



## Industrial Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

FLAT

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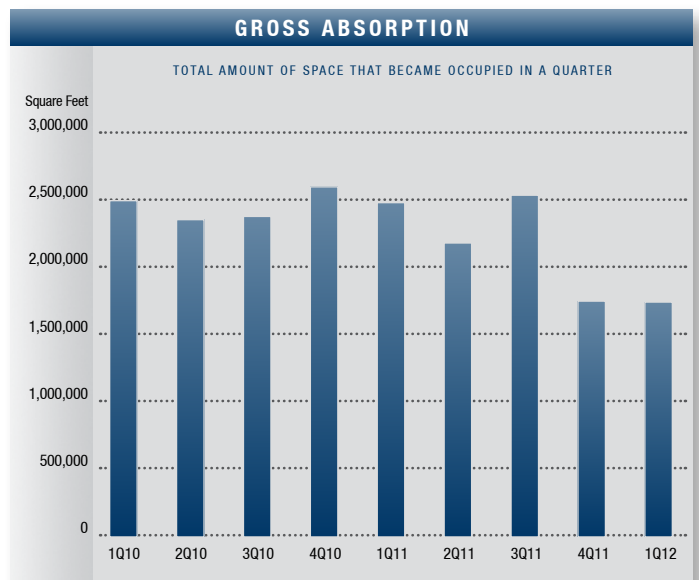
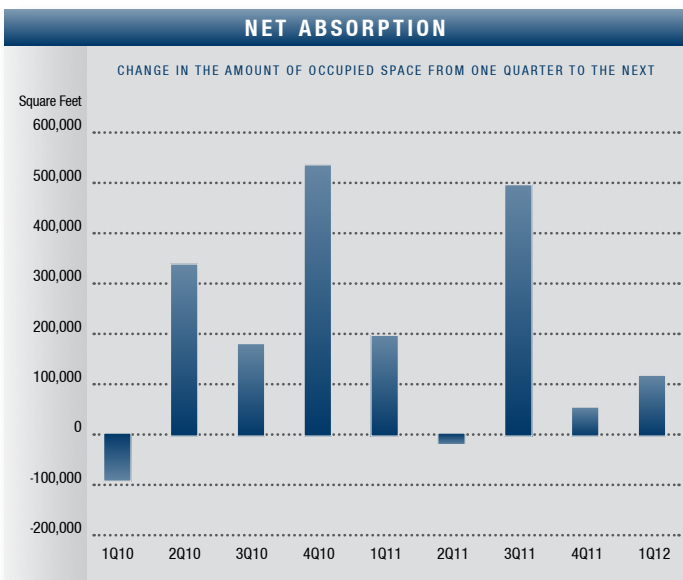
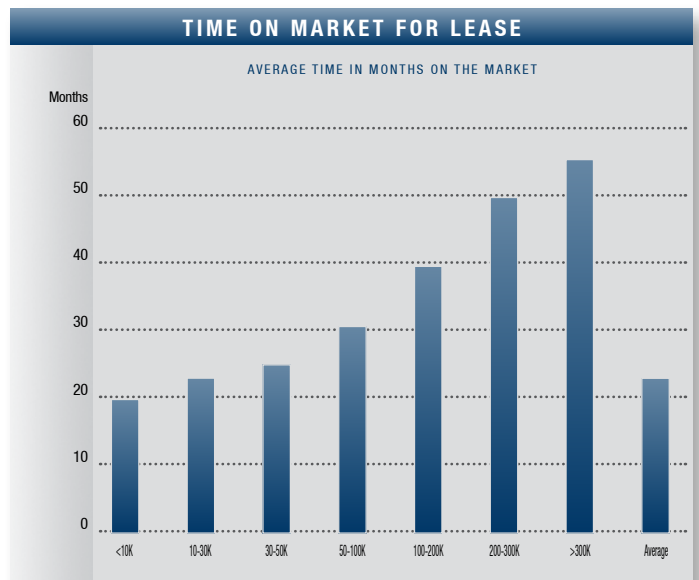
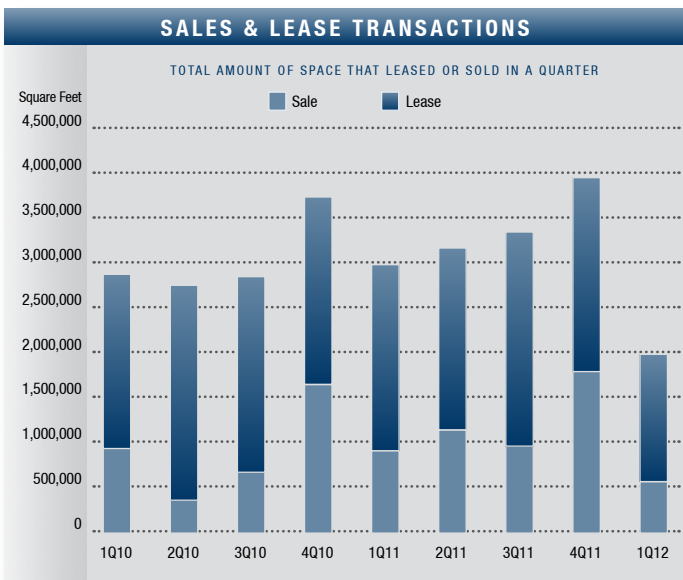
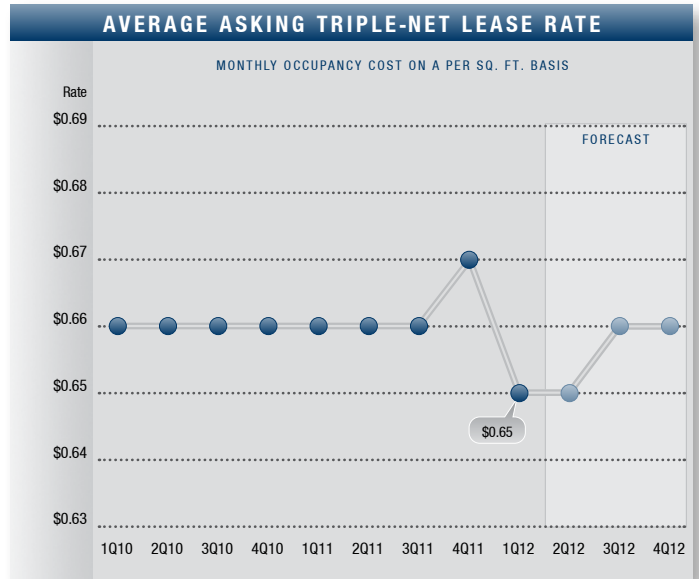
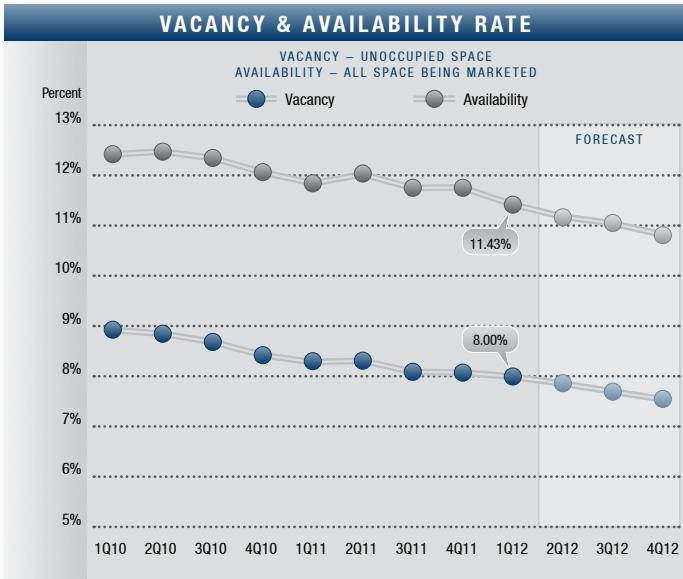


