



## MARKET CHANGE

Compared to 2013:

**Vacancy**

**DOWN**



**Net Absorption**

**POSITIVE**



**Lease Rates**

**UP**



**Transactions**

**FLAT**



**Deliveries**

**UP**



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Prepared by:  
**Jerry J. Holdner, Jr.**  
 Vice President of Market Research  
 e-mail: [jholdner@voitco.com](mailto:jholdner@voitco.com)  
**Joshua Brant**  
 Market Research Analyst  
 e-mail: [jbrant@voitco.com](mailto:jbrant@voitco.com)  
 VOIT Real Estate Services

## HIGHLIGHTS

- **Marching Forward** - The San Diego Flex R&D market displayed more signs of recovery in 2014 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 46,520 square feet of new construction delivered in 2014. 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 year at 10.52%, a decrease of nearly 130 basis points when compared to the previous year, and a decrease of 37% from 2011's rate of 16.62%.
- **Availability** - Direct/sublease space being marketed was 13.77% at the end of the year, a drop from the previous year's rate of 15.15%.
- **Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.45 at the end of the 2014, an increase of \$0.19 from last year's rate of \$1.26. Average asking lease rates have risen thirty-eight cents since the recession lows seen in the first and second quarters of 2011.
- **Absorption** - The San Diego Flex R&D market posted 623,424 square feet of positive net absorption in the 2014, with the Miramar submarket contributing 163,417 square feet of positive net absorption towards the county total.
- **Transaction Activity** - The combined amount of square feet leased and sold in 2014 totaled 6.1 million square feet, nearly identical to the previous year's total. 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 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** - 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

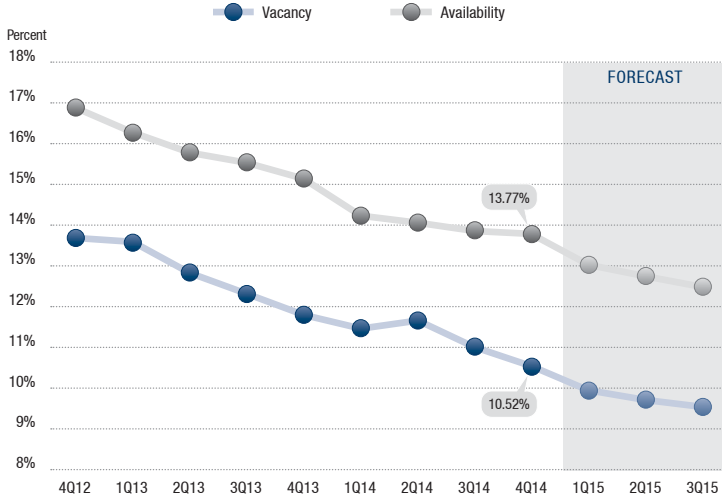
- **Employment** - We anticipate job growth of around 1.9%, or 24,600 jobs, in San Diego County over the year. Look for sectors like construction, administrative & support, and transportation & utilities to lead the way for employment gains in 2015.
- **Construction** - After three years of depressed 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 rate continuing to descend in coming quarters, dipping into single digits by the end of the third quarter of 2015.

## OVERVIEW

	2014	2013	2012	% of Change vs. 2013
Total Vacancy Rate	10.52%	11.81%	13.70%	(10.92%)
Availability Rate	13.77%	15.15%	16.88%	(9.11%)
Average Asking Lease Rate	\$1.45	\$1.26	\$1.12	15.08%
Sale & Lease Transactions	6,072,483	6,109,320	7,565,887	(0.60%)
Gross Absorption	3,057,794	3,699,050	4,404,233	(17.34%)
Net Absorption	623,424	879,381	1,318,009	N/A

