



## MARKET CHANGE

*Compared to Previous Quarter:*

**Vacancy**



**Net Absorption**

**NEGATIVE**



**Lease Rates**



**Transactions**



**Deliveries**



## HIGHLIGHTS

- **Tight Market** - The San Diego County industrial market continues to thrive, however there was a slight change of course in the first half of 2016. After twenty five consecutive quarters of positive net absorption, the industrial market had approximately 504,000 square feet of negative net absorption. Availability continues to be at one of its all-time lows, having decreased to 7% compared to the 7.46% vacancy rate last year. Although vacancy increased, it continues to be at one of the lowest levels in more than 15 years, posting a 4.4% vacancy rate at the end of the quarter. Asking sales prices, asking lease rates and occupancy costs continue to climb due to increased demand and limited supply.
- **Construction** - After eight years of essentially no industrial construction in San Diego, the 665,000 square feet of new product delivered year to date at the end of the second quarter has already surpassed the highest full year of product delivered in any one of the previous eight years. Construction for the second quarter was approximately 354,000 square feet. The majority of this construction is taking place in the least expensive land markets of San Diego County which are Oceanside and Otay Mesa. One prominent project is the construction of 237,000 square foot at Ocean Ranch Corporate Center which has been leased by Suja Juice and Brixton. In Otay, Murphy Development has completed a 121,970 square foot spec building with an asking rate of \$0.72 NNN/SF. Currently, approximately 4.2 million square feet is planned or could be built. The most notable project being planned is Brown Field Technology Park in Otay Mesa, which has a master plan of 1 million square feet of industrial product. 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 4.4%, a slight increase from last quarter's 3.97%, but still one of the lowest numbers posted in more than 15 years. 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, which was roughly 6% in 2006. East County posted the lowest vacancy rate at 3.03%.
- **Availability** - Direct / sublease space being marketed was 7% at the end of the second quarter, a 6.17% decrease from 2015's second quarter rate of 7.46%. 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 \$0.86 per square foot per month, a four cent or 5% increase in

comparison to the previous quarter and eleven cents higher than 2015's second quarter figure of \$0.75. This is a record high for the San Diego industrial market, exceeding any rate posted in the past fifteen years. This significant increase resulted from very high demand and scarce supply in the market.

- **Absorption** - After six consecutive years of posting positive net absorption, the San Diego industrial market ended the trend with 504,103 square feet of negative net absorption in the second quarter. Oceanside had the most substantial positive absorption in the county recording 290,000 square feet, with notable tenants such as Suja Juice and LaCantina Doors. Over the past six years, the market has accumulated a total of over 10.1 million square feet of positive net absorption.
- **Transaction Activity** - The total square feet leased and sold in in the second quarter was approximately 3.4 million square feet, a 27% decrease from second quarter of 2015's mark of 4.7 million square feet. 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 4.2% in May 2016, down from a revised 4.5% in April 2016 and below the year-ago estimate of 5%. This compares with an unadjusted unemployment rate of 4.7% for California and 5.2% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 32,200 payroll jobs from May 2015 to May 2016, including 7,600 from education and health services, which reported the largest overall gain. Professional and business services reported a growth of up to 6,500 jobs, followed by the government sector that reported up to 5,700 jobs.
- **Overall** - New construction is making headway after eight years of limited deliveries, with the second quarter alone posting the highest number of deliveries seen in the past eight years. The overwhelming majority of this new product is already leased. Rental rates and sale prices will continue to increase, as competitively priced industrial land remains scarce. In addition, look for construction costs to continue to rise as well. The depleted development pipeline in the past few years has been a big factor in the vacancy rate compression, and we foresee 2016 being another year of growth.

## FORECAST

- **Employment** - We anticipate job growth of around 2.5%, or 35,000 jobs, in San Diego County over the year. Look for sectors like professional, scientific, & technical services, health care & social services, and leisure & hospitality to lead the way for employment gains in 2016.
- **Lease Rates** - Expect average asking rates to increase by approximately 2% to 4% over the next four quarters.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping approximately 40 basis points, to around 4% by the end of the fourth quarter of 2016.

