



Industrial Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

UP

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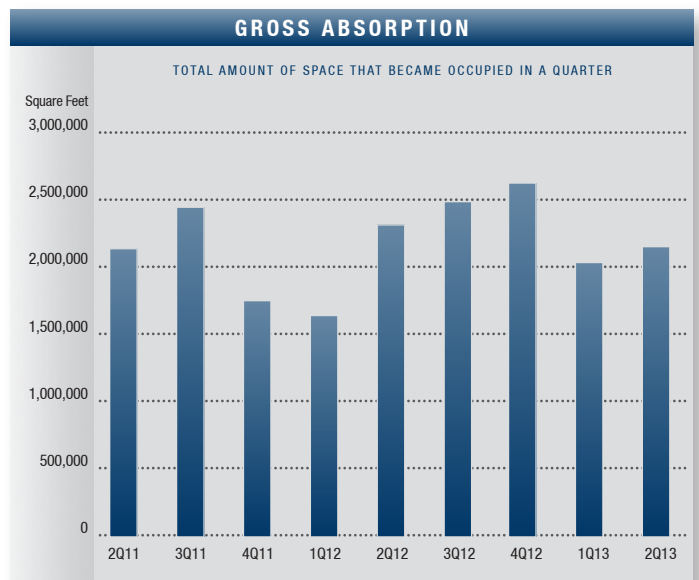
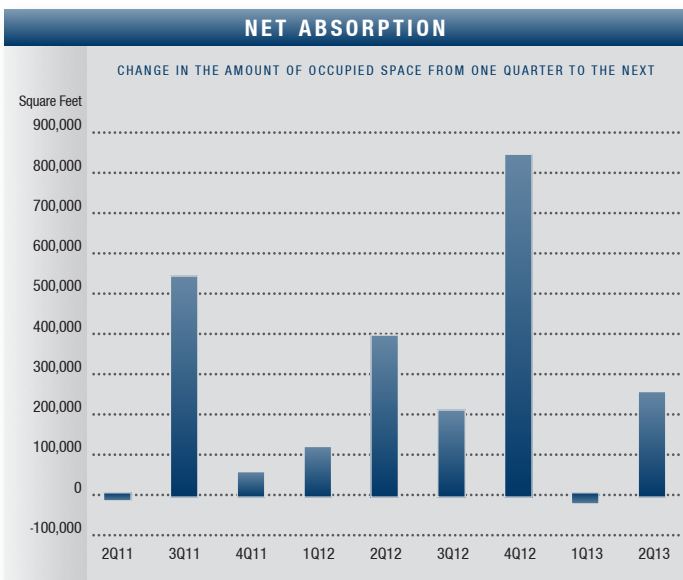
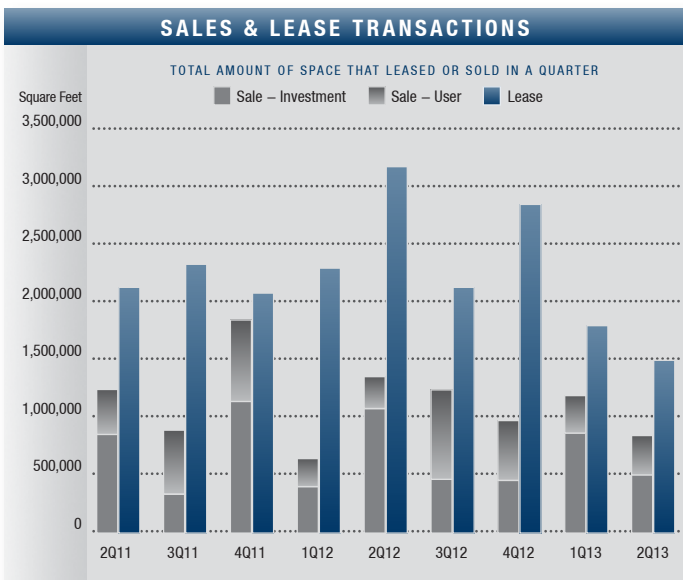
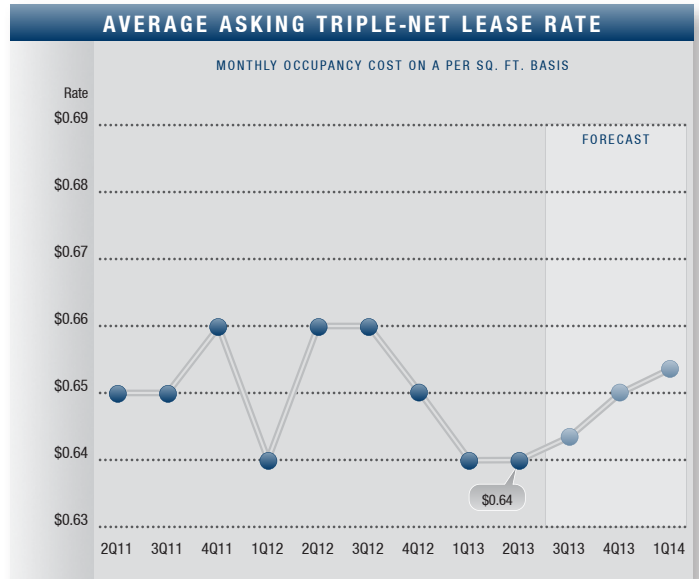
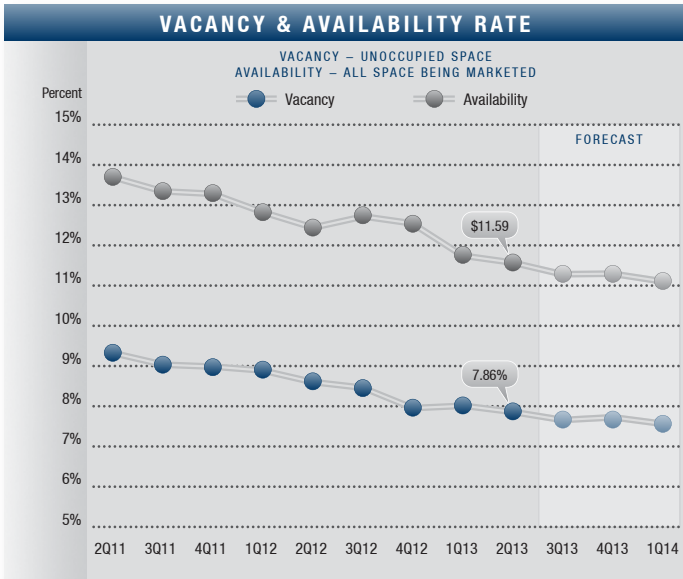
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Market Highlights

