



Industrial Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

UP

Deliveries

DOWN

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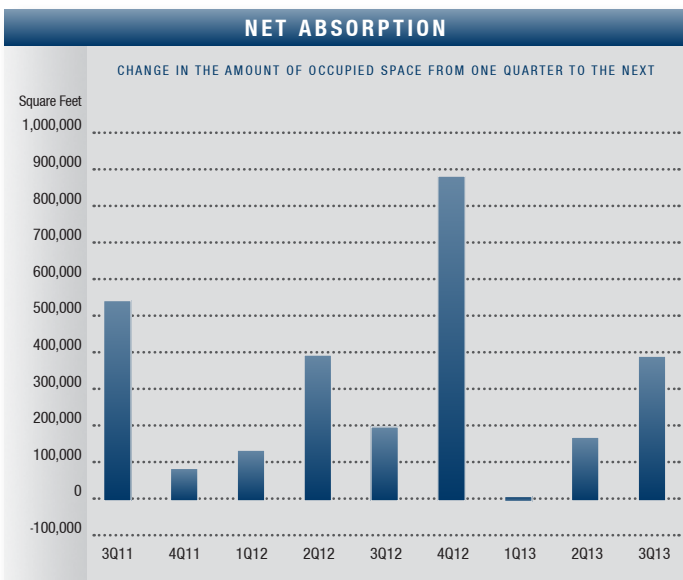
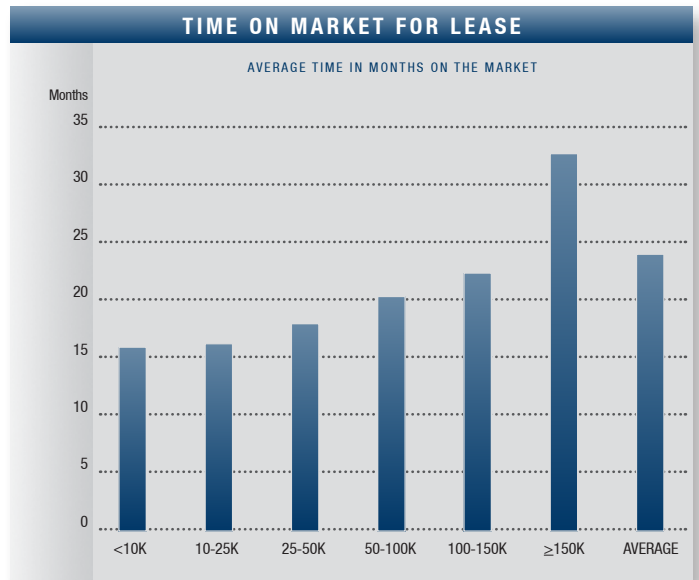
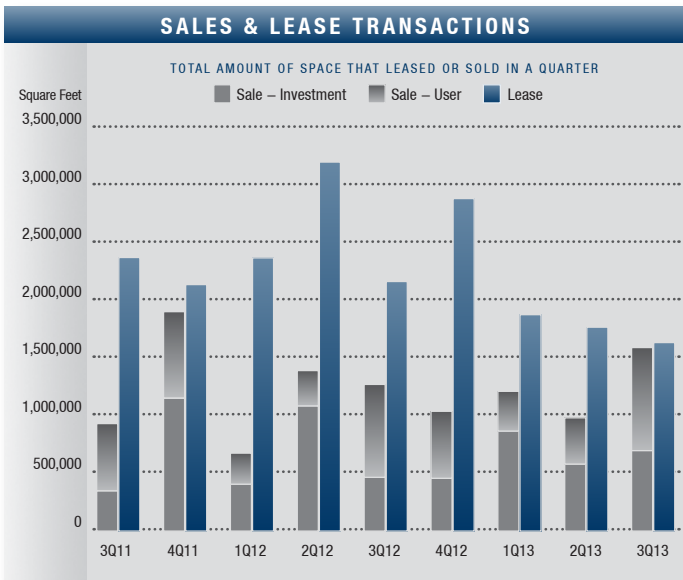
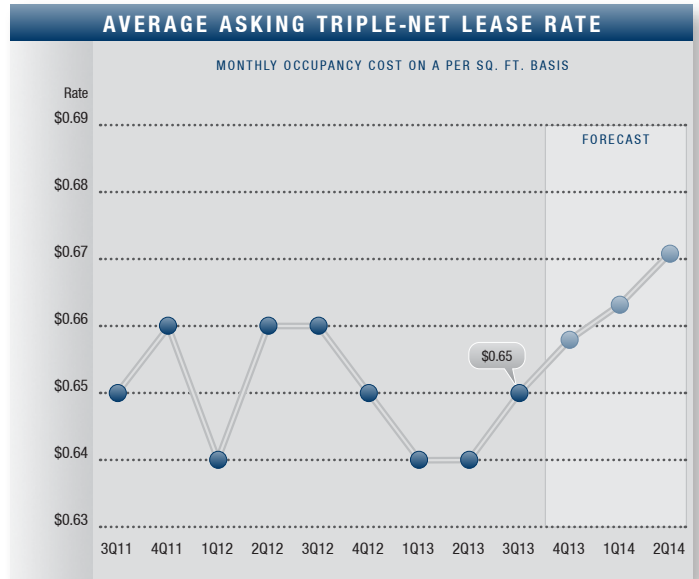
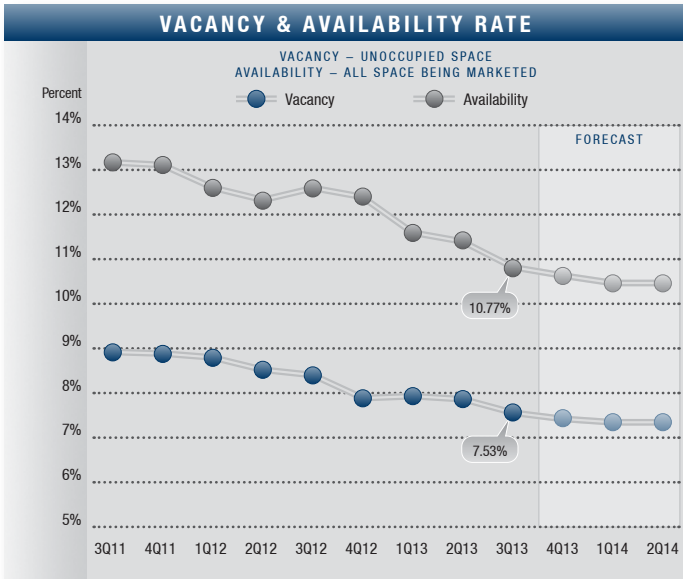
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Market Highlights

