

**Real Estate Market Review**

# San Diego Industrial

The San Diego industrial real estate market remained a highly lucrative location for life science and R&D/biotech users, as well as for manufacturing and warehouse tenants as first half of the year closes. Rental rates soared to an all-time high, and vacancy and availability rates remain at historically low levels, only further increasing the competition for space. Fortunately, the boom in the development pipeline has helped to alleviate some of this pressure as the market experienced a post-recession record high in new construction this quarter.

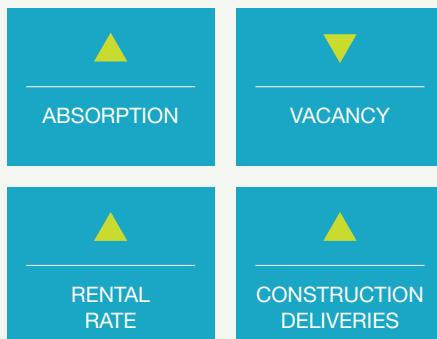
The industrial market is proving to become one of the strongest property sectors in San Diego, due to healthy fundamentals. Occupiers are expanding and modernizing their distribution channels to meet the rising demand of the strong economy and the rapid rise of e-commerce sales. Overall employment growth continues its positive streak, as the San Diego County unemployment rate dips to a low of 2.9%, below the year-ago estimate of 3.7% and well below the unadjusted unemployment rate of 3.7% for California and the rate of 3.6% 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 32,500 jobs year over year between May 2017 and May 2018, and we expect this robust local economy and increase in job growth to help drive the market in a positive direction for the second half of the year.

County-wide total vacancy slightly increased at the end of the second quarter posting at 4.6%, 20 basis points above the record low 4.4% of last year. Submarkets in San Diego with the highest total vacancy rates include UTC at 9.8%, and Rancho Bernardo at 8.9%. Primary submarkets with

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### Market Forecast Trends



YEAR-TO-YEAR BASIS

### Notable Lease Transactions

**General Atomics Aeronautical Systems, Inc.\***  
14177 Kirkham Way, Poway  
71,429 s.f.

**Tesla Motors**  
3248 Lionshead Avenue, Carlsbad  
55,573 s.f.

**Acco Engineered Systems**  
5950 Nancy Ridge Drive, Mira Mesa/Miramar  
46,353 s.f.

### Notable Sale Transactions

**Bollert Lebeau Commercial Real Estate**  
10770 Wateridge Circle, Sorrento Mesa  
180,961 s.f. | \$28.8M or \$159.01/s.f.

