



Industrial Market Report

Compared to the Previous Quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



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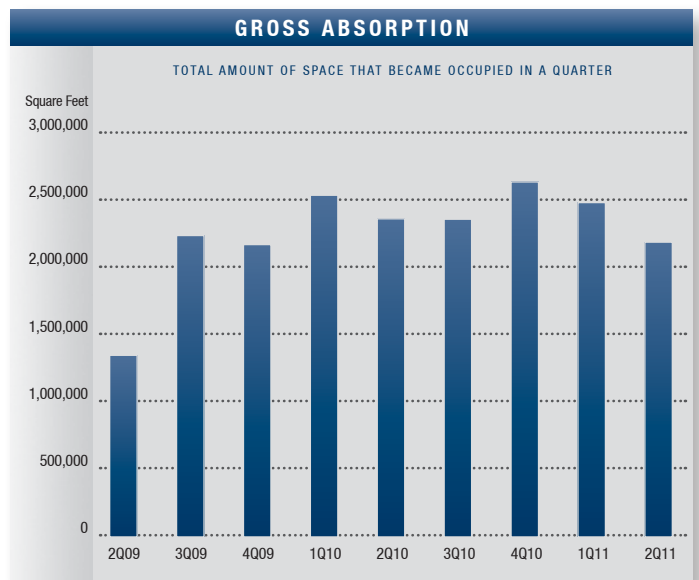
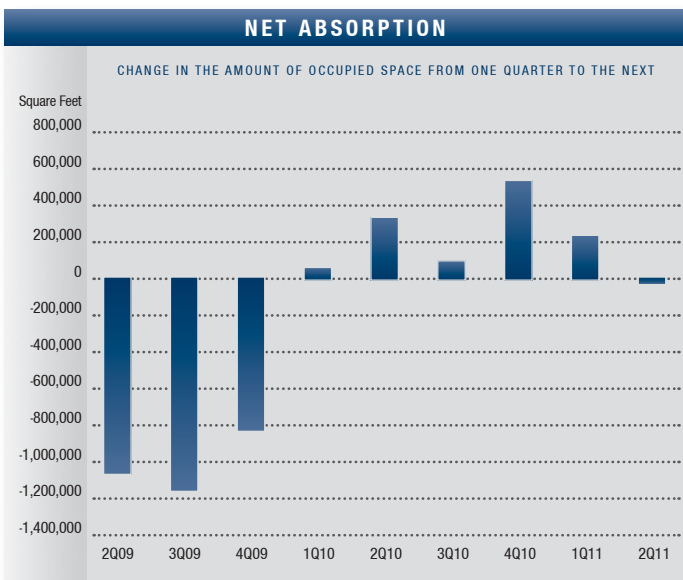
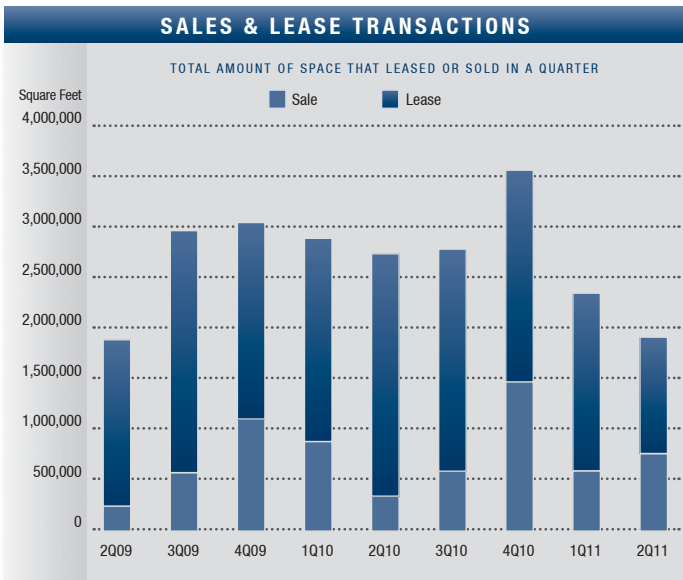
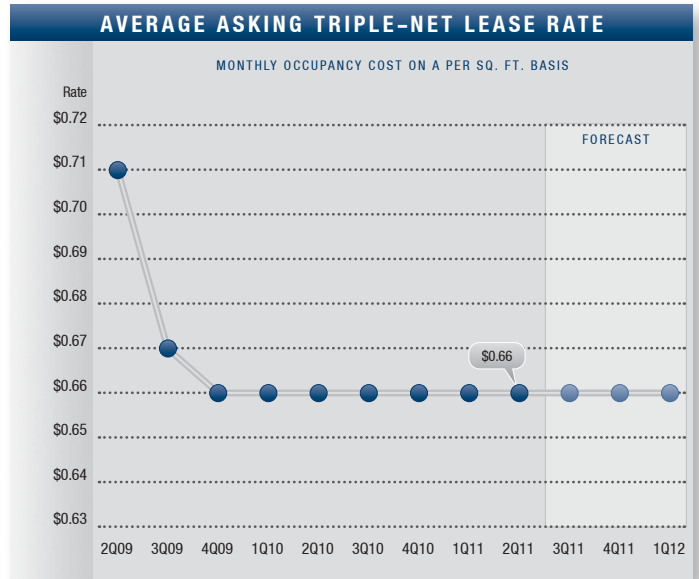
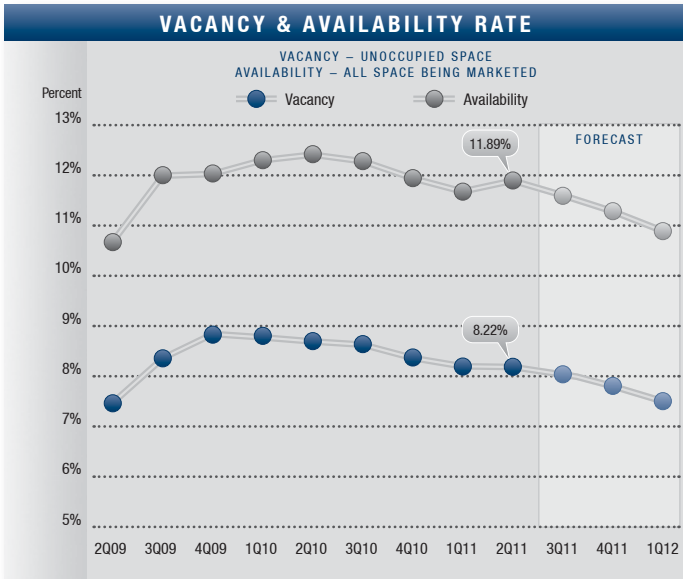
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Market Highlights

