

San Diego Office

Market Forecast

Trends

Absorption



Vacancy



Availability



Rental Rate



New Construction



Notable Transactions

City of San Diego
101 Ash St., Downtown
315,000 s.f. Leased

Psyonix
401 W A St., Downtown
40,000 s.f. Leased

FitBit
15255 Innovation Dr., Rancho Bernardo
33,000 s.f. Leased

Mitek Systems Inc.
600 B St., Downtown
29,000 s.f. Leased

Notable Sale Transactions

HP, Inc.
16399 W Bernardo Dr., Rancho Bernardo
782,000 s.f. | 18 Bldg. Campus

The San Diego Office market finished the year with strong leasing activity, high absorption and increasing rental rates. The direct vacancy rate in the overall San Diego market is 10.1% a decrease of 110 basis points from the end of last year. The San Diego County unemployment rate sits at 4.8%, a decrease of 30 basis points from a year ago, and we expect the strong local economy and increasing job growth to drive the real estate market in 2017.

Class A office space vacancy decreased 70 basis points to 9.4% from 10.1% in the fourth quarter of 2016. Net absorption for Class A space this quarter was -24,000 square feet, in spite of 528,000 square feet of leasing activity. Office lease rates for Class A average \$3.19 per square foot on a full service basis across the San Diego market. Users seeking Class A space pay a \$0.77 per square foot premium over Class B space, on average.

The Class A and B office space markets experienced strong leasing activity of over 1.6 million square feet in the fourth quarter. Class B markets in particular are experiencing a rapid decrease in vacancy, a 140 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 19.4%, Vista at 15.2% and Southeast San Diego at 15.0%. Primary submarkets with the least vacant space include Park East at 0.0%, Torrey Pines at 3.6% and Rancho Bernardo at 3.9%. Total space available in the market decreased to 14.0 million square feet, the lowest amount available since the fourth quarter of 2006. Submarkets with the highest absorption in the fourth quarter included UTC at 138,000 square feet, Miramar at 102,000 square feet and Kearny Mesa at 76,000 square feet.

In 2016 we saw several new trends emerge to create a more dynamic market for tenants and landlords alike. Tenants remain focused on value, looking for real estate opportunities to increase employee engagement, provide access to amenities and positively impact employee recruitment. At the same time due to the exploding co-working phenomenon, smaller tenants (1,500 square feet or fewer), startups and sole proprietors will have a tremendous amount of options for office space going forward. According to the San

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Area Review

Diego Union Tribune, over 1,000 San Diegans are currently participating in co-working space and studies predict 44 million Americans will be occupying co-working space by 2020. Meanwhile, Institutional Owners are focused on stabilizing their assets with added unadvertised concession packages to fill up larger vacancy holes in their projects, also offering them to existing tenants making sure to retain their existing tenant base.

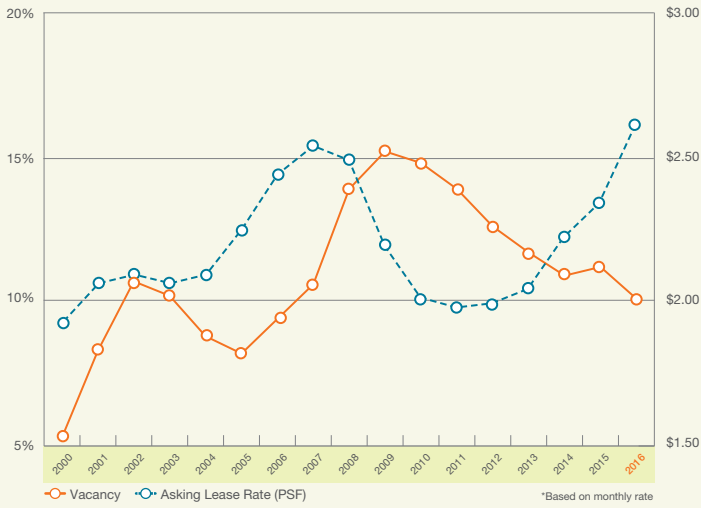
San Diego's investment sales market was strong in 2016, with \$987 million of dollar volume from 139 transactions. The largest investment sale in San Diego this year was a four property portfolio in Rancho Bernardo sold by Kilroy Realty Corporation to Intuit, Inc. for a little over \$262 million.

