



## Industrial Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

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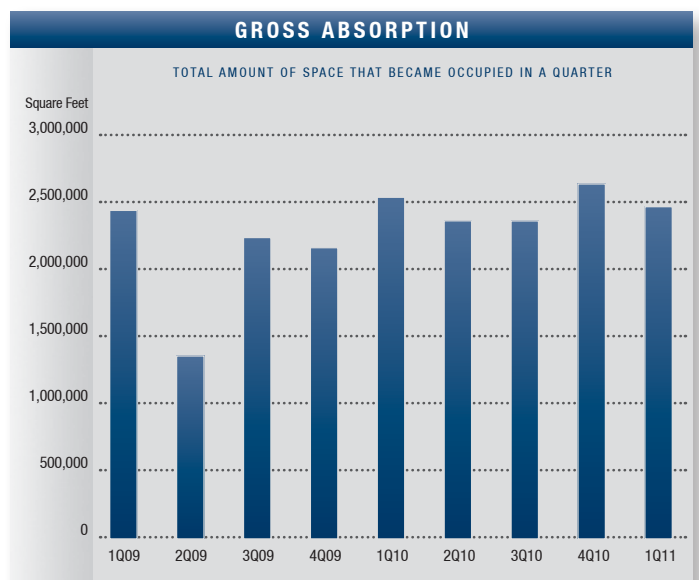
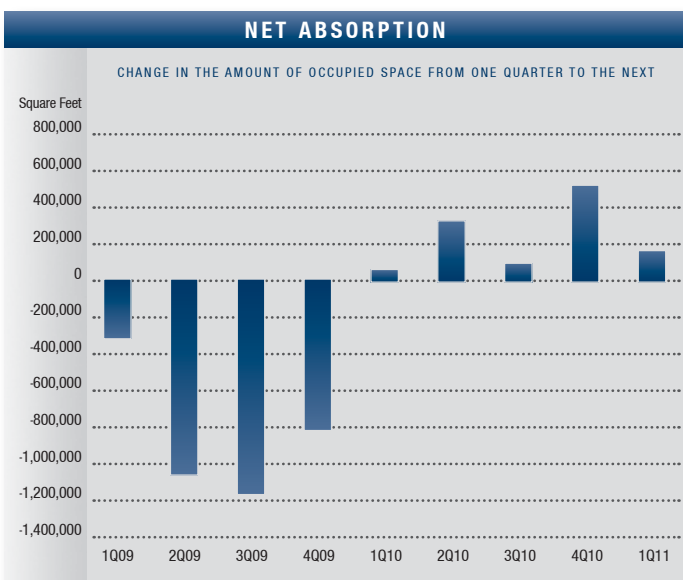
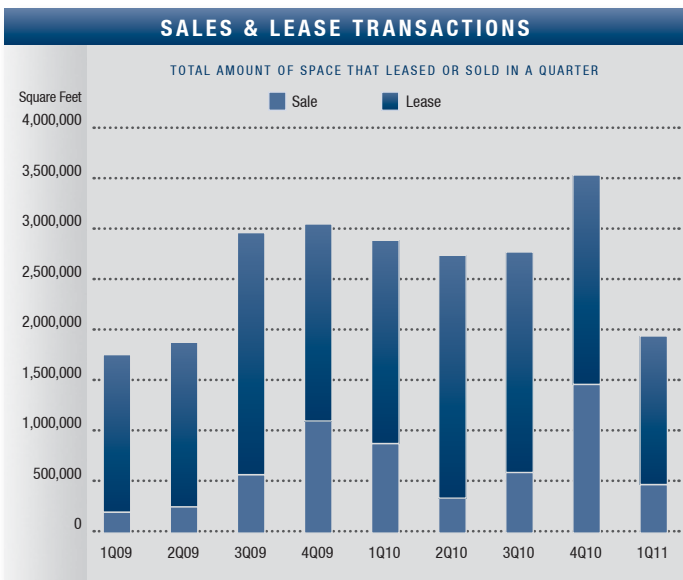
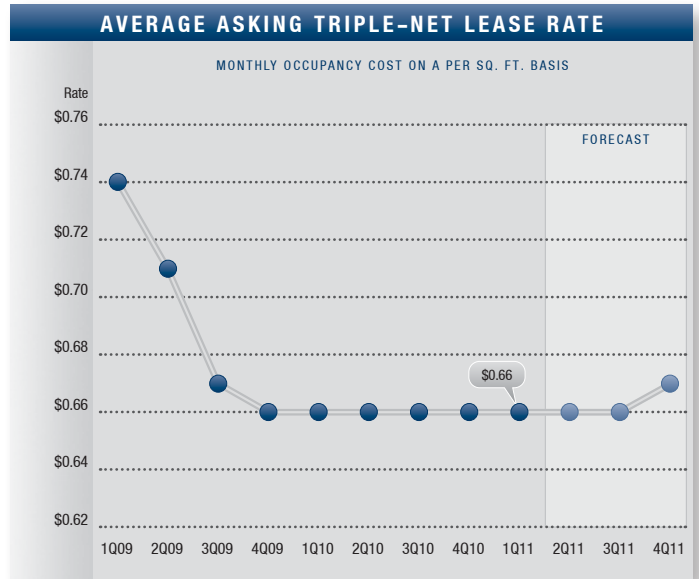
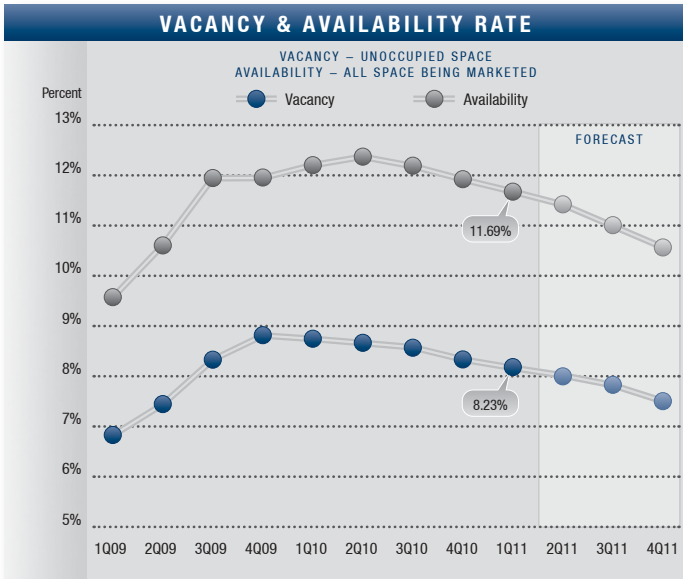
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### Market Highlights