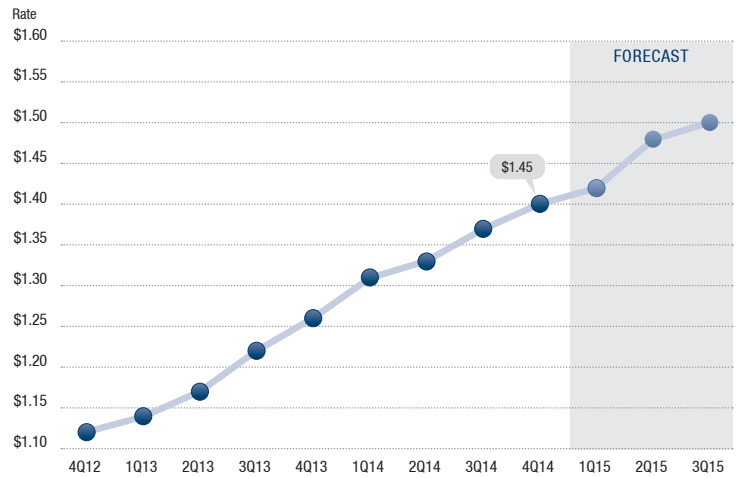
## VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



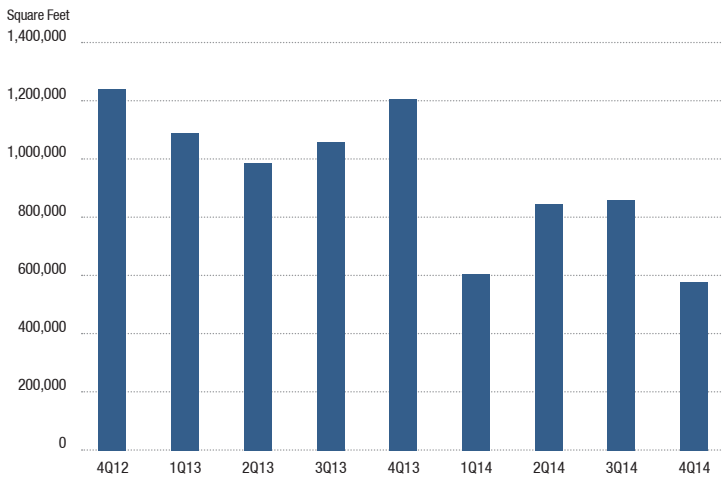
## AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



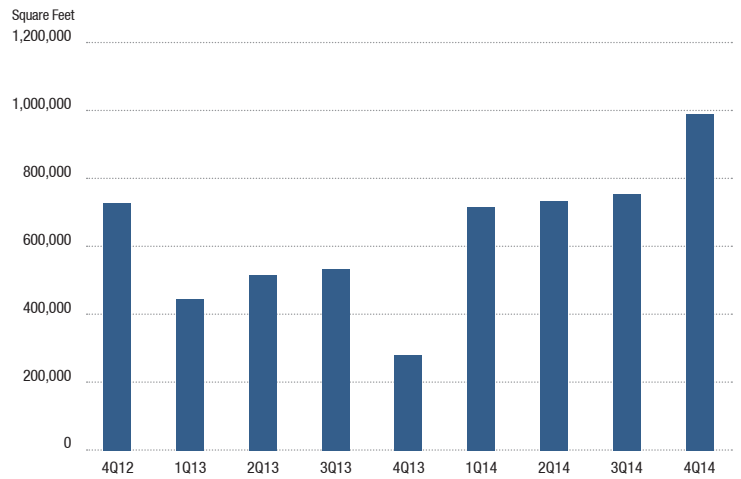
## LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



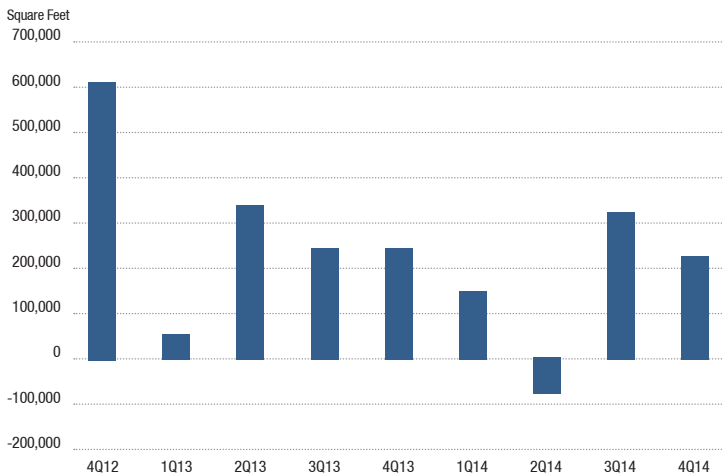
## SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

