



## Industrial Market Report

Compared to 2010:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

DOWN

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### Market Highlights

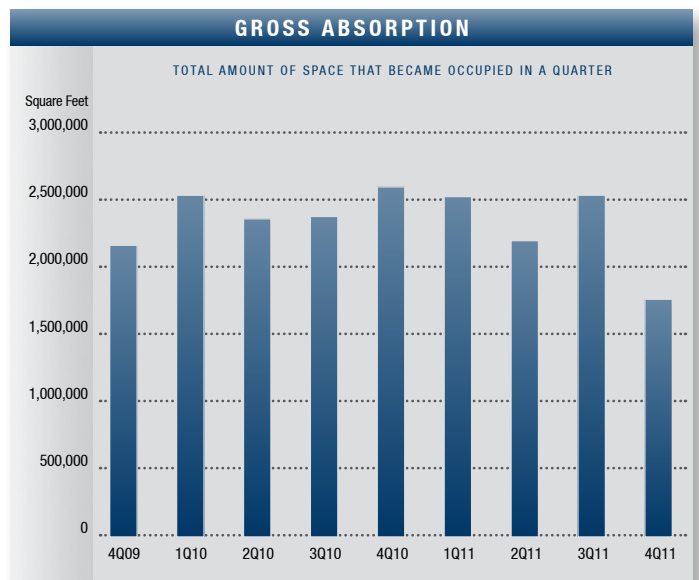
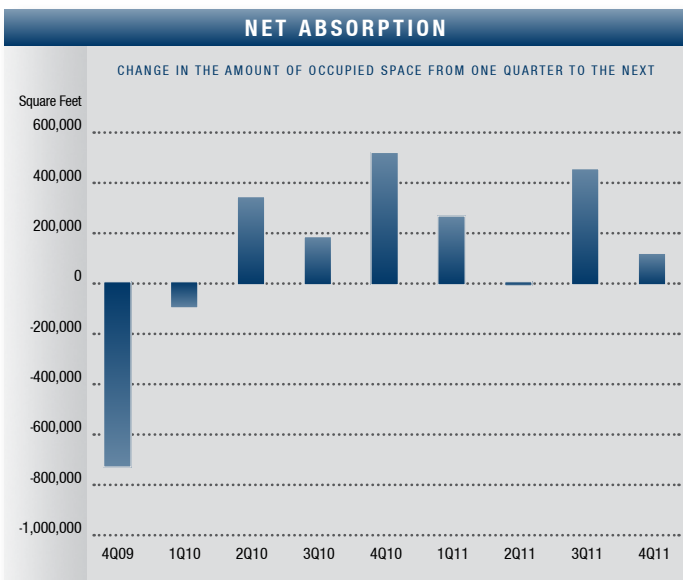
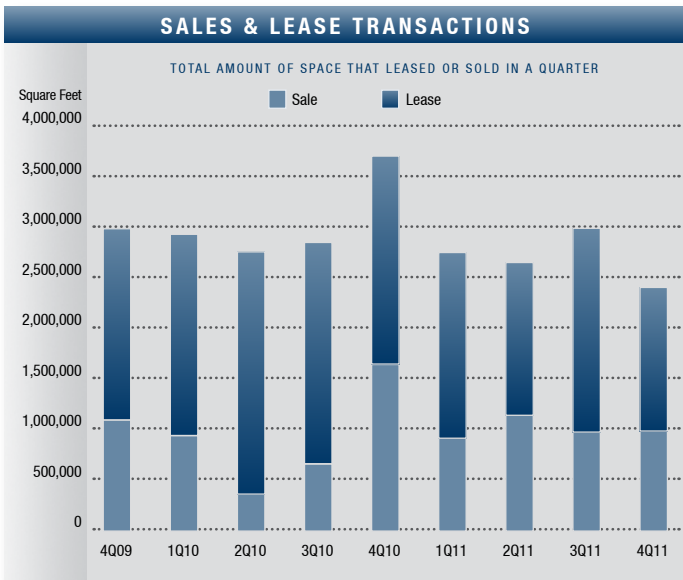
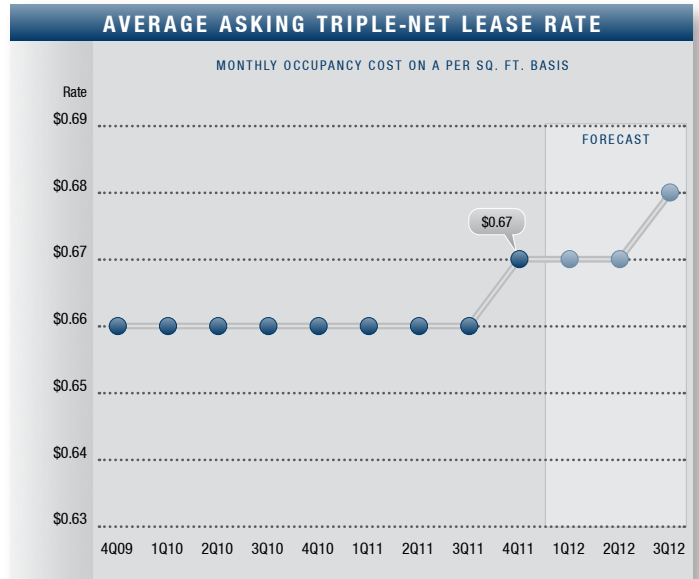
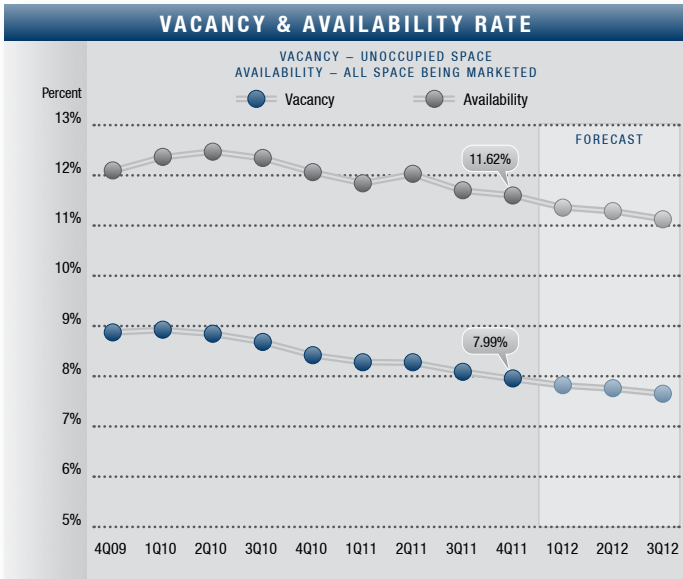
- Slow Growth** - The San Diego County industrial market continued its path to recovery in the fourth quarter of 2011, posting a modest 8% vacancy rate. Availability and vacancy rates continued trending downward, and net absorption was positive for the sixth time in the last seven quarters. While these 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 its pace of recovery.
- Construction** - The sluggish construction trend continued, with the 176,000 square feet delivering in the third quarter as the only delivery of the year. With nothing currently under construction, industrial development is at a stand still.
- Vacancy** - Direct/sublease space (unoccupied) finished the year at 7.99%—lower than the 2010 rate of 8.42%. Poway and Kearny Mesa posted the lowest vacancy rates of submarkets with at least 5 million square feet of inventory, at 2.79% and 3.33%, respectively. We are forecasting that vacancy will continue its downward trend in 2012, ending the year at around 7.5%.
- Availability** - Direct/sublease space being marketed was 11.62% in 2011—a decrease from the previous quarter's rate of 12.08%, the lowest year-end vacancy rate since 2008.
- Lease Rates** - The average asking triple-net lease rate was \$0.67 per square foot per month, a one cent increase following eight consecutive quarters without a change, suggesting that the market is beginning to come off of the bottom. The record high for asking lease rates, \$.76, was recorded in the third and fourth quarters of 2008. We are forecasting that lease rates will continue to rise, ending 2012 at \$.68.
- Absorption** - The San Diego industrial market posted 829,459 square feet of positive net absorption in 2011,

