



#### ANNUAL JOB GROWTH

San Diego created 34,200 net new jobs in the 12 months ending August 2014, led by gains in the Professional & Business Services, Construction, Education & Health Services and Trade, Transportation & Utilities sector.



#### 12-MO DIRECT NET ABSORPTION

Class A properties have witnessed the bulk of the occupancy gains, with I-5 Corridor, Central San Diego and Downtown accounting for 70.1% of the absorption growth within the past year.



#### DIRECT VACANCY RATE

Since peaking at 18.8% at the beginning of 2010, the countrywide direct vacancy rate has dropped to a seven-year low. Meanwhile, Class A direct vacancy levels have dropped to their lowest level since 2005.



#### OVERALL RENTS

Overall asking rents are up 6.2% over the past 12 months, but must overcome a 15% deficit in order to restore rents to their cyclical peak of \$2.86 per sq. ft. recorded early in 2008. Asking rents are projected to reach their pre-recessionary levels in 2016.



#### UNDER CONSTRUCTION

Over the past five years, office construction has primarily been limited to build-to-suit and owner/user development. However, the return of pre-recession vacancy levels and obsolescence should prompt more developers to re-position existing buildings and move forward with speculative development.



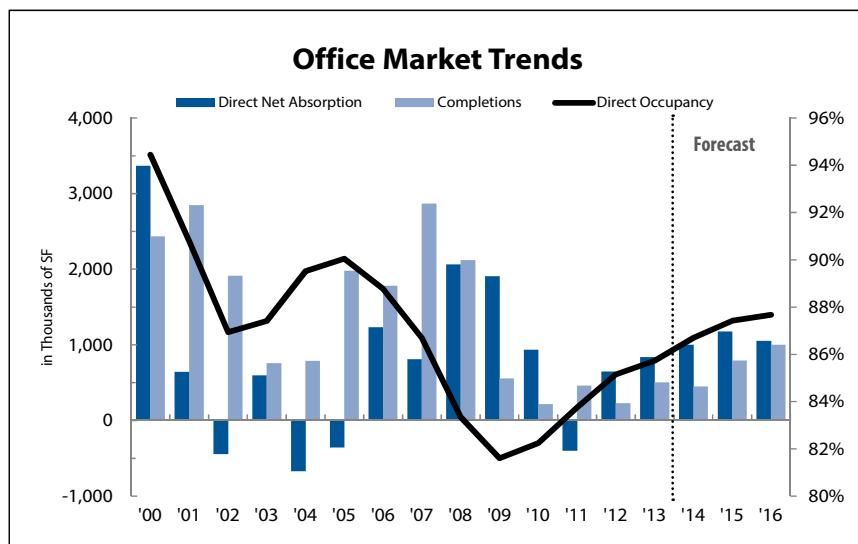
\*Arrows represent change from previous 12 months