- Slow Recovery** - The San Diego County industrial market continued its path to recovery in the second quarter of 2013, posting a modest 7.86% vacancy rate. Availability also continued trending downward, and net absorption was positive for the twelfth time in the past fourteen 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 recovery.
- Transaction Activity** - The total square feet leased and sold in the second quarter was 2.30 million square feet, slightly down from the 2.96 million that was posted in prior quarter. For the second consecutive quarter, SR Commercial was the buyer of the largest industrial sale of the 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 6.7% in May 2013, down from a revised 7.0% in April 2013 and below the year-ago estimate of 8.8%. This compares with an unadjusted unemployment rate of 8.1% for California and 7.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 20,300 payroll jobs from May 2012 to May 2013 — including 5,600 in professional and business services and 4,800 each from educational and health services and leisure and hospitality. Construction and manufacturing were the only employment sectors to post year-over year job losses, at 400 and 100 net jobs lost, respectively.
- Overall** - We are continuing to see a decrease in the amount of vacancy. 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. San Diego County's overall unemployment rate has been steadily decreasing, but the only sectors to lose jobs over the past year, construction and manufacturing, both affect industrial product more than any other. The recovery in San Diego's industrial market has been slower than other Southern California industrial markets due to the small, localized nature of the market with very limited out of market distribution. As the local housing recovery continues to develop and construction picks up, the industrial market will pick up steam in it's recovery.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 7.86% — the lowest level since the fourth quarter of 2008. El Cajon posted the lowest vacancy rates of submarkets with at least 5 million square feet of inventory, at 3.7%. We are forecasting that vacancy will continue its downward trend in the second half of the year.
- Construction** - The last three years saw extremely low levels of industrial construction in San Diego County with only 60,000 square feet delivering through the first half of the year. 2013 is going to be another year of minimal industrial development. The nearly non-existent industrial pipeline has helped to push vacancy down.
- Vacancy** - Direct/sublease space being marketed was 11.59% at the end of the quarter — a decrease from the previous quarter's rate of 11.75%.
- Availability** - Direct/sublease space being marketed was 11.59% at the end of the quarter — a decrease from the previous quarter's rate of 11.75%.
- Lease Rates** - The average asking triple-net lease rate was \$0.64 per square foot per month in the second quarter of 2013, matching the rate posted in the first quarter.
- Absorption** - The San Diego industrial market posted 257,143 square feet of positive net absorption in second quarter, a healthy amount of positive net absorption after the slow start to the year in the first quarter.

