



MARKET CHANGE

Compared to Previous Year:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

UP



Deliveries

FLAT



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HIGHLIGHTS

- **Moving Forward** - The San Diego Flex R&D market displayed more signs of recovery in 2015 with strong positive absorption, new construction underway, and a decline in both vacancy and availability over the year. 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** - At the end of the year, there were six buildings totaling 966,269 square feet under construction in San Diego County's flex market. This is the largest number of square feet under construction the flex market has seen in over ten years.
- **Vacancy** - Direct/sublease space (unoccupied) finished the year at 9.43%, a decrease of 146 basis points when compared to the previous year, and a decrease of nearly 40% from 2011's rate of 15.65%.
- **Availability** - Direct/sublease space being marketed was 13.35% at the end of the year, a 5.18% decrease from the previous year's rate of 14.08%.
- **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 2015, an increase of one cent from last year's rate of \$1.40. 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 602,564 square feet of positive net absorption in 2015, giving the market a total of almost 2.8 million square feet of positive absorption since the first quarter of 2012.
- **Transaction Activity** - The combined amount of square feet leased and sold in 2015 totaled 7.6 million square feet, which is up compared to last year's total of 7.1 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 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** - 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 16.8%. 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

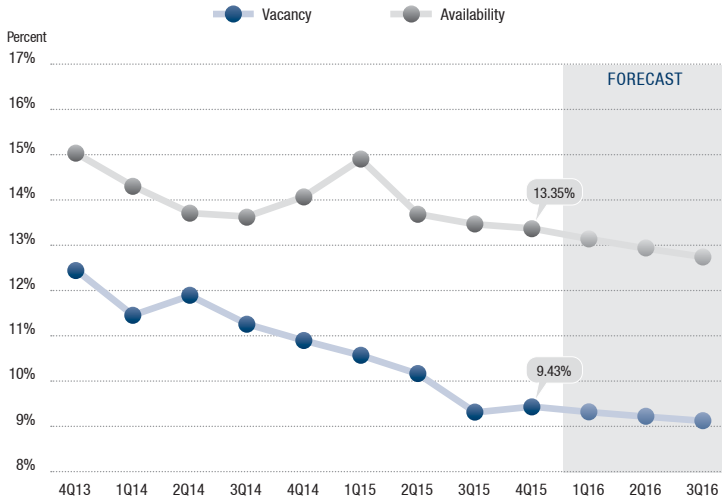
- **Employment** - We anticipate job growth of around 1.9%, or 24,600 jobs, in San Diego County over the year. Look for sectors like construction, administrative & support, and transportation & utilities to lead the way for employment gains in 2016.
- **Construction** - After four years of depressed 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 quarters.
- **Lease Rates** - Expect average asking rates to increase by approximately 3 to 4 percent over the next four quarters.
- **Vacancy** - We anticipate vacancy rates continuing to descend steadily in coming quarters, dipping to approximately 9% by the third quarter of 2016.

OVERVIEW

	2015	2014	2013	% of Change vs. 2014
Total Vacancy Rate	9.43%	10.89%	12.41%	(13.41%)
Availability Rate	13.35%	14.08%	15.05%	(5.18%)
Average Asking Lease Rate	\$1.41	\$1.40	\$1.26	0.71%
Sale & Lease Transactions	7,559,265	7,125,282	6,121,146	6.09%
Gross Absorption	4,243,335	3,121,542	3,717,964	35.94%
Net Absorption	602,564	363,730	488,925	N/A

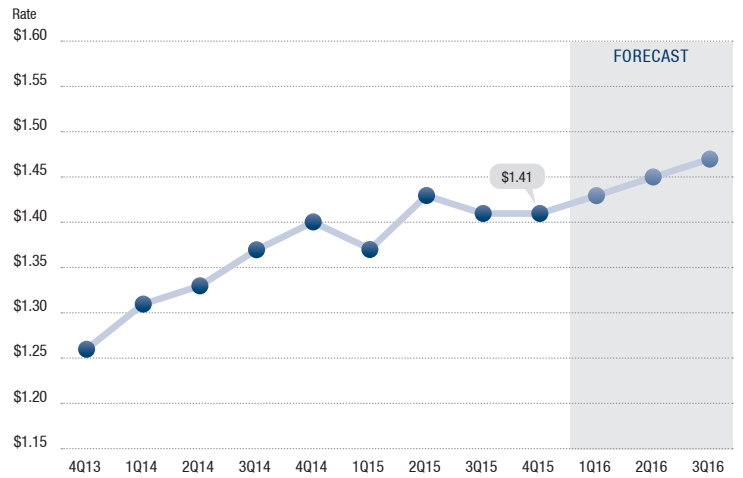
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