## VACANCY LEVELS IMPROVE TO 7-YEAR LOW

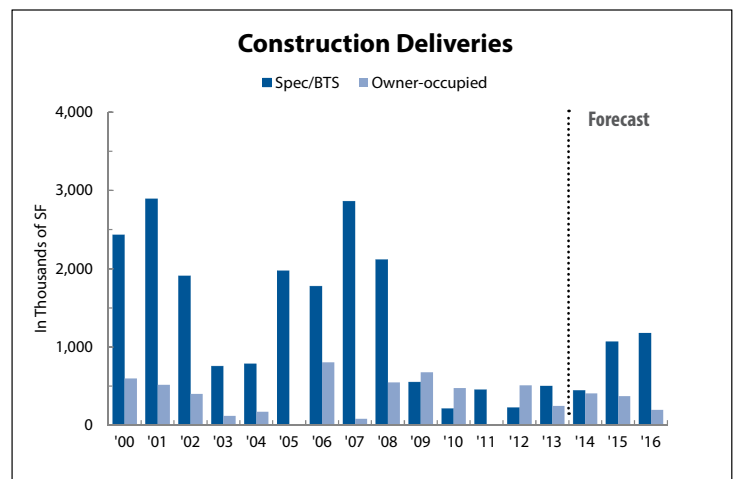
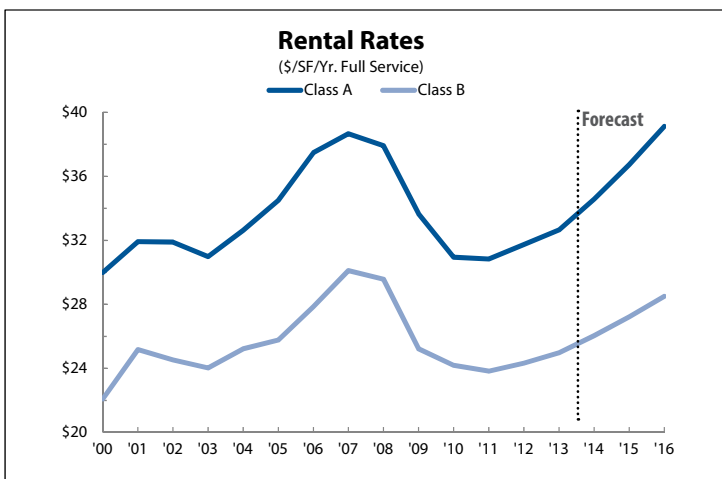
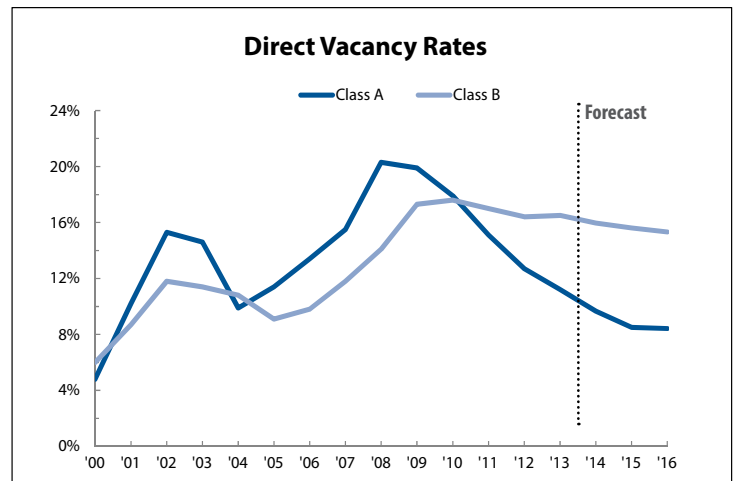
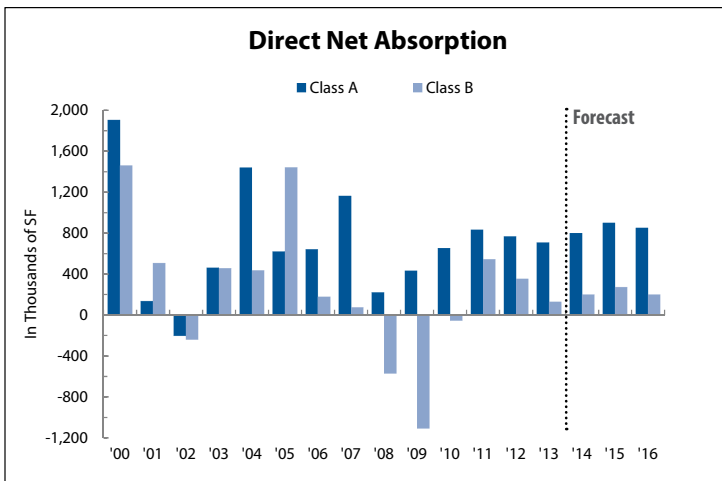
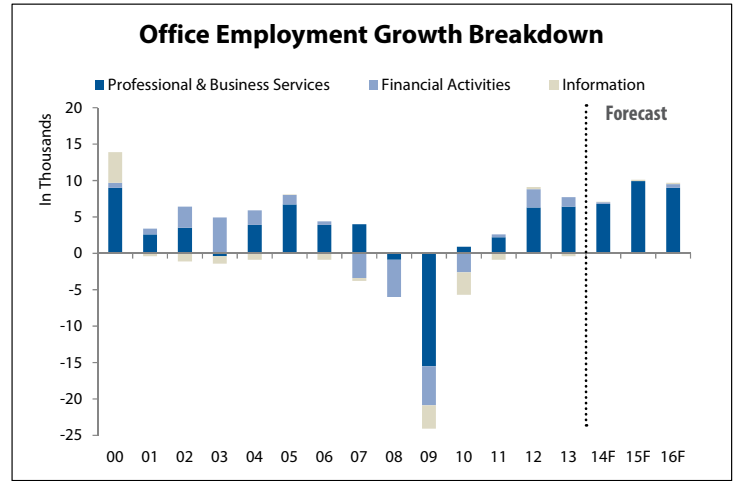
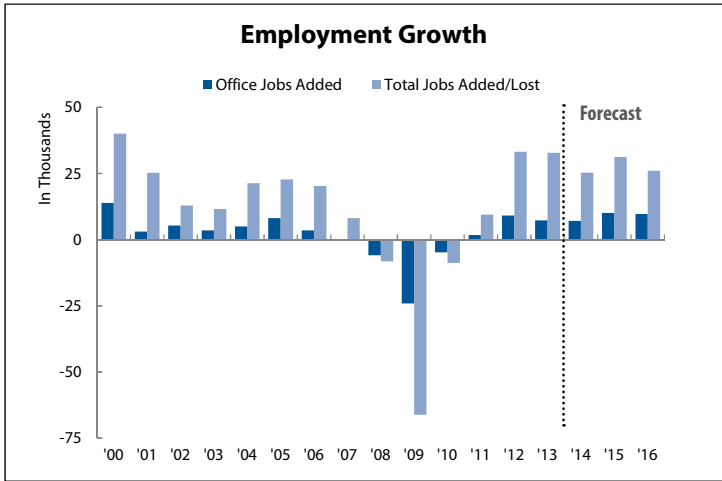
San Diego continued to outpace California's job growth this quarter, creating a notable 133,900 jobs since its post-recessionary trough in January 2010. As a result, total nonfarm employment levels have reached a record high and is now 13,800 jobs above its prior peak recorded in December 2007. Demonstrating another sign of economic growth, San Diego's employment rate has declined 150 basis points to 6.2% within the past 12 months. Looking ahead, employment payrolls are on pace to add 31,000 jobs in 2014 and projected to create 31,250 jobs in 2015, which will outpace the 20-year historical average of 1.5%.