### Market Highlights

- Slow Growth** - The San Diego County industrial market continued its path to recovery in the first quarter of 2012, posting a modest 8% vacancy rate. Availability and vacancy rates continued trending downward, and net absorption was positive for the seventh time in the last eight quarters. While these are positive indicators, we are keeping a close eye on demand, which, being ultimately influenced by employment and overall economic stability, will need to be sustained in coming quarters for the San Diego County industrial market to continue its pace of recovery.
- Absorption** - The San Diego industrial market posted 118,316 square feet of positive net absorption in the first quarter, giving the market a total of 1.89 million square feet of positive absorption over the past two years.
- Transaction Activity** - The total square feet leased and sold in the first quarter of 2012 was about half that transacted in the previous quarter. Details of the largest transactions can be found on the back page of this report.
- Employment** - The unemployment rate in the San Diego County was 9.3% in February 2012, unchanged from a revised 9.3% in January 2012 and below the year-ago estimate of 10.2%. This compares with an unadjusted unemployment rate of 11.4% for California and 8.7% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 9,000 payroll jobs from February 2011 to February 2012 — 6,200 in professional and business services and 1,600 in professional, scientific, and technical services. Government posted the greatest year-over-year decline- a loss of 2,200 jobs.
- Overall** - We are continuing to see a decrease in the amount of available space. We are seeing a continued trend of positive net absorption. With little product 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.
- Construction** - The sluggish construction trend continued, with the 176,000 square feet delivering in the third quarter of 2011 as the only delivery of the past year. With just 130,000 square feet currently under construction, industrial development is very light.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 8% — lower than the fourth quarter 2011 rate of 8.07%. Poway and Kearny Mesa posted the lowest vacancy rates of submarkets with at least 5 million square feet of inventory, at 2.91% and 3.33%, respectively. We are forecasting that vacancy will continue its downward trend in 2012, ending the year at around 7.5%.
- Availability** - Direct/sublease space being marketed was 11.43% in the first quarter — a decrease from the previous quarter's rate of 11.75% and the lowest availability rate in the past three years.
- Lease Rates** - The average asking triple-net lease rate was \$0.65 per square foot per month, a one cent decrease from 2011's first quarter rate. The record high for asking lease rates, \$0.76, was recorded in the third and fourth quarters of 2008.

