



MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

UP



Deliveries

FLAT



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HIGHLIGHTS

- **Signs Pointing Up** - The San Diego County industrial market continued its path to recovery, posting a healthy 4.29% vacancy rate. Vacancy and availability continued trending downward, and net absorption was positive for the twenty-third 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 checked in at just under 800,000 square feet this quarter. 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 4.29%. 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 and more than 26% lower than the level of just a year ago. The Central County posted the lowest vacancy rates of San Diego County areas, at 2.71%.
- **Availability** - Direct/sublease space being marketed was 6.98% at the end of the quarter, a 19.95% decrease from 2014's third quarter rate of 8.72%. 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 \$0.80 per square foot per month, a five cent increase from the previous quarter and thirteen cents, or a 19% increase over 2014's third quarter figure.
- **Absorption** - The San Diego industrial market posted 621,838 square feet of positive net absorption in the third quarter, well above the market average of 390,871

square feet of positive net absorption per quarter since the beginning of 2010. Over the past twenty-three quarters the market has accumulated a total of over 9.2 million square feet of positive absorption.

- **Transaction Activity** - The total square feet leased and sold in the second quarter was 4.1 million square feet, a 19.35% increase from 2014's third quarter mark of 3.4 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 5.1% in August 2015, down from a revised 5.4% in August 2014 and below the year-ago estimate of 6.6%. This compares with an unadjusted unemployment rate of 6.1% 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 42,400 payroll jobs from August 2014 and August 2015, including 11,500 from professional and business services, and 8,000 from education and health services, 5,600 from both transportation and utilities, and leisure and hospitality. Only two minor sectors recorded year-over job losses totaling 900 jobs.
- **Overall** - New construction is still at very low levels. We are seeing continued decreases in the amount of vacant space in the market along with positive net absorption. Asking rental rates have been increasing for some time now and that increase is now accelerating. While the San Diego County office and retail vacancy rates are decreasing at a slower pace, the industrial market is in the midst of a freefall, and the vacancy rate is now lower than prerecession levels. The miniscule development pipeline has been a big factor in the vacancy rate compression. The San Diego Industrial market is recovering in full stride now.

FORECAST

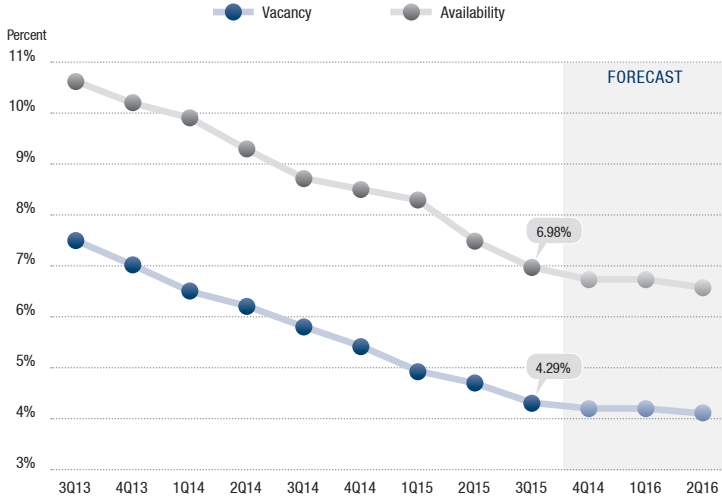
- **Construction** - After seven years of depressed construction levels for the San Diego industrial market, speculative construction is in the works. However, limited construction in coming quarters should further allow demand to catch up to supply.
- **Employment** - We anticipate job growth of around 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 2015.
- **Lease Rates** - Expect average asking rates to increase by approximately 5% to 7% over the next four quarters.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping approximately 20 basis points, to around 4.1% by the end of the second quarter of 2016.

