

San Diego



Market Facts

4.1%

San Diego County
Unemployment Rate
As Of Sept 2017

43,814 SF

Positive Net Absorption
Current Quarter

Positive 291,001 SF
Year-To-Date

10.8%

Total Vacancy Rate
Flat From 10.8% In Q2 2017

\$2.74 PSF

Asking Rental Rate
Weighted Average

Market Overview

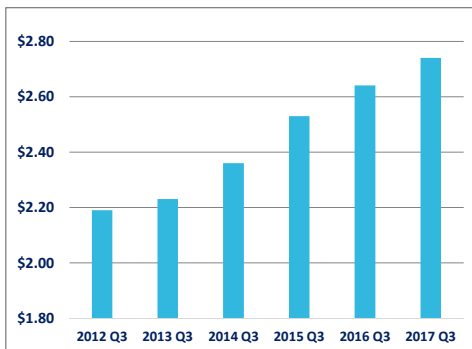
The San Diego office market remained robust with solid demand through the third quarter of 2017. Flat vacancy persists across the county, while rents continue to increase quarter-over-quarter. Along with a desirable geography, the market benefits from strong demand for space by healthcare innovators, independent research institutes and sectors that work closely with the local military. The San Diego County unemployment rate, as of the third quarter of the year dropped to 4.1%, down from 4.6% one year earlier.

Vacancy in the county contracted to 10.8% by the end of the third quarter of 2017, as compared to 11.5% recorded at the same time in the previous year. San Diego's office market has been able to sustain competitive vacancy levels, even after the up-tick in new deliveries added over the past few years. Office space continues to spend less time on the market, and fewer months vacant.

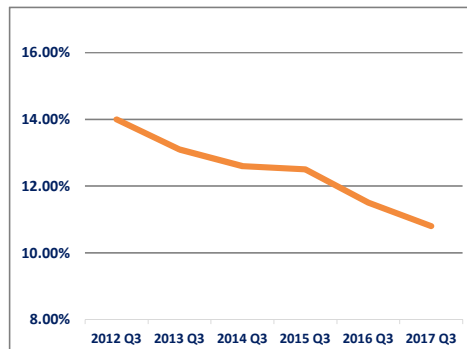
Rental rates have reached \$2.74 psf FSG as of the third quarter of 2017, increasing from \$2.64 psf FSG at the same time in the previous year. The highest rents were found in the Central Coast submarket at \$3.34 psf FSG, with the next highest in the Downtown submarket at \$2.60 psf FSG, followed by the North County Coastal area at \$2.51 psf FSG. Increases in Central Coast rents are driven largely by the profound demand from the life science sector, which is among the most prominent in the United States.

San Diego County recorded a net absorption of positive 43,814 sf of office space in the third quarter of 2017, and positive 943,158 sf for the most recent 12 month period. The San Diego office market had seven investment-grade office projects under construction at the third quarter, including life science projects, amounting to 657,099 sf of new inventory that is expected to be delivered in 2017 and 2018.

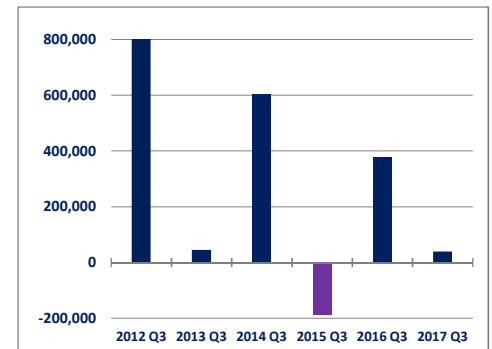
Asking Rent



Vacancy Rates



Net Absorption



Top Leases

Tenant	Type	Address	Submarket	SF
NuVasive, Inc. - <i>Life Science</i>	Renewal	7473-7475 Lusk Boulevard	Sorrento Mesa	251,941
Forcepoint	Renewal	10240 Sorrento Valley Road	Sorrento Valley	64,117
Lighthouse Strategies, Inc.	New	10170 Sorrento Valley Road	Sorrento Valley	40,811
InhibiRX - <i>Life Science</i>	New	11025 N Torrey Pines Road	Torrey Pines	34,387
Mental Health Systems	New	1100 Sportfisher Drive	Oceanside	32,742

