

San Diego Industrial

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Transactions

General Atomics
Kirkham Way & General Atomics Way,
Poway
152,000 s.f. leased

Acushnet Company
1335 Sycamore Ave, Vista
102,000 s.f. leased

Balboa Water
2020 Piper Ranch Rd, Otay Mesa
99,000 s.f. leased

Hyperikon
8515 Miramar Pl, Miramar
55,000 s.f. leased

Amerillum Corporation
3728 Maritime Way, Oceanside
54,000 s.f. leased

The San Diego County industrial real estate market ended the third quarter with strong absorption and steady rental rates, increasing competition for space and setting the stage for the remainder of 2016. Countywide total vacancy fell by 40 basis points, to 5.3%, as a result of strong leasing activity this quarter. The market continues to tighten, with 846,000 square feet of positive net absorption in the third quarter. The San Diego County unemployment rate sits at 5.0%, a decrease of 20 basis points from a year ago.

Submarkets in San Diego with the highest total vacancy rates include Scripps Ranch at 18.1%, UTC at 17.6% and Rancho Bernardo at 9.3%. Primary submarkets with the least vacant space include East City at 0.0%, and Mission Gorge and National City, both at 1.7%. With close to 1.5 million square feet under construction, new developments will offer little short-term relief to this robust market.

Asking rental rates for all industrial properties continued their upward climb this quarter at an average of \$1.01 per square foot on a triple-net basis. This represents a 2.0% year over year increase in rates. Asking rates are highest in the I-15 Corridor and Central County, where they average \$1.14 and \$1.11 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 \$0.71 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 808,000 square feet of positive net absorption improving direct vacancy by 130 basis points to end the quarter at 7.9%. The UTC submarket is becoming a major hub for flex projects, with several major projects under construction including i3 (316,000 sf), Eli Lilly (304,000 sf) and 5200 Illumina Way (296,000 sf). Other new construction in the county is mostly in Carlsbad, with over 230,000 square feet set to deliver before year end. Investment

→ Continued, page 2

Area Review

sales trends improved, with over 1.1 million square feet traded in the third quarter. The average sale price for industrial investment assets was \$160 per square foot, up from \$136 per square foot

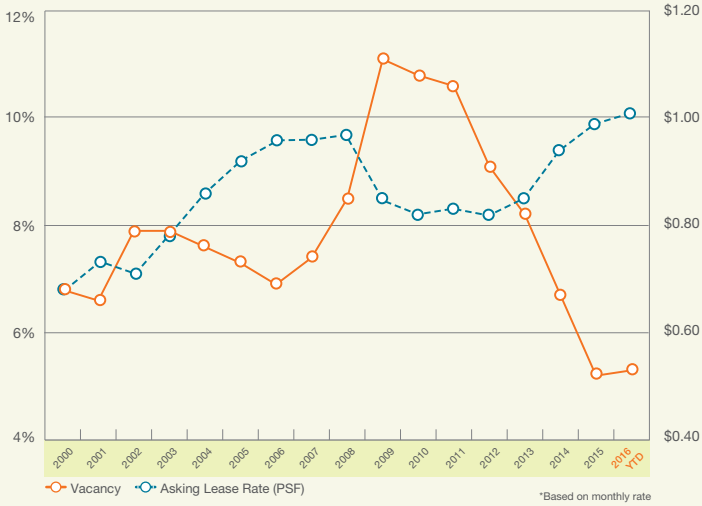
in the second quarter. Average Cap rates increased from 5.9% to 6.2% between the second and third quarters.

