Market Review & Outlook

Review: Moderate Rent Growth

Demand for space in Downtown San Diego still fell well short of leasing in North Cities locations. Activity among law firms, banks and general professional/ business services companies was sporadic. Availability rose slightly during 2015, and elevated concessions offset much of the increase in taking rents.

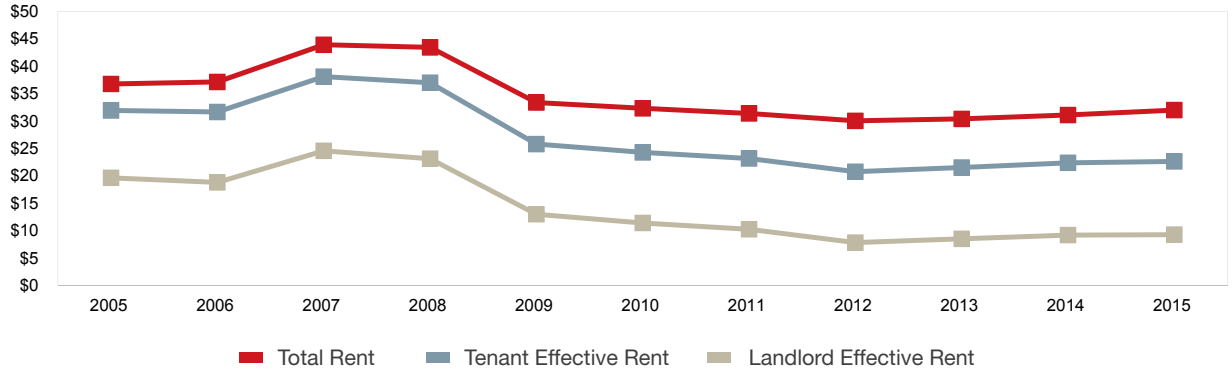
	2015	% Change
Net Rent	$16.90	4.0
Operating Expenses	7.35	1.4
Real Estate Taxes	4.70	1.1
Tenant Electricity	3.05	3.4
Total Rent	32.00	2.9
Amortized Concessions	-9.35	7.4
Tenant Effective Rent	**22.65**	**1.1**
Landlord Effective Rent	**9.30**	**0.8**

Outlook: Slight Increase Expected

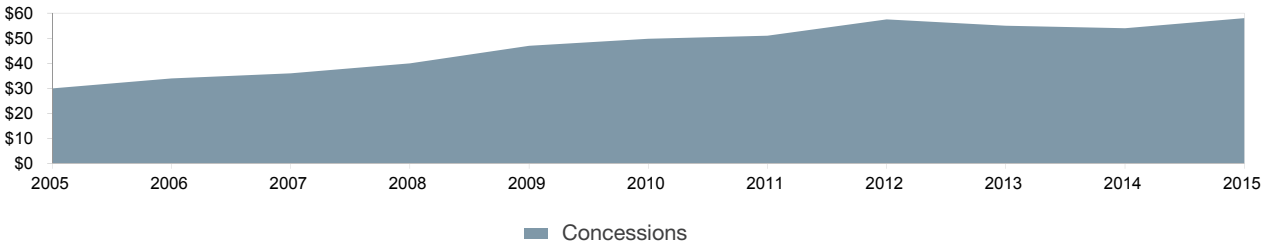
Leasing activity is not expected to gain much momentum next year. Even so, with negligible new construction activity and a few companies likely to take advantage of value-plays Downtown, availability could push lower.

