

Real Estate Market Review

# San Diego Industrial

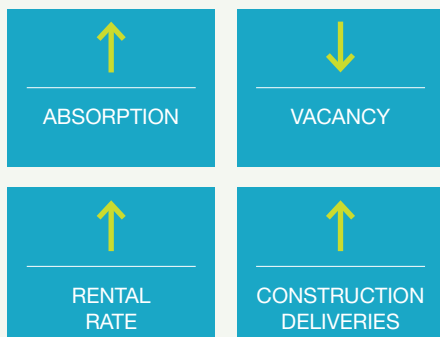
The San Diego industrial real estate market had a record-breaking year in 2017, posting an all-time high in rental rates and a record low in vacancy and availability rates, further increasing the competition for space. Although San Diego industrial space caters largely to life science and R&D/biotech users, logistics landlords are benefiting from the rapid expansion of e-commerce. Products shipped through Long Beach and LA are increasingly transported directly to warehouses in San Diego. Firms such as Amazon and FedEx have established footprints, sorting and delivering goods to consumers the same day, a trend that proliferates Southern California. Overall employment growth remains positive, as the San Diego County unemployment rate sits at 3.3%, below the year-ago estimate of 4.3% and well below the unadjusted unemployment rate of 4.0% for California and the 3.9% national rate. According to the State of California’s Employment Development Department, San Diego County’s total nonfarm employment increased by 20,800 jobs year over year between November 2016 and November 2017, and we expect this robust local economy and increase in job growth to help drive the real estate market in the right direction in the future.

Countywide total vacancy decreased this year by 30 basis points from last year, to 4.4%, falling to a new all-time low. The vacancy rate for the industrial market has now declined eight consecutive years and has hit record lows for the past three years. Submarkets in San Diego with the highest total vacancy rates include UTC at 16.3% and Otay Mesa at 8.5%. Lowest vacancy rates among primary submarkets, with at least 5 million square feet of inventory, include Poway at 1.0% and Chula Vista at 1.2%. Although 2017 recorded the market’s lowest vacancy rate in history, the San Diego industrial market may experience some much-needed relief, with a record-breaking 3.16 million square feet under construction at year-end. Almost the entirety of the 3.16 million square feet under construction

is due to complete in the coming year, setting the stage for significant leasing activity and absorption gains in 2018. Some notable deliveries in 2017 were the i3 Illumina campus in UTC, totaling over 315,000 square feet, the Eli Lilly expansion at Campus Pointe 2 of approximately 300,000 square feet, and el.e.vate in Carlsbad at just under 200,000 square feet.

Asking rental rates for all industrial properties recorded an all-time high at an average of \$1.04 per square foot on a triple-net basis, yet another record-breaking number in the San Diego industrial market. This is an increase of \$0.02 from year-end 2016. Asking rates are highest in the I-15 Corridor, where the average posted at \$1.22 per

