

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

DOWN



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HIGHLIGHTS

- **Marching Forward** - The San Diego Flex R&D market displayed more signs of recovery in the first quarter with positive net absorption, an increase in asking rental rates, and decreases in both vacancy and availability. The Flex R&D segment of San Diego is smaller than other product types, and as such the needle can move quickly as evidenced by the dramatic vacancy decreases and rental rate increases of the past three years.
- **Construction** - The Flex R&D market maintained a low level of construction over the last three years and had only 31,246 square feet of new construction delivered in 2013. At the end of the first quarter, nothing was under construction and just over 1.05 million square feet was planned. The slowdown in new property deliveries has eased and will continue to ease the upward pressure on vacancy going forward.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 11.38%, a decrease from the previous year's rate of 13.63% and the lowest vacancy rate seen since the third quarter of 2008.
- **Availability** - Direct/sublease space being marketed was 14.24% at the end of the quarter, a significant drop from the previous quarter and down 12.42% from 2013's first quarter rate of 16.26%.
- **Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.31 at the end of the first quarter, an increase of almost 15% from last year's first quarter rate of \$1.14. Average asking lease rates have risen twenty-four cents since the recession lows seen in the first and second quarters of 2011.
- **Absorption** - The San Diego R&D market posted 193,799 square feet of positive net absorption in the first quarter, marking the ninth consecutive quarter of positive absorption and giving the market over 2.4 million square feet of positive absorption since the first quarter of 2012.
- **Transaction Activity** - Leasing activity checked in at 480,000 square feet in the first quarter, producing a total of 3.6 million square feet leased over the last four quarters. Sales activity in the first quarter posted the highest volume of the last five quarters at 713,000 square feet. 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** - The Flex R&D market has now posted nine straight quarters of improvement. San Diego's Flex R&D market has a relatively small inventory when compared to the office and industrial inventory, and this contributes to the ability of vacancy rates to descend at such a break-neck speed. The Flex R&D market has also seen significant increases in the asking rental rate over the past two years. The Flex R&D sector is occupied in a large part by biotech companies which are one of the stronger drivers of San Diego's economy.

FORECAST

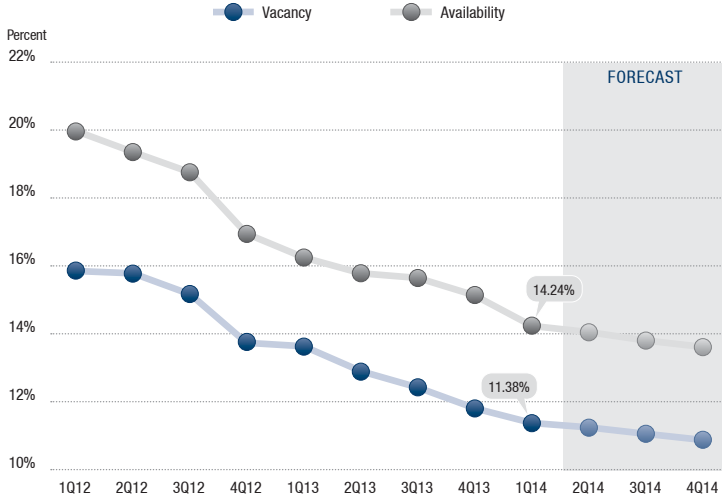
- **Employment** - We anticipate job growth of around 1.9%, or 24,600 jobs, in San Diego County over the year. Look for sectors like construction, administrative & support, and transportation & utilities to lead the way for employment gains in 2014.
- **Lease Rates** - Expect average asking rates to increase by approximately 3.5% percent by 2015.
- **Vacancy** - We anticipate vacancy rate continuing to descend in coming quarters, dipping 50 basis points to approximately 10.9% by 2015.

OVERVIEW

	1Q14	4Q13	1Q13	% of Change vs. 1Q13
Vacancy Rate	11.38%	11.81%	13.63%	(16.51%)
Availability Rate	14.24%	15.16%	16.26%	(12.42%)
Average Asking Lease Rate	\$1.31	\$1.26	\$1.14	14.91%
Sale & Lease Transactions	1,197,065	1,454,855	1,470,826	(18.61%)
Gross Absorption	832,091	1,077,016	865,746	(3.89%)
Net Absorption	193,799	301,270	59,667	N/A

