

INDUSTRIAL REMAINS AT ALL-TIME HIGHS. At the close of the first quarter, the San Diego County industrial market ended with occupancy and rental rates both at the highest level on record. Despite the continued tight market conditions, 2018 started off with strong absorption, netting over a quarter million square feet in the first quarter. The countywide vacancy rate is now 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 remain high due to steady demand and limited supply.

VACANCY. Direct/sublease space (unoccupied) finished the quarter at 3.52%, the same level as year-end 2017, which was the third consecutive year in which a new record low was reached at year-end. 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. The Central and East County areas are at 98% occupancy or greater, and all other submarket clusters in the county have vacancy rates below 5%.

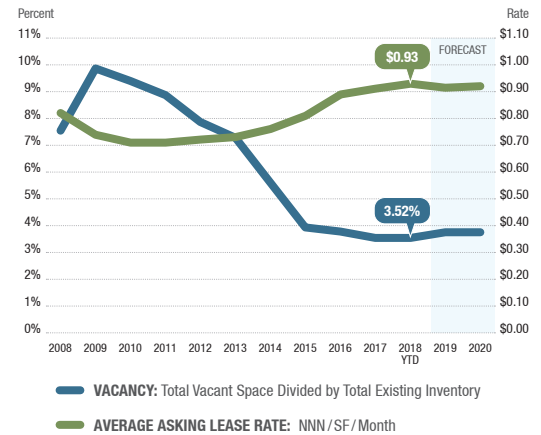
LEASE RATES. The average asking triple-net lease rate checked in at \$0.93 per square foot per month, a 3.3% increase in comparison with the first quarter of 2017. The average asking rate is at an all-time high for the San Diego industrial market. The lack of availability has left tenants with limited options in many cases, keeping rental rates high.

TRANSACTION ACTIVITY. The total square feet leased and sold in the first quarter was approximately 3.2 million square feet, a slow start to the year. Elevated sale prices and low vacancy have suppressed transaction volume. 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.

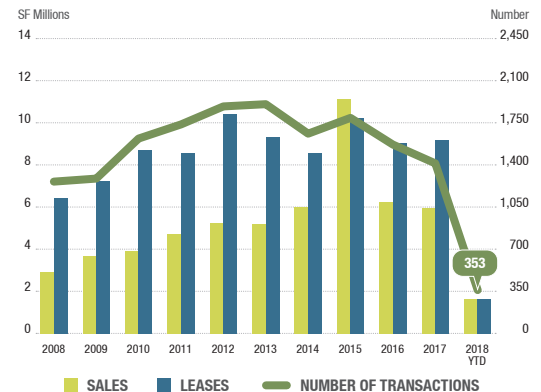
EMPLOYMENT. The unemployment rate in San Diego County was 3.5% in February 2018, down from a revised 3.6% in January 2018, and below the year-ago estimate of 4.4%. This compares with an unadjusted unemployment rate of 4.5% for California and 4.4% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 27,900 payroll jobs between February 2017 and February 2018, including 8,700 from professional and business services, which reported the largest overall gain. The educational and health services sector reported a growth of 5,200 jobs, and the construction sector reported an increase of 5,200 jobs.

OVERALL. The San Diego industrial market conditions are at record highs in terms of the overall occupancy and rental rates, but this has contributed to lower transaction volume and less net absorption. 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 industrial real estate under construction since the year 2000.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	1Q 2018	4Q 2017	1Q 2017	% Change Over Last Year
Vacancy Rate	■ FLAT	3.52%	3.52%	4.13%	(14.87%)
Availability Rate	■ FLAT	6.58%	6.53%	6.47%	1.61%
Average Asking Lease Rate	▲ UP	\$0.93	\$0.91	\$0.90	3.33%
Sale & Lease Transactions	▼ DOWN	3,157,957	4,460,450	4,068,425	(22.38%)
Gross Absorption	▼ DOWN	1,662,963	2,075,070	1,924,356	(13.58%)
Net Absorption	▲ POSITIVE	259,727	551,383	(346,551)	N/A

EMPLOYMENT. The labor market in San Diego County will continue to improve, although we anticipate job growth to slow. In 2017 there was a 1.2% increase in total employment, and a 1.0–1.5% increase is projected for 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.

