



MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

UP



Deliveries

UP



HIGHLIGHTS

- **Positive Direction** - The San Diego Flex R&D market displayed solid signs of improvement to start off the year, with strong positive absorption, new construction underway, and a decline in vacancy during the first quarter of 2016. 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** - At the end of the first quarter, there were seven buildings totaling 1,032,350 square feet under construction in San Diego County's flex market. This is the largest number of square feet under construction the flex market has seen in more than ten years.
- **Vacancy** - Direct/sublease space (unoccupied) finished the year at 8.75%, a decrease of 186 basis points when compared to the same quarter last year, and a decrease of nearly 45% from 2011's rate of 15.65%.
- **Availability** - Direct/sublease space being marketed was 13.91% at the end of the quarter, a 5.06% increase from the previous quarter's rate of 13.24%.
- **Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.47 at the end of the first quarter, an increase of six cents from last quarter's rate of \$1.41. Average asking lease rates have risen a full forty cents since the recession lows seen in the first and second quarters of 2011.
- **Absorption** - The San Diego Flex R&D market posted 338,942 square feet of positive net absorption in the first quarter, giving the market a total of approximately 3 million square feet of positive absorption since the first quarter of 2012.
- **Transaction Activity** - The combined amount of square feet leased and sold in the first quarter totaled 2.27 million square feet, which is up compared to last quarter's total of 1.9 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 San Diego County was 4.7% in February 2016, unchanged from a revised 4.7% in January 2016 and below the year-ago estimate of 5.5%. This compares with an unadjusted unemployment rate of 5.7% for California and 5.2% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 39,100 payroll jobs from February 2015 and February 2016, including 8,500 from education and health services, which reported the largest overall gain. Leisure and hospitality reported a growth of up to 7,000 jobs, followed by professional and business services that reported up to 6,400 jobs.
- **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 at single digit levels when only three years ago the vacancy rate was near 16.8%. The Flex R&D market has also seen significant increases in 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 2.5%, or 35,000 jobs, in San Diego County over the year. Look for sectors like professional, scientific, & technical services, health care & social services, and leisure & hospitality to lead the way for employment gains in 2016.
- **Construction** - After four 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 quarters.
- **Lease Rates** - Expect average asking rates to increase by approximately 3 to 4 percent over the next four quarters.
- **Vacancy** - We anticipate vacancy rates continuing to descend steadily in coming quarters, dipping under 9% by the fourth quarter of 2016.

OVERVIEW

	1Q16	4Q15	1Q15	% of Change vs. 1Q15
Total Vacancy Rate	8.75%	9.47%	10.61%	(17.53%)
Availability Rate	13.91%	13.24%	15.01%	(7.33%)
Average Asking Lease Rate	\$1.47	\$1.41	\$1.37	7.30%
Sale & Lease Transactions	2,363,094	1,747,702	1,937,506	21.97%
Gross Absorption	1,049,564	910,618	946,006	10.95%
Net Absorption	338,942	(77,336)	147,166	N/A

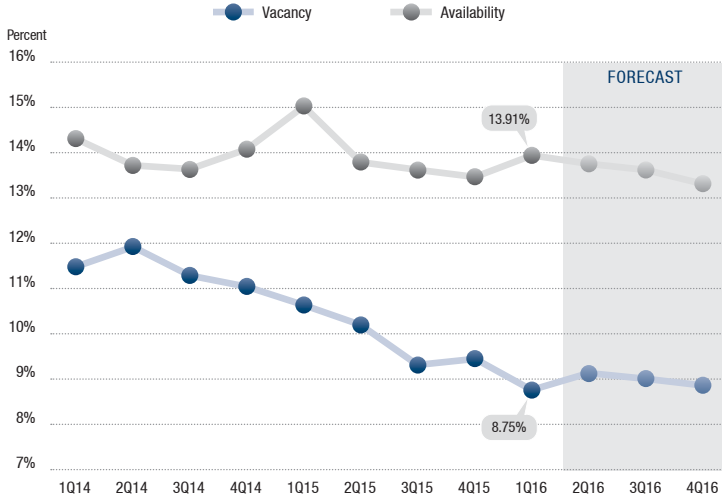
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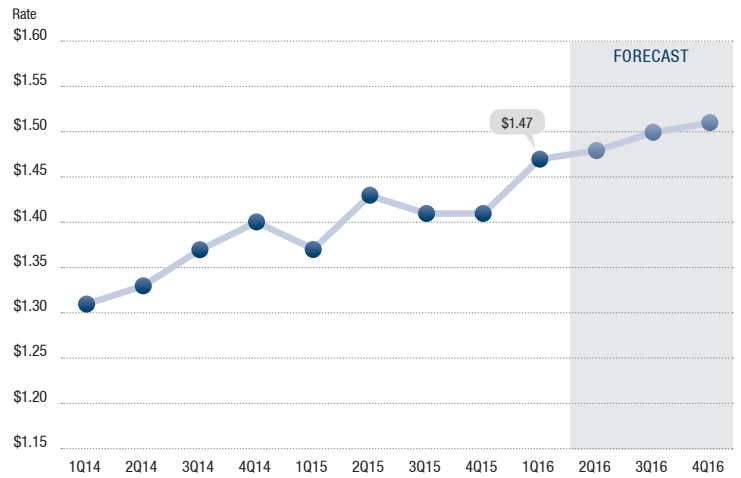
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



