

## MARKET CHANGE

*Compared to the Previous Quarter:*

Vacancy



UP

Net Absorption



POSITIVE

Lease Rates



UP

Transactions



DOWN

Deliveries



UP

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VOIT Real Estate Services

## HIGHLIGHTS

- **Maturing Recovery** - The first half of 2014 continued the trend of steady improvement in fundamentals for the San Diego office market. The vacancy rate rose slightly, however the availability rate decreased significantly, and asking rental rates continue to increase.
- **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 12.52%, an increase from the previous quarter's figure of 12.31%. Sorrento Mesa posted the lowest vacancy rate of any submarket with at least five million square feet of inventory at 9.34%.
- **Availability** - Direct/sublease space being marketed was 15.77% at the end of the quarter, a 4% decrease from the 16.42% 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 \$2.32 at the end of the second quarter, a four-cent increase from the prior quarter and a eighteen-cent increase over 2013's second 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 193,096 square feet of positive net absorption in the second quarter, with Class A offices posting 440,777 square feet of positive net absorption through the first half of the year.
- **Transaction Activity** - Sale and lease transactions totaled 2.9 million square feet in the second quarter, a decrease from the 5.2 million square feet transacted in the first quarter. This statistic can have some lag time in being reported, so look for second quarter figures to end up somewhat higher in the next report. The public sector and life sciences companies accounted for the top four leases of the second quarter. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in San Diego County was 5.8% in May 2014, down from a revised 6.1% in April 2014 and below the year-ago estimate of 7.3%. This compares with an unadjusted unemployment rate of 7.1% for California and 6.1% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 29,300 payroll jobs from May 2013 and May 2014, including 6,200 in leisure and hospitality, 5,100 from construction, and 4,800 from professional and business services. The financial activities sector recorded the greatest number of job losses, down 1,000 year over year.
- **Overall** - Occupancy increases are slowing, and yet rental rate increases are accelerating. Despite the vacancy rate increasing this quarter, availability moved downward. 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. Unemployment rates have continued to trend downward since the peak in January 2010. As job creation continues and consumer confidence stabilizes, the office market recovery will continue.

## FORECAST

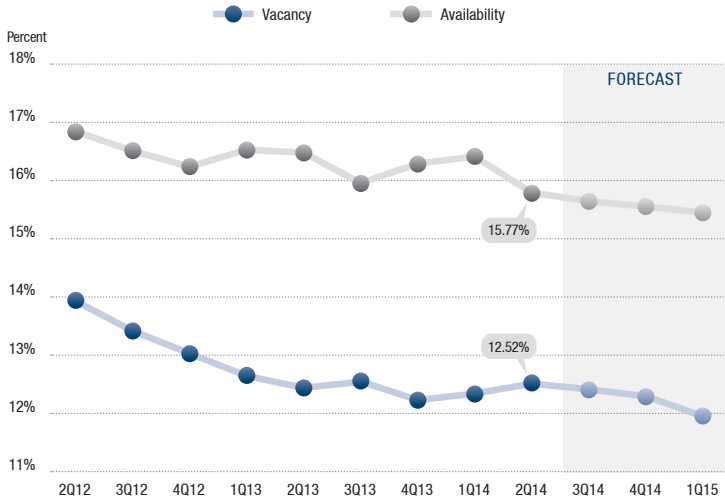
- **Construction** - The Irvine company broke ground on the first new significant speculative office in the market since the recession. Although market-wide demand is moderate, the premier submarkets such as UTC, Sorrento Mesa, and Del Mar Heights are most likely to see speculative development going 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 eight cents per square foot by 2015.
- **Vacancy** - We anticipate vacancy rate compression to be minimal in the coming quarters, staying nearly flat for the overall market.

## OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	12.52%	12.31%	12.41%	0.89%
Availability Rate	15.77%	16.42%	16.49%	(4.37%)
Average Asking Lease Rate	\$2.32	\$2.28	\$2.14	8.41%
Sale & Lease Transactions	2,879,146	5,164,096	2,684,722	7.24%
Gross Absorption	2,212,989	1,466,304	2,155,777	2.65%
Net Absorption	193,096	(67,635)	525,100	N/A

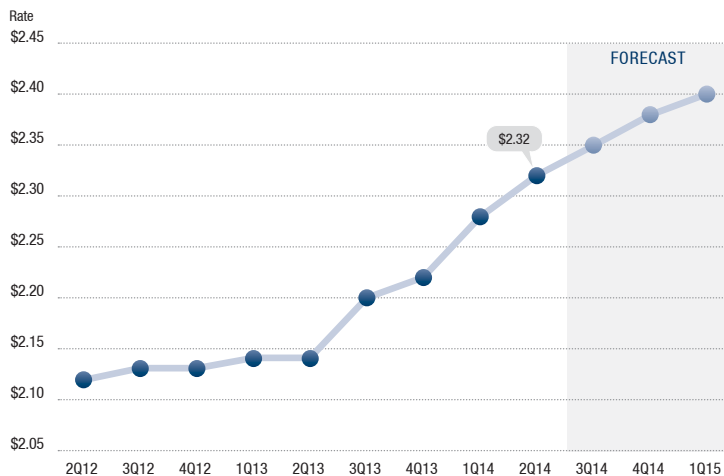
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



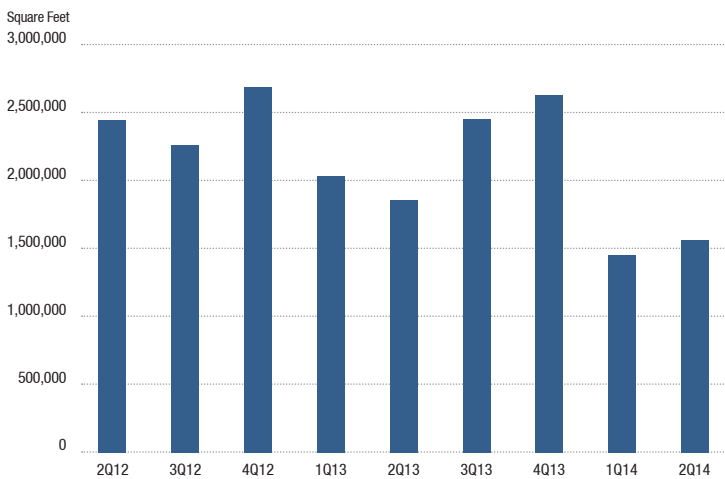
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



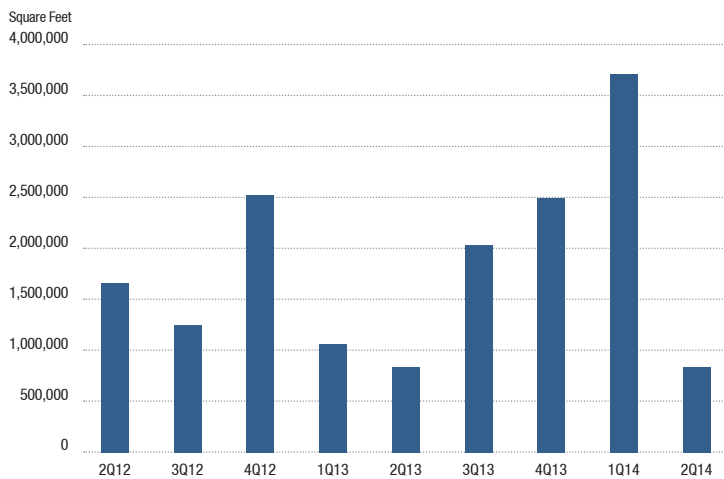
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



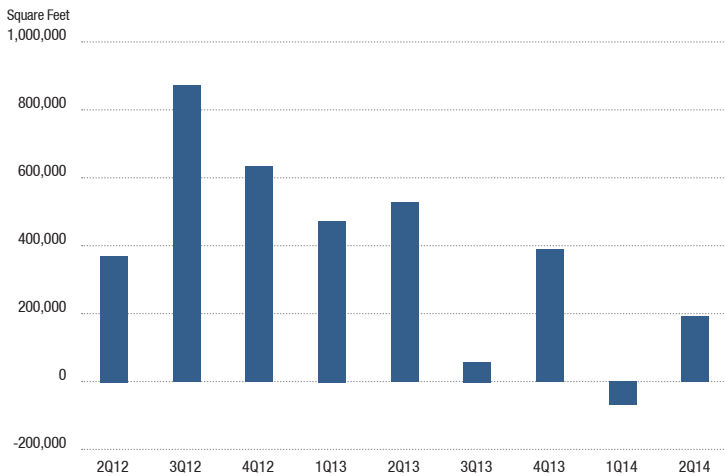
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