OVERVIEW

	3Q15	2Q15	3Q14	% of Change vs. 3Q14
Total Vacancy Rate	4.29%	4.70%	5.81%	(26.16%)
Availability Rate	6.98%	7.45%	8.72%	(19.95%)
Average Asking Lease Rate	\$0.80	\$0.75	\$0.67	19.40%
Sale & Lease Transactions	4,085,587	3,865,326	3,423,097	19.35%
Gross Absorption	2,157,585	1,984,731	2,016,037	7.02%
Net Absorption	621,838	431,858	681,323	N/A

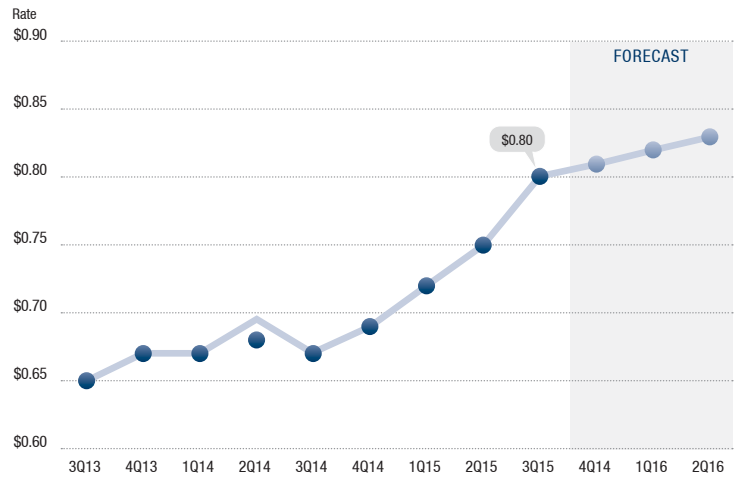
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



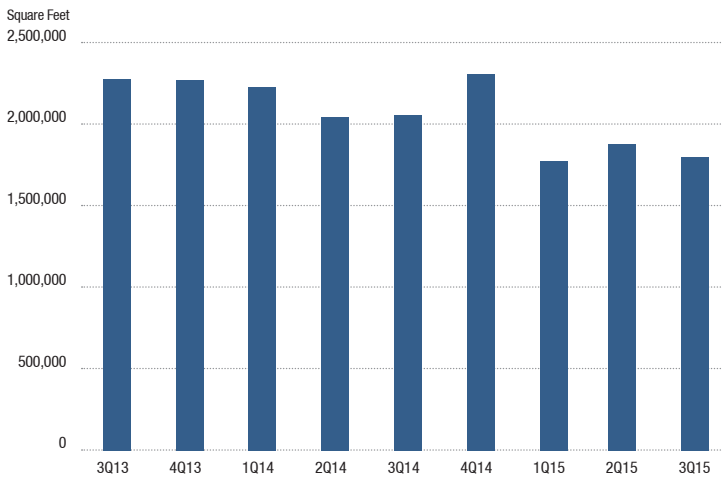
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



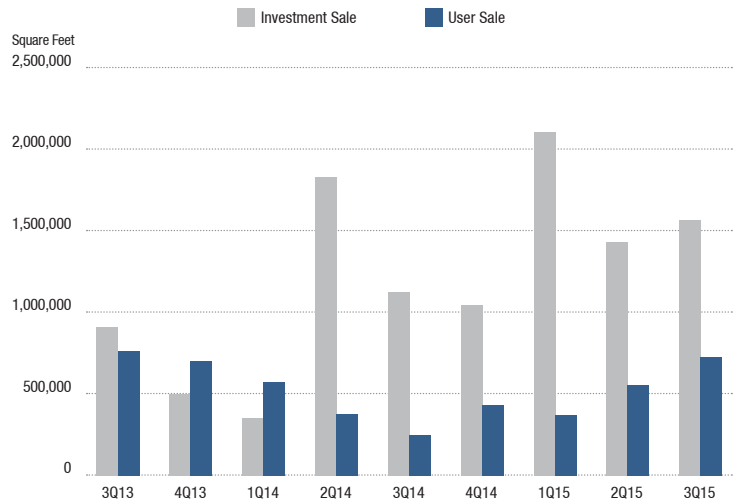
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



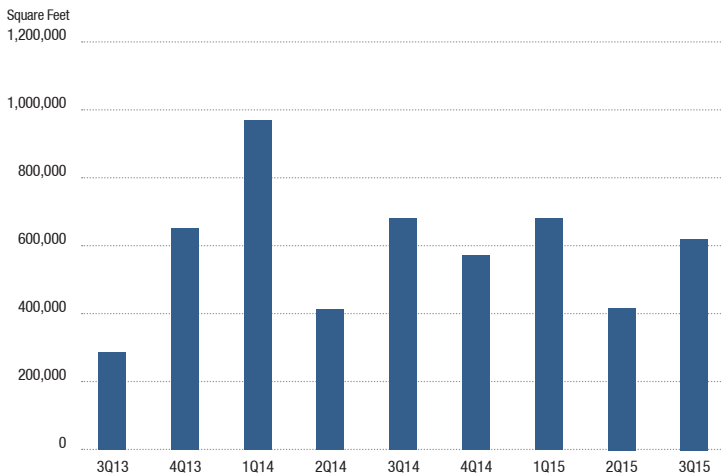
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



