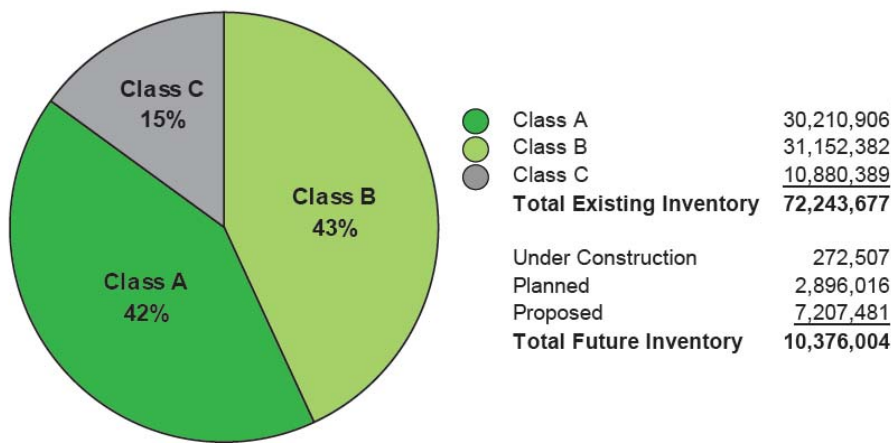


The current recession, which officially started in December of 2007, has affected every industry and every city. Which office submarkets in San Diego County have been affected the most and which are recovering the fastest? The answers can be found below.

The San Diego County office market<sup>1</sup> consists of 72,243,677 square feet of which 43 percent is Class B, 42 percent is Class A and 15 percent is Class C.

- Inventory Breakdown



Of the total 30 office submarkets countywide, eight are located in North County, 15 in Central County and seven in South County.

<sup>1</sup>Office Inventory includes multi-tenant and single tenant buildings. Owner-occupied, government and medical buildings are not included.

Looking at the size of the office submarkets countywide, the largest five submarkets are Downtown, Kearny Mesa, Mission Valley, Torrey Pines and Sorrento Mesa. In the table below, office submarkets are listed from the largest (Downtown) to the smallest (Rose Canyon). The colors – light blue, dark blue and green – represent in which county (north, central or south) the submarket is located. The majority of the large submarkets are located in the Central County.

## Submarkets Ranked by Size

County	Submarket	Size of the Submarket in SF as of 2Q10
South	Downtown	9,750,011
Central	Kearny Mesa	7,183,916
Central	Mission Valley	6,631,329
Central	Torrey Pines	5,824,427
Central	Sorrento Mesa	5,312,530
Central	Del Mar	4,347,056
Central	UTC	4,312,244
North	Rancho Bernardo	4,133,433
North	Carlsbad	4,029,553
Central	Eastgate	2,094,747
South	Uptown	1,874,948
South	East County	1,824,377
Central	Scripps	1,595,839
South	Old Town	1,161,758
Central	Poway	1,100,061
Central	La Jolla	1,025,490
South	Chula Vista - East	981,068
North	San Marcos	932,553
Central	Governor Park	898,465
Central	Miramar	891,689
North	Oceanside	874,395
North	Escondido	857,643
South	Chula Vista - West	792,767
North	Solana Beach	754,021
North	Encinitas	726,404
North	Vista	690,914
South	National City	474,815
Central	56 Corridor	470,225
Central	Sorrento Valley	396,865
Central	Rose Canyon	300,134
<b>Countywide</b>	<b>Countywide</b>	<b>72,243,677</b>

## Comparing 2Q07 vs. 2Q10 – Three Years

Between the second quarter of 2007 and the second quarter of 2010, only two office submarkets countywide have recorded a decrease in direct vacancy rate – Miramar and Torrey Pines, both located in Central County. Submarkets that have recorded the largest increase in direct vacancy rate over the last three years are National City, Chula Vista East, Vista, San Marcos and Escondido. Countywide, direct vacancy rate has increased 6.5 percentage points over the last three years to 17.4 percent recorded in the second quarter of 2010.

