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ECONOMIC OVERVIEW

KEY INDICATORS

Total Nonfarm Employment



+83,900 jobs YOY



ΔQ



ΔY

Office Employment



+18,500 jobs YOY



ΔQ



ΔY

San Diego Unemployment



2.7%



ΔQ



ΔY

California Unemployment



4.3%



ΔQ



ΔY

Airline Passengers (SAN)



+47.1% YOY



ΔQ



ΔY

Office Real Estate Momentum Index



13.6

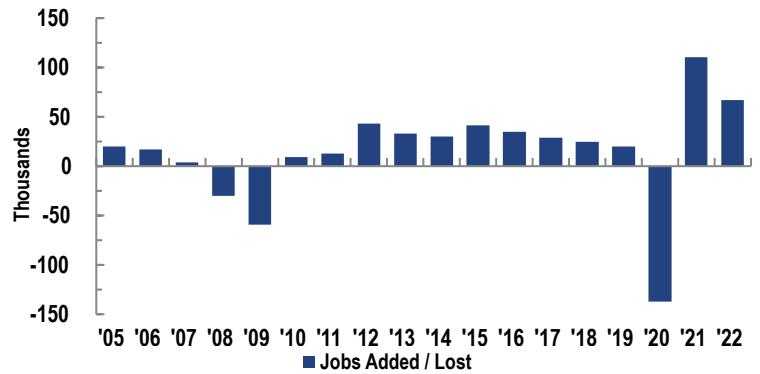


ΔQ

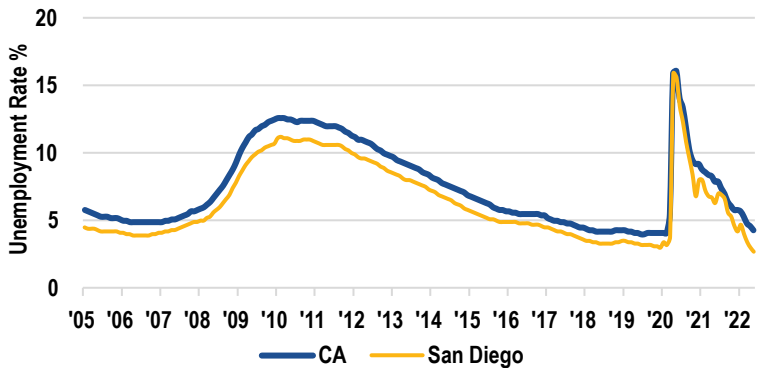


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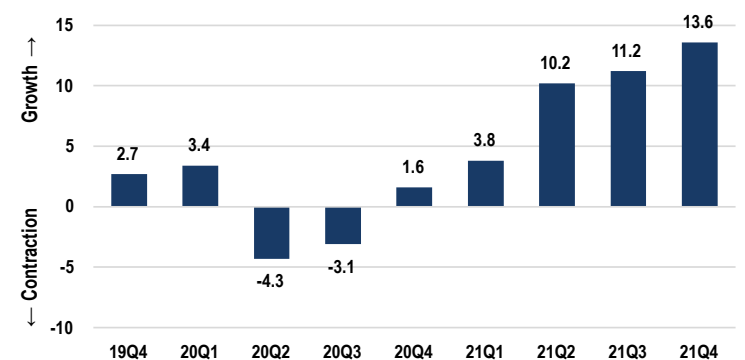
EMPLOYMENT TRENDS