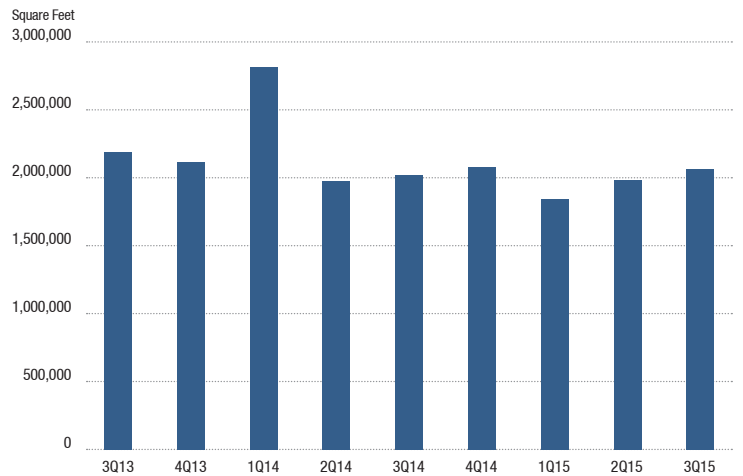
NET ABSORPTION

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 3Q2015	Square Feet Available	Availability Rate 3Q2015	Average Asking Lease Rate	Net Absorption 3Q2015	Net Absorption 2015	Gross Absorption 3Q2015	Gross Absorption 2015
Central													
Miramar	591	13,333,226	0	615,000	451,004	3.38%	571,742	4.29%	\$0.92	5,121	205,373	188,204	743,008
Scripps Ranch	29	744,322	0	0	19,925	2.68%	87,606	11.77%	\$0.85	14,903	23,549	14,903	37,869
Sorrento Mesa	79	3,959,676	0	0	156,315	3.95%	413,934	10.45%	\$0.97	56,552	74,265	65,777	146,880
Sorrento Valley	50	1,144,826	0	149,663	5,000	0.44%	12,420	1.08%	\$1.55	4,800	(5,000)	5,600	27,600
Subtotal	749	19,182,050	0	764,663	632,244	3.30%	1,085,702	5.66%		81,376	298,187	274,484	955,357
Sports Arena/Airport	197	3,079,530	0	0	36,732	1.19%	41,282	1.34%	\$0.00	(1,601)	41,353	42,821	114,310
Rose Canyon / Morena	134	2,693,512	0	0	44,932	1.67%	15,859	0.59%	\$0.00	(15,861)	(29,722)	9,800	34,690
Kearny Mesa	425	9,823,716	0	0	202,551	2.06%	408,390	4.16%	\$1.07	24,671	188,314	94,113	474,440
Mission Gorge / Grantville	121	1,963,460	0	0	81,035	4.13%	59,607	3.04%	\$1.07	(16,019)	(11,880)	10,508	49,615
Subtotal	877	17,560,218	0	0	365,250	2.08%	525,138	2.99%		-8,810	188,065	157,242	673,055
Central Total	1,626	36,742,268	0	764,663	997,494	2.71%	1,610,840	4.38%	\$0.98	72,566	486,252	431,726	1,628,412
East													
El Cajon	512	9,437,946	0	112,126	265,389	2.81%	638,819	6.77%	\$0.75	9,439	6,264	117,607	239,258
Santee	197	2,945,665	0	247,050	49,099	1.67%	113,485	3.85%	\$0.75	26,690	13,262	41,698	78,467
Lakeside	86	998,509	0	0	4,849	0.49%	7,699	0.77%	\$0.00	(753)	2,030	2,048	8,927
Subtotal	795	13,382,120	0	359,176	319,337	2.39%	760,003	5.68%		35,376	21,556	161,353	326,652
Spring Valley	118	1,269,402	0	0	78,121	6.15%	128,802	10.15%	\$0.88	(4,313)	(5,023)	14,900	31,068
Lemon Grove / La Mesa / East SD	220	1,462,580	0	0	54,565	3.73%	92,532	6.33%	\$0.50	(3,380)	5,620	39,593	54,593
Subtotal	338	2,731,982	0	0	132,686	4.86%	221,334	8.10%		-7,693	597	54,493	85,661
East Total	1,133	16,114,102	0	359,176	452,023	2.81%	981,337	6.09%	\$0.77	27,683	22,153	215,846	412,313
North Coastal													
Carlsbad	237	7,758,545	80,392	463,527	650,650	8.39%	889,875	11.47%	\$0.92	113,878	(27,851)	231,591	330,813
North Beach Cities	40	315,161	0	0	5,250	1.67%	5,250	1.67%	\$0.00	(5250)	(5,250)	0	0
Southern Vista	388	11,040,880	0	343,165	359,537	3.26%	673,932	6.10%	\$0.69	90,116	185,880	200,416	553,859
Subtotal	665	19,114,586	80,392	806,692	1,015,437	5.31%	1,569,057	8.21%		198,744	152,779	432,007	884,672
Oceanside	396	8,004,559	543,330	270,382	464,108	5.80%	414,721	5.18%	\$0.79	57,163	380,959	119,439	552,603
Northern Vista	100	1,078,094	0	0	7,539	0.70%	23,935	2.22%	\$0.00	8,424	11,776	9,855	41,483
