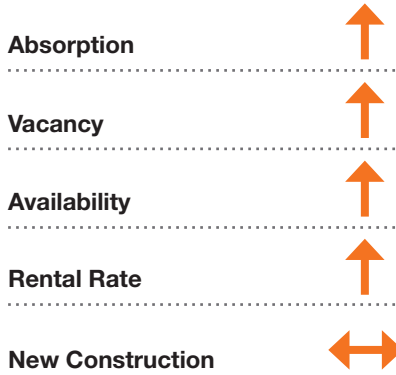


# San Diego Office

## Market Forecast

Trends



## Notable Transactions

**Takeda Pharmaceuticals**  
9625 Towne Centre Drive, UTC  
150,000 s.f. Leased

**California Institute of Arts & Technology**  
401 Mile of Cars Way, National City  
44,000 s.f. Leased

**TriMark R.W. Smith**  
10101 Old Grove Road, Scripps Ranch  
38,210 s.f. Leased

**Kratos Defense & Security Solutions, Inc.**  
10680 Treena Street, Scripps Ranch  
26,191 s.f. Leased

**Verimatrix**  
5897 Oberlin Drive, Sorrento Mesa  
21,200 s.f. Leased

The foundation of San Diego’s office market is sturdy. A strong employment base buoyed by tech, life sciences, and healthcare provides a backbone of stability. Several top universities, from UC San Diego to the University of San Diego, provide a talent pool of job-seeking graduates. According to Moody’s Analytics, the growth in the working-age population in San Diego is expected to top all West Coast metros over the next several years, and San Diego is home to one of the largest percentages of millennials in the United States. With its prime location on California’s southern coast, its geographic constraints, and steady demand, vacancies here are holding steady. Additionally, the amount of available sublet space is holding firm just below the five-year average.

The San Diego Office market finished the second quarter with strong leasing activity and increasing rental rates, albeit slightly negative absorption. The total vacancy rate in the overall San Diego market is 10.6%, a decrease of 103 basis points from this time last year. The San Diego County unemployment rate sits at 3.6%, below the year-ago estimate of 4.3% and well below the unadjusted unemployment rate of 4.2% for California and 4.1% for the nation.

Net absorption for Class A space this quarter was 58,891 square feet, in spite of over 521,000 square feet of leasing activity. Class B office space total vacancy decreased slightly to 11.2% from 11.3% last quarter. Office lease rates for Class A average \$3.21 per square foot on a full service basis across the San Diego market. Users seeking Class A space pay a \$0.76 per square foot premium over Class B space, on average.

The Class A and B office space markets experienced strong leasing activity of over 1.3 million square feet in the second quarter. Submarkets in San Diego with the highest vacancy rates include Vista at 19.4% and Carlsbad at 18.9%. Total space available in the market increased to 14.6 million square feet, increasing total availability to 14.8% which is still below the year-ago rate of 14.4%. Submarkets with the highest direct net absorption in the second quarter included Kearny Mesa at 81,000 square feet, Del Mar Heights/Carmel Valley at 55,500 square feet and Downtown at 43,700 square feet.

→ Continued, page 2

# Area Review

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 growing trend of renovating older buildings and building out 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