## OVERVIEW

|                           | 2Q16      | 1Q16      | 2Q15      | % of Change vs. 2Q15 |
|---------------------------|-----------|-----------|-----------|----------------------|
| Vacancy Rate              | 4.40%     | 3.97%     | 4.48%     | (1.79%)              |
| Availability Rate         | 7.00%     | 7.36%     | 7.46%     | (6.17%)              |
| Average Asking Lease Rate | \$0.86    | \$0.82    | \$0.75    | 14.67%               |
| Sale & Lease Transactions | 3,417,864 | 2,787,652 | 4,682,428 | (27.01%)             |
| Gross Absorption          | 2,165,984 | 1,510,046 | 2,101,851 | 3.05%                |
| Net Absorption            | (504,103) | (35,089)  | 471,188   | N/A                  |

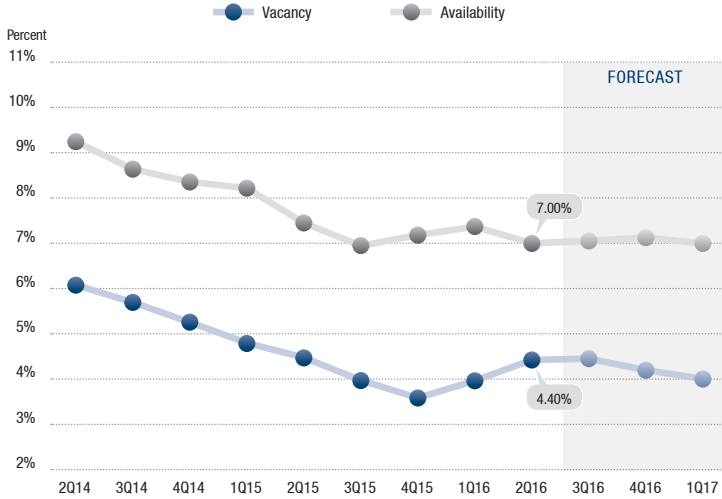
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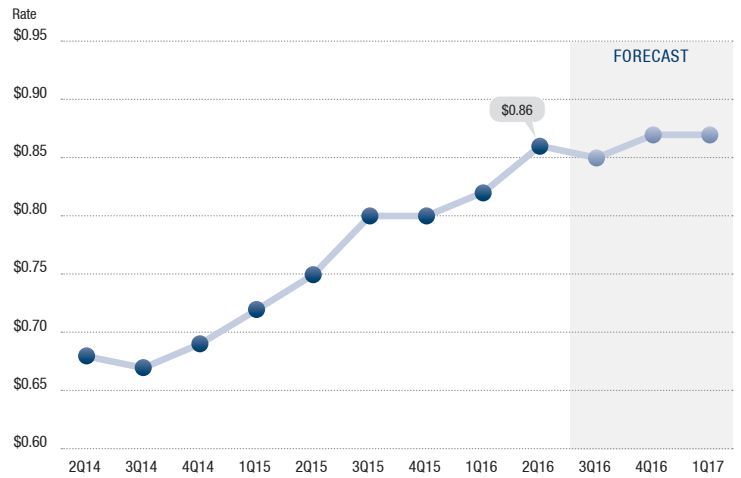
## VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



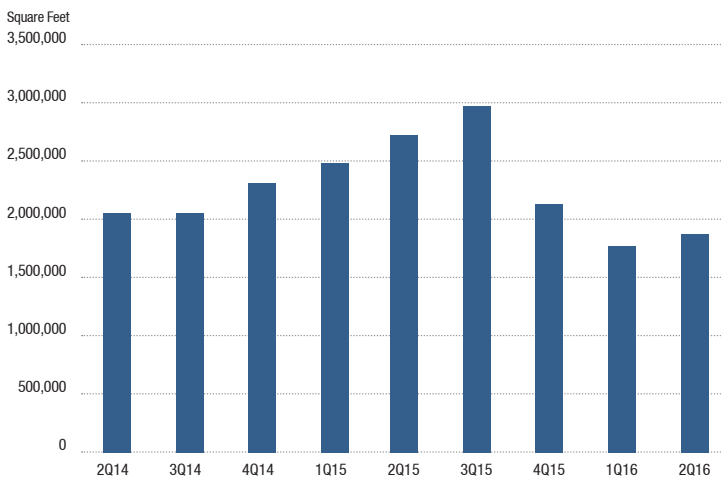
## AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY BASE RENT ON A PER SQ. FT. BASIS



