



Industrial Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

UP

Deliveries

FLAT

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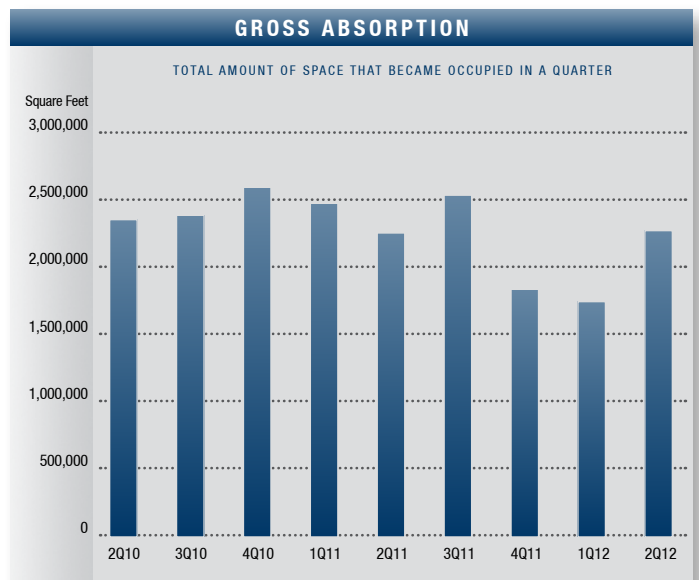