## Decrease in Direct Vacancy Rate by Submarket 2Q07 vs. 2Q10

County	Submarket	Size of the Submarket in SF as of 2Q10	2Q07	2Q10	2Q10 vs. 2Q07
Central	Miramar	891,689	16.2%	14.2%	-2.0%
Central	Torrey Pines	5,824,427	10.2%	8.7%	-1.5%
Central	56 Corridor	470,225	0.0%	0.0%	0.0%
South	Uptown	1,874,948	7.5%	7.8%	0.3%
South	Downtown	9,750,011	12.9%	16.0%	3.1%
South	Old Town	1,161,758	5.1%	8.5%	3.4%
Central	Kearny Mesa	7,183,916	8.4%	12.1%	3.7%
Central	Rose Canyon	300,134	6.4%	10.2%	3.8%
Central	Governor Park	898,465	9.4%	13.4%	4.0%
North	Encinitas	726,404	10.6%	15.1%	4.5%
Central	Scripps	1,595,839	27.4%	32.4%	5.0%
Central	La Jolla	1,025,490	4.5%	10.1%	5.6%
South	Chula Vista - West	792,767	8.8%	15.0%	6.2%
South	East County	1,824,377	6.2%	12.8%	6.6%
Central	Mission Valley	6,631,329	11.2%	18.0%	6.8%
Central	Sorrento Mesa	5,312,530	9.6%	16.7%	7.1%
Central	Eastgate	2,094,747	5.0%	12.5%	7.5%
North	Rancho Bernardo	4,133,433	17.7%	25.6%	7.9%
North	Solana Beach	754,021	4.8%	13.0%	8.2%
North	Oceanside	874,395	13.7%	23.3%	9.6%
Central	Del Mar	4,347,056	3.9%	13.8%	9.9%
North	Carlsbad	4,029,553	19.6%	29.6%	10.0%
Central	Sorrento Valley	396,865	3.0%	15.1%	12.1%
Central	UTC	4,312,244	8.3%	23.1%	14.8%
North	Escondido	857,643	7.0%	23.2%	16.2%
North	San Marcos	932,553	3.6%	23.8%	20.2%
North	Vista	690,914	6.9%	30.8%	23.9%
South	Chula Vista - East	981,068	12.5%	43.5%	31.0%
South	National City	474,815	11.5%	52.8%	41.3%
Central	Poway	1,100,061	n/a	13.2%	n/a
<b>Countywide</b>	<b>Countywide</b>	<b>72,243,677</b>	<b>10.9%</b>	<b>17.4%</b>	<b>6.5%</b>

## Comparing 2Q09 vs. 2Q10 – One Year

Between the second quarter of 2009 and the second quarter of 2010, the largest decrease in direct vacancy rate countywide was recorded in Governor Park, Rancho Bernardo, Encinitas, Del Mar and Miramar submarkets. Looking at the major submarkets that are larger than four million square feet, direct vacancy rate decreased the most from the last year in Rancho Bernardo, Del Mar, Kearny Mesa and Torrey Pines. Countywide, direct vacancy rate has decreased 20 basis points from a year ago to 17.4 percent recorded in the second quarter of 2010.

## Decrease in Direct Vacancy Rate by Submarket 2Q10 vs. 2Q09

County	Submarket	Size of the Submarket in SF as of 2Q10	2Q09	2Q10	2Q10 vs. 2Q09
Central	Governor Park	898,465	31.7%	13.4%	-18.3%
North	Rancho Bernardo	4,133,433	33.6%	25.6%	-8.0%
North	Encinitas	726,404	21.1%	15.1%	-6.0%
Central	Del Mar	4,347,056	18.7%	13.8%	-4.9%
Central	Miramar	891,689	18.0%	14.2%	-3.8%
South	National City	474,815	56.6%	52.8%	-3.8%
North	Oceanside	874,395	26.4%	23.3%	-3.1%
Central	Sorrento Valley	396,865	17.5%	15.1%	-2.4%
Central	Kearny Mesa	7,183,916	14.3%	12.1%	-2.2%
Central	Torrey Pines	5,824,427	9.8%	8.7%	-1.1%
North	Solana Beach	754,021	13.7%	13.0%	-0.7%
Central	Poway	1,100,061	13.9%	13.2%	-0.7%
Central	56 Corridor	470,225	0.0%	0.0%	0.0%
South	Chula Vista - West	792,767	14.6%	15.0%	0.4%
South	East County	1,824,377	12.4%	12.8%	0.4%
Central	Sorrento Mesa	5,312,530	15.8%	16.7%	0.9%
South	Downtown	9,750,011	15.0%	16.0%	1.0%
South	Uptown	1,874,948	6.6%	7.8%	1.2%
Central	UTC	4,312,244	21.9%	23.1%	1.2%
Central	Rose Canyon	300,134	8.4%	10.2%	1.8%
Central	La Jolla	1,025,490	7.9%	10.1%	2.2%
Central	Mission Valley	6,631,329	15.6%	18.0%	2.4%
South	Chula Vista - East	981,068	40.9%	43.5%	2.6%
North	Vista	690,914	28.1%	30.8%	2.7%
South	Old Town	1,161,758	5.8%	8.5%	2.7%
North	Carlsbad	4,029,553	26.6%	29.6%	3.0%
North	San Marcos	932,553	20.2%	23.8%	3.6%
North	Escondido	857,643	19.1%	23.2%	4.1%
Central	Scripps	1,595,839	28.2%	32.4%	4.2%
Central	Eastgate	2,094,747	5.1%	12.5%	7.4%
<b>Countywide</b>	<b>Countywide</b>	<b>72,243,677</b>	<b>17.6%</b>	<b>17.4%</b>	<b>-0.2%</b>

