

STRENGTH IN INDUSTRIAL MARKET. At the close of the third 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. The countywide vacancy rate continues to hover near 4%, less than half of the level seen just five years ago. 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 4.10%, a decrease from last quarter's 4.29%, and only slightly higher than the all-time low of 3.96% 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 a miniscule 1.14%, with the county's highest vacancy rate being in the South County which is still fairly tight at 6.21%.

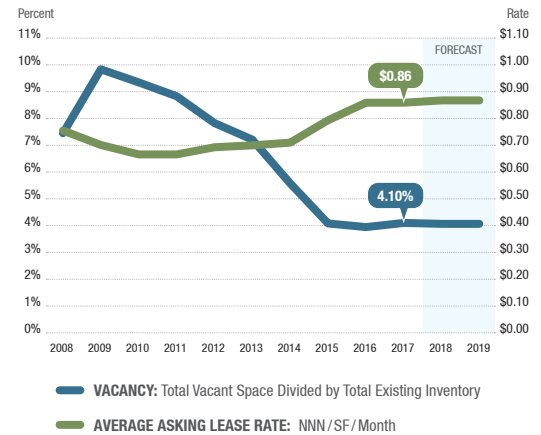
LEASE RATES. The average asking triple-net lease rate checked in at \$0.86 per square foot per month, a two-cent increase in comparison with the previous year. The average asking rate is still hovering near an all-time high for the San Diego industrial market. While average asking rates also hover near all-time highs, landlords are continuing to squeeze concessions, pushing effective rents higher. The lack of availability has left tenants with limited options in many cases, keeping rental rates high.

TRANSACTION ACTIVITY. The total square feet leased and sold in the third quarter was approximately 3.2 million square feet, a rebound from the 2.6 million square feet transacted in the second quarter. 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.

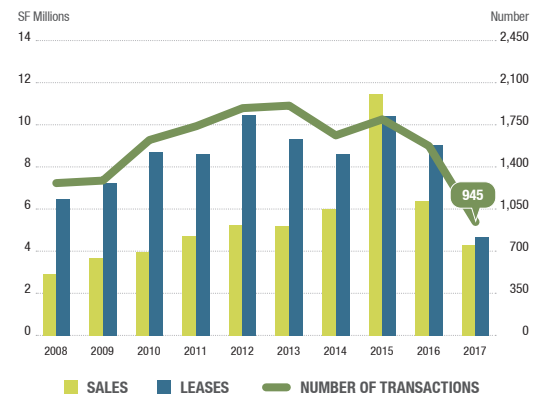
EMPLOYMENT. The unemployment rate in San Diego County was 4.7% in August 2017, unchanged from a revised 4.7% in July 2016 and below the year-ago estimate of 4.9%. This compares with an unadjusted unemployment rate of 5.4% for California and 4.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 19,200 payroll jobs between August 2016 and August 2017, including 5,600 from education and health services, which reported the largest overall gain. The other services sector reported a growth of 5,000 jobs, and the government sector reported an increase of 4,900 jobs.

OVERALL. The San Diego industrial market continues to remain strong, with record low vacancy rates at the end of the third quarter. Lease 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, but that trend is nearing a tipping point with the highest level of product under construction in a decade.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	3Q 2017	2Q 2017	3Q 2016	% Change Over Last Year
Vacancy Rate	▼ DOWN	4.10%	4.29%	4.25%	(3.45%)
Availability Rate	▲ UP	7.40%	7.05%	6.65%	11.33%
Average Asking Lease Rate	▼ DOWN	\$0.86	\$0.88	\$0.84	2.38%
Sale & Lease Transactions	▲ UP	3,159,303	2,551,983	3,952,350	(20.07%)
Gross Absorption	▼ DOWN	1,703,232	1,966,068	2,117,034	(19.55%)
Net Absorption	▲ POSITIVE	126,673	196,934	765,415	N/A

EMPLOYMENT. The labor market in San Diego County will continue to improve although we anticipate job growth to slow to 1.8% for this year, and 1.6% in 2018. 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 2–3% over the next four quarters.

