

San Diego Office

Market Forecast

Trends

Absorption



Vacancy



Availability



Rental Rate



New Construction



Notable Transactions

WeWork
600 B Steet
Downtown
88,000 s.f. Leased

County of San Diego
3666 Kearny Mesa Road
Kearny Mesa
58,000 s.f. Leased

USC
9860 Mesa Rim Road
Sorrento Mesa
41,000 s.f. Leased

Seismic Software
12770 El Camino Real
Del Mar Heights/Carmel Valley
24,000 s.f. Leased

Retrophin
3721 Valley Centre Drive
Del Mar Heights/Carmel Valley
23,000 s.f. Leased

The San Diego Office market finished the third quarter with strong leasing activity, high absorption and increasing rental rates. The direct vacancy rate in the overall San Diego market is 10.4% a decrease of 60 basis points from last quarter. The San Diego County unemployment rate sits at 5.0%, a decrease of 20 basis points from a year ago, and one can expect that the strong local economy and increasing job growth will drive the real estate market for the remainder of 2016.

Class A office space vacancy decreased 60 basis points to 9.4% from 10.0% during the past quarter. Net absorption for Class A space this quarter was 226,000 s.f., with 450,000 s.f. of leasing activity. Office lease rates for Class A average \$3.19 per s.f. on a full service basis across the San Diego market. Users seeking Class A space pay a \$0.80 per s.f. premium over Class B space, on average.

The Class A and B office space markets experienced strong leasing activity of over 1.3 million s.f. in the third quarter. Class B markets in particular are experiencing a rapid decrease in vacancy, 160 basis point decrease since this time last year, as tenants seek out affordability over quality. Submarkets in San Diego with the highest direct vacancy rates include Carlsbad at 18.9%, Miramar at 16.1% and Southeast San Diego at 15.0%. Primary submarkets with the least vacant space include Park East at 0.0%, Torrey Pines at 3.9% and Uptown East at 4.1%. Total space available in the market decreased to 14.2 million s.f., the lowest amount available since the first quarter 2007. Submarkets with the highest absorption in the third quarter included Downtown at 111,000 s.f., Kearny Mesa at 82,000 s.f., and Governor Park at 74,000 s.f.

In the last quarter, we have seen in excess of 200,000 s.f. of office space leased or purchased with the intention of creating the newest, hottest co-working facility in town. New York based WeWork has signed a lease at 600 B Street for nearly 90,000 sf. Level Office out of Chicago has purchased 1111 Sixth Avenue and has commenced renovations to deliver the same, and Scottsdale based Deskhub has expanded into additional space in Little Italy bringing its total footprint to almost 25,000 s.f. Last but certainly not least, San Diego based Downtown Works has delivered 30,000 s.f. of new co-work space at 550 West B Street. According to the San Diego Union Tribune, over 1,000 San Diegans are currently participating in co-working space and studies predict 44 million Americans

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Area Review

will be occupying co-working space by 2020. What does this mean? Smaller tenants (1,500 s.f. and smaller), startups, and sole proprietors will have a tremendous amount of options for office space going forward. Typically they are forced to sign leases on spaces that don't necessarily accommodate their business or culture due to lack of inventory. It will take some time for the results to be felt in the market, but it will certainly have an impact.

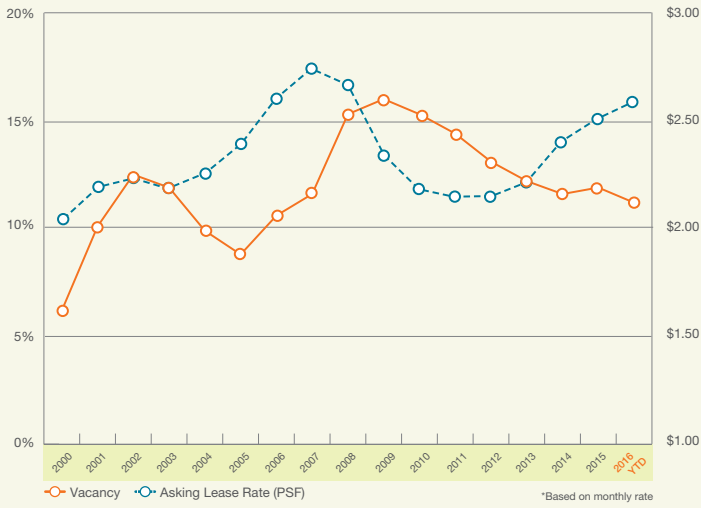
San Diego's investment sales market was strong in the third quarter, with \$200 million in total transactions. The largest investment sale in San Diego this quarter was a three property portfolio in National City sold by Blackstone Group LP to Omninet Capital for \$30.5 million.

