

San Diego

Office Market | Q1 2015



ANNUAL JOB GROWTH

San Diego created 39,700 net new jobs in the 12 months ending February 2015, led by employment gains in the Professional & Business Services; Leisure & Hospitality; and Education & Health Services sectors.



12-MO DIRECT NET ABSORPTION

Class A properties witnessed the bulk of the occupancy gains, with North San Diego, Downtown, and I-15 Corridor accounting for 81.4% of the absorption growth within the past year.



DIRECT VACANCY RATE

Since peaking at 18.9% at the beginning of 2010, the countywide direct vacancy rate has dropped to a seven-year low. Meanwhile, Class A direct vacancy levels dropped for the fourth consecutive quarter to their lowest level since 2001.



OVERALL RENTS

Overall asking rents are up 5.89% since the end of the first quarter 2014. Central San Diego and North San Diego experienced the highest jump in rates with an 11.6% and



an 8.4% increase, respectively, over the prior 12 months.

UNDER CONSTRUCTION

Of the five projects currently under construction, three of the projects or 624,813 sq. ft. of that space is being built on a speculative basis. Developers have also begun to renovate several buildings in Central and North San Diego, all of which are scheduled for a second quarter 2015 delivery.



*Arrows represent change from previous 12 months





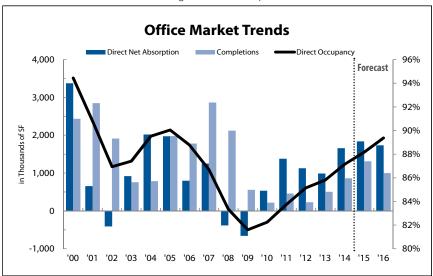
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LOW VACANCY PRESSURES CLASS A ASKING RENTS

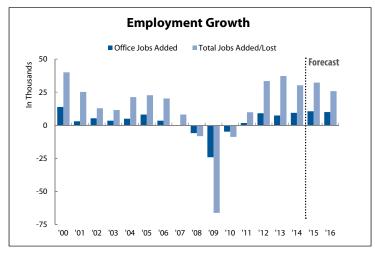
San Diego's economic expansion continued to outpace California's job growth this past quarter, creating a notable 152,800 jobs since its trough in January 2010. As a result, total nonfarm employment levels are hovering around record highs and are now 33,000 jobs above its pre-recession peak recorded in December 2007. Demonstrating another sign of economic growth, San Diego's unemployment rate has declined 160 basis points to 5.3% within the past 12 months. Looking ahead, employment payrolls are projected to rise by 32,300 jobs in 2015, which equates to a 2.5% annual increase and outpaces the 20-year historical average of 1.5%.

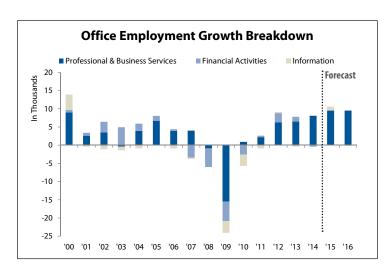
San Diego's office market witnessed occupancy gains totaling 41,997 sq. ft. during the first quarter, bringing the trailing 12-month direct absorption gain to over 1.6 million sq. ft. The Class A office market recorded 79,692 sq. ft. of occupancy gains during the quarter, pushing the yearly total to 1.4 million sq. ft. Due to the strong demand, Class A direct vacancy rates have dropped 230 basis points to 9.1% within the past 12 months - their lowest level since 2001. The Class B sector experienced a loss of 37,695 sq. ft. of direct absorption, lowering the annual total to 240,080 sq. ft. and increasing its vacancy rate to 15.6%, but still 50 basis points lower than the prior year. As the improved economy has spurred leasing demand, Class A full-service gross asking rents increased by 6.4% to \$2.99 in the past year, their highest mark since early 2008. Class B rents appreciated by 6.3% to \$2.25 per sq. ft. within the past 12 months. In terms of new supply, there are roughly 880,000 sq. ft. of new construction slated to deliver in 2015, with the largest being Sempra Energy's 320,000 sq. ft. build-to-suit. The largest speculative projects include The Irvine Company's One La Jolla Center and Cruzan's 5600 Avenida Encinas, which will add over 483,221 sq. ft. to the market upon delivery. In addition, there are four office buildings undergoing renovations to reposition and better compete with new product at a lower price point, which will add just over 429,000 sq. ft. combined to the competitive leasing market in the coming quarters.

