

12 Mo Deliveries in SF

12 Mo Net Absorption in SF

Vacancy Rate

12 Mo Rent Growth

548K

290K

11.0%

1.5%

San Diego's office market is supported by a mix of defense contractors, healthcare providers, life sciences firms, and tech companies. Several top universities, including UC San Diego, the University of San Diego, and San Diego State University, provide a talent pool of job-seeking graduates and collaborative work with firms and research institutes. That, in turn, has formed a strong biotech ecosystem and incubator atmosphere that helps drive demand. Even so, challenges have spread across the office landscape that are likely to last for the foreseeable future. That is particularly true following the dip in biotech demand since mid-2022. Several brokers have noted that many biotech deals have been put on hold.

There is still a great degree of uncertainty about the pandemic's long-term effect on office space use, and high-quality, well-located, newer assets have the upper hand, according to many local participants. Buildings that have delivered since 2010 have the lowest vacancies, below 9%. New leasing activity has fallen for three straight quarters, with 22Q4 recording a similar level as at the height of the pandemic in 2020.

But San Diego has been relatively resilient to this point, even amid an uncertain climate. Net absorption has been positive for all but two quarters since the start of 2021. San Diego is one of the few major markets bucking the national trend as absorption has been a net positive since the start of 2020. However, while vacancy has fallen from a pandemic high of 11.8% in 2021, it is still well above the 2019 year-end figure near 9%.

Tenants are still relinquishing under-utilized office space, and there is about 3.0 million SF of sublet space available, which is a 15-year high. The sustained level of sublease availability indicates there is no one-size-fits-all solution for businesses operating in the current environment. That's particularly true as the sublet space coming to market has spread across nearly every sector, from biotech and high-tech to lending and healthcare.

It is amid this environment that San Diego is poised to receive its largest injection of speculative development since prior to the global financial crisis. Developers are working on several projects in Downtown San Diego, including the mixed-use 1 million-SF Campus at Horton, which is scheduled to complete in 2023, and the Research and Development District, with its first phase estimated to be ready in 2023. Both projects had reported no commitments as of the second quarter. The supply-induced vacancy expansion likely coming due to these developments is expected to be more concentrated to Downtown and not an imbalance that should otherwise impact the broader region.

Buyers have begun showing more caution in the investment market as interest rates have risen. Pricing is anticipated to soften as cap rates rise to compensate for the high cost of debt. The significant office deals in Sorrento Mesa that have typically driven market volume have largely dried up since last year. Heavy turnover over the past few years has led to dwindling opportunities there as many campuses are in the process of pivoting from traditional office space into life science space.





San Diego Office

KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
4 & 5 Star	41,541,161	15.0%	\$44.69	24.9%	(39,181)	0	4,052,556
3 Star	47,273,318	10.8%	\$35.29	14.2%	(48,239)	0	0
1 & 2 Star	30,412,706	5.9%	\$31.81	7.8%	(21,797)	0	0
Market	119,227,185	11.0%	\$37.91	16.6%	(109,217)	0	4,052,556
Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	0%	10.5%	12.7%	14.5%	2010 Q1	5.4%	2000 Q2
Net Absorption SF	290K	1,015,959	333,097	4,573,936	2000 Q2	(1,630,748)	2021 Q1
Deliveries SF	548K	1,535,001	1,150,516	3,832,227	2007 Q3	307,853	2020 Q2
Rent Growth	1.5%	2.7%	0.5%	17.1%	2001 Q1	-11.4%	2009 Q3
Sales Volume	\$1.6B	\$1.8B	N/A	\$4.3B	2007 Q3	\$259.8M	2009 Q3





New leasing activity fell to its lowest level since 2020 in the second half of 2022. As more leases roll over, firms will likely continue using less space. The average lease signed over the past 12 months has been roughly 10% smaller than the average signed in the four years prior to the pandemic. And although the median time on the market for available space has steadily fallen over the past year, it is still roughly 25% longer than the four years prior to 2020.

The vacancy rate has shifted by 0.0% to 11.0% over the past year, which compares to the five-year average of 10.5%. Vacancy is still well above the 2019 year-end rate close to 9%, although the gap has narrowed more notably than it has nationally. The amount of available space, 20.5 million SF, has increased by about 5 million SF since 20Q1, reaching 16.6% of total inventory.

Occupancy losses that piled up following the onset of the pandemic have largely been recaptured. The absorption recovery has been driven by 4&5 Star inventory, as well-located and amenitized buildings are finding more demand, while mid-tier and Class C offices have yet to recover the occupancy losses since the start of 2020. Tellingly, newer vintage buildings that have delivered since 2010 have the tightest vacancies, below 9%. That rate will likely rise, however, as new inventory delivers Downtown.

There is a significant amount of available sublet inventory on the market as firms continue relinquishing under-utilized space. The level has peaked during the second quarter as a cluster of industries including biotech, high-tech and finance continue to shed space. It accounts for 2.4% of San Diego's office inventory, or roughly 3.0 million SF. It has reached more than 500,000 SF above the level of sublet space during the global financial crisis. It may take time to work through that space, too. The amount of sublet space leased as a percentage of total leasing volume since the start of 2022 aligns with period between 2016-19.

Illumina placed 100,000 SF up for sublease at its UTC campus at the end of 2022 with a term through 27Q4. That space was added as Illumina announced that it was cutting 5% of its global workforce, including about 200 here. In Scripps Ranch, MedImpact placed 160,000 SF on the sublet market in mid-2022 and vacated the space during 22Q3 after no longer needing it due to the effects of the pandemic. The firm had occupied the property on a 20-year lease that expires in 2039. Surgalign Spine placed its 95,000-SF space at Muse Torrey Pines up for

sublease at the end of 2022 with a term that runs until 2034. Guild Mortage placed 140,000 SF up for sublease at the Terraces at Copley Point in Kearny Mesa during 22Q3 for a term that expires in 2030. Similarly, Guild no longer required the space due to the effects of the pandemic coupled with a pullback in demand for their services amid high interest rates.

It has been more than five years since a tenant signed a lease for more than 40,000 SF Downtown, which is one of the few CBDs across the country that sees a reverse commute due to traffic going to North County. The submarket is burdened by the region's highest availability and vacancy rates among primary office submarkets in San Diego, with the rates sitting near 35% and 25%, respectively. Each was already elevated prior to the pandemic but have increased with the slowdown in demand and rise in speculative development and sublet space. One primary challenge for Downtown landlords and tenants is the rise of homelessness. Tents and tarps have become more ubiquitous since 2020. Another challenge is the submarket is filled with dated office towers that cannot compete with newer, betteramenitized buildings. Downtown did, however, secure its two largest biotech commitments to date in 2022. Excellos leased 36,000 SF at Genesis for its global headquarters in an expansion from Southeast San Diego. That followed Native Microbials leasing 27,000 SF at the property during 22Q2. Native's lease was twice the size of its space in Torrey Pines.

The UC San Diego area has seen the surfeit of demand from biotech and high-tech firms, even as that leasing activity has moderated in recent guarters. That moderation has coincided with a 50% drop in VC funding in San Diego in 2022. Bristol Myers Squibb pre-leased 427,000 SF at Alexandria Point in UTC in the first half of 2022 which will be an expansion of more than 100,000 SF of its current footprint here. Amazon leased nearly 125,000 SF of office space at the Collection at UTC located at Westfield in early 2022 to add to its local footprint of non-logistics space and announced they were hiring more than 700 with the expansion. Those hiring plans may be shelved for the time being after the company laid off 100 workers at the beginning of 2023, and the space is still in shell condition. In Torrey Pines, Altos Labs pre-leased more than 300,000 SF at the site of the former National University location in 2022 that is being razed by Alexandria Real Estate Equities for a material expansion within the market. That project is scheduled to complete in 2024.