UNEMPLOYMENT

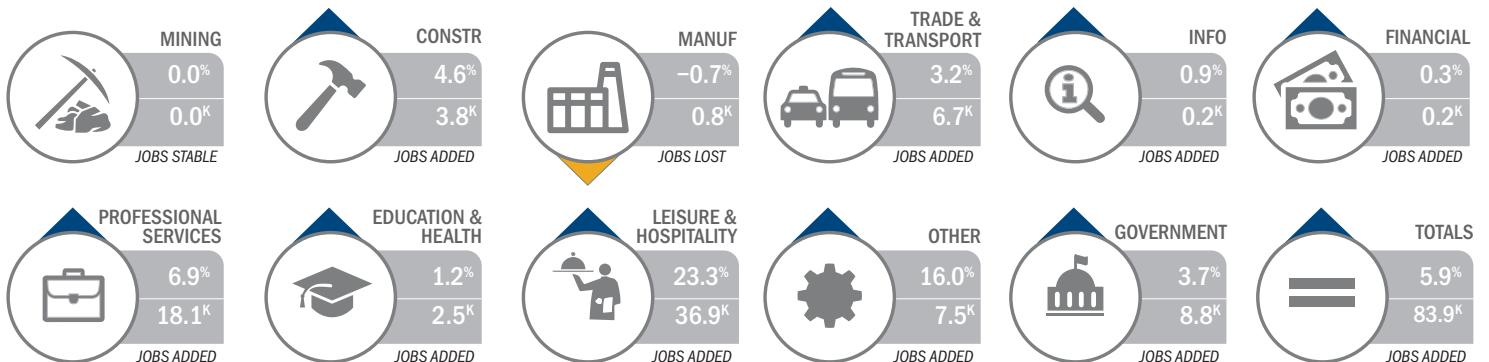


OFFICE REAL ESTATE MOMENTUM INDEX



Source: Commercial Real Estate Momentum Index, San Diego Office.

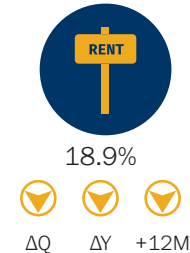
EMPLOYMENT GROWTH BY SECTOR (YOY)



Direct Vacancy



Direct Availability



Direct Net Absorption (T-12 mos)



Under Construction



Direct Asking Rents



OFFICE MARKET ASSESSMENT

• San Diego's office market registered positive absorption for the fifth consecutive quarter with 1.1 MSF of direct net absorption in Q2, its largest quarterly gain since the pandemic's onset, bringing the trailing 12 months total up to 1.8 MSF of occupancy gains.

• This solid demand has caused the market-wide direct vacancy rate to drop 140 bps to 13.7% in Q2 and has compressed 180 bps since hitting a 9-year high at mid-year 2021.

• The Class A property sector posted robust absorption gains totaling 640k SF in Q2 and 1.1 MSF over the trailing 12-month period. Class A direct vacancy dropped by 150 bps to 15.3% in Q2 after hitting an 11-year high during the prior quarter.

• Class B properties posted 462k SF of direct net absorption in Q2, bringing the trailing 12-month total up to 768k SF. Class B direct vacancy dropped by 130 bps to 12.1% in Q2 and has improved 270 bps since its cyclical peak in Q3 2021.

• Touring and leasing activity has picked up as occupiers are re-evaluating their future space needs and more confidently executing leasing decisions. The life sciences and technology sector has been the driving force behind the upswing in leasing demand.

• Leasing activity has sharply accelerated to pre-pandemic levels with 6.8 MSF leased over the trailing 12-months, up 77.5% Y-O-Y, with Class A product experiencing most of the increase due to a surge in pre-leasing activity in recent quarters within life science projects currently planned and under construction.

• The largest lease transaction in Q2 involved Leidos signing a 170k SF pre-lease commitment at 4150 Campus Point Ct that will deliver by mid-year 2024. In addition, Apple continued to grow its presence with a 95k SF lease at 16765 W Bernardo Dr and a 53k SF lease at 16409 W Bernardo Dr.

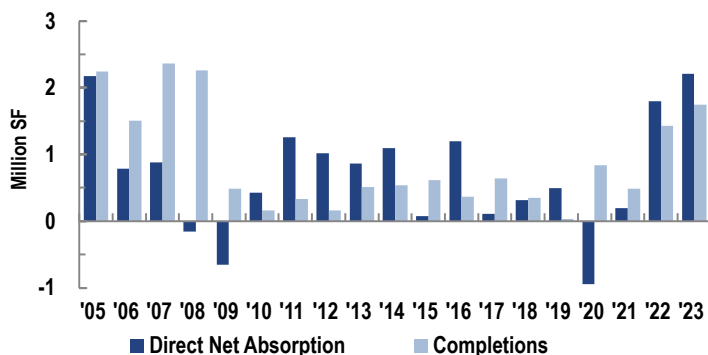
• Sublease availability rose by 123k SF in Q2 but has declined by 7.0% since hitting an all-time high of 2.1 MSF early in 2021. The reduction has resulted from many sublease listings either converting to direct space or tenants taking advantage of discounted sublease spaces.