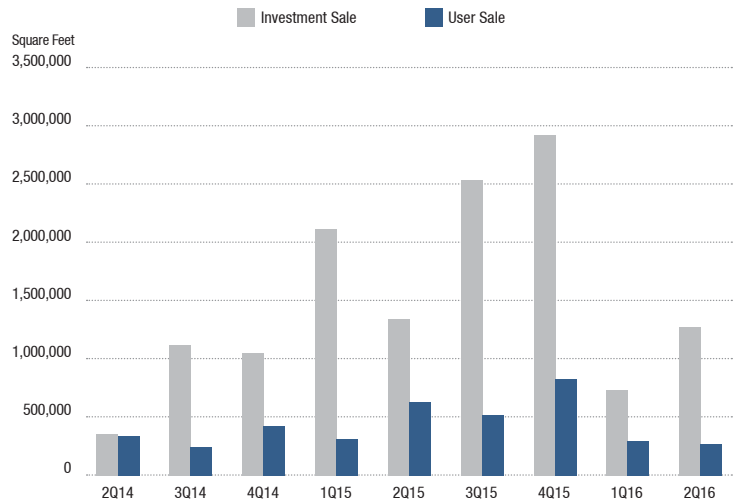
## LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



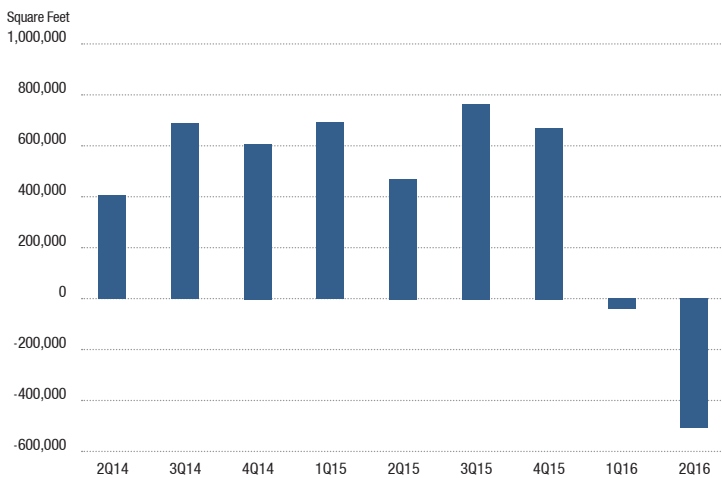
## SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



