



## MARKET CHANGE

*Compared to 2013:*

**Vacancy**  
**DOWN**

**Net Absorption**  
**POSITIVE**

**Lease Rates**  
**UP**

**Transactions**  
**UP**

**Deliveries**  
**UP**

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## HIGHLIGHTS

- **Steady Growth** - The San Diego office market had another year of improvement, posting over 1.3 million square feet of positive net absorption along with a hearty 18¢ per square foot increase in asking rental rates. The market now has a total of 7.2 million square feet of positive absorption for the last four years. Vacancy and availability continued their downward trends and new office deliveries increased.
- **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, but delivery levels are trending upwards. The Irvine Company's 300,000 square foot speculative office building that broke ground at the start of 2014 signaled a maturation in the current recovery and other speculative office development has since broken ground as well.
- **Vacancy** - Direct/sublease space (unoccupied) finished the year at 11.69%, a 4.9% decrease from the previous year's figure of 12.29%. Rancho Bernardo posted the lowest vacancy rate of any submarket with at least five million square feet of inventory at 6.92%.
- **Availability** - Direct/sublease space being marketed was 14.29% at the end of the quarter, significant decrease from the 16.28% availability rate of the previous year.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in San Diego County was \$2.40 at the end of the fourth quarter, a five-cent increase from the prior quarter and a eighteen-cent increase over 2013's fourth 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 1,366,079 square feet of positive net absorption in 2014. Class A office led the way with 1,103,758 square feet of positive net

absorption. This is nearly four times the amount of positive net absorption in Class B Office, despite the class A Sector of the San Diego Office market being 35% smaller than Class B.

- **Transaction Activity** - Sale and lease transactions totaled 15.5 million square feet in 2014, a slight increase from the 15.1 million square feet transacted in the previous year. This statistic can have some lag time in being reported, so look for 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 5.8% in November 2014, unchanged from a revised 5.8% in October 2014 and below the year-ago estimate of 7.0%. This compares with an unadjusted unemployment rate of 7.1% for California and 5.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 43,000 payroll jobs from November 2013 and November 2014, including 13,300 from professional and business services, 7,700 from educational and health services, and 6,500 from leisure and hospitality. The financial activities sector recorded the greatest number of job losses, down 800 year over year.
- **Overall** - Construction levels of new office product are still lower than 2005-2008, but the San Diego office market has now recorded three consecutive year over year increases in office square feet delivered. In part because of the rising levels of office construction, occupancy increases are slowing. Yet at the same time, rental rate increases are accelerating. The office market is steady but not explosive, and 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

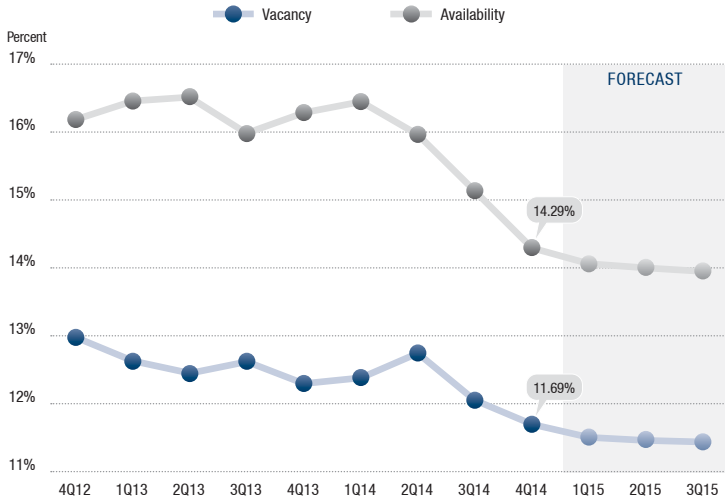
- **Construction** - The recovery of the San Diego office market has now matured to the point that we have multiple speculative office developments under construction. Local office development is trending upward.
- **Employment** - We anticipate job growth of around 1.9%, or 24,600, jobs in San Diego County over the year. Look for sectors like construction, administrative & support, and transportation & utilities to lead the way for employment gains in 2015.
- **Lease Rates** - Expect the average asking lease rate to increase by 4% to 7% percent over the next four quarters.
- **Vacancy** - We anticipate vacancy to descend at a moderate pace in coming quarters, dropping to approximately 11.4%, by the end of the third quarter of 2015.