Data Source: CoStar

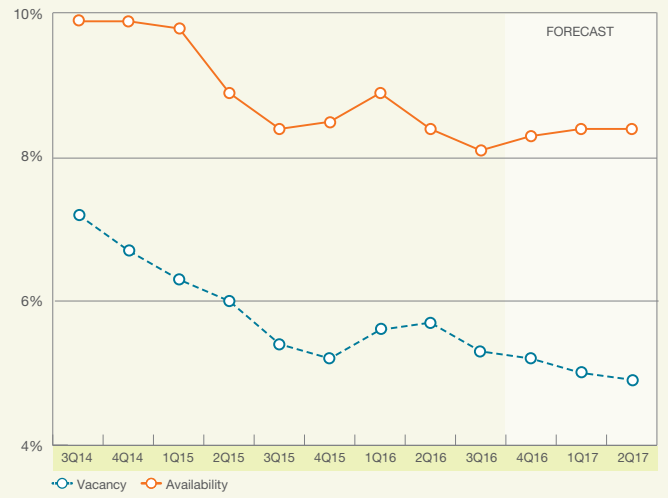
Submarket Statistics

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	13,252,080	8.0%	1.0%	9.0%	(155,832)	249,959	390,204	65,500	\$1.07
Escondido	7,287,183	2.3%	0.1%	2.4%	(18,179)	(27,372)	0	0	\$0.91
North Beach Cities	344,397	1.1%	0.0%	1.1%	600	4,870	0	0	\$3.00
Oceanside	9,519,601	5.8%	0.0%	5.8%	66,615	436,626	0	737,019	\$0.69
San Marcos	8,791,556	4.8%	0.1%	4.9%	(17,728)	46,131	0	0	\$0.68
Vista	13,646,721	3.4%	0.1%	3.5%	102,368	(36,175)	0	0	\$0.79
North County	52,841,538	5.1%	0.3%	5.4%	(22,156)	674,039	390,204	802,519	\$0.85
Kearny Mesa	15,313,231	3.0%	0.2%	3.2%	98,857	126,062	0	0	\$1.23
Mira Mesa/ Miramar	17,378,020	4.2%	1.5%	5.7%	92,820	(145,977)	0	0	\$1.03
PB/Rose Canyon/ Morena	3,265,782	6.0%	0.1%	6.1%	(16,463)	(158,321)	0	0	\$0.80
Sorrento Mesa	9,881,457	7.6%	1.4%	9.0%	51,039	30,332	0	0	\$1.45
Sorrento Valley	3,411,432	4.3%	0.1%	4.4%	(29,892)	22,650	0	0	\$1.81
Sports Arena/ Airport	2,858,868	2.1%	0.0%	2.1%	(15,499)	(15,703)	0	0	\$1.82
Torrey Pines	3,559,271	3.2%	0.6%	3.8%	41,121	140,300	63,000	0	\$4.25
UTC	1,704,708	13.4%	4.2%	17.6%	41,872	53,747	977,952	0	\$1.40
Central County	57,372,769	3.1%	0.7%	3.8%	263,855	53,090	1,040,952	0	\$1.11
Mission Gorge	1,980,098	1.2%	0.4%	1.7%	11,864	(236)	0	0	\$1.04
Poway	8,657,173	2.1%	0.0%	2.1%	(6,988)	213,457	0	0	\$0.97
Rancho Bernardo	8,148,190	9.3%	0.0%	9.3%	49,193	8,097	0	0	\$1.35
Scripps Ranch	1,458,382	17.8%	0.3%	18.1%	30,537	(14,719)	0	0	\$1.15
I-15 Corridor	20,243,843	6.0%	0.1%	6.1%	84,606	206,599	0	0	\$1.14
Chula Vista	9,974,966	5.8%	0.3%	6.1%	138,402	49,335	0	0	\$0.79
Downtown	2,517,769	1.7%	0.0%	1.7%	41,000	32,976	0	0	\$2.00
National City	3,514,356	1.7%	0.0%	1.7%	11,818	47,127	0	0	\$0.90
Otay Mesa	15,437,717	7.8%	0.5%	8.3%	265,054	(76,001)	44,084	121,970	\$0.63
San Ysidro/ Imp Beach	1,473,693	6.6%	0.0%	6.6%	(4,884)	(22,054)	0	0	\$0.78
South County	32,918,501	6.0%	0.3%	6.3%	451,390	31,383	44,084	121,970	\$0.82
East City	930,793	0.0%	0.0%	0.0%	0	0	0	0	-
El Cajon	9,631,509	3.1%	0.0%	3.1%	(2,573)	(75,620)	0	0	\$0.74
La Mesa/ Spring Valley	2,535,205	3.4%	0.1%	3.5%	(4,122)	34,308	0	0	\$0.72
Santee	4,019,176	1.5%	0.0%	1.5%	16,839	(9,566)	0	0	\$0.79
Southeast San Diego	3,338,662	1.3%	0.0%	1.3%	56,742	79,333	0	0	\$0.69
East County	20,455,345	2.4%	0.0%	2.4%	66,886	28,455	0	0	\$0.71
Outlying SD County North	937,004	1.5%	0.0%	1.5%	1,574	1,825	0	0	\$0.74
Outlying SD County South	693,557	0.0%	0.0%	0.0%	0	0	0	0	-
Outlying East San Diego Cty	1,630,561	0.9%	0.0%	0.9%	1,574	1,825	0	0	\$0.74
San Diego County	185,462,557	4.9%	0.4%	5.3%	846,155	995,391	1,475,240	924,489	\$1.01

