

# San Diego Industrial

## Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



## Notable Transactions

Mission Imprintables, Inc.  
1855 Dornoch Ct., Otay Mesa  
77,000 s.f. Leased

Upper Deck  
5830 El Camino Real, Carlsbad  
73,000 s.f. Leased

Reynolds Logistics  
2660 Sarnen St., Otay Mesa  
71,000 s.f. Leased

FedEx  
8409 Kerns St., Otay Mesa  
55,000 s.f. Leased

Skiva Graphics & Baja Skiva Apparel  
9255 Customhouse Pl., Otay Mesa  
50,000 s.f. Leased

The San Diego County industrial real estate market started the year with negative absorption in spite of heavy leasing activity as a result of several large move outs and new construction deliveries. Countywide total vacancy rose this quarter by 40 basis points, to 5.5%, which is still below the 5.6% vacancy recorded at the beginning of last year. Despite this quarter's setback, vacancy and availability are forecasted to drop as new construction gets leased before hitting the market. The San Diego County unemployment rate sits at 4.5%, a decrease of 20 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 direct vacancy rates include UTC at 21.2%, and Rancho Bernardo and San Ysidro/ Imperial Beach, both at 10.7%. Primary submarkets with the least vacant space include Sports Arena/ Airport at 0.7%, Mission Gorge at 1.5%, and PB/Rose Canyon/Morena at 1.7%. With over 1.4 million square feet under construction that will be delivered mostly leased, new developments will offer little short-term relief to this robust market.

Asking rental rates for all industrial properties increased slightly this quarter to an average of \$1.04 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 \$1.23 and \$1.13 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 \$0.74 per square foot. Asking rental rates for R&D properties across the San Diego market averaged \$1.47 per square foot, while manufacturing and warehouse space averaged \$0.89 this quarter.

The research and development market was strong this quarter, with 265,000 square feet of positive net absorption improving direct vacancy and ending the year at 7.3%.

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# Area Review

The UTC submarket is becoming a major hub for flex projects, with five major projects under construction totaling 673,000 square feet.

San Diego's industrial sales market was strong in the first quarter, with 101 sales totaling over 2.1 million square feet. The

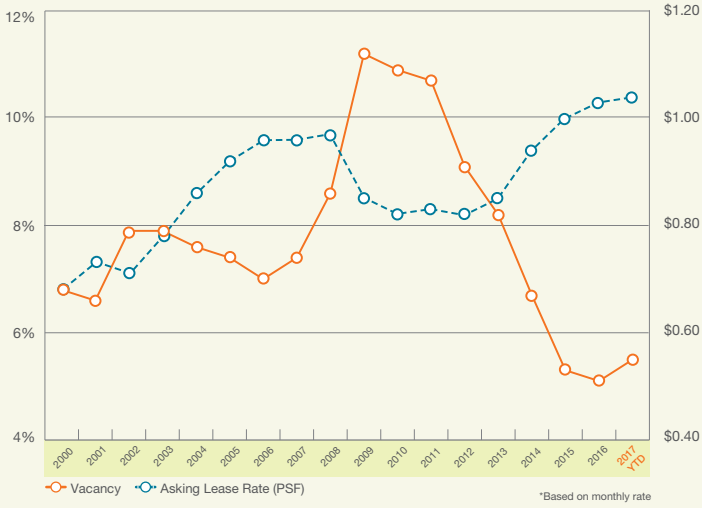
average sale price for industrial investment assets was \$118 per square foot, down from \$139 per square foot this time last year. Overall San Diego recorded \$213 million in dollar volume throughout the first quarter, with an average cap rate of 6.6%.

