

Real Estate Market Review

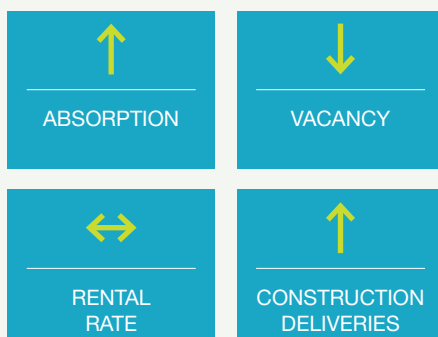
San Diego Industrial

The San Diego industrial real estate market ended the third quarter with strong positive net absorption, steady rental rates and an even lower vacancy rate, increasing the competition for space and setting the stage for the remainder of 2017. Countywide total vacancy decreased this quarter by 30 basis points from last quarter, to 5%, below the 5.3% 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 fifteen years, and has remained in this record low for the past two years. The San Diego County unemployment rate sits at 4.7%, below the year-ago estimate of 4.9% and well below the unadjusted unemployment rate of 5.4% for California and slightly higher than the rate of 4.5% for the nation. According to the State of California’s Employment Development Department, San Diego County’s total nonfarm employment increased by 19,200 jobs year over year between August 2016 and August 2017, and we expect this strong local economy and increase in job growth to help drive the real estate market in the right direction in the coming future.

Submarkets in San Diego with the highest total vacancy rates include UTC at 15.5%, and Scripps Ranch at 9.6%. Primary submarkets with the least vacant space include Sports Arena/Airport at 0.5%, and North Beach Cities at 0.8%. Although this past year has recorded its lowest vacancy rate, the San Diego industrial market may experience some short term relief to the tight robust market, with over 1 million square feet beginning construction just in the third quarter alone for a total of approximately 2.4 million square feet under construction.

Asking rental rates for all industrial properties recorded at an average of \$1.04 per square foot on a triple-net basis, staying steady from last quarter’s \$1.04 per square foot. Asking rates are highest in the I-15 Corridor and Central County, where they average \$1.24 and \$1.18 per square foot respectively and are growing steadily each quarter. In 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 at a high

Market Forecast Trends



Notable Lease Transactions

PETCO Animal Supplies Inc.
10850 Via Frontera, Rancho Bernardo
260,000 s.f. leased (renewal)

Northrop Grumman
16550 W Bernardo Dr., Rancho Bernardo
222,509 s.f. leased

Amazon
16550 Via Esprillo, Rancho Bernardo &
10300 Campus Point Dr., UTC
180,946 s.f. & 84,550 s.f. leased

R.L. Jones Customhouse Brokers
8830 Siempre Viva Rd., Otay Mesa
153,035 s.f. leased (renewal)

NuVasive Inc.
7473 Lusk Blvd., Sorrento Mesa
145,225 s.f. leased (renewal)

LabCorp of America
13112 Evening Creek Dr S, Rancho Bernardo
109,780 s.f. leased (renewal)

Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy SF	Total Vacancy Rate	Q3 Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	Avg NNN Rental Rate
Carlsbad	13,702,591	7.7%	0.1%	1,078,064	7.9%	221,613	252,104	1,023,536	212,550	\$1.10
Escondido	7,228,502	1.6%	0.6%	160,203	2.2%	4,525	50,656	0	0	\$0.95
North Beach Cities	327,367	0.8%	0.0%	2,592	0.8%	(1,677)	(1,712)	0	0	-
Oceanside	9,740,055	3.1%	0.0%	306,193	3.1%	(37,913)	(72,655)	124,581	0	\$0.82
San Marcos	8,757,961	6.6%	0.0%	577,484	6.6%	12,560	(4,775)	219,451	0	\$0.71
Vista	13,715,980	5.4%	0.1%	750,135	5.5%	(36,467)	(249,312)	0	0	\$0.82
North County	53,472,456	5.2%	0.1%	2,874,671	5.4%	162,641	(25,694)	1,367,568	212,550	\$0.89
Kearny Mesa	15,259,342	5.7%	0.2%	900,529	5.9%	(88,829)	(107,374)	156,000	0	\$1.30
Mira Mesa/ Miramar	17,397,238	3.6%	0.6%	738,223	4.2%	70,600	106,087	30,000	0	\$1.05
PB/Rose Canyon/ Morena	3,042,998	2.5%	0.1%	78,061	2.6%	(25,157)	(19,045)	0	0	\$0.86
Sorrento Mesa	9,751,219	5.8%	0.1%	574,438	5.9%	74,592	74,212	0	0	\$1.58
Sorrento Valley	3,382,030	6.7%	0.3%	238,501	7.1%	14,296	(37,135)	0	0	\$1.60
Sports Arena/ Airport	1,885,738	0.5%	0.0%	9,296	0.5%	(3,196)	15,739	0	0	\$1.45
Torrey Pines	3,746,954	3.4%	2.3%	214,394	5.7%	(35,806)	84,777	170,523	63,000	\$4.25
UTC	2,584,591	12.8%	2.8%	401,621	15.5%	0	592,737	0	916,197	\$2.52
Central County	57,050,110	5.0%	0.5%	3,155,063	5.5%	6,500	709,998	356,523	979,197	\$1.18
Mission Gorge	2,061,683	1.6%	0.1%	33,426	1.6%	(783)	(7,697)	0	0	\$1.41
Poway	8,680,738	4.1%	0.4%	394,323	4.5%	168,627	53,185	342,500	82,640	\$1.01
Rancho Bernardo	7,787,989	4.8%	0.0%	372,662	4.8%	198,912	245,119	0	0	\$1.50
Scripps Ranch	1,458,382	9.6%	0.0%	139,792	9.6%	246	80,925	0	0	\$1.00
I-15 Corridor	19,988,792	4.5%	0.2%	940,203	4.7%	367,002	371,532	342,500	82,640	\$1.24
Chula Vista	9,930,602	3.9%	0.3%	411,960	4.1%	66,155	(27,825)	0	0	\$0.88
Downtown	2,245,909	3.3%	0.0%	75,164	3.3%	(13,872)	(3,256)	0	0	\$3.00
National City	3,515,396	1.5%	0.0%	52,794	1.5%	15,936	8,525	0	0	\$0.63
Otay Mesa	15,480,157	8.7%	0.1%	1,365,947	8.8%	(206,761)	(129,862)	370,204	44,406	\$0.65
San Ysidro/ Imp Beach	1,447,842	4.6%	0.1%	67,913	4.7%	19,160	31,574	0	0	\$0.73
South County	32,619,906	5.9%	0.1%	1,973,778	6.1%	(119,382)	(120,844)	370,204	44,406	\$0.88
East City	934,293	0.0%	0.0%	0	0.0%	0	0	0	0	\$0.00
El Cajon	9,584,400	0.9%	0.0%	82,341	0.9%	(8,103)	138,146	0	0	\$0.76
La Mesa/ Spring Valley	2,468,886	2.1%	0.0%	52,268	2.1%	27,332	6,837	0	0	\$0.63
Santee	3,963,334	1.0%	0.2%	48,565	1.2%	20,905	26,781	0	0	\$0.89
Southeast San Diego	3,349,722	1.2%	0.0%	40,843	1.2%	5,975	23,077	0	0	\$0.82
East County	20,300,635	1.1%	0.0%	224,017	1.1%	46,109	194,841	0	0	\$0.74
Outlying SD County North	1,131,589	2.0%	0.0%	22,202	2.0%	5,620	(1,670)	0	0	\$0.85
Outlying SD County South	828,557	0.0%	0.0%	0	0.0%	1,600	0	0	0	\$0.00
Outlying East San Diego Cty	1,960,146	1.1%	0.0%	22,202	1.1%	7,220	(1,670)	0	0	\$0.85
San Diego County Total	185,392,045	4.7%	0.3%	9,189,934	5.0%	470,090	1,128,163	2,436,795	1,318,793	\$1.04

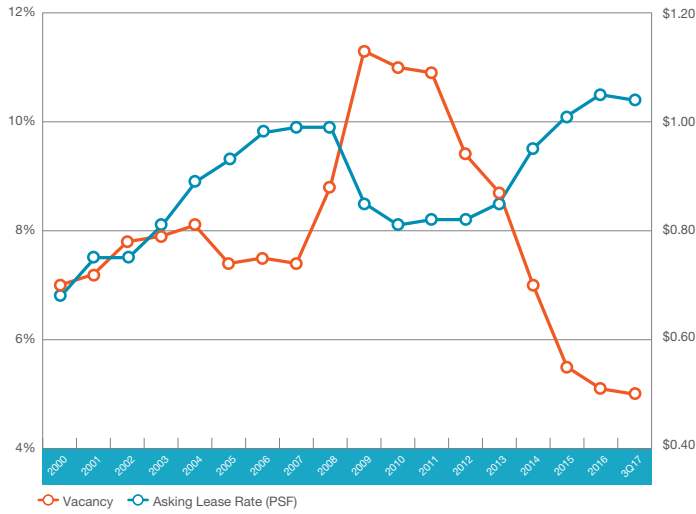
of \$1.52 per square foot, while manufacturing and warehouse space averaged at a high of \$0.85 this quarter.

