



ANNUAL JOB GROWTH

San Diego created 43,000 net new jobs in the 12 months ending November 2014, led by employment gains in the Professional & Business Services; Education & Health Services; and Leisure & Hospitality sectors.



12-MO DIRECT NET ABSORPTION

Class A properties witnessed the bulk of the occupancy gains, with North San Diego, I-5 Corridor, and I-15 Corridor accounting for 74.0% of the absorption growth within the past year.



DIRECT VACANCY RATE

Since peaking at 18.8% at the beginning of 2010, the countrywide direct vacancy rate has dropped to a seven-year low. Meanwhile, Class A direct vacancy levels have dropped to their lowest level since 2001.



OVERALL RENTS

Overall asking rents are up 6.1% since year-end 2013. Central San Diego and North San Diego experienced the highest jump in rates with a 10.4% and 9.1% increase, respectively, over the last 12 months.



UNDER CONSTRUCTION

Of the four projects currently under construction, three of the projects or 558,116 sq. ft. of that space is being built on a speculative basis. Developers have also begun to renovate several buildings in North San Diego, all of which will be delivering in early 2015.



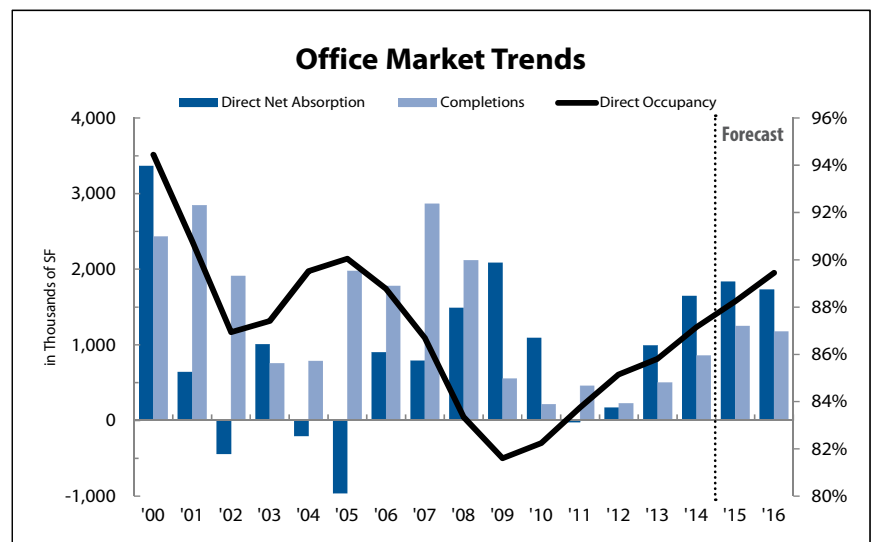
**Arrows represent change from previous 12 months*