- Encouraging Numbers** - The San Diego County industrial market conveyed more promise of recovery in the first quarter of 2011. Availability and vacancy rates began trending downward, and net absorption was positive for five consecutive quarters. Demand picked up, with Labor Day marking the beginning of a renewed interest in sales transactions, and tenants began signing longer lease commitments. While these are positive indications, stability and job growth will need to be sustained in coming quarters to be considered recovery.
- Construction** - There was only 176,000 square feet of industrial construction in the first quarter. Scarce financing and low demand have essentially halted industrial development.
- Vacancy** - Direct/sublease space (unoccupied) finished the year at 8.23% – lower than both the previous quarter's rate of 8.34% and the year-ago rate of 8.75%. The Central Suburban market posted the lowest rate in the county at 6.05%.
- Availability** - Direct/sublease space being marketed was 11.69% in the first quarter of 2011 – a decrease from the previous quarter's rate of 11.94% and an even more significant decrease from the prior year's rate of 12.24%.
- Lease Rates** - The average asking triple-net lease rate was \$.66 per square foot per month, unchanged from the preceding five quarters, which strongly suggests that the market has finally reached its bottom. The record high for asking lease rates, \$.76, was recorded in the third and fourth quarters of 2008.
- Absorption** - The San Diego industrial market posted 178,028 square feet of positive net absorption in the first quarter of 2011, giving the market a total of 1.18 million square feet of positive absorption over the past five quarters.
- Transaction Activity** - Leasing activity checked in almost 1.5 million square feet in the beginning of 2011. Sales activity also showed a year-over-year decrease, posting almost a half million square feet of activity in the first quarter 2011 as compared to the 865,000 square feet seen in the first quarter of 2010. Details of the largest transactions can be found on the back page of this report.
- Employment** - The unemployment rate in San Diego County was 10.1% in February 2011, down from a revised 10.4% in January 2011 and below the year-ago estimate of 10.6%. This compares with an unadjusted unemployment rate of 12.3% for California and 9.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 19,100 payroll jobs from February 2010 to February 2011 – 10,700 in professional and business services and 3,800 in education and health services. However, construction posted the greatest year-over-year decline – a loss of 1,600 jobs. Between January 2011 and February 2011 San Diego County employment increased by 4,700 jobs overall. The LAEDC is forecasting that 5,700 jobs will be added in San Diego County in 2011.
- Overall** - We are beginning to see a decrease in the amount of available space being added to the market. The first quarter of 2011 marks the longest trend of positive net absorption seen since 2007. With very little under construction to apply upward pressure on vacancy, the market should continue to stabilize. We expect to see an increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. We should also see an increase in leasing activity as many short-term deals come up for renewal and as job creation occurs. As unemployment rates drop and consumer confidence stabilizes, the industrial market will continue to recover.

