



## Industrial Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

FLAT

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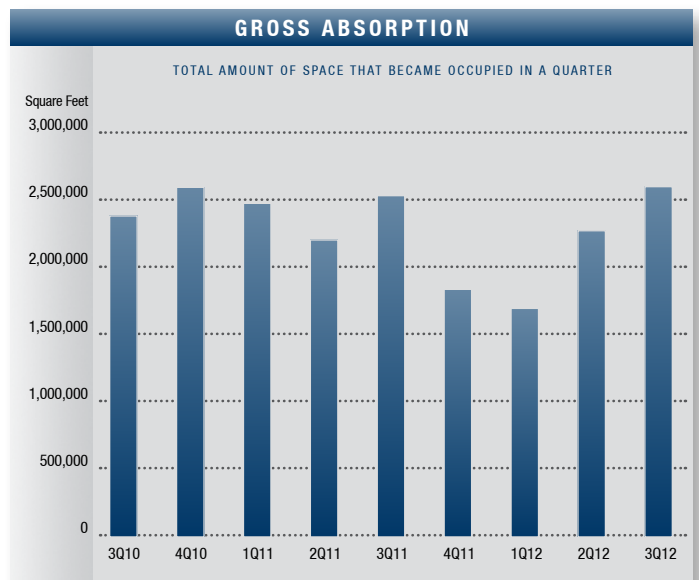
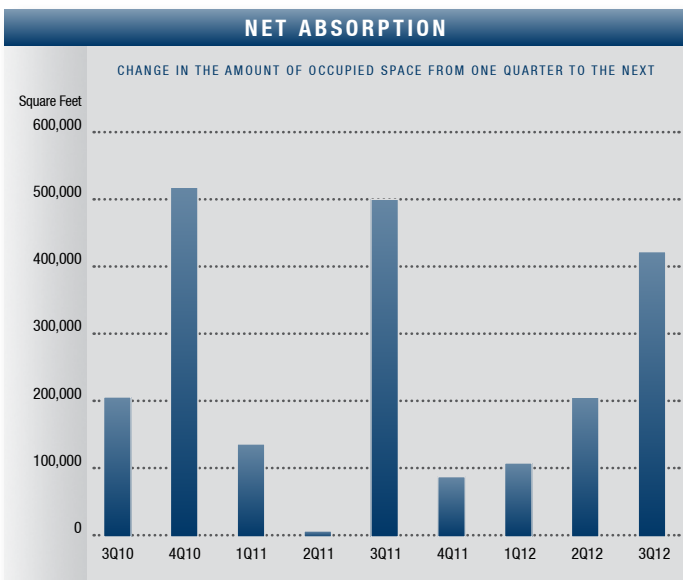
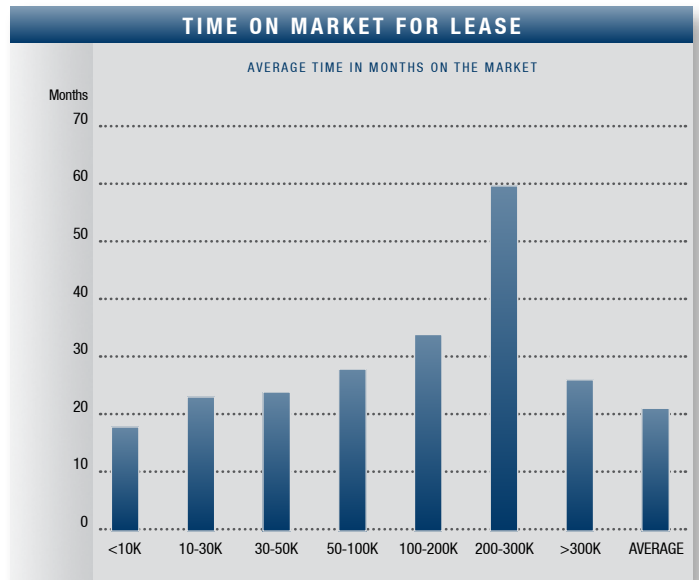
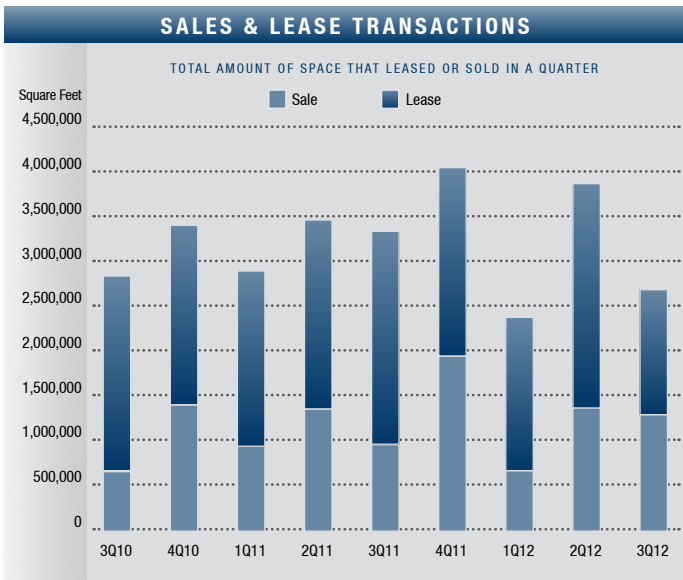
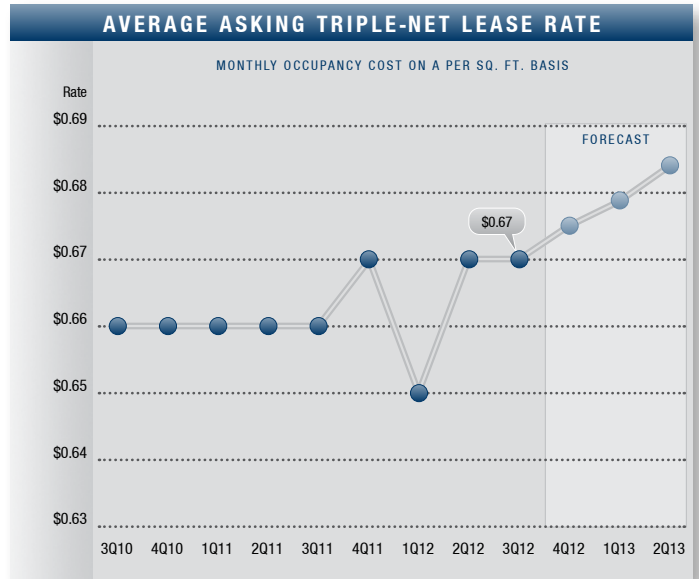
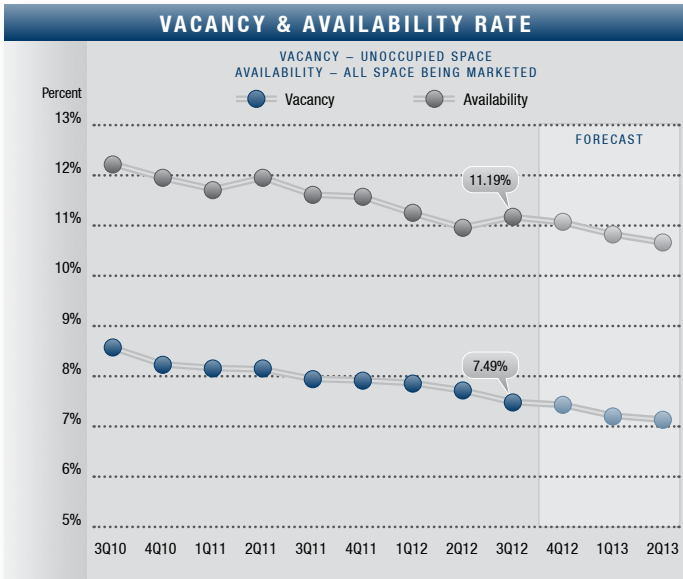


