

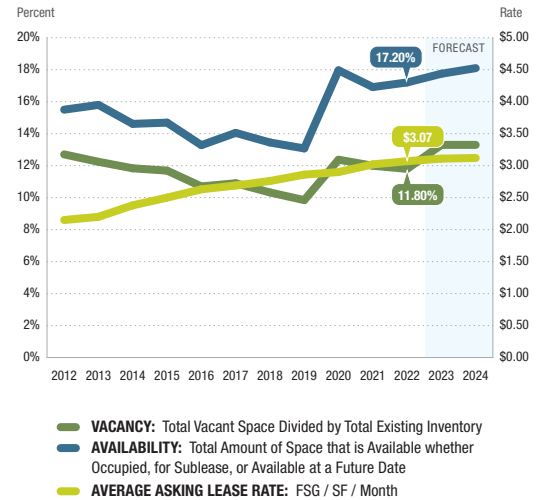
OVERVIEW. Leasing and sales volume were both down in 2022, yet the market remained stable, finally recovering from 2020's negative net absorption by the end of 4Q. Vacancy is up due to new construction deliveries. Rental rate increases are slowing, and office construction is historically elevated. The 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 4Q at 11.8%, a significant increase from the pre-pandemic vacancy rate of 10.3%, but a 20-basis point decrease from the level of a year ago. Available office space being marketed (regardless of occupancy status) was 17.2% of the county's inventory at the end of 4Q. 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 at 36.9% and the vacancy rate there is greater than 25%. Sublease availability increased by 1.1 MSF in 2022. The 2.8 MSF of available sublet space at the end of 2022 represents the largest level in over a decade.

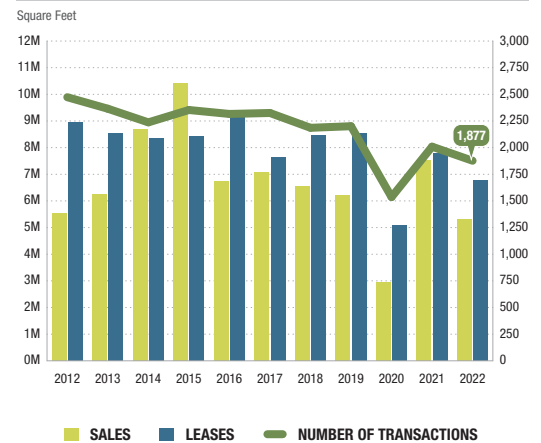
LEASE RATES. The average asking full-service-gross (FSG) lease rate per square foot per month in San Diego County was \$3.07 at the end of 4Q, a three-cent increase from the prior quarter's rate, and a 1.7% increase from 4Q 2021's rate of \$3.02. Despite all the calamity from the past two years, the 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 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 value of concessions being offered, but the balance of leverage varies across the county.

TRANSACTION ACTIVITY. Leasing volume levels were subdued in 4Q. For the second consecutive quarter, the number of leases recorded and the total area leased both saw their lowest quarterly tallies 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 2022. Apple remains the most active company in the San Diego office market. Their ongoing expansion in San Diego over the last couple of years has stood in contrast to the slowing pace of growth by other hi-tech companies in the local market. As to the sales volume, 131 San Diego County offices traded in in 2022, for a total consideration of \$1.58 B. Both of those measures represent the second lowest sales volume since 2016. Three of the top five lease transactions in 4Q were in the Downtown submarket, a welcome sign in an area that has been languishing for the past few years.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