giving the market a total of 1.79 million square feet of positive absorption over the past two years.

- Transaction Activity** - Sales activity increased 12.8% over the previous year, posting 3.9 million square feet in 2011 and marking the highest sales volume recorded since 2007. Leasing activity displayed a year-over-year decrease, posting 6.8 million square feet of activity in 2011 as compared to 8.7 million square feet in 2010. 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 9.2 percent in November 2011, down from a revised 9.7 percent in October 2011, and below the year-ago estimate of 10.6 percent. This compares with an unadjusted unemployment rate of 10.9 percent for California and 8.2 percent for the nation during the same period.. According to the State of California Employment Development Department, San Diego County gained 26,600 payroll jobs from November 2010 to November 2011—9,100 in education and health care services, and 7,900 in professional and business services. However, construction posted the greatest year-over-year decline—a loss of 1,900 jobs.
- Overall** - We are continuing to see a decrease in the amount of available space. We are seeing a continued trend of positive net absorption. With zero 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.

### INDUSTRIAL MARKET OVERVIEW

	2011	2010	2009	% of Change vs. 2010
Vacancy Rate	7.99%	8.42%	8.85%	(5.11%)
Availability Rate	11.62%	12.08%	12.07%	(3.81%)
Average Asking Lease Rate	\$0.67	\$0.66	\$0.66	1.52%
Sale & Lease Transactions	10,738,607	12,158,386	10,365,417	(11.68%)
Gross Absorption	8,965,970	9,843,855	8,248,176	(8.92%)
Net Absorption	829,459	958,126	(3,155,873)	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 4Q2011	Square Feet Available	Availability Rate 4Q2011	Average Asking Lease Rate	Net Absorption 4Q2011	Net Absorption 2011	Gross Absorption 4Q2011	Gross Absorption 2011
<b>Central</b>													
Central City	191	3,001,590	0	0	215,869	7.19%	347,780	11.59%	\$1.10	18,000	(29,940)	22,500	57,032
East City	69	1,474,080	0	0	17,510	1.19%	17,510	1.19%	\$0.00	0	(1,100)	0	4,800
Southeast City	333	4,411,715	0	0	252,667	5.73%	359,900	8.16%	\$0.50	39,282	68,730	42,682	122,578
<b>Central Total</b>	<b>593</b>	<b>8,887,385</b>	<b>0</b>	<b>0</b>	<b>486,046</b>	<b>5.47%</b>	<b>725,190</b>	<b>8.16%</b>	<b>\$0.58</b>	<b>57,282</b>	<b>37,690</b>	<b>65,182</b>	<b>184,410</b>
<b>Central Suburban</b>													
Airport/Sports Arena	169	3,934,375	0	0	110,189	2.80%	146,109	3.71%	\$0.00	(750)	4,828	6,250	75,439
Kearny Mesa	459	11,435,752	0	0	381,297	3.33%	505,929	4.42%	\$0.86	123,497	117,367	177,985	514,734
Mission Gorge	134	2,271,312	0	0	235,605	10.37%	232,376	10.23%	\$0.87	7,675	(63,632)	20,944	92,506
Rose Canyon/Morena	144	3,464,763	0	0	114,365	3.30%	98,065	2.83%	\$1.38	(32,519)	8,356	63,947	237,770
<b>Central Suburban Total</b>	<b>906</b>	<b>21,106,202</b>	<b>0</b>	<b>0</b>	<b>841,456</b>	<b>3.99%</b>	<b>982,479</b>	<b>4.65%</b>	<b>\$0.88</b>	<b>97,903</b>	<b>66,919</b>	<b>269,126</b>	<b>920,449</b>
<b>East County</b>													
El Cajon	504	10,525,474	0	450,000	855,371	8.13%	1,052,987	10.00%	\$0.62	(11,766)	(192,286)	47,638	438,829
La Mesa/Spring Valley	342	3,577,274	0	0	221,027	6.18%	373,824	10.45%	\$0.58	2,401	(29,055)	8,854	49,148
Santee/Lakeside	293	3,961,012	0	200,000	101,098	2.55%	186,752	4.71%	\$0.73	47,840	86,087	53,200	268,689
<b>East County Total</b>	<b>1,139</b>	<b>18,063,760</b>	<b>0</b>	<b>650,000</b>	<b>1,177,496</b>	<b>6.52%</b>	<b>1,613,563</b>	<b>8.93%</b>	<b>\$0.65</b>	<b>38,475</b>	<b>(135,254)</b>	<b>109,692</b>	<b>756,666</b>