Top Sales

Address	Submarket	Buyer	Seller	Price	SF
350 10th Avenue	Downtown	DivcoWest	Cisgna Investments / Cruzan	\$207,000,000	313,103
600 B Street	Downtown	Rockwood Capital, LLC	Lincoln Property / Angelo, Gordon & Co.	\$109,500,000	359,278
4510-4520 Executive Drive	UTC	The Carlyle Group	Equity Office Properties	\$97,000,000	201,905
12670-12680 High Bluff Drive	Del Mar Heights	The Irvine Company	TIAA-CREF Investment Management, LLC	\$86,500,000	126,560
2855 Gazelle Court - <i>Life Science</i>	Carlsbad	Ionis Pharmaceuticals, Inc.	Biomed Realty	\$79,400,000	176,000

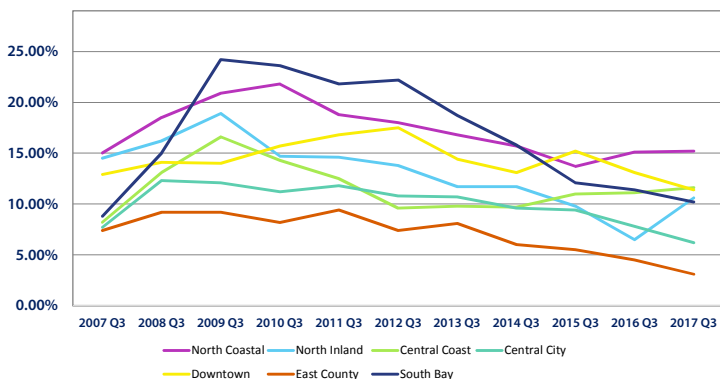
Under Construction

Address	Submarket	Developer	SF	Completion
3215 Merryfield Row - <i>Life Science</i>	Torrey Pines	Alexandria Real Estate Equities	170,523	Q3 2018
350 Camino De La Reina, AMP&RSAND-Press	Mission Valley	The Casey Brown Company	163,000	Q1 2018
9625 Towne Centre Drive - <i>Life Science</i>	UTC	Alexandria Real Estate Equities, Inc.	150,000	Q2 2018
1514 F Street, Makers Quarter-Block D	Downtown	Lankford & Associates/ Hensel Phelps/ H	60,000	Q2 2017
1800 Aston Avenue, Aston Point	Carlsbad	Burke Development, Inc.	48,954	Q1 2018

