



MARKET CHANGE

Compared to Previous Year:

Vacancy



UP

Net Absorption



POSITIVE

Lease Rates



UP

Transactions



DOWN

Deliveries



UP

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

Jooyoung Kim
Market Research Analyst
e-mail: jkim@voitco.com
VOIT Real Estate Services

HIGHLIGHTS

- **Steady Growth** - The San Diego office market continued to improve in 2015. The market saw rental rates increase significantly, along with over one million square feet of new office product delivered. Vacancy rates ticked up slightly, due to the delivery of new product, but transaction volume and demand remained strong.
- **Construction** - Office deliveries have consistently been around 500,000-800,000 square feet a year over the past five years. In 2015, 1,025,928 square feet of new product was delivered, mostly class A. This rate of construction is below the historical average and has helped to keep vacancy at its current level. In addition to the new construction, there has been a significant level of properties being extensively renovated or even converted to office use, such as the 230,000 square foot Atlas project in Carlsbad, currently being converted from industrial to office.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 12.09%, a 32 basis point decrease from the previous quarter, but close to the mark of the fourth quarter 2014. Rancho Bernardo posted the lowest vacancy rate of any submarket with at least five million square feet of inventory at 8.72%.
- **Availability** - Direct/sublease space being marketed was 15.35% at the end of the quarter, an increase from the 15.14% 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 \$2.81 at the end of the year, a new record high for the market. The renovated offices and new offices are really pushing the average asking rates. In the third quarter, Irvine Company's 300,000 square foot One La Jolla Center in UTC came online and their asking rates are in the \$4.35-\$4.65 range.
- **Absorption** - The San Diego office market posted 612,239 square feet of positive net absorption in 2015, giving the market a total of 7.2 million square feet of positive absorption since 2010. Currently there's a flight to quality underway in San Diego, over 80% of the positive absorption that occurred in 2015 was in Class A office space.
- **Transaction Activity** - Sale and lease transactions totaled 16.7 million square feet in 2015, a decrease from the previous year's 18.3 million square feet. 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 4.8% in November 2015, down from a revised 5.0% in October 2015 and below the year-ago estimate of 6.0%. This compares with an unadjusted unemployment rate of 5.7% for California and 4.8% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 37,800 payroll jobs from November 2014 and November 2015, including 9,200 from education and health services, 8,200 from professional and business services, 7,300 of which were led by advances from professional, scientific and technical services.
- **Overall** - Construction levels of new office product are still lower than 2005-2008, but the San Diego office market has now recorded four consecutive year-over-year increases in office square feet delivered. The market's rental rates continue to rise and are now at an all time high. Rising rents may become a headwind to the rate of vacancy compression. The office market is steady but not explosive, and Class A office product has fared the best through this recovery thus far. Unemployment rates have continued to trend downward since the peak in January 2010. As job creation continues and consumer confidence stabilizes, the office market will further improve.

FORECAST

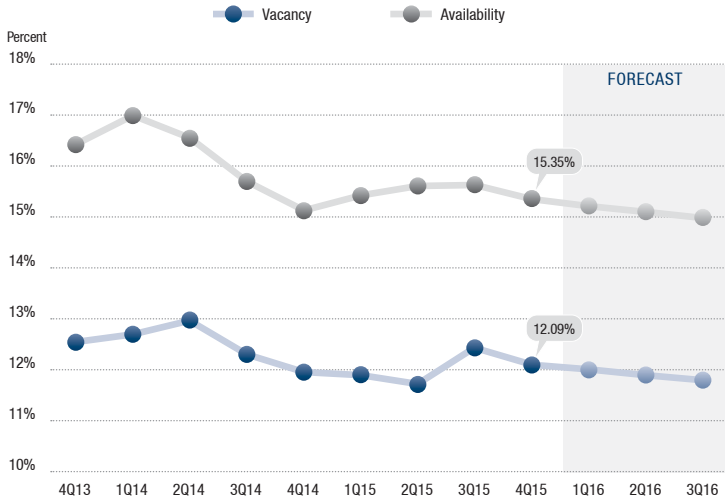
- **Construction** - The recovery of the San Diego office market has now matured to the point that we have multiple speculative office developments under construction. Local office development looks to remain lower than the levels seen during 2005-2008.
- **Employment** - We anticipate job growth of 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 5% to 8% percent over the next four quarters.
- **Vacancy** - We anticipate vacancy to descend at a moderate pace in coming quarters, dropping to approximately 11.8%, by the end of the third quarter of 2016.