The research and development market showed signs of strength this quarter, with over 350,000 square feet of positive net absorption, driving direct vacancy rates to an all-time record low of 6.4 %. A notable delivery in the third quarter was the i3 Illumina campus in UTC, totaling over 315,000 square feet, leaving almost 600,000 square feet still under construction.

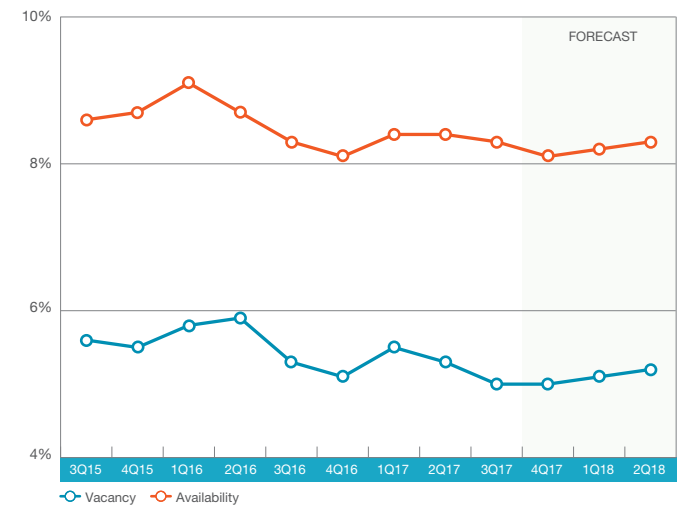
San Diego's industrial sales market was resilient in the third quarter with transactions totaling just under 2.3M square feet, well above the total of 1.5M square feet last quarter. The dollar volume was also well above last quarter recording at almost \$400M compared to last quarter's total of \$240M. The average sale price was at a high of \$1200 per square foot, up from \$160 per square foot this time last year.