CLASS A VACANCY IMPROVES TO 13-YEAR LOW

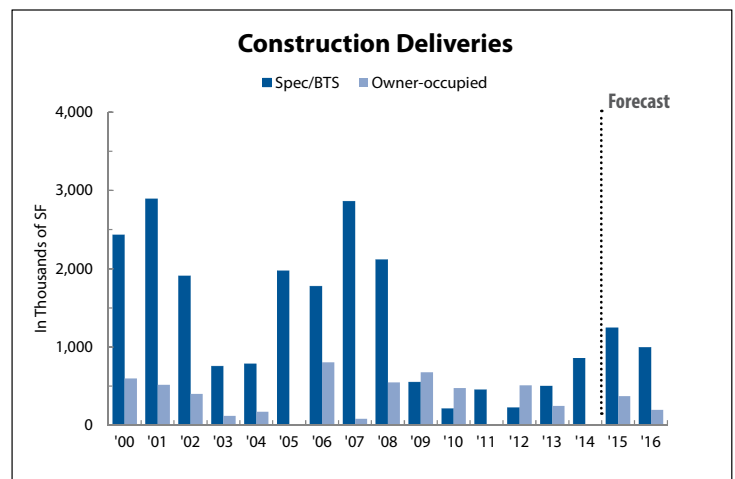
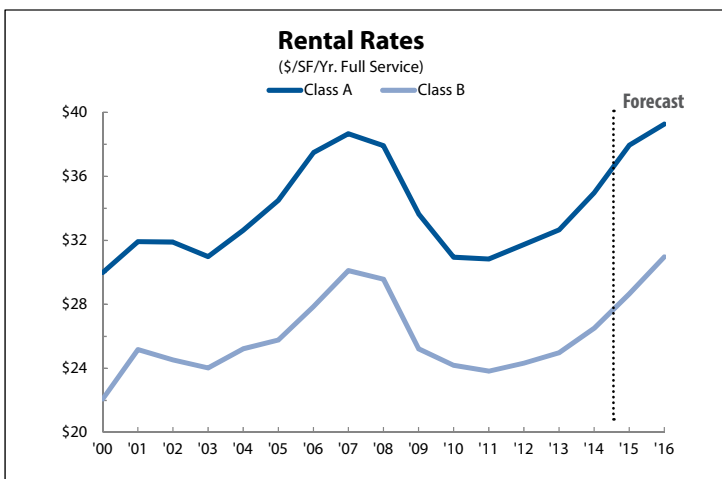
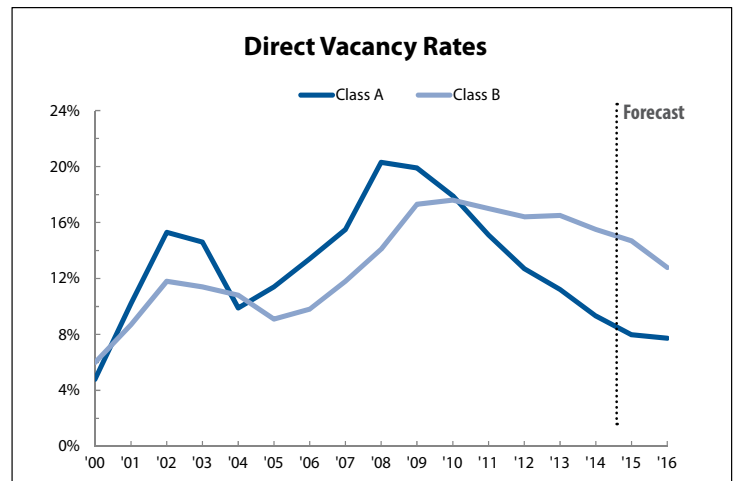
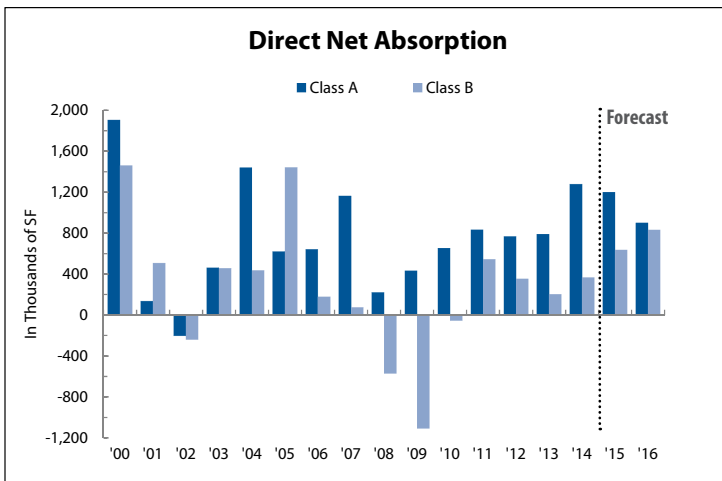
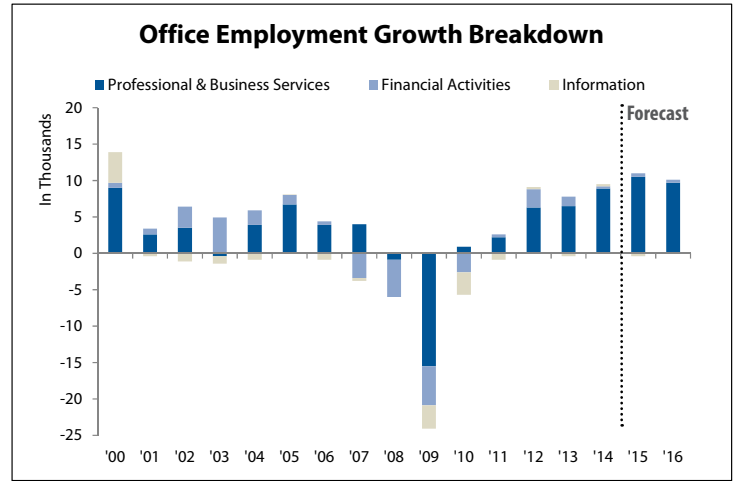
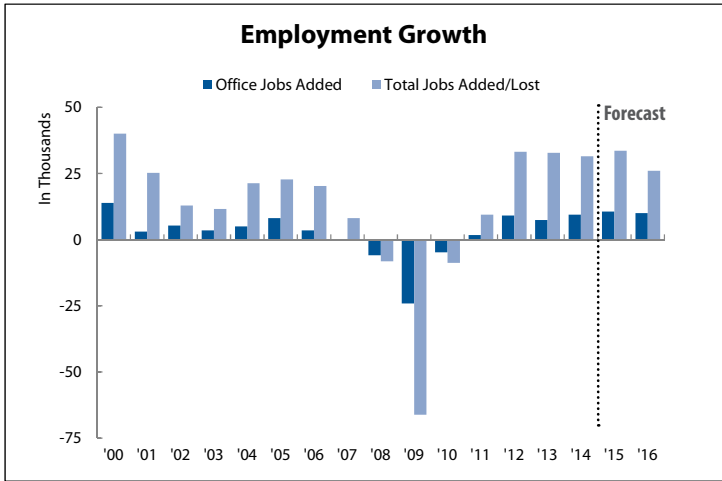
San Diego's economic expansion continued to outpace California's job growth this quarter, creating a notable 160,300 jobs since its post-recessionary trough in January 2010. As a result, total nonfarm employment levels have reached a record high and are now 40,200 jobs above its pre-recession peak recorded in December 2007. Demonstrating another sign of economic growth, San Diego's unemployment rate has declined 120 basis points to 5.8% within the past 12 months. Looking ahead, employment payrolls are projected to create 33,600 jobs in 2015, which will outpace the 20-year historical average of 1.5%.