Data Source: CoStar

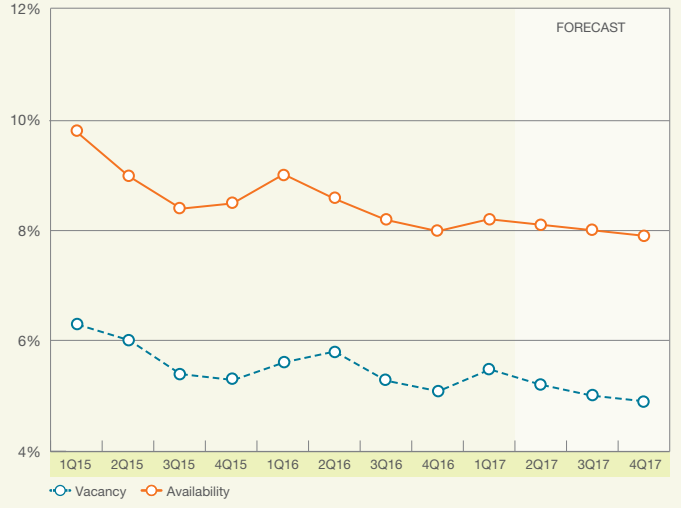
## Submarket Statistics

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	13,639,099	9.3%	0.8%	10.1%	(16,715)	(16,715)	281,593	156,977	\$1.11
Escondido	7,282,211	1.9%	0.7%	2.6%	73,013	73,013	53,510	0	\$0.92
North Beach Cities	344,397	0.3%	0.0%	0.3%	(35)	(35)	0	0	-
Oceanside	9,619,266	2.5%	0.0%	2.5%	(14,105)	(14,105)	0	0	\$0.78
San Marcos	8,769,676	6.9%	0.1%	7.0%	(39,241)	(39,241)	0	0	\$0.69
Vista	13,701,553	3.8%	0.1%	3.9%	(51,267)	(51,267)	0	0	\$0.81
<b>North County</b>	<b>53,356,202</b>	<b>5.2%</b>	<b>0.3%</b>	<b>5.6%</b>	<b>(48,350)</b>	<b>(48,350)</b>	<b>335,103</b>	<b>156,977</b>	<b>\$0.87</b>
Kearny Mesa	15,316,187	3.6%	0.1%	3.7%	(78,226)	(78,226)	156,000	0	\$1.27
Mira Mesa/ Miramar	17,439,279	4.5%	0.9%	5.3%	(56,678)	(56,678)	0	0	\$1.06
PB/Rose Canyon/ Morena	3,232,998	1.7%	0.0%	1.7%	2,142	2,142	0	0	\$0.82
Sorrento Mesa	9,884,246	6.1%	1.6%	7.8%	28,545	28,545	0	0	\$1.44
Sorrento Valley	3,381,483	5.9%	0.4%	6.2%	(13,263)	(13,263)	0	0	\$1.74
Sports Arena/ Airport	2,821,180	0.7%	0.0%	0.7%	4,125	4,125	0	0	\$1.82
Torrey Pines	3,600,012	3.6%	1.5%	5.2%	19,554	19,554	63,000	0	\$4.25
UTC	2,328,932	21.2%	3.1%	24.3%	287,182	287,182	673,626	304,326	\$1.36
<b>Central County</b>	<b>58,004,317</b>	<b>4.9%</b>	<b>0.8%</b>	<b>5.7%</b>	<b>193,381</b>	<b>193,381</b>	<b>892,626</b>	<b>304,326</b>	<b>\$1.13</b>
Mission Gorge	2,061,683	1.5%	0.3%	1.9%	(6,953)	(6,953)	0	0	\$1.21
Poway	8,612,937	5.4%	0.1%	5.5%	(196,570)	(196,570)	82,640	0	\$1.02
Rancho Bernardo	7,844,636	10.7%	0.0%	10.7%	(154,017)	(154,017)	0	0	\$1.51