Subtotal	496	9,082,653	543,330	270,382	471,647	5.19%	438,656	4.83%		65,587	392,735	129,294	594,086
North Coastal Total	1,161	28,197,239	623,722	1,077,074	1,487,084	5.27%	2,007,713	7.12%	\$0.78	264,331	545,514	561,301	1,478,758
North Inland													
Poway	175	7,345,166	24,883	355,000	353,876	4.82%	690,442	9.40%	\$0.91	(160,401)	(4,149)	81,491	324,114
Rancho Bernardo / CMR	47	4,250,348	0	0	300,746	7.08%	521,047	12.26%	\$0.94	(67,224)	(66,007)	10,277	24,548
Subtotal	222	11,595,514	24,883	355,000	654,622	5.65%	1,211,489	10.45%		-227,625	-70,156	91,768	348,662
Escondido	629	7,202,869	0	0	197,664	2.74%	307,693	4.27%	\$0.78	38,714	2,332	106,917	317,645
San Marcos	523	8,462,409	0	84,000	487,351	5.76%	578,893	6.84%	\$0.75	946	56,856	41,542	211,960
Unincorporated North County	89	812,430	0	3,745	11,447	1.41%	19,372	2.38%	\$0.85	7,350	9,550	12,850	26,250
Subtotal	1,241	16,477,708	0	87,745	696,462	4.23%	905,958	5.50%		47,010	68,738	161,309	555,855
North Inland Total	1,463	28,073,222	24,883	442,745	1,351,084	4.81%	2,117,447	7.54%	\$0.90	-180,615	-1,418	253,077	904,517
South													
Southeast SD	464	6,167,050	0	0	129,332	2.10%	291,191	4.72%	\$0.69	68,404	173,640	54,554	157,134
National City	244	3,522,028	0	0	121,618	3.45%	123,112	3.50%	\$0.64	(22,206)	(36,315)	27,352	68,218
Chula Vista	334	8,682,758	0	0	350,708	4.04%	876,883	10.10%	\$0.62	25,507	80,489	100,573	311,105
Subtotal	1,042	18,371,836	0	0	601,658	3.27%	1,291,186	7.03%		71,705	217,814	182,479	536,457
Otay Mesa	328	15,243,231	121,970	1,397,930	1,217,792	7.99%	1,935,440	12.70%	\$0.56	357,808	339,151	501,916	896,228
San Ysidro / South SD	66	1,416,646	0	24,121	73,262	5.17%	117,600	8.30%	\$0.00	8,360	118,690	11,240	123,260
Subtotal	394	16,659,877	121,970	1,422,051	1,291,054	7.75%	2,053,040	12.32%		366,168	457,841	513,156	1,019,488
South Total	1,436	35,031,713	121,970	1,422,051	1,892,712	5.40%	3,344,226	9.55%	\$0.59	437,873	675,655	695,635	1,555,945
San Diego County Total	6,819	144,158,544	770,575	4,065,709	6,180,397	4.29%	10,061,563	6.98%	\$0.80	621,838	1,728,156	2,157,585	5,979,945
0-9,999	3,077	15,593,607	0	15,804	338,994	2.17%	543,911	3.49%	\$1.07	46,706	146,066	204,094	558,238
10,000-19,999	1,798	25,374,134	0	75,578	1,044,861	4.12%	1,671,405	6.59%	\$0.92	(2,344)	(53,576)	382,124	1,129,990
20,000-34,999	987	25,239,627	24,883	182,177	773,725	3.07%	1,572,202	6.23%	\$0.83	102,931	300,204	496,226	1,233,792
35,000-49,999	368	15,207,655	0	164,623	533,241	3.51%	719,042	4.73%	\$0.70	178,695	288,797	317,137	842,121
50,000-99,999	376	25,943,743	209,254	922,451	1,297,372	5.00%	2,001,450	7.71%	\$0.73	167,208	351,131	344,474	847,477
100,000 Plus	213	36,799,778	536,438	2,705,076	2,192,204	5.96%	3,553,553	9.66%	\$0.81	128,642	695,534	413,530	1,368,327
San Diego County Total	6,819	144,158,544	770,575	4,065,709	6,180,397	4.29%	10,061,563	6.98%	\$0.80	621,838	1,728,156	2,157,585	5,979,945

