



# **San Diego**Office Market | Q3 2015



#### **ANNUAL JOB GROWTH**

San Diego's economic expansion continued with solid job growth exceeding the 3% mark, Professional & Business Services, Construction, and Financial Activities led all sectors in yearly growth ending August 2015.



#### 12-MO DIRECT NET ABSORPTION

North San Diego has captured 56% of the absorption gains within the past year. San Diego's Downtown Class A market accounted for the bulk of the quarterly gains as Sempra Energy upgraded their space moving into their new 320,000 sq. ft. build-to-suit.

## 1.06M square feet

#### **DIRECT VACANCY RATE**

Overall direct vacancy rates increased by 20 basis points year over year. Class A vacancy levels increased by 1.1% during the quarter due to new construction deliveries, while Class B vacancy rose a modest 60 basis points.



#### **OVERALL RENTS**

Overall asking rents are up 7.8% year-overyear. North San Diego experienced the highest annual rent growth with an incredible 12.8% increase, leading all San Diego submarkets. Downtown witnessed the second highest annual increase at 5.0% year-over-year.



#### **UNDER CONSTRUCTION**

There are currently seven projects under construction in the I-5 Corridor, I-15 Corridor, and North San Diego submarkets. Four additional buildings are under renovation in North and Central San Diego with delivery dates between 4Q15 and 2Q16.



\*Arrows represent change from previous 12 months



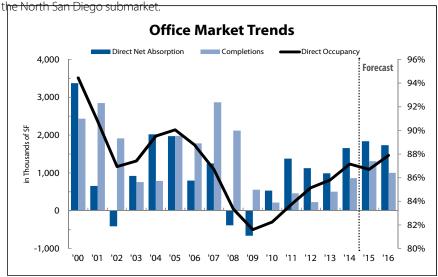
## PMRG Market ATA Glance

## **NEW CONSTRUCTION PUSHES RENT CEILING**

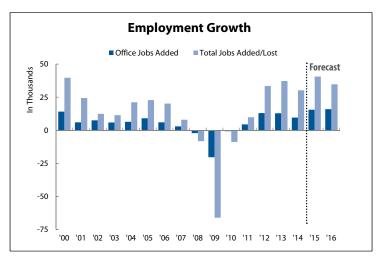
San Diego has remarkably created 42,400 jobs year-over-year ending in August and are now 57,600 jobs above the pre-recession peak recorded in late 2007. Stellar job growth in the professional & business services sector has accounted for 27% of the annual gains, which has helped fuel leasing demand within the past year. The unemployment rate over the prior 12 months has declined by an impressive 150 basis points to 5.1%, demonstrating another sign of healthy economic growth. According to Moody's Analytics, employers are forecasted to expand payrolls by 3.0% in 2015, which would be comparable to the high job growth rates last experienced in 2000.

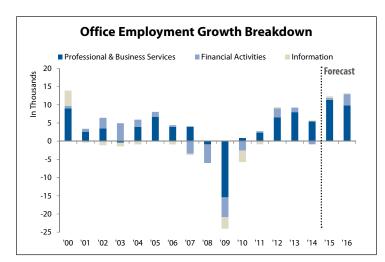
San Diego's office leasing market tapped on the brakes as direct net absorption marginally improved by 830 sq. ft. during the third quarter, bringing the trailing 12-month direct occupancy gains total to just under 1.1 million sq. ft. Class A office space recorded 246,471 sq. ft. of occupancy gains during the quarter, pushing the 12-month trailing total to 881,291 sq. ft. Direct vacancy rates for Class A space, however, rose by 110 basis points to 11.3% during the guarter as construction deliveries outpaced demand. The Class B sector experienced a direct absorption loss of 245,641 sq. ft. for the quarter, decreasing the yearly total to 175,381 sq. ft., but has lowered its vacancy by 30 basis points to 15.9% compared to 12 months ago. Class A full-service gross rents continued their steady rise, with a substantial increase of 10.1% to \$3.18 over the past year. However, much of the recent increase can be attributed to high quality space delivering to the market and taking a larger proportionate share of available space. Class B rents also appreciated by 4.8% to \$2.30 per sq. ft. over the past 12 months. In terms of new supply, there is roughly 309,000 sq. ft. of new construction slated to deliver in the fourth quarter of 2015, with 5909 Sea Otter Place Beta being the largest speculative project at 142,609 sq. ft. Sempra Energy Tower, One La Jolla Center and 590 Rancheros all delivered during the third quarter, adding approximately 655,000 sq. ft. to the market, with 62.6% of this space already leased. Two Class B office buildings, Spectrum Lab and The Yard, are currently undergoing renovations to answer the call for demand and compete with new construction. Spectrum Lab's 165,699 sq. ft. is already preleased and The Yard will add 60,150 sq. ft. to the competitive leasing market.

