



MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

FLAT



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HIGHLIGHTS

- **Marching Forward** - The San Diego Flex R&D market displayed more signs of recovery in the third quarter with an increase in asking rental rates, strong positive absorption, and decreased vacancy & 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 third quarter, nothing was under construction and just under 1.7 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 11.09%, a decrease of 60 basis points when compared to the previous quarter, and a decrease from the previous year's rate of 12.29%.
- **Availability** - Direct/sublease space being marketed was 13.98% at the end of the quarter, a drop from the previous quarter and down 10.04% from 2013's third quarter rate of 15.54%.
- **Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.37 at the end of the third quarter, an increase of 12.30% from last year's third quarter rate of \$1.22. Average asking lease rates have risen thirty cents since the recession lows seen in the first and second quarters of 2011.
- **Absorption** - The San Diego R&D market posted 268,185 square feet of positive net absorption in the third quarter, giving the market 2.5 million square feet of positive absorption since the first quarter of 2012.
- **Transaction Activity** - Leasing activity checked in at 621,000 square feet in the third quarter, producing a total of 3.3 million square feet leased over the last four quarters. Sales activity in the third quarter posted the second highest volume of the last five quarters at 625,000 square feet. 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** - 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 such a break-neck pace. The Flex R&D market has also seen significant increases in the 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

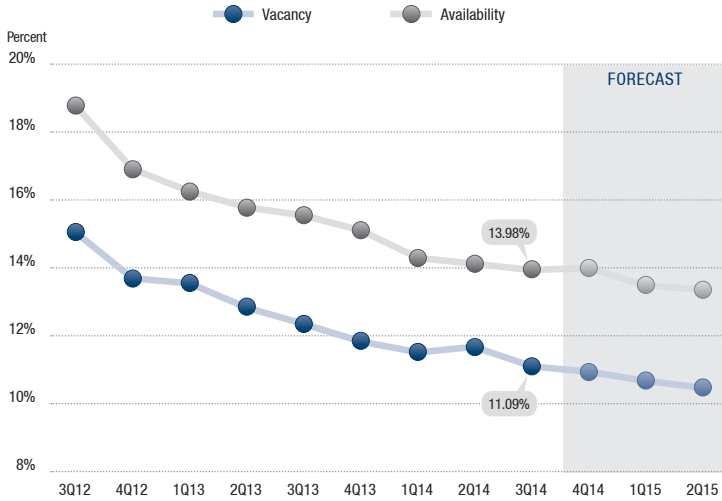
- **Employment** - We anticipate job growth of around 1.9%, or 24,600 jobs, in San Diego County over the year. Look for sectors like construction, administrative & support, and transportation & utilities to lead the way for employment gains in 2014.
- **Lease Rates** - Expect average asking rates to increase by approximately 5 to 7 percent over the next four quarters.
- **Vacancy** - We anticipate vacancy rate continuing to descend in coming quarters, dipping 60 basis points to approximately 10.5% by the end of the second quarter of 2015.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	11.09%	11.69%	12.29%	(9.76%)
Availability Rate	13.98%	14.12%	15.54%	(10.04%)
Average Asking Lease Rate	\$1.37	\$1.33	\$1.22	12.30%
Sale & Lease Transactions	1,245,184	1,663,956	1,592,786	(21.82%)
Gross Absorption	807,439	713,980	776,547	3.98%
Net Absorption	268,185	(77,376)	245,430	N/A

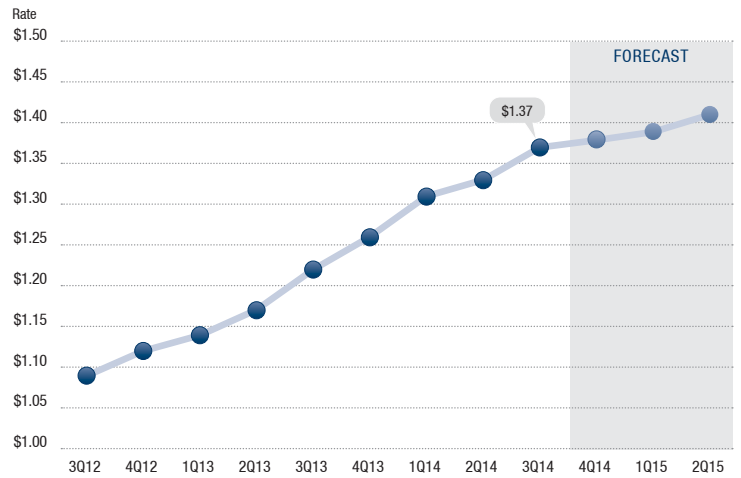
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



