



## Industrial Market Report

Compared to 2011:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

DOWN

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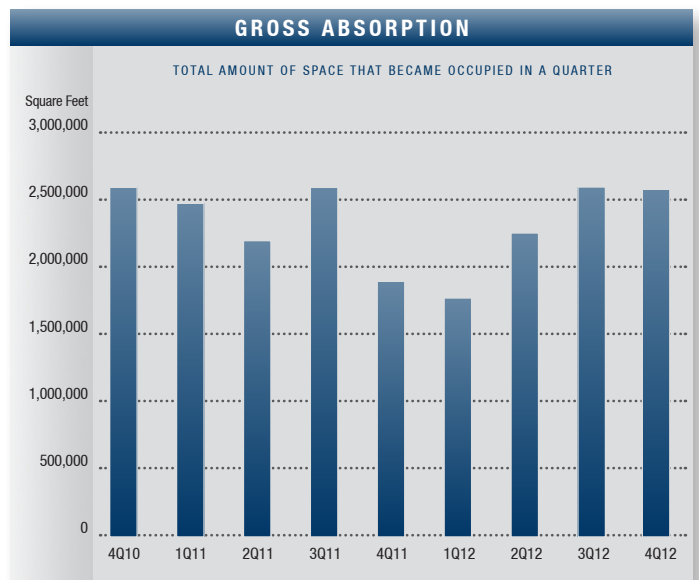
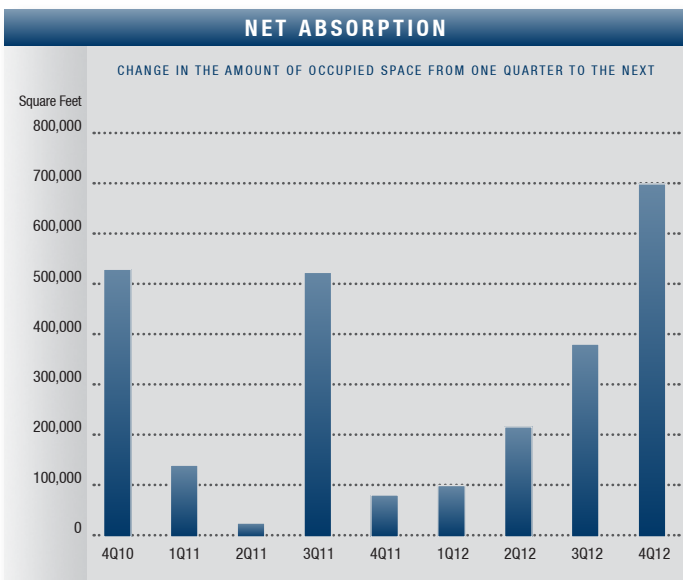
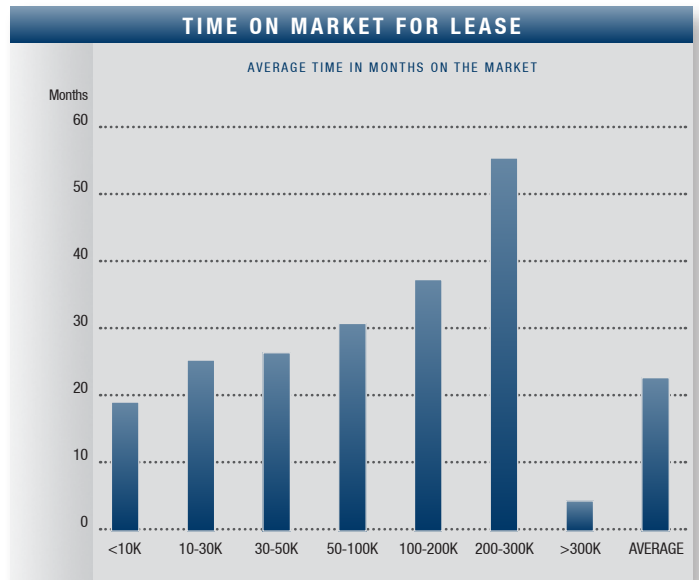
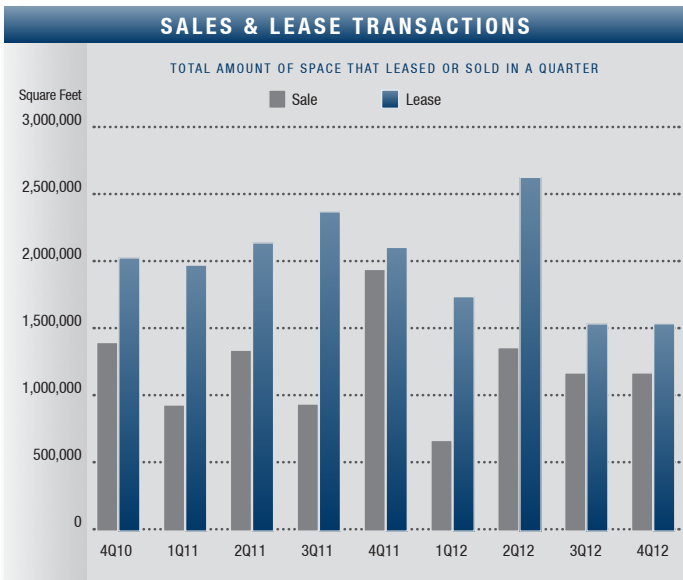
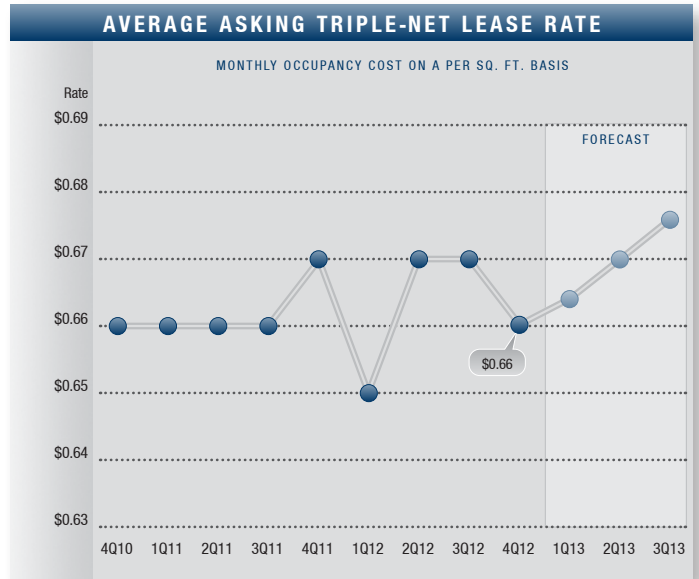
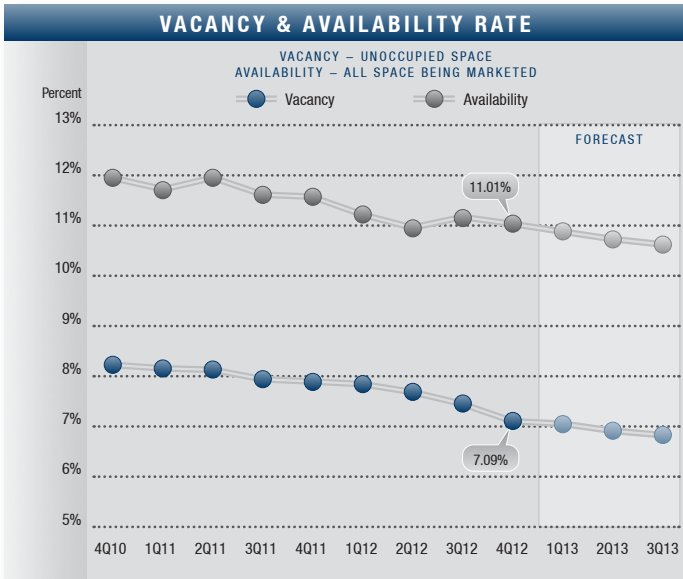


