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Real Estate Services

Industrial Market Report

Compared to last quarter:

Vacancy
DOWN



Net Absorption
DOWN



Lease Rates



Transactions



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Market Highlights

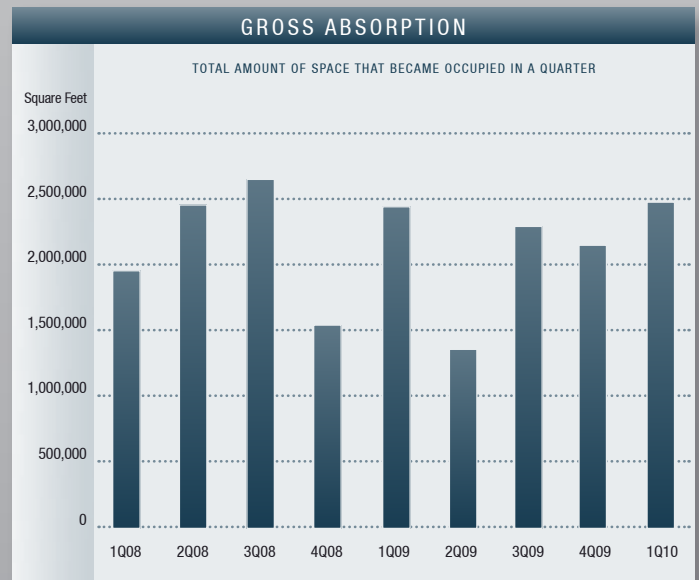
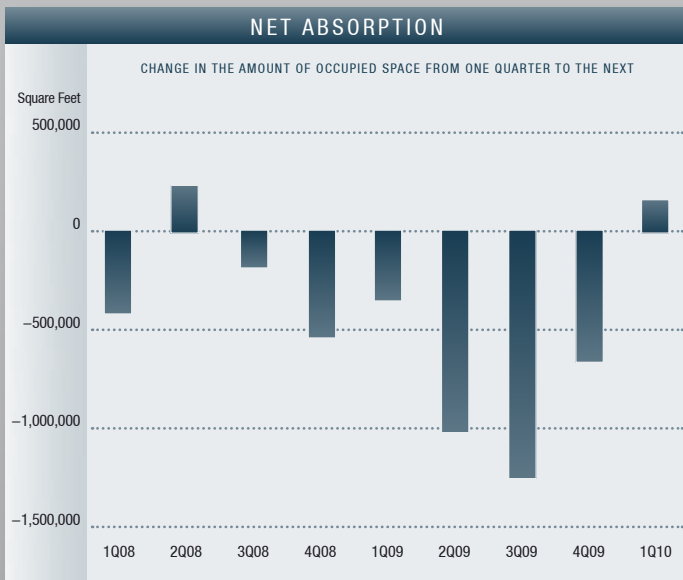
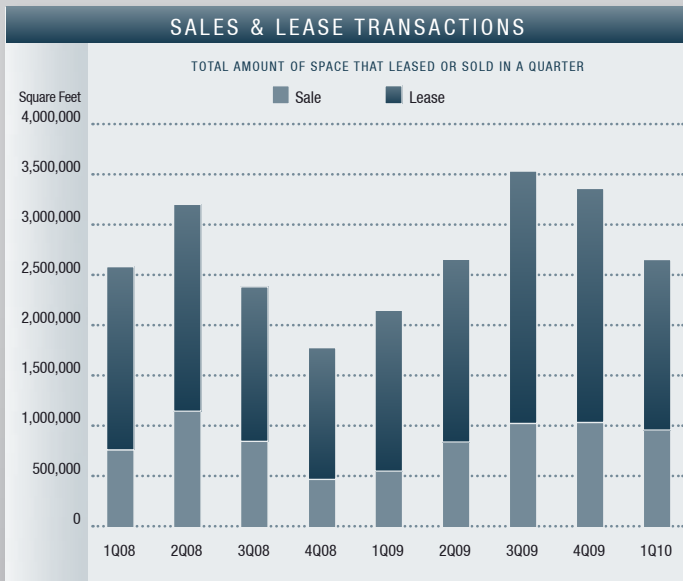
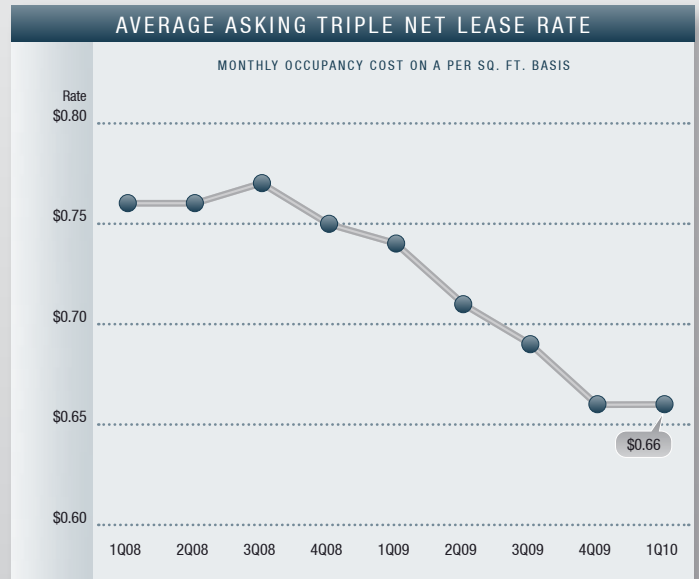
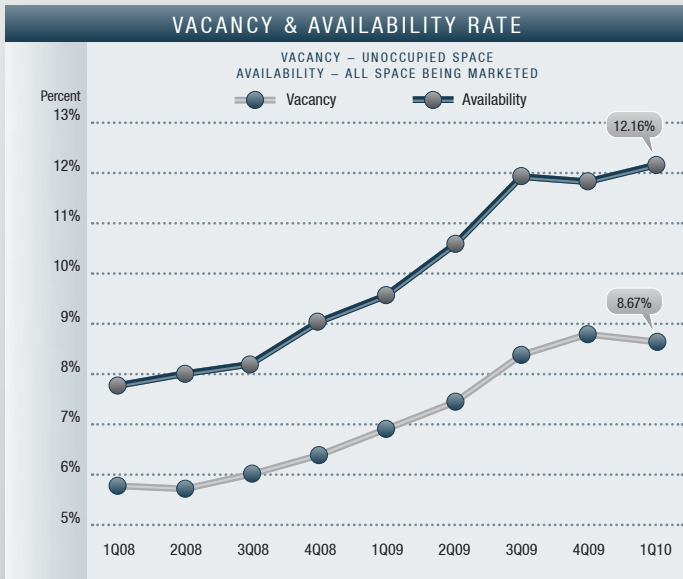
- ◆ **Market Challenges** - 2010 appears to be off to a much better start than 2009, with sales activity increasing as life insurance companies begin lending. However, many users/investors still have concerns with vacancy, tenant delinquencies, economic uncertainty, and the gap between “ask” and “bid” pricing. Fortunately, that gap appears to be diminishing, as evidenced by the recent increase in sales activity. Another challenge for the Industrial market is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn put an upward pressure on vacancy rates. To avoid failures, many tenants are requesting rent relief from landlords, which in turn is leading landlords to seek their own relief from lenders.
- ◆ **Construction** - Currently, there is no Industrial construction underway. Scarce financing and low demand have essentially halted industrial development.
- ◆ **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 8.67%, which is higher than a year-ago's rate of 6.86%, but lower than last quarter's figure of 8.77%. The Central Suburban market posted the lowest rate in the county at 4.40%.
- ◆ **Availability** - Direct/sublease space being marketed was 12.16% this quarter, up from the 9.65% we saw this same quarter last year. This is an increase of 26% when compared to the same quarter last year.
- ◆ **Lease Rates** - The average asking triple net lease rate is \$.66 cents per square foot per month this quarter, unchanged from the fourth quarter of 2009 but down substantially as compared to last year's first quarter rate of \$.74. The record high for asking lease rates, \$.76, was recorded in the third and fourth quarters of 2008.
