

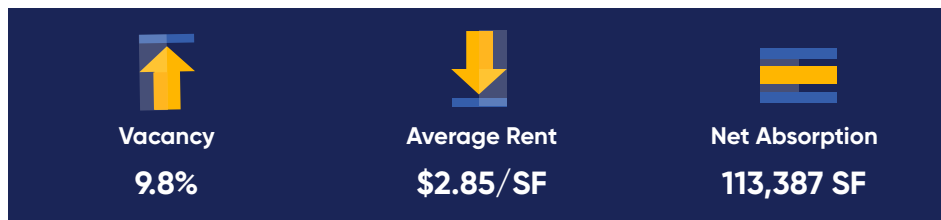
# Occupier's Guide

In the first quarter of 2020, San Diego's office market rental rates slightly decreased from \$2.89/SF to \$2.85/SF. Rent growth is expected to continue to decrease, but the quarter still ended above the long-term average. The vacancy rate in the first quarter ended .2% higher than the previous, decade low, quarter at 9.8%. The vacancy rate can be correlated to a few considerable moveouts in Kearny Mesa and Sorrento Valley.

This quarter posted the most negative absorption in more than five years at 113K SF, which can be due to the build-to-suit expansions by tech firms. The availability rate in the first quarter of 2020 closed at its lowest place in fifteen years at 12.3%.

Market cap rates have remained consistent at 6.2%, suggesting price appreciation is being influenced by NOI growth. Slightly lower than last year, market prices reached \$335/SF during the first quarter of 2020.

The resulting immediate and long-term effects of COVID-19 on the office market is still unknown. There is a lot of uncertainty and we have a team focused on what returning to work looks like. We have created a [Roadmap to Recovery](#) to help with this transition



## Rental and Vacancy Rates

Direct Asking Rent (\$/SF)	Total Vacancy Rate	YoY Change
\$2.97	Downtown 17.7%	▲ 4.2%
\$3.72	UTC 5.9%	▲ 3.0%
\$2.69	Mission Valley 9.7%	▲ 5.0%
\$3.02	Sorrento Mesa 11.8%	▲ 2.9%
\$4.22	Del Mar Heights/Carmel Valley 13.5%	▲ 5.4%
\$2.84	Carlsbad 14.7%	▲ 2.9%

## Recent Transactions

Tenant	Size SF	Submarket	Type
1 Apple	204,000	UTC	Lease
2 Fate Therapeutics	198,880	Scripps Ranch	Lease
3 Apple	196,734	Rancho Bernardo	Lease
4 Apple	165,000	UTC	Lease
5 Alphatec Spine	121,541	Carlsbad	Lease

## Occupier's Perspective



Pricing is likely to drop as tenants default on their leases and buyers and lenders pause to evaluate what the true value is in the early stages of the COVID-19 pandemic.



A low vacancy rate combined with demand and limited spec construction encouraged San Diego's rent growth above the long-term average. This will change in Q2.

## Market Trends



Local investors continue to show highly interest in San Diego's office market, with a record investment volume nearing \$1 billion in 2019, which more than doubled from the prior year.

UTC is comparable to few submarkets when looking at amenities. UTC includes trophy office towers, Westfield UTC, trolley extension in 2021, freeway access and numerous restaurants and hotels. It is unclear how these amenities will be considered in the post COVID-19 world.

Horton Plaza's redevelopment into a high-tech hub is planned to begin this year. Macy's lawsuit against Stockdale is settled, while Stockdale secured a construction loan for more than \$300 million for the second quarter of 2020.