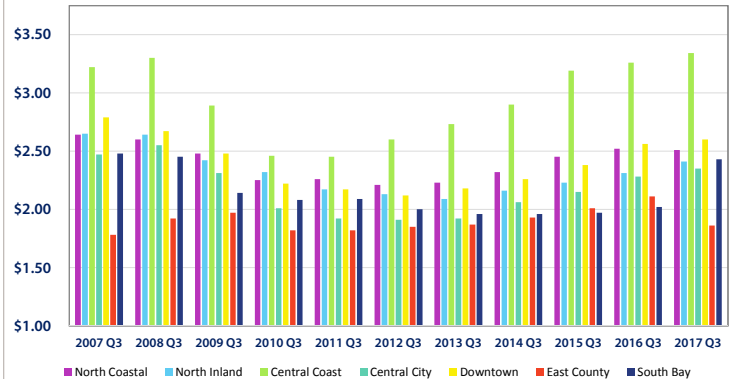
San Diego By The Numbers

Vacancy				Net Absorption		Avg. Advertised Rates (FSG)			Construction Pipeline			
Q3 2017 Inventory (SF)	Q3 2017 Vacancy (SF)	Q3 2017 Vacancy (%)	Q2 2017 Vacancy (%)	Current Quarter Absorption	Year-To-Date Absorption	Q32017 Rental Rates	Q2 2017 Rental Rates	Qtr/Qtr Change (%)	Current Quarter Deliveries	YTD Deliveries	Under Construction Quarter-End	
North County Coastal												
Class A	2,458,033	348,860	14.70%	18.10%	37,141	57,418	\$2.70	\$2.67	1.12%	0	0	48,954
Class B	6,911,369	1,081,981	16.10%	12.00%	-84,137	-16,008	\$2.46	\$2.45	0.41%	60,000	60,000	64,622
Class C	411,677	66,705	17.20%	17.10%	3,630	4,447	\$1.88	\$1.86	1.08%	0	0	0
Total	9,781,079	1,497,546	15.80%	13.80%	-43,366	45,857	\$2.51	\$2.50	0.40%	60,000	60,000	113,576
North County Inland												
Class A	5,471,034	822,372	15.00%	11.60%	-188,721	-522,551	\$2.94	\$2.83	3.89%	0	0	0
Class B	6,397,092	646,500	10.10%	9.40%	-51,312	-142,297	\$2.27	\$2.24	1.34%	0	0	0
Class C	564,540	49,226	8.70%	9.60%	1,866	-4,486	\$1.58	\$1.51	4.64%	0	0	0
Total	12,432,666	1,518,098	12.20%	10.40%	-238,167	-669,334	\$2.41	\$2.37	1.69%	0	0	0
Central Coast												
Class A	14,479,532	1,785,545	12.00%	11.60%	146,605	496,162	\$3.61	\$3.61	0.00%	407,032	503,467	320,523
Class B	12,799,782	1,724,706	14.10%	12.10%	110,670	220,954	\$3.00	\$2.97	1.01%	0	367,326	0
Class C	630,981	30,031	5.50%	4.60%	-2,601	-4,737	\$1.93	\$1.93	0.00%	0	0	0
Total	27,910,295	3,540,282	12.80%	11.65%	254,674	712,379	\$3.34	\$3.32	0.60%	407,032	870,793	320,523
Central City												
Class A	5,493,204	417,870	7.80%	11.80%	67,537	96,369	\$2.97	\$2.98	-0.34%	0	0	163,000
Class B	11,539,600	785,466	6.80%	7.90%	122,740	152,308	\$2.20	\$2.25	-2.22%	0	0	0
Class C	3,721,645	146,394	4.00%	4.30%	12,017	89,785	\$1.73	\$1.70	1.76%	0	0	0
Total	20,754,449	1,349,730	6.60%	8.30%	202,294	338,462	\$2.35	\$2.37	-0.84%	0	0	163,000
Downtown Business District												
Class A	6,696,434	586,376	8.80%	8.10%	-46,699	-45,558	\$2.98	\$2.92	2.05%	0	0	60,000
Class B	4,133,167	796,081	19.30%	17.90%	-56,174	-80,974	\$2.25	\$2.23	0.90%	0	0	0
Class C	1,504,850	141,333	9.40%	8.70%	-11,131	-7,564	\$2.48	\$2.46	0.81%	0	0	0
Total	12,334,451	1,523,790	12.40%	11.40%	-114,004	-134,096	\$2.60	\$2.55	1.96%	0	0	60,000
East County												
Class A	233,830	14,409	6.20%	4.70%	-3,369	-3,369	\$2.27	\$2.27	0.00%	0	0	0
Class B	2,391,469	70,196	2.90%	2.20%	1,544	9,991	\$1.95	\$2.35	-17.02%	0	0	0
Class C	771,614	31,271	4.10%	5.50%	-2,514	-3,744	\$1.44	\$1.32	9.09%	0	0	0
Total	3,396,913	115,876	3.40%	3.30%	-4,339	2,878	\$1.86	\$1.86	0.00%	0	0	0
South Bay												
Class A	447,583	100,377	22.40%	24.00%	6,900	26,768	\$2.56	\$2.55	0.39%	0	0	0
Class B	2,062,619	211,618	10.30%	10.10%	-18,302	-30,037	\$2.42	\$2.40	0.83%	0	0	0
Class C	332,559	25,572	7.70%	7.10%	-1,876	-1,876	\$1.99	\$1.99	0.00%	0	0	0
Total	2,842,761	337,567	11.90%	12.00%	-13,278	-5,145	\$2.43	\$2.43	0.00%	0	0	0
San Diego County Office												
Class A	35,279,650	4,075,809	11.60%	11.60%	19,394	105,239	\$3.23	\$3.21	0.62%	407,032	503,467	592,477
Class B	46,235,098	5,316,548	10.90%	11.00%	25,029	113,937	\$2.46	\$2.46	0.00%	60,000	427,326	64,622
Class C	7,937,866	490,532	6.30%	6.70%	-609	71,825	\$1.90	\$1.85	2.70%	0	0	0
TOTAL	89,452,614	9,882,889	10.80%	10.80%	43,814	291,001	\$2.74	\$2.73	0.37%	467,032	930,793	657,099

