



Industrial Market Report

Compared to 2009:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

UP

Market Highlights

- **Are we there yet?** - The San Diego County industrial market displayed more promises of stabilization in the fourth quarter of 2010. Availability remained somewhat flat, vacancy rates began trending downward, and net absorption was positive for every quarter of 2010. Demand picked up, with Labor Day marking the beginning of a renewed interest in sales transactions, and tenants began signing longer lease commitments. While these are positive indications, stability and job growth will need to be sustained in coming quarters to be considered recovery.
- **Construction** - There was only 176,000 square feet of industrial construction in the fourth quarter. Scarce financing and low demand have essentially halted industrial development.
- **Vacancy** - Direct/sublease space (unoccupied) finished the year at 8.34% — lower than and the previous quarter's rate of 8.67% and lower than a year-ago's rate of 8.79%. The Central Suburban market posted the lowest rate in the county at 4.49%.
- **Availability** - Direct/sublease space being marketed was 11.97% for the fourth quarter of 2010 — nearly equal to 2009's figure of 11.96% but lower than the 2010's third quarter rate of 12.26%.
- **Lease Rates** - The average asking triple net lease rate was \$.66 per square foot per month, unchanged from the preceding four quarters, which strongly suggests that the market has hit its bottom. The record high for asking lease rates, \$.76, was recorded in the third and fourth quarters of 2008.
- **Absorption** - The county posted a strong 538,338 square feet of positive absorption for the fourth quarter of 2010, giving the industrial market a total of 944,625 square feet of positive absorption for 2010.
- **Transaction Activity** - Leasing activity checked in at 7.4 million square feet for 2010, 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 2.9 million square feet of activity in 2010 as compared to 2.04 million square feet in 2009. Details of the largest transactions can be found on the back page of this report.

- **Employment** - The unemployment rate in San Diego County was 10.4% in November 2010, up from a revised 10.3% in October 2010 and below the year-ago estimate of 10.4%. This compares with an unadjusted unemployment rate of 12.4% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 100 payroll jobs from November 2009 to November 2010 — 3,500 in professional and business services and 3,100 in education and health services. However, construction posted the greatest year-over-year decline — a loss of 2,100 jobs. Between October 2010 and November 2010 San Diego County employment increased by 3,700 jobs overall. The LAEDC is forecasting that 17,000 jobs will be added in San Diego County in 2011.
- **Overall** - The fourth quarter saw a decrease in the amount of available space being added to the market, as well as an overall increase in sales activity for the year, as investors began actively seeking prudent investments. Net absorption for the quarter was positive. With very little under construction to put more upward pressure on vacancies, 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. Once unemployment rates drop and consumer confidence stabilizes, the industrial market will recover.

