



MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



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HIGHLIGHTS

- **Signs Pointing Up** - The San Diego County industrial market continued its path to recovery, posting a modest 4.7% vacancy rate. Vacancy and availability continued trending downward, and net absorption was positive for the twenty-second 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 checked in at just under 700,000 square feet this quarter. During the recession and recovery construction has been limited to sporadic build-to-suit projects. The tight development pipeline has helped to push vacancy down and lease rates up for industrial product.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 4.7%. The vacancy rate for San Diego County's industrial market is now lower than the best number posted in the last period of economic expansion and more than 23% lower than the level of just a year ago. The East County posted the lowest vacancy rates of San Diego County areas, at 2.98%, dipping below the Central County which had previously been the lowest.
- **Availability** - Direct/sublease space being marketed was 7.65% at the end of the quarter, a 17.74% decrease from 2014's second quarter rate of 9.30%. 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 \$0.75 per square foot per month, a three cent increase from the previous quarter and seven cents, or a 10.29% increase over 2014's second quarter figure.
- **Absorption** - The San Diego industrial market posted 417,327 square feet of positive net absorption in the second quarter, giving the market a total of 1.1 million square

feet for the first two quarters of 2015, and well above the market average of 390,668 of positive net absorption per quarter since the beginning of 2010. Over the past twenty two quarters the market has accumulated a total of almost 8.6 million square feet of positive absorption.

- **Transaction Activity** - The total square feet leased and sold in the second quarter was 3.7 million square feet, a slight decrease from the 4.1 million square feet that was transacted in the prior quarter. This statistic can have some lag time in being reported, so look for this quarter's 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 San Diego County was 4.9% in May 2015, up from a revised 4.8% in April 2015 and below the year-ago estimate of 6.1%. This compares with an unadjusted unemployment rate of 6.2% for California and 5.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 42,400 payroll jobs from May 2014 and May 2015, including 11,000 from professional and business services, and 8,500 from leisure and hospitality, 6,800 from education and health services, and 4,500 from construction. No major sector recorded year-over job losses.
- **Overall** - New construction is still at very low levels. We are seeing continued decreases in the amount of vacant space in the market along with positive net absorption. Asking rental rates have been increasing for some time now and that increase is now accelerating. While the San Diego County office and retail vacancy rates are decreasing at a slower pace, the industrial market is in the midst of a freefall, and the vacancy rate is now lower than prerecession levels. The miniscule development pipeline has been a big factor in the vacancy rate compression. The San Diego Industrial market is recovering in full stride now.

FORECAST

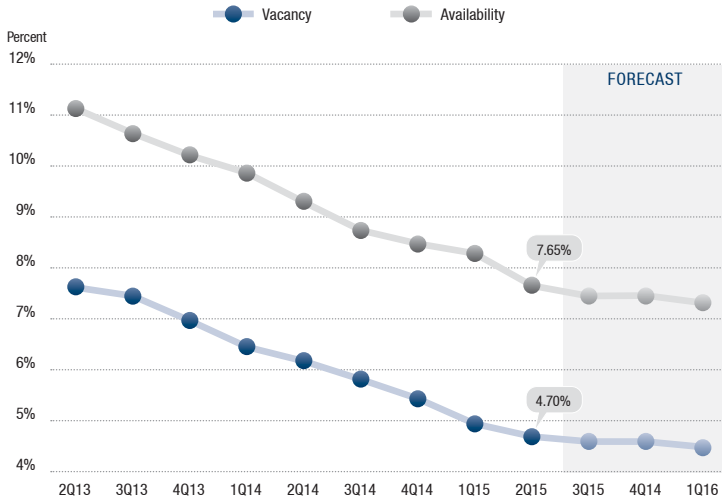
- **Construction** - After seven years of depressed construction levels for the San Diego industrial market, speculative construction has reentered the conversation, but it has not yet arrived. Limited construction in coming quarters should further allow demand to catch up to supply.
- **Employment** - 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 2015.
- **Lease Rates** - Expect average asking rates to increase by approximately 5% to 7% over the next four quarters.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping over 20 basis points, to around 4.48% by the end of the first quarter of 2016.

OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	4.70%	4.96%	6.18%	(23.95%)
Availability Rate	7.65%	8.27%	9.30%	(17.74%)
Average Asking Lease Rate	\$0.75	\$0.72	\$0.68	10.29%
Sale & Lease Transactions	3,737,956	4,125,177	4,246,728	(11.98%)
Gross Absorption	2,075,090	1,792,355	1,976,912	4.97%
Net Absorption	417,327	683,229	420,742	N/A

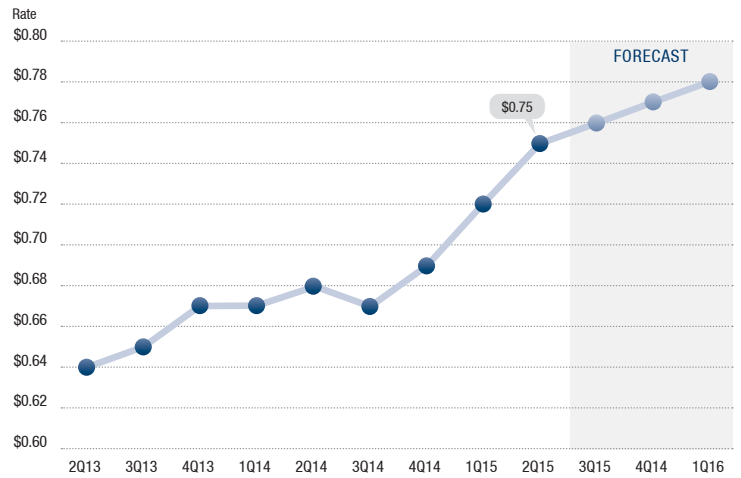
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



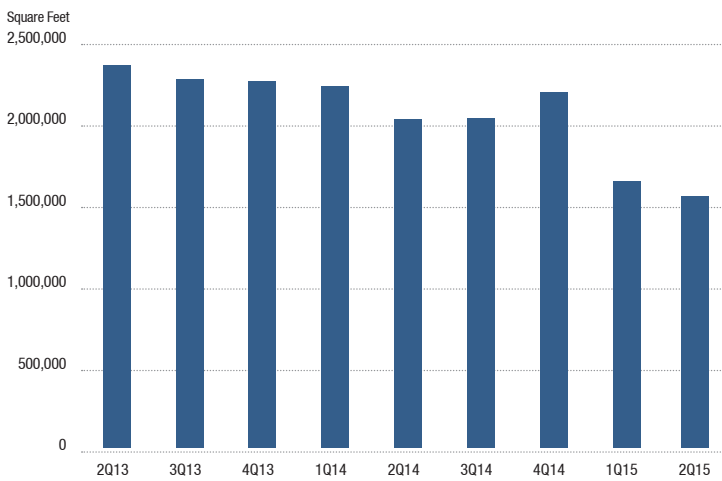
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



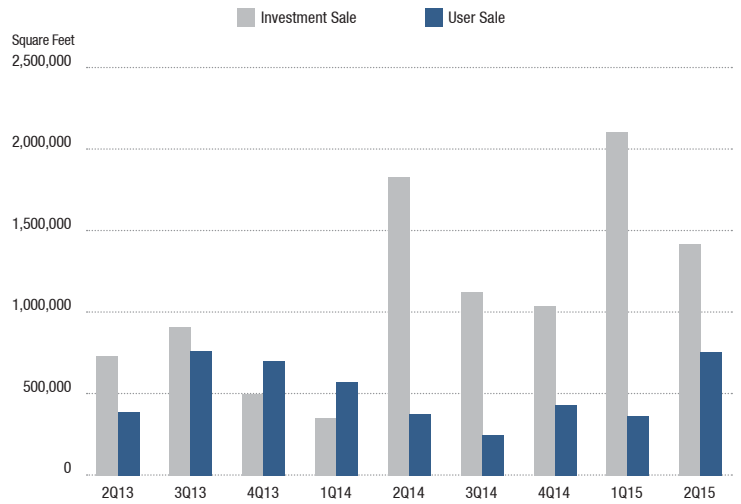
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