Vacancy by Region



Rental Rate by Region



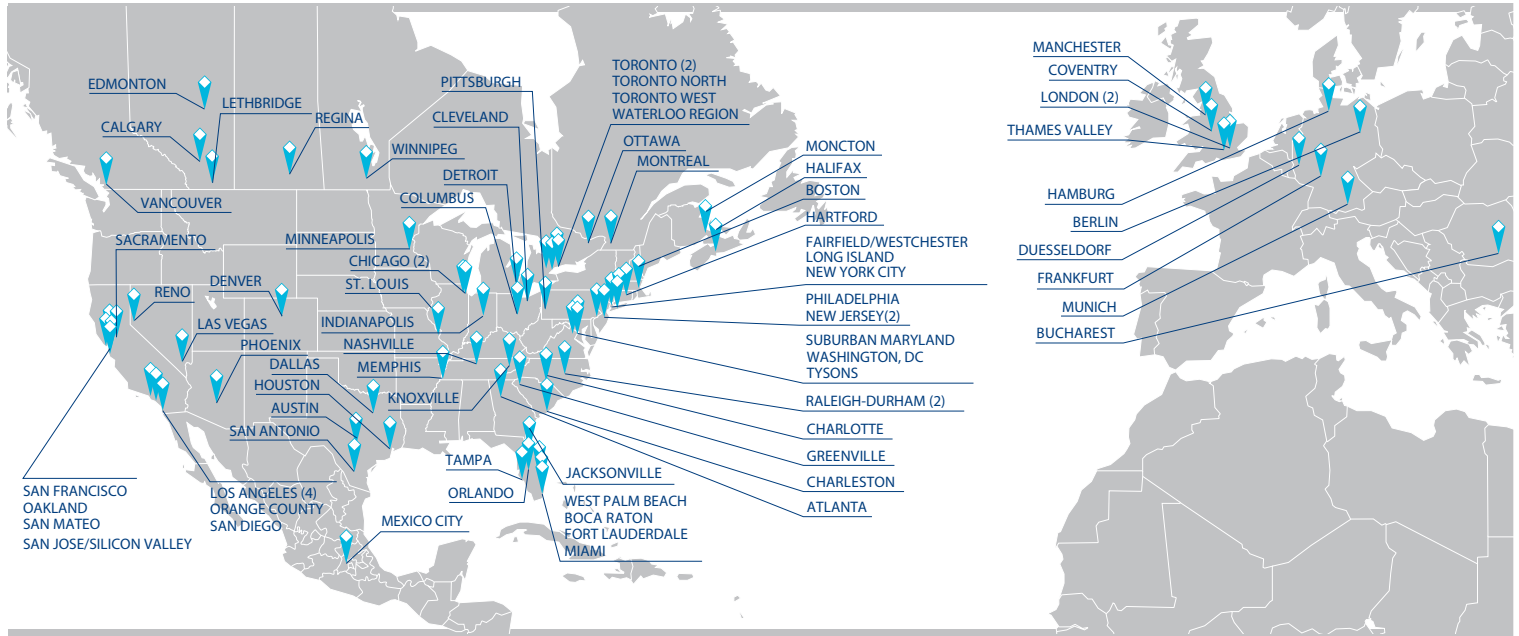
Office Markets	Total Market including owner occupied space			Leased Market				
	Existing Inventory (SF)	Total Vacancy %	Under Construction	Existing Inventory	Direct Vacancy %	Total Vacancy %	Total Net Absorption	Average Asking Rents
Carlsbad	5,517,682	20.00%	113,576	5,119,457	19.40%	20.30%	-26,494	\$2.50
Encinitas/Solana Beach/Del Mar/RSF	1,637,691	7.10%	0	1,608,032	7.00%	7.20%	1,786	\$3.50
Oceanside	796,285	7.20%	0	733,514	7.80%	7.80%	23,406	\$1.95
San Marcos	1,079,815	8.60%	0	783,472	11.60%	11.60%	-2,474	\$2.38
Vista	749,606	22.70%	0	724,296	23.50%	23.50%	-39,590	\$1.94
North County Coastal	9,781,079	15.80%	113,576	8,968,771	16.00%	16.50%	-43,366	\$2.51
	Existing Inventory (SF)	Total Vacancy%	Under Construction	Existing Inventory	Direct Vacancy %	Total Vacancy %	Total Net Absorption	Average Asking Rents
Escondido	854,881	8.70%	0	829,481	8.70%	8.90%	84	\$1.97
Miramar/Mira Mesa	1,472,149	8.80%	0	1,428,683	9.00%	9.10%	15,238	\$1.90
Poway	1,169,832	7.10%	0	780,047	10.70%	10.70%	-13,981	\$2.21
Carmel Mountain Ranch/Rancho Bernardo	6,550,716	11.50%	0	4,980,444	11.90%	15.10%	-161,823	\$2.75
Scripps Ranch	2,385,088	20.10%	0	1,876,778	23.90%	25.60%	-82,530	\$2.36
North County Inland	12,432,666	12.20%	0	9,895,433	13.40%	15.30%	-243,012	\$2.41
	Existing Inventory (SF)	Total Vacancy%	Under Construction	Existing Inventory	Direct Vacancy %	Total Vacancy %	Total Net Absorption	Average Asking Rents
Del Mar Heights/Carmel Valley	4,586,638	17.20%	0	4,480,418	15.70%	17.60%	44,180	\$4.03
Governor Park	795,545	6.60%	0	795,545	6.10%	6.60%	7,566	\$2.66
La Jolla	1,089,934	9.70%	0	1,089,934	9.00%	9.70%	1,105	\$3.33
Sorrento Mesa	9,056,509	12.00%	0	6,086,255	16.80%	17.90%	29,299	\$2.79
Sorrento Valley	507,930	3.60%	0	443,813	4.10%	4.10%	-506	\$1.87
Torrey Pines	2,625,282	4.50%	170,523	1,239,989	5.80%	8.40%	5,648	\$4.05
UTC	9,248,457	14.80%	150,000	8,886,987	13.30%	15.40%	167,382	\$3.47
Central Coast	27,910,295	12.80%	320,523	23,022,941	13.70%	15.40%	254,674	\$3.34
