

San Diego Industrial

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Transactions

Hybrid Apparel
6060 Business Center Court, Otay Mesa
134,776 s.f. leased

BAE
1650 Industrial Boulevard, Chula Vista
110,295 s.f. leased

Consolidated Electrical Distributors, Inc.
9190 Activity Road, Miramar
83,520 s.f. leased

Laird Technologies
2091 Rutherford Road, Carlsbad
62,381 s.f. leased

UPS
12270 World Trade Drive
Rancho Bernardo
61,750 s.f. leased

The San Diego County industrial real estate market ended the second quarter with decreasing availability and improving rental rates, increasing competition for space and setting the stage for the remainder of 2016. Countywide direct vacancy increased slightly by 20 basis points, to 5.0%, as a result of slowing leasing activity this quarter. The market experienced short-term relief, with 146,000 square feet of negative net absorption in the second quarter, bringing the year-to-date total to just over 280,000 square feet. The San Diego County unemployment rate sits at 4.5%, a decrease of 50 basis points from a year ago.

Submarkets in San Diego with the highest vacancy rates include Scripps Ranch at 20.5%, UTC at 15.9% and Rancho Bernardo at 10.2%. Primary submarkets with the least vacant space include PB/ Rose Canyon/ Morena at 0.9%, North Beach Cities at 1.1% and Poway at 1.8%. With over 1.5 million square feet under construction, new developments will offer little breathing room to this robust market.

Asking rental rates for all industrial properties continued their upward climb this quarter at an average of \$1.03 per square foot on a triple-net basis. This represents a 3.0% year-over-year increase in rates. Asking rates are highest in the I-15 Corridor and Central County, where they average \$1.16 and \$1.10 per square foot respectively and are growing steadily each quarter. By contrast, the lowest rates are found in East County, which reported an average asking rent of \$0.73 per square foot. Asking rental rates for R&D properties across the San Diego market averaged \$1.45 per square foot this quarter.

The research and development market was strong this quarter, with 243,000 square feet of positive net absorption improving direct vacancy by 90 basis points to end the quarter at 7.9%. The UTC submarket is becoming a major hub for flex projects, including i3 (316,000 sf), Eli Lilly (304,000 sf) and 5200 Illumina Way (296,000 sf).

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Area Review

Other new construction in the county is centered mostly in North County submarkets, with close to 500,000 square feet set to deliver before year end.

Investment sales trends improved this quarter, as sale prices increased and cap rates decreased. The average sale price for

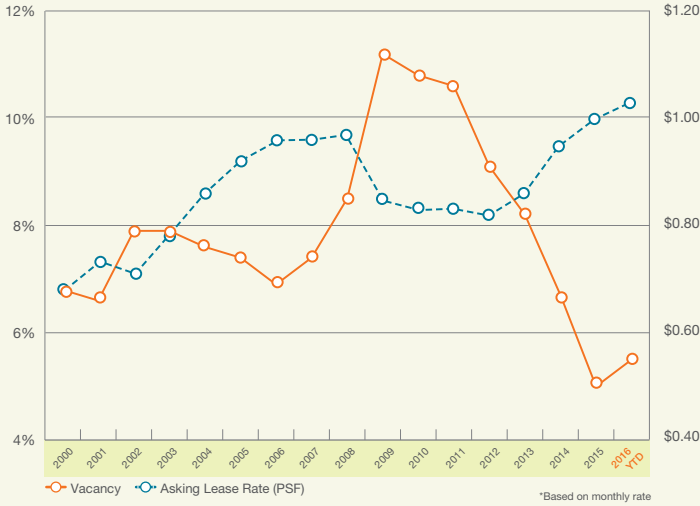
industrial investment assets was \$144 per square foot, up from \$138 per square foot in the first quarter. Average cap rates decreased from 6.4% to 5.9% between the first and second quarters.

