



MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

UP

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HIGHLIGHTS

- **Springing Forward** - The San Diego Flex R&D market displayed more signs of recovery in the first quarter with an increase in asking rental rates, strong positive absorption, and decreased vacancy & 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 finally has some new construction to speak of, 618,000 square feet in Sorrento Mesa, and it arrived just as vacancy is nearing the single digit mark.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 10.14%, a decrease of over 120 basis points when compared to first quarter of the previous year, and a decrease of 38% from 2011's rate of 16.37%.
- **Availability** - Direct/sublease space being marketed was 14.41% at the end of the first quarter, a slight increase from the previous quarter's rate of 14.22%.
- **Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.37 at the end of the first quarter, an increase of \$0.06 from the first quarter of last year's rate. Average asking lease rates have risen thirty cents since the recession lows seen in the first and second quarters of 2011.
- **Absorption** - The San Diego Flex R&D market posted 331,395 square feet of positive net absorption in the first quarter, the second highest quarterly total of the past four years.
- **Transaction Activity** - The combined amount of square feet leased and sold in the first quarter totaled 1.6 million square feet. This statistic can have some lag time in being reported, so look for this quarter's 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 5.3% in February 2015, down from a revised 5.8% in January 2015 and below the year-ago estimate of 7.1%. This compares with an unadjusted unemployment rate of 6.8% for California and 5.8% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 39,700 payroll jobs from February 2014 and February 2015, including 8,800 from professional and business services, and 8,200 from leisure and hospitality, 6,900 from education and health services, and 4,000 from government. No major sector recorded year-over job losses.
- **Overall** - 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 tendency of vacancy rates to descend at a break-neck pace. It's astonishing to think that vacancy rates are nearing single digit levels when only three years ago the vacancy rate was near 16.5%. The Flex R&D market has also seen significant increases in the asking rental rates over the past two years. The Flex R&D sector is occupied in large part by biotech companies, which are one of the stronger drivers of San Diego's economy.

FORECAST

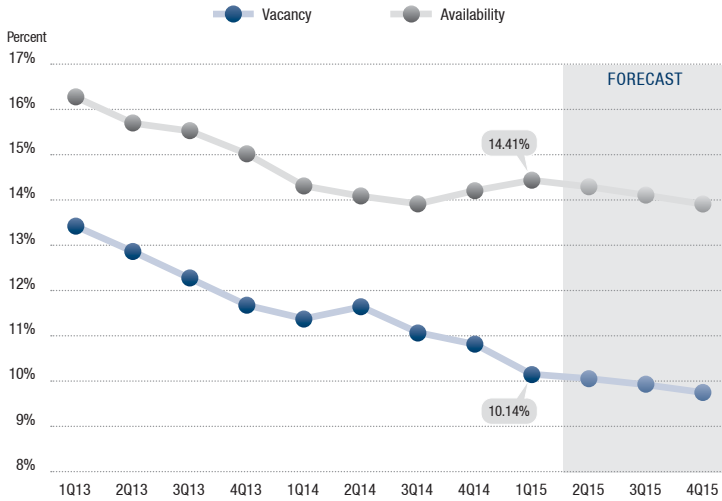
- **Employment** - We anticipate job growth of around 1.9%, or 24,600 jobs, in San Diego County over the year. Look for sectors like construction, administrative & support, and transportation & utilities to lead the way for employment gains in 2015.
- **Construction** - After three years of depressed levels of construction vacancy rates have fallen so much that developers are moving ahead with new construction. We anticipate increased levels of construction in the coming years.
- **Lease Rates** - Expect average asking rates to increase by approximately 5 to 7 percent over the next four quarters.
- **Vacancy** - We anticipate vacancy rate continuing to descend in coming quarters, dipping into single digits in the coming quarters.

OVERVIEW

	1Q15	4Q14	1Q14	% of Change vs. 1Q14
Total Vacancy Rate	10.14%	10.81%	11.36%	(10.74%)
Availability Rate	14.41%	14.22%	14.31%	0.70%
Average Asking Lease Rate	\$1.37	\$1.45	\$1.31	4.58%
Sale & Lease Transactions	1,575,122	2,204,025	1,475,651	6.74%
Gross Absorption	957,560	794,015	772,156	24.01%
Net Absorption	331,395	114,160	149,760	N/A

