SECOND QUARTER 2016
SAN DIEGO
FLEX / R&D

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Quarter:

Vacancy
UP

Net Absorption
NEGATIVE

Lease Rates
FLAT

Transactions
DOWN

Deliveries
DOWN

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HIGHLIGHTS

- **Tight Market -** The San Diego Flex R&D market fundamentals displayed signs of tightened supply, with decreasing availability, flat lease rates and approximately a 25% decline in transactions compared with the end of the second quarter 2015. However, with the steady pace of job growth, especially in the biotech and life sciences industry that drives the Flex R&D market in San Diego, the market will continue to grow at a steady pace.
- **Construction -** At the end of the second quarter, there were five buildings totaling 1,159,657 square feet under construction in San Diego County's flex market. This is one of the largest numbers of square feet under construction the flex market has seen in more than ten years. Notable projects underway for two prominent biotech companies include Eli Lilly's expansion at Campus Pointe in UTC and the future campus of Illumina, Inc. at i3 Campus also located in UTC.
- **Vacancy -** Direct / sublease space (unoccupied) finished the year at 8.62%, a decrease of 17.04% 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 13.19% at the end of the quarter, a 3.93% decrease from the previous year's rate of 13.73%.
- **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 second quarter, which is unchanged from last quarter's rate of $1.47. 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 73,007 square feet of negative net absorption in the second quarter, giving the market a total of approximately 2.6 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 1.56 million square feet, which is down compared to last quarter's total of 2.44 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.
- **Employment -** The unemployment rate in San Diego County was 4.2% in May 2016, down from a revised 4.5% in April 2016 and below the year-ago estimate of 5%. This compares with an unadjusted unemployment rate of 4.7% 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 32,200 payroll jobs from May 2015 to May 2016, including 7,600 from education and health services, which reported the largest overall gain. Professional and business services reported a growth of up to 6,500 jobs, followed by the government sector that reported up to 5,700 jobs.
- **Overall -** Although the San Diego Flex R&D market may be tight, the San Diego region's economy outpaced the rest of the state and the nation growing at 3.1%, and the recovery is still in full swing. The majority of job growth is the result of expansion in the life sciences and biotech sectors which drive the flex R&D product. Because of such a booming industry targeted in San Diego specifically, there is over 1 million square feet under construction that will contribute to increased availability in the coming future.

FORECAST

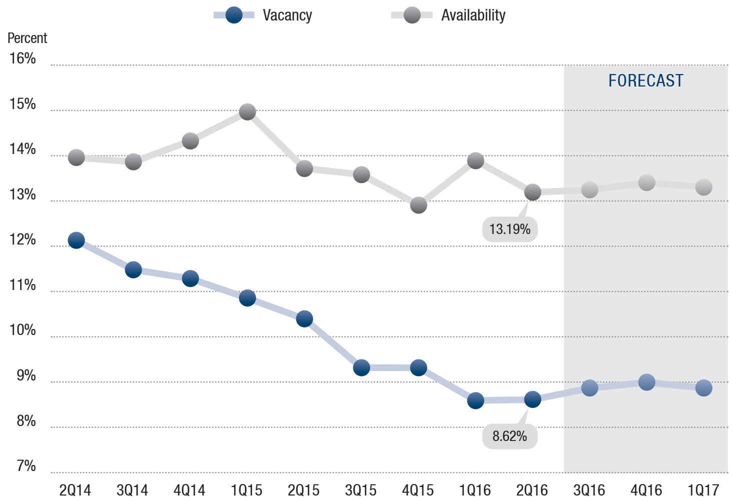
- **Employment -** We anticipate job growth of around 2.5%, or 35,000 jobs, in San Diego County over the year. Look for sectors like professional, scientific, & technical services, health care & social services, and leisure & hospitality to lead the way for employment gains in 2016.
- **Construction -** 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% over the next four quarters.
- **Vacancy -** In lieu of the new deliveries in the coming future, we anticipate vacancy rates to begin to rise slightly in the coming quarters, hovering around 9% by the fourth quarter of 2016.

OVERVIEW

	2Q16	1Q16	2Q15	% of Change vs. 2Q15
Total Vacancy Rate	8.62%	8.59%	10.39%	(17.04%)
Availability Rate	13.19%	13.89%	13.73%	(3.93%)
Average Asking Lease Rate	$1.47	$1.47	$1.43	2.80%
Sale & Lease Transactions	1,556,220	2,447,143	2,092,350	(25.62%)
Gross Absorption	790,584	1,052,064	1,079,272	(27.07%)
Net Absorption	(73,007)	341,562	202,108	N/A

