

SAN DIEGO COUNTY | OFFICE Q2 2018

Office Demand Remains Strong Midway Through 2018

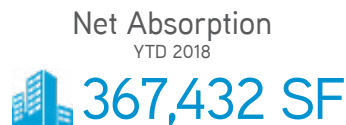
Behind the Numbers

- > Q2 2018 demand outpaced Q1 bringing year-to-date net absorption to 367,432 SF.
- > Class A average asking rental rates reached all-time peak of \$3.26/SF/month at the end of Q2 2018 – a 1.6% year-over-year. The past three quarters have seen the Class A average continue to increase above the peak rate of \$3.23/SF that was reached in Q1 2018. The overall average across all classes increased by \$0.03 to end the quarter at \$2.69/SF/month. This average is only \$0.03 less than the peak rate of \$2.72/SF/month reached more than 11 years ago (Q4 2007).
- > Countywide overall vacancy continues to drop and currently stands at 10.8%. This is the lowest vacancy rate in nearly a decade (9.9% in Q3 2006).

MARKET INDICATORS

All Office Markets & Classes, Q2 2018

	Q2 2018	Q2 2017	Change
Overall Vacancy (incl. sublease)	10.76%	11.49%	↓
Net Absorption SF	259,666	-19,870	↑
Under Construction SF	793,294	759,899	↑
Average Asking Rent (FSG)	\$2.69	\$2.63	↑



Net Absorption

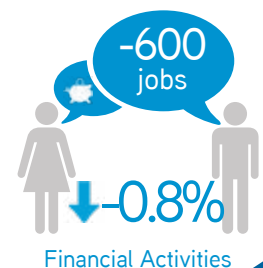
San Diego County posted 259,666 SF of positive net absorption in Q2 2018. The Class B inventory boasted sizable activity with 183,681 SF of net absorption during the quarter, with Class A and Class C registering 52,251 SF and 23,734 SF, respectively.

Carlsbad posted the most positive net absorption (+224,618 SF) in Q2. The biggest block of absorption occurred when Nortek Security & Control occupied 88,858 SF at 5919 Sea Otter Pl – a building that was extensively renovated in 2016. Another notable tenant relocation included 25,905 SF occupied by Real Capital Markets at 2051 Palomar Airport Rd.

Other key submarkets posting significant absorption included UTC (+52,947 SF) and Carmel Valley (+44,734 SF). In UTC, the most significant tenant activity occurred when AbacusNext vacated 27,658 SF at La Jolla Gateway II and completed an expansion of 63,129 SF at Eastgate Summit. Eastgate Summit is a brand new building developed in 2016 and the move was noted as a relocation between two Irvine Company properties in the same submarket. GreatCall completed an intermarket move in Carmel Valley, moving out of 28,541 SF in Building C of Pacific Plaza @ Torrey Hills into 56,153 SF in Building B of the same project.

JOB GROWTH

Source: Bureau of Labor Statistics, 12-month change (5/2017-5/2018), San Diego County



Vacancy

Countywide vacancy of 10.8% in Q2 2018 amounted to a 25 basis point decrease from the prior quarter. The vacancy rate was comprised primarily of direct vacant space (10.3%) with minimal sublease space (0.5%).

Overall vacancy in Downtown stood at 13.2% - up 67 basis points from Q1 2018, due to 69,714 SF of negative net absorption. Overall vacancy in the Suburban market stood at 10.4% with larger core submarkets such as Kearny Mesa (6.7%) and Mission Valley (7.6%) posting the lowest rates and Carlsbad (18.0%) with the highest rate. For the first time in a year, Carlsbad - and all other submarkets - posted vacancy rates below 20%.

Countywide Class A and Class B vacancy rates ended the quarter at 12.9% and 10.7%, respectively. Class C posted the lowest vacancy rate at 6.3%.

New Supply

New construction of 48,954 SF was completed in Q2 2018. This included a single spec building developed by Burke Real Estate Group at 1800 Aston Avenue in Carlsbad; it is available for lease. There is currently 793,294 SF under construction countywide, of which 634,300 SF is expected to be completed by year-end. This level of activity will exceed 635,461 SF completed last year.