### INDUSTRIAL MARKET OVERVIEW

	1Q12	4Q11	1Q11	% of Change vs. 1Q2011
Total Vacancy Rate	8.00%	8.07%	8.30%	(3.61%)
Availability Rate	11.43%	11.75%	11.83%	(3.38%)
Average Asking Lease Rate	\$0.65	\$0.67	\$0.66	(1.52%)
Sale & Lease Transactions	1,972,562	3,920,630	2,971,337	(33.61%)
Gross Absorption	1,734,678	1,736,038	2,489,894	(30.33%)
Net Absorption	118,316	52,780	195,688	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 1Q2012	Square Feet Available	Availability Rate 1Q2012	Average Asking Lease Rate	Net Absorption 1Q2012	Net Absorption 2012	Gross Absorption 1Q2012	Gross Absorption 2012
<b>Central</b>													
Central City	189	2,973,534	0	0	198,355	6.67%	360,130	12.11%	\$0.67	16,264	16,264	24,144	24,144
East City	68	1,451,680	0	0	12,300	0.85%	12,300	0.85%	\$0.00	5,210	5,210	5,210	5,210
Southeast City	333	4,397,304	0	0	247,992	5.64%	389,577	8.86%	\$0.57	1,037	1,037	26,093	26,093
<b>Central Total</b>	<b>590</b>	<b>8,822,518</b>	<b>0</b>	<b>0</b>	<b>458,647</b>	<b>5.20%</b>	<b>762,007</b>	<b>8.64%</b>	<b>\$0.58</b>	<b>22,511</b>	<b>22,511</b>	<b>55,447</b>	<b>55,447</b>
<b>Central Suburban</b>													
Airport/Sports Arena	168	3,922,108	0	0	124,589	3.18%	148,309	3.78%	\$0.75	(49,400)	(49,400)	7,000	7,000
Kearny Mesa	458	11,375,028	0	0	330,856	2.91%	540,975	4.76%	\$0.87	48,869	48,869	98,908	98,908
Mission Gorge	134	2,271,312	0	0	236,619	10.42%	220,500	9.71%	\$0.83	(1,014)	(1,014)	28,353	28,353
Rose Canyon/Morena	144	3,464,763	0	0	189,363	5.47%	171,486	4.95%	\$0.75	13,619	13,619	31,260	31,260
<b>Central Suburban Total</b>	<b>904</b>	<b>21,033,211</b>	<b>0</b>	<b>0</b>	<b>881,427</b>	<b>4.19%</b>	<b>1,081,270</b>	<b>5.14%</b>	<b>\$0.82</b>	<b>12,074</b>	<b>12,074</b>	<b>165,521</b>	<b>165,521</b>
<b>East County</b>													
El Cajon	502	10,465,721	0	450,000	841,164	8.04%	1,030,190	9.84%	\$0.60	16,773	16,773	72,150	72,150
La Mesa/Spring Valley	341	3,579,792	0	0	208,813	5.83%	363,002	10.14%	\$0.56	12,214	12,214	24,614	24,614
Santee/Lakeside	294	3,964,960	0	275,000	119,858	3.02%	215,186	5.43%	\$0.66	(18,760)	(18,760)	25,745	25,745
<b>East County Total</b>	<b>1,137</b>	<b>18,010,473</b>	<b>0</b>	<b>725,000</b>	<b>1,169,835</b>	<b>6.50%</b>	<b>1,608,378</b>	<b>8.93%</b>	<b>\$0.59</b>	<b>10,227</b>	<b>10,227</b>	<b>122,509</b>	<b>122,509</b>
<b>Highway 78 Corridor</b>													
Oceanside	421	8,624,780	0	278,178	1,205,511	13.98%	1,315,878	15.26%	\$0.62	(8,995)	(8,995)	117,217	117,217
San Marcos	552	9,422,861	0	53,000	899,278	9.54%	1,237,196	13.13%	\$0.72	(83,746)	(83,746)	104,018	104,018
Vista/Fallbrook	518	12,912,261	0	189,590	957,034	7.41%	1,624,269	12.58%	\$0.65	(68,484)	(68,484)	100,273	100,273
<b>Highway 78 Corridor Total</b>	<b>1,491</b>	<b>30,959,902</b>	<b>0</b>	<b>520,768</b>	<b>3,061,823</b>	<b>9.89%</b>	<b>4,177,343</b>	<b>13.49%</b>	<b>\$0.64</b>	<b>(161,225)</b>	<b>(161,225)</b>	<b>321,508</b>	<b>321,508</b>
<b>I-15 Corridor</b>													