- ◆ **Absorption** - The county posted 165,675 square feet of positive absorption for the first quarter of 2010, giving the industrial market an early boost.
- ◆ **Transaction Activity** - Leasing activity checked in at 1.2 million square feet, mainly a result of the recent trend of short-term deals coupled with lease renegotiations. Sales activity showed an increase year-over-year, posting 961,000 square feet of activity as compared to 532,000 square feet in the first quarter of 2009. Details of the largest transactions can be found on the back page of this report.
- ◆ **Unemployment** - The unemployment rate in San Diego County was 10.6% in February 2010, down from a revised 11.1% in January 2010 and above the year ago estimate of 8.7%. This compares with an unadjusted unemployment rate of 12.8% for California and 10.4% for the nation during the same period.
- ◆ **Employment** - According to the State of California Employment Development Department, San Diego County lost 44,600 payroll jobs over the last twelve months – 9,200 in manufacturing and 8,100 in professional and business services. However, educational and health services added 2,000 new jobs. Between January 2010 and February 2010 San Diego County gained 900 jobs overall.
- ◆ **Overall** - We are beginning to see a decrease in the amount of available space being added per quarter, as well as an increase in investment sales activity. Positive absorption is the big story, and with few new deliveries in the pipeline to drive vacancy up, the market is beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances should continue to increase to motivate tenants to quick action. We should see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins in the second half of 2010. Once job creation turns positive and consumer confidence stabilizes, the Industrial market will regain equilibrium.