Data Source: CoStar

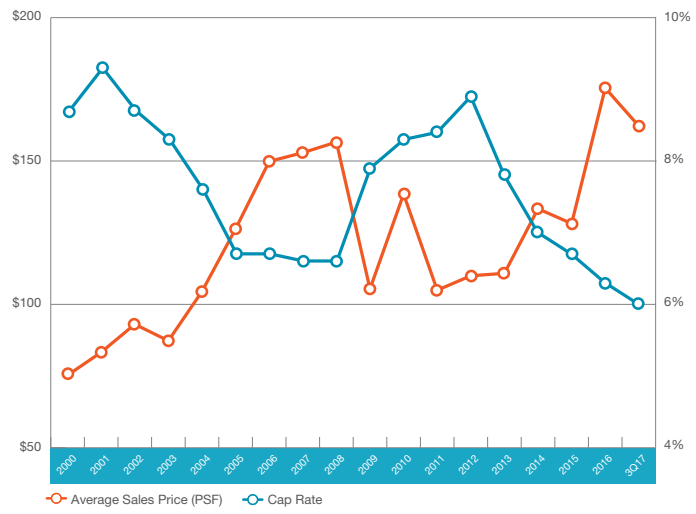
VACANCY VS ASKING LEASE RATE



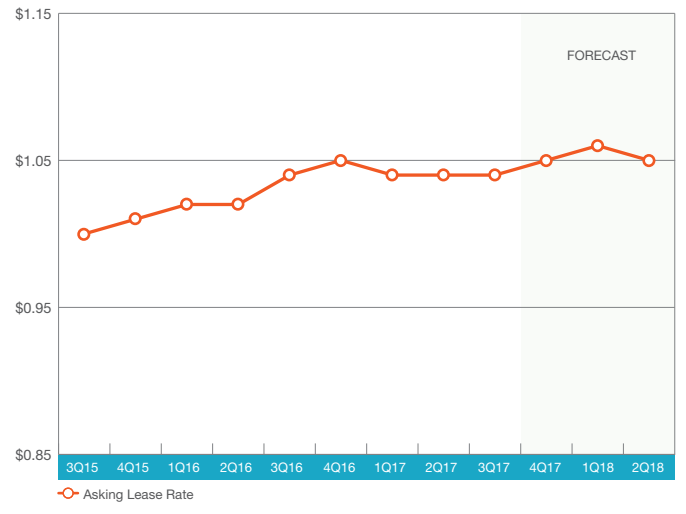
VACANCY VS AVAILABILITY



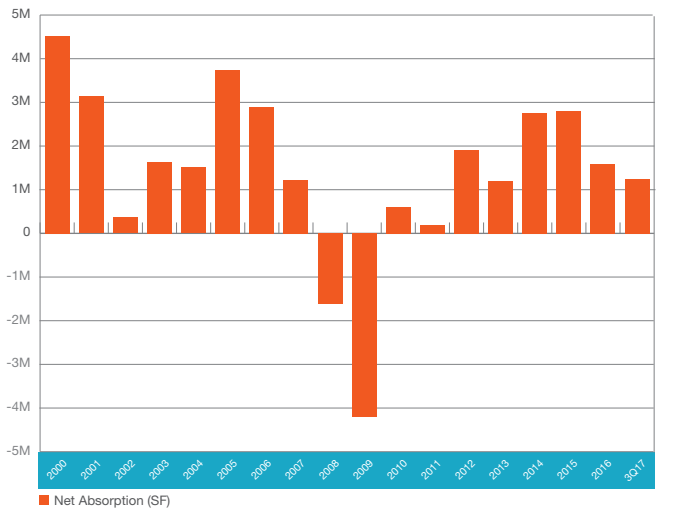
AVERAGE SALES PRICE & CAPITALIZATION RATES



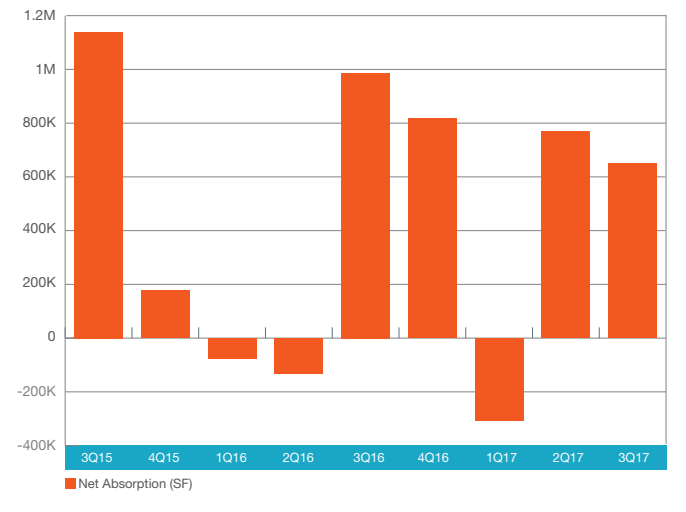
ASKING LEASE RATE



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

Commerce
323.727.1144

Long Beach
562.472.0071

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

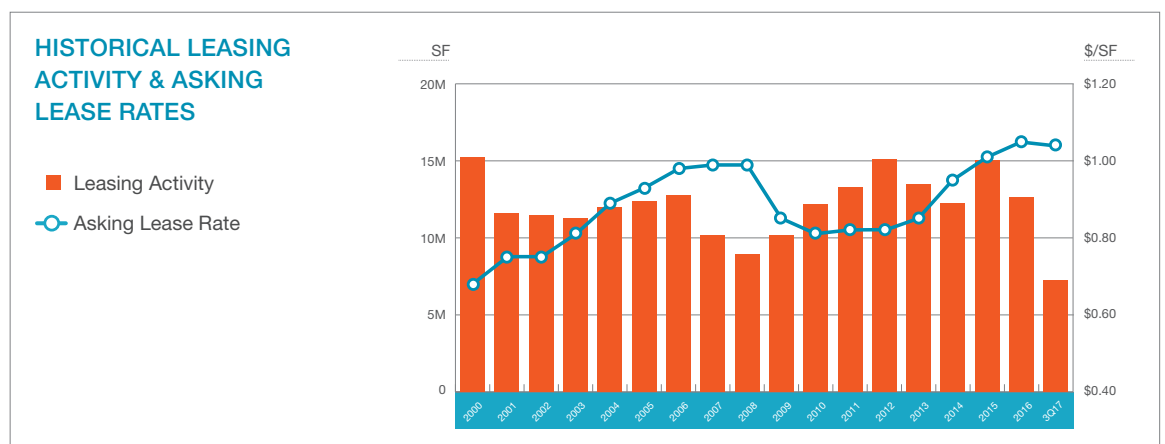