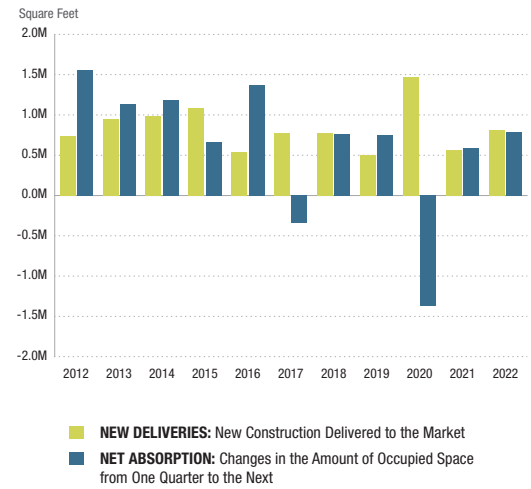
	Change Over Last Quarter	4Q 2022	3Q 2022	4Q 2021	% Change Over Last Year
Vacancy Rate	▲ UP	11.80%	11.68%	12.00%	(1.63%)
Availability Rate	▲ UP	17.20%	16.77%	16.92%	1.71%
Average Asking Lease Rate	▲ UP	\$3.07	\$3.04	\$3.02	1.66%
Sale & Lease Transactions	▼ DOWN	1,898,484	3,176,703	3,812,803	(50.21%)
Gross Absorption	▲ UP	1,808,998	1,439,172	2,362,377	(23.42%)
Net Absorption	▲ POSITIVE	11,252	(469,720)	494,444	N/A

ABSORPTION. There was 11,252 SF of positive net absorption in 4Q, and 787,176 SF of growth in the office-occupying business footprint for 2022. The completion of BioMed Realty's 204,000 SF building leased by Apple anchored the UTC submarket's market-leading 361,854 SF of positive net absorption for the year. The pandemic-induced recession inflicted 1,365,426 SF of negative absorption on the market in 2020. In the following two years the market has gained back slightly more than an equivalent measure of positive net absorption, 1,379,622 SF.

CONSTRUCTION. The office market has 3.9 MSF under construction at the end of 2022. Outside of IQHQ and Stockdale's massive projects in Downtown San Diego, the largest project under construction in San Diego at the end of 4Q 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. There were 814,000 SF of new office space delivered in 2022, of which only 10.7% was still available for lease at the end of 4Q.

EMPLOYMENT. The unemployment rate in San Diego County was 3.3% in November 2022, up from a revised 3.2% in October 2022, and below the year-ago estimate of 4.5%. This compares with an unadjusted unemployment rate of 4.0% for California and 3.4% for the nation during the same period. Over the 12-month period between November 2021 and November 2022, San Diego County employment increased by 48,400 jobs, an increase of 3.2%. 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, 223,000 jobs were added in December, the smallest monthly gain in two years.

NEW DELIVERIES & NET ABSORPTION



Forecast

Going into 2023, macroeconomic concerns and the ongoing reevaluation of the remote/hybrid work model will moderate demand for office space. Venture capital volume has pulled back, and if the rapid growth of the local life sciences industry loses steam in the latter part of 2023, the office market will follow suit. 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

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
1921 & 1925 Palomar Oaks Way, 211-2141 Palomar Airport Rd.	Carlsbad	B	222,005	\$48,625,000	M.C. Strauss Co.	Brookwood Financial Partners, LLC
3838 Camino Del Rio N.	Mission Valley	B	94,612	\$21,575,000	Bitwise At State Center, LLC	HighBrook Investors
4180 Ruffin Rd. & 9370 Sky Park Ct.	Kearny Mesa	B	71,070	\$18,500,000	Solar Turbines	Gleich Family Trust
1959 Palomar Oaks Way & 1800 Thibodo Rd.	Carlsbad/Vista	B	70,963	\$13,943,904	MJL Properties, Inc.	Labyrinth, Inc.
3645 & 3655 Ruffin Rd.	Kearny Mesa	B	40,805	\$11,200,000	446 26th Street Holdings, LLC	Manhattan Alliance

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
4375 Juttland Dr.	Morena/Rose Canyon	B	31,530	Nov-2022	Comic-Con	Sublease
770 First Ave.	Downtown	A	30,471	Oct-2022	Regus	Bosa Development
2100 Kettner	Downtown	A	28,387	Dec-2022	Undisclosed	Kilroy
10089 Willow Creek Rd.	Scripps Ranch	B	24,519	Dec-2022	Anchor Insurance	Sason
501 W. Broadway	Downtown	A	20,177	Nov-2022	Undisclosed	Irvine Company