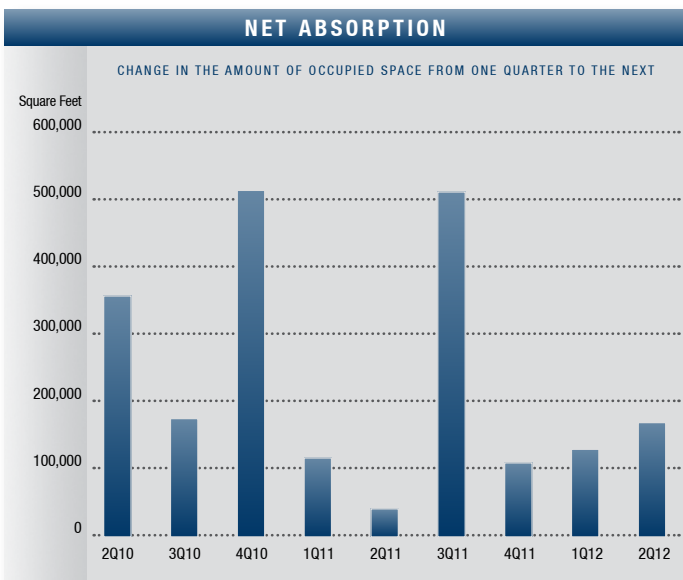
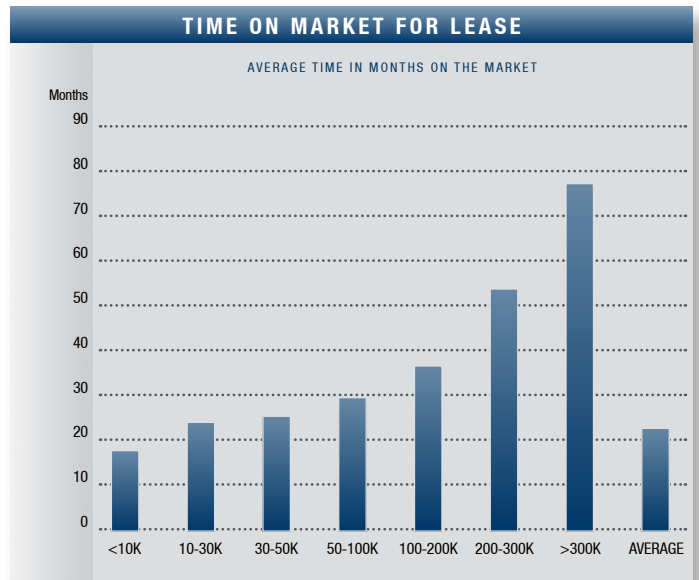
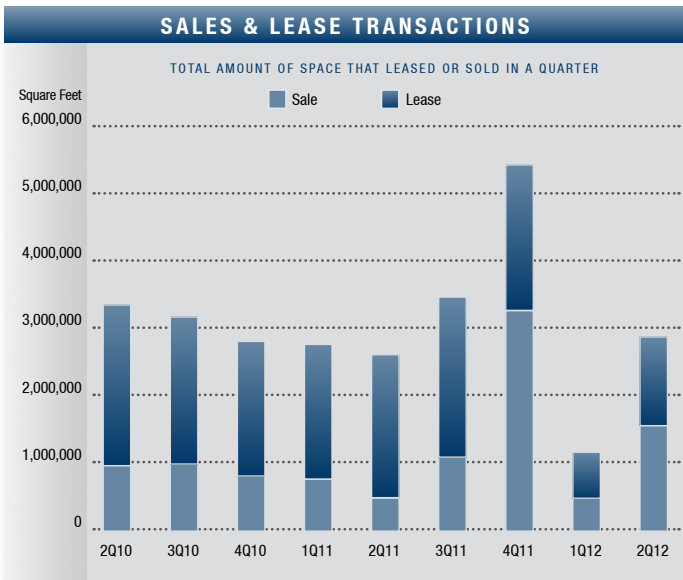
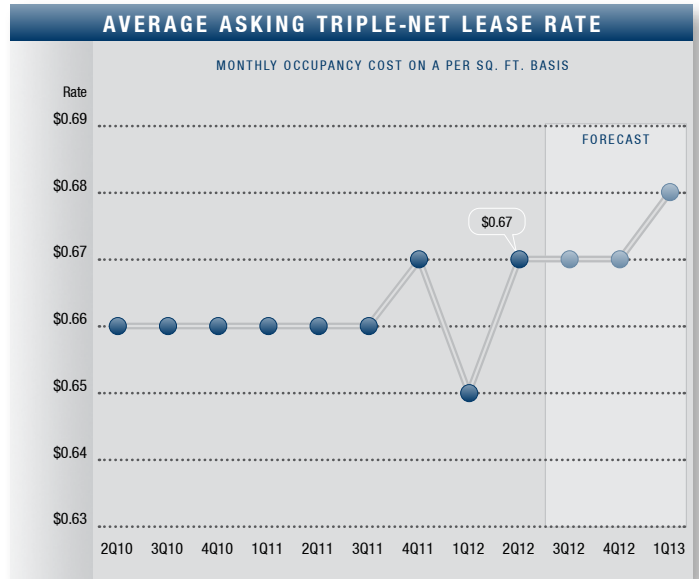
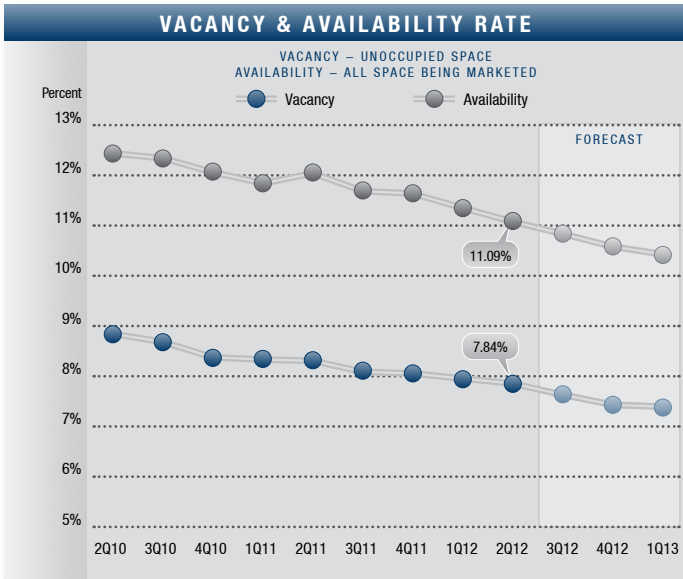