• Rising construction costs and sustained demand for quality space have pushed asking rents higher. Class A asking rents have increased 2.1% while Class B rents rose 1.2% Y-O-Y. New spec construction and life sciences conversions of older buildings will likely push rents even higher in the year ahead.

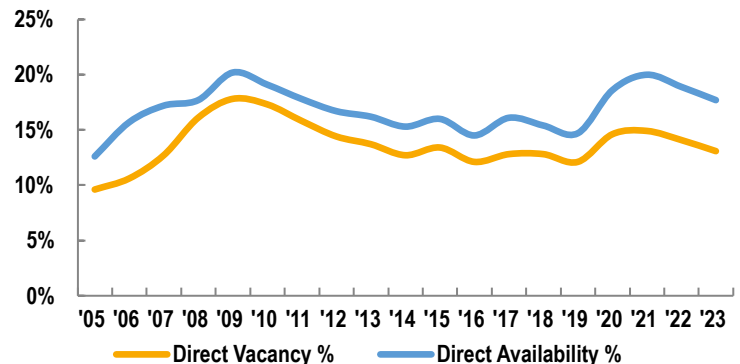
• New construction remains robust with 4.1 MSF underway, which is 23% pre-leased. Approximately 68% of this new product underway is concentrated in the Downtown submarket. Developers are expected to deliver 1.4 MSF of new product in 2022.

• As pent-up demand from the pandemic continues to flow back into the market, office demand is poised to grow and positively impact the market in 2022. Despite the anticipated recovery, vacancy levels are expected to gradually improve at a measured pace due to a wave of new construction deliveries slated to come online.