As of quarter-end, there were eleven buildings under construction. These projects include a four-building 357,000 SF build-to-suit on Town Garden Road in Carlsbad for ViaSat, the 50,000 SF creative-office building at Makers Quarter in Downtown, a 150,000 SF office building being built by Alexandria Real Estate Equities and preleased to Takeda at 9625 Towne Centre Drive in UTC, 5,000 SF of creative office space in Mission Valley on Camino De La Reina called The Millennium, a 17,654 SF building on Grossmont Summit Drive in La Mesa, the 54,646 SF two-building Lift project on Innovation Way in Carlsbad being developed by RAF Pacifica Group, and The Watermark - a 158,994 SF building on Scripps Gateway Court in Scripps Ranch that is preleased to MedImpact.

Trends, Forecast & Outlook

Vacancy will continue to decrease throughout 2018, settling in at between 10.0% and 10.5% by year-end. Continued demand along with relatively low levels of new construction will continue the downward vacancy trend for the foreseeable future. The countywide overall average asking rental rate will likely continue to increase by 2% to 3% by year-end.

Significant Office Activity - Q2 2018

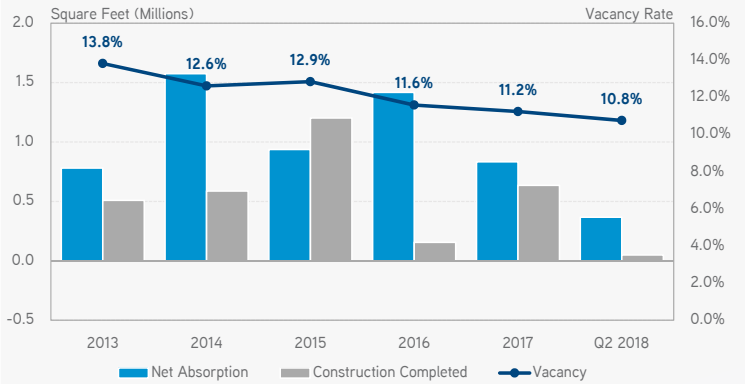
Leasing

Property/Address	Tenant	Submarket	Class	Size (SF)	Deal Type
The Elements at Wateridge	American Specialty Health	Sorrento Mesa	A	199,744	Lease renewal in the project.
Kilroy Sabre Springs, Building 3	General Atomics	Rancho Bernardo	A	153,559	New lease; tenant is expanding in I-15 Corridor.
The Plaza	Bank of Internet	UTC	A	136,000	Renewal and expansion in the project.
Commerce Point	Hewlett-Packard	Point Loma	B	62,701	Lease renewal in the project.
701 B Street	Thomas Jefferson School of Law	Downtown	A	56,338	New lease; relocation with Downtown submarket.
4435 Eastgate Meall	Tyson & Mendes LLP	UTC	A	22,351	Sublease; relocation from La Jolla submarket.

Sales

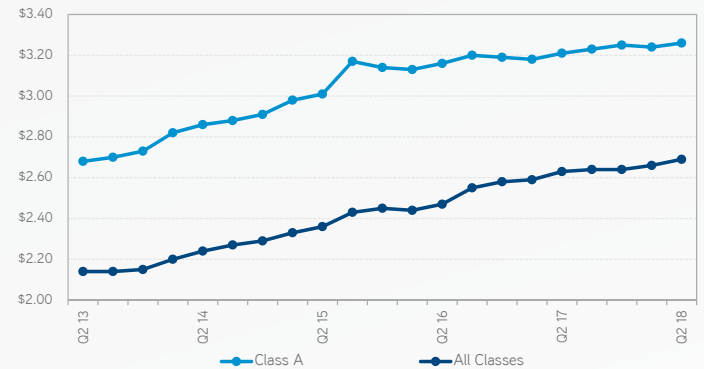
Property/Address	Submarket	Class	Size (SF)	Sale Price	\$/SF	Buyer	Seller
Stonecrest Office Project	Kearny Mesa	A	327,234	\$100,300,000	\$307	Pendulum Property Ptnrs.	TIAA-CREF
The Campus on Villa La Jolla	UTC	B	196,940	\$97,100,000	\$493	Goldstein Planting Inv.	La Jolla Village Prof. Ctr. Assoc.
1450 Frazee Road	Mission Valley	B	140,476	\$33,050,000	\$235	DRA Adv. / Hill Properties	Menlo Equities
The Pinnacle	Rancho Bernardo	A	110,110	\$31,200,000	\$283	Harbor Assoc. / Ascentris	Muller Company
El Camino Centre	Encinitas	B	43,488	\$13,500,000	\$310	Medicus Property Group	Custom Towing
3333 Camino Del Rio South	Mission Valley	B	56,847	\$9,500,000	\$167	Sutter Uptown LP	The Colton Company