Data Source: CoStar

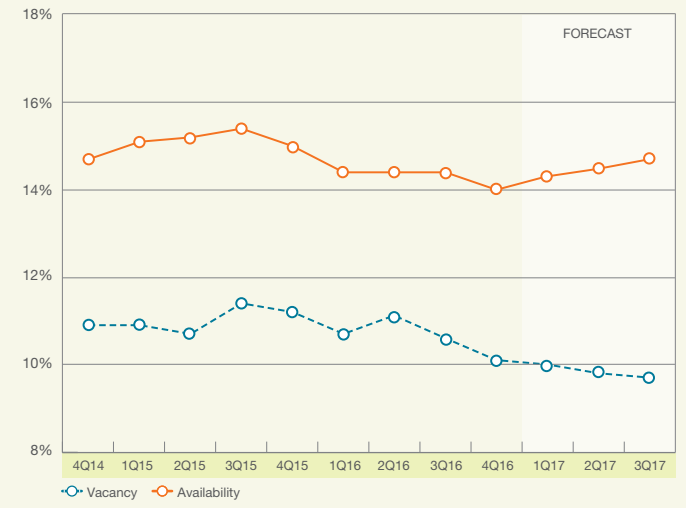
Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	4Q Direct Net Absorption	YTD Direct Net Absorption	4Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Carlsbad	6,323,837	19.4%	20.3%	21.8%	0	46,712	162,096	511,123	\$2.46
Escondido	1,609,641	9.3%	9.3%	11.5%	7,094	41,725	18,103	92,298	\$1.87
Oceanside	1,338,122	13.4%	13.4%	15.9%	3,972	9,768	36,284	73,775	\$1.96
San Marcos	1,315,195	8.2%	8.2%	10.0%	28,935	52,618	4,550	78,909	\$2.41
Vista	1,265,616	15.2%	15.2%	15.5%	(11,840)	(30,182)	18,547	52,387	\$1.81
North County	11,852,411	15.7%	16.1%	17.8%	(1,263)	120,641	239,580	808,492	\$2.25
Poway	1,303,691	4.8%	6.2%	6.6%	(2,745)	22,462	13,377	43,511	\$2.33
Rancho Bernardo	6,728,713	3.9%	6.3%	14.1%	43,122	100,306	69,431	392,048	\$2.53
Scripps Ranch	2,704,649	7.6%	8.1%	22.2%	8,719	114,384	31,406	121,724	\$2.27
I-15 Corridor	10,737,053	4.9%	6.7%	15.2%	49,096	237,152	114,214	557,283	\$2.44
Del Mar Heights/Carmel Valley	4,663,227	14.3%	16.2%	23.1%	(37,472)	(143,112)	70,809	299,061	\$4.11
Governor Park	885,655	6.5%	6.5%	11.4%	4,886	77,941	11,751	58,457	\$2.64
La Jolla	1,646,328	8.5%	8.8%	11.0%	(237)	5,663	23,193	121,116	\$3.24
Miramar	1,641,840	9.8%	10.0%	15.2%	102,857	102,881	32,553	202,555	\$2.02
North Beach Cities	2,406,744	4.3%	4.3%	6.3%	(5,003)	(7,456)	21,732	124,179	\$3.30
Sorrento Mesa	9,498,764	12.0%	12.5%	15.8%	47,948	101,897	127,326	1,110,509	\$2.67
Sorrento Valley	922,532	7.9%	8.7%	14.9%	23,831	83,404	0	34,862	\$2.32
Torrey Pines	2,547,599	3.6%	3.9%	7.0%	6,506	73,898	0	54,010	\$3.59
UTC	8,241,454	11.9%	14.4%	18.8%	138,356	(22,423)	167,197	628,555	\$3.31
North Cities	32,454,143	10.5%	11.6%	15.8%	281,672	272,693	454,561	2,633,304	\$3.14
Kearny Mesa	10,633,668	8.6%	8.7%	10.4%	76,423	322,309	140,204	767,506	\$2.10