INDUSTRIAL MARKET OVERVIEW

	1Q2010	4Q2009	1Q2009	% CHANGE VS. 1Q2009
Vacancy Rate	8.67%	8.77%	6.86%	26.38%
Availability Rate	12.16%	11.88%	9.65%	26.01%
Average Asking Lease Rate	\$0.66	\$0.66	\$0.74	(10.81%)
Sale & Lease Transactions	2,145,400	2,856,509	2,135,645	0.46%
Gross Absorption	2,480,690	2,143,057	2,431,010	2.04%
Net Absorption	165,675	(663,785)	(348,555)	N/A



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	INVENTORY			VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2010	Total Availability 1Q2010	Average Asking Lease Rate	Net Absorption 1Q2010	Net Absorption 2010	Gross Absorption 1Q2010	Gross Absorption 2010
Central												
Central City	207	3,241,159	0	0	225,133	6.95%	245,863	\$0.74	(48,622)	(48,622)	26,373	26,373
East City	60	1,358,034	0	0	14,000	1.03%	24,000	\$0.00	3,772	3,772	3,772	3,772
Southeast City	327	4,651,626	0	0	336,943	7.24%	408,809	\$0.75	(70,067)	(70,067)	39,920	39,920
Central Total	594	9,250,819	0	0	576,076	6.23%	678,672	\$0.95	(114,917)	(114,917)	70,065	70,065
Central Suburban												
Airport/Sports Arena	171	4,064,623	0	0	120,418	2.96%	174,518	\$0.95	(8,400)	(8,400)	5,100	5,100
Kearny Mesa	474	11,841,427	0	0	455,589	3.85%	558,317	\$1.06	(13,547)	(13,547)	69,209	69,209
Mission Gorge	132	2,250,050	0	0	217,364	9.66%	234,669	\$0.95	(18,166)	(18,166)	12,578	12,578
Rose Canyon/Morena	144	3,499,664	0	0	159,140	4.55%	324,310	\$0.81	(23,730)	(23,730)	8,836	8,836
Central Suburban Total	921	21,655,764	0	0	952,511	4.40%	1,291,814	\$0.95	(63,843)	(63,843)	95,723	95,723
East County												
El Cajon	500	10,844,840	0	0	637,685	5.88%	875,586	\$0.62	35,472	35,472	92,769	92,769
La Mesa/Spring Valley	331	3,473,944	0	0	230,028	6.62%	279,983	\$0.73	24,909	24,909	52,769	52,769
Santee/Lakeside	299	4,035,975	0	200,000	181,973	4.51%	259,839	\$0.76	28,044	28,044	51,392	51,392
East County Total	1,130	18,354,759	0	200,000	1,049,686	5.72%	1,415,408	\$0.63	88,425	88,425	196,930	196,930
Highway 78 Corridor												
Oceanside	415	8,573,763	0	641,956	1,314,331	15.33%	1,456,490	\$0.60	(8,973)	(8,973)	86,008	86,008
San Marcos	556	9,479,914	0	53,000	806,309	8.51%	983,093	\$0.70	25,828	25,828	124,685	124,685
Vista/Fallbrook	518	12,452,282	0	30,165	989,160	7.94%	1,596,716	\$0.69	(57,986)	(57,986)	183,877	183,877
