

FOURTH QUARTER 2014

SAN DIEGO INDUSTRIAL



MARKET CHANGE

Compared to 2013:



Net Absorption



Lease Rates



Transactions DOWN

Deliveries



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HIGHLIGHTS

- Stable Improvements The San Diego County industrial market continued its path to recovery, posting a modest 5.56% vacancy rate. Availability continued trending downward, and net absorption was positive for the twentieth 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 during the recession and recovery has been limited to sporadic build-to-suit projects. The nearly non-existent development pipeline has helped to push vacancy down and lease rates up for industrial product.
- Vacancy Direct/sublease space (unoccupied) finished the year at 5.56%. The industrial market in San Diego County has dipped well below 6% and is now lower than the best number posted in the last period of economic expansion. The East County posted the lowest vacancy rates of San Diego County areas, at 2.98%.
- Availability Direct/sublease space being marketed was 8.62% at the end of the quarter, a 16% decrease from 2013's rate of 10.24%. 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 \$0.69 per square foot per month, a two cent increase from the previous year and four cents, or 6% increase over 2012's figure.
- Absorption The San Diego industrial market posted 2,417,433 square feet of positive net absorption in 2014, the greatest positive annual net absorption total of the past eight

- years, giving the market 7.3 million square feet of positive absorption since the first quarter of 2010.
- Transaction Activity The total square feet leased and sold in 2014 was 12.3 million square feet, a decrease from the 14.3 million square feet that in the prior year. This statistic can have some lag time in being reported, so look for fourth quarter 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 5.8% in November 2014, unchanged from a revised 5.8% in October 2014 and below the year-ago estimate of 7.0%. This compares with an unadjusted unemployment rate of 7.1% for California and 5.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 43,000 payroll jobs from November 2013 and November 2014, including 13,300 from professional and business services, 7,700 from educational and health services, and 6,500 from leisure and hospitality. The financial activities sector recorded the greatest number of job losses, down 800 year over year.
- 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 unevenly, but are trending upwards overall. While the San Diego County office and retail vacancy rates are decreasing at a slower pace, the industrial market still has some gas in the tank, and the vacancy rate is now lower than prerecession levels. The miniscule development pipeline has been a big factor in the vacancy rate compression. Industrial sectors are projected to increase employment in the coming quarters which should benefit the overall industrial market.

FORECAST

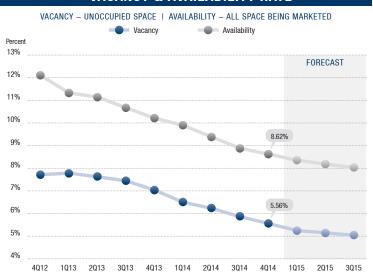
- **Construction** After seven years of depressed construction levels for the San Diego industrial market, speculative construction has reentered the conversation, but it has not yet arrived. Limited construction in coming quarters should further allow demand to catch up to supply.
- **Employment** We 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 2% to 4% over the next four quarters.
- **Vacancy** We anticipate the vacancy rate continuing to descend in coming quarters, dropping over 50 basis points, to around 5.0% by the end of the third quarter of 2015.

OVERVIEW

	2014	2013	2012	% of Change vs. 2013
Total Vacancy Rate	5.56%	7.01%	7.74%	(20.68%)
Availability Rate	8.62%	10.24%	12.11%	(15.82%)
Average Asking Lease Rate	\$0.69	\$0.67	\$0.65	2.99%
Sale & Lease Transactions	12,281,330	14,348,568	15,737,368	(14.41%)
Gross Absorption	8,739,137	8,710,987	9,243,913	0.32%
Net Absorption	2,417,433	1,285,427	1,642,913	N/A

