



## Industrial Market Report

Compared to 2012:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

UP

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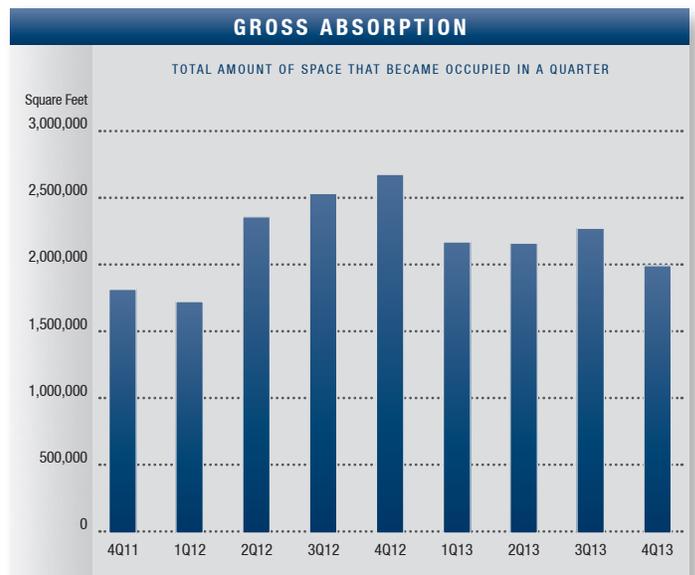
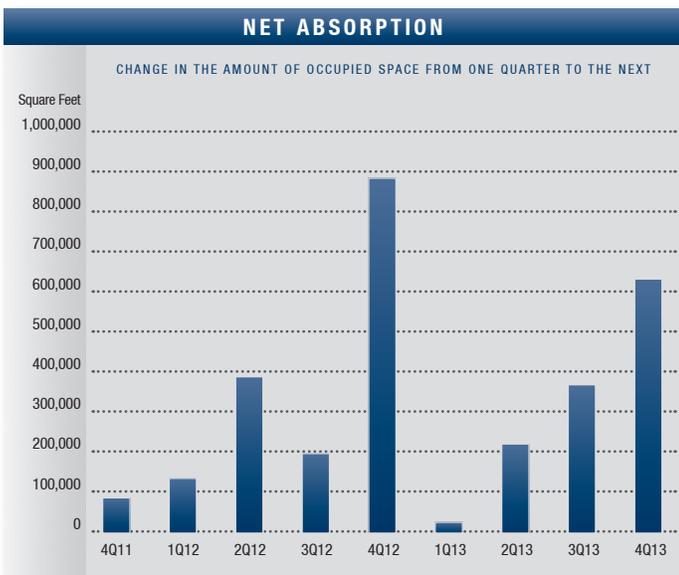