<b>Highway 78 Corridor</b>													
Oceanside	423	8,642,661	0	278,178	1,196,737	13.85%	1,448,808	16.76%	\$0.62	19,143	170,059	103,769	858,250
San Marcos	552	9,409,268	0	53,000	849,483	9.03%	1,093,505	11.62%	\$0.77	(25,513)	(65,871)	84,882	497,740
Vista/Fallbrook	518	12,910,691	0	55,590	832,977	6.45%	1,611,553	12.48%	\$0.69	(22,759)	420,442	198,388	1,171,330
<b>Highway 78 Corridor Total</b>	<b>1,493</b>	<b>30,962,620</b>	<b>0</b>	<b>386,768</b>	<b>2,879,197</b>	<b>9.30%</b>	<b>4,153,866</b>	<b>13.42%</b>	<b>\$0.66</b>	<b>(29,129)</b>	<b>524,630</b>	<b>387,039</b>	<b>2,527,320</b>
<b>I-15 Corridor</b>													
Escondido	719	8,323,203	0	0	433,752	5.21%	738,344	8.87%	\$1.01	19,886	94,416	79,349	464,312
Poway	178	7,279,130	0	388,545	202,896	2.79%	517,070	7.10%	\$0.77	(77,598)	69,109	57,591	384,794
Rancho Bernardo	54	3,968,249	0	0	472,047	11.90%	600,841	15.14%	\$0.98	(2,704)	2,203	0	85,054
Scripps Ranch	30	789,004	0	0	33,979	4.31%	297,774	37.74%	\$0.85	(6,791)	(901)	0	17,866
<b>I-15 Corridor Total</b>	<b>981</b>	<b>20,359,586</b>	<b>0</b>	<b>388,545</b>	<b>1,142,674</b>	<b>5.61%</b>	<b>2,154,029</b>	<b>10.58%</b>	<b>\$0.90</b>	<b>(67,207)</b>	<b>164,827</b>	<b>136,940</b>	<b>952,026</b>
<b>North City</b>													
Miramar	623	14,616,974	0	0	1,201,567	8.22%	2,044,306	13.99%	\$0.70	(56,741)	170,476	214,064	1,315,516
Sorrento Mesa	81	4,016,715	0	0	249,245	6.21%	395,897	9.86%	\$0.86	3,152	10,145	32,135	90,708
Sorrento Valley	60	1,316,849	0	0	14,365	1.09%	19,663	1.49%	\$0.78	11,105	(2,035)	19,395	53,569
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>769</b>	<b>20,091,417</b>	<b>0</b>	<b>0</b>	<b>1,465,177</b>	<b>7.29%</b>	<b>2,459,866</b>	<b>12.24%</b>	<b>\$0.73</b>	<b>(42,484)</b>	<b>178,586</b>	<b>265,594</b>	<b>1,459,793</b>
<b>North County</b>													
Carlsbad	261	8,891,473	0	26,632	927,733	10.43%	1,155,546	13.00%	\$0.80	34,835	(183,616)	112,284	522,356
North Beach Cities	65	894,920	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>North County Total</b>	<b>326</b>	<b>9,786,393</b>	<b>0</b>	<b>26,632</b>	<b>927,733</b>	<b>9.48%</b>	<b>1,155,546</b>	<b>11.81%</b>	<b>\$0.80</b>	<b>34,835</b>	<b>(183,616)</b>	<b>112,284</b>	<b>522,356</b>
<b>Outlying Areas</b>													
Outlying SD County North	121	1,359,997	0	0	19,435	1.43%	26,810	1.97%	\$0.85	4,567	10,292	14,167	48,069
Outlying SD County South	81	810,451	0	0	101,880	12.57%	99,342	12.26%	\$0.00	8,110	7,022	8,110	52,285
<b>Outlying Areas Total</b>	<b>202</b>	<b>2,170,448</b>	<b>0</b>	<b>0</b>	<b>121,315</b>	<b>5.59%</b>	<b>126,152</b>	<b>5.81%</b>	<b>\$0.85</b>	<b>12,677</b>	<b>17,314</b>	<b>22,277</b>	<b>100,354</b>
<b>South Bay</b>													
Chula Vista	380	10,229,578	0	0	654,238	6.40%	902,383	8.82%	\$0.52	(20,292)	21,399	56,649	340,868
National City	257	4,317,271	0	0	199,340	4.62%	304,815	7.06%	\$0.64	21,911	(12,940)	104,123	204,794
Otay Mesa	337	15,447,222	0	977,469	3,048,584	19.74%	4,111,030	26.61%	\$0.48	7,863	157,274	207,229	968,705
San Ysidro/Imperial Beach	74	1,840,749	0	24,121	98,564	5.35%	289,866	15.75%	\$0.55	4,694	(7,370)	6,896	28,229
<b>South Bay Total</b>	<b>1,048</b>	<b>31,834,820</b>	<b>0</b>	<b>1,001,590</b>	<b>4,000,726</b>	<b>12.57%</b>	<b>5,608,094</b>	<b>17.62%</b>	<b>\$0.50</b>	<b>14,176</b>	<b>158,363</b>	<b>374,897</b>	<b>1,542,596</b>
<b>San Diego County Total</b>	<b>7,457</b>	<b>163,262,631</b>	<b>0</b>	<b>2,453,535</b>	<b>13,041,820</b>	<b>7.99%</b>	<b>18,978,785</b>	<b>11.62%</b>	<b>\$0.67</b>	<b>116,528</b>	<b>829,459</b>	<b>1,743,031</b>	<b>8,965,970</b>