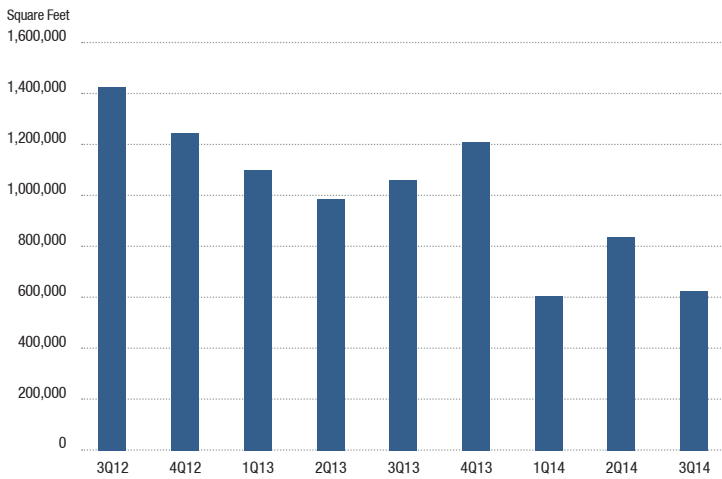
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



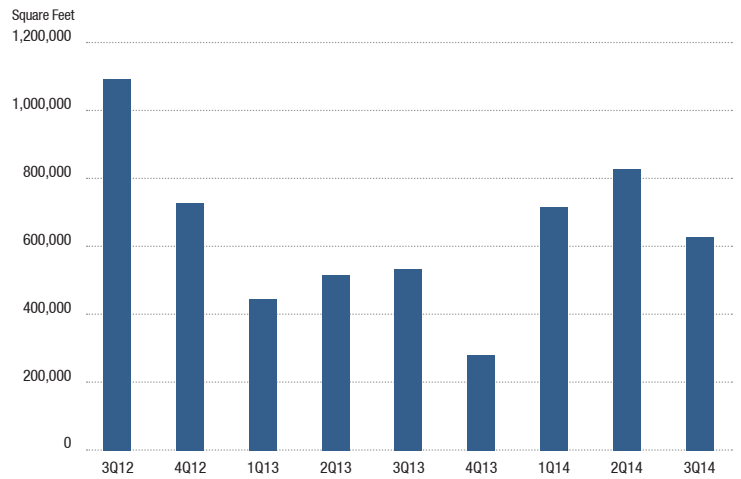
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



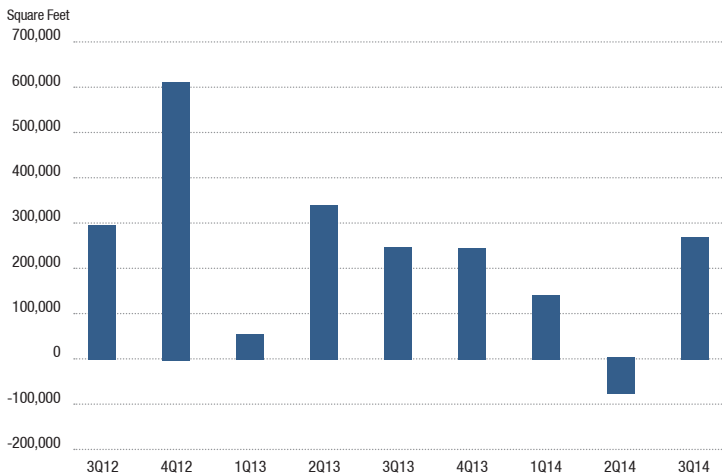
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

