

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

FLAT



Transactions

DOWN



Deliveries

UP



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HIGHLIGHTS

- **Stable Improvements** - The San Diego County industrial market continued its path to recovery, posting a modest 6.59% vacancy rate. Availability continued trending downward, and net absorption was positive for the seventeenth consecutive quarter. 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 to improve.
- **Construction** - Industrial construction during the recession and recovery has been limited to sporadic build-to-suit projects. The nearly non-existent development pipeline has helped to push vacancy down and lease rates up for industrial product.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 6.59%, a decrease of 16.4% from the prior year. The industrial market in San Diego County is now nearing the prerecession level of 2007's 6.2% vacancy rate. The East County posted the lowest vacancy rates of San Diego County areas, at 3.14%.
- **Availability** - Direct/sublease space being marketed was 10.04% at the end of the quarter — a significant decrease from the 2013's first quarter rate of 11.48%. The lack of available space is creating pent up demand in some size ranges and is applying upward pressure on pricing.
- **Lease Rates** - The average asking triple-net lease rate checked in at \$.67 per square foot per month, unchanged from the previous quarter and up three cents or 4.69% over 2013's first quarter figure.
- **Absorption** - The San Diego industrial market posted 887,422 square feet of positive net absorption in the first quarter, the

largest amount of positive net absorption since the fourth quarter of 2007, giving the market 5.7 million square feet of positive absorption since the first quarter of 2010.

- **Transaction Activity** - The total square feet leased and sold in the first quarter was 2.4 million square feet, a decrease from the 3.4 million square feet that in the prior quarter. This statistic can have some lag time in being reported, so look for first quarter 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 the San Diego County was 7.0% in February 2014, unchanged from a revised 7.0% in January 2014 and below the year-ago estimate of 8.1%. This compares with an unadjusted unemployment rate of 8.5% for California and 7.0% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 27,200 payroll jobs from February 2013 and February 2014 — including 6,700 in professional and business services, 4,800 from leisure and hospitality, and 4,300 from construction. The financial activities sector recorded the greatest number of job losses, down 500 year over year.
- **Overall** - We are seeing continued decreases in the amount of vacant space in the market along with positive net absorption. While the vacancy rate is nearing prerecession levels, rental rates have been increasing at a slower pace. The miniscule development pipeline has been a big factor in the vacancy rate compression, but demand has not been enough to see comparable movement of asking rental rates. The recovery is maturing, evidenced by the fact that we are nearing single digits for the availability rate.

FORECAST

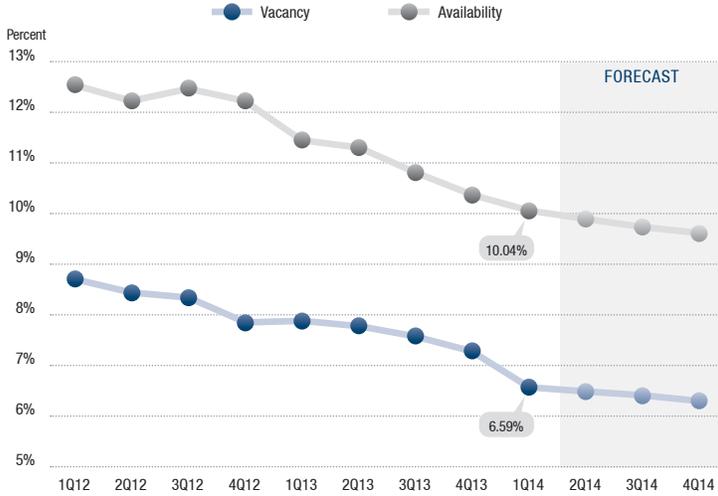
- **Construction** - After seven years of depressed construction levels for the San Diego industrial market, speculative construction has reentered the conversation, but it has not yet arrived. Limited construction in coming quarters should further allow demand to catch up to supply.
- **Employment** - 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 2014.
- **Lease Rates** - Expect average asking rates to increase by approximately 2% to 4% by 2015.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping by 30 basis points, to around 6.3% by 2015.

