

San Diego Industrial

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Transactions

Laboratory Corp-Amer Holdings
13112 Evening Creek Dr., Rancho Bernardo
109,780 s.f. Leased

Chipman Relocation & Logistics
1320 Air Wing Way, Otay Mesa
102,240 s.f. Leased

RedIT US & Zayo Group
12270 World Trade Dr., Rancho Bernardo
88,000 s.f. Leased (renewal)

TriMark R.W. Smith
7594-7596 Trade St., Miramar
68,298 s.f. Leased (renewal)

The San Diego County industrial real estate market closed out the second quarter displaying strong positive net absorption, in a generally tight market of low availability and vacancy rates. Countywide total vacancy decreased this quarter by 30 basis points from last quarter, to 5.3%, below the 5.9% vacancy recorded at the same time last year. The vacancy rate for San Diego County's industrial market is one of the lowest numbers posted in the past ten years, and has remained in this record low for the past two years. The San Diego County unemployment rate sits at 3.6%, below the year-ago estimate of 4.3% and well below the unadjusted unemployment rate of 4.2% for California and 4.1% for the nation. According to the State of California's Employment Development Department, San Diego County's total nonfarm employment increased by 20,300 jobs between May 2016 and May 2017, and we expect this strong local economy and increase in job growth to help drive the real estate market in the right direction.

Submarkets in San Diego with the highest total vacancy rates include UTC at 23.7%, and Scripps Ranch at 9.6%. Primary submarkets with the least vacant space include Sports Arena/Airport at 0.3%, and PB/ Rose Canyon/Morena at 2.3%. With over 1.3 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 decreased slightly this quarter to an average of \$1.04 per square foot on a triple-net basis, compared to last quarter's \$1.05 per square foot. This represents a 1.96% year over year increase in rates. Asking rates are highest in the I-15 Corridor and Central County, where they average \$1.25 and \$1.11 per square foot respectively and are growing steadily each quarter. In contrast, the lowest rates are found in South County, which reported an average asking rent of \$0.76 per square foot. Asking rental rates for R&D properties across the San Diego market averaged at a high of \$1.51 per square foot, while manufacturing and warehouse space averaged at a high of \$0.87 this quarter.

The research and development market was robust this quarter, with over 300,000 square feet of positive net absorption, driving direct vacancy rates to an all-time

→ Continued, page 2

Area Review

record low of 6.9%. The Central County is a major hub for flex projects, with five major projects under construction totaling 640,000 square feet.

San Diego's industrial sales market was strong in the second quarter, and although only a total of 55 transactions totaling

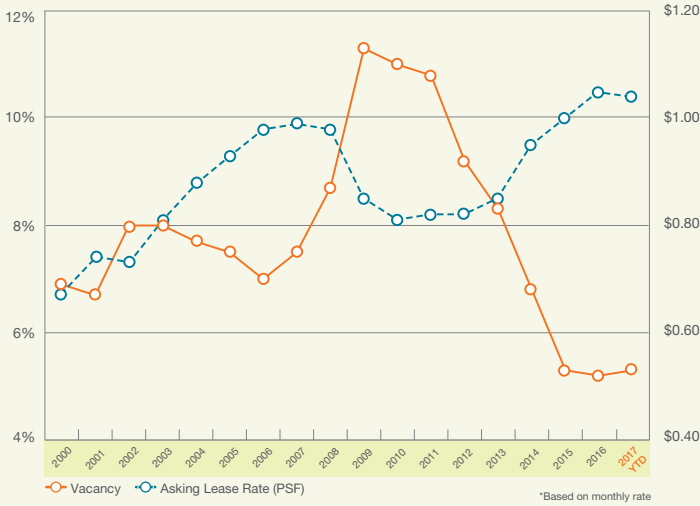
1.5 million square feet, the overall San Diego dollar volume still recorded higher than last quarter at \$235 million. The average sale price was at a high of \$157 per square foot, up from \$149 per square foot this time last year.

