

San Diego



Market Facts

2.9%

San Diego County
Unemployment
Rate As Of May 2018

278,231 SF

Positive Net Absorption
Current Quarter

Positive 2,408 SF
Year To Date

10.7%

Total Vacancy Rate
Up From 10.3% In Q1 2018

\$2.80 PSF

Asking Rental Rate
Weighted Average

Market Overview

San Diego's office market remained robust with solid demand through the first half of 2018. Vacancy edged downward while rents climbed to record levels. Along with a desirable geography, the market benefited from strong demand for space from health care innovators, independent research institutes and sectors that work closely with the U.S. military. San Diego County's unemployment rate dropped 70 bps year-over-year to 2.9% in the second quarter of 2018, well below the state average of 4.2%

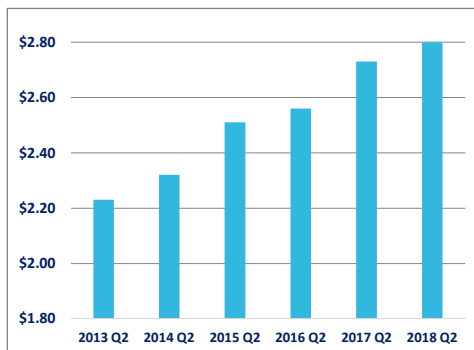
Vacancy in San Diego County's office market contracted to 10.7% as of mid-year 2018, down 20 bps from one year earlier. The county recorded net positive absorption of 9,811 sf for the 12-month period ending at mid-year 2018. Record employment gains have helped San Diego's office market sustain competitive vacancy levels even after the uptick in new deliveries during the past few years.

Market-wide average rental rates reached \$2.80

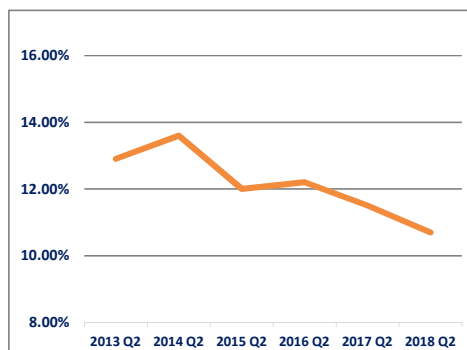
psf FSG as of the second quarter of 2018, up from \$2.73 psf FSG at the same time in 2017. Class A properties in the Downtown market reached \$2.93 psf FSG, increasing only slightly year-over-year. Meanwhile, the highest rents were found in the Central Coast submarket at \$3.33 psf FSG, driven largely by strong demand from the area's life-science sector, which is among the most prominent in the U.S. The largest office lease transaction took place in Sabre Springs, where defense contractor General Atomics took a full 153,559-sf LEED-certified building with major freeway visibility.

The largest construction project completed in first-half 2018 was the 170,000-sf LEED Gold-certified building in Torrey Pines that will house Boston-based biotech company Vertex Pharmaceuticals. The San Diego office market had 10 investment-grade office projects under construction in the second quarter, including life-science projects, amounting to 1.3 msf of new inventory that is expected to be delivered over the next 12 months.

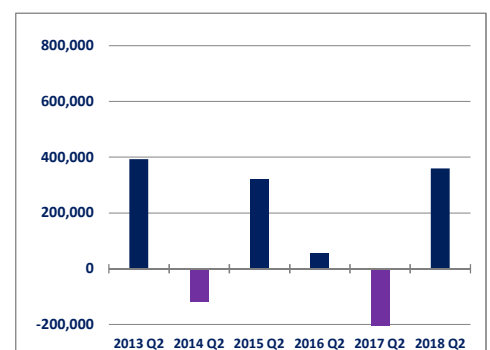
Asking Rent



Vacancy Rates



Net Absorption



Top Leases

Tenant	Type	Address	Submarket	SF
General Atomics	New	13480 Evening Creek Drive	Rancho Bernardo	153,559
BofI Federal Bank	Renewal	4350 La Jolla Village Drive	UTC	136,000
American Specialty Health	Renewal	10221 Wateridge Circle	Sorrento Mesa	107,356
Healthyrads	Renewal	10241 Wateridge Circle	Sorrento Mesa	81,157
Hewlett Packard	Renewal	3970 Sherman Street	Sports Arena	62,701