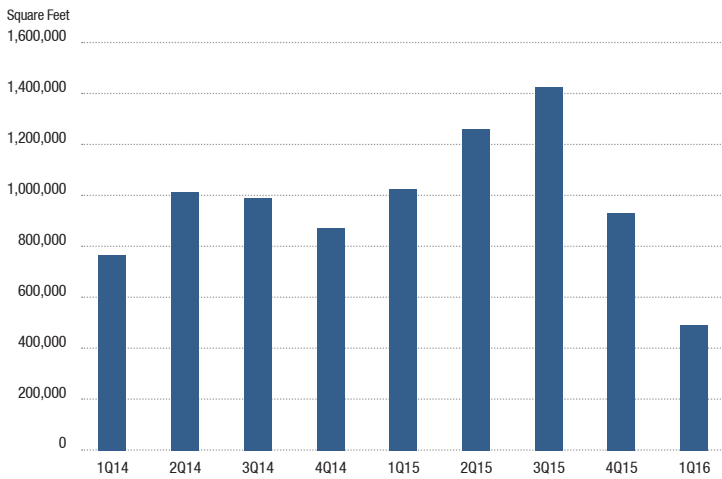
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



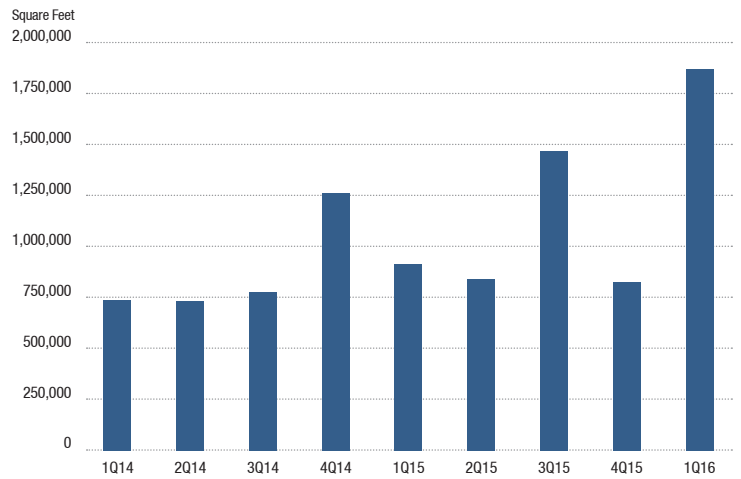
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



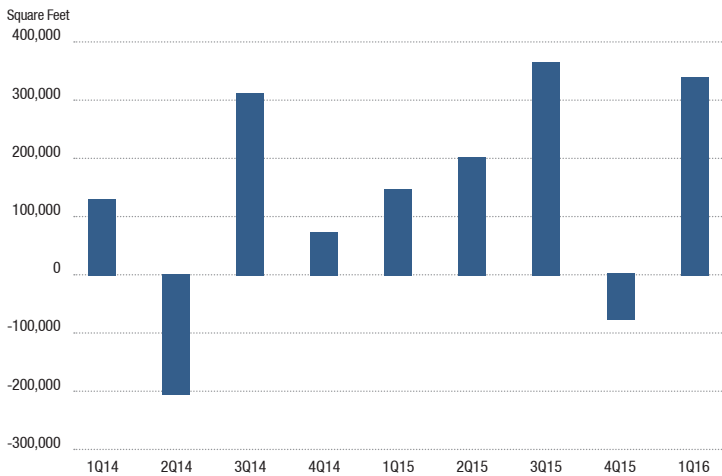
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

