

Real Estate Market Review

# San Diego Industrial

The San Diego industrial real estate market continued to thrive with support by groundbreaking work in the biotech and life science industries, as well as expansion within the defense industry, which adds yet a further layer of demand for the already vastly lucrative market. Record breaking metrics across the board this year have indicated the consistent demand in the market. Overall employment growth continues to flourish, as the San Diego County unemployment rate dips almost 100 basis points to 3.4%, below the year-ago estimate of 4.3%.

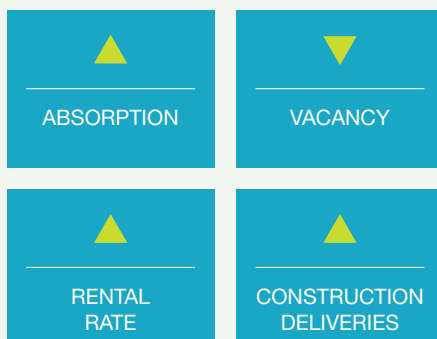
The unemployment rate continually beats that of the state and the nation, comparing at 4.3% and 3.9% respectively. According to the State of California’s Employment Development Department, San Diego County’s total nonfarm employment increased by a better than average 24,100 jobs year over year between August 2017 and August 2018. The industrial market is on its continued track to becoming one of the strongest property sectors in San Diego, as occupiers are expanding their distribution

channels to meet the rising demand of e-commerce sales, as well as the booming growth of the life science industry, where employment in this sector specifically grew approximately 50% in the last 15 years.

Countywide total vacancy hit a historic low at the end of the third quarter posting at 4.4%, down from 4.7% when compared to this time last year. The Carlsbad submarket posted the highest total vacancy rate at 7.6%, a much