**Penwood Real Estate Investment Mgmt**  
260 S Pacific Street, San Marcos  
170,822 s.f. | \$21.6M or \$126.45/s.f.

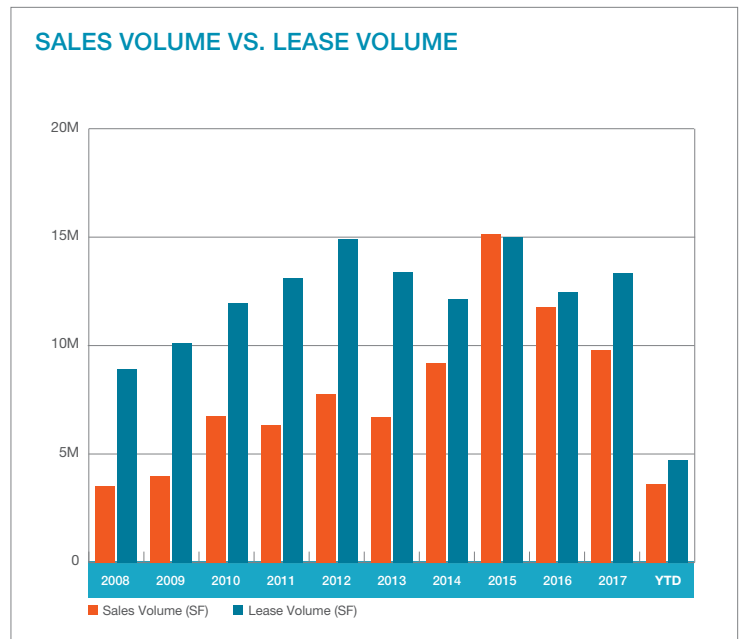
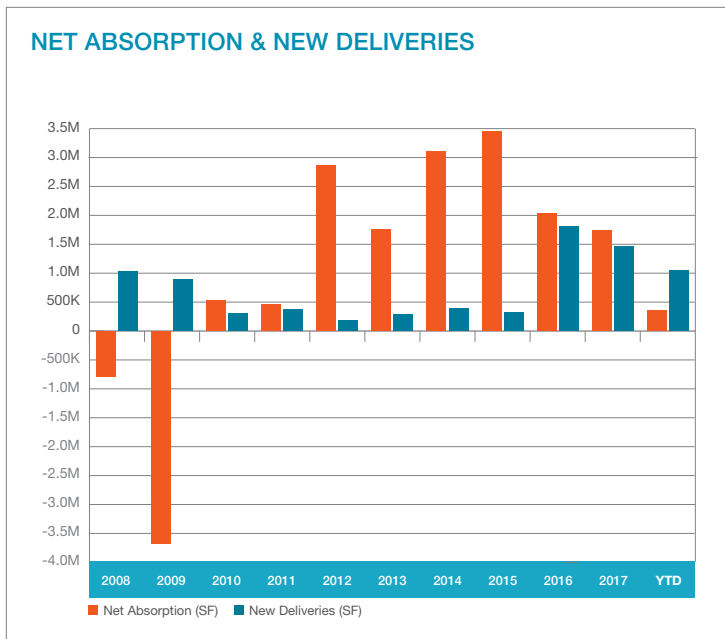
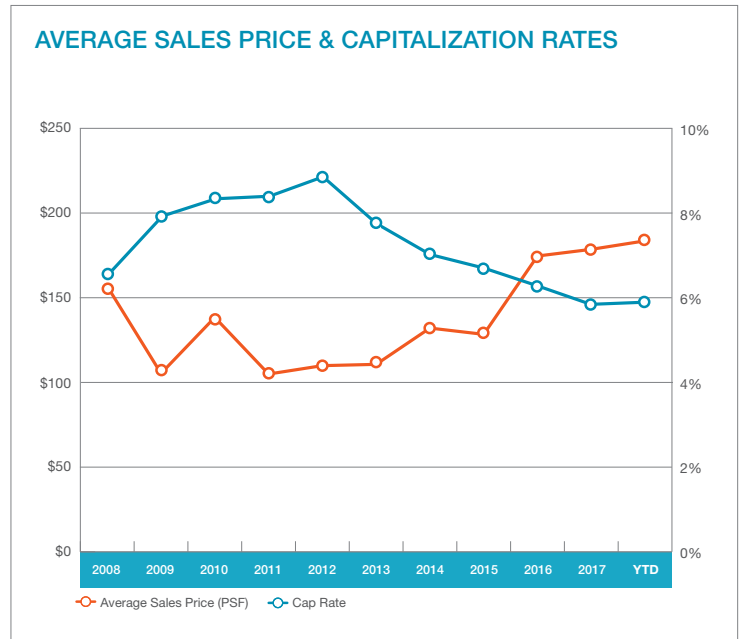
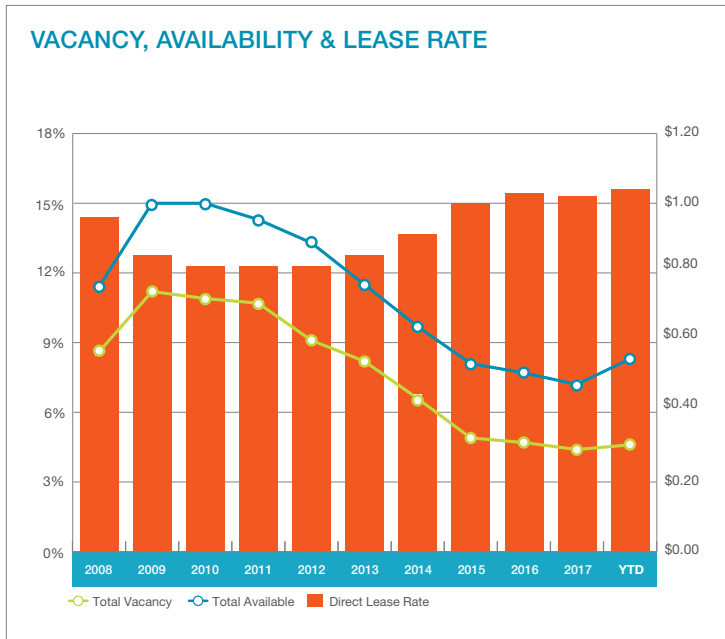
**Rexford Industrial**  
4039 Calle Platino, Oceanside  
143,274 s.f. | \$20.0M or \$139.59/s.f.

