Kidder Mathews

Real Estate Market Review

San Diego County

4th Quarter
2016

San Diego Industrial

Market Forecast

	Trends
Absorption	↑
Vacancy	↓
Rental Rate	↑
New Construction	↑

Notable Transactions

Russell Sigler, Inc.
1900 Weld Blvd., El Cajon
112,000 s.f. Leased

General Atomics
11905 Community Rd., Poway
83,000 s.f. Leased

Pentair
7328 Trade St., Miramar
51,000 s.f. Leased

City of San Diego
9577 Chesapeake Dr., Kearny Mesa
51,000 s.f. Leased

The San Diego County industrial real estate market ended the year with strong absorption and steady rental rates, increasing competition for space and setting the stage for next year. Countywide total vacancy fell this year by 50 basis points, to 5.3%, as a result of strong leasing activity. The market continues to tighten, with 506,000 square feet of positive net absorption in the fourth quarter. The San Diego County unemployment rate sits at 4.8%, a decrease of 30 basis points from a year ago, and we expect the strong local economy and increasing job growth to drive the real estate market in 2017.

Submarkets in San Diego with the highest total vacancy rates include UTC at 23.6%, Scripps Ranch at 15.5% and Carlsbad at 9.3%. Primary submarkets with the least vacant space include East City at 0.2%, Mission Gorge at 1.3% and National City at 1.7%. With close to 1.2 million square feet under construction, new developments will offer little short-term relief to this robust market.

Asking rental rates for all industrial properties remained steady this quarter at an average of $1.03 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 $1.19 and $1.14 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 $1.48 per square foot, while manufacturing and warehouse space averaged $0.87 this quarter.

The research and development market was strong this quarter, with 404,000 square feet of positive net absorption improving direct vacancy and ending the year at 8.3%. The UTC submarket is becoming a major hub for flex projects, with several major projects under construction including i3 (316,000 sf) and Eli Lilly (304,000 sf).

→ **Continued, page 2**

Area Review

Deliveries throughout the year were centered in Oceanside (737,000 sf), UTC (641,000) and Carlsbad (299,000 sf).

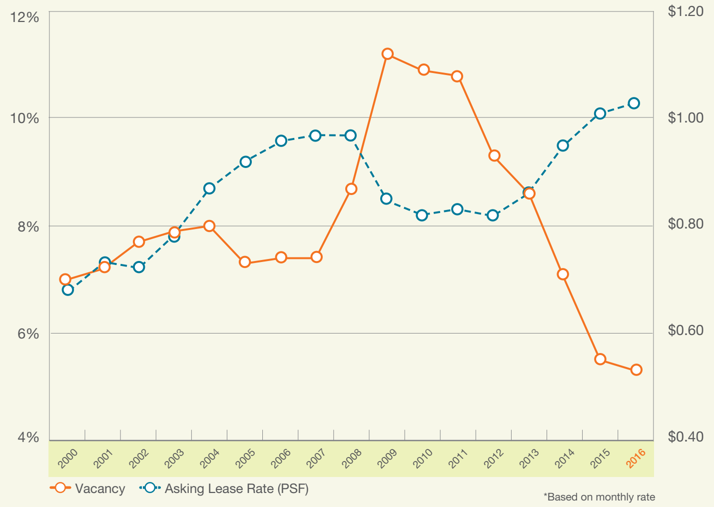
Investment sales trends improved, with over 3.0 million square feet traded in the fourth quarter. The average sale price for industrial investment assets was $185 per square foot, up from $127 per square foot this time last year. Overall San Diego recorded $1.2 billion in dollar volume throughout 2016 from 270 transactions.