Data Source: CoStar

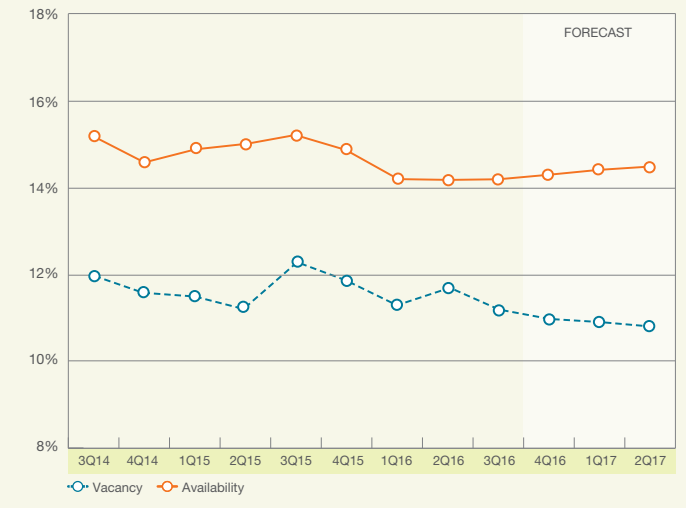
Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Carlsbad	6,323,837	18.9%	19.8%	22.7%	58,112	75,282	106,662	349,027	\$2.46
Escondido	1,634,380	9.6%	9.6%	14.1%	14,223	59,370	12,693	72,103	\$1.90
Oceanside	1,338,122	13.7%	13.7%	18.1%	5,393	5,796	6,264	37,491	\$1.97
San Marcos	1,332,912	10.3%	10.3%	11.0%	8,169	23,683	14,991	54,333	\$2.36
Vista	1,251,116	13.4%	13.4%	15.0%	(542)	(10,989)	9,558	33,840	\$1.80
North County	11,880,367	15.5%	16.0%	18.9%	85,355	153,142	150,168	546,794	\$2.25
Poway	1,303,653	4.6%	5.5%	7.4%	13,576	25,207	6,566	30,134	\$2.37
Rancho Bernardo	6,727,761	4.4%	6.7%	15.0%	63,216	71,188	109,554	314,957	\$2.54
Scrapps Ranch	2,704,529	8.0%	8.3%	9.7%	41,781	104,126	18,918	90,318	\$2.26
I-15 Corridor	10,735,943	5.3%	7.0%	12.7%	118,573	200,521	135,038	435,409	\$2.45
Del Mar Heights/Carmel Valley	4,664,466	13.6%	14.7%	20.7%	4,807	(113,064)	117,387	222,532	\$4.09
Governor Park	860,055	7.3%	7.3%	11.8%	73,888	59,105	4,270	44,351	\$2.63
La Jolla	1,644,565	8.5%	9.1%	12.3%	(27,741)	5,900	19,833	93,439	\$3.15
Miramar	1,641,840	16.1%	16.1%	16.5%	6,382	(1,028)	7,940	167,734	\$1.98
North Beach Cities	2,461,141	4.1%	4.6%	6.1%	5,466	(3,843)	40,611	102,347	\$3.31
Sorrento Mesa	9,617,550	12.3%	13.2%	16.9%	62,923	64,431	124,585	557,587	\$2.58
Sorrento Valley	821,537	10.2%	10.2%	15.8%	4,146	64,420	17,351	34,862	\$2.33
Torrey Pines	2,548,373	3.9%	4.2%	7.2%	(9,867)	67,392	6,299	12,634	\$3.64
UTC	8,218,696	13.0%	15.7%	19.0%	(4,859)	(157,334)	165,841	476,310	\$3.37
North Cities	32,478,223	11.2%	12.4%	16.0%	115,145	(14,021)	504,117	1,711,796	\$3.13
Kearny Mesa	10,662,043	9.3%	9.4%	10.5%	82,276	247,010	182,290	619,277	\$2.12
Mission Gorge	592,926	6.6%	6.6%	7.1%	0	(11,723)	0	826	\$1.11
