SD2Q17

SECOND QUARTER 2017 MARKET REPORT

SAN DIEGO INDUSTRIAL

Voit REAL ESTATE SERVICES

STRENGTH IN INDUSTRIAL MARKET. At the close of the second quarter, the San Diego County industrial market ended with an occupancy level near the all-time high, and combined with strong positive net absorption, displaying continued signs of strength. Countywide vacancy rates are at a tight 4.29%, below the rate of 4.54% from the second quarter, but slightly above the fourth quarter's rate of 4.06%. Availability increased very slightly to 7.14% from last quarter's 6.97%, which is well below the ten-year average. Despite the number of projects currently under construction, asking sales prices, asking lease rates and occupancy costs continue to climb due to steady demand and limited supply.

VACANCY. Direct / sublease space (unoccupied) finished the quarter at 4.29%, a decrease from last quarter's 4.54%, and only slightly higher than the all-time low of 4.06% reached at the end of 2016. The vacancy rate for San Diego County's industrial market is now significantly lower than the best number posted in the last period of economic expansion, which was roughly 6% in 2006. East County posted the lowest vacancy rate at 2.66%, with the county's highest vacancy rate being in the North County where the majority of the recent construction has occurred.

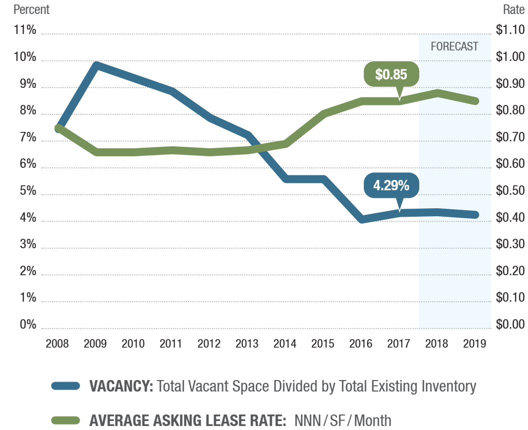
LEASE RATES. The average asking triple-net lease rate checked in at $0.85 per square foot per month, a one-cent ($0.01) increase in comparison with the previous quarter. The average asking rate is still hovering near an all-time high for the San Diego industrial market. While average asking rates also hover near all-time highs, landlords are continuing to squeeze concessions, pushing effective rents higher. The lack of availability, especially in certain submarkets, has kept rental rates high.

TRANSACTION ACTIVITY. The total square feet leased and sold in the second quarter was approximately 2.5 million square feet, a decrease from first quarter of 2017's mark of 3.2 million square feet. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report. Details of the largest transactions can be found on the back page of this report.

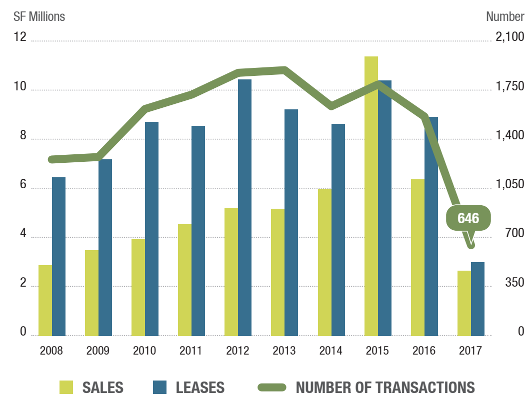
EMPLOYMENT. The unemployment rate in San Diego County was 3.6% in May 2017, down from a revised 3.8% in April 2016 and below the year-ago estimate of 4.3%. This compares with an unadjusted unemployment rate of 4.2% for California and 4.1% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 20,300 payroll jobs between May 2016 and May 2017, including 6,000 from government services, which reported the largest overall gain. The construction sector reported a growth of 5,000 jobs, and the educational and health services reported an increase of 3,900 jobs.

OVERALL. The San Diego industrial market continues to remain strong with record low vacancy and availability rates at the end of the second quarter. Rental rates and sale prices will continue to increase as the lack of available competitively priced industrial land remains scarce. In addition, look for construction costs to continue to rise as well. The depleted development pipeline early in the recovery was a big factor in the vacancy rate compression, and the recent increase in construction activity has yet to push vacancy up significantly.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	2Q 2017	1Q 2017	2Q 2016	% Change Over Last Year
Vacancy Rate	DOWN	4.29%	4.54%	4.90%	(12.45%)
Availability Rate	UP	7.14%	6.97%	7.06%	1.13%
Average Asking Lease Rate	UP	$0.85	$0.84	$0.86	(1.16%)
Sale & Lease Transactions	DOWN	2,453,933	3,173,349	4,671,856	(47.47%)
Gross Absorption	DOWN	1,834,728	1,924,526	2,317,177	(20.82%)
Net Absorption	POSITIVE	336,645	(535,200)	(178,577)	N/A

Forecast

EMPLOYMENT. The labor market in San Diego County will continue to improve although we anticipate job growth to slow to 1.8%, or 25,000 jobs, over the year. With an expected growth in tourism and local economy in general, look for sectors like leisure and hospitality to lead the way for employment gains, followed by health care and biotech, and government employment.

