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Smaller companies will continue to drive a healthy office market

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There should be high office space demand throughout the year and, as in the past, 80 percent of the transactions will involve small- to medium-sized companies, according to a report.

Office vacancy rates countywide are running at less than 9 percent and are expected to remain healthy despite a fair amount of new construction.

"There may be a slight increase in vacancy as new construction comes online," the Grubb & Ellis|BRE Commercial report forecasted for the remainder of 2006.

While millions of square feet of office space are in the works (mostly in suburban markets), the report says high construction costs -- both materials and labor -- could place a damper on some of this work.

"Much of the new inventory that will be brought to market will be driven by firm tenant commitments as pre-leasing is expected to be prevalent for most speculative construction projects," the report continued.

The report noted that construction is happening in a wide range of suburban markets such as UTC, the state Route 56 corridor and most of the North County submarkets as well.

"Commute times leading to office cores will continue to be an issue all over the county, and the decision makers of many companies will be looking for office space near their employee base, fueling much of the new construction in the North County," the report added.

Grubb & Ellis|BRE also predicted health for two downtown office projects: the 360,000-square-foot Broadway 655 (completed last fall) and the 306,750-square-foot **DiamondView Tower**, slated for completion in the middle of next year.

Leasing has been slow at Broadway 655, which was about half full at the time of its completion. It has picked up somewhat since the beginning of the year, and is about 53 percent leased. The 236,350-square-foot portion of **DiamondView** is running at about 32 percent pre-leased.

Class A asking rents -- as high as \$4 per square foot in some submarkets such as Del Mar Heights -- are expected to continue to increase throughout the year.