

# Hughes Marino San Diego Office Update Quarter 1 2011

Saturday, April 30, 2011 | Hughes Marino

**T**his last quarter, the modest commercial real estate recovery that began in 4th quarter, 2010, where 2,134,000 net square feet of combined office, industrial and lab/flex space came off the market, hit a huge “pause.” While a bit more net inventory of space came off the market this first quarter, and sublease space on the market continued to inch downwards, data for San Diego County showed very little improvement. Notwithstanding, Hughes Marino is convinced that a few million square feet more “net absorption” will occur in the remainder of 2011, and we don’t see any signs of a “double dip” in the regional economy.

## Job Creation is Real in San Diego

If companies are creating more jobs, then they will be leasing more space. Government statistics in this area are trailing, but our team is at the leading edge of seeing economic growth. Our current active client engagements don’t have the tenant, or buyer/builder, occupying the facility for 4-18 months from today. We see real-time if companies are out of space, or awash with it, and right now companies are running tight in general. There is solid overall growth in the facility commitments being closed, or contemplated by our clients. Across 160 active engagements, from 1,000 sf to 150,000 sf, across all industries county-wide, there is strong supporting data that San Diego companies are on the move.

For the Hughes Marino active client engagements, almost half of our active clients are expansive with their facility commitments, and just over 10% are downsizing—an almost 5:1 ratio of growing companies over shrinking companies. Hughes Marino is representing Altec Lansing, moving to San Diego after surveying six major metropolitan areas around the U.S., which is expecting to hire 50 people over the next year. Encore Capital just leased 32,000 sf of space in Mission Valley for expansion. Active Network expects to hire another 100 people, and is expanding by a floor this summer. Peregrine Semiconductor is due to occupy a 23,000 sf expansion building this summer. D&K Engineering is expanding by 15,000 sf in Rancho Bernardo. BioLegend is expanding to 65,000 sf from 35,000 sf in Sorrento Mesa. Many of our clients are out of space, and contemplating expansion.

Other companies on the move include Broadcom, which leased an additional 60,000 sf in Rancho Bernardo in a building currently under construction. Bridgepoint Education has signed a lease for another 200,000 sf 8-story building in Kearny Mesa, which will break ground at the end of this year, and be ready for occupancy at the end of 2012. Sharp Healthcare will be expanding and creating a medical office building out of the former Newgen office building on Mira Mesa Boulevard in Sorrento Mesa for 104,000 sf.

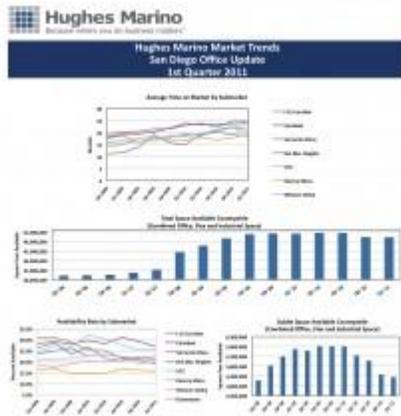
## Sublease Space is Expected to Decrease throughout 2011 and 2012

Throughout 2008 until early 2010, we had become accustomed to having excellent sublease values to deliver for our clients throughout the region. However, there is 27% less sublease space on the market today than there was just a year ago. In 2011 and 2012, there will be much less sublease space on the market in general, as very little new sublease inventory will come to market as fewer companies are downsizing, and the remaining good sublease deals are going to be snatched up. Also, natural lease expirations will cause much of the sublease space inventory to convert into “direct” space from landlords, further decreasing the total inventory of subleases. In Del Mar Heights, the HP sublease (former Peregrine Systems building) accounts for approximately 40% of all sublease space in Del Mar Heights. While a full floor is currently in negotiations, that lease expires in April 2012, at which time that sublease inventory will come off the market.

# Hughes Marino

Because Where You Do Business Matters™

While the commercial real estate recovery isn't going to occur overnight, continued prosperity among San Diego's tenant base will mean that things will continue to turn the corner throughout 2011 and into 2012.



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