Market Highlights

- Slow Growth** - The San Diego County industrial market continued its path to recovery in the second quarter of 2012, posting a modest 7.84% vacancy rate. Availability and vacancy rates continued trending downward, and net absorption was positive for the ninth 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 its pace of recovery.
- Absorption** - The San Diego industrial market posted 165,816 square feet of positive net absorption in the second quarter, making nine straight quarters of positive absorption totaling 2.1 million square feet.
- Transaction Activity** - The total square feet leased and sold in the second quarter of 2012 was 3.9 million square feet, an increase of greater than 80% compared to 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 8.8% in May 2012, unchanged from a revised 8.8% in April 2012 and below the year-ago estimate of 9.8%. This compares with an unadjusted unemployment rate of 10.4% for California and 7.9% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 13,400 payroll jobs from May 2011 to May 2012 — 5,400 in educational and health services and 5,300 in professional and business services. Manufacturing posted the greatest year-over-year decline- a loss of 2,300 jobs.
- Overall** - We are continuing to see a decrease in the amount of available space. We also 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 delivered in the third quarter of 2011 as the only delivery of the past year. With just 130,000 square feet under construction in the second quarter of 2012, industrial development is very light.
- Vacancy** - Direct / sublease space (unoccupied) finished the quarter at 7.84% — the lowest level since Mid-2009. Kearny Mesa posted the lowest vacancy rates of submarkets with at least 2 million square feet of inventory, at 2.61%. 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 11.09% in the second quarter — a decrease from the previous quarter's rate of 11.35% and the lowest availability rate in the past three years.
- Lease Rates** - The average asking triple-net lease rate was \$0.67 per square foot per month, a two-cent increase from 2012's first quarter rate. The record high for asking lease rates, \$.76, was recorded in the third and fourth quarters of 2008.