Scripps Ranch	1,458,382	10.3%	0.3%	10.6%	70,851	70,851	0	0	\$1.05
<b>I-15 Corridor</b>	<b>19,977,638</b>	<b>7.4%</b>	<b>0.1%</b>	<b>7.6%</b>	<b>(286,689)</b>	<b>(286,689)</b>	<b>82,640</b>	<b>0</b>	<b>\$1.23</b>
Chula Vista	9,992,505	6.3%	0.4%	6.7%	(56,164)	(56,164)	0	0	\$0.87
Downtown	2,461,984	2.9%	0.0%	2.9%	0	0	0	0	\$3.00
National City	3,515,356	1.7%	0.0%	1.7%	840	840	0	0	\$0.91
Otay Mesa	15,450,952	8.0%	0.1%	8.1%	(64,226)	(64,226)	123,456	0	\$0.65
San Ysidro/ Imp Beach	1,447,842	10.7%	0.0%	10.7%	(56,752)	(56,752)	0	0	\$0.72
<b>South County</b>	<b>32,868,639</b>	<b>6.6%</b>	<b>0.1%</b>	<b>6.7%</b>	<b>(176,302)</b>	<b>(176,302)</b>	<b>123,456</b>	<b>0</b>	<b>\$0.92</b>
East City	945,793	0.0%	0.0%	0.0%	2,000	2,000	0	0	-
El Cajon	9,630,939	0.9%	0.2%	1.1%	136,376	136,376	0	0	\$0.73
La Mesa/ Spring Valley	2,517,086	2.7%	0.1%	2.8%	(10,030)	(10,030)	0	0	\$0.65
Santee	3,962,535	1.6%	0.1%	1.7%	3,414	3,414	0	0	\$0.88
Southeast San Diego	3,352,686	2.2%	0.0%	2.2%	(2,920)	(2,920)	0	0	\$0.86
<b>East County</b>	<b>20,409,039</b>	<b>1.4%</b>	<b>0.1%</b>	<b>1.5%</b>	<b>128,840</b>	<b>128,840</b>	<b>0</b>	<b>0</b>	<b>\$0.74</b>
Outlying SD County North	933,202	1.6%	0.0%	1.6%	(940)	(940)	0	0	\$0.85
Outlying SD County South	788,557	0.2%	0.8%	1.0%	(1,600)	(1,600)	0	0	-
<b>Outlying East San Diego Cty</b>	<b>1,721,759</b>	<b>0.9%</b>	<b>0.4%</b>	<b>1.3%</b>	<b>(2,540)</b>	<b>(2,540)</b>	<b>0</b>	<b>0</b>	<b>\$0.85</b>
<b>San Diego County</b>	<b>186,337,594</b>	<b>5.1%</b>	<b>0.4%</b>	<b>5.5%</b>	<b>(191,660)</b>	<b>(191,660)</b>	<b>1,433,825</b>	<b>461,303</b>	<b>\$1.04</b>