OVERVIEW

	2015	2014	2013	% of Change vs. 2014
Added Inventory	1,025,928	932,023	803,731	10.08%
Vacancy Rate	12.09%	11.97%	12.53%	1.00%
Availability Rate	15.35%	15.14%	16.41%	1.39%
Average Asking Lease Rate	\$2.81	\$2.40	\$2.22	17.08%
Sale & Lease Transactions	16,734,916	18,318,621	15,201,269	(8.65%)
Gross Absorption	7,563,864	8,184,279	8,271,660	(7.58%)
Net Absorption	612,239	1,268,448	1,179,129	N/A

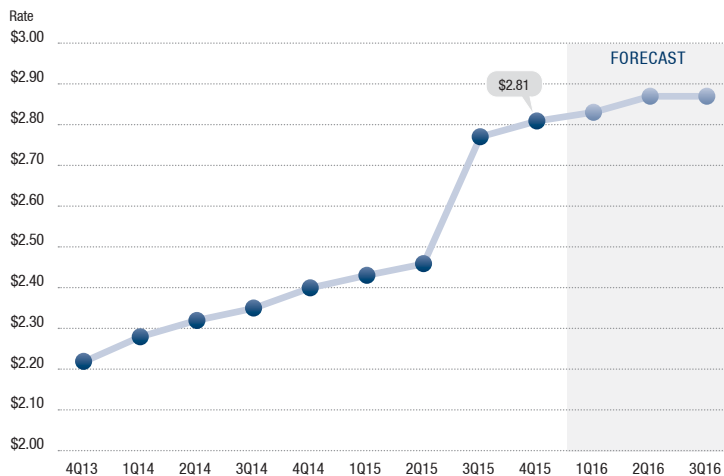
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



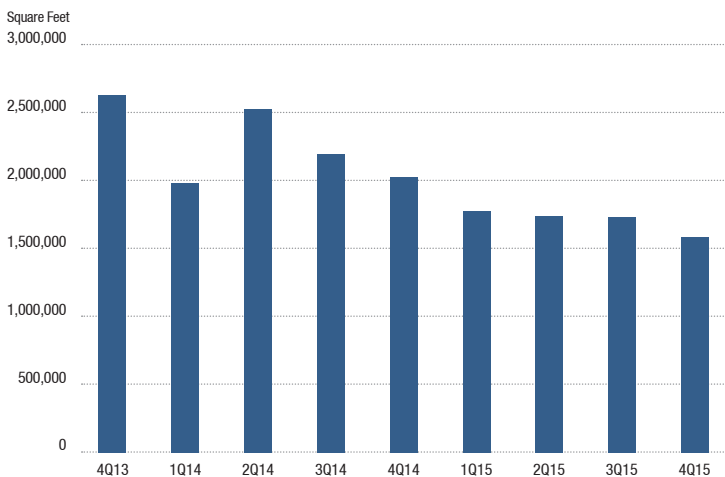
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



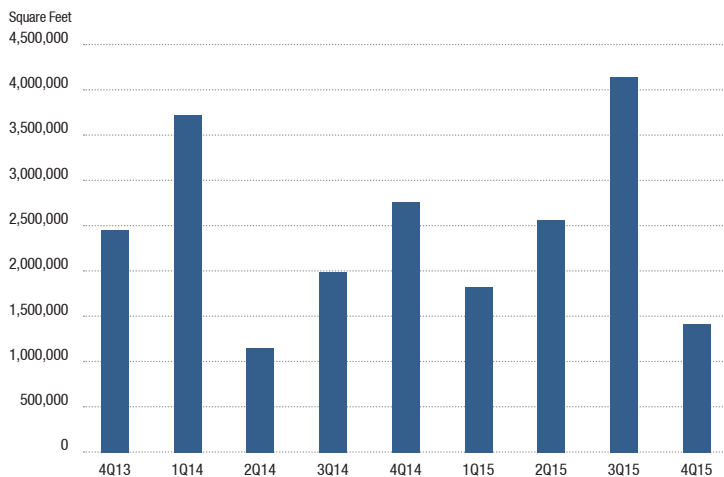
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