## Comparing 1Q10 vs. 2Q10 – One Quarter

Between the first quarter of 2010 and the second quarter of 2010, the largest decrease in direct vacancy rate countywide was recorded in National City, Rancho Bernardo and Oceanside submarkets. Looking at the major submarkets that are larger than four million square feet, direct vacancy rate decreased the most from the first quarter in Rancho Bernardo, Del Mar, UTC and Torrey Pines. Countywide, direct vacancy rate has increased 50 basis points from the first quarter of 2010 to 17.4 percent in the second quarter of 2010.

## Decrease in Direct Vacancy Rate by Submarket 2Q10 vs. 1Q10

County	Submarket	Size of the Submarket in SF as of 2Q10	1Q10	2Q10	2Q10 vs. 1Q10
South	National City	474,815	57.3%	52.8%	-4.5%
North	Rancho Bernardo	4,133,433	27.9%	25.6%	-2.3%
North	Oceanside	874,395	25.3%	23.3%	-2.0%
Central	Del Mar	4,347,056	15.7%	13.8%	-1.9%
South	Chula Vista - West	792,767	16.5%	15.0%	-1.5%
Central	Miramar	891,689	15.5%	14.2%	-1.3%
Central	Sorrento Valley	396,865	16.1%	15.1%	-1.0%
South	Chula Vista - East	981,068	44.4%	43.5%	-0.9%
North	Solana Beach	754,021	13.9%	13.0%	-0.9%
Central	UTC	4,312,244	23.6%	23.1%	-0.5%
North	Vista	690,914	31.1%	30.8%	-0.3%
Central	Torrey Pines	5,824,427	8.9%	8.7%	-0.2%
North	Encinitas	726,404	15.1%	15.1%	0.0%
Central	56 Corridor	470,225	0.0%	0.0%	0.0%
South	East County	1,824,377	12.6%	12.8%	0.2%
Central	Kearny Mesa	7,183,916	11.6%	12.1%	0.5%
South	Uptown	1,874,948	7.3%	7.8%	0.5%
Central	Poway	1,100,061	12.7%	13.2%	0.5%
South	Downtown	9,750,011	15.3%	16.0%	0.7%
North	Escondido	857,643	22.3%	23.2%	0.9%
North	Carlsbad	4,029,553	28.5%	29.6%	1.1%
Central	Sorrento Mesa	5,312,530	15.5%	16.7%	1.2%
Central	Governor Park	898,465	12.2%	13.4%	1.2%
Central	Mission Valley	6,631,329	16.7%	18.0%	1.3%
North	San Marcos	932,553	22.1%	23.8%	1.7%
Central	La Jolla	1,025,490	8.2%	10.1%	1.9%
South	Old Town	1,161,758	6.1%	8.5%	2.4%
Central	Rose Canyon	300,134	6.7%	10.2%	3.5%
Central	Scripps	1,595,839	28.8%	32.4%	3.6%
Central	Eastgate	2,094,747	6.1%	12.5%	6.4%
<b>Countywide</b>	<b>Countywide</b>	<b>72,243,677</b>	<b>16.9%</b>	<b>17.4%</b>	<b>0.5%</b>

## CONCLUSION

- Compared to the second quarter of 2007 – a couple of months before the official start of this recession – only two submarkets countywide (Miramar and Torrey Pines) have recorded a decrease in direct vacancy rate.
- However, in the last 12 months (2Q09 vs. 2Q10), 12 of 30 office submarkets countywide have recorded a decrease in direct vacancy rates.
- In the last three months (1Q10 vs. 2Q10), 12 of 30 submarkets countywide have recorded a decrease in vacancy rates confirming that the San Diego office market is headed in the right direction.
- San Diego's healthiest office submarkets are slowly improving while submarkets with high vacancy rates are showing moderate signs of stabilization. During the second half of the year, expect to see some pent-up demand from tenants that have been putting off decisions. The recovery in the office market is expected to be gradual.