



Voit
Real Estate Services

Industrial Market Report

Compared to last quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



Market Highlights

- ◆ **Market Challenges** – Let's just say it's nice to have 2009 behind us as the Industrial market continues to struggle going into 2010. The primary concerns are as follows: increasing vacancy, tenant delinquencies, scarce financing (except SBA owner user), economic uncertainty and volatility, and the gap between "ask" and "bid" pricing between buyers and sellers. However, that gap appears to be diminishing, which is evident from some recent large sales that occurred in the past three quarters as sellers lowered their expectations. 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 has put upward pressure on vacancy and availability rates. This has led many tenants to request rent relief from landlords and owners to attempt to renegotiate loan terms with lenders.
- ◆ **Construction** – Currently there is only 121,984 square feet of Industrial construction underway, due to lack of demand. The shrinking availability of land, combined with the high land prices, scarce financing and rising construction costs, has led to few projects being developed in this infill market.
- ◆ **Vacancy** – Direct/sublease space (unoccupied) finished the quarter at 8.69%, which is higher than it was a year ago when it was 6.47%. The lowest vacancy rate in the county can be found in the Central Suburban market coming in at 4.06%.
- ◆ **Availability** – Direct/sublease space being marketed was 11.90% this quarter, down from last quarter but up from the 9.13% we saw this same quarter last year. This is an increase of 30% of new space being marketed 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. This is a decrease of 12% when compared to last year's asking rate of \$.75 and one cent lower than last quarter. The record high for asking lease rates was recorded in the third and fourth quarter of 2008 when it was \$.76.
- ◆ **Absorption** – The county posted 428,566 square feet of negative absorption for the fourth quarter of 2009, giving the industrial

market a total of almost 3 million square feet of negative absorption for the year

- ◆ **Transaction Activity** – Leasing activity checked in this quarter at 1.4 million square feet. This increase can be attributed to the recent trend of short term deals coupled with lease renegotiations. Sales activity showed a decrease over last quarter, posting 770,257 square feet of activity compared to the third quarter's one million square feet. Details of the largest transactions can be found on the back page of this report.
- ◆ **Unemployment** – The unemployment rate in San Diego County was 10.3% in November 2009, down from a revised 10.7% in October 2009, and above the year ago estimate of 6.9%. This compares with an unadjusted unemployment rate of 12.2% for California and 9.4% for the nation during the same period.
- ◆ **Employment** – According to the State of California Employment Development Department, San Diego County lost 43,300 payroll jobs over the last twelve months – 9,800 in professional and business services. However, government added 200 new jobs. Between October 2009 and November 2009 San Diego County gained 4,500 jobs
- ◆ **Overall** – We are starting to see a decrease in the amount of available space being added per quarter, as well as an increase in investment sales activity during the last half of 2009. In 2010, negative absorption will continue to slow, and with few new deliveries in the pipeline to put more upward pressure on vacancies, the market should stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. As 2009 came to a close, there was an increase in price-induced transactions, which will carry over into 2010. Lease rates are expected to remain soft for the near future, and concessions should continue to increase in the forms of free rent, relocation funds and tenant improvement allowances to incentivize tenants to act now. 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 turn positive.