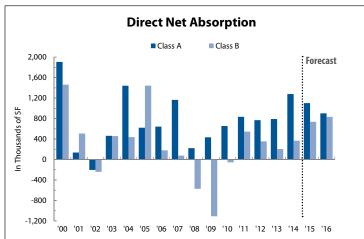
San Diego's office market fundamentals will continue to strengthen with steady absorption growth outpacing construction deliveries, which will help push the overall vacancy rate down below the 12% mark by year-end 2015. Leasing demand will be driven by sustained growth in office-using employment sectors, specifically in the technology and life sciences sub-sectors. With Class A vacancy levels reaching their lowest level in over a decade and limited large contiguous blocks of high quality space available in the market, many landlords are raising rents in the most desirable submarkets which will likely cause some sticker shock for those tenants looking to renew or expand.

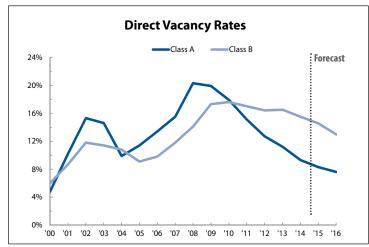


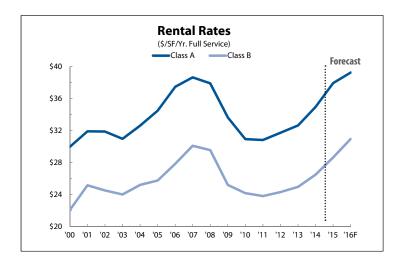
HISTORICAL TRENDS & FORECAST

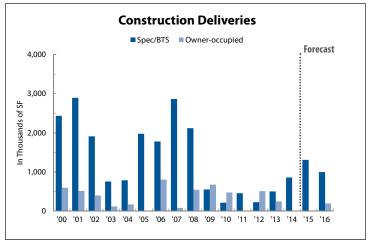












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SUBMARKET STATISTICS

		TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
Submarket	Total Inventory SF	Direct Available	Sublease Available	Direct Vacancy	Y-O-Y Change	Current Qtr.	Trailing 12- Months	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Downtown	10,385,341	1,688,836	193,653	14.2%	-3.0%	128,576	308,139	\$27.49	\$2.29	1.78%
Class A	6,170,451	731,332	98,806	8.9%	-4.8%	86,416	293,298	\$30.66	\$2.55	5.94%
Class B	4,214,890	957,504	94,847	22.0%	-0.4%	42,160	14,841	\$25.01	\$2.08	-0.28%
Central San Diego	13,910,326	1,992,048	318,640	11.7%	-0.3%	(4,576)	39,834	\$27.80	\$2.32	11.60%
Class A	4,264,990	421,712	225,556	8.2%	-0.8%	25,438	34,030	\$34.83	\$2.90	14.72%
Class B	9,645,336	1,570,336	93,084	13.2%	-0.1%	(30,014)	5,804	\$24.95	\$2.08	7.82%
North San Diego	18,684,110	2,855,544	876,714	12.6%	-0.1%	(100,384)	747,496	\$32.84	\$2.74	8.42%
Class A	8,522,900	781,149	305,828	6.6%	-0.9%	(52,482)	843,049	\$41.36	\$3.45	7.99%
Class B	10,161,210	2,074,395	570,886	17.6%	0.9%	(47,902)	(95,553)	\$28.91	\$2.41	14.13%
I-15 Corridor	8,379,730	973,829	227,791	11.3%	-1.0%	43,442	283,301	\$28.03	\$2.34	2.82%
Class A	3,895,362	296,306	199,804	6.4%	1.4%	32,836	155,707	\$31.71	\$2.64	1.54%
Class B	4,484,368	677,523	27,987	15.7%	-1.8%	10,606	127,594	\$27.02	\$2.25	3.80%
SR-78 Corridor	2,239,753	397,569	2,183	18.5%	-1.0%	1,564	22,744	\$26.28	\$2.19	5.58%
Class A	554,659	136,335	0	24.2%	1.4%	3,933	(7,529)	\$31.85	\$2.65	-3.10%
Class B	1,685,094	261,234	2,183	16.6%	-1.8%	(2,369)	30,273	\$23.61	\$1.97	7.22%
I-5 Corridor	10,763,199	1,522,417	364,396	12.8%	-0.8%	(26,794)	219,182	\$34.93	\$2.91	3.96%
Class A	5,089,254	732,477	146,384	12.9%	-1.7%	(27,993)	78,657	\$39.13	\$3.26	1.29%
Class B	5,673,945	789,940	218,012	12.7%	-0.6%	1,199	140,525	\$30.89	\$2.57	3.31%
South Bay	2,104,110	436,782	2,097	19.7%	-0.8%	14,639	17,457	\$23.92	\$1.99	2.18%
Class A	447,583	142,505	2,097	32.0%	-1.7%	10,650	7,459	\$26.68	\$2.22	0.11%
Class B	1,656,527	294,277	0	16.4%	-0.6%	3,989	9,998	\$22.54	\$1.88	3.06%
East County	1,402,821	131,886	12,101	5.5%	-0.4%	(14,470)	6,270	\$26.74	\$2.23	-8.89%
Class A	233,830	21,058	0	8.2%	0.1%	894	(328)	\$29.74	\$2.48	-1.03%
Class B	1,168,991	110,828	12,101	5.0%	-0.6%	(15,364)	6,598	\$25.90	\$2.16	-10.26%

