

# San Diego

Office Market | Q2 2015



#### **ANNUAL JOB GROWTH**

San Diego created 42,400 net new jobs in the 12 months ending May 2015, led by employment gains in the Professional & Business Services; Leisure & Hospitality; and Education & Health Services;.



#### 12-MO DIRECT NET ABSORPTION

Class B properties witnessed almost four times the quarterly gains of Class A properties. North San Diego, I-15 Corridor and Downtown accounted for 84.3% of the absorption growth within the past year.



#### **DIRECT VACANCY RATE**

Overall direct vacancy rates dropped by 1.7% year-over-year. After falling to its lowest level since 2001, Class A vacancy slightly increased by 40 bps during the quarter due to new supply. However, Class B vacancy fell to the lowest levels since early 2009.



#### **OVERALL RENTS**

Overall asking rents are up 5.4% year-overyear. Central San Diego and North San Diego experienced the highest annual rent growth with a 6.2% and a 5.9% increase, respectively.



### **UNDER CONSTRUCTION**

There are currently five projects under construction in North San Diego, Central San Diego, and the I-5 Corridor markets. Two buildings are also under renovation in North and Central San Diego with delivery dates between 3Q15 and and early 2016.



\*Arrows represent change from previous 12 months



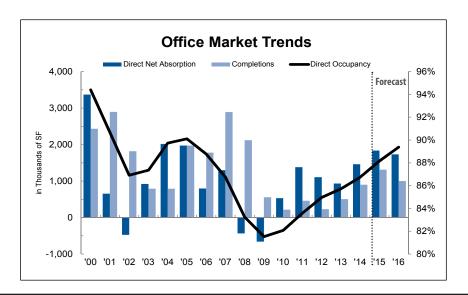
# PMRG Marketar Glance

### LIMITED SPACE OPTIONS PUSH RENTS HIGHER

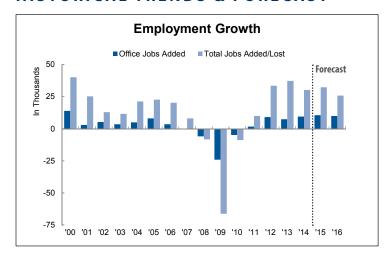
San Diego continued to impress with solid job growth, declining unemployment rates, and its 16th consecutive quarter of rental rate increases in Class A office space. San Diego has remarkably created 174,700 jobs since its trough in January 2010. Total nonfarm employment levels grew by 42,000 jobs year-over-year ending in May and are now about 55,000 jobs above its pre-recession peak recorded late in 2007. San Diego's unemployment rate declined an impressive 120 basis points to 4.9% over the past 12 months; demonstrating signs of robust economic growth. Jobs are expected to rise by 32,300 positions in 2015, which equates to a 2.4% annual increase, exceeding its 20-year historical average of 1.7%.

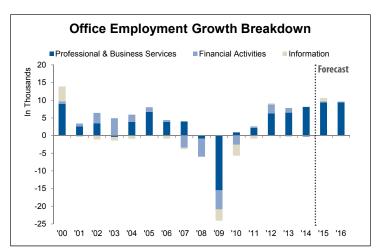
Occupancy gains in San Diego's office market totaled 259,308 sq. ft. during the second quarter, bringing the trailing 12-month direct absorption gain to over 1.67 million sq. ft. The Class A office market recorded 56,750 sq. ft. of occupancy gains during the quarter, pushing the 12-month trailing total to 823,211 sq. ft. Strong demand and lack of new deliveries caused Class A direct vacancy rates to drop 100 basis points to 10.2% since midyear 2014. The Class B sector experienced a gain of 202,558 sq. ft. of direct absorption, increasing the annual total to 848,547 sq. ft. and lowering its vacancy rate by 220 basis point to 15.2% compared to 12 months ago. Class A full-service gross asking rents have increased by 5.39% to \$3.02 over the past year, their highest mark since early 2008. Class B rents appreciated by 6.2% to \$2.28 per sq. ft. over the past 12 months. In terms of new supply, there is roughly 630,000 sq. ft. of new construction slated to deliver in 2015, with the largest speculative project being One La Jolla Center at 4655 Executive Drive. Cruzan's 5600 Avenida Encinas was the only delivery for the second quarter, adding just over 177,000 sq. ft. to the I-5 Corridor submarket. Additionally, there are two Class B office buildings currently undergoing renovations to reposition and better compete with new product at a lower price point, which will add just over 232,609 sq. ft. combined to the competitive leasing market before year's end.