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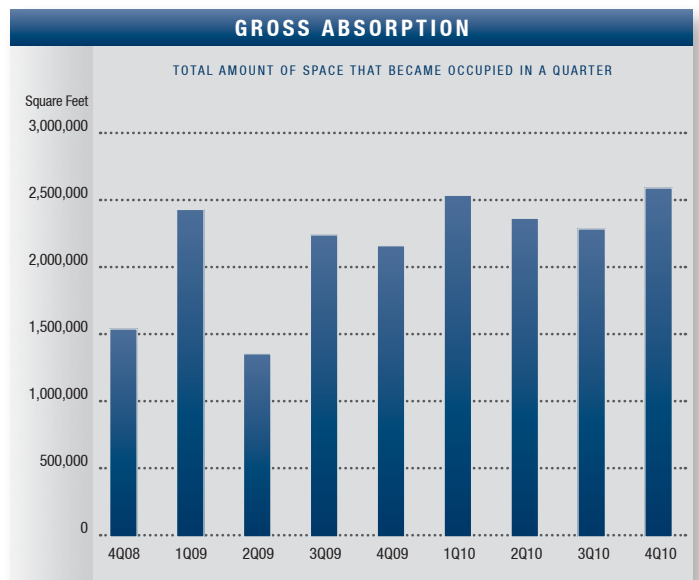
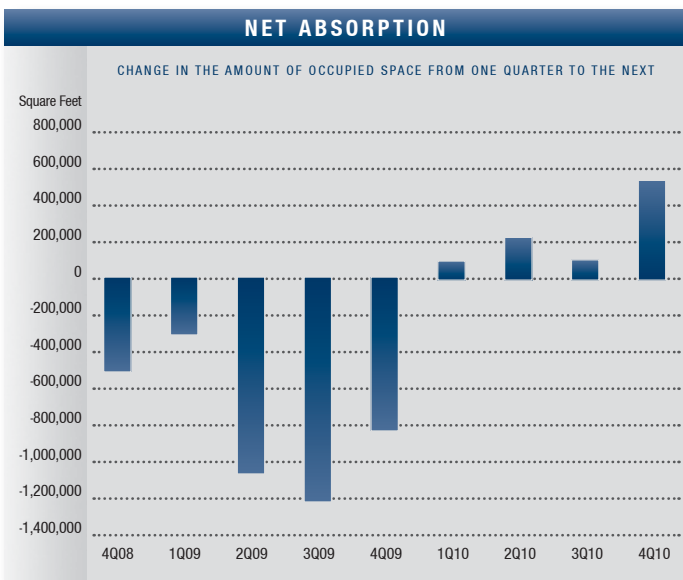
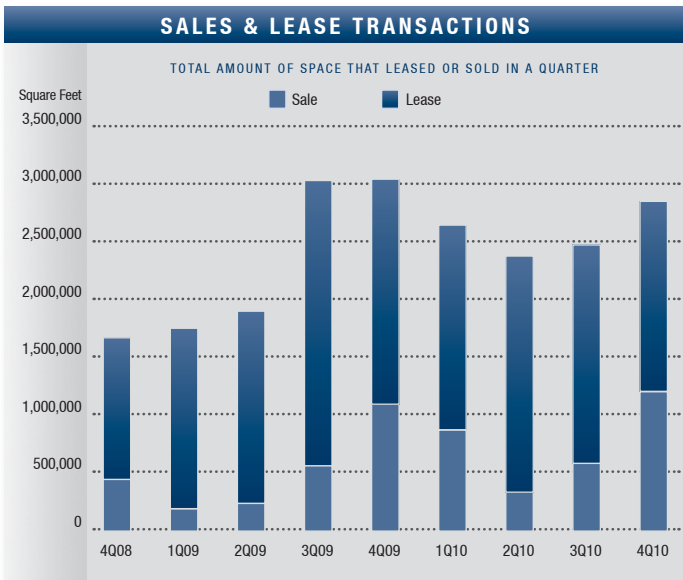
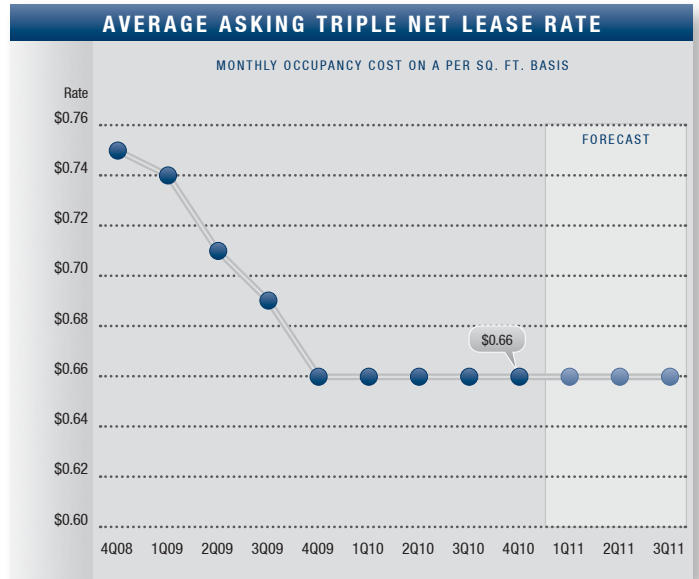
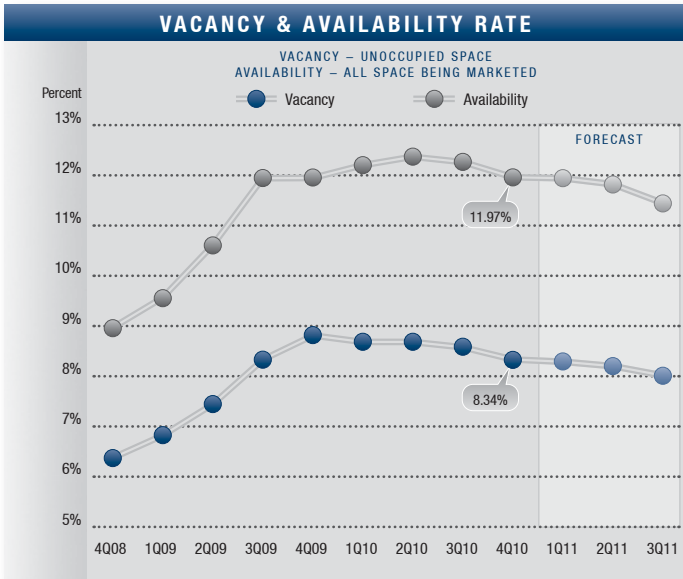
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INDUSTRIAL MARKET OVERVIEW