INDUSTRIAL MARKET OVERVIEW

	2Q13	1Q13	2Q12	% of Change vs. 2Q12
Total Vacancy Rate	7.86%	8.01%	8.61%	(8.71%)
Availability Rate	11.59%	11.75%	12.43%	(6.76%)
Average Asking Lease Rate	\$0.64	\$0.64	\$0.66	(3.03%)
Sale & Lease Transactions	2,301,212	2,958,272	4,505,223	(48.92%)
Gross Absorption	2,149,198	2,024,214	2,300,737	(6.59%)
Net Absorption	257,143	(43,573)	393,464	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 2Q2013	Square Feet Available	Availability Rate 2Q2013	Average Asking Lease Rate	Net Absorption 2Q2013	Net Absorption 2013	Gross Absorption 2Q2013	Gross Absorption 2013
Central													
Central City	115	2,452,578	0	0	156,230	6.37%	275,284	11.22%	\$0.74	3,720	(110,688)	8,700	15,342
East City	31	909,112	0	0	4,800	0.53%	4,800	0.53%	\$0.00	0	0	0	0
Southeast City	176	3,164,325	0	0	203,453	6.43%	265,791	8.40%	\$0.59	(4,317)	36,755	30,978	86,550
Central Total	322	6,526,015	0	0	364,483	5.59%	545,875	8.36%	\$0.65	(597)	(73,933)	39,678	101,892
Central Suburban													
Kearny Mesa	404	9,955,872	0	0	433,642	4.36%	542,770	5.45%	\$0.87	(57,577)	(85,751)	123,104	259,012
Mission Gorge	78	1,821,705	0	0	185,488	10.18%	190,234	10.44%	\$0.79	8,868	27,025	86,580	114,908
Rose Canyon/Morena	100	2,591,676	0	0	119,671	4.62%	148,758	5.74%	\$0.77	61,790	(17,530)	84,734	90,234
Sports Arena/Airport	114	2,238,339	0	0	98,454	4.40%	131,518	5.88%	\$0.83	(23,820)	(25,545)	11,530	39,640
Central Suburban Total	696	16,607,592	0	0	837,255	5.04%	1,013,280	6.10%	\$0.83	(10,739)	(101,801)	305,948	503,794
East County													
El Cajon	374	8,886,248	0	450,000	329,501	3.71%	688,937	7.75%	\$0.67	83,862	101,065	142,108	260,217
La Mesa/Spring Valley	149	2,230,761	0	0	109,906	4.93%	143,426	6.43%	\$0.59	39,671	54,919	60,411	75,659
Santee/Lakeside	196	3,282,570	0	353,158	55,488	1.69%	124,325	3.79%	\$0.00	23,184	11,168	37,949	76,119
East County Total	719	14,399,579	0	803,158	494,895	3.44%	956,688	6.64%	\$0.66	146,717	167,152	240,468	411,995
Highway 78 Corridor													
Oceanside	368	7,892,083	0	260,618	1,131,037	14.33%	1,204,984	15.27%	\$0.64	2,824	(27,137)	104,816	162,185
San Marcos	426	7,977,996	0	53,000	771,116	9.67%	966,485	12.11%	\$0.82	43,669	42,703	168,111	279,095
Vista	413	11,900,145	0	623,442	790,055	6.64%	1,282,040	10.77%	\$0.67	(5,292)	(64,871)	137,402	237,683
Highway 78 Corridor Total	1,207	27,770,224	0	937,060	2,692,208	9.69%	3,453,509	12.44%	\$0.66	41,201	(49,305)	410,329	678,963
I-15 Corridor													
Escondido	424	6,432,202	0	0	388,360	6.04%	570,021	8.86%	\$0.73	52,634	528	158,919	202,690
Poway	161	6,985,252	0	653,700	311,662	4.46%	694,351	9.94%	\$0.78	(13,269)	72,692	93,213	232,843
Rancho Bernardo	48	4,252,420	0	0	329,276	7.74%	334,529	7.87%	\$0.75	0	93,397	0	172,151
Scripps Ranch	29	716,568	0	0	11,619	1.62%	70,770	9.88%	\$0.83	(2,273)	25,079	5,101	32,453
