

San Diego Office

Market Forecast

Trends

Absorption	↓
Vacancy	↑
Availability	↑
Rental Rate	↑
New Construction	↔

Notable Transactions

Scripps
8925 & 8945 Rehco Road, Miramar
89,488 s.f. leased

Guild Mortgage Co.
5887 Copley Drive, Kearny Mesa
38,244 s.f. leased

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

Google, Inc.
6420 Sequence Drive, Sorrento Mesa,
54,664 s.f. leased

Notable Construction

Sharp Rees-Stealy
16909 W Bernardo Drive
Rancho Bernardo
100,000 s.f. | Class B

Eastgate Terrace
9779 Towne Centre Drive
UTC
96,435 s.f. | Class A

Torrey Point
3420 & 3430 Carmel Mountain Road
Del Mar Heights/Carmel Valley
92,200 s.f. | Class A

The San Diego Office market finished the second quarter with strong leasing activity and increasing rental rates despite slowing absorption. The direct vacancy rate in the overall San Diego market increased 40 basis points to 11.0% from 10.6% at the end of the second quarter with 300,000 square feet under construction. San Diego County unemployment rate sits at 4.5%, a decrease of 50 basis points from a year ago, and we expect the strong local economy and increasing job growth to drive office market growth for the remainder of 2016.

Direct net absorption for Class A space was negative this quarter to the tune of 230,000 square feet despite over 594,000 square feet of leasing activity. As a result Class A office space direct vacancy increased 50 basis points to 9.9% from 9.4% during the past quarter. Lease rates for Class A office space average \$3.15 per square foot on an adjusted full service gross basis across the San Diego market. Users seeking Class A space pay a \$0.85 per square foot premium over Class B space, on average.

The Class A and B office space markets experienced strong leasing activity of almost 1.4 million square feet in the second quarter. Total space available in the market increased to 14.7 million square feet, of which 89.0% was available direct. Submarkets with the highest absorption in the second quarter included Torrey Pines at 75,642 square feet, Governor Park at 57,184 square feet, and Kearny Mesa at 47,756 square feet.

Institutional owners continue to focus on stabilizing their assets with added unadvertised concession packages to fill up larger vacancy holes in their projects, but more importantly offer them to existing tenants making sure to retain their existing tenant base. As mentioned in previous reports, Class A lease rates have been on the rise (20% compounded growth rate for last two years) and it's believed they have likely hit their ceiling as many tenants are now looking at Class B options in the market. This shift is driving up lease rates and demand in this sector. Opportunistic value add landlords are working hard to reposition their assets to take advantage of this trend as lease rate have grown in Class B assets of about 20% over the last two years. It's expected that the market will stabilize over the next six months, as growth

→ Continued, page 2

Area Review

in lease rates flatten 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 second quarter, with \$399 million in total transactions. Average price

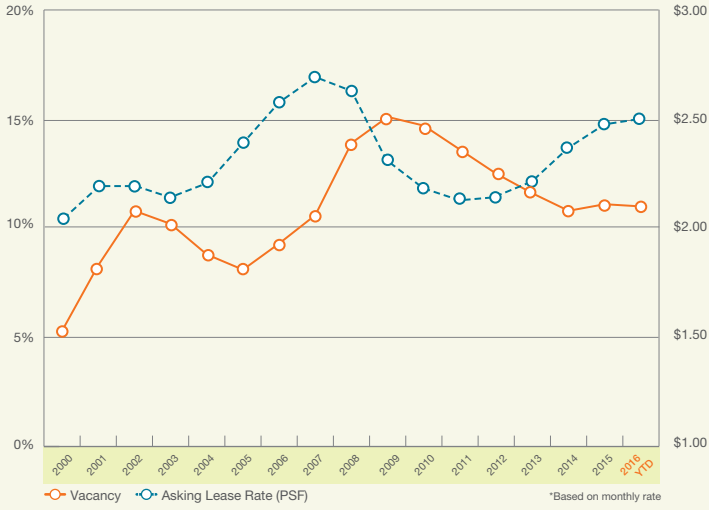
per square foot increased to \$294 in the first quarter. Notable properties to change hands this quarter included The Executive Complex (\$167/SF) and 610 West Ash (\$310/SF) in Downtown and Scripps Corporate Center (\$255/SF) in Scripps Ranch. The average cap rate decreased 80 basis points this quarter to 5.8%.