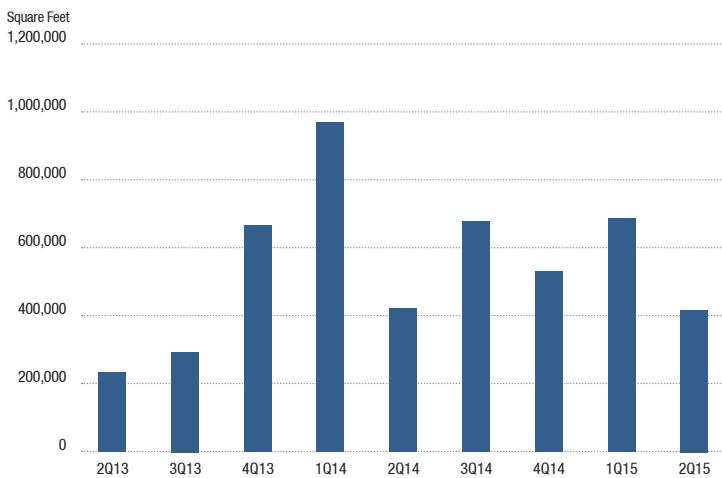
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



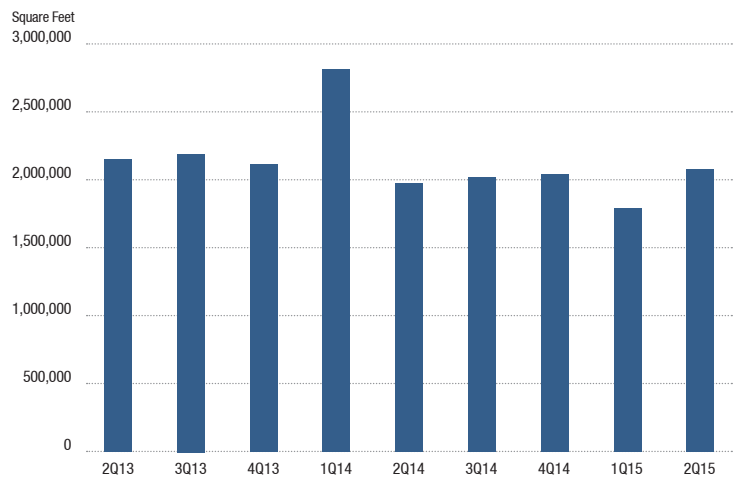
NET ABSORPTION

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 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
Central													
Miramar	591	13,333,306	0	0	521,125	3.91%	723,583	5.43%	\$0.90	14,522	135,252	230,279	554,804
Scripps Ranch	29	744,249	0	0	34,828	4.68%	87,606	11.77%	\$0.85	5,619	8,646	5,619	22,966
Sorrento Mesa	79	3,958,785	0	0	212,867	5.38%	480,144	12.13%	\$0.99	31,344	17,713	81,103	81,103
Sorrento Valley	50	1,144,826	0	149,663	9,800	0.86%	13,020	1.14%	\$1.55	(9,000)	(9,800)	12,000	22,000
Subtotal	749	19,181,166	0	149,663	778,620	4.06%	1,304,353	6.80%		42,485	151,811	329,001	680,873
Sports Arena/Airport	197	3,089,797	0	0	35,626	1.15%	33,526	1.09%	\$0.76	30,901	42,954	50,311	71,489
Rose Canyon / Morena	133	2,694,490	0	0	29,071	1.08%	40,383	1.50%	\$1.15	(4,941)	(13,861)	14,890	24,890
Kearny Mesa	423	9,792,902	0	0	202,102	2.06%	325,991	3.33%	\$1.02	38,946	158,002	127,142	374,686
Mission Gorge / Grantville	121	1,963,460	0	0	68,869	3.51%	80,515	4.10%	\$0.79	(16,607)	286	17,136	39,107
Subtotal	874	17,540,649	0	0	335,668	1.91%	480,415	2.74%		48,299	187,381	209,479	510,172
Central Total	1,623	36,721,815	0	149,663	1,114,288	3.03%	1,784,768	4.86%	\$0.95	90,784	339,192	538,480	1,191,045
East													
El Cajon	513	9,437,905	0	112,126	274,828	2.91%	575,087	6.09%	\$0.75	23,878	(3,175)	108,293	121,651
Santee	196	2,937,165	0	247,050	75,789	2.58%	109,123	3.72%	\$0.75	(7,346)	(13,428)	28,211	36,769
Lakeside	86	998,509	0	0	4,096	0.41%	39,111	3.92%	\$1.00	874	2,783	4,970	6,879
Subtotal	795	13,373,579	0	359,176	354,713	2.65%	723,321	5.41%		17,406	(13,820)	141,474	165,299
Spring Valley	118	1,265,936	0	0	73,808	5.83%	114,929	9.08%	\$0.87	(3,690)	(710)	3,200	16,168
Lemon Grove / La Mesa / East SD	220	1,462,939	0	0	51,185	3.50%	92,332	6.31%	\$0.50	0	9,000	0	15,000
Subtotal	338	2,728,875	0	0	124,993	4.58%	207,261	7.60%		(3,690)	8,290	3,200	31,168
East Total	1,133	16,102,454	0	359,176	479,706	2.98%	930,582	5.78%	\$0.77	13,716	(5,530)	144,674	196,467
North Coastal													
Carlsbad	238	7,770,278	80,392	64,300	764,528	9.84%	899,553	11.58%	\$0.89	(138,388)	(141,729)	36,583	99,222
North Beach Cities	40	314,911	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southern Vista	390	11,049,224	0	681,517	455,653	4.12%	597,851	5.41%	\$0.69	92,625	96,264	215,223	353,943
Subtotal	668	19,134,413	80,392	745,817	1,220,181	6.38%	1,497,404	7.83%		(45,763)	(45,465)	251,806	453,165
Oceanside	395	8,012,152	543,330	270,382	522,024	6.52%	569,147	7.10%	\$0.63	243,403	322,543	308,163	433,164
Northern Vista	100	1,077,859	0	0	15,963	1.48%	29,359	2.72%	\$0.80	5,909	3,352	16,443	31,628