- Stable Improvements** - The San Diego County industrial market continued its path to recovery in the third quarter of 2013, posting a modest 7.53% vacancy rate. Availability continued trending downward, the average asking rental rate increased, and net absorption was positive for the thirteenth time in the past fifteen quarters. 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.
- Construction** - The last three years saw extremely low levels of industrial construction in San Diego County with only 185,000 square feet delivered through first three quarters of the year. 2013 is going to be another year of minimal industrial development. The nearly non-existent industrial pipeline has helped to push vacancy down.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 7.53% — the lowest level since the fourth quarter of 2008. El Cajon posted the lowest vacancy rates of submarkets with at least 5 million square feet of inventory, at 2.83%. We are forecasting that vacancy will continue its downward trend through the first half of the 2014.
- Availability** - Direct/sublease space being marketed was 10.77% at the end of the quarter — a significant decrease from the previous quarter's rate of 11.41%.
- Lease Rates** - The average asking triple-net lease rate was \$0.65 per square foot per month in the third quarter of 2013, an increase over the \$0.64 rate posted in prior two quarters.
- Absorption** - The San Diego industrial market posted 386,828 square feet of positive net absorption in third quarter, nearly doubling the amount of positive net absorption in the second quarter.
- Transaction Activity** - The total square feet leased and sold in the third quarter was 3.2 million square feet, an increase over the 2.7 million square feet that was posted in prior quarter. Some of the largest sales of the third quarter really moved the needle on the price per square foot. 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 7.4% in August 2013, down from a revised 7.8% in July 2013 and below the year-ago estimate of 9.2%. This compares with an unadjusted unemployment rate of 8.8% for California and 7.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 14,800 payroll jobs from August 2012 to August 2013 — including 5,300 in educational and health services, 4,700 from leisure and hospitality, and 4,400 from professional and business services. Manufacturing recorded the greatest number of job losses, down 2,800, year over year.
- Overall** - We are continuing to see a decrease in the amount of vacancy along with positive net absorption. Asking rental rates have ticked up. With little product under construction to apply upward pressure on vacancy, the market should continue to stabilize. San Diego County's overall unemployment rate has been decreasing, but the sector to lose the most jobs over the past year was manufacturing, which affects industrial product more than any other. The recovery in San Diego's industrial market has been slower than other Southern California industrial markets due to the small, localized nature of the market, with very limited out-of-market distribution. As the local housing recovery continues to develop and construction picks up, the industrial market will pick up steam in its recovery.