## OVERVIEW

	2014	2013	2012	% of Change vs. 2013
Total Vacancy Rate	11.69%	12.29%	12.99%	(4.88%)
Availability Rate	14.29%	16.28%	16.19%	(12.22%)
Average Asking Lease Rate	\$2.40	\$2.22	\$2.13	8.11%
Sale & Lease Transactions	15,529,551	15,144,777	15,262,466	2.54%
Gross Absorption	8,115,863	8,177,972	8,404,786	(0.76%)
Net Absorption	1,366,079	1,406,221	1,867,439	N/A

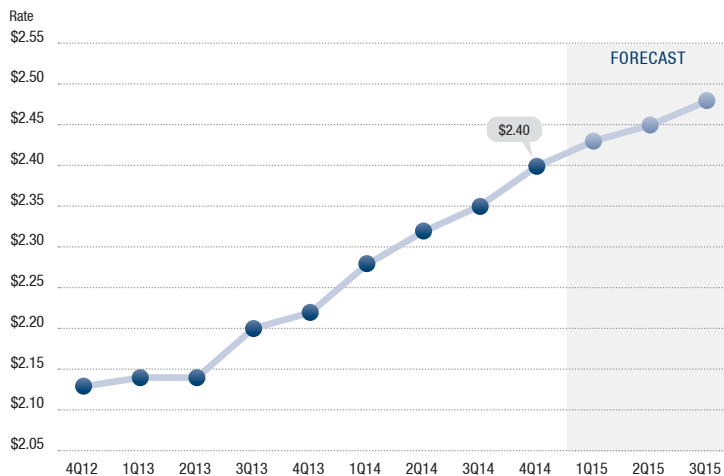
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



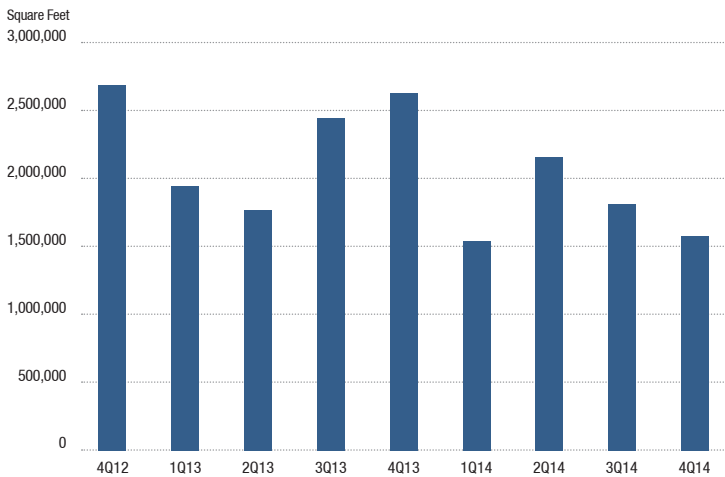
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



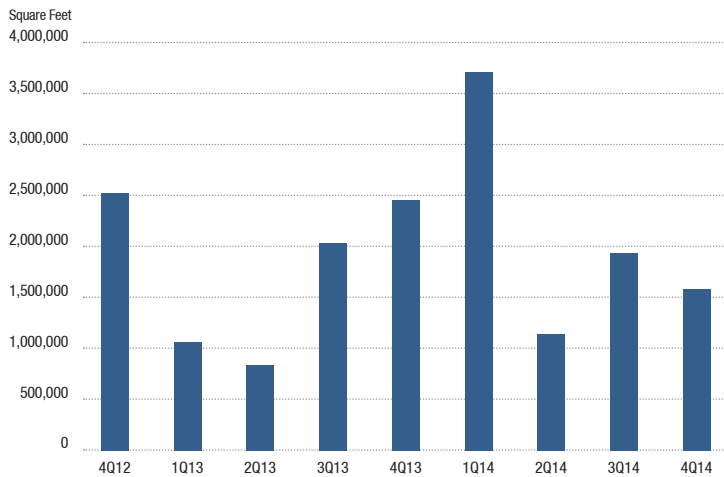
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