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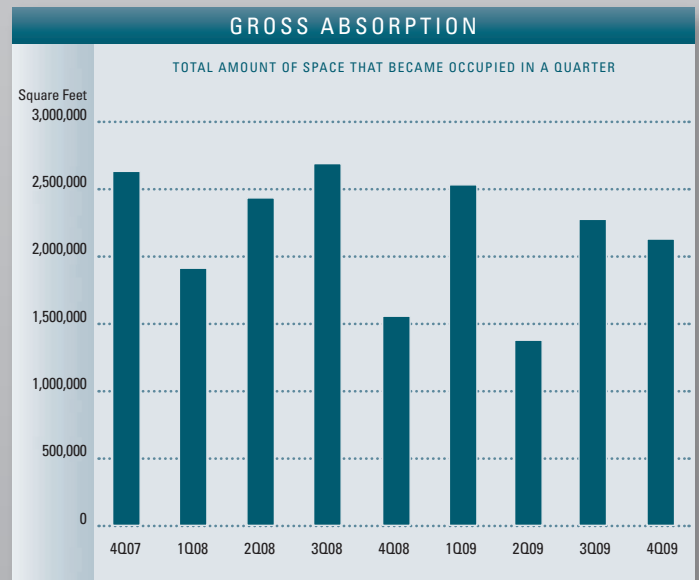
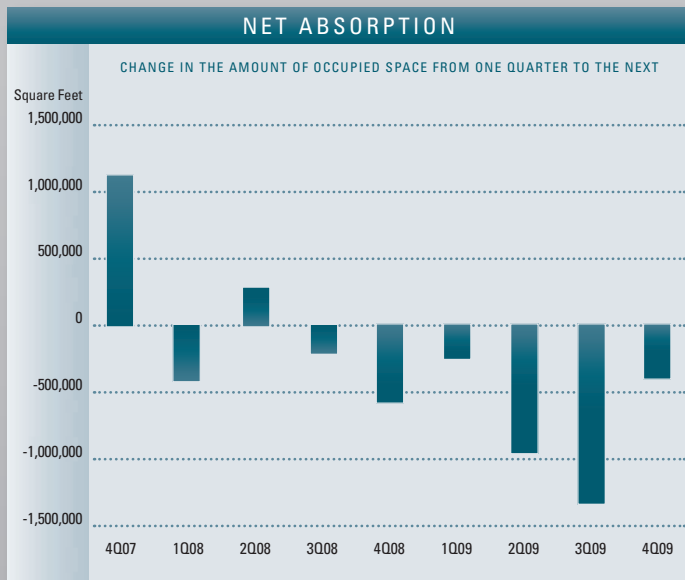
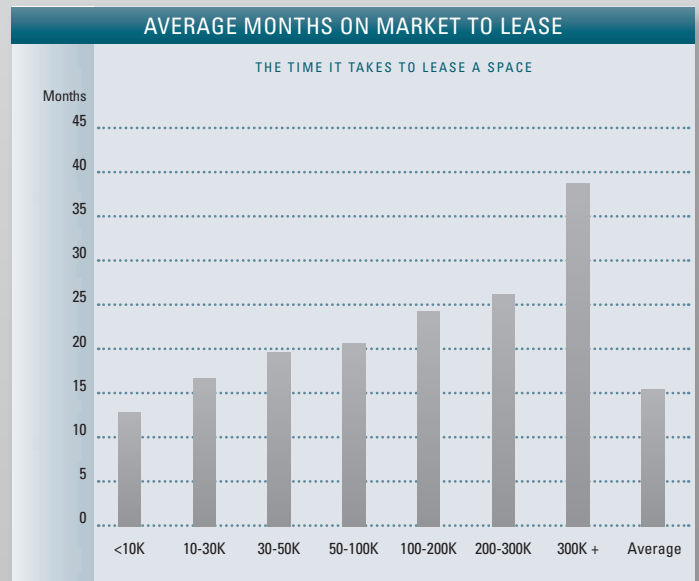
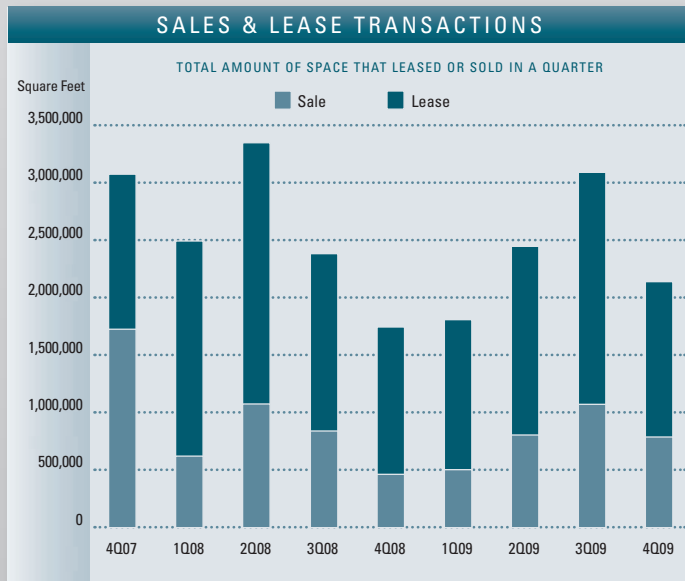