San Diego Historical Office Market Trends



San Diego Historical Office Rental Rates

Average Asking Monthly Rate per SF, Full Service



Office Market Overview - Q2 2018

San Diego County | CBD and Suburban by Class

EXISTING INVENTORY (SF)		VACANCY (%)				NET ABSORPTION (SF)		NEW SUPPLY (SF)			Avg Asking Rate
Type/ Submarket	Total Inventory	Direct	Sublet	Total	Prior Qtr	Current Qtr	YTD	Completed Current Qtr	Completed YTD	Under Construction	
DOWNTOWN / CBD											
A	6,541,356	8.2%	0.6%	8.8%	8.7%	(4,808)	6,438	0	0	50,000	\$2.93
B	3,362,549	21.2%	0.2%	21.4%	20.2%	(40,585)	(19,530)	0	0	0	\$2.46
C	425,260	15.2%	0.5%	15.7%	9.9%	(24,321)	3,565	0	0	0	\$2.31
TOTAL	10,329,165	12.7%	0.5%	13.2%	12.5%	(69,714)	(9,527)	0	0	50,000	\$2.62
SUBURBAN											
A	25,922,099	13.3%	0.7%	14.0%	14.0%	57,059	(4,138)	48,954	48,954	665,994	\$3.31
B	33,971,688	9.2%	0.4%	9.6%	10.3%	224,266	270,394	0	0	77,300	\$2.51
C	14,656,399	5.9%	0.1%	6.1%	6.4%	48,055	110,703	0	0	0	\$1.94
TOTAL	74,550,186	10.0%	0.5%	10.4%	10.8%	329,380	376,959	48,954	48,954	743,294	\$2.69
SAN DIEGO COUNTY TOTAL (CBD + SUBURBAN)											
A	32,463,455	12.2%	0.7%	12.9%	13.0%	52,251	2,300	48,954	48,954	715,994	\$3.26
B	37,334,237	10.3%	0.4%	10.7%	11.2%	183,681	250,864	0	0	77,300	\$2.50
C	15,081,659	6.2%	0.1%	6.3%	6.5%	23,734	114,268	0	0	0	\$1.99
TOTAL	84,879,351	10.3%	0.5%	10.8%	11.0%	259,666	367,432	48,954	48,954	793,294	\$2.69

