



MARKET CHANGE

Compared to 2013:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

UP

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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

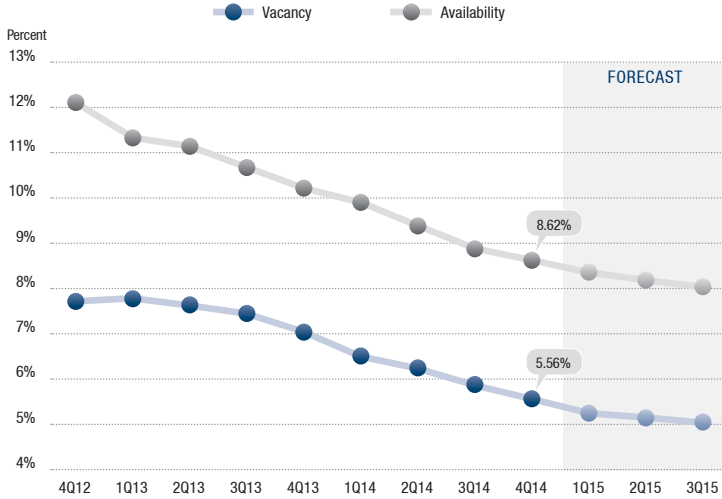
- **Construction** - After seven years of depressed construction levels for the San Diego industrial market, speculative construction has reentered the conversation, but it has not yet arrived. Limited construction in coming quarters should further allow demand to catch up to supply.
- **Employment** - 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

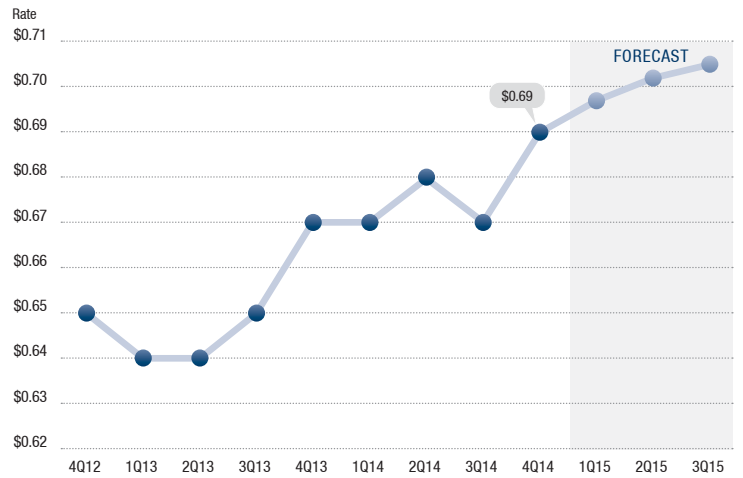
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



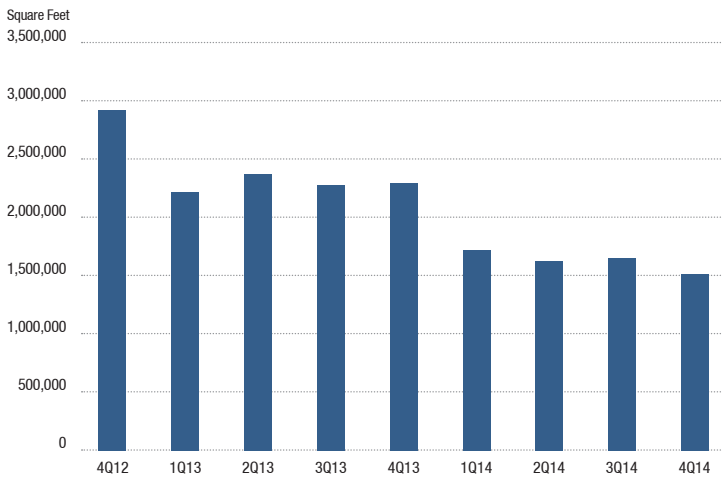
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



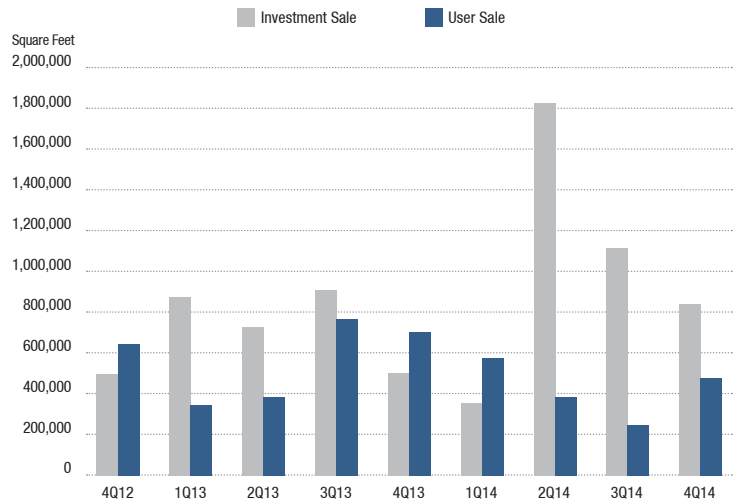
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