### 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

**Veritiv**  
1925-2005 Harmony Grove Rd., Escondido  
153,035 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)

# Area Review

## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy SF	Total Vacancy Rate	Q4 Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	Avg NNN Rental Rate
Carlsbad	13,736,531	7.7%	0.3%	1,096,611	8.0%	94	252,198	1,280,034	352,550	\$1.06
Escondido	7,273,489	1.4%	0.5%	140,112	1.9%	1,218	51,874	212,275	0	\$0.89
North Beach Cities	344,397	0.2%	0.0%	855	0.2%	1,737	25	0	0	\$1.95
Oceanside	9,769,654	3.3%	0.0%	324,294	3.3%	(18,101)	(90,756)	124,581	0	\$0.84
San Marcos	8,769,751	7.0%	0.0%	615,993	7.0%	(38,106)	(42,881)	212,028	0	\$0.77
Vista	13,727,950	4.2%	0.1%	601,959	4.4%	137,455	(113,141)	0	0	\$0.81
<b>North County</b>	<b>53,621,772</b>	<b>5.0%</b>	<b>0.2%</b>	<b>2,779,824</b>	<b>5.2%</b>	<b>84,297</b>	<b>57,319</b>	<b>1,828,918</b>	<b>352,550</b>	<b>\$0.88</b>
Kearny Mesa	14,898,205	3.0%	0.3%	484,485	3.3%	28,373	(79,001)	219,800	0	\$1.32
Mira Mesa/ Miramar	17,414,628	3.3%	0.7%	693,560	4.0%	52,353	158,440	160,000	0	\$1.06
PB/Rose Canyon/ Morena	3,042,998	1.7%	0.1%	52,903	1.7%	26,031	6,986	0	0	\$0.86
Sorrento Mesa	9,809,565	5.3%	0.6%	577,355	5.9%	40,352	114,564	0	0	\$1.58
Sorrento Valley	3,341,219	5.9%	0.4%	209,359	6.3%	(14,407)	(51,542)	0	0	\$1.55
Sports Arena/ Airport	2,898,901	0.4%	0.3%	19,596	0.7%	(3,300)	12,439	0	0	\$1.03
Torrey Pines	3,747,512	3.8%	3.7%	281,318	7.5%	(14,124)	70,653	170,523	63,000	\$4.25
UTC	2,456,015	13.2%	3.2%	400,865	16.3%	(38,439)	554,298	0	916,197	\$2.52
<b>Central County</b>	<b>57,609,043</b>	<b>3.9%</b>	<b>0.8%</b>	<b>2,719,441</b>	<b>4.7%</b>	<b>76,839</b>	<b>786,837</b>	<b>550,323</b>	<b>979,197</b>	<b>\$1.17</b>
Mission Gorge	2,061,683	2.0%	0.0%	41,290	2.0%	(9,064)	(16,761)	0	0	\$1.47
Poway	8,666,087	0.9%	0.1%	88,424	1.0%	198,303	251,488	489,609	82,640	\$0.93
Rancho Bernardo	7,723,522	7.3%	0.1%	571,072	7.4%	(124,223)	120,896	0	0	\$1.51
Scripps Ranch	1,458,382	8.2%	0.0%	119,770	8.2%	20,022	100,947	0	0	\$1.06
<b>I-15 Corridor</b>	<b>19,909,674</b>	<b>4.0%</b>	<b>0.1%</b>	<b>820,556</b>	<b>4.1%</b>	<b>85,038</b>	<b>456,570</b>	<b>489,609</b>	<b>82,640</b>	<b>\$1.22</b>
Chula Vista	9,925,888	1.0%	0.2%	118,591	1.2%	155,698	127,873	0	0	\$0.95
Downtown	2,433,487	3.0%	0.0%	71,964	3.0%	3,200	(56)	0	0	\$3.00
National City	3,508,433	1.5%	0.0%	54,227	1.5%	(1,476)	7,049	0	0	\$0.60
Otay Mesa	15,479,134	8.1%	0.4%	1,310,848	8.5%	101,384	(28,978)	291,154	44,406	\$0.66
San Ysidro/ Imp Beach	1,430,468	4.0%	0.1%	58,223	4.1%	9,690	41,264	0	0	\$0.73
<b>South County</b>	<b>32,777,410</b>	<b>4.7%</b>	<b>0.3%</b>	<b>1,613,853</b>	<b>4.9%</b>	<b>268,496</b>	<b>147,152</b>	<b>291,154</b>	<b>44,406</b>	<b>\$0.92</b>
East City	913,649	0.0%	0.0%	0	0.0%	0	1,000	0	0	\$0.00
El Cajon	9,593,650	0.3%	0.0%	25,999	0.3%	56,342	194,488	0	0	\$0.69
La Mesa/ Spring Valley	2,501,186	2.2%	0.0%	55,534	2.2%	(13,266)	3,571	0	0	\$1.47
Santee	3,963,334	1.1%	0.0%	41,940	1.1%	(1,059)	25,722	0	0	\$0.89
Southeast San Diego	3,348,683	2.0%	0.0%	66,988	2.0%	(26,145)	(3,068)	0	0	\$0.92
<b>East County</b>	<b>20,320,502</b>	<b>0.9%</b>	<b>0.0%</b>	<b>190,461</b>	<b>0.9%</b>	<b>15,872</b>	<b>221,713</b>	<b>0</b>	<b>0</b>	<b>\$0.83</b>
Outlying SD County North	1,166,121	2.5%	0.0%	28,724	2.5%	(6,522)	(7,552)	0	0	\$0.62
Outlying SD County South	828,557	0.0%	0.0%	0	0.0%	0	0	0	0	\$0.00
<b>Outlying East San Diego Cty</b>	<b>1,994,678</b>	<b>1.4%</b>	<b>0.0%</b>	<b>28,724</b>	<b>1.4%</b>	<b>(6,522)</b>	<b>(7,552)</b>	<b>0</b>	<b>0</b>	<b>\$0.85</b>
<b>San Diego County Total</b>	<b>186,233,079</b>	<b>4.0%</b>	<b>0.3%</b>	<b>8,152,859</b>	<b>4.4%</b>	<b>524,020</b>	<b>1,662,039</b>	<b>3,160,004</b>	<b>1,458,793</b>	<b>\$1.04</b>