### INDUSTRIAL MARKET OVERVIEW

	1Q2011	4Q2010	1Q2010	% Change vs. 1Q2010
Vacancy Rate	8.23%	8.34%	8.75%	(5.94%)
Availability Rate	11.69%	11.94%	12.24%	(4.49%)
Average Asking Lease Rate	\$0.66	\$0.66	\$0.66	0.00%
Sale & Lease Transactions	1,927,772	3,520,800	2,886,268	(33.21%)
Gross Absorption	2,461,162	2,625,210	2,519,398	(2.31%)
Net Absorption	178,028	530,774	57,366	N/A



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2011	Square Feet Available	Availability Rate 1Q2011	Average Asking Lease Rate	Net Absorption 1Q2011	Net Absorption 2011	Gross Absorption 1Q2011	Gross Absorption 2011
<b>Central</b>													
Central City	200	3,150,002	0	0	235,199	7.47%	354,761	11.26%	\$0.82	(52,750)	(52,750)	110	110
East City	65	1,438,221	0	0	6,400	0.44%	34,010	2.36%	\$0.00	4,800	4,800	4,800	4,800
Southeast City	338	4,573,167	0	0	317,259	6.94%	351,223	7.68%	\$0.67	(3,300)	(3,300)	tony	tony
<b>Central Total</b>	<b>603</b>	<b>9,161,390</b>	<b>0</b>	<b>0</b>	<b>558,858</b>	<b>6.10%</b>	<b>739,994</b>	<b>8.08%</b>	<b>\$0.71</b>	<b>(51,250)</b>	<b>(51,250)</b>	<b>4,910</b>	<b>4,910</b>
<b>Central Suburban</b>													
Airport/Sports Arena	168	3,927,705	0	0	83,700	2.13%	158,160	4.03%	\$0.00	1,345	1,345	26,216	26,216
Kearny Mesa	475	11,709,499	0	0	436,729	3.73%	582,315	4.97%	\$0.82	61,008	61,008	134,665	134,665
Mission Gorge	132	2,252,322	0	0	208,756	9.27%	254,786	11.31%	\$0.84	(36,783)	(36,783)	13,339	13,339
Rose Canyon/Morena	144	3,456,978	0	0	121,150	3.50%	297,263	8.60%	\$0.67	107,788	107,788	115,620	115,620
<b>Central Suburban Total</b>	<b>919</b>	<b>21,346,504</b>	<b>0</b>	<b>0</b>	<b>850,335</b>	<b>3.98%</b>	<b>1,292,524</b>	<b>6.05%</b>	<b>\$0.78</b>	<b>133,358</b>	<b>133,358</b>	<b>289,840</b>	<b>289,840</b>
<b>East County</b>													
El Cajon	500	10,731,451	0	0	589,268	5.49%	852,678	7.95%	\$0.62	(41,784)	(41,784)	150,452	150,452
La Mesa/Spring Valley	332	3,421,511	0	0	200,445	5.86%	365,221	10.67%	\$0.67	927	927	10,607	10,607
Santee/Lakeside	292	3,961,222	0	200,000	159,996	4.04%	280,858	7.09%	\$1.39	29,485	29,485	65,239	65,239
<b>East County Total</b>	<b>1,124</b>	<b>18,114,184</b>	<b>0</b>	<b>200,000</b>	<b>949,709</b>	<b>5.24%</b>	<b>1,498,757</b>	<b>8.27%</b>	<b>\$0.77</b>	<b>(11,372)</b>	<b>(11,372)</b>	<b>226,298</b>	<b>226,298</b>
<b>Highway 78 Corridor</b>													
Oceanside	424	8,396,509	0	658,156	1,340,571	15.97%	1,622,627	19.33%	\$0.60	51,333	51,333	187,376	187,376
San Marcos	557	9,291,826	0	53,000	779,250	8.39%	1,047,800	11.28%	\$0.62	(40,737)	(40,737)	126,341	126,341
Vista/Fallbrook	517	12,731,325	0	55,590	1,049,499	8.24%	1,665,354	13.08%	\$0.68	30,367	30,367	357,930	357,930
<b>Highway 78 Corridor Total</b>	<b>1,498</b>	<b>30,419,660</b>	<b>0</b>	<b>766,746</b>	<b>3,169,320</b>	<b>10.42%</b>	<b>4,335,781</b>	<b>14.25%</b>	<b>\$0.65</b>	<b>40,963</b>	<b>40,963</b>	<b>671,647</b>	<b>671,647</b>
<b>I-15 Corridor</b>													
