



MARKET CHANGE

Compared to the Previous Quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



Deliveries



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HIGHLIGHTS

- **Maturing Recovery** - The first quarter of 2014 continued the trend of steady improvement in fundamentals for the San Diego office market. The vacancy rate remained flat, and there was over 300,000 square feet of positive absorption and a significant increase in the average asking lease rate.
- **Construction** - Office deliveries have consistently been around 400,000-700,000 square feet a year over the past four years. This rate of construction is below the historical average and has helped to push vacancy down. Build-to-suit product has been sustaining San Diego office development, with the latest build-to-suit project being the 300,000 square foot headquarters for Sempra Energy in Downtown.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 12.38%, practically unchanged from the previous quarter's figure of 12.32% — the lowest vacancy rate since the first quarter of 2008.
- **Availability** - Direct/sublease space being marketed was 16.49% at the end of the quarter, virtually the same as the 16.45% availability rate of the previous quarter.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in San Diego County was \$2.28 at the end of the first quarter, a six-cent increase from the prior quarter and a fourteen-cent increase over 2013's first quarter rate of \$2.14. The record high rate of \$2.76 was established in the first and second quarters of 2008.
- **Absorption** - The San Diego office market posted 300,748 square feet of positive net absorption in the first quarter, giving the market over 6 million square feet of positive absorption since the first quarter of 2010. The San Diego Office market has not posted negative net absorption in any quarter since the fourth quarter of 2009.
- **Transaction Activity** - Sale and lease transactions totaled 4.2 million square feet in the first quarter, a decrease from the 5.1 million square feet transacted in the fourth quarter. This statistic can have some lag time in being reported, so look for first quarter figures to end up somewhat higher in the next report. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in the San Diego County was 7.0% in February 2014, unchanged from a revised 7.0% in January 2014 and below the year-ago estimate of 8.1%. This compares with an unadjusted unemployment rate of 8.5% for California and 7.0% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 27,200 payroll jobs from February 2013 and February 2014 — including 6,700 in professional and business services, 4,800 from leisure and hospitality, and 4,300 from construction. The financial activities sector recorded the greatest number of job losses, down 500 year over year.
- **Overall** - Occupancy increases are slowing, and yet rental rate increases are accelerating. New office developments have been delivering at a modest pace, while demand has been modest as well. The office market is steady but not explosive. Class A office product has fared the best through this recovery, and Class B should soon begin seeing more activity. Unemployment rates have continued to trend downward since the peak in January 2010. As job creation continues and consumer confidence stabilizes, the office market will continue to improve.

FORECAST

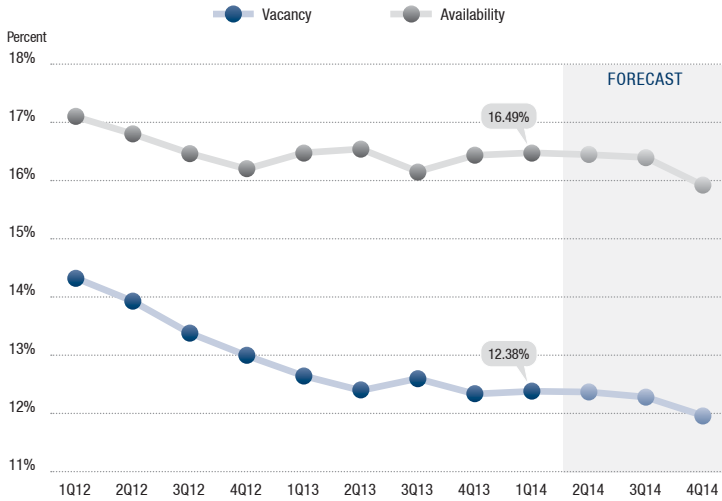
- **Construction** - The Irvine company broke ground on the first new significant speculative office in the market since the recession. Although market-wide demand is moderate, the premier submarkets such as UTC, Sorrento Mesa, Del Mar Heights, and Rancho Bernardo are most likely to see speculative development going forward.
- **Employment** - We anticipate job growth of around 1.9%, or 24,600 jobs, in San Diego County over the year. Look for sectors like construction, administrative & support, and transportation & utilities to lead the way for employment gains in 2014.
- **Lease Rates** - Expect average asking rates to increase by approximately five cents per square foot by 2015.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dipping below 12% by 2015.