Mission Valley	6,909,392	10.2%	10.8%	14.7%	51,250	(119,990)	157,358	473,963	\$2.41
Old Town/Sports Arena/Pt. Loma	2,131,808	7.6%	7.6%	9.0%	(10,394)	34,736	28,335	83,524	\$2.36
PB/Rose Canyon/Morena	1,224,021	5.6%	5.6%	5.8%	148	(16,056)	14,156	47,986	\$2.00
Central Suburban	21,520,190	9.1%	9.4%	11.3%	123,280	133,977	382,139	1,225,576	\$2.20
College Area	1,058,511	4.2%	4.3%	4.7%	(1,050)	567	0	22,582	\$2.35
East County	3,554,533	4.1%	4.1%	5.3%	14,398	102,832	28,176	107,699	\$1.94
East County	4,613,044	4.1%	4.1%	5.2%	13,348	103,399	28,176	130,281	\$2.03
Park East	155,884	0.0%	3.1%	3.1%	0	979	0	3,539	\$2.35
Uptown East	258,991	4.1%	4.1%	5.8%	12,725	15,205	8,308	13,519	\$1.88
Uptown West/Park West	2,500,186	8.1%	8.1%	8.5%	(30,419)	(33,102)	29,625	96,220	\$2.49
Uptown	2,915,061	7.3%	7.5%	8.0%	(17,694)	(16,918)	37,933	113,278	\$2.26
Downtown	13,004,618	13.7%	14.2%	17.6%	111,344	267,224	236,099	738,630	\$2.55
Chula Vista	2,787,619	9.1%	9.4%	11.0%	30,120	57,421	19,323	104,411	\$2.30
Coronado	124,831	9.3%	9.3%	9.3%	(11,561)	(10,631)	0	930	-
National City	508,388	5.5%	5.5%	5.5%	(13,322)	91,972	0	3,625	\$2.24
Otay Mesa	231,650	8.4%	8.4%	7.3%	(1,708)	6,909	7,704	7,704	\$1.79
San Ysidro/Imperial Beach	56,354	0.0%	0.0%	0.0%	0	0	0	0	-
Southeast San Diego	381,826	15.0%	15.0%	15.0%	3,030	4,830	0	4,810	\$1.17
South County	4,090,668	2.8%	2.8%	10.3%	6,559	150,501	27,027	121,480	\$2.06
San Diego Total	101,238,114	10.4%	11.2%	14.2%	555,910	977,825	1,500,697	5,023,244	\$2.59
Class A	35,369,368	9.4%	10.9%	15.9%	226,983	243,756	449,762	1,736,800	\$3.19
Class B	50,458,961	12.2%	12.6%	14.5%	294,267	581,529	884,104	2,750,845	\$2.39
Class C	15,409,785	7.0%	7.1%	9.5%	34,660	152,540	166,831	535,599	\$1.80
San Diego Total	101,238,114	10.4%	11.2%	14.2%	555,910	977,825	1,500,697	5,023,244	\$2.59