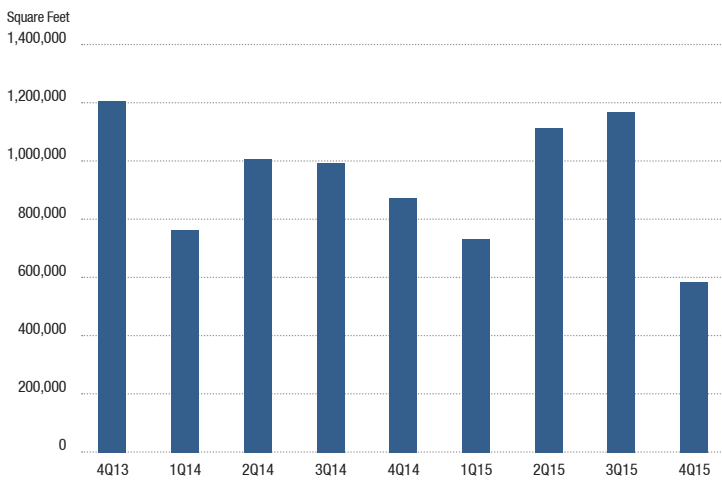
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



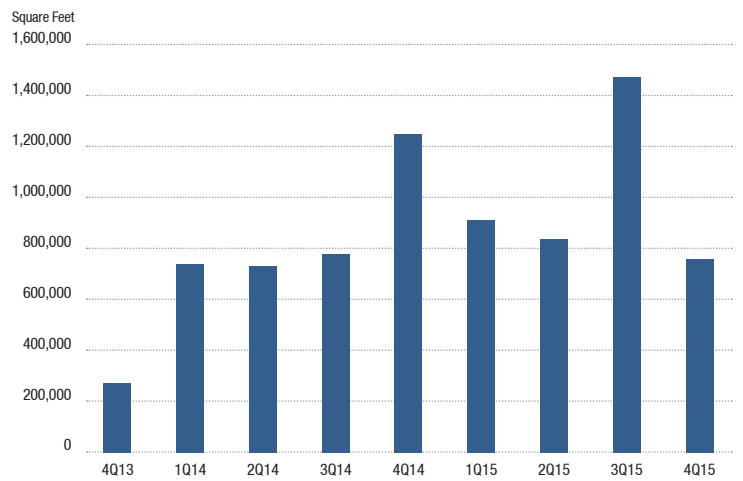
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



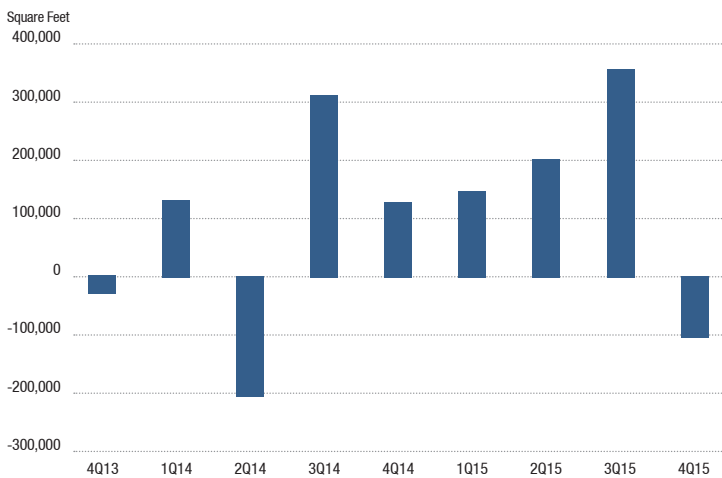
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