OVERVIEW

	1Q14	4Q13	1Q13	% of Change vs. 1Q13
Vacancy Rate	6.59%	7.06%	7.88%	(16.37%)
Availability Rate	10.04%	10.36%	11.48%	(12.54%)
Average Asking Lease Rate	\$0.67	\$0.67	\$0.64	4.69%
Sale & Lease Transactions	2,394,271	3,424,494	3,427,069	(30.14%)
Gross Absorption	2,589,019	2,038,550	2,187,772	18.34%
Net Absorption	887,422	761,428	13,428	N/A

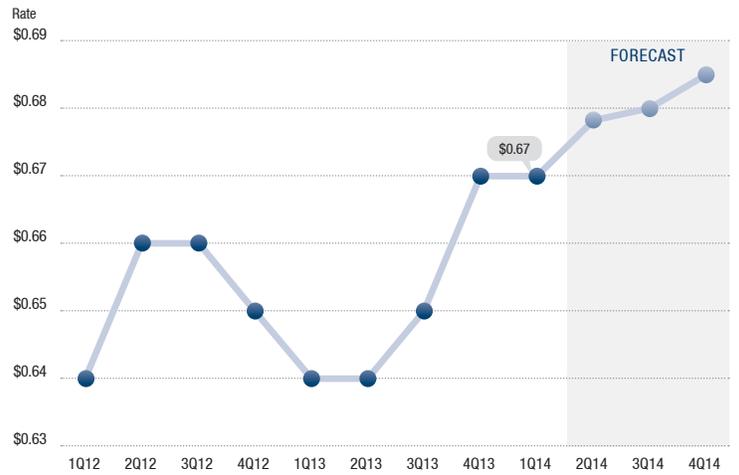
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



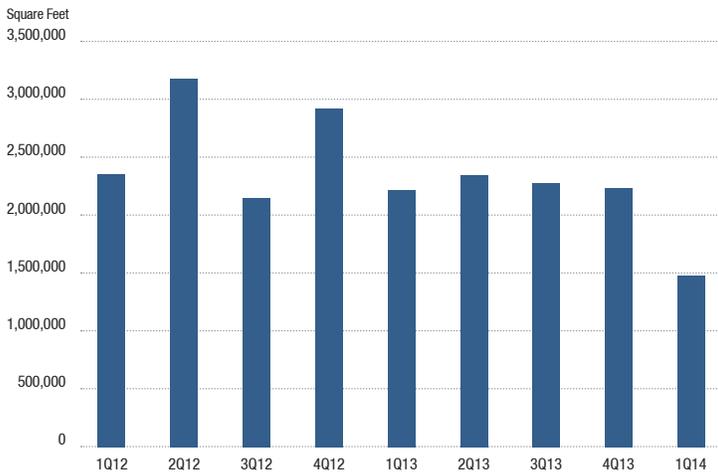
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



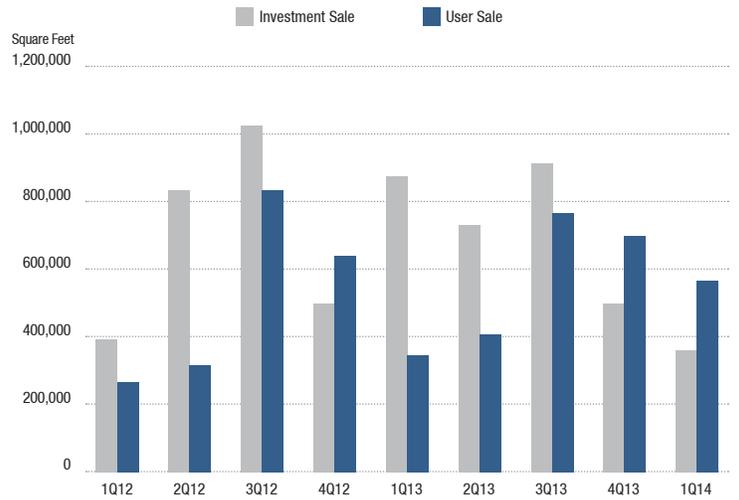
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



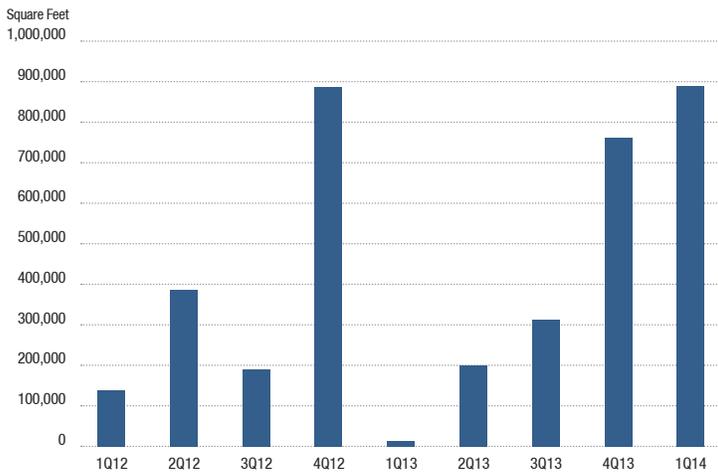
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