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### Market Forecast Trends



YEAR-TO-YEAR BASIS

### Notable Lease Transactions

**Zucarmex**  
7112 Enrico Fermi Place, San Diego  
198,357 s.f.

**Trident**  
2651 Drucker Lane, Otay Mesa  
174,200 s.f.

**BD Bioscience**  
2600 Melksee Street, Otay Mesa  
121,970 s.f.

### Notable Sale Transactions

**BKM Capital Partners**  
Six-Project Portfolio, Otay Mesa  
703,845 s.f. | \$64.9M or \$92.21/s.f.

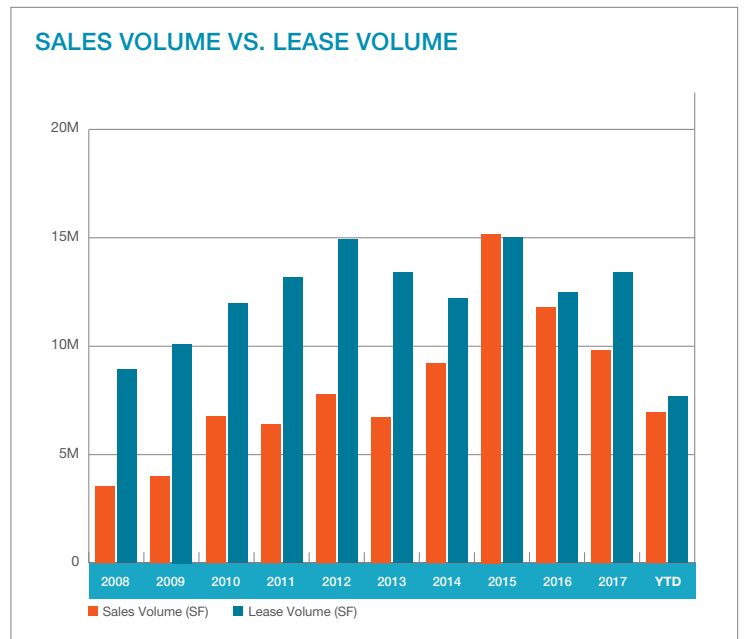
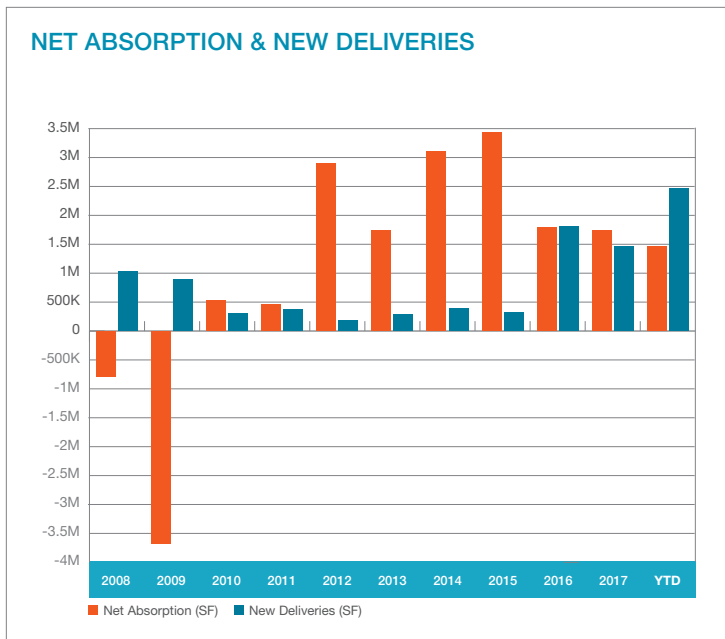
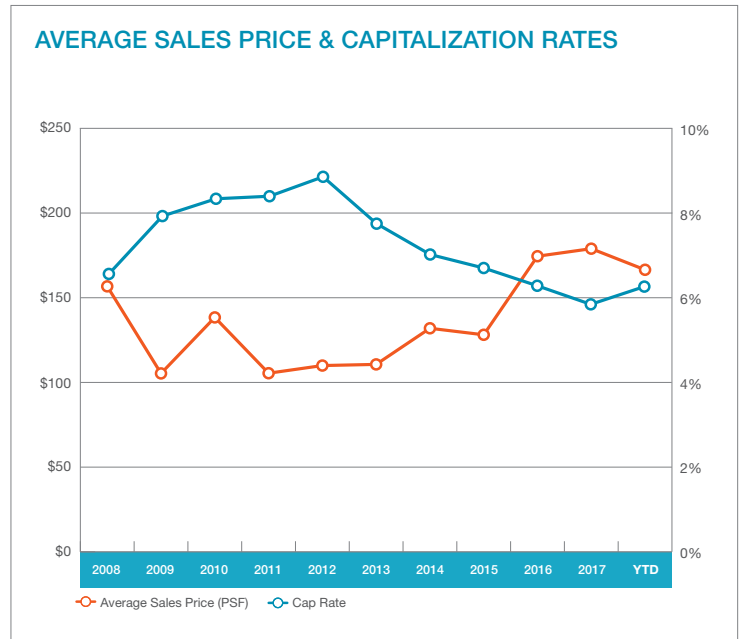
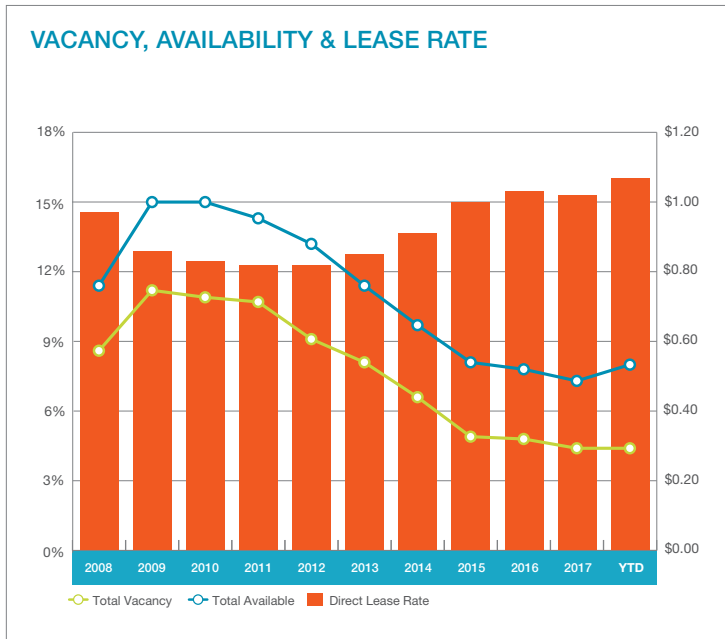
**Sukut Real Properties**  
5985-5995 Pacific Center Boulevard &  
5960 Pacific Mesa Court, Mira Mesa  
288,652 s.f. | \$24M or \$83.15/s.f.

