



MARKET CHANGE

Compared to Previous Quarter:

Vacancy
DOWN

Net Absorption
POSITIVE

Lease Rates
UP

Transactions
UP

Deliveries
UP

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HIGHLIGHTS

- **Recovery in Full Swing** - The San Diego office market had another quarter of improvement for the first half of the year, posting positive net absorption along with a 3¢ per square foot increase in asking rental rates. The market now has a total of 8.6 million square feet of positive absorption for the last five years. Vacancy continues to decrease and new deliveries are coming off of their best annual total of the past five years.
- **Construction** - Office deliveries have consistently been around 500,000-800,000 square feet a year over the past five years. This rate of construction is below the historical average and has helped to push vacancy down, and this year should fall within that range as well. The Irvine Company's 300,000 square foot speculative office building that broke ground at the start of 2014 signaled a maturation in the current recovery and other speculative office development has since broken ground as well.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 11.30%, an 11.37% decrease from last year's second quarter vacancy rate of 12.75%. Rancho Bernardo posted the lowest vacancy rate of any submarket with at least five million square feet of inventory at 8.01%.
- **Availability** - Direct/sublease space being marketed was 14.81% at the end of the quarter, a slight increase from the 14.53% 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 \$2.46 at the end of the second quarter, a three-cent increase from the prior quarter and a solid fourteen-cent increase over 2014's second quarter rate of \$2.32. The record high rate of \$2.76 was established in the first and second quarters of 2008.
- **Absorption** - The San Diego office market posted 257,585 square feet of positive net absorption in the second quarter.

Class A office contributed 1,507 square feet of negative net absorption in the second quarter, while Class B and Class C both had positive net absorption of 259,092 square feet.

- **Transaction Activity** - Sale and lease transactions totaled 3.2 million square feet in the second quarter, the same amount of square feet transacted in the prior quarter. This statistic can have some lag time in being reported, so look for figures to end up somewhat higher in the next report. Class B & C properties dominated the largest transactions of the quarter; not one of the largest deals was a Class A office. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in San Diego County was 4.9% in May 2015, up from a revised 4.8% in April 2015 and below the year-ago estimate of 6.1%. This compares with an unadjusted unemployment rate of 6.2% for California and 5.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 42,400 payroll jobs from May 2014 and May 2015, including 11,000 from professional and business services, and 8,500 from leisure and hospitality, 6,800 from education and health services, and 4,500 from construction. No major sector recorded year-over job losses.
- **Overall** - Construction levels of new office product are still lower than 2005-2008, but the San Diego office market has now recorded four consecutive year-over-year increases in office square feet delivered. The markets' rental rates continue to rise and still have not reached levels seen during the last recovery. Rising rents may become a headwind to the rate of vacancy compression. The office market is steady but not explosive, and 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

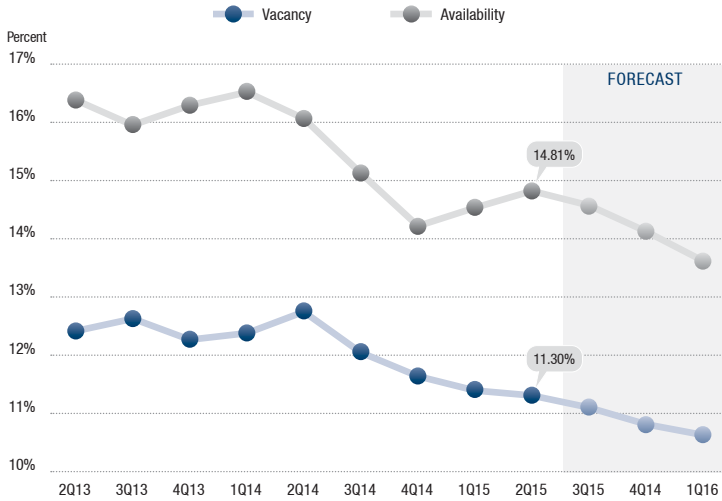
- **Construction** - The recovery of the San Diego office market has now matured to the point that we have multiple speculative office developments under construction. Local office development looks to remain lower than the levels seen during 2005-2008.
- **Employment** - We anticipate job growth of 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.
- **Lease Rates** - Expect the average asking lease rate to increase by 4% to 7% percent over the next four quarters.
- **Vacancy** - We anticipate vacancy to descend at a moderate pace in coming quarters, dropping to approximately 10.40%, by the end of the first quarter of 2016.

OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	11.30%	11.40%	12.75%	(11.37%)
Availability Rate	14.81%	14.53%	16.07%	(7.84%)
Average Asking Lease Rate	\$2.46	\$2.43	\$2.32	6.03%
Sale & Lease Transactions	3,256,173	3,251,287	3,623,685	(10.14%)
Gross Absorption	1,512,881	1,863,066	2,271,198	(33.39%)
Net Absorption	257,585	237,583	24,633	N/A

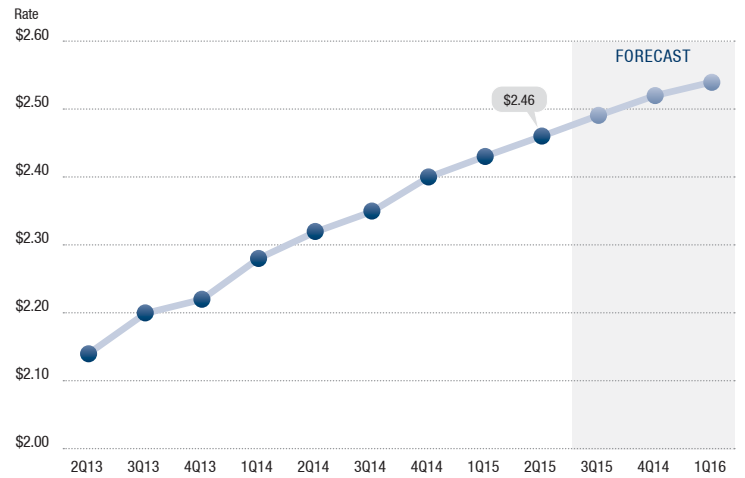
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



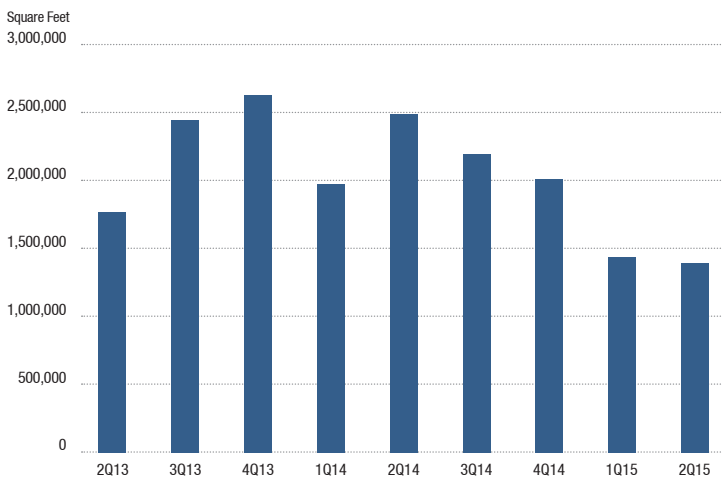
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



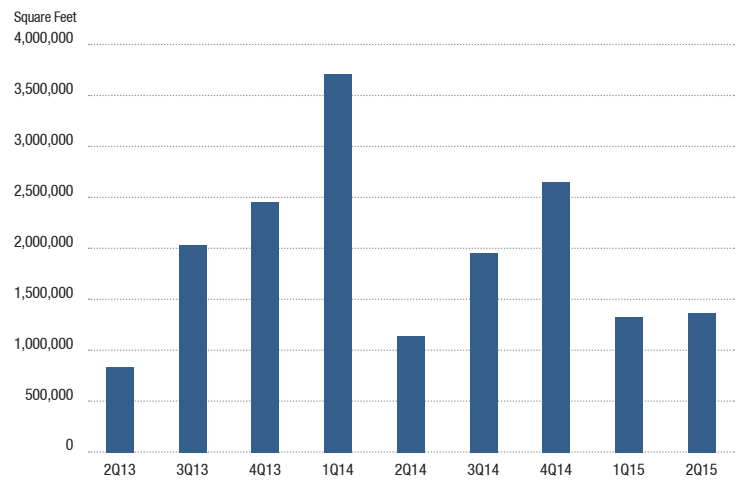
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