SUPPLY AND DEMAND



VACANCY AND AVAILABILITY



Net Absorption Trends

CLASS A



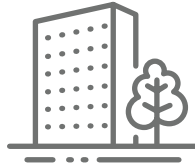
+609K SF
T-12 MOS



CLASS B



+209K SF
T-12 MOS



Vacancy and Availability Trends

CLASS A



DIRECT VACANCY

15.3%
5.1M SF

DIRECT AVAILABILITY

23.9%
8.9M SF

CLASS B



DIRECT VACANCY

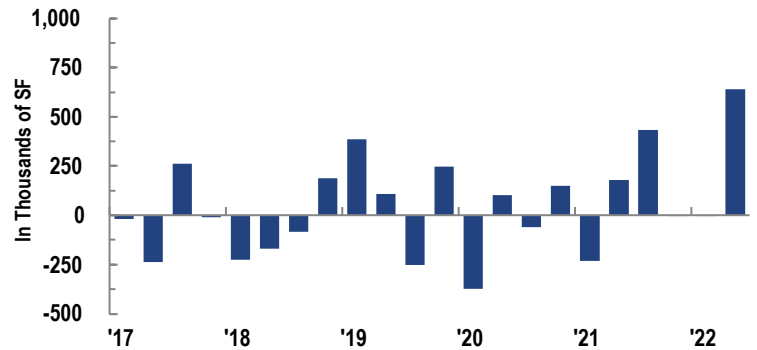
12.1%
4.2M SF

DIRECT AVAILABILITY

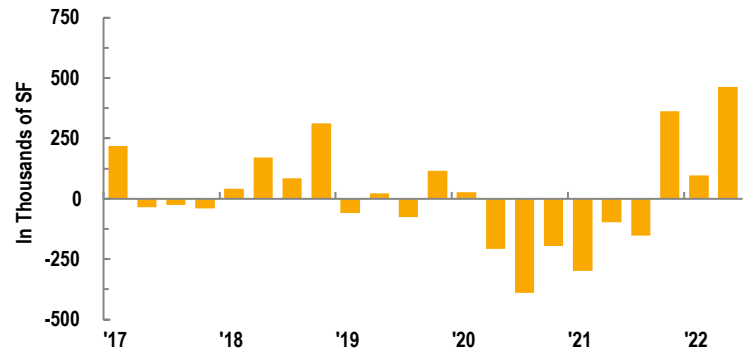
13.7%
4.7M SF

DIRECT NET ABSORPTION

CLASS A

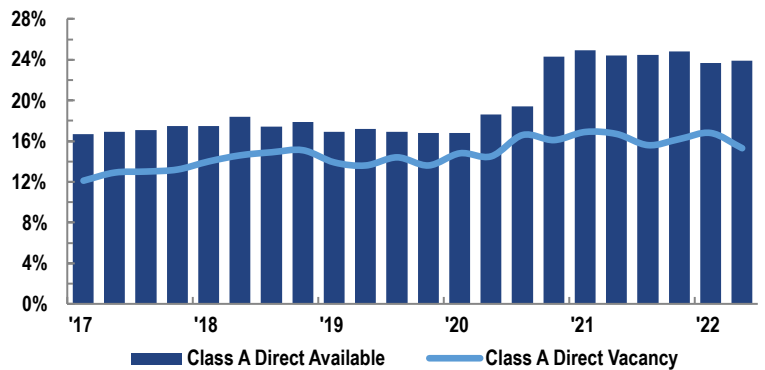


CLASS B

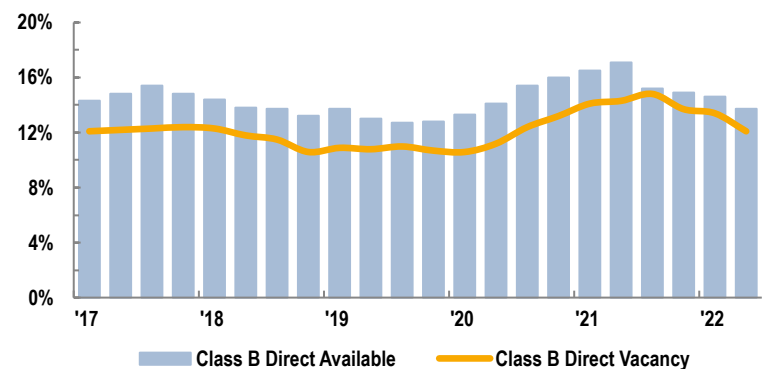


DIRECT VACANCY AND AVAILABILITY

CLASS A

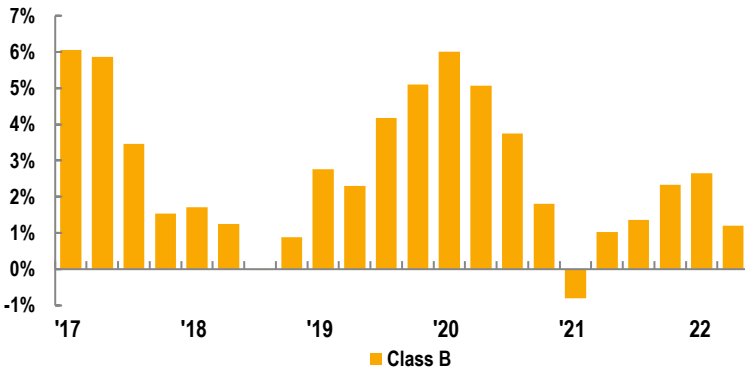
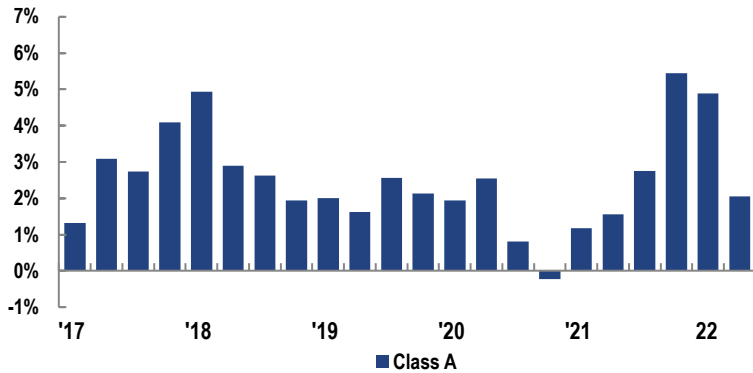