Mission Gorge	572,926	7.0%	7.0%	7.4%	(1,378)	(13,101)	1,249	2,075	\$1.13
Mission Valley	6,909,958	10.3%	10.5%	13.5%	(8,830)	(129,277)	153,245	639,379	\$2.39
Old Town/Sports Arena/Pt. Loma	2,119,965	6.6%	6.7%	9.5%	15,488	56,769	19,083	102,607	\$2.38
PB/Rose Canyon/Morena	1,224,021	4.4%	4.6%	4.6%	15,007	(1,049)	12,113	60,099	\$2.05
Central Suburban	21,460,538	8.7%	8.8%	10.9%	96,710	235,651	325,894	1,571,666	\$2.19
College Area	1,058,511	4.6%	4.7%	4.7%	(4,109)	(3,512)	4,419	28,431	\$2.40
East County	3,562,741	3.9%	3.9%	5.8%	8,631	93,579	29,630	138,041	\$1.82
East County	4,621,252	4.1%	4.1%	5.5%	4,522	90,067	34,049	166,472	\$1.95
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%	0	15,205	5,000	18,519	\$1.88
Uptown West/Park West	2,486,738	7.7%	7.7%	8.6%	12,706	11,495	42,108	128,333	\$2.54
Uptown	2,901,613	7.0%	7.1%	8.1%	12,706	27,679	47,108	150,391	\$2.30
Downtown	12,987,825	13.3%	13.5%	15.0%	63,536	273,934	501,183	1,288,025	\$2.59
Chula Vista	2,875,619	8.7%	8.9%	12.2%	11,208	71,529	22,115	130,958	\$2.44
Coronado	124,831	9.3%	9.3%	9.3%	0	(10,631)	0	930	-
National City	508,388	13.2%	13.2%	13.2%	(38,834)	53,138	3,087	6,712	\$2.45
Otay Mesa	231,650	6.7%	6.7%	6.7%	1,413	10,693	1,413	9,117	\$1.79
San Ysidro/Imperial Beach	86,354	0.0%	0.0%	0.0%	0	0	0	0	-
Southeast San Diego	381,826	15.0%	15.0%	15.0%	0	4,830	0	4,810	\$2.20
South County	4,208,668	3.6%	3.6%	11.9%	(26,213)	129,559	26,615	152,527	\$2.26
San Diego Total	101,223,503	10.1%	10.7%	14.0%	480,766	1,387,376	1,743,204	7,328,160	\$2.61
Class A	35,337,542	9.4%	10.6%	16.3%	(23,557)	226,435	528,332	2,359,868	\$3.19
Class B	50,616,176	11.5%	12.0%	13.8%	450,147	1,012,852	1,090,864	4,300,281	\$2.42
Class C	15,269,785	6.7%	6.7%	9.1%	54,176	148,089	124,008	668,011	\$1.83
San Diego Total	101,223,503	10.1%	10.7%	14.0%	480,766	1,387,376	1,743,204	7,328,160	\$2.61