- Are we there yet?** - The San Diego County industrial market conveyed more promise of recovery in the second quarter of 2011. Availability and vacancy rates showed signs of stabilization, and net absorption posted only a small negative number. Demand picked up, with Labor Day of 2010 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 second quarter of 2011. Scarce financing and low demand have essentially halted industrial development.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 8.22% — nearly the same as the first quarter's rate of 8.21% and a drop from the year-ago rate of 8.71%. The Central Suburban market posted the lowest rate in the county at 4.64%.
- Availability** - Direct/sublease space being marketed was 11.89% in the second quarter of 2011 — an increase from the previous quarter's rate of 11.69% but a decrease from the prior year's rate of 12.37%.
- Lease Rates** - The average asking triple net lease rate was \$.66 per square foot per month, unchanged from the preceding six 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 27,886 square feet of negative net absorption in the second 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 at nearly 1.16 million square feet in the second quarter of 2011, mainly a result of the recent trend of short-term deals coupled with lease renegotiations. Sales activity also showed a year-over-year increase, posting just over 735,000 square feet of activity in the second quarter 2011 as compared to the 311,000 square feet seen in the second 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 9.6% in May 2011, down from a revised 9.8% in April 2011 and below the year-ago estimate of 10.1%. 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 11,200 payroll jobs from May 2010 to May 2011 — 6,300 in professional and business services and 4,200 in education and health services. However, the government sector posted the greatest year-over-year decline — a loss of 4,300 jobs. Between April 2011 and May 2011 San Diego County employment increased by 7,300 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. 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