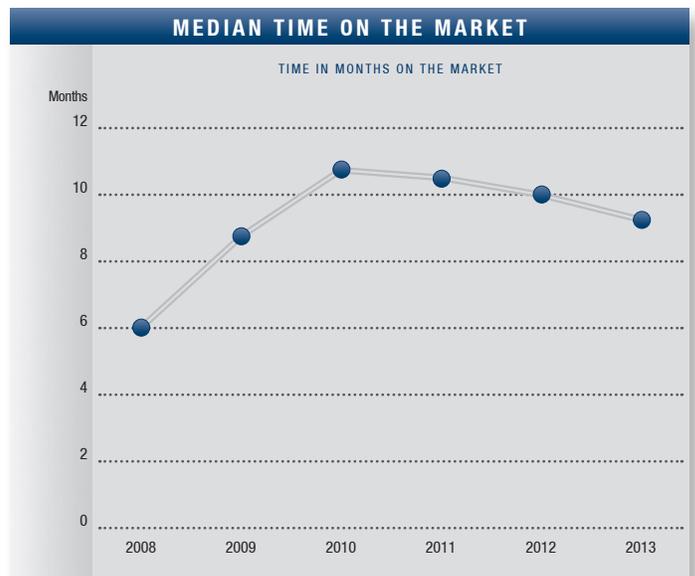
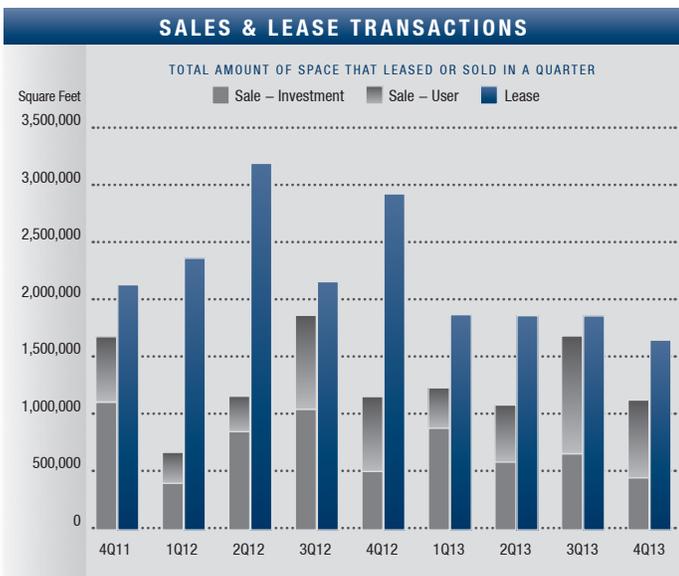
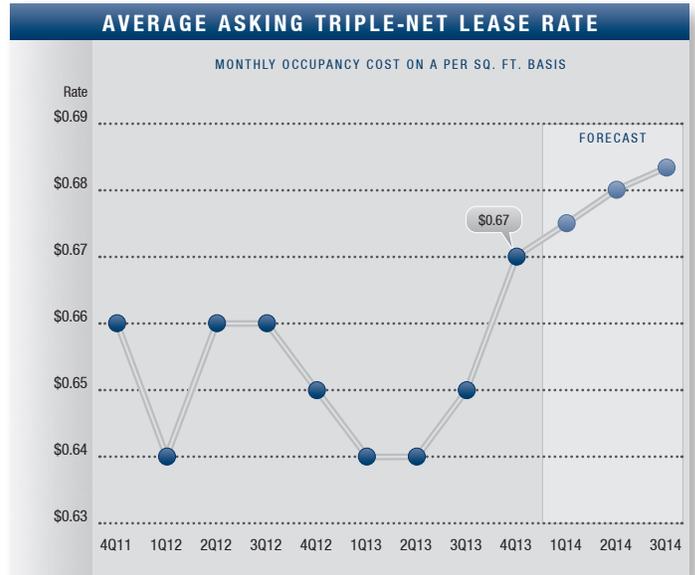
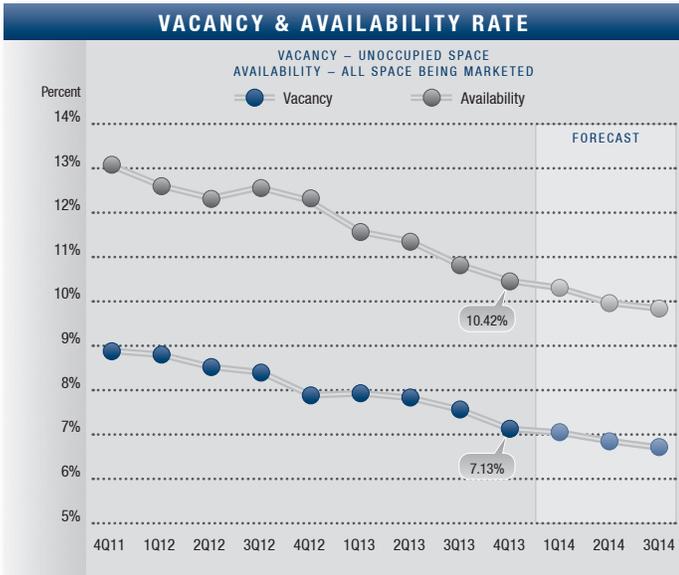
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### Market Highlights

