

INVESTMENT FORECAST

Office
San Diego

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2022

San Diego's Office Sector Outperforms Nearby Metros; Tech-Related Expansions Fuel Recovery

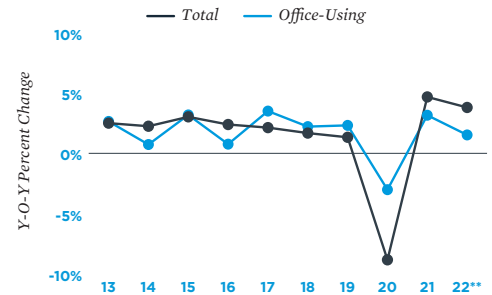
Large-scale leases signal long-term confidence. Contrasting other Southern California markets, office vacancy in San Diego compressed by more than 100 basis points last year. A bevy of 50,000-square-foot-plus commitments by life-science and tech firms was largely to credit for the notable improvement in leasing velocity. Highlighting activity in 2021, Apple inked six agreements for floorplans in UTC and Rancho Bernardo that together totaled nearly 500,000 square feet. Additionally, medical device companies Tandem Diabetes Care and Becton, Dickinson and Company agreed to occupy a combined 400,000 square feet in Del Mar Heights. Expectations for office-using job creation to outpace last year suggests other sizable commitments may await the metro in 2022. As a result, submarkets outside of Downtown San Diego, where vacancy remains well above 20 percent, may see vacancy rates fall below their long-term averages as sparse deliveries in these locales steer prospective tenants to existing properties.

Conversion and retenancing prospects support diverse buyer pool. Institutional and private sales activity strengthened in San Diego last year, coinciding with the return of positive absorption and greater pricing clarity. Sorrento Mesa and adjacent areas that are hubs for life-science companies are attracting national investors seeking \$20 million-plus assets. These submarkets boast sizable inventories of high-end space; however, larger Class B properties are accounting for the bulk of trades. Candidates for conversion to lab or R&D space are coveted, as assets that have undergone similar repositioning are swiftly securing high-profile biotech tenants. Private investors are active in the sub-\$10 million space, targeting smaller Class C properties near Balboa Park and Interstate 8 that have historically been occupied by professional services firms. Assets with upcoming leasing expirations or notable vacancies are available at low-5 to mid-7 percent returns.

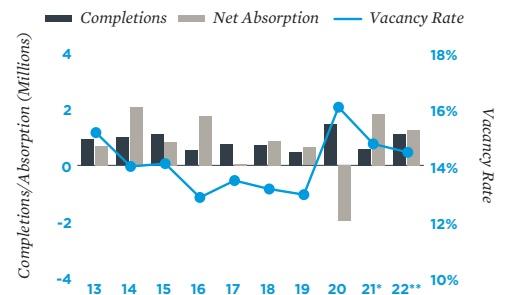
2022 Market Forecast

- Employment** up 3.8% Traditional office-using companies grow staffs by 5,500 positions this year, with 55,000 total jobs added countywide.
- Construction** 1,100,000 sq. ft. For the second time in the past three years, office inventory expands by more than 1 million square feet, highlighted by deliveries at the Campus at Horton in Downtown San Diego.
- Vacancy** down 30 bps Demand outpaces supply additions, compressing vacancy to 14.5 percent. Office availability, however, will end the year nearly 200 basis points above the pre-pandemic rate.
- Rent** up 2.3% An improvement in Class A leasing allows marketed rents to increase at a consistent pace for a third consecutive year, elevating the mean asking rate to a record \$33.75 per square foot.
- Investment** Localized population growth and the expansion of Palomar Health Medical Center in Escondido heighten the appeal of medical office investment along the Highway 78 Corridor.

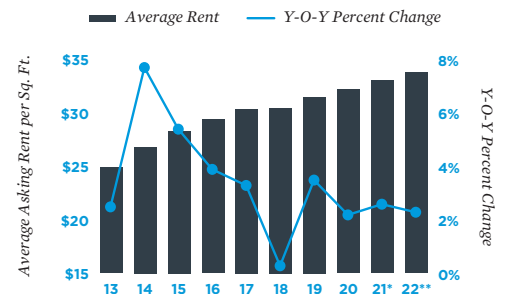
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.