Data Source: CoStar

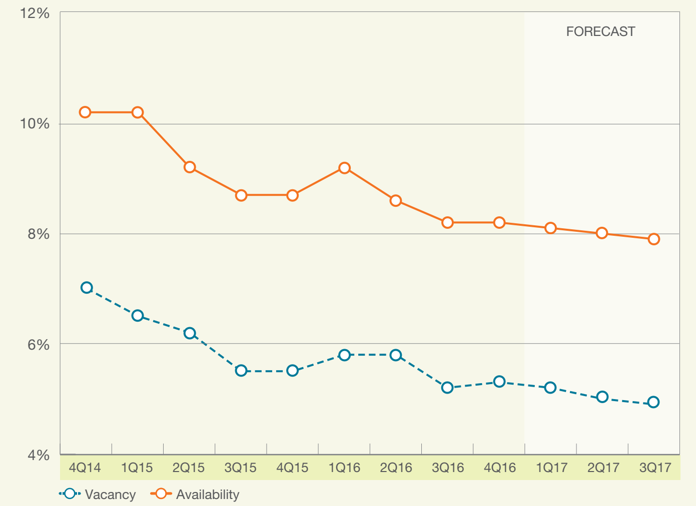
Submarket Statistics

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	13,461,629	8.3%	1.0%	9.3%	72,029	432,016	156,977	298,777	$1.10
Escondido	7,271,792	2.9%	0.0%	2.9%	(56,778)	(72,153)	53,148	0	$0.92
North Beach Cities	344,397	0.3%	0.0%	0.3%	2,850	7,720	0	0	-
Oceanside	9,619,224	2.4%	0.0%	2.4%	419,238	855,864	0	737,019	$0.71
San Marcos	8,795,986	6.5%	0.1%	6.6%	(150,907)	(112,376)	0	0	$0.67
Vista	13,646,767	3.9%	0.2%	4.0%	(64,507)	(98,151)	0	0	$0.79
North County	**53,139,795**	**5.0%**	**0.3%**	**5.3%**	**221,925**	**1,012,920**	**210,125**	**1,035,796**	**$0.85**
Kearny Mesa	15,221,041	3.2%	0.2%	3.4%	(48,034)	33,122	0	0	$1.27
Mira Mesa/ Miramar	17,435,238	4.2%	1.0%	5.2%	(37,627)	(137,281)	0	0	$1.05
PB/Rose Canyon/ Morena	3,265,994	6.3%	0.1%	6.5%	(12,701)	(171,022)	0	0	$0.92
Sorrento Mesa	9,881,143	6.9%	1.6%	8.5%	66,763	53,559	0	0	$1.50
Sorrento Valley	3,411,432	5.5%	0.1%	5.6%	(38,031)	(18,597)	0	0	$1.78
Sports Arena/ Airport	2,826,180	0.8%	0.0%	0.8%	29,287	21,917	0	0	$1.82
Torrey Pines	3,600,012	4.2%	0.1%	4.2%	3,582	143,882	63,000	0	$4.25
UTC	2,320,215	20.5%	3.1%	23.6%	246,565	432,662	682,343	641,107	$1.40
Central County	**57,961,255**	**3.6%**	**0.5%**	**4.1%**	**209,804**	**358,242**	**745,343**	**641,107**	**$1.14**
Mission Gorge	2,061,683	1.1%	0.2%	1.3%	12,292	(18,813)	0	0	$1.19
Poway	8,657,173	3.1%	0.2%	3.3%	(78,346)	124,111	82,640	0	$0.97
Rancho Bernardo	7,994,634	8.4%	0.0%	8.5%	85,264	93,361	0	0	$1.45
Scripps Ranch	1,458,382	15.1%	0.3%	15.5%	38,972	4,938	0	0	$1.03
I-15 Corridor	**20,171,872**	**5.9%**	**0.1%**	**6.0%**	**58,182**	**203,597**	**82,640**	**0**	**$1.19**
Chula Vista	9,970,671	5.9%	0.0%	5.9%	(27,401)	40,391	0	0	$0.80
Downtown	2,517,769	2.9%	0.0%	2.9%	(18,522)	(28,189)	0	0	$2.00
National City	3,514,356	1.7%	0.0%	1.7%	(2,804)	44,323	0	0	$0.92
Otay Mesa	15,405,960	7.6%	0.0%	7.6%	3,342	(10,621)	123,134	121,970	$0.65
San Ysidro/ Imp Beach	1,447,842	6.8%	0.0%	6.8%	(22,630)	(37,254)	0	0	$0.77
South County	**32,856,598**	**6.1%**	**0.0%**	**6.1%**	**(68,015)**	**8,650**	**123,134**	**121,970**	**$0.83**
East City	930,793	0.2%	0.0%	0.2%	(2,000)	(2,000)	0	0	-
El Cajon	9,671,264	2.3%	0.2%	2.5%	83,415	(8,596)	0	0	$0.73
La Mesa/ Spring Valley	2,516,859	2.3%	0.1%	2.4%	27,550	61,858	0	0	$0.68
Santee	3,962,739	1.7%	0.0%	1.7%	(7,932)	(18,598)	0	0	$0.83
Southeast San Diego	3,340,865	2.1%	0.0%	2.1%	(17,920)	61,413	0	0	$0.72
East County	**20,422,520**	**2.1%**	**0.0%**	**2.2%**	**83,113**	**94,077**	**0**	**0**	**$0.71**
Outlying SD County North	931,004	1.5%	0.0%	1.5%	865	12,690	0	10,000	$0.85
Outlying SD County South	788,557	0.0%	0.0%	0.0%	0	0	0	0	-
Outlying East San Diego Cty	**1,719,561**	**0.8%**	**0.0%**	**0.8%**	**865**	**12,690**	**0**	**10,000**	**$0.85**
San Diego County	**186,271,601**	**4.9%**	**0.4%**	**5.3%**	**505,874**	**1,690,176**	**1,161,242**	**1,808,873**	**$1.03**

