

Real Estate Market Review

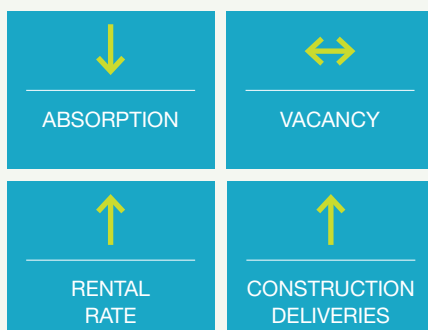
San Diego Industrial

The San Diego industrial real estate market started the year off on solid footing and continued to expand at the end of 1Q18. Rental rates are still at the highest numbers the market has ever come across, and vacancy and availability rates are staying in the record lows, only further increasing the competition for space. The industrial market is proving to be one of the strongest property sectors due to robust fundamentals, and is booming as occupiers are expanding and modernizing their distribution channels to meet the rising demand of the strong economy and the rapid rise of e-commerce sales. Overall employment growth remains positive, as the San Diego County unemployment rate sits at 3.5%, below the year-ago estimate of 4.4% and well below the unadjusted unemployment rate of 4.5% for California and the rate of 4.4% for the nation. According to the State of California’s Employment Development Department, San Diego County’s total nonfarm employment increased by a better than average 27,900 jobs year over year between February 2017 - 2018. This robust local economy and increase in job growth is expected to help drive the industrial market in the right direction in the coming year.

County-wide total vacancy at the end of 1Q18 stayed steady from year end 2017, posting at the record low 4.4%, and remaining at the lowest vacancy that the market has ever experienced. The vacancy rate for San Diego County’s industrial market has now seen a decline for 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 12.9%, and Rancho Bernardo at 8.3%. Primary submarkets with the least vacant space that have at least 5M s.f. in inventory include Poway at 1.1%, and Escondido at 2.6%. Although the San Diego industrial market

is experiencing its lowest vacancy rate in history, it may provide some much needed relief to the tight robust market, with over 3M s.f. under construction at the end of the quarter. Nearly the entirety of the 3M s.f. under construction is slated to complete within the year, setting the stage for the rest of 2018. North County is seeing much of the new development and construction, as over half the volume of projects under construction are located in this region. Overall, the San Diego industrial market reported 146,574 s.f. of negative absorption during 1Q18, most of that coming from the Chula Vista submarket (-140,337 s.f.).

