



MARKET CHANGE

Compared to Previous Year:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

UP



Deliveries

FLAT



HIGHLIGHTS

- **Encouraging Numbers** - The San Diego County industrial market continued to improve in 2015, as pricing continued to increase. Vacancy dropped to its lowest level in over 15 years, posting a 3.74% vacancy rate at the end of 2015, while availability decreased to 7.23%. Asking sales prices, asking lease rates and occupancy costs continued to increase. Net absorption was positive for the twenty-fourth quarter in a row, and posted 2.6 million square feet of positive absorption for 2015.
- **Construction** - Industrial construction checked in at just over 900,000 square feet at the end of 2015. During the recession and recovery construction has been limited to sporadic build-to-suit projects. The tight development pipeline has helped to push vacancy down and lease rates up for industrial product.
- **Vacancy** - Direct / sublease space (unoccupied) finished the year at 3.74%, the lowest level in over 15 years. The vacancy rate for San Diego County's industrial market is now lower than the best number posted in the last period of economic expansion and more than 31% lower than the level of just a year ago. The Central Suburban submarket posted the lowest vacancy rates of San Diego County areas, at 1.69%.
- **Availability** - Direct / sublease space being marketed was 7.23% at the end of 2015, a 15% decrease from 2014's fourth quarter rate of 8.54%. 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 \$0.80 per square foot per month, the same as the previous quarter and eleven cents higher, or a 16% increase over 2014's fourth quarter figure.
- **Absorption** - The San Diego industrial market posted 753,146 square feet of positive net absorption in the fourth quarter, well above the market average of 420,000 square feet of positive net absorption per quarter since the beginning of 2010. Over the past twenty-four quarters, or six years, the market has accumulated a total of over 10.1 million square feet of positive absorption.
- **Transaction Activity** - The total square feet leased and sold in 2015 was 17 million square feet, a 17.31% increase from 2014's mark of 14.5 million square feet. This statistic can have some lag time in being reported, so look for this quarter's 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 4.8% in November 2015, down from a revised 5.0% in October 2015 and below the year-ago estimate of 6.0%. This compares with an unadjusted unemployment rate of 5.7% for California and 4.8% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 37,800 payroll jobs from November 2014 and November 2015, including 9,200 from education and health services, 8,200 from professional and business services, 7,300 of which were led by advances from professional, scientific and technical services.
- **Overall** - New construction is still at very low levels, but is increasing. We are seeing continued decreases in the amount of vacant space in the market along with consistent positive net absorption. Asking rental rates have been increasing for some time now and that increase is now accelerating. While the San Diego County office and retail vacancy rates are decreasing at a slower pace, industrial market vacancy is in the midst of a freefall, and is now at the lowest level in over 15 years. The miniscule development pipeline has been a big factor in the vacancy rate compression, and we foresee 2016 being another year of growth.

FORECAST

- **Construction** - After seven years of depressed construction levels for the San Diego industrial market, speculative construction is in the works. However, 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 5% to 7% over the next four quarters.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping approximately 50 basis points, to around 3.2% by the end of the third quarter of 2016.

OVERVIEW

	2015	2014	2013	% of Change vs. 2014
Vacancy Rate	3.74%	5.43%	7.05%	(31.12%)
Availability Rate	7.23%	8.54%	10.32%	(15.34%)
Average Asking Lease Rate	\$0.80	\$0.69	\$0.67	15.94%
Sale & Lease Transactions	16,998,117	14,490,063	14,286,232	17.31%
Gross Absorption	8,116,561	8,882,359	8,639,293	(8.62%)
Net Absorption	2,600,146	2,650,454	1,244,547	N/A

