



Industrial Market Report

Compared to the Previous Quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



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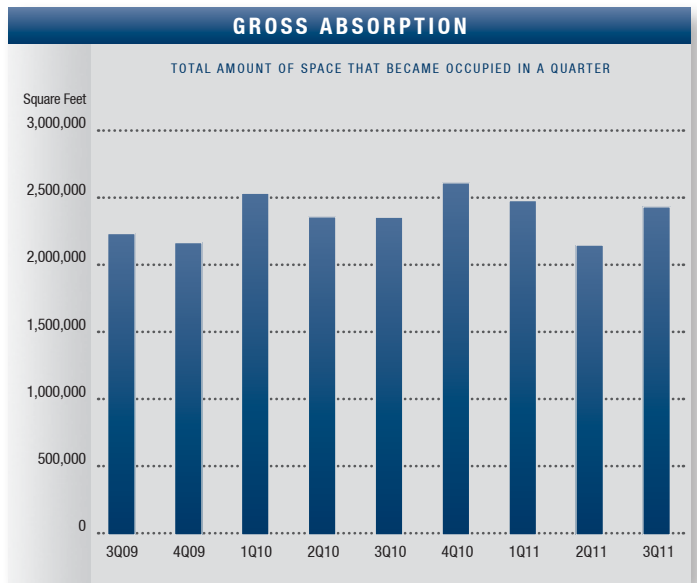
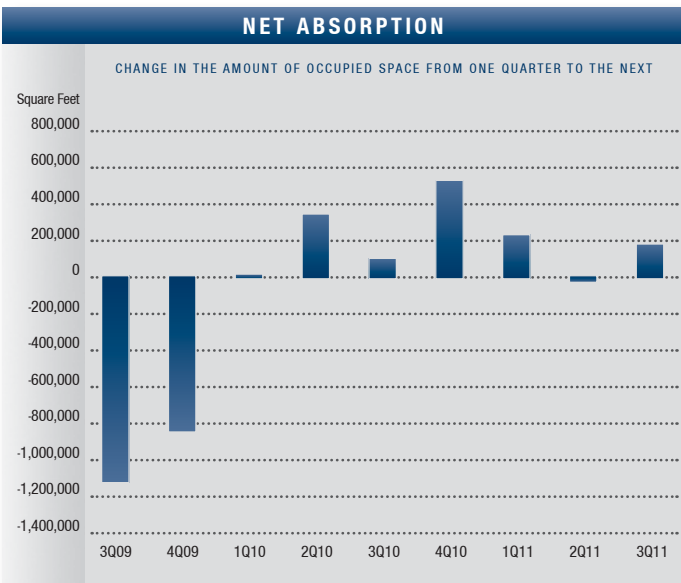
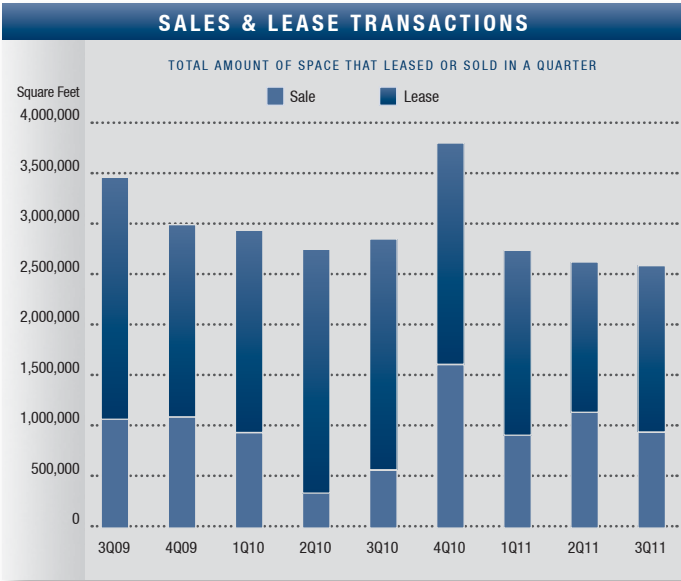
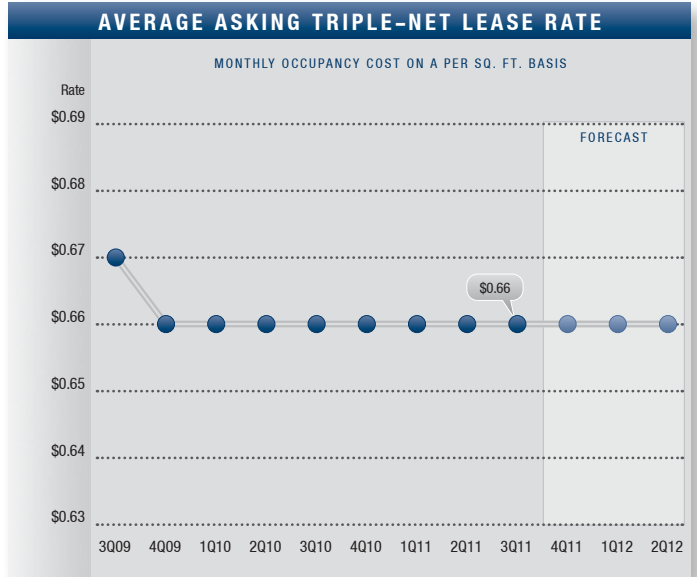
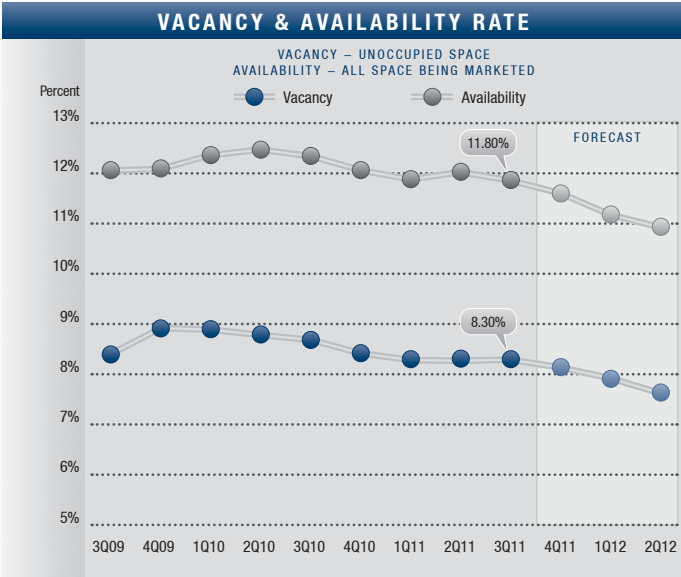
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Market Highlights