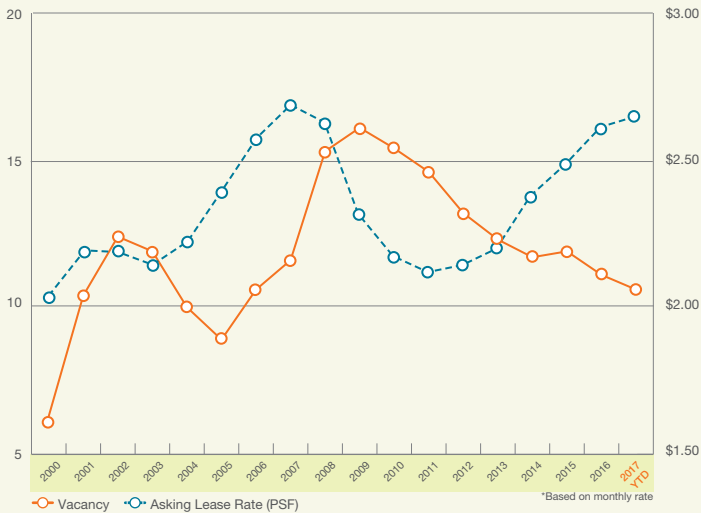
co-working space and studies predict 44 million Americans will be occupying co-working space by 2020. In contrast, large Fortune 500 companies looking to expand in San Diego are having trouble finding big blocks of space to occupy. Only 1% of the available space on the market are big blocks of space over 40,000 square feet with an additional 1% under construction and proposed. This lack of available space will continue to drive migration and speculative development for years to come.