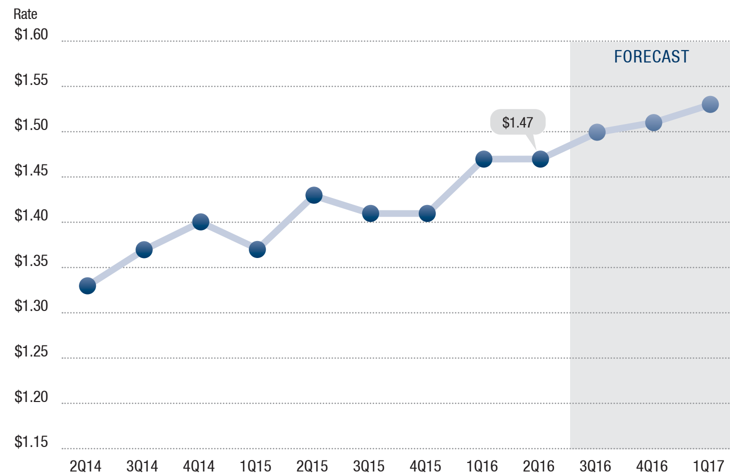
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



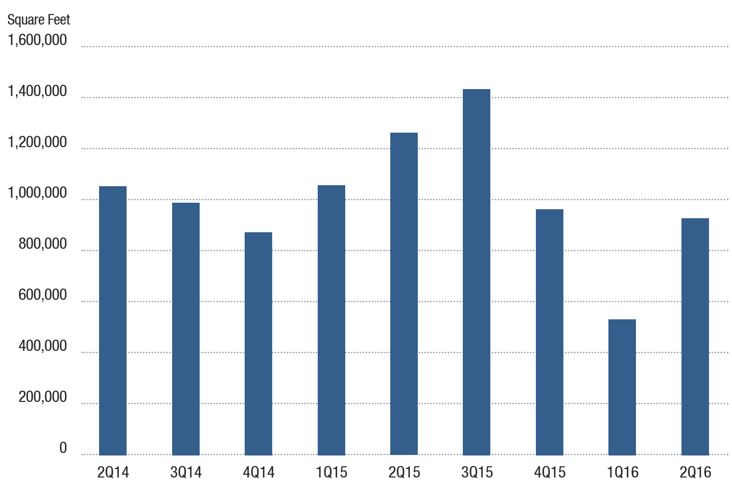
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY BASE RENT ON A PER SQ. FT. BASIS



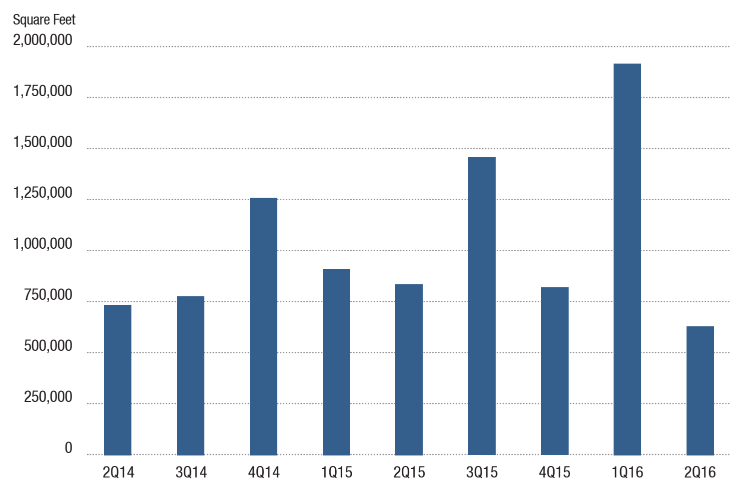
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



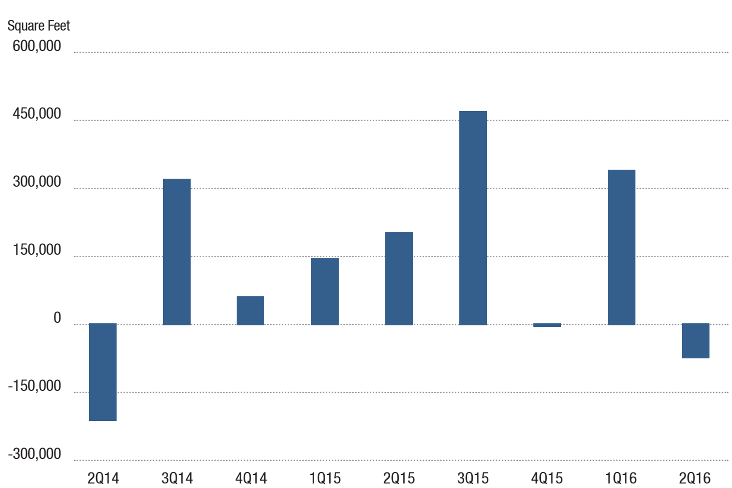
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

