

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

DOWN



Transactions

UP



Deliveries

FLAT



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HIGHLIGHTS

- **Springing Forward** - The San Diego Flex R&D market displayed more signs of recovery in the third quarter with strong positive absorption, and a decreased vacancy on a quarterly and 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 9.32%, a decrease of 175 basis points when compared to the third quarter of the previous year, and a decrease of over 40% from 2011's rate of 15.65%.
- **Availability** - Direct/sublease space being marketed was 12.97% at the end of the third quarter, a slight decrease from the previous quarter's rate of 13.09%.
- **Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.41 at the end of the third quarter, an increase of \$0.04 from the third quarter of last year's rate. Average asking lease rates have risen thirty-four cents since the recession lows seen in the first and second quarters of 2011.
- **Absorption** - The San Diego Flex R&D market posted 294,041 square feet of positive net absorption in the third quarter, giving the market a total of three 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 third quarter totaled 2.27 million square feet, which is up compared to last quarters total of 1.93 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 5.1% in August 2015, down from a revised 5.4% in August 2015 and below the year-ago estimate of 6.6%. This compares with an unadjusted unemployment rate of 6.1% 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 42,400 payroll jobs from August 2014 and August 2015, including 11,500 from professional and business services, and 8,000 from education and health services, 5,600 from both transportation and utilities, and leisure and hospitality. Only two minor sectors recorded year-over job losses totaling 900 jobs
- **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 at 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

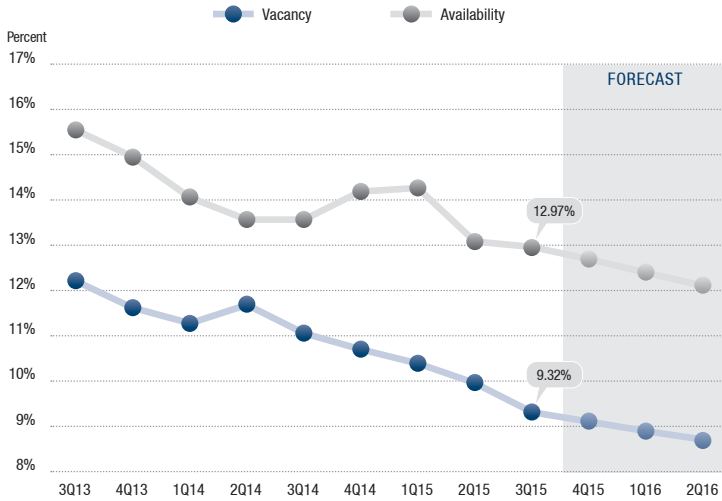
- **Employment** - We anticipate job growth of around 1.9%, or 24,600 jobs, in San Diego County over the year. Look for sectors like construction, administrative & support, and transportation & utilities to lead the way for employment gains in 2015.
- **Construction** - After three years of depressed 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 to below 9% by the second quarter of 2016.

OVERVIEW

	3Q15	2Q15	3Q14	% of Change vs. 3Q14
Total Vacancy Rate	9.32%	9.97%	11.07%	(15.81%)
Availability Rate	12.97%	13.09%	13.57%	(4.42%)
Average Asking Lease Rate	\$1.41	\$1.43	\$1.37	2.92%
Sale & Lease Transactions	2,271,113	1,930,255	1,744,037	30.22%
Gross Absorption	1,354,570	1,079,406	878,389	54.21%
Net Absorption	294,041	201,752	329,681	N/A

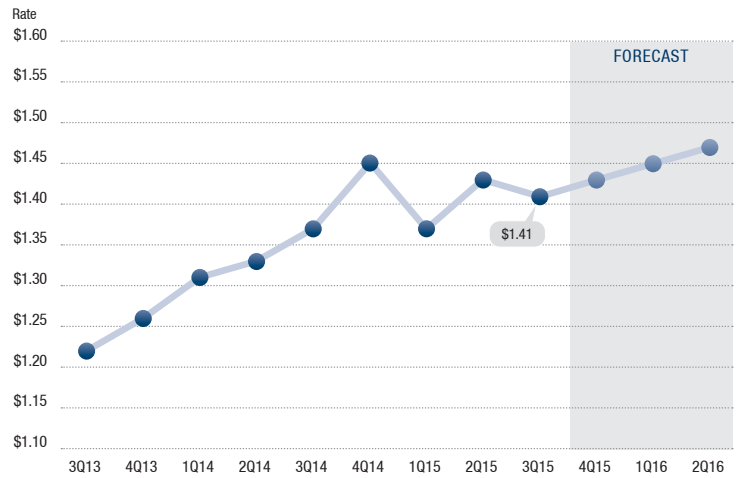
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