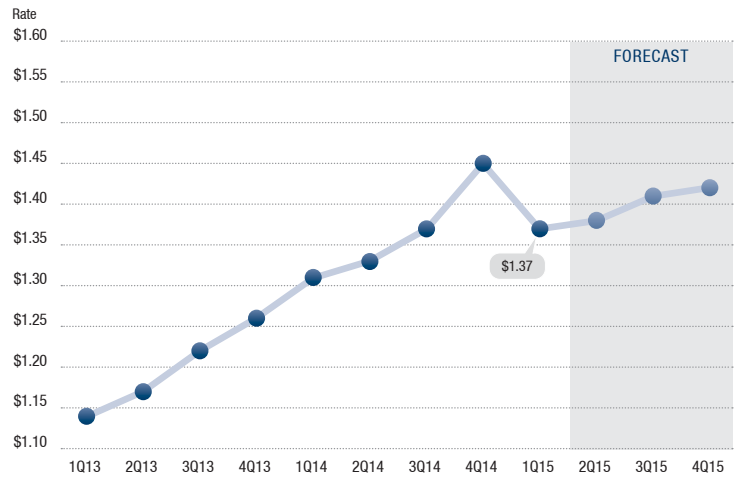
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



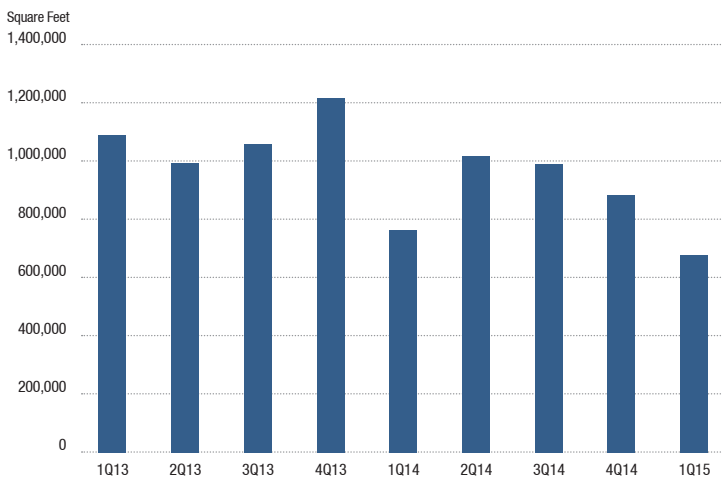
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



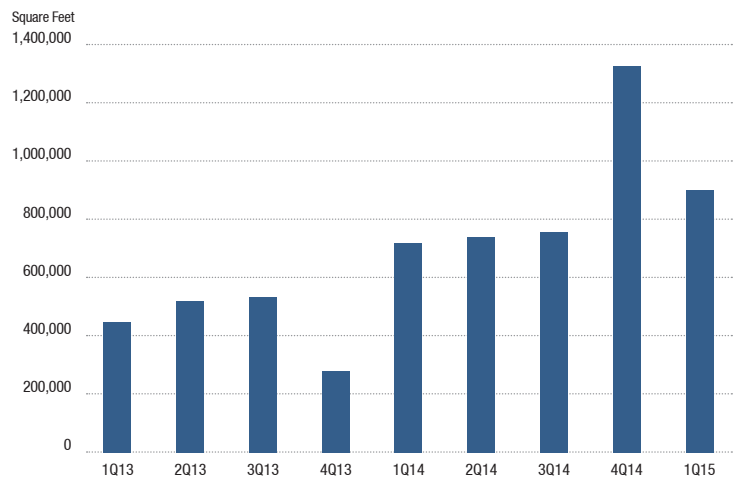
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



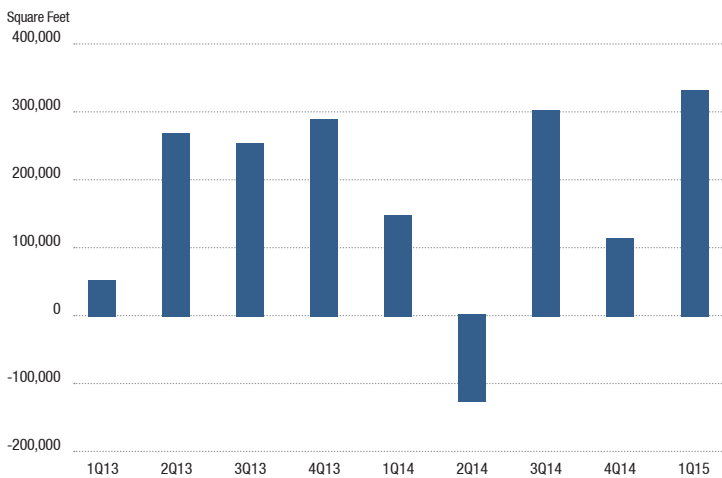
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

