



MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

UP

Deliveries

DOWN

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HIGHLIGHTS

- **Stable Improvements** -The San Diego County industrial market continued its path to recovery, posting a modest 6.23% vacancy rate. Availability continued trending downward, and net absorption was positive for the eighteenth 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 6.23%, a decrease of 5% from the prior quarter. The industrial market in San Diego County is now nearing the prerecession level of 2006's 6% vacancy rate. The East County posted the lowest vacancy rates of San Diego County areas, at 3.17%.
- **Availability** - Direct/sublease space being marketed was 9.40% at the end of the quarter, a significant decrease from first quarter's rate of 9.96%. 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 \$0.68 per square foot per month, a once-cent increase over the previous quarter and up four cents or 6.25% over 2013's second quarter figure.
- **Absorption** - The San Diego industrial market posted 435,504 square feet of positive net absorption in the second quarter, giving the market 6.1 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 2.9 million square feet, an increase from the 2.6 million square feet in the prior quarter. This statistic can have some lag time in being reported, so look for second quarter figures to end up somewhat higher in the next report. The sale of the five-building "North County Corporate Center" in Vista contributed half a million square feet to the second quarter's transaction volume. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in San Diego County was 5.8% in May 2014, down from a revised 6.1% in April 2014 and below the year-ago estimate of 7.3%. This compares with an unadjusted unemployment rate of 7.1% for California and 6.1% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 29,300 payroll jobs from May 2013 to May 2014, including 6,200 in leisure and hospitality, 5,100 from construction, and 4,800 from professional and business services. The financial activities sector recorded the greatest number of job losses, down 1,000 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 San Diego County office and retail vacancy rates are decreasing at a slower pace, the industrial market still has some gas in the tank, and is currently nearing prerecession levels. The miniscule development pipeline has been a big factor in the vacancy rate compression. Rental rates are increasing steadily. Industrial sectors are projected to increase employment in the coming quarters which should benefit the overall industrial market. The recovery is maturing, evidenced by the fact that we have now reached single digits for the availability rate.

FORECAST

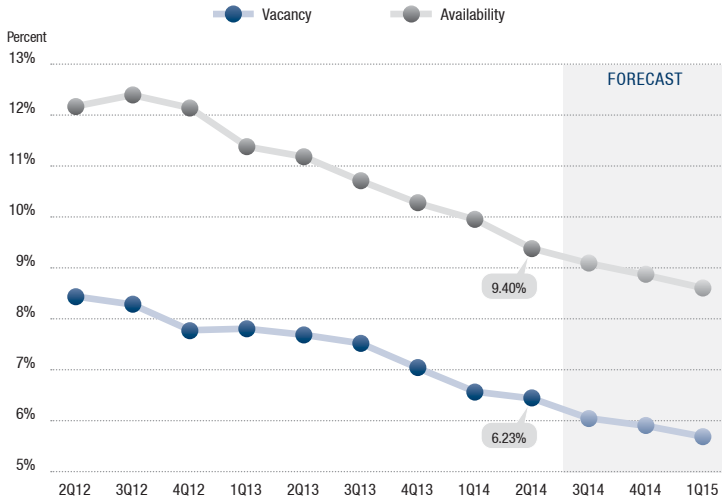
- **Construction** - After seven years of depressed construction levels for the San Diego industrial market, speculative construction has reentered the conversation, but it has not yet arrived. Limited construction in coming quarters should further allow demand to catch up to supply.
- **Employment** - 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%–4% by 2015.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping by 50 basis points, to around 5.7% by 2015.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	6.23%	6.54%	7.69%	(18.99%)
Availability Rate	9.40%	9.96%	11.19%	(16.00%)
Average Asking Lease Rate	\$0.68	\$0.67	\$0.64	6.25%
Sale & Lease Transactions	2,890,975	2,647,446	3,501,120	(17.43%)
Gross Absorption	1,953,374	2,764,122	2,150,393	(9.16%)
Net Absorption	435,504	958,084	226,030	N/A