### Market Highlights

- Moving Forward** - The San Diego County industrial market continued its path to recovery in 2012, posting a modest 7.09% vacancy rate. The vacancy rate continued trending downward, and net absorption was positive for the third consecutive year. 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.
- Absorption** - The San Diego industrial market posted 1,386,352 square feet of positive net absorption in 2012, the highest annual net absorption in five years.
- Transaction Activity** - The total square feet leased and sold in the 2012 was 11.7 million square feet, an decrease from the 13.6 million that was posted in 2011. Otay Mesa played host to a number of 2012's larger transactions. Details of the largest transactions can be found on the back page of this report.
- Construction** - The sluggish construction trend continued, with the 130,000 square feet delivered in the fourth quarter of 2012 as the only delivery of the past year. The nearly non-existent industrial pipeline has helped to push vacancy down.
- Employment** - The unemployment rate in the San Diego County was 8.3% in November 2012, down from a revised 8.6% in October 2012 and below the year-ago estimate of 9.4%. This compares with an unadjusted unemployment rate of 9.6% for California and 7.4% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 24,600 payroll jobs from November 2011 to November 2012 — including 8,600 in professional and business services, and 5,300 from leisure and hospitality. Manufacturing was the only sector with year-over-year decline — a loss of 2,000 jobs.
- Vacancy** - Direct/sublease space (unoccupied) finished the year at 7.09% — the lowest level since the beginning of 2009. Kearny Mesa posted the lowest vacancy rates of submarkets with at least 5 million square feet of inventory, at 3.45%. We are forecasting that vacancy will continue its downward trend in 2013, ending the first half of the year below 7%.
- Overall** - We are continuing to see a decrease in the amount of vacancy. We also are seeing a continued trend of positive net absorption. With little 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.
- Availability** - Direct/sublease space being marketed was 11.01% at the end of 2012 — a decrease from the previous year's rate of 11.56%.
- Lease Rates** - The average asking triple-net lease rate was \$0.66 per square foot per month, the same as 2010's rate. Asking lease rates have been no more than a cent above or below the current rate for more than ten quarters. The record high for asking lease rates, \$.76, was recorded in the third and fourth quarters of 2008.