CLASS B



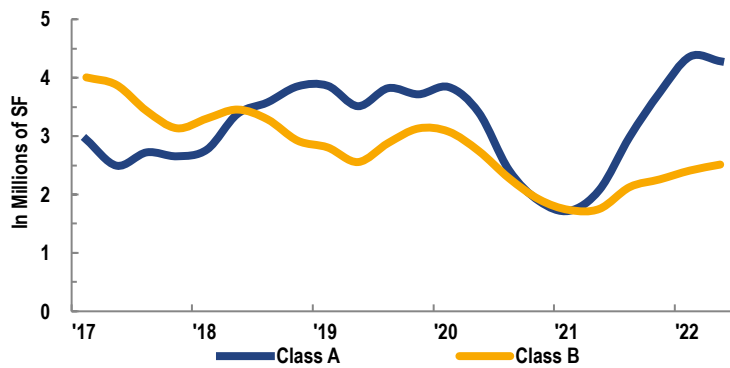
RENTAL RATES

Y-O-Y % Change, Full Service Gross

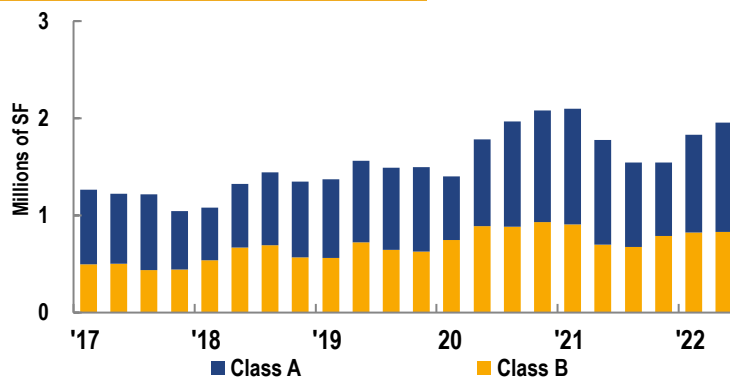


LEASING ACTIVITY

Direct Leasing Activity, Rolling 12 Months



SUBLEASE AVAILABILITY



Rent Growth (Y-O-Y)