- Stable Improvements** - The San Diego County industrial market continued its path to recovery 2013, posting a modest 7.13% vacancy rate. Availability continued trending downward, the average asking rental rate increased, and net absorption was positive for the fourth 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 a recovery.
- Construction** - The last three years saw extremely low levels of industrial construction in San Diego County with only 185,000 square feet delivering this year. 2014 is going to be another year of minimal industrial development. The nearly non-existent industrial pipeline has helped to push vacancy down.
- Vacancy** - Direct/sublease space (unoccupied) finished the year at 7.13% — the lowest level since the third quarter of 2008. Over the past four years the vacancy rate has dropped an average of 69 basis points a year. The East County posted the lowest vacancy rates of San Diego County areas, at 3.09%. We are forecasting that vacancy will continue its downward trend in 2014.
- Availability** - Direct/sublease space being marketed was 10.42% at the end of the year — a significant decrease from the previous year's rate of 12.29%.
- Lease Rates** - The average asking triple-net lease rate was \$0.67 per square foot per month at the end of 2013, an increase over the \$0.65 rate seen at the end of 2012.
- Absorption** - The San Diego industrial market posted 1,236,148 square feet of positive net absorption in 2013, lead by the Miramar and El Cajon submarkets which each totaled nearly a quarter million square feet of positive net absorption for the year.
- Transaction Activity** - The total square feet leased and sold in 2013 was 12.3 million square feet, a decrease from the 15.4 million square feet that was posted in prior year. 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 6.8% in November 2013, down from a revised 7.1% in October 2013 and below the year-ago estimate of 8.3%. This compares with an unadjusted unemployment rate of 8.3% for California and 6.6% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 23,000 payroll jobs from November 2012 to November 2013 — including 6,100 in educational and health services, 5,700 from trade, transportation and utilities, 5,600 from leisure and hospitality, and 5,300 from construction. Manufacturing recorded the greatest number of job losses, down 2,000 year over year.
- Overall** - We are seeing continued decreases in the amount of vacant space in the market along with positive net absorption. Asking rental rates have ticked up. With little product under construction to apply upward pressure on vacancy, the market should continue to stabilize. San Diego County's overall unemployment rate has been decreasing, but the sector to lose the most jobs over the past year was manufacturing, which affects industrial product more than any other. The recovery in San Diego's industrial market has been slower than other Southern California industrial markets due to the small, localized nature of the market, with very limited out-of-market distribution.