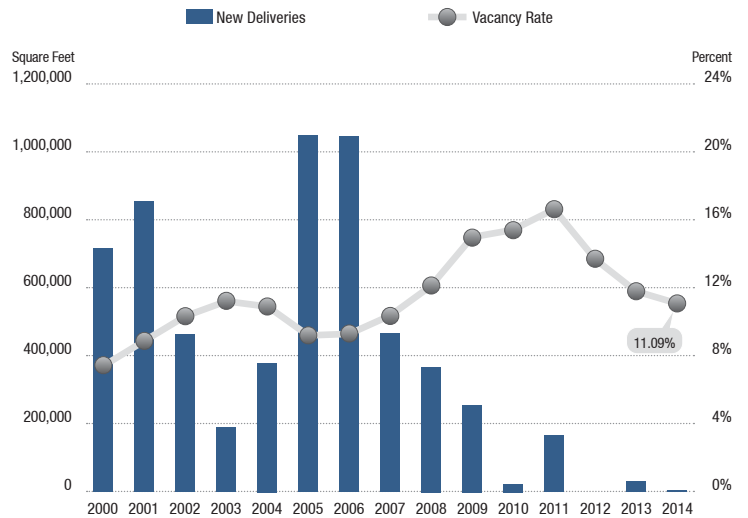


NET ABSORPTION

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 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
Central													
Central	18	231,356	0	0	7,191	3.11%	11,491	4.97%	\$0.00	3,661	915	6,704	19,685
East City	4	39,292	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	5,000	5,000	5,000	5,000
Central Total	39	472,245	0	0	7,191	1.52%	11,491	2.43%	\$0.00	8,661	5,915	11,704	24,685
Central Suburban													
Kearny Mesa	212	5,558,923	0	37,650	445,582	8.02%	757,096	13.62%	\$1.31	33,151	(30,523)	114,133	253,048
Mission Gorge	25	175,296	0	0	4,020	2.29%	4,020	2.29%	\$0.00	0	(10)	0	2,740
Rose Canyon / Morena	38	616,737	0	0	47,632	7.72%	45,496	7.38%	\$1.50	6,691	29,498	28,999	78,098
Sports Arena / Airport	31	388,263	0	0	0	0.00%	84,460	21.75%	\$1.15	0	6,800	0	6,800
Central Suburban Total	306	6,739,219	0	37,650	497,234	7.38%	891,072	13.22%	\$1.27	39,842	5,765	143,132	340,686
East County													
El Cajon	80	851,266	0	0	10,072	1.18%	14,772	1.74%	\$0.00	7,937	33,855	8,837	41,562
La Mesa / Spring Valley	41	318,588	0	0	20,184	6.34%	20,184	6.34%	\$0.00	5,793	21,985	18,308	35,222
Santee / Lakeside	53	544,506	0	268,000	14,560	2.67%	45,372	8.33%	\$0.00	1,800	(5,358)	1,800	11,272
East County Total	174	1,714,360	0	268,000	44,816	2.61%	80,328	4.69%	\$0.00	15,530	50,482	28,945	88,056
I-15 Corridor													
Escondido	82	754,816	0	9,500	66,253	8.78%	69,188	9.17%	\$0.85	(12,191)	(3,799)	0	31,867
Poway	59	1,219,999	0	0	42,213	3.46%	41,253	3.38%	\$0.85	(4,779)	13,882	0	53,406
Rancho Bernardo	87	3,933,733	0	0	830,589	21.11%	624,342	15.87%	\$1.48	(18,451)	(16,653)	35,472	163,687
Scripps Ranch	31	836,978	0	0	121,376	14.50%	187,752	22.43%	\$0.92	25,989	24,741	25,989	39,148
I-15 Corridor Total	259	6,745,526	0	9,500	1,060,431	15.72%	922,535	13.68%	\$1.39	(9,432)	18,171	61,461	288,108
North County													
Carlsbad	244	5,898,807	0	100,000	889,391	15.08%	1,028,533	17.44%	\$0.97	129,727	56,774	180,640	399,447
North Beach Cities	16	148,193	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	1,800
North County Total	260	6,047,000	0	100,000	889,391	14.71%	1,028,533	17.01%	\$0.97	129,727	56,774	180,640	401,247
North City													
Miramar	211	4,480,525	0	11,760	525,626	11.73%	700,465	15.63%	\$1.01	58,142	63,146	112,131	280,098
Sorrento Mesa	158	5,930,544	0	618,000	650,149	10.96%	972,773	16.40%	\$1.53	(79,303)	(22,516)	69,041	292,839
Sorrento Valley	107	2,494,120	0	0	302,990	12.15%	354,379	14.21%	\$1.86	5,381	(23,485)	29,338	124,877
Torrey Pines	43	3,333,911	0	105,091	411,751	12.35%	374,864	11.24%	\$0.00	41,797	105,802	54,324	150,312
UTC	19	1,522,111	0	307,660	247,497	16.26%	246,619	16.20%	\$2.95	46,450	25,632	47,050	59,550
North City Total	538	17,761,211	0	1,042,511	2,138,013	12.04%	2,649,100	14.92%	\$1.59	72,467	148,579	311,884	907,676
Outlying Areas													
Outlying SD County North	17	139,759	0	0	8,821	6.31%	15,421	11.03%	\$0.00	(5,800)	0	0	5,800
Outlying SD County South	20	78,080	0	0	0	0.00%	0	0.00%	\$0.00	4,000	4,000	5,600	5,600
Outlying Areas Total	37	217,839	0	0	8,821	4.05%	15,421	7.08%	\$0.00	(1,800)	4,000	5,600	11,400
South Bay													
Chula Vista	84	1,564,200	0	0	89,657	5.73%	216,788	13.86%	\$0.97	4,362	21,105	23,456	77,782
National City	22	296,515	0	0	6,332	2.14%	24,202	8.16%	\$0.90	1,300	2,561	4,007	26,190
Otay Mesa / San Ysidro	11	245,361	0	0	17,086	6.96%	70,470	28.72%	\$0.75	0	(3,147)	0	0
South Bay Total	117	2,106,076	0	0	113,075	5.37%	311,460	14.79%	\$0.93	5,662	20,519	27,463	103,972
Highway 78 Corridor													
Oceanside	31	992,572	0	0	17,531	1.77%	85,244	8.59%	\$0.00	3,601	(4,185)	4,797	16,982
San Marcos	59	951,397	0	0	69,319	7.29%	74,004	7.78%	\$0.88	(9,039)	8,825	12,992	60,755
Vista	59	1,368,278	0	241,342	159,454	11.65%	238,740	17.45%	\$0.88	12,966	14,965	18,821	50,008
Highway 78 Corridor Total	149	3,312,247	0	241,342	246,304	7.44%	397,988	12.02%	\$0.88	7,528	19,605	36,610	127,745
San Diego County Total	1,879	45,115,723	0	1,699,003	5,005,276	11.09%	6,307,928	13.98%	\$1.37	268,185	329,810	807,439	2,293,575