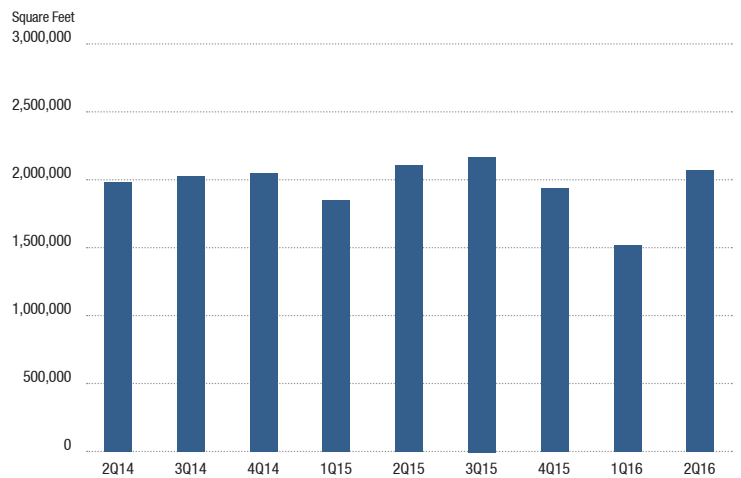
## NET ABSORPTION

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 2Q2016 | Square Feet Available | Availability Rate 2Q2016 | Average Asking Lease Rate | Net Absorption 2Q2016 | Net Absorption 2016 | Gross Absorption 2Q2016 | Gross Absorption 2016 |
| <b>Central County</b>         |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Central City                  | 151              | 2,306,332                | 0                 | 0                   | 70,000                | 3.04%               | 25,000                | 1.08%                    | \$2.00                    | (900)                 | (6,800)             | 0                       | 0                     |
| East City                     | 61               | 976,691                  | 0                 | 0                   | 0                     | 0.00%               | 9,359                 | 0.96%                    | \$0.00                    | 1,100                 | 1,100               | 1,100                   | 1,100                 |
| Southeast City                | 317              | 3,537,907                | 0                 | 0                   | 98,000                | 2.77%               | 164,209               | 4.64%                    | \$0.00                    | 21,699                | 26,033              | 43,244                  | 68,705                |
| Kearny Mesa                   | 427              | 9,843,135                | 0                 | 20,600              | 234,758               | 2.38%               | 295,235               | 3.00%                    | \$1.16                    | (22,844)              | (25,138)            | 106,834                 | 197,149               |
| Mission Gorge                 | 120              | 1,946,633                | 0                 | 0                   | 48,871                | 2.51%               | 46,441                | 2.39%                    | \$1.05                    | 3,012                 | (26,762)            | 22,517                  | 38,658                |
| Rose Canyon / Morena          | 136              | 2,747,576                | 0                 | 0                   | 18,230                | 0.66%               | 178,230               | 6.49%                    | \$0.00                    | (5,096)               | (10,876)            | 2,904                   | 4,474                 |
| Sports Arena / Airport        | 141              | 1,605,528                | 2,500             | 0                   | 36,382                | 2.27%               | 87,732                | 5.46%                    | \$1.82                    | (2,650)               | (10,528)            | 15,374                  | 18,896                |
| Miramar                       | 590              | 13,290,288               | 0                 | 615,000             | 734,311               | 5.53%               | 907,671               | 6.83%                    | \$0.92                    | (313,301)             | (387,623)           | 213,453                 | 346,756               |
| Sorrento Mesa                 | 78               | 3,885,676                | 0                 | 0                   | 97,624                | 2.51%               | 412,094               | 10.61%                   | \$0.94                    | 8,650                 | 33,377              | 42,261                  | 95,568                |
| Sorrento Valley               | 46               | 1,036,303                | 0                 | 0                   | 9,979                 | 0.96%               | 14,979                | 1.45%                    | \$1.75                    | 9,248                 | (8,099)             | 14,554                  | 16,974                |
| Torrey Pines / UTC            | 3                | 104,448                  | 0                 | 149,663             | 0                     | 0.00%               | 0                     | 0.00%                    | \$0.00                    | 0                     | 0                   | 0                       | 0                     |
| <b>Central County Total</b>   | <b>2,070</b>     | <b>41,280,517</b>        | <b>2,500</b>      | <b>785,263</b>      | <b>1,348,155</b>      | <b>3.27%</b>        | <b>2,140,950</b>      | <b>5.19%</b>             | <b>\$0.99</b>             | <b>(301,082)</b>      | <b>(415,316)</b>    | <b>462,241</b>          | <b>788,280</b>        |
| <b>East County</b>            |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| El Cajon                      | 446              | 9,028,684                | 0                 | 112,126             | 277,364               | 3.07%               | 343,973               | 3.81%                    | \$0.74                    | (85,602)              | (66,280)            | 100,898                 | 234,068               |