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Rent Trends



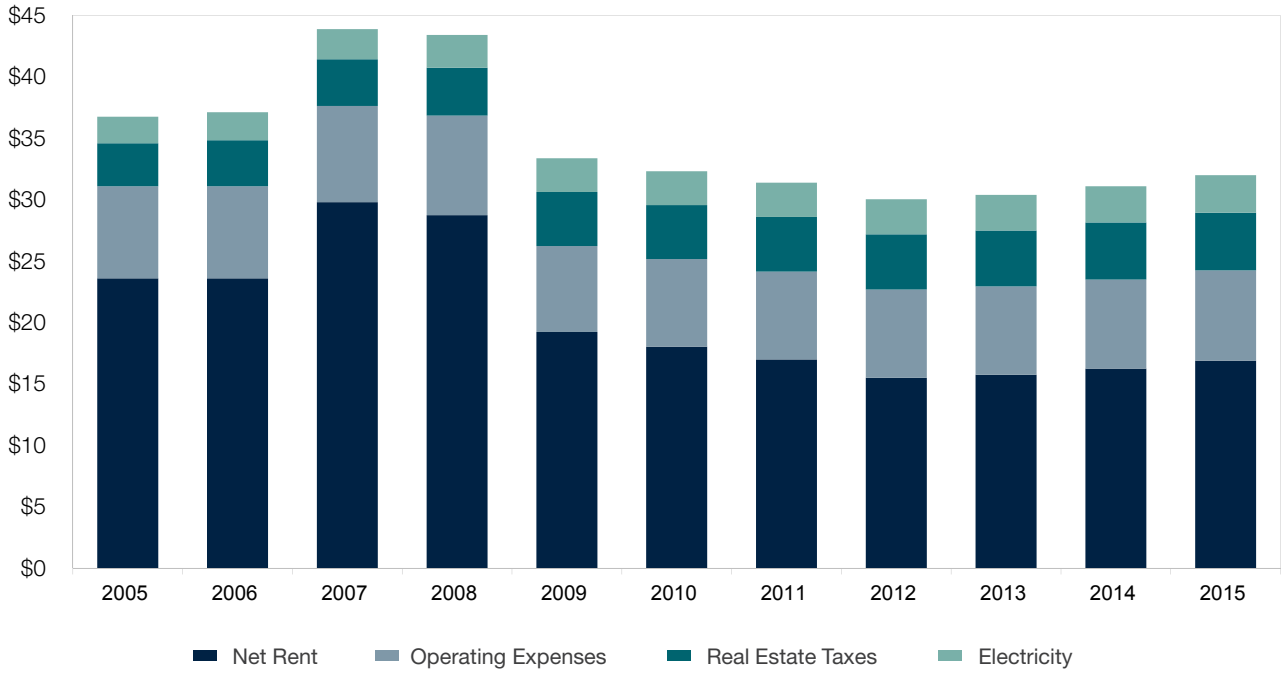
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Total Rent	$36.76	$37.13	$43.89	$43.42	$33.38	$32.32	$31.39	$30.04	$30.40	$31.10	$32.00	2.9%	-0.2%	-0.4%
Tenant Effective Rent	$31.93	$31.65	$38.09	$36.98	$25.81	$24.30	$23.17	$20.78	$21.54	$22.40	$22.65	1.1%	-1.4%	-1.3%
Landlord Effective Rent	$19.66	$18.83	$24.58	$23.14	$13.03	$11.44	$10.29	$7.86	$8.55	$9.23	$9.30	0.8%	-4.0%	-3.3%



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Concessions	$30.00	$34.00	$36.00	$40.00	$47.00	$49.79	$51.00	$57.50	$55.00	$54.00	$58.00	7.4%	3.1%	6.8%
Concessions/Rent Ratio*	13.1%	14.8%	13.2%	14.8%	22.7%	24.8%	26.2%	30.8%	29.2%	28.0%	29.2%	1.2		

* Equals amortized concessions as a percentage of total rent.

Total rent increased for the third year in a row but continued to register only moderate growth, rising by 2.9% from $31.10 to $32.00. Net rent inched up by 4.0% from $16.25 to $16.90. Operating expenses (+1.4%), real estate taxes (+1.1%) and tenant electricity (+3.4%) pushed higher. The value of concession packages rose slightly to $58.00 and in turn, tenant effective rent increased by merely 1.1% from $22.40 to $22.65. Landlord effective rent inched up by 0.8% from $9.23 to $9.30.



												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Net Rent	$23.60	$23.60	$29.80	$28.75	$19.23	$18.04	$17.00	$15.50	$15.75	$16.25	$16.90	4.0%	-1.3%	-3.3%
Operating Expenses	$7.50	$7.50	$7.84	$8.10	$7.00	$7.13	$7.15	$7.19	$7.20	$7.25	$7.35	1.4%	0.6%	-0.2%
Real Estate Taxes	$3.50	$3.75	$3.80	$3.90	$4.40	$4.40	$4.45	$4.50	$4.55	$4.65	$4.70	1.1%	1.3%	3.0%
Electricity	$2.16	$2.28	$2.45	$2.67	$2.75	$2.75	$2.79	$2.85	$2.90	$2.95	$3.05	3.4%	2.1%	3.5%
Total Rent	**$36.76**	**$37.13**	**$43.89**	**$43.42**	**$33.38**	**$32.32**	**$31.39**	**$30.04**	**$30.40**	**$31.10**	**$32.00**	**2.9%**	**-0.2%**	**-1.4%**

Lease Terms/Concessions

Review: Concessions Rise Slightly

Downtown's availability rate increased as leasing activity among banks and law firms remained subdued. Landlords had to keep concessions elevated in this environment.