San Diego County | Suburban Markets and Submarkets

CENTRAL COUNTY											
Campus Point	620,187	0.0%	0.0%	0.0%	0.0%	0	0	0	0	0	\$2.49
Carmel Valley	5,228,070	13.4%	0.8%	14.2%	15.0%	44,734	(1,857)	0	0	0	\$4.21
Governor Park	905,556	6.9%	0.4%	7.2%	8.0%	6,886	4,726	0	0	0	\$2.67
Kearny Mesa	8,876,667	6.5%	0.2%	6.7%	6.5%	(13,137)	(15,204)	0	0	0	\$2.34
La Jolla	1,134,167	8.8%	0.2%	9.0%	9.4%	4,173	26	0	0	0	\$3.14
Miramar	1,394,380	10.1%	1.0%	11.1%	12.5%	19,583	5,137	0	0	0	\$1.80
Mission Gorge	302,042	0.5%	0.0%	0.5%	0.0%	(1,621)	573	0	0	0	\$1.51
Mission Valley	6,812,948	7.0%	0.6%	7.6%	8.0%	26,500	20,265	0	0	5,000	\$2.53
Old Town / SA / PL	2,384,296	6.9%	0.1%	6.9%	5.5%	(33,998)	(24,178)	0	0	0	\$2.47
Rose Cyn / Morena	859,873	3.2%	0.0%	3.2%	4.7%	13,201	(7,361)	0	0	0	\$1.89
Sorrento Mesa	9,272,393	12.3%	0.1%	12.4%	12.5%	8,557	613	0	0	0	\$2.75
Sorrento Valley	414,099	7.6%	0.0%	7.6%	6.0%	(6,732)	3,866	0	0	0	\$2.51
Torrey Pines	815,477	5.5%	4.2%	9.7%	9.7%	0	19,532	0	0	0	\$3.69
Uptown	1,731,815	5.7%	0.7%	6.4%	5.9%	(7,292)	5,327	0	0	0	\$2.56
UTC	5,747,855	10.6%	0.7%	11.3%	12.2%	52,947	72,531	0	0	150,000	\$3.52
TOTAL	46,499,825	9.0%	0.5%	9.4%	9.7%	113,801	83,996	0	0	155,000	\$2.87
NORTH COUNTY											
Carlsbad	6,486,708	16.9%	1.1%	18.0%	20.8%	224,618	177,886	48,954	48,954	411,646	\$2.49
Escondido	1,651,292	10.4%	0.0%	10.4%	10.8%	5,182	5,754	0	0	0	\$1.77
I-5 Corridor	1,608,909	8.1%	0.4%	8.5%	7.2%	(20,096)	(25,359)	0	0	0	\$3.57
Oceanside	1,196,677	9.8%	0.7%	10.5%	7.8%	(32,062)	(30,039)	0	0	0	\$2.05
San Marcos / Vista	2,086,448	13.8%	0.0%	13.8%	15.2%	28,770	17,726	0	0	0	\$1.99
TOTAL	13,030,034	13.8%	0.7%	14.5%	15.8%	206,412	145,968	48,954	48,954	411,646	\$2.42
I-15 CORRIDOR											
Poway	1,177,227	3.6%	0.0%	3.6%	3.9%	4,417	24,791	0	0	0	\$2.20
Rancho Bernardo	5,876,486	13.9%	0.5%	14.4%	14.1%	(17,720)	(28,427)	0	0	0	\$2.88
Scripps Ranch	2,266,904	13.3%	0.1%	13.4%	12.6%	(18,076)	98,935	0	0	158,994	\$2.52
TOTAL	9,320,617	12.5%	0.4%	12.8%	12.5%	(31,379)	95,299	0	0	158,994	\$2.72
SOUTH/EAST COUNTY											
East County	2,993,772	2.9%	0.1%	3.0%	3.7%	19,561	8,592	0	0	17,654	\$1.76
South Bay	2,705,938	7.6%	0.2%	7.7%	8.5%	20,985	43,104	0	0	0	\$2.53
TOTAL	5,699,710	5.1%	0.1%	5.2%	6.0%	40,546	51,696	0	0	17,654	\$2.21

Average rental rates are defined as the average asking monthly rate per square foot across all direct available spaces quoted on a "full service gross" basis.



