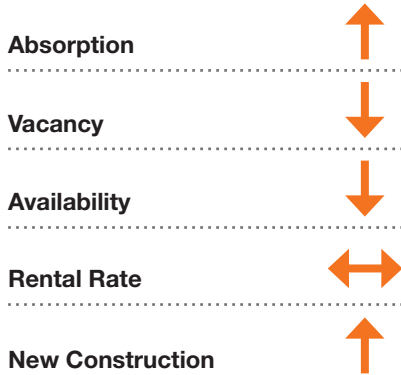


San Diego Office

Market Forecast

Trends



Notable Transactions

Renovate America
16409 W Bernardo Dr., Rancho Bernardo
161,000 s.f. Leased

Vistage
4840 Eastgate Mall, UTC
61,000 s.f. Leased

Brightwood College
2022 University Dr., Vista
52,000 s.f. Leased

Union Bank
8954 Rio San Diego Dr., Mission Valley
51,000 s.f. Leased

Certona Corporation
10431 Wateridge Cir., Sorrento Valley
32,000 s.f. Leased

The San Diego Office market started the year with strong leasing activity, high net absorption and increasing rental rates. The total vacancy rate in the overall San Diego market is 10.3%, a decrease of 110 basis points from this time last year. The San Diego County unemployment rate sits at 4.5%, a decrease of 20 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.

Net absorption for Class A space this quarter was 54,000 square feet, in spite of close to 514,000 square feet of leasing activity. Class B office space vacancy decreased to 11.3%, a 70 basis point decrease from last quarter, as a result of over 455,000 sf of positive absorption. Office lease rates for Class A average \$3.18 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 1.1 million square feet in the first quarter. Submarkets in San Diego with the highest vacancy rates include Carlsbad at 20.0% and Del Mar Heights/Carmel Valley at 18.6%. Total space available in the market decreased to 13.5 million square feet and dropping total availability to 13.9%, the lowest level seen since the third quarter 2006. Submarkets with the highest absorption in the first quarter included Downtown at 306,000 square feet, Kearny Mesa at 178,000 square feet and UTC at 104,000 square feet.

Tenants remain focused on value, looking for real estate opportunities to increase employee engagement, provide access to amenities and positively impact employee recruitment. This has led to the trend of repurposing older buildings and adding in creative office upgrades. 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 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. In addition, large Fortune 500 companies looking to expand in San Diego

→ Continued, page 2

Area Review

are having trouble finding big blocks of space to occupy. Currently there are only nine available big blocks of space over 40,000 square feet with an additional eight proposed. This lack of available space will continue to drive migration and speculative development for years to come.

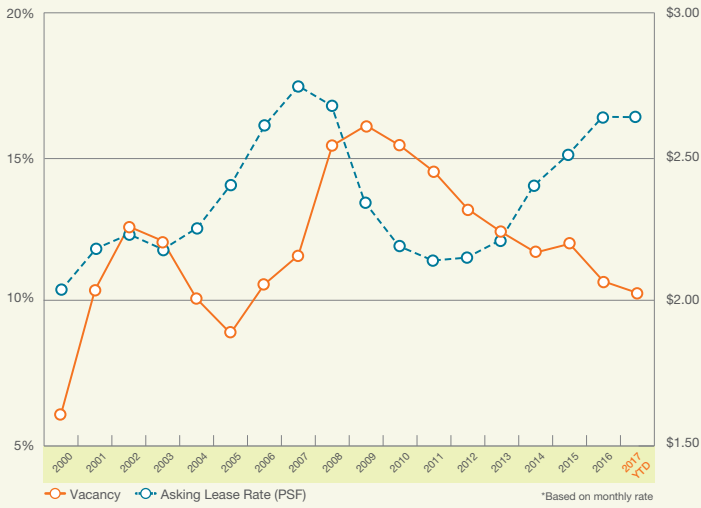
San Diego's investment sales market was strong in the first quarter, with \$320 million of dollar volume from 39 transactions. The largest investment sale during the first quarter was a four property portfolio in UTC sold by The Blackstone Group to Regents of the University of California for \$83.6 million.