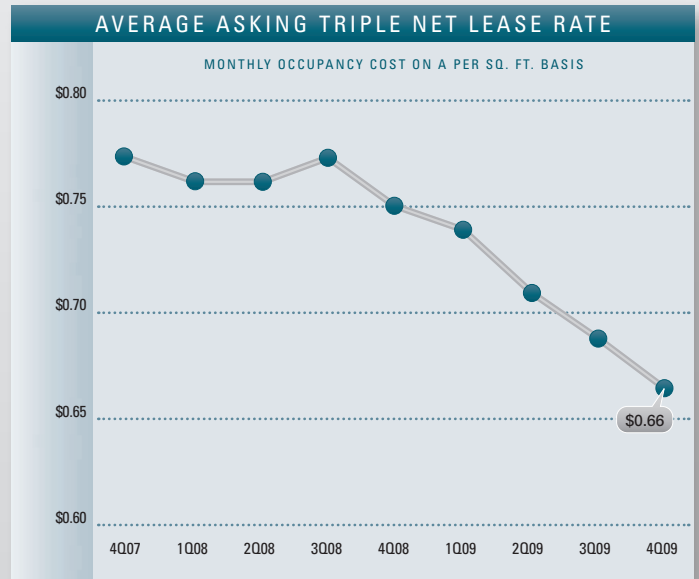
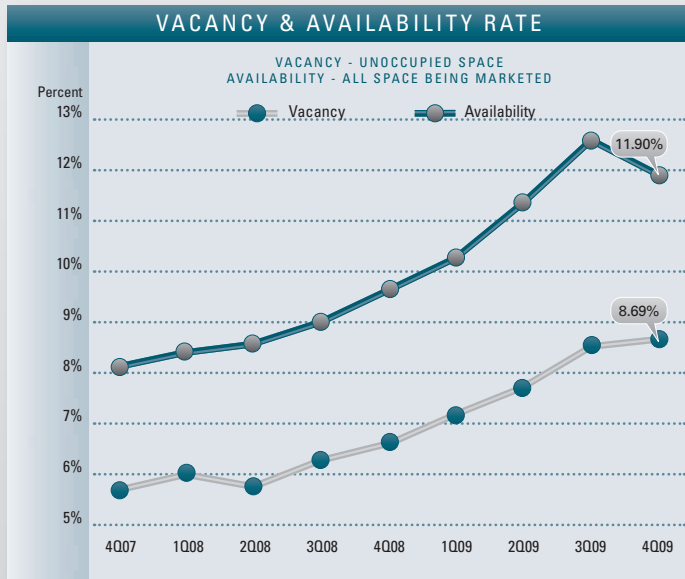
Prepared by:
Jerry J. Holdner, Jr. - Lic.#01145748
Vice President of Market Research
VOIT Real Estate Services - Lic.#01333376
e-mail: jholdner@voitco.com