OVERVIEW

	1Q14	4Q13	1Q13	% of Change vs. 1Q13
Vacancy Rate	12.38%	12.32%	12.65%	(2.13%)
Availability Rate	16.49%	16.45%	16.49%	0.00%
Average Asking Lease Rate	\$2.28	\$2.22	\$2.14	6.54%
Sale & Lease Transactions	4,160,173	5,094,882	3,092,645	34.52%
Gross Absorption	1,878,396	1,733,488	2,321,954	(19.10%)
Net Absorption	300,748	327,055	458,037	N/A

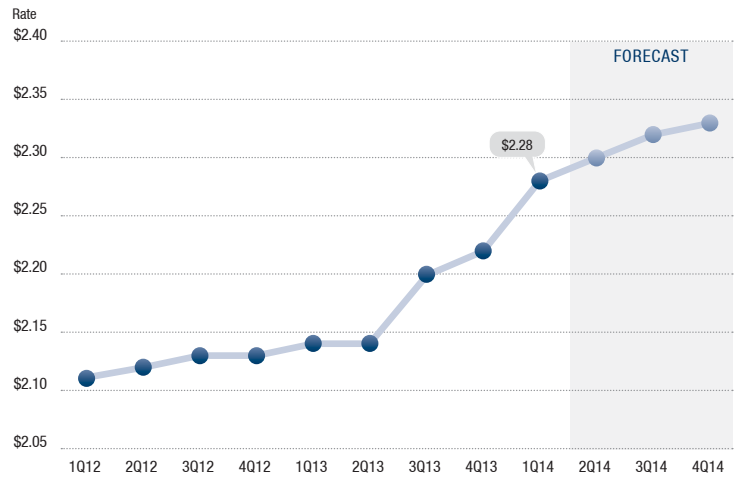
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



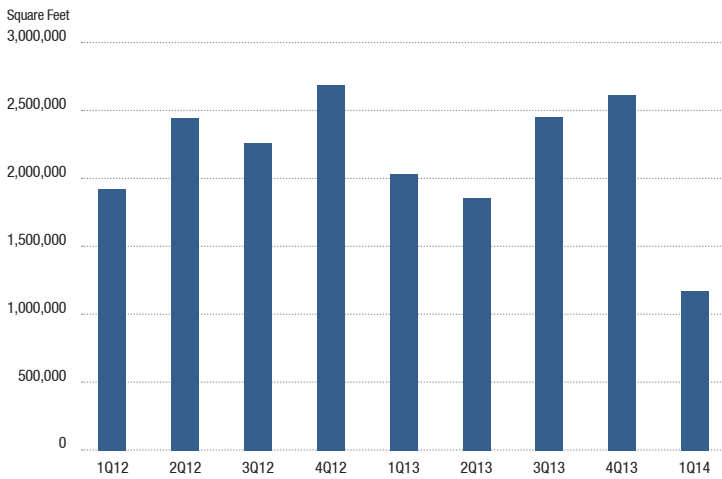
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



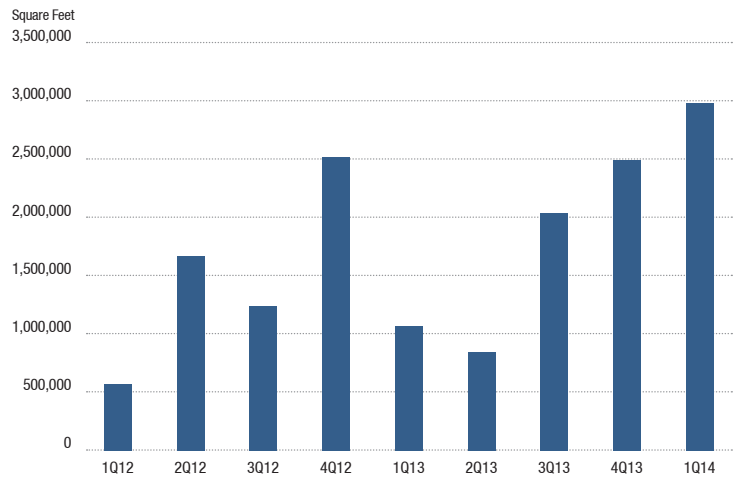
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