	2010	2009	2008	% CHANGE vs. 2009
Vacancy Rate	8.34%	8.79%	6.32%	(5.12%)
Availability Rate	11.97%	11.96%	8.95%	0.08%
Average Asking Lease Rate	\$.66	\$.66	\$.75	0.00%
Sale & Lease Transactions	10,300,473	9,655,429	9,352,262	6.68%
Gross Absorption	7,087,454	8,131,685	8,495,127	(12.84%)
Net Absorption	944,625	(3,388,754)	(894,834)	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 4Q2010	Square Feet Available	Availability Rate 4Q2010	Average Asking Lease Rate	Net Absorption 4Q2010	Net Absorption 2010	Gross Absorption 4Q2010	Gross Absorption 2010
Central													
Central City	200	3,144,763	0	0	207,556	6.60%	319,318	10.15%	\$0.71	(1,788)	(35,130)	23,739	136,405
East City	64	1,437,408	0	0	11,200	0.78%	80,468	5.60%	\$0.55	(5,200)	6,572	6,000	17,772
Southeast City	338	4,668,910	0	0	313,959	6.72%	378,996	8.12%	\$0.75	(37,966)	(101,943)	5,850	168,144
Central Total	602	9,251,081	0	0	532,715	5.76%	778,782	8.42%	\$0.73	(44,954)	(130,501)	35,589	322,321
Central Suburban													
Airport/Sports Arena	168	4,002,005	0	0	84,545	2.11%	243,385	6.08%	\$1.13	(5,200)	5,641	30,738	128,653
Kearny Mesa	478	11,899,698	0	0	477,157	4.01%	580,793	4.88%	\$1.06	24,947	(84,356)	94,048	341,943
Mission Gorge	132	2,250,722	0	0	178,898	7.95%	243,274	10.81%	\$0.87	5,387	20,300	20,706	137,161
Rose Canyon/Morena	144	3,456,266	0	0	228,938	6.62%	354,221	10.25%	\$0.73	9,522	(74,528)	97,348	138,661
Central Suburban Total	922	21,608,691	0	0	969,538	4.49%	1,421,673	6.58%	\$0.87	34,656	(132,943)	242,840	746,418
East County													
El Cajon	498	10,697,751	0	0	517,971	4.84%	865,175	8.09%	\$0.62	94,168	102,956	165,273	494,207
La Mesa/Spring Valley	332	3,414,515	0	0	201,372	5.90%	331,739	9.72%	\$0.69	(4,822)	51,016	15,643	128,210
Santee/Lakeside	291	3,951,558	0	200,000	216,152	5.47%	317,135	8.03%	\$1.34	(12,469)	(6,135)	70,371	196,938
East County Total	1,121	18,063,824	0	200,000	935,495	5.18%	1,514,049	8.38%	\$0.69	76,877	147,837	251,287	819,355
Highway 78 Corridor													
Oceanside	418	8,558,848	0	658,156	1,377,978	16.10%	1,741,850	20.35%	\$0.60	(3,918)	(72,620)	55,479	337,205
San Marcos	559	9,325,441	0	53,000	738,513	7.92%	1,023,443	10.97%	\$0.67	37,856	97,174	77,298	464,030
Vista/Fallbrook	518	12,684,583	0	55,590	1,035,585	8.16%	1,615,587	12.74%	\$0.69	73,200	115,518	132,115	729,509
Highway 78 Corridor Total	1,495	30,568,872	0	766,746	3,152,076	10.31%	4,380,880	14.33%	\$0.65	107,138	140,072	264,892	1,530,744