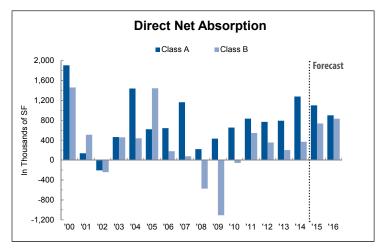
San Diego's growing tech sector continues to drive demand in the office market. As colleges such San Diego State University, University of California San Diego, and the University of San Diego continue to supply great work prospects, the market will stay on its current growth track. Office employment growth will push occupancy and rental rates even higher, creating a landlord favorable setting in the most desirable submarkets. UTC and Sorrento Mesa are two micro-markets where tenants are experiencing sticker shock on renewals as their leases expire.

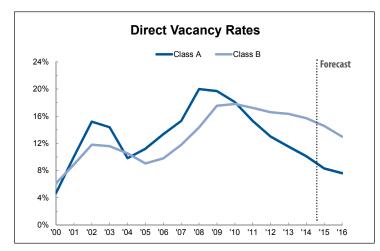


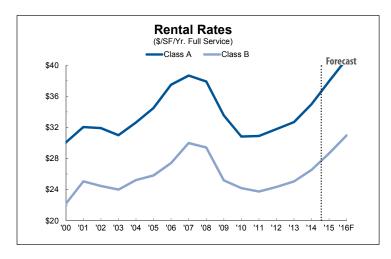
#### **HISTORICAL TRENDS & FORECAST**

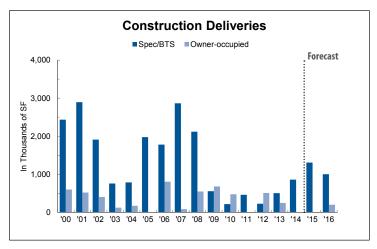












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# PMRG Marketas Glance

### 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 Change	Current Qtr.	Trailing 12- Months	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Downtown	10,387,402	1,805,410	124,408	14.1%	-1.8%	8,296	185,846	\$28.26	\$2.36	3.25%
Class A	6,170,451	720,995	57,169	9.1%	-2.4%	(13,801)	148,016	\$31.21	\$2.60	4.77%
Class B	4,216,951	1,084,415	67,239	21.5%	-0.9%	22,097	37,830	\$26.04	\$2.17	3.50%
Central San Diego	13,841,306	2,047,113	100,368	10.7%	-0.4%	71,083	58,798	\$27.80	\$2.32	6.23%
Class A	4,264,990	645,993	36,110	8.3%	0.2%	4,357	(6,504)	\$35.12	\$2.93	8.29%
Class B	9,576,316	1,401,120	64,258	11.8%	-0.7%	66,726	65,302	\$24.87	\$2.07	5.11%
North San Diego	18,623,379	3,175,643	692,169	14.0%	-2.0%	(3,355)	757,245	\$33.33	\$2.78	5.91%
Class A	8,728,492	1,022,503	337,592	9.0%	-0.5%	(5,239)	418,146	\$41.44	\$3.45	5.28%
Class B	9,894,887	2,153,140	354,577	18.4%	-3.1%	1,884	339,099	\$29.88	\$2.49	11.53%
I-15 Corridor	8,369,989	883,099	378,312	11.0%	-2.8%	111,596	465,549	\$27.91	\$2.33	4.03%
Class A	3,895,278	249,698	350,524	5.3%	-3.7%	36,140	225,504	\$32.54	\$2.71	3.86%
Class B	4,474,711	633,401	27,788	15.9%	-2.5%	75,456	240,045	\$26.47	\$2.21	3.28%
SR-78 Corridor	2,183,038	369,588	2,183	18.1%	-2.8%	18,710	61,648	\$25.64	\$2.14	4.27%
