

MARKET OVERVIEW. The San Diego County industrial market continued to be the hottest property sector in the market through the first half of 2019. Net absorption was positive in each of the first two quarters. The vacancy rate ticked up slightly due to the new construction deliveries, but the wave of industrial construction of the past couple years has yet to move the vacancy rate above even 5%. Rental rates remain an all-time high and have not shown any signs of slowing down. The construction pipeline has shifted away from North County and Otay Mesa, with the I-15 Corridor currently leading the pack for total area under construction.

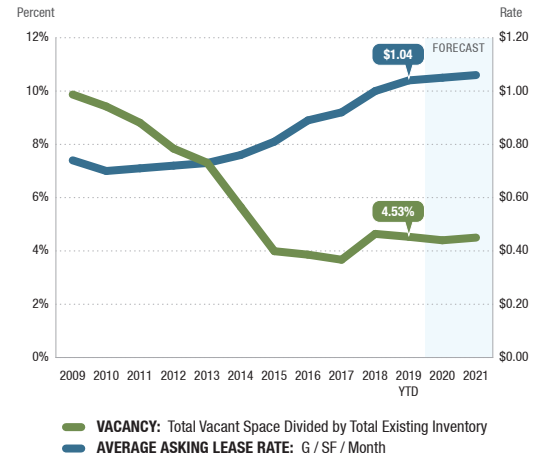
VACANCY. Direct/sublease space (unoccupied) finished the second quarter of 2019 at 4.53%, an increase of 14 basis points from the previous quarter's vacancy rate of 4.39%. However, the vacancy rate for San Diego County's industrial market is still significantly lower than the best number posted in the last period of economic expansion, which was roughly 6% in 2006. Unsurprisingly, the areas with the least amount of recent construction, Central County and East County, both have overall vacancy rates below 3%.

LEASE RATES. The average asking lease rate checked in at \$1.04 per square foot per month, unchanged from the previous quarter, and an 8.3% increase year-over-year. The average asking rate is at an all-time high for the San Diego industrial market.

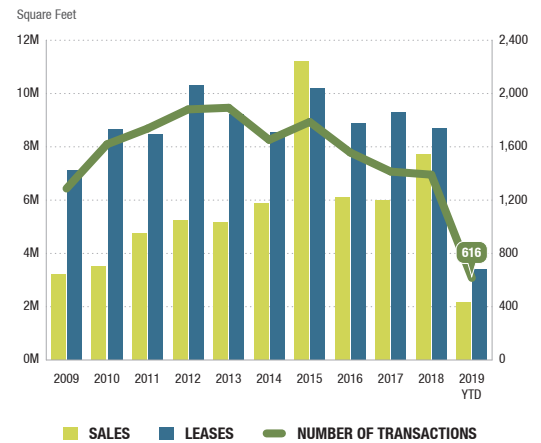
TRANSACTION ACTIVITY. The total square feet leased and sold in the second quarter was approximately 2.9 MSF, an increase from the 2.6 MSF of transactions in the first quarter of 2019. The sales volume of 7.7 million square feet in sales for 2018 was the second highest level in the past decade, while in comparison 2019 is off to a slow start with only 2.2 MSF in industrial property sales recorded in the first half. 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 2.8% in May 2019, down from a revised 3.0% in April 2019, and unchanged from the year-ago estimate of 2.8%. This compares with an unadjusted unemployment rate of 3.5% for California and 3.4% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 25,600 payroll jobs between May 2018 and May 2019, including 8,700 from education and health services, which reported the largest overall gain. The professional and business services sector reported a growth of 7,000 jobs, the second most among the major employment sectors. The largest year-over-year loss was in trade, transportation, and utilities which reported 3,200 fewer jobs than the prior year.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	2Q 2019	1Q 2019	2Q 2018	% Change Over Last Year
Vacancy Rate	▲ UP	4.53%	4.39%	3.76%	20.42%
Availability Rate	▬ FLAT	7.17%	7.21%	7.12%	0.76%
Average Asking Lease Rate	▬ FLAT	\$1.04	\$1.04	\$0.96	8.33%
Sale & Lease Transactions	▲ UP	2,938,466	2,613,220	3,076,321	(4.48%)
Gross Absorption	▼ DOWN	1,930,519	2,263,982	1,952,929	(1.15%)
Net Absorption	▲ POSITIVE	112,194	514,629	141,248	N/A