San Diego's office market experienced solid occupancy gains totaling 612,542 sq. ft. during the third quarter, bringing the trailing 12-month total to nearly 1.1 million sq. ft. The Class A office market recorded 145,319 sq. ft. of occupancy gains during the quarter, pushing the 12-month total to 1,072,345 sq. ft. Due to the sector's positive quarterly absorption, Class A vacancy rates have dropped 220 basis points to 10.0% within the past 12 months – their lowest level since mid-year 2005. Accounting for the majority of quarterly absorption, Class B posted 467,223 sq. ft. of occupancy gains. Appropriately, Class B vacancy rates ended the quarter at 16.1%, down 10 basis points from the prior quarter. In addition to the recent delivery of La Jolla Commons II, San Diego has a couple other projects due to deliver in 2014. DPR Construction is slated to deliver Pacific Center IV – a 410,000 sq. ft. office building to be occupied by owner Qualcomm – in November of this year. Spectrum Lab is moving forward with renovation plans and will return its 165,699 sq. ft. to the market once completed next quarter. Projects from Turner Construction Company and The Irvine Company will add over 625,000 sq. ft. to the market when they deliver by mid-year 2015. The improved economy has spurred leasing demand and as a result, Class A full-service gross asking rents increased by 6.9% to \$2.88 while Class B rents appreciated by 5.9% to \$2.20 per sq. ft. within the past 12 months.

San Diego's office market fundamentals will continue to strengthen with steady absorption growth outpacing modest construction deliveries, which will help push the overall vacancy rate down to 13.4% by year-end 2014. Leasing demand will be driven by sustained growth in office-using employment sectors, specifically in the technology and life sciences sub-sectors. With Class A vacancy levels reaching their lowest level since 2005 and limited large contiguous blocks of high quality space available in the market, additional office development could break ground in the year ahead. However, future demand growth is expected to continue outpacing new supply over the next few years.



