

MARKET CHANGE

Compared to Previous Quarter:

Vacancy



Net Absorption

NEGATIVE



Lease Rates



UP

Transactions

DOWN



Deliveries

DOWN



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Prepared by:

Jerry J. Holdner, Jr.
 Vice President of Market Research
 e-mail: jholdner@voitco.com

Joshua Brant
 Market Research Analyst
 e-mail: jbrant@voitco.com
 VOIT Real Estate Services

HIGHLIGHTS

- **Springing Forward** - The San Diego Flex R&D market displayed more signs of recovery in the second quarter with an increase in asking rental rates, strong positive absorption, and a decreased vacancy on an annual basis. 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, 603,269 square feet in the UTC, and it arrived just as vacancy is nearing the single digit mark.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 10.46%, a decrease of 117 basis points when compared to the second quarter of the previous year, and a decrease of 32% from 2011's rate of 15.65%.
- **Availability** - Direct/sublease space being marketed was 14.41% at the end of the second quarter, a slight increase from the previous quarter's rate of 14.38%.
- **Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.43 at the end of the second quarter, an increase of \$0.10 from the second quarter of last year's rate. Average asking lease rates have risen thirty-six cents since the recession lows seen in the first and second quarters of 2011.
- **Absorption** - The San Diego Flex R&D market posted 27,703 square feet of negative net absorption in the second quarter, giving the market a total of 2.7 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 second quarter totaled almost 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 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** - 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 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

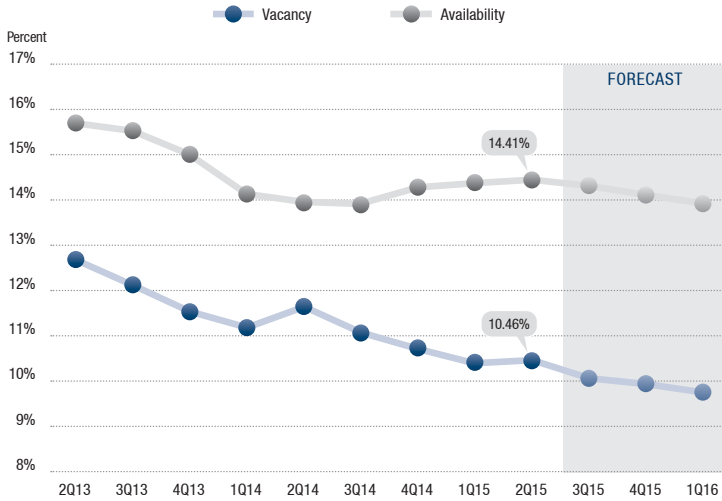
- **Employment** - We anticipate job growth of around 1.9%, or 24,600 jobs, in San Diego County over the year. Look for sectors like construction, administrative & support, and transportation & utilities to lead the way for employment gains in 2015.
- **Construction** - After three years of depressed 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 rates continuing to descend in coming quarters, dipping into single digits in the coming quarters.

OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	10.46%	10.40%	11.63%	(10.06%)
Availability Rate	14.41%	14.38%	13.91%	3.59%
Average Asking Lease Rate	\$1.43	\$1.37	\$1.33	7.52%
Sale & Lease Transactions	1,579,781	1,629,075	1,765,295	(10.51%)
Gross Absorption	1,002,260	943,155	719,337	39.33%
Net Absorption	(27,703)	180,498	(198,479)	N/A

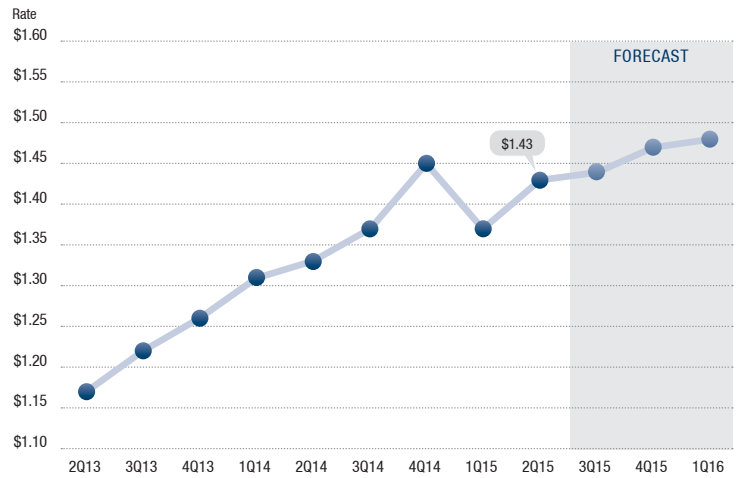
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