- Steady Growth** - The San Diego County industrial market continued the slow march forward in the third quarter of 2011. Availability and vacancy rates continued trending downward, and net absorption was positive for the sixth time in the last seven quarters. Demand was stifled a bit by the uncertainty in the financial markets, but the fourth quarter looks to see an increase of activity with transactions pushed to close before year's end. While these are positive indications, stability and job growth will need to be sustained in coming quarters to prevent stalling this mild recovery.
- Transaction Activity** - Leasing activity increased 12% over the previous quarter up to 1.67 million square feet in the third quarter of 2011, mainly a result of the recent trend of short-term deals coupled with lease renegotiations. Sales activity also showed a year-over-year increase, posting 910,000 square feet of activity in the third quarter 2011 as compared to the 640,000 square feet seen in the third quarter of 2010. Details of the largest transactions can be found on the back page of this report.
- Construction** - The sluggish construction trend continued, with the 176,000 square feet delivering in the third quarter for the first delivery of the year. With nothing currently under construction industrial development is at a stand still.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 8.3% — lower than the year-ago rate of 8.73%. Poway and Kearny Mesa posted the lowest vacancy rates of submarkets with at least 5 million square feet of inventory, at 3.29% and 4.22%, respectively.
- Availability** - Direct/sublease space being marketed was 11.8% in the third quarter of 2011 — a decrease from the previous quarter's rate of 12.02% and an even more significant decrease from the prior year's rate of 12.36%.
- Lease Rates** - The average asking triple-net lease rate was \$.66 per square foot per month, unchanged from the preceding seven quarters, which strongly suggests that the market has finally reached its bottom. The record high for asking lease rates, \$.76, was recorded in the third and fourth quarters of 2008.
- Absorption** - The San Diego industrial market posted 175,884 square feet of positive net absorption in the third quarter of 2011, giving the market a total of 1.37 million square feet of positive absorption over the past seven quarters, with only one quarter of negative net absorption during that time.
- Employment** - The unemployment rate in San Diego County was 10.2% in August 2011, down from a revised 10.6% in July 2011 and below the year-ago estimate of 10.7%. This compares with an unadjusted unemployment rate of 11.9% for California and 9.1% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 13,500 payroll jobs from August 2010 to August 2011 — 8,600 in leisure and hospitality and 5,400 in professional and business services. However, government posted the greatest year-over-year decline — a loss of 5,600 jobs. Between July 2011 and August 2011 San Diego County employment increased by 200 jobs overall.
- Overall** - We are slowly beginning to see a decrease in the amount of available space. The third quarter of 2011 continues the trend of overall positive net absorption since 2009. With zero product under construction to apply upward pressure on vacancy, the market should continue to stabilize, albeit at a tepid rate. 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.