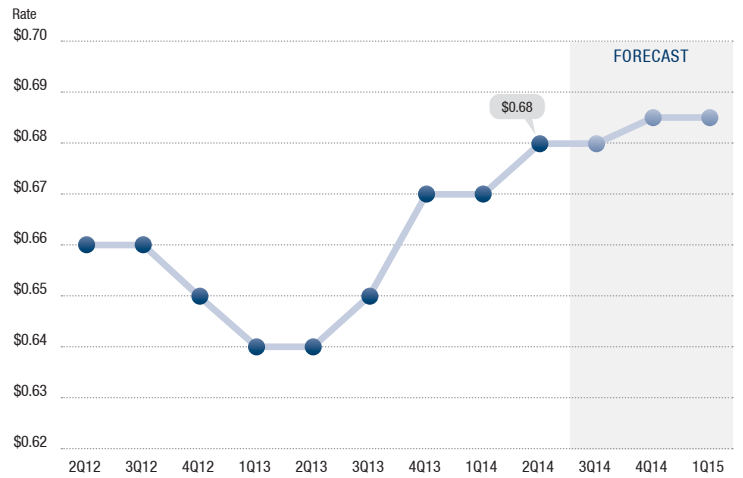
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



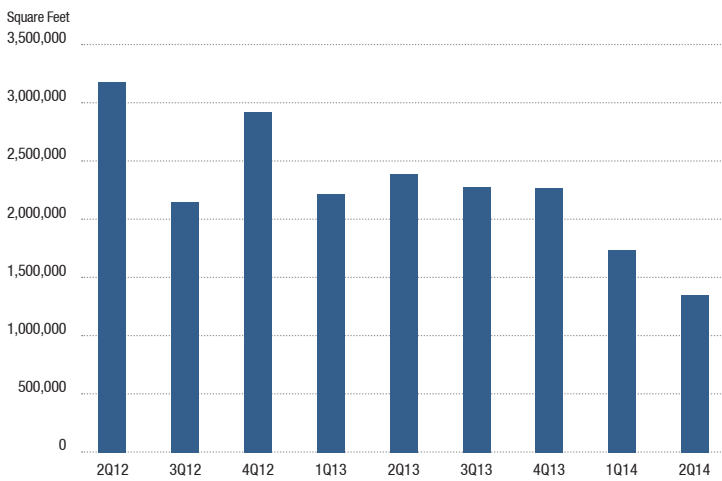
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



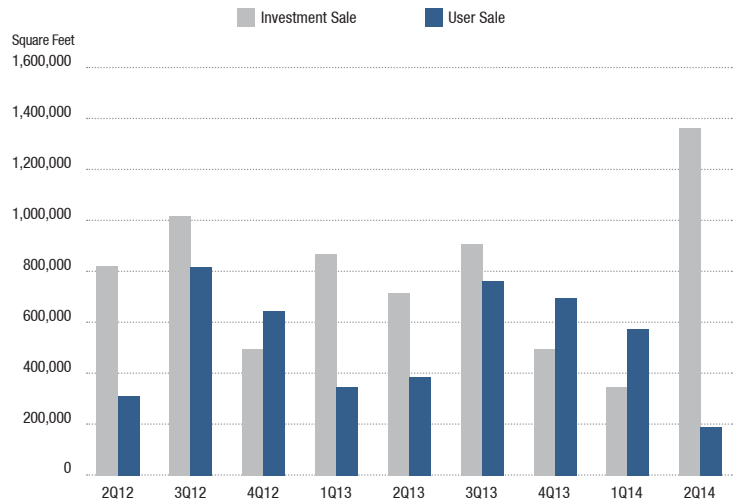
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



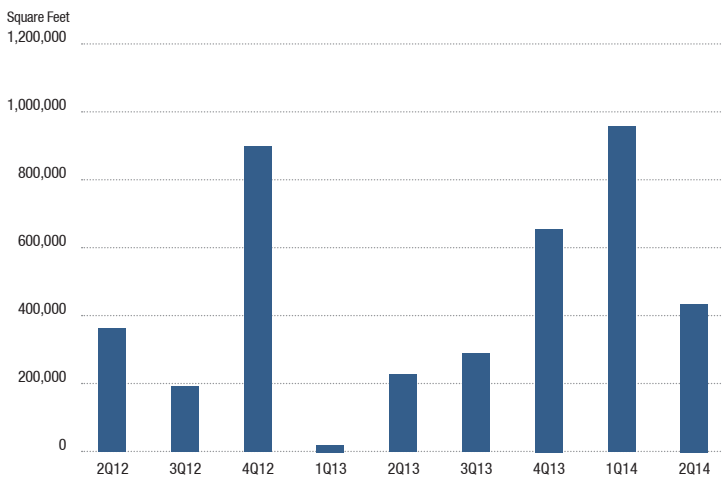
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