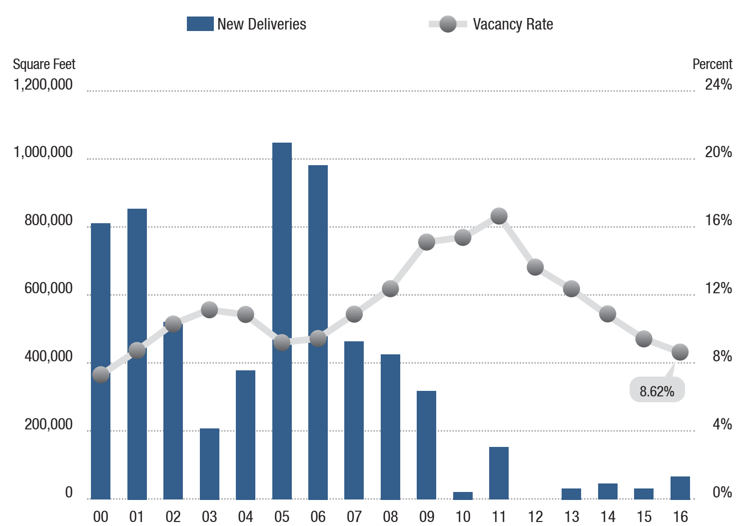


NET ABSORPTION

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 2Q2016	Square Feet Available	Availability Rate 2Q2016	Average Asking Lease Rate	Net Absorption 2Q2016	Net Absorption 2016	Gross Absorption 2Q2016	Gross Absorption 2016
Central													
Central	18	231,356	0	0	14,386	6.22%	14,386	6.22%	$0.00	(1,224)	(1,224)	175	4,525
East City	3	31,892	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Southeast San Deigo	16	195,280	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Central Total	37	458,528	0	0	14,386	3.14%	14,386	3.14%	$0.00	(1,224)	(1,224)	175	4,525
Central Suburban													
Kearny Mesa	213	5,600,736	0	0	323,258	5.77%	365,896	6.53%	$1.38	37,859	11,068	93,905	160,219
Mission Gorge	24	170,168	0	0	16,682	9.80%	16,682	9.80%	$0.00	(9,456)	(14,556)	2,126	2,126
Rose Canyon / Morena	38	616,935	0	0	18,548	3.01%	29,500	4.78%	$0.74	11,251	20,867	22,812	52,606
Sports Arena / Airport	30	380,720	0	0	21,398	5.62%	21,398	5.62%	$0.00	0	(1,700)	0	1,400
Central Suburban Total	305	6,768,559	0	0	379,886	5.61%	433,476	6.40%	$1.36	39,654	15,679	118,843	216,351
East County													
El Cajon	78	841,826	0	0	7,979	0.95%	22,952	2.73%	$0.00	14,180	37,275	15,750	41,820
La Mesa / Spring Valley	42	322,088	0	0	8,546	2.65%	8,546	2.65%	$0.00	8,000	9,788	13,000	18,288
Santee / Lakeside	53	549,202	0	268,000	0	0.00%	7,312	1.33%	$0.00	7,025	11,757	10,333	21,065
East County Total	173	1,713,116	0	268,000	16,525	0.96%	38,810	2.27%	$0.00	29,205	58,820	39,083	81,173
I-15 Corridor													
Escondido	81	759,211	0	0	32,999	4.35%	82,665	10.89%	$1.25	2,654	(507)	6,873	11,896
Poway	60	1,297,858	0	0	13,112	1.01%	93,137	7.18%	$1.44	10,213	8,737	22,820	37,740
Rancho Bernardo	86	3,893,606	0	0	445,881	11.45%	773,245	19.86%	$1.62	(5,534)	(11,523)	31,392	101,260
Scripps Ranch	29	745,678	0	478,271	93,516	12.54%	93,256	12.51%	$1.26	56,053	50,343	107,352	112,556
I-15 Corridor Total	256	6,696,353	0	478,271	585,508	8.74%	1,042,303	15.57%	$1.56	63,386	47,050	168,437	263,452
North County													
Carlsbad	243	5,921,628	118,705	0	602,265	10.17%	1,005,768	16.98%	$1.31	69,053	262,196	161,174	440,112
North Beach Cities	17	142,651	0	0	4,330	3.04%	6,130	4.30%	$0.00	(1,295)	7,688	3,035	12,618
North County Total	260	6,064,279	118,705	0	606,595	10.00%	1,011,898	16.69%	$1.31	67,758	269,884	164,209	452,730
North City													
Miramar	215	4,646,461	0	11,760	450,013	9.69%	595,339	12.81%	$1.34	(184,782)	(180,987)	64,068	132,284
Sorrento Mesa	160	5,865,551	0	618,000	884,582	15.08%	1,028,663	17.54%	$1.31	(122,072)	(125,541)	61,660	252,148
Sorrento Valley	105	2,389,885	0	0	148,143	6.20%	413,545	17.30%	$1.99	(12,999)	71,442	12,821	112,907
Torrey Pines	46	3,594,814	63,000	238,833	231,292	6.43%	357,248	9.94%	$4.25	(22,243)	62,297	49,077	135,717
UTC	20	1,593,644	977,952	538,000	341,776	21.45%	426,313	26.75%	$1.33	13,950	11,875	13,950	15,596
North City Total	546	18,090,355	1,040,952	1,406,593	2,055,806	11.36%	2,821,108	15.59%	$1.65	(328,146)	(160,914)	201,576	648,652
Outlying Areas													
Outlying SD County North	18	137,792	0	0	3,521	2.56%	3,521	2.56%	$0.00	(500)	(500)	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	38	215,872	0	0	3,521	1.63%	3,521	1.63%	$0.00	(500)	(500)	0	0
South Bay													
Chula Vista	80	1,473,609	0	0	91,402	6.20%	232,702	15.79%	$0.89	31,085	14,455	48,000	78,460
National City	23	303,615	0	0	12,490	4.11%	24,958	8.22%	$1.75	(7,765)	(8,690)	1,033	3,808
Otay Mesa / San Ysidro	12	259,977	0	256,022	12,979	4.99%	174,979	67.31%	$0.66	1,200	1,200	1,200	1,200
South Bay Total	115	2,037,201	0	256,022	116,871	5.74%	432,639	21.24%	$0.73	24,520	6,965	50,233	83,468
Highway 78 Corridor													
Oceanside	30	930,710	0	0	15,871	1.71%	18,997	2.04%	$0.00	435	(2,070)	8,594	13,795
San Marcos	59	960,472	0	0	41,195	4.29%	52,189	5.43%	$0.93	16,553	12,257	21,661	27,882
Vista	62	1,458,478	0	0	76,991	5.28%	139,151	9.54%	$0.00	15,352	22,608	17,773	48,120
Highway 78 Corridor Total	151	3,349,660	0	0	134,057	4.00%	210,337	6.28%	$0.93	32,340	32,795	48,028	89,797
San Diego County Total	**1,881**	**45,393,923**	**1,159,657**	**2,408,886**	**3,913,155**	**8.62%**	**6,008,478**	**13.19%**	**$1.47**	**(73,007)**	**268,555**	**790,584**	**1,840,148**