Class A	554,784	131,771	0	23.8%	-3.7%	2,432	20,751	\$31.78	\$2.65	0.57%
Class B	1,628,254	237,817	2,183	16.1%	-2.5%	16,278	40,897	\$22.36	\$1.86	5.27%
I-5 Corridor	10,941,832	1,683,824	432,856	13.5%	-0.7%	55,076	142,021	\$35.31	\$2.94	5.18%
Class A	5,266,523	875,006	211,618	15.3%	-1.6%	26,698	12,604	\$39.49	\$3.29	3.08%
Class B	5,675,309	808,818	221,238	11.8%	-0.5%	28,378	129,417	\$31.29	\$2.61	3.54%
South Bay	2,106,510	441,274	5,012	19.7%	-0.7%	811	15,770	\$23.66	\$1.97	-0.46%
Class A	447,583	140,709	5,012	30.7%	-1.6%	6,163	7,314	\$26.57	\$2.21	-2.50%
Class B	1,658,927	300,565	0	16.7%	-0.5%	(5,352)	8,456	\$22.17	\$1.85	0.00%
East County	1,402,821	123,097	0	5.7%	1.1%	(2,909)	(15,119)	\$27.44	\$2.29	-0.65%
Class A	233,830	21,058	0	8.2%	1.1%	0	(2,620)	\$29.74	\$2.48	-1.10%
Class B	1,168,991	102,039	0	5.3%	1.1%	(2,909)	(12,499)	\$26.83	\$2.24	0.71%

	TOTAL SPACE AVAILABLE			DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
San Diego Totals	Total Inventory SF	Direct Available	Sublease Available	Direct Vacancy	Y-O-Y Change	Current Qtr.	Trailing 12- Months	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Class A	29,561,931	3,807,733	998,025	10.2%	-1.0%	56,750	823,211	\$36.18	\$3.02	5.39%
Class B	38,294,346	6,721,315	737,283	15.2%	-2.2%	202,558	848,547	\$27.36	\$2.28	6.21%
Overall	67,856,277	10,529,048	1,735,308	13.0%	-1.7%	259,308	1,671,758	\$30.38	\$2.53	5.52%

### **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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#### 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.

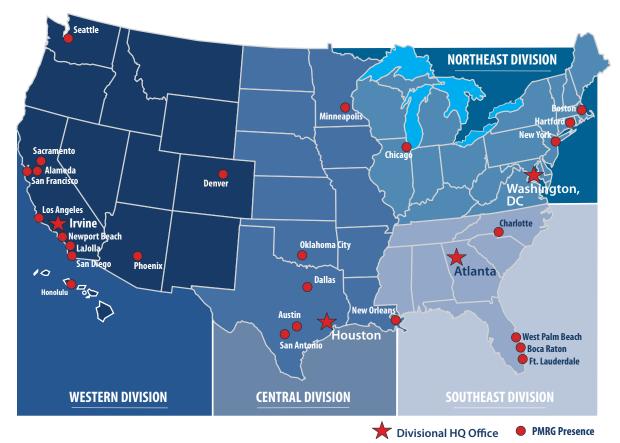
Our goal is to generate exceptional returns for our clients and investors by focusing on real estate fundamentals. For additional information, visit www.pmrg.com.

## **SERVICES**

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- Investment Sales and Capital Markets
- Golf Course and Land Sales

- · Management Services
- Property Management
- · Construction Management
- · Development Services
- · National Market Research







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