



MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

UP

To view available properties or electronic versions of current or past market reports, please visit:

www.voitco.com

Prepared by:

Jerry J. Holdner, Jr.
 Vice President of Market Research
 e-mail: jholdner@voitco.com

Joshua Brant
 Market Research Analyst
 e-mail: jbrant@voitco.com
 VOIT Real Estate Services

HIGHLIGHTS

- **Stable Improvements** - The San Diego County industrial market continued its path to recovery, posting a modest 5.87% vacancy rate. Availability continued trending downward, and net absorption was positive for the nineteenth 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 during the recession and recovery has been limited to sporadic build-to-suit projects. The nearly non-existent development pipeline has helped to push vacancy down and lease rates up for industrial product.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 5.87%. The industrial market in San Diego County has dipped below 6% and is now lower than the best number posted in the last period of economic expansion. The East County posted the lowest vacancy rates of San Diego County areas, at 3.3%.
- **Availability** - Direct/sublease space being marketed was 8.85% at the end of the quarter, a significant decrease from second quarter's rate of 9.40%. 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 \$0.67 per square foot per month, a once-cent decrease from the previous quarter but up three cents or 3.08% over 2013's third quarter figure.
- **Absorption** - The San Diego industrial market posted 658,196 square feet of positive net absorption in the third quarter, giving the market 6.8 million square feet of positive absorption since the first quarter of 2010.
- **Transaction Activity** - The total square feet leased and sold in the second quarter was 2.0 million square feet, a decrease from the 3.8 million square feet in the prior quarter. This statistic can have some lag time in being reported, so look for third quarter 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 the San Diego County was 6.2% in August 2014, down from a revised 6.6% in July 2014 and below the year-ago estimate of 7.7%. This compares with an unadjusted unemployment rate of 7.4% for California and 6.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 34,200 payroll jobs from August 2013 and August 2014, including 8,400 from professional and business services, 6,800 from educational and health services, and 6,800 from construction. The financial activities sector recorded the greatest number of job losses, down 700 year over year.
- **Overall** - We are seeing a continued decrease in the amount of vacant space in the market along with positive net absorption. Asking rental rates have been increasing unevenly, but are trending upwards overall. While the San Diego County office and retail vacancy rates are decreasing at a slower pace, the industrial market still has some gas in the tank, and the vacancy rate is now lower than prerecession levels. The miniscule development pipeline has been a big factor in the vacancy rate compression. Industrial sectors are projected to increase employment in the coming quarters which should benefit the overall industrial market.

FORECAST

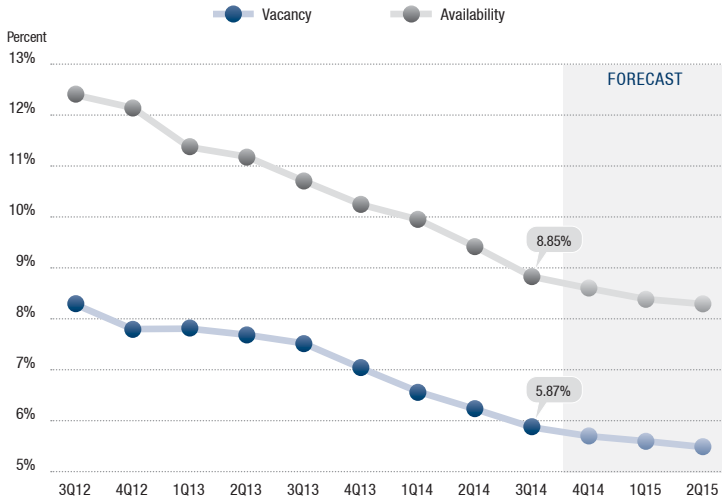
- **Construction** - After seven years of depressed construction levels for the San Diego industrial market, speculative construction has reentered the conversation, but it has not yet arrived. Limited construction in coming quarters should further allow demand to catch up to supply.
- **Employment** - 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 2014.
- **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 by 40 basis points, to around 5.45% by the end of the second quarter of 2015.

OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	5.87%	6.25%	7.50%	(21.73%)
Availability Rate	8.85%	9.40%	10.70%	(17.29%)
Average Asking Lease Rate	\$0.67	\$0.68	\$0.65	3.08%
Sale & Lease Transactions	2,695,377	3,772,814	3,951,109	(31.78%)
Gross Absorption	2,011,877	1,942,365	2,203,941	(8.71%)
Net Absorption	658,196	384,595	305,396	N/A

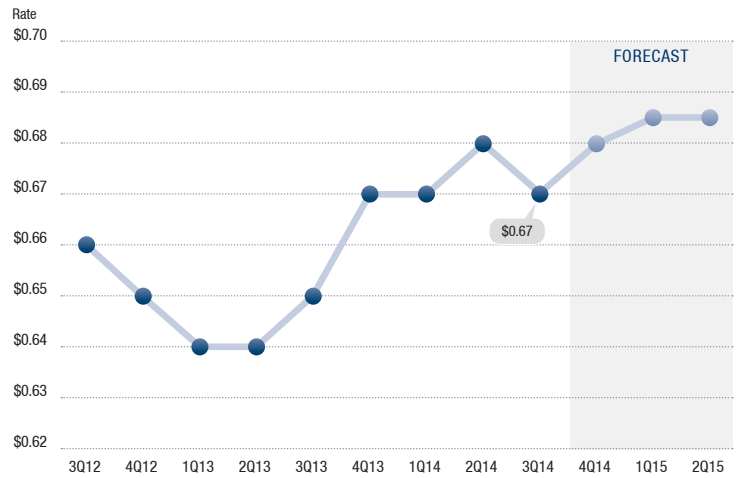
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



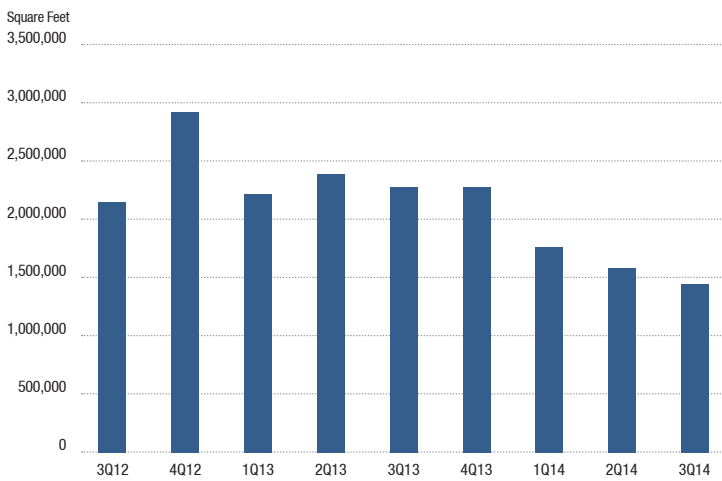
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



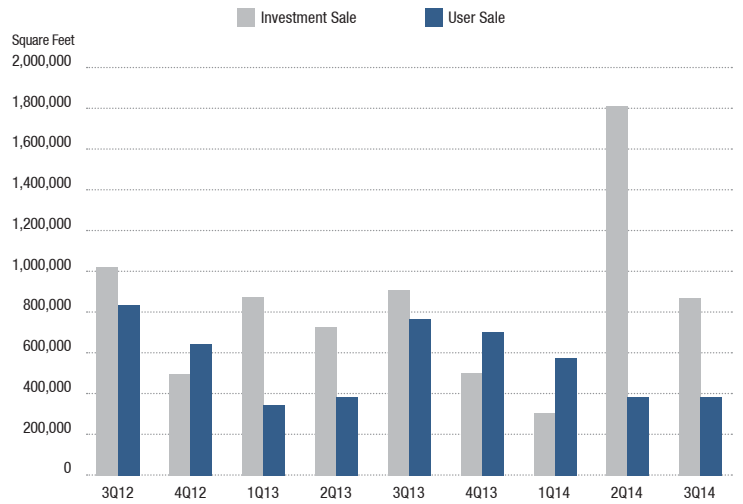
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



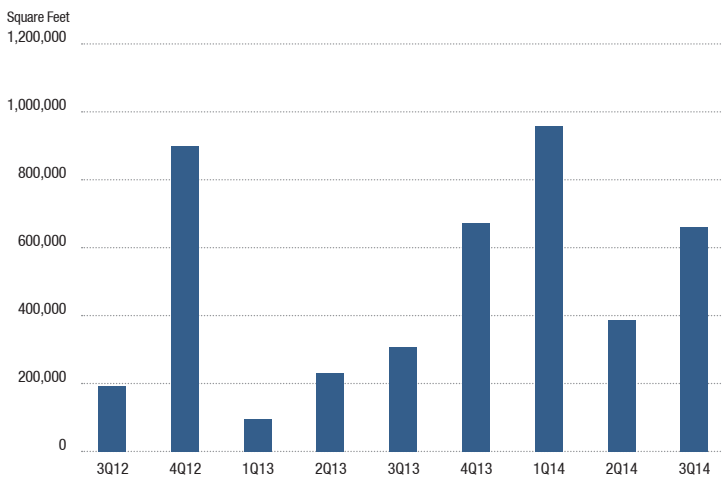
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