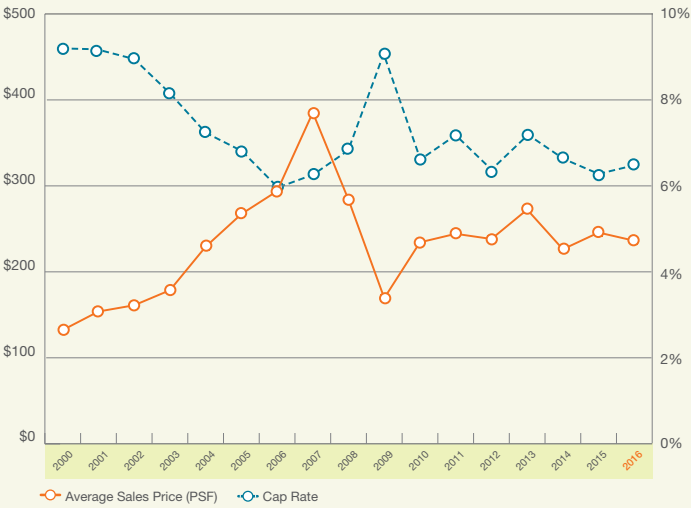
VACANCY VS ASKING LEASE RATE*



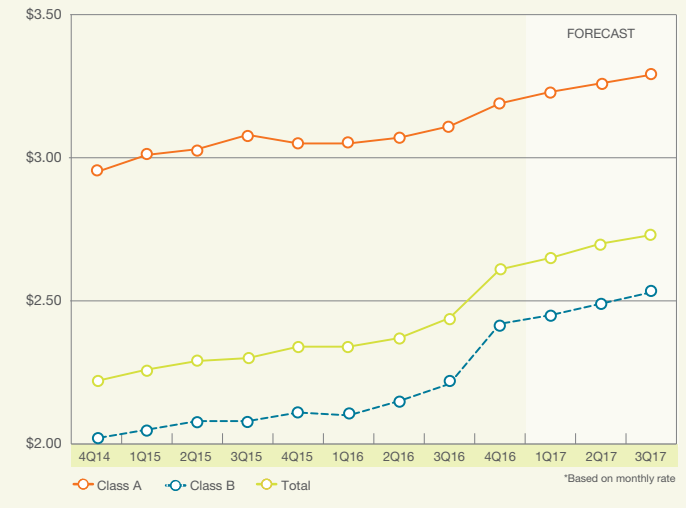
VACANCY VS AVAILABILITY



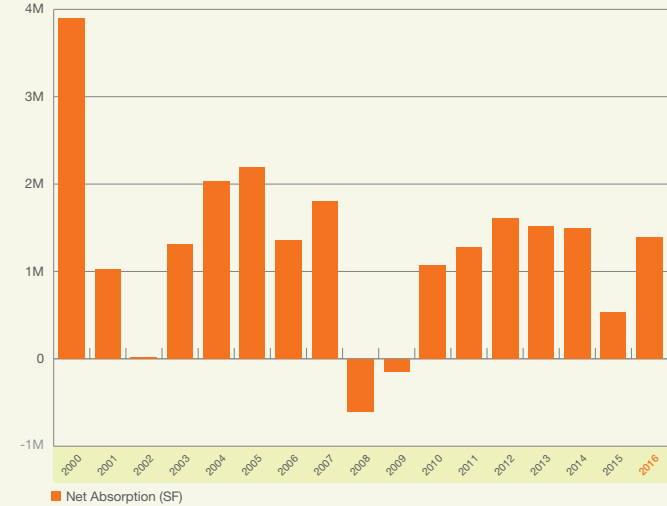
AVERAGE SALES PRICE & CAPITALIZATION RATES



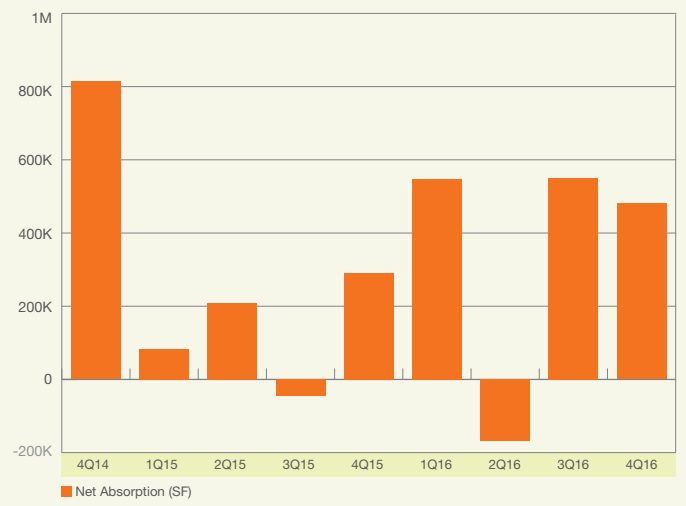
ASKING LEASE RATE*



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

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

Contact

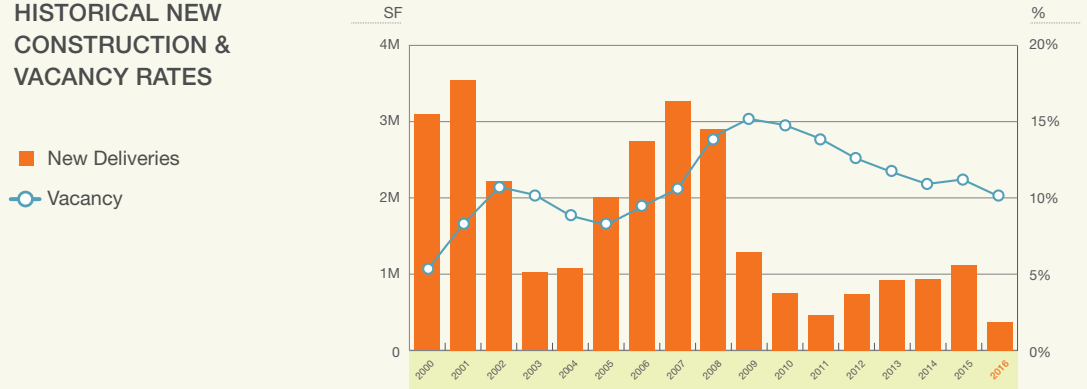
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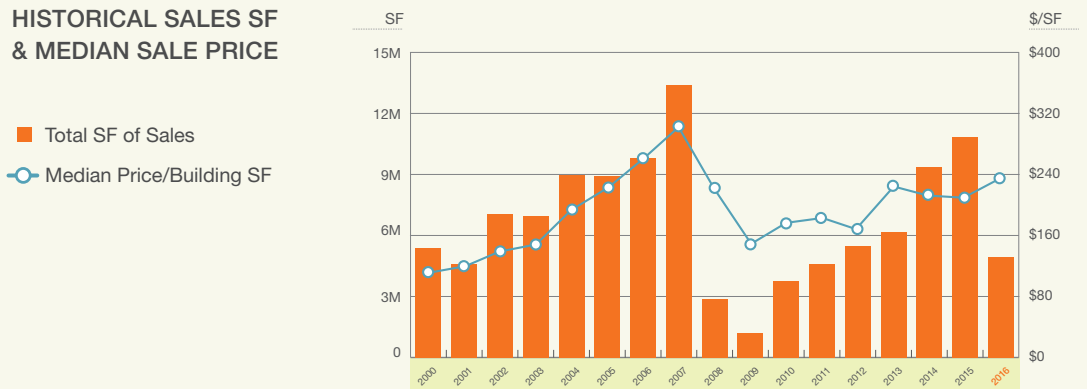