### INDUSTRIAL MARKET OVERVIEW

	2012	2011	2010	% of Change vs. 2011
Vacancy Rate	7.09%	7.88%	8.24%	(10.03%)
Availability Rate	11.01%	11.56%	11.96%	(4.76%)
Average Asking Lease Rate	\$0.66	\$0.67	\$0.66	(1.49%)
Sale & Lease Transactions	11,699,043	13,647,920	12,250,274	(14.28%)
Gross Absorption	9,280,432	9,148,207	9,748,569	1.45%
Net Absorption	1,386,352	735,155	941,048	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 4Q2012	Square Feet Available	Availability Rate 4Q2012	Average Asking Lease Rate	Net Absorption 4Q2012	Net Absorption 2012	Gross Absorption 4Q2012	Gross Absorption 2012
<b>Central</b>													
Central City	186	3,124,324	0	0	83,742	2.68%	258,375	8.27%	\$0.74	37,000	91,272	38,000	211,486
East City	65	1,365,053	0	0	13,975	1.02%	13,975	1.02%	\$0.00	11,200	3,535	11,200	16,410
Southeast City	332	4,250,915	0	0	245,008	5.76%	329,965	7.76%	\$0.56	8,110	4,521	21,030	101,901
<b>Central Total</b>	<b>583</b>	<b>8,740,292</b>	<b>0</b>	<b>0</b>	<b>342,725</b>	<b>3.92%</b>	<b>602,315</b>	<b>6.89%</b>	<b>\$0.70</b>	<b>56,310</b>	<b>99,328</b>	<b>70,230</b>	<b>329,797</b>
<b>Central Suburban</b>													
Kearny Mesa	458	11,011,944	0	0	380,441	3.45%	594,472	5.40%	\$0.88	(59,310)	(21,652)	56,127	348,706
Mission Gorge	130	2,260,655	0	0	217,513	9.62%	325,851	14.41%	\$0.81	47,243	18,092	68,043	151,394
Rose Canyon/Morena	140	3,444,276	0	0	104,555	3.04%	224,504	6.52%	\$0.72	(240)	91,966	2,260	142,402
Sports Arena/Airport	167	3,804,058	0	0	77,809	2.05%	96,713	2.54%	\$0.75	34,550	(4,112)	61,850	117,984
<b>Central Suburban Total</b>	<b>895</b>	<b>20,520,933</b>	<b>0</b>	<b>0</b>	<b>780,318</b>	<b>3.80%</b>	<b>1,241,540</b>	<b>6.05%</b>	<b>\$0.82</b>	<b>22,243</b>	<b>84,294</b>	<b>188,280</b>	<b>760,486</b>
<b>East County</b>													
El Cajon	503	10,476,905	0	450,000	566,605	5.41%	874,398	8.35%	\$0.64	55,424	247,352	144,792	551,953
La Mesa/Spring Valley	342	3,523,104	0	0	175,090	4.97%	219,307	6.22%	\$0.56	64,514	10,183	107,261	153,226
Santee/Lakeside	293	3,838,221	0	353,158	88,127	2.30%	135,688	3.54%	\$0.60	9,959	16,781	41,612	182,459
<b>East County Total</b>	<b>1,138</b>	<b>17,838,230</b>	<b>0</b>	<b>803,158</b>	<b>829,822</b>	<b>4.65%</b>	<b>1,229,393</b>	<b>6.89%</b>	<b>\$0.62</b>	<b>129,897</b>	<b>274,316</b>	<b>293,665</b>	<b>887,638</b>
<b>Highway 78 Corridor</b>													
Oceanside	424	8,695,476	0	236,582	1,144,906	13.17%	1,363,507	15.68%	\$0.62	(92,913)	80,472	120,668	666,731
San Marcos	550	9,372,415	0	53,000	861,852	9.20%	1,073,898	11.46%	\$0.81	50,784	(36,336)	147,720	548,874
Vista	519	12,912,227	0	623,442	705,503	5.46%	1,264,545	9.79%	\$0.72	171,796	154,537	303,970	793,155
<b>Highway 78 Corridor Total</b>	<b>1,493</b>	<b>30,980,118</b>	<b>0</b>	<b>913,024</b>	<b>2,712,261</b>	<b>8.75%</b>	<b>3,701,950</b>	<b>11.95%</b>	<b>\$0.68</b>	<b>129,667</b>	<b>198,673</b>	<b>572,358</b>	<b>2,008,760</b>
<b>I-15 Corridor</b>													