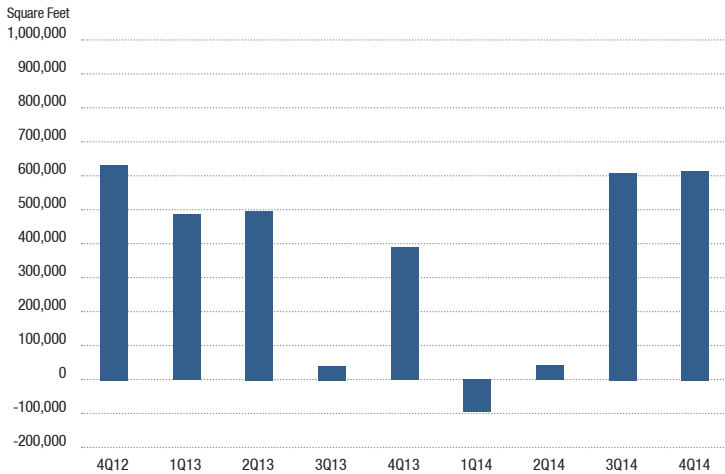
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



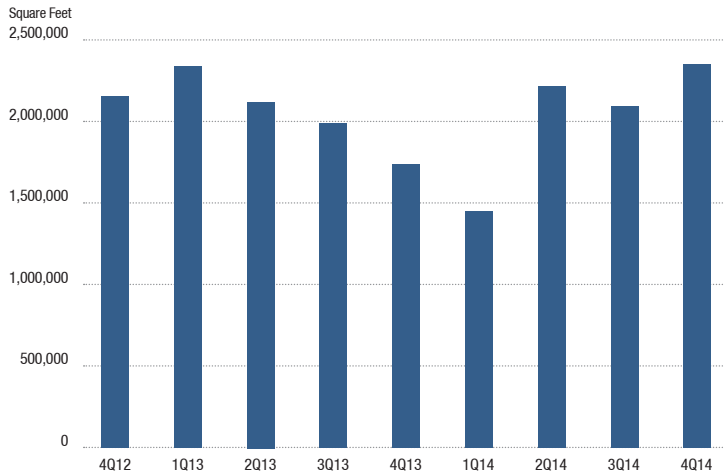
NET ABSORPTION

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 4Q2014	Square Feet Available	Availability Rate 4Q2014	Average Asking Lease Rate	Net Absorption 4Q2014	Net Absorption 2014	Gross Absorption 4Q2014	Gross Absorption 2014
<b>Downtown</b>													
Downtown	134	12,546,178	320,000	1,061,944	1,909,351	15.22%	2,177,508	17.36%	\$2.21	(5,510)	160,846	218,877	881,786
Downtown Total	134	12,546,178	320,000	1,061,944	1,909,351	15.22%	2,177,508	17.36%	\$2.21	(5,510)	160,846	218,877	881,786
<b>Central</b>													
City Heights / University	28	1,032,587	25,000	0	91,864	8.90%	91,184	8.83%	\$0.00	16,195	36,498	20,620	62,641
Coronado	6	125,233	0	0	0	0.00%	1,986	1.59%	\$0.00	0	0	0	1,800
Kearny Mesa	232	10,416,421	0	193,000	1,024,523	9.84%	1,441,563	13.84%	\$1.82	29,502	234,253	119,098	646,775
Mission Gorge	25	582,823	0	0	38,726	6.64%	47,399	8.13%	\$1.08	1,466	6,785	6,800	29,702
Mission Valley	125	6,979,284	0	375,830	737,935	10.57%	874,630	12.53%	\$2.24	(39,773)	(60,148)	135,581	600,730
Old Town / Point Loma	74	2,418,452	0	0	258,342	10.68%	286,562	11.85%	\$1.70	(54,109)	(52,365)	37,100	137,307
Park East	9	176,637	0	0	5,791	3.28%	5,791	3.28%	\$2.25	0	(3,644)	0	3,786
Rose Canyon / Morena	55	1,262,388	0	0	65,219	5.17%	88,630	7.02%	\$1.91	27,494	19,505	42,029	94,694
Uptown / Hillcrest	105	2,663,431	0	0	204,065	7.66%	266,398	10.00%	\$2.16	17,324	5,413	44,806	115,122
Central Total	659	25,657,256	25,000	568,830	2,426,465	9.46%	3,104,143	12.10%	\$1.98	(1,901)	186,297	406,034	1,692,557
<b>I-15 Corridor</b>													
Escondido	90	1,909,796	0	37,000	275,160	14.41%	345,200	18.08%	\$1.85	844	1,848	17,622	89,662
Poway	29	1,303,146	0	650,570	74,345	5.71%	91,777	7.04%	\$1.85	(6,042)	7,724	22,302	62,701
Rancho Bernardo	108	6,573,244	0	1,010,002	454,788	6.92%	588,719	8.96%	\$1.70	98,056	148,623	177,966	562,263
Scripps Ranch	48	2,582,462	0	1,152,000	457,105	17.70%	527,089	20.41%	\$2.18	56,694	56,785	70,295	225,510
I-15 Corridor Total	275	12,368,648	0	2,849,572	1,261,398	10.20%	1,552,785	12.55%	\$2.09	149,552	214,980	288,185	940,136
<b>North County Coastal</b>													
Carlsbad	151	5,840,342	177,269	459,000	939,318	16.08%	1,236,764	21.18%	\$2.21	72,468	97,202	178,878	618,503
Del Mar Heights / Carmel Valley	69	4,496,527	74,895	520,556	640,813	14.25%	686,133	15.26%	\$3.77	5,283	75,666	151,717	492,748
North Beach Cities	110	2,522,353	0	54,000	199,810	7.92%	269,898	10.70%	\$2.75	(3,020)	11,579	30,514	176,943