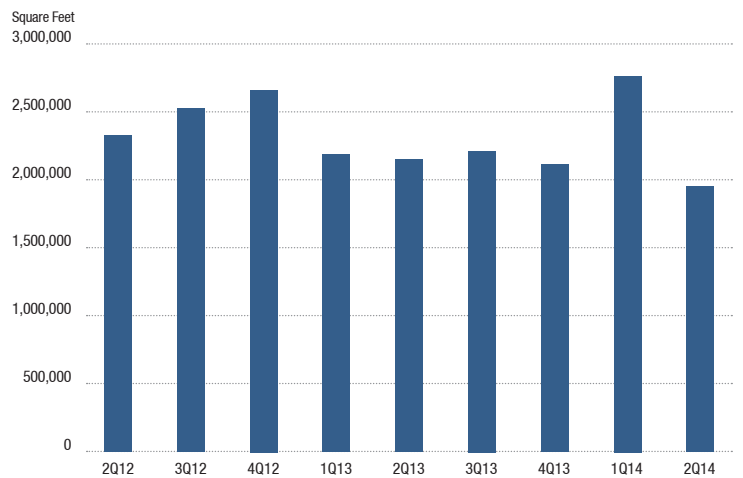
NET ABSORPTION

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 2Q2014	Square Feet Available	Availability Rate 2Q2014	Average Asking Lease Rate	Net Absorption 2Q2014	Net Absorption 2014	Gross Absorption 2Q2014	Gross Absorption 2014
Central													
Miramar	591	13,355,943	0	0	642,658	4.81%	937,168	7.02%	\$0.76	73,839	283,630	299,184	681,864
Scripps Ranch	29	744,249	0	0	44,863	6.03%	113,928	15.31%	\$0.84	(21,218)	(27,812)	2,846	7,426
Sorrento Mesa	82	3,981,880	0	74,000	233,077	5.85%	375,199	9.42%	\$1.00	28,324	18,806	32,675	70,228
Sorrento Valley	51	1,162,385	0	0	10,783	0.93%	7,280	0.63%	\$1.21	(6,463)	(3,381)	2,400	9,802
Subtotal	753	19,244,457	0	74,000	931,381	4.84%	1,433,575	7.45%		74,482	271,243	337,105	769,320
Sports Arena/Airport	200	3,159,298	0	0	68,733	2.18%	88,156	2.79%	\$0.80	42,488	70,961	52,412	110,335
Rose Canyon / Morena	133	2,698,431	0	0	35,635	1.32%	122,635	4.54%	\$0.76	2,815	(6,112)	17,075	27,325
Kearny Mesa	425	9,843,746	0	0	417,269	4.24%	521,585	5.30%	\$0.87	57,956	34,473	131,150	213,150
Mission Gorge / Grantville	121	1,967,693	0	0	158,979	8.08%	256,984	13.06%	\$0.79	(6,724)	32,144	16,423	85,700
Subtotal	879	17,669,168	0	0	680,616	3.85%	989,360	5.60%		96,535	131,466	217,060	436,510
Central Total	1,632	36,913,625	0	74,000	1,611,997	4.37%	2,422,935	6.56%	\$0.83	171,017	402,709	554,165	1,205,830
East													
El Cajon	511	9,437,686	0	0	322,472	3.42%	610,923	6.47%	\$0.70	(45,450)	(92,198)	81,829	123,118
Santee	196	2,932,898	0	318,000	57,353	1.96%	148,357	5.06%	\$0.75	18,343	27,420	86,062	122,966
Lakeside	87	1,004,402	0	0	17,738	1.77%	53,851	5.36%	\$1.00	(3,405)	70,379	0	90,484
Subtotal	794	13,374,986	0	318,000	397,563	2.97%	813,131	6.08%		(30,512)	5,601	167,891	336,568
Spring Valley	116	1,261,085	0	0	49,165	3.90%	75,472	5.98%	\$0.77	5,781	6,629	5,781	11,013
Lemon Grove / La Mesa / East SD	219	1,452,930	0	0	62,935	4.33%	120,552	8.30%	\$0.66	20,280	10,730	25,600	33,900
Subtotal	335	2,714,015	0	0	112,100	4.13%	196,024	7.22%		26,061	17,359	31,381	44,913
East Total	1,129	16,089,001	0	318,000	509,663	3.17%	1,009,155	6.27%	\$0.73	(4,451)	22,960	199,272	381,481
North Coastal													
Carlsbad	241	7,928,289	0	107,024	670,784	8.46%	939,664	11.85%	\$0.76	(33,145)	59,767	39,411	193,468
North Beach Cities	40	314,911	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southern Vista	392	11,120,052	0	709,442	832,464	7.49%	1,043,670	9.39%	\$0.67	10,470	125,250	197,935	555,217
Subtotal	673	19,363,252	0	816,466	1,503,248	7.76%	1,983,334	10.24%		(22,675)	185,017	237,346	748,685
Oceanside	395	7,958,190	0	260,618	870,672	10.94%	906,865	11.40%	\$0.66	96,666	152,154	171,009	325,698
Northern Vista	100	1,077,045	0	0	24,141	2.24%	49,413	4.59%	\$1.00	7,245	22,203	11,346	32,184