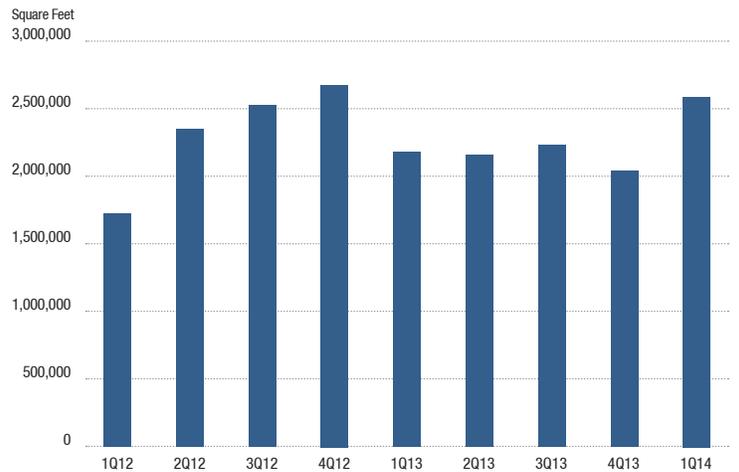
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2014	Square Feet Available	Availability Rate 1Q2014	Average Asking Lease Rate	Net Absorption 1Q2014	Net Absorption 2013	Gross Absorption 1Q2014	Gross Absorption 2013
Central													
Miramar	593	13,390,868	0	0	694,025	5.18%	1,073,666	8.02%	\$0.77	223,923	246,696	382,680	1,319,169
Scripps Ranch	29	744,249	0	0	23,645	3.18%	113,322	15.23%	\$0.85	(6,594)	19,647	4,580	42,997
Sorrento Mesa	83	4,031,935	0	74,000	289,504	7.18%	413,612	10.26%	\$0.99	(9,518)	14,418	37,553	385,880
Sorrento Valley	51	1,162,385	0	0	4,320	0.37%	4,320	0.37%	\$0.95	3,082	3,509	7,402	33,591
Subtotal	756	19,329,437	0	74,000	1,011,494	5.23%	1,604,920	8.30%		210,893	284,270	432,215	1,781,637
Sports Arena/Airport	200	3,159,989	0	0	111,221	3.52%	132,548	4.19%	\$0.83	28,473	(62,033)	57,923	101,822
Rose Canyon/Morena	134	2,706,560	0	0	38,450	1.42%	110,635	4.09%	\$0.76	(8,927)	72,623	10,250	220,624
Kearny Mesa	432	9,958,552	0	0	498,957	5.01%	581,709	5.84%	\$0.96	(47,215)	(96,506)	82,000	506,229
Mission Gorge/Grantville	121	1,967,693	0	0	152,255	7.74%	267,849	13.61%	\$0.79	38,868	25,170	69,277	208,698
Subtotal	887	17,792,794	0	0	800,883	4.50%	1,092,741	6.14%		11,199	(60,746)	219,450	1,037,373
Central Total	1,643	37,122,231	0	74,000	1,812,377	4.88%	2,697,661	7.27%	\$0.84	222,092	223,524	651,665	2,819,010
East													
El Cajon	513	9,444,897	0	0	277,022	2.93%	691,603	7.32%	\$0.69	(46,748)	229,889	41,289	458,479
Santee	194	2,924,241	0	318,000	75,696	2.59%	237,102	8.11%	\$0.75	9,077	(58,286)	36,904	121,625
Lakeside	87	1,004,402	0	0	14,333	1.43%	54,544	5.43%	\$1.00	73,784	2,546	90,484	15,072
Subtotal	794	13,373,540	0	318,000	367,051	2.74%	983,249	7.35%		36,113	174,149	168,677	595,176
Spring Valley	116	1,257,976	0	0	54,946	4.37%	70,810	5.63%	\$0.80	848	12,186	5,232	44,924
Lemon Grove/La Mesa/East SD	218	1,444,591	0	0	83,215	5.76%	130,046	9.00%	\$0.66	(9,550)	31,781	8,300	70,929
Subtotal	334	2,702,567	0	0	138,161	5.11%	200,856	7.43%		(8,702)	43,967	13,532	115,853
East Total	1,128	16,076,107	0	318,000	505,212	3.14%	1,184,105	7.37%	\$0.74	27,411	218,116	182,209	711,029
North Coastal													
Carlsbad	242	7,988,477	0	107,024	637,639	7.98%	846,912	10.60%	\$0.75	92,912	167,501	154,057	449,042
North Beach Cities	40	314,911	0	0	0	0.00%	0	0.00%	\$0.00	0	1,580	0	1,580
Southern Vista	392	11,119,633	0	709,442	842,934	7.58%	1,190,748	10.71%	\$0.67	114,780	(136,784)	357,282	434,025
Subtotal	674	19,423,021	0	816,466	1,480,573	7.62%	2,037,660	10.49%		207,692	32,297	511,339	884,647
Oceanside	401	7,980,414	0	260,618	965,494	12.10%	973,257	12.20%	\$0.66	61,164	70,029	154,689	478,900
Northern Vista	100	1,077,045	0	0	31,386	2.91%	41,181	3.82%	\$1.00	14,958	(19,648)	20,838	50,297