Escondido	726	8,392,622	0	86,500	483,268	5.76%	726,600	8.66%	\$0.78	16,198	16,198	140,454	140,454
Poway	177	7,287,712	0	355,400	304,504	4.18%	782,810	10.74%	\$0.74	47,904	47,904	210,706	210,706
Rancho Bernardo	55	4,144,645	0	0	536,613	12.95%	618,254	14.92%	\$1.05	(62,363)	(62,363)	6,006	6,006
Scripps Ranch	30	789,004	0	0	31,628	4.01%	179,479	22.75%	\$0.81	2,746	2,746	5,746	5,746
<b>I-15 Corridor Total</b>	<b>988</b>	<b>20,613,983</b>	<b>0</b>	<b>441,900</b>	<b>1,356,013</b>	<b>6.58%</b>	<b>2,307,143</b>	<b>11.19%</b>	<b>\$0.90</b>	<b>4,485</b>	<b>4,485</b>	<b>362,912</b>	<b>362,912</b>
<b>North City</b>													
Miramar	625	14,799,362	0	0	1,385,237	9.36%	2,218,314	14.99%	\$0.66	12,997	12,997	333,018	333,018
Sorrento Mesa	84	4,395,970	0	0	251,321	5.72%	327,728	7.46%	\$0.83	8,069	8,069	20,092	20,092
Sorrento Valley	62	1,362,629	0	0	12,770	0.94%	52,626	3.86%	\$1.10	(1,440)	(1,440)	0	0
Torrey Pines/UTC	5	140,879	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>North City Total</b>	<b>776</b>	<b>20,698,840</b>	<b>0</b>	<b>0</b>	<b>1,649,328</b>	<b>7.97%</b>	<b>2,598,668</b>	<b>12.55%</b>	<b>\$0.70</b>	<b>19,626</b>	<b>19,626</b>	<b>353,110</b>	<b>353,110</b>
<b>North County</b>													
Carlsbad	262	9,293,846	176,000	26,632	733,232	7.89%	1,238,461	13.33%	\$0.89	10,526	10,526	114,220	114,220
North Beach Cities	66	938,436	0	0	1,200	0.13%	1,200	0.13%	\$0.00	17,557	17,557	18,757	18,757
<b>North County Total</b>	<b>328</b>	<b>10,232,282</b>	<b>176,000</b>	<b>26,632</b>	<b>734,432</b>	<b>7.18%</b>	<b>1,239,661</b>	<b>12.12%</b>	<b>\$0.89</b>	<b>28,083</b>	<b>28,083</b>	<b>132,977</b>	<b>132,977</b>
<b>Outlying Areas</b>													
Outlying SD County North	119	1,236,125	0	0	20,417	1.65%	31,283	2.53%	\$0.88	3,510	3,510	10,386	10,386
Outlying SD County South	81	810,451	0	0	141,165	17.42%	118,832	14.66%	\$0.00	(28,863)	(28,863)	3,100	3,100
<b>Outlying Areas Total</b>	<b>200</b>	<b>2,046,576</b>	<b>0</b>	<b>0</b>	<b>161,582</b>	<b>7.90%</b>	<b>150,115</b>	<b>7.33%</b>	<b>\$0.88</b>	<b>(25,353)</b>	<b>(25,353)</b>	<b>13,486</b>	<b>13,486</b>
<b>South Bay</b>													
Chula Vista	382	10,740,517	0	0	689,991	6.42%	790,175	7.36%	\$0.55	(24,767)	(24,767)	122,570	122,570
National City	261	4,369,891	0	0	249,609	5.71%	338,407	7.74%	\$0.59	(16,307)	(16,307)	27,280	27,280
Otay Mesa	345	15,500,499	0	747,100	3,120,683	20.13%	3,723,950	24.02%	\$0.48	83,551	83,551	240,935	240,935
San Ysidro/Imperial Beach	74	1,840,685	0	24,121	94,183	5.12%	290,365	15.77%	\$0.49	(2,989)	(2,989)	8,497	8,497
<b>South Bay Total</b>	<b>1,062</b>	<b>32,451,592</b>	<b>0</b>	<b>771,221</b>	<b>4,154,466</b>	<b>12.80%</b>	<b>5,142,897</b>	<b>15.85%</b>	<b>\$0.49</b>	<b>39,488</b>	<b>39,488</b>	<b>399,282</b>	<b>399,282</b>
<b>San Diego County Total</b>	<b>7,498</b>	<b>165,085,011</b>	<b>176,000</b>	<b>2,206,499</b>	<b>13,584,043</b>	<b>8.23%</b>	<b>19,305,540</b>	<b>11.69%</b>	<b>\$0.66</b>	<b>178,028</b>	<b>178,028</b>	<b>2,454,462</b>	<b>2,454,462</b>

