



MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

UP



Deliveries

FLAT



To view available properties or electronic versions of current or past market reports, please visit:

www.voitco.com

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

- **Steady Growth** - The San Diego office market had a great third quarter, posting over 620,000 square feet of positive net absorption. This gives the market a total of 3.88 million square feet of positive absorption for the last ten quarters. Vacancy and availability continued their downward trends and lease rates continued 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 12.01%, a decrease from the previous quarter's figure of 12.63%. Rancho Bernardo posted the lowest vacancy rate of any submarket with at least five million square feet of inventory at 8.46%.
- **Availability** - Direct/sublease space being marketed was 15.15% at the end of the quarter, a decrease from the 15.92% 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 \$2.35 at the end of the third quarter, a three-cent increase from the prior quarter and a fifteen-cent increase over 2013's third quarter rate of \$2.20. The record high rate of \$2.76 was established in the first and second quarters of 2008.
- **Absorption** - The San Diego office market posted 620,948 square feet of positive net absorption in the third quarter, with Class A offices posting 509,947 square feet of positive net absorption through the first three quarters of the year.

Following two quarters without strong positive net absorption, in the third quarter the San Diego office market posted the best quarter of positive net absorption in nearly two years.

- **Transaction Activity** - Sale and lease transactions totaled 3.5 million square feet in the third quarter, an increase from the 3.3 million square feet transacted in the second quarter. This statistic can have some lag time in being reported, so look for third 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 the San Diego County was 6.2% in August 2014, down from a revised 6.6% in July 2014 and below the year-ago estimate of 7.7%. This compares with an unadjusted unemployment rate of 7.4% for California and 6.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 34,200 payroll jobs from August 2013 and August 2014, including 8,400 from professional and business services, 6,800 from educational and health services, and 6,800 from construction. The financial activities sector recorded the greatest number of job losses, down 700 year over year.
- **Overall** - Occupancy increases are slowing, and yet rental rate increases are accelerating. Both vacancy and 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

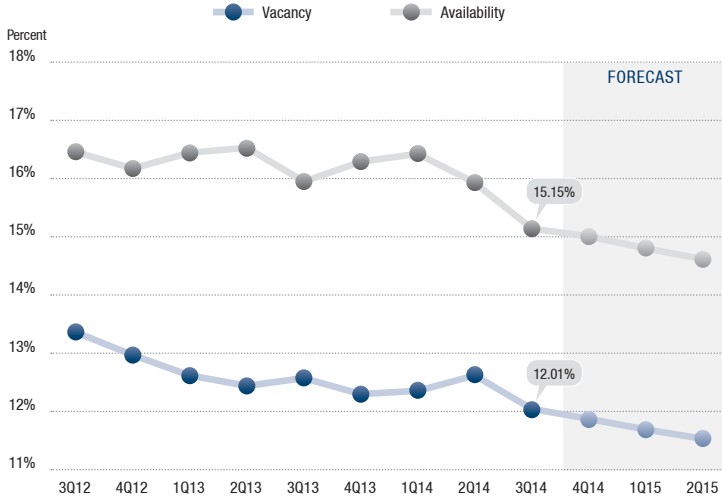
- **Construction** - The Irvine company broke ground on the first new significant speculative office in the market since the recession. Although market-wide demand is moderate, the premier submarkets such as UTC, Sorrento Mesa, and Del Mar Heights are most likely to see speculative development going 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 the average asking lease rate to increase by 4% to 7% percent over the next four quarters.
- **Vacancy** - We anticipate vacancy continuing to descend in coming quarters, dropping by around 45 basis points to approximately 11.5%, by the end of the second quarter of 2015.

OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	12.01%	12.63%	12.59%	(4.61%)
Availability Rate	15.15%	15.92%	15.97%	(5.13%)
Average Asking Lease Rate	\$2.35	\$2.32	\$2.20	6.82%
Sale & Lease Transactions	3,534,481	3,313,774	4,465,062	(20.84%)
Gross Absorption	2,090,631	2,253,315	1,994,674	4.81%
Net Absorption	620,948	130,488	48,825	N/A

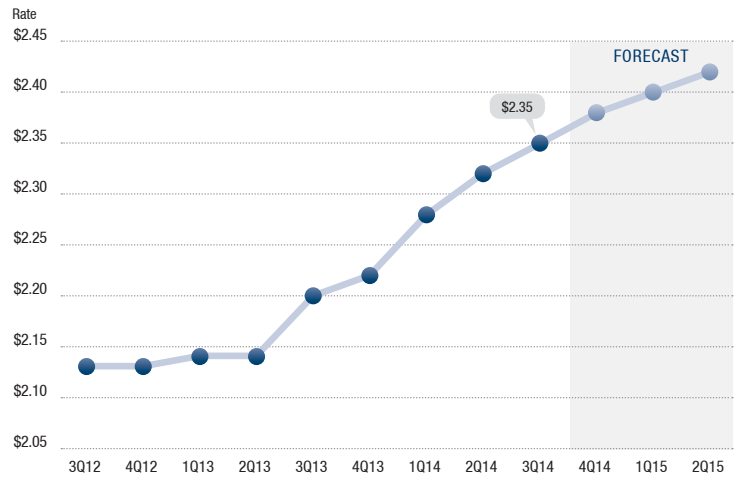
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



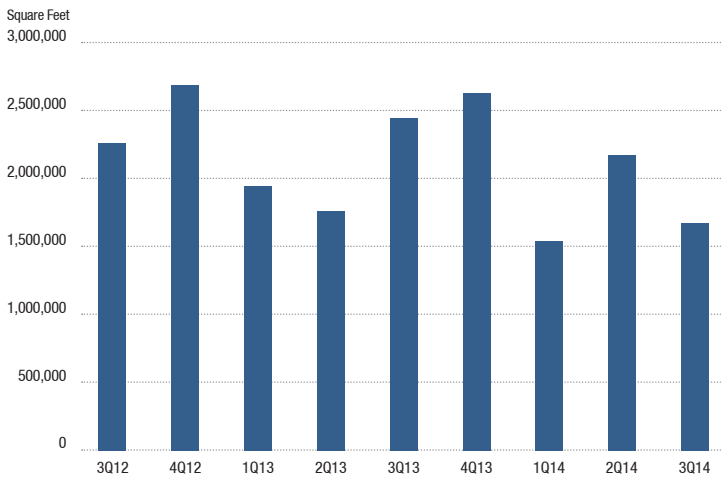
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



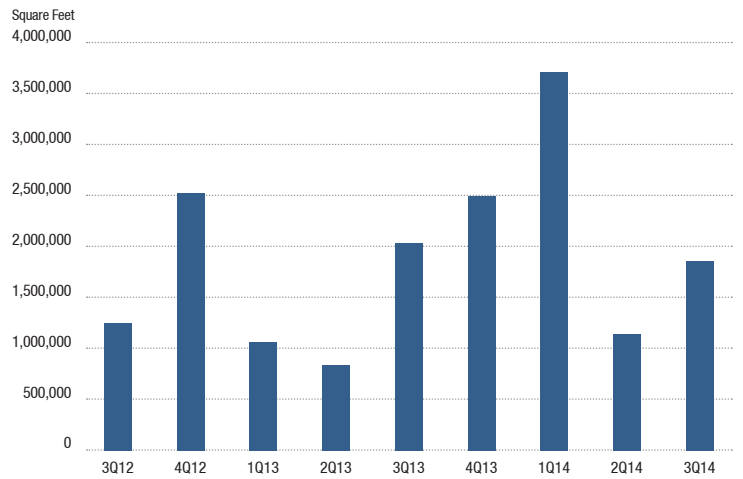
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