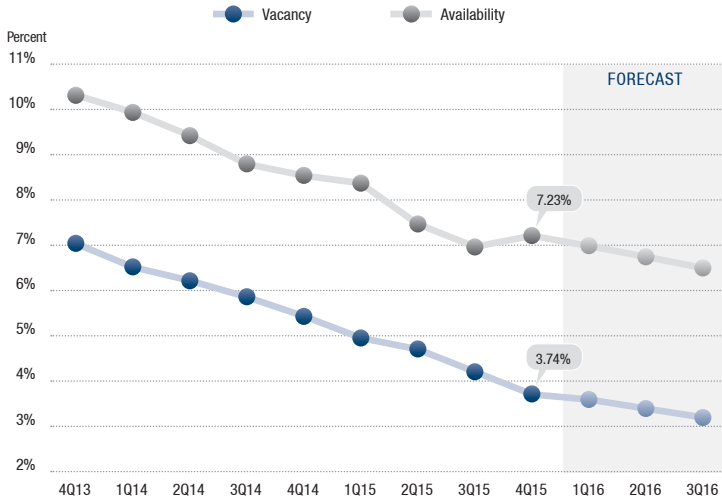
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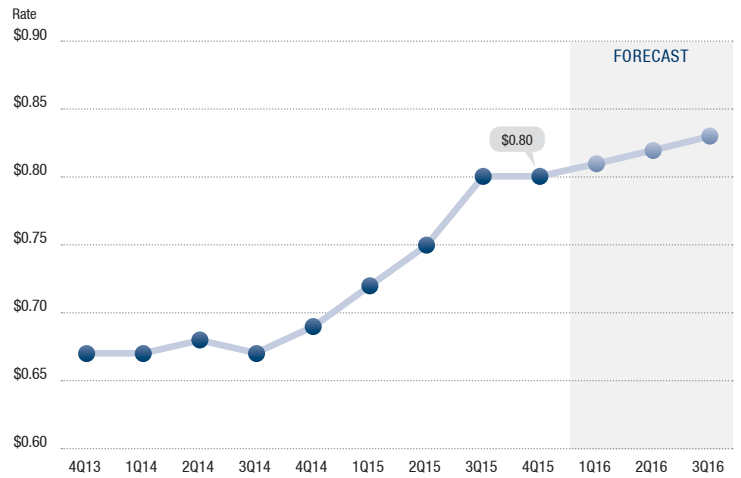
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



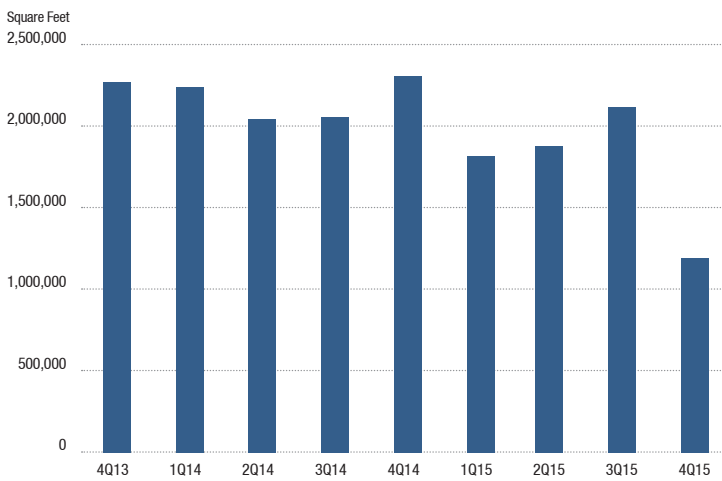
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



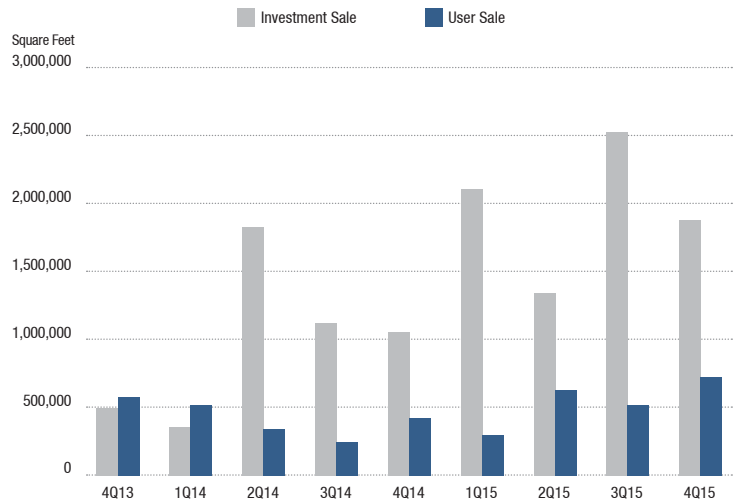
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