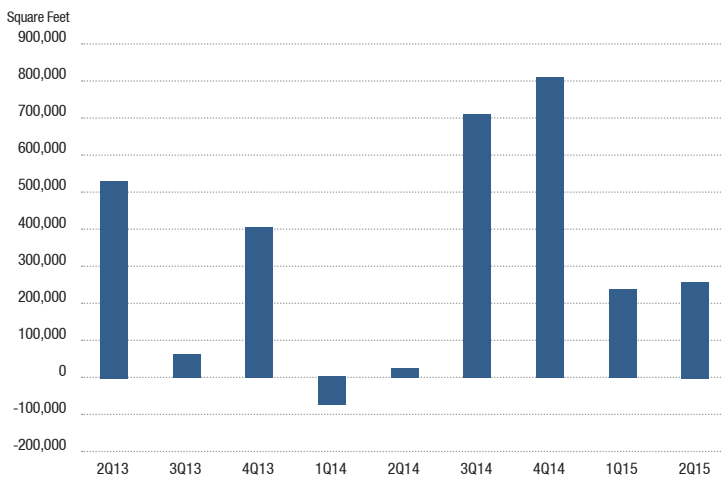
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



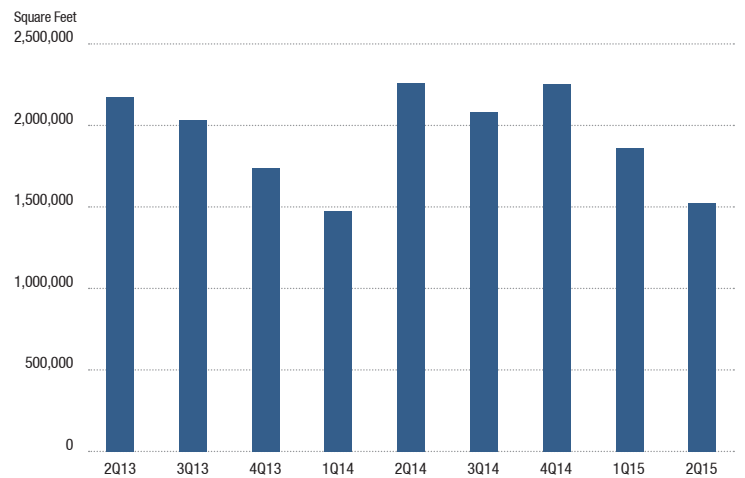
NET ABSORPTION

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 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
Downtown													
Downtown	136	12,660,334	320,000	778,680	1,698,357	13.41%	2,248,457	17.76%	\$2.31	40,117	148,280	179,074	434,859
Downtown Total	136	12,660,334	320,000	778,680	1,698,357	13.41%	2,248,457	17.76%	\$2.31	40,117	148,280	179,074	434,859
Central													
City Heights / University	28	1,032,587	25,000	0	63,508	6.15%	78,428	7.60%	\$0.00	3,084	28,356	7,708	37,902
Coronado	6	125,233	0	0	1,091	0.87%	1,091	0.87%	\$0.00	(1,091)	(1,091)	0	1,986
Kearny Mesa	233	10,406,966	0	297,000	1,040,820	10.00%	1,471,210	14.14%	\$1.88	(16,997)	(80,831)	145,195	231,544
Mission Gorge	25	582,823	0	0	35,987	6.17%	40,432	6.94%	\$1.25	3,886	2,739	5,679	8,119
Mission Valley	125	6,979,633	0	90,000	617,811	8.85%	859,418	12.31%	\$2.25	56,242	76,102	150,355	299,782
Old Town / Point Loma	72	2,356,056	0	0	240,416	10.20%	253,800	10.77%	\$1.75	8,809	(2,977)	22,901	50,683
Park East	9	176,637	0	0	4,766	2.70%	4,766	2.70%	\$0.00	0	1,025	0	1,025
Rose Canyon / Morena	55	1,262,783	0	0	57,314	4.54%	65,223	5.17%	\$2.10	15,318	7,905	27,907	37,834
Uptown / Hillcrest	105	2,664,326	0	0	129,535	4.86%	256,964	9.64%	\$1.90	16,769	57,904	37,977	95,944
Central Total	658	25,587,044	25,000	387,000	2,191,248	8.56%	3,031,332	11.85%	\$1.96	86,020	89,132	397,722	764,819
I-15 Corridor													
Escondido	90	1,910,503	0	37,000	231,855	12.14%	273,314	14.31%	\$1.83	16,302	43,305	23,652	60,579
Poway	29	1,303,146	0	675,000	100,971	7.75%	109,736	8.42%	\$0.00	(1,108)	(15,581)	12,755	23,880
Rancho Bernardo	109	6,639,430	0	1,110,002	531,656	8.01%	767,209	11.56%	\$0.00	(35,189)	(15,011)	60,274	148,721
Scripps Ranch	49	2,652,278	0	846,200	361,500	13.63%	371,291	14.00%	\$2.17	102,267	113,527	110,403	134,739
I-15 Corridor Total	277	12,505,357	0	2,668,202	1,225,982	9.80%	1,521,550	12.17%	\$2.12	82,272	126,240	207,084	367,919
North County Coastal													
Carlsbad	152	6,016,696	232,609	470,000	1,215,544	20.20%	1,434,068	23.83%	\$2.14	6,306	(114,636)	111,066	223,888
Del Mar Heights / Carmel Valley	70	4,542,031	76,760	520,556	495,868	10.92%	693,395	15.27%	\$3.41	4,298	121,838	81,091	242,149
North Beach Cities	111	2,534,029	20,100	55,000	175,420	6.92%	245,906	9.70%	\$2.65	15,247	34,997	67,229	120,706