Data Source: CoStar

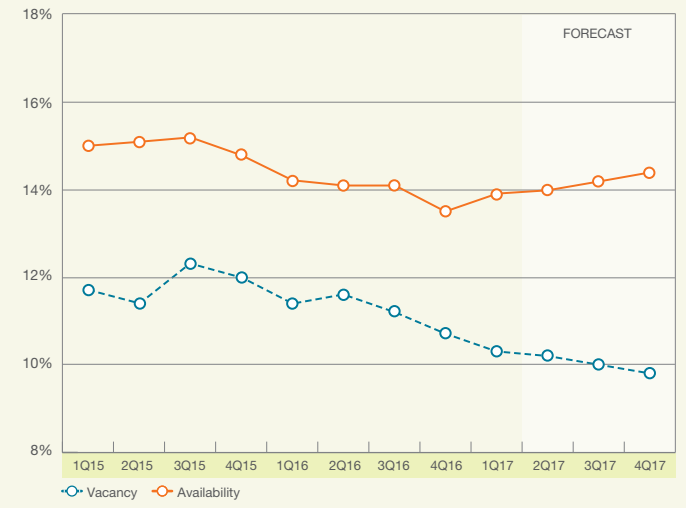
Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	1Q Direct Net Absorption	YTD Direct Net Absorption	1Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Carlsbad	6,325,878	18.0%	20.0%	24.7%	90,022	90,022	82,205	82,205	\$2.47
Escondido	1,612,755	8.6%	8.6%	11.3%	10,836	10,836	8,824	8,824	\$1.86
Oceanside	1,367,622	13.8%	13.8%	17.5%	(4,816)	(4,816)	11,197	11,197	\$1.91
San Marcos	1,315,278	7.9%	7.9%	9.0%	3,588	3,588	11,680	11,680	\$2.30
Vista	1,246,435	16.3%	17.6%	17.0%	(10,562)	(10,562)	54,407	54,407	\$1.70
North County	11,867,968	14.9%	16.1%	19.5%	89,068	89,068	168,313	168,313	\$2.22
Poway	1,303,691	4.8%	5.6%	5.4%	(2,788)	(2,788)	19,089	19,089	\$2.24
Rancho Bernardo	6,730,507	5.3%	7.6%	17.2%	(86,297)	(86,297)	60,642	60,642	\$2.57
Scrapps Ranch	2,704,649	6.4%	8.0%	22.6%	28,732	28,732	37,022	37,022	\$2.32
I-15 Corridor	10,738,847	5.5%	7.4%	17.1%	(60,353)	(60,353)	116,753	116,753	\$2.47
Del Mar Heights/Carmel Valley	4,663,278	15.6%	18.6%	21.5%	(63,901)	(63,901)	80,832	80,832	\$4.09
Governor Park	888,595	7.4%	7.8%	13.2%	(7,877)	(7,877)	12,943	12,943	\$2.71
La Jolla	1,448,851	8.1%	8.5%	10.3%	(24,155)	(24,155)	13,468	13,468	\$3.18
Miramar	1,623,368	11.0%	11.4%	17.0%	(30,335)	(30,335)	16,486	16,486	\$1.98
North Beach Cities	2,397,114	4.6%	5.1%	6.7%	(6,868)	(6,868)	29,713	29,713	\$3.31
Sorrento Mesa	9,496,543	11.9%	12.9%	15.6%	12,298	12,298	108,614	108,614	\$2.80
Sorrento Valley	839,004	9.0%	9.9%	23.5%	710	710	11,642	11,642	\$2.28
Torrey Pines	2,470,705	3.6%	3.9%	8.1%	5,204	5,204	0	0	\$3.63
UTC	8,452,828	10.9%	13.1%	17.5%	104,948	104,948	143,155	143,155	\$3.26
North Cities	32,280,286	10.6%	12.0%	15.7%	(9,976)	(9,976)	416,853	416,853	\$3.17
Kearny Mesa	10,536,485	6.9%	7.0%	9.0%	178,434	178,434	76,298	76,298	\$2.12