Data Source: CoStar

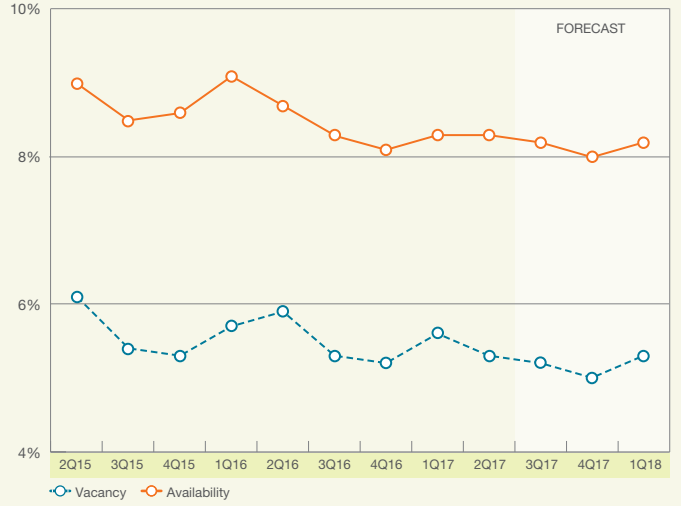
Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	2Q Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	Average NNN Rental Rate
Carlsbad	13,611,392	8.8%	1.0%	9.8%	31,002	58,449	452,691	156,977	\$1.10
Escondido	7,220,446	2.3%	0.7%	3.0%	(31,569)	44,331	53,510	0	\$0.94
North Beach Cities	327,367	0.3%	0.0%	0.3%	0	(35)	0	0	-
Oceanside	9,612,902	2.1%	0.0%	2.1%	50,916	31,738	0	0	\$0.79
San Marcos	8,755,178	6.8%	0.1%	6.9%	2,541	(27,335)	0	0	\$0.69
Vista	13,705,764	5.0%	0.1%	5.1%	(43,123)	(212,065)	0	0	\$0.82
North County	53,233,049	5.4%	0.4%	5.7%	9,767	(104,917)	506,201	156,977	\$0.88
Kearny Mesa	15,185,912	3.2%	0.2%	3.3%	19,440	(10,145)	156,000	0	\$1.28
Mira Mesa/ Miramar	17,436,507	3.9%	0.9%	4.8%	78,286	54,445	0	0	\$1.05
PB/Rose Canyon/ Morena	3,232,998	2.3%	0.0%	2.3%	(20,230)	(18,088)	0	0	\$0.84
Sorrento Mesa	9,668,270	6.6%	0.9%	7.5%	(30,880)	(756)	0	0	\$1.46
Sorrento Valley	3,382,030	7.0%	0.5%	7.5%	(73,787)	(54,450)	0	0	\$1.56
Sports Arena/ Airport	1,863,014	0.3%	0.0%	0.3%	18,035	18,335	0	0	\$1.45
Torrey Pines	3,663,012	2.5%	2.3%	4.8%	26,759	120,583	0	63,000	\$4.25
UTC	2,343,260	20.6%	3.1%	23.7%	9,946	297,128	316,262	599,935	\$1.36
Central County	56,775,003	4.7%	0.8%	5.5%	27,569	407,052	472,262	662,935	\$1.11
Mission Gorge	2,061,683	1.5%	0.0%	1.5%	39	(6,914)	0	0	\$1.29
Poway	8,594,447	4.4%	0.1%	4.5%	79,157	(115,442)	82,640	0	\$1.02
Rancho Bernardo	7,830,989	7.7%	0.0%	7.7%	242,833	83,392	0	0	\$1.52
Scripps Ranch	1,458,382	9.6%	0.0%	9.6%	4,849	80,679	0	0	\$1.05
I-15 Corridor	19,945,501	5.8%	0.1%	5.8%	326,878	41,715	82,640	0	\$1.25
Chula Vista	10,017,986	6.7%	0.4%	7.1%	13,692	(93,480)	0	0	\$0.89
National City	3,515,356	2.0%	0.0%	2.0%	(8,251)	(7,411)	0	0	\$0.89
Otay Mesa	15,485,871	7.5%	0.1%	7.5%	128,144	62,818	79,050	44,406	\$0.65
San Ysidro/ Imp Beach	1,447,842	5.9%	0.0%	5.9%	7,664	12,414	0	0	\$0.72
South County	30,467,055	6.5%	0.1%	6.7%	141,249	(25,659)	79,050	44,406	\$0.76
East City	945,793	0.7%	0.0%	0.7%	(6,500)	(4,500)	0	0	\$1.10
El Cajon	9,578,793	0.8%	0.1%	0.9%	12,823	146,249	0	0	\$0.77
La Mesa/ Spring Valley	2,477,786	3.2%	0.0%	3.2%	(10,465)	(20,495)	0	0	\$0.65
Santee	3,962,463	1.5%	0.1%	1.6%	(852)	6,546	0	0	\$0.88
Southeast San Diego	3,354,020	1.6%	0.0%	1.6%	20,022	17,102	0	0	\$0.82
East County	20,318,855	1.4%	0.1%	1.4%	15,028	144,902	0	0	\$0.80
Outlying SD County North	909,589	2.0%	0.0%	2.0%	(3,450)	(4,390)	0	0	\$1.05
Outlying SD County South	788,557	0.0%	0.0%	0.0%	1,600	0	0	0	-
Outlying East San Diego Cty	1,698,146	1.1%	0.0%	1.1%	(1,850)	(4,390)	0	0	\$0.85
San Diego County	182,437,609	4.9%	0.4%	5.3%	518,641	458,703	1,140,153	864,318	\$1.04