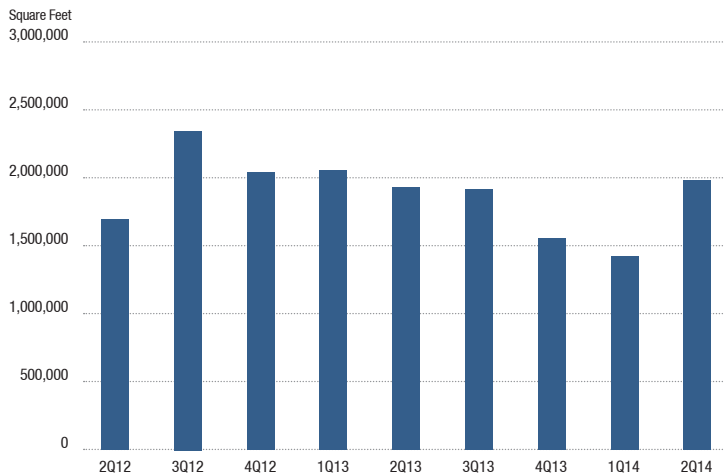
NET ABSORPTION

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 2Q2014	Square Feet Available	Availability Rate 2Q2014	Average Asking Lease Rate	Net Absorption 2Q2014	Net Absorption 2014	Gross Absorption 2Q2014	Gross Absorption 2014
<b>Central</b>													
Downtown	133	12,520,465	320,000	847,189	1,956,515	15.63%	2,401,734	19.18%	\$2.24	117,725	124,598	283,200	494,311
Central Total	133	12,520,465	320,000	847,189	1,956,515	15.63%	2,401,734	19.18%	\$2.24	117,725	124,598	283,200	494,311
<b>Central Suburban</b>													
City Heights / University	28	1,033,671	0	0	109,076	10.55%	108,858	10.53%	\$1.70	15,176	19,286	15,176	30,586
Coronado	6	125,233	0	0	1,800	1.44%	3,786	3.02%	\$0.00	0	(1,800)	0	0
Kearny Mesa	233	10,474,644	0	193,000	1,158,893	11.06%	1,588,855	15.17%	\$1.81	30,999	137,512	175,301	366,685
Mission Gorge	25	582,823	0	0	36,668	6.29%	54,232	9.31%	\$1.12	5,350	8,843	5,350	13,024
Mission Valley	125	6,973,152	0	375,830	703,233	10.08%	901,761	12.93%	\$2.18	(60,698)	(56,425)	97,421	227,280
Old Town / Point Loma	73	2,401,669	0	0	210,145	8.75%	295,171	12.29%	\$2.60	(426)	(5,168)	39,459	59,645
Park East	9	176,637	0	0	2,664	1.51%	1,025	0.58%	\$2.25	(1,025)	(517)	1,639	3,786
Rose Canyon / Morena	54	1,233,853	0	0	55,190	4.47%	95,264	7.72%	\$1.79	5,448	12,934	16,896	32,740
Uptown / Hillcrest	105	2,662,633	0	0	231,179	8.68%	234,593	8.81%	\$2.15	8,541	(21,701)	31,672	44,875
Central Suburban Total	658	25,664,315	0	568,830	2,508,848	9.78%	3,283,545	12.79%	\$1.90	3,365	92,964	382,914	778,621
<b>Highway 78 Corridor</b>													
Oceanside	58	1,288,423	0	59,832	224,692	17.44%	232,664	18.06%	\$1.44	(14,805)	(25,531)	21,123	49,781
San Marcos	37	1,347,176	0	1,457,292	218,915	16.25%	221,458	16.44%	\$2.05	(24,933)	(10,338)	4,407	19,002
Vista	49	1,166,754	0	212,350	214,304	18.37%	239,383	20.52%	\$1.60	(2,656)	(1,281)	0	18,093
Highway 78 Corridor Total	144	3,802,353	0	1,729,474	657,911	17.30%	693,505	18.24%	\$1.58	(42,394)	(37,150)	25,530	86,876
<b>I-15 Corridor</b>													
Escondido	90	1,907,679	0	43,107	281,533	14.76%	368,520	19.32%	\$1.87	7,346	(4,525)	21,435	50,085
Poway	29	1,300,666	0	650,570	80,135	6.16%	91,436	7.03%	\$1.85	(383)	1,934	10,055	25,189
Rancho Bernardo	108	6,573,640	0	1,136,675	695,618	10.58%	764,906	11.64%	\$2.10	(119,448)	(108,314)	126,633	188,284
Scripps Ranch	49	2,664,096	0	502,000	537,551	20.18%	633,646	23.78%	\$2.27	(8,880)	(23,661)	40,581	73,509
I-15 Corridor Total	276	12,446,081	0	2,332,352	1,594,837	12.81%	1,858,508	14.93%	\$2.10	(121,365)	(134,566)	198,704	337,067