Top Sales

Address	Submarket	Buyer	Seller	Price	SF
Stonecrest Office Campus	Kearny Mesa	Pendulum Property Partners	TIAA	\$100,300,000	327,234
The Campus on Villa La Jolla	UTC	GPI Companies	La Jolla Village Professional Center Assoc.	\$97,100,000	196,940
1450 Frazee Road	Mission Valley	DRA Advisors, LLC	Menlo Equities	\$33,050,000	140,476
10920 Via Frontera	Rancho Bernardo	Harbor Associates, LLC	Muller Company	\$31,200,000	110,110
10770 Wateridge Circle	Sorrento Mesa	Bollert Lebeau	John Hancock	\$28,775,000	180,961

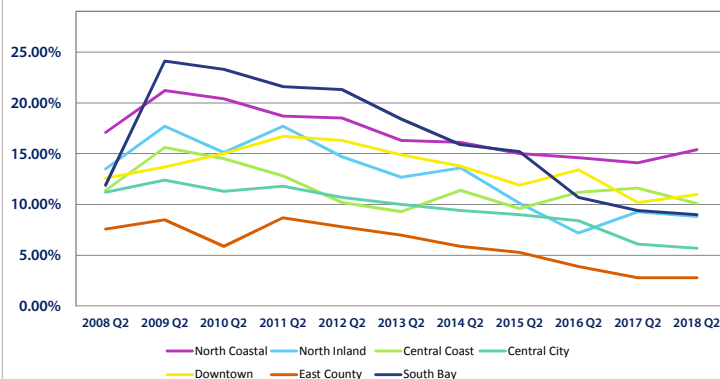
Under Construction

Address	Submarket	Developer	SF	Completion
2446 Town Garden Road,	Carlsbad	Levine Investments	357,000	Q4 2018
350 Camino De La Reina, AMP&RSAND-Press	Mission Valley	The Casey Brown Company	163,000	Q4 2018
10159 Scripps Gateway Court	Scripps Ranch	Sudberry Properties	158,994	Q2 2019
9625 Towne Centre Drive - Life Science	UTC	Alexandria Real Estate Equities, Inc.	150,000	Q2 2018
9310 Athena Circle - Life Science	Torrey Pines	BioMed Realty	137,500	Q1 2019