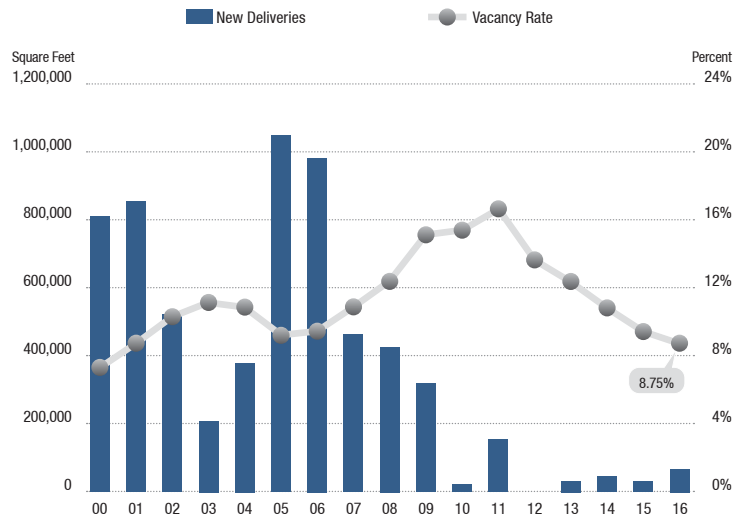


NET ABSORPTION

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 1Q2016	Square Feet Available	Availability Rate 1Q2016	Average Asking Lease Rate	Net Absorption 1Q2016	Net Absorption 2015	Gross Absorption 1Q2016	Gross Absorption 2015
Central													
Central	18	231,356	0	0	13,162	5.69%	13,162	5.69%	\$0.00	0	(5,971)	4,350	4,300
East City	3	31,892	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southeast San Deigo	17	201,732	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Central Total	38	464,980	0	0	13,162	2.83%	13,162	2.83%	\$0.00	0	(5,971)	4,350	4,300
Central Suburban													
Kearny Mesa	213	5,629,207	0	20000	340,905	6.06%	457,569	8.13%	\$1.42	(6,579)	63,980	66,314	477,095
Mission Gorge	24	170,168	0	0	7,226	4.25%	7,226	4.25%	\$0.00	(5,100)	5,664	0	16,414
Rose Canyon / Morena	38	616,935	0	0	29,799	4.83%	23,811	3.86%	\$1.50	9,616	18,759	29,794	98,602
Sports Arena / Airport	30	385,220	0	0	19,698	5.11%	19,698	5.11%	\$0.00	0	(19,698)	1,400	88,506
Central Suburban Total	305	6,801,530	0	20,000	397,628	5.85%	508,304	7.47%	\$1.43	(2,063)	68,705	97,508	680,617
East County													
El Cajon	78	842,303	0	0	22,159	2.63%	22,952	2.72%	\$0.00	23,095	(27,509)	26,070	40,092
La Mesa / Spring Valley	42	322,088	0	0	16,546	5.14%	16,546	5.14%	\$0.00	1,788	9,667	5,288	18,305
Santee / Lakeside	53	549,202	0	268,000	7,025	1.28%	10,620	1.93%	\$0.00	4,732	1,830	10,732	19,805
East County Total	173	1,713,593	0	268,000	45,730	2.67%	50,118	2.92%	\$0.00	29,615	(16,012)	42,090	78,202
I-15 Corridor													
Escondido	81	759,211	0	0	36,818	4.85%	87,169	11.48%	\$1.25	(4,326)	23,812	5,023	35,510
Poway	61	1,305,907	0	0	30,591	2.34%	118,011	9.04%	\$1.36	(8,742)	2,798	14,920	53,045
Rancho Bernardo	86	3,893,603	0	0	440,347	11.31%	603,158	15.49%	\$1.72	(5,989)	297,886	69,868	496,310
Scripps Ranch	29	745,678	0	314,000	149,569	20.06%	104,534	14.02%	\$1.14	(5,710)	(44,757)	5,204	83,213
I-15 Corridor Total	257	6,704,399	0	314,000	657,325	9.80%	912,872	13.62%	\$1.58	(24,767)	279,739	95,015	668,078
North County													
Carlsbad	244	6,002,682	0	0	743,186	12.38%	955,290	15.91%	\$1.19	121,275	120,108	278,938	611,973
North Beach Cities	17	142,651	0	0	3,035	2.13%	3,035	2.13%	\$0.00	8,983	(8,541)	9,583	3,677
North County Total	261	6,145,333	0	0	746,221	12.14%	958,325	15.59%	\$1.19	130,258	111,567	288,521	615,650
North City													
Miramar	214	4,674,317	0	11,760	345,469	7.39%	647,173	13.85%	\$1.23	(6,126)	116,511	68,216	613,871
Sorrento Mesa	163	5,928,082	0	618,000	762,510	12.86%	1,156,676	19.51%	\$1.39	59,174	(89,131)	190,488	452,789
Sorrento Valley	105	2,388,874	0	0	135,144	5.66%	334,528	14.00%	\$2.03	84,441	5,355	100,086	186,443
Torrey Pines	45	3,491,876	63,000	238,833	209,049	5.99%	301,982	8.65%	\$4.25	84,540	140,575	86,640	318,079
UTC	20	1,593,644	969,350	223,000	355,726	22.32%	740,649	46.48%	\$1.81	(2,075)	(73,708)	1,646	191,012
North City Total	547	18,076,793	1,032,350	1,091,593	1,807,898	10.00%	3,181,008	17.60%	\$1.76	219,954	99,602	447,076	1,762,194
Outlying Areas													
Outlying SD County North	18	142,212	0	0	8,821	6.20%	15,421	10.84%	\$0.00	0	0	0	5,950
Outlying SD County South	20	78,080	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outlying Areas Total	38	220,292	0	0	8,821	4.00%	15,421	7.00%	\$0.00	0	0	0	5,950
South Bay													
Chula Vista	81	1,487,293	0	0	122,487	8.24%	239,809	16.12%	\$0.92	(16,630)	(6,404)	30,460	96,560
National City	23	303,615	0	0	4,725	1.56%	17,764	5.85%	\$1.50	(925)	11,494	2,775	39,176
Otay Mesa / San Ysidro	12	259,977	0	256,022	14,179	5.45%	176,179	67.77%	\$0.66	0	(50,477)	0	2,907
South Bay Total	116	2,050,885	0	256,022	141,391	6.89%	433,752	21.15%	\$0.78	(17,555)	(45,387)	33,235	138,643
Highway 78 Corridor													
Oceanside	30	930,710	0	0	16,306	1.75%	25,070	2.69%	\$0.00	(2,505)	7,823	5,201	12,494
San Marcos	59	960,472	0	0	54,703	5.70%	91,898	9.57%	\$0.93	(1,251)	17,833	6,221	73,268
Vista	62	1,458,594	0	0	92,343	6.33%	143,421	9.83%	\$0.98	7,256	84,665	30,347	203,939
Highway 78 Corridor Total	151	3,349,776	0	0	163,352	4.88%	260,389	7.77%	\$0.95	3,500	110,321	41,769	289,701
San Diego County Total	1,886	45,527,581	1,032,350	1,949,615	3,981,528	8.75%	6,333,351	13.91%	\$1.47	338,942	602,564	1,049,564	4,243,335