INDUSTRIAL MARKET OVERVIEW

	2009	2008	2007	% CHANGE VS. 2008
Inventory Added	740,070	655,666	2,267,169	12.87%
Under Construction	121,984	641,846	392,135	-80.99%
Vacancy Rate	8.69%	6.47%	5.53%	34.31%
Availability Rate	11.90%	9.13%	7.51%	30.34%
Average Asking Lease Rate	\$0.66	\$0.75	\$0.77	-12.00%
Net Absorption	(2,981,280)	(927,624)	1,815,209	N/A
Gross Activity	8,238,930	8,573,241	9,651,495	-3.90%

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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 4Q2009	Total Availability 4Q2009	Average Asking Lease Rate	Net Absorption 4Q2009	Net Absorption 2009	Gross Absorption 4Q2009	Gross Absorption 2009
Central												
Downtown	513	7,684,702	0	0	474,684	6.18%	593,975	\$0.74	(10,613)	(200,600)	35,212	195,066
East City	103	1,880,512	0	0	59,805	3.18%	121,988	\$0.84	(10,129)	91	0	52,458
Central Total	616	9,565,214	0	0	534,489	5.59%	715,963	\$0.74	(20,742)	(200,509)	35,212	247,524
Central Suburban												
Airport/Sports Arena	186	3,715,040	0	0	112,018	3.02%	199,230	\$0.88	(16,863)	27,192	5,500	144,315
Kearny Mesa	464	11,520,234	0	8,000	434,283	3.77%	505,175	\$1.00	7,006	(172,541)	107,082	337,068
Mission Gorge	151	3,100,074	0	0	199,198	6.43%	208,652	\$0.98	12,448	27,364	20,915	181,251
Rose Canyon/Morena	146	3,630,770	0	0	147,252	4.06%	333,107	\$0.82	(8,437)	(34,219)	112,706	183,734
Central Suburban Total	947	21,966,118	0	8,000	892,751	4.06%	1,246,164	\$0.93	(5,846)	(152,204)	246,203	846,368
East County												
El Cajon	481	10,213,629	0	0	645,948	6.32%	792,005	\$0.69	(17,375)	(174,304)	137,819	455,104
La Mesa/Spring Valley	289	2,763,112	0	0	220,404	7.98%	232,065	\$0.70	(27,531)	(109,366)	54,963	141,925
Santee/Lakeside	338	4,659,201	0	200,000	259,537	5.57%	349,093	\$0.86	(28,490)	(52,271)	38,856	221,069
East County	26	544,456	0	0	2,000	0.37%	3,183	\$0.00	2,000	9,008	4,400	18,908
East County Total	1,134	18,180,398	0	200,000	1,127,889	6.20%	1,376,346	\$0.70	(71,396)	(326,933)	236,038	837,006
Highway 78 Corridor												
Oceanside	484	9,823,094	0	658,156	1,380,740	14.06%	1,602,481	\$0.64	(22,673)	(311,479)	114,494	597,455
San Marcos	534	9,590,712	0	53,000	803,760	8.38%	980,938	\$0.70	(23,929)	(47,532)	150,560	461,939
Vista/Fallbrook	481	11,392,692	121,984	55,590	902,122	7.92%	1,395,927	\$0.69	73,332	(45,038)	239,632	646,763
Highway 78 Corridor Total	1,499	30,806,498	121,984	766,746	3,086,622	10.02%	3,979,346	\$0.66	26,730	(404,049)	504,686	1,706,157
I-15 Corridor												
Escondido	741	8,082,307	0	0	611,014	7.56%	1,013,995	\$0.78	(62,880)	(340,927)	79,751	367,282
Poway	175	7,366,876	0	355,400	530,075	7.20%	1,312,540	\$0.77	(41,380)	(244,595)	5,450	202,465
Rancho Bernardo	59	4,170,066	0	0	381,108	9.14%	483,102	\$0.83	(7,907)	(173,843)	0	147,874
Scripps Ranch	35	840,270	0	0	53,756	6.40%	120,254	\$0.84	(6,924)	12,531	2,571	44,610
I-15 Corridor Total	1,010	20,459,519	0	355,400	1,575,953	7.70%	2,929,891	\$0.79	(119,091)	(746,834)	87,772	762,231
North City												
La Jolla	16	446,055	0	0	5,000	1.12%	5,000	\$1.89	(5,000)	(5,000)	1,100	1,100
Miramar	630	14,929,357	0	0	1,390,679	9.32%	1,975,795	\$0.74	(130,858)	(533,338)	295,093	1,009,029
Sorrento Mesa	88	4,598,350	0	0	346,183	7.53%	510,176	\$0.86	(90,117)	(98,092)	39,343	133,461
Sorrento Valley	63	1,350,030	0	0	26,424	1.96%	94,033	\$1.10	(3,094)	11,843	3,616	40,747
UTC	3	151,064	0	0	0	0.00%	0	\$0.00	0	0	0	0
North City Total	800	21,474,856	0	0	1,768,286	8.23%	2,585,004	\$0.77	(229,069)	(624,587)	339,152	1,184,337
North County												
Carlsbad	285	9,839,833	0	26,632	748,635	7.61%	1,307,398	\$0.90	193,927	34,409	266,583	694,177
North Beach Cities	59	843,817	0	0	13,200	1.56%	13,200	\$1.25	0	(13,200)	0	0
North County Total	344	10,683,650	0	26,632	761,835	7.13%	1,320,598	\$0.91	193,927	21,209	266,583	694,177
South Bay												
Chula Vista	380	10,580,336	0	20,000	645,354	6.10%	930,383	\$0.51	(51,999)	(62,385)	80,362	466,282
National City	249	4,426,237	0	0	113,693	2.57%	228,598	\$0.68	26,146	(57,841)	30,545	73,411
Otay Mesa	326	15,090,847	0	757,100	3,676,591	24.36%	4,091,589	\$0.48	(174,423)	(401,686)	235,897	1,342,231
San Ysidro	68	1,876,375	0	46,121	167,917	8.95%	237,447	\$0.52	(2,803)	(25,461)	50,936	79,206
South Bay Total	1,023	31,973,795	0	823,221	4,603,555	14.40%	5,488,017	\$0.49	(203,079)	(547,373)	397,740	1,961,130
San Diego County Total	7,373	165,110,048	121,984	2,179,999	14,351,380	8.69%	19,641,329	\$0.66	(428,566)	(2,981,280)	2,113,386	8,238,930

