption for the year thus far.

**CONSTRUCTION.** The office market has 4 MSF under construction at the end of 3Q. 4Q 2021 was the first time since 2006 that the local office market had more than 4 MSF under construction. Outside of IQHQ and Stockdale’s massive projects in Downtown San Diego, the largest project under construction in San Diego at the end of 3Q was Breakthrough Properties’ Torrey View project. This three-building, 520,000 SF development has its largest building preleased by medical device company BD. 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 3.4% in August 2022, up from a revised 3.1% in July 2022, and below the year-ago estimate of 6.5%. This compares with an unadjusted unemployment rate of 4.1% for California and 3.8% for the nation during the same period. Over the 12-month period between August 2021 and August 2022, San Diego County employment increased by 59,600 jobs, an increase of 4.1%. With the normal delay in reporting from the California EDD, employment figures from September were unavailable at the time of publishing this report. For the nation as a whole, the unemployment rate declined to 3.3% in September, demonstrating that the labor market remains tight.



## 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 only 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. 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	
5909 & 5919 Sea Otter Pl.	Carlsbad	B	230,957	\$88,750,000	Tritower Financial Group	Regent Properties	
4180 La Jolla Village Dr.	UTC	A	101,074	\$57,000,000	Welltower	Regent Properties	
8975 & 8985 Balboa Ave. *	Kearny Mesa	B	94,988	\$27,500,000	Sharp HealthCare	Jack Henry & Associates*	
9444 Farnham St. & 9619 Chesapeake Dr.	Kearny Mesa	B	89,784	\$22,800,000	M.C. Strauss Company	Brixton Capital	
10650 Scripps Ranch Blvd.	Scripps Ranch	B	62,244	\$20,600,000	SteelWave	Cornerstone Investments	

Leases						
Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
9515 Towne Centre Dr.	UTC	B	63,412	Aug-2022	Apple	(Sublease)
15231 Avenue of Science	Rancho Bernardo	B	48,000	Aug-2022	Peraton Corporation	Ascendas-Singbridge
5855 Copley Dr.	Kearny Mesa	B	36,648	Jul-2022	AT&T	Nuveen
770 First Ave.	Downtown	A	28,379	Aug-2022	Gomez Trial Attorneys	Bosa Development
7675 Mission Valley Rd.	Mission Valley	B	25,635	Jul-2022	VCA Animal Hospitals	H.G. Fenton