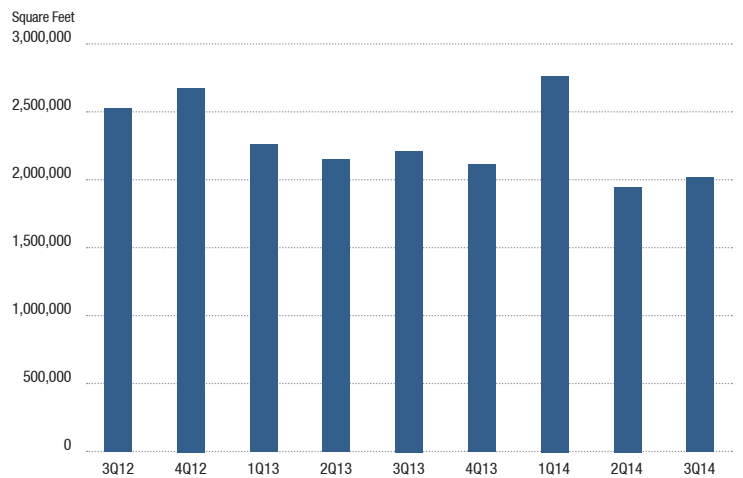
NET ABSORPTION

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 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
Central													
Miramar	592	13,369,684	0	0	721,862	5.40%	852,485	6.38%	\$0.80	(85,536)	194,445	178,219	861,074
Scripps Ranch	29	744,249	0	0	46,247	6.21%	113,928	15.31%	\$0.84	(1,384)	(29,196)	3,196	10,622
Sorrento Mesa	81	4,025,826	0	0	249,582	6.20%	387,808	9.63%	\$0.98	(30,505)	(11,699)	11,673	81,901
Sorrento Valley	51	1,162,385	0	0	5,120	0.44%	13,220	1.14%	\$0.00	5,663	2,282	5,663	15,465
Subtotal	753	19,302,144	0	0	1,022,811	5.30%	1,367,441	7.08%		(111,762)	155,832	198,751	969,062
Sports Arena/Airport	198	3,158,478	0	0	76,280	2.42%	102,903	3.26%	\$0.80	(7,547)	60,214	15,600	122,735
Rose Canyon / Morena	133	2,695,190	0	0	90,241	3.35%	30,410	1.13%	\$0.00	(54,606)	(60,718)	16,002	43,327
Kearny Mesa	425	9,862,436	0	0	423,793	4.30%	493,645	5.01%	\$0.92	13,130	26,230	110,017	323,167
Mission Gorge / Grantville	121	1,965,411	0	0	145,692	7.41%	67,502	3.43%	\$0.77	13,287	45,431	108,609	194,309
Subtotal	877	17,681,515	0	0	736,006	4.16%	694,460	3.93%		(35,736)	71,157	250,228	683,538
Central Total	1,630	36,983,659	0	0	1,758,817	4.76%	2,061,901	5.58%	\$0.86	(147,498)	226,989	448,979	1,652,600
East													
El Cajon	512	9,433,373	0	0	306,722	3.25%	640,794	6.79%	\$0.70	9,750	(82,448)	59,500	182,618
Santee	196	2,933,528	0	318,000	79,437	2.71%	153,670	5.24%	\$0.75	(16,084)	11,336	13,830	136,796
Lakeside	85	998,902	0	0	13,738	1.38%	49,851	4.99%	\$1.00	0	70,379	2,048	92,532
Subtotal	793	13,365,803	0	318,000	399,897	2.99%	844,315	6.32%		(6,334)	(733)	75,378	411,946
Spring Valley	116	1,261,335	0	0	52,232	4.14%	88,640	7.03%	\$0.77	(3,067)	3,562	1,225	12,238
Lemon Grove / La Mesa / East SD	219	1,457,908	0	0	78,235	5.37%	135,830	9.32%	\$0.50	(300)	(4,570)	0	23,900
Subtotal	335	2,719,243	0	0	130,467	4.80%	224,470	8.25%		(3,367)	(1,008)	1,225	36,138
East Total	1,128	16,085,046	0	318,000	530,364	3.30%	1,068,785	6.64%	\$0.72	(9,701)	(1,741)	76,603	448,084
North Coastal													
Carlsbad	241	7,929,789	0	107,024	622,110	7.85%	931,923	11.75%	\$0.75	48,674	108,441	113,457	306,925
North Beach Cities	40	314,911	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southern Vista	392	11,123,052	0	709,442	667,686	6.00%	1,173,617	10.55%	\$0.67	164,778	290,028	241,916	797,133
Subtotal	673	19,367,752	0	816,466	1,289,796	6.66%	2,105,540	10.87%		213,452	398,469	355,373	1,104,058
Oceanside	396	7,963,553	0	449,386	832,494	10.45%	847,069	10.64%	\$0.67	32,078	191,332	152,058	477,856
Northern Vista	100	1,077,045	0	0	24,678	2.29%	27,796	2.58%	\$1.00	(537)	21,666	9,176	41,360
Subtotal	496	9,040,598	0	449,386	857,172	9.48%	874,865	9.68%		31,541	212,998	161,234	519,216