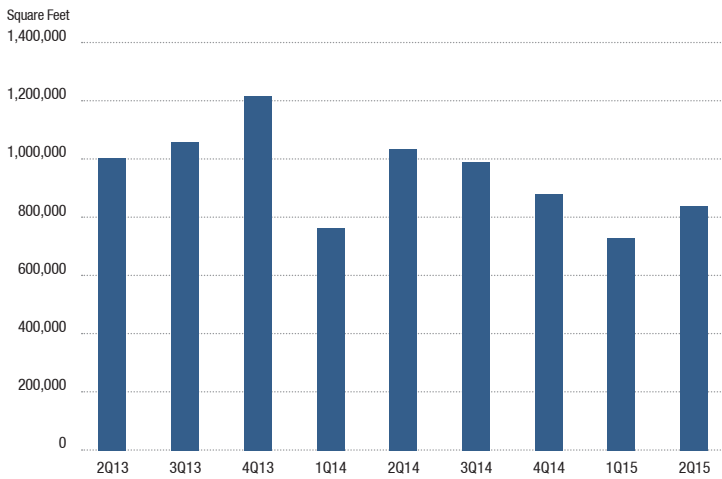
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



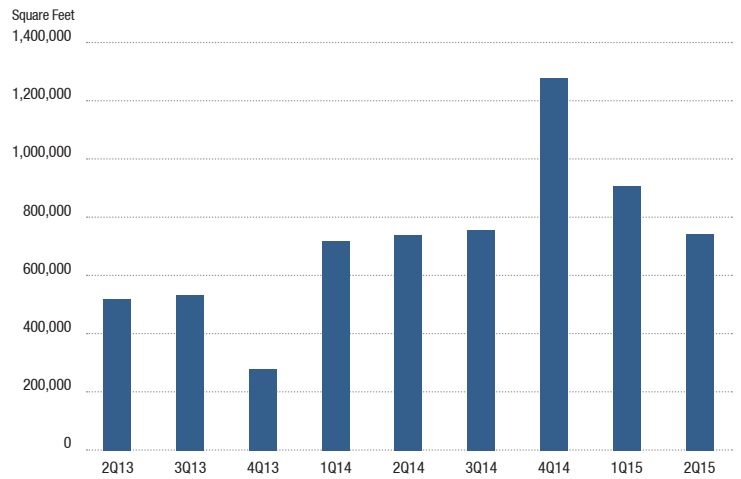
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



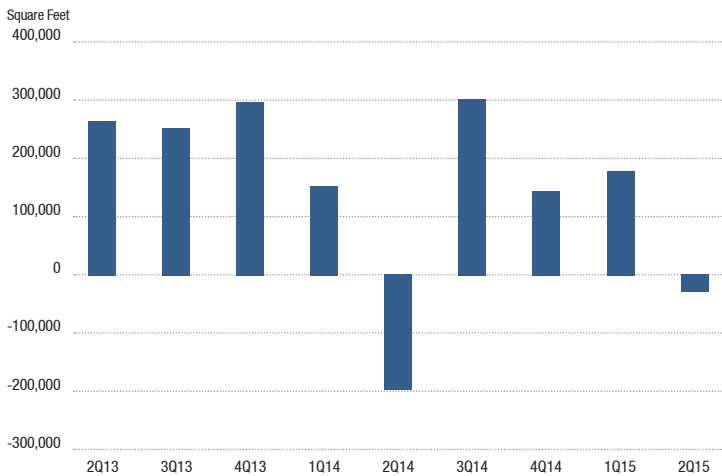
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