Market Forecast Trends



Notable Lease Transactions

PODS Enterprises, LLC
2820 Whiptail Loop, Carlsbad
112,235 s.f. leased

Bee International, Inc.
2020 Piper Ranch Road, Otay Mesa
80,898 s.f. leased

Vista Industrial Products
3210 Executive Ridge Drive, Vista
67,476 s.f. leased

LRAD Corporation
16262 W Bernardo Road, Rancho Bernardo
54,964 s.f. leased

Whalen Furniture
1210 Air Wing Road, Otay Mesa
54,404 s.f. leased

Area Review

Submarket Statistics

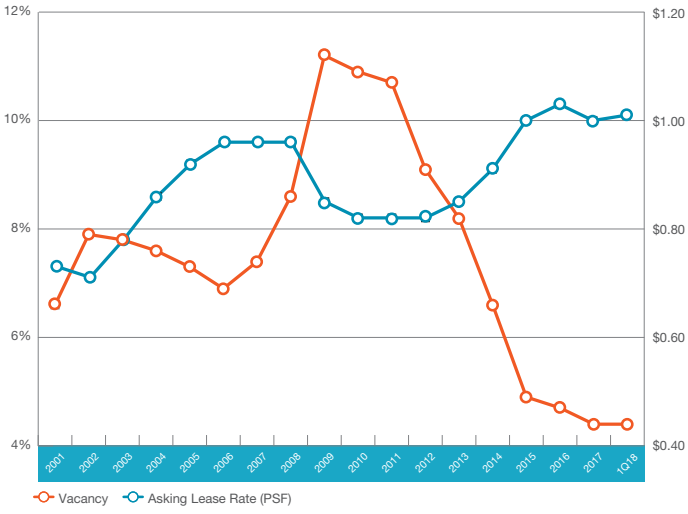
Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy SF	Total Vacancy Rate	1Q Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	Avg NNN Rental Rate
Carlsbad	13,982,242	7.8%	0.1%	1,102,153	7.9%	180,161	180,161	1,207,276	63,900	\$1.08
Escondido	7,306,001	2.5%	0.0%	188,891	2.6%	(89,264)	(89,264)	212,275	0	\$0.92
North Beach Cities	344,397	0.6%	0.0%	2,055	0.6%	(1,200)	(1,200)	0	0	\$1.95
Oceanside	9,902,120	4.4%	0.0%	439,027	4.4%	9,848	9,848	0	124,581	\$0.83
San Marcos	8,771,037	6.4%	0.1%	569,361	6.5%	40,828	40,828	222,028	0	\$0.75
Vista	13,566,580	4.7%	0.1%	647,963	4.8%	(86,212)	(86,212)	0	0	\$0.81
North County	53,872,377	5.4%	0.1%	2,949,450	5.5%	54,161	54,161	1,641,579	188,481	\$0.89
Kearny Mesa	14,935,280	2.6%	0.2%	423,534	2.8%	38,272	38,272	219,800	0	\$1.32
Mira Mesa/ Miramar	17,371,737	3.2%	0.6%	667,470	3.8%	13,700	13,700	160,000	0	\$1.15
PB/Rose Canyon/ Morena	3,042,998	1.2%	0.8%	59,986	2.0%	13,209	13,209	0	0	\$0.82
Sorrento Mesa	9,925,844	6.0%	0.1%	598,737	6.0%	(70,786)	(70,786)	0	0	\$1.54
Sorrento Valley	3,382,423	6.6%	0.4%	235,707	7.0%	(17,863)	(17,863)	0	0	\$1.72
Sports Arena/ Airport	2,908,253	0.5%	0.0%	15,763	0.5%	(3,967)	(3,967)	0	0	\$0.94
Torrey Pines	3,750,978	4.2%	3.0%	272,040	7.3%	(15,757)	(15,757)	170,523	0	\$3.75
UTC	2,456,015	12.6%	0.2%	316,415	12.9%	12,940	12,940	0	0	\$2.52
Central County	57,773,528	4.0%	0.5%	2,589,652	4.5%	(30,252)	(30,252)	550,323	0	\$1.15
Mission Gorge	2,061,733	2.7%	0.0%	55,790	2.7%	(12,287)	(12,287)	0	0	\$1.49
Poway	8,839,370	1.0%	0.1%	99,675	1.1%	(8,746)	(8,746)	489,609	0	\$0.96
Rancho Bernardo	7,723,892	8.3%	0.0%	644,929	8.3%	(80,067)	(80,067)	0	0	\$1.40
Scripps Ranch	1,455,443	6.5%	0.0%	94,139	6.5%	(1,130)	(1,130)	0	0	\$1.10
I-15 Corridor	20,080,438	4.4%	0.1%	894,533	4.5%	(102,230)	(102,230)	489,609	0	\$1.19
Chula Vista	9,931,941	2.4%	0.0%	244,039	2.5%	(140,337)	(140,337)	0	0	\$0.96
Downtown	2,451,529	2.1%	0.0%	52,374	2.1%	19,590	19,590	0	0	\$3.00
National City	3,508,333	1.2%	0.0%	43,122	1.2%	11,105	11,105	0	0	\$0.90
Otay Mesa	15,473,115	7.4%	0.3%	1,177,572	7.6%	101,057	101,057	328,454	0	\$0.66
San Ysidro/ Imp Beach	1,430,468	1.5%	0.0%	21,620	1.5%	34,913	34,913	0	0	\$0.72
South County	32,795,386	4.6%	0.1%	1,538,727	4.7%	26,328	26,328	328,454	0	\$0.95
East City	913,649	0.0%	0.0%	0	0.0%	0	0	0	0	\$0.00
El Cajon	9,597,932	0.5%	0.1%	58,999	0.6%	(25,300)	(25,300)	0	0	\$0.78
La Mesa/ Spring Valley	2,501,551	2.0%	0.0%	51,054	2.0%	4,480	4,480	0	0	\$1.54
Santee	3,962,934	2.7%	0.0%	106,015	2.7%	(64,075)	(64,075)	0	0	\$1.01
Southeast San Diego	3,348,529	2.0%	0.0%	67,738	2.0%	(10,750)	(10,750)	0	0	\$1.07
East County	20,324,595	1.4%	0.0%	283,806	1.4%	(95,645)	(95,645)	0	0	\$0.93
Outlying SD County North	1,163,620	1.9%	0.0%	21,660	1.9%	7,064	7,064	0	0	\$0.62
Outlying SD County South	828,557	0.7%	0.0%	6,000	0.7%	(6,000)	(6,000)	0	0	\$0.00
Outlying East San Diego Cty	1,992,177	1.4%	0.0%	27,660	1.4%	1,064	1,064	0	0	\$0.62
San Diego County Total	186,838,501	4.2%	0.2%	8,283,828	4.4%	(146,574)	(146,574)	3,009,965	188,481	\$1.01