Escondido	676	8,044,379	0	0	439,862	5.47%	701,543	8.72%	\$0.76	(32,345)	(32,345)	82,437	82,437
Poway	178	7,279,130	129,765	258,700	243,814	3.35%	602,706	8.28%	\$0.79	39,485	39,485	119,051	119,051
Rancho Bernardo	54	3,998,249	0	0	410,155	10.26%	535,413	13.39%	\$0.95	61,892	61,892	61,892	61,892
Scripps Ranch	30	789,004	0	0	28,675	3.63%	113,657	14.41%	\$0.80	6,600	6,600	8,335	8,335
<b>I-15 Corridor Total</b>	<b>938</b>	<b>20,110,762</b>	<b>129,765</b>	<b>258,700</b>	<b>1,122,506</b>	<b>5.58%</b>	<b>1,953,319</b>	<b>9.71%</b>	<b>\$0.87</b>	<b>75,632</b>	<b>75,632</b>	<b>271,715</b>	<b>271,715</b>
<b>North City</b>													
Miramar	619	14,420,646	0	0	1,058,406	7.34%	1,763,010	12.23%	\$0.72	137,216	137,216	311,299	311,299
Sorrento Mesa	81	4,011,868	0	0	242,970	6.06%	432,241	10.77%	\$0.86	6,275	6,275	28,232	28,232
Sorrento Valley	57	1,233,232	0	0	18,370	1.49%	90,241	7.32%	\$0.78	(4,005)	(4,005)	15,978	15,978
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>762</b>	<b>19,806,625</b>	<b>0</b>	<b>0</b>	<b>1,319,746</b>	<b>6.66%</b>	<b>2,285,492</b>	<b>11.54%</b>	<b>\$0.75</b>	<b>139,486</b>	<b>139,486</b>	<b>355,509</b>	<b>355,509</b>
<b>North County</b>													
Carlsbad	259	8,865,208	0	26,632	968,395	10.92%	1,227,272	13.84%	\$0.78	(56,402)	(56,402)	61,610	61,610
North Beach Cities	66	934,897	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>North County Total</b>	<b>325</b>	<b>9,800,105</b>	<b>0</b>	<b>26,632</b>	<b>968,395</b>	<b>9.88%</b>	<b>1,227,272</b>	<b>12.52%</b>	<b>\$0.78</b>	<b>(56,402)</b>	<b>(56,402)</b>	<b>61,610</b>	<b>61,610</b>
<b>Outlying Areas</b>													
Outlying SD County North	120	1,355,795	0	0	12,827	0.95%	20,202	1.49%	\$0.85	6,608	6,608	6,608	6,608
Outlying SD County South	81	827,456	0	0	75,932	9.18%	73,332	8.86%	\$0.00	25,948	25,948	35,948	35,948
<b>Outlying Areas Total</b>	<b>201</b>	<b>2,183,251</b>	<b>0</b>	<b>0</b>	<b>88,759</b>	<b>4.07%</b>	<b>93,534</b>	<b>4.28%</b>	<b>\$0.85</b>	<b>32,556</b>	<b>32,556</b>	<b>42,556</b>	<b>42,556</b>
<b>South Bay</b>													
Chula Vista	382	10,403,143	0	0	660,729	6.35%	817,041	7.85%	\$0.51	(13,095)	(13,095)	67,042	67,042
National City	258	4,321,741	0	0	257,612	5.96%	302,243	6.99%	\$0.67	(18,272)	(18,272)	28,497	28,497
Otay Mesa	336	15,433,231	0	977,469	2,920,126	18.92%	4,008,859	25.98%	\$0.47	78,271	78,271	236,534	236,534
San Ysidro/Imperial Beach	74	1,805,758	0	24,121	102,011	5.65%	284,199	15.74%	\$0.53	(3,447)	(3,447)	6,230	6,230
<b>South Bay Total</b>	<b>1,050</b>	<b>31,963,873</b>	<b>0</b>	<b>1,001,590</b>	<b>3,940,478</b>	<b>12.33%</b>	<b>5,412,342</b>	<b>16.93%</b>	<b>\$0.48</b>	<b>43,457</b>	<b>43,457</b>	<b>338,303</b>	<b>338,303</b>
<b>San Diego County Total</b>	<b>7,398</b>	<b>162,690,720</b>	<b>129,765</b>	<b>2,532,690</b>	<b>13,011,616</b>	<b>8.00%</b>	<b>18,600,957</b>	<b>11.43%</b>	<b>\$0.65</b>	<b>118,316</b>	<b>118,316</b>	<b>1,734,678</b>	<b>1,734,678</b>