square foot. In contrast, the lowest rates are found in East County, which reported an average asking rent of \$0.83 per square foot, still almost a \$0.10 per square foot increase compared to year-end 2016. Asking rental rates for R&D properties across the San Diego market averaged \$1.50 per square foot, while manufacturing and warehouse space averaged \$0.86 this quarter.

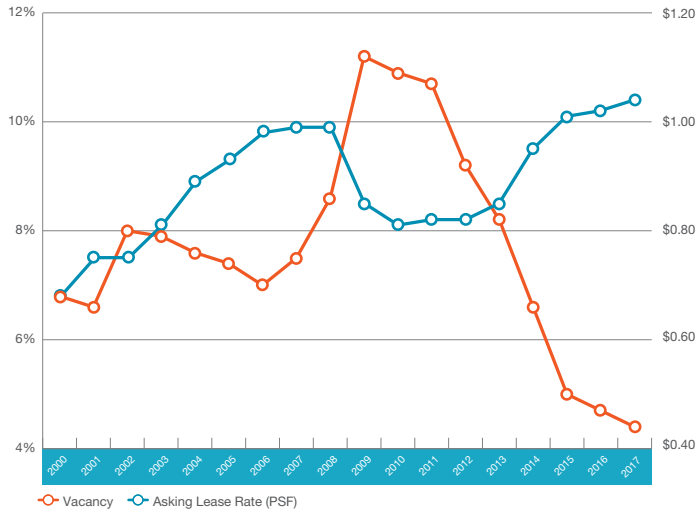
The R&D market showed strong fundamentals at the end of 2017, with just over 1 million square feet of positive net absorption, driving direct vacancy rates to an all-time record low of 5.8%, down 90 basis points from 2016's 6.7%. The manufacturing and warehouse

market was very tight at year's end, as vacancy rates fell to a record low of 3.3%.