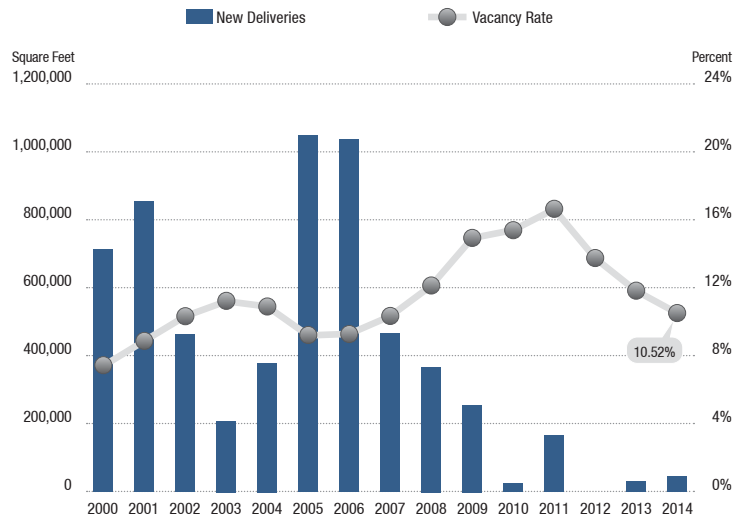


## NET ABSORPTION

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 4Q2014	Square Feet Available	Availability Rate 4Q2014	Average Asking Lease Rate	Net Absorption 4Q2014	Net Absorption 2014	Gross Absorption 4Q2014	Gross Absorption 2014
<b>Central</b>													
Central	18	231,356	0	0	7,191	3.11%	11,491	4.97%	\$0.00	0	915	0	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	0	5,000	0	5,000
<b>Central Total</b>	<b>39</b>	<b>472,245</b>	<b>0</b>	<b>0</b>	<b>7,191</b>	<b>1.52%</b>	<b>11,491</b>	<b>2.43%</b>	<b>\$0.00</b>	<b>0</b>	<b>5,915</b>	<b>0</b>	<b>24,685</b>
<b>Central Suburban</b>													
Kearny Mesa	212	5,559,286	0	37,650	398,848	7.17%	589,086	10.60%	\$1.24	22,266	16,211	88,862	341,910
Mission Gorge	25	175,296	0	0	7,790	4.44%	12,356	7.05%	\$0.00	(3,770)	(3,780)	0	2,740
Rose Canyon / Morena	38	616,737	0	0	46,154	7.48%	47,804	7.75%	\$1.50	1,283	30,976	10,633	88,731
Sports Arena / Airport	31	388,763	0	0	0	0.00%	91,260	23.47%	\$1.15	0	6,800	0	6,800
<b>Central Suburban Total</b>	<b>306</b>	<b>6,740,082</b>	<b>0</b>	<b>37,650</b>	<b>452,792</b>	<b>6.72%</b>	<b>740,506</b>	<b>10.99%</b>	<b>\$1.53</b>	<b>19,779</b>	<b>50,207</b>	<b>99,495</b>	<b>440,181</b>
<b>East County</b>													
El Cajon	80	851,266	0	0	21,157	2.49%	22,554	2.65%	\$0.00	(11,085)	22,770	620	42,182
La Mesa / Spring Valley	41	318,588	0	0	28,001	8.79%	31,001	9.73%	\$0.00	(7,817)	14,168	995	36,217
Santee / Lakeside	53	544,506	0	268,000	13,587	2.50%	39,046	7.17%	\$0.00	992	(4,385)	7,747	19,019
<b>East County Total</b>	<b>174</b>	<b>1,714,360</b>	<b>0</b>	<b>268,000</b>	<b>62,745</b>	<b>3.66%</b>	<b>92,601</b>	<b>5.40%</b>	<b>\$0.00</b>	<b>(17,910)</b>	<b>32,553</b>	<b>9,362</b>	<b>97,418</b>
<b>I-15 Corridor</b>													
Escondido	82	753,196	0	9,500	61,468	8.16%	61,401	8.15%	\$0.85	4,785	986	29,405	61,272
Poway	60	1,260,719	0	0	25,820	2.05%	29,656	2.35%	\$0.85	18,693	70,995	30,968	122,794
Rancho Bernardo	87	3,937,734	0	0	799,520	20.30%	588,017	14.93%	\$1.50	31,069	14,416	44,999	208,686
Scripps Ranch	31	836,978	0	0	96,753	11.56%	175,176	20.93%	\$1.29	24,623	49,364	47,746	86,894
<b>I-15 Corridor Total</b>	<b>260</b>	<b>6,788,627</b>	<b>0</b>	<b>9,500</b>	<b>983,561</b>	<b>14.49%</b>	<b>854,250</b>	<b>12.58%</b>	<b>\$1.40</b>	<b>79,170</b>	<b>135,761</b>	<b>153,118</b>	<b>479,646</b>
<b>North County</b>													
Carlsbad	242	5,888,838	29,824	100,000	857,958	14.57%	1,072,603	18.21%	\$1.04	31,433	88,207	104,080	503,527
North Beach Cities	16	148,193	0	0	1,677	1.13%	1,677	1.13%	\$0.00	(1,677)	(1,677)	0	1,800