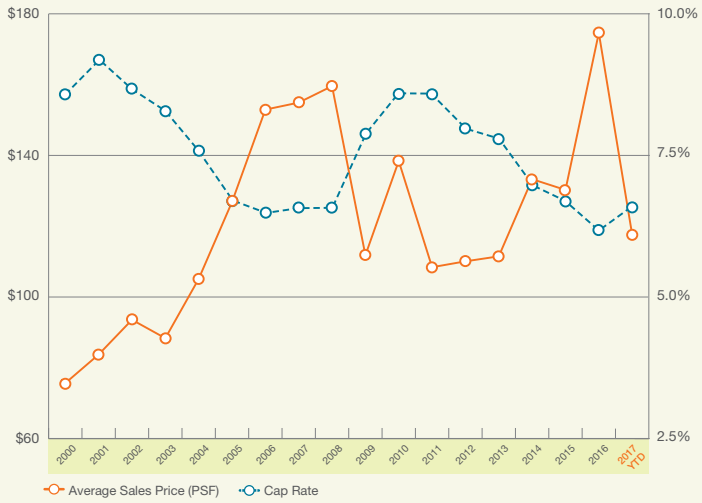
### VACANCY VS ASKING LEASE RATE\*



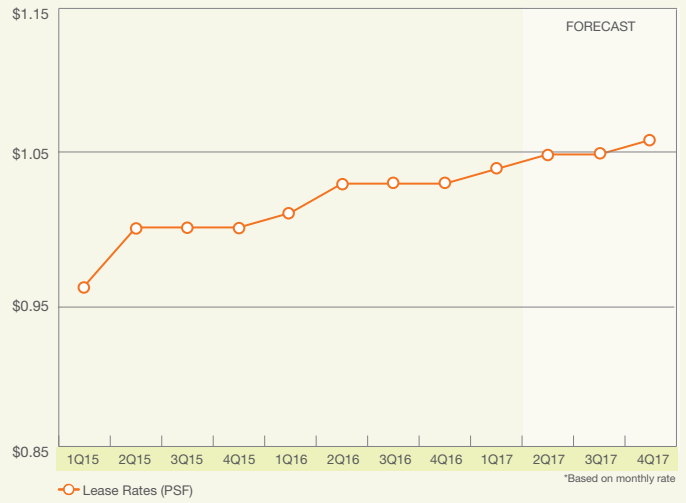
### VACANCY VS AVAILABILITY



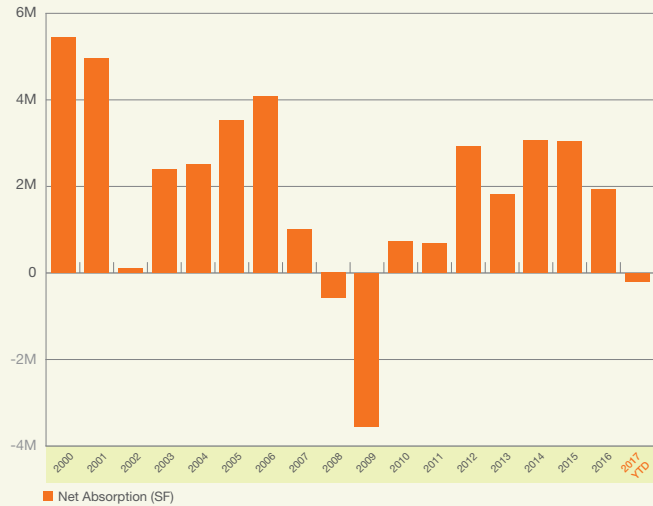
### AVERAGE SALES PRICE & CAPITALIZATION RATES



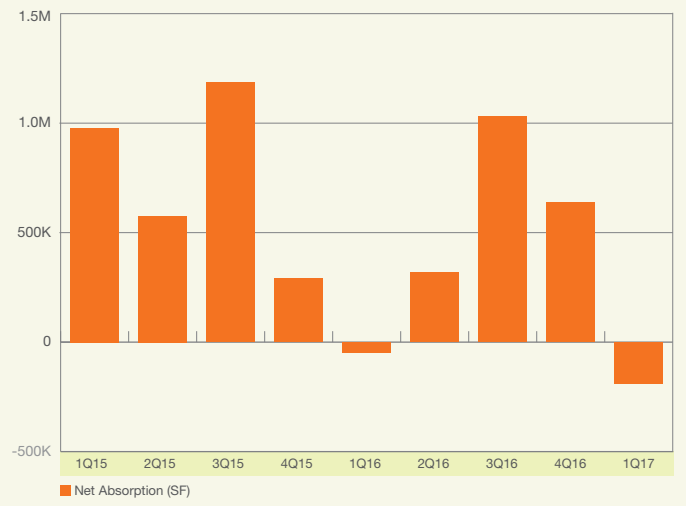
### ASKING LEASE RATE\*



### 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

Los Angeles  
213.880.5250

Long Beach  
562.472.0071

Commerce  
323.727.1144

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

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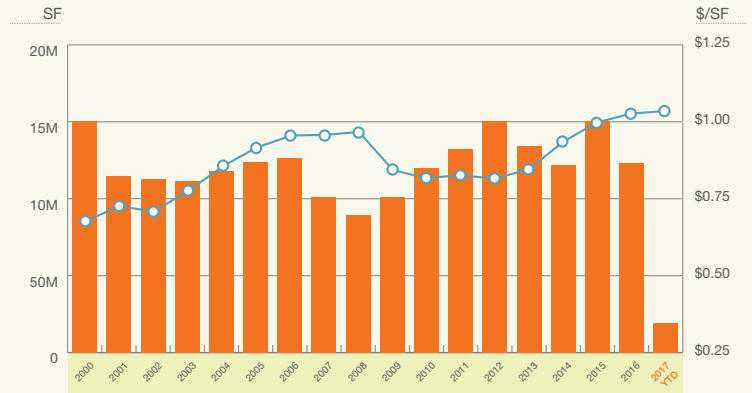
Designated Broker  
Mark Read | LIC #00572743

**Market Breakdown**

	1Q17	4Q16	1Q16	Annual % Change