Data Source: CoStar

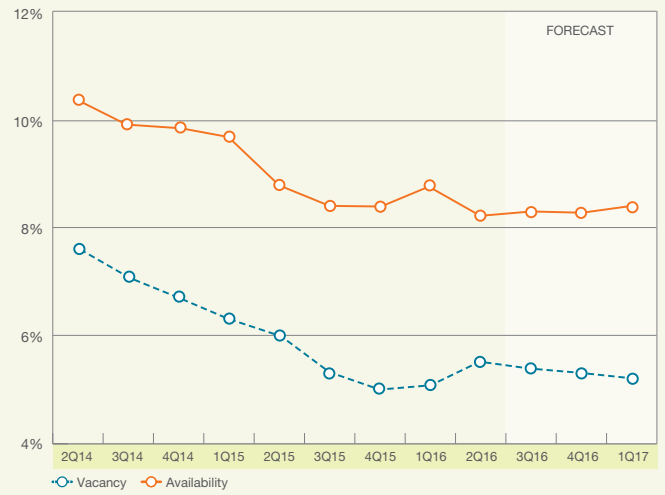
Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	QTR Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	Average NNN Rental Rate
Carlsbad	13,271,748	7.3%	1.0%	8.3%	120,540	343,724	386,610	65,500	\$1.08
Escondido	7,280,099	2.3%	0.1%	2.3%	(28,886)	(22,980)	0	0	\$0.94
North Beach Cities	407,259	1.1%	0.0%	1.1%	(1,295)	4,270	0	0	\$3.00
Oceanside	9,447,022	6.4%	0.0%	6.4%	296,498	283,959	91,974	645,045	\$0.67
San Marcos	8,780,721	4.5%	0.3%	4.8%	57,968	76,744	0	0	\$0.73
Vista	13,639,992	3.5%	0.2%	3.8%	(150,051)	(138,543)	0	0	\$0.74
North County	52,826,841	5.0%	0.4%	5.3%	294,774	547,174	478,584	710,545	\$0.86
Kearny Mesa	15,417,402	3.7%	0.0%	3.7%	970	30,535	0	0	\$1.27
Mira Mesa/ Miramar	17,401,162	5.3%	1.5%	6.8%	(254,613)	(338,105)	0	0	\$1.01
PB/Rose Canyon/ Morena	3,249,189	0.9%	0.2%	1.1%	(1,258)	6,674	0	0	\$1.09
Sorrento Mesa	9,899,239	8.2%	1.7%	9.9%	(69,492)	(35,643)	0	0	\$1.47
Sorrento Valley	3,444,979	4.0%	0.6%	4.6%	(486)	66,608	0	0	\$1.84
Sports Arena/ Airport	2,858,928	1.9%	0.1%	2.0%	1,500	(8,078)	0	0	\$1.23
Torrey Pines	3,559,271	4.3%	1.0%	5.4%	14,639	99,179	63,000	0	\$4.25
UTC	1,704,708	15.9%	4.2%	20.0%	13,950	11,875	977,952	0	\$1.43
Central County	57,534,878	3.5%	0.7%	4.1%	(294,790)	(166,955)	1,040,952	0	\$1.10
Mission Gorge	1,980,098	3.0%	0.4%	3.4%	472	(34,402)	0	0	\$0.88
Poway	8,654,530	1.8%	0.0%	1.8%	116,806	239,178	0	0	\$0.95
Rancho Bernardo	8,148,190	10.2%	0.0%	10.2%	27,805	(60,013)	0	0	\$1.46
Scripps Ranch	1,490,683	20.5%	0.0%	20.5%	(62,065)	(138,423)	0	0	\$1.17
I-15 Corridor	20,273,501	6.7%	0.0%	6.7%	83,018	6,340	0	0	\$1.16
Chula Vista	9,982,190	4.8%	0.3%	5.1%	(123,301)	(139,278)	0	0	\$0.80
Downtown	2,554,121	3.3%	0.0%	3.3%	(2,124)	(8,024)	0	0	\$2.00
National City	3,521,371	2.3%	0.0%	2.3%	(9,035)	25,823	0	0	\$0.85
Otay Mesa	15,460,488	6.3%	0.6%	6.9%	1,524	89,958	44,084	121,970	\$0.66
San Ysidro/ Imp Beach	1,437,876	6.4%	0.0%	6.4%	(18,860)	(17,170)	0	0	\$0.78
South County	32,956,046	5.2%	0.4%	5.6%	(151,796)	(48,691)	44,084	121,970	\$0.83
East City	930,793	0.0%	0.0%	0.0%	0	0	0	0	-
El Cajon	9,588,119	3.1%	0.0%	3.1%	(98,272)	(72,875)	0	0	\$0.75
La Mesa/ Spring Valley	2,534,856	4.0%	0.0%	4.0%	(3,300)	19,217	0	0	\$0.72
Santee	4,033,872	1.9%	0.0%	1.9%	(38,460)	(27,605)	0	0	\$0.87
Southeast San Diego	3,338,382	2.9%	0.0%	2.9%	21,699	24,353	0	0	\$0.69
East County	20,426,022	2.8%	0.0%	2.8%	(118,333)	(56,910)	0	0	\$0.73
Outlying SD County North	942,804	2.3%	0.0%	2.3%	1,251	251	0	0	\$0.77
Outlying SD County South	699,277	0.0%	0.0%	0.0%	39,502	0	0	0	-
Outlying East San Diego Cty	1,642,081	1.3%	0.0%	1.3%	40,753	251	0	0	\$0.77
San Diego County	185,659,369	5.0%	0.5%	5.5%	(146,374)	281,209	1,563,620	832,515	\$1.03