	2Q2011	1Q2011	2Q2010	% Change vs. 2Q2010
Total Vacancy Rate	8.22%	8.21%	8.71%	(5.63%)
Availability Rate	11.89%	11.69%	12.37%	(3.88%)
Average Asking Lease Rate	\$0.66	\$0.66	\$0.66	0.00%
Sale & Lease Transactions	1,896,580	2,336,643	2,719,987	(30.27%)
Gross Absorption	2,176,842	2,475,570	2,352,416	(7.46%)
Net Absorption	(27,886)	236,999	339,532	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	Square Feet Available	Availability Rate 2Q2011	Average Asking Lease Rate	Net Absorption 2Q2011	Net Absorption 2011	Gross Absorption 2Q2011	Gross Absorption 2011
Central													
Central City	197	3,062,861	0	0	231,789	7.57%	393,166	12.84%	\$0.84	3,410	(49,340)	11,390	11,500
East City	67	1,452,600	0	0	12,710	0.87%	35,110	2.42%	\$0.00	(6,310)	(1,510)	0	4,800
Southeast City	334	4,430,269	0	0	289,093	6.53%	341,873	7.72%	\$0.63	28,166	24,866	65,696	72,396
Central Total	598	8,945,730	0	0	533,592	5.96%	770,149	8.61%	\$0.68	25,266	(25,984)	77,086	88,696
Central Suburban													
Airport/Sports Arena	169	3,912,395	0	0	88,659	2.27%	193,419	4.94%	\$0.80	(259)	(8,642)	18,600	35,088
Kearny Mesa	469	11,718,735	0	0	500,589	4.27%	612,208	5.22%	\$0.90	(63,860)	(14,497)	99,561	234,226
Mission Gorge	132	2,252,807	0	0	214,691	9.53%	253,457	11.25%	\$0.83	(5,935)	(42,718)	47,164	60,503
Rose Canyon/Morena	145	3,458,526	0	0	185,591	5.37%	370,859	10.72%	\$0.69	(63,941)	41,947	17,525	131,245
Central Suburban Total	915	21,342,463	0	0	989,530	4.64%	1,429,943	6.70%	\$0.81	(133,995)	(23,910)	182,850	461,062
East County													
El Cajon	505	10,777,454	0	450,000	623,151	5.78%	840,208	7.80%	\$0.63	(33,383)	(76,317)	72,993	222,295
La Mesa/Spring Valley	331	3,417,960	0	0	218,060	6.38%	363,541	10.64%	\$0.63	(17,615)	(16,688)	16,797	27,404
Santee/Lakeside	293	3,962,422	0	200,000	176,426	4.45%	265,008	6.69%	\$1.36	(16,430)	3,318	50,951	116,190
East County Total	1,129	18,157,836	0	650,000	1,017,637	5.60%	1,468,757	8.09%	\$0.68	(67,428)	(89,687)	140,741	365,889
Highway 78 Corridor													
Oceanside	425	8,675,537	0	293,156	1,294,651	14.92%	1,559,721	17.98%	\$0.62	45,920	97,253	266,423	453,799
San Marcos	559	9,315,835	0	53,000	729,343	7.83%	996,314	10.69%	\$0.91	40,417	9,660	120,333	246,674
Vista/Fallbrook	517	12,733,936	0	55,590	999,480	7.85%	1,810,940	14.22%	\$0.67	28,838	80,354	155,816	513,746
Highway 78 Corridor Total	1,501	30,725,308	0	401,746	3,023,474	9.84%	4,366,975	14.21%	\$0.65	115,175	187,267	542,572	1,214,219
I-15 Corridor													
Escondido	721	8,343,793	0	0	450,795	5.40%	760,180	9.11%	\$0.71	29,485	18,671	108,765	249,219
Poway	177	7,279,996	0	355,400	285,609	3.92%	796,863	10.95%	\$0.77	18,895	66,799	108,544	285,475
Rancho Bernardo	55	4,144,645	0	0	497,983	12.02%	581,224	14.02%	\$0.98	38,630	(23,733)	46,802	52,808
Scripps Ranch	30	789,004	0	0	34,388	4.36%	268,539	34.04%	\$0.77	(2,760)	(14)	4,920	10,666
I-15 Corridor Total	983	20,557,438	0	355,400	1,268,775	6.17%	2,406,806	11.71%	\$0.84	84,250	61,723	269,031	598,168
North City													
Miramar	624	14,779,537	0	0	1,301,512	8.81%	1,984,416	13.43%	\$0.66	75,761	96,722	304,561	637,579
Sorrento Mesa	83	4,133,970	0	0	233,273	5.64%	429,854	10.40%	\$0.76	18,048	26,117	27,303	47,395
Sorrento Valley	62	1,362,629	0	0	16,826	1.23%	44,270	3.25%	\$1.08	(4,056)	(5,496)	4,744	4,744
Torrey Pines/UTC	5	140,879	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
North City Total	774	20,417,015	0	0	1,551,611	7.60%	2,458,540	12.04%	\$0.68	89,753	117,343	336,608	689,718
North County													
Carlsbad	261	8,957,436	176,000	26,632	907,701	10.13%	1,352,370	15.10%	\$0.71	(174,845)	(163,943)	172,698	286,918
North Beach Cities	66	938,436	0	0	0	0.00%	0	0.00%	\$0.00	1,200	18,757	1,200	19,957
North County Total	327	9,895,872	176,000	26,632	907,701	9.17%	1,352,370	13.67%	\$0.71	(173,645)	(145,186)	173,898	306,875
Outlying Areas													
Outlying SD County North	120	1,325,497	0	0	16,218	1.22%	32,284	2.44%	\$0.65	7,499	11,809	7,499	18,685
Outlying SD County South	81	810,451	0	0	137,765	17.00%	112,390	13.87%	\$0.00	3,400	(25,463)	3,400	6,500
Outlying Areas Total	201	2,135,948	0	0	153,983	7.21%	144,674	6.77%	\$0.65	10,899	(13,654)	10,899	25,185
South Bay													
Chula Vista	384	10,794,888	0	0	640,411	5.93%	804,457	7.45%	\$0.56	57,480	32,413	94,373	216,943
National City	261	4,370,451	0	0	308,271	7.05%	304,960	6.98%	\$0.62	(58,662)	(56,929)	19,978	47,258
Otay Mesa	340	15,446,411	0	747,100	3,026,813	19.60%	3,775,935	24.45%	\$0.47	33,486	178,021	322,468	622,414
San Ysidro/Imperial Beach	74	1,840,685	0	24,121	104,648	5.69%	295,950	16.08%	\$0.49	(10,465)	(13,454)	6,338	14,835
South Bay Total	1,059	32,452,435	0	771,221	4,080,143	12.57%	5,181,302	15.97%	\$0.49	21,839	140,051	443,157	901,450
San Diego County Total	7,487	164,630,045	176,000	2,204,999	13,526,446	8.22%	19,579,516	11.89%	\$0.66	(27,886)	207,963	2,176,842	4,651,262