INDUSTRIAL

VACANCY & AVAILABILITY RATE



AVERAGE ASKING TRIPLE-NET LEASE RATE

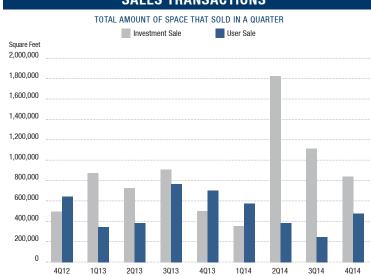
MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



LEASE TRANSACTIONS

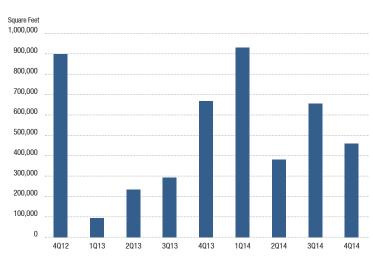


SALES TRANSACTIONS



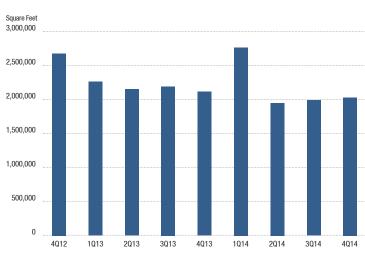
NET ABSORPTION

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 4Q2014	Square Feet Available	Availability Rate 4Q2014	Average Asking Lease Rate	Net Absorption 4Q2014	Net Absorption 2014	Gross Absorption 4Q2014	Gross Absorption 2014
Central													
Miramar	592	13,369,795	0	0	657,377	4.92%	860,202	6.43%	\$0.78	64,485	258,930	332,065	1,193,139
Scripps Ranch	29	744,249	0	0	43,474	5.84%	106,280	14.28%	\$0.87	2,773	(26,423)	2,773	13,395
Sorrento Mesa	81	4,023,012	0	0	230,580	5.73%	408,808	10.16%	\$0.96	19,002	7,303	35,941	117,842
Sorrento Valley	51	1,162,385	0	0	0	0.00%	2,420	0.21%	\$0.00	5,120	7,402	5,120	20,585
Subtotal	753	19,299,441	0	0	931,431	4.83%	1,377,710	7.14%	*	91,380	247,212	375,899	1,344,961
Sports Arena/Airport	198	3,158,478	0	0	78,580	2.49%	91,375	2.89%	\$0.80	(2,300)	57,914	1,800	124,535
Rose Canyon/Morena	133	2,695,190	0	0	15,210	0.56%	25,260	0.94%	\$0.00	75,031	14,313	86,201	129,528
Kearny Mesa	427	9,895,966	0	0	373,347	3.77%	494,603	5.00%	\$0.93	79,371	76,676	138,374	461,541
Mission Gorge/Grantville	121	1,965,411	0	0	69,155	3.52%	64,027	3.26%	\$0.77	76,537	121,968	152,992	347,301
Subtotal	879	17,715,045	0	0	536,292	3.03%	675,265	3.81%	Ψσ	228,639	270,871	379,367	1,062,905
Central Total	1,632	37,014,486	0	0	1,467,723	3.97%	2,052,975	5.55%	\$0.86	320,019	518,083	755,266	2,407,866
	1,002	01,014,400	Ü	Ū	1,407,720	0.57 70	2,002,010	3.3370	ψ0.00	020,010	310,000	730,200	2,407,000
East													
El Cajon	512	9,435,828	0	0	271,153	2.87%	615,220	6.52%	\$0.72	46,894	(34,954)	73,732	262,475
Santee	196	2,936,025	0	318,000	68,428	2.33%	135,741	4.62%	\$0.75	5,009	16,345	41,117	177,913
Lakeside	86	1,001,302	0	0	6,879	0.69%	47,302	4.72%	\$1.00	6,859	77,738	6,859	99,891
Subtotal	794	13,373,155	0	318,000	346,460	2.59%	798,263	5.97%		58,762	59,129	121,708	540,279
Spring Valley	116	1,261,335	0	0	73,098	5.80%	94,319	7.48%	\$0.76	(20,866)	(17,304)	2,492	14,730
Lemon Grove/La Mesa/East SD	219	1,457,228	0	0	60,185	4.13%	140,286	9.63%	\$0.50	21,850	13,480	21,850	45,750
Subtotal	335	2,718,563	0	0	133,283	4.90%	234,605	8.63%		984	(3,824)	24,342	60,480
East Total	1,129	16,091,718	0	318,000	479,743	2.98%	1,032,868	6.42%	\$0.73	59,746	55,305	146,050	600,759
North Coastal													
Carlsbad	240	7,777,196	0	107,024	625,931	8.05%	974,190	12.53%	\$0.77	(3,821)	104,620	82,978	389,903
North Beach Cities	40	314,911	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southern Vista	390	11,050,484	0	709,442	603,866	5.46%	975,591	8.83%	\$0.67	63,820	353,848	195,912	968,713
Subtotal	670	19,142,591	0	816,466	1,229,797	6.42%	1,949,781	10.19%		59,999	458,468	278,890	1,358,616
Oceanside	395	7,960,153	0	807,658	791,705	9.95%	778,689	9.78%	\$0.67	48,489	232,121	136,635	612,591
Northern Vista	100	1,078,512	0	0	18,815	1.74%	23,256	2.16%	\$1.00	5,863	27,529	11,493	52,853