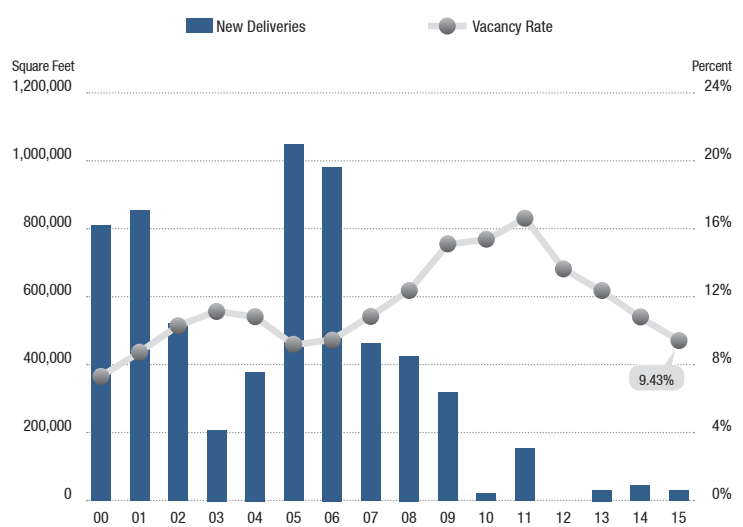


NET ABSORPTION

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 4Q2015	Square Feet Available	Availability Rate 4Q2015	Average Asking Lease Rate	Net Absorption 4Q2015	Net Absorption 2015	Gross Absorption 4Q2015	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	16	199,122	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Central Total	37	462,370	0	0	13,162	2.85%	17,512	3.79%	\$0.00	0	(5,971)	0	4,300
Central Suburban													
Kearny Mesa	212	5,580,831	0	20000	342,611	6.14%	454,126	8.14%	\$1.47	38,971	63,980	97,801	477,095
Mission Gorge	24	170,168	0	0	2,126	1.25%	2,126	1.25%	\$0.00	4,566	5,664	4,566	16,414
Rose Canyon / Morena	38	616,935	0	0	39,415	6.39%	39,577	6.42%	\$1.60	(4,331)	18,759	22,328	98,602
Sports Arena / Airport	30	386,513	0	0	19,698	5.10%	26,498	6.86%	\$0.00	(19,698)	(19,698)	0	88,506
Central Suburban Total	304	6,754,447	0	20,000	403,850	5.98%	522,327	7.73%	\$1.47	19,508	68,705	124,695	680,617
East County													
El Cajon	78	842,303	0	0	45,254	5.37%	53,327	6.33%	\$0.00	(20,696)	(27,509)	4,700	40,092
La Mesa / Spring Valley	42	322,088	0	0	18,334	5.69%	18,334	5.69%	\$0.00	5,978	9,667	5,978	18,305
Santee / Lakeside	53	549,202	0	268,000	11,757	2.14%	27,327	4.98%	\$0.00	(6,922)	1,830	2,785	19,805
East County Total	173	1,713,593	0	268,000	75,345	4.40%	98,988	5.78%	\$0.00	(21,640)	(16,012)	13,463	78,202
I-15 Corridor													
Escondido	82	767,211	0	0	37,656	4.91%	100,643	13.12%	\$1.20	5,047	23,812	5,047	35,510
Poway	61	1,305,814	0	0	28,774	2.20%	109,563	8.39%	\$1.44	16,833	2,798	27,535	53,045
Rancho Bernardo	86	3,891,739	0	0	499,298	12.83%	690,739	17.75%	\$1.64	(25,781)	297,886	37,812	496,310
Scripps Ranch	29	745,678	0	314,000	143,859	19.29%	167,575	22.47%	\$1.36	(98,188)	(44,757)	3,935	83,213
I-15 Corridor Total	258	6,710,442	0	314,000	709,587	10.57%	1,068,520	15.92%	\$1.54	(102,089)	279,739	74,329	668,078
North County													
Carlsbad	242	5,858,832	0	0	798,961	13.64%	871,328	14.87%	\$1.12	23,856	120,108	113,078	611,973
North Beach Cities	17	142,651	0	0	10,218	7.16%	4,968	3.48%	\$0.00	(1,814)	(8,541)	0	3,677
North County Total	259	6,001,483	0	0	809,179	13.48%	876,296	14.60%	\$1.12	22,042	111,567	113,078	615,650
North City													
Miramar	213	4,662,323	0	11,760	334,339	7.17%	523,283	11.22%	\$1.23	6,314	116,511	219,045	613,871
Sorrento Mesa	164	6,257,747	0	618,000	821,684	13.13%	1,096,546	17.52%	\$1.41	(75,760)	(89,131)	65,829	452,789
Sorrento Valley	105	2,388,874	0	0	219,215	9.18%	170,305	7.13%	\$2.02	28,167	5,355	65,964	186,443
Torrey Pines	44	3,415,792	63,000	68,310	269,617	7.89%	234,512	6.87%	\$3.85	(12,261)	140,575	41,422	318,079
UTC	20	1,589,923	903,269	284,755	353,651	22.24%	784,212	49.32%	\$1.56	(34,566)	(73,708)	12,934	191,012
North City Total	546	18,314,659	966,269	982,825	1,998,506	10.91%	2,808,858	15.34%	\$1.65	(88,106)	99,602	405,194	1,762,194
Outlying Areas													
Outlying SD County North	17	140,772	0	0	8,821	6.27%	15,421	10.95%	\$1.25	0	0	5,950	5,950
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%	15,421	7.05%	\$0.97	0	0	5,950	5,950
South Bay													
Chula Vista	81	1,488,103	0	0	104,247	7.01%	258,128	17.35%	\$0.66	194	(6,404)	19,546	96,560
National City	23	303,615	0	0	3,800	1.25%	4,725	1.56%	\$0.00	7,100	11,494	8,025	39,176
Otay Mesa / San Ysidro	12	259,977	0	251,664	14,179	5.45%	176,179	67.77%	\$0.66	2,907	(50,477)	2,907	2,907
South Bay Total	116	2,051,695	0	251,664	122,226	5.96%	439,032	21.40%	\$0.66	10,201	(45,387)	30,478	138,643
Highway 78 Corridor													
Oceanside	30	930,710	0	0	13,801	1.48%	30,143	3.24%	\$0.00	0	7,823	0	12,494
San Marcos	59	960,472	0	0	55,012	5.73%	84,177	8.76%	\$0.93	2,025	17,833	14,631	73,268
Vista	61	1,454,073	0	0	89,954	6.19%	124,339	8.55%	\$0.96	53,672	84,665	78,181	203,939
Highway 78 Corridor Total	150	3,345,255	0	0	158,767	4.75%	238,659	7.13%	\$0.95	55,697	110,321	92,812	289,701
San Diego County Total	1,880	45,572,796	966,269	1,836,489	4,299,443	9.43%	6,085,613	13.35%	\$1.41	(104,387)	602,564	859,999	4,243,335