INDUSTRIAL MARKET OVERVIEW

	3Q13	2Q13	3Q12	% of Change vs. 3Q12
Total Vacancy Rate	7.53%	7.85%	8.36%	(9.93%)
Availability Rate	10.77%	11.41%	12.58%	(14.39%)
Average Asking Lease Rate	\$0.65	\$0.64	\$0.66	(1.52%)
Sale & Lease Transactions	3,195,021	2,717,803	3,400,109	(6.03%)
Gross Absorption	2,228,806	2,135,439	2,529,201	(11.88%)
Net Absorption	386,828	166,178	193,510	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 3Q2013	Square Feet Available	Availability Rate 3Q2013	Average Asking Lease Rate	Net Absorption 3Q2013	Net Absorption 2013	Gross Absorption 3Q2013	Gross Absorption 2013
Central													
Miramar	596	13,417,882	0	0	1,028,238	7.66%	1,377,158	10.26%	\$0.75	60,907	145,468	377,821	1,004,467
Scripps Ranch	29	716,568	0	0	7,223	1.01%	72,154	10.07%	\$0.85	4,396	29,475	4,396	36,849
Sorrento Mesa	85	4,127,688	0	74,000	434,328	10.52%	425,613	10.31%	\$0.97	(30,971)	(139,924)	16,177	161,860
Sorrento Valley	52	1,180,735	0	0	24,817	2.10%	35,370	3.00%	\$0.95	(9,791)	(8,906)	7,792	20,477
Subtotal	762	19,442,873	0	74,000	1,494,606	7.69%	1,910,295	9.83%	\$0.81	24,541	26,113	406,186	1,223,653
Sports Arena/Airport	199	2,997,794	0	0	154,232	5.14%	140,194	4.68%	\$0.95	(43,246)	(76,571)	34,804	74,444
Rose Canyon/Morena	134	2,706,570	0	0	137,825	5.09%	116,322	4.30%	\$0.76	(18,149)	(35,679)	758	96,772
Kearny Mesa	434	10,025,556	0	0	473,426	4.72%	578,137	5.77%	\$0.86	(26,470)	(125,349)	148,442	409,454
Mission Gorge/Grantville	123	1,966,426	0	0	172,954	8.80%	192,869	9.81%	\$0.78	17,104	43,339	68,807	191,275
Subtotal	890	17,696,346	0	0	938,437	5.30%	1,027,522	5.81%	\$0.82	(70,761)	(194,260)	252,811	771,945
Central Total	1,652	37,139,219	0	74,000	2,433,043	6.55%	2,937,817	7.91%	\$0.81	(46,220)	(168,147)	658,997	1,995,598
East													
El Cajon	517	9,484,193	0	450,000	269,387	2.84%	662,002	6.98%	\$0.68	67,992	202,076	97,737	386,024
Santee	189	2,867,063	0	353,158	49,732	1.73%	105,487	3.68%	\$0.00	6,846	9,206	34,271	104,532
Lakeside	85	913,830	0	0	15,311	1.68%	38,959	4.26%	\$0.00	(2,054)	4,594	4,974	15,072
Subtotal	791	13,265,086	0	803,158	334,430	2.52%	806,448	6.08%	\$0.68	72,784	215,876	136,982	505,628
Spring Valley	116	1,257,976	0	0	44,789	3.56%	117,244	9.32%	\$0.70	907	23,191	7,551	40,075
Lemon Grove/La Mesa/East SD	219	1,442,968	0	0	72,665	5.04%	114,723	7.95%	\$0.70	(5,054)	32,781	18,346	70,929
Subtotal	335	2,700,944	0	0	117,454	4.35%	231,967	8.59%	\$0.70	(4,147)	55,972	25,897	111,004
East Total	1,126	15,966,030	0	803,158	451,884	2.83%	1,038,415	6.50%	\$0.69	68,637	271,848	162,879	616,632
North Coastal													
Carlsbad	245	8,012,169	0	153,632	781,904	9.76%	944,146	11.78%	\$0.79	45,640	85,724	120,085	330,181
North Beach Cities	40	314,911	0	0	0	0.00%	0	0.00%	\$0.00	0	1,580	0	1,580
Southern Vista	391	10,960,429	156,421	679,442	711,581	6.49%	1,369,029	12.49%	\$0.67	34,110	(15,072)	116,753	330,036
Subtotal	676	19,287,509	156,421	833,074	1,493,485	7.74%	2,313,175	11.99%	\$0.70	79,750	72,232	236,838	661,797
Oceanside	402	7,982,185	0	260,618	1,102,999	13.82%	1,169,657	14.65%	\$0.64	24,615	22,588	140,841	332,281