<b>North County Total</b>	<b>258</b>	<b>6,037,031</b>	<b>29,824</b>	<b>100,000</b>	<b>859,635</b>	<b>14.24%</b>	<b>1,074,280</b>	<b>17.79%</b>	<b>\$1.04</b>	<b>29,756</b>	<b>86,530</b>	<b>104,080</b>	<b>505,327</b>
<b>North City</b>													
Miramar	211	4,480,999	0	11,760	425,355	9.49%	745,901	16.65%	\$1.03	95,429	163,417	110,570	390,668
Sorrento Mesa	158	5,929,641	618,000	0	644,133	10.86%	1,029,057	17.35%	\$1.48	6,016	(16,500)	77,331	370,170
Sorrento Valley	107	2,494,120	0	0	264,715	10.61%	342,381	13.73%	\$1.89	38,275	14,790	89,632	214,509
Torrey Pines	43	3,333,911	0	105,091	403,758	12.11%	281,341	8.44%	\$0.00	7,993	113,795	15,631	165,943
UTC	19	1,522,884	0	307,660	247,497	16.25%	396,372	26.03%	\$2.86	0	25,632	0	59,550
<b>North City Total</b>	<b>538</b>	<b>17,761,555</b>	<b>618,000</b>	<b>424,511</b>	<b>1,985,458</b>	<b>11.18%</b>	<b>2,795,052</b>	<b>15.74%</b>	<b>\$1.77</b>	<b>147,713</b>	<b>301,134</b>	<b>293,164</b>	<b>1,200,840</b>
<b>Outlying Areas</b>													
Outlying SD County North	17	139,758	0	0	8,821	6.31%	15,421	11.03%	\$0.00	0	0	0	5,800
Outlying SD County South	20	78,080	0	0	0	0.00%	0	0.00%	\$0.00	0	4,000	0	5,600
<b>Outlying Areas Total</b>	<b>37</b>	<b>217,838</b>	<b>0</b>	<b>0</b>	<b>8,821</b>	<b>4.05%</b>	<b>15,421</b>	<b>7.08%</b>	<b>\$0.00</b>	<b>0</b>	<b>4,000</b>	<b>0</b>	<b>11,400</b>
<b>South Bay</b>													
Chula Vista	84	1,564,200	0	0	100,794	6.44%	220,290	14.08%	\$0.99	(11,137)	9,968	15,259	93,041
National City	22	296,515	0	0	8,194	2.76%	24,664	8.32%	\$0.90	(1,862)	699	925	27,115
Otay Mesa / San Ysidro	11	245,361	0	0	17,086	6.96%	17,086	6.96%	\$0.75	0	(3,147)	0	0
<b>South Bay Total</b>	<b>117</b>	<b>2,106,076</b>	<b>0</b>	<b>0</b>	<b>126,074</b>	<b>5.99%</b>	<b>262,040</b>	<b>12.44%</b>	<b>\$0.95</b>	<b>(12,999)</b>	<b>7,520</b>	<b>16,184</b>	<b>120,156</b>
<b>Highway 78 Corridor</b>													
Oceanside	31	992,572	0	0	18,641	1.88%	71,821	7.24%	\$0.00	(1,110)	(5,295)	0	16,982
San Marcos	60	969,982	0	0	72,845	7.51%	98,493	10.15%	\$1.00	(3,526)	5,299	13,955	74,710
Vista	59	1,368,277	0	199,500	174,619	12.76%	204,816	14.97%	\$0.95	(14,074)	(200)	36,441	86,449
<b>Highway 78 Corridor Total</b>	<b>150</b>	<b>3,330,831</b>	<b>0</b>	<b>199,500</b>	<b>266,105</b>	<b>7.99%</b>	<b>375,130</b>	<b>11.26%</b>	<b>\$0.97</b>	<b>(18,710)</b>	<b>(196)</b>	<b>50,396</b>	<b>178,141</b>
<b>San Diego County Total</b>	<b>1,879</b>	<b>45,168,645</b>	<b>647,824</b>	<b>1,039,161</b>	<b>4,752,382</b>	<b>10.52%</b>	<b>6,220,771</b>	<b>13.77%</b>	<b>\$1.45</b>	<b>226,799</b>	<b>623,424</b>	<b>725,799</b>	<b>3,057,794</b>