Highway 78 Corridor Total	1,489	30,505,959	0	725,121	3,109,800	10.19%	4,036,299	\$0.65	(41,131)	(41,131)	394,570	394,570
I-15 Corridor												
Escondido	731	8,243,027	0	0	560,645	6.80%	883,580	\$0.77	51,363	51,363	132,531	132,531
Poway	182	7,596,472	0	355,400	520,682	6.85%	1,283,199	\$0.77	9,393	9,393	57,322	57,322
Rancho Bernardo	55	3,949,796	0	0	391,988	9.92%	541,674	\$0.83	(10,880)	(10,880)	24,370	24,370
Scripps Ranch	32	832,053	0	0	50,783	6.10%	108,086	\$0.81	2,973	2,973	13,999	13,999
I-15 Corridor Total	1,000	20,621,348	0	355,400	1,524,098	7.39%	2,816,539	\$0.79	52,849	52,849	228,222	228,222
North City												
Miramar	632	15,044,480	0	0	1,243,523	8.27%	2,191,382	\$0.71	161,966	161,966	401,372	401,372
Sorrento Mesa	87	4,573,350	0	0	362,294	7.92%	570,574	\$1.14	(16,111)	(16,111)	38,672	38,672
Sorrento Valley	53	1,087,501	0	0	63,381	5.83%	94,193	\$0.00	(36,957)	(36,957)	4,990	4,990
Torrey Pines/UTC	17	581,475	0	0	0	0.00%	0	\$0.00	0	0	0	0
North City Total	789	21,286,806	0	0	1,669,198	7.84%	2,856,149	\$0.82	108,898	108,898	445,034	445,034
North County												
Carlsbad	269	9,436,194	0	26,632	803,261	8.51%	1,246,313	\$0.84	121,147	121,147	334,508	334,508
North Beach Cities	66	905,970	0	0	13,200	1.46%	34,957	\$1.32	1,550	1,550	1,550	1,550
North County Total	335	10,342,164	0	26,632	816,461	7.89%	1,281,270	\$0.88	122,697	122,697	336,058	336,058
Outlying Areas												
Outlying SD County North	118	1,201,535	0	0	30,004	2.50%	48,379	\$0.85	7,866	7,866	7,866	7,866
Outlying SD County South	72	775,013	0	0	144,550	18.65%	151,934	\$0.68	(7,508)	(7,508)	4,401	4,401
Outlying Areas Total	190	1,976,548	0	0	174,554	8.83%	200,313	\$0.68	358	358	12,267	12,267
South Bay												
Chula Vista	373	10,627,186	0	20,000	779,667	7.34%	918,214	\$0.51	(116,428)	(116,428)	204,338	204,338
National City	251	4,239,978	0	0	150,763	3.56%	229,656	\$0.61	(39,755)	(39,755)	33,807	33,807
Otay Mesa/San Ysidro	406	17,100,357	0	803,221	3,592,463	21.01%	4,453,570	\$0.47	168,522	168,522	463,676	463,676
South Bay Total	1,030	31,967,521	0	823,221	4,522,893	14.15%	5,601,440	\$0.48	12,339	12,339	701,821	701,821
San Diego County Total	7,478	165,961,688	0	2,130,374	14,395,277	8.67%	20,177,904	\$0.66	165,675	165,675	2,480,690	2,480,690