Subtotal	501	9,057,459	0	260,618	996,880	11.01%	1,014,438	11.20%		76,122	50,381	175,527	529,197
North Coastal Total	1,175	28,480,480	0	1,077,084	2,477,453	8.70%	3,052,098	10.72%	\$0.67	283,814	82,678	686,866	1,413,844
North Inland													
Poway	174	7,224,207	115,000	538,700	351,120	4.86%	808,409	11.19%	\$0.92	(56,383)	75,617	165,592	394,747
Rancho Bernardo/CMR	47	4,236,613	0	0	250,759	5.92%	264,236	6.24%	\$0.00	43,378	128,536	43,378	227,642
Subtotal	221	11,460,820	115,000	538,700	601,879	5.25%	1,072,645	9.36%		(13,005)	204,153	208,970	622,389
Escondido	628	7,173,371	0	0	290,625	4.05%	420,647	5.86%	\$0.74	26,443	213,070	121,085	563,775
San Marcos	525	8,539,391	0	53,000	596,549	6.99%	796,921	9.33%	\$0.87	68,007	165,459	135,911	557,390
Unincorporated North County	88	809,875	0	0	36,823	4.55%	42,138	5.20%	\$0.85	0	(6,448)	0	28,464
Subtotal	1,241	16,522,637	0	53,000	923,997	5.59%	1,259,706	7.62%		94,450	372,081	256,996	1,149,629
North Inland Total	1,462	27,983,457	115,000	591,700	1,525,876	5.45%	2,332,351	8.33%	\$0.90	81,445	576,234	465,966	1,772,018
South													
Southeast/Central SD	480	6,344,672	0	0	337,103	5.31%	553,701	8.73%	\$0.63	44,607	(62,076)	89,482	288,453
National City	245	3,504,599	0	0	96,224	2.75%	133,132	3.80%	\$0.74	22,092	133,789	47,526	241,282
Chula Vista	336	8,575,061	0	0	418,698	4.88%	786,602	9.17%	\$0.55	55,294	119,357	150,750	461,183
Subtotal	1,061	18,424,332	0	0	852,025	4.62%	1,473,435	8.00%		121,993	191,070	287,758	990,918
Otay Mesa	324	15,153,534	0	1,431,498	2,233,398	14.74%	3,513,607	23.19%	\$0.46	163,624	(30,915)	296,147	791,901
San Ysidro/South SD	68	1,530,021	0	24,121	138,966	9.08%	279,385	18.26%	\$0.49	(12,957)	(24,559)	18,408	87,894
Subtotal	392	16,683,555	0	1,455,619	2,372,364	14.22%	3,792,992	22.73%		150,667	(55,474)	314,555	879,795
South Total	1,453	35,107,887	0	1,455,619	3,224,389	9.18%	5,266,427	15.00%	\$0.48	272,660	135,596	602,313	1,870,713
San Diego County Total	6,861	144,770,162	115,000	3,516,403	9,545,307	6.59%	14,532,642	10.04%	\$0.67	887,422	1,236,148	2,589,019	8,586,614
0-9,999	3,089	15,667,710	0	8,000	662,082	4.23%	887,277	5.66%	\$0.84	18,108	163,554	302,894	940,023
10,000- 19,999	1,815	25,597,629	0	70,578	1,300,503	5.08%	1,872,773	7.32%	\$0.93	117,724	316,366	592,316	2,125,900
20,000- 34,999	996	25,499,974	0	313,058	1,343,015	5.27%	2,024,569	7.94%	\$0.89	90,958	305,585	538,194	1,770,326
35,000- 49,999	370	15,282,931	0	159,584	826,018	5.40%	1,445,812	9.46%	\$0.69	67,181	79,967	275,844	851,844
50,000- 99,999	380	26,175,921	0	1,566,213	1,951,403	7.45%	2,866,976	10.95%	\$0.61	169,261	280,914	381,725	1,290,125
100,000 Plus	211	36,545,997	115,000	1,398,970	3,462,286	9.47%	5,435,235	14.87%	\$0.65	424,190	89,762	498,046	1,608,396
San Diego County Total	6,861	144,770,162	115,000	3,516,403	9,545,307	6.59%	14,532,642	10.04%	\$0.67	887,422	1,236,148	2,589,019	8,586,614