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

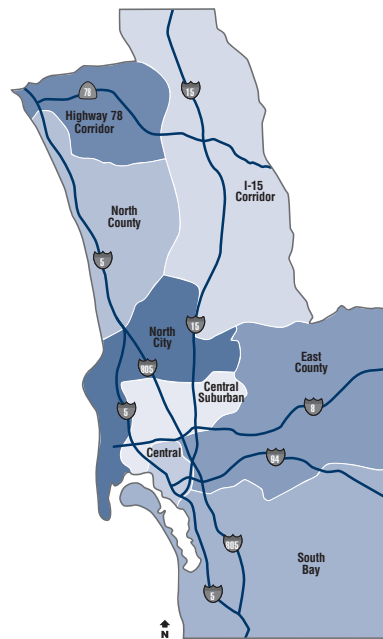
Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
9755-9775 Clairemont Mesa Blvd.	Kearny Mesa	112,260	\$173.70	Monro Capital, Inc.	Hudson Pacific Properties, Inc.
5889-5897 Oberlin Dr.	Sorrento Mesa	64,100	\$145.09	Bixby Land Company	EverWest Real Estate Partners, LLC
10625-10635 Scripps Ranch Blvd.	Scripps Ranch	56,796	\$100.99	Newbreak Church	Scripps Terrace Business Park, LLC
7740 Kenamar Ct.	Miramar	33,715	\$68.66	Ingold Family Investments, LLC	Providence II CenterPointe, LLC
7191 Engineer Rd.	Kearny Mesa	24,804	\$192.51	FRE 590, LLC	The J. David Gladstone Institutes

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9889 Willow Creek Rd.	Scripps Ranch	44,718	Aug-14	Inova Diagnostics	Currie/Samuelson Devel. Group, LP
3585 Corporate Ct.	Kearny Mesa	25,680	Sept-14	ABM Industries, Inc.	H.G. Fenton
10790-10792 Roselle St. – Renewal	Sorrento Valley	22,833	Sept-14	Pfenex	Rexford Industrial
5803 Newton Dr.	Carlsbad	21,753	July-14	Lifecore Fitness, Inc.	Rexford Industrial
10060 Willow Creek Rd. – Renewal	Scripps Ranch	21,078	Sept-14	USPS	Deutsche Asset & Wealth Management

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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