INDUSTRIAL MARKET OVERVIEW

	3Q2011	2Q2011	3Q2010	% Change vs. 3Q2010
Total Vacancy Rate	8.30%	8.31%	8.73%	(4.93%)
Availability Rate	11.80%	12.02%	12.36%	(4.53%)
Average Asking Lease Rate	\$0.66	\$0.66	\$0.66	0.00%
Sale & Lease Transactions	2,580,785	2,606,550	2,834,867	(8.96%)
Gross Absorption	2,426,756	2,144,249	2,345,848	3.45%
Net Absorption	175,884	(21,573)	98,980	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 3Q2011	Square Feet Available	Availability Rate 3Q2011	Average Asking Lease Rate	Net Absorption 3Q2011	Net Absorption 2011	Gross Absorption 3Q2011	Gross Absorption 2011
Central													
Central City	191	3,001,590	0	0	238,369	7.94%	374,644	12.48%	\$1.10	(6,580)	(47,940)	23,032	34,532
East City	69	1,474,080	0	0	17,510	1.19%	17,510	1.19%	\$0.00	(4,800)	(1,100)	0	4,800
Southeast City	332	4,370,915	0	0	284,111	6.50%	366,027	8.37%	\$0.51	4,732	29,248	17,100	79,496
Central Total	592	8,846,585	0	0	539,990	6.10%	758,181	8.57%	\$0.59	(6,648)	(19,792)	40,132	118,828
Central Suburban													
Airport/Sports Arena	169	3,931,295	0	0	74,439	1.89%	167,089	4.25%	\$0.80	12,921	5,578	34,101	69,189
Kearny Mesa	462	11,456,972	0	0	483,308	4.22%	511,113	4.46%	\$0.84	17,281	2,784	85,943	320,169
Mission Gorge	134	2,264,312	0	0	243,280	10.74%	271,447	11.99%	\$0.85	(28,589)	(71,307)	11,059	71,562
Rose Canyon/Morena	144	3,464,763	0	0	182,163	5.26%	224,638	6.48%	\$0.72	(572)	40,875	39,078	173,823
Central Suburban Total	909	21,117,342	0	0	983,190	4.66%	1,174,287	5.56%	\$0.81	1,041	(22,070)	170,181	634,743
East County													
El Cajon	504	10,600,937	0	450,000	827,371	7.80%	1,055,203	9.95%	\$0.62	(175,605)	(275,287)	159,831	391,191
La Mesa/Spring Valley	343	3,605,229	0	0	236,728	6.57%	361,928	10.04%	\$0.65	(12,568)	(29,956)	12,890	40,294
Santee/Lakeside	293	3,961,012	0	200,000	154,678	3.91%	227,318	5.74%	\$1.36	23,105	28,927	91,679	211,669
East County Total	1,140	18,167,178	0	650,000	1,218,777	6.71%	1,644,449	9.05%	\$0.68	(165,068)	(276,316)	264,400	643,154
Highway 78 Corridor													
Oceanside	423	8,631,164	0	278,178	1,215,355	14.08%	1,526,059	17.68%	\$0.64	79,202	176,549	277,716	733,965
San Marcos	556	9,251,589	0	53,000	744,721	8.05%	986,117	10.66%	\$0.78	20,354	(5,718)	151,184	405,358
Vista/Fallbrook	518	12,909,933	0	30,165	902,607	6.99%	1,591,533	12.33%	\$0.67	244,790	353,227	374,036	887,782
Highway 78 Corridor Total	1,497	30,792,686	0	361,343	2,862,683	9.30%	4,103,709	13.33%	\$0.66	344,346	524,058	802,936	2,027,105