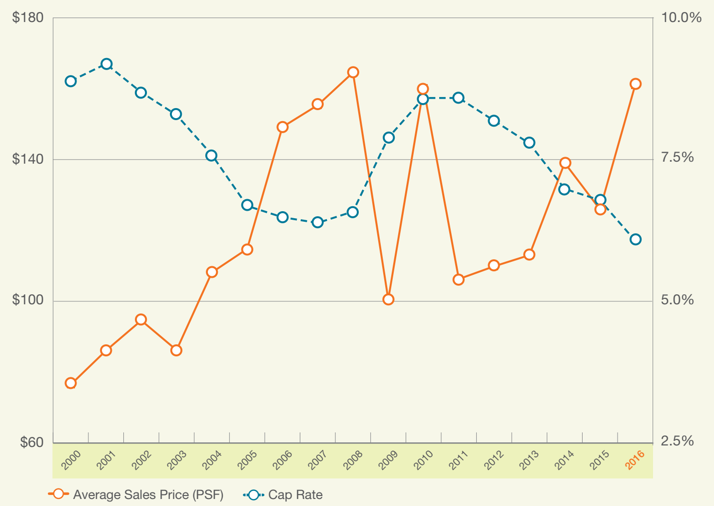
VACANCY VS ASKING LEASE RATE*



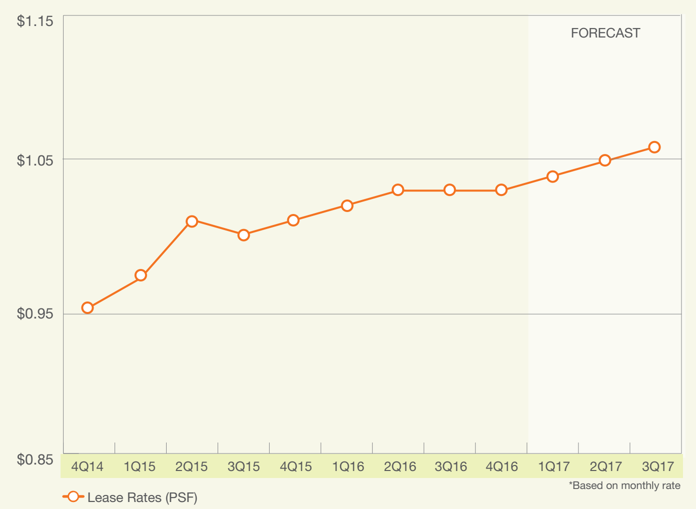
VACANCY VS AVAILABILITY



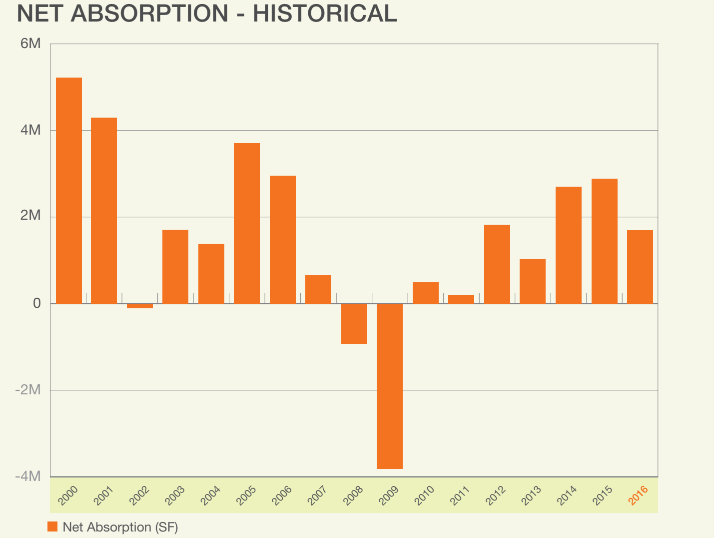
AVERAGE SALES PRICE & CAPITALIZATION RATES



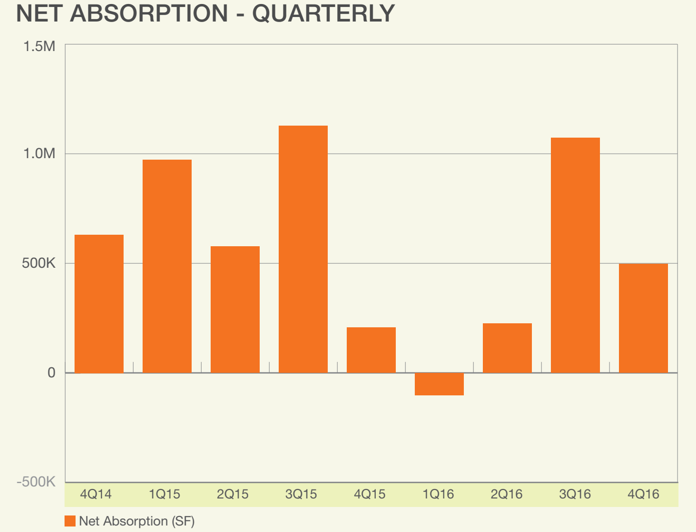
ASKING LEASE RATE*



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Kidder Mathews

kiddermathews.com

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

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

Contact

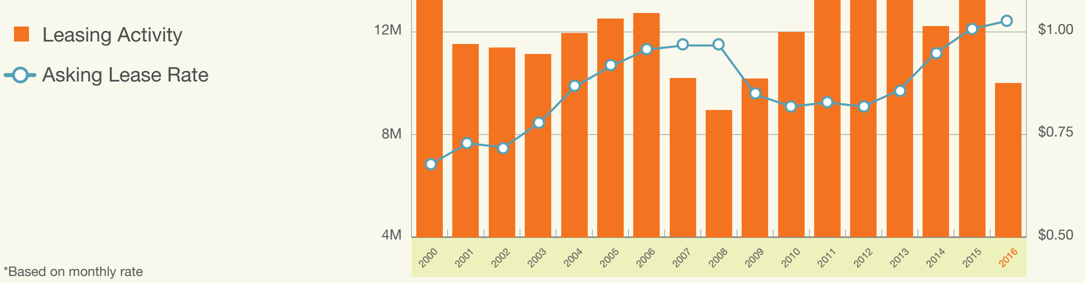
Mark Read
Executive VP, Brokerage
Southwest
949.557.5000