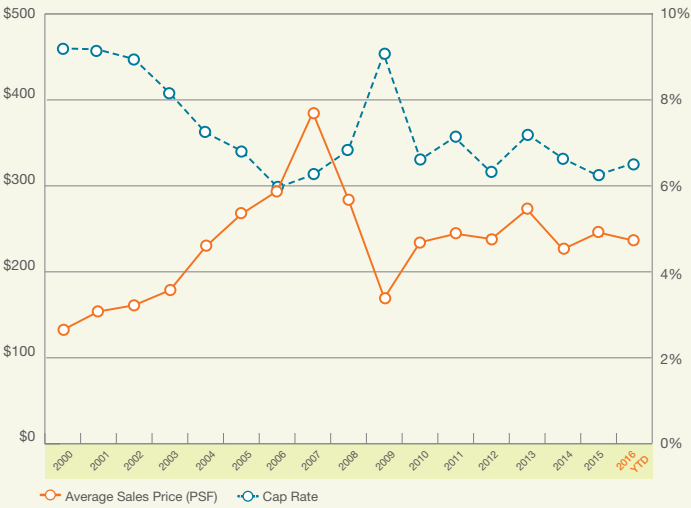
VACANCY VS ASKING LEASE RATE*



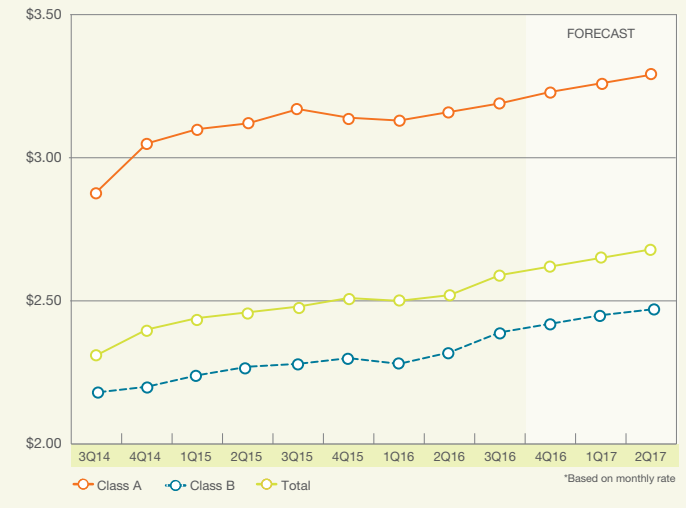
VACANCY VS AVAILABILITY



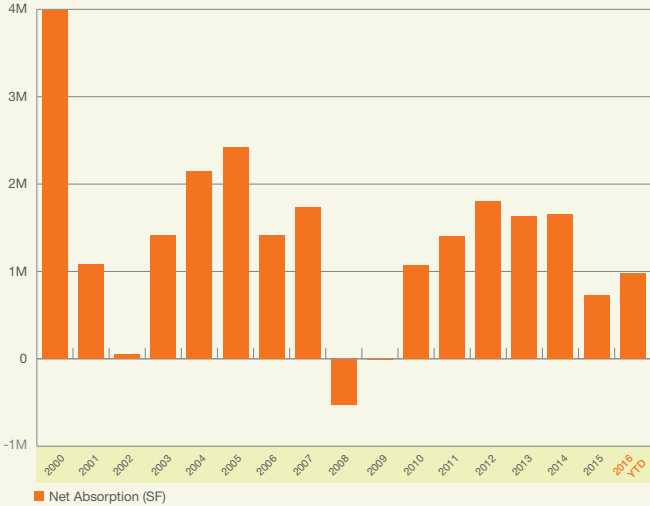
AVERAGE SALES PRICE & CAPITALIZATION RATES



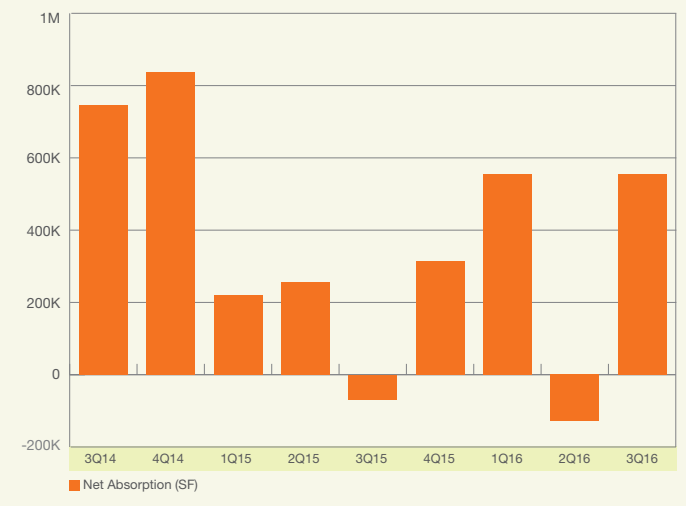
ASKING LEASE RATE*



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
916.970.9700

Roseville
916.751.3600

Orange County
949.557.5000

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