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2022	Square Feet Available	Availability Rate 4Q2022	Average Asking Lease Rate	Net Absorption 4Q2022	Net Absorption 2022	Gross Absorption 4Q2022	Gross Absorption 2022
Downtown													
Downtown	128	13,862,902	2,843,856	702,000	3,483,203	25.13%	6,158,567	36.86%	\$2.85	32,088	(63,201)	234,912	805,484
Downtown Total	128	13,862,902	2,843,856	702,000	3,483,203	25.13%	6,158,567	36.86%	\$2.85	32,088	(63,201)	234,912	805,484
Central													
City Heights / University	31	1,213,132	0	0	42,757	3.52%	48,030	3.96%	\$2.30	(2,654)	2,203	0	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	11,404,796	70,000	0	1,141,983	10.01%	1,366,663	11.91%	\$2.65	44,580	178,306	193,897	825,197
Mission Gorge	19	581,130	0	0	2,922	0.50%	13,981	2.41%	\$2.02	1,383	12,221	4,305	19,449
Mission Valley	128	7,417,954	0	1,130,925	1,318,782	17.78%	1,526,922	20.58%	\$2.93	(135,652)	(252,276)	143,541	603,222
Old Town / Point Loma	76	2,268,131	0	230,000	139,411	6.15%	363,758	16.04%	\$2.65	(575)	20,225	43,182	162,564
Park East	15	218,936	0	0	8,497	3.88%	12,212	5.58%	\$2.16	1,480	(2,208)	1,480	7,769
Rose Canyon / Morena	54	1,268,661	0	0	106,131	8.37%	94,462	7.45%	\$2.14	(39,937)	(30,128)	12,240	93,148
Uptown / Hillcrest	77	2,166,747	0	0	161,087	7.43%	227,976	10.52%	\$2.49	5,420	29,741	18,130	119,496
Central Total	646	26,624,027	70,000	1,360,925	2,923,180	10.98%	3,655,614	13.69%	\$2.76	(125,955)	(41,916)	416,775	1,847,185
I-15 Corridor													
Escondido	74	1,807,171	0	62,614	177,389	9.82%	382,199	21.15%	\$2.21	54,073	112,139	89,631	206,413
Poway	31	1,390,271	0	0	92,448	6.65%	98,053	7.05%	\$2.18	(7,063)	(37,050)	0	33,995
Rancho Bernardo	100	6,362,135	83,482	165,747	1,034,201	16.26%	1,200,110	18.62%	\$3.25	(228,940)	(229,831)	63,009	593,830
Scripps Ranch	49	2,745,319	0	531,000	468,599	17.07%	516,800	18.82%	\$2.93	(1,996)	(145,179)	46,200	219,417
I-15 Corridor Total	254	12,304,896	83,482	759,361	1,772,637	14.41%	2,197,162	17.74%	\$3.04	(183,926)	(299,921)	198,840	1,053,655
North County Coastal													
Carlsbad	163	6,960,242	0	50,000	855,988	12.30%	1,287,141	18.49%	\$2.78	(75,268)	203,776	55,175	625,619
Del Mar Heights / Carmel Valley	81	5,675,387	519,870	2,067,642	669,077	11.79%	1,240,592	20.02%	\$4.70	227,470	94,401	339,352	721,972
North Beach Cities	114	2,756,209	54,845	25,456	219,887	7.98%	313,802	11.16%	\$3.99	14,916	17,372	56,501	198,441
North County Total	358	15,391,838	574,715	2,143,098	1,744,952	11.34%	2,841,535	17.80%	\$3.56	167,118	315,549	451,028	1,546,032
North City													
Governor Park	20	929,661	0	0	245,594	26.42%	280,381	30.16%	\$2.90	(12,081)	(125,439)	12,712	118,504
La Jolla	45	1,341,636	0	0	167,109	12.46%	238,395	17.77%	\$3.39	41,821	20,731	55,849	113,737
Miramar	32	1,474,065	0	1,007,050	91,953	6.24%	141,864	9.62%	\$2.22	(23,112)	32,232	22,429	130,842
Sorrento Mesa	111	9,005,049	0	1,845,000	657,288	7.30%	924,059	10.26%	\$3.30	71,087	159,002	105,442	582,672
Sorrento Valley	23	648,668	0	0	97,289	15.00%	70,232	10.83%	\$2.76	1,349	31,192	3,769	74,304
Torrey Pines	44	3,238,075	0	309,094	62,491	1.93%	197,784	6.11%	\$4.38	72,472	195,791	74,000	251,467
UTC	92	9,192,421	282,851	827,000	585,856	6.37%	1,274,836	13.45%	\$4.12	(43,760)	361,854	96,363	769,607
North City Total	367	25,829,575	282,851	3,988,144	1,907,580	7.39%	3,127,551	11.98%	\$3.52	107,776	675,363	370,564	2,041,133
Southern & Eastern Areas													
Chula Vista	92	2,892,008	0	1,203,000	98,245	3.40%	147,688	5.11%	\$2.49	21,979	91,688	48,596	148,506
National City	16	550,315	0	0	12,327	2.24%	65,839	11.96%	\$2.22	(11,281)	(8,603)	1,046	9,551
South San Diego	13	319,824	0	0	9,650	3.02%	19,554	6.11%	\$2.68	190	(3,250)	2,699	3,680
Southeast San Diego	13	461,460	0	290,000	16,748	3.63%	16,748	3.63%	\$2.33	(6,482)	46,518	3,716	56,716
East County	151	3,788,975	0	61,800	143,816	3.80%	158,016	4.17%	\$2.36	(3,583)	35,076	37,764	190,983
Southern & Eastern Areas Total	285	8,012,582	0	1,554,800	280,786	3.50%	407,845	5.09%	\$2.40	823	161,429	93,821	409,436
Highway 78 Corridor													
Oceanside	64	1,521,101	0	352,635	80,594	5.30%	146,178	9.61%	\$2.33	21	4,234	12,478	68,376
San Marcos	38	1,455,192	0	1,488,285	103,563	7.12%	125,908	8.65%	\$2.23	(1,505)	18,091	12,554	87,544
Vista	52	1,265,121	0	0	243,059	19.21%	286,115	22.62%	\$2.36	14,812	17,548	18,026	72,162
Highway 78 Corridor Total	154	4,241,414	0	1,840,920	427,216	10.07%	558,201	13.16%	\$2.31	13,328	39,873	43,058	228,082
Class A	306	40,296,886	3,646,577	8,940,244	6,197,044	15.38%	10,963,242	24.95%	\$3.55	(16,222)	44,415	809,753	3,404,337
Class B	1,254	51,888,740	208,327	3,409,004	5,435,564	10.48%	6,970,501	13.38%	\$2.80	88,752	633,724	817,881	3,782,780
Class C	632	14,081,608	0	0	906,946	6.44%	1,012,732	7.19%	\$2.30	(61,278)	109,037	181,364	743,890
San Diego County Total	2,192	106,267,234	3,854,904	12,349,248	12,539,554	11.80%	18,946,475	17.20%	\$3.07	11,252	787,176	1,808,998	7,931,007