Subtotal	495	9,090,011	543,330	270,382	537,987	5.92%	598,506	6.58%		249,312	325,895	324,606	464,792
North Coastal Total	1,163	28,224,424	623,722	1,016,199	1,758,168	6.23%	2,095,910	7.43%	\$0.73	203,549	280,430	576,412	917,957
North Inland													
Poway	176	7,358,075	70,918	355,000	182,630	2.48%	819,500	11.14%	0.90	4,952	126,814	108,758	248,329
Rancho Bernardo / CMR	47	4,250,348	0	0	233,522	5.49%	562,541	13.24%	\$0.94	14,271	1,217	14,271	14,271
Subtotal	223	11,608,423	70,918	355,000	416,152	3.58%	1,382,041	11.91%		19,223	128,031	123,029	262,600
Escondido	628	7,198,855	0	0	234,298	3.25%	441,253	6.13%	\$0.93	(40,460)	(34,302)	116,353	210,728
San Marcos	524	8,525,402	0	53,000	488,297	5.73%	610,597	7.16%	\$0.95	6,757	55,910	72,312	170,418
Unincorporated North County	89	812,475	0	3,754	18,797	2.31%	26,722	3.29%	\$0.97	13,400	2,200	13,400	13,400
Subtotal	1,241	16,536,732	0	56,754	741,392	4.48%	1,078,572	6.52%		(20,303)	23,808	202,065	394,546
North Inland Total	1,464	28,145,155	70,918	411,754	1,157,544	4.11%	2,460,613	8.74%	\$0.91	(1,080)	151,839	325,094	657,146
South													
Southeast SD	465	6,167,509	0	0	231,738	3.76%	326,300	5.29%	\$0.71	20,851	71,234	44,477	101,580
National City	244	3,499,502	0	0	99,412	2.84%	142,020	4.06%	\$0.71	(17,345)	(14,109)	28,169	40,866
Chula Vista	334	8,682,758	0	0	350,708	4.04%	876,883	10.10%	\$0.62	25,507	80,489	99,946	210,532
Subtotal	1,043	18,349,769	0	0	681,858	3.72%	1,345,203	7.33%		29,013	137,614	172,592	352,978
Otay Mesa	328	15,222,084	0	1,519,891	1,512,894	9.94%	2,286,298	15.02%	\$0.50	(7,971)	89,569	226,832	439,832
San Ysidro / South SD	68	1,529,646	0	24,121	81,622	5.34%	138,300	9.04%	\$0.76	89,316	110,330	91,006	112,020
Subtotal	396	16,751,730	0	1,544,012	1,594,516	9.52%	2,424,598	14.47%		81,345	199,899	317,838	551,852
South Total	1,439	35,101,499	0	1,544,012	2,276,374	6.49%	3,769,801	10.74%	\$0.53	110,358	337,513	490,430	904,830
San Diego County Total	6,822	144,295,347	694,640	3,480,804	6,786,080	4.70%	11,041,674	7.65%	\$0.75	417,327	1,103,444	2,075,090	3,867,445
0-9,999	3,076	15,590,569	0	15,804	387,939	2.49%	609,003	3.91%	\$1.21	18,280	98,400	187,076	353,644
10,000-19,999	1,800	25,400,867	0	88,578	1,022,298	4.02%	1,743,100	6.86%	\$0.95	28,964	(56,558)	417,219	742,225
20,000-34,999	987	25,246,036	24,883	182,177	907,895	3.60%	1,464,829	5.80%	\$0.82	65,707	171,786	345,809	743,272
35,000-49,999	369	15,248,020	46,035	79,084	617,522	4.05%	942,872	6.18%	\$0.76	55,587	158,481	308,351	524,984
50,000-99,999	377	25,978,647	209,254	861,576	1,464,580	5.64%	2,236,398	8.61%	\$0.71	89,248	229,443	279,498	548,523
100,000 Plus	213	36,831,208	414,468	2,253,585	2,385,846	6.48%	4,045,472	10.98%	\$0.68	159,541	501,892	537,137	954,797
San Diego County Total	6,822	144,295,347	694,640	3,480,804	6,786,080	4.70%	11,041,674	7.65%	\$0.75	417,327	1,103,444	2,075,090	3,867,445