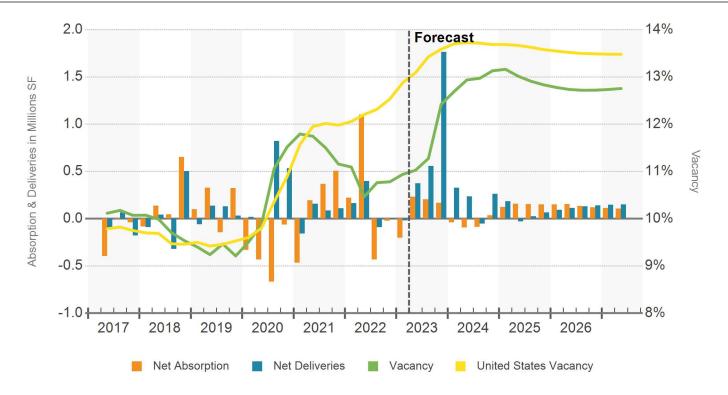
Apple has leased around 800,000 SF in UTC in a mix of build-to-suit offices, relet space, and subleases. Among its most recent leases was for 63,000 SF of sublet space at Eastgate that Oracle had placed on the market. UTC has had one of the strongest recoveries in the region, with the vacancy rate largely returning to pre-2020 levels.

Apple has also leased roughly 600,000 SF in Rancho Bernardo across several deals since the start of 2020, including two recent deals totaling 150,000 SF at Rancho Vista Corporate Center and The Point in 2022. After Apple acquired Intel's mobile division in 2019, it assumed its existing 130,000-SF lease at Northridge Summit in Scripps Ranch which was extended in mid-2022.

Biotech firms have also pivoted to Del Mar Heights/Carmel Valley, a natural extension from the UC San Diego area and Sorrento Mesa. And like those areas, it is located amid a dense population of welleducated residents with a high concentration of STEM degrees. Neurocrine Biosciences leased the entire Aperture Del Mar campus spanning four buildings and 535,000 SF in 2022. That was one of the largest commercial deals in San Diego in the past 10 years and will mark a huge expansion for the biotech firm from roughly 275,000 SF in the submarket. Consequently, the firm has already begun subleasing its current buildings, which will apply upward pressure to the vacancy rate.

BD Bioscience is also expanding in this area. The firm pre-leased 220,000 SF at Torrey View, a new office-lab campus being built by Breakthrough Properties just south of the nexus between SR 56 and Interstate 5. The biotech company already occupies a notable footprint in San Diego, and this is an addition to that space. Other recent biotech expansions in the submarket include Janux Therapeutics in 47,000 SF at Torrey Plaza, Dermtech in 90,000 SF at Del Mar Corporate Center, and Tandem Diabetes in 180,000 SF on High Bluff Drive. Each of those leases have the option to add additional space, and all of them more than doubled their former footprints.

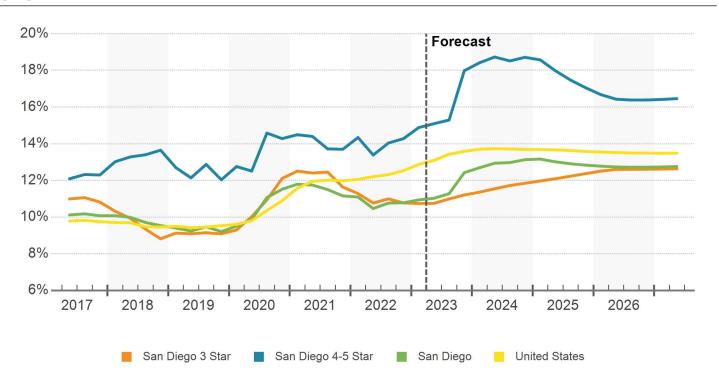
NET ABSORPTION, NET DELIVERIES & VACANCY



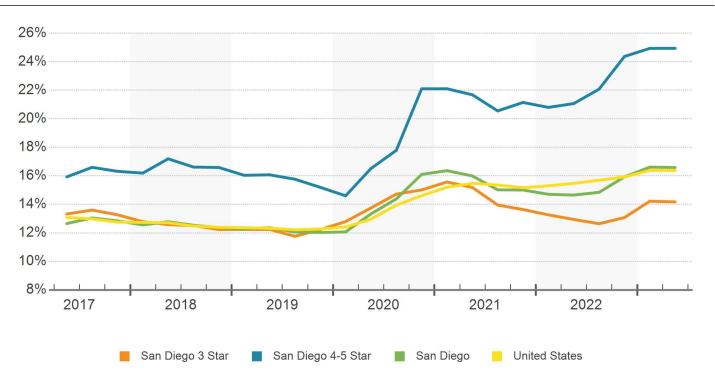




VACANCY RATE



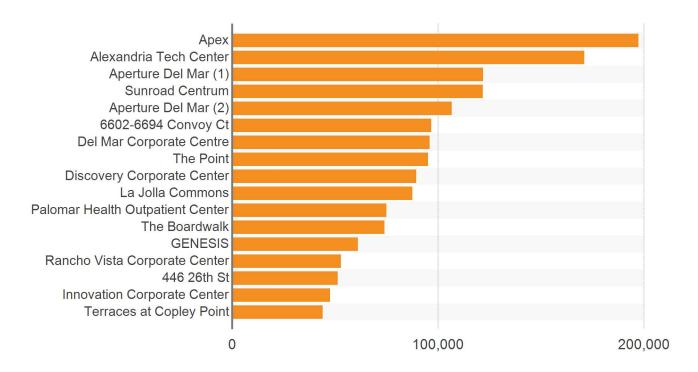
AVAILABILITY RATE







12 MONTH NET ABSORPTION SF IN SELECTED BUILDINGS



Duilding Name (Address	Out-manket	DIA: OF	V 0F		1	let Absorption	n SF	
Building Name/Address	Submarket	Bldg SF	Vacant SF	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	12 Month
Apex	UTC	204,000	0	0	0	0	0	197,274
Alexandria Tech Center	Sorrento Mesa	176,910	0	0	0	0	0	171,077
Aperture Del Mar (1)	Del Mar Hts/Carmel	121,928	0	0	0	0	0	121,928
Sunroad Centrum	Kearny Mesa	279,722	130,701	(3,104)	0	0	0	121,691
Aperture Del Mar (2)	Del Mar Hts/Carmel	106,734	0	0	0	0	0	106,734
6602-6694 Convoy Ct	Kearny Mesa	100,033	0	0	0	0	0	96,735
Del Mar Corporate Centre	Del Mar Hts/Carmel	95,997	0	95,997	0	0	0	95,997
The Point	Rancho Bernardo	95,166	0	95,166	0	0	0	95,166
Discovery Corporate Center	Rancho Bernardo	92,442	0	0	0	0	0	89,394
La Jolla Commons	UTC	321,591	0	0	18,176	0	0	87,484
Palomar Health Outpatient Center	Escondido	75,000	0	0	0	0	0	75,000
The Boardwalk	Torrey Pines	74,000	0	0	0	0	0	74,000
GENESIS	Downtown	203,439	130,450	26,050	36,000	0	0	61,082
Rancho Vista Corporate Center	Rancho Bernardo	158,003	0	52,800	0	0	0	52,800
446 26th St	Southeast San Diego	75,000	0	0	0	0	0	51,252
Innovation Corporate Center	Rancho Bernardo	65,638	18,149	32,819	0	0	0	47,489
Terraces at Copley Point	Kearny Mesa	129,135	6,927	0	0	0	0	43,904
Subtotal Primary Competitors		2,374,738	286,227	299,728	54,176	0	0	1,589,007
Remaining San Diego Market		116,852,447	12,864,433	(503,311)	(163,393)	0	0	(1,294,338)
Total San Diego Market		119,227,185	13,150,660	(203,583)	(109,217)	0	0	294,669