Escondido	667	8,040,197	0	0	348,374	4.33%	771,504	9.60%	\$0.74	72,933	95,620	150,076	458,703
Poway	180	7,433,538	0	258,700	434,418	5.84%	698,270	9.39%	\$0.85	20,027	4,686	25,730	321,279
Rancho Bernardo	50	3,257,214	0	0	167,038	5.13%	186,919	5.74%	\$0.75	28,648	14,580	35,355	54,795
Scripps Ranch	30	789,986	0	0	36,698	4.65%	73,606	9.32%	\$0.82	6,974	(1,423)	9,383	46,597
<b>I-15 Corridor Total</b>	<b>927</b>	<b>19,520,935</b>	<b>0</b>	<b>258,700</b>	<b>986,528</b>	<b>5.05%</b>	<b>1,730,299</b>	<b>8.86%</b>	<b>\$0.81</b>	<b>128,582</b>	<b>113,463</b>	<b>220,544</b>	<b>881,374</b>
<b>North City</b>													
Miramar	617	14,379,979	0	0	1,238,980	8.62%	1,740,398	12.10%	\$0.73	(85,544)	(85,709)	248,760	1,003,478
Sorrento Mesa	79	3,596,980	0	0	239,757	6.67%	368,762	10.25%	\$0.89	(59,215)	9,488	145,612	282,174
Sorrento Valley	53	1,151,104	0	100,000	15,911	1.38%	33,911	2.95%	\$1.05	(2,311)	(1,546)	7,070	31,186
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>754</b>	<b>19,268,942</b>	<b>0</b>	<b>100,000</b>	<b>1,494,648</b>	<b>7.76%</b>	<b>2,143,071</b>	<b>11.12%</b>	<b>\$0.78</b>	<b>(147,070)</b>	<b>(77,767)</b>	<b>401,442</b>	<b>1,316,838</b>
<b>North County</b>													
Carlsbad	257	8,725,486	0	26,632	875,217	10.03%	1,214,797	13.92%	\$0.77	(12,222)	12,324	106,194	614,282
North Beach Cities	65	930,284	0	0	1,580	0.17%	1,580	0.17%	\$0.00	1655	(1,580)	1,985	3,056
<b>North County Total</b>	<b>322</b>	<b>9,655,770</b>	<b>0</b>	<b>26,632</b>	<b>876,797</b>	<b>9.08%</b>	<b>1,216,377</b>	<b>12.60%</b>	<b>\$0.77</b>	<b>(10,567)</b>	<b>10,744</b>	<b>108,179</b>	<b>617,338</b>
<b>Outlying Areas</b>													
Outlying SD County North	123	1,451,432	0	0	32,817	2.26%	52,601	3.62%	\$0.87	500	(6,882)	500	277,619
Outlying SD County South	81	847,874	0	0	68,541	8.08%	102,586	12.10%	\$0.00	(74)	33,339	3,000	55,118
<b>Outlying Areas Total</b>	<b>204</b>	<b>2,299,306</b>	<b>0</b>	<b>0</b>	<b>101,358</b>	<b>4.41%</b>	<b>155,187</b>	<b>6.75%</b>	<b>\$0.87</b>	<b>426</b>	<b>26,457</b>	<b>3,500</b>	<b>332,737</b>
<b>South Bay</b>													
Chula Vista	379	10,325,434	0	0	649,377	6.29%	1,054,732	10.21%	\$0.51	32,669	(10,843)	103,611	345,708
National City	258	4,231,202	0	0	255,828	6.05%	248,231	5.87%	\$0.68	2,860	(10,488)	31,542	85,898
Otay Mesa	338	15,512,587	49,256	790,683	2,265,302	14.60%	4,012,247	25.86%	\$0.46	335,206	681,061	563,438	1,590,362
San Ysidro/Imperial Beach	72	1,782,374	0	24,121	101,450	5.69%	351,030	19.69%	\$0.53	17,397	(2,886)	19,087	123,496
<b>South Bay Total</b>	<b>1,047</b>	<b>31,851,597</b>	<b>49,256</b>	<b>814,804</b>	<b>3,271,957</b>	<b>10.27%</b>	<b>5,666,240</b>	<b>17.79%</b>	<b>\$0.48</b>	<b>388,132</b>	<b>656,844</b>	<b>717,678</b>	<b>2,145,464</b>
<b>San Diego County Total</b>	<b>7,363</b>	<b>160,676,123</b>	<b>49,256</b>	<b>2,916,318</b>	<b>11,396,414</b>	<b>7.09%</b>	<b>17,686,372</b>	<b>11.01%</b>	<b>\$0.66</b>	<b>697,620</b>	<b>1,386,352</b>	<b>2,575,876</b>	<b>9,280,432</b>