\* Kidder Mathews transaction

## Market Breakdown

	2Q 2018	1Q 2018	2Q 2017	Annual % Change
Vacancy Rate	4.60%	4.50%	4.90%	-4.08%
Availability Rate	8.20%	4.60%	7.90%	3.80%
Asking Lease Rate	\$1.04	\$1.01	\$1.03	0.97%
Leased SF	2,279,771	2,437,417	3,174,547	-28.19%
Sold SF	1,242,416	2,365,073	1,473,777	-15.70%
Net Absorption	476,274	-120,452	738,077	N/A

## San Diego Industrial Charts



## Submarket Statistics

	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	2Q Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	Avg NNN Rental Rate
Carlsbad	14,251,736	7.7%	8.0%	123,909	330,092	908,601	362,575	\$1.10
Escondido	7,305,193	2.2%	2.4%	60,692	(28,572)	212,275	0	\$0.91
North Beach Cities	353,115	0.4%	0.4%	565	(635)	0	0	\$2.88
Oceanside	9,909,932	4.8%	4.9%	(41,220)	(31,372)	277,807	124,581	\$0.87
San Marcos	8,566,105	6.6%	6.6%	54,463	95,091	231,028	0	\$0.72
Vista	13,794,076	5.3%	5.8%	(58,179)	(144,391)	0	0	\$0.88
<b>North County</b>	<b>54,180,157</b>	<b>5.6%</b>	<b>5.9%</b>	<b>140,230</b>	<b>220,213</b>	<b>1,629,711</b>	<b>487,156</b>	<b>\$0.93</b>
Kearny Mesa	14,989,790	2.8%	2.9%	(25,084)	13,188	63,800	156,000	\$1.34
Mira Mesa/Miramar	17,342,239	3.3%	4.0%	49,116	62,816	157,000	60,000	\$1.22
PB/Rose Canyon/Morena	3,042,998	0.7%	1.2%	14,940	28,149	0	0	\$0.98
Sorrento Mesa	10,010,090	6.5%	6.7%	(47,182)	(117,968)	0	0	\$1.55
Sorrento Valley	3,254,645	6.5%	6.7%	9,296	(8,567)	0	0	\$1.67
Sports Arena/Airport	2,876,753	0.9%	1.1%	(10,750)	(14,717)	0	0	\$0.94
Torrey Pines	3,921,501	3.0%	5.8%	212,064	196,307	170,523	0	\$3.18
UTC	2,456,015	9.6%	9.8%	74,919	87,859	137,500	0	\$1.93
<b>Central County</b>	<b>57,894,031</b>	<b>3.9%</b>	<b>4.4%</b>	<b>277,319</b>	<b>247,067</b>	<b>528,823</b>	<b>216,000</b>	<b>\$1.13</b>
Mission Gorge	2,017,584	1.3%	1.3%	26,463	14,176	0	0	\$1.51
Poway	9,134,002	0.9%	1.1%	165,340	156,594	147,109	342,500	\$0.97
Rancho Bernardo	7,723,892	8.9%	8.9%	(30,642)	(110,709)	0	0	\$1.46
Scripps Ranch	1,453,023	8.5%	8.5%	(32,208)	(33,338)	0	0	\$1.20
<b>I-15 Corridor</b>	<b>20,328,501</b>	<b>5.3%</b>	<b>5.4%</b>	<b>128,953</b>	<b>26,723</b>	<b>147,109</b>	<b>342,500</b>	<b>\$1.23</b>
Chula Vista	9,662,655	3.4%	3.5%	(46,924)	(189,736)	0	0	\$0.95
Downtown	1,739,923	1.5%	1.6%	17,283	36,873	0	0	\$3.00
National City	3,855,621	0.7%	0.7%	17,782	31,362	0	0	\$0.75
Otay Mesa	15,496,939	7.3%	7.5%	32,450	133,807	591,214	0	\$0.67
San Ysidro/Imp Beach	1,430,468	1.8%	1.8%	(4,030)	30,883	0	0	\$0.72
<b>South County</b>	<b>32,185,606</b>	<b>4.8%</b>	<b>4.9%</b>	<b>16,561</b>	<b>43,189</b>	<b>591,214</b>	<b>0</b>	<b>\$0.89</b>
East City	913,649	0.0%	0.0%	0	0	0	0	\$0.00
El Cajon	9,535,861	1.2%	1.2%	(62,682)	(87,982)	0	0	\$0.87
La Mesa/Spring Valley	2,501,551	2.7%	2.7%	(17,331)	(31,551)	0	0	\$1.30
Santee	4,012,934	2.4%	2.4%	6,754	(57,321)	0	0	\$1.02
Southeast San Diego	4,080,176	2.2%	2.2%	(7,910)	(18,660)	0	0	\$1.07
<b>East County</b>	<b>21,044,171</b>	<b>1.7%</b>	<b>1.8%</b>	<b>(81,169)</b>	<b>(195,514)</b>	<b>0</b>	<b>0</b>	<b>\$0.95</b>
Outlying SD County North	966,020	4.1%	4.1%	(11,620)	(4,556)	0	0	\$1.02
Outlying SD County South	734,430	0.0%	0.0%	6,000	0	0	0	\$0.00
<b>Outlying East San Diego County</b>	<b>1,700,450</b>	<b>2.3%</b>	<b>2.3%</b>	<b>(5,620)</b>	<b>(4,556)</b>	<b>0</b>	<b>0</b>	<b>\$0.62</b>
<b>San Diego County Total</b>	<b>187,332,916</b>	<b>4.4%</b>	<b>4.6%</b>	<b>476,274</b>	<b>337,122</b>	<b>2,896,857</b>	<b>1,045,656</b>	<b>\$1.04</b>