TOP OFFICE LEASES PAST 12 MONTHS

Building Name/Address	Submarket	Leased SF	Qtr	Tenant Name	Tenant Rep Company	Leasing Rep Company
Alexandria Point	UTC	170,000	Q2 22	Leidos	-	-
Sequence Drive Alexandria *	Sorrento Mesa	132,802	Q1 23	Dexcom	Savills	CBRE;Cushman & Wa
Sunroad Centrum	Kearny Mesa	120,209	Q4 22	GSA	Carpenter/Robbins	Cushman & Wakefield
Verge	Sorrento Mesa	105,740	Q2 22	Google	CBRE	CBRE;Cushman & Wa
The Point	Rancho Bernardo	95,166	Q2 22	Apple	JLL	JLL
The Campus Carlsbad *	Carlsbad	68,639	Q2 22	MaxLinear, Inc.	-	Cushman & Wakefield
Kilroy Sabre Springs	Rancho Bernardo	63,781	Q1 23	MediaTek USA	Colliers	CBRE
Eastgate Technology Park	UTC	63,412	Q3 22	Apple	CBRE	CBRE
Lusk Mira Mesa Bus Park *	Sorrento Mesa	62,415	Q1 23	Dex Com Inc	Savills	CBRE;Cushman & Wa
Pacific Tech Center	Sorrento Mesa	54,232	Q3 22	Maravai LifeSciences	-	CBRE
Rancho Vista Corporate Center	Rancho Bernardo	52,800	Q2 22	Apple	JLL	CBRE
MAKE	Carlsbad	49,130	Q2 22	-	-	Cushman & Wakefield
Innovation Corporate Center	Rancho Bernardo	47,489	Q3 22	Peraton	-	JLL
ARE Nautilus *	Torrey Pines	44,681	Q2 22	Immunitybio, Inc.	Colliers	-
South Bay Distribution Center	Chula Vista	41,880	Q2 22	Enterprises	Avison Young	-
Scripps Northridge Corp	Scripps Ranch	38,600	Q3 22	Firmenich	-	JLL
Copley Corporate Center	Kearny Mesa	36,648	Q3 22	AT&T	CBRE	CBRE
GENESIS	Downtown	36,000	Q4 22	Excellos	Hughes Marino	JLL;Kidder Mathews
The Plaza	UTC	35,713	Q3 22	National Funding, Inc.	-	Irvine Company Office
Eastgate Technology Park	UTC	33,970	Q2 22	-	-	Cushman & Wakefield
La Jolla Area Office	PB/Rose Canyon/Morena	31,530	Q4 22	Comic-Con	Strom Commercial	CBRE
The Paladion	Downtown	30,471	Q4 22	Regus	JLL	JLL
Mira Oberlin Plaza	Sorrento Mesa	30,192	Q1 23	-	-	Newmark
Pacific Corporate Center	Sorrento Mesa	29,038	Q2 22	AlivaMab Discovery Servi	CBRE	CBRE
2100 Kettner	Downtown	28,387	Q3 22	Boston Consulting	-	Cushman & Wakefield
The Paladion	Downtown	28,379	Q3 22	Gomez Trial Attorneys	Hughes Marino	JLL
Stonecrest Office Project	Kearny Mesa	27,292	Q3 22	Jack Henry & Associates	-	CBRE
GENESIS	Downtown	27,000	Q2 22	Native Microbials	-	JLL;Kidder Mathews
Paseo Del Mar	Del Mar Hts/Carmel Valley	26,320	Q2 22	-	-	Irvine Company Office
Mission Valley Heights	Mission Valley	25,635	Q3 22	VCA Animal Hospitals	-	CBRE
Mesa View Plaza	Kearny Mesa	24,967	Q2 22	Paylease, Inc.	MWM Group;Resolu	CBRE
The Point	Rancho Bernardo	24,793	Q2 22	-	-	JLL
The Point	Rancho Bernardo	24,787	Q2 22	-	-	Cushman & Wakefield
Canvas on Willow	Scripps Ranch	24,519	Q4 22	Anchor General Insurance	-	JLL
Carlsbad Research Center	Carlsbad	24,278	Q2 22	-	-	Cushman & Wakefield
Miramar Center	Mira Mesa/Miramar	23,915	Q3 22	-	-	Voit Real Estate Service
Carlsbad Research Center	Carlsbad	22,830	Q3 22	BREG, Inc.	CBRE	Cushman & Wakefield
Kilroy Sabre Springs	Rancho Bernardo	22,692	Q2 22	-	JLL	JLL
501 West Broadway	Downtown	20,465	Q3 22	-	-	Irvine Company Office
501 West Broadway	Downtown	20,177	Q4 22	-	-	Irvine Company Office

Renewal





The current rate of annual rent growth, 1.5%, compares to the five-year average rate of 3.6%. Among major markets in California, San Diego is one of the top performers in terms of rent growth. However, when adjusting for inflation, rent growth in real terms is still in negative territory.

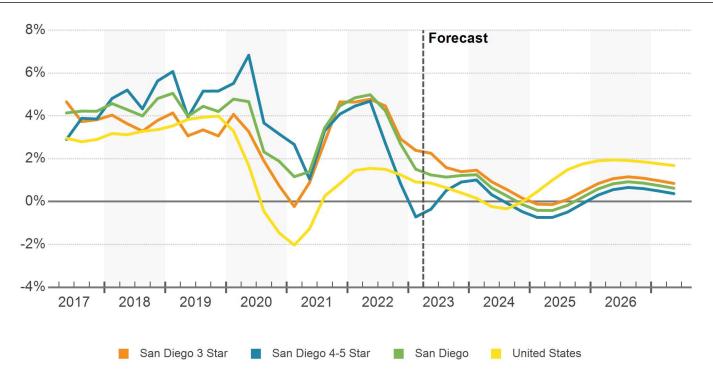
Escalations are typically in the range of 3.5% to 4%, and tenants often receive one month free for each year of the lease term. Although 10-year leases typically do not include 10 months free. Tenant improvements for lab space often rise about \$200/SF for first-generation space. TIs are also on the rise for more traditional office space.

The disparity that once existed in asking rents between Sorrento Mesa and UC San Diego has narrowed over the past few years. Asking rents in each area for new space, particularly for new lab space, are reaching levels largely unseen in San Diego before, with landlords asking for more than \$75/SF NNN. The 12-year,

200,000-SF deal that Singular Genomics signed at One Alexandria Square in Torrey Pines in 2022 has an effective rate of about \$80/SF FSG. The firm received seven months of free rent upfront and nearly \$300/SF in TIs for the first-generation space. Annual escalations are 3%.