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
9389-9477 Waples St.	Sorrento Mesa	544,352	\$165	Clarion Partners	Deutsche Asset & Wealth Management
350 Camino De La Reina	Mission Valley	339,570	\$153	BBL, Inc.	Manchester Financial Group
16550 Via Esprillo	Rancho Bernardo	180,946	\$166	Greenlaw Partners	Soitec USA
9235-9265 Activity Rd. & 9520-9530 Padgett St.	Miramar	160,811	\$119	Lincoln Property Company	Brookfield Asset Management
12720-12860 Danielson Ct.	Poway	112,515	\$150	Rexford Industrial	Moss Point Corporation

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
16550 Via Esprillo (Sale-Lease Back)	Rancho Bernardo	180,946	Aug-2015	Soitec USA	Greenlaw Partners
1875 Ord Way	Oceanside	140,969	July-2015	LaCantina Doors	Alere Property Group, LLC
13550 Stowe Dr.	Poway	112,000	Sept-2015	Undisclosed	CT Realty Investors
1855 Dornoch Ct.	Otay Mesa	60,120	July-2015	Rivulis Irrigation	LBA Realty
1890 Ord Way	Oceanside	54,805	July-2015	TTL	Alere Property Group, LLC

PRODUCT TYPE

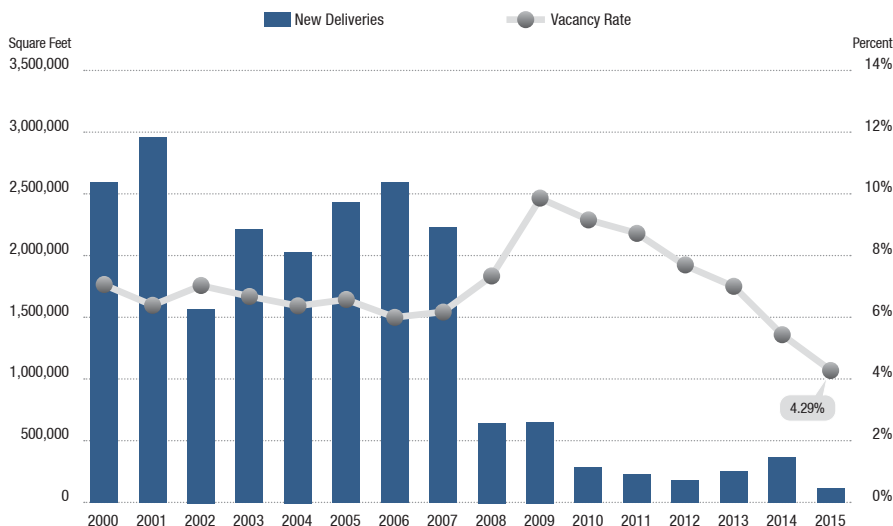
MFG./DIST.

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