INDUSTRIAL MARKET OVERVIEW

	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Total Vacancy Rate	7.84%	7.94%	8.30%	(5.54%)
Availability Rate	11.09%	11.35%	12.05%	(7.97%)
Average Asking Lease Rate	\$0.67	\$0.65	\$0.66	1.52%
Sale & Lease Transactions	3,852,422	2,131,588	2,595,704	48.42%
Gross Absorption	2,263,953	1,691,411	2,113,502	7.12%
Net Absorption	165,816	124,123	38,850	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 2Q2012	Square Feet Available	Availability Rate 2Q2012	Average Asking Lease Rate	Net Absorption 2Q2012	Net Absorption 2012	Gross Absorption 2Q2012	Gross Absorption 2012
Central													
Central City	188	3,193,368	0	0	288,455	9.03%	524,505	16.42%	\$0.99	(90,100)	(73,836)	5,992	30,136
East City	66	1,364,291	0	0	17,100	1.25%	17,100	1.25%	\$0.00	(4,800)	410	0	5,210
Southeast City	331	4,333,321	0	0	254,808	5.88%	331,809	7.66%	\$0.54	(6,816)	(5,779)	36,378	62,471
Central Total	585	8,890,980	0	0	560,363	6.30%	873,414	9.82%	\$0.78	(101,716)	(79,205)	42,370	97,817
Central Suburban													
Kearny Mesa	461	11,410,285	0	0	297,376	2.61%	477,069	4.18%	\$0.90	257	49,126	116,346	215,254
Mission Gorge	130	2,254,909	0	0	219,876	9.75%	239,735	10.63%	\$0.82	16,243	15,729	43,302	71,655
Rose Canyon/Morena	141	3,447,402	0	0	114,432	3.32%	225,305	6.54%	\$0.71	74,931	82,089	81,531	106,330
Sports Arena/Airport	167	3,928,922	0	0	124,996	3.18%	130,529	3.32%	\$0.83	1	(51,799)	20,971	27,971
Central Suburban Total	899	21,041,518	0	0	756,680	3.60%	1,072,638	5.10%	\$0.82	91,432	95,145	262,150	421,210
East County													
El Cajon	503	10,469,243	0	450,000	732,064	6.99%	925,492	8.84%	\$0.59	111,000	125,873	169,902	242,052
La Mesa/Spring Valley	343	3,601,105	0	0	180,371	5.01%	384,768	10.68%	\$0.59	(312)	11,902	6,756	31,370
Santee/Lakeside	294	3,964,960	0	275,000	130,783	3.30%	179,070	4.52%	\$0.62	(10,925)	(17,760)	50,769	76,514
East County Total	1,140	18,035,308	0	725,000	1,043,218	5.78%	1,489,330	8.26%	\$0.59	99,763	120,015	227,427	349,936
Highway 78 Corridor													
Oceanside	423	8,636,977	0	57,578	1,077,756	12.48%	1,456,886	16.87%	\$0.63	103,626	137,760	273,269	390,486
San Marcos	550	9,384,648	0	53,000	846,035	9.02%	1,129,285	12.03%	\$0.74	53,243	(20,519)	150,478	254,496
Vista	518	12,911,247	0	189,590	841,771	6.52%	1,430,824	11.08%	\$0.69	49,550	18,269	201,790	299,594
Highway 78 Corridor Total	1,491	30,932,872	0	300,168	2,765,562	8.94%	4,016,995	12.99%	\$0.67	206,419	135,510	625,537	944,576
I-15 Corridor													
Escondido	669	8,015,262	0	0	476,817	5.95%	784,865	9.79%	\$0.75	(7,075)	(39,420)	107,277	189,714
Poway	178	7,273,734	129,765	258,700	337,070	4.63%	506,492	6.96%	\$0.78	(91,078)	(54,731)	61,013	180,064
Rancho Bernardo	53	3,604,249	0	0	462,496	12.83%	528,044	14.65%	\$0.96	(52,341)	9,551	10,736	72,628
Scripps Ranch	30	789,886	0	0	55,464	7.02%	104,152	13.19%	\$0.81	(26,789)	(20,189)	8,533	16,868
I-15 Corridor Total	930	19,683,131	129,765	258,700	1,331,847	6.77%	1,923,553	9.77%	\$0.87	(177,283)	(104,789)	187,559	459,274
North City													
Miramar	617	14,394,266	0	0	1,134,731	7.88%	1,886,891	13.11%	\$0.73	(90,229)	(749)	139,937	451,236
Sorrento Mesa	81	4,011,868	0	0	195,832	4.88%	577,418	14.39%	\$0.86	47,137	53,413	78,780	107,012
Sorrento Valley	56	1,204,512	0	0	20,290	1.68%	67,427	5.60%	\$0.98	(8,623)	(5,925)	6,698	22,676
Torrey Pines/UTC	5	140,879	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
North City Total	759	19,751,525	0	0	1,350,853	6.84%	2,531,736	12.82%	\$0.78	(51,715)	46,739	225,415	580,924
North County													
Carlsbad	258	8,861,653	0	26,632	911,224	10.28%	1,096,616	12.37%	\$0.80	57,171	769	307,464	369,074
North Beach Cities	66	934,897	0	0	2,321	0.25%	1,250	0.13%	\$0.00	(2321)	(2,321)	0	0
North County Total	324	9,796,550	0	26,632	913,545	9.33%	1,097,866	11.21%	\$0.80	54,850	(1,552)	307,464	369,074
Outlying Areas													
Outlying SD County North	120	1,346,428	0	0	25,809	1.92%	36,249	2.69%	\$0.00	(7,310)	(3,674)	2,260	8,868
Outlying SD County South	81	827,456	0	0	65,832	7.96%	85,452	10.33%	\$0.00	100	36,048	8,610	44,558
Outlying Areas Total	201	2,173,884	0	0	91,641	4.22%	121,701	5.60%	\$0.00	(7,210)	32,374	10,870	53,426
South Bay													
Chula Vista	382	10,401,486	0	0	625,723	6.02%	956,908	9.20%	\$0.51	17,716	12,311	81,315	154,155
National City	257	4,277,671	0	0	250,225	5.85%	285,164	6.67%	\$0.69	7,387	(4,885)	16,001	44,498
Otay Mesa	338	15,512,347	0	977,469	2,938,639	18.94%	3,330,129	21.47%	\$0.47	17,003	32,554	191,675	428,209
San Ysidro/Imperial Beach	74	1,805,402	0	24,121	92,841	5.14%	306,891	17.00%	\$0.53	9,170	5,723	86,170	92,400
South Bay Total	1,051	31,996,906	0	1,001,590	3,907,428	12.21%	4,879,092	15.25%	\$0.48	51,276	45,703	375,161	719,262
San Diego County Total	7,380	162,302,674	129,765	2,312,090	12,721,137	7.84%	18,006,325	11.09%	\$0.67	165,816	289,940	2,263,953	3,995,499