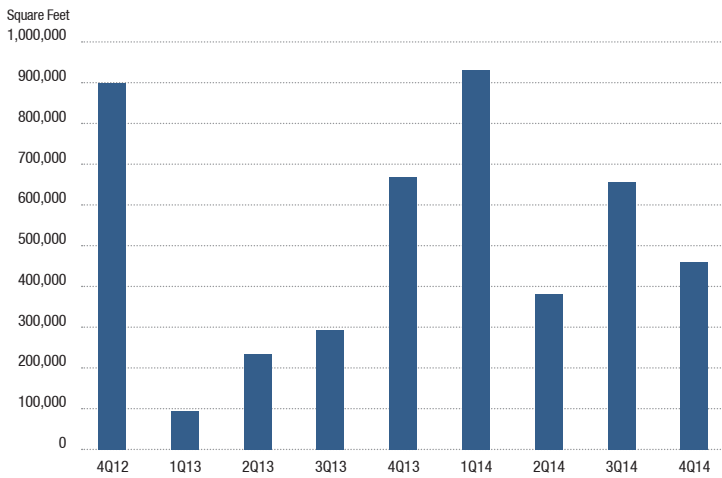
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



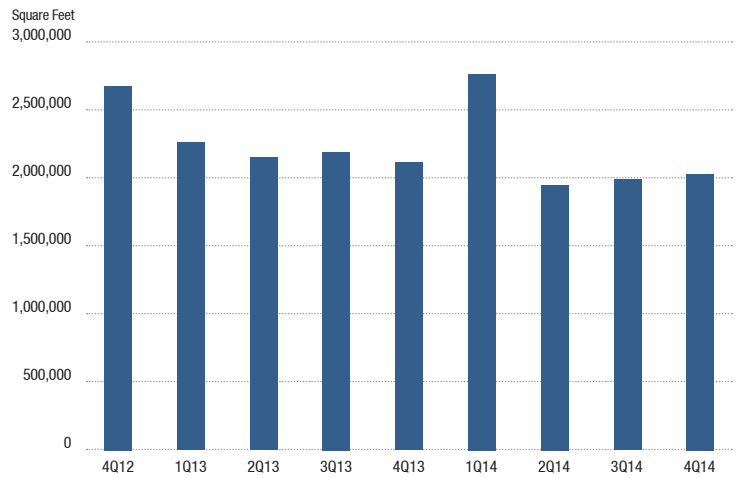
NET ABSORPTION

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



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

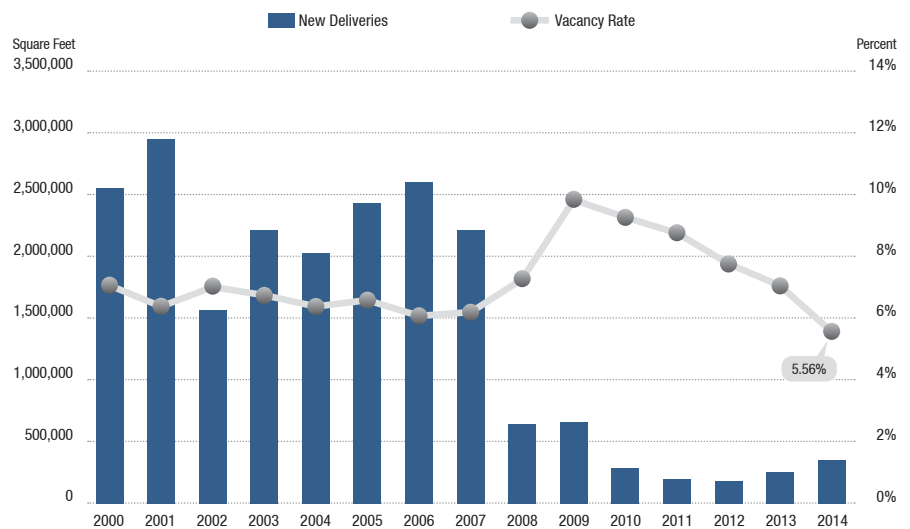
MFG./DIST.

Manufacturing/Distribution/Warehouse facilities with up to 49.9% office space.

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ANNUAL NEW DELIVERIES VS. VACANCY RATE



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