North County Total	333	13,092,756	329,469	1,045,556	1,886,832	14.41%	2,373,369	18.13%	\$2.65	25,851	42,199	259,386	586,743
North City													
Governor Park	19	858,002	0	0	146,724	17.10%	180,964	21.09%	\$2.65	8,821	2,242	25,681	51,542
La Jolla	54	1,624,721	14,750	0	203,491	12.52%	254,238	15.65%	\$3.68	3,184	38,342	23,779	98,260
Miramar	37	1,709,861	0	0	235,284	13.76%	391,142	22.88%	\$2.12	17,296	49,819	28,932	89,077
Sorrento Mesa	119	9,556,903	0	2,165,576	983,463	10.29%	1,510,252	15.80%	\$2.81	(42,339)	(61,513)	63,389	186,236
Sorrento Valley	25	730,576	0	106,000	99,855	13.67%	108,240	14.82%	\$1.92	(40,957)	(46,891)	14,128	18,661
Torrey Pines	43	2,703,699	0	0	143,069	5.29%	309,333	11.44%	\$3.95	48,428	(43,309)	51,016	51,159
UTC	85	8,110,120	370,784	390,770	1,218,884	15.03%	1,481,259	18.26%	\$3.59	(20,770)	136,400	148,550	520,023
North City Total	382	25,293,882	385,534	2,662,346	3,030,770	11.98%	4,235,428	16.74%	\$3.37	(26,337)	75,090	355,475	1,014,958
Southern & Eastern Areas													
Chula Vista	89	2,786,667	0	765,002	312,297	11.21%	400,874	14.39%	\$1.59	7,323	19,276	24,243	50,727
East County	152	3,697,037	0	194,200	245,069	6.63%	296,425	8.02%	\$1.24	23,837	(32,418)	40,169	58,610
National City	16	561,473	0	0	118,516	21.11%	126,041	22.45%	\$0.00	(8,225)	(7,225)	0	1,000
Otay Mesa	13	325,164	0	251,664	21,775	6.70%	21,775	6.70%	\$1.30	(1,019)	(1,019)	0	536
Southeast San Diego	10	391,848	0	0	67,398	17.20%	71,670	18.29%	\$1.65	2,358	2,392	2,358	3,166
Southern & Eastern Areas Total	280	7,762,189	0	1,210,866	765,055	9.86%	916,785	11.81%	\$1.45	24,274	(18,994)	66,770	114,039
Highway 78 Corridor													
Oceanside	61	1,335,724	0	92,332	205,655	15.40%	203,068	15.20%	\$1.55	4,572	12,191	9,995	24,054
San Marcos	36	1,322,909		1,514,139	169,145	12.79%	191,000	14.44%	\$0.00	18,836	5,273	24,183	37,302
Vista	49	1,213,946	0	110,000	216,234	17.81%	201,886	16.63%	\$1.50	1,980	16,027	13,192	31,254
Highway 78 Corridor Total	146	3,872,579	0	1,716,471	591,034	15.26%	595,954	15.39%	\$1.50	25,388	33,491	47,370	92,610
Class A	266	33,906,238	722,812	6,625,028	3,348,533	9.88%	4,868,999	14.36%	\$3.10	(1,507)	277,718	457,069	1,181,665
Class B	1,212	50,740,481	337,191	3,844,093	6,679,777	13.16%	8,247,550	16.25%	\$2.14	186,200	171,472	842,769	1,830,921
Class C	734	16,127,422	0	0	1,360,968	8.44%	1,806,326	11.20%	\$1.57	72,892	46,248	213,043	363,361
San Diego County Total	2,212	100,774,141	1,060,003	10,469,121	11,389,278	11.30%	14,922,875	14.81%	\$2.46	257,585	495,438	1,512,881	3,375,947