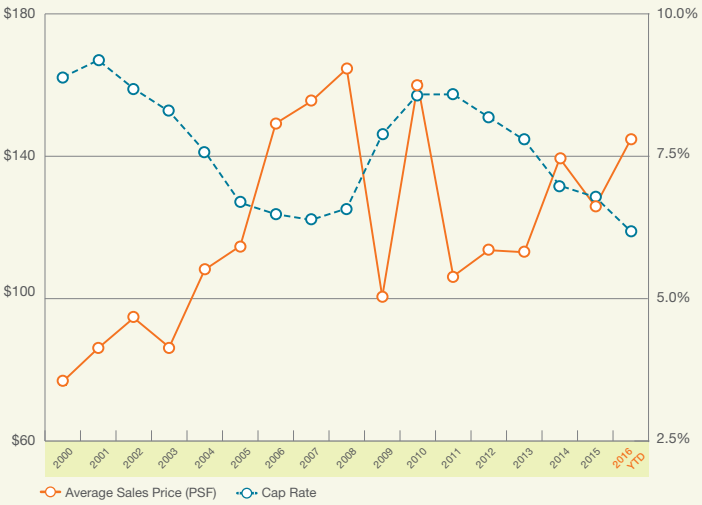
VACANCY VS ASKING LEASE RATE*



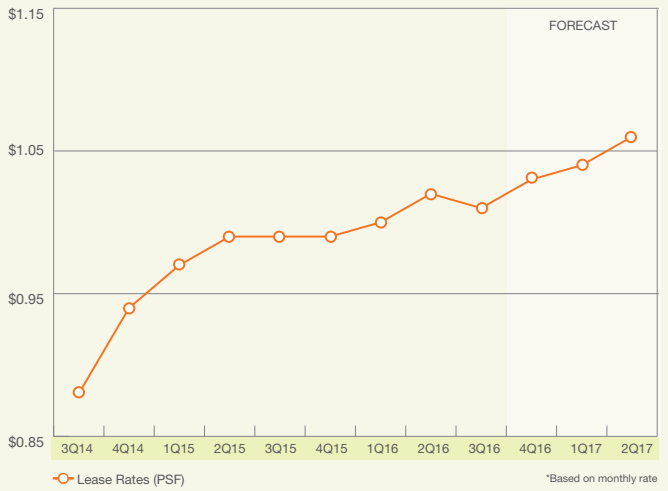
VACANCY VS AVAILABILITY



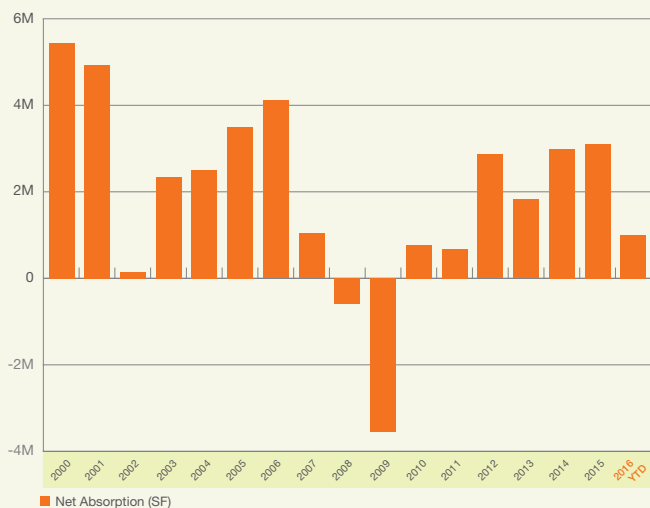
AVERAGE SALES PRICE & CAPITALIZATION RATES



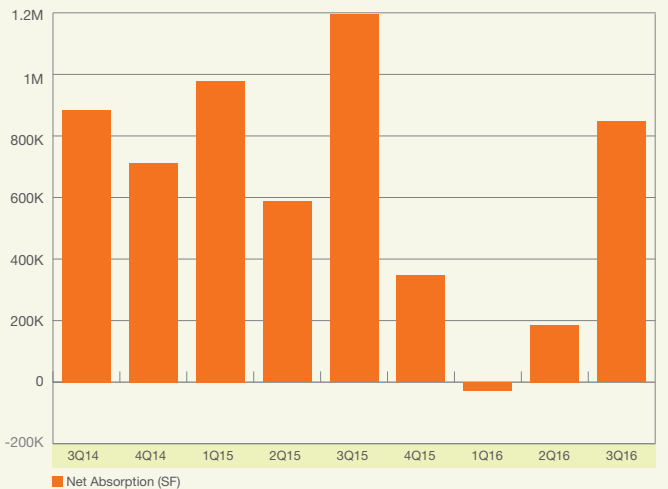
ASKING LEASE RATE*



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
916.970.9700

Roseville
916.751.3600

Orange County
949.557.5000

San Diego
858.509.1200

Carlsbad
760.430.1000

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775.301.1300

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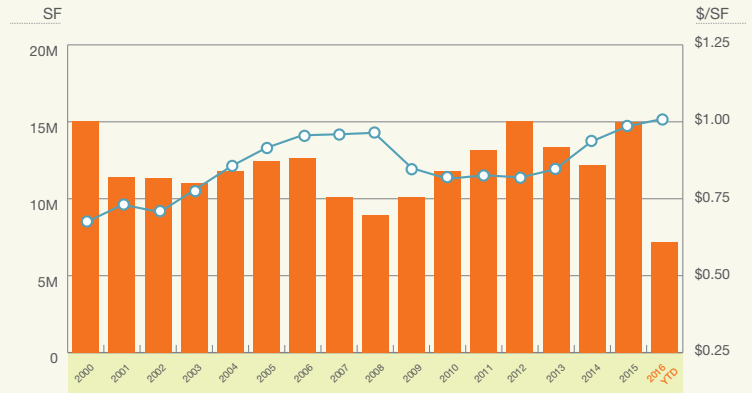
Designated Broker
Mark Read | LIC #00572743

Market Breakdown