Vacancy Rate	5.5%	5.1%	5.6%	-1.8%
Availability Rate	8.2%	8.0%	9.0%	-8.9%
Asking Lease Rate	\$1.04	\$1.03	\$1.01	3.0%
Leased SF	1,922,504	2,485,545	2,918,208	-34.1%
Sold SF	2,168,201	4,247,212	3,049,676	-28.9%
Net Absorption	-191,660	637,326	-48,697	N/A

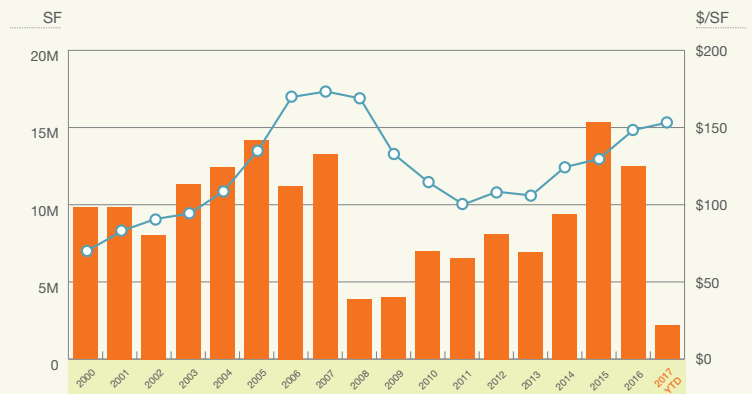
**HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES\***

■ Leasing Activity  
○ Asking Lease Rate



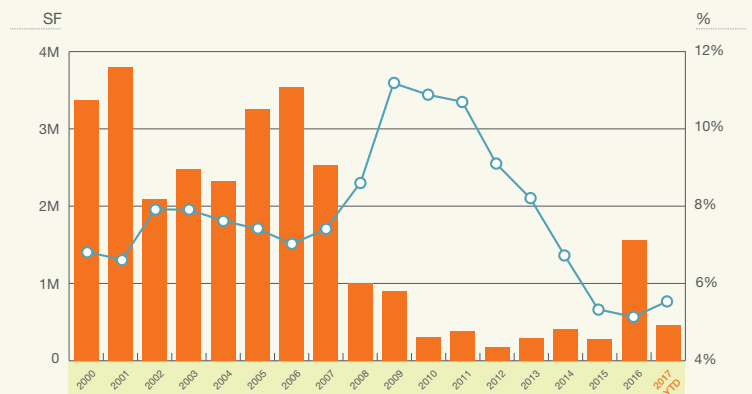
**HISTORICAL SALES SF & MEDIAN SALE PRICE**

■ Total SF of Sales  
○ Median Price/Building SF



**HISTORICAL NEW CONSTRUCTION & VACANCY RATE**

■ New Construction  
○ Vacancy



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