the least vacant space, that have at least five million square feet in inventory include Poway at 1.1%, and Escondido at 2.4%. The industrial market stays tight for now, but may experience some much needed relief by year's end, with nearly 2.9 million square feet under construction slated to complete this year. 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.

Asking rental rates for all industrial properties climbed to a record high at an average of \$1.04 per square foot on a triple-net basis, reflecting the competitive nature of the San Diego industrial market. Asking rental rates for R&D properties across the San Diego market averaged at a high of \$1.49 per square foot, while manufacturing and warehouse space broke past records, posting at \$0.92 this quarter.

San Diego's industrial sales market remains tight at the end of the second quarter, with only 45 transactions totaling approximately 1.2 million square feet, a slight decrease from this time last year's 1.5 million square feet. Average price per square foot dipped to \$142, a moderate decrease from last quarter's average price per square foot of \$206, and a slight decrease from the same time last year at \$160 per

square foot. It is anticipated that the sales activity will pick up in the coming quarters, and prices will trend upwards through the rest of the year.

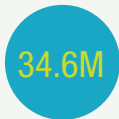
Source: CoStar

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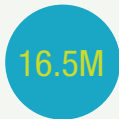
#### COMMERCIAL BROKERAGE



ANNUAL  
TRANSACTION  
VOLUME



ANNUAL  
LEASING SF



ANNUAL  
SALES SF



# BROKERS

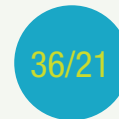
#### PROPERTY MANAGEMENT



MANAGEMENT  
PORTFOLIO



ASSIGNMENTS  
ANNUALLY



TOTAL #  
APPRAISERS/MAI'S

#### VALUATION ADVISORY

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