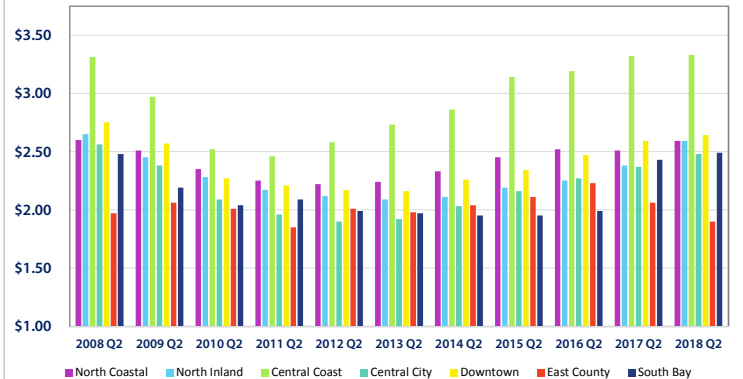
San Diego By The Numbers

Vacancy					Net Absorption		Avg. Advertised Rates (FSG)			Construction Pipeline		
Q2 2018 Inventory (SF)	Q2 2018 Vacancy (SF)	Q2 2018 Vacancy (%)	Q1 2018 Vacancy (%)	Current Quarter Absorption	Year-To-Date Absorption	Q2 2018 Rental Rates	Q1 2018 Rental Rates	Qtr/Qtr Change (%)	Current Quarter Deliveries	YTD Deliveries	Under Construction Quarter-End	
North County Coastal												
Class A	2,444,180	405,049	16.60%	14.90%	62,355	-33,598	\$2.78	\$2.78	0.00%	0	0	357,000
Class B	6,714,535	1,090,033	16.20%	14.10%	33,559	-57,954	\$2.51	\$2.49	0.80%	48,954	48,954	54,646
Class C	362,566	63,055	17.40%	21.00%	6,536	7,297	\$1.96	\$1.97	-0.51%	0	0	0
Total	9,521,281	1,558,137	16.40%	14.60%	102,450	-84,255	\$2.59	\$2.58	0.39%	48,954	48,954	411,646
North County Inland												
Class A	4,864,163	920,899	18.90%	20.40%	62,423	-148,241	\$3.12	\$3.09	0.97%	0	0	233,994
Class B	6,891,768	471,882	6.80%	6.40%	38,767	89,927	\$2.31	\$2.32	-0.43%	0	0	0
Class C	584,792	64,391	11.00%	9.40%	-4,686	-5,600	\$1.58	\$1.54	2.60%	0	0	0
Total	12,340,723	1,457,172	11.80%	12.30%	96,504	-63,914	\$2.59	\$2.62	-1.15%	0	0	233,994
Central Coast												
Class A	14,890,615	1,887,909	12.70%	11.50%	-86,602	-16,101	\$3.66	\$3.62	1.10%	170,523	170,523	287,500
Class B	12,366,382	1,414,916	11.40%	10.20%	201,576	201,192	\$2.93	\$2.94	-0.34%	0	0	130,000
Class C	477,772	27,203	5.70%	10.50%	5,928	1,343	\$2.18	\$1.92	13.54%	0	0	0
Total	27,734,769	3,330,028	12.00%	10.80%	120,902	186,434	\$3.33	\$3.32	0.30%	170,523	170,523	417,500
Central City												
Class A	5,370,855	368,706	6.90%	6.90%	1,018	16,119	\$3.03	\$2.93	3.41%	0	0	163,000
Class B	11,759,799	800,117	6.80%	7.30%	14,119	-63,110	\$2.32	\$2.28	1.75%	0	0	0
Class C	3,600,242	167,828	4.70%	3.90%	-24,312	-14,196	\$2.03	\$1.92	5.73%	0	0	0
Total	20,730,896	1,336,651	6.40%	6.60%	-9,175	-61,187	\$2.48	\$2.38	4.20%	0	0	163,000
Downtown Business District												
Class A	6,697,847	591,345	8.80%	8.50%	-20,884	-2,509	\$2.93	\$2.90	1.03%	0	0	60,000
Class B	3,937,992	723,449	18.40%	18.40%	-7,545	2,482	\$2.46	\$2.42	1.65%	0	0	0
Class C	1,436,550	149,869	10.40%	10.00%	-5,901	11,979	\$2.35	\$2.35	0.00%	0	0	0
Total	12,072,389	1,464,663	12.20%	11.90%	-34,330	11,952	\$2.64	\$2.62	0.76%	0	0	60,000
East County												
Class A	233,830	5,433	2.30%	2.50%	493	493	\$2.33	\$2.34	-0.43%	0	0	0
Class B	2,241,518	68,661	3.10%	2.90%	-3,274	-2,828	\$2.07	\$2.21	-6.33%	0	0	0
Class C	889,407	45,467	5.10%	5.00%	-6,585	-14,846	\$1.62	\$1.64	-1.22%	0	0	0
Total	3,364,755	119,561	3.60%	3.40%	-9,366	-17,181	\$1.90	\$2.06	-7.77%	0	0	0
South Bay												
Class A	447,583	90,561	20.20%	21.90%	7,419	7,419	\$2.54	\$2.56	-0.78%	0	0	0
Class B	2,062,754	148,630	7.20%	7.40%	3,827	23,140	\$2.64	\$2.60	1.54%	0	0	0
Class C	369,364	23,696	6.40%	6.40%	0	0	\$1.68	\$2.00	-16.00%	0	0	0
Total	2,879,701	262,887	9.10%	9.50%	11,246	30,559	\$2.49	\$2.56	-2.73%	0	0	0
San Diego County Office												
Class A	34,949,073	4,269,902	12.10%	11.80%	26,222	-176,418	\$3.26	\$3.24	0.62%	170,523	170,523	1,101,494
Class B	45,974,748	4,717,688	10.20%	9.70%	281,029	192,849	\$2.53	\$2.50	1.20%	48,954	48,954	184,646
Class C	7,720,693	541,509	7.00%	7.40%	-29,020	-14,023	\$2.04	\$1.99	2.51%	0	0	0
TOTAL	88,644,514	9,529,099	10.70%	10.30%	278,231	2,408	\$2.80	\$2.78	0.72%	219,477	219,477	1,286,140