I-15 Corridor Total	662	18,386,442	0	653,700	1,040,917	5.66%	1,669,671	9.08%	\$0.77	37,092	191,696	257,233	640,137
North City													
Miramar	497	12,976,589	0	0	975,038	7.51%	1,579,297	12.17%	\$0.74	145,255	196,917	346,511	727,527
Sorrento Mesa	85	4,249,918	0	74,000	375,254	8.83%	469,512	11.05%	\$0.93	(52,411)	(80,850)	84,820	145,683
Sorrento Valley	46	1,084,531	0	0	15,026	1.39%	25,293	2.33%	\$1.01	(1,467)	885	6,733	12,685
Torrey Pines/UTC	3	118,262	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
North City Total	631	18,429,300	0	74,000	1,365,318	7.41%	2,074,102	11.25%	\$0.80	91,377	116,952	438,064	885,895
North County													
Carlsbad	207	7,744,420	0	153,632	816,768	10.55%	1,017,499	13.14%	\$0.75	29,600	35,565	117,439	205,477
North Beach Cities	22	286,209	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
North County Total	229	8,030,629	0	153,632	816,768	10.17%	1,017,499	12.67%	\$0.75	29,600	35,565	117,439	205,477
Outlying Areas													
Outlying SD County North	59	798,077	0	0	34,943	4.38%	44,738	5.61%	\$0.86	1,200	(2,126)	8,424	19,409
Outlying SD County South	49	664,985	0	0	7,617	1.15%	79,886	12.01%	\$0.00	0	20,889	0	20,889
Outlying Areas Total	108	1,463,062	0	0	42,560	2.91%	124,624	8.52%	\$0.86	1,200	18,763	8,424	40,298
South Bay													
Chula Vista	266	8,419,139	0	0	543,220	6.45%	958,833	11.39%	\$0.51	25,803	30,013	142,664	237,638
National City	162	3,274,360	0	0	179,304	5.48%	302,400	9.24%	\$0.67	16,881	65,531	26,729	97,048
Otay Mesa	290	14,948,729	0	955,314	2,451,419	16.40%	3,734,386	24.98%	\$0.45	(97,439)	(134,042)	148,189	349,417
San Ysidro/Imperial Beach	48	1,454,511	0	24,121	154,471	10.62%	342,611	23.56%	\$0.53	(23,953)	(53,021)	14,033	20,858
South Bay Total	766	28,096,739	0	979,435	3,328,414	11.85%	5,338,230	19.00%	\$0.47	(78,708)	(91,519)	331,615	704,961
San Diego County Total	5,340	139,709,582	0	3,600,985	10,982,818	7.86%	16,193,478	11.59%	\$0.64	257,143	213,570	2,149,198	4,173,412
≤ 9,999	1,557	11,002,646	0	8,000	594,906	5.41%	868,327	7.89%	\$0.81	42,353	60,555	169,872	332,382
10,000–24,999	1,823	25,656,034	0	70,578	1,760,713	6.86%	2,342,761	9.13%	\$0.75	8,601	5,009	563,565	1,063,163
25,000–49,999	1,004	25,731,243	0	283,058	1,660,226	6.45%	2,446,248	9.51%	\$0.71	73,788	120,063	407,129	831,138
50,000–99,999	372	15,352,452	0	124,584	957,086	6.23%	1,636,661	10.66%	\$0.65	2,647	(45,022)	321,759	464,787
100,000–149,999	375	25,762,611	0	806,765	2,138,508	8.30%	3,461,118	13.43%	\$0.62	132,678	124,532	339,271	669,682
150,000+	209	36,204,596	0	2,308,000	3,871,379	10.69%	5,438,363	15.02%	\$0.61	(2,924)	(51,567)	347,602	812,260
San Diego County Total	5,340	139,709,582	0	3,600,985	10,982,818	7.86%	16,193,478	11.59%	\$0.64	257,143	213,570	2,149,198	4,173,412