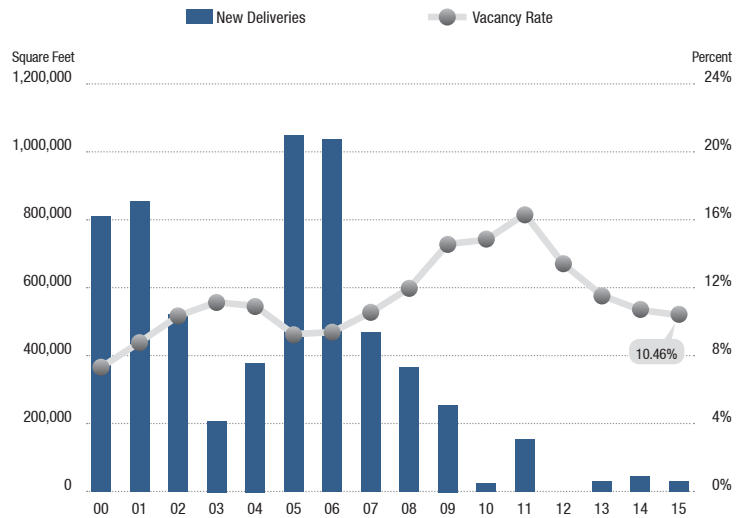


NET ABSORPTION

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 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
Central													
Central	18	231,356	0	0	13,162	5.69%	17,512	7.57%	\$0.00	(5,971)	(5,971)	4,300	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	201,597	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Central Total	38	464,845	0	0	13,162	2.83%	17,512	3.77%	\$0.00	(5,971)	(5,971)	4,300	4,300
Central Suburban													
Kearny Mesa	212	5,615,759	0	37,650	406,315	7.24%	579,303	10.32%	\$1.29	49,309	5,776	87,374	203,350
Mission Gorge	25	175,296	0	0	10,750	6.13%	10,750	6.13%	\$0.00	(4,914)	(2,960)	1,270	7,790
Rose Canyon / Morena	38	616,757	0	0	44,869	7.27%	40,178	6.51%	\$0.00	(4,048)	13,305	21,713	51,937
Sports Arena / Airport	31	388,763	0	0	84,460	21.73%	91,260	23.47%	\$1.15	(84,460)	(84,460)	0	4,046
Central Suburban Total	306	6,796,575	0	37,650	546,394	8.04%	721,491	10.62%	\$1.24	(44,113)	(68,339)	110,357	267,123
East County													
El Cajon	80	852,638	0	0	34,647	4.06%	64,607	7.58%	\$0.00	(14,658)	(13,490)	8,387	24,107
La Mesa / Spring Valley	41	318,588	0	0	21,471	6.74%	25,718	8.07%	\$0.00	6,530	6,530	8,830	8,830
Santee / Lakeside	53	549,202	0	268,000	3,990	0.73%	13,562	2.47%	\$0.00	800	9,597	800	12,380
East County Total	174	1,720,428	0	268,000	60,108	3.49%	103,887	6.04%	\$0.00	(7,328)	2,637	18,017	45,317
I-15 Corridor													
Escondido	81	743,085	0	0	46,877	6.31%	66,428	8.94%	\$0.83	16,571	14,591	22,345	23,687
Poway	59	1,248,370	0	0	32,646	2.62%	49,171	3.94%	\$0.90	(5,335)	(6,826)	8,637	16,009
Rancho Bernardo	86	3,874,531	0	0	751,405	19.39%	576,419	14.88%	\$1.62	82,881	57,879	96,144	106,309
Scripps Ranch	30	767,078	0	337,418	45,671	5.95%	160,151	20.88%	\$1.37	55,390	53,431	74,884	79,278
I-15 Corridor Total	256	6,633,064	0	337,418	876,599	13.22%	852,169	12.85%	\$1.55	149,507	119,075	202,010	225,283
North County													
Carlsbad	244	5,963,352	0	0	770,591	12.92%	1,019,360	17.09%	\$1.05	2,435	144,525	115,030	330,354
North Beach Cities	16	148,193	0	0	0	0.00%	0	0.00%	\$0.00	3,677	1,677	3,677	3,677
North County Total	260	6,111,545	0	0	770,591	12.61%	1,019,360	16.68%	\$1.05	6,112	146,202	118,707	334,031
North City													
Miramar	213	4,605,774	0	11,760	364,853	7.92%	567,464	12.32%	\$0.96	47,228	85,997	149,819	281,235
Sorrento Mesa	164	6,274,463	0	618,000	783,865	12.49%	1,071,781	17.08%	\$1.47	(148,601)	(58,237)	109,386	304,155
Sorrento Valley	106	2,472,928	0	0	259,104	10.48%	269,219	10.89%	\$2.00	41,389	18,511	71,160	95,195
Torrey Pines	43	3,332,458	0	105,091	339,801	10.20%	337,928	10.14%	\$3.85	23,496	(5,851)	44,980	80,098
UTC	20	1,590,020	603,269	134,755	376,667	23.69%	338,183	21.27%	\$1.63	(110,702)	(96,724)	57,521	90,540
North City Total	546	18,275,643	603,269	869,606	2,124,290	11.62%	2,584,575	14.14%	\$1.69	(147,190)	(56,304)	432,866	851,223
Outlying Areas													
Outlying SD County North	17	140,772	0	0	8,821	6.27%	15,421	10.95%	\$1.25	0	0	0	0
Outlying SD County South	20	78,080	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outlying Areas Total	37	218,852	0	0	8,821	4.03%	15,421	7.05%	\$1.25	0	0	0	0
South Bay													
Chula Vista	84	1,548,929	0	0	115,439	7.45%	244,415	15.78%	\$0.68	13,566	(14,645)	36,097	50,801
National City	23	303,615	0	0	14,721	4.85%	14,721	4.85%	\$0.00	1,019	573	22,936	27,330
Otay Mesa / San Ysidro	12	258,361	0	0	17,086	6.61%	124,086	48.03%	\$0.75	0	0	0	0
South Bay Total	119	2,110,905	0	0	147,246	6.98%	383,222	18.15%	\$0.70	14,585	(14,072)	59,033	78,131
Highway 78 Corridor													
Oceanside	31	992,572	0	0	23,989	2.42%	74,867	7.54%	\$0.00	(1,885)	(2,365)	0	2,306
San Marcos	60	969,982	0	0	52,685	5.43%	58,110	5.99%	\$0.88	2,638	20,160	28,247	50,039
Vista	61	1,452,598	0	0	162,847	11.21%	198,668	13.68%	\$0.98	5,942	11,772	28,723	87,662
Highway 78 Corridor Total	152	3,415,152	0	0	239,521	7.01%	331,645	9.71%	\$0.97	6,695	29,567	56,970	140,007
San Diego County Total	1,888	45,747,009	603,269	1,512,674	4,786,732	10.46%	6,029,282	14.41%	\$1.43	(27,703)	152,795	1,002,260	1,945,415