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
2434-2702 Southport Way	National City	566,812	\$86.45	H.G. Fenton Company	Collins Asset Management
13550 Stowe Dr.	Poway	112,000	\$105.36	Foley Enterprises	Invesco Realty Advisers Pacific Office Properties Trust
2777 Loker Ave. W.	Carlsbad	123,454	\$93.15	BLT Enterprises	Black Box Distribution
1445-1645 Tidelands Ave.	National City	98,697	\$116.32	Monica Penner (Individual)	Tidelands Partners, LLC
10054 Old Grove Rd.	Scripps Ranch	90,500	\$123.76	Koch Membrane Systems, Inc.	Albor Properties, Inc.

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9043 Siempre Viva Rd.	Otay Mesa	257,972	Jun-12	Imperial Toy	AFL-CIO Building Investment Trust
8409 Kerns St.	Otay Mesa	124,068	May-12	Pacific World Corporation	Clarion Partners
10015 Waples Ct. – Renewal	Sorrento Mesa	106,412	Dec-12	Covan World-Wide Moving	Kearny Real Estate Company
2695 Customhouse Ct.	Otay Mesa	88,372	Apr-12	U.S. Joiner	Realty Associates Fund
Marathon Pkwy.	Lakeside	70,158	Aug-12	EagleBurgmann EJS	Lakeside Land Co., Inc.

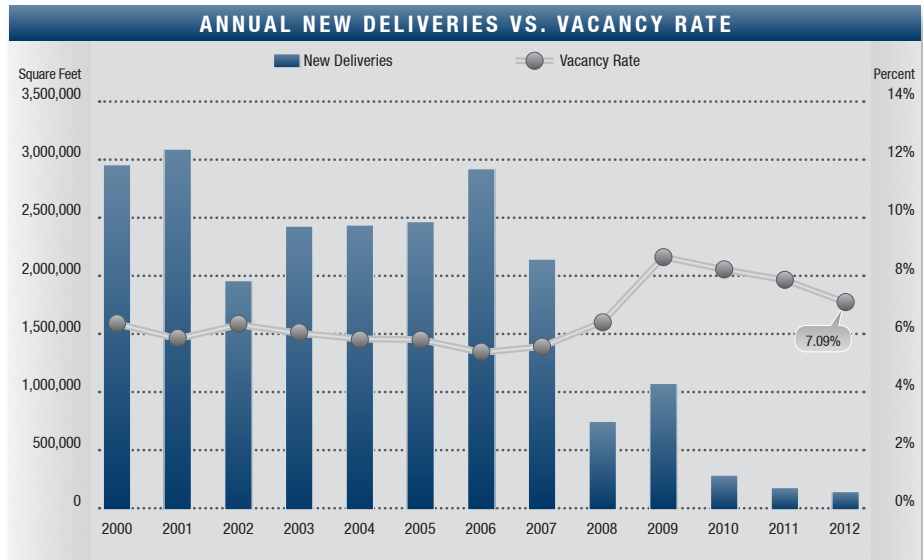
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