Lease rates are on a triple-net basis.

LARGEST TRANSACTIONS OF 2011

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
13550 Stowe Dr.	Poway	112,000	\$105.36	Foley Enterprises	INVESCO
9525 Padgett St.	Miramar	17,088	\$339.42	Bel Air TT, LLC	NorthAmerican Terminals Mgmt., Inc.
4039 Avenida De La Plata	Oceanside	35,856	\$127.90	Gilead Sciences, Inc.	Kuhn Family Trust
1081 Poinsettia Ave.	Vista	65,002	\$58.00	Pacifica Real Estate Services, Inc.	Loftus Family Trust
2390 Oak Ridge Way	Vista	39,672	\$69.57	SR Commercial	Quality Props Asset Management
1211 Liberty Way	Vista	25,189	\$83.37	Two D Property Management, LLC	CapRock Partners

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2858 Loker Ave. E. – Renewal	Carlsbad	64,541	Feb-12	PODS Enterprises, Inc.	Berdan Holdings
7130 Miramar Rd.	Miramar	58,368	Mar-12	Ashley Furniture	Walton Street Capital, LLC
5950 Nancy Ridge Dr.	Miramar	46,800	Feb-12	InCharacter Costumes, LLC	H.G. Fenton Company
8190 Miralani Dr.	Miramar	30,000	Jan-12	Jump San Diego	Milan Associates
1335 Sycamore Ave.	Vista	25,394	Mar-12	Packaging Corporation of America	Knickerbocker Properties, Inc.
2870 S. Santa Fe Ave.	San Marcos	24,400	Mar-12	Green World Asset Management	San Marcos Flex, LLC

Product Type

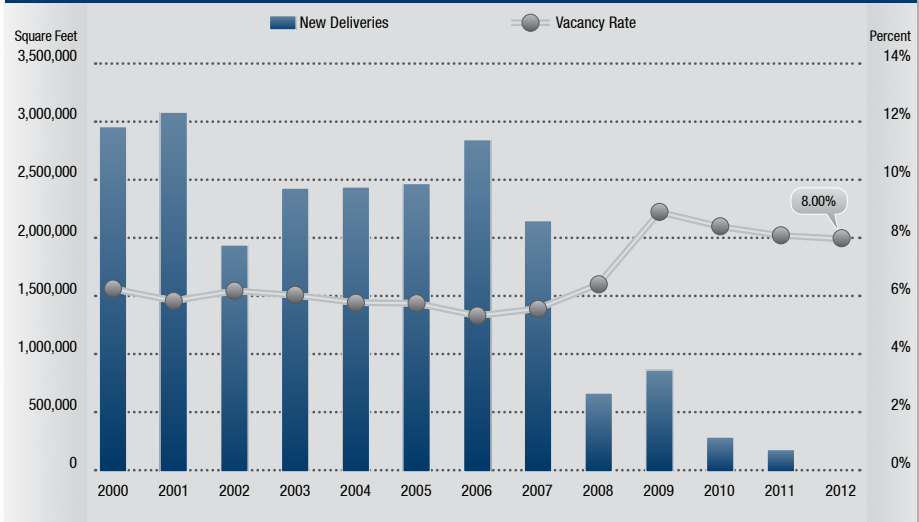
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