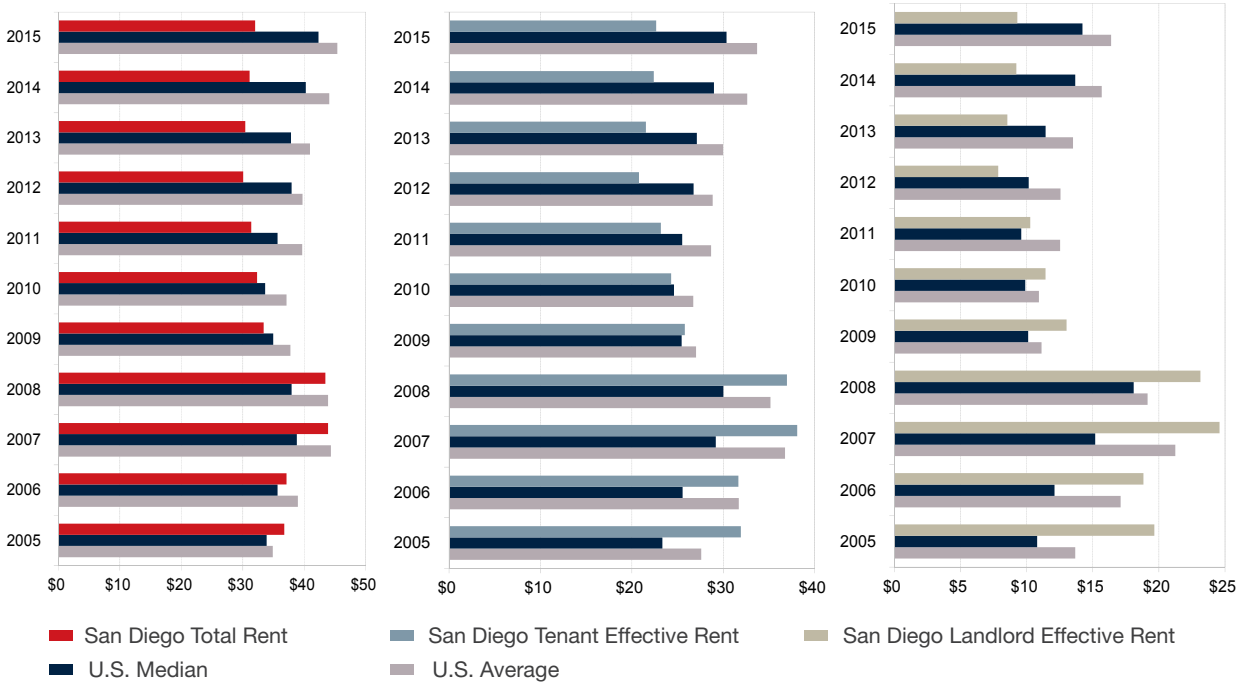
Leases Under 50,000 sf	
Average Term:	3-5 years
Free Rent:	3-5 months
Tenant Improvements:	$35.00-$40.00/sf
Other:	None

Leases Over 50,000 sf	
Average Term:	8-10 years
Free Rent:	5-10 months
Tenant Improvements:	$50.00-$75.00/sf
Other:	Free parking for 12 months

Outlook: Slight Decline in Concessions

Landlords achieving higher occupancy may take a tougher stance on base rents while also pulling back a bit on concessions. The amount of new product is negligible and rents are likely to register a slight increase. Even so, Downtown will remain a bargain compared to Torrey Pines and other North Cities locations.

Local & U.S. Historical Rent Trends



Total Rent^

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
San Diego	$36.76	$37.13	$43.89	$43.42	$33.38	$32.32	$31.39	$30.04	$30.40	$31.10	$32.00
U.S. Median	$33.88	$35.66	$38.79	$37.92	$34.95	$33.63	$35.65	$37.93	$37.85	$40.24	$42.32
U.S. Average	$34.87	$38.96	$44.33	$43.88	$37.75	$37.11	$39.68	$39.70	$40.92	$44.07	$45.38