EMPLOYMENT. The labor market in San Diego County will continue to improve, although we anticipate job growth to slow. In 2018 there was a 1.7% increase in total employment, and a 1.0–1.2% increase is projected for 2019. With the local stalwarts of defense and biotech remaining strong, look for these sectors to lead the way for employment gains, followed by healthcare.

LEASE RATES. Expect average asking rates to increase by approximately 3–4% over the next four quarters.

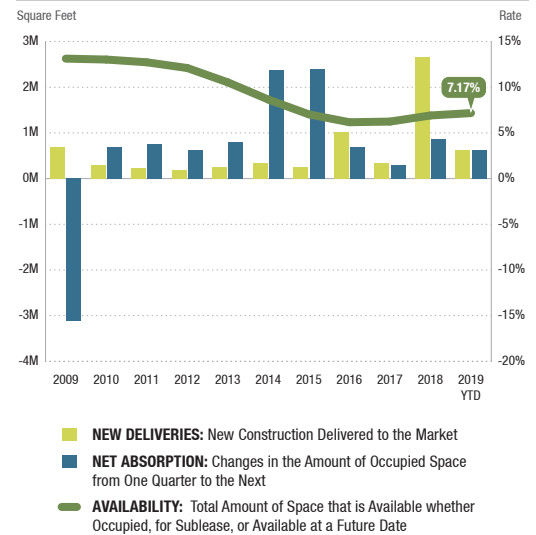
VACANCY. We anticipate the vacancy rate will continue to move up from record lows as the vacancy rate is still more than two and a half percentage points lower than availability, and there is 1.1 MSF currently under construction.

CONSTRUCTION. 2.7 million square feet of new industrial projects were delivered in 2018, the most square feet delivered since 2006. Coming into 2019, the new construction pipeline still has legs, with 1.1 MSF still under construction. With the majority of the North County and Otay Mesa construction already completed, Poway has moved to the forefront as the submarket with the most product currently under construction. Ryan Companies is developing a 531,000 square foot speculative project in Poway called Vantage Point, and additionally Techbilt has 83,000 square feet under way at the Poway Tech Center.

ABSORPTION. There was 112,194 square feet of positive net absorption in the second quarter, for a total of 626,823 square feet through the first half of the year. The San Diego industrial market is on track for its tenth consecutive year of positive net absorption.

AVAILABILITY. Direct/sublease space being marketed was 7.17% at the end of the second quarter, a minor decrease from the previous quarter's availability rate of 7.21%. The availability rate remains more than two and a half percentage points higher than the vacancy rate. Most of this available space which is not vacant is in the current construction pipeline.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
5650 & 5660 Kearny Mesa Rd.	Kearny Mesa	76,447	\$35,000,000	Crow Holdings Capital	Cubic Corporation
8500 Kerns St. & 2600 Melksee St.	Otay Mesa	201,020	\$33,050,000	LaSalle Investment Management	Murphy Development Co.
1669 & 1675 Brandywine Ave.	Chula Vista	158,138	\$25,700,000	Kohlberg Kravis Roberts & Co, LP	Black Creek Group
1670 & 1690 Brandywine Ave.	Chula Vista	170,805	\$24,400,000	Kohlberg Kravis Roberts & Co, LP	Stos Partners*
10015 Waples Ct.	Sorrento Mesa	106,412	\$21,300,000	Rexford Industrial Realty, LP	Kearny Real Estate Co.