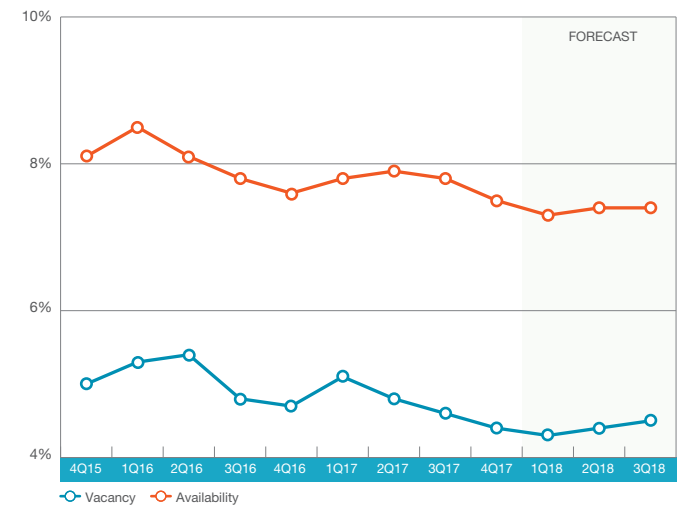
San Diego's industrial sales market stood firm in 2017 with transactions totaling just under 9.5 million square feet, below the total of 11.7 million square feet at the end of 2016, but still a strong number. Accordingly, the dollar volume also fell short of 2016's \$1.6 billion, recording at \$1.4 billion. The average sale price was \$169 per square foot, near the market's high-water mark, but slightly under the \$175 per square foot figure reported at this time in 2016.