### Market Highlights

- Moving Forward** - The San Diego County industrial market continued its path to recovery in the third quarter of 2012, posting a modest 7.49% vacancy rate. The vacancy rate continued trending downward, and net absorption was positive for the tenth 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 recovery.
- Absorption** - The San Diego industrial market posted 420,244 square feet of positive net absorption in the third quarter, making ten straight quarters of positive absorption totaling 2.5 million square feet.
- Transaction Activity** - The total square feet leased and sold in the third quarter of 2012 was 2.7 million square feet, an decrease from the strong 3.9 million that was posted in the second 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 9.0% in August 2012, down from a revised 9.3% in July 2012 and below the year-ago estimate of 10.3%. This compares with an unadjusted unemployment rate of 10.4% for California and 8.2% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 30,300 payroll jobs from August 2011 to August 2012 — 6,300 in professional and business services, and 5,200 from education and health services. Manufacturing posted the greatest year-over-year decline- a loss of 700 jobs.
- 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. 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.
- Construction** - The sluggish construction trend continued, with the 176,000 square feet delivered in the third quarter of 2011 as the only delivery of the past year. With just 130,000 square feet under construction in the third quarter of 2012, industrial development is very light.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 7.49% — the lowest level since the beginning of 2009. Kearny Mesa posted the lowest vacancy rates of submarkets with at least 5 million square feet of inventory, at 3%. We are forecasting that vacancy will continue its downward trend into 2013, ending the first half of the year at around 7.1%.
- Availability** - Direct/sublease space being marketed was 11.19% in the third quarter- a slight increase from the previous quarter's rate of 10.98%. Despite strong positive net absorption and the vacancy rate going down, the availability rate went up. This was mostly due to the 600,000 SF Factory 2-U building in Otay Mesa that is now being marketed for sublease while they still occupy the building.
- Lease Rates** - The average asking triple-net lease rate was \$0.67 per square foot per month, the same as 2012's second quarter rate. The record high for asking lease rates, \$.76, was recorded in the third and fourth quarters of 2008.