Northern Vista	98	1,069,233	0	0	47,261	4.42%	61,497	5.75%	\$1.00	(3,333)	(20,565)	0	29,719
Subtotal	500	9,051,418	0	260,618	1,150,260	12.71%	1,231,154	13.60%	\$0.69	21,282	2,023	140,841	362,000
North Coastal Total	1,176	28,338,927	156,421	1,093,692	2,643,745	9.33%	3,544,329	12.51%	\$0.69	101,032	74,255	377,679	1,023,797
North Inland													
Poway	175	7,243,026	0	653,700	313,418	4.33%	755,546	10.43%	\$0.85	(1,756)	70,936	109,944	342,119
Rancho Bernardo/CMR	47	4,236,613	0	0	294,137	6.94%	326,885	7.72%	\$0.75	15,892	128,536	36,244	227,642
Subtotal	222	11,479,639	0	653,700	607,555	5.29%	1,082,431	9.43%	\$0.83	14,136	199,472	146,188	569,761
Escondido	627	7,104,962	0	0	349,750	4.92%	486,499	6.85%	\$0.73	58,030	154,921	138,868	452,065
San Marcos	527	8,542,060	0	53,000	722,782	8.46%	877,877	10.28%	\$0.91	57,204	107,233	144,811	432,152
Unincorporated North County	88	809,875	0	0	40,663	5.02%	44,338	5.47%	\$0.00	(5,220)	(10,288)	9,240	23,764
Subtotal	1,242	16,456,897	0	53,000	1,113,195	6.76%	1,408,714	8.56%	\$0.83	110,014	251,866	292,919	907,981
North Inland Total	1,464	27,936,536	0	706,700	1,720,750	6.16%	2,491,145	8.92%	\$0.83	124,150	451,338	439,107	1,477,742
South													
Southeast/Central SD	487	6,341,206	0	0	338,704	5.34%	496,182	7.82%	\$0.58	91,393	(30,715)	168,062	274,940
National City	248	3,525,071	0	0	161,257	4.57%	239,264	6.79%	\$0.68	17,517	85,348	77,890	180,238
Chula Vista	327	8,377,196	0	0	454,019	5.42%	793,597	9.47%	\$0.54	60,243	61,404	128,608	314,429
Subtotal	1,062	18,243,473	0	0	953,980	5.23%	1,529,043	8.38%	\$0.56	169,153	116,037	374,560	769,607
Otay Mesa	321	15,027,134	0	1,502,484	2,504,818	16.67%	3,644,095	24.25%	\$0.46	(11,803)	(153,759)	202,842	560,765
San Ysidro/South SD	67	1,463,605	0	24,121	139,284	9.52%	343,152	23.45%	\$0.49	(18,121)	(71,142)	12,742	33,600
Subtotal	388	16,490,739	0	1,526,605	2,644,102	16.03%	3,987,247	24.18%	\$0.47	(929,924)	(224,901)	215,584	594,365
South Total	1,450	34,734,212	0	1,526,605	3,598,082	10.36%	5,516,290	15.88%	\$0.49	139,229	(108,864)	590,144	1,363,972
San Diego County Total	6,868	144,114,924	156,421	4,204,155	10,847,504	7.53%	15,527,996	10.77%	\$0.65	386,828	520,430	2,228,806	6,477,741
≤ 9,999	3,105	15,726,752	0	8,000	720,322	4.58%	971,097	6.17%	\$0.89	23,146	134,139	256,711	719,959
10,000–24,999	1,814	25,545,539	0	70,578	1,500,882	5.88%	2,004,086	7.85%	\$0.75	237,199	245,266	656,791	1,705,073
25,000–49,999	994	25,475,478	0	283,058	1,497,569	5.88%	2,204,709	8.65%	\$0.70	129,752	222,381	576,361	1,382,174
50,000–99,999	371	15,310,540	0	124,584	948,889	6.20%	1,520,587	9.93%	\$0.67	26,646	(32,473)	193,544	654,331
100,000–149,999	375	25,841,080	0	885,785	2,066,072	8.00%	3,236,008	12.52%	\$0.62	96,931	245,070	296,692	1,070,777
150,000+	209	36,215,535	156,421	2,832,150	4,113,770	11.36%	5,591,509	15.44%	\$0.63	(126,846)	(293,953)	248,707	945,427
San Diego County Total	6,868	144,114,924	156,421	4,204,155	10,847,504	7.53%	15,527,996	10.77%	\$0.65	386,828	520,430	2,228,806	6,477,741