**EastGroup Properties**  
8851-8877 Kerns Street, Otay Mesa  
115,290 s.f. | \$13.8M or \$120/s.f.

## Market Breakdown

	3Q 2018	2Q 2018	3Q 2017	Annual % Change
Vacancy Rate	4.40%	4.60%	4.70%	-6.38%
Availability Rate	8.00%	8.10%	7.70%	3.90%
Asking Lease Rate	\$1.07	\$1.04	\$1.02	4.90%
Leased SF	2,546,043	2,518,452	3,395,116	-25.01%
Sold SF	3,235,782	1,333,626	2,506,524	29.09%
Net Absorption	610,192	836,208	410,912	N/A

## San Diego Industrial Charts



## Submarket Statistics

	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	Avg NNN Rental Rate
Carlsbad	14,346,863	7.4%	7.6%	(1,033)	371,327	548,250	722,926	\$1.12
Escondido	7,516,423	1.4%	1.7%	231,068	202,496	0	212,275	\$0.94
North Beach Cities	353,115	0.7%	0.7%	(873)	(1,508)	0	0	\$1.95
Oceanside	9,922,341	4.8%	4.8%	6,280	(25,092)	277,807	124,581	\$0.86
San Marcos	8,548,105	4.1%	4.2%	11,812	107,743		222,028	\$0.72
Vista	13,802,856	4.6%	5.1%	80,524	(63,867)	77,725	0	\$0.90
<b>North County</b>	<b>54,489,703</b>	<b>4.8%</b>	<b>5.1%</b>	<b>327,778</b>	<b>591,099</b>	<b>903,782</b>	<b>1,281,810</b>	<b>\$0.93</b>
Kearny Mesa	15,375,627	4.3%	4.3%	24,014	193,202	0	219,800	\$1.40
Mira Mesa/Miramar	17,420,562	3.1%	4.1%	54,942	122,179	130,000	60,000	\$1.25
PB/Rose Canyon/Morena	3,043,248	1.6%	2.7%	(4,269)	601	0	0	\$1.23
Sorrento Mesa	10,012,139	6.0%	6.1%	(26,343)	(85,200)	0	0	\$1.78
Sorrento Valley	3,254,645	6.8%	7.2%	4,415	(4,152)	0	0	\$1.64
Sports Arena/Airport	2,876,753	0.9%	0.9%	2,900	(11,817)	0	0	\$1.14
Torrey Pines	3,912,961	4.6%	7.4%	(64,236)	132,071	0	170,523	\$3.24
UTC	2,429,760	5.7%	5.9%	29,024	188,393	246,862	0	\$2.03
<b>Central County</b>	<b>58,325,695</b>	<b>4.1%</b>	<b>4.8%</b>	<b>20,447</b>	<b>535,277</b>	<b>376,862</b>	<b>450,323</b>	<b>\$1.19</b>
Mission Gorge	1,984,374	2.3%	2.3%	(19,361)	(5,185)	0	0	\$1.51
Poway	8,991,753	1.7%	2.0%	(78,588)	262,121	85,587	404,022	\$1.01
Rancho Bernardo	7,730,892	7.1%	7.2%	126,297	15,588	0	0	\$1.48
Scripps Ranch	1,453,023	8.7%	8.7%	(4,325)	(37,663)	0	0	\$1.20
<b>I-15 Corridor</b>	<b>20,160,042</b>	<b>4.3%</b>	<b>4.5%</b>	<b>24,023</b>	<b>234,861</b>	<b>85,587</b>	<b>404,022</b>	<b>\$1.25</b>
Chula Vista	9,662,559	2.8%	2.8%	21,428	(168,308)	163,000	0	\$0.97
Downtown	1,739,923	1.5%	1.5%	247	37,120	0	0	\$0.00
National City	3,853,707	0.5%	0.5%	4,148	35,510	0	0	\$0.75
Otay Mesa	15,640,437	6.9%	7.1%	156,014	289,821	261,960	329,254	\$0.69
San Ysidro/Imp Beach	1,430,468	2.1%	2.1%	(4,047)	26,836	0	0	\$0.76
<b>South County</b>	<b>32,327,094</b>	<b>4.4%</b>	<b>4.5%</b>	<b>177,790</b>	<b>220,979</b>	<b>424,960</b>	<b>329,254</b>	<b>\$0.75</b>
East City	913,649	0.0%	0.0%	0	0	0	0	\$0.00
El Cajon	9,587,318	0.7%	0.7%	50,280	(37,802)	17,060	0	\$0.94
La Mesa/Spring Valley	2,503,147	2.4%	2.4%	12,513	(338)	0	0	\$1.06
Santee	4,017,250	2.5%	2.5%	(7,008)	(64,329)	0	0	\$1.02
Southeast San Diego	4,084,863	2.2%	2.2%	3,025	(15,635)	0	0	\$1.06
<b>East County</b>	<b>21,106,227</b>	<b>1.5%</b>	<b>1.5%</b>	<b>58,810</b>	<b>(118,104)</b>	<b>17,060</b>	<b>0</b>	<b>\$0.95</b>
Outlying SD County North	966,020	2.6%	2.6%	14,044	9,488	0	0	\$1.00
Outlying SD County South	734,430	1.7%	1.7%	(12,700)	(12,700)	0	0	\$0.00
<b>Outlying East San Diego County</b>	<b>1,700,450</b>	<b>2.2%</b>	<b>2.2%</b>	<b>1,344</b>	<b>(3,212)</b>	<b>0</b>	<b>0</b>	<b>\$0.62</b>
<b>San Diego County Total</b>	<b>188,109,211</b>	<b>4.1%</b>	<b>4.4%</b>	<b>610,192</b>	<b>1,460,900</b>	<b>1,808,251</b>	<b>2,465,409</b>	<b>\$1.07</b>