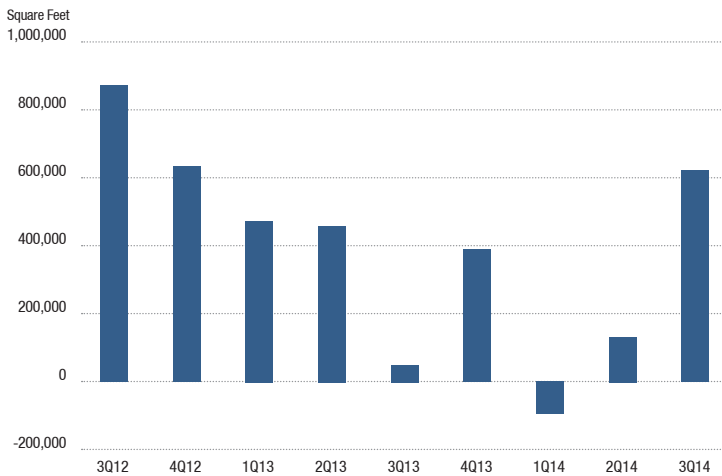
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



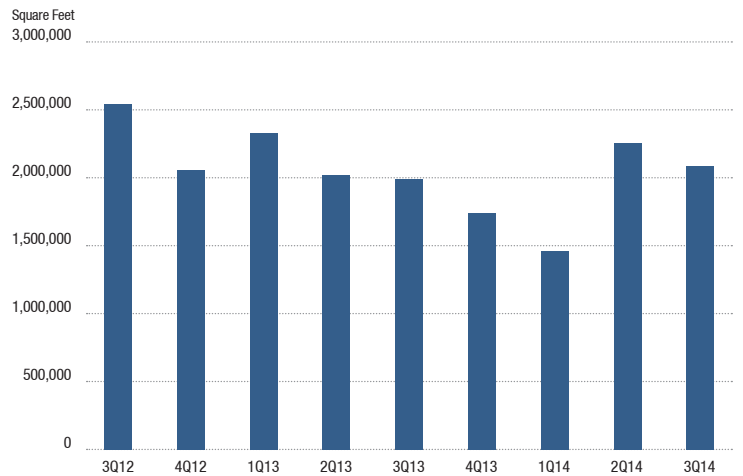
NET ABSORPTION

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 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
Central													
Downtown	133	12,516,020	320,000	847,189	1,916,329	15.31%	2,203,447	17.61%	\$2.21	28,946	152,053	176,431	664,352
Central Total	133	12,516,020	320,000	847,189	1,916,329	15.31%	2,203,447	17.61%	\$2.24	28,946	152,053	176,431	664,352
Central Suburban													
City Heights / University	28	1,032,587	0	0	108,059	10.46%	90,438	8.76%	\$1.70	1,017	20,303	11,435	42,021
Coronado	6	125,233	0	0	0	0.00%	1,986	1.59%	\$0.00	1,800	0	1,800	1,800
Kearny Mesa	232	10,416,951	0	193,000	1,054,025	10.12%	1,502,459	14.42%	\$1.81	59,010	204,751	159,548	527,677
Mission Gorge	25	582,823	0	0	40,192	6.90%	45,161	7.75%	\$1.25	(3,524)	5,319	9,878	22,902
Mission Valley	125	6,970,382	0	375,830	698,162	10.02%	919,377	13.19%	\$2.26	4,026	(20,375)	201,262	465,149
Old Town / Point Loma	74	2,418,969	0	0	204,233	8.44%	285,379	11.80%	\$1.66	(1,640)	744	39,097	99,207
Park East	9	176,637	0	0	5,791	3.28%	5,791	3.28%	\$2.25	(4,766)	(3,644)	0	3,786
Rose Canyon / Morena	54	1,237,488	0	0	77,663	6.28%	114,807	9.28%	\$1.79	1,932	(9,539)	17,475	51,115
Uptown / Hillcrest	105	2,662,224	0	0	221,389	8.32%	237,480	8.92%	\$1.50	9,790	(11,911)	25,441	70,316
Central Suburban Total	658	25,623,294	0	568,830	2,409,514	9.40%	3,202,878	12.50%	\$1.98	67,645	185,648	465,936	1,283,973
Highway 78 Corridor													
Oceanside	57	1,282,611	0	59,832	208,487	16.25%	211,049	16.45%	\$0.00	(5,600)	(30,095)	11,207	54,433
San Marcos	37	1,347,176	0	1,457,292	184,297	13.68%	192,675	14.30%	\$0.00	34,618	24,280	45,356	64,358
Vista	49	1,215,172	0	212,350	246,031	20.25%	260,894	21.47%	\$1.53	6,743	8,096	26,135	46,862
Highway 78 Corridor Total	143	3,844,959	0	1,729,474	638,815	16.61%	664,618	17.29%	\$1.53	35,761	2,281	82,698	165,653
I-15 Corridor													
Escondido	90	1,907,679	0	43,107	276,004	14.47%	343,045	17.98%	\$1.85	8,375	1,004	21,955	72,040
Poway	29	1,300,666	0	650,570	68,303	5.25%	98,656	7.59%	\$1.85	11,832	13,766	15,210	40,399
Rancho Bernardo	108	6,573,640	0	1,136,675	556,058	8.46%	750,810	11.42%	\$1.70	130,003	31,246	193,726	386,209
Scripps Ranch	48	2,582,462	0	502,000	467,887	18.12%	484,395	18.76%	\$2.18	70,664	46,003	81,706	155,215
I-15 Corridor Total	275	12,364,447	0	2,332,352	1,368,252	11.07%	1,676,906	13.56%	\$2.08	220,874	92,019	312,597	653,863