I-15 Corridor													
Escondido	724	8,386,128	0	86,500	509,016	6.07%	750,617	8.95%	\$0.78	25,430	128,528	128,823	536,831
Poway	178	7,348,874	0	355,400	384,301	5.23%	1,190,659	16.20%	\$0.77	26,985	119,569	153,433	407,263
Rancho Bernardo	56	4,174,645	0	0	474,250	11.36%	627,196	15.02%	\$0.79	(16,020)	7,006	0	144,251
Scripps Ranch	30	789,004	0	0	34,374	4.36%	185,225	23.48%	\$0.82	(3,617)	19,382	1,200	39,685
I-15 Corridor Total	988	20,698,651	0	441,900	1,401,941	6.77%	2,753,697	13.30%	\$0.78	32,778	274,485	283,456	1,128,030
North City													
Miramar	629	14,833,857	0	0	1,421,234	9.58%	2,145,336	14.46%	\$0.72	(83,809)	(107,476)	297,017	1,377,061
Sorrento Mesa	86	4,480,422	0	0	259,390	5.79%	333,176	7.44%	\$0.95	84,114	86,793	294,605	487,744
Sorrento Valley	62	1,362,683	0	0	13,437	0.99%	48,830	3.58%	\$1.10	6,747	8,815	10,961	33,983
Torrey Pines/UTC	5	140,879	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
North City Total	782	20,817,841	0	0	1,694,061	8.14%	2,527,342	12.14%	\$0.78	7,052	(11,868)	602,583	1,898,788
North County													
Carlsbad	266	9,420,059	176,000	26,632	743,758	7.90%	1,249,852	13.27%	\$0.93	(3,275)	167,387	87,378	643,112
North Beach Cities	67	939,693	0	0	18,757	2.00%	0	0.00%	\$0.00	4,670	(4,007)	4,670	14,750
North County Total	333	10,359,752	176,000	26,632	762,515	7.36%	1,249,852	12.06%	\$0.93	1,395	163,380	92,048	657,862
Outlying Areas													
Outlying SD County North	119	1,236,125	0	0	23,927	1.94%	28,816	2.33%	\$0.87	1,308	13,943	2,947	33,030
Outlying SD County South	77	785,117	0	0	107,302	13.67%	122,644	15.62%	\$0.00	(33,675)	8,372	14,902	75,102
Outlying Areas Total	196	2,021,242	0	0	131,229	6.49%	151,460	7.49%	\$0.87	(32,367)	22,315	17,849	108,132
South Bay													
Chula Vista	376	10,717,396	0	0	656,167	6.12%	748,119	6.98%	\$0.58	35,640	36,057	105,561	708,073
National City	254	4,294,280	0	0	194,365	4.53%	361,098	8.41%	\$0.69	3,238	(13,415)	12,779	102,871
Otay Mesa	344	15,494,615	0	747,100	3,163,609	20.42%	3,669,579	23.68%	\$0.48	315,057	527,417	673,180	1,622,846
San Ysidro/Imperial Beach	74	1,840,485	0	24,121	220,994	12.01%	287,176	15.60%	\$0.49	1,828	(78,211)	1,828	87,467
South Bay Total	1,048	32,346,776	0	771,221	4,235,135	13.09%	5,065,972	15.66%	\$0.50	355,763	471,848	793,348	2,521,257
San Diego County Total	7,487	165,736,730	176,000	2,206,499	13,814,705	8.34%	19,843,707	11.97%	\$0.66	538,338	944,625	2,583,892	9,732,907