I-15 Corridor													
Escondido	722	8,351,598	0	0	443,997	5.32%	742,266	8.89%	\$0.75	38,636	55,469	131,263	380,482
Poway	178	7,279,127	0	388,545	239,353	3.29%	582,126	8.00%	\$0.73	4,481	113,055	41,728	327,203
Rancho Bernardo	55	4,144,645	0	0	469,343	11.32%	621,960	15.01%	\$0.97	26,240	4,907	32,246	85,054
Scripps Ranch	30	789,004	0	0	28,484	3.61%	269,835	34.20%	\$0.81	5,904	5,890	7,200	17,866
I-15 Corridor Total	985	20,564,374	0	388,545	1,181,177	5.74%	2,216,187	10.78%	\$0.88	75,261	179,321	212,437	810,605
North City													
Miramar	623	14,626,074	0	0	1,173,517	8.02%	1,990,533	13.61%	\$0.70	84,784	224,717	406,212	1,056,010
Sorrento Mesa	82	4,025,463	0	0	252,397	6.27%	463,614	11.52%	\$0.84	(16,234)	6,993	11,178	58,573
Sorrento Valley	62	1,364,629	0	0	23,870	1.75%	58,929	4.32%	\$1.54	(7,044)	(12,540)	29,430	34,174
Torrey Pines/UTC	5	140,879	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
North City Total	772	20,157,045	0	0	1,449,784	7.19%	2,513,076	12.47%	\$0.75	61,506	219,170	446,820	1,148,757
North County													
Carlsbad	261	8,952,131	0	26,632	1,006,765	11.25%	1,295,971	14.48%	\$0.84	(53,883)	(262,507)	167,446	401,887
North Beach Cities	66	938,436	0	0	0	0.00%	0	0.00%	\$0.00	0	18,757	0	19,957
North County Total	327	9,890,567	0	26,632	1,006,765	10.18%	1,295,971	13.10%	\$0.84	(53,883)	(243,750)	167,446	421,844
Outlying Areas													
Outlying SD County North	120	1,325,497	0	0	23,202	1.75%	17,210	1.30%	\$0.85	(6,984)	4,825	14,317	33,002
Outlying SD County South	81	810,451	0	0	109,990	13.57%	114,280	14.10%	\$0.00	27,775	(1,088)	37,675	44,175
Outlying Areas Total	201	2,135,948	0	0	133,192	6.24%	131,490	6.16%	\$0.85	20,791	3,737	51,992	77,177
South Bay													
Chula Vista	380	10,241,950	0	0	696,864	6.80%	893,603	8.72%	\$0.52	(71,853)	(27,840)	59,759	278,702
National City	259	4,411,373	0	0	290,393	6.58%	377,706	8.56%	\$0.61	22,578	(35,951)	53,413	100,671
Otay Mesa	338	15,443,457	0	977,469	3,108,651	20.13%	3,903,241	25.27%	\$0.48	(53,577)	96,183	150,742	763,656
San Ysidro/Imperial Beach	74	1,840,685	0	24,121	103,258	5.61%	294,560	16.00%	\$0.55	1,390	(12,064)	6,498	21,333
South Bay Total	1,051	31,937,465	0	1,001,590	4,199,166	13.15%	5,469,110	17.12%	\$0.50	(101,462)	20,328	270,412	1,164,362
San Diego County Total	7,474	163,609,190	0	2,428,110	13,574,724	8.30%	19,306,460	11.80%	\$0.66	175,884	384,686	2,426,756	7,046,575