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
2325-2365 Michael Faraday Dr. 6754-6995 Calle De Linea; Et Al	Otay Mesa	703,845	\$64.22	Stockbridge Capital Group, LLC	TA Realty
4010 Ocean Ranch Blvd.	Oceanside	203,779	\$121.70	Gilead Sciences, Inc.	EverWest Real Estate Partners, LLC
675, 677, 679 Anita St.	Chula Vista	105,600	\$83.57	Britannia Partners, LLC	Carleton Management
298-304 Enterprise St.	Escondido	76,495	\$188.25	SR Commercial	Enterprise Heights Ind. Centre
12460 Kirkham Ct.	Poway	58,099	\$133.39	12460 Kirkham, LLC	Windsor, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
8863 Siempre Viva Rd.	Otay Mesa	112,000	May-2015	Undisclosed	AFL-CIO Building Investment Trust
8917 Kerns St.	Otay Mesa	104,180	May-2015	Mad Engine, Inc.	Westcore Properties
1462 Corporate Center Dr.	Otay Mesa	91,753	Apr-2015	GTM	GF Capital Management & Advisors, LLC
7130 Miramar Rd.	Miramar	58,368	Jun-2015	WorldTrans Services	Morgan Stanley
1230 Avenida Chelsea – Renewal	Vista	37,954	May-2015	Haro Bikes	The Paskin Group

PRODUCT TYPE

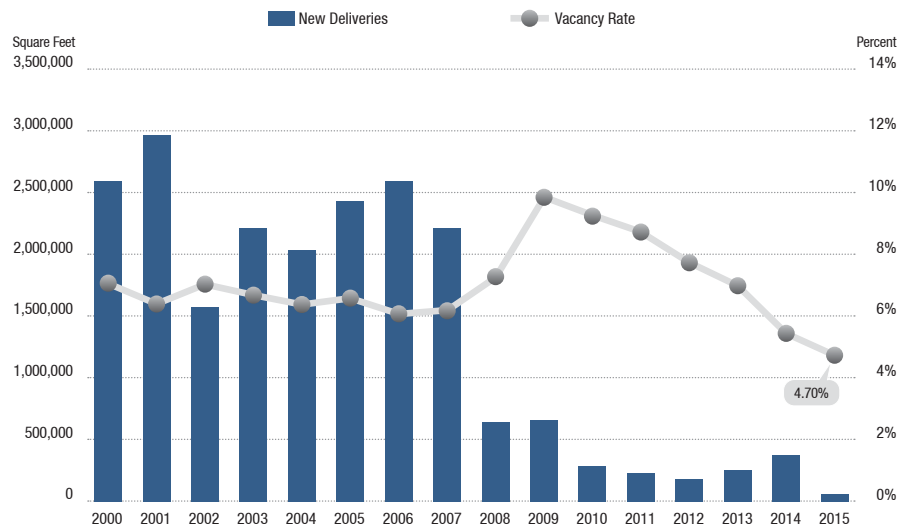
MFG./DIST.

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

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