	Existing Inventory (SF)	Total Vacancy%	Under Construction	Existing Inventory	Direct Vacancy %	Total Vacancy %	Total Net Absorption	Average Asking Rents
Bankers Hill/Hillcrest/North Park	1,906,777	7.40%	0	1,580,658	8.10%	9.00%	-18,765	\$2.53
Kearny Mesa	9,701,867	6.20%	0	6,991,783	7.70%	8.40%	105,492	\$2.14
Mission Valley	6,700,054	7.50%	163,000	5,834,399	7.60%	8.20%	109,261	\$2.51
Old Town/Sports Arena/Point Loma	1,688,580	5.90%	0	1,291,161	7.40%	7.40%	-7,591	\$2.16
Pacific Beach/Bay Ho/Morena	757,171	3.20%	0	597,776	4.00%	4.00%	1,784	\$1.63
Central City	20,754,449	6.60%	163,000	16,295,777	7.50%	8.10%	190,181	\$2.31
	Existing Inventory (SF)	Total Vacancy%	Under Construction	Existing Inventory	Direct Vacancy %	Total Vacancy %	Total Net Absorption	Average Asking Rents
Downtown San Diego	12,334,451	12.40%	60,000	12,106,451	12.20%	12.60%	-114,004	\$2.60
Downtown Business District	12,334,451	12.40%	60,000	12,106,451	12.20%	12.60%	-114,004	\$2.60
	Existing Inventory (SF)	Total Vacancy%	Under Construction	Existing Inventory	Direct Vacancy %	Total Vacancy %	Total Net Absorption	Average Asking Rents
College Area	938,693	3.30%	0	819,693	3.80%	3.80%	11,061	\$2.27
El Cajon/La Mesa/Lemon Grove/Santee	2,076,803	3.40%	0	1,900,953	3.70%	3.70%	-6,300	\$1.96
Mission Gorge	381,417	4.00%	0	322,104	4.70%	4.70%	0	\$1.11
East County	3,396,913	3.40%	0	3,042,750	3.80%	3.80%	4,761	\$1.86
	Existing Inventory (SF)	Total Vacancy%	Under Construction	Existing Inventory	Direct Vacancy %	Total Vacancy %	Total Net Absorption	Average Asking Rents
Chula Vista	1,909,645	10.50%	0	1,517,317	12.60%	13.10%	-4,451	\$2.46
Coronado/Imperial Beach National	83,001	20.90%	0	57,001	26.70%	26.70%	0	-
City/Southeast San Diego Otay	676,008	15.90%	0	595,046	18.10%	18.10%	-3,000	\$2.21
Mesa	174,107	6.50%	0	174,107	6.50%	6.50%	-3,951	\$2.06
South Bay	2,842,761	11.90%	0	2,343,471	13.90%	14.20%	-11,402	\$2.43
San Diego County Total	89,452,614	10.80%	657,099	75,675,594	11.60%	12.60%	37,832	\$2.74

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