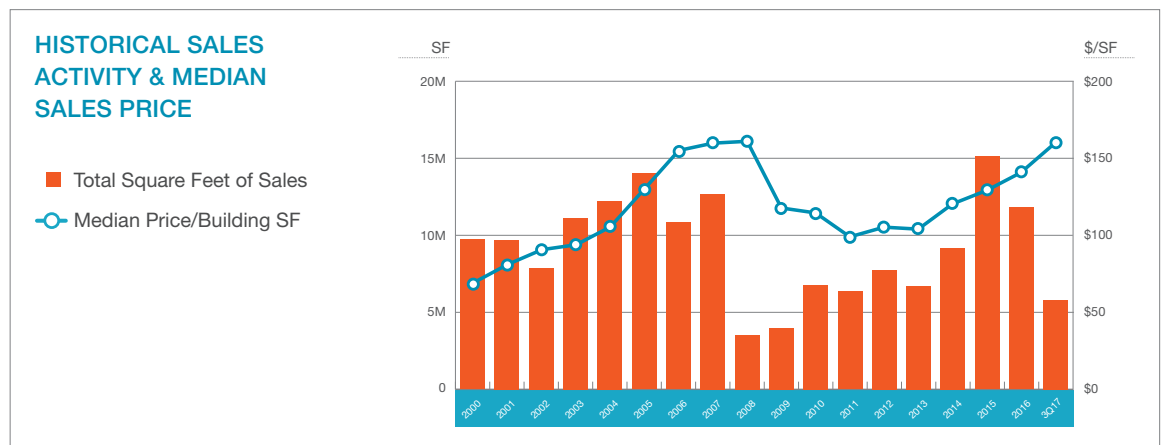
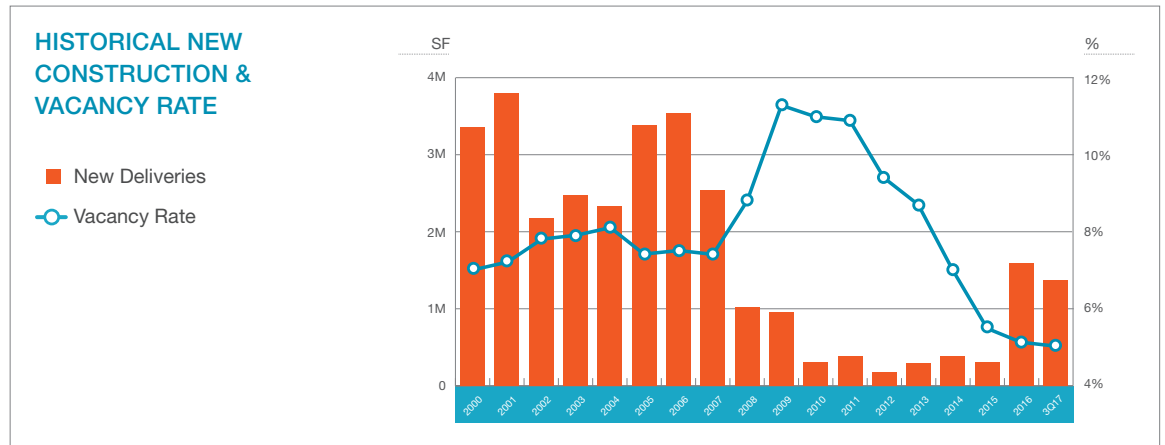
Contact

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Market Breakdown

	Q3 2017	Q2 2017	Q3 2016	Annual % Change
Vacancy Rate	5.00%	5.30%	5.30%	-5.66%
Availability Rate	8.30%	8.40%	8.30%	0%
Asking Lease Rate	\$1.04	\$1.04	\$1.04	0%
Leased SF	2,674,127	2,299,721	3,334,231	-19.80%
Sold SF	2,290,261	1,494,421	2,181,720	4.98%
Net Absorption	648,550	769,887	986,422	N/A



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