+2.1%
CLASS A



+1.2%
CLASS B

Direct Net Leasing Activity

CLASS A

4.3M SF
T-12 MOS



106.3%
Y-O-Y CHANGE

CLASS B

2.5M SF
T-12 MOS



43.3%
Y-O-Y CHANGE



Sublease Availability

CLASS A

1.1M SF



+4.4%
Y-O-Y CHANGE

CLASS B

832K SF



+18.7%
Y-O-Y CHANGE



Under Construction Trends

NEW OFFICE BREAKING GROUND



1.2M SF

T-12 MOS

OFFICE SPACE UNDER CONSTRUCTION



4.1M SF

22.6% PRE-LEASED

FORECASTED SUPPLY IN 2022



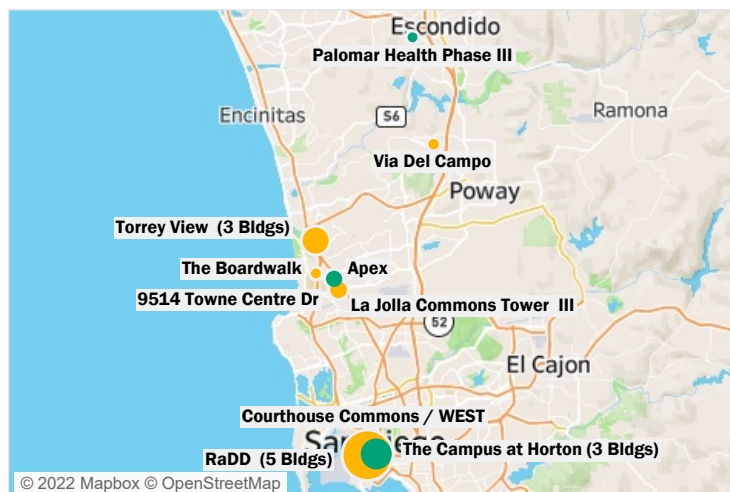
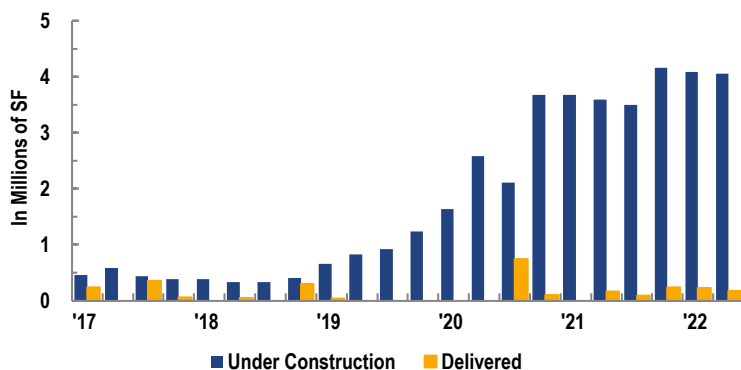
1.4M SF

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROJECT NAME	SIZE (SF)	SUBMARKET	MAJOR TENANT(S)	% PRE-LEASED	DEVELOPER	TARGET COMPLETION
RaDD (5 Bldgs)	1,750,500	Downtown	N/A	10%	ICHQ	2023 3Q
The Campus at Horton (3 Bldgs)	742,607	Downtown	N/A	13%	Stockdale Capital Partners	2022 3Q
Torrey View (3 Bldgs)	519,570	I-5 Corridor	Becton, Dickinson and Co.	42%	Breakthrough Properties	2023 3Q
Courthouse Commons / WEST	270,000	Downtown	N/A	0%	Holland Partner Group	2024 1Q
La Jolla Commons Tower III	212,851	North San Diego	N/A	0%	The Whiting-Turner Contracting Co.	2023 2Q
Apex	204,000	North San Diego	Apple	100%	BioMed Realty	2022 3Q
Via Del Campo	83,482	I-15 Corridor	N/A	0%	Drawbridge Realty	2023 1Q
Palomar Health Phase III	75,000	I-15 Corridor	Palomar Health	100%	ERTC Medical Office Development LLP	2022 4Q
The Boardwalk	74,000	North San Diego	Cooley LLP	100%	Healthpeak Properties, Inc.	2023 2Q
9514 Towne Centre Dr	70,000	North San Diego	N/A	0%	Kilroy Realty Corporation	2023 1Q

Note: * Build-to-suit; Corporate owned office buildings (excluded from competitive statistics & above table)

CONSTRUCTION PIPELINE



Expected Delivery 2022 2023 2024

TOP TRANSACTIONS

Tenant	SF	Type	Tenant Industry	Building	Class	Submarket
Leidos	170,000	New	Manufacturing	4150 Campus Point Ct	A	North San Diego
Apple	95,166	New	Technology	16765 W Bernardo Dr	A	I-15 Corridor
MaxLinear, Inc	68,639	Renewal	Manufacturing	5966 La Place Ct	A	I-5 Corridor
State of California	52,897	New	Government	8620 Spectrum Center Blvd	A	Central San Diego
Apple	52,800	New	Technology	16409 W Bernardo Dr	A	I-15 Corridor
ImmunityBio, Inc.	44,681	Renewal	Biotechnology	3530 John Hopkins Ct	A	North San Diego
AliviaMab Discovery Services	29,038	New	Healthcare	10350 Barnes Canyon Rd	B	North San Diego
Endeavor Biomedicines	27,000	New	Biotechnology	1155 Island Ave	A	Downtown
Automedics Medical Systems	26,320	New	Healthcare	12255 El Camino Real	A	I-5 Corridor
Synergy Orthopedic Specialists Medical Group	20,314	New	Healthcare	9095 Rio San Diego Dr	A	Central San Diego