| La Mesa / Spring Valley       | 311              | 2,669,079                | 0                 | 0                   | 98,515                | 3.69%               | 147,843               | 5.54%                    | \$0.70                    | (11,300)              | 12,694              | 26,400                  | 68,916                |
| Santee / Lakeside             | 279              | 3,711,271                | 0                 | 239,050             | 90,327                | 2.43%               | 179,228               | 4.83%                    | \$0.75                    | (54,215)              | (50,420)            | 26,375                  | 69,710                |
| <b>East County Total</b>      | <b>1,036</b>     | <b>15,409,034</b>        | <b>0</b>          | <b>351,176</b>      | <b>466,206</b>        | <b>3.03%</b>        | <b>671,044</b>        | <b>4.35%</b>             | <b>\$0.73</b>             | <b>(151,117)</b>      | <b>(104,006)</b>    | <b>153,673</b>          | <b>372,694</b>        |
| <b>North County</b>           |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Escondido                     | 628              | 7,264,309                | 0                 | 91,000              | 144,273               | 1.99%               | 308,101               | 4.24%                    | \$0.93                    | (27,450)              | (22,403)            | 75,335                  | 130,993               |
| Oceanside                     | 399              | 8,595,754                | 193,689           | 283,804             | 598,384               | 6.96%               | 595,397               | 6.93%                    | \$0.68                    | 290,515               | 297,665             | 386,220                 | 461,566               |
| San Marcos                    | 505              | 8,080,816                | 0                 | 84,000              | 383,452               | 4.75%               | 767,834               | 9.50%                    | \$0.68                    | 44,923                | 69,570              | 80,374                  | 160,038               |
| Vista                         | 496              | 12,507,319               | 0                 | 330,165             | 440,381               | 3.52%               | 795,416               | 6.36%                    | \$0.75                    | (162,694)             | (175,668)           | 70,426                  | 137,747               |
| Carlsbad                      | 227              | 7,411,268                | 113,830           | 530,141             | 529,554               | 7.15%               | 833,986               | 11.25%                   | \$0.95                    | (4,997)               | (54,210)            | 228,634                 | 317,282               |
| North Beach Cities            | 44               | 324,156                  | 0                 | 0                   | 0                     | 0.00%               | 0                     | 0.00%                    | \$0.00                    | 0                     | 0                   | 0                       | 0                     |
| Outlying SD County North      | 102              | 913,848                  | 0                 | 3,754               | 15,650                | 1.71%               | 21,875                | 2.39%                    | \$0.85                    | 151                   | 251                 | 3,701                   | 4,801                 |
| <b>North County Total</b>     | <b>2,401</b>     | <b>45,097,470</b>        | <b>307,519</b>    | <b>1,322,864</b>    | <b>2,111,694</b>      | <b>4.68%</b>        | <b>3,322,609</b>      | <b>7.37%</b>             | <b>\$0.82</b>             | <b>140,448</b>        | <b>115,205</b>      | <b>844,690</b>          | <b>1,212,427</b>      |
| <b>I-15 Corridor</b>          |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Poway                         | 176              | 7,382,560                | 0                 | 357,640             | 152,010               | 2.06%               | 598,390               | 8.11%                    | \$0.92                    | 97,861                | 217,662             | 208,610                 | 370,900               |
| Rancho Bernardo               | 46               | 4,243,652                | 0                 | 0                   | 384,902               | 9.07%               | 427,848               | 10.08%                   | \$1.01                    | 31,909                | (50,070)            | 42,186                  | 42,186                |
| Scripps Ranch                 | 29               | 745,005                  | 0                 | 0                   | 211,887               | 28.44%              | 198,737               | 26.68%                   | \$0.95                    | (118,118)             | (188,766)           | 7,680                   | 19,916                |
| <b>I-15 Corridor Total</b>    | <b>251</b>       | <b>12,371,217</b>        | <b>0</b>          | <b>357,640</b>      | <b>748,799</b>        | <b>6.05%</b>        | <b>1,224,975</b>      | <b>9.90%</b>             | <b>\$0.96</b>             | <b>11,652</b>         | <b>(21,174)</b>     | <b>258,476</b>          | <b>433,002</b>        |