Asking rental rates for all industrial properties increased slightly from last quarter at an average of \$1.01/s.f./NNN, keeping steady with some of the highest asking rates experienced in the San Diego industrial market. Asking rates are highest in the I-15 Corridor and Central County, where they average \$1.19 and \$1.15/s.f. respectively. In contrast, the lowest rates are found in East County, which reported an average asking rent of \$0.85/s.f., still almost a \$0.10/s.f. increase compared to the same time last year. Asking rental rates for R&D properties across the San Diego market averaged a high of \$1.47/s.f., while manufacturing and warehouse space averaged a record high of \$0.89 this quarter.

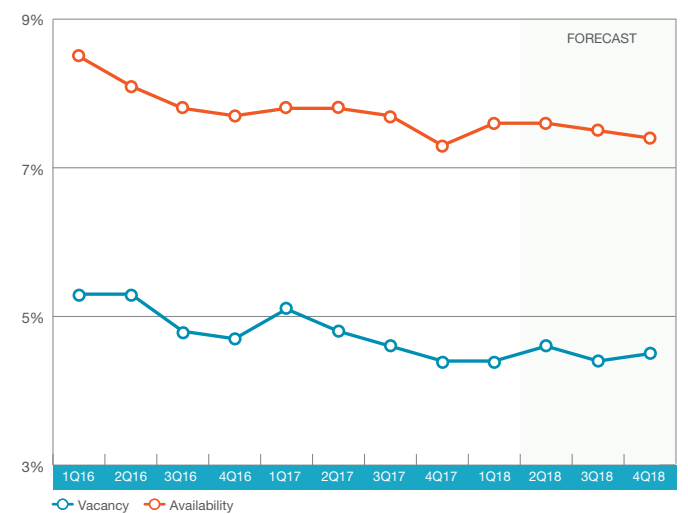
San Diego's industrial sales market remains solid at the end of 1Q18, with transactions totaling approximately 1.78M s.f., a slight decrease from this time last year which posted 2M s.f. Although the volume and number of transactions were lower year-over-year, the dollar volume exceeded the \$236M from 1Q17, recording approximately \$322M. This set the average sale price at an all-time record high of \$224/s.f.