Lease rates are on a triple-net basis.

MAJOR TRANSACTION

Sales Transactions

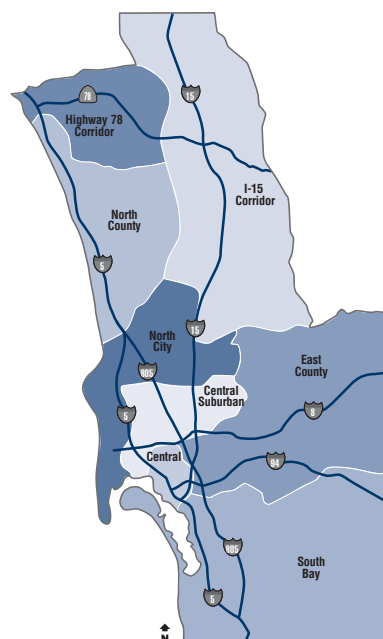
Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
2765 Loker Ave. W.	Carlsbad	93,254	\$168	CBRE Global Investors, Ltd.	TA Realty
5454 Ruffin Rd.	Kearny Mesa	71,862	\$98	Apprentice & Journeymen Training	Private Trust
1935 Cordell Ct.	El Cajon	22,500	\$129	Rancho Realty Investments, LLC	Pacific Realty Advisors
2469 Impala Dr.	Carlsbad	5,915	\$338	Private Party	Private Trust
12155 Paine Pl.	Poway	8,046	\$187	East County Holdings, LLC	Angles Beauty Care Group

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9689 Towne Centre Dr.	UTC	47,500	Mar-2016	Undisclosed	California Instruments
9177 Sky Park Ct.	Kearny Mesa	37,499	Feb-2016	AMEC, Inc.	Equity Commonwealth
16550 W. Bernardo Dr.	Rancho Bernardo	29,442	Feb-2016	Nextivity	Jay Paul Company
9173 Sky Park Ct.	Kearny Mesa	26,036	Jan-2016	Solar Turbines, Inc.	Hub Properties Trust
10840 Thornmint Rd.	Rancho Bernardo	20,999	Mar-2016	Chassis Plans	Colony Realty Partners

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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