Mission Gorge	572,926	5.3%	5.3%	5.5%	9,781	9,781	0	0	\$1.14
Mission Valley	6,933,175	8.1%	8.5%	10.8%	8,128	8,128	242,269	242,269	\$2.42
Old Town/Sports Arena/Pt. Loma	2,119,605	5.8%	5.9%	7.8%	14,007	14,007	29,082	29,082	\$2.50
PB/Rose Canyon/Morena	1,202,150	4.2%	4.2%	4.8%	1,885	1,885	14,479	14,479	\$1.71
Central Suburban	21,364,341	7.0%	7.2%	9.1%	212,235	212,235	362,128	362,128	\$2.21
College Area	1,058,511	3.7%	3.8%	4.7%	9,575	9,575	2,171	2,171	\$2.30
East County	3,535,585	3.7%	3.7%	4.4%	(2,832)	(2,832)	16,885	16,885	\$1.77
East County	4,594,096	3.7%	3.7%	4.5%	6,743	6,743	19,056	19,056	\$1.89
Park East	155,884	0.5%	3.5%	3.5%	(750)	(750)	0	0	\$2.35
Uptown East	102,881	0.0%	0.0%	0.4%	0	0	0	0	-
Uptown West/Park West	2,438,085	6.0%	6.1%	8.3%	10,533	10,533	29,341	29,341	\$2.46
Uptown	2,696,850	5.5%	5.7%	7.7%	9,783	9,783	29,341	29,341	\$2.36
Downtown	12,883,345	11.1%	11.5%	14.7%	305,989	305,989	208,729	208,729	\$2.59
Chula Vista	2,876,986	10.3%	10.5%	12.4%	(3,432)	(3,432)	21,937	21,937	\$2.50
Coronado	124,831	12.2%	12.2%	12.2%	(3,650)	(3,650)	0	0	-
National City	508,388	10.3%	10.7%	10.7%	14,697	14,697	2,300	2,300	\$2.48
Otay Mesa	231,650	5.0%	5.0%	5.0%	4,074	4,074	5,174	5,174	\$2.03
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	0	0	0	\$2.20
South County	4,210,035	10.3%	10.5%	11.8%	11,689	11,689	29,411	29,411	\$2.32
San Diego Total	100,635,768	9.4%	10.3%	13.9%	565,178	565,178	1,350,584	1,350,584	\$2.64
Class A	35,337,314	9.3%	10.7%	15.8%	53,944	53,944	513,716	513,716	\$3.18
Class B	50,207,356	10.5%	11.3%	14.3%	455,050	455,050	633,866	633,866	\$2.41
Class C	15,091,098	6.0%	6.0%	7.8%	56,184	56,184	203,002	203,002	\$1.89
San Diego Total	100,635,768	9.4%	10.3%	13.9%	565,178	565,178	1,350,584	1,350,584	\$2.64