### INDUSTRIAL MARKET OVERVIEW

	2013	2012	2011	% of Change vs. 2012
Vacancy Rate	7.13%	7.87%	8.86%	(9.40%)
Availability Rate	10.42%	12.29%	13.06%	(15.22%)
Average Asking Lease Rate	\$0.67	\$0.65	\$0.66	3.08%
Sale & Lease Transactions	12,295,134	15,381,819	13,198,145	(20.07%)
Gross Absorption	8,586,614	9,268,047	9,130,561	(7.35%)
Net Absorption	1,236,148	1,587,831	870,150	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 4Q2013	Square Feet Available	Availability Rate 4Q2013	Average Asking Lease Rate	Net Absorption 4Q2013	Net Absorption 2013	Gross Absorption 4Q2013	Gross Absorption 2013
<b>Central</b>													
Miramar	593	13,370,433	0	0	927,010	6.93%	1,119,198	8.37%	\$0.76	73,670	246,696	314,724	1,319,169
Scripps Ranch	29	716,568	0	0	17,051	2.38%	72,822	10.16%	\$0.82	(9,828)	19,647	6,148	42,997
Sorrento Mesa	83	4,030,870	0	74,000	279,986	6.95%	418,009	10.37%	\$0.98	154,342	14,418	203,170	385,880
Sorrento Valley	51	1,162,385	0	0	12,402	1.07%	14,078	1.21%	\$0.95	6,414	3,509	13,114	33,591
Subtotal	756	19,280,256	0	74,000	1,236,449	6.41%	1,624,107	8.42%		224,598	284,270	537,156	1,781,637
Sports Arena /Airport	197	2,971,855	0	0	139,694	4.70%	153,744	5.17%	\$0.82	15,698	(62,033)	27,400	101,822
Rose Canyon / Morena	134	2,706,570	0	0	29,523	1.09%	118,598	4.38%	\$0.76	108,302	72,623	123,852	220,624
Kearny Mesa	433	9,968,933	0	0	451,742	4.53%	588,253	5.90%	\$0.93	22,329	(96,506)	94,991	506,229
Mission Gorge / Grantville	122	1,969,374	0	0	191,123	9.70%	192,300	9.76%	\$0.82	(18,169)	25,170	18,923	208,698
Subtotal	886	17,616,732	0	0	812,082	4.61%	1,052,895	5.98%		128,160	(60,746)	265,166	1,037,373
<b>Central Total</b>	<b>1,642</b>	<b>36,896,988</b>	<b>0</b>	<b>74,000</b>	<b>2,048,531</b>	<b>5.55%</b>	<b>2,677,002</b>	<b>7.26%</b>	<b>\$0.84</b>	<b>352,758</b>	<b>223,524</b>	<b>802,322</b>	<b>2,819,010</b>
<b>East</b>													
El Cajon	514	9,470,114	0	450,000	229,774	2.43%	610,762	6.45%	\$0.69	29,513	229,889	74,155	458,479
Santee	194	2,923,139	70,158	353,158	118,224	4.04%	157,347	5.38%	\$0.00	(67,492)	(58,286)	17,093	121,625
Lakeside	85	913,830	0	0	17,359	1.90%	38,959	4.26%	\$0.00	(2,048)	2,546	0	15,072
Subtotal	793	13,307,083	70,158	803,158	365,357	2.75%	807,068	6.06%		(40,027)	174,149	91,248	595,176
Spring Valley	116	1,257,976	0	0	55,794	4.44%	92,884	7.38%	\$0.72	(11,005)	12,186	4,849	44,924
Lemon Grove / La Mesa / East SD	219	1,447,968	0	0	73,665	5.09%	133,187	9.20%	\$0.70	(1,000)	31,781	0	70,929
Subtotal	335	2,705,944	0	0	129,459	4.78%	226,071	8.35%		(12,005)	43,967	4,849	115,853
<b>East Total</b>	<b>1,128</b>	<b>16,013,027</b>	<b>70,158</b>	<b>803,158</b>	<b>494,816</b>	<b>3.09%</b>	<b>1,033,139</b>	<b>6.45%</b>	<b>\$0.70</b>	<b>(52,032)</b>	<b>218,116</b>	<b>96,097</b>	<b>711,029</b>
<b>North Coastal</b>													
Carlsbad	244	8,001,701	0	153,632	737,577	9.22%	995,594	12.44%	\$0.84	44,327	167,501	81,411	449,042
North Beach Cities	40	314,911	0	0	0	0.00%	0	0.00%	\$0.00	0	1,580	0	1,580
Southern Vista	391	10,963,046	156,421	679,442	833,293	7.60%	1,293,826	11.80%	\$0.66	(118,379)	(136,784)	110,846	434,025
Subtotal	675	19,279,658	156,421	833,074	1,570,870	8.15%	2,289,420	11.87%		(74,052)	32,297	192,257	884,647
Oceanside	401	7,981,564	0	260,618	1,055,558	13.22%	1,073,062	13.44%	\$0.64	47,419	70,029	146,643	478,900
Northern Vista	99	1,074,165	0	0	46,344	4.31%	44,151	4.11%	\$1.00	(2,416)	(19,648)	13,743	50,297