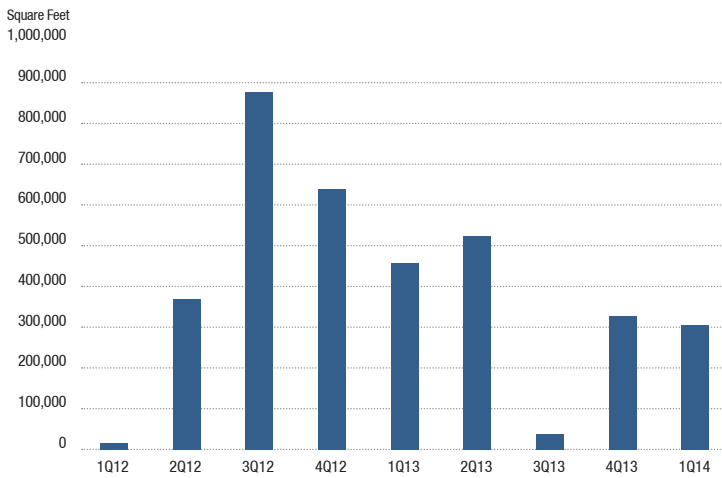
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



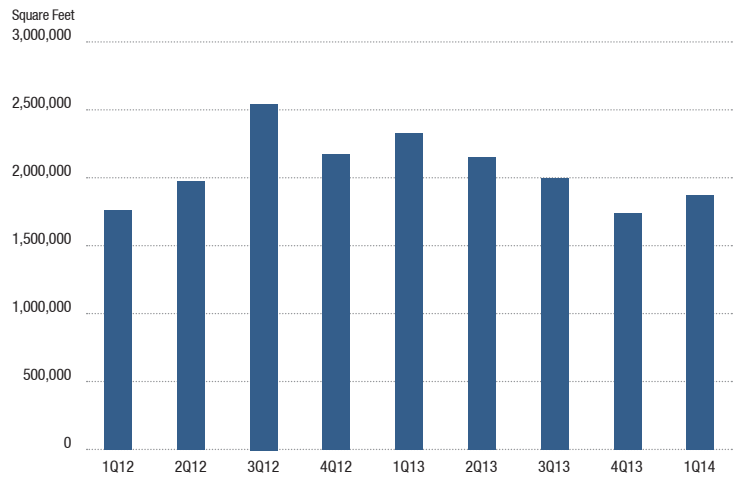
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2014	Square Feet Available	Availability Rate 1Q2014	Average Asking Lease Rate	Net Absorption 1Q2014	Net Absorption 2013	Gross Absorption 1Q2014	Gross Absorption 2013
Central													
Downtown	136	12,588,790	320,000	973,896	2,086,016	16.57%	2,510,049	19.94%	\$2.22	(4,903)	79,118	211,111	925,863
Central Total	136	12,588,790	320,000	973,896	2,086,016	16.57%	2,510,049	19.94%	\$2.22	(4,903)	79,118	211,111	925,863
Central Suburban													
City Heights / University	28	1,024,202	0	0	129,397	12.63%	142,519	13.92%	\$1.70	2,503	(22,904)	18,948	71,346
Coronado	6	125,233	0	0	1,800	1.44%	7,436	5.94%	\$0.00	(1,800)	3,100	0	3,100
Kearny Mesa	236	10,622,794	0	193,000	1,205,281	11.35%	1,648,795	15.52%	\$1.80	90,313	(251,153)	195,636	594,476
Mission Gorge	25	582,823	0	0	46,261	7.94%	44,286	7.60%	\$1.13	3,493	5,788	7,674	26,153
Mission Valley	125	6,958,055	0	375,830	647,302	9.30%	981,182	14.10%	\$2.14	(494)	208,861	128,859	775,083
Old Town / Point Loma	78	2,483,144	0	0	209,719	8.45%	349,503	14.08%	\$2.35	(4,742)	(16,017)	20,186	123,667
Park East	9	176,637	0	0	1,639	0.93%	1,639	0.93%	\$2.25	508	16,871	2,147	16,883
Rose Canyon / Morena	54	1,232,759	0	0	62,354	5.06%	67,740	5.49%	\$1.68	5,770	23,475	15,844	83,966
Uptown / Hillcrest	105	2,661,060	0	0	239,720	9.01%	275,236	10.34%	\$2.05	(30,242)	(18,454)	13,203	82,654
Central Suburban Total	666	25,866,707	0	568,830	2,543,473	9.83%	3,518,336	13.60%	\$1.91	65,309	(50,433)	402,497	1,777,328
Highway 78 Corridor													
Oceanside	57	1,271,793	0	59,832	189,723	14.92%	212,787	16.73%	\$1.69	9,438	69,292	28,658	127,237
San Marcos	38	1,367,150	0	1,457,292	193,982	14.19%	234,941	17.18%	\$2.05	14,595	21,256	14,595	75,416
Vista	49	1,167,954	0	212,350	211,648	18.12%	238,319	20.40%	\$1.60	1,375	(29,716)	18,093	53,660
Highway 78 Corridor Total	144	3,806,897	0	1,729,474	595,353	15.64%	686,047	18.02%	\$1.62	25,408	60,832	61,346	256,313
I-15 Corridor													
Escondido	91	1,922,010	0	43,107	288,879	15.03%	336,094	17.49%	\$1.89	(11,871)	50,815	28,650	163,464
Poway	29	1,301,043	0	650,570	79,790	6.13%	82,086	6.31%	\$0.00	2,279	8,711	15,096	51,688
Rancho Bernardo	108	6,566,266	0	1,136,675	576,820	8.78%	833,204	12.69%	\$2.35	11,134	120,173	61,651	356,717
Scripps Ranch	50	2,709,226	0	502,000	545,490	20.13%	672,405	24.82%	\$2.24	4,553	145,671	32,928	271,438