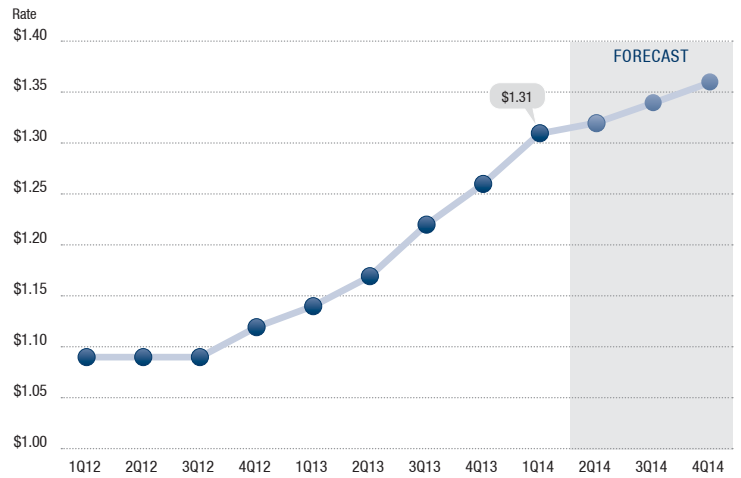
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



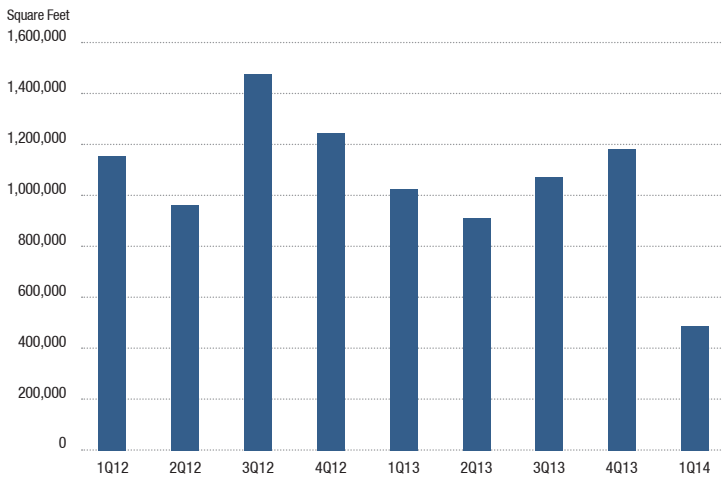
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



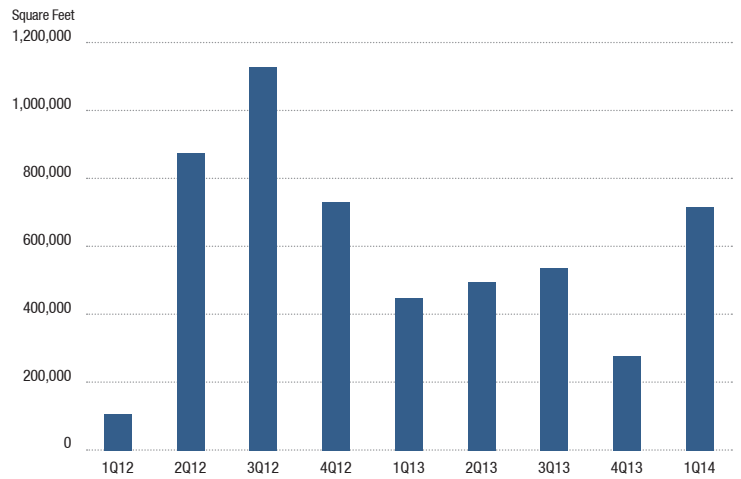
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



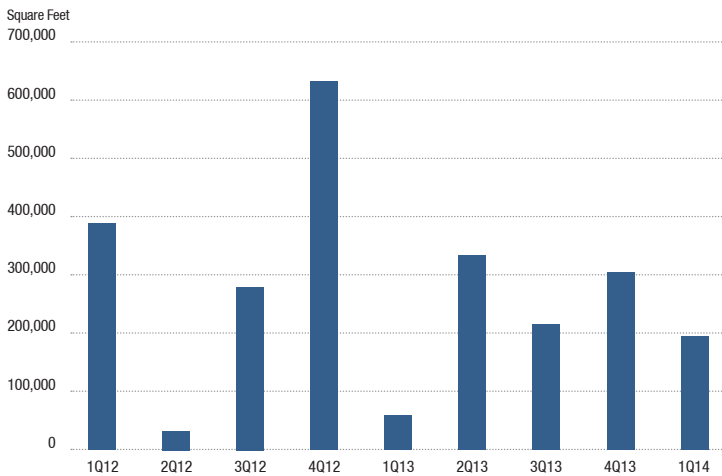
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