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a triple net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
10132 Airway Rd. – Fed Ex Building	Otay Mesa	128,706	\$22,500,000	Queenscare	Scannell Properties
1440 Innovative Dr. – 3 Properties	Otay Mesa	275,640	\$17,000,000	East Group Properties, Inc.	Prudential Insurance Company
2450 Britannia Blvd. – 2 Properties	Otay Mesa	69,630	\$6,600,000	JB Real Estate Holdings, LLC	Kearny Real Estate Company
2057 Aldergrove Ave.	Escondido	42,333	\$4,412,000	Aina Famco, LLC	Taylor Family Trust
10124 Channel Rd.	Santee	24,720	\$3,900,000	Guillermo Dupleich	Von Whitby

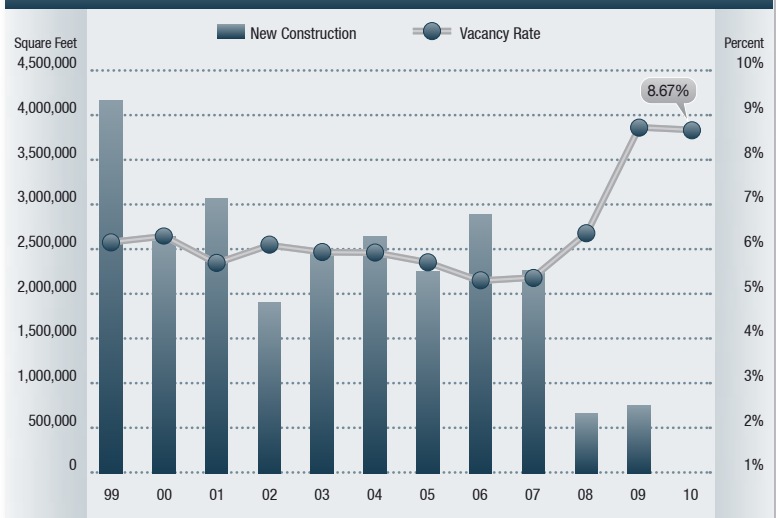
Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9805–9855 Scranton – Renewal	Sorrento Mesa	184,171	January–10	Sony Interactive Studios	Maguire Properties
1600 Faraday	Carlsbad	59,860	January–10	Outsource Manufacturing, Inc.	Hamann Companies
13950 Stowe Dr. – Renewal	Poway	47,064	March–10	Digirad Corporation	Young B Properties, LLC
2057 Aldergrove Ave.	Escondido	42,333	January–10	ROC Industries, Inc.	Greg Clark
2660 Sarnen St. – Renewal	Otay Mesa	38,870	February–10	Bose	Weingarten Realty
2450 Britannia Blvd.	Otay Mesa	35,640	January–10	Four Seasons Design	JB Real Estate Holdings, LLC

Product Type

Industrial product consists of commercial buildings that feature the following: loading docks, ceiling heights greater than 16 feet, less than 30% of the building built out as office space, and primary use of the building is manufacturing, distribution and/or warehousing.

ANNUAL INDUSTRIAL NEW CONSTRUCTION VS. VACANCY RATE



For further information, please contact:

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