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
1603 Main St.	Southeast SD	90,000	\$184.56	Metropolitan Transit System	Helf Investments
1650 67th St.	Southeast SD	76,822	\$183.54	Colyear Development Corporation	Levine Family Trust
5600 Avenida Encinas	Carlsbad	154,400	\$80.96	Cruzan Monroe	Bentall Kennedy, LP
10441 Vine St.	Lakeside	48,043	\$154.03	Oldcastle Precast, Inc.	Ameron International Corporation
207 E. Pennsylvania Ave.	Escondido	57,140	\$122.51	The Classical Academy	Manchester Financial Group

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
Kirkham Way – Build to Suit	Poway	115,000	July-13	General Atomics	Slough Poway I, LLC
2220 Niels Bohr Ct.	Otay Mesa	46,299	September-13	Undisclosed	IRE Development
5950 Nancy Ridge Dr.	Miramar	40,440	July-13	G/M Business Interiors	Invesco
2311 Boswell Rd.	Chula Vista	34,922	August-13	YMCA	EastGroup Properties, Inc.
9393 Waples St.	Sorrento Mesa	25,838	August-13	Ajinomoto Althea	Deutsche Asset & Wealth Management

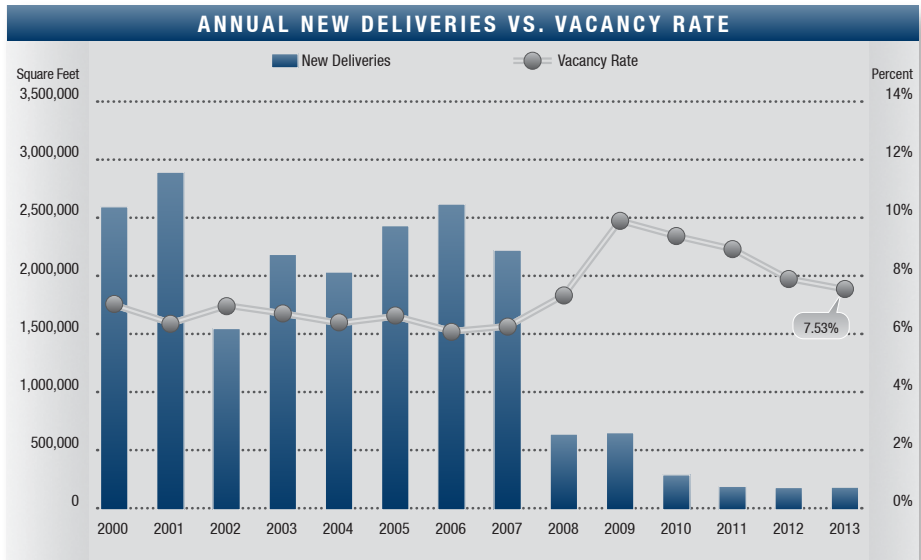
Product Type

MFG. / DIST.

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

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