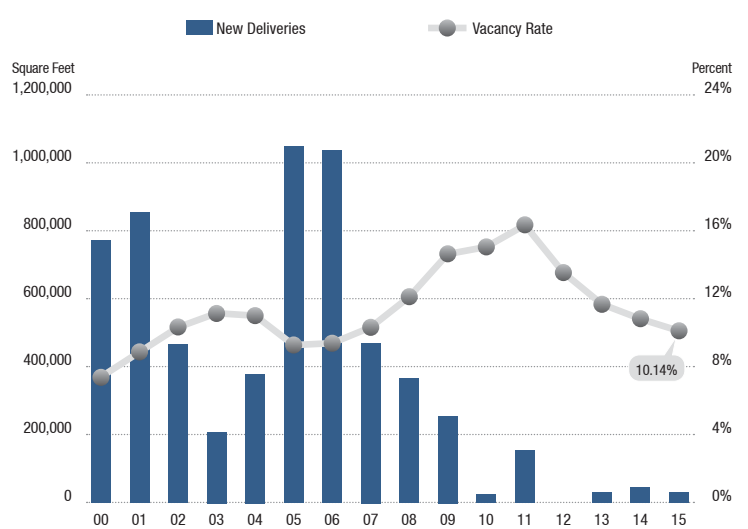


NET ABSORPTION

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 1Q2015	Square Feet Available	Availability Rate 1Q2015	Average Asking Lease Rate	Net Absorption 1Q2015	Net Absorption 2014	Gross Absorption 1Q2015	Gross Absorption 2014
Central													
Central	18	231,356	0	0	7,191	3.11%	11,491	4.97%	\$0.00	0	915	0	19,685
East City	3	31,892	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southeast San Deigo	17	201,597	0	0	0	0.00%	0	0.00%	\$0.00	0	5,000	0	5,000
Central Total	38	464,845	0	0	7,191	1.55%	11,491	2.47%	\$0.00	0	5,915	0	24,685
Central Suburban													
Kearny Mesa	212	5,559,286	0	37,650	356,802	6.42%	654,986	11.78%	\$1.27	42,046	16,211	112,675	341,910
Mission Gorge	25	175,296	0	0	5,836	3.33%	4,566	2.60%	\$0.00	1,954	(3,780)	6,520	2,740
Rose Canyon / Morena	38	616,757	0	0	43,144	7.00%	47,530	7.71%	\$1.45	15,030	30,976	30,224	88,731
Sports Arena / Airport	31	388,763	0	0	0	0.00%	91,260	23.47%	\$1.15	0	6,800	4,046	6,800
Central Suburban Total	306	6,740,102	0	37,650	405,782	6.02%	798,342	11.84%	\$1.24	59,030	50,207	153,465	440,181
East County													
El Cajon	80	851,266	0	0	19,989	2.35%	22,177	2.61%	\$0.00	1,168	22,770	15,720	42,182
La Mesa / Spring Valley	41	318,588	0	0	28,001	8.79%	31,001	9.73%	\$0.00	0	14,168	0	36,217
Santee / Lakeside	53	549,202	0	268,000	4,790	0.87%	15,102	2.75%	\$0.00	8,797	(4,385)	11,580	19,019
East County Total	174	1,719,056	0	268,000	52,780	3.07%	68,280	3.97%	\$0.00	9,965	32,553	27,300	97,418
I-15 Corridor													
Escondido	81	740,251	0	0	62,047	8.38%	62,047	8.38%	\$0.85	(579)	986	1,342	61,272
Poway	60	1,260,718	0	0	27,311	2.17%	29,282	2.32%	\$0.80	(1,491)	70,995	7,372	122,794
Rancho Bernardo	87	3,942,226	0	0	901,830	22.88%	625,779	15.87%	\$1.59	(27,020)	14,416	10,165	208,686
Scripps Ranch	30	767,078	0	0	101,061	13.17%	163,223	21.28%	\$1.36	(1,959)	49,364	4,394	86,894
I-15 Corridor Total	258	6,710,273	0	0	1,092,249	16.28%	880,331	13.12%	\$1.52	(31,049)	135,761	23,273	479,646
North County													
Carlsbad	244	5,971,499	0	0	786,891	13.18%	1,194,739	20.01%	\$1.02	128,225	88,207	215,324	503,527
North Beach Cities	16	148,193	0	0	3,677	2.48%	3,677	2.48%	\$0.00	(2,000)	(1,677)	0	1,800
North County Total	260	6,119,692	0	0	790,568	12.92%	1,198,416	19.58%	\$1.02	126,225	86,530	215,324	505,327
North City													
Miramar	211	4,493,290	0	11,760	387,881	8.63%	647,448	14.41%	\$1.06	37,474	163,417	130,121	390,668
Sorrento Mesa	160	5,977,949	618,000	0	508,942	8.51%	1,055,316	17.65%	\$1.51	146,791	(16,500)	193,456	370,170
Sorrento Valley	107	2,512,063	0	0	337,944	13.45%	351,671	14.00%	\$1.97	(20,329)	14,790	24,035	214,509
Torrey Pines	43	3,333,911	0	105,091	342,983	10.29%	378,160	11.34%	\$2.60	(9,033)	113,795	55,432	165,943
UTC	20	1,586,296	0	380,660	265,965	16.77%	393,054	24.78%	\$2.63	13,978	25,632	33,019	59,550
North City Total	541	17,903,509	618,000	497,511	1,843,715	10.30%	2,825,649	15.78%	\$1.58	168,881	301,134	436,063	1,200,840
Outlying Areas													
Outlying SD County North	17	139,758	0	0	8,821	6.31%	15,421	11.03%	\$1.25	0	0	0	5,800
Outlying SD County South	20	78,080	0	0	0	0.00%	0	0.00%	\$0.00	0	4,000	0	5,600
Outlying Areas Total	37	217,838	0	0	8,821	4.05%	15,421	7.08%	\$1.25	0	4,000	0	11,400
South Bay													
Chula Vista	84	1,564,200	0	0	123,296	7.88%	257,582	16.47%	\$0.73	(22,502)	9,968	14,704	93,041
National City	23	303,615	0	0	15,740	5.18%	26,370	8.69%	\$0.00	(446)	699	4,394	27,115
Otay Mesa / San Ysidro	12	258,361	0	0	17,086	6.61%	124,086	48.03%	\$0.75	0	(3,147)	0	0
South Bay Total	119	2,126,176	0	0	156,122	7.34%	408,038	19.19%	\$0.73	(22,948)	7,520	19,098	120,156
Highway 78 Corridor													
Oceanside	31	992,572	0	0	22,104	2.23%	75,284	7.58%	\$0.00	(480)	(480)	2,306	16,982
San Marcos	60	969,982	0	0	56,904	5.87%	77,118	7.95%	\$1.00	15,941	5,299	21,792	74,710
Vista	61	1,451,157	0	190,000	168,789	11.63%	186,756	12.87%	\$0.95	5,830	(200)	58,939	86,449
Highway 78 Corridor Total	152	3,413,711	0	190,000	247,797	7.26%	339,158	9.94%	\$0.97	21,291	4,619	83,037	178,141
San Diego County Total	1,885	45,415,202	618,000	993,161	4,605,025	10.14%	6,545,126	14.41%	\$1.37	331,395	628,239	957,560	3,057,794