While Downtown offers a discount to primary office submarkets in North County, few firms have shown the willingness to relocate there to take advantage of lower rents, higher concessions, and an entrenched labor force spread across the apartment landscape. One tenant searching for space there is SANDAG. The firm occupies more than 100,000 SF at the Wells Fargo Tower and is paying about \$38/SF gross for the space that it has occupied for several decades. Given that few firms of their stature or size have entered the market in recent years, SANDAG is expected to receive significant concessions in their new space, be it at the Wells Fargo Tower or any of Downtown's newest buildings.

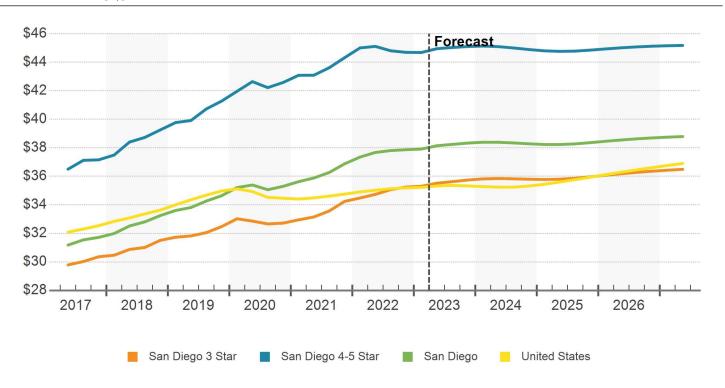
MARKET RENT GROWTH (YOY)







MARKET RENT PER SQUARE FEET



4 & 5 STAR EXPENSES PER SF (ANNUAL)

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Market / Cluster	Utilities	Cleaning	Insurance	Taxes	Other	Total
San Diego	\$0.85	\$1.29	\$1.05	\$4.50	\$4.62	\$12.31
Central San Diego	\$0.43	\$1.37	\$0.95	\$3.84	\$4.59	\$11.18
Downtown	\$1.25	\$1.78	\$0.85	\$4.15	\$7.30	\$15.33
I-15 Corridor	\$0.49	\$1.19	\$1.01	\$4.10	\$3.88	\$10.67
I-5 Corridor	\$0.74	\$1.38	\$0.92	\$5.01	\$4.13	\$12.18
North Central County	\$0.54	\$1.21	\$1.08	\$0.65	\$4.07	\$7.55
North San Diego	\$1.28	\$1.06	\$1.34	\$5.25	\$4.56	\$13.49
South Bay	\$0.44	\$1.33	\$1.10	\$2.95	\$4.68	\$10.50
SR-78 Corridor	\$0.53	\$1.18	\$0.89	\$3.04	\$3.51	\$9.15

Expenses are estimated using NCREIF, Trepp, IREM, and CoStar data using the narrowest possible geographical definition from Zip Code to region.





3 STAR EXPENSES PER SF (ANNUAL)

Market / Cluster	Utilities	Cleaning	Insurance	Taxes	Other	Total
San Diego	\$0.60	\$0.60 \$1.19		\$0.59 \$4.08		\$9.64
Central San Diego	\$0.47	\$1.06	\$0.58	\$3.83	\$3.34	\$9.28
Coronado	\$0.36	\$1.21	\$0.55	\$4.88	\$3.65	\$10.65
Downtown	\$1.11	\$1.55	\$0.76	\$3.47	\$5.45	\$12.34
I-15 Corridor	\$0.49	\$1.14	\$0.50	\$3.55	\$2.33	\$8.01
I-5 Corridor	\$0.91	\$1.45	\$0.55	\$4.46	\$2.94	\$10.31
North Central County	\$0.55	\$1.14	\$0.48	\$6.51	\$2.39	\$11.07
North San Diego	\$0.63	\$1.01	\$0.79	\$5.70	\$3.50	\$11.63
Outlying SD County N	\$0.48	\$1.09	\$0.45	\$2.35	\$2.29	\$6.66
Outlying SD County S	\$0.32	\$1.08	\$0.49	\$2.10	\$3.23	\$7.22
South Bay	\$0.35	\$1.16	\$0.53	\$3.30	\$3.50	\$8.84
SR-78 Corridor	\$0.51	\$1.12	\$0.46	\$3.37	\$2.08	\$7.54

Expenses are estimated using NCREIF, Trepp, IREM, and CoStar data using the narrowest possible geographical definition from Zip Code to region.

1 & 2 STAR EXPENSES PER SF (ANNUAL)

Market / Cluster	Utilities	Cleaning	Insurance	Taxes	Other	Total
San Diego	\$0.42	\$0.78	\$0.38	\$3.81	\$3.25	\$8.64
Central San Diego	\$0.50	\$1.03	\$0.37	\$3.86	\$3.27	\$9.03
Coronado	\$0.35	\$0.40	\$0.52	\$6.14	\$4.33	\$11.74
Downtown	\$0.64	\$1.36	\$0.22	\$5.20	\$4.65	\$12.07
I-15 Corridor	\$0.36	\$0.72	\$0.26	\$2.92	\$2.95	\$7.21
I-5 Corridor	\$0.38	\$0.88	\$0.34	\$5.26	\$4.15	\$11.01
MCAS Miramar	\$0.35	\$0.40	\$0.52	\$2.40	\$1.90	\$5.57
North Central County	\$0.36	\$0.68	\$0.28	\$6.44	\$3	\$10.76
North San Diego	\$0.55	\$0.98	\$0.37	\$4.50	\$3.78	\$10.18
Outlying SD County N	\$0.37	\$0.69	\$0.28	\$3.16	\$3.03	\$7.53
Outlying SD County S	\$0.34	\$0.41	\$0.51	\$4.82	\$2.82	\$8.90
South Bay	\$0.34	\$0.40	\$0.51	\$3.31	\$2.82	\$7.38
SR-78 Corridor	\$0.36	\$0.68	\$0.28	\$3.29	\$2.83	\$7.44

Expenses are estimated using NCREIF, Trepp, IREM, and CoStar data using the narrowest possible geographical definition from Zip Code to region.





San Diego has more speculative office space under development than at any other time in the past decade, and very little of the 3.4% of total inventory that is being built is pre-leased. During the second quarter, the total amount of space being built, 4.1 million SF, was trending at the highest level in 10 years, with more than 75% of it available. Most of the projects underway had construction financing lined up prior to the sharp rise in interest rates.

Downtown has become the focal point of development, which could lead to a longer rise in the vacancy rate in the Downtown Submarket as that space delivers. There's roughly 2.7 million SF under construction Downtown, and nearly all of that space is available for lease as of the second quarter.

Kilroy finished construction on the 235,000-SF 2100 Kettner in Little Italy at the end of 2021. Boston Consulting became the first tenant to lease space, 28,000 SF, at the end of 2022. The developer also purchased a full block site across from 2100 Kettner for \$42 million in 2021. Kilroy plans to develop a 275,000-SF office property on the site, and they also have a parcel in the East Village for a planned office project. It is expected that Kilroy will begin on the Little Italy project before turning to the East Village, as plans were filed with the city at the beginning of 2023.

Kilroy is among several developers Downtown vying to lure big tech companies to the Central Business District. One of those is Stockdale, which is targeting tech and life sciences firms at the mixed-use Campus at Horton that includes 300,000 SF of retail and 700,000 SF of office and lab space that is scheduled to deliver in 2023. As of the second quarter, no tenants have been announced.