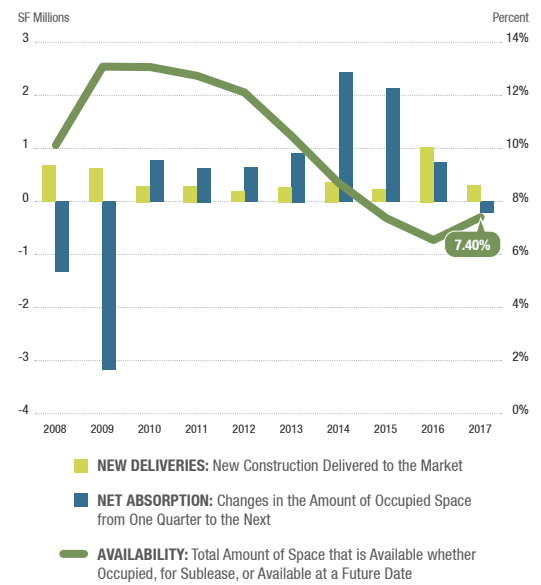
VACANCY. We anticipate the vacancy rate will start to move up from record lows as the vacancy rate is now more than three percentage points higher than availability, with 1.5 million square feet currently under construction.

CONSTRUCTION. The current pipeline of 1.5 million square feet under construction is the most the San Diego market has seen in the past decade. Yet, this is still a moderate level of construction in contrast to the mid-2000’s when the industrial product construction pipeline exceeded 2.5 million square feet at times. The current product under construction is largely concentrated in the North County. It remains to be seen how successful these new projects are in luring tenants out of the tighter Central County area, and how much of the added availability will soften the North County dynamics.

AVAILABILITY. Direct/sublease space being marketed was 7.40% 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. There was 126,673 square feet of positive net absorption in the second quarter, the second consecutive quarter of six-digit positive net absorption, with a total of 8 million square feet of positive net absorption since the start of 2010. The I-15 Corridor had the most positive net absorption in the third quarter, with 124,715 square feet in Poway alone.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
960 Sherman St.	Rose Canyon/Morena	184,000	\$23,800,000	LBA Realty	Sears Holding Corporation
548–596 Jayken Way, et al	Chula Vista	127,513	\$18,000,000	R&R Southrail, LLC	Focus Real Estate Services
1670 & 1690 Brandywine Ave.	Chula Vista	170,805	\$13,450,000	Stos Partners *	Parma Management Company *
4370 Juttland Dr.	Rose Canyon/Morena	72,716	\$12,525,000	CRI *	Fiedler Construction Corp.
1725 Dornoch Ct.	Otay Mesa	111,920	\$12,311,500	Multi-Ventures, Inc.	LBA Realty

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2081 Faraday Ave.	Carlsbad	150,159	Jul-2017	SKLZ	Lincoln Property Company
2020 Piper Ranch Rd.	Otay Mesa	99,800	Sep-2017	Atlas Freight	Morgan Stanley & Co., LLC
990 Joshua Way	Vista	82,944	Jul-2017	Earthlite Massage Tables	Barings Real Estate Advisors, LLC
3927 Oceanic Dr.	Oceanside	54,740	Sep-2017	Undisclosed	Rexford Industrial
491 C St.	Chula Vista	49,600	Jul-2017	KSARIA	GES