Lease rates are on a triple-net basis.

MAJOR TRANSACTION

Sales Transactions

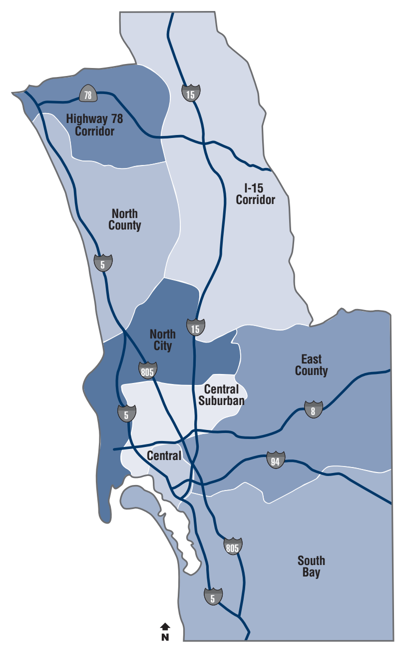
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
Sorrento Pines Business Park	Sorrento Valley	114,656	$26,050,000	Webb Management & Investments	Parallel Capital Partners, Inc.
2727 Kurtz St.	Sports Arena	83,469	$16,300,000	Realterm Global	SR Commercial
11839-11855 Sorrento Valley Rd.	Sorrento Valley	39,526	$7,825,000	George Krikorian	RJ Realty Investors, LLC
5924 Balfour Ct.	Carlsbad	21,481	$4,300,000	Gildred Development, Co.	North Coast Marketing, LLC
4168 Avenida De La Plata	Oceanside	29,554	$3,500,000	Nicole Sterndahl	Gary Thibodo

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4775-4785 Executive Dr.	UTC	316,262	May-2016	Illumina, Inc.	BioMed Realty
9577 Chesapeake Dr.	Kearny Mesa	51,000	Jun-2016	The City of San Diego	Providence Chesapeake, LLC
10455 Pacific Center Ct. – Renewal	Sorrento Mesa	45,000	Apr-2016	IDEA Health & Fitness Association	Kilroy Realty Corporation
7330 Trade St.	Miramar	26,304	May-2016	CoStar Technologies	Colony Capital, LLC
1891 Rutherford Rd.	Carlsbad	24,271	Apr-2016	DNAE	Diversified Properties

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.



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