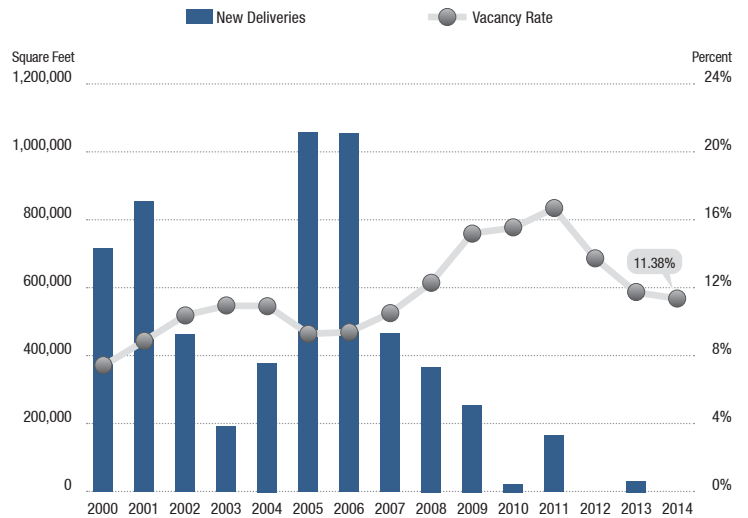


NET ABSORPTION

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



ANNUAL NEW DELIVERIES VS. VACANCY RATE



	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													
Central	18	231,356	0	0	4,381	1.89%	10,431	4.51%	\$0.00	3,725	(2,752)	10,451	31,553
East City	5	44,292	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southeast San Deigo	17	201,597	0	0	5,000	2.48%	5,000	2.48%	\$0.00	0	7,525	0	2,475
Central Total	40	477,245	0	0	9,381	1.97%	15,431	3.23%	\$0.00	3,725	(10,277)	10,451	34,028
Central Suburban													
Kearny Mesa	207	5,333,447	0	20,000	398,992	7.48%	684,032	12.83%	\$1.26	(37,970)	46,917	67,864	360,534
Mission Gorge	29	270,741	0	0	9,337	3.45%	22,148	8.18%	\$1.15	0	13,172	0	47,988
Rose Canyon / Morena	38	616,737	0	0	61,266	9.93%	46,153	7.48%	\$1.37	15,864	4,536	25,423	76,730
Sports Arena / Airport	43	525,784	0	0	30,289	5.76%	114,749	21.82%	\$1.19	3,882	26,276	5,510	43,272
Central Suburban Total	317	6,746,709	0	20,000	499,884	7.41%	867,082	12.85%	\$1.24	(18,224)	90,901	98,797	528,524
East County													
El Cajon	81	861,207	0	0	19,613	2.28%	44,770	5.20%	\$0.00	24,314	55,404	25,914	91,547
La Mesa / Spring Valley	41	318,588	0	0	29,922	9.39%	29,922	9.39%	\$0.00	12,247	(11,294)	12,489	28,334
Santee / Lakeside	52	534,506	0	268,000	20,790	3.89%	45,072	8.43%	\$0.00	(11,588)	4,688	1,942	22,720
East County Total	174	1,714,301	0	268,000	70,325	4.10%	119,764	6.99%	\$0.00	24,973	48,798	40,345	142,601
I-15 Corridor													
Escondido	82	753,369	0	9,500	66,278	8.80%	70,896	9.41%	\$0.80	(3,824)	(34,105)	7,916	52,128
Poway	59	1,229,347	0	0	45,023	3.66%	66,123	5.38%	\$0.72	11,072	300	22,199	67,139
Rancho Bernardo	87	3,929,523	0	0	741,806	18.88%	858,473	21.85%	\$1.21	72,130	251,676	106,974	426,022
Scripps Ranch	30	755,097	0	0	142,711	18.90%	168,443	22.31%	\$1.19	3,406	56,384	3,406	130,813
I-15 Corridor Total	258	6,667,336	0	9,500	995,818	14.94%	1,163,935	17.46%	\$1.24	82,784	274,255	140,495	676,102
North County													
Carlsbad	244	5,865,123	0	100,000	910,168	15.52%	999,175	17.04%	\$0.97	35,997	176,609	112,122	541,510
North Beach Cities	16	148,193	0	0	0	0.00%	600	0.40%	\$0.00	0	1,200	0	3,000
North County Total	260	6,013,316	0	100,000	910,168	15.14%	999,775	16.63%	\$0.97	35,997	177,809	112,122	544,510
North City													
Miramar	211	4,449,882	0	11,760	570,312	12.82%	717,954	16.13%	\$1.04	(26,623)	45,109	84,329	455,599
Sorrento Mesa	156	5,855,390	0	0	500,829	8.55%	689,687	11.78%	\$1.75	98,701	68,707	156,705	408,712
Sorrento Valley	109	2,578,042	0	0	355,449	13.79%	418,406	16.23%	\$1.92	(51,944)	(85,655)	41,613	179,607
Torrey Pines	43	3,333,911	0	105,091	477,502	14.32%	462,373	13.87%	\$0.00	40,051	76,872	40,551	197,364
UTC	19	1,522,111	0	307,660	270,375	17.76%	283,246	18.61%	\$2.44	2,754	92,088	2,754	174,698
North City Total	538	17,739,336	0	424,511	2,174,467	12.26%	2,571,666	14.50%	\$1.60	62,939	197,121	325,952	1,415,980
Outlying Areas													
Outlying SD County North	17	201,070	0	0	12,692	6.31%	19,292	9.59%	\$0.00	0	0	0	0
Outlying SD County South	20	78,080	0	0	4,000	5.12%	5,600	7.17%	\$0.00	0	4,617	0	4,617
Outlying Areas Total	37	279,150	0	0	16,692	5.98%	24,892	8.92%	\$0.00	0	4,617	0	4,617
South Bay													
Chula Vista	83	1,534,294	0	0	119,774	7.81%	227,842	14.85%	\$1.35	(9,012)	9,346	26,207	84,822
National City	23	319,388	0	0	10,675	3.34%	28,151	8.81%	\$0.80	(1,782)	22,699	12,812	43,430
Otay Mesa / San Ysidro	11	245,361	0	0	16,846	6.87%	16,846	6.87%	\$0.75	(2,907)	(1,920)	0	0
South Bay Total	117	2,099,043	0	0	147,295	7.02%	272,839	13.00%	\$1.30	(13,701)	30,125	39,019	128,252
Highway 78 Corridor													
Oceanside	31	990,032	0	0	27,677	2.80%	27,677	2.80%	\$0.00	(1,431)	21,044	5,110	51,523
San Marcos	59	951,397	0	0	75,927	7.98%	81,422	8.56%	\$0.88	7,217	(7,163)	32,120	62,966
Vista	60	1,427,939	0	241,342	206,003	14.43%	277,757	19.45%	\$0.89	9,520	(23,938)	27,680	103,258
Highway 78 Corridor Total	150	3,369,368	0	241,342	309,607	9.19%	386,856	11.48%	\$0.89	15,306	(10,057)	64,910	217,747
San Diego County Total	1,891	45,105,804	0	1,063,353	5,133,637	11.38%	6,422,240	14.24%	\$1.31	193,799	803,292	832,091	3,692,361