I-15 Corridor Total	278	12,498,545	0	2,332,352	1,490,979	11.93%	1,923,789	15.39%	\$2.15	6,095	325,370	138,325	843,307
North City													
Governor Park	19	870,138	0	0	129,935	14.93%	167,520	19.25%	\$2.19	(9,174)	(40,403)	11,611	69,041
La Jolla	53	1,606,068	0	0	216,225	13.46%	256,133	15.95%	\$2.75	(13,123)	13,018	19,213	154,883
Miramar	38	1,778,142	0	0	314,627	17.69%	344,718	19.39%	\$1.52	2,595	(42,007)	24,874	120,989
Sorrento Mesa	123	9,660,854	410,000	1,672,302	871,801	9.02%	1,512,184	15.65%	\$2.76	(68,976)	570,616	123,976	1,205,201
Sorrento Valley	27	808,606	0	509,770	122,021	15.09%	148,878	18.41%	\$0.00	(6,715)	(36,783)	13,425	84,285
Torrey Pines	43	2,697,013	0	0	146,432	5.43%	327,282	12.13%	\$3.75	(23,640)	(8,453)	0	66,414
UTC	86	8,152,363	306,000	0	1,247,843	15.31%	1,950,863	23.93%	\$3.23	287,065	(161,444)	515,233	773,896
North City Total	389	25,573,184	716,000	2,182,072	3,048,884	11.92%	4,707,578	18.41%	\$3.08	168,032	294,544	708,332	2,474,709
North County													
Carlsbad	152	5,934,896	0	459,000	1,050,536	17.70%	1,138,921	19.19%	\$2.11	(1,981)	198,912	146,083	634,998
Del Mar Heights / Carmel Valley	67	4,420,424	0	598,611	678,446	15.35%	1,060,615	23.99%	\$3.32	9,781	62,828	79,625	460,310
North Beach Cities	107	2,430,472	33,917	77,120	193,903	7.98%	241,697	9.94%	\$2.90	(16,431)	32,300	33,997	227,289
North County Total	326	12,785,792	33,917	1,134,731	1,922,885	15.04%	2,441,233	19.09%	\$3.00	(8,631)	294,040	259,705	1,322,597
Southern & Eastern Areas													
Chula Vista	90	2,781,064	0	765,002	316,295	11.37%	335,477	12.06%	\$2.20	25,604	127,890	37,263	217,976
East County	155	3,731,678	0	194,200	240,587	6.45%	275,789	7.39%	\$1.46	25,284	61,241	57,685	191,179
National City	15	541,398	0	0	156,429	28.89%	146,904	27.13%	\$0.00	0	76,693	0	81,788
Otay Mesa	14	338,316	0	187,080	24,957	7.38%	24,957	7.38%	\$1.82	2,132	4,915	2,132	16,514
Southeast San Diego	10	391,848	0	0	69,541	17.75%	69,541	17.75%	\$2.20	(3,582)	(1,180)	0	3,000
Southern & Eastern Areas Total	284	7,784,304	0	1,146,282	807,809	10.38%	852,668	10.95%	\$2.50	49,438	269,559	97,080	510,457
Class A	256	32,490,485	1,036,000	7,249,335	3,626,985	11.16%	5,097,563	15.69%	\$2.67	200,689	769,373	829,339	2,695,225
Class B	1,214	51,918,089	33,917	2,818,302	7,341,610	14.14%	9,643,603	18.57%	\$2.05	137,989	306,955	862,777	4,467,957
Class C	753	16,495,645	0	0	1,526,804	9.26%	1,898,534	11.51%	\$1.53	(37,930)	196,702	186,280	947,392
San Diego County Total	2,223	100,904,219	1,069,917	10,067,637	12,495,399	12.38%	16,639,700	16.49%	\$2.28	300,748	1,273,030	1,878,396	8,110,574