Lease rates are on a triple-net basis.

**MAJOR TRANSACTIONS**

**Sales Transactions**

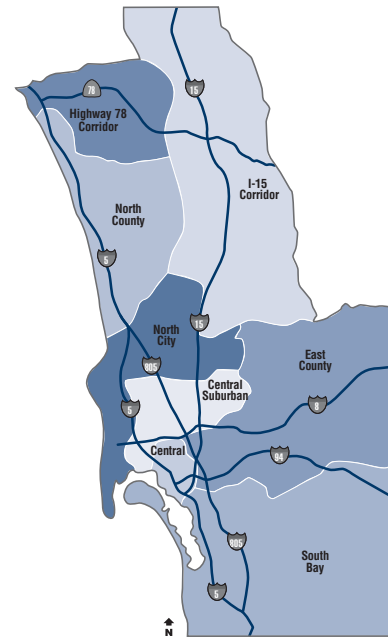
Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
3545 Cray Ct.	Torrey Pines	116,556	\$549.09	Alexandria Real Estate Equities	Lankford & Associates, Inc.
11099 N . Torrey Pines Rd.	Torrey Pines	92,479	\$473.08	HCP, Inc.	Angelo, Gordon & Co.
10850 Via Frontera	Rancho Bernardo	303,000	\$109.17	PETCO Animal Supplies, Inc.	Kilroy Realty Corporation
16710 & 16750 Via Del Campo Ct.	Rancho Bernardo	168,072	\$155.02	Drawbridge Realty Trust	WAM Development Group Cornerstone Real Estate Advisers
9625 Towne Centre Dr.	UTC	150,000	\$148.33	Alexandria Real Estate Equities, Inc.	Whitaker Investment Corporation

**Lease Transactions**

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2765 Loker Ave. W.	Carlsbad	93,254	Aug-14	Undisclosed	TA Associates Realty
6290 Sequence Dr.	Sorrento Mesa	90,000	Oct-14	Dex Com	Kilroy Realty Corporation
3595 John Hopkins Ct. – Renewal	Torrey Pines	82,500	Sept-14	Sequenom, Inc.	HCP, Inc.
5810 Van Allen Way	Carlsbad	56,835	Apr-14	Sound-Eklin	(Sublease)
10255 Science Center Dr.	Torrey Pines	53,740	Jun-14	Affymetrix	BioMed Realty Trust

**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**

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



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Irvine, CA 949.851.5100	Newport Beach, CA 949.644.8648	Sacramento, CA 916.772.8648	

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