### INDUSTRIAL MARKET OVERVIEW

	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	7.49%	7.70%	7.95%	(5.79%)
Availability Rate	11.19%	10.98%	11.61%	(3.62%)
Average Asking Lease Rate	\$0.67	\$0.67	\$0.66	1.52%
Sale & Lease Transactions	2,669,864	3,854,836	3,308,028	(19.29%)
Gross Absorption	2,595,122	2,257,985	2,504,924	3.60%
Net Absorption	420,244	201,282	499,330	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 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
<b>Central</b>													
Central City	186	3,160,086	0	0	160,347	5.07%	335,622	10.62%	\$1.05	128,108	54,272	143,350	173,486
East City	65	1,365,053	0	0	25,175	1.84%	25,175	1.84%	\$1.92	(8,075)	(7,665)	0	5,210
Southeast City	329	4,244,739	0	0	252,218	5.94%	340,225	8.02%	\$0.56	2,590	(3,189)	18,400	80,871
<b>Central Total</b>	<b>580</b>	<b>8,769,878</b>	<b>0</b>	<b>0</b>	<b>437,740</b>	<b>4.99%</b>	<b>701,022</b>	<b>7.99%</b>	<b>\$0.85</b>	<b>122,623</b>	<b>43,418</b>	<b>161,750</b>	<b>259,567</b>
<b>Central Suburban</b>													
Kearny Mesa	459	11,008,866	0	0	330,560	3.00%	557,919	5.07%	\$0.89	(39,542)	3,826	83,083	292,579
Mission Gorge	131	2,258,606	0	0	264,756	11.72%	313,725	13.89%	\$0.79	(48,010)	(29,151)	13,156	84,811
Rose Canyon/Morena	141	3,447,402	0	0	104,315	3.03%	202,681	5.88%	\$0.71	10,117	92,206	33,812	140,142
Sports Arena/Airport	167	3,803,037	0	0	112,359	2.95%	144,613	3.80%	\$0.75	12,637	(39,162)	27,663	55,634
<b>Central Suburban Total</b>	<b>898</b>	<b>20,517,911</b>	<b>0</b>	<b>0</b>	<b>811,990</b>	<b>3.96%</b>	<b>1,218,938</b>	<b>5.94%</b>	<b>\$0.82</b>	<b>(64,798)</b>	<b>27,719</b>	<b>157,714</b>	<b>573,166</b>
<b>East County</b>													
El Cajon	503	10,469,063	0	450,000	626,091	5.98%	907,009	8.66%	\$0.62	74,615	191,928	167,419	407,161
La Mesa/Spring Valley	342	3,523,595	0	0	246,104	6.98%	288,835	8.20%	\$0.51	(65,733)	(54,331)	15,095	45,965
Santee/Lakeside	293	3,839,130	0	345,158	98,086	2.55%	156,229	4.07%	\$0.66	32,697	6,822	64,333	140,847
<b>East County Total</b>	<b>1,138</b>	<b>17,831,788</b>	<b>0</b>	<b>795,158</b>	<b>970,281</b>	<b>5.44%</b>	<b>1,352,073</b>	<b>7.58%</b>	<b>\$0.59</b>	<b>41,579</b>	<b>144,419</b>	<b>246,847</b>	<b>593,973</b>
<b>Highway 78 Corridor</b>													
Oceanside	423	8,640,920	0	57,578	1,038,215	12.02%	1,382,511	16.00%	\$0.63	32,615	177,263	154,177	544,663
San Marcos	550	9,371,670	0	53,000	912,636	9.74%	1,109,107	11.83%	\$0.83	(70,341)	(87,120)	146,658	401,154
Vista	518	12,911,574	0	623,442	874,967	6.78%	1,318,903	10.21%	\$0.69	(50,558)	(14,927)	189,591	489,185
<b>Highway 78 Corridor Total</b>	<b>1,491</b>	<b>30,924,164</b>	<b>0</b>	<b>734,020</b>	<b>2,825,818</b>	<b>9.14%</b>	<b>3,810,521</b>	<b>12.32%</b>	<b>\$0.67</b>	<b>(88,284)</b>	<b>75,216</b>	<b>490,426</b>	<b>1,435,002</b>
<b>I-15 Corridor</b>													
Escondido	667	7,998,796	0	0	416,098	5.20%	719,160	8.99%	\$0.75	50,719	21,299	118,913	308,627