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
3801-3817 Ocean Ranch Blvd.	Oceanside	226,220	\$87.53	SR Commercial	La Pacifica, LP
1111 Pioneer Way	El Cajon	109,367	\$54.86	Vision Systems, Inc.	Longkin Properties
2350 Siempre Viva Ct.	Otay Mesa	103,904	\$52.07	Hamann Companies	General Electric Capital Corporation
2293 Cosmos Ct.	Carlsbad	47,762	\$101.00	Focus Real Estate, LP	Oceanside Glasstile
2350 Oak Ridge Way	Vista	34,194	\$105.00	Hana Road Holdings, LLC	Compound Solutions, Inc.

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2293 Cosmos Ct. – Sale Leaseback	Carlsbad	47,762	June-13	Oceanside Glasstile	Focus Real Estate, LP
1462 Corporate Center Dr.	Otay Mesa	41,047	May-13	Total Recall	Sudberry Properties
3817 Ocean Ranch Blvd.	Oceanside	38,115	May-13	Fixtures Living, Inc.	SR Commercial
13465 Gregg St.	Poway	32,500	June-13	Jinx, Inc.	Gregg Street, LLC
131 W. 33rd St.	National City	29,817	May-13	Kamel World	RIF IV-West 33rd Street, LLC

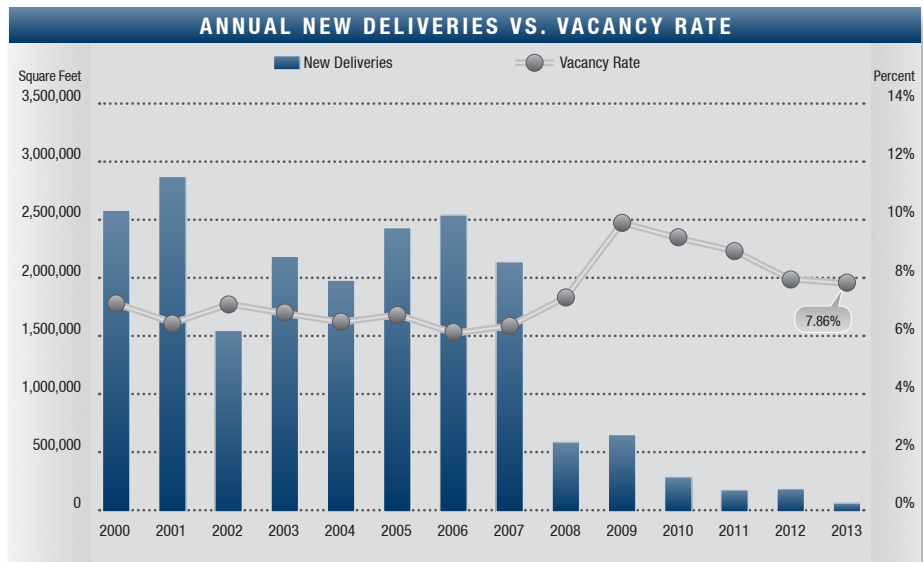
Product Type

MFG. / DIST.

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

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