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a full-service gross basis.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
15051-15333 Avenue of Science 5005-5010 Wateridge Vista Dr. Et Al	Rancho Bernardo Sorrento Mesa	B	1,054,800	\$279.67	Starwood Capital Group	Kilroy Realty
701 B St. & 707 Broadway	Downtown	A	747,633	\$207.32	Emmes Group of Companies	The Blackstone Group
10201-10241 Wateridge Cir.	Sorrento Mesa	A	278,787	\$260.06	Parallel Capital Partners, Inc. Equity Group Investments, LLC	Beacon Capital Partners C-III Realty Services
530 B St.	Downtown	B	232,098	\$124.95	Kearny Real Estate	Union Bank
480 4th Ave.	Chula Vista	B	62,449	\$286.63	CNL Healthcare Properties	California Commercial RE Services Centrum Partners, Inc.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
4570 Executive Dr.	UTC	A	69,700	Mar-14	Synthetic Genomics	BioMed Realty Trust
4570 Executive Dr.	UTC	A	55,600	Mar-14	Human Longevity, Inc.	BioMed Realty Trust
101 W. Broadway	Downtown	A	20,319	Mar-14	Undisclosed	The Irvine Company
401 W. A St.	Downtown	A	19,706	Mar-14	Undisclosed	Emmes Group of Companies
4025 Camino Del Rio S. – Renewal	Mission Valley	B	15,077	Feb-14	First Choice Executive Suites	LNR Partners, LLC

PRODUCT TYPE

CLASS A

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

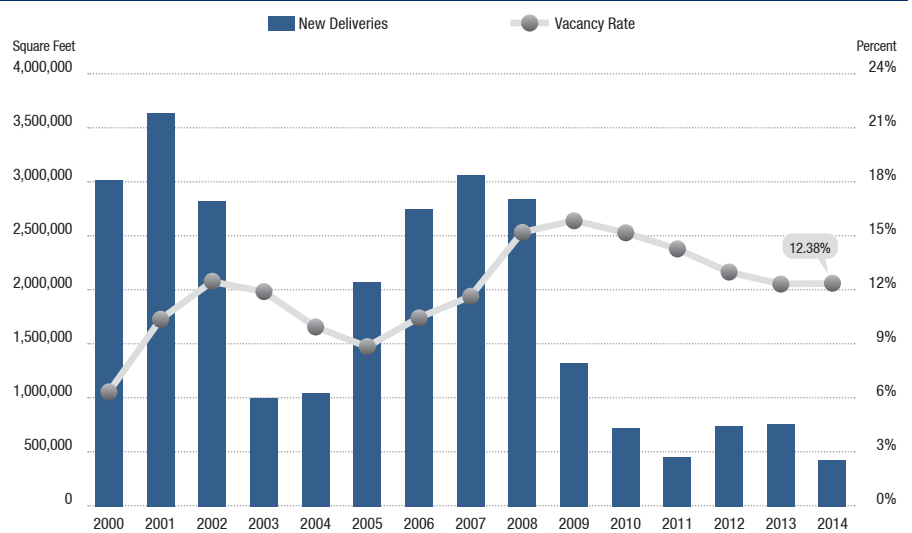
CLASS B

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C

Buildings competing for tenants requiring functional space at rents below the area average.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



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