Data Source: CoStar

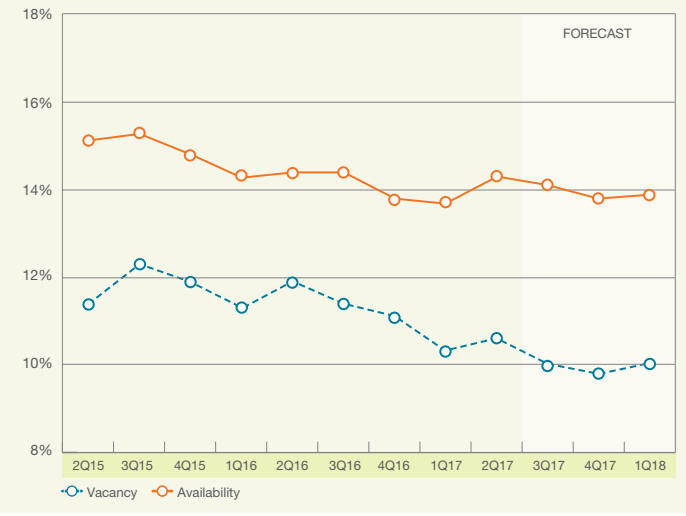
## Submarket Statistics

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	6,340,347	18.0%	18.9%	24.2%	14,574	82,741	112,320	249,495	\$2.46
Escondido	1,622,599	8.6%	8.6%	12.8%	(13,601)	(5,505)	21,745	30,569	\$1.92
Oceanside	1,356,320	11.0%	11.0%	15.1%	18,403	30,587	19,887	31,084	\$1.90
San Marcos	1,315,278	7.9%	7.9%	10.4%	271	3,859	10,634	22,314	\$2.34
Vista	1,246,435	18.1%	19.4%	18.6%	(18,810)	(33,251)	22,734	78,943	\$1.74
<b>North County</b>	<b>11,880,979</b>	<b>14.8%</b>	<b>15.4%</b>	<b>19.5%</b>	<b>837</b>	<b>78,431</b>	<b>187,320</b>	<b>412,405</b>	<b>\$2.23</b>
Poway	1,324,065	4.7%	4.8%	6.8%	(154)	(2,942)	1,814	20,903	\$2.24
Rancho Bernardo	6,991,432	6.6%	8.9%	16.4%	(79,681)	(58,672)	70,162	146,397	\$2.65
Scrapps Ranch	2,715,218	13.4%	15.3%	25.4%	(182,196)	(153,464)	74,692	111,714	\$2.34
<b>I-15 Corridor</b>	<b>11,030,715</b>	<b>8.0%</b>	<b>10.0%</b>	<b>17.5%</b>	<b>(262,031)</b>	<b>(215,078)</b>	<b>146,668</b>	<b>279,014</b>	<b>\$2.52</b>
Del Mar Heights/Carmel Valley	4,663,787	14.4%	16.8%	30.4%	55,649	(6,464)	53,716	141,971	\$4.09
Governor Park	890,160	9.0%	9.4%	13.0%	(14,662)	(22,539)	18,996	31,939	\$2.66
La Jolla	1,404,107	7.8%	8.3%	11.3%	8,124	(60,775)	35,056	50,511	\$3.19
Miramar	1,609,700	9.8%	10.2%	14.8%	(2,549)	(23,427)	39,156	55,642	\$1.85
North Beach Cities	2,397,114	4.9%	5.1%	7.1%	(5,574)	(13,304)	33,971	63,684	\$3.42
Sorrento Mesa	9,496,814	11.7%	12.4%	15.0%	14,386	31,681	96,604	244,910	\$2.80
Sorrento Valley	838,908	8.9%	8.9%	21.2%	279	989	41,325	52,967	\$2.22
Torrey Pines	2,470,705	3.4%	3.7%	6.9%	4,068	9,272	26,702	26,702	\$3.63
UTC	8,452,828	10.8%	13.2%	17.9%	2,727	110,313	219,173	382,042	\$3.41
<b>North Cities</b>	<b>32,224,123</b>	<b>10.3%</b>	<b>11.6%</b>	<b>16.7%</b>	<b>62,448</b>	<b>25,746</b>	<b>564,699</b>	<b>1,050,368</b>	<b>\$3.21</b>
Kearny Mesa	10,622,522	6.1%	6.4%	9.6%	81,275	261,504	123,610	199,908	\$2.23
Mission Gorge	572,926	5.1%	5.1%	5.4%	1,197	10,978	1,990	1,990	\$1.16
Mission Valley	7,253,371	12.4%	12.9%	15.1%	2,681	45,513	132,197	417,556	\$2.45