LEASE RATES. Expect average asking rates to increase by approximately 2–4% over the next four quarters.

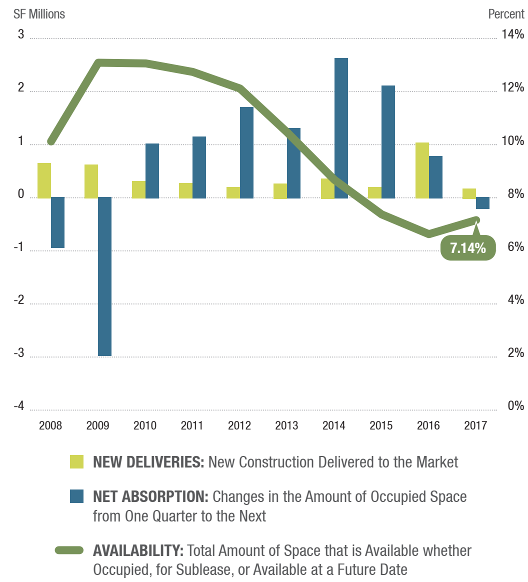
VACANCY. We anticipate the vacancy rate will continue to remain near record lows, hovering in the low 4% range over the next two to four quarters.

CONSTRUCTION. Deliveries for 2017 year to date currently stand at 156,977 square feet. Construction underway checked in at approximately 536,283 square feet at the end of the second quarter. The majority of this construction is taking place in the least expensive land markets of San Diego County which are North County and Otay Mesa. One trend that has emerged in recent industrial development is creative industrial product. RAF Pacific Group is leading this trend in the San Diego market, with a number of creative industrial projects already delivered. One of the latest creative industrial projects which RAF Pacifica broke ground on was "vec•tor", a 171,000 square foot industrial / R&D building in Carlsbad. While the construction levels of industrial buildings during this recovery have not reached the levels seen in the mid-2000's, the extremely low vacancy rates have finally spurred significant levels of construction.

AVAILABILITY. Direct / sublease space being marketed was 7.14% at the end of the second quarter, more than two and a half percentage points higher than the vacancy rate. Much of this availability which is not vacant is in the current construction pipeline.

ABSORPTION. After coming off of a negative net absorption of 535,200 square feet in the first quarter, the second quarter ended with a strong positive net absorption of 336,645 square feet. The South County area had the most positive net absorption in the second quarter, accounting for more than a third of all positive net absorption in the county. Over the past seven years, the market has accumulated a total of over 7.9 million square feet of positive net absorption.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2777 Loker Ave. W.	Carlsbad	123,454	$21,500,000	First Industrial Realty Trust, Inc.	BLT Enterprises
2055 Dublin Dr.	Otay Mesa	205,800	19,300,000	STAG Industrial, Inc.	Environmental Development, Ltd.
3800–3804 Main St.	Chula Vista	91,205	$10,122,182	BFL Hilltop, LP	John Mark Co.
5940 Darwin Ct.	Carlsbad	60,184	$9,030,625	BLT Enterprises	Machine Vision Products, Inc.
2383–2388 Via Segundo	San Ysidro	74,688	$6,700,000	Goodwill Industries	Cjag, LLC

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1320 Air Wing Rd.	Otay Mesa	102,240	Apr-2017	Undisclosed	Sublease
5830 El Camino Real	Carlsbad	73,480	Apr-2017	The Upper Deck Co.	H.G. Fenton
4000 Ruffin Rd. – Renewal	Kearny Mesa	57,642	Jun-2017	Cal State Auto *	IDS
7130 Miramar Rd.	Miramar	58,368	Jun-2017	Square Peg	Global Logistic Properties
9477 Waples St.	Sorrento Mesa	56,796	Apr-2017	Undisclosed	Clarion Partners