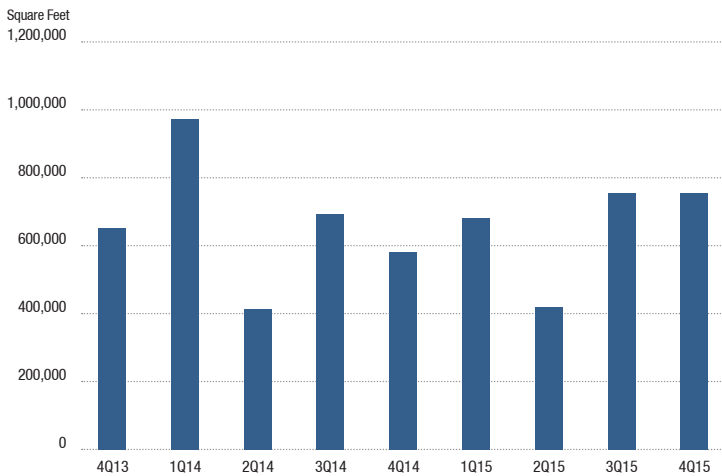
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



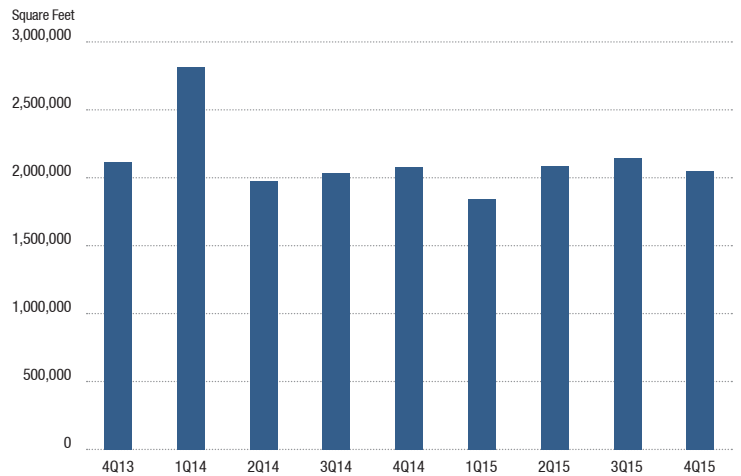
NET ABSORPTION

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



	INVENTORY			VACANCY & LEASE RATES						ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2015	Square Feet Available	Availability Rate 4Q2015	Average Asking Lease Rate	Net Absorption 4Q2015	Net Absorption 2015	Gross Absorption 4Q2015	Gross Absorption 2015
Central													
Central City	152	2,314,668	0	0	63,200	2.73%	71,180	3.08%	\$0.62	15,000	31,606	27,364	47,970
East City	61	976,191	0	0	1,100	0.11%	9,959	1.02%	\$0.00	0	0	0	0
Southeast City	317	3,546,894	0	0	124,833	3.52%	190,914	5.38%	\$0.62	(29,059)	79,875	14,662	142,632
Central Total	530	6,837,753	0	0	189,133	2.77%	272,053	3.98%	\$0.62	(14,059)	111,481	42,026	190,602
Central Suburban													
Kearny Mesa	425	9,840,020	0	0	217,116	2.21%	329,523	3.35%	\$1.12	(15,865)	173,749	77,880	553,620
Mission Gorge	120	1,951,221	0	0	22,109	1.13%	56,517	2.90%	\$1.02	58,926	47,046	64,965	113,260
Rose Canyon / Morena	135	2,715,207	0	0	7,354	0.27%	7,354	0.27%	\$0.00	37,578	7,856	37,578	72,268
Sports Arena / Airport	142	1,602,615	2,500	0	25,732	1.61%	65,186	4.07%	\$0.00	4,800	43,447	10,350	121,954
Central Suburban Total	822	16,109,063	2,500	0	272,311	1.69%	458,580	2.85%	\$1.11	85,439	272,098	190,773	861,102
East County													
El Cajon	445	9,018,373	0	112,126	219,384	2.43%	526,510	5.84%	\$0.74	40,258	46,522	77,176	313,451
La Mesa / Spring Valley	313	2,670,216	0	239,050	111,209	4.16%	231,257	8.66%	\$0.74	30,292	33,338	53,610	150,535
Santee / Lakeside	279	3,710,756	0	0	39,907	1.08%	97,369	2.62%	\$0.79	14,041	26,333	31,684	118,898
East County Total	1,037	15,399,345	0	351,176	370,500	2.41%	855,136	5.55%	\$0.75	84,591	106,193	162,470	582,884
Highway 78 Corridor													
Oceanside	398	8,069,653	737,019	283,804	211,750	2.62%	378,046	4.68%	\$0.65	252,358	633,317	323,584	876,187
San Marcos	505	8,079,912	0	84,000	453,022	5.61%	683,902	8.46%	\$0.74	34,329	91,185	127,153	339,113
Vista	496	12,309,727	17,950	330,165	294,535	2.39%	702,569	5.71%	\$0.69	72,541	270,197	127,918	723,260
Highway 78 Corridor Total	1,399	28,459,292	754,969	697,969	959,307	3.37%	1,764,517	6.20%	\$0.69	359,228	994,699	578,655	1,938,560
I-15 Corridor													
Escondido	627	7,250,826	0	0	121,870	1.68%	259,891	3.58%	\$0.78	75,794	78,126	128,497	446,142
Poway	174	7,345,279	24,883	355,000	406,136	5.53%	520,241	7.08%	\$0.90	(52,260)	(56,409)	59,313	383,427
Rancho Bernardo	45	4,221,704	0	0	312,884	7.41%	462,685	10.96%	\$0.97	(12,138)	(78,145)	46,509	71,057
Scripps Ranch	29	744,322	0	0	23,121	3.11%	86,976	11.69%	\$0.88	(3,196)	20,353	0	37,869
