

San Diego Office

Market Forecast

Trends

Absorption	↑
Vacancy	↓
Rental Rate	↑
New Construction	↔

Notable Lease Transactions

County of San Diego
8911 Balboa Avenue, Kearny Mesa
46,707 s.f. leased

Omnitracs
10182 Telesis Court, Sorrento Valley
42,773 s.f. leased

AMEC Earth & Environmental
9210 Sky Park Court, Kearny Mesa
26,754 s.f. leased

The San Diego office market started the year with strong leasing activity, moderate absorption, and increasing rental rates. The office vacancy rate in the overall San Diego market decreased 40 basis points to 10.5% from 10.9% at the end of the fourth quarter. Construction activity includes 566,591 square feet currently under construction. The strong local economy and increasing job growth is expected to drive real estate market growth for the remainder of 2016. The San Diego County unemployment rate sits at 4.7%, a decrease of 70 basis points from a year ago.

Class A office space vacancy decreased 30 basis points to 11.0% from 11.3% during the past quarter. Net absorption for Class A space this quarter was 172,000 square feet, with 517,000 square feet of leasing activity. Office lease rates for Class A average \$3.13 per square foot on a full service basis across the San Diego market. Users seeking Class A space pay a \$0.86 per square foot premium over Class B space, on average.

The Class A and B office space markets experienced strong leasing activity in the first quarter, resulting in a combined 407,785 square feet of positive net absorption. Total space available in the market decreased to 12.7 million square feet from 13.3 million square feet last quarter as a result of strong year-end leasing activity.

While leasing activity has been strong, we are experiencing an increase of sublet space being added to the market. In the first quarter we have seen over 600,000 square feet of sublet space come back to the market, bringing the total availability rate to 14.3% countywide. Institutional owners continue to focus on stabilizing their assets with added concession packages to fill up larger vacancy holes in their projects, but more importantly, offering concessions to existing tenants, making sure to retain their existing tenant

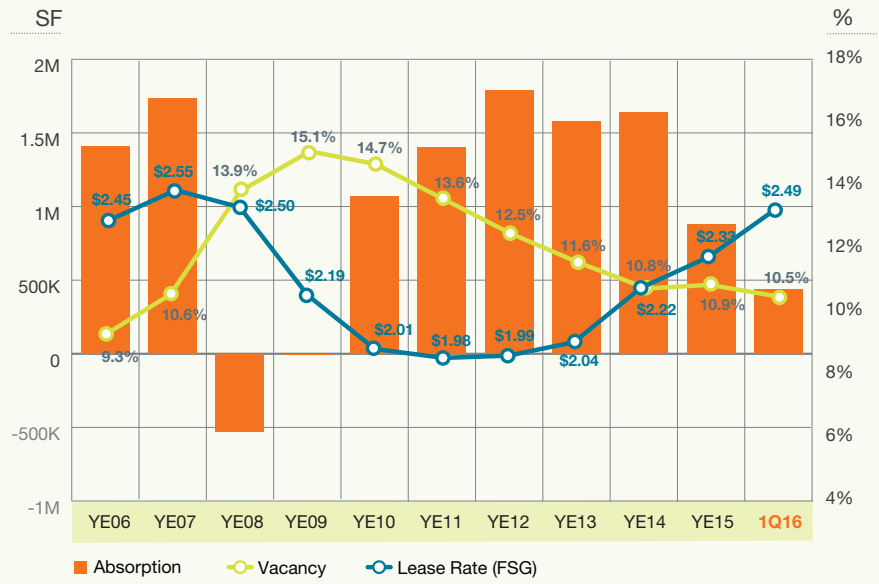
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base. We expect to see this market stabilize over the next six months, as the 20% year-over-year growth in lease rates flattens out. Tenants remain focused on value, looking for real estate opportunities to increase employee engagement, provide access to amenities, and positively impact employee recruitment.