Old Town/Sports Arena/Pt. Loma	2,097,302	5.9%	6.0%	6.6%	(687)	13,320	27,882	65,779	\$2.44
PB/Rose Canyon/Morena	1,202,150	3.6%	3.6%	5.5%	8,718	8,863	18,630	33,659	\$1.78
<b>Central Suburban</b>	<b>21,748,271</b>	<b>8.0%</b>	<b>8.4%</b>	<b>10.8%</b>	<b>93,184</b>	<b>340,178</b>	<b>304,309</b>	<b>718,892</b>	<b>\$2.27</b>
College Area	1,058,511	3.1%	3.1%	3.9%	5,888	15,463	16,987	19,158	\$2.21
East County	3,599,450	3.7%	3.7%	4.8%	(167)	(1,855)	17,523	34,408	\$1.78
<b>East County</b>	<b>4,657,961</b>	<b>3.5%</b>	<b>3.5%</b>	<b>4.6%</b>	<b>5,721</b>	<b>13,608</b>	<b>34,510</b>	<b>53,566</b>	<b>\$1.88</b>
Park East	155,884	0.5%	3.5%	3.5%	0	(750)	0	0	-
Uptown East	103,555	0.0%	0.0%	10.3%	0	0	0	0	-
Uptown West/Park West	2,501,586	7.6%	7.7%	9.7%	(6,598)	599	15,673	45,214	\$2.64
<b>Uptown</b>	<b>2,761,025</b>	<b>6.9%</b>	<b>7.1%</b>	<b>9.4%</b>	<b>(6,598)</b>	<b>(151)</b>	<b>15,673</b>	<b>45,214</b>	<b>\$2.39</b>
<b>Downtown</b>	<b>12,928,011</b>	<b>10.8%</b>	<b>11.2%</b>	<b>16.3%</b>	<b>43,680</b>	<b>323,878</b>	<b>191,363</b>	<b>402,619</b>	<b>\$2.55</b>
Chula Vista	2,924,678	9.7%	9.8%	11.4%	10,200	6,768	41,424	63,361	\$2.51
Coronado	124,831	14.0%	14.0%	13.9%	(2,138)	(5,788)	0	0	\$3.00
National City	508,388	9.5%	9.5%	0.5%	4,069	18,766	48,875	56,230	\$2.09
Otay Mesa	231,650	5.3%	5.3%	5.3%	(678)	3,396	0	5,174	\$2.02
San Ysidro/Imperial Beach	86,354	0.0%	0.0%	0.0%	0	0	0	0	-
Southeast San Diego	381,826	15.9%	15.9%	15.9%	(3,300)	(3,300)	0	0	\$2.20
<b>South County</b>	<b>4,257,727</b>	<b>9.9%</b>	<b>10.0%</b>	<b>10.0%</b>	<b>8,153</b>	<b>19,842</b>	<b>90,299</b>	<b>124,765</b>	<b>\$2.28</b>
<b>San Diego Total</b>	<b>101,488,812</b>	<b>9.7%</b>	<b>10.6%</b>	<b>14.8%</b>	<b>(54,606)</b>	<b>586,454</b>	<b>1,534,841</b>	<b>3,086,843</b>	<b>\$2.64</b>
Class A	35,508,534	10.1%	11.6%	17.0%	58,891	(9,893)	521,350	1,072,871	\$3.21
Class B	50,974,789	10.6%	11.2%	15.0%	(108,530)	553,545	841,350	1,626,673	\$2.45
Class C	15,005,489	5.9%	5.9%	7.8%	(4,967)	42,802	172,141	387,299	\$1.86
<b>San Diego Total</b>	<b>101,488,812</b>	<b>9.7%</b>	<b>10.6%</b>	<b>14.8%</b>	<b>(54,606)</b>	<b>586,454</b>	<b>1,534,841</b>	<b>3,086,843</b>	<b>\$2.64</b>