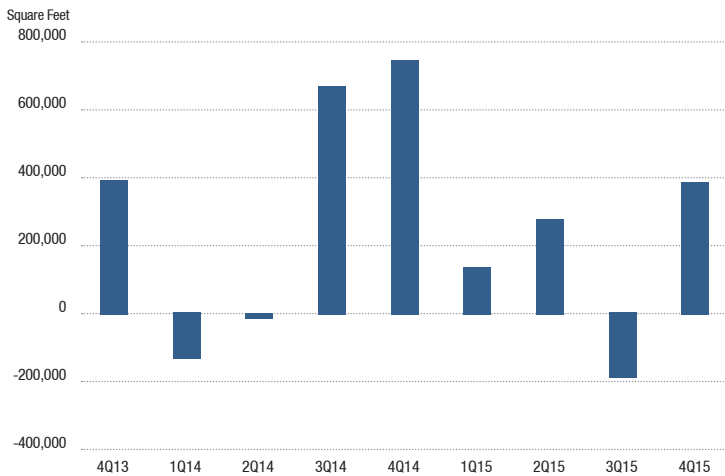
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



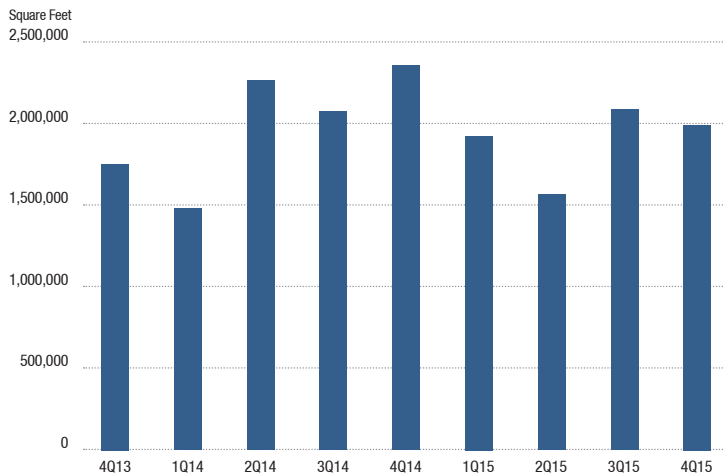
NET ABSORPTION

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 4Q2015	Square Feet Available	Availability Rate 4Q2015	Average Asking Lease Rate	Net Absorption 4Q2015	Net Absorption 2015	Gross Absorption 4Q2015	Gross Absorption 2015
Downtown													
Downtown	137	13,000,749	0	2,724,744	2,105,960	16.20%	2,609,765	20.07%	\$2.49	(55,519)	60,677	154,795	1,127,459
Downtown Total	137	13,000,749	0	2,724,744	2,105,960	16.20%	2,609,765	20.07%	\$2.49	(55,519)	60,677	154,795	1,127,459
Central													
City Heights / University	28	1,033,511	25,000	0	52,784	5.11%	67,704	6.55%	\$0.00	9,528	39,080	9,528	54,852
Coronado	6	125,233	0	0	930	0.74%	16,784	13.40%	\$0.00	161	(930)	161	2,147
Kearny Mesa	238	10,591,670	0	297,000	1,183,627	11.18%	1,419,359	13.40%	\$2.00	82,566	(96,980)	160,662	564,970
Mission Gorge	25	582,823	0	0	27,119	4.65%	30,437	5.22%	\$1.07	1,125	11,607	5,668	27,309
Mission Valley	125	6,975,211	0	0	621,916	8.92%	1,080,626	15.49%	\$2.36	43,321	71,997	217,174	782,369
Old Town / Point Loma	68	2,199,276	0	0	214,152	9.74%	207,454	9.43%	\$1.75	11,422	23,287	21,998	116,113
Park East	8	155,884	0	0	5,745	3.69%	8,305	5.33%	\$2.35	(979)	(20,707)	0	1,025
Rose Canyon / Morena	55	1,261,530	0	0	52,384	4.15%	60,622	4.81%	\$2.06	(6,922)	12,835	13,981	65,387
Uptown / Hillcrest	104	2,653,221	0	0	202,834	7.64%	245,151	9.24%	\$2.16	(68,217)	(26,590)	19,460	129,642
Central Total	657	25,578,359	25,000	297,000	2,361,491	9.23%	3,136,442	12.26%	\$2.11	72,005	13,599	448,632	1,743,814
I-15 Corridor													
Escondido	90	1,875,442	0	37,000	228,513	12.18%	285,012	15.20%	\$1.77	(17,188)	46,647	22,774	115,133
Poway	29	1,304,758	0	630,000	88,852	6.81%	95,701	7.33%	\$1.80	10,999	(3,732)	14,779	50,321
Rancho Bernardo	109	6,795,053	100,000	1,010,002	592,860	8.72%	911,552	13.41%	\$1.80	96,701	(34,048)	149,796	355,989
Scripps Ranch	50	2,676,246	0	903,000	333,063	12.45%	326,022	12.18%	\$2.30	14,440	141,964	33,554	210,344
I-15 Corridor Total	278	12,651,499	100,000	2,580,002	1,243,288	9.83%	1,618,287	12.79%	\$2.14	104,952	150,831	220,903	731,787
North County Coastal													
Carlsbad	154	6,101,300	298,309	296,158	1,072,077	17.57%	1,545,688	25.33%	\$2.17	135,466	13,670	295,917	616,851
Del Mar Heights / Carmel Valley	74	4,670,118	92,000	895,059	586,346	12.56%	930,520	19.92%	\$3.41	13,884	158,897	93,793	441,595
North Beach Cities	111	2,538,834	20,461	55,000	128,664	5.07%	230,202	9.07%	\$2.60	30,417	81,753	51,622	224,283