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2022	Square Feet Available	Availability Rate 3Q2022	Average Asking Lease Rate	Net Absorption 3Q2022	Net Absorption 2022	Gross Absorption 3Q2022	Gross Absorption 2022
<b>Downtown</b>													
Downtown	129	13,833,126	2,529,773	702,000	3,561,573	25.75%	6,098,183	37.27%	\$2.87	(82,815)	(108,859)	116,039	557,002
<b>Downtown Total</b>	<b>129</b>	<b>13,833,126</b>	<b>2,529,773</b>	<b>702,000</b>	<b>3,561,573</b>	<b>25.75%</b>	<b>6,098,183</b>	<b>37.27%</b>	<b>\$2.87</b>	<b>(82,815)</b>	<b>(108,859)</b>	<b>116,039</b>	<b>557,002</b>
<b>Central</b>													
City Heights / University	31	1,213,132	0	0	40,103	3.31%	54,069	4.46%	\$2.34	4,678	4,857	12,029	16,340
Coronado	4	84,540	0	0	1,610	1.90%	1,610	1.90%	\$3.25	0	0	0	0
Kearny Mesa	242	11,399,864	70,000	0	1,186,563	10.41%	1,375,321	11.99%	\$2.67	(73,360)	133,726	182,058	631,300
Mission Gorge	19	581,130	0	0	4,305	0.74%	13,568	2.33%	\$2.32	826	10,838	826	15,144
Mission Valley	128	7,418,862	0	1,130,925	1,183,130	15.95%	1,473,471	19.86%	\$2.95	1,494	(116,624)	158,575	459,681
Old Town / Point Loma	76	2,268,131	0	230,000	138,836	6.12%	316,656	13.96%	\$2.58	(10,491)	20,800	40,222	119,382
Park East	15	218,936	0	0	9,977	4.56%	9,977	4.56%	\$2.16	(9,404)	(3,688)	573	6,289
Rose Canyon / Morena	54	1,268,661	0	0	66,194	5.22%	123,621	9.74%	\$2.11	32,804	9,809	44,962	80,908
Uptown / Hillcrest	77	2,170,380	0	0	166,507	7.67%	240,083	11.06%	\$2.57	(32,949)	24,321	18,146	101,366
<b>Central Total</b>	<b>646</b>	<b>26,623,636</b>	<b>70,000</b>	<b>1,360,925</b>	<b>2,797,225</b>	<b>10.51%</b>	<b>3,608,376</b>	<b>13.52%</b>	<b>\$2.77</b>	<b>(86,402)</b>	<b>84,039</b>	<b>457,391</b>	<b>1,430,410</b>
<b>I-15 Corridor</b>													
Escondido	73	1,732,171	75,000	36,614	156,462	9.03%	378,790	20.96%	\$2.08	7,201	58,066	11,039	116,782
Poway	31	1,390,271	0	0	85,385	6.14%	100,689	7.24%	\$2.25	(15,882)	(29,987)	10,601	33,995
Rancho Bernardo	100	6,428,933	83,482	165,747	805,261	12.53%	866,770	13.31%	\$3.15	13,518	(891)	63,902	530,821
Scripps Ranch	49	2,745,319	0	531,000	466,603	17.00%	535,617	19.51%	\$2.87	(185,624)	(143,183)	23,514	173,217
<b>I-15 Corridor Total</b>	<b>253</b>	<b>12,296,694</b>	<b>158,482</b>	<b>733,361</b>	<b>1,513,711</b>	<b>12.31%</b>	<b>1,881,866</b>	<b>15.11%</b>	<b>\$2.91</b>	<b>(180,787)</b>	<b>(115,995)</b>	<b>109,056</b>	<b>854,815</b>
<b>North County Coastal</b>													
Carlsbad	164	6,973,986	0	50,000	805,806	11.55%	1,135,411	16.28%	\$2.73	16,519	253,958	183,701	570,444
Del Mar Heights / Carmel Valley	82	5,729,142	529,870	2,067,642	921,085	16.08%	1,142,884	18.26%	\$4.68	35,449	(77,607)	87,267	382,620
North Beach Cities	113	2,744,032	67,022	51,911	222,626	8.11%	321,784	11.45%	\$3.92	(11,712)	2,456	38,502	141,940
<b>North County Total</b>	<b>359</b>	<b>15,447,160</b>	<b>596,892</b>	<b>2,169,553</b>	<b>1,949,517</b>	<b>12.62%</b>	<b>2,600,079</b>	<b>16.21%</b>	<b>\$3.51</b>	<b>40,256</b>	<b>178,807</b>	<b>309,470</b>	<b>1,095,004</b>
<b>North City</b>													
Governor Park	20	929,661	0	0	233,513	25.12%	276,060	29.69%	\$2.87	(130,149)	(113,358)	37,687	105,792
La Jolla	45	1,341,636	0	0	208,930	15.57%	271,452	20.23%	\$3.42	(15,454)	(21,090)	7,481	57,888
Miramar	32	1,474,065	0	1,007,050	68,841	4.67%	104,358	7.08%	\$2.00	20,621	55,344	36,976	108,413
Sorrento Mesa	112	9,070,367	244,000	2,071,000	728,375	8.03%	1,042,812	11.20%	\$3.23	(128,760)	87,915	58,397	477,230
Sorrento Valley	23	648,668	0	0	98,638	15.21%	81,713	12.60%	\$2.37	1,687	29,843	19,659	70,535
Torrey Pines	43	3,164,075	74,000	309,094	60,963	1.93%	182,835	5.65%	\$4.37	(2,400)	123,319	0	177,467
UTC	92	9,164,474	282,851	827,000	542,096	5.92%	997,361	10.56%	\$4.16	23,770	405,614	165,622	673,244
<b>North City Total</b>	<b>367</b>	<b>25,792,946</b>	<b>600,851</b>	<b>4,214,144</b>	<b>1,941,356</b>	<b>7.53%</b>	<b>2,956,591</b>	<b>11.20%</b>	<b>\$3.51</b>	<b>(230,685)</b>	<b>567,587</b>	<b>325,822</b>	<b>1,670,569</b>
<b>Southern &amp; Eastern Areas</b>													
Chula Vista	92	2,892,008	0	1,203,000	120,224	4.16%	176,426	6.10%	\$2.71	8,686	69,709	14,330	99,910
National City	16	550,315	0	0	1,046	0.19%	28,672	5.21%	\$2.40	2,574	2,678	2,574	8,505
South San Diego	13	319,824	0	0	9,840	3.08%	9,840	3.08%	\$2.79	(341)	(3,440)	200	981
Southeast San Diego	13	461,460	0	290,000	10,266	2.22%	10,266	2.22%	\$2.06	0	53,000	0	53,000
East County	153	3,812,051	0	61,800	140,233	3.68%	208,914	5.48%	\$2.37	(10,376)	38,659	17,862	153,219
<b>Southern &amp; Eastern Areas Total</b>	<b>287</b>	<b>8,035,658</b>	<b>0</b>	<b>1,554,800</b>	<b>281,609</b>	<b>3.50%</b>	<b>434,118</b>	<b>5.40%</b>	<b>\$2.54</b>	<b>543</b>	<b>160,606</b>	<b>34,966</b>	<b>315,615</b>
<b>Highway 78 Corridor</b>													
Oceanside	66	1,541,962	0	218,235	82,065	5.32%	131,697	8.54%	\$2.26	32,571	4,363	38,679	57,498
San Marcos	38	1,455,192	0	1,488,287	102,058	7.01%	118,866	8.17%	\$2.27	6,357	19,596	18,480	74,990
Vista	52	1,265,121	0	0	257,871	20.38%	307,963	24.34%	\$2.36	(8,864)	2,736	15,699	54,136
<b>Highway 78 Corridor Total</b>	<b>156</b>	<b>4,262,275</b>	<b>0</b>	<b>1,706,522</b>	<b>441,994</b>	<b>10.37%</b>	<b>558,526</b>	<b>13.10%</b>	<b>\$2.30</b>	<b>30,064</b>	<b>26,695</b>	<b>72,858</b>	<b>186,624</b>
Class A	305	40,324,335	3,650,494	9,031,844	6,177,642	15.32%	10,460,734	23.79%	\$3.54	(227,992)	101,570	452,624	2,580,055
Class B	1,257	51,908,958	305,504	3,409,461	5,463,675	10.53%	6,655,568	12.75%	\$2.76	(303,405)	523,649	826,453	2,970,112
Class C	635	14,058,202	0	0	845,668	6.02%	1,021,437	7.27%	\$2.24	21,571	167,661	146,525	559,872
<b>San Diego County Total</b>	<b>2,197</b>	<b>106,291,495</b>	<b>3,955,998</b>	<b>12,441,305</b>	<b>12,486,985</b>	<b>11.75%</b>	<b>18,137,739</b>	<b>16.45%</b>	<b>\$3.04</b>	<b>(509,826)</b>	<b>792,880</b>	<b>1,425,602</b>	<b>6,110,039</b>