Subtotal	495	9,038,665	0	807,658	810,520	8.97%	801,945	8.87%		54,352	259,650	148,128	665,444
North Coastal Total	1,165	28,181,256	0	1,624,124	2,040,317	7.24%	2,751,726	9.76%	\$0.70	114,351	718,118	427,018	2,024,060
North Inland													
Poway	175	7,339,207	0	538,700	361,600	4.93%	740,034	10.08%	\$0.97	(142,610)	48,137	40,220	499,448
Rancho Bernardo/CMR	47	4,236,613	0	0	234,739	5.54%	310,727	7.33%	\$1.01	(14,271)	59,398	0	73,669
Subtotal	222	11,575,820	0	538,700	596,339	5.15%	1,050,761	9.08%		(156,881)	107,535	40,220	573,117
Escondido	627	7,157,648	0	0	202,996	2.84%	443,786	6.20%	\$0.72	22,491	109.149	80,942	402,001
San Marcos	525	8,532,082	0	53,000	545,507	6.39%	823,592	9.65%	\$0.77	15,306	109,801	92,897	460,198
Unincorporated North County	89	812,475	0	0	20,997	2.58%	29,992	3.69%	\$0.87	(1,150)	16,326	0	22,059
Subtotal	1,241	16,502,205	0	53,000	769,500	4.66%	1,297,370	7.86%	*	36,647	235,276	173,839	884,258
North Inland Total	1,463	28,078,025	0	591,700	1,365,839	4.86%	2,348,131	8.36%	\$0.89	(120,234)	342,811	214,059	1,457,375
South													
Southeast SD	470	6,225,789	0	0	332,972	5.35%	442,990	7.12%	\$0.62	42,501	53,538	48,351	184,403
National City	245		0	0	82,043		99,903	2.85%	\$0.68		36,273	•	123,380
	333	3,506,592	0	0	•	2.34% 5.00%	•	9.20%		(7,176)		12,258	
Chula Vista Subtotal		8,655,224		0	432,451	_	796,306		\$0.53	(83,475)	57,741	48,156	421,636
	1,048	18,387,605	0		847,466	4.61%	1,339,199	7.28%	¢n 40	(48,150)	147,552	108,765	729,419
Otay Mesa San Ysidro/South SD	326 68	15,158,870 1,529,646	0	1,678,953	1,647,062 176,952	10.87%	2,617,413	17.27% 20.40%	\$0.46 \$0.00	171,320	(50.943)	372,760	1,475,277
Subtotal	394	16,688,516	0	24,121 1,703,074	1,824,014	11.57%	312,101 2,929,514	17.55%	φυ.υυ	(24,750) 146,570	(50,943)	13,562 386,322	44,381 1,519,658
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South Total	1,442	35,076,121	0	1,703,074	2,671,480	7.62%	4,268,713	12.17%	\$0.48	98,420	783,116	495,087	2,249,077
San Diego County Total	6,831	144,441,606	0	4,236,898	8,025,102	5.56%	12,454,413	8.62%	\$0.69	472,302	2,417,433	2,037,480	8,739,137
0–9,999	3,078	15,620,354	0	8,000	511,578	3.28%	728,504	4.66%	\$0.81	83,115	164,028	202,560	828,700
10,000–19,999	1,803	25,446,485	0	70,578	947,937	3.73%	1,488,631	5.85%	\$0.93	132,481	465,523	392,323	1,769,471
	990	25,342,916	0	208,809	1,110,981	4.38%	1,709,676	6.75%	\$0.75	103,899	310,569	441,352	1,867,341
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20,000–34,999	271	15 322 217	Λ	152 530	774 502	5 05%	1 185 455	7 7/10/2	\$0.71	12 525	104 606	175 701	7/12 //20
35,000–49,999	371 376	15,322,217 25,906,797	0	152,539 1 501 537	774,503	5.05% 6.72%	1,185,455 2,745,500	7.74%	\$0.71 \$0.63	12,525 (80.454)	104,696	175,791	742,489
	371 376 213	15,322,217 25,906,797 36,802,837	0 0 0	152,539 1,591,537 2,205,435	774,503 1,740,209 2,939,894	5.05% 6.72% 7.99%	1,185,455 2,745,599 4,596,548	7.74% 10.60% 12.49%	\$0.71 \$0.63 \$0.67	12,525 (80,454) 220,736	104,696 298,835 1,073,782	175,791 243,235 582,219	742,489 1,439,058 2,092,078