| <b>South Bay</b>              |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Chula Vista                   | 335              | 8,668,125                | 0                 | 0                   | 415,491               | 4.79%               | 698,834               | 8.06%                    | \$0.90                    | (155,850)             | (155,701)           | 54,504                  | 201,319               |
| National City                 | 245              | 3,524,280                | 0                 | 0                   | 85,845                | 2.44%               | 99,076                | 2.81%                    | \$0.66                    | (16,715)              | 15,957              | 7,275                   | 50,083                |
| Otay Mesa                     | 329              | 15,373,849               | 44,084            | 1,359,262           | 1,061,773             | 6.91%               | 1,666,232             | 10.84%                   | \$0.74                    | (50,881)              | 44,213              | 338,253                 | 559,813               |
| San Ysidro / Imperial Beach   | 67               | 1,418,755                | 0                 | 24,121              | 91,753                | 6.47%               | 237,581               | 16.75%                   | \$0.91                    | (20,060)              | (18,370)            | 7,370                   | 12,460                |
| Outlying SD County South      | 72               | 717,231                  | 0                 | 0                   | 1,000                 | 0.14%               | 14,227                | 1.98%                    | \$0.00                    | 39,502                | 0                   | 39,502                  | 45,962                |
| <b>South Bay Total</b>        | <b>1,048</b>     | <b>29,702,240</b>        | <b>44,084</b>     | <b>1,383,383</b>    | <b>1,655,862</b>      | <b>5.57%</b>        | <b>2,715,950</b>      | <b>9.14%</b>             | <b>\$0.77</b>             | <b>(204,004)</b>      | <b>(113,901)</b>    | <b>446,904</b>          | <b>869,637</b>        |
| <b>San Diego County Total</b> | <b>6,806</b>     | <b>143,860,478</b>       | <b>354,103</b>    | <b>4,200,326</b>    | <b>6,331,516</b>      | <b>4.40%</b>        | <b>10,075,528</b>     | <b>7.00%</b>             | <b>\$0.86</b>             | <b>(504,103)</b>      | <b>(539,192)</b>    | <b>2,165,984</b>        | <b>3,676,040</b>      |
| 0-9,999                       | 3,070            | 15,599,819               | 2,500             | 7,804               | 251,444               | 1.61%               | 506,078               | 3.24%                    | \$1.18                    | 4,285                 | (8,277)             | 137,419                 | 259,839               |
| 10,000-19,999                 | 1,798            | 25,349,013               | 0                 | 0                   | 773,505               | 3.05%               | 1,399,215             | 5.52%                    | \$1.06                    | 37,876                | 75,863              | 455,114                 | 918,776               |
| 20,000-34,999                 | 985              | 25,188,203               | 0                 | 202,777             | 803,248               | 3.19%               | 1,368,934             | 5.43%                    | \$0.98                    | 36,650                | (66,749)            | 450,779                 | 734,377               |
| 35,000-49,999                 | 366              | 15,119,889               | 44,084            | 156,792             | 600,979               | 3.97%               | 884,011               | 5.85%                    | \$0.79                    | 1,627                 | (64,429)            | 281,085                 | 359,638               |
| 50,000-99,999                 | 376              | 25,910,420               | 205,804           | 1,001,228           | 1,624,929             | 6.27%               | 2,078,343             | 8.02%                    | \$0.78                    | (328,158)             | (439,076)           | 249,432                 | 423,505               |
| 100,000 Plus                  | 212              | 36,707,524               | 101,715           | 2,831,725           | 2,277,411             | 6.20%               | 3,838,947             | 10.46%                   | \$0.84                    | (256,383)             | (36,524)            | 592,155                 | 979,905               |
| <b>San Diego County Total</b> | <b>6,806</b>     | <b>143,860,478</b>       | <b>354,103</b>    | <b>4,200,326</b>    | <b>6,331,516</b>      | <b>4.40%</b>        | <b>10,075,528</b>     | <b>7.00%</b>             | <b>\$0.86</b>             | <b>(504,103)</b>      | <b>(539,192)</b>    | <b>2,165,984</b>        | <b>3,676,040</b>      |