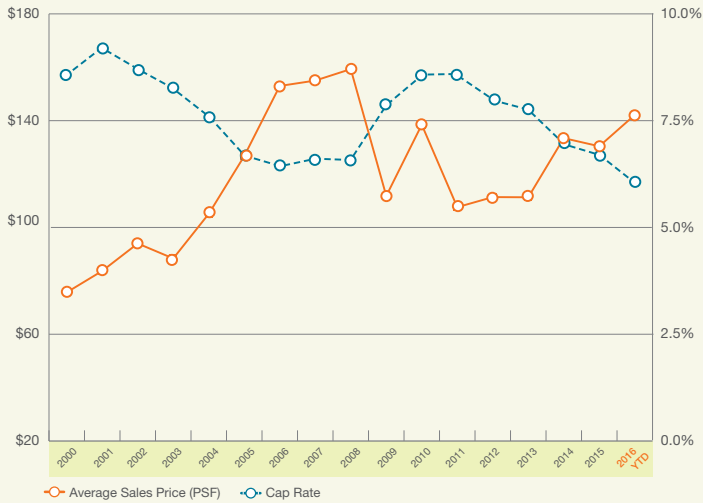
VACANCY VS ASKING LEASE RATE*



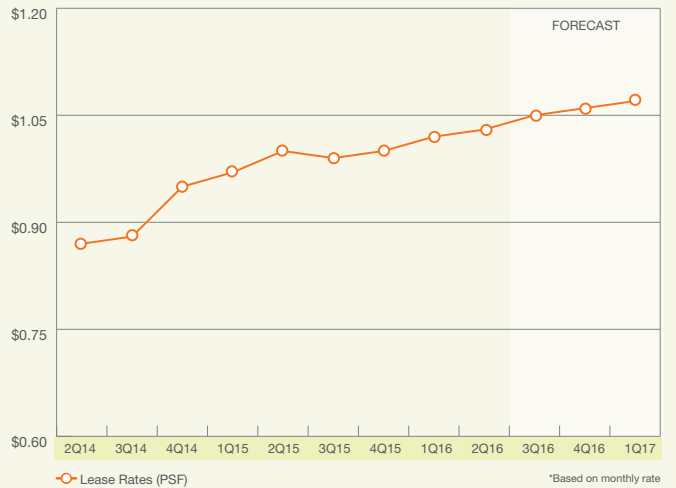
VACANCY VS AVAILABILITY



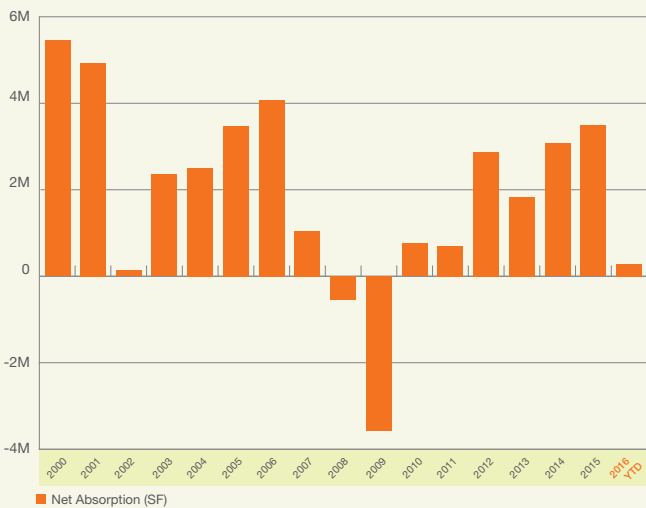
AVERAGE SALES PRICE & CAPITALIZATION RATES



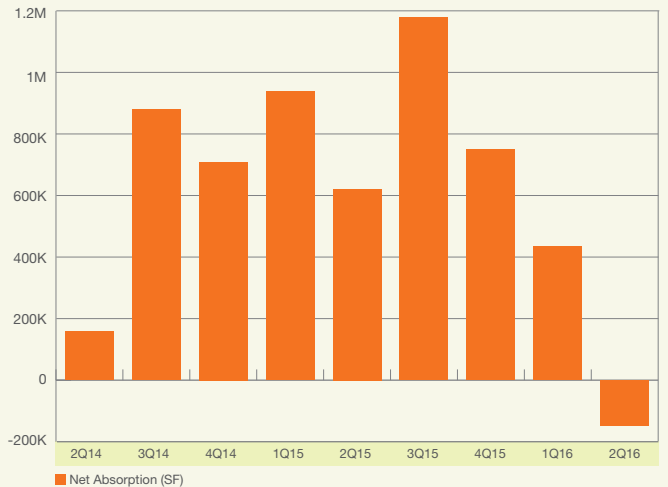
ASKING LEASE RATE*



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.751.3600

San Diego
858.509.1200

Orange County
949.557.5000

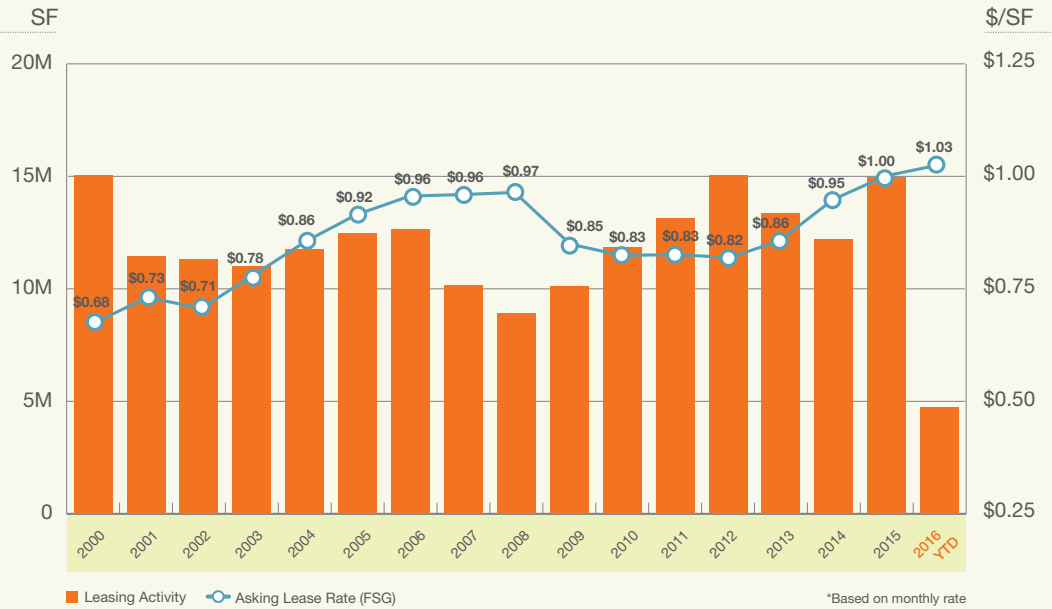
Phoenix
602.513.5200

Reno