Data Source: CoStar

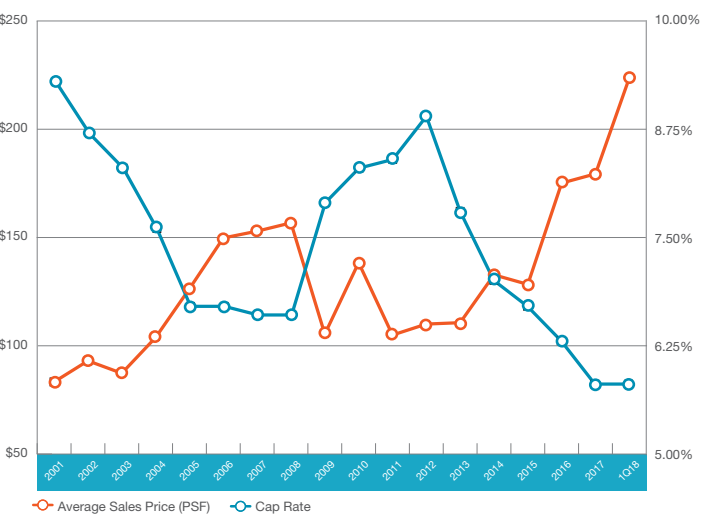
VACANCY VS ASKING LEASE RATE



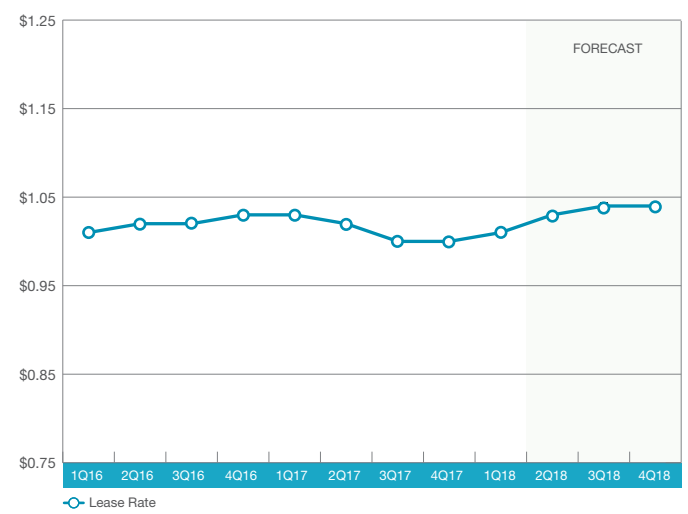
VACANCY VS AVAILABILITY



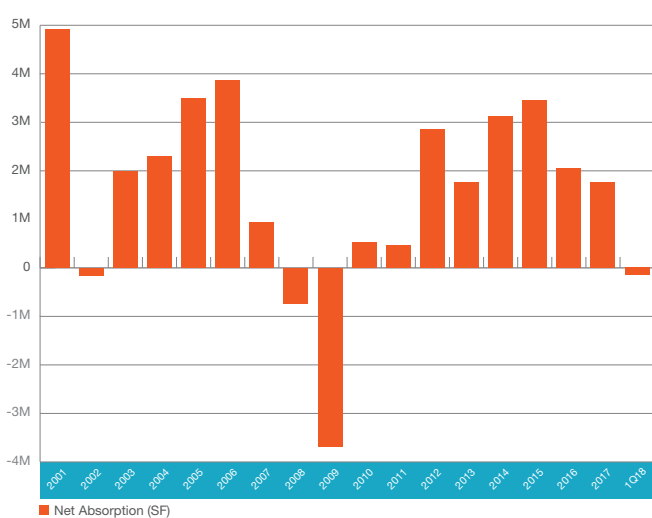
AVERAGE SALES PRICE & CAPITALIZATION RATES



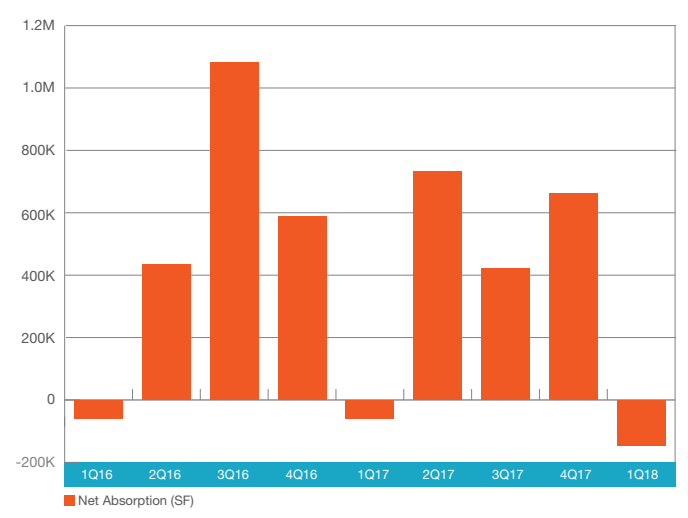
ASKING LEASE RATE



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

El Segundo
310.807.0880

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

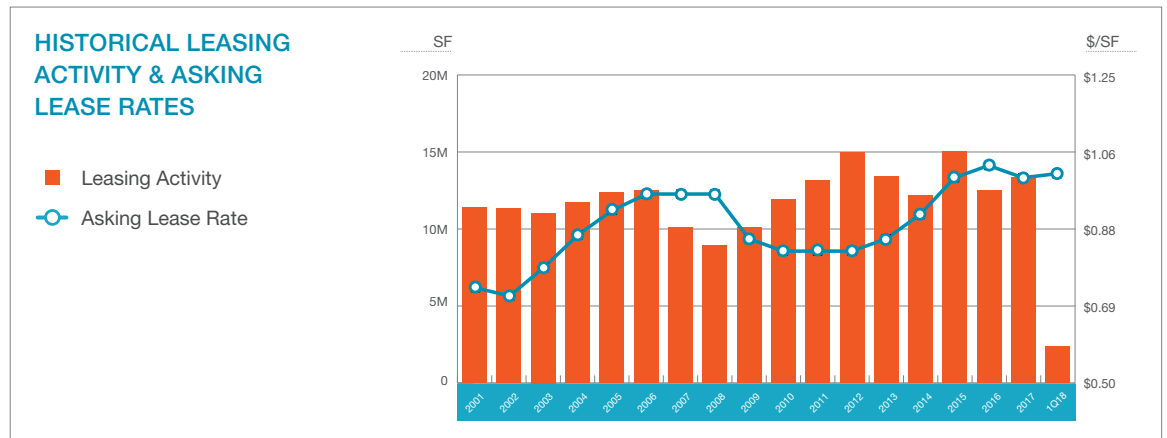