North County Total	330	12,859,222	252,164	1,033,556	1,779,941	13.84%	2,192,795	17.05%	\$2.81	74,731	184,447	361,109	1,288,194
<b>North City</b>													
Governor Park	19	870,142	0	0	155,162	17.83%	179,891	20.67%	\$2.38	(6,819)	(34,401)	12,589	45,704
La Jolla	53	1,606,068	0	0	244,671	15.23%	284,945	17.74%	\$3.39	(25,004)	(47,535)	22,189	69,306
Miramar	38	1,772,311	0	0	285,103	16.09%	352,125	19.87%	\$2.08	(8,495)	32,119	17,016	98,229
Sorrento Mesa	122	9,862,872	0	1,865,576	798,359	8.09%	1,232,306	12.49%	\$2.79	455,022	326,434	558,917	1,031,381
Sorrento Valley	24	690,576	0	0	80,012	11.59%	54,227	7.85%	\$0.00	(554)	7,042	1,866	50,274
Torrey Pines	43	2,703,699	0	0	108,060	4.00%	321,339	11.89%	\$3.85	(71,759)	14,732	7,232	93,724
UTC	86	8,161,030	305,952	304,770	1,387,730	17.00%	1,462,913	17.93%	\$3.59	73,544	147,178	235,810	1,228,499
North City Total	385	25,666,698	305,952	2,170,346	3,059,097	11.92%	3,887,746	15.15%	\$3.38	415,935	445,569	855,619	2,617,117
<b>Southern &amp; Eastern Areas</b>													
Chula Vista	90	2,795,523	0	765,002	331,573	11.86%	365,236	13.07%	\$1.56	(14,159)	10,326	20,378	120,140
East County	154	3,721,970	0	194,200	212,651	5.71%	283,981	7.63%	\$1.44	11,560	53,220	32,067	194,560
National City	16	554,973	0	0	111,291	20.05%	118,816	21.41%	\$0.00	36,295	49,841	105,085	126,377
Otay Mesa	14	338,164	0	187,080	20,756	6.14%	20,756	6.14%	\$1.30	3,306	6,333	3,306	6,538
Southeast San Diego	10	391,848	0	0	69,790	17.81%	74,062	18.90%	\$0.00	774	(3,831)	774	2,109
Southern & Eastern Areas Total	284	7,802,478	0	1,146,282	746,061	9.56%	862,851	11.06%	\$1.33	37,776	115,889	161,610	449,724
<b>Highway 78 Corridor</b>													
Oceanside	57	1,282,611	0	59,832	189,066	14.74%	189,256	14.76%	\$0.00	19,421	2,026	23,451	91,884
San Marcos	36	1,323,322	0	1,484,139	174,418	13.18%	188,855	14.27%	\$0.00	9,879	34,159	16,452	80,810
Vista	49	1,215,697	0	188,350	232,261	19.11%	236,738	19.47%	\$1.53	13,770	21,866	26,793	73,655
Highway 78 Corridor Total	142	3,821,630	0	1,732,321	595,745	15.59%	614,849	16.09%	\$1.53	43,070	58,051	66,696	246,349
Class A	261	33,414,062	878,116	6,603,367	3,292,704	9.85%	4,268,557	12.77%	\$3.00	467,738	1,026,310	1,103,758	3,251,594
Class B	1,209	51,157,825	25,000	3,959,484	7,028,619	13.74%	8,252,951	16.13%	\$2.05	208,622	284,502	1,075,632	4,105,229
Class C	739	16,150,223	0	0	1,456,735	9.02%	1,871,169	11.59%	\$1.56	37,293	55,267	178,740	759,040
<b>San Diego County Total</b>	<b>2,209</b>	<b>100,722,110</b>	<b>903,116</b>	<b>10,562,851</b>	<b>11,778,058</b>	<b>11.69%</b>	<b>14,392,677</b>	<b>14.29%</b>	<b>\$2.40</b>	<b>713,653</b>	<b>1,366,079</b>	<b>2,358,130</b>	<b>8,115,863</b>