Data Source: CoStar

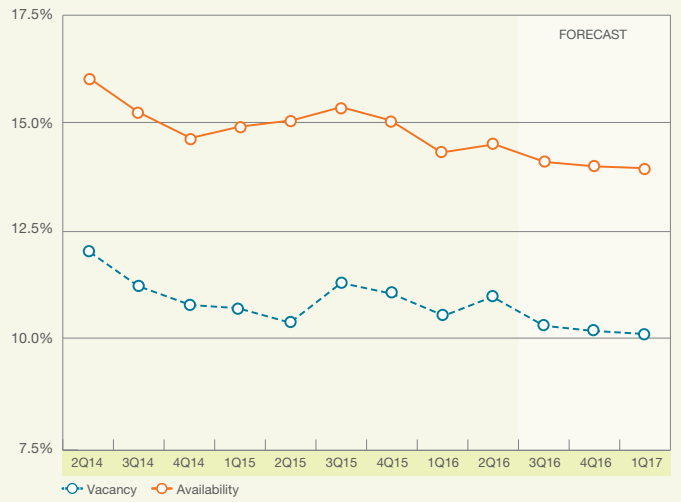
Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	2Q Direct Net Absorption	YTD Direct Net Absorption	2Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Carlsbad	6,323,299	19.9%	20.3%	22.7%	(4,473)	16,037	110,898	211,398	\$2.44
Escondido	1,636,027	10.7%	10.7%	13.8%	30,170	41,483	19,326	57,862	\$1.88
Oceanside	1,335,657	14.7%	14.7%	17.9%	12,868	(7,675)	9,079	29,412	\$1.93
San Marcos	1,332,912	10.5%	10.8%	11.5%	22,009	20,238	36,643	39,342	\$2.33
Vista	1,249,948	13.4%	13.4%	14.8%	2,756	(10,447)	10,089	23,082	\$1.68
North County	11,877,843	16.3%	16.6%	18.8%	63,330	59,636	186,035	361,096	\$2.21
Poway	1,303,653	5.7%	6.0%	7.6%	1,045	11,631	8,408	21,158	\$2.41
Rancho Bernardo	6,763,025	5.3%	8.3%	15.7%	(5,079)	8,383	92,585	203,991	\$2.48
Scripps Ranch	2,678,040	9.4%	9.7%	11.1%	45,906	57,422	11,693	67,143	\$2.27
I-15 Corridor	10,744,718	6.4%	8.4%	13.6%	41,872	77,436	112,686	292,292	\$2.42
Del Mar Heights/Carmel Valley	4,661,111	13.5%	14.8%	20.9%	(125,888)	(109,712)	43,685	92,022	\$4.10
Governor Park	860,055	8.3%	8.5%	10.4%	57,184	50,472	13,409	37,365	\$2.51
La Jolla	1,632,521	7.3%	7.9%	10.7%	11,496	25,872	14,290	67,440	\$2.79
Miramar	1,641,840	16.5%	16.5%	15.1%	(3,221)	(7,410)	115,356	158,745	\$1.83
North Beach Cities	2,332,453	4.5%	4.7%	6.8%	(10,280)	(9,399)	18,983	60,362	\$3.21
Sorrento Mesa	9,676,502	12.7%	13.2%	15.9%	(122,297)	17,415	134,649	407,960	\$2.53
Sorrento Valley	785,571	8.4%	8.4%	16.4%	7,352	47,227	9,688	17,511	\$2.31
Torrey Pines	2,549,431	3.5%	4.2%	5.0%	75,642	77,259	0	6,335	\$3.73
UTC	8,218,696	13.1%	15.3%	18.7%	(126,130)	(160,796)	114,995	272,719	\$3.39
North Cities	32,358,180	11.3%	12.3%	15.4%	(236,142)	(69,072)	465,055	1,120,459	\$3.09
Kearny Mesa	10,592,575	10.3%	10.3%	11.9%	47,756	135,535	176,718	415,304	\$2.12