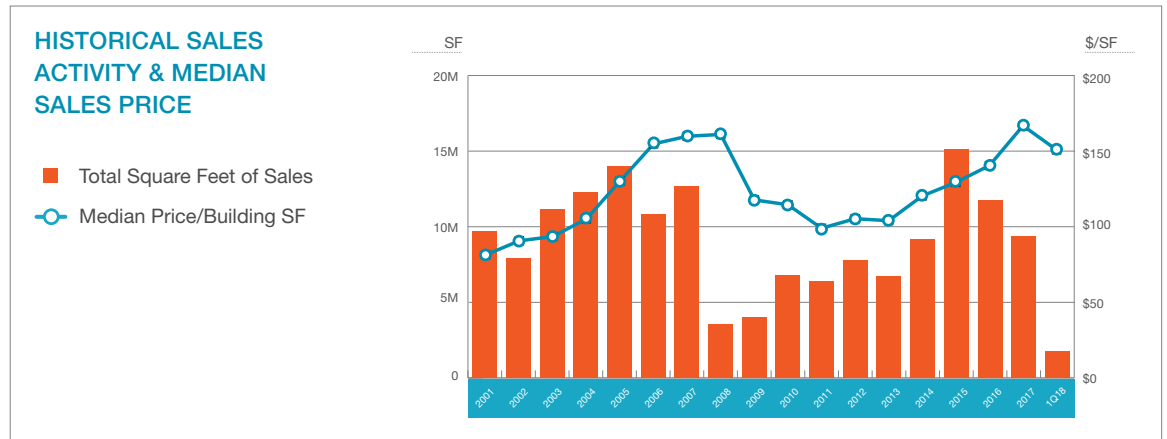
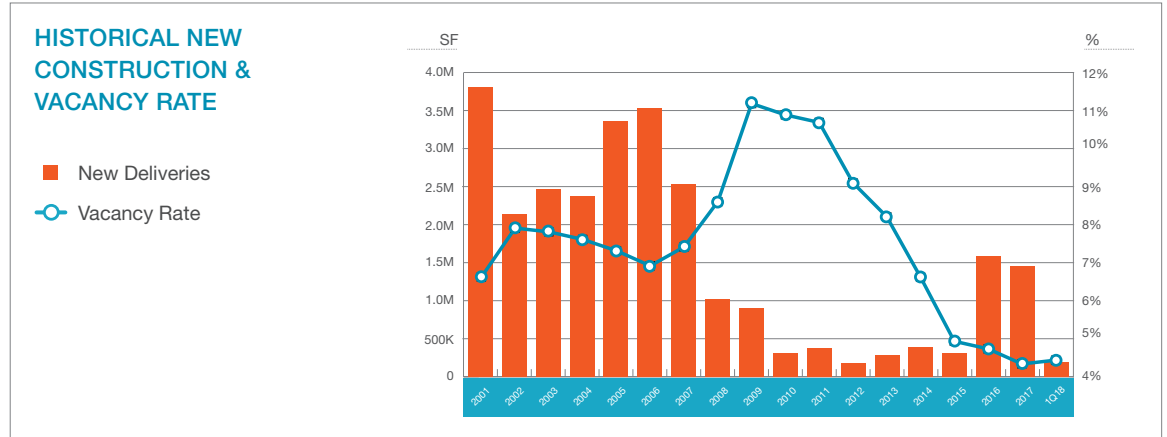
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Market Breakdown

	1Q18	4Q17	1Q17	Annual % Change
Vacancy Rate	4.40%	4.40%	5.10%	-13.73%
Availability Rate	7.60%	7.30%	7.80%	-2.56%
Asking Lease Rate	\$1.01	\$1.00	\$1.03	-1.94%
Leased SF	2,371,226	3,545,534	3,236,937	-26.74%
Sold SF	1,780,789	3,747,469	2,010,725	-11.44%
Net Absorption	-146,574	660,695	-59,459	N/A



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