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
2641-2651 La Mirada Dr. 1125 Joshua Way	Vista	126,583 (Plus Excess Land)	\$99.07	SR Commercial	Police & Fire Retirement System of Detroit
14020 Stowe Dr.	Poway	80,878	\$142.19	General Atomics	Lloyd Wells Trust
1335 Park Center Dr.	Vista	124,997	\$80.80	Dr. Bronner's Magic Soaps	Rexford Industrial
10895 Thornmint Rd.	Rancho Bernardo	73,541	\$103.00	Meeting Services, Inc.	Bixby Land Company
8665-8685 Miralani Dr.	Miramar	74,064	\$87.76	MGM Transformer Company	Miralani Corporate Center

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9990 Empire St.	Miramar	105,636	Mar-14	Alesmith Brewing Company	Westcore Properties
13950 Stowe Dr.	Poway	70,215	Jan-14	General Atomics	B Young Properties, LLC
13200 Danielson St.	Poway	45,619	Jan-14	Alexander's Mobility Services	Hamann Companies
2515 Industry St.	Oceanside	39,552	Feb-14	Panoramic Doors	2515 Industry Street, LLC
2580 Pioneer Ave.	Vista	32,666	Jan-14	UCC Distribution	Sudberry Properties, Inc.

PRODUCT TYPE

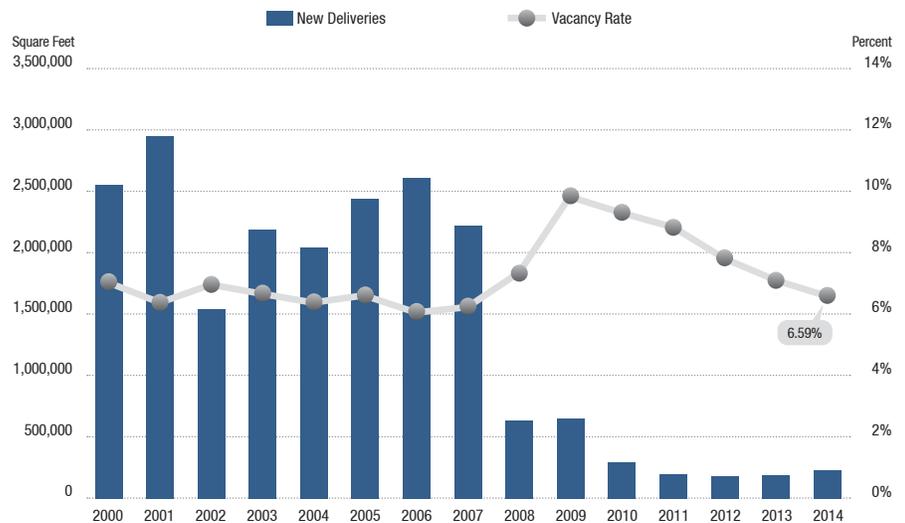
MFG./DIST.

Manufacturing/Distribution/Warehouse facilities with up to 49.9% office space.

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