North Coastal Total	1,169	28,408,350	0	1,265,852	2,146,968	7.56%	2,980,405	10.49%	\$0.65	244,993	611,467	516,607	1,623,274
North Inland													
Poway	175	7,339,207	0	538,700	218,990	2.98%	615,369	8.38%	\$0.92	152,821	190,747	156,958	459,228
Rancho Bernardo / CMR	47	4,236,613	0	0	220,468	5.20%	246,839	5.83%	\$0.85	16,020	73,669	16,020	73,669
Subtotal	222	11,575,820	0	538,700	439,458	3.80%	862,208	7.45%		168,841	264,416	172,978	532,897
Escondido	627	7,158,214	0	0	225,487	3.15%	387,057	5.41%	\$0.72	(11,296)	86,658	105,916	321,059
San Marcos	524	8,522,772	0	53,000	560,313	6.57%	773,622	9.08%	\$0.74	(5,614)	94,495	117,341	366,895
Unincorporated North County	88	809,875	0	0	19,347	2.39%	28,342	3.50%	\$0.87	0	17,476	2,236	22,465
Subtotal	1,239	16,490,861	0	53,000	805,147	4.88%	1,189,021	7.21%		(16,910)	198,629	225,493	710,419
North Inland Total	1,461	28,066,681	0	591,700	1,244,605	4.43%	2,051,229	7.31%	\$0.85	151,931	463,045	398,471	1,243,316
South													
Southeast SD	467	6,160,894	0	0	369,573	6.00%	507,272	8.23%	\$0.62	21,070	12,137	41,470	135,152
National City	245	3,507,792	0	0	74,867	2.13%	103,004	2.94%	\$0.68	20,259	43,449	20,477	111,122
Chula Vista	335	8,733,151	0	0	348,976	4.00%	800,305	9.16%	\$0.53	119,970	141,216	164,801	373,480
Subtotal	1,047	18,401,837	0	0	793,416	4.31%	1,410,581	7.67%		161,299	196,802	226,748	619,754
Otay Mesa	326	15,163,239	0	1,465,353	1,864,915	12.30%	2,921,127	19.26%	\$0.45	261,008	529,707	336,189	1,102,517
San Ysidro / South SD	68	1,529,646	0	24,121	152,202	9.95%	307,777	20.12%	\$0.00	(3,836)	(26,193)	8,280	30,819
Subtotal	394	16,692,885	0	1,489,474	2,017,117	12.08%	3,228,904	19.34%		257,172	503,514	344,469	1,133,336
South Total	1,441	35,094,722	0	1,489,474	2,810,533	8.01%	4,639,485	13.22%	\$0.47	418,471	700,316	571,217	1,753,090
San Diego County Total	6,829	144,638,458	0	3,665,026	8,491,287	5.87%	12,801,805	8.85%	\$0.67	658,196	2,000,076	2,011,877	6,720,364
0-9,999	3,076	15,608,194	0	8,000	580,012	3.72%	793,773	5.09%	\$0.78	26,665	93,138	181,866	620,315
10,000- 19,999	1,803	25,452,582	0	70,578	1,080,418	4.24%	1,511,795	5.94%	\$0.89	117,155	332,442	440,052	1,376,348
20,000- 34,999	987	25,262,836	0	346,913	1,196,380	4.74%	1,798,587	7.12%	\$0.73	44,029	225,170	423,751	1,425,989
35,000- 49,999	372	15,358,217	0	159,584	779,328	5.07%	1,458,385	9.50%	\$0.72	2,083	99,871	132,774	568,602
50,000- 99,999	377	25,999,392	0	1,549,075	1,694,519	6.52%	2,627,579	10.11%	\$0.60	76,215	396,409	256,444	1,219,255
100,000 Plus	214	36,957,237	0	1,530,876	3,160,630	8.55%	4,611,686	12.48%	\$0.66	392,049	853,046	576,990	1,509,855
San Diego County Total	6,829	144,638,458	0	3,665,026	8,491,287	5.87%	12,801,805	8.85%	\$0.67	658,196	2,000,076	2,011,877	6,720,364