Others, like IQHQ, which broke ground on its \$1.5 billion Research and Development District in 21Q3 and is scheduled to begin delivering in 2023, are targeting biotech firms. That campus will consist of more than 1.5 million SF. IQHQ's executive chairman, Alan Gold, was a co-founder of Alexandria Real Estate Equities and founder of BioMed Realty Trust. The anchor tenant will likely have drawing power and provide a significant lift for further life science demand in the submarket. Similar to the Campus at Horton, no tenants have been announced as of the second quarter.

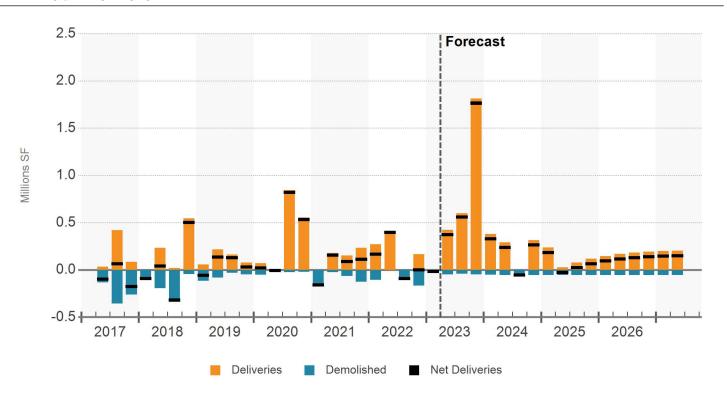
The West project, formerly Courthouse Commons, joined the pipeline in 21Q3 when Holland Partner Group broke ground on the \$400 million mixed-use project. The 270,000-SF office portion was fully available at the groundbreaking and is anticipated to be ready in 2024 and will complement the 431 apartment units being built on top of the commercial space. Given the general sluggish leasing activity for traditional office space in Downtown, and coupled with a substantial amount of newly renovated space sitting on the market, leasing could prove challenging.

Just east of Interstate 5 near the SR-56 corridor, Breakthrough Properties is building a life science campus that received a commitment from BD Biosciences for 220,000 SF at the end of 2021. The full project will consist of roughly 500,000 SF, and amenities will rival other new life science projects. It will include a 25,000-SF clubhouse with dining and lounge space, conference center, gym, and exterior pickleball courts along with plenty of green space. The balance of the campus was available for lease during the second quarter. This corridor, in particular, has several similar projects, including Merge56 and Santa Fe Summit, in the pipeline that could begin going verticle in the near term given the strength of demand in that area of Del Mar Heights/Carmel Valley. It's along this corridor that the first two buildings at Aperture Del Mar opened in 2022. An infrastructure project to add two additional lanes to the western portion of SR-56 is scheduled to complete in 2025 which should ease traffic congestion near I-5.

Alexandria Real Estate Equities has a redevelopment at ARE Sunrise in Torrey Pines called Alexandria Square that is expected to begin in the coming months after demolition work is complete on the existing buildings. Singular Genomics pre-leased more than 200,000 SF there. The deal will more than double the footprint that Singular Genomics currently occupies in the submarket. Boundless Bio pre-leased a third building at the project for a significant expansion within the submarket. That was among several leases that Alexandria has signed for new projects. Bristol Meyers Squibb pre-leased more than 400,000 SF in UTC at Alexandria Point in 22Q1, and development is anticipated to begin in the coming months. That expansion deal will increase its local footprint by about 100,000 SF.



DELIVERIES & DEMOLITIONS



SUBMARKET CONSTRUCTION

			ι	Inder Construction Inve	entory		Avei	rage Building Size	
No.	Submarket	Bldgs	SF (000)	Pre-Leased SF (000)	Pre-Leased %	Rank	All Existing	Under Constr	Rank
1	Downtown	9	2,716	168	6.2%	5	62,365	301,724	2
2	Del Mar Hts/Carmel Valley	4	530	234	44.1%	2	66,563	132,465	4
3	Sorrento Mesa	1	316	0	0%	6	70,366	316,000	1
4	UTC	2	283	77	27.1%	3	97,902	141,426	3
5	Rancho Bernardo	1	83	0	0%	6	51,081	83,482	5
6	Kearny Mesa	1	70	70	100%	1	40,369	70,000	6
7	North Beach Cities	1	55	8	13.7%	4	10,361	54,845	7
8	Carlsbad	0	-	-	-	-	23,354	-	-
9	Chula Vista	0	-	-	-	-	12,685	-	-
10	College Area	0	-	-	-	-	10,654	-	-
	All Other	0	-	-	-		13,440	-	
	Totals	19	4,053	556	13.7%		21,697	213,292	

San Diego Office

Properties

Square Feet

Percent of Inventory

Preleased

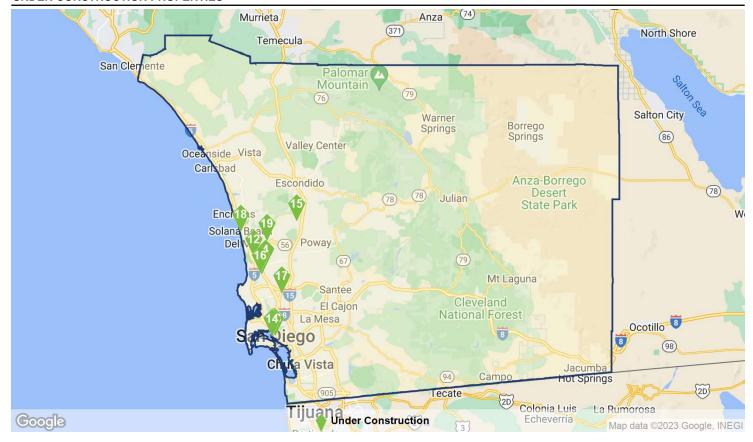
19

4,052,556

3.4%

13.7%

UNDER CONSTRUCTION PROPERTIES



UNDER CONSTRUCTION

Pro	perty Name/Address	Rating	Bldg SF	Stories	Start	Complete	Developer/Owner
1	Building 2B-Rise 800 Pacific Coast Hwy	****	769,171	15	Oct 2020	Sep 2023	- IQHQ
2	Building 4B-Vida 925 Waterfront PI	****	414,811	8	Oct 2020	Sep 2023	- IQHQ
3	The Campus at Horton-B 100 Horton Plz	****	388,359	10	Jun 2020	Oct 2023	- Stockdale Capital Partners
4	Bioterra 5889 Oberlin Dr	****	316,000	5	Dec 2022	Oct 2024	- Longfellow Real Estate Partners
5	West - Office 1011 Union St	****	289,206	37	Jul 2020	Mar 2024	Holland Partner Group
6	The Campus at Horton-B 200 Horton Plz	****	255,483	5	Jun 2020	Dec 2023	- Stockdale Capital Partners
7	Building 3A-Core 950 Waterfront PI	****	236,238	6	May 2022	Dec 2024	- IQHQ



