

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy



Net Absorption

NEGATIVE



Lease Rates



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 second quarter with an increase in asking rental rates, and decreased 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 second quarter, nothing was under construction and just over 1.063 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 11.73%, an increase of 18 basis points when compared to the previous quarter, and a decrease from the previous year's rate of 12.90%.
- Availability** - Direct/sublease space being marketed was 14.30% at the end of the quarter, a drop from the previous quarter and down 9.67% from 2013's second quarter rate of 15.83%.
- Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.33 at the end of the second quarter, an increase of almost 14% from last year's second quarter rate of \$1.17. Average asking lease rates have risen twenty-six cents since the recession lows seen in the first and second quarters of 2011.
- Absorption** - The San Diego R&D market posted 79,632 square feet of negative net absorption in the second quarter, giving the market 2.2 million square feet of positive absorption since the first quarter of 2012.
- Transaction Activity** - Leasing activity checked in at 635,000 square feet in the second quarter, producing a total of 3.5 million square feet leased over the last four quarters. Sales activity in the second quarter posted the second highest volume of the last five quarters at 600,000 square feet. 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. 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** - 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 pace. 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 large part by biotech companies, which are one of the stronger drivers of San Diego's economy.

FORECAST

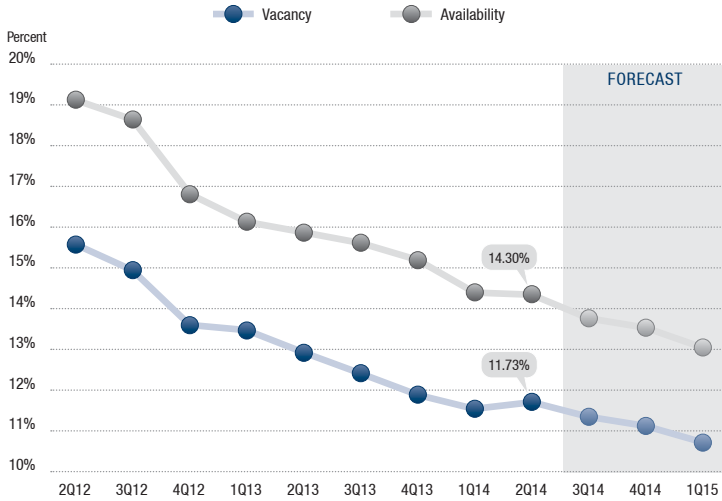
- Employment** - We anticipate job growth of around 1.9%, or 24,600 jobs, in San Diego County over the year. Look for sectors like construction, administrative & support, and transportation & utilities to lead the way for employment gains in 2014.
- Lease Rates** - Expect average asking rates to increase by approximately 5-7% by 2015.
- Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dipping 100 basis points to approximately 10.7% by the first quarter of 2015.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	11.73%	11.55%	12.90%	(9.07%)
Availability Rate	14.30%	14.41%	15.83%	(9.67%)
Average Asking Lease Rate	\$1.33	\$1.31	\$1.17	13.68%
Sale & Lease Transactions	1,235,487	1,310,066	1,419,807	(12.98%)
Gross Absorption	736,065	772,156	929,048	(20.77%)
Net Absorption	(79,632)	149,157	255,284	N/A

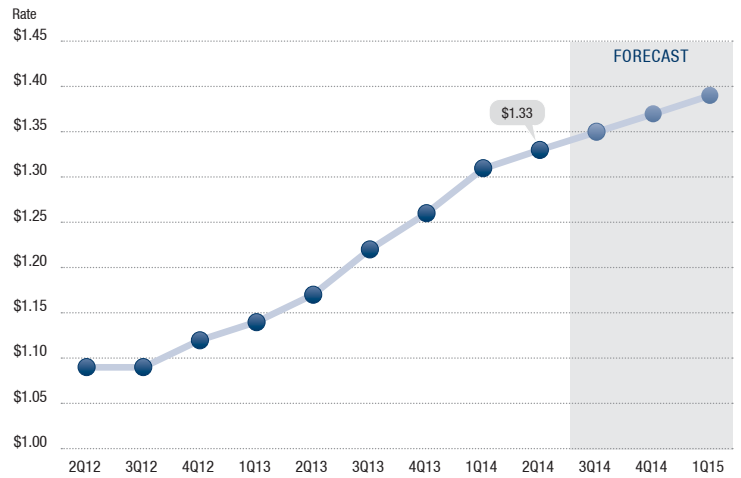
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