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
11906 Tech Center Ct.	Poway	206,708	\$107.40	Sorrento West Properties, Inc.	CB Richard Ellis Investors
5260 Anna Ave.	Morena	72,220	\$101.77	Bixby Land Company	Westcore Properties
4674-4676 Cardin St.	Kearny Mesa	56,298	\$94.76	First American Exchange Company, LLC	Trevor Smith
1348 Delevan Dr.	Central San Diego	39,646	\$126.12	John Lenore & Co.	Platt & Wolff Investment Company
999 & 1001 W. Morena Blvd.	Morena	15,900	\$251.57	University of San Diego	Wells Fargo Bank NA
8701 Siempre Viva Rd.	Otay Mesa	56,160	\$63.30	National Autobody Parts	Weingarten Realty Investors

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9999 Olson Dr. – Renewal	Miramar	150,980	11-Sep	FedEx Corporation	Distribution I Patent Owner
990 Joshua Way	Vista	82,944	11-Jul	N/A	I&G Direct Real Estate 8, LP
4370 Jutland Dr.	Morena/Rose Canyon	72,500	11-Sep	Sector 9	Fiedler Construction Corp
1958 Kellogg Ave.	Carlsbad	38,900	11-Jul	Heat Factory, Inc.	Penton Overseas, Inc.
9225 Isaac St.	Santee	24,743	11-Jul	Delstar Technologies, Inc.	Grubman Properties
3562 Ruffin Rd.	Kearny Mesa	23,520	11-Aug	N/A	H.G. Fenton Company

Product Type

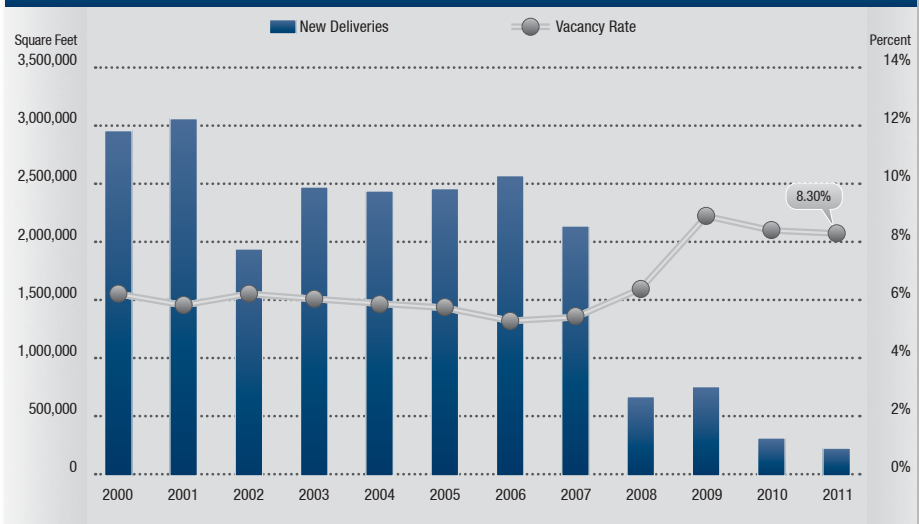
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