Lease rates are on a triple net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
350 Camino De La Reina – 6 Properties	Assorted	551,452	\$92.85	Platinum Equity	Copley Press
11180 Roselle Street – 9 Properties	Sorrento Valley	163,872	\$176.97	BioMed Realty, LP	Collins Asset Management Group
9020–80 Activity Road – 4 Properties	Mira Mesa/Miramar	251,318	\$104.29	A&B Properties, Inc.	AMB Property Corporation
8870 Liquid Court	Mira Mesa/Miramar	181,185	\$141.02	The Martin–Brower Company, LLC	Crest Beverage, LLC
14303 Gateway Place	Poway	135,755	\$174.58	San Miguel Valley Corporation	Sorrento West Properties, Inc.
2710 Progress Street	Vista	135,020	\$166.28	J & D Laboratories	Hamann Companies

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
10015 Waples Street – Renewal	Sorrento Mesa	106,412	December 1st	Covan World–Wide Moving, Inc.	Kearney Real Estate Company
2633 Progress Street	Vista	98,000	November 12th	McCain, Inc.	Wilco Investments, LLC
655 Gateway Place – Renewal	Southeast	86,254	February 1st	BAE Systems San Diego Ship Repair, Inc.	JTF Enterprises, LLC
7594–7596 Trade Street	Mira Mesa/Miramar	73,467	April 6th	RW Smith & Company	Crest America
7598 Trade Street	Mira Mesa/Miramar	73,259	March 4th	American Bottling Company	Diversified Properties
5260 Anna Avenue	PB/Rose Canyon/Modrena	72,220	July 1st	HD Supply	Westcore Properties

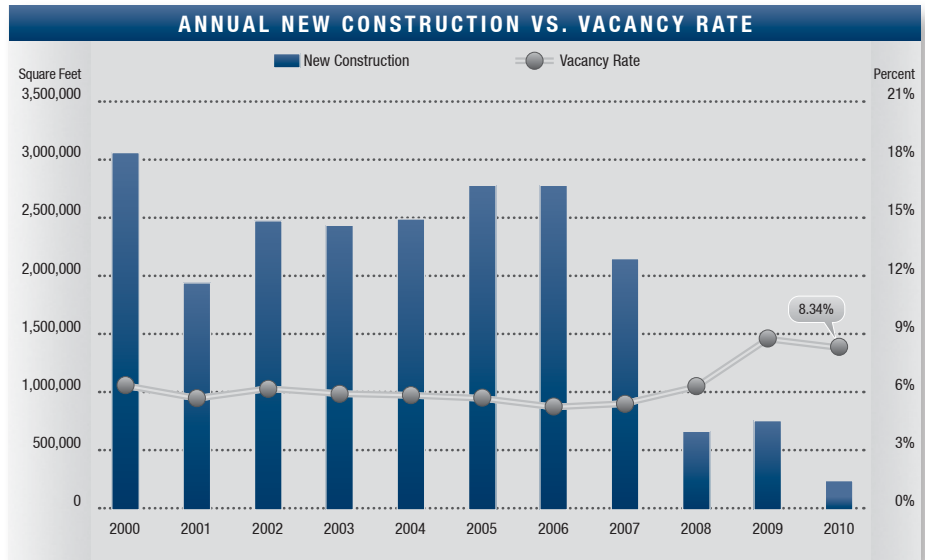
Product Type

MFG. / DIST.

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