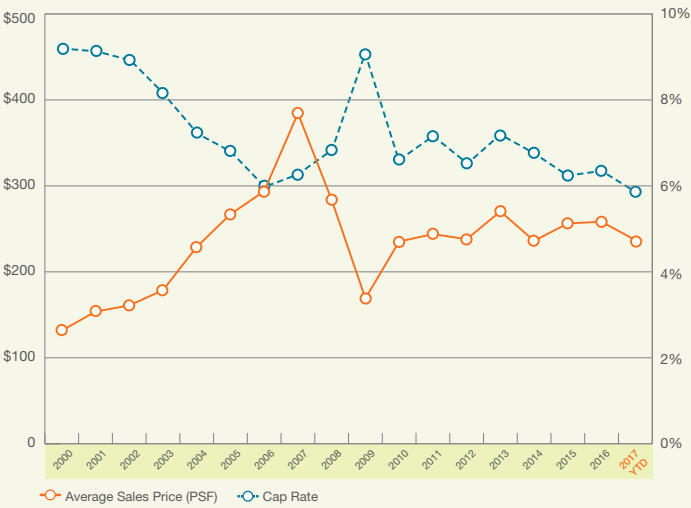
VACANCY VS ASKING LEASE RATE*



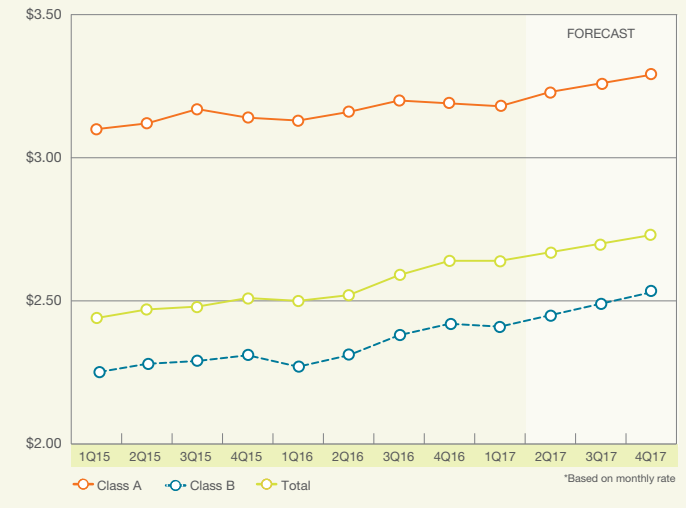
VACANCY VS AVAILABILITY



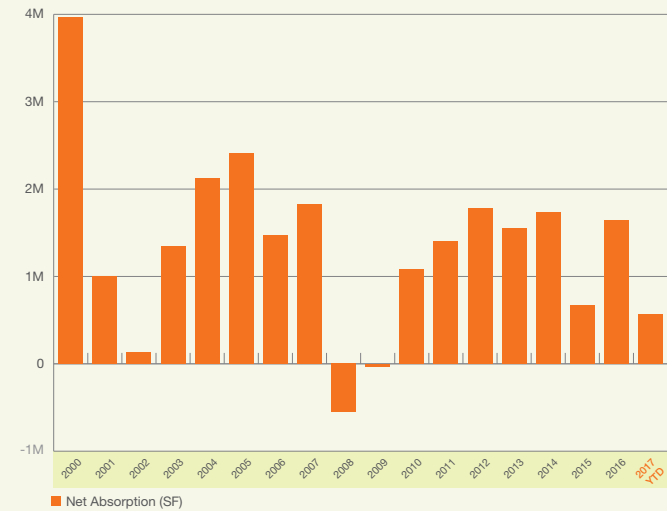
AVERAGE SALES PRICE & CAPITALIZATION RATES



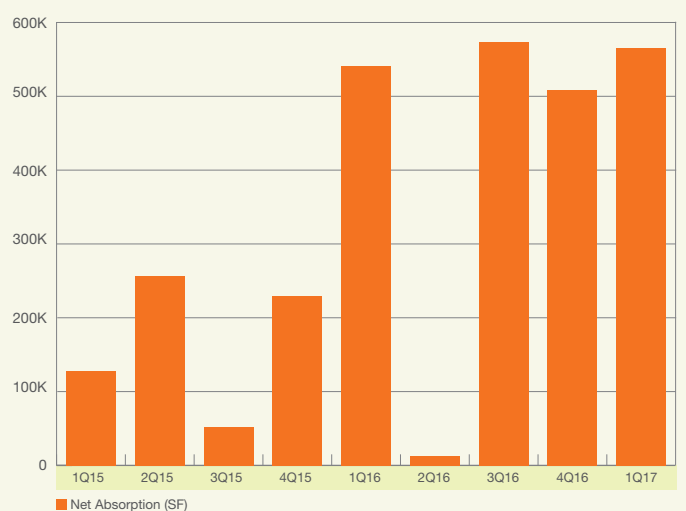
ASKING LEASE RATE*



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

Los Angeles
213.880.5250

Long Beach
562.472.0071

Commerce
323.727.1144

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

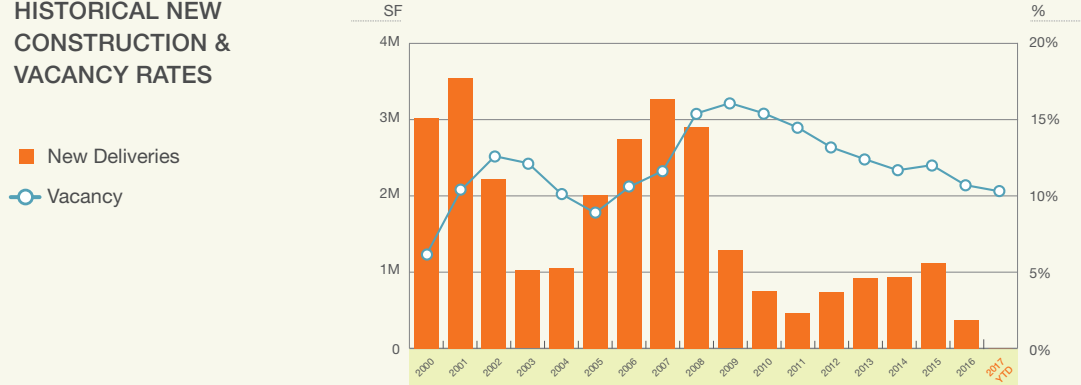
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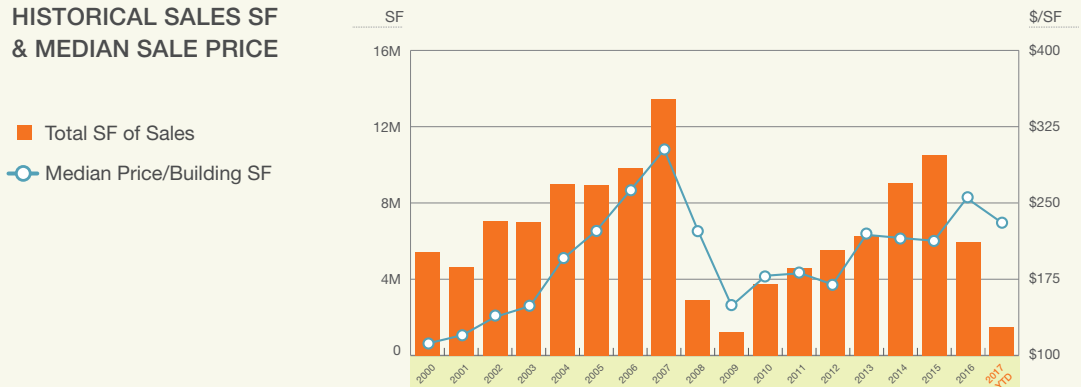