North County Total	339	13,310,252	410,770	1,246,217	1,787,087	13.43%	2,706,410	20.33%	\$2.52	179,767	254,320	441,332	1,282,729
North City													
Governor Park	19	856,764	0	0	157,667	18.40%	111,727	13.04%	\$2.95	(34,631)	(8,701)	8,391	104,028
La Jolla	53	1,616,486	14,750	0	163,576	10.12%	205,849	12.73%	\$4.02	(323)	66,604	33,448	178,563
Miramar	37	1,711,077	0	0	269,902	15.77%	334,139	19.53%	\$2.25	(52,507)	15,201	73,818	192,190
Sorrento Mesa	119	9,600,474	0	2,231,706	1,327,631	13.83%	1,620,599	16.88%	\$2.76	39,754	(412,606)	157,158	420,563
Sorrento Valley	27	785,003	0	0	113,066	14.40%	70,416	8.97%	\$1.49	8,191	33,066	12,845	109,735
Torrey Pines	44	2,806,637	0	0	209,915	7.48%	147,932	5.27%	\$4.05	(36,510)	(34,600)	35,180	220,694
UTC	86	8,464,118	64,832	487,205	1,313,411	15.52%	1,797,981	21.24%	\$3.95	130,783	347,824	249,143	940,226
North City Total	385	25,840,559	79,582	2,718,911	3,555,168	13.76%	4,288,643	16.60%	\$3.80	54,757	6,788	569,983	2,165,999
Southern & Eastern Areas													
Chula Vista	89	2,785,062	0	765,002	315,866	11.34%	365,538	13.12%	\$1.33	(13,475)	15,707	11,187	87,846
East County	153	3,714,465	0	194,200	251,048	6.76%	242,941	6.54%	\$1.34	(1,408)	(38,397)	67,749	140,101
National City	15	531,473	0	0	118,671	22.33%	22,309	4.20%	\$0.00	2,746	(7,380)	2,746	3,746
Otay Mesa	12	285,999	0	0	18,141	6.34%	18,141	6.34%	\$1.30	(4,491)	(5,510)	618	1,154
Southeast San Diego	10	391,848	0	0	62,180	15.87%	66,452	16.96%	\$2.20	0	7,610	0	20,896
Southern & Eastern Areas Total	279	7,708,847	0	959,202	765,906	9.94%	715,381	9.28%	\$1.43	(16,628)	(27,970)	82,300	253,743
Highway 78 Corridor													
Oceanside	62	1,348,316	0	310,249	189,814	14.08%	221,203	16.41%	\$1.52	3,652	40,032	5,312	64,407
San Marcos	37	1,352,911	0	1,367,139	160,639	11.87%	180,027	13.31%	\$0.00	1,151	43,781	13,937	89,114
Vista	49	1,215,076	0	11,800	162,080	13.34%	180,832	14.88%	\$1.52	43,201	70,181	55,009	104,812
Highway 78 Corridor Total	148	3,916,303	0	1,689,188	512,533	13.09%	582,062	14.86%	\$1.52	48,004	153,994	74,258	258,333
Class A	272	34,678,233	112,461	8,979,496	3,931,559	11.34%	5,511,760	15.89%	\$3.30	136,782	507,149	505,786	2,587,530
Class B	1,221	51,365,933	502,891	3,235,768	7,130,328	13.88%	8,568,932	16.68%	\$2.23	211,416	(4,787)	1,261,505	4,156,762
Class C	730	15,962,402	0	0	1,269,546	7.95%	1,576,298	9.88%	\$1.62	39,140	109,877	224,912	819,572
San Diego County Total	2,223	102,006,568	615,352	12,215,264	12,331,433	12.09%	15,656,990	15.35%	\$2.81	387,338	612,239	1,992,203	7,563,864