Mission Gorge	592,926	6.3%	6.3%	6.9%	1,378	(10,526)	0	826	\$1.16
Mission Valley	6,954,211	10.9%	11.5%	15.1%	(144,986)	(150,943)	159,225	295,947	\$2.35
Old Town/Sports Arena/Pt. Loma	2,131,808	8.0%	8.0%	10.6%	(2,920)	39,130	33,755	55,189	\$2.27
PB/Rose Canyon/Morena	1,265,959	5.4%	5.4%	5.9%	(5,694)	(15,773)	22,432	32,248	\$2.01
Central Suburban	21,537,479	9.9%	10.1%	12.3%	(104,466)	(2,577)	392,130	799,514	\$2.18
College Area	1,058,511	4.9%	4.9%	5.3%	7,648	1,014	12,977	22,582	\$2.35
East County	3,580,540	4.6%	4.6%	5.8%	29,705	85,968	42,916	77,057	\$1.93
East County	4,639,051	4.7%	4.7%	5.7%	37,353	86,982	55,893	99,639	\$2.03
Park East	155,884	0.0%	3.1%	3.1%	979	979	979	3,539	\$2.35
Uptown East	213,016	0.0%	0.0%	0.0%	0	0	0	0	-
Uptown West/Park West	2,508,826	6.6%	6.7%	8.2%	43,039	38,495	24,405	62,632	\$2.37
Uptown	2,877,726	5.8%	6.0%	7.3%	44,018	39,474	25,384	66,171	\$2.19
Downtown	13,038,332	15.2%	15.6%	19.0%	36,960	72,823	258,408	448,504	\$2.43
Chula Vista	2,787,845	10.4%	10.6%	10.9%	(9,283)	22,226	43,965	83,988	\$2.29
Coronado	124,831	0.0%	0.0%	9.3%	0	930	0	930	-
National City	516,904	3.0%	3.0%	3.0%	1,737	104,459	0	2,790	\$1.98
Otay Mesa	229,645	7.7%	7.7%	7.7%	0	8,617	0	0	\$1.77
San Ysidro/Imperial Beach	56,354	0.0%	0.0%	0.0%	0	0	0	0	-
Southeast San Diego	391,848	15.4%	15.4%	16.5%	0	1,800	0	1,780	\$1.27
South County	4,107,427	2.3%	2.3%	10.1%	(7,546)	138,032	43,965	89,488	\$2.02
San Diego Total	101,180,756	11.0%	11.7%	14.5%	(124,621)	402,734	1,539,556	3,277,163	\$2.50
Class A	34,919,367	10.1%	11.6%	15.2%	(229,562)	(30,540)	594,241	1,156,320	\$3.15
Class B	50,650,071	12.8%	13.0%	15.5%	62,908	359,808	764,100	1,778,051	\$2.30
Class C	15,611,318	7.4%	7.5%	9.9%	42,033	73,466	181,215	342,792	\$1.78
San Diego Total	101,180,756	11.0%	11.7%	14.5%	(124,621)	402,734	1,539,556	3,277,163	\$2.50