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2017	Square Feet Available	Availability Rate 3Q2017	Average Asking Lease Rate	Net Absorption 3Q2017	Net Absorption 2017	Gross Absorption 3Q2017	Gross Absorption 2017
Central County													
Central City	141	2,194,077	0	0	65,722	3.00%	71,532	3.26%	\$3.00	(13,872)	(3,722)	0	31,900
East City	62	985,991	0	0	0	0.00%	0	0.00%	–	0	1,000	0	1,000
Southeast City	317	3,543,229	0	0	40,843	1.15%	106,058	2.99%	\$0.82	975	18,077	65,262	107,739
Kearny Mesa	427	9,740,365	0	84,400	271,403	2.79%	347,304	3.57%	\$1.25	(50,107)	(121,134)	57,707	191,755
Mission Gorge	119	1,919,031	0	0	21,716	1.13%	49,871	2.60%	\$1.08	(1,739)	(13,496)	7,499	47,789
Rose Canyon / Morena	133	2,500,226	0	0	59,515	2.38%	90,947	3.64%	\$0.85	(31,009)	(218,551)	3,976	39,875
Sports Arena / Airport	142	1,623,086	0	0	15,734	0.97%	49,134	3.03%	\$1.63	(5,796)	7,151	4,160	35,145
Miramar	587	13,242,679	30,000	615,000	399,544	3.02%	981,702	7.41%	\$0.96	53,709	121,052	182,638	780,508
Sorrento Mesa	78	3,850,192	0	0	67,221	1.75%	179,864	4.67%	\$1.14	81,210	26,788	116,263	253,743
Sorrento Valley	46	1,036,862	0	0	34,780	3.35%	50,511	4.87%	\$0.99	(1,878)	(22,894)	4,320	13,346
Torrey Pines / UTC	3	104,448	0	149,663	0	0.00%	0	0.00%	–	0	0	0	0
Central County Total	2,055	40,740,186	30,000	849,063	976,478	2.40%	1,926,923	4.73%	\$1.02	31,493	(205,729)	441,825	1,502,800
East County													
El Cajon	447	9,031,166	0	112,126	80,901	0.90%	151,423	1.68%	\$0.75	6,717	144,921	44,284	232,445
La Mesa / Spring Valley	309	2,639,852	0	70,000	51,214	1.94%	123,144	4.66%	\$0.74	22,700	8,075	39,925	95,754
Santee / Lakeside	275	3,625,978	0	262,395	50,957	1.41%	178,711	4.93%	\$0.89	11,021	16,927	38,158	83,599
Outlying SD County South	76	853,247	0	0	1,000	0.12%	41,000	4.81%	–	0	0	0	20,027
East County Total	1,107	16,150,243	0	444,521	184,072	1.14%	494,278	3.06%	\$0.78	40,438	169,923	122,367	431,825
North County													
Escondido	627	7,258,889	0	212,275	153,184	2.11%	300,608	4.14%	\$0.92	(9,041)	(45,343)	60,763	262,685
Oceanside	400	8,867,731	124,581	409,533	273,230	3.08%	564,858	6.37%	\$0.82	(38,993)	(57,636)	75,291	398,625
San Marcos	503	7,970,787	219,477	231,851	525,601	6.59%	917,033	11.50%	\$0.68	(5,925)	(25,538)	72,413	231,357
Vista	496	12,649,787	0	380,805	688,564	5.44%	1,030,886	8.15%	\$0.81	(44,816)	(243,909)	125,371	342,957
Carlsbad	231	7,735,083	461,018	821,560	587,023	7.59%	1,218,621	15.75%	\$0.98	140,746	167,250	327,108	623,604
North Beach Cities	43	261,294	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Outlying SD County North	106	1,147,940	0	3,754	22,202	1.93%	249,577	21.74%	\$0.27	5,620	(2,966)	10,000	10,500
North County Total	2,406	45,891,511	805,076	2,059,778	2,249,804	4.90%	4,281,583	9.33%	\$0.82	47,591	(208,142)	670,946	1,869,728
I-15 Corridor													
Poway	174	7,197,584	302,500	450,000	290,708	4.04%	463,006	6.43%	\$0.94	124,715	(44,859)	174,951	375,104
Rancho Bernardo	44	3,258,896	0	0	234,373	7.19%	308,305	9.46%	\$1.31	6,999	61,632	13,706	92,604
Scripps Ranch	29	745,005	0	0	129,578	17.39%	98,273	13.19%	\$0.95	246	74,006	6,426	94,066
I-15 Corridor Total	247	11,201,485	302,500	450,000	654,659	5.84%	869,584	7.76%	\$1.12	131,960	90,779	195,083	561,774
South County													
Chula Vista	336	8,668,907	0	0	355,851	4.10%	408,564	4.71%	\$0.84	57,422	78,921	111,208	426,569
National City	245	3,517,796	0	0	44,762	1.27%	69,248	1.97%	\$0.63	13,040	8,169	31,007	67,275
Otay Mesa	330	15,370,854	347,504	1,753,576	1,333,687	8.68%	2,433,787	15.83%	\$0.66	(212,741)	(189,524)	105,884	693,059
San Ysidro / Imperial Beach	64	1,426,992	0	24,121	66,953	4.69%	99,315	6.96%	\$0.73	17,470	30,844	24,912	42,566
South County Total	975	28,984,549	347,504	1,777,697	1,801,253	6.21%	3,010,914	10.39%	\$0.69	(124,809)	(71,590)	273,011	1,229,469
San Diego County Total	6,790	142,967,974	1,485,080	5,581,059	5,866,266	4.10%	10,583,282	7.40%	\$0.86	126,673	(224,759)	1,703,232	5,595,596
0–9,999	3,067	15,581,704	0	7,804	305,472	1.96%	463,140	2.97%	\$1.16	(57,063)	(90,818)	128,420	426,299
10,000–19,999	1,784	25,155,225	0	30,923	578,712	2.30%	992,344	3.94%	\$1.02	90,303	73,990	337,125	1,034,842
20,000–34,999	988	25,304,981	64,854	288,911	888,430	3.51%	1,580,136	6.24%	\$0.95	43,498	(36,426)	331,098	1,035,173
35,000–49,999	361	14,888,053	36,772	254,550	554,186	3.72%	970,451	6.52%	\$0.84	70,924	(58,861)	149,791	385,826
50,000–99,999	382	26,438,054	510,897	1,163,061	836,406	3.16%	2,257,981	8.54%	\$0.84	235,007	327,800	477,482	1,328,310
100,000 Plus	208	35,599,957	872,557	3,835,810	2,703,060	7.59%	4,319,230	12.13%	\$0.79	(255,996)	(440,444)	279,316	1,385,146
San Diego County Total	6,790	142,967,974	1,485,080	5,581,059	5,866,266	4.10%	10,583,282	7.40%	\$0.86	126,673	(224,759)	1,703,232	5,595,596