## HISTORICAL TRENDS & FORECAST



## SUBMARKET STATISTICS

Submarket	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
		Direct Available	Sublease Available	Direct Vacancy	Y-O-Y Change	Current Qtr.	Rolling 12-Month	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
<b>Downtown</b>	10,348,347	1,743,264	181,777	15.6%	-1.7%	36,338	177,711	\$27.60	\$2.30	3.29%
Class A	6,168,645	719,892	135,656	10.9%	-4.2%	37,375	261,467	\$30.11	\$2.51	5.95%
Class B	4,179,702	1,023,372	46,121	22.6%	2.0%	(1,037)	(83,756)	\$24.82	\$2.07	1.18%
<b>Central San Diego</b>	13,796,529	1,940,072	336,541	11.1%	-2.1%	61,134	290,855	\$26.45	\$2.20	9.80%
Class A	4,264,522	498,275	231,650	7.7%	-1.5%	12,779	65,303	\$33.59	\$2.80	13.25%
Class B	9,532,007	1,441,797	104,891	12.6%	-2.4%	48,355	225,552	\$23.52	\$1.96	5.09%
<b>North San Diego</b>	18,283,849	2,785,156	1,240,302	13.1%	1.0%	346,493	180,169	\$32.04	\$2.67	10.14%
Class A	8,105,927	739,389	617,558	6.2%	-1.9%	73,563	534,137	\$39.88	\$3.32	5.89%
Class B	10,177,922	2,045,767	622,744	18.7%	3.5%	272,930	(353,968)	\$28.28	\$2.36	13.57%
<b>I-15 Corridor</b>	8,310,704	1,186,396	131,073	13.5%	1.3%	203,963	120,130	\$27.59	\$2.30	3.60%
Class A	3,825,462	384,510	101,519	10.2%	5.8%	43,829	46,249	\$31.31	\$2.61	3.16%
Class B	4,485,242	801,886	29,554	16.3%	-0.1%	160,134	73,881	\$26.57	\$2.21	4.28%
<b>SR-78 Corridor</b>	2,171,660	445,245	5,036	19.8%	1.3%	17,775	(29,757)	\$24.96	\$2.08	-4.07%
Class A	554,919	139,965	5,036	26.5%	5.8%	5,643	(31,920)	\$31.45	\$2.62	-4.55%
Class B	1,616,741	305,280	0	17.6%	-0.1%	12,132	2,163	\$21.52	\$1.79	-9.92%
<b>I-5 Corridor</b>	10,764,355	1,581,243	426,550	13.5%	-2.7%	(4,919)	322,390	\$33.75	\$2.81	4.52%
Class A	5,051,042	724,455	262,543	12.8%	-0.3%	(14,908)	194,821	\$38.00	\$3.17	5.88%
Class B	5,713,313	856,788	164,007	14.1%	-3.3%	9,989	127,569	\$30.60	\$2.55	4.33%
<b>South Bay</b>	2,104,110	433,126	0	20.8%	-2.7%	(44,302)	56,347	\$23.64	\$1.97	0.30%
Class A	447,583	156,188	0	33.4%	-0.3%	(4,882)	1,513	\$27.04	\$2.25	5.21%
Class B	1,656,527	276,938	0	17.4%	-3.3%	(39,420)	54,834	\$21.92	\$1.83	-3.05%
<b>East County</b>	1,402,819	82,260	2,788	4.9%	-0.8%	(3,940)	10,834	\$27.23	\$2.27	-5.52%
Class A	233,830	25,396	0	10.5%	-0.3%	(8,080)	775	\$28.71	\$2.39	3.53%
Class B	1,168,989	56,864	2,788	3.8%	-0.9%	4,140	10,059	\$26.48	\$2.21	-11.44%

San Diego Totals	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
		Direct Available	Sublease Available	Direct Vacancy	Y-O-Y Change	Current Qtr.	Rolling 12-Month	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Class A	28,651,930	3,388,070	1,353,962	10.0%	-2.2%	145,319	1,072,345	\$34.60	\$2.88	6.86%
Class B	38,530,443	6,808,692	970,105	16.1%	-0.1%	467,223	56,334	\$26.35	\$2.20	5.91%
Overall	67,182,373	10,196,762	2,324,067	13.5%	-1.0%	612,542	1,128,679	\$29.27	\$2.44	6.20%

## METHODOLOGY

**Total Inventory:** The total inventory includes all single and multi-tenant leased office buildings with at least 20,000 square feet of gross rentable square footage.

**Total Space Available:** Available space currently being marketed which is either physically vacant or occupied.

**Direct Space Available:** Space that is being offered for lease directly from the landlord or owner of a building. Under construction space is not included in space available figures.

**Sublease Space Available:** Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation.

**Direct Vacancy Rate:** Direct space physically vacant divided by the total rentable inventory.

**Direct Net Absorption:** The net change in occupied direct space over a given period of time.

**Under Construction:** Office buildings which have commenced construction as evidenced by site excavation or foundation work.

**Direct Asking Rents:** The quoted full-service asking rent for available space expressed in dollars per sq. ft.



## ABOUT PMRG

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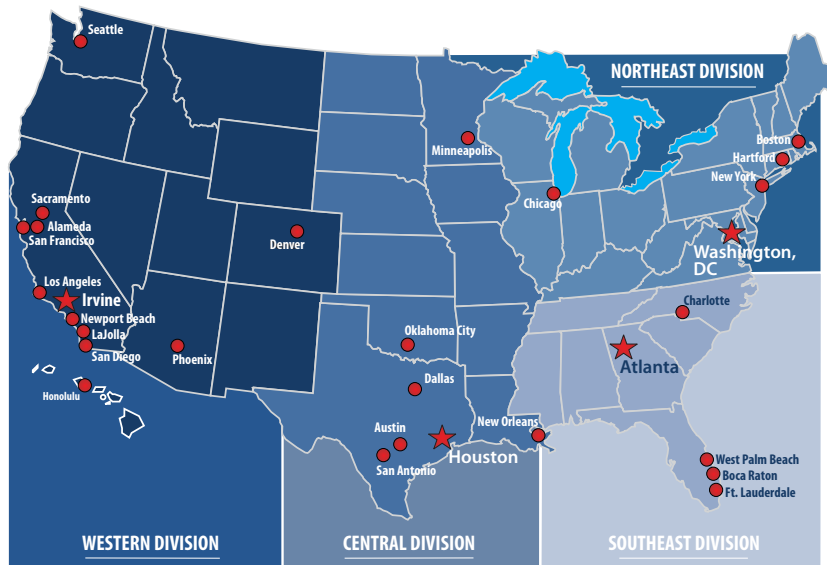
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