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1291 Rocky Point Dr.	Oceanside	79,023	Jun-2019	Undisclosed	Black Creek Industrial Property Trust
4000 Ruffin Rd.	Kearny Mesa	66,619	Jun-2019	Illumina	IDS Real Estate Group
1319 Rocky Point Dr.	Oceanside	64,109	May-2019	Undisclosed	MagnaFlow
2685 S. Melrose Dr.	Vista	63,396	Apr-2019	Flex Power	Chocholek Trust
2045 Corte Del Nogal	Carlsbad	36,404	Jun-2019	Undisclosed	Atomic Investments

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 202019	Square Feet Available	Availability Rate 202019	Average Asking Lease Rate	Net Absorption 202019	Net Absorption 2019	Gross Absorption 202019	Gross Absorption 2019
Central County													
Central City	92	1,428,637	0	0	32,753	2.29%	32,753	2.29%	–	(17,000)	(35,310)	0	5,000
East City	61	965,504	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Southeast City	365	4,259,517	0	0	59,175	1.39%	168,962	3.97%	\$1.05	13,771	20,191	33,771	59,371
Kearny Mesa	427	9,858,922	24,188	0	201,023	2.04%	426,698	4.33%	\$1.40	83,518	14,030	139,954	226,314
Mission Gorge	111	1,756,746	0	0	36,806	2.10%	61,961	3.53%	\$1.46	(13,274)	3,580	22,134	59,872
Rose Canyon / Morena	131	2,066,708	0	0	32,925	1.59%	114,067	5.52%	\$1.14	(24,237)	(22,673)	15,323	23,575
Sports Arena / Airport	143	1,635,692	0	0	31,132	1.90%	50,189	3.07%	\$1.27	4,800	(21,905)	8,800	13,627
Miramar	586	13,205,018	0	615,000	383,564	2.90%	678,950	5.14%	\$1.24	(108,584)	77,372	131,315	480,130
Sorrento Mesa	76	3,737,992	0	0	298,442	7.98%	332,289	8.89%	\$1.18	(20,610)	(119,772)	7,842	14,439
Sorrento Valley	43	1,022,367	0	149,663	36,045	3.53%	43,405	4.25%	\$1.61	(14,530)	(4,289)	2,400	16,786
Central County Total	2,035	39,937,103	24,188	764,663	1,111,865	2.78%	1,909,274	4.78%	\$1.27	(96,146)	(88,776)	361,539	899,114
East County													
El Cajon	450	9,010,718	82,733	0	120,278	1.33%	316,658	3.51%	\$1.03	(71,742)	(59,134)	55,295	130,431
La Mesa / Spring Valley	309	2,626,169	0	50,000	105,867	4.03%	251,306	9.57%	\$1.09	(19,967)	(14,012)	79,733	106,088
Santee / Lakeside	275	3,668,133	0	280,295	199,817	5.45%	246,642	6.72%	\$0.95	(9,004)	(20,376)	21,904	40,521
Outlying SD County South	75	756,319	0	0	3,074	0.41%	3,074	0.41%	\$0.80	(3,074)	(3,074)	0	0
East County Total	1,109	16,061,339	82,733	330,295	429,036	2.67%	817,680	5.09%	\$1.03	(103,787)	(96,596)	156,932	277,040
North County													
Escondido	632	7,528,758	0	103,500	173,821	2.31%	289,213	3.84%	\$0.99	(45,580)	(31,765)	112,926	187,170
Oceanside	405	9,266,921	0	131,726	436,382	4.71%	572,178	6.17%	\$0.91	170,127	227,581	239,309	395,364
San Marcos	471	7,939,576	27,624	84,000	660,455	8.32%	761,490	9.59%	\$0.93	(48,670)	(38,463)	53,179	136,615
Vista	528	12,761,154	77,725	60,165	865,083	6.78%	1,668,100	13.07%	\$0.93	(105,320)	(307,218)	355,954	496,578
Carlsbad	239	9,119,237	0	50,150	1,066,657	11.70%	1,335,107	14.64%	\$1.07	188,368	538,206	246,859	784,263
North Beach Cities	42	257,017	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Outlying SD County North	107	955,420	0	3,754	10,352	1.08%	15,152	1.59%	\$1.16	(5,880)	(3,644)	0	2,236
North County Total	2,424	47,828,083	105,349	433,295	3,212,750	6.72%	4,641,240	9.70%	\$0.97	153,045	384,697	1,008,227	2,002,226
I-15 Corridor													
Poway	181	7,268,357	577,619	0	169,796	2.34%	766,927	10.55%	\$1.10	(41,674)	(7,886)	48,144	117,435
Rancho Bernardo	43	3,135,052	141,027	0	234,128	7.47%	468,231	14.94%	\$1.36	41,788	0	41,788	47,838