Poway	179	7,303,773	129,765	258,700	324,680	4.45%	569,606	7.80%	\$0.80	39,390	(15,341)	115,485	295,549
Rancho Bernardo	50	3,257,214	0	0	195,686	6.01%	232,551	7.14%	\$0.75	(14,261)	(14,068)	0	19,440
Scripps Ranch	30	789,886	0	0	43,772	5.54%	99,248	12.56%	\$0.83	11,692	(8,497)	20,320	37,188
<b>I-15 Corridor Total</b>	<b>926</b>	<b>19,349,669</b>	<b>129,765</b>	<b>258,700</b>	<b>980,236</b>	<b>5.07%</b>	<b>1,620,565</b>	<b>8.38%</b>	<b>\$0.78</b>	<b>87,540</b>	<b>(16,607)</b>	<b>254,718</b>	<b>660,804</b>
<b>North City</b>													
Miramar	619	14,390,469	0	0	1,157,332	8.04%	1,774,991	12.33%	\$0.73	(20,967)	(4,061)	302,382	753,618
Sorrento Mesa	79	3,596,980	0	0	180,542	5.02%	486,079	13.51%	\$0.83	15,290	68,703	29,550	136,562
Sorrento Valley	55	1,197,268	0	100,000	21,600	1.80%	86,737	7.24%	\$0.96	(1,310)	(7,235)	1,440	24,116
Torrey Pines/UTC	5	140,879	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>North City Total</b>	<b>758</b>	<b>19,325,596</b>	<b>0</b>	<b>100,000</b>	<b>1,359,474</b>	<b>7.03%</b>	<b>2,347,807</b>	<b>12.15%</b>	<b>\$0.76</b>	<b>(6,987)</b>	<b>57,407</b>	<b>333,372</b>	<b>914,296</b>
<b>North County</b>													
Carlsbad	255	8,703,936	0	26,632	879,017	10.10%	1,098,830	12.62%	\$0.82	13,336	14,105	144,595	513,669
North Beach Cities	66	934,897	0	0	3,235	0.35%	3,235	0.35%	\$0.00	(914)	(3,235)	1,071	1,071
<b>North County Total</b>	<b>321</b>	<b>9,638,833</b>	<b>0</b>	<b>26,632</b>	<b>882,252</b>	<b>9.15%</b>	<b>1,102,065</b>	<b>11.43%</b>	<b>\$0.82</b>	<b>12,422</b>	<b>10,870</b>	<b>145,666</b>	<b>514,740</b>
<b>Outlying Areas</b>													
Outlying SD County North	122	1,450,381	0	0	32,817	2.26%	44,255	3.05%	\$0.90	80,945	80,571	89,045	101,213
Outlying SD County South	80	825,556	0	0	68,467	8.29%	86,037	10.42%	\$0.00	(2,635)	33,413	7,560	52,118
<b>Outlying Areas Total</b>	<b>202</b>	<b>2,275,937</b>	<b>0</b>	<b>0</b>	<b>101,284</b>	<b>4.45%</b>	<b>130,292</b>	<b>5.72%</b>	<b>\$0.90</b>	<b>78,310</b>	<b>113,984</b>	<b>96,605</b>	<b>153,331</b>
<b>South Bay</b>													
Chula Vista	381	10,342,364	0	0	682,046	6.59%	1,087,578	10.52%	\$0.52	(56,323)	(44,012)	87,442	241,597
National City	257	4,277,421	0	0	258,688	6.05%	263,417	6.16%	\$0.69	(8,463)	(13,348)	9,858	54,356
Otay Mesa	338	15,512,587	0	1,081,699	2,600,508	16.76%	3,973,313	25.61%	\$0.48	328,631	345,855	598,715	1,026,924
San Ysidro/Imperial Beach	74	1,805,758	0	24,121	118,847	6.58%	362,627	20.08%	\$0.53	(26,006)	(20,283)	12,009	104,409
<b>South Bay Total</b>	<b>1,050</b>	<b>31,938,130</b>	<b>0</b>	<b>1,105,820</b>	<b>3,660,089</b>	<b>11.46%</b>	<b>5,686,935</b>	<b>17.81%</b>	<b>\$0.50</b>	<b>237,839</b>	<b>268,212</b>	<b>708,024</b>	<b>1,427,286</b>
<b>San Diego County Total</b>	<b>7,364</b>	<b>160,571,906</b>	<b>129,765</b>	<b>3,020,330</b>	<b>12,029,164</b>	<b>7.49%</b>	<b>17,970,218</b>	<b>11.19%</b>	<b>\$0.67</b>	<b>420,244</b>	<b>724,638</b>	<b>2,595,122</b>	<b>6,532,165</b>