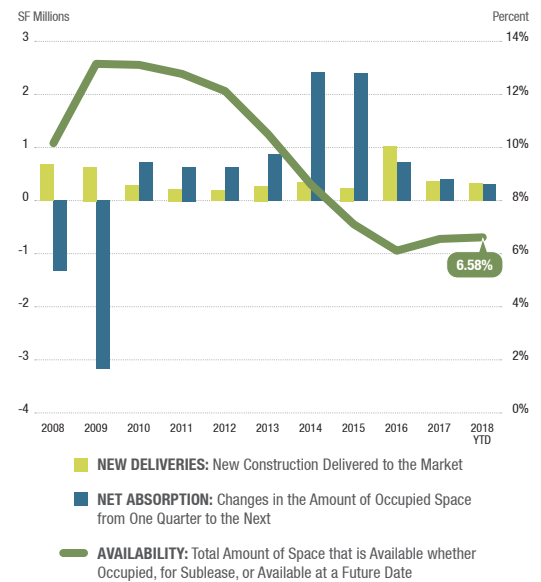
VACANCY. We anticipate the vacancy rate will start to move up from record lows as the vacancy rate is now more than three percentage points lower than availability, with 2.2 million square feet currently under construction.

CONSTRUCTION. 328,000 square feet of new industrial projects delivered in the first quarter, nearly eclipsing the total amount of deliveries seen in the entire previous year. There are 2.2 million square feet of industrial projects under construction, which is a level of new development not seen in almost two decades. The current product under construction is largely concentrated in the North County. It remains to be seen how successful these new projects will be 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 6.58% at the end of the first quarter, more than three percentage points higher than the vacancy rate. The majority of this available space which is not vacant is in the current construction pipeline.

ABSORPTION. There was 259,727 square feet of positive net absorption in the first quarter, on the heels of eight consecutive years with positive net absorption. The North County saw the greatest level of positive net absorption in the first quarter at 181,125 square feet, which is the natural byproduct of the new construction in that area accommodating an expansion of the industrial tenant footprint.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2819 Loker Ave. E.	Carlsbad	166,310	\$40,000,000	BLT Enterprises	Hines
901 Bay Marina Dr.	National City	91,541	\$21,000,000	RREEF	Stos Partners
1395 Park Center Dr.	Vista	158,784	\$18,440,000	CapRock Partners	Vista Industrial Products
7677 Engineer Rd.	Kearny Mesa	49,204	\$16,500,000	KFMB-TV, LLC	Midwest Television, Inc.
7880–7920 Ariway Rd.	Otay Mesa	133,276	\$13,675,000	The Realty Associates	Kavenish Ltd., LP

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2819 Loker Ave. E.	Carlsbad	161,310	Jan-2018	Acushnet	Carvin Corporation
9255 Customhouse Plz.	Otay Mesa	79,255	Mar-2018	Undisclosed	(Sublease)
3210 Executive Ridge	Vista	67,476	Mar-2018	Undisclosed	TDA Investment Group
16262 W. Bernardo Dr.	Rancho Bernardo	54,964	Jan-2018	LRAD	Carvin Corporation
1210 Air Wing Rd.	Otay Mesa	54,404	Mar-2018	Undisclosed	Zurich Alternative Asset Management