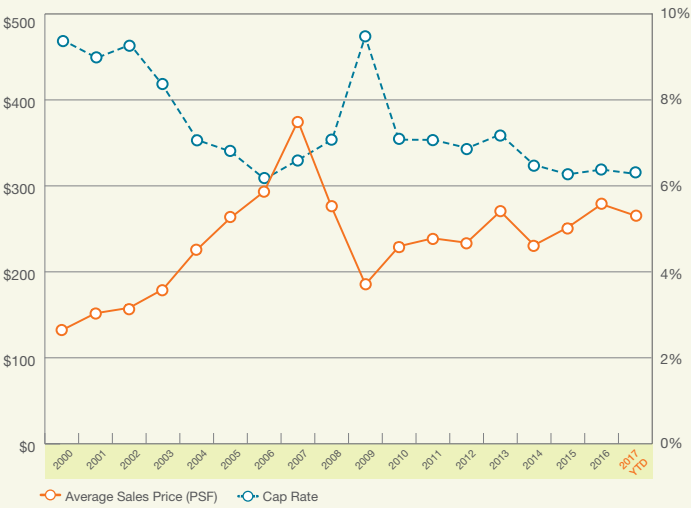
### VACANCY VS ASKING LEASE RATE\*



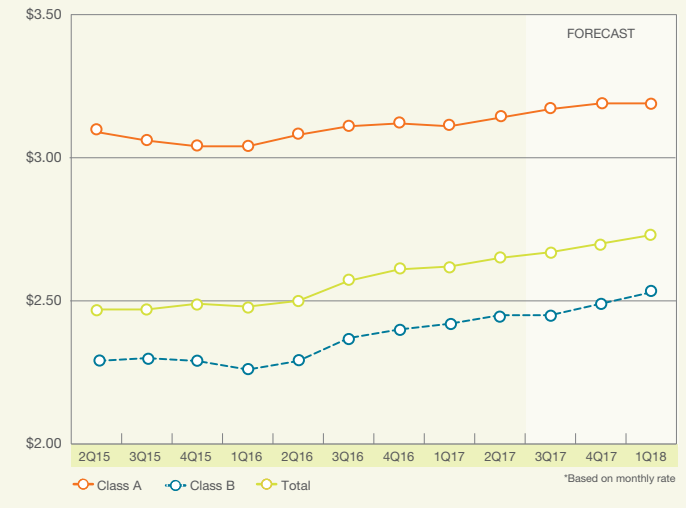
### VACANCY VS AVAILABILITY



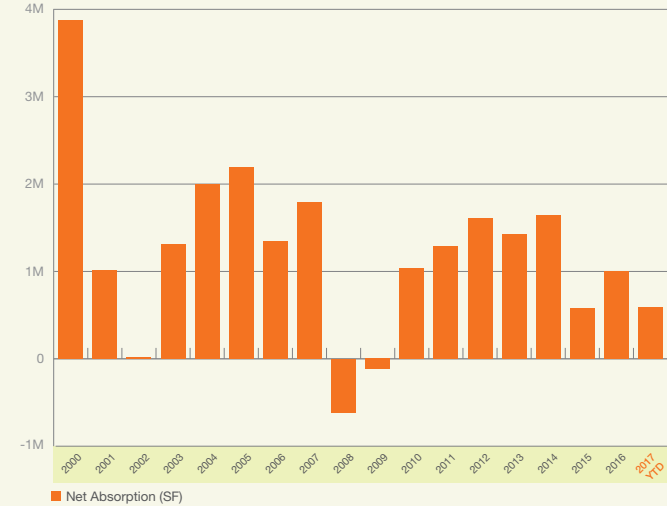
### AVERAGE SALES PRICE & CAPITALIZATION RATES



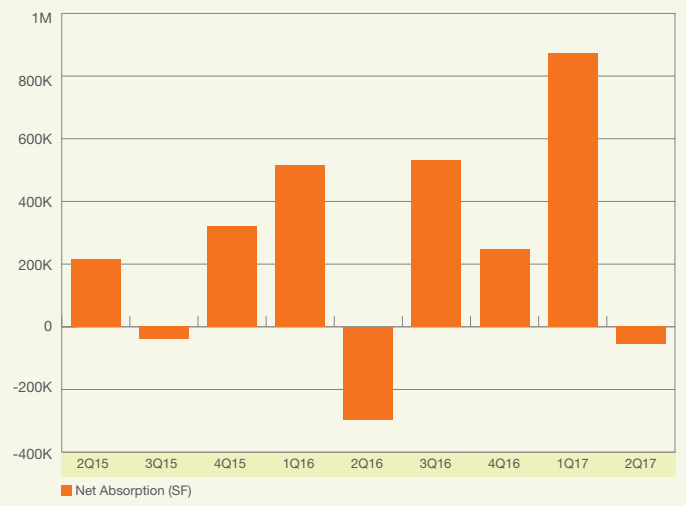
### ASKING LEASE RATE\*



### 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**

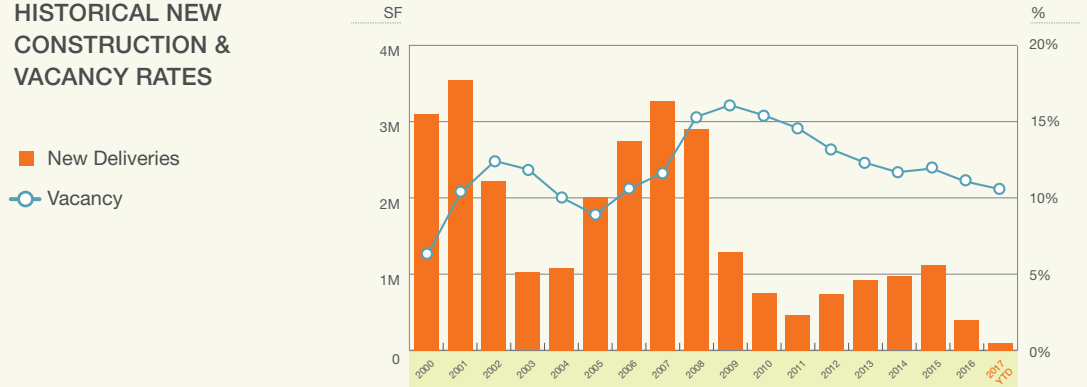
**Mark Read**  
Executive VP, Brokerage  
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mread@kiddermathews.com