North City													
Governor Park	19	870,138	0	0	148,343	17.05%	194,760	22.38%	\$2.38	(2,940)	(27,582)	15,807	33,115
La Jolla	53	1,606,068	0	0	219,667	13.68%	272,105	16.94%	\$3.43	(6,143)	(22,531)	14,941	47,117
Miramar	38	1,770,334	0	0	263,686	14.89%	322,210	18.20%	\$2.08	13,446	53,536	30,192	94,135
Sorrento Mesa	121	9,453,400	410,000	1,677,302	843,381	8.92%	1,426,262	15.09%	\$2.72	171,844	(128,588)	275,557	472,464
Sorrento Valley	24	690,576	0	0	79,458	11.51%	57,073	8.26%	\$0.00	(7,564)	7,596	9,813	48,408
Torrey Pines	43	2,698,485	0	0	36,301	1.35%	371,350	13.76%	\$3.85	67,824	86,491	67,824	86,492
UTC	86	8,158,286	305,952	509,770	1,461,274	17.91%	1,639,180	20.09%	\$3.46	96,608	73,634	257,344	992,689
North City Total	384	25,247,287	715,952	2,187,072	3,052,110	12.09%	4,282,940	16.96%	\$3.27	333,075	42,556	671,478	1,774,420
North County													
Carlsbad	151	5,850,000	0	459,000	1,011,786	17.30%	1,247,372	21.32%	\$2.13	(5,338)	24,734	126,519	439,625
Del Mar Heights / Carmel Valley	69	4,496,527	0	579,156	669,986	14.90%	779,096	17.33%	\$3.90	(43,656)	46,493	103,946	341,031
North Beach Cities	110	2,521,291	0	77,120	196,790	7.81%	283,980	11.26%	\$2.90	29,531	14,599	51,605	146,429
North County Total	330	12,867,818	0	1,115,276	1,878,562	14.60%	2,310,448	17.96%	\$2.77	(19,463)	85,826	282,070	927,085
Southern & Eastern Areas													
Chula Vista	90	2,795,491	0	765,002	317,414	11.35%	344,400	12.32%	\$1.58	(3,455)	24,485	40,173	99,762
East County	154	3,721,970	0	194,200	224,211	6.02%	285,248	7.66%	\$1.20	(11,386)	41,660	56,248	162,493
National City	16	554,973	0	0	138,389	24.94%	118,816	21.41%	\$0.00	(30,844)	30,040	3,000	64,884
Otay Mesa	14	338,316	0	187,080	24,062	7.11%	24,062	7.11%	\$1.30	(205)	3,027	0	3,232
Southeast San Diego	10	391,848	0	0	70,564	18.01%	74,836	19.10%	\$0.00	0	(4,605)	0	1,335
Southern & Eastern Areas Total	284	7,802,598	0	1,146,282	774,640	9.93%	847,362	10.86%	\$1.34	(45,890)	94,607	99,421	331,706
Class A	259	32,955,387	1,035,952	7,198,173	3,399,067	10.31%	4,742,032	14.39%	\$2.84	60,316	509,947	632,360	2,149,748
Class B	1,209	51,155,842	0	2,728,302	7,152,712	13.98%	8,612,498	16.84%	\$2.07	520,286	128,899	1,204,841	3,072,834
Class C	739	16,155,194	0	0	1,486,443	9.20%	1,834,069	11.35%	\$1.54	40,346	16,144	253,430	578,470
San Diego County Total	2,207	100,266,423	1,035,952	9,926,475	12,038,222	12.01%	15,188,599	15.15%	\$2.35	620,948	654,990	2,090,631	5,801,052