Vacancy by Region



Rental Rate by Region



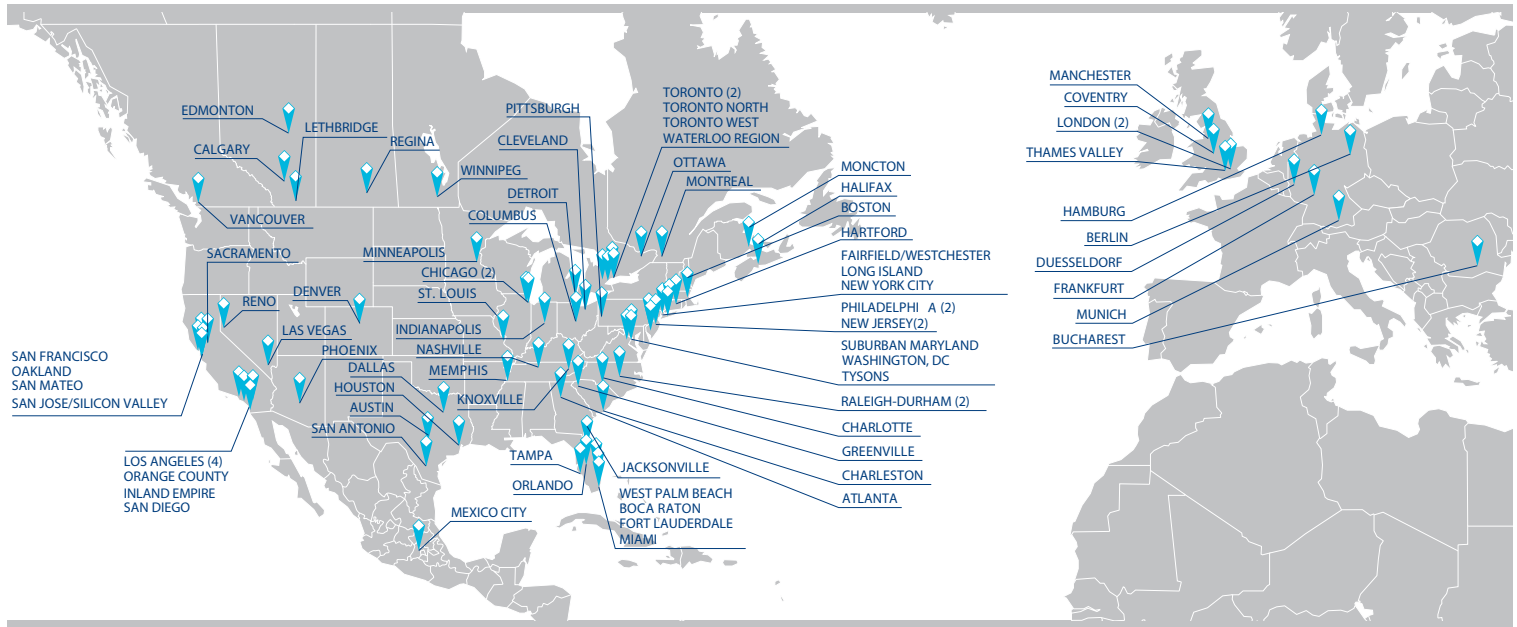
Office Markets	Total Market including owner occupied space			Leased Market				
	Existing Inventory (SF)	Total Vacancy %	Under Construction	Existing Inventory	Direct Vacancy %	Total Vacancy %	Total Net Absorption	Average Asking Rents
Carlsbad	5,364,239	20.60%	411,646	5,122,150	19.70%	21.10%	114,282	\$2.58
Encinitas/Solana Beach/Del Mar/RSF	1,572,659	9.50%	0	1,543,000	9.40%	9.60%	-10,844	\$3.69
Oceanside	796,285	8.10%	0	733,514	7.70%	8.80%	-16,403	\$2.03
San Marcos	1,079,815	7.10%	0	783,472	9.30%	9.30%	12,737	\$2.40
Vista	708,283	22.60%	0	682,973	23.40%	23.40%	2,678	\$1.85
North County Coastal	9,521,281	16.40%	411,646	8,865,109	16.30%	17.20%	102,450	\$2.59
	Existing Inventory (SF)	Total Vacancy%	Under Construction	Existing Inventory	Direct Vacancy %	Total Vacancy %	Total Net Absorption	Average Asking Rents
Escondido	854,306	9.00%	76,400	796,908	9.30%	9.30%	-4,769	\$1.61
Miramar/Mira Mesa	1,423,976	7.60%	0	1,380,510	7.00%	7.80%	16,831	\$1.87
Poway	1,169,832	4.10%	0	780,047	6.10%	6.10%	6,689	\$2.19
Carmel Mountain Ranch/Rancho Bernardo	6,461,537	14.00%	0	5,001,265	18.00%	18.00%	95,255	\$2.95
Scripps Ranch	2,431,072	13.30%	158,994	1,914,719	16.70%	16.90%	-17,502	\$2.57
North County Inland	12,340,723	11.80%	235,394	9,873,449	14.60%	14.70%	96,504	\$2.59
	Existing Inventory (SF)	Total Vacancy%	Under Construction	Existing Inventory	Direct Vacancy %	Total Vacancy %	Total Net Absorption	Average Asking Rents
Del Mar Heights/Carmel Valley	4,592,595	15.60%	0	4,486,375	15.20%	16.00%	32,690	\$4.18
Governor Park	796,307	9.00%	0	796,307	8.50%	9.00%	-19,468	\$2.63
La Jolla	1,089,934	8.80%	0	1,089,934	8.40%	8.80%	5,453	\$3.12
Sorrento Mesa	9,113,815	12.70%	130,000	6,203,517	18.40%	18.70%	9,086	\$2.80
Sorrento Valley	477,930	2.90%	0	371,185	3.80%	3.80%	-451	\$2.56
Torrey Pines	2,371,179	3.80%	137,500	1,247,409	4.50%	7.30%	1,484	\$3.98
UTC	9,293,009	12.70%	150,000	8,975,574	11.40%	13.20%	92,108	\$3.34