Market Breakdown

	1Q17	4Q16	1Q16	Annual % Change
Vacancy Rate	10.3%	10.7%	11.4%	-9.6%
Availability Rate	13.9%	13.5%	14.2%	-2.1%
Asking Lease Rate	\$2.64	\$2.64	\$2.50	5.6%
Leased SF	1,350,584	2,258,713	2,145,131	-37.0%
Sold SF	4,932,240	10,825,049	9,382,355	-47.4%
Net Absorption	565,178	508,736	541,437	N/A

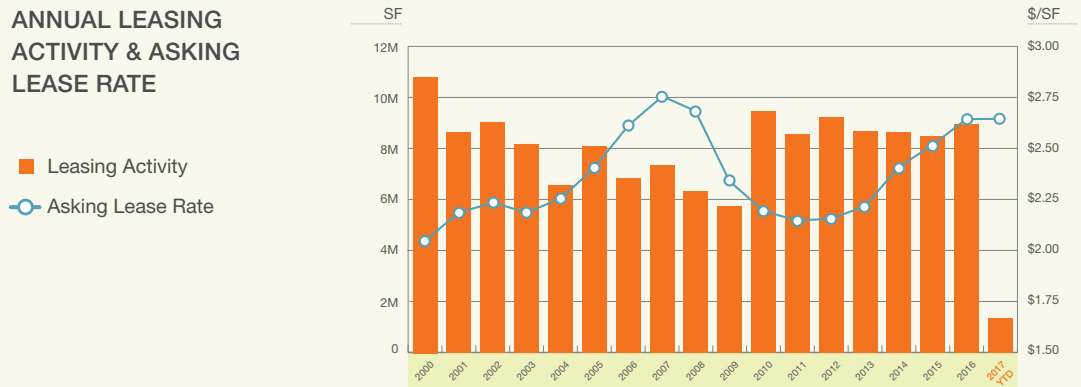
HISTORICAL NEW CONSTRUCTION & VACANCY RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



ANNUAL LEASING ACTIVITY & ASKING LEASE RATE



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