	3Q 2016	2Q 2016	3Q 2015	Annual % Change
Vacancy Rate	5.3%	5.7%	5.4%	-1.9%
Availability Rate	8.1%	8.4%	8.4%	-3.6%
Asking Lease Rate	\$1.01	\$1.02	\$0.99	2.0%
Leased SF	2,068,059	2,811,473	4,421,716	-53.2%
Sold SF	1,131,750	2,251,184	3,810,379	-70.3%
Net Absorption	846,155	186,178	1,194,161	N/A

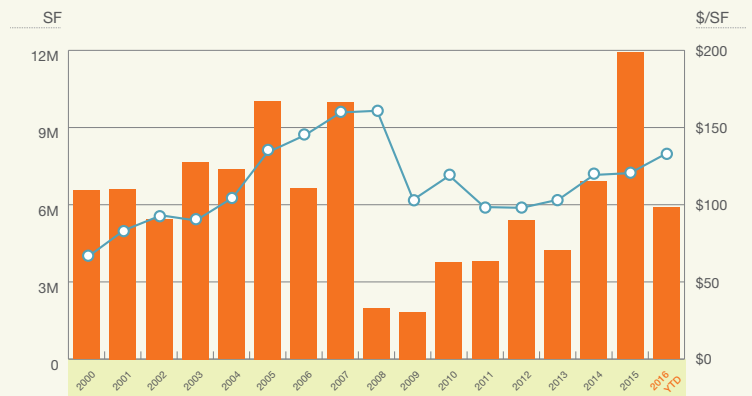
HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES*

■ Leasing Activity
○ Asking Lease Rate



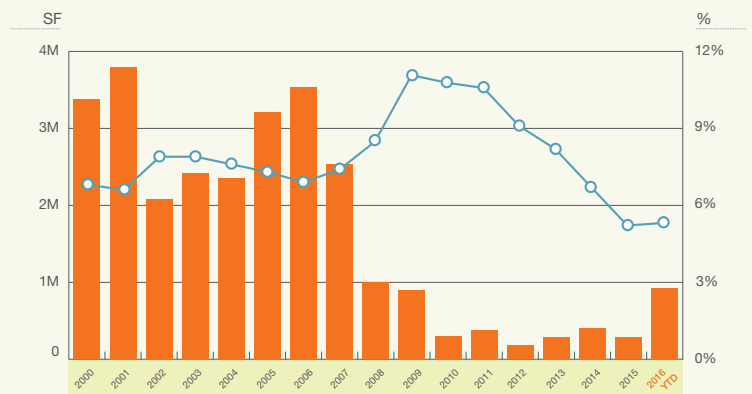
HISTORICAL SALES SF & MEDIAN SALE PRICE

■ Total SF of Sales
○ Median Price/Building SF



HISTORICAL NEW CONSTRUCTION & VACANCY RATE

■ New Construction
○ Vacancy



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