Subtotal	495	9,035,235	0	260,618	894,813	9.90%	956,278	10.58%		103,911	174,357	182,355	357,882
North Coastal Total	1,168	28,398,487	0	1,077,084	2,398,061	8.44%	2,939,612	10.35%	\$0.67	81,236	359,374	419,701	1,106,567
North Inland													
Poway	174	7,224,207	115,000	538,700	256,811	3.55%	765,408	10.60%	\$0.91	94,309	37,926	136,678	302,270
Rancho Bernardo / CMR	47	4,236,613	0	0	243,487	5.75%	239,567	5.65%	\$0.00	7,272	50,650	14,271	57,649
Subtotal	221	11,460,820	115,000	538,700	500,298	4.37%	1,004,975	8.77%		101,581	88,576	150,949	359,919
Escondido	626	7,151,699	0	0	214,191	2.99%	404,418	5.65%	\$0.73	69,365	97,954	94,058	215,143
San Marcos	525	8,539,481	0	53,000	547,984	6.42%	730,817	8.56%	\$0.87	46,309	114,316	114,049	249,960
Unincorporated North County	88	809,875	0	0	19,347	2.39%	30,578	3.78%	\$0.87	17,476	17,476	19,823	19,823
Subtotal	1,239	16,501,055	0	53,000	781,522	4.74%	1,165,813	7.07%		133,150	229,746	227,930	484,926
North Inland Total	1,460	27,961,875	115,000	591,700	1,281,820	4.58%	2,170,788	7.76%	\$0.89	234,731	318,322	378,879	844,845
South													
Southeast SD	478	6,336,072	0	0	390,643	6.17%	574,522	9.07%	\$0.61	(53,540)	(8,933)	4,200	93,682
National City	244	3,496,714	0	0	85,048	2.43%	109,111	3.12%	\$0.70	11,176	33,268	43,119	90,645
Chula Vista	334	8,561,829	0	0	454,446	5.31%	850,577	9.93%	\$0.65	(9,202)	19,546	54,829	205,579
Subtotal	1,056	18,394,615	0	0	930,137	5.06%	1,534,210	8.34%		(51,566)	43,881	102,148	389,906
Otay Mesa	324	15,158,870	0	1,465,353	2,124,923	14.02%	3,233,007	21.33%	\$0.45	13,937	268,699	295,078	766,328
San Ysidro / South SD	68	1,530,021	0	24,121	148,366	9.70%	264,536	17.29%	\$0.00	(9,400)	(22,357)	4,131	22,539
Subtotal	392	16,688,891	0	1,489,474	2,273,289	13.62%	3,497,543	20.96%		4,537	246,342	299,209	788,867
South Total	1,448	35,083,506	0	1,489,474	3,203,426	9.13%	5,031,753	14.34%	\$0.48	(47,029)	290,223	401,357	1,178,773
San Diego County Total	6,837	144,446,494	115,000	3,550,258	9,004,967	6.23%	13,574,243	9.40%	\$0.68	435,504	1,393,588	1,953,374	4,717,496
0-9,999	3,080	15,624,417	0	8,000	605,963	3.88%	843,990	5.40%	\$0.81	42,471	74,106	151,134	24,538
10,000- 19,999	1,804	25,458,018	0	70,578	1,141,163	4.48%	1,534,730	6.03%	\$0.93	146,698	271,697	420,802	946,296
20,000- 34,999	992	25,397,936	0	346,913	1,242,545	4.89%	1,986,896	7.82%	\$0.73	88,047	179,005	489,919	1,002,238
35,000- 49,999	372	15,358,310	0	159,584	802,410	5.22%	1,382,408	9.00%	\$0.69	23,608	90,789	275,844	851,844
50,000- 99,999	378	26,069,068	0	1,566,213	1,789,707	6.87%	2,699,896	10.36%	\$0.62	190,111	318,694	430,244	962,811
100,000 Plus	211	36,538,745	115,000	1,398,970	3,423,179	9.37%	5,126,323	14.03%	\$0.66	(55,431)	459,297	185,431	929,769
San Diego County Total	6,837	144,446,494	115,000	3,550,258	9,004,967	6.23%	13,574,243	9.40%	\$0.68	435,504	1,393,588	1,953,374	4,717,496