Central Coast	27,734,769	12.00%	417,500	23,170,301	13.30%	14.40%	120,902	\$3.33
	Existing Inventory (SF)	Total Vacancy%	Under Construction	Existing Inventory	Direct Vacancy %	Total Vacancy %	Total Net Absorption	Average Asking Rents
Bankers Hill/Hillcrest/North Park	1,684,423	7.20%	0	1,256,131	6.80%	7.90%	21,266	\$2.61
Kearny Mesa	9,801,490	5.40%	0	6,933,123	7.10%	7.50%	11,955	\$2.39
Mission Valley	6,494,891	7.90%	163,000	5,874,746	8.10%	8.80%	13,335	\$2.56
Old Town/Sports Arena/Point Loma	1,992,921	7.10%	0	1,572,002	9.00%	9.00%	-30,805	\$2.60
Pacific Beach/Rose Canyon/Morena	757,171	4.40%	0	597,776	5.60%	5.60%	-5,963	\$2.00
Central City	20,730,896	6.40%	163,000	16,233,778	7.60%	8.10%	9,788	\$2.48
	Existing Inventory (SF)	Total Vacancy%	Under Construction	Existing Inventory	Direct Vacancy %	Total Vacancy %	Total Net Absorption	Average Asking Rents
Downtown San Diego	12,072,389	12.10%	60,000	11,844,389	11.90%	12.40%	-34,330	\$2.64
Downtown Business District	12,072,389	12.10%	60,000	11,844,389	11.90%	12.40%	-34,330	\$2.64
	Existing Inventory (SF)	Total Vacancy%	Under Construction	Existing Inventory	Direct Vacancy %	Total Vacancy %	Total Net Absorption	Average Asking Rents
College Area	1,086,115	5.30%	0	967,115	6.00%	6.00%	-2,194	\$2.16
El Cajon/La Mesa/Lemon Grove/Santee	2,000,805	3.00%	0	1,824,955	3.20%	3.30%	-7,319	\$1.82
Mission Gorge	277,835	0.40%	0	212,880	0.60%	0.60%	-1,249	\$1.73
East County	3,364,755	3.60%	0	3,004,950	3.90%	4.00%	-10,762	\$1.90
	Existing Inventory (SF)	Total Vacancy%	Under Construction	Existing Inventory	Direct Vacancy %	Total Vacancy %	Total Net Absorption	Average Asking Rents
Chula Vista	1,889,696	9.70%	0	1,497,368	12.20%	12.30%	2,702	\$2.45
Coronado/San Ysidro/Imperial Beach	116,395	11.20%	0	90,395	12.90%	14.40%	1,624	\$3.82
National City/Southeast San Diego	731,077	8.60%	0	650,115	9.60%	9.60%	6,920	\$2.40
Otay Mesa	142,533	2.40%	0	142,533	2.40%	2.40%	0	\$2.02
South Bay	2,879,701	9.10%	0	2,380,411	10.90%	11.00%	11,246	\$2.49
San Diego County Total	88,644,514	10.70%	1,286,140	75,372,387	11.80%	12.50%	295,798	\$2.80