mread@kiddermathews.com

Designated Broker
Mark Read | LIC #00572743

Market Breakdown

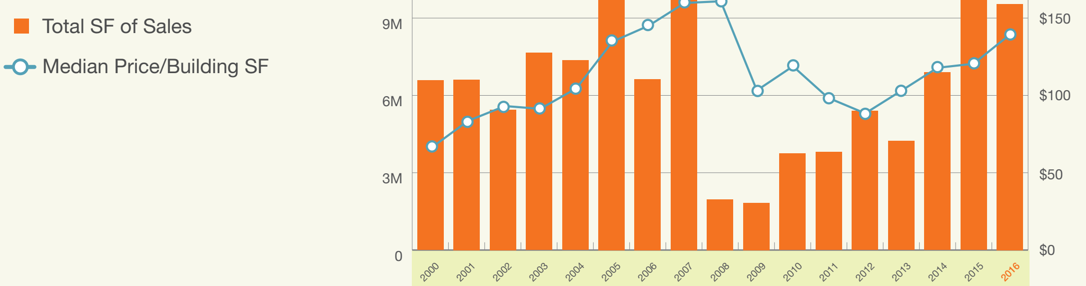
	2016	2015	2014	Annual % Change
Vacancy Rate	5.3%	5.5%	7.0%	-3.6%
Availability Rate	8.2%	8.7%	10.2%	-5.7%
Asking Lease Rate	$1.03	$1.01	$0.95	2.0%
Leased SF	10,010,120	14,950,540	12,221,698	-33.0%
Sold SF	9,547,944	11,907,022	6,890,132	-19.8%
Net Absorption	1,690,176	2,883,117	2,701,421	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES*



*Based on monthly rate

HISTORICAL SALES SF & MEDIAN SALE PRICE



HISTORICAL NEW CONSTRUCTION & VACANCY RATE