Lease rates are on a triple-net basis.



Market Adapting to Tight Conditions

by **Brandon Keith**

SENIOR VICE PRESIDENT / PARTNER, SAN DIEGO

The San Diego industrial market has been at or near all-time highs for rental rates, and all-time lows for vacancy for the past couple years. In some central county areas, rental rates for the most desirable R&D properties can be higher than even some Class B office rates. The market has been reacting to these conditions in a number of ways.

While landlords have been aggressive on face rents for some time now, well positioned properties are really pulling back on offering much in the way of tenant improvement allowance or free rent. In many parts of the county, tenants may be fortunate to get two months of rental abatement on a five-year lease and may be more likely to receive just one month of rental abatement or 30–45 days of early occupancy with no rental abatement. In the central county submarkets, landlords can now be more selective when it comes to which tenant they ultimately bring into their property. Landlords are taking a harder look at tenant credit and giving preference to tenants that have cleaner and less intense uses.

Tenants have been dealing with these tight market conditions in their own ways. Higher clear height has become more and more of a priority as companies try to maximize the efficiency by utilizing more cubic feet of volume, and getting all they can out of their space. Increasingly, parking has become a focus for industrial tenants as another way to get everything they can out of the smallest footprint possible, with rental rates being so high. In this market, many if not most tenants are renewing their lease in their existing location, due to very few alternatives, unless business conditions are requiring a relocation.

The tight conditions are not limited to the central county areas alone. Good luck to you if you need space in Escondido, El Cajon, or National City. Even Otay Mesa has a dearth of options for many size ranges, which was almost unimaginable just a few years back. The northwest corner of the county is the only area where there has been any significant level of new development. Fundamentals have been steadily increasing in Carlsbad, Oceanside, and Vista, but the current wave of new deliveries is making conditions less lopsided in the landlord's favor in those areas.

There will always be pockets where one size range of availabilities has more competition, or a spate of new construction can soften the landlords' control on the area to some extent, but overall the San Diego industrial market is not conducive to significant new industrial development. As long as the economy remains on solid ground, the overall San Diego industrial market will remain tight, with no major change on the immediate horizon.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services. ©2017 Voit Real Estate Services, Inc. License #01991785.

Represented in 150 Markets
Nationally & Internationally.
CORFAC
International

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