Market Breakdown

	2016	2015	2014	Annual % Change
Vacancy Rate	10.1%	11.2%	10.9%	-9.8%
Availability Rate	14.0%	15.0%	14.7%	-6.7%
Asking Lease Rate	\$2.61	\$2.30	\$2.19	13.5%
Leased SF	7,328,160	8,497,975	8,661,831	-13.8%
Sold SF	4,932,240	10,825,049	9,382,355	-54.4%
Net Absorption	1,387,376	536,526	1,492,430	N/A

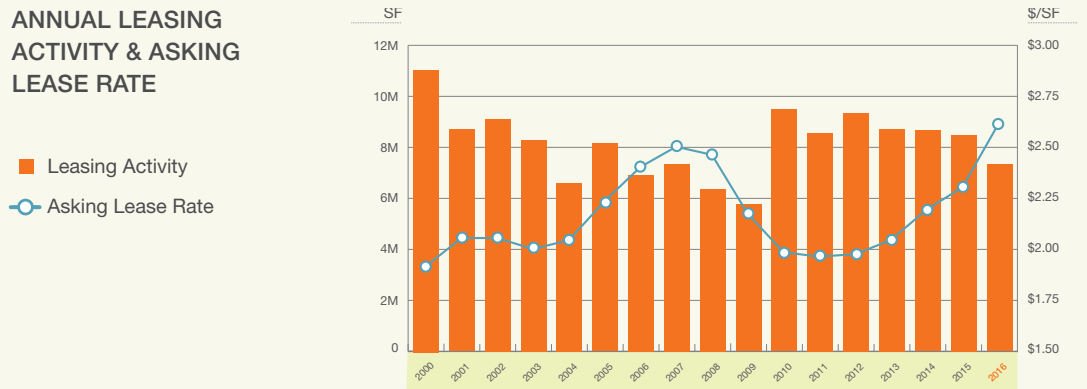
HISTORICAL NEW CONSTRUCTION & VACANCY RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



ANNUAL LEASING ACTIVITY & ASKING LEASE RATE



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