<b>North City</b>													
Governor Park	19	870,138	0	0	145,835	16.76%	165,674	19.04%	\$2.19	(16,928)	(25,074)	5,265	16,876
La Jolla	53	1,606,068	0	0	219,490	13.67%	244,632	15.23%	\$3.12	(3,065)	(16,388)	12,963	32,176
Miramar	38	1,778,142	0	0	278,663	15.67%	353,566	19.88%	\$1.68	27,644	38,559	31,538	62,412
Sorrento Mesa	121	9,452,725	410,000	1,677,302	882,625	9.34%	1,330,386	14.07%	\$2.86	(100,819)	(167,832)	72,931	196,907
Sorrento Valley	24	690,576	0	0	71,894	10.41%	80,745	11.69%	\$0.00	21,875	15,160	25,170	38,595
Torrey Pines	43	2,698,485	0	0	104,125	3.86%	397,059	14.71%	\$3.85	18,667	18,667	18,668	18,668
UTC	86	8,166,410	305,952	509,770	1,537,309	18.82%	1,771,918	21.70%	\$3.41	115,531	(2,401)	634,853	736,369
North City Total	384	25,262,544	715,952	2,187,072	3,239,941	12.83%	4,343,980	17.20%	\$3.25	62,905	(139,309)	801,388	1,102,003
<b>North County</b>													
Carlsbad	152	5,936,563	0	459,000	1,004,143	16.91%	1,143,329	19.26%	\$2.18	31,478	32,377	167,023	313,106
Del Mar Heights / Carmel Valley	70	4,538,827	0	579,156	643,648	14.18%	1,053,980	23.22%	\$3.53	63,050	72,831	168,368	247,993
North Beach Cities	108	2,464,585	0	77,120	235,869	9.57%	261,615	10.61%	\$2.90	(9,499)	(24,480)	55,062	90,509
North County Total	330	12,939,975	0	1,115,276	1,883,660	14.56%	2,458,924	19.00%	\$2.81	85,029	80,728	390,453	651,608
<b>Southern &amp; Eastern Areas</b>													
Chula Vista	90	2,781,064	0	765,002	315,607	11.35%	326,339	11.73%	\$2.34	688	26,292	19,501	56,764
East County	155	3,734,458	0	194,200	213,478	5.72%	271,462	7.27%	\$1.53	26,182	52,393	46,980	105,592
National City	16	553,398	0	0	107,545	19.43%	98,170	17.74%	\$0.00	60,884	60,884	61,884	61,884
Otay Mesa	14	338,316	0	187,080	23,857	7.05%	23,857	7.05%	\$1.46	1,100	3,232	1,100	3,232
Southeast San Diego	10	391,848	0	0	70,564	18.01%	74,836	19.10%	\$0.00	(1,023)	(4,605)	1,335	1,335
Southern & Eastern Areas Total	285	7,799,084	0	1,146,282	731,051	9.37%	794,664	10.19%	\$1.81	87,831	138,196	130,800	228,807
Class A	257	32,780,325	1,035,952	7,198,173	3,436,763	10.48%	4,988,355	15.22%	\$2.78	656,157	440,777	1,104,063	1,520,893
Class B	1,213	51,404,855	0	2,728,302	7,595,392	14.78%	8,928,706	17.37%	\$2.04	(472,980)	(296,970)	942,772	1,827,185
Class C	740	16,249,637	0	0	1,540,608	9.48%	1,917,799	11.80%	\$1.53	9,919	(18,346)	166,154	331,215
<b>San Diego County Total</b>	<b>2,210</b>	<b>100,434,817</b>	<b>1,035,952</b>	<b>9,926,475</b>	<b>12,572,763</b>	<b>12.52%</b>	<b>15,834,860</b>	<b>15.77%</b>	<b>\$2.32</b>	<b>193,096</b>	<b>125,461</b>	<b>2,212,989</b>	<b>3,679,293</b>