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
4370 Jutland Dr.	PB/Rose Canyon/Morena	72,712	\$41.26	Fiedler Construction Corp.	Conner Family Trust
4055 Calle Platino	Oceanside	71,160	\$84.25	Southwest Greene International, Inc.	LBA Realty
1709 La Costa Meadows Dr.	San Marcos	67,718	\$93.77	NV Chartwell Investments, LP	Green Properties, Inc.
1390 Engineer St.	Vista	41,944	\$137.09	Preserved Treescapes International	Loyd H. Wells
8747 N. Magnolia Ave. – 2 Properties	Santee/Lakeside	35,715	\$71.40	Jerry Rudick	Security Business Bank of SD
1155 N. Johnson Ave. – 2 Properties	El Cajon	33,000	\$85.00	J & B Materials	Ramon & Norma Aguilar

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4665 North Ave.	Oceanside	93,000	Mar-11	N/A	WPA Development
2271 Cosmos Ct. – Renewal	Carlsbad	85,165	Feb-11	Philips Healthcare	Koch Trust
5785 Kearny Villa Rd.	Kearny Mesa	46,500	Mar-11	ScaleMatrix	KV Resources, LLC
7077 Consolidated Way	Mira Mesa/Miramar	45,600	Jan-11	OnTrac	7077 Associates
2251 Rutherford	Carlsbad	33,424	Feb-11	Northwood, LLC	Pacific Realty Investors

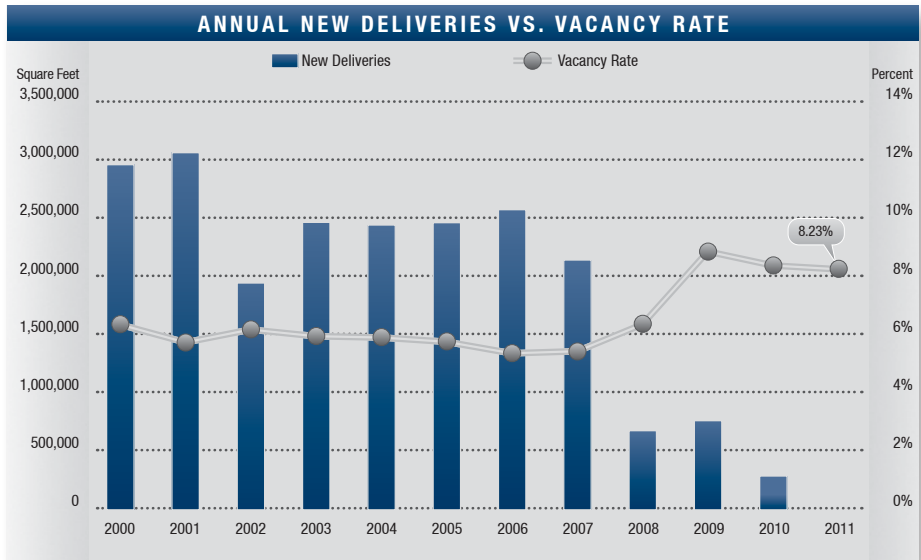
Product Type

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