San Diego's office market experienced solid occupancy gains totaling 805,769 sq. ft. during the fourth quarter, bringing the annual total to over 1.6 million sq. ft. The Class A office market recorded 508,300 sq. ft. of occupancy gains during the quarter, pushing the yearly total to 1,278,594 sq. ft. Due to the strong demand, Class A direct vacancy rates have dropped 190 basis points to 9.3% within the past 12 months – their lowest level since 2001. The Class B sector also contributed with 297,469 sq. ft. of direct absorption, bringing the annual total to 366,417 sq. ft. Appropriately, Class B vacancy rates ended the quarter at 15.5%, down 90 basis points from the prior year. In terms of new supply, developers delivered 858,492 sq. ft. of new product in 2014. Most notably, DPR Construction delivered Pacific Center IV – a 410,000 sq. ft. office building occupied by Qualcomm – in December. Meanwhile, Spectrum Lab is moving forward with renovation plans and will return its 165,699 sq. ft. to the market once completed in early 2015. Projects by Turner Construction Co. and The Irvine Company will also add over 625,000 sq. ft. to the market when they deliver by mid-year 2015. As the improved economy has spurred leasing demand, Class A full-service gross asking rents increased by 7.1% to \$2.92 while Class B rents appreciated by 6.1% to \$2.22 per sq. ft. within the past 12 months.

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, additional office development could break ground in the year ahead. However, future demand growth is still expected to outpace new supply over the next two years.



HISTORICAL TRENDS & FORECAST



SUBMARKET STATISTICS

Submarket	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
		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	10,359,535	1,653,089	193,533	15.3%	-1.9%	21,861	196,341	\$27.47	\$2.29	2.77%
Class A	6,170,645	665,146	144,316	10.3%	-3.0%	38,026	185,110	\$29.95	\$2.50	5.57%
Class B	4,188,890	987,943	49,217	22.8%	-0.3%	(16,165)	11,231	\$25.16	\$2.10	1.08%
Central San Diego	13,831,086	1,941,727	311,637	11.5%	-1.2%	(45,467)	164,551	\$26.96	\$2.25	10.36%
Class A	4,262,858	460,426	226,945	8.8%	0.5%	(49,078)	(19,927)	\$34.16	\$2.85	12.74%
Class B	9,568,228	1,481,301	84,692	12.7%	-1.9%	3,611	184,478	\$24.07	\$2.01	6.41%
North San Diego	18,763,935	2,766,913	852,105	12.3%	0.0%	508,563	719,700	\$32.20	\$2.68	9.08%
Class A	8,522,900	779,681	329,258	6.0%	-1.3%	402,304	879,217	\$41.07	\$3.42	9.99%
Class B	10,241,035	1,987,232	522,847	17.6%	1.6%	106,259	(159,517)	\$28.37	\$2.36	12.13%
I-15 Corridor	8,379,730	1,080,955	129,848	11.9%	-1.3%	169,422	222,195	\$27.45	\$2.29	0.92%
Class A	3,895,362	329,304	99,404	7.2%	5.4%	90,107	116,191	\$30.90	\$2.57	1.34%
Class B	4,484,368	751,651	30,444	15.9%	-3.7%	79,315	106,004	\$26.50	\$2.21	1.38%
SR-78 Corridor	2,171,556	397,341	5,036	18.0%	-1.3%	39,800	29,076	\$25.05	\$2.09	-0.36%
Class A	554,919	138,136	5,036	24.9%	5.4%	8,743	(30,010)	\$31.60	\$2.63	-3.78%
Class B	1,616,637	259,205	0	15.6%	-3.7%	31,057	59,086	\$21.86	\$1.82	-1.49%
I-5 Corridor	10,767,953	1,562,033	333,528	12.4%	-1.2%	87,866	271,214	\$34.26	\$2.85	5.87%
Class A	5,051,042	720,068	162,739	11.9%	1.3%	18,249	153,347	\$38.50	\$3.21	4.56%
Class B	5,716,911	841,965	170,789	12.8%	-1.9%	69,617	117,867	\$31.08	\$2.59	6.62%
South Bay	2,104,110	439,406	0	20.4%	-1.2%	17,524	26,177	\$24.18	\$2.02	0.58%
Class A	447,583	141,802	0	34.4%	1.3%	(4,617)	(5,697)	\$26.99	\$2.25	1.47%
Class B	1,656,527	297,604	0	16.6%	-1.9%	22,141	31,874	\$22.63	\$1.89	-0.70%
East County	1,402,819	76,635	0	4.5%	-1.1%	6,200	15,757	\$27.50	\$2.29	-6.40%
Class A	233,830	18,988	0	8.6%	-0.2%	4,566	363	\$29.24	\$2.44	-2.76%
Class B	1,168,989	57,647	0	3.7%	-1.3%	1,634	15,394	\$26.67	\$2.22	-7.59%