Data Source: CoStar

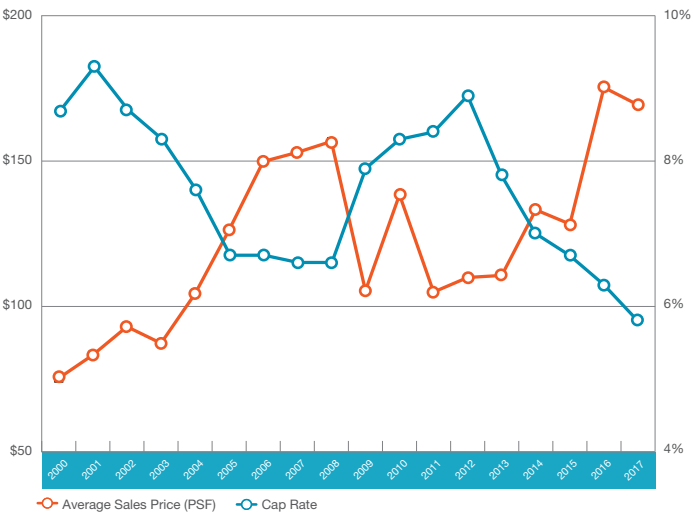
### VACANCY VS ASKING LEASE RATE



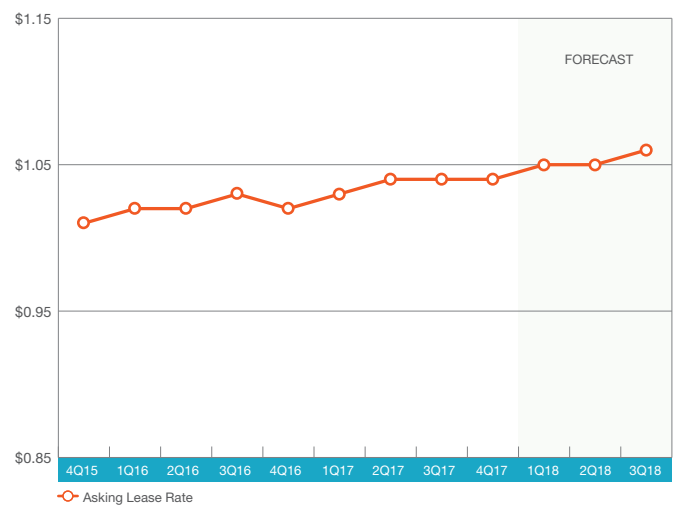
### VACANCY VS AVAILABILITY



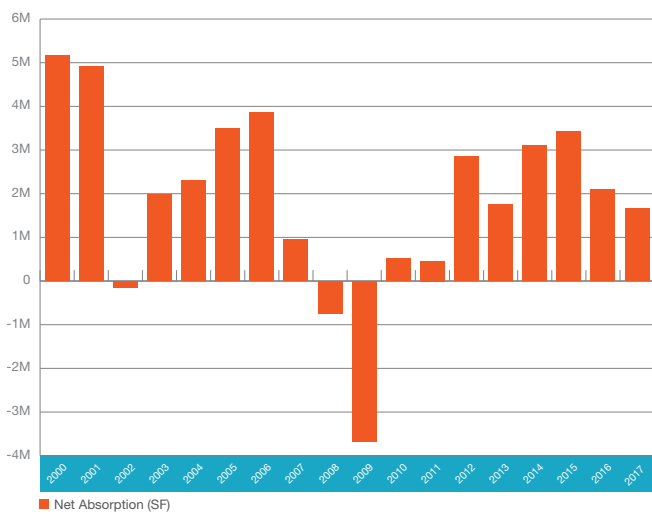
### AVERAGE SALES PRICE & CAPITALIZATION RATES



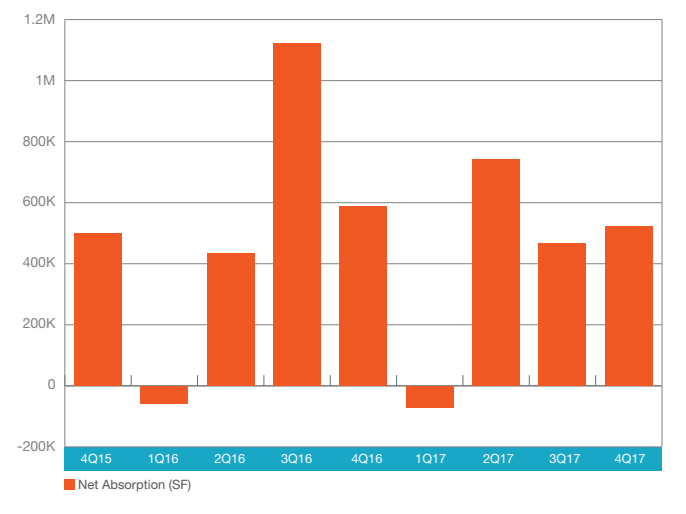
### ASKING LEASE RATE



### 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

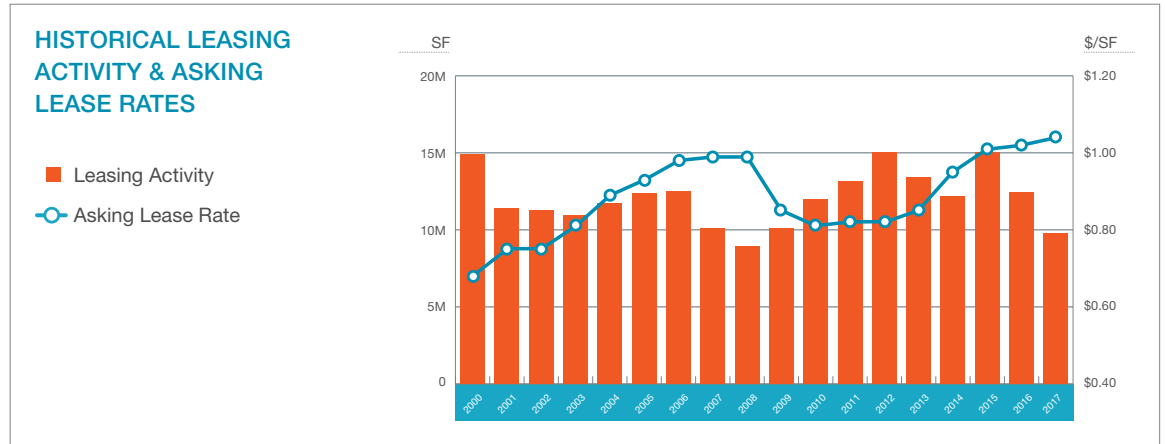
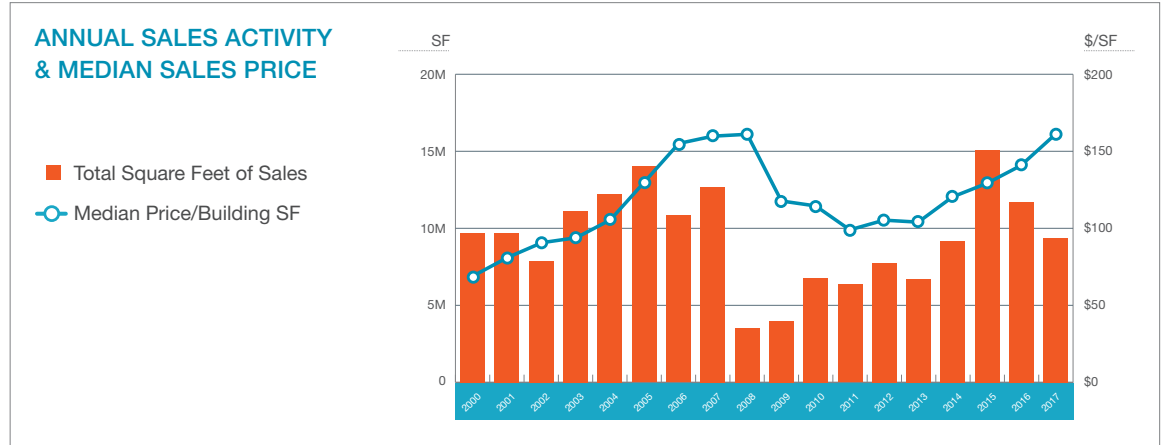