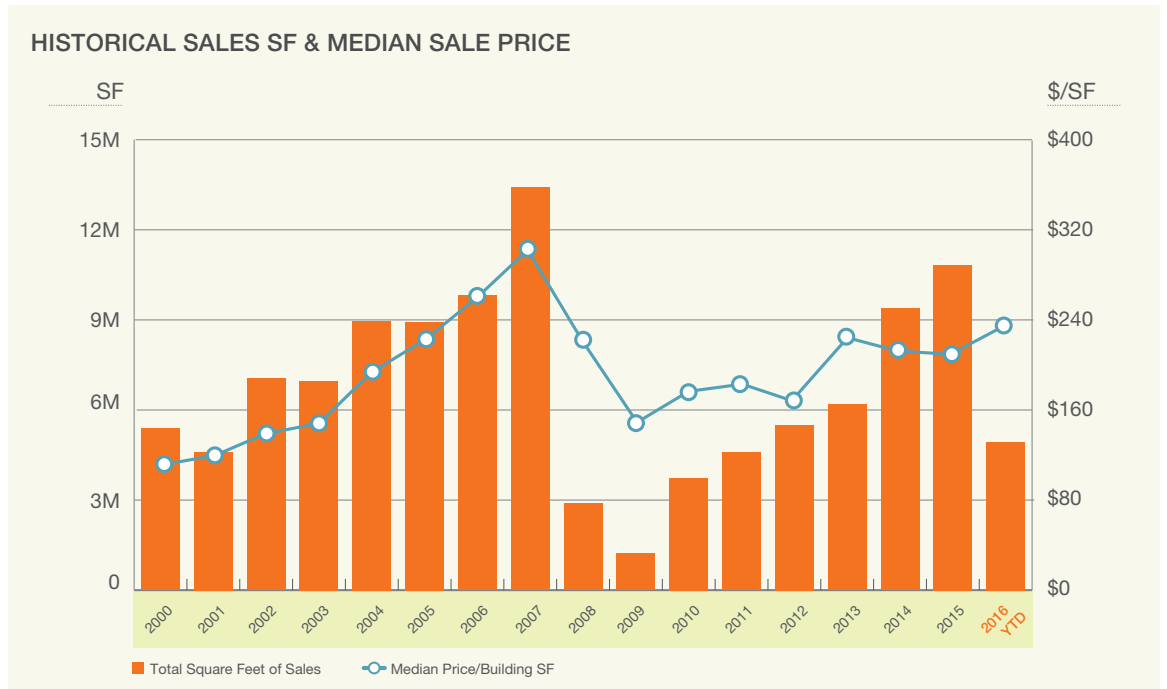
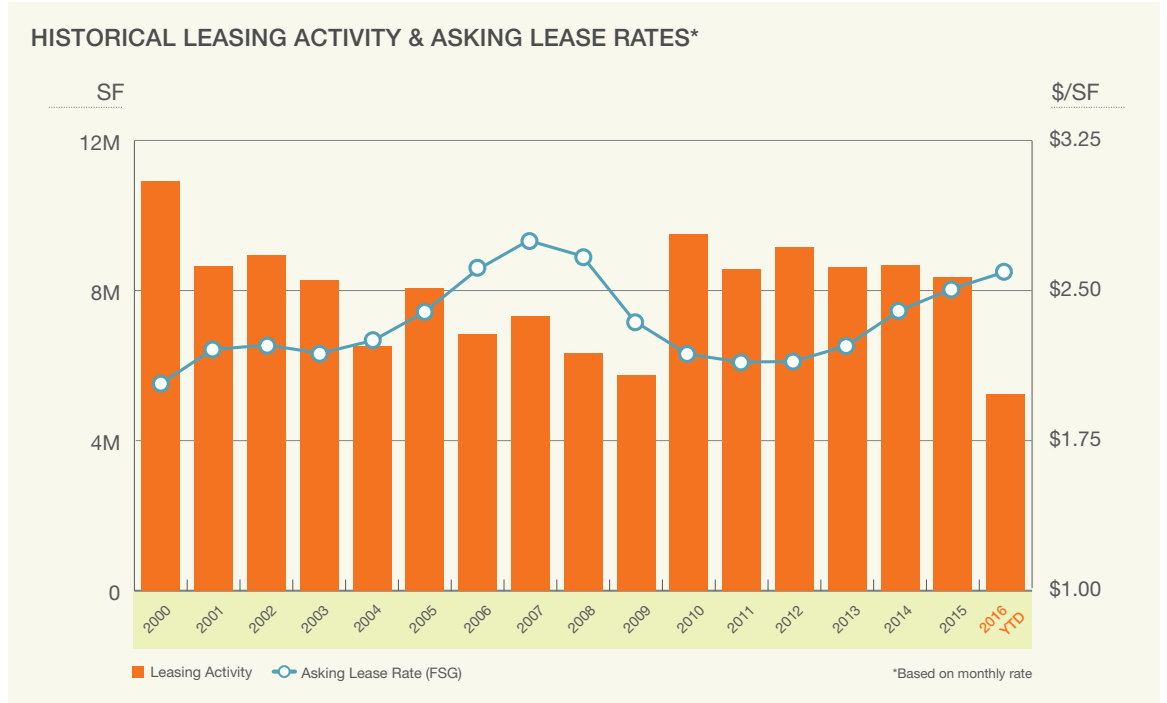
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Market Breakdown

	3Q 2016	2Q 2016	3Q 2015	Annual % Change
Vacancy Rate	11.2%	11.7%	11.2%	0.0%
Availability Rate	14.2%	14.2%	15.0%	-5.3%
Asking Lease Rate	\$2.59	\$2.52	\$2.46	5.3%
Leased SF	1,500,697	1,711,672	2,077,803	-27.8%
Sold SF	887,904	1,517,070	2,733,440	-67.5%
Net Absorption	555,910	-128,797	256,289	N/A



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