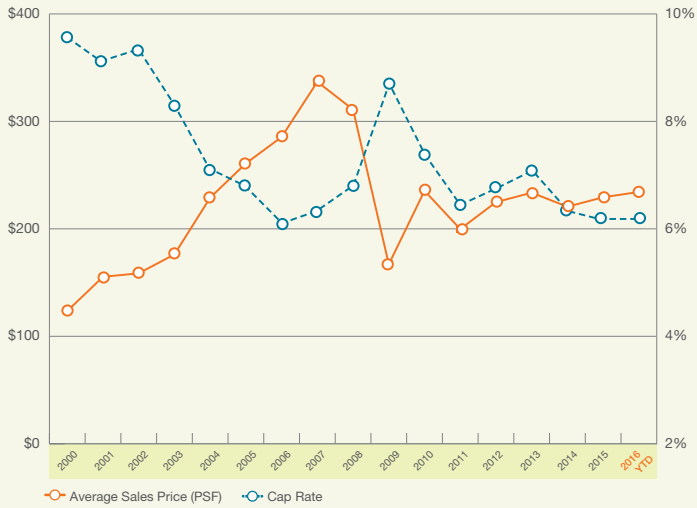
VACANCY VS ASKING LEASE RATE*



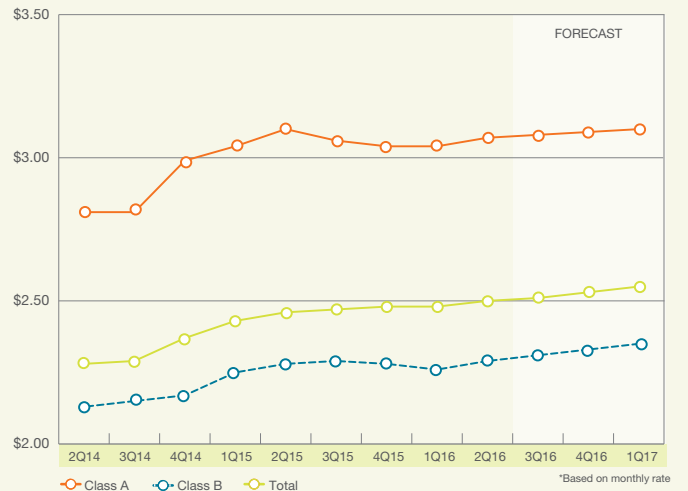
VACANCY VS AVAILABILITY



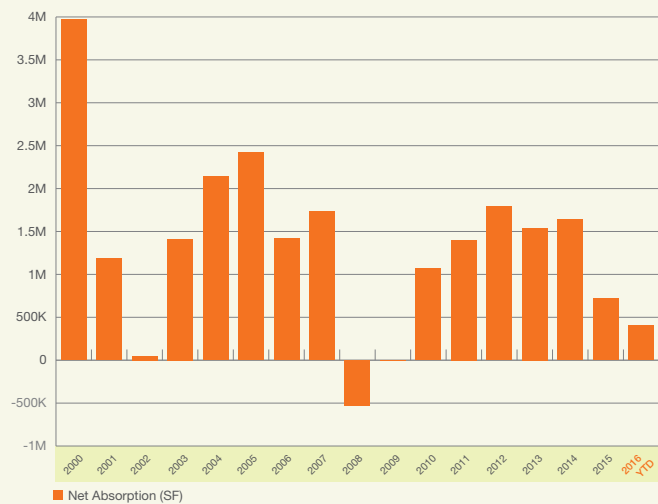
AVERAGE SALES PRICE & CAPITALIZATION RATES



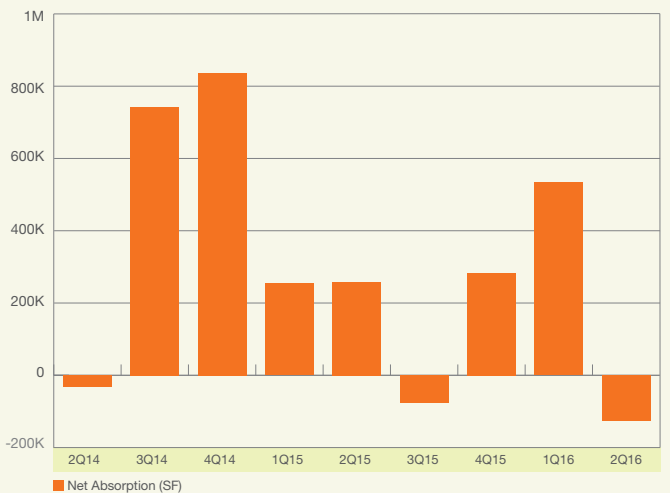
ASKING LEASE RATE*



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



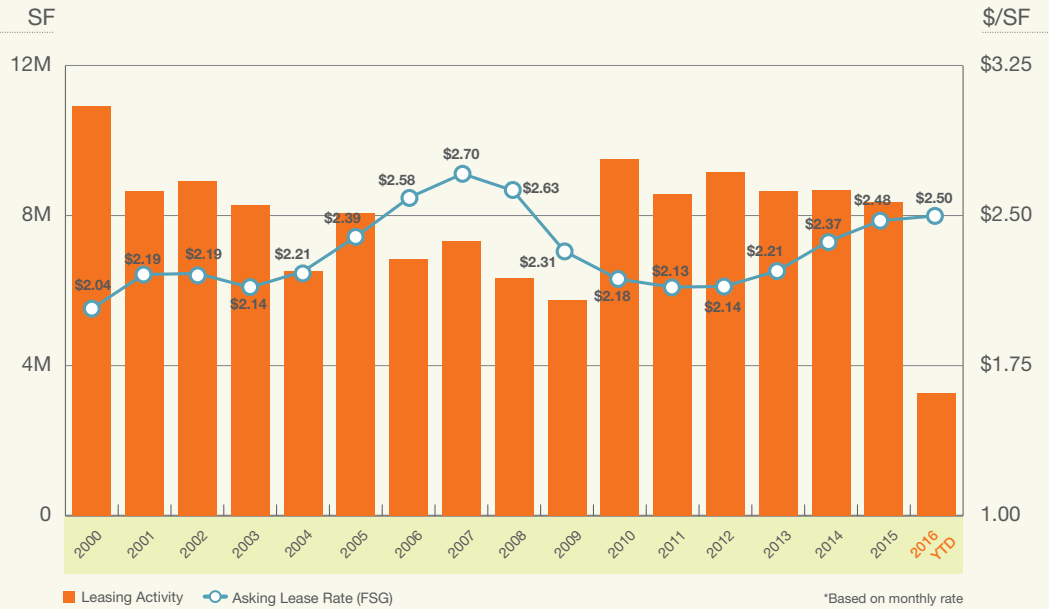
Offices

- Seattle
206.296.9600
- Bellevue
425.454.7040
- South Seattle
206.248.7300
- Tacoma
253.722.1400
- Olympia
360.705.2800
- Portland
503.221.9900
- San Francisco
415.229.8888
- Redwood Shores
650.769.3600
- Silicon Valley