Subtotal	500	9,055,729	0	260,618	1,101,902	12.17%	1,117,213	12.34%		45,003	50,381	160,386	529,197
<b>North Coastal Total</b>	<b>1,175</b>	<b>28,335,387</b>	<b>156,421</b>	<b>1,093,692</b>	<b>2,672,772</b>	<b>9.43%</b>	<b>3,406,633</b>	<b>12.02%</b>	<b>\$0.68</b>	<b>(29,049)</b>	<b>82,678</b>	<b>352,643</b>	<b>1,413,844</b>
<b>North Inland</b>													
Poway	175	7,226,363	115,000	653,700	308,737	4.27%	926,208	12.82%	\$0.87	4,681	75,617	52,679	394,747
Rancho Bernardo / CMR	47	4,236,613	0	0	294,137	6.94%	321,885	7.60%	\$0.75	0	128,536	0	227,642
Subtotal	222	11,462,976	115,000	653,700	602,874	5.26%	1,248,093	10.89%		4,681	204,153	52,679	622,389
Escondido	625	7,096,506	0	0	291,601	4.11%	406,779	5.73%	\$0.73	47,019	213,070	111,770	563,775
San Marcos	527	8,541,394	0	53,000	664,556	7.78%	847,256	9.92%	\$1.02	58,226	165,459	125,293	557,390
Unincorporated North County	88	809,875	0	0	36,823	4.55%	44,198	5.46%	\$0.85	3,840	(6,448)	4,700	28,464
Subtotal	1,240	16,447,775	0	53,000	992,980	6.04%	1,298,233	7.89%		109,085	372,081	241,763	1,149,629
<b>North Inland Total</b>	<b>1,462</b>	<b>27,910,751</b>	<b>115,000</b>	<b>706,700</b>	<b>1,595,854</b>	<b>5.72%</b>	<b>2,546,326</b>	<b>9.12%</b>	<b>\$0.85</b>	<b>113,766</b>	<b>576,234</b>	<b>294,442</b>	<b>1,772,018</b>
<b>South</b>													
Southeast / Central SD	490	6,355,756	0	0	370,065	5.82%	473,539	7.45%	\$0.62	(25,511)	(62,076)	13,564	288,453
National City	250	3,524,922	0	0	117,816	3.34%	227,436	6.45%	\$0.68	48,390	133,789	56,744	241,282
Chula Vista	342	8,622,601	0	0	477,626	5.54%	758,818	8.80%	\$0.56	28,965	119,357	90,168	461,183
Subtotal	1,082	18,503,279	0	0	965,507	5.22%	1,459,793	7.89%		51,844	191,070	160,476	990,918
Otay Mesa	323	15,161,795	0	1,502,484	2,393,798	15.79%	3,566,239	23.52%	\$0.46	142,844	(30,915)	231,136	791,901
San Ysidro / South SD	68	1,530,221	0	24,121	126,009	8.23%	347,360	22.70%	\$0.49	46,583	(24,559)	54,294	87,894
Subtotal	391	16,692,016	0	1,526,605	2,519,807	15.10%	3,913,599	23.45%		189,427	(55,474)	285,430	879,795
<b>South Total</b>	<b>1,473</b>	<b>35,195,295</b>	<b>0</b>	<b>1,526,605</b>	<b>3,485,314</b>	<b>9.90%</b>	<b>5,373,392</b>	<b>15.27%</b>	<b>\$0.50</b>	<b>241,271</b>	<b>135,596</b>	<b>445,906</b>	<b>1,870,713</b>
<b>San Diego County Total</b>	<b>6,880</b>	<b>144,351,448</b>	<b>341,579</b>	<b>4,204,155</b>	<b>10,297,287</b>	<b>7.13%</b>	<b>15,036,492</b>	<b>10.42%</b>	<b>\$0.67</b>	<b>626,714</b>	<b>1,236,148</b>	<b>1,991,410</b>	<b>8,586,614</b>
≤ 9,999	3,109	15,757,106	0	8,000	706,743	4.49%	861,132	5.47%	\$0.88	31,014	163,554	214,946	940,023
10,000–24,999	1,820	25,647,224	0	70,578	1,449,621	5.65%	1,897,851	7.40%	\$0.82	55,584	316,366	413,620	2,125,900
25,000–49,999	996	25,506,266	0	283,058	1,473,833	5.78%	2,158,803	8.46%	\$0.70	45,334	305,585	341,896	1,770,326
50,000–99,999	368	15,188,076	0	124,584	873,499	5.75%	1,494,283	9.84%	\$0.70	52,647	79,967	160,463	851,844
100,000–149,999	378	26,037,234	70,158	885,785	2,063,536	7.93%	3,220,604	12.37%	\$0.62	58,420	280,914	218,366	1,290,125
150,000+	209	36,215,542	271,421	2,832,150	3,730,055	10.30%	5,403,819	14.92%	\$0.64	383,715	89,762	642,119	1,608,396
<b>San Diego County Total</b>	<b>6,880</b>	<b>144,351,448</b>	<b>341,579</b>	<b>4,204,155</b>	<b>10,297,287</b>	<b>7.13%</b>	<b>15,036,492</b>	<b>10.42%</b>	<b>\$0.67</b>	<b>626,714</b>	<b>1,236,148</b>	<b>1,991,410</b>	<b>8,586,614</b>