UNDER CONSTRUCTION

Pro	pperty Name/Address	Rating	Bldg SF	Stories	Start	Complete	Developer/Owner
8	Building C 11220 El Camino Real	****	220,270	5	Oct 2021	Jul 2023	- Breakthrough Properties LLC
9	La Jolla Commons Towe 4727 Executive Dr	****	212,851	11	Oct 2021	May 2023	The Whiting-Turner Contracting American Assets Trust, Inc.
10	Building A 11220 El Camino Real	****	167,700	4	Oct 2021	Jul 2023	- Breakthrough Properties LLC
11	Building 2A-Alley 825 N Harbor Dr	****	132,979	4	Oct 2020	Sep 2023	- IQHQ
12	Building B 11220 El Camino Real	****	131,900	4	Oct 2021	Jul 2023	- Breakthrough Properties LLC
13	The Campus at Horton-B 300 Horton Plz	****	124,029	5	Jun 2020	Dec 2023	- Stockdale Capital Partners
14	Building 4A-Edge 975 Waterfront PI	****	105,242	4	Oct 2020	Sep 2023	- IQHQ
15	Via Del Campo 16705 Via del Campo Ct	****	83,482	3	Jan 2022	May 2023	- Drawbridge Realty
16	9514 Towne Centre Dr	****	70,000	2	Mar 2022	May 2023	- Kilroy Realty Corporation
17	Prebys Innovation & Edu 8600 Spectrum Center Ct	****	70,000	4	Oct 2021	Jun 2023	McCarthy Building Companies, Ind Sharp HealthCare
18	Sandbox Highway 101	****	54,845	2	Oct 2021	May 2023	Zephyr Partners Zephyr Partners
19	Corallina 6155 Carmel Valley Rd	****	9,990	1	Jul 2021	Jul 2023	- R&V Management





High interest rates have begun impacting the region, and deal flow has moderated notably since mid-2022 to a level last seen during the beginning of 2020 as buyers reassess their options. Local lenders almost uniformly note that the investment market remains uncertain given the cost of debt and declining business.

The average transactional price has been about \$370/SF during the past 12 months with an average cap rate of 5.6%. More than 40% of sales volume during that stretch have involved REIT, private equity, or institutional investors, and foreign capital has also played a role. There is anticipation that cap rates may rise more than 100 basis points in the coming year, with non-core assets perhaps seeing an increase approaching 150 basis points.

Much like the industrial market in San Diego, investors are attracted to San Diego's life science nodes where they have the potential to convert older office buildings into lab space to accommodate the region's expanding biotech tenants. The deals that were common in Sorrento Mesa have begun moderating given that more than 50% of inventory has turned over in the past few years.

One of the most active investors in San Diego over the past few years has been Alexandria Real Estate Equities. The firm has invested roughly \$1.2 billion in San Diego commercial properties since 2019. Most of the properties it acquires provide the opportunity for further development and are located in the UC San Diego area and Torrey Pines, although it has also made recent investments in Scripps Ranch. Among its most

recent deals was for three buildings totaling 240,000 SF at Campus Point in UTC. The properties traded for \$106.4 million, or about \$446/SF, at the end of 2022. Alexandria has approved plans to develop and expand the properties. Future development is planned to encompass an additional 750,000 SF at the Campus Point site.

On the periphery of San Diego's life sciences nodes, two buildings totaling more than 200,000 SF located in Governor Park sold for \$145 million during 22Q2. The buildings were purchased by Breakthrough Properties for their potential to redevelop into life science space. UC San Diego occupied one of the buildings, while Mitchell International placed its building and 140,000-SF space up for sublease at the end of 2021. The sellers, Manulife Investment Management and The Regents of the University of California, purchased the buildings in 18Q4 for \$79.8 million. Renovation work commenced in 22Q3.

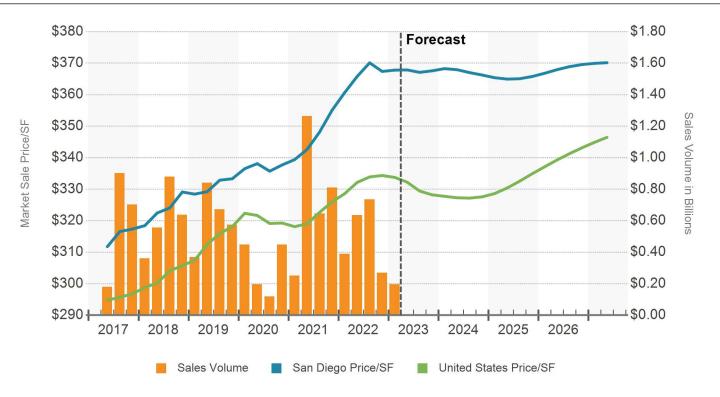
Apple acquired HP's 800,000-SF campus in Rancho Bernardo during 22Q3 for \$445 million, or almost \$550/SF. Apple had already signed two leases totaling about 140,000 SF in the office/flex campus since 2020. Swift Real Estate, the seller, acquired the campus from HP in a sale/leaseback in 2016 and completed an \$80 million, campus-wide renovation in 2020. The property sits on 67 acres and may be used as more of an industrial and flex campus to build chips.

Long Fellow Real Estate Partners has also been one of the most active investors in San Diego in recent years, investing in a similar amount as Alexandria in San Diego's life sciences nodes.

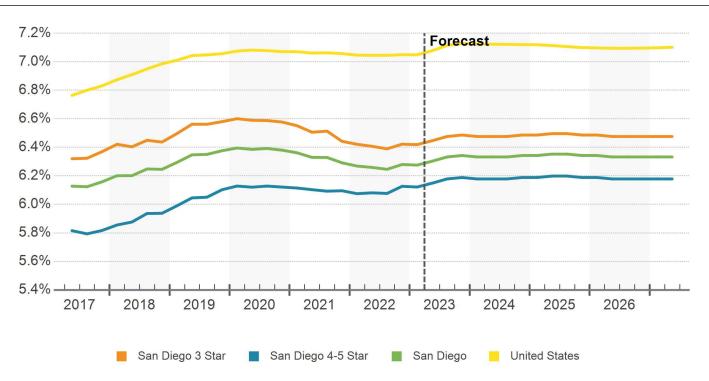




SALES VOLUME & MARKET SALE PRICE PER SF



MARKET CAP RATE







Sale Comparables

Avg. Cap Rate

Avg. Price/SF

Avg. Vacancy At Sale

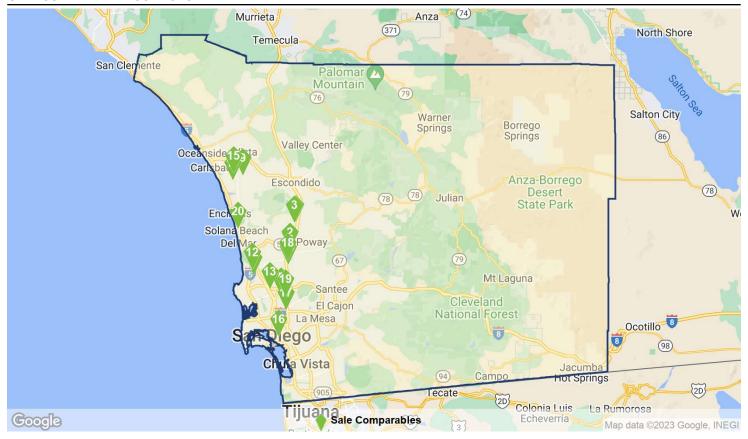
311

5.6%

\$360

12.1%

SALE COMPARABLE LOCATIONS



SALE COMPARABLES SUMMARY STATISTICS

Sales Attributes	Low	Average	Median	High
Sale Price	\$186,500	\$7,471,409	\$3,141,818	\$103,692,737
Price/SF	\$12	\$360	\$377	\$2,353
Cap Rate	2.9%	5.6%	5.5%	8.4%
Time Since Sale in Months	0.1	7.1	8.0	11.9
Property Attributes	Low	Average	Median	High
Building SF	436	20,956	9,252	158,003
Stories	1	2	2	6
Typical Floor SF	552	9,925	5,740	138,137
Vacancy Rate At Sale	0%	12.1%	0%	100%
Year Built	1895	1978	1981	2022
Star Rating	****	★ ★ ★ ★ ★ 2.4	****	****