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
6200 & 6220 Greenwich Dr. 10770 Wateridge Cir.	Governor Park Sorrento Mesa	B	391,703	\$242.53	John Hancock Life Insurance Co.	Kilroy Realty Corporation
4535-4550 Towne Centre Ct. & 9775 Towne Centre Dr.	UTC	B	288,224	\$291.04	Biomed Realty Trust	Arden Realty Limited
9326-9356 Spectrum Center Blvd. & 4830 Ruffin Rd.	Kearny Mesa	B	182,870	\$333.57	Drawbridge Realty Trust	Real Estate Capital Partners IVG Institutional Funds GmbH
4242 Campus Point Ct. 10210 Campus Point Dr.	UTC	B	192,275	\$268.77	Phase 3 Real Estate Partners	Walton Street Capital, LLC Greenlaw Partners
201-209 A St. & 1200 3rd Ave.	Downtown	C	295,101	\$149.10	Cisterra Partners, LLC	Maidman & Mittelman

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
15051 Avenue of Science	Rancho Bernardo	B	69,967	Apr-2015	Daybreak	Starwood Capital Operations
5600 Avenida Encinas	Carlsbad	B	45,000	Apr-2015	GoPro	Cruzan
11149 N. Torrey Pines Rd. – Renewal	Torrey Pines	B	44,768	Jun-2015	Synthetic Genomics, Inc.	HCP, Inc.
4755 Eastgate Mall	UTC	B	31,706	Apr-2015	Undisclosed	The Irvine Company
151 Van Houten Ave.	East County	C	30,000	Jun-2015	Public Consulting Group	151, 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.

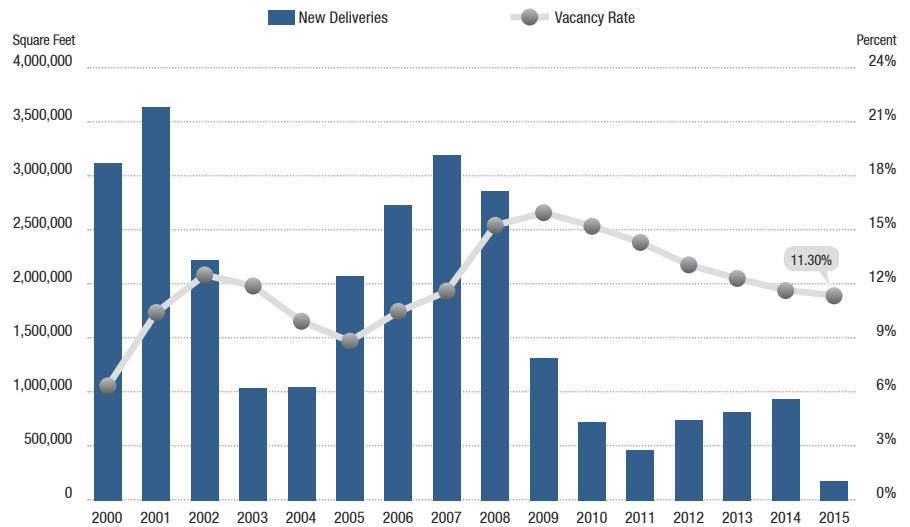
CLASS B

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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