Designated Broker  
Mark Read | LIC #00572743

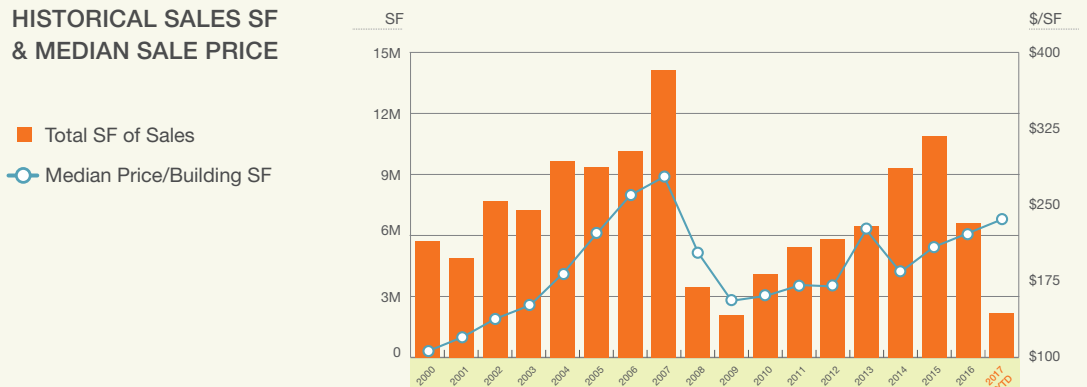
**Market Breakdown**

	2Q17	1Q17	2Q16	Annual % Change
416,895				
Vacancy Rate	10.6%	10.3%	11.9%	-10.9%
Availability Rate	14.8%	13.7%	14.4%	2.8%
Asking Lease Rate	\$2.65	\$2.62	\$2.50	6.0%
Leased SF	1,350,584	1,552,002	2,143,599	-39.7%
Sold SF	416,895	1,789,272	1,611,330	-286.5%
Net Absorption	26,711	727,804	-231,985	N/A

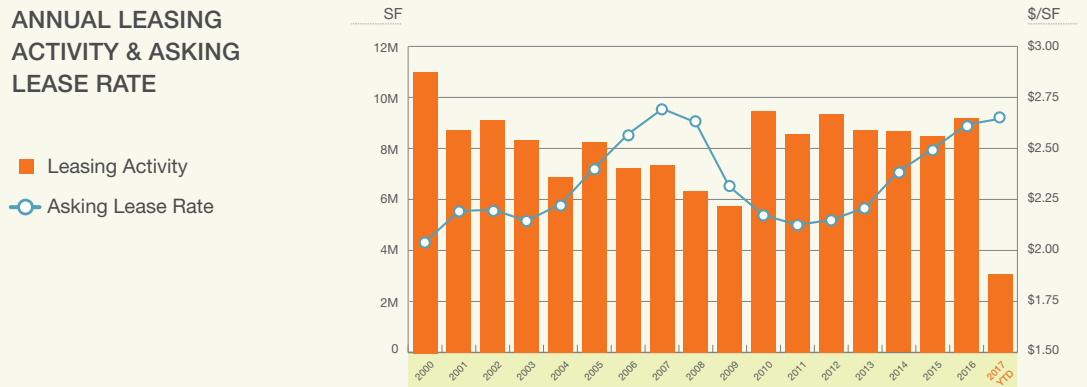
**HISTORICAL NEW CONSTRUCTION & VACANCY RATES**



**HISTORICAL SALES SF & MEDIAN SALE PRICE**



**ANNUAL LEASING ACTIVITY & ASKING LEASE RATE**



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