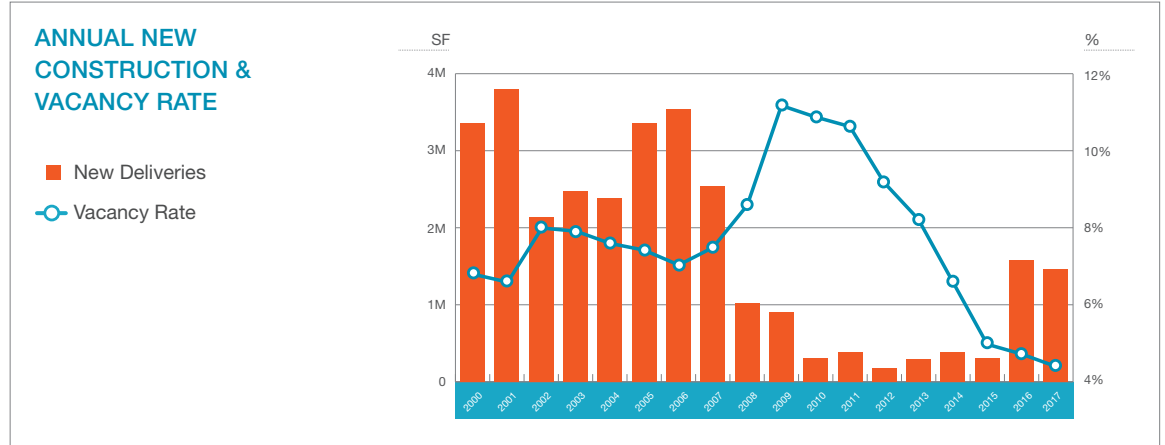
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**Market Breakdown**

	2017	2016	2015	Annual % Change
Vacancy Rate	4.40%	4.70%	5.00%	-6.38%
Availability Rate	7.40%	7.60%	8.10%	-2.63%
Asking Lease Rate	\$1.04	\$1.02	\$1.00	1.96%
Leased SF	9,767,471	12,450,643	3,334,231	-21.55%
Sold SF	9,370,487	11,725,451	2,181,720	-20.08%
Net Absorption	1,662,039	2,086,667	3,434,085	N/A



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