San Diego Office

RECENT SIGNIFICANT SALES

			Proper	ty		Sale			
Pro	pperty Name - Address	Rating	Yr Built	Bldg SF	Vacancy	Sale Date	Price	Price/SF	Cap Rate
•	16409 W Bernardo Dr	****	1997	158,003	33.4%	7/27/2022	\$103,692,737	\$656	-
2	Northridge Summit 12220 Scripps Summit Dr	****	2000	129,916	0%	4/14/2022	\$76,100,000	\$586	-
3	16397 W Bernardo Dr	****	1981	129,185	0%	7/27/2022	\$71,230,229	\$551	-
4	New Cubic HQ Bldg 1 9333 Balboa Ave	****	2020	125,000	0%	3/30/2023	\$61,465,760	\$492	-
5	New Cubic HQ Bldg 2 9333 Balboa Ave	****	2020	125,000	0%	3/30/2023	\$57,972,334	\$464	-
6	Regents Park Financial 4180 La Jolla Village Dr	****	1985	100,000	9.3%	8/23/2022	\$57,000,000	\$570	-
•	Beta 5919 Sea Otter Pl	****	2016	138,137	13.5%	7/27/2022	\$51,516,252	\$373	-
8	4275 Campus Point Ct	****	1980	107,955	0%	9/29/2022	\$42,593,910	\$395	-
9	Alpha 5909 Sea Otter Pl	****	2016	92,820	26.4%	7/27/2022	\$37,233,748	\$401	-
10	fu-sion 1950 Camino Vida Roble	****	1996	121,541	0%	4/7/2022	\$35,576,522	\$293	-
•	Campus Point 10140 Campus Point Dr	****	1987	67,955	0%	9/29/2022	\$32,082,127	\$472	-
12	Campus Point II 10010 Campus Point Dr	****	1990	62,435	0%	9/29/2022	\$31,703,963	\$508	-
13	6602-6694 Convoy Ct	****	1974	100,033	0%	6/2/2022	\$30,500,000	\$305	-
14	Canvas on Willow 10089 Willow Creek Rd	****	1981	121,496	0%	5/5/2022	\$25,300,000	\$208	-
15	Fairway Corporate Cente 5540 Fermi Ct	****	1999	64,948	0%	4/26/2022	\$24,066,318	\$371	-
16	446 26th St	****	1973	75,000	0%	7/18/2022	\$22,200,000	\$296	-
*	3838 CDRN 3838 Camino del Rio N	****	1981	94,612	15.7%	11/15/2022	\$21,575,000	\$228	8.0%
18	Scripps Technology Plaza 10650 Scripps Ranch Blvd	****	1986	62,244	15.2%	7/20/2022	\$20,600,000	\$331	-
19	Bldg A 3914 Murphy Canyon Rd	****	1988	70,236	1.1%	7/20/2022	\$18,942,072	\$270	-
20	The Plaza at 505 505 Lomas Santa Fe Dr	****	1980	22,736	36.8%	5/18/2022	\$18,000,000	\$792	-

After ending 2022 with the second-lowest unemployment rate in 20 years, the rate surged to 3.7% in January following the loss of more than 16,000 nonfarm jobs, according to the latest jobs report released by the Bureau of Labor Statistics. The jump from a revised 3% is still below California's unemployment rate of 4.6%, although it's the highest local rate since February 2022.

Part of that increase in the unemployment rate can also be attributed to the rise in the civilian labor force. It climbed to the highest level since February 2020 in January, reaching 1.6 million people for the first time since then, nearly matching the pre-pandemic level.

In January, the government sector was the only employment industry to see more than marginal job growth, adding 4,900 positions during the month.

Conversely, nearly every other employment sector posted job losses, with none more than the professional and business services sector. It shed 6,900 jobs in January. That was the driving force behind the widely recognized office-using sectors that also includes information and financial activities to see a drop in 6,600 jobs.

That sector could see further turbulence in the coming months given that several notable high-tech and life science firms have announced layoffs in the past month, according to Work Adjustment and Retraining Notices, known as WARN notices, filed with the State of California.

Among the layoff notices that have spread across the region: Thermo Fisher Scientific announced 384 layoffs; Sorrento Therapeutics announced 538; Qualcomm filed a notice for 79 layoffs; and Pfizer laid off 196 workers.

That could spell further disruption in the office market, particularly in the sublease market that has already seen the level reach a record high during the first quarter.

Sorrento Therapeutics' announcement came after it filed for bankruptcy at the end of February. The biotech firm has a new 163,000-square-foot lab property nearing completion in Sorrento Mesa and extended all of its local leases in 2022, covering more than 350,000 square feet, for 15 years.

Thermo Fisher occupies more than 1 million square feet from Carlsbad to Sorrento Mesa. The firm announced the layoffs, citing the drop in demand for COVID-19 testing kits coupled with economic headwinds.

It's possible that those same economic headwinds could lead to further turbulence across San Diego's employment landscape as firms navigate a period of economic uncertainty.

More than 80 research institutes are located in San Diego, from Scripps Research Institute to Salk Institute for Biological Studies, in addition to five universities. This cluster of research in the Golden Triangle has created one of the strongest life science cores in the United States. Furthermore, Scripps Health has five campuses across the metro and announced that it is spending \$2.6 billion on upgrades to its facilities, further bolstering San Diego as a destination for "medical tourism."

San Diego is also home to more than 140,000 active duty and civilian military employees. The defense industry accounts for more than 350,000 jobs in the region according to the San Diego Military Advisory Council. That is close to 25% of the economy. And the Navy's renewed focus on the Pacific theater of operation will result in a 60/40 split between the Pacific and Atlantic fleets, further solidifying San Diego's status as a major Navy hub.

It is also why San Diego has one of the largest concentrations of millennials in the country, accounting for 25% of the population.