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Contact Information - Southern California, United States

Los Angeles - Downtown

555 S Flower St, Ste 3200
Los Angeles, CA 90071
Primary Contact: Ted Simpson
ted.simpson@avisonyoung.com
213.935.7430

Los Angeles - North

6711 Forest Lawn Dr
Los Angeles, CA 90068
Primary Contact: Mark Evanoff
mark.evanoff@avisonyoung.com
323.851.6666

Los Angeles - Santa Monica

301 Arizona Ave, Ste 303
Santa Monica, CA 90401
Primary Contact: Randy Starr
randy.starr@avisonyoung.com
310.899.1800

Los Angeles - West

10940 Wilshire Blvd, Ste 800
Los Angeles, CA 90024
Primary Contact: Jonathan Larsen
jonathan.larsen@avisonyoung.com
213.471.1069

Inland Empire - Temecula

27555 Ynez Rd, Suite 204
Temecula, CA 92590
Primary Contact: Stan Nowak
stan.nowak@avisonyoung.com
951.267.2770

Orange County - Irvine

2030 Main St, Ste 150
Irvine, CA 92614
Primary Contact: Keith Kropfl
keith.kropfl@avisonyoung.com
949.757.1190

San Diego - UTC

4655 Executive Dr, Ste 325
San Diego, CA 92121
Primary Contact: Jerry Keeney
jerry.keeney@avisonyoung.com
858.201.7077

Regional Managing Director:

Chris Cooper - Corporate
555 S Flower St, Ste 3200
Los Angeles, CA 90071
chris.cooper@avisonyoung.com
213.935.7435

Report Prepared By:

Amber Jagers - Research Manager
4655 Executive Dr, Ste 325
San Diego, CA 92121
amber.jagers@avisonyoung.com
858.201.7072



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