Lease rates are on a triple-net basis.

LARGEST TRANSACTIONS OF 2011

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
4000 Ruffin Rd.	Kearny Mesa	424,766	\$117.71	IDS Real Estate Group	AEW Capital management, LP
750 Vernon Way – 6 Properties	East County/EI Cajon	220,360	\$101.65	Westport Capital Partners, LLC	House Properties
11906 Tech Center Ct.	Poway	206,708	\$107.40	Sorrento West Properties, Inc.	CB Richard Ellis Investors
5928-5960 Pascal Ct. – 3 Properties	Carlsbad	242,917	\$78.01	LBA Realty	Callaway Golf Company
4010 Ocean Ranch Blvd.	Oceanside	203,779	\$71.43	Alliance Commercial Partners, LLC	Lloyd Wells Gift Trust
9365-9380 Waples St. – 3 Properties	Sorrento Mesa	102,319	\$102.28	Hill Properties	Mirso Properties, LP

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9999 Olson Dr. – Renewal	Miramar	150,980	Sep-11	FedEx Corporation	Distribution I Patent Owner
2081 Faraday Ave.	Carlsbad	150,159	Nov-11	SKLZ	BIODEC, LLC
2611 Commerce Way	Vista	104,832	Jul-11	Zodiac Pool Systems	Hamann Companies
4645 Morena Blvd.	Rose Canyon/Morena	88,617	Oct-11	Floor & Décor Outlets of America	Kimco Realty Corporation
990 Joshua Way	Vista	76,000	Jul-11	John Deere Water	I & G Direct Real Estate 8, LP
3151 Scott St.	Vista	74,938	Jun-11	DJO	Atomic Investments, Inc.

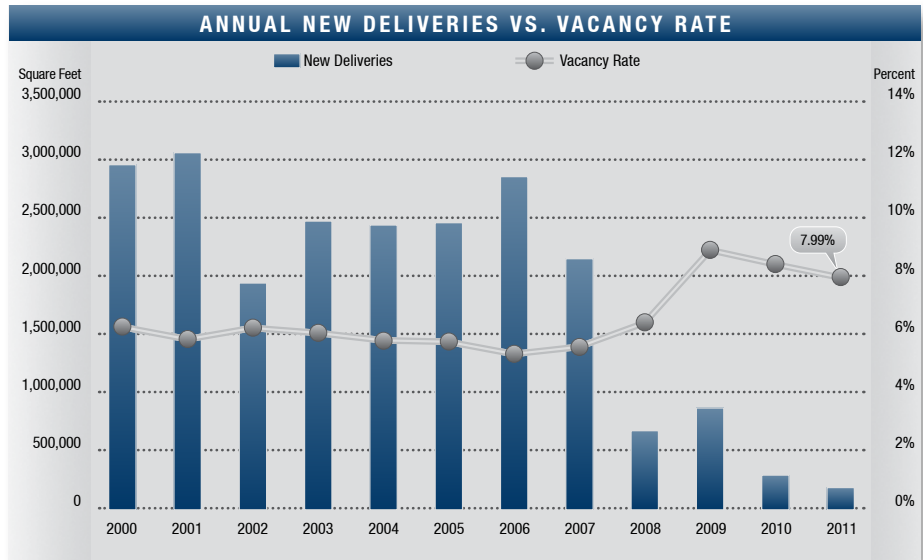
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