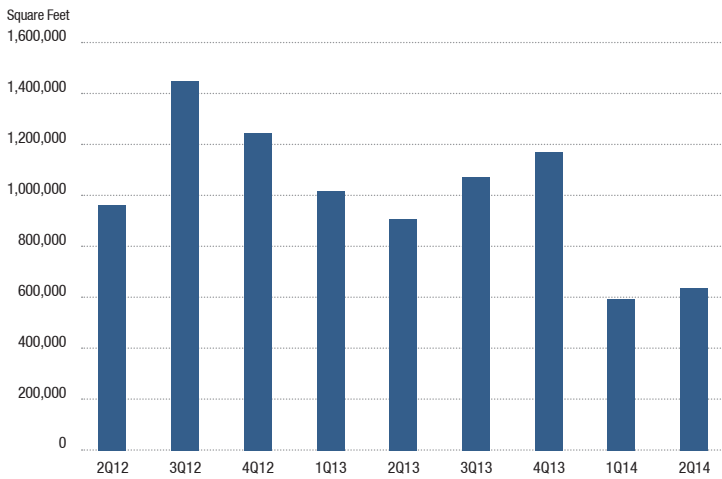
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



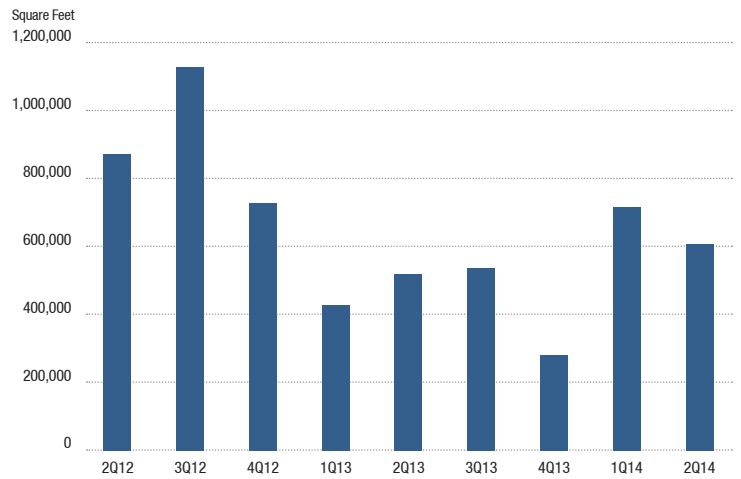
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



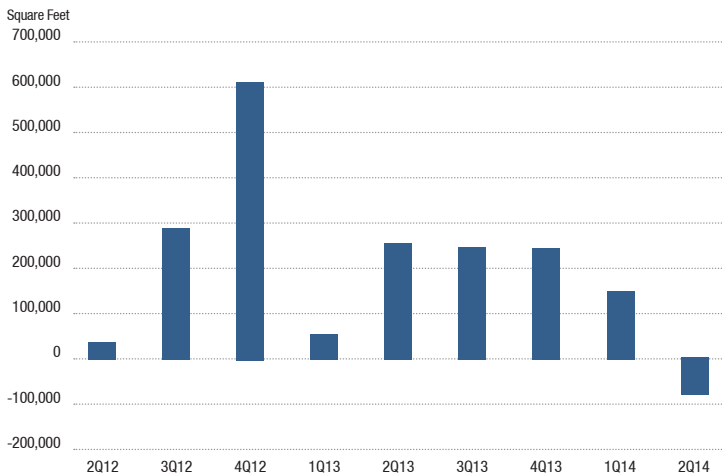
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