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

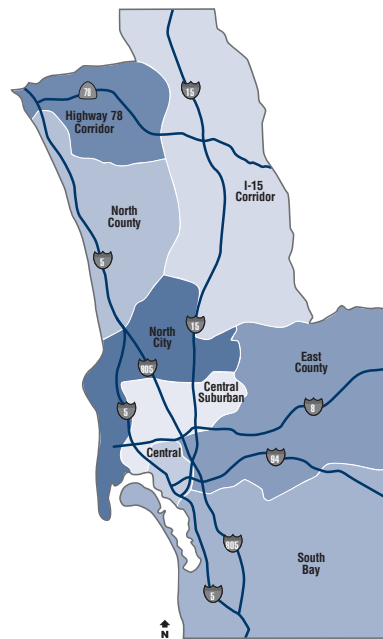
Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
3545 Cray Ct.	Torrey Pines	116,556	\$549.09	Alexandria Real Estate Equities	Lankford & Associates, Inc.
4031 Sorrento Valley Rd.	Sorrento Valley	42,241	\$292.37	Alexandria Real Estate Equities	Del Mar Partnerships
15175 Innovation Dr.	Carmel Mountain Ranch	59,602	\$130.03	Phamatech, Inc.	Century Park Partners, LLC
3911 Sorrento Valley Blvd.	Sorrento Valley	52,900	\$126.65	CM Management Services, Inc.	R.G. Harris Company
10240 Flanders Ct.	Sorrento Mesa	64,036	\$104.63	TIG Real Estate Holdings	General Atomics

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9381 Judicial Dr.	UTC	44,755	Feb-14	Epic Sciences	Health Care Property, Inc.
4990 Greencraig Ln.	Kearny Mesa	26,703	Jan-14	Cosco Fire Protection	San Miguel Corporation
6255 Ferris Sq.	Miramar	16,670	Jan-14	Geo Metrics	Windell
304 Enterprise St.	Escondido	16,407	Mar-14	Quilter's Paradise	Enterprise Heights Ind Centre Assoc.
8969 Kenamar Dr.	Miramar	12,969	Jan-14	Solectek	H.G. Fenton

PRODUCT TYPE

Flex/Research and Development (R&D) buildings can be one story, one story with a mezzanine, and two story built-out structures with a high ratio of window wall to floor area with lower ceilings. They generally have over 50% built-out office space or laboratory use, with the remaining space being utilized as light manufacturing or warehousing. In addition, the parking ratio must be at least 3 spaces or greater per 1,000 square feet.



Please Contact Us for Further Information

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