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
2777 Loker Ave W.	Carlsbad	123,454	\$93.15	BLT Enterprises	Black Box Distribution
8851-8877 Kerns St.	Otay Mesa	115,290	\$49.64	JJB Land Company, LP	LNR Partners, Inc.
4720 Mission Gorge Pl.	Mission Gorge	38,000	\$138.16	Jobsite Supply Co, Inc.	RKRK Industries, LLC
6157-6195 University Ave. & 4154-4172 Cartagena St.	East City	55,123	\$50.00	David & Yael Alpert	LNR Partners, Inc.
13750 Danielson St.	Poway	13,886	\$131.43	Justus Enterprises, Inc.	Palm Dreams, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9043 Siempre Viva Rd.	Otay Mesa	257,972	June-12	Imperial Toy	Weingarten Realty Investors
8409 Kerns St.	Otay Mesa	124,068	May-12	Pacific World Corporation	Walton Street Capital, LLC
1081 Poinsettia Ave.	Vista	65,002	June-12	Brown Safe Manufacturing	Pacifica Real Estate Services
2091 Rutherford Rd.	Carlsbad	48,500	June-12	Nixon Watch	CruzaniMonroe
2390 Oak Ridge Way	Vista	39,672	May-12	Select Supplements, Inc.	SR Commercial

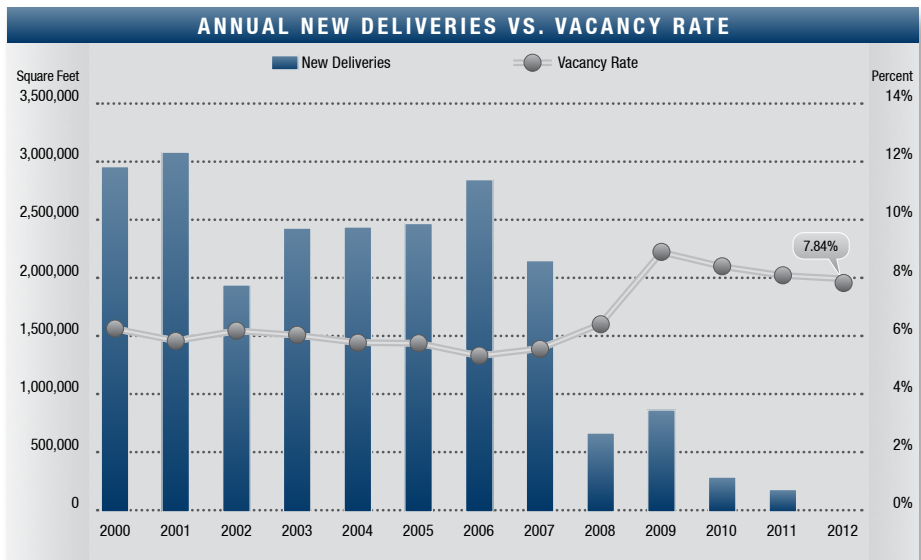
Product Type

MFG. / DIST.

Manufacturing / Distribution / Warehouse facilities with up to 29.9% office space.

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