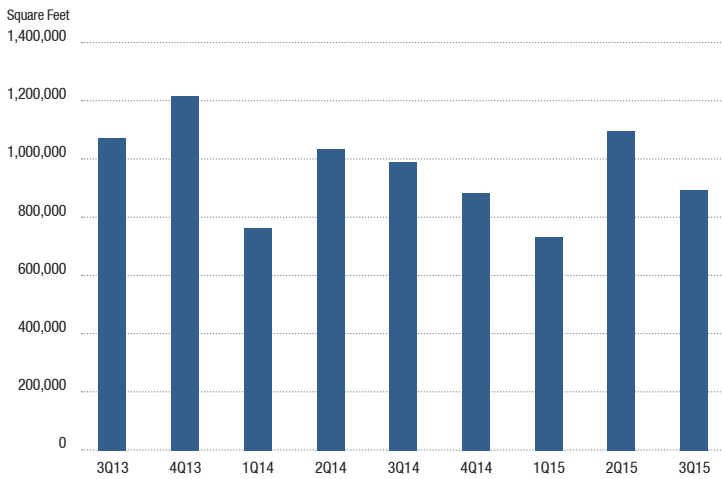
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



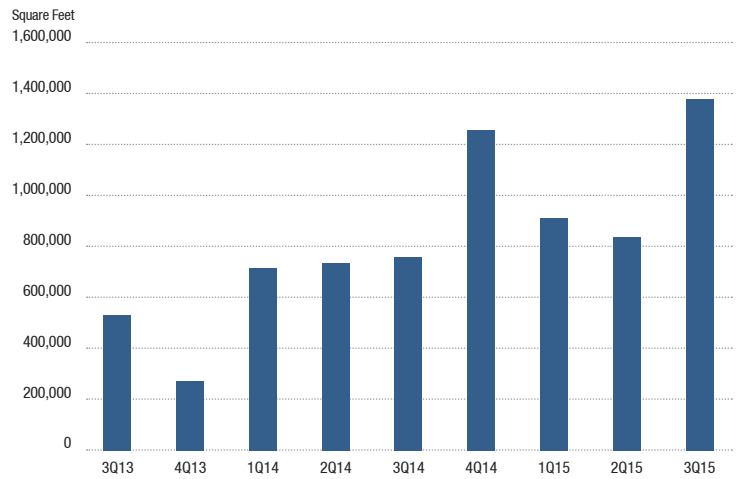
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



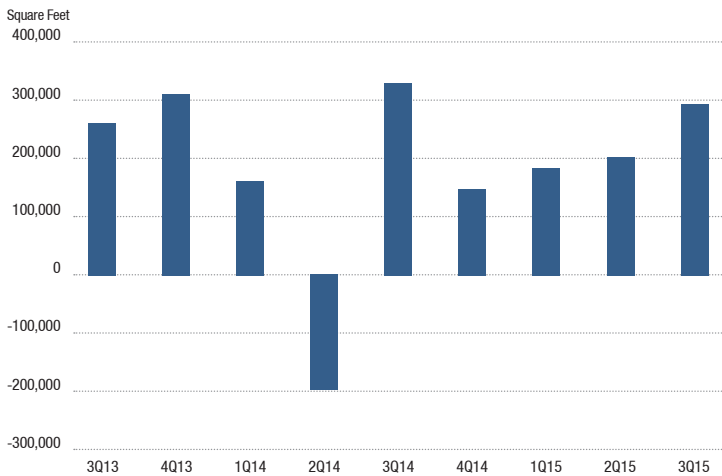
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