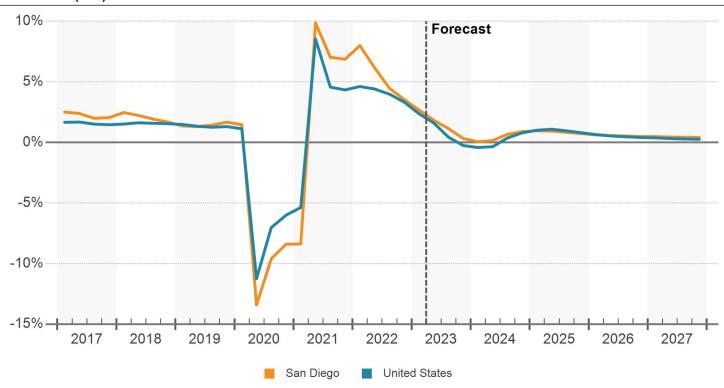


SAN DIEGO EMPLOYMENT BY INDUSTRY IN THOUSANDS

	CURRE	NT JOBS	CURRENT	GROWTH	10 YR HIS	TORICAL	5 YR FORECAST	
Industry	Jobs	LQ	Market	US	Market	US	Market	US
Manufacturing	115	0.9	0.58%	2.52%	1.50%	0.78%	0.18%	-0.03%
Trade, Transportation and Utilities	225	0.8	1.82%	0.89%	0.56%	1.17%	0.00%	0.07%
Retail Trade	145	0.9	1.99%	-0.03%	0.41%	0.54%	0.05%	0.08%
Financial Activities	75	0.8	-0.56%	1.39%	0.60%	1.39%	0.03%	0.08%
Government	249	1.1	2.75%	1.18%	0.99%	0.25%	0.54%	0.55%
Natural Resources, Mining and Construction	88	1.0	3.79%	2.66%	3.83%	2.40%	0.71%	0.21%
Education and Health Services	228	0.9	3.78%	3.38%	2.42%	1.72%	0.91%	0.53%
Professional and Business Services	282	1.3	1.84%	2.41%	2.72%	2.07%	0.35%	0.33%
Information	23	0.7	3.90%	4.67%	-0.47%	1.32%	0.40%	0.21%
Leisure and Hospitality	199	1.2	4.99%	4.75%	1.95%	1.35%	1.08%	1.03%
Other Services	55	1.0	3.71%	2.56%	1.10%	0.59%	0.46%	0.30%
Total Employment	1,540	1.0	2.66%	2.35%	1.69%	1.28%	0.50%	0.37%

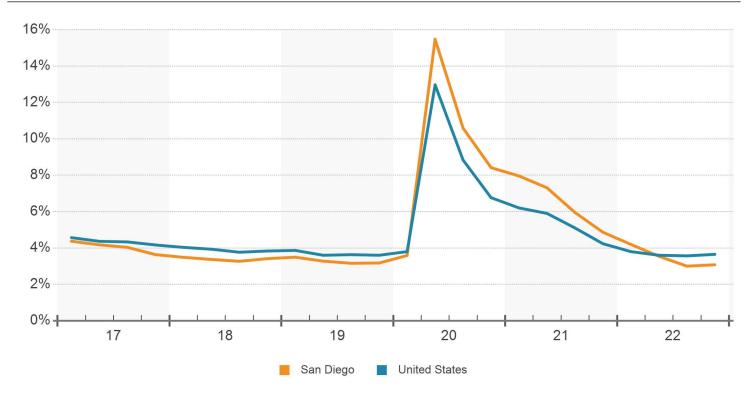
Source: Oxford Economics LQ = Location Quotient

JOB GROWTH (YOY)

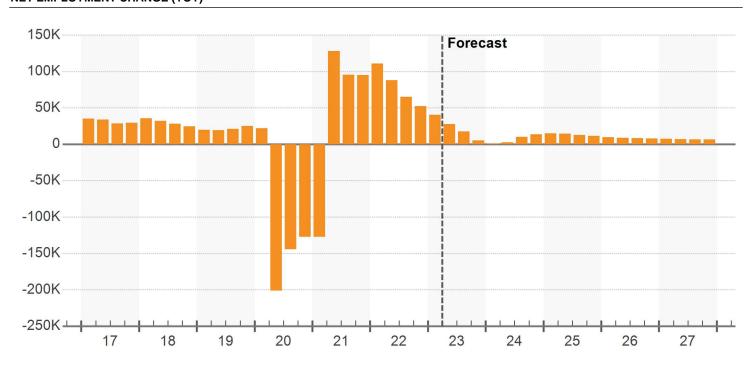


Source: Oxford Economics

UNEMPLOYMENT RATE (%)

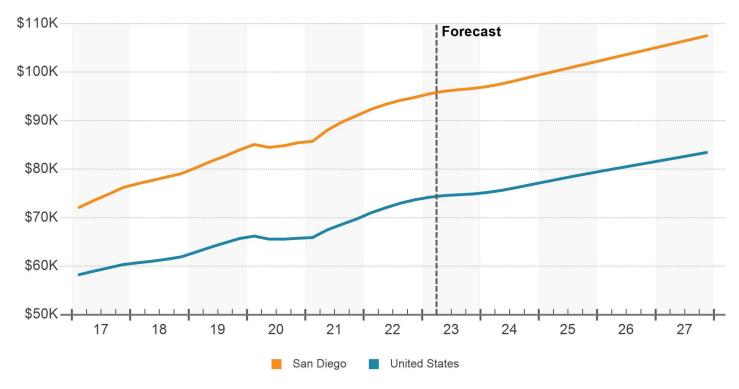


NET EMPLOYMENT CHANGE (YOY)

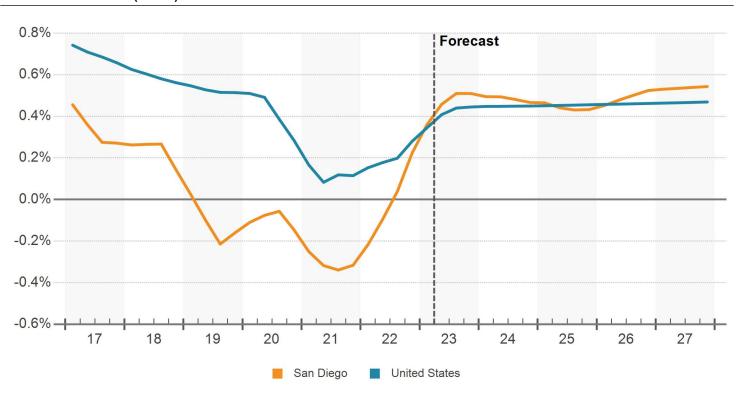




MEDIAN HOUSEHOLD INCOME



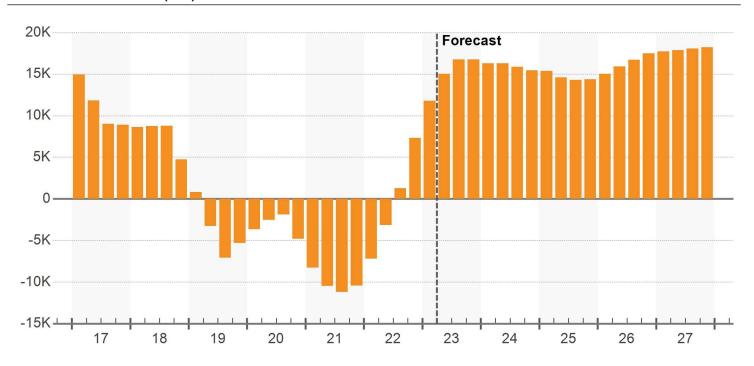
POPULATION GROWTH (YOY %)







NET POPULATION CHANGE (YOY)



DEMOGRAPHIC TRENDS

	Current Level		12 Month Change		10 Year Change		5 Year Forecast	
Demographic Category	Metro	US	Metro	US	Metro	US	Metro	US
Population	3,295,919	333,309,000	0.4%	0.3%	0.3%	0.5%	0.5%	0.5%
Households	1,177,999	129,340,727	0.9%	0.9%	0.4%	0.8%	0.6%	0.6%
Median Household Income	\$95,555	\$74,229	3.4%	4.5%	4.7%	3.7%	2.5%	2.5%
Labor Force	1,590,587	165,148,906	0.5%	0.7%	0.4%	0.6%	0.4%	0.4%
Unemployment	3.1%	3.7%	-1.1%	-0.1%	-0.5%	-0.4%	-	-

Source: Oxford Economics

POPULATION GROWTH



LABOR FORCE GROWTH



INCOME GROWTH



Source: Oxford Economics