15,400 professionals in
69 countries on
6 continents

\$2.7 billion in annual revenue
2.0 billion square feet managed
68,000 lease and sale transactions

FOLLOW US ONLINE



colliers.com/sandiego

Market Contact

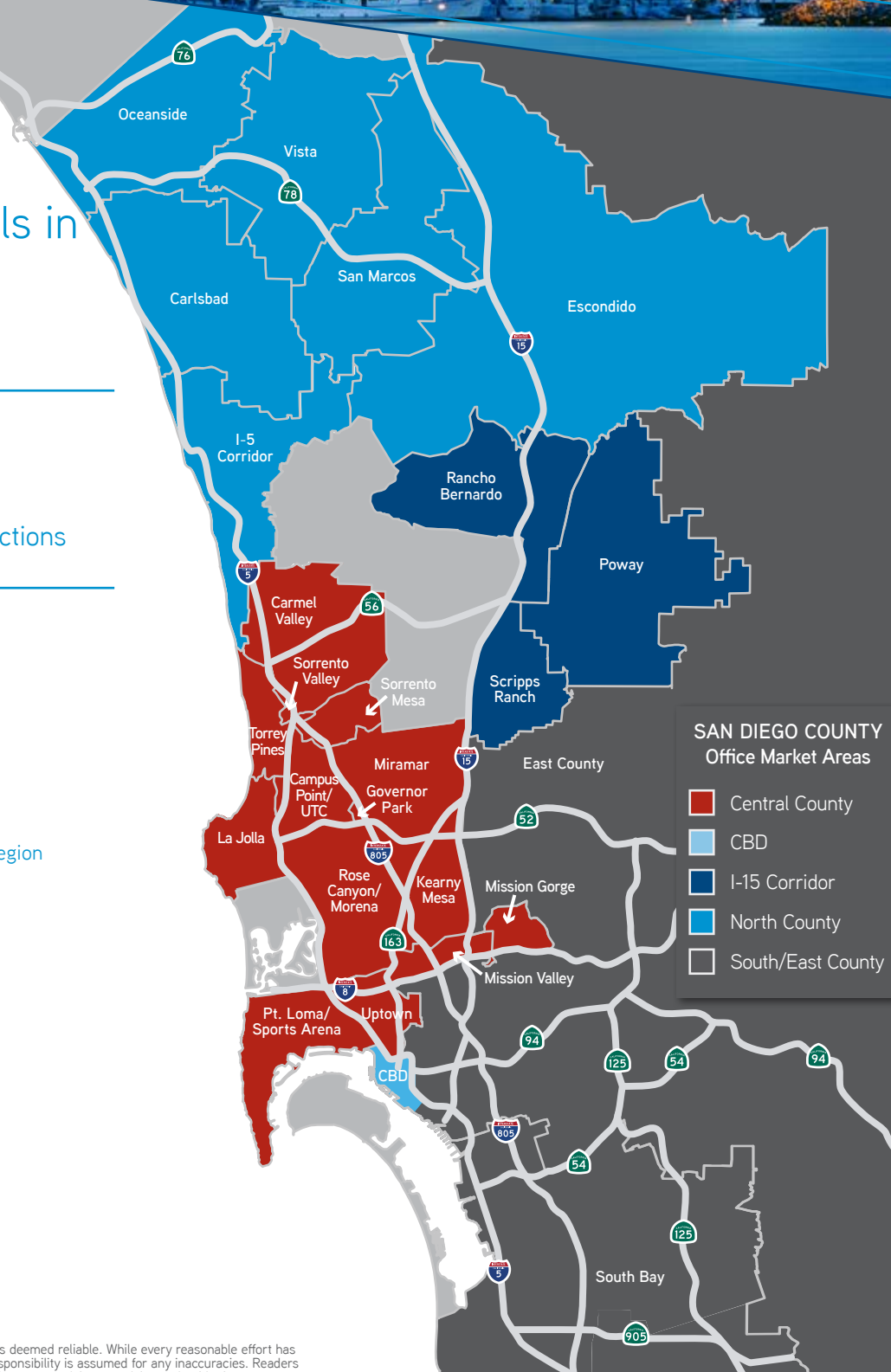
ANDY LA DOW
Regional Managing Director | San Diego Region
+1 858 455 1515
andy.ladow@colliers.com

Regional Author

CHRISTOPHER REUTZ
Research Director | San Diego Region
chris.reutz@colliers.com



Accelerating success.



**SAN DIEGO COUNTY
Office Market Areas**

- Central County
- CBD
- I-15 Corridor
- North County
- South/East County

Copyright © 2018 Colliers International.
The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in the report.