Lease rates are on a triple net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
350 Camino De La Reina - 6 Properties	San Diego	551,437	\$51,200,000	Platinum Equity	Copley Press, Inc.
9020 Activity Road - 4 Properties	North City	251,318	\$26,210,000	A&B Properties, Inc.	AMB Property Corporation
3817 Ocean Ranch Blvd. - 3 Properties	Oceanside	226,220	\$17,500,000	Greene Properties, Inc.	RREEF America, LLC
5823 Newton Drive	Carlsbad	179,721	\$14,765,000	Life Technologies Corporation	RREEF America, LLC
14004 Kirkham Way	Poway	176,279	\$14,500,000	Sorrento West Properties, Inc.	Prudential Insurance Company

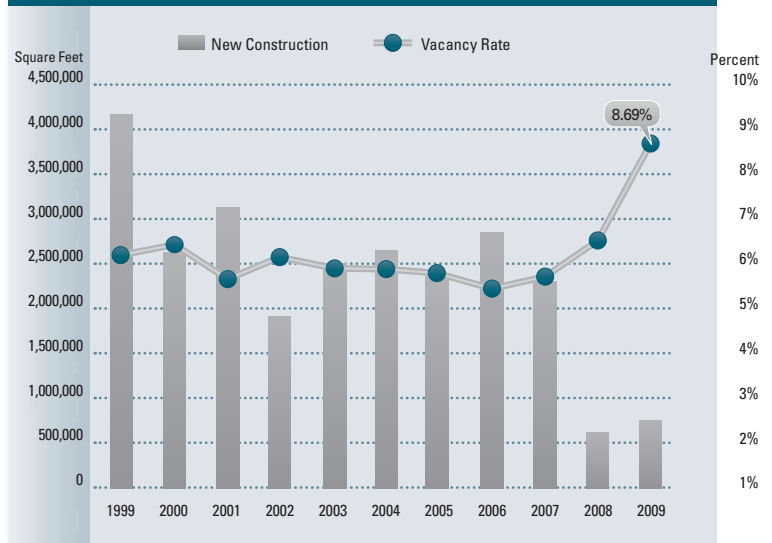
Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
7757 Saint Andrews Ave.	Otay Mesa	199,359	September-09	MOR Furniture For Less, Inc.	Hamann Construction
5823 Newton Drive	Carlsbad	131,892	November-09	Invitrogen Corporation	Life Technologies Corporation
10132 Airway Road	Otay Mesa	128,706	April-09	FedEx Ground	MS Development Company, LLC
2980 Scott Street	Vista	126,715	February-09	AutoGenomics, Inc.	PCCP DJ Ortho, LLC
6154 Nancy Ridge Dr. - Renewal	Miramar	125,557	April-09	Arena Pharmaceuticals, Inc.	BioMed Realty Trust, Inc.

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



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