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

MAJOR TRANSACTIONS OF 2015

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
6260–6350 Sequence Dr. & 4921 Directors Pl.	Sorrento Mesa	B	537,654	\$303	John Hancock Life Insurance Co.	Kilroy Realty Corporation
8910–8990 University Center Ln.	UTC	A	239,940	\$625	Rockpoint Group, LLC	The Blackstone Group, LP
300 Rancheros Dr. (7 Properties)	Carlsbad	A	498,852	\$227	Brookwood Financial Partners, LLC	Newport National Corporation
10290 Campus Point Dr.	UTC	B	304,326	\$345	Alexandria Real Estate Equities	Qualcomm
6200–6220 Greenwich Dr. & 10770 Wateridge Cir.	Governor Park	B	389,485	\$244	John Hancock Life Insurance Co.	Kilroy Realty Corporation

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
16909 W Bernardo Dr.	Rancho Bernardo	B	99,999	Jan-2015	Sharp Rees-Stealy	Harkishan Parekh
8954 Rio San Diego Dr. – Renewal/Expansion	Mission Valley	A	97,309	Jan-2015	Kaiser Permanente	The Prudential Insurance Co.
5770 Armada Dr.	Carlsbad	B	81,712	July-2015	SeaSpine Orthopedics Corp.	Senior Housing Properties Trust
15051 Avenue of Science	Rancho Bernardo	B	69,967	Apr-2015	Daybreak	Starwood Capital Operations, LLC
9868 Scranton Rd.	Sorrento Mesa	A	68,326	May-2015	MCI Communications Services, Inc.	Alliance Bernstein, LP

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.

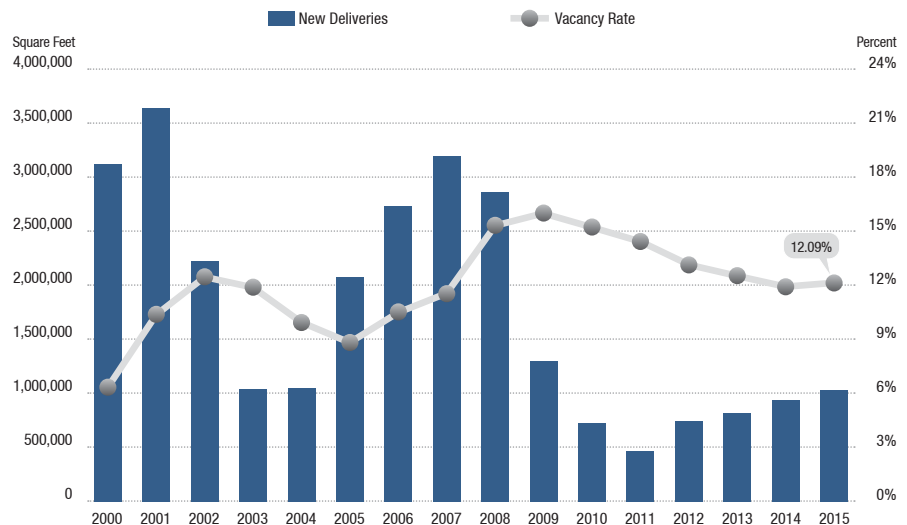
CLASS B

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



Anaheim, CA
714.978.7880

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

Lic.#01333376
www.voitco.com

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.

©2016 Voit Real Estate Services, Inc. Real People. Real Solutions.® is a registered trademark of Voit Real Estate Services.