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2018	Square Feet Available	Availability Rate 1Q2018	Average Asking Lease Rate	Net Absorption 1Q2018	Net Absorption 2018	Gross Absorption 1Q2018	Gross Absorption 2018
Central County													
Central City	140	2,196,473	0	0	31,868	1.45%	29,668	1.35%	\$1.45	31,950	31,950	31,950	31,950
East City	61	965,347	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Southeast City	317	3,542,399	0	0	67,738	1.91%	217,951	6.15%	\$1.08	(10,750)	(10,750)	9,250	9,250
Kearny Mesa	426	9,769,342	63,800	21,302	150,699	1.54%	0	0.00%	\$1.32	59,964	59,964	159,841	159,841
Mission Gorge	119	1,919,081	0	0	42,534	2.22%	30,354	1.58%	\$1.34	(14,224)	(14,224)	21,569	21,569
Rose Canyon / Morena	132	2,496,426	0	0	32,998	1.32%	60,097	2.41%	\$0.87	315	315	28,829	28,829
Sports Arena / Airport	142	1,633,700	0	0	14,923	0.91%	29,423	1.80%	\$1.24	1,473	1,473	43,505	43,505
Miramar	587	13,245,224	30,000	615,000	390,426	2.95%	799,613	6.04%	\$1.06	35,151	35,151	147,337	147,337
Sorrento Mesa	75	3,687,048	0	0	49,708	1.35%	182,139	4.94%	\$1.15	(21,535)	(21,535)	9,065	9,065
Sorrento Valley	46	1,036,862	0	0	35,723	3.45%	21,323	2.06%	\$1.13	(5,293)	(5,293)	22,400	22,400
Torrey Pines / UTC	3	104,448	0	149,663	0	0.00%	0	0.00%	–	0	0	0	0
Central County Total	2,048	40,596,350	93,800	785,965	816,617	2.01%	1,370,568	3.38%	\$1.13	77,051	77,051	473,746	473,746
East County													
El Cajon	448	9,034,571	0	112,126	52,169	0.58%	264,620	2.93%	\$0.92	(21,810)	(21,810)	18,548	18,548
La Mesa / Spring Valley	309	2,640,213	0	70,000	43,964	1.67%	143,980	5.45%	\$1.30	(6,900)	(6,900)	9,264	9,264
Santee / Lakeside	276	3,628,680	0	262,395	109,015	3.00%	171,605	4.73%	\$0.99	(67,383)	(67,383)	32,119	32,119
Outlying SD County South	76	852,956	0	0	6,000	0.70%	0	0.00%	\$0.38	(5,000)	(5,000)	1,000	1,000
East County Total	1,109	16,156,420	0	444,521	211,148	1.31%	580,205	3.59%	\$0.97	-101,093	-101,093	60,931	60,931
North County													
Escondido	627	7,293,541	212,088	0	179,142	2.46%	215,549	2.96%	\$0.97	(88,115)	(88,115)	92,107	92,107
Oceanside	404	9,006,422	0	409,519	399,078	4.43%	579,353	6.43%	\$0.86	16,834	16,834	138,508	138,508
San Marcos	502	7,973,188	222,028	84,000	547,506	6.87%	896,486	11.24%	\$0.84	42,490	42,490	84,597	84,597
Vista	495	12,495,899	0	328,015	573,347	4.59%	1,009,799	8.08%	\$0.83	(26,902)	(26,902)	74,386	74,386
Carlsbad	233	8,092,849	1,070,026	50,150	528,975	6.54%	1,744,538	21.56%	\$1.02	232,125	232,125	173,922	173,922
North Beach Cities	43	261,294	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Outlying SD County North	106	1,149,133	0	3,754	22,709	1.98%	22,709	1.98%	\$0.85	4,693	4,693	8,386	8,386
North County Total	2,410	46,272,326	1,504,142	875,438	2,250,757	4.86%	4,468,434	9.66%	\$0.87	181,125	181,125	571,906	571,906
I-15 Corridor													
Poway	173	7,027,879	302,500	450,000	67,756	0.96%	495,322	7.05%	\$0.98	(10,442)	(10,442)	29,217	29,217
Rancho Bernardo	42	3,110,726	0	0	264,318	8.50%	312,578	10.05%	\$1.37	(34,720)	(34,720)	5,986	5,986
Scripps Ranch	29	742,066	0	0	91,554	12.34%	134,814	18.17%	\$1.16	(1,130)	(1,130)	2,180	2,180
I-15 Corridor Total	244	10,880,671	302,500	450,000	423,628	3.89%	942,714	8.66%	\$1.16	(46,292)	(46,292)	37,383	37,383
South County													
Chula Vista	334	8,644,515	0	0	117,090	1.35%	276,081	3.19%	\$0.92	(20,073)	(20,073)	101,386	101,386
National City	245	3,512,641	0	0	44,097	1.26%	42,141	1.20%	\$1.11	8,862	8,862	17,924	17,924
Otay Mesa	329	15,397,501	268,454	1,551,172	1,143,129	7.42%	1,696,036	11.02%	\$0.69	123,544	123,544	342,756	342,756
San Ysidro / Imperial Beach	63	1,409,618	0	24,121	20,420	1.45%	22,870	1.62%	\$0.76	36,603	36,603	56,931	56,931
South County Total	971	28,964,275	268,454	1,575,293	1,324,736	4.57%	2,037,128	7.03%	\$0.75	148,936	148,936	518,997	518,997
San Diego County Total	6,782	142,870,042	2,168,896	4,131,217	5,026,886	3.52%	9,399,049	6.58%	\$0.93	259,727	259,727	1,662,963	1,662,963
0–9,999	3,069	15,587,198	0	7,804	201,426	1.29%	418,637	2.69%	\$1.15	22,138	22,138	142,353	142,353
10,000–19,999	1,777	25,068,761	0	30,923	559,971	2.23%	973,271	3.88%	\$1.10	(47,974)	(47,974)	324,271	324,271
20,000–34,999	984	25,220,267	64,854	289,613	627,889	2.49%	1,067,065	4.23%	\$0.98	56,463	56,463	361,198	361,198
35,000–49,999	360	14,847,835	37,627	254,550	374,066	2.52%	684,222	4.61%	\$0.93	103,622	103,622	324,518	324,518
50,000–99,999	382	26,415,837	591,634	749,883	1,200,039	4.54%	2,600,704	9.85%	\$0.85	(177,641)	(177,641)	202,963	202,963
100,000 Plus	210	35,730,144	1,474,781	2,798,444	2,063,495	5.78%	3,655,150	10.23%	\$0.83	303,119	303,119	307,660	307,660
San Diego County Total	6,782	142,870,042	2,168,896	4,131,217	5,026,886	3.52%	9,399,049	6.58%	\$0.93	259,727	259,727	1,662,963	1,662,963