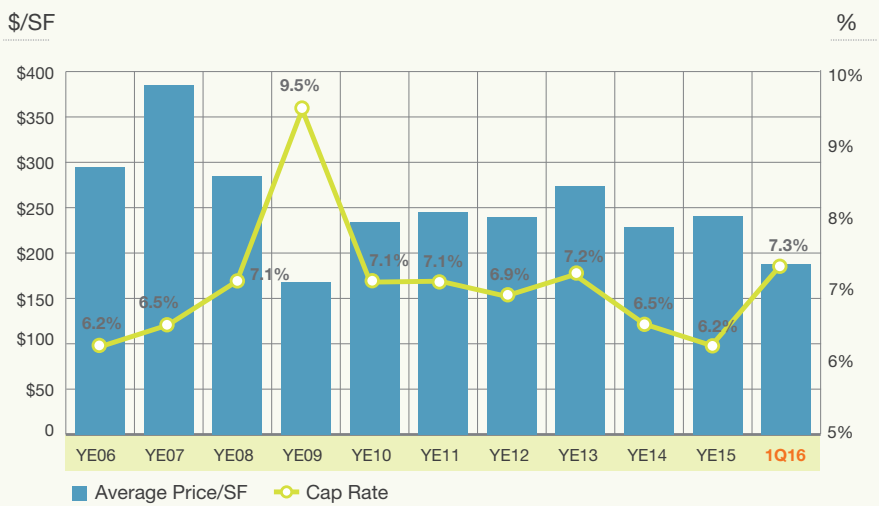
San Diego's investment sales market was strong in the first quarter, with \$232 million in total transactions. Average price per square foot decreased in the first quarter to \$168 from \$184 in the fourth quarter. The most notable properties to change hands this quarter were Five Thirty B in Downtown (232,936 square feet), Pacific Ridge Corporate Center in Carlsbad (121,380 square feet) and Northridge Summit in Scripps Ranch (129,916 square feet). The median cap rate increased 230 basis points this quarter to 7.3%.

Source: CoStar

Net Absorption, Vacancy & Rental Rates



Average Sales Price / Cap Rates



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1st Quarter 2016 San Diego Office Submarket Statistics



Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	QTR Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	QTR Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Carlsbad	6,090,787	16.9%	0.5%	17.4%	6,682	6,682	232,609	0	81,880	81,880	\$2.42
Escondido	1,636,027	13.4%	0.0%	13.4%	(3,775)	(3,775)	0	0	38,536	38,536	\$1.89
Oceanside	1,335,657	15.7%	0.0%	15.7%	(14,249)	(14,249)	0	0	11,534	11,534	\$1.93
San Marcos	1,352,912	12.0%	0.3%	12.3%	(1,771)	(1,771)	0	0	699	699	\$2.35
Vista	1,226,436	14.3%	0.0%	14.3%	(13,203)	(13,203)	0	0	11,993	11,993	\$1.68
North County	11,641,819	15.4%	0.3%	15.7%	(26,316)	(26,316)	232,609	0	144,642	144,642	\$2.20
Poway	1,304,758	5.7%	0.4%	6.1%	10,586	10,586	0	0	12,750	12,750	\$2.43
Rancho Bernardo	6,763,053	5.2%	2.9%	8.0%	15,277	15,277	100,000	0	98,140	98,140	\$2.45
Scripps Ranch	2,676,246	10.7%	0.2%	10.9%	33,928	33,928	0	0	58,253	58,253	\$2.22
I-15 Corridor	10,744,057	6.6%	1.9%	8.5%	59,791	59,791	100,000	0	169,143	169,143	\$2.39
Del Mar Heights/Carmel Valley	4,670,118	10.8%	1.4%	12.3%	16,176	16,176	92,000	0	39,120	39,120	\$4.09
Governor Park	860,055	14.9%	2.5%	17.4%	(6,712)	(6,712)	0	0	23,956	23,956	\$2.52
La Jolla	1,616,486	7.2%	1.6%	8.8%	14,376	14,376	14,750	0	43,467	43,467	\$3.01
Miramar	1,710,317	15.7%	0.0%	15.7%	(4,189)	(4,189)	0	0	27,581	27,581	\$1.78
North Beach Cities	2,348,011	4.1%	0.2%	4.2%	881	881	0	0	41,379	41,379	\$3.16
Sorrento Mesa	9,600,522	10.8%	1.9%	12.8%	62,450	62,450	62,400	0	96,594	96,594	\$2.64
Sorrento Valley	785,003	9.3%	0.0%	9.3%	39,875	39,875	0	0	7,823	7,823	\$2.28
Torrey Pines	2,683,753	6.1%	0.7%	6.8%	1,617	1,617	0	0	6,335	6,335	\$3.84
UTC	7,993,754	9.7%	1.6%	11.3%	(51,427)	(51,427)	64,832	0	127,782	127,782	\$3.47
North Cities	32,268,019	9.8%	1.4%	11.2%	73,047	73,047	233,982	0	414,037	414,037	\$3.15
Kearny Mesa	10,592,278	10.8%	0.0%	10.8%	77,220	77,220	0	0	231,486	231,486	\$2.10
Mission Gorge	592,926	6.6%	0.0%	6.6%	(11,904)	(11,904)	0	0	826	826	\$1.16
Mission Valley	6,975,211	8.8%	0.5%	9.3%	(8,035)	(8,035)	0	0	134,477	134,477	\$2.31
Old Town/Sports Arena/Pt. Loma	2,199,276	7.7%	0.0%	7.7%	44,466	44,466	0	0	23,741	23,741	\$2.32
PB/Rose Canyon/Morena	1,261,530	4.8%	0.0%	4.8%	(7,843)	(7,843)	0	0	7,157	7,157	\$2.03
Central Suburban	21,621,221	9.4%	0.2%	9.5%	93,904	93,904	0	0	397,687	397,687	\$2.16
College Area	1,058,511	5.7%	0.0%	5.7%	(7,180)	(7,180)	0	0	6,689	6,689	\$2.34
East County	3,590,382	5.4%	0.0%	5.4%	67,129	67,129	0	0	26,823	26,823	\$1.84
East County	4,648,893	5.5%	0.0%	5.5%	59,949	59,949	0	0	33,512	33,512	\$1.95
Park East	155,884	0.6%	3.1%	3.7%	0	0	0	0	2,560	2,560	\$2.35
Uptown East	213,016	0.0%	0.0%	0.0%	0	0	0	0	0	0	\$1.50
Uptown West/Park West	2,428,258	8.5%	0.1%	8.6%	(4,229)	(4,229)	0	0	31,480	31,480	\$2.35
Uptown	2,797,158	7.4%	0.3%	7.7%	(4,229)	(4,229)	0	0	34,040	34,040	\$2.29
Downtown	13,037,308	15.5%	0.3%	15.8%	32,726	32,726	0	0	182,931	182,931	\$2.43
Coronado	125,233	0.0%	0.0%	0.0%	930	930	0	0	930	930	-
Chula Vista	2,786,978	10.0%	0.1%	10.2%	31,509	31,509	0	0	36,583	36,583	\$2.27
National City	531,473	3.3%	0.0%	3.3%	102,722	102,722	0	0	2,790	2,790	\$1.98
Otay Mesa	229,645	7.7%	0.0%	7.7%	8,617	8,617	0	0	0	0	\$1.77
San Ysidro/Imperial Beach	56,354	0.0%	0.0%	0.0%	0	0	0	0	0	0	-
Southeast San Diego	391,848	15.4%	0.0%	15.4%	1,800	1,800	0	0	1,780	1,780	\$1.29
South County	4,121,531	9.1%	0.1%	9.2%	145,578	145,578	0	0	42,083	42,083	\$2.01
San Diego Total	100,880,006	10.5%	0.8%	11.2%	434,450	434,450	566,591	0	1,418,075	1,418,075	\$2.49