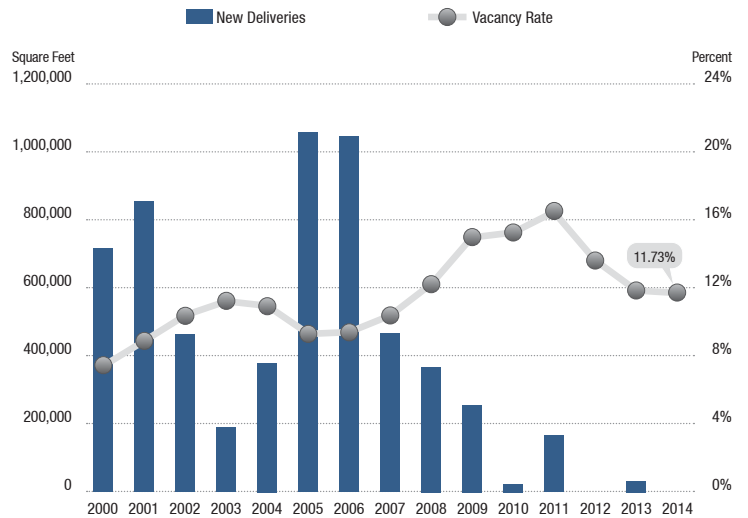


NET ABSORPTION

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 2Q2014	Square Feet Available	Availability Rate 2Q2014	Average Asking Lease Rate	Net Absorption 2Q2014	Net Absorption 2014	Gross Absorption 2Q2014	Gross Absorption 2014
Central													
Central	18	231,356	0	0	10,852	4.69%	17,512	7.57%	\$0.00	(6,471)	(2,746)	2,530	12,981
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	0	0	0
Central Total	40	477,245	0	0	15,852	3.32%	22,512	4.72%	\$0.00	(6,471)	(2,746)	2,530	12,981
Central Suburban													
Kearny Mesa	208	5,454,345	0	20,000	507,692	9.31%	737,552	13.52%	\$1.25	(34,988)	(92,633)	58,251	126,115
Mission Gorge	29	270,741	0	0	14,176	5.24%	19,571	7.23%	\$1.15	(7,416)	(10,166)	2,740	2,740
Rose Canyon/ Morena	38	616,737	0	0	54,323	8.81%	57,323	9.29%	\$1.50	14,731	22,807	22,789	49,099
Sports Arena/ Airport	31	388,263	0	0	0	0.00%	84,460	21.75%	\$1.15	6,800	6,800	6,800	6,800
Central Suburban Total	306	6,730,086	0	20,000	576,191	8.56%	898,906	13.36%	\$1.22	(20,873)	(73,192)	90,580	184,754
East County													
El Cajon	80	851,207	0	0	18,009	2.12%	39,559	4.65%	\$0.00	1,604	25,918	6,811	32,725
La Mesa/ Spring Valley	41	318,588	0	0	25,497	8.00%	25,497	8.00%	\$0.00	2,825	16,672	2,825	16,914
Santee/ Lakeside	53	544,506	0	268,000	16,360	3.00%	63,011	11.57%	\$0.00	4,430	(7,158)	7,530	9,472
East County Total	174	1,714,301	0	268,000	59,866	3.49%	128,067	7.47%	\$0.00	8,859	35,432	17,166	59,111
I-15 Corridor													
Escondido	82	753,369	0	9,500	47,932	6.36%	75,132	9.97%	\$0.85	18,346	14,522	23,951	31,867
Poway	59	1,219,999	0	0	55,616	4.56%	49,709	4.07%	\$0.81	(10,593)	479	31,207	53,406
Rancho Bernardo	87	3,929,523	0	0	814,874	20.74%	654,624	16.66%	\$1.38	(73,068)	(938)	21,241	128,215
Scripps Ranch	30	755,097	0	0	147,365	19.52%	187,074	24.77%	\$1.13	(4,654)	(1,248)	9,753	13,159
I-15 Corridor Total	258	6,657,988	0	9,500	1,065,787	16.01%	966,539	14.52%	\$1.28	(69,969)	12,815	86,152	226,647
North County													
Carlsbad	244	5,892,510	0	100,000	973,011	16.51%	1,015,710	17.24%	\$0.97	(14,744)	(26,846)	198,776	269,088
North Beach Cities	16	148,193	0	0	0	0.00%	0	0.00%	\$0.00	0	0	1,800	1,800
North County Total	260	6,040,703	0	100,000	973,011	16.11%	1,015,710	16.81%	\$0.97	(14,744)	(26,846)	200,576	270,888
North City													
Miramar	212	4,496,013	0	11,760	579,801	12.90%	751,734	16.72%	\$1.04	(9,983)	8,971	73,983	159,251
Sorrento Mesa	157	5,905,713	0	0	577,357	9.78%	918,144	15.55%	\$1.59	(48,425)	50,276	67,093	223,798
Sorrento Valley	109	2,578,571	0	0	332,371	12.89%	435,187	16.88%	\$1.92	20,922	(28,866)	53,926	95,539
Torrey Pines	43	3,333,911	0	105,091	445,681	13.37%	367,505	11.02%	\$0.00	42,862	71,872	66,478	95,988
UTC	19	1,522,111	0	307,660	286,229	18.80%	246,619	16.20%	\$2.35	(15,854)	(13,100)	9,746	12,500
North City Total	540	17,836,319	0	424,511	2,221,439	12.45%	2,719,189	15.25%	\$1.60	(10,478)	89,153	271,226	587,076
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	0	0	0
Outlying Areas Total	37	279,150	0	0	16,692	5.98%	24,892	8.92%	\$0.00	0	0	0	0
South Bay													
Chula Vista	84	1,564,200	0	0	94,899	6.07%	208,948	13.36%	\$1.01	22,215	15,863	27,239	53,446
National City	22	295,515	0	0	7,632	2.58%	7,632	2.58%	\$0.90	3,043	1,261	9,371	22,183
Otay Mesa/ San Ysidro	11	245,361	0	0	17,086	6.96%	70,470	28.72%	\$0.75	(240)	(3,147)	0	0
South Bay Total	117	2,105,076	0	0	119,617	5.68%	287,050	13.64%	\$0.95	25,018	13,977	36,610	75,629
Highway 78 Corridor													
Oceanside	30	982,972	0	0	9,117	0.93%	66,252	6.74%	\$0.00	5,660	4,229	7,075	12,185
San Marcos	59	951,397	0	0	63,440	6.67%	67,375	7.08%	\$0.88	10,649	14,704	20,643	47,763
Vista	59	1,367,187	0	241,342	172,420	12.61%	259,993	19.02%	\$0.89	(7,283)	1,999	3,507	31,187
Highway 78 Corridor Total	148	3,301,556	0	241,342	244,977	7.42%	393,620	11.92%	\$0.89	9,026	20,932	31,225	91,135
San Diego County Total	1,880	45,142,424	0	1,063,353	5,293,432	11.73%	6,456,485	14.30%	\$1.33	(79,632)	69,525	736,065	1,508,221