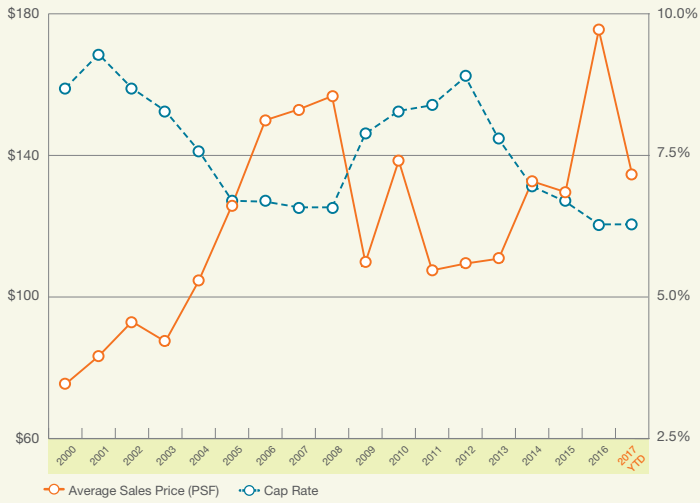
VACANCY VS ASKING LEASE RATE*



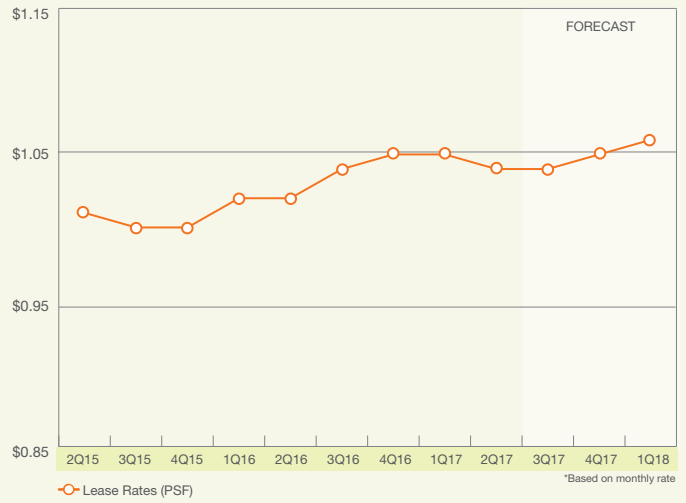
VACANCY VS AVAILABILITY



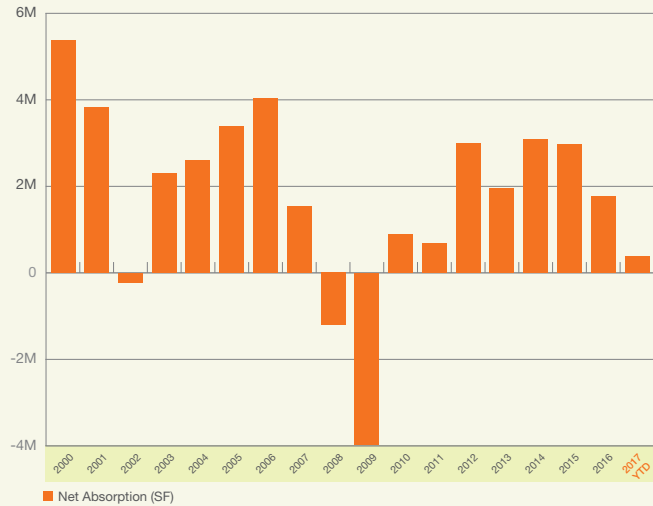
AVERAGE SALES PRICE & CAPITALIZATION RATES



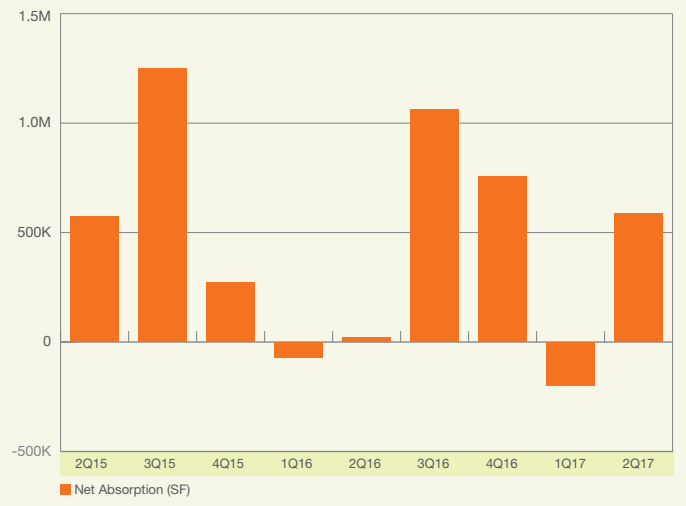
ASKING LEASE RATE*



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

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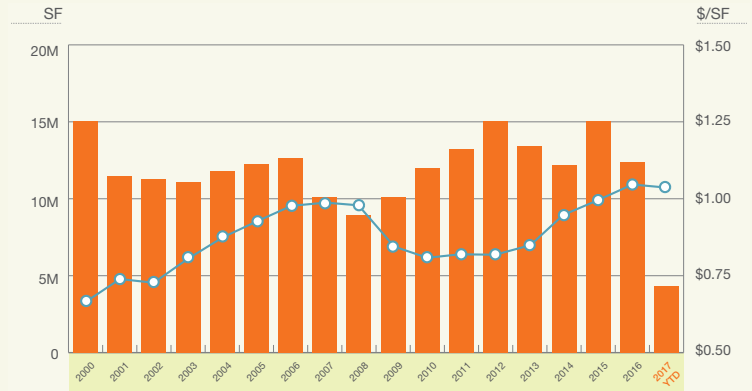
Designated Broker
Mark Read | LIC #00572743

Market Breakdown

	2Q17	1Q17	2Q16	Annual % Change
Vacancy Rate	5.3%	5.6%	5.9%	-10.17%
Availability Rate	8.3%	8.3%	8.7%	-4.6%