Lease rates are on a triple-net basis.

## MAJOR TRANSACTIONS

### Sales Transactions

| Property Address                    | Submarket     | Square Feet | Sale Price   | Buyer                    | Seller                          |
|-------------------------------------|---------------|-------------|--------------|--------------------------|---------------------------------|
| 8409 & 8511 Kerns St.               | Otay Mesa     | 474,032     | \$45,200,000 | IDS Real Estate Group    | Clarion Partners                |
| 1330 30th St. & 760 Shadowridge Dr. | Portfolio     | 214,165     | \$19,200,000 | Comstock Realty Partners | LBA Realty                      |
| 2235-2245 Enterprise St.            | Escondido     | 46,832      | \$7,000,000  | RAF Pacific Group, Inc.  | United Investment & Trading Co. |
| 3202 Hoover Ave.                    | National City | 6,000       | \$6,090,000  | Ray Carpenter            | South Park Development, Ltd.    |
| 185 Vallecitos De Oro               | San Marcos    | 29,477      | \$3,540,000  | Cross Development        | North Coast Pathology           |

### Lease Transactions

| Property Address                         | Submarket       | Square Feet | Transaction Date | Tenant                                   | Owner                    |
|--|-----------------|-------------|------------------|--|--------------------------|
| 6060 Business Center Ct.                 | Otay Mesa       | 134,776     | Apr-2016         | Hybrid Apparel                           | Paulus Enterprises, LLC  |
| 1205-1225 Park Center Dr. – Renewal/Exp. | Vista           | 118,800     | Jun-2016         | US Foods, Inc.                           | GLP US Management, LLC   |
| 9190 Activity Rd.                        | Miramar         | 83,520      | Apr-2016         | Consolidated Electric Distributors, Inc. | American Realty Advisors |
| 12270 World Trade Dr.                    | Rancho Bernardo | 67,356      | May-2016         | Undisclosed                              | Clarion Partners         |
| 13225 Danielson St.                      | Poway           | 41,562      | Jun-2016         | Corporate Express, Inc.                  | Hamann Companies         |

## PRODUCT TYPE

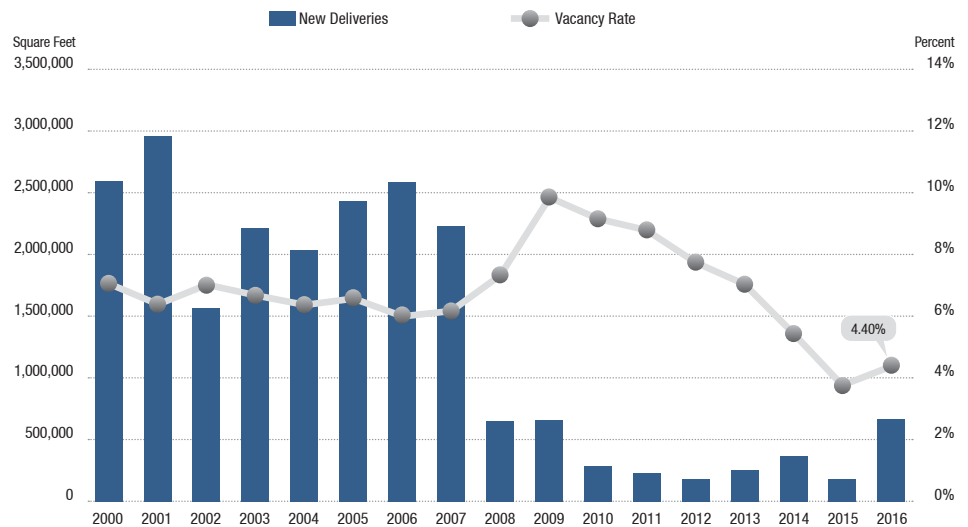
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### ANNUAL NEW DELIVERIES VS. VACANCY RATE



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