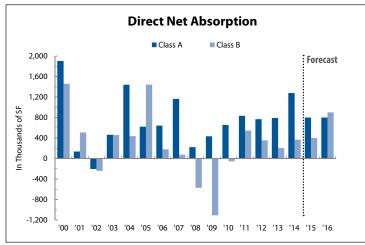
Demand in San Diego's tech and life science sectors continue to drive demand in the office market. Employment growth projections are positive, which in effect will spur demand and preserve negotiation leverage in the landlords' favor for the foreseeable future. As a result, expect rental rates to continue to rise in the most desirable submarkets, especially in

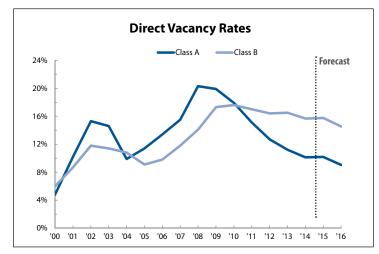


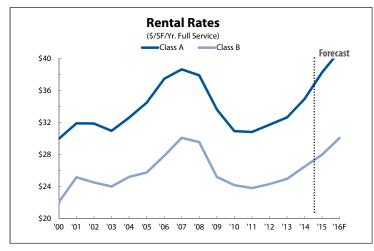
### HISTORICAL TRENDS & FORECAST

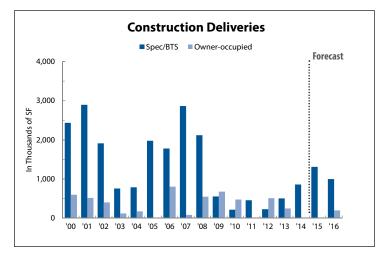












### SUBMARKET STATISTICS

		TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
Submarket	Total Inventory SF	Direct Available	Sublease Available	Direct Vacancy	Y-O-Y	Current Otr.	Trailing 12- Months	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y %
Downtown	10,664,283	2,174,373	136,672	17.2%	Change 1.6%	(47,232)	102,376	\$28.99	\$2.42	Change 5.04%
Class A	6,493,416	755,493	64,866	8.8%	-2.1%	307,694	418,335	\$33.03	\$2.75	9.70%
Class B	4,170,867	1,418,880	71,806	30.2%	7.5%	(354,926)	(315,959)	\$26.33	\$2.19	6.08%
Central San Diego	13,926,784	1,999,669	92,953	11.7%	0.5%	(59,507)	(78,091)	\$27.66	\$2.31	4.06%
Class A	4,262,772	566,208	32,988	11.4%	3.5%	(132,782)	(152,065)	\$34.24	\$2.85	1.94%
Class B	9,664,012	1,433,461	59,965	11.9%	-0.8%	73,275	73,974	\$25.22	\$2.10	6.28%
North San Diego	18,953,482	3,297,495	773,030	14.9%	1.2%	22,947	482,659	\$36.17	\$3.01	12.78%
Class A	9,033,206	1,307,536	322,551	11.8%	3.1%	29,891	374,474	\$44.84	\$3.74	12.44%
Class B	9,920,276	1,989,959	450,479	17.7%	-0.3%	(6,944)	108,185	\$30.27	\$2.52	7.11%
I-15 Corridor	8,391,970	1,006,018	371,593	11.0%	-4.4%	2,726	262,913	\$28.17	\$2.35	3.11%
Class A	3,895,278	411,365	341,926	5.7%	-5.1%	(8,398)	153,956	\$32.81	\$2.73	4.79%
Class B	4,496,692	594,653	29,667	15.6%	-4.2%	11,124	108,957	\$26.73	\$2.23	1.63%
SR-78 Corridor	2,214,040	346,172	2,183	16.4%	-4.4%	60,585	120,659	\$25.94	\$2.25	3.97%
Class A	584,786	124,873	0	21.4%	-5.1%	36,900	52,008	\$32.00	\$2.10	1.75%
Class B	1,629,254	221,299	2,183	14.7%	-4.2%	23,685	68,651	\$32.60	\$1.89	4.77%
I-5 Corridor	10,943,407	1,780,041	343,948	13.5%	-4.2%	5,036	128,086	\$35.09	\$2.92	3.97%
		934,409	205,316	15.1%	-3.2%	· '	•	\$35.09	\$3.27	3.40%
Class A	5,267,758	· ·	•			11,052	14,813	·		
Class B	5,675,649	845,632	138,632	11.9%	-1.7%	(6,016)	113,273	\$31.37	\$2.61	2.82%