Asking Lease Rate	\$1.04	\$1.05	\$1.02	1.96%
Leased SF	2,060,533	2,238,788	3,605,763	-42.85%
Sold SF	1,530,968	2,011,733	2,830,310	-45.91%
Net Absorption	588,144	-200,030	18,771	N/A

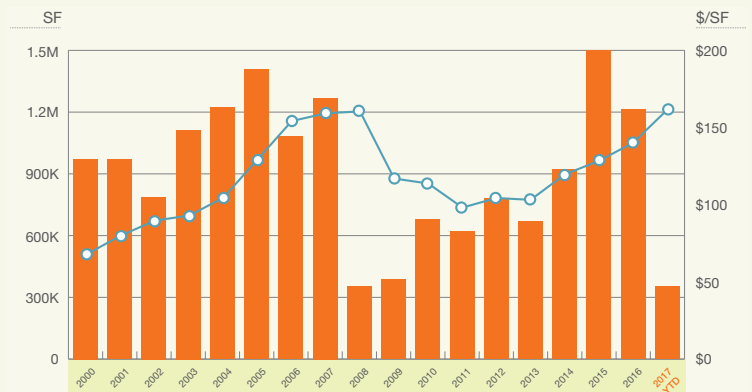
HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES*

■ Leasing Activity
○ Asking Lease Rate



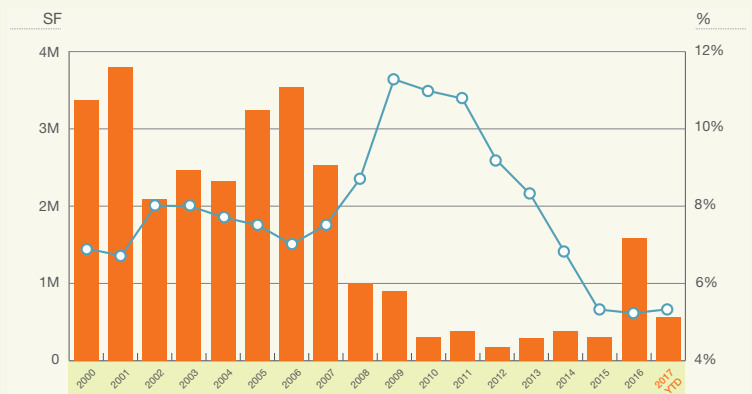
HISTORICAL SALES SF & MEDIAN SALE PRICE

■ Total SF of Sales
○ Median Price/Building SF



HISTORICAL NEW CONSTRUCTION & VACANCY RATE

■ New Construction
○ Vacancy



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