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2017	Square Feet Available	Availability Rate 2Q2017	Average Asking Lease Rate	Net Absorption 2Q2017	Net Absorption 2017	Gross Absorption 2Q2017	Gross Absorption 2017
Central County													
Central City	142	2,195,019	0	0	51,850	2.36%	57,660	2.63%	$3.00	10,150	10,150	10,900	31,900
East City	62	991,691	0	0	6,500	0.66%	6,500	0.66%	$1.10	(6,500)	(5,500)	0	1,000
Southeast City	317	3,546,577	0	0	48,338	1.36%	144,100	4.06%	$0.91	20,022	17,102	35,397	42,477
Kearny Mesa	426	9,731,925	0	84,400	212,896	2.19%	339,104	3.48%	$1.31	(9,206)	(62,627)	64,514	134,048
Mission Gorge	119	1,919,031	0	0	19,977	1.04%	35,951	1.87%	$1.07	(1,684)	(11,757)	29,253	40,290
Rose Canyon / Morena	134	2,690,226	0	0	28,506	1.06%	196,926	7.32%	$0.79	4,559	2,458	11,935	35,899
Sports Arena / Airport	141	1,625,037	0	0	9,938	0.61%	24,438	1.50%	$1.46	19,885	12,347	22,485	30,385
Miramar	587	13,242,678	0	645,000	433,253	3.27%	881,797	6.66%	$0.94	83,584	87,343	335,182	597,870
Sorrento Mesa	77	3,823,386	0	0	147,523	3.86%	211,560	5.53%	$1.04	5,523	(54,422)	11,840	136,537
Sorrento Valley	46	1,036,862	0	0	32,902	3.17%	82,961	8.00%	$0.99	(25,554)	(21,016)	4,488	9,026
Torrey Pines / UTC	3	104,448	0	149,663	0	0.00%	0	0.00%	$1.02	0	0	0	0
Central County Total	2,054	40,906,880	0	879,063	991,683	2.42%	1,980,997	4.84%	$1.02	100,779	(25,922)	525,994	1,059,432
East County													
El Cajon	448	9,032,241	0	112,126	87,618	0.97%	119,985	1.33%	$1.05	8,431	138,204	33,817	188,161
La Mesa / Spring Valley	310	2,644,970	0	100,000	75,548	2.86%	189,348	7.16%	$0.70	(15,949)	(16,259)	38,409	55,829
Santee / Lakeside	275	3,625,107	0	262,395	61,978	1.71%	97,363	2.69%	$0.94	2,008	5,906	16,341	45,441
East County Total	1,033	15,302,318	0	474,521	225,144	1.47%	406,696	2.66%	$1.05	(5,510)	127,851	88,567	289,431
North County													
Escondido	627	7,255,085	29,100	147,910	198,216	2.73%	384,873	5.30%	$0.88	(26,875)	(36,302)	108,216	201,922
Oceanside	399	8,740,328	0	534,114	167,757	1.92%	444,740	5.09%	$0.81	49,835	47,837	152,762	323,334
San Marcos	503	7,945,993	0	84,000	519,676	6.54%	688,249	8.66%	$0.66	14,612	(19,613)	89,741	158,944
Vista	498	12,654,203	0	380,805	643,748	5.09%	1,246,576	9.85%	$0.84	(39,295)	(199,093)	128,131	217,586
Carlsbad	230	7,677,833	345,493	818,501	753,255	9.81%	1,177,560	15.34%	$0.99	31,734	26,504	160,548	296,496
North Beach Cities	43	261,294	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Outlying SD County North	104	923,090	0	3,754	18,422	2.00%	25,797	2.79%	$1.10	(3,450)	(5,686)	500	500
North County Total	2,404	45,457,826	374,593	1,969,084	2,301,074	5.06%	3,967,795	8.73%	$0.87	26,561	(186,353)	639,898	1,198,782
I-15 Corridor													
Poway	172	7,094,248	82,640	1,066,600	332,783	4.69%	346,862	4.89%	$0.97	37,883	(169,574)	113,568	200,153
Rancho Bernardo	44	3,258,896	0	0	241,372	7.41%	286,193	8.78%	$1.05	30,839	54,633	30,839	78,898
Scripps Ranch	29	745,005	0	0	129,824	17.43%	134,334	18.03%	$1.08	5,724	73,760	14,729	87,640
I–15 Corridor Total	245	11,098,149	82,640	1,066,600	703,979	6.34%	767,389	6.91%	$1.01	74,446	(41,181)	159,136	366,691
South Bay													
Chula Vista	335	8,705,134	0	0	627,497	7.21%	816,055	9.37%	$0.94	29,804	(107,393)	78,220	183,894
National City	246	3,520,379	0	0	57,802	1.64%	68,293	1.94%	$0.59	(2,088)	(2,248)	18,506	36,268
Otay Mesa	329	15,370,307	79,050	1,708,576	1,120,346	7.29%	2,003,095	13.03%	$0.64	97,919	23,317	305,056	587,075
San Ysidro / Imperial Beach	65	1,428,721	0	24,121	84,423	5.91%	164,438	11.51%	$0.72	8,624	13,374	8,624	17,654
Outlying SD County South	74	812,966	0	0	1,000	0.12%	1,000	0.12%	$0.00	6,110	0	10,727	20,027
South Bay Total	1,049	29,837,507	79,050	1,732,697	1,891,068	6.34%	3,052,881	10.23%	$0.68	140,369	(72,950)	421,133	844,918
San Diego County Total	**6,785**	**142,602,680**	**536,283**	**6,121,965**	**6,112,948**	**4.29%**	**10,175,758**	**7.14%**	**$0.85**	**336,645**	**(198,555)**	**1,834,728**	**3,759,254**
0–9,999	3,070	15,620,473	0	7,804	254,363	1.63%	466,368	2.99%	$1.13	(17,005)	(31,066)	153,442	297,779
10,000–19,999	1,785	25,163,061	0	30,923	686,671	2.73%	1,001,599	3.98%	$1.20	6,521	(33,969)	389,432	697,717
20,000–34,999	980	25,104,285	29,100	375,821	884,339	3.52%	1,558,536	6.21%	$0.93	2,948	(38,083)	300,953	694,724
35,000–49,999	361	14,889,639	0	245,050	629,895	4.23%	866,161	5.82%	$0.87	(56,453)	(134,570)	140,509	241,268
50,000–99,999	381	26,386,650	281,163	1,148,210	1,157,904	4.39%	2,294,062	8.69%	$0.85	107,608	92,792	366,807	850,828
100,000 Plus	208	35,438,572	226,020	4,314,157	2,499,776	7.05%	3,989,032	11.26%	$0.77	293,026	(53,659)	483,585	976,938
San Diego County Total	**6,785**	**142,602,680**	**536,283**	**6,121,965**	**6,112,948**	**4.29%**	**10,175,758**	**7.14%**	**$0.85**	**336,645**	**(198,555)**	**1,834,728**	**3,759,254**