408.970.9400
- Sacramento
916.751.3600
- San Diego
858.509.1200
- Orange County
949.557.5000
- Phoenix
602.513.5200
- Reno
775.301.1300

Market Breakdown

	2Q 2016	1Q 2016	2Q 2015	Annual % Change
Vacancy Rate	11.0%	10.6%	10.4%	5.8%
Availability Rate	14.5%	14.3%	15.0%	-3.3%
Asking Lease Rate	\$2.50	\$2.48	\$2.46	1.6%
Leased SF	1,539,556	1,752,961	2,077,803	-25.9%
Sold SF	1,515,927	1,855,324	2,829,128	-46.4%
Net Absorption	-124,621	591,537	309,948	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES*

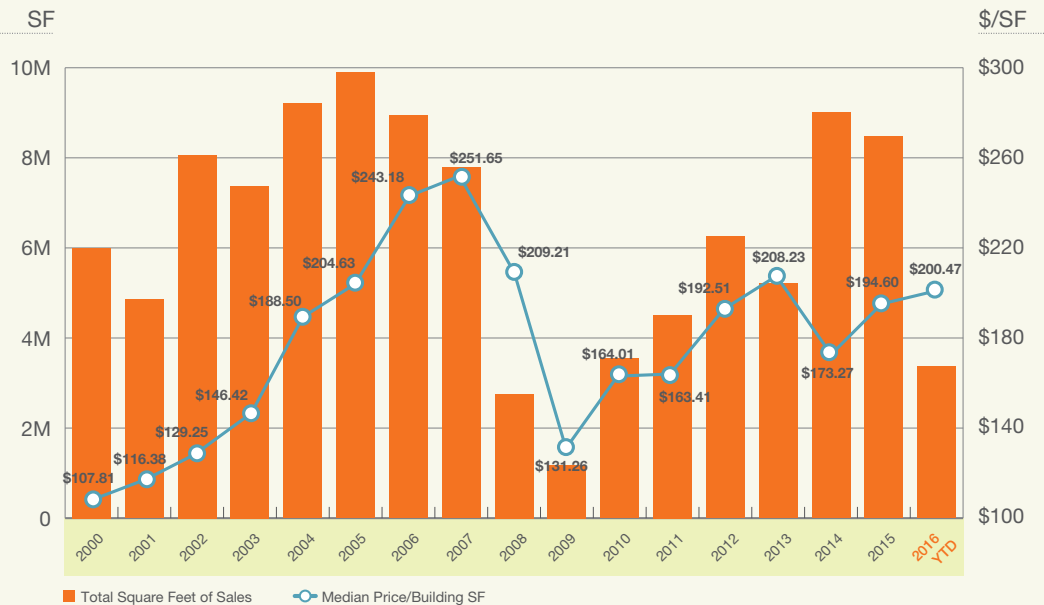


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