		TOTAL SPAC	<u>E AVAILABLE</u>	DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
	Total	Direct	Sublease	Direct	Y-O-Y		Trailing 12-	Avg Rents	Avg Rents	Y-O-Y %
San Diego Totals	Inventory SF	Available	Available	Vacancy	Change	Current Qtr.	Months	PSF/Yr	PSF/Mo.	Change
Class A	29,179,029	3,262,874	978,475	9.1%	-2.3%	79,692	1,404,343	\$35.89	\$2.99	6.37%
Class B	38,690,361	6,736,037	1,019,100	15.6%	-0.5%	-37,695	240,080	\$26.95	\$2.25	6.31%
Overall	67,869,390	9,998,911	1,997,575	12.8%	-1.3%	41,997	1,644,423	\$30.03	\$2.50	5.89%

METHODOLOGY

Total Inventory: The total inventory includes all single and multi-tenant leased office buildings with at least 20,000 square feet of gross rentable square footage.

Total Space Available: Available space currently being marketed which is either physically vacant or occupied.

Direct Space Available: Space that is being offered for lease directly from the landlord or owner of a building. Under construction space is not included in space available figures.

Sublease Space Available: Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation.

Direct Vacancy Rate: Direct space physically vacant divided by the total rentable inventory.

Direct Net Absorption: The net change in occupied direct space over a given period of time.

Under Construction: Office buildings which have commenced construction as evidenced by site excavation or foundation work.

Direct Asking Rents: The quoted full-service asking rent for available space expressed in dollars per sq. ft.





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ABOUT PMRG

Headquartered in Houston, Texas, PM Realty Group (PMRG) is one of the nation's leading real estate companies focusing on comprehensive property services, development and acquisitions. With a strategic presence in 30 markets, PMRG provides the highest quality services to its clients and investors. PMRG's clients and investors include large financial institutions, advisors and high net worth individuals. By capitalizing on the team's experience and expertise, PMRG has the ability to undertake large and challenging management, leasing, development and acquisition projects.

PMRG's portfolio, including projects managed for third parties, includes commercial office buildings, mixed-use centers, corporate headquarters, industrial buildings, medical facilities, high-rise multifamily buildings and re-appropriated military facilities.

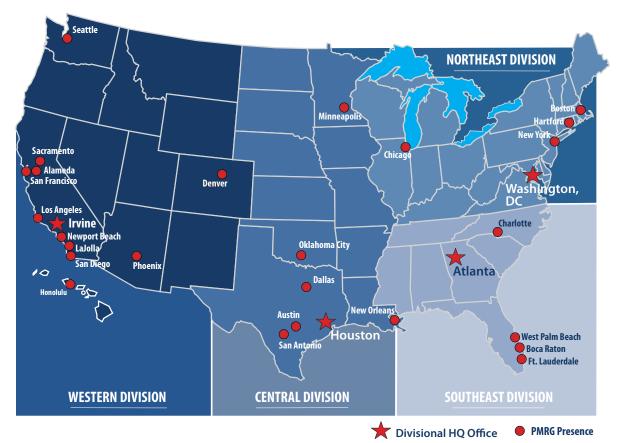
Our goal is to generate exceptional returns for our clients and investors by focusing on real estate fundamentals. For additional information, visit www.pmrg.com.

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- · Construction Management
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Jim Proehl
Executive Vice President
Managing Director
949.390.5555
jproehl@pmrg.com
CA Real Estate License
#01835739



Oliver Fleener Senior Vice President, Brokerage Services 949.390.5526 ofleener@pmrg.com CA Real Estate License #01245596



Scott Kuklish
Senior Vice President
949.390.5519
skuklish@pmrg.com
CA Real Estate License
#00689233



Ken Arimitsu
Vice President,
Brokerage Services
949.390.5512
karimistsu@pmrg.com
CA Real Estate License
#01162590



Eileen Doody
Senior Vice President,
Brokerage Services
949.390.5506
edoody@pmrg.com
CA Real Estate License
#00965140



Tim Joyce
Senior Vice President,
Director of Capital
Markets
949.390.5525
tjoyce@pmrg.com
CA Real Estate License
#00830238



Mark Mattis
Senior Vice President
310.215.8500
mmattis@pmrg.com
CA Real Estate License
#009343378