San Diego Totals	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
		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
Class A	29,139,139	3,253,551	967,698	9.3%	-1.9%	508,300	1,278,594	\$34.99	\$2.92	7.10%
Class B	38,641,585	6,664,548	857,989	15.5%	-0.9%	297,469	366,417	\$26.62	\$2.22	6.10%
Overall	67,780,724	9,918,099	1,825,687	12.8%	-1.4%	805,769	1,645,011	\$29.47	\$2.46	6.08%

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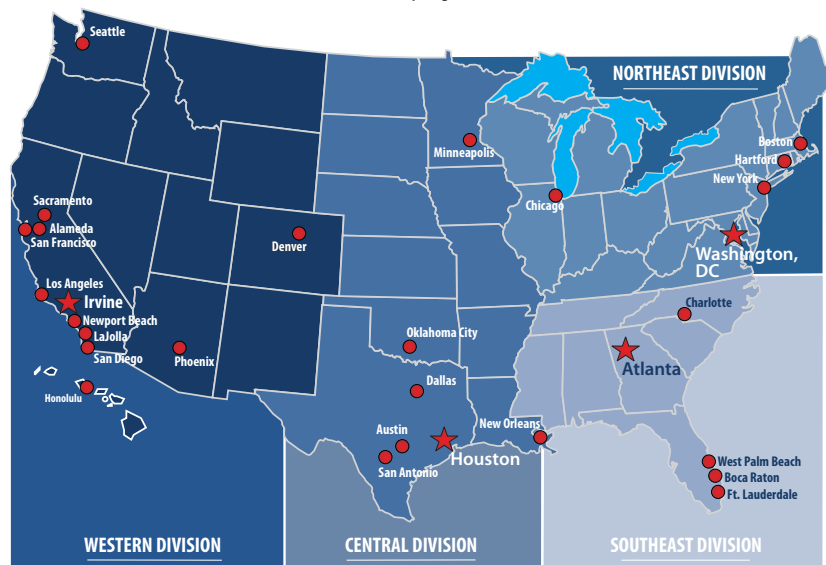
PMRG's portfolio, including projects managed for third parties, includes commercial office buildings, mixed-use centers, corporate headquarters, industrial buildings, medical facilities, high-rise multifamily buildings and re-appropriated military facilities.

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

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CONTACTS

Jim Proehl

EVP, Managing Director – Western Division
949.390.5555
jproehl@pmrg.com
CA Real Estate License #01835739

Mark Mattis

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

Scott Kuklish

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

Ken Arimitsu

VP, Brokerage Services
949.390.5512
karimistsu@pmrg.com
CA Real Estate License #01162590

Oliver Fleener

SVP, Brokerage Services
949.390.5526
ofleener@pmrg.com
CA Real Estate License #01245596

Eileen Doody

SVP, Brokerage Services
949.390.5506
edoody@pmrg.com
CA Real Estate License #00965140

Tim Joyce

SVP, Director of Capital Markets
949.390.5525
tjoyce@pmrg.com
CA Real Estate License #00830238

Kelly Gamble

Marketing Coordinator
949.390.5529
kgamble@pmrg.com
CA Real Estate License #01950301