

# NORTH COUNTY

## AT A GLANCE



### OVERVIEW

The North San Diego County industrial market is largely decentralized and comprised of five cities including Carlsbad, Escondido, Oceanside, San Marcos and Vista. Situated 35 miles north of downtown San Diego and 52 miles south of John Wayne Airport in Orange County, the coastal location is a major factor in the area's appeal to corporate users and its 826,985 residents.

The industrial market consists of approximately 52.3 million square feet. By comparison, the total San Diego industrial market is 188.3 million square feet. North County represents 27% of the total. For Q1 2012 North County vacancy was 10.6%. The vacancy rate is decreasing as 172,000 SF of positive net absorption occurred. The following table summarizes the inventory and vacancy by submarket:

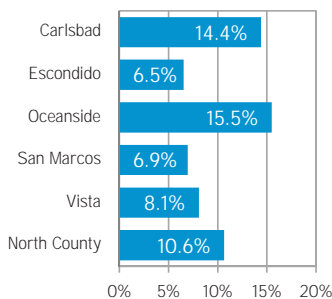
### MARKET INDICATORS

	Q1 2012	Q2 2012 (forecast)
VACANCY	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	→	→
RENTAL RATE	→	→
LEASE CONCESSIONS	→	→

Submarket	Buildings	Total Inventory	Vacant SF	Vacancy Rate
Carlsbad	485	15,025,194	2,165,696	14.4%
Escondido	637	7,183,097	445,352	6.5%
Oceanside	396	8,038,265	1,246,094	15.5%
San Marcos	489	8,710,664	604,631	6.9%
Vista	530	13,374,822	1,081,203	8.1%
Total	2,537	52,333,280	5,566,778	10.6%

### INDUSTRIAL/R&D VACANCY RATES

Q1 2012



North San Diego County is well known for its highly skilled labor force, excellent transportation network, pro-growth business environment, significant Federal Government presence, desirable vacation destination including world class beaches, resorts, golf venues, and abundant employee housing.

The North San Diego County industrial market is home to a diversified mix of users including defense, telecommunications, software, medical manufacturing, golf and leisure

- |                    |                      |                            |
|--------------------|----------------------|----------------------------|
| Coca-Cola          | Isis Pharmaceuticals | DJO, Inc.                  |
| Medtronic          | Life Technologies    | Linear                     |
| Titleist Golf      | Cobra / Puma Golf    | Killion Industries         |
| ViaSat             | TaylorMade Golf      | Jeld-Wen Windows and Doors |
| Covidien           | Denso Wireless       | Sumitomo Electric          |
| Abbott Labs        | US Foods             | McCain, Inc.               |
| Genentech          | Phillips Respironics | Directed Electronics       |
| Callaway Golf      | Thomson Reuters      | GIA                        |
| L-3 Communications | Rockwell Collins     | Hunter Industries          |
| SAIC               | John Deere           | Watkins Manufacturing      |

**ACTIVITY**

Land appears to have reversed its downward slide with the sale of 28 acres in Ocean Ranch, Oceanside to US Foods for \$11.50/SF. To help put this price improvement in perspective, a year earlier the same property was purchased as a short-sale by a local investor/developer for \$7.23/SF. Supply of industrial land, particularly large contiguous sites in North County, is limited. It will not take much in the way of demand to see further increases in land prices.

The sale of several distressed properties during Q1 pulled the median sale price down to \$76.50/SF. As distressed real estate is cleared from the market look for sale prices to gradually increase and good quality product to command a sizable premium over the Q1 median price. Many “would be” sellers have chosen to lease rather than compete with distressed opportunities. This has resulted in the supply of properties available for lease out numbering those for sale by a ratio of 6 to 1 in the 25,000-50,000 square foot range.

It was a positive sign to see investors, owner-occupiers and tenants active during Q1. Investors purchased two vacant buildings located in Vista. Pacifica Enterprises bought 65,000 square feet 1081 Poinsettia for \$58/SF, while SR Commercial purchased 39,000 square feet at 2390 Oak Ridge for \$69.57/SF. Owner occupiers purchased four buildings for a total of 113,449 square feet with prices ranging between \$65.78/SF and \$127.90/SF. Significant tenant transactions included; La Cantina Doors leasing 67,000 square feet in Oceanside, PODS renewing their lease of 64,000 square feet in Carlsbad, Astro Converters renewing their lease of 25,000 square feet in San Marcos and Balboa Cal Inc. occupying 23,000 square feet in Vista.

**FORECAST**

There are several transactions underway at the end of Q1 that will likely help boost activity when they are completed during Q2. Look for investors and tenants to lead the way, while owner-occupiers find it difficult to locate good quality properties or are reluctant to fill the price gap that has been created by recent distressed sales. Lease rates will move sideways in the near term, but should begin to increase later in the year as vacancy continues its slow decline. The current supply of spaces between 25,000-50,000 square feet for lease will force landlords to complete aggressively for these tenants.

New speculative construction while being analyzed is still at least 24 months away. Filling the gap will be an occasional build-to-suit if companies are unable to find a desirable existing alternative.