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



Rough Road Ahead

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The office market remained stable through the end of 2022, but storm clouds are on the horizon. Many large national office occupiers announced layoffs before the end of the year, especially among those in the technology sector. Predictions of a 2023 recession are coming from every corner. Office leasing and sales volume has dropped compared to recent years, and large blocks of sublease space are popping up in the market. Office occupiers are still trying to develop post-pandemic office plans that reflect the ongoing presence of hybrid and remote working environments. Many companies are right-sizing as their leases expire and are focusing more on amenities to attract employees into the office and help with retention.

San Diego remains an attractive location and unemployment remains low, which keeps investors confident in America's Finest City. Rising interest rates will place pressure on cap rates and owner-user pricing. On the owner-user sales side, limited product availability remains the story and this has helped soften the effects of rising interest rates.

In 2022, life sciences and technology companies bolstered the leasing market. The local poster child for the technology sector expansion has been Apple, which has taken down multiple buildings in the past two years. On the life sciences side, lab conversions have sent office tenants into the market without the option to renew in place. This has been centered around Sorrento Mesa, with office tenants getting pushed into surrounding Central County submarkets. In Downtown, the county's largest office submarket, a rising homeless population along with increased crime and vandalism has put a damper on submarket fundamentals. Hopefully, massive projects such as Stockbridge's redevelopment of Horton Plaza and IQHQ's RaDD development can act as a catalyst to shift the momentum in Downtown.

The local office market has stabilized following the 2020 downturn, and while a new slowdown may be on the horizon, San Diego remains a top-tier office market on the West Coast. The most significant direct impact of potential 2023 economic woes will be seen in the larger office blocks and less desirable submarkets.

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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