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

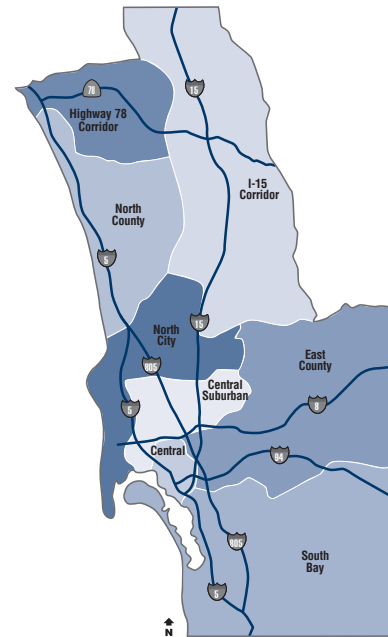
Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
5993 & 5999 Avenida Encinas	Carlsbad	67,840	\$175.41	Lincoln Property Group	Providence Carlsbad Corporate Center
8515-8525 Miralani Dr.	Miramar	81,404	107.12	The Argen Corporation	Miralani Windell, LLC
8250 & 8260 Camino Santa Fe	Miramar	60,121	\$111.44	Providence Capital Group	GJS Trust
3055 Del Sol Blvd.	San Ysidro	53,384	\$92.72	3055 Del Sol, LLC	Arch Investments, LLC
7525 Mission Gorge Rd.	Santee	32,134	\$126.03	Rio San Diego, LLC	Joe Bonin William Locher

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4767 Nexus Centre Dr. – Renewal	UTC	62,280	Feb-2015	Senomyx, Inc.	Alexandria Real Estate Equities, Inc.
9380 Judicial Dr.	UTC	43,022	Jan-2015	Sorrento Therapeutics, Inc.	HCP, Inc.
10918 Technology Pl.	Rancho Bernardo	25,137	Jan-2015	Memjet	Menlo Equities
15090 Avenue of Science	Rancho Bernardo	23,658	Mar-2015	NV5	Harsch Investment Properties
9339 Carroll Park Dr.	Miramar	23,455	Feb-2015	Undisclosed	The Irvine Company

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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