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
750 Vernon Way – 6 Properties	East County/El Cajon	220,360	\$101.65	Westport Capital Partners, LLC	House Properties
4010 Ocean Ranch Blvd.	Oceanside	203,779	\$71.43	Alliance Commercial Partners, LLC	Lloyd Wells Gift Trust
5931 Sea Lion Pl. – 7 Properties	I-5 Corridor/Carlsbad	127,069	\$93.65	Peregrine Realty Partners	EFBP Associates
16707 Via Del Campo Ct.	Rancho Bernardo	46,414	\$222.15	Alliant Techsystems, Inc.	The Boeing Company
9855 Distribution Ave.	Mira Mesa/Miramar	60,819	\$83.14	Westcore Properties	Helix 1960 Ltd. 9 (et al)
2655 Melksee St.	Otay Mesa	66,243	\$60.38	Royal Flavor, LLC	Weingarten Realty Investors

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
7825 Trade St.	Mira Mesa/Miramar	42,942	Apr-11	Red Bull	Miramar Properties, Inc.
740 Los Vallecitos Blvd.	San Marcos	40,962	May-11	Teamwork Athletic Apparel	Navarra Properties
9855 Distribution Ave	Mira Mesa/Miramar	39,832	May-11	Tutto Marmo	Westcore Distribution II, LLC
2655 Vista Pacific Dr.	Oceanside	29,142	Apr-11	Enviremedial Services, Inc.	Southwest Greene International, Inc.
8525 Camino Santa Fe	Mira Mesa/Miramar	27,790	Apr-11	Pasha Management Inc	Novi Properties
7170 Miramar Rd.	Mira Mesa/Miramar	24,837	Apr-11	Penske	Walton CWCA Miramar Distribution 78, LLC

Product Type

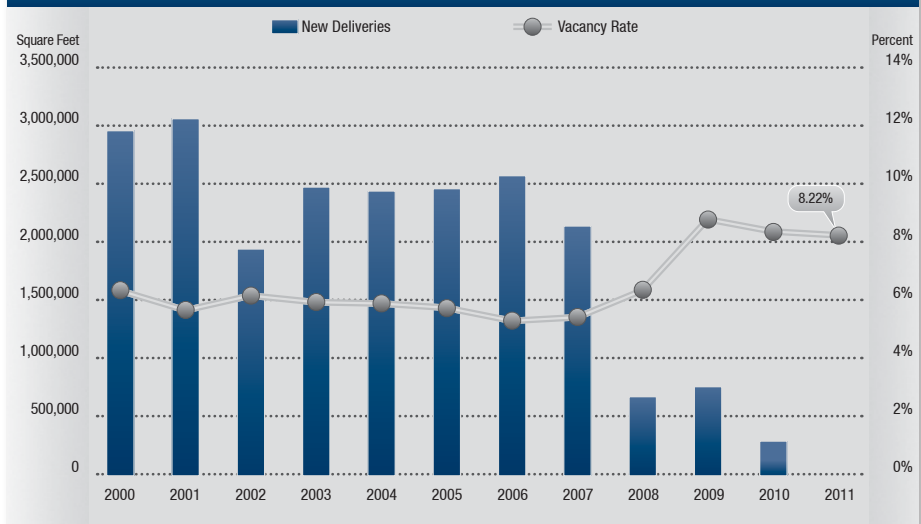
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