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
2750–2765 Progress St. & 990–995 Joshua Way	Vista	493,898	\$116.72	Cornerstone Real Estate Advisers	I&G Direct Real Estate
6650 Top Gun St.	Sorrento Mesa	121,496	\$150.79	Alliance Commercial Partners, LLC	Zimbabwe Properties, LLC
5909 Sea Otter Pl.	Carlsbad	246,668	\$64.86	Regent Properties, Inc.	W.P. Carey & Co., LLC
13450 Stowe Dr.	Poway	73,000	\$173.97	Peckham Properties, Inc. Dan McKinney Co.	Walton Street Capital
2270 Camino Vida Roble	Carlsbad	105,771	\$89.82	Lincoln Property Company	Gilbert J. Martin Foundation

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3030 Enterprise Ct.	Vista	69,698	Apr-14	DART Aerospace	Hamann Corporation
2025 Gillespie Way – Renewal	El Cajon	40,694	Jun-14	GTM Stores	Gillespie GH, LLC
2450 Siempre Viva Ct.	Otay Mesa	35,650	Jun-14	R&R International Freight Forwarding	4 Seasons Design, Inc.
8963 Carroll Way	Miramar	33,000	Apr-14	Shoe Metro	H.G. Fenton
4040 Avenida De La Plata	Oceanside	23,510	Jun-14	Genentech	Jones Family Trust

PRODUCT TYPE

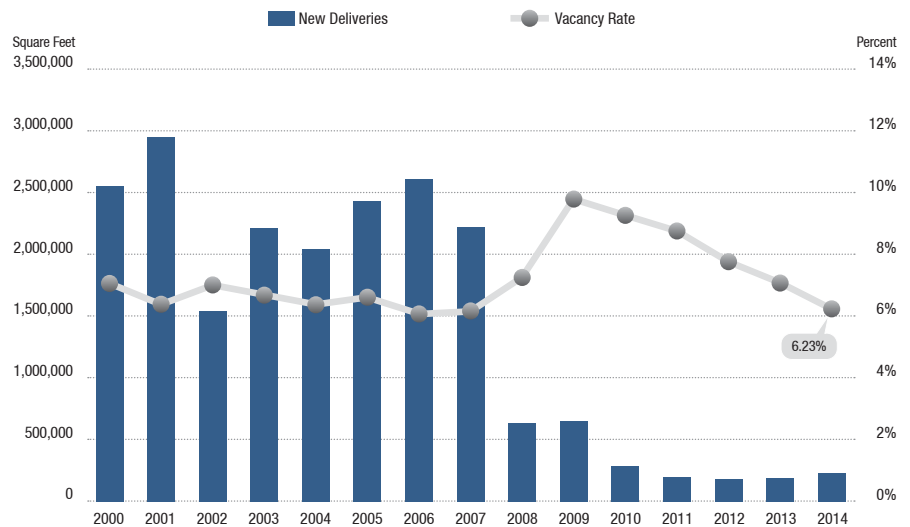
MFG./DIST.

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

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ANNUAL NEW DELIVERIES VS. VACANCY RATE



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