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a full-service gross basis.

MAJOR TRANSACTIONS OF 2014

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
15051-15333 Avenue of Science 5005-5010 Wateridge Vista Dr. Et Al	Rancho Bernardo Sorrento Mesa	B	1,054,800	\$279.67	Starwood Capital Group	Kilroy Realty
9605-9805 Scranton Rd.	Sorrento Mesa	B	588,055	\$436.18	Lionstone Investments	Beacon Capital Partners
701 B St. & 707 Broadway	Downtown	A	747,633	\$207.32	Emmes Group of Companies	The Blackstone Group
10201-10241 Wateridge Cir.	Sorrento Mesa	A	278,787	\$260.06	Parallel Capital Partners, Inc. Equity Group Investments, LLC	Beacon Capital Partners C-III Realty Services
9333 & 9339 Genesee Rd.	UTC	A	161,184	\$446.69	Polidev Investments, Inc.	Stockbridge Capital Group, LLC DivcoWest

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
12400 High Bluff Dr. – Renewal	Del Mar Heights	A	175,672	Jun-14	AMN Healthcare, Inc.	Kilroy Realty Corporation
9326-9356 Spectrum Center Blvd. – Renewal	Kearny Mesa	B	116,375	Nov-14	Northrop Grumman Systems	American Funds US Investments, LP
530 B St. – Renewal	Downtown	B	87,754	Jan-14	Union Bank	Kearny Real Estate Company
600 W. Broadway	Downtown	A	77,147	Sep-14	Office of the Attorney General	The Irvine Company
9785 Towne Centre Dr.	UTC	B	75,537	Jun-14	LytX	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.

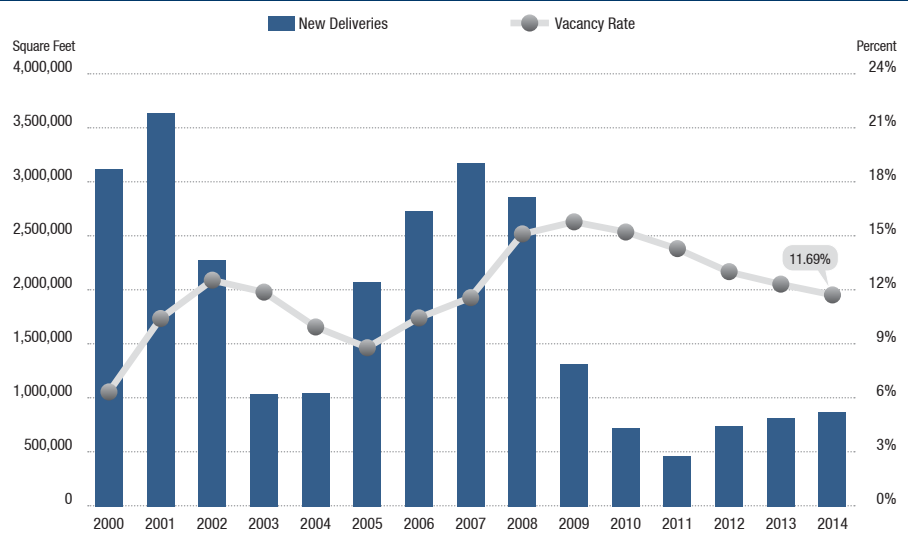
**CLASS B**

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



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