775.301.1300

Market Breakdown

	2Q 2016	1Q 2016	2Q 2015	Annual % Change
Vacancy Rate	5.5%	5.1%	6.0%	-8.3%
Availability Rate	8.4%	8.2%	8.8%	-4.5%
Asking Lease Rate	\$1.03	\$1.02	\$1.00	3.0%
Leased SF	2,441,863	2,270,898	3,959,521	-38.3%
Sold SF	2,976,795	3,104,058	2,794,336	6.5%
Net Absorption	-146,374	434,423	620,865	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES*

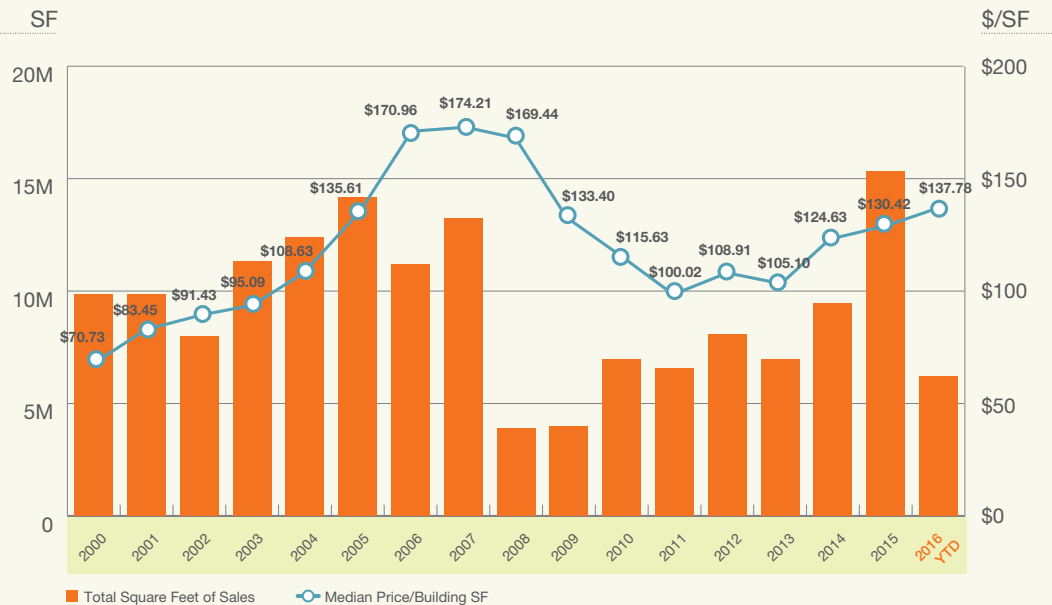


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