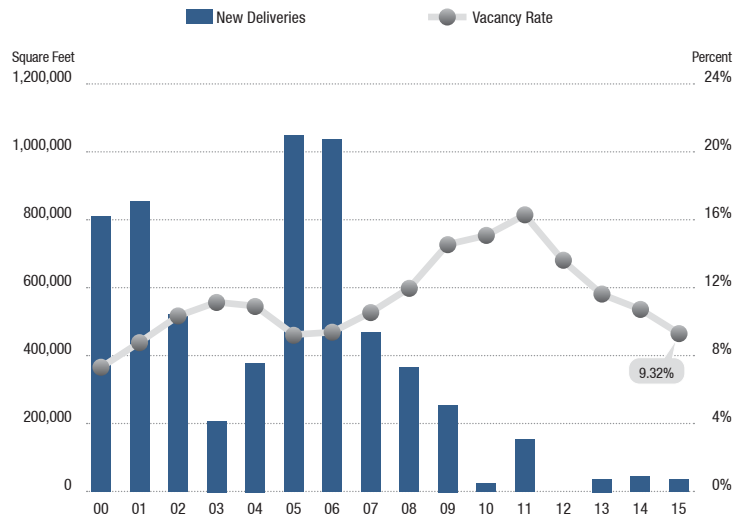


NET ABSORPTION

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 3Q2015	Square Feet Available	Availability Rate 3Q2015	Average Asking Lease Rate	Net Absorption 3Q2015	Net Absorption 2015	Gross Absorption 3Q2015	Gross Absorption 2015
Central													
Central	18	231,356	0	0	13,162	5.69%	17,512	7.57%	\$0.00	0	(5,971)	0	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	0	(5,971)	0	4,300
Central Suburban													
Keamy Mesa	212	5,618,036	0	37,650	435,132	7.75%	471,071	8.38%	\$1.32	(37,917)	(30,541)	190,744	394,094
Mission Gorge	25	175,296	0	0	6,692	3.82%	9,282	5.30%	\$0.00	4,058	1,098	4,058	11,848
Rose Canyon / Morena	38	616,935	0	0	35,084	5.69%	48,229	7.82%	\$0.00	9,785	23,090	24,337	76,274
Sports Arena / Airport	31	388,763	0	0	0	0.00%	6,800	1.75%	\$0.00	84,460	0	84,460	88,506
Central Suburban Total	306	6,799,030	0	37,650	476,908	7.01%	535,382	7.87%	\$1.32	60,386	(6,353)	303,599	570,722
East County													
El Cajon	79	852,303	0	0	24,558	2.88%	55,131	6.47%	\$0.00	10,064	(3,401)	14,672	38,804
La Mesa / Spring Valley	42	322,088	0	0	24,312	7.55%	24,012	7.46%	\$0.00	(2,841)	3,689	3,497	12,327
Santee / Lakeside	53	549,202	0	268,000	4,835	0.88%	10,205	1.86%	\$0.00	(845)	8,752	4,640	17,020
East County Total	174	1,723,593	0	268,000	53,705	3.12%	89,348	5.18%	\$0.00	6,378	9,040	22,809	68,151
I-15 Corridor													
Escondido	81	742,239	0	0	42,703	5.75%	78,051	10.52%	\$0.80	4,174	18,765	6,776	30,463
Poway	61	1,305,724	0	0	45,607	3.49%	94,553	7.24%	\$1.05	1,003	(14,035)	3,795	25,510
Rancho Bernardo	86	3,891,611	0	0	485,617	12.48%	784,995	20.17%	\$1.61	264,913	323,667	339,214	446,398
Scripps Ranch	29	745,678	0	337,418	45,671	6.12%	166,551	22.34%	\$1.37	0	53,431	0	79,278
I-15 Corridor Total	257	6,685,252	0	337,418	619,598	9.27%	1,124,150	16.82%	\$1.55	270,090	381,828	349,785	581,649
North County													
Carlsbad	245	5,979,466	0	0	835,445	13.97%	1,005,642	16.82%	\$1.18	(64,858)	79,671	168,372	498,730
North Beach Cities	16	148,479	0	0	1,550	1.04%	3,364	2.27%	\$0.00	(1,550)	127	0	3,677
North County Total	261	6,127,945	0	0	836,995	13.66%	1,009,006	16.47%	\$1.18	(66,408)	79,798	168,372	502,407
North City													
Miramar	213	4,612,495	0	11,760	385,277	8.35%	555,636	12.05%	\$1.29	(26,635)	65,573	113,591	394,826
Sorrento Mesa	164	6,274,427	0	618,000	738,999	11.78%	999,990	15.94%	\$1.38	42,805	(13,371)	82,805	386,960
Sorrento Valley	104	2,393,009	0	0	210,806	8.81%	263,472	11.01%	\$1.85	(1,488)	13,909	26,302	121,497
Torrey Pines	44	3,419,598	0	110,980	257,356	7.53%	242,655	7.10%	\$3.85	82,445	152,836	120,317	276,657
UTC	20	1,590,020	603,269	584,755	319,085	20.07%	308,227	19.39%	\$1.57	(96,142)	(39,142)	87,538	178,078
North City Total	545	18,289,549	603,269	1,325,495	1,911,523	10.45%	2,369,980	12.96%	\$1.68	985	179,805	430,553	1,358,018
Outlying Areas													
Outlying SD County North	17	140,772	0	0	8,821	6.27%	21,371	15.18%	\$0.97	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%	21,371	9.77%	\$0.97	0	0	0	0
South Bay													
Chula Vista	84	1,549,086	0	0	107,289	6.93%	224,144	14.47%	\$0.66	5,235	(6,495)	30,252	81,053
National City	23	303,615	0	0	10,900	3.59%	6,125	2.02%	\$0.00	3,821	4,394	3,821	31,151
Otay Mesa / San Ysidro	13	313,361	0	251,664	17,086	5.45%	176,179	56.22%	\$0.66	0	0	0	0
South Bay Total	120	2,166,062	0	251,664	135,275	6.25%	406,448	18.76%	\$0.66	9,056	(2,101)	34,073	112,204
Highway 78 Corridor													
Oceanside	31	992,687	0	0	13,801	1.39%	86,182	8.68%	\$0.00	10,188	7,823	10,188	12,494
San Marcos	61	998,882	0	0	57,037	5.71%	96,569	9.67%	\$0.92	(4,352)	15,808	8,598	58,637
Vista	61	1,452,598	0	0	155,129	10.68%	199,883	13.76%	\$0.98	7,718	19,490	26,593	114,255
Highway 78 Corridor Total	153	3,444,167	0	0	225,967	6.56%	382,634	11.11%	\$0.97	13,554	43,121	45,379	185,386
San Diego County Total	1,891	45,919,295	603,269	2,220,227	4,281,954	9.32%	5,955,831	12.97%	\$1.41	294,041	679,167	1,354,570	3,382,837