I-15 Corridor Total	875	19,562,131	24,883	355,000	864,011	4.42%	1,329,793	6.80%	\$0.92	8,200	(36,075)	234,319	938,495
North City													
Miramar	592	13,352,427	0	615,000	360,243	2.70%	894,680	6.70%	\$0.89	32,393	296,134	184,381	985,757
Sorrento Mesa	79	3,959,676	0	0	131,001	3.31%	371,550	9.38%	\$0.94	25,314	99,579	42,730	189,610
Sorrento Valley	47	1,040,378	0	0	1,880	0.18%	11,880	1.14%	\$0.00	3,120	(1,880)	5,000	32,600
Torrey Pines / UTC	3	104,448	0	149,663	0	0.00%	0	0.00%	\$0.00	0	0	0	0
North City Total	721	18,456,929	0	764,663	493,124	2.67%	1,278,110	6.92%	\$0.90	60,827	393,833	232,111	1,207,967
North County Coastal													
Carlsbad	229	7,671,469	0	466,716	722,012	9.41%	1,028,271	13.40%	\$0.95	(33,988)	(17,713)	116,843	478,751
North Beach Cities	45	328,156	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
North County Total	274	7,999,625	0	466,716	722,012	9.03%	1,028,271	12.85%	\$0.95	(33,988)	(17,713)	116,843	478,751
Outlying Areas													
Outlying SD County North	101	912,148	0	3,754	15,901	1.74%	23,276	2.55%	\$0.90	(4,454)	5,096	0	29,138
Outlying SD County South	72	717,231	0	0	1,000	0.14%	66,517	9.27%	\$0.00	0	0	0	2,983
Outlying Areas Total	173	1,629,379	0	3,754	16,901	1.04%	89,793	5.51%	\$0.90	(4,454)	5,096	0	904,517
South Bay													
Chula Vista	334	8,666,995	0	0	257,748	2.97%	930,571	10.74%	\$0.74	31,803	173,449	104,700	415,805
National City	245	3,525,314	0	0	101,802	2.89%	108,768	3.09%	\$0.64	20,316	(15,999)	53,629	121,847
Otay Mesa	328	15,251,874	121,970	1,397,921	1,039,424	6.82%	2,067,031	13.55%	\$0.56	155,364	494,515	316,990	1,213,218
San Ysidro / Imperial Beach	67	1,418,375	0	24,121	73,383	5.17%	179,698	12.67%	\$0.76	(121)	118,569	11,949	135,209
South Bay Total	974	28,862,558	121,970	1,422,042	1,472,357	5.10%	3,286,068	11.39%	\$0.64	207,362	770,534	487,268	1,886,079
San Diego County Total	6,805	143,316,075	904,322	4,061,320	5,359,656	3.74%	10,362,321	7.23%	\$0.80	753,146	2,600,146	2,044,465	8,116,561
0-9,999	3,074	15,590,866	2,500	7,804	255,145	1.64%	530,774	3.40%	\$0.93	74,352	215,540	173,466	725,964
10,000-19,999	1,797	25,339,269	17,950	0	850,736	3.36%	1,418,256	5.60%	\$0.94	194,125	147,677	526,110	1,663,228
20,000-34,999	982	25,121,932	24,883	182,177	754,392	3.00%	1,508,791	6.01%	\$0.85	(6,828)	304,273	367,313	1,595,537
35,000-49,999	367	15,155,129	0	165,376	536,550	3.54%	743,742	4.91%	\$0.70	8,521	300,752	212,210	1,061,199
50,000-99,999	377	26,019,553	220,836	998,451	1,122,445	4.31%	2,170,238	8.34%	\$0.74	220,623	584,554	352,519	1,199,996
100,000 Plus	208	36,089,326	638,153	2,707,512	1,840,388	5.10%	3,990,520	11.06%	\$0.81	262,353	1,047,350	412,847	1,870,637
San Diego County Total	6,805	143,316,075	904,322	4,061,320	5,359,656	3.74%	10,362,321	7.23%	\$0.80	753,146	2,600,146	2,044,465	8,116,561

