



REAL ESTATE SERVICES

Contact:

Jooyoung Kim

[Voit Real Estate Services](#)

(858) 453-0505

JKim@voitco.com

VOIT REPORT: SAN DIEGO COUNTY OFFICE AND RETAIL AVAILABILITY RATES

DECLINE - INDUSTRIAL RENTAL RATE SETS NEW RECORD HIGH

San Diego, Calif., (April 14, 2016) – The San Diego County office market had a solid start to the year, posting positive net absorption and strong transaction volume. Although the market saw rental rates decrease slightly, vacancy and availability rates also continue to decrease. The office vacancy rate dropped to 11.69%, a 46 basis point decrease from last quarter and a 29 basis point decrease from first quarter 2015. The average asking full-service gross lease rate finished the first quarter at \$2.64 per square foot per month, a decrease of 8.6% from 2015's first quarter average asking lease rate, according to a new [First Quarter Market Report](#) from [Voit Real Estate Services](#).

Construction levels of new office product are still lower than 2005-2008, but the San Diego office market has now recorded four consecutive year-over-year increases in office square feet delivered. In addition to the new construction, there has been a significant trend towards property being extensively renovated or outright converted to office use, e.g., the 230,000 square foot Atlas project in Carlsbad, currently being converted from industrial to office, which is estimated to complete July 2016.

The office market is steady but not explosive, and Class A office product has fared the best through this recovery thus far. Unemployment rates have continued to trend downward since the peak in January 2010. An increase in jobs and less building have set the San Diego

office market on firmer footing, and accelerating growth in office-dependent sectors will help continue to further improve the office market.

Rental Rates in Industrial Market Reaches New Record High

The San Diego County industrial market started out slowly albeit in the right direction for the first quarter of 2016. Overall in the San Diego County industrial market, year over year vacancy is down 16.6%, the availability rate is down almost 10% and the average asking rental rate has risen over 14%, all of which are impressive tallies. The current vacancy rate of 4.1% for industrial is one of the lowest ever recorded in more than 15 years and the average asking rental rate of \$.82 per square foot per month on a triple-net basis is at an all-time record high.

New construction is still at low levels, but is increasing, with the first quarter alone posting the highest number of deliveries seen in the past six years checking in at nearly 450,000 square feet. During the recession and recovery, construction has been limited to sporadic build-to-suit projects. The tight development pipeline has been a big factor in the vacancy rate compression. Availability being marketed was 7.57% at the end of the first quarter, an almost 10% decrease from 2015's first quarter rate of 8.39%. The lack of available space is creating pent up demand in some size ranges and is applying upward pressure on pricing.

Retail Market Availability Down 2.3% Over Last Quarter

The San Diego retail market did not move significantly in the first quarter of 2016. Both vacancy and availability increased compared to this time last year but net absorption ended slightly positive, which is an improvement from the negative net absorption from last quarter. The availability rate posted at 5.95%, down 14 basis points from the previous quarter. Net absorption for the first quarter was positive 8,722 square feet and vacancy ended at 4.7%, a 16.6% increase since first quarter last year.

Construction for the retail market is coming off a record high in new deliveries, posting approximately 717,000 square feet at the end of 2015, which is the highest number delivered in the past six years since 2009. Renovation work continues to impact construction in San Diego as well, including the completion of the first phase of the expansion of Westfield UTC that

includes many new amenities and restaurants. Phase II of the mall, which will add approximately 251,000 square feet of retail space and restaurants, is slated for completion in Fall 2017.

The San Diego retail market remains tight but positive absorption trends continue. Thus far in the recovery, quality properties have been able to keep overall asking rental rates stable, but demand remains soft for marginal product. Much like the market's unemployment rate, San Diego retail property has stronger fundamentals than the overall national average.

"Overall, we continue to see improvement in the office, industrial and retail markets, and we anticipate positive gains moving forward, provided job creation continues and consumer confidence continues."

About Voit Real Estate Services

Voit Real Estate Services is a privately held, broker owned Southern California commercial real estate firm that provides strategic property solutions tailored to clients' needs. Throughout its 40+ year history, the firm has developed, managed and acquired more than 64 million square feet and completed more than \$44.8 billion in brokerage transactions encompassing more than 43,000 brokerage deals. Voit's unmatched expertise in Southern California brokerage, investment advisory, financial analysis, and market research enable the firm to provide clients with forward looking strategies that create value for a wide range of assets and portfolios. Further information is available at www.voitco.com.

###