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
625 Broadway	Downtown	B	335,225	\$156.61	Hammer Ventures	625 Broadway Holdings, LLC
9980-10020 Huennekens St.	Sorrento Mesa	B	191,136	\$210.06	DRA Advisors, LLC Cypress Office Properties	TA Associates Realty
9791 & 9785 Towne Centre Dr.	UTC	B	126,003	\$234.12	The Irvine Company	Kilroy Realty Corporation
5901 Priestly Dr.	Carlsbad	A	97,823	\$268.34	New York Life Investment	The Muller Company
6699 Alvarado Rd. & 5555 Reservoir Dr.	University Heights	B	107,330	\$132.77	Prime Healthcare Services, Inc.	The Prædium Group, LLC

**Lease Transactions**

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
110 W. A St.	Downtown	B	52,839	May-14	G.S.A.	Forester Properties, Inc.
4760 Eastgate Mall	UTC	B	47,000	May-14	Intercept Pharmaceuticals	The Irvine Company
4755 Nexus Centre Dr.	UTC	B	45,255	April-14	Pathway Genomics	Alexandria Real Estate Equities, Inc.
4305 University Ave.	City Heights	B	32,767	June-14	County of San Diego	San Diego Revitalization Corporation
1750 5th Ave.	Uptown/Hillcrest	C	31,066	May-14	Arbor Education & Training	1750 Fifth Avenue, 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.

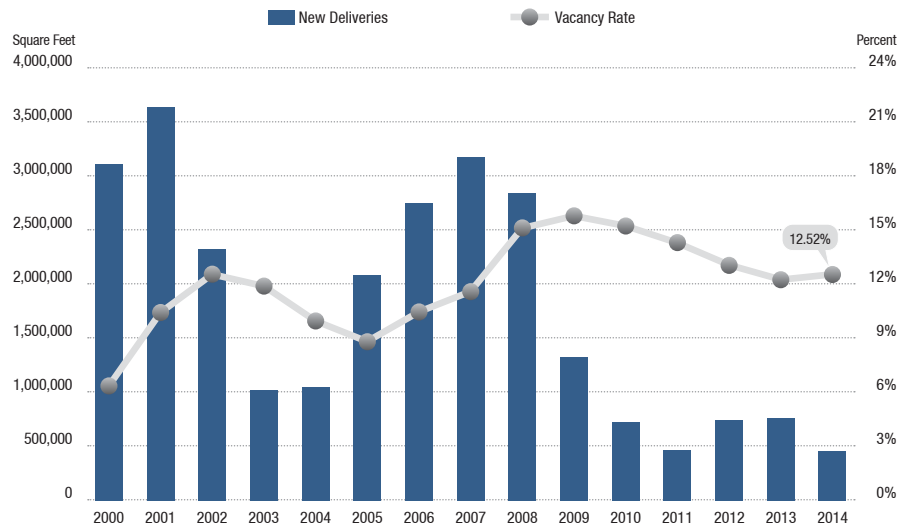
**CLASS B**

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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424.329.7500

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Sacramento, CA  
916.772.8648

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858.453.0505

San Jose, CA  
408.885.9110

This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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