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
9605-9805 Scranton Rd.	Sorrento Mesa	B	588,055	\$436.18	Lionstone Investments	Beacon Capital Partners
2550 5th Ave.	Uptown/Hillcrest	B	140,832	\$278.70	BBL, Inc. / Westbrook Partners	Alessio Investment Company
3390-3398 Carmel Mountain Rd.	Del Mar Heights	B	118,030	\$332.12	CalSTRS	KBS REIT II, Inc.
1430 Decision St.	Vista	B	111,639	\$223.94	ARC Properties	Bixby Land Company
6005 Hidden Valley Rd.	Carlsbad	B	71,653	\$212.83	Rialto Capital Management, LLC	Walton Street Capital, LLC Greenlaw Partners

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
600 W. Broadway	Downtown	A	77,147	Sept-14	Undisclosed	The Irvine Company
12220 Scripps Summit Dr.	Scripps Ranch	A	45,350	Sept-14	Intel	Stockbridge Capital Group, LLC
2386 Faraday Ave.	Carlsbad	B	27,224	Aug-14	Havas Edge	Kennedy-Wilson Properties, Ltd.
525 B St.	Downtown	A	26,492	July-14	Cypress Insurance Company	Hines
9791 Towne Centre Dr.	UTC	B	25,233	Sept-14	Undisclosed	The Irvine Company

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.

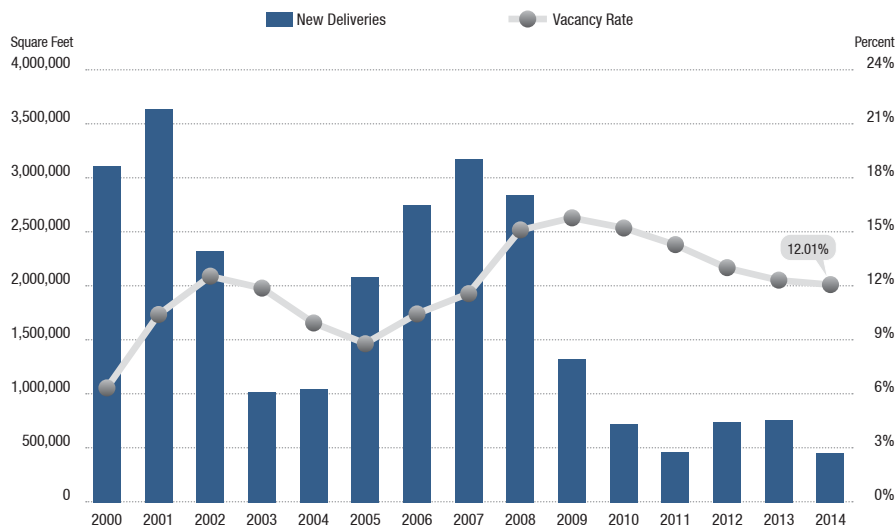
CLASS B

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



Please Contact Us for Further Information

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



Anaheim, CA
714.978.7880

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Las Vegas, NV
702.734.4500

Los Angeles, CA
424.329.7500

Newport Beach, CA
949.644.8648

Phoenix, AZ
602.952.8648

Reno, NV
775.771.9955

Sacramento, CA
916.772.8648

San Diego, CA
858.453.0505

San Jose, CA
408.885.9110

**Real People.
Real Solutions.®**

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.

©2014 Voit Real Estate Services, Inc. Real People. Real Solutions.® is a registered trademark of Voit Real Estate Services.

Represented in 150 Markets
Nationally & Internationally.