Lease rates are on a triple-net basis.



Steady Demand Keeps Supply Limited and Prices Up

by **Henry Zahner**

SENIOR VICE PRESIDENT, CARLSBAD

855.458.3330 · hzahner@voitco.com · Lic. #00887367

With building sale prices and rents at record-breaking levels in most submarkets, and vacancy rates still extremely low, we are finally seeing some new availabilities pop up across San Diego County. Previously reluctant sellers have been enticed to cash in some gains, while buyers struggle to find last year's pricing. Going forward, construction of new product will be limited to the few remaining developable lots. Areas like Carlsbad and Oceanside to the north and Otay Mesa to the south have seen renewed levels of speculative product being built. While net absorption has declined in the past two years, this new product is poised to do well, and has already had a positive impact on absorption countywide. New product branding types like "creative industrial" have shown initially positive results, helping to confirm that the market is continuing to strengthen.

Total net absorption in square footage across San Diego County was 259,727 square feet for the first quarter after finishing at 401,620 square feet for 2017, which puts the start of the year ahead of last year's pace. This "bounce back" of positive absorption in the first quarter can be partly attributed to the strength of deals inked in the fourth quarter, which are now beginning to take occupancy. The market remains relatively tight as a whole. The average availability across San Diego County is 6.6%, and actual vacancy is a measly 3.5%.

Continuing the trend from last year, the "spec" buildings in the northern and southern ends of the county have taken higher end forms than in the past, incorporating high clear heights and more modern buildouts. A total of 2.2 million square feet are currently under construction, as developers are enticed to bring projects online in the current environment of record low vacancy, and record high rents. As the new construction delivers to the market, developers are counting on the continuously vigorous and pent-up tenant demand for space to persist. Carlsbad and Oceanside have led the pace of the new industrial development, with well over a million square feet being recently completed or currently under construction.

A major factor in the marketplace are the burdensome regulations and fees for new construction, which will continue increasing construction costs and completion times, and therefore affect rents. We anticipate that 2018 will continue to experience upward pressure on rents, with concessions such as free rent continuing to decrease, and tenant improvement packages being underwritten to only the worthiest credit tenants.

Looking to the future, worldwide innovations like autonomous vehicles, drones, genetic sequencing, and drug development, robotics, and efficient indoor farming techniques will continue to fuel high-tech innovation and absorption of Industrial and Flex/R&D space in San Diego County. Despite the high cost of living in San Diego, San Diego's diverse employment base, its desirable climate and lifestyle, and its proximity to international markets in Mexico and the Pacific Rim will all help support our local economy's continued growth.

Please Contact Us for Further Information

Josh Brant
Regional Director of Research
jbrant@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.517.4000

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

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. ©2018 Voit Real Estate Services, Inc. License #01991785.

Represented in 150 Markets
Nationally & Internationally.



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