SUBMARKET STATISTICS

Submarket	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES			DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
		Direct	Sublease	Direct Vacancy	Y-O-Y	Change	Current Qtr.	Trailing 12-Months	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Downtown	11,056,771	5,788,028	336,905	28.3%	2.2%		(50,327)	(25,974)	\$35.49	\$2.96	-0.9%
Class A	8,494,964	5,098,643	226,617	25.3%	3.6%		(59,602)	(38,957)	\$38.19	\$3.18	0.9%
Class B	2,561,807	689,385	110,288	38.2%	-1.8%		9,275	12,983	\$29.87	\$2.49	-5.9%
Central San Diego	13,853,901	2,298,866	465,194	12.7%	-2.7%		292,134	16,800	\$34.70	\$2.89	2.4%
Class A	4,536,197	832,159	276,951	14.9%	-3.8%		140,559	(3,628)	\$40.00	\$3.33	3.0%
Class B	9,317,704	1,466,707	188,243	11.6%	-2.1%		151,575	20,428	\$32.16	\$2.68	1.2%
North San Diego	18,767,803	1,768,304	553,520	6.8%	-3.6%		320,067	465,842	\$43.43	\$3.62	7.7%
Class A	8,677,949	1,169,944	276,431	7.9%	-4.8%		198,302	320,497	\$50.55	\$4.21	5.7%
Class B	10,089,854	598,360	277,089	5.8%	-2.7%		121,765	145,345	\$34.63	\$2.89	7.3%
I-15 Corridor	7,881,495	1,297,935	160,740	15.2%	0.3%		254,509	46,088	\$36.55	\$3.05	4.1%
Class A	4,142,853	497,753	117,156	13.2%	-13.4%		161,324	106,434	\$40.66	\$3.39	4.3%
Class B	3,738,642	800,182	43,584	17.4%	5.7%		93,185	(60,346)	\$32.13	\$2.68	1.6%
SR-78 Corridor	1,953,784	313,120	64,129	12.9%	0.3%		27,081	(35,184)	\$26.39	\$2.20	-8.4%
Class A	553,082	69,545	30,827	5.1%	-13.4%		14,006	52,277	\$33.08	\$2.76	-3.6%
Class B	1,400,702	243,575	33,302	16.0%	5.7%		13,075	(87,461)	\$24.46	\$2.04	-0.7%
I-5 Corridor	11,456,434	1,902,242	341,395	13.1%	-5.6%		205,311	300,310	\$43.13	\$3.59	3.8%
Class A	6,091,221	1,110,121	195,066	15.3%	-6.0%		178,580	133,997	\$46.39	\$3.87	3.7%
Class B	5,365,213	792,121	146,329	10.6%	-5.5%		26,731	166,313	\$39.03	\$3.25	3.3%
South Bay	1,794,715	132,505	25,886	5.3%	-5.6%		69,092	37,180	\$33.19	\$2.77	14.6%
Class A	449,671	74,693	0	11.1%	-6.0%		6,342	24,643	\$33.41	\$2.78	20.5%
Class B	1,345,044	57,812	25,886	3.3%	-5.5%		62,750	12,537	\$32.59	\$2.72	-0.3%
East County	802,297	69,487	6,917	5.5%	0.9%		(16,341)	13,187	\$28.42	\$2.37	-5.1%
Class A	190,854	9,986	0	6.1%	-5.2%		-	13,932	\$34.17	\$2.85	0.0%
Class B	611,443	59,501	6,917	5.4%	2.8%		(16,341)	(745)	\$27.90	\$2.33	1.3%

OVERALL MARKET STATISTICS

San Diego Totals	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES			DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
		Direct	Sublease	Direct Vacancy	Y-O-Y	Change	Current Qtr.	Trailing 12-Months	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Class A	33,136,791	8,862,844	1,123,048	15.3%	-1.4%		639,511	609,195	\$42.66	\$3.56	2.1%
Class B	34,430,409	4,707,643	831,638	12.1%	-2.2%		462,015	209,054	\$33.08	\$2.76	1.2%
Overall	67,567,200	13,570,487	1,954,686	13.7%	-1.8%		1,101,526	818,249	\$38.01	\$3.17	2.3%



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