Lease rates are on a triple-net basis.

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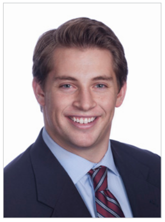

by Greg Marx
ASSOCIATE, SAN DIEGO

Building values continue to reach record levels, vacancy rates remain extremely low, and rents continue to increase across San Diego County. To recap, in the first quarter of 2017, we saw a bit of a pause in the market. Transaction volume had slowed, net absorption had declined, and the country was holding their breath in the aftermath of the 2016 Presidential Election. Since the end of the first quarter, we've seen a slight resurgence, and while the level of growth is nothing compared with what we saw in 2015 and early 2016, the market is continuing to strengthen.

Total Net Absorption in square footage across San Diego County was solidly in the black for the second quarter after a significant posting of negative net absorption in the first quarter. This "bounce back" of positive absorption can be partly attributed to an increase in total transaction volume; approximately 270 deals were done in the second quarter compared with 230 deals done in the first quarter. The market remains relatively tight as a whole. The average occupancy across San Diego County increased minimally to 95.7%, which could be due to the increase in total deals done and the lack of newly developed space brought to market during the second quarter.

Similar to the first quarter, there are a number of "spec" buildings currently under construction in San Diego County. A total of 7 buildings are currently under construction encompassing a total of 536,283 square feet. As the market remains as tight as ever, developers are counting on the continuously vigorous and pent-up tenant demand for space. Carlsbad has been at the core of the industrial development, with more than three quarter million square feet of industrial and R&D space delivered since the start of the recovery, and more than half a million square feet currently under construction.

The combination of a lack of available space, high occupancy rates, and limited new building deliveries has driven average lease rates to a high of $0.85 per square foot on a NNN basis, which is a 1.2% increase since last quarter when the average rent was $0.84 per square foot. The market remains a "Landlord's Market" as we continue to see rents rise to record levels with a reduction of concessions and downtime.

With very little land inventory on which to build, onerous mitigation requirements, draconian storm water regulations, increasing construction costs and fees, and a general shortage of construction labor, there is a very limited amount of new product being built to meet the growing industrial tenants' demand. We anticipate that 2017 will continue to experience upward pressure on rents, with concessions such as free rent and tenant improvement packages all but disappearing as the occupancy levels approach historical highs. San Diego's diverse employment base, its wonderful climate, and its proximity to Mexico and the Pacific Rim all help support our local economy's continued growth, with only a lack of existing and new industrial inventory standing in the way.

Product Type

MFG./DIST.

Manufacturing / Distribution / Warehouse facilities with up to 49.9% office space.

Submarkets

CENTRAL COUNTY

Central City, East City, Southeast City, Kearny Mesa, Mission Gorge, Rose Canyon / Morena, Sports Arena / Airport, Miramar, Sorrento Mesa, Sorrento Valley, Torrey Pines / UTC

EAST COUNTY

El Cajon, La Mesa / Spring Valley, Santee / Lakeside

NORTH COUNTY

Escondido, Oceanside, San Marcos, Vista, Carlsbad, North Beach Cities, Outlying SD County North

I-15 CORRIDOR

Poway, Rancho Bernardo, Scripps Ranch

SOUTH BAY

Chula Vista, National City, Otay Mesa, San Ysidro / Imperial Beach, Outlying SD County South

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