South Bay	2,108,093	330,683	5,012	19.2%	-2.0%	9,890	42,864	\$23.66	\$1.97	0.08%
Class A	447,583	142,957	5,012	30.2%	-3.2%	2,114	14,310	\$26.93	\$2.24	-0.41%
Class B	1,660,510	187,726	0	16.2%	-1.7%	7,776	28,554	\$21.87	\$1.82	-0.23%
East County	1,402,821	119,619	0	5.3%	0.4%	6,385	(4,794)	\$27.31	\$2.28	-0.65%
Class A	233,830	21,058	0	8.2%	-2.3%	-	5,460	\$29.84	\$2.49	-0.76%
Class B	1,168,991	98,561	0	4.7%	0.9%	6,385	(10,254)	\$26.62	\$2.22	0.53%

		TOTAL SPACE	AVAILABLE	DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
	Total	Direct	Sublease	Direct	Y-O-Y		Trailing 12-	Avg Rents	Avg Rents	Y-O-Y %
San Diego Totals	Inventory SF	Available	Available	Vacancy	Change	Current Qtr.	Months	PSF/Yr	PSF/Mo.	Change
Class A	30,218,629	4,263,899	972,659	11.3%	0.7%	246,471	881,291	\$38.10	\$3.18	10.05%
Class B	38,386,251	6,790,171	752,732	15.9%	-0.3%	-245,641	175,381	\$27.58	\$2.30	4.83%
Overall	68,604,880	11,054,070	1,725,391	13.9%	0.2%	830	1,056,672	\$31.41	\$2.62	7.38%

#### **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.



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# PMRG Marketar Glance



#### ABOUT PMRG

Headquartered in Houston, Texas, PM Realty Group (PMRG) is one of the nation's leading real estate companies focusing on comprehensive property services, development and acquisitions. With a strategic presence in 30 markets, PMRG provides the highest quality services to its clients and investors. PMRG's clients and investors include large financial institutions, advisors and high net worth individuals. By capitalizing on the team's experience and expertise, PMRG has the ability to undertake large and challenging management, leasing, development and acquisition projects.

PMRG's portfolio, including projects managed for third parties, includes commercial office buildings, mixed-use centers, corporate headquarters, industrial buildings, medical facilities, high-rise multifamily buildings and re-appropriated military facilities.

Our goal is to generate exceptional returns for our clients and investors by focusing on real estate fundamentals. For additional information, visit www.pmrg.com.

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- · Investment Sales and Capital Markets
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- Management Services
- · Property Management
- · Construction Management
- Development Services
- · National Market Research



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