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS OF 2015

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
Pacific Technology Park	Sorrento Mesa	544,352	\$165	Clarion Partners	CBRE Global Investors
14118 Stowe Dr. (3 Properties)	Poway	241,657	\$230	General Atomics	The Prudential Insurance Co. of America
8830 Siempre Viva Rd. (14 Properties)	Otay Mesa	703,845	\$64	Stockbridge Capital Group, LLC	TA Realty
12367 Crosthwaite Cir.	Poway	338,485	\$101	Ct Crosthwaite I, LLC	Cohu, Inc.
1210 Air Wing Rd. (2 Properties)	Otay Mesa	333,000	\$95	Zurich Alternative Asset	BlackRock Realty Advisors

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1875 Ord Way	Oceanside	140,969	Jul-2015	LaCantina Doors	Alere Property Group, LLC
8863 Siempre Viva Rd.	Otay Mesa	112,000	May-2015	Bose Corporation	AFL-CIO Building Investment Trust
13550 Stowe Dr.	Poway	112,000	Sep-2015	General Atomics	CT Realty Investors
8917 Kerns St.	Otay Mesa	104,180	May-2015	Mad Engine, Inc.	UBS Realty Investors, LLC
1462 Corporate Center Dr.	Otay Mesa	91,753	Apr-2015	GTM Discount General Stores	Sudberry Properties, Inc.

PRODUCT TYPE

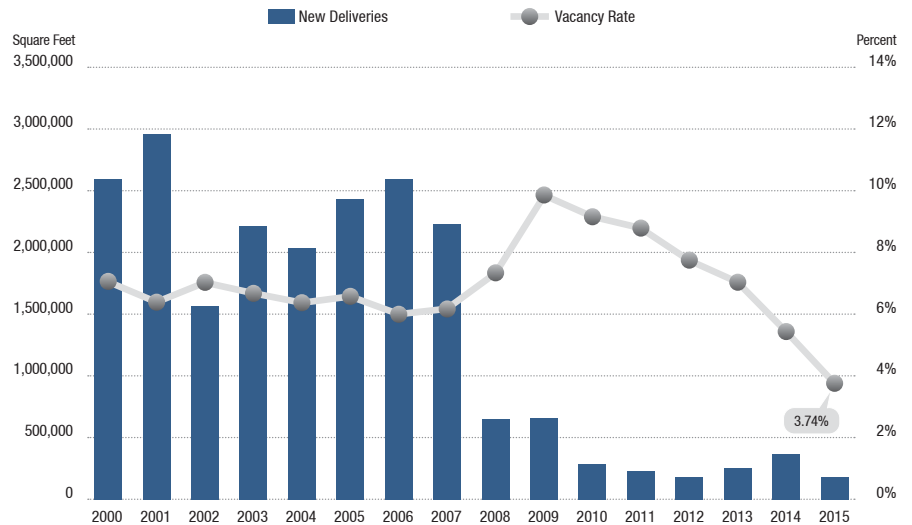
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