needed relief due to a high development pipeline in the area that amounts to slightly over half the delivered projects in the county. Primary submarkets with the least vacant space, that have at least 5M square feet in inventory include Escondido at 1.4% and Poway at 2.0%. The industrial market, although tight, may experience some relief of the downward pressure by year's end, as shown with the Carlsbad submarket already, with nearly one million square feet under construction slated to complete next quarter. North County is seeing much of the new development and construction, as over half the volume of projects currently under construction as well as projects already completed this year are located in this region. A total of approximately 3.5M square feet of new construction will be delivered by the end of the year, which marks another record breaking metric in the industrial market. The last time we've seen deliveries of this volume was over 10 years ago.

Rental rates soared to an astounding record breaking \$1.07 per square foot on a triple net basis, surpassing the previous quarter's all-time high of \$1.04 per square foot a number. This reflects a number this market has never experienced in the history of over 20 years, another indication of the highly competitive nature of the San Diego industrial market. Accordingly, asking rental rates broke past historical records

across the San Diego market for R&D and manufacturing/warehouse properties alike, averaging at a high of \$1.57 and \$0.95 per square foot, respectively.

San Diego's industrial market experienced a high volume in sales transactions in the third quarter, totaling approximately 3.2 million square feet, more than doubling the volume from last quarter which posted at 1.3M square feet, and up from this last time last year of 2.5M square feet. Average price per SF dipped to \$132, a modest decrease from last quarter's average price per SF of \$146. This slight dip is potentially due to approximately 70% of sales being Class B and C industrial warehouse/manufacturing projects rather than newer and higher end flex/R&D product. It is anticipated that the sales activity in the San Diego industrial market will remain active as we near the end of 2018, as investors and owners continue to show plenty of interest in the highly dynamic San Diego market.

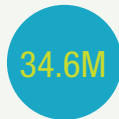
Source: CoStar

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#### COMMERCIAL BROKERAGE



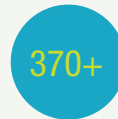
**ANNUAL TRANSACTION VOLUME**



**ANNUAL LEASING SF**



**ANNUAL SALES SF**



**# BROKERS**

#### PROPERTY MANAGEMENT

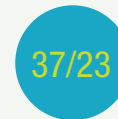


**MANAGEMENT PORTFOLIO**

#### VALUATION ADVISORY



**ASSIGNMENTS ANNUALLY**



**TOTAL # APPRAISERS/MAI'S**

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