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
9474-9663 Kearny Villa Rd. 9450-9779 Candida St.	Miramar	232,803	\$171.82	SR Commercial	TA Associates Realty
2081 Faraday Ave.	Carlsbad	150,159	\$139.85	Lincoln Property Company	St. Croix Capital Corporation
675-693 Marsat Ct.	Chula Vista	128,294	\$87.30	Focus Real Estate, LP	Westcore Properties
950-955 Borra Pl.	Escondido	61,940	\$126.43	Meridian Properties Real Estate	950 Borra Place, LLC
2208 Harmony Grove Rd.	Escondido	52,874	\$127.66	Henry Avocado Corporation	Berti Family Trust

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
7411 Goen Pl.	Mission Gorge	125,430	July-14	CEVA Freight	Bentall Kennedy
2350 Siempre Viva Ct.	Otay Mesa	70,000	Sept-14	Undisclosed	Hamann Companies
1155 Industrial Ave.	Escondido	27,650	Sept-14	Bliss Holdings, LLC	Lanikai Partners III
1225 Park Center Dr. – Renewal	Vista	24,332	July-14	Boothcrafters	Walton Street Capital, LLC
9040 Activity Rd.	Miramar	23,107	July-14	Kuni Automotive	(Sublease)

PRODUCT TYPE

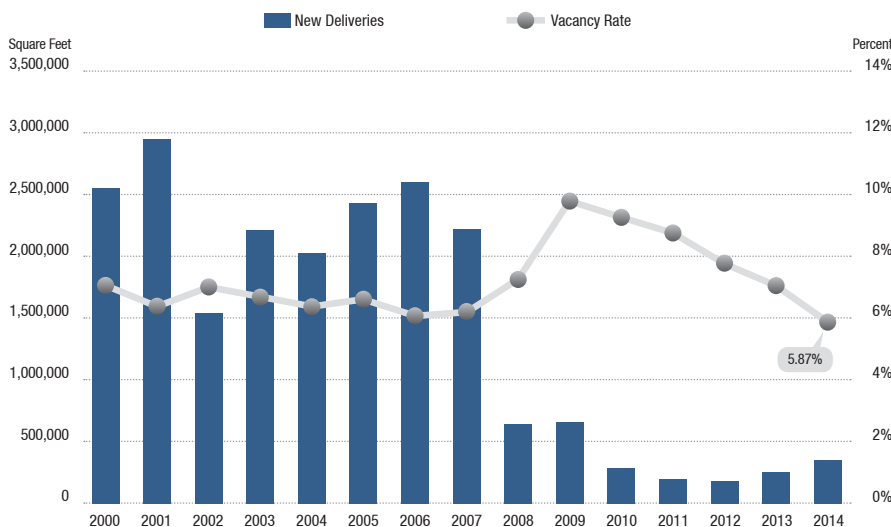
MFG./DIST.

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

To view available properties, please visit:

www.voitco.com

ANNUAL NEW DELIVERIES VS. VACANCY RATE



Please Contact Us for Further Information

101 Shipyard Way, Newport Beach, CA 92663 949.644.8648 Lic.#01333376 www.voitco.com



REAL ESTATE SERVICES

Anaheim, CA
714.978.7880

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Las Vegas, NV
702.734.4500

Los Angeles, CA
424.329.7500

Newport Beach, CA
949.644.8648

Phoenix, AZ
602.952.8648

Reno, NV
775.771.9955

Sacramento, CA
916.772.8648

San Diego, CA
858.453.0505

San Jose, CA
408.885.9110

Real People.
Real Solutions.®

This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

©2014 Voit Real Estate Services, Inc. Real People. Real Solutions.® is a registered trademark of Voit Real Estate Services.