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

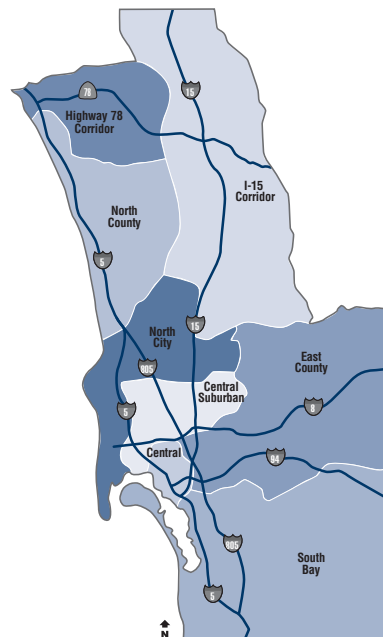
Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
10850 Via Frontera	Rancho Bernardo	303,000	\$109.17	PETCO Animal Supplies, Inc.	Kilroy Realty Corporation
16710 & 16750 Via Del Campo Ct.	Rancho Bernardo	168,072	\$155.02	Drawbridge Realty Trust	WAM Development Group Cornerstone Real Estate Advisers
2620-2645 Financial Ct.	Rose Canyon	63,876	\$144.81	SR Commercial	Feher Family Trust
10540 Heater Ct.	Sorrento Mesa	36,936	\$170.57	Miller Family Trust	Moxie Partners, LLC
1946 Kellogg Ave.	Carlsbad	9,987	\$132.67	Roll & Chaiken Enterprises, LLC	Tomkinson Family Trust

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
10578 Science Center Dr.	Torrey Pines	69,808	April-14	AltheaDx	Legacy Partners Commercial, Inc.
5810 Van Allen Way	Carlsbad	56,835	April-14	Sound-Elkin	(Sublease)
10420 Wateridge Cir.	Sorrento Mesa	46,142	May-14	Intertek	Biomed Realty Trust
6150 Corte Del Cedro	Carlsbad	22,760	May-14	Undisclosed	Daum Family Trust
10865 Rancho Bernardo Rd.	Rancho Bernardo	19,558	June-14	Art of Problem Solving	Brehm Communications, Inc.

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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Irvine, CA 949.851.5100	Newport Beach, CA 949.644.8648	Sacramento, CA 916.772.8648	

This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net 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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