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



## Employee Vs. Employer Leverage

by **Brian Fischer**

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As we begin the final quarter of 2022, I look back to this time last year and the assumptions being made about the future of office space utilization. Many believed that remote work would prevail, and the way we do business would never go back to “normal.” While this assumption has its merits, the “work from home” era may be dwindling. Since work from home became optional, many employees have been allowed to continue their flexible schedules as an incentive to stay with their employer. Employers recognized the difficulty of replacing employees in such a strong job market. But with rising interest rates, reductions in venture capital funding, and the job losses likely to follow, the pendulum may swing in the other direction soon.

### The Employee Perspective

From speaking to my colleagues, friends, and almost every other employed individual I know, the option to work remotely (whether it be a hybrid structure or not) is a top priority when evaluating an employment opportunity. Over the last couple of years, employees in most sectors have experienced and adjusted to the additional freedom that comes with remote working. Moving forward, employees may have to prioritize job retention, and business owners will see this as an opportunity to return to a traditional work model.

### The Employer Perspective

As we head further into economic uncertainty, employers may once again gain the upper hand. If the job market begins to tumble, they will no longer need to turn to amenity-driven incentives to get their employees back into the office. They will be relying on the fact that there are simply not enough jobs to go around. While every CEO runs their company in their own way, most of the ones I speak with prefer to have their employees in the physical office. They believe this approach increases productivity, collaboration, business development, and overall camaraderie. However, in the face of economic uncertainty over the short run, they will have to ask: Do we work to lower our office footprint and decrease our occupancy costs? If we do, are we at greater risk of negatively impacting future productivity, collaboration, and business development? Will lower rent and other operating costs offset that potential impact? Many are looking to the hybrid work model as the solution.

### What does this mean for the Office Market?

I don't believe we will ever go back to the standard five-day work week across the board, but over the next six to twelve months, I think we will see more employees return to the office, at least on a hybrid basis. We can look at Apple as an example, a Fortune 500 Company that has incorporated a mandatory “return to office” policy for a minimum of three days per week. I believe many CEO's will follow that example, and if enough of them do we can anticipate some continued downsizing, an emphasis on open workspace designs, and a need for more amenities. Bear market territory will lead us to shorter lease terms and an increase in landlord concessions until a “new normal” is established. Q4 should give us a good idea of what to expect in 2023.

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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.

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## 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