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS OF 2015

Sales Transactions

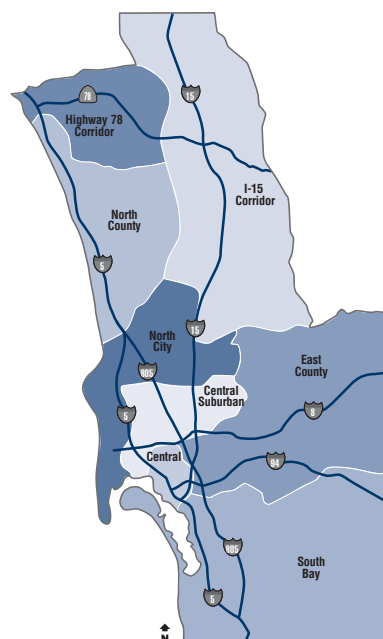
Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
5751–5771 Copley Dr.	Kearny Mesa	101,726	\$298	Gildred Companies	HighBrook Investment
16550 Via Esprillo	Rancho Bernardo	180,946	\$166	Greenlaw Partners	Soitec USA
Carroll Tech Center	Mira Mesa/Miramar	136,331	\$176	BioLegend, Inc.	LBA Realty
5651 Copley Dr.	Kearny Mesa	118,264	\$200	Sharp HealthCare	Cox Communications, Inc.
Activity Business Center	Mira Mesa/Miramar	160,811	\$119	Lincoln Property Company	Brookfield Asset Management, Inc.

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
16550 Via Esprillo – Renewal	Rancho Bernardo	165,600	Sept-2015	Precision Toxicology	BioMed Realty
8680 Balboa Ave.	Kearny Mesa	92,150	Apr-2015	Undisclosed	IDS Real Estate Group
2727 Kurtz St.	Sports Arena	84,460	Apr-2015	Undisclosed	SR Commercial
4767 Nexus Centre Dr. – Renewal	UTC	65,280	Feb-2015	Senomyx, Inc.	Alexandria Real Estate Equities, Inc.
4796 Executive Dr.	UTC	61,755	May-2015	Otonomy	ARE-SD Region No 34, LLC

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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