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

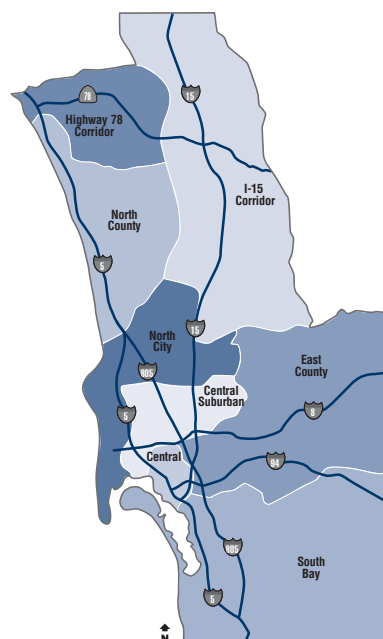
Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
5751-5771 Copley Dr.	Kearny Mesa	101,726	\$298	Gildred Companies	HighBrook Investment
7650 Convoy Ct.	Kearny Mesa	48,611	\$210	Penske Automotive Group	Apprentice & Journeyman Training Trust
3193 Lionshead Ave.	Carlsbad	65,041	\$135	SR Commercial	Vinturi
16262 W. Bernardo Dr.	Rancho Bernardo	53,258	\$111	Carvin Corporation	BAE Systems
10070 Barnes Canyon Rd.	Sorrento Mesa	30,097	\$140	PV Barnes Canyon, LLC	BixbyKibbee, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4215 Sorrento Valley Blvd.	Sorrento Valley	56,230	Sept-2015	Precision Toxicology	BioMed Realty
4650 Overland Ave.	Kearny Mesa	55,580	Aug-2015	Undisclosed	Ranroy Printing Company
10307 Pacific Center Ct.	Sorrento Mesa	53,539	Sept-2015	Undisclosed	Colony Capital
2875 Loker Ave. E.	Carlsbad	44,983	Sept-2015	Undisclosed	Techbilt Construction Corp.
2210 Faraday Ave.	Carlsbad	38,332	Aug-2015	Undisclosed	Regent 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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