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
7848-7965 Silverton Ave. **	Miramar	467,291	\$103.79	H.G. Fenton	Realty Income Corporation
9020-9080 Activity Rd.	Miramar	252,450	\$128.61	KTR Capital Partners, LP	Alexander & Baldwin, Inc.
3801-3817 Ocean Ranch Blvd.	Oceanside	226,220	\$87.53	SR Commercial	La Pacifica, LP
1603 Main St.	Southeast SD	90,000	\$184.56	Metropolitan Transit System	Helf Investments
1650 47th St.	Southeast SD	76,822	\$183.54	Colyear Development Corporation	Levine Family Trust

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1215 Park Center Dr. – Renewal	Vista	162,000	Aug-13	Natural Alternatives International, Inc.	Walton Street Capital
1335 Park Center Dr.	Vista	118,597	Feb-13	Dr. Bronner’s Soaps	RIF II–Kaiser, LLC
9045 Carroll Way **	Miramar	106,584	Nov-13	Ballast Point	H.G. Fenton
5260 Anna Ave.	Morena	72,220	Feb-13	Square Peg Packaging & Printing	(Sublease)
1424 Corporate Center Dr.	Otay Mesa	56,140	Feb-13	Owens Minor	Sudberry Properties, Inc.

\*\* VRES Deal \*\*

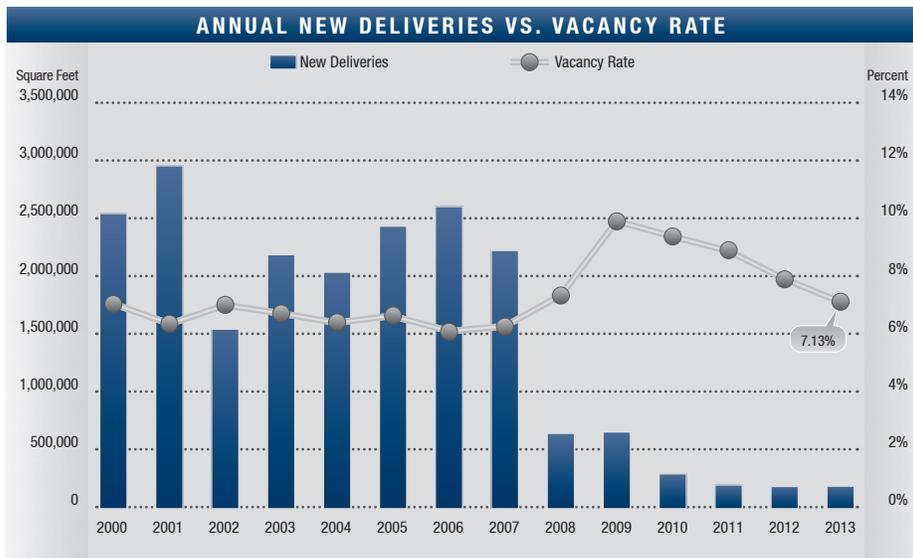
Product Type

MFG. / DIST.

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