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

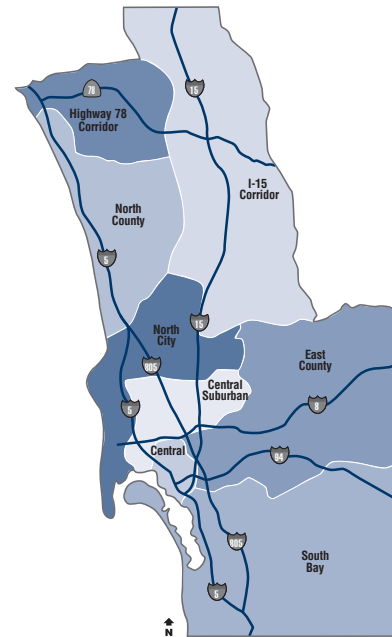
Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
5651 Copley Dr.	Kearny Mesa	118,264	\$199.55	Sharp Healthcare	Cox Communications, Inc.
5555-5627 Oberlin Dr.	Sorrento Mesa	104,539	\$224.80	Cypress Office Properties	Equity Commonwealth
1945 Palomar Oaks Way	Carlsbad	38514	\$350.63	Palomar Creative, LLC	Bixby Land Company
3209 Lionshead Ave.	Carlsbad	74,774	\$163.16	Graymark Capital	LBA Realty
5825 Oberlin Dr.	Sorrento Mesa	57,200	\$187.50	Locale Advisors, Inc.	Emri Group

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4796 Executive Dr.	UTC	61,755	May-2015	Otonomy	Alexandria Real Estate Equities, Inc.
1896 Rutherford Rd.	Carlsbad	47,056	Jun-2015	Undisclosed	Diversified Properties
10180 Barnes Canyon Rd.	Sorrento Mesa	29,851	Apr-2015	L-3 Communications	10140-10180 Barnes Canyon Road
5966 La Place Ct.	Carlsbad	24,000	May-2015	MaxLinear	Brookwood Financial Partners, LLC
9540 Towne Centre Dr.	UTC	19,168	Jun-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

101 Shipyard Way, Newport Beach, CA 92663 949.644.8648 Lic.#01333376 www.voitco.com



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