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS OF 2014

Sales Transactions					
Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
2750-2765 Progress St. & 990-995 Joshua Way	Vista	493,898	\$116.72	Cornerstone Real Estate Advisers	I&G Direct Real Estate
9474-9663 Kearny Villa Rd. 9450-9779 Candida St.	Miramar	232,803	\$171.82	SR Commercial	TA Associates Realty
9340-9455 Cabot Dr. & 9755-9855 Distribution Ave. (Portion of Portfolio)	Miramar	338,735	\$108.30	Rexford Industrial	Westcore Properties
2819 Loker Ave. E.	Carlsbad	149,710	\$169.33	Hines Global REIT	JP Morgan Chase & Co.
4953 Paramount Dr.	Kearny Mesa	66,000	\$337.47	BLT Kearny Mesa, LLC	Frito-Lay Sales, Inc.

Lease Transactions					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
7411 Goen Pl.	Mission Gorge	125,430	Jul-14	CEVA Freight	Bentall Kennedy
9990 Empire St.	Miramar	105,636	Mar-14	Alesmith Brewing Company	Westcore Properties
13950 Stowe Dr.	Poway	70,215	Jan-14	General Atomics	B Young Properties, LLC
2350 Siempre Viva Ct.	Otay Mesa	70,000	Sept-14	Undisclosed	Hamann Companies
3030 Enterprise Ct.	Vista	69,698	April-14	DART Helicopter	Hamann Companies

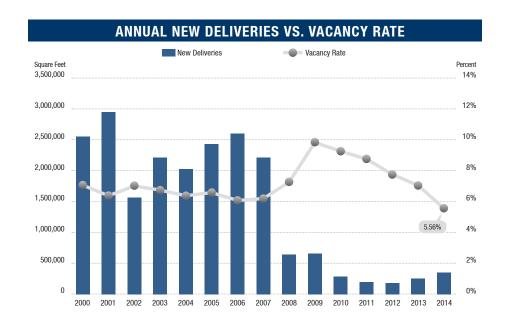
PRODUCT TYPE

MFG./DIST.

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San Jose, CA 408.885.9110

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