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
7130 Miramar Rd.	Miramar	366,080	\$165.54	Morgan Stanley & Company	Walton Street Capital, LLC
4772 Alvarado Canyon Rd.	Mission Gorge	22,000	\$282.95	Litke	Stoff
8480 Miralani Dr.	Miramar	40,216	\$125.00	Noble Hardwoods	Kuni Automotive
1840 Dornoch Ct.	Otay Mesa	77,760	\$51.44	Alaskan Copper & Brass Company	OneWest Bank
3923 Oceanic Dr.	Oceanside	42,500	\$91.76	Precision One Medical, Inc.	Schnell

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
Marathon Pkwy.	Lakeside	70,158	Aug-12	EagleBurgmann EJS	Lakeside Land Company, Inc.
2500 Sweetwater Springs Blvd.	Spring Valley	67,344	Jul-12	Layfield Environmental	BCL Ventures
12270 World Trade Dr.	Carmel Mountain Ranch	35,250	Jul-12	Total Transportation	CLPF - Carmel Mountain, LP
12525 Stowe Dr.	Poway	33,652	Sept-12	Picture It On Canvas	ROCPAC Investments
7835 Trade St.	Miramar	28,167	Sept-12	N/A	UCSD

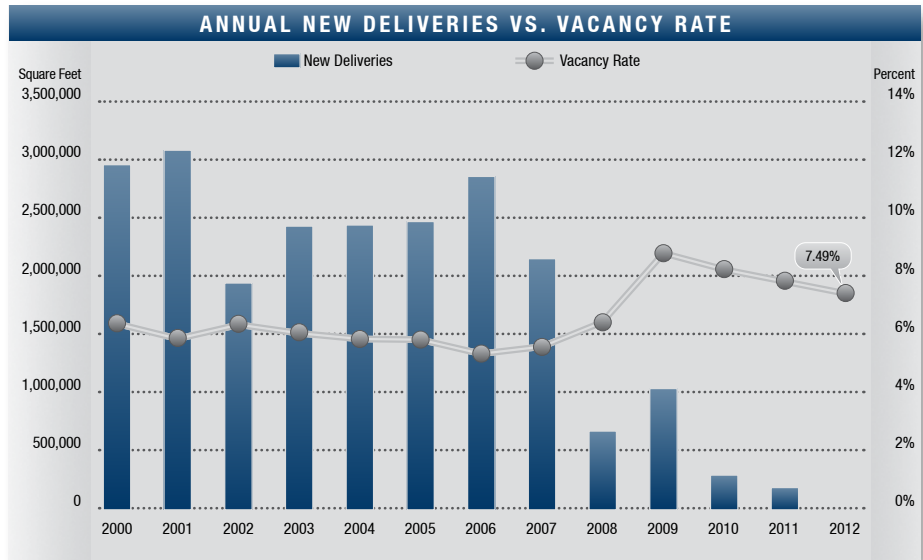
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