Tenant Effective Rent

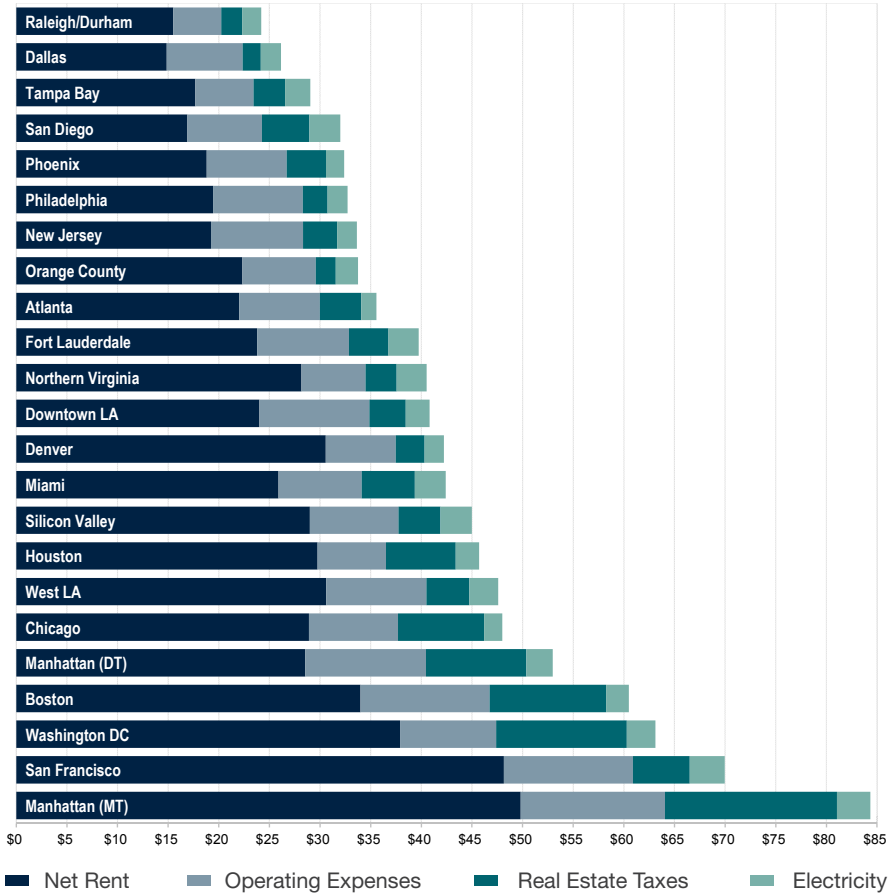
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
San Diego	$31.93	$31.65	$38.09	$36.98	$25.81	$24.30	$23.17	$20.78	$21.54	$22.40	$22.65
U.S. Median	$23.34	$25.55	$29.18	$30.01	$25.45	$24.61	$25.51	$26.75	$27.11	$28.99	$30.36
U.S. Average	$27.60	$31.70	$36.76	$35.16	$27.02	$26.72	$28.68	$28.85	$29.98	$32.63	$33.70

Landlord Effective Rent

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
San Diego	$19.66	$18.83	$24.58	$23.14	$13.03	$11.44	$10.29	$7.86	$8.55	$9.23	$9.30
U.S. Median	$10.80	$12.11	$15.19	$18.10	$10.12	$9.90	$9.60	$10.16	$11.44	$13.69	$14.23
U.S. Average	$13.68	$17.11	$21.24	$19.15	$11.13	$10.94	$12.54	$12.57	$13.51	$15.68	$16.39

^ All rents are unweighted. See National SERI for weighted averages.

Rent Components



Since 1995, the Savills Effective Rent Index (SERI) has been providing the real estate industry's only comprehensive, in-depth study of effective rental rate trends for prime Class A office properties in the nation's major Central Business Districts (CBDs) and selected suburban markets. Using actual completed transaction data as its source, the SERI report offers "real world" numbers that reflect negotiated terms, including lease concessions and operating expense information. This report includes larger long-term direct leases signed in higher-caliber Class A buildings in Downtown San Diego during 2015.

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Glossary

Concessions: Includes the tenant improvement allowance plus the value of the rental rate abatement. Amortized concessions are amortized over the average market lease term, using beginning-of-period payments.

Landlord Effective Rent: An estimate of rent received from a tenant less related expenses.

Net Rent: The gross rental rate exclusive of the tenant's proportionate share of real estate taxes, operating expenses and tenant electricity.

Operating Expenses: Includes (1) heating, ventilation and air conditioning (HVAC); (2) maintenance; (3) common area utilities and electricity; (4) cleaning; and (5) all other non-capital costs associated with the operation of a building.

Real Estate Taxes: Local real estate taxes exclusive of special assessments and other one-time charges.

Tenant Effective Rent: An estimate of the actual cost of occupancy for the tenant. The calculation is the total rent minus amortized lease concessions.

Tenant Electricity: Payments made by the tenant, whether to the landlord or public utility, or by the landlord as a general building expense, for the electrical power utilized within a tenant's premises, exclusive of building HVAC.

Total Rent: The sum of the four rental rate components: net rent, operating expenses, real estate taxes and electricity.

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