Scripps Ranch	28	705,554	0	0	110,707	15.69%	87,744	12.44%	\$1.24	2,955	(20,008)	4,875	8,517
I-15 Corridor Total	252	11,108,963	718,646	0	514,631	4.63%	1,322,902	11.91%	\$1.18	3,069	(27,894)	94,807	173,790
South County													
Chula Vista	324	8,318,438	0	163,000	201,753	2.43%	394,654	4.74%	\$0.97	52,923	(27,689)	76,369	106,614
National City	256	3,823,587	0	0	61,014	1.60%	84,568	2.21%	\$1.32	2,680	9,441	24,810	53,894
Otay Mesa	335	16,018,439	137,000	5,362,434	1,004,623	6.27%	1,178,478	7.36%	\$0.73	105,507	451,836	203,805	642,426
South San Diego	63	1,375,036	0	24,121	12,521	0.91%	12,521	0.91%	\$0.97	(5,097)	21,804	4,030	39,397
South County Total	978	29,535,500	137,000	5,549,555	1,279,911	4.33%	1,670,221	5.65%	\$0.81	156,013	455,392	309,014	842,331
San Diego County Total	6,798	144,470,988	1,067,916	7,077,808	6,548,193	4.53%	10,361,317	7.17%	\$1.04	112,194	626,823	1,930,519	4,194,501
0–9,999	3,073	15,639,463	26,489	7,804	267,863	1.71%	418,214	2.67%	\$1.20	(22,790)	(12,074)	130,065	309,822
10,000–19,999	1,775	25,072,906	91,699	30,923	539,503	2.15%	1,151,904	4.59%	\$1.18	189,703	65,924	480,805	858,822
20,000–34,999	978	25,058,384	54,708	301,981	856,027	3.42%	1,440,911	5.75%	\$1.06	(188,413)	(201,934)	272,575	547,108
35,000–49,999	360	14,849,093	83,043	335,890	671,814	4.52%	909,361	6.12%	\$1.06	(99,496)	(99,886)	236,831	450,544
50,000–99,999	394	27,108,132	0	630,158	1,543,198	5.69%	2,463,409	9.09%	\$0.91	105,827	178,133	411,673	643,085
100,000 Plus	218	36,743,010	811,977	5,771,052	2,669,788	7.27%	3,977,518	10.83%	\$1.00	127,363	696,660	398,570	1,385,120
San Diego County Total	6,798	144,470,988	1,067,916	7,077,808	6,548,193	4.53%	10,264,088	7.17%	\$1.04	112,194	626,823	1,930,519	4,194,501

Lease rates are on a triple-net basis.



Firing On All Cylinders

by **Todd Holley, SIOR**

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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 few 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 to get 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 leases in their existing locations, due to very few alternatives, unless business conditions are requiring a relocation.

In the first years of the recovery, fundamentals quickly improved with the countywide vacancy rate shrinking from almost 10% in 2010, to less than 4% by 2015. It took until 2016 for developers to bring significant levels of new construction to the market. Annual deliveries have jumped from a quarter million square feet in 2015 to over a million square feet in 2016. After the initial slow response to changing market conditions, developers have hit the gas and not let up. There were 2.6 million square feet of new deliveries last year, and through the first half of this year, the market is on pace for another year with more than a million square feet delivered. New development has been concentrated near the Highway-78 corridor in North County, Poway, and Otay Mesa. Ryan Companies and DWS Group recently broke ground on Vantage Point, a 535,000 square foot spec project in Poway. Throughout this recovery Amazon and other third-party logistics companies supporting the growth in online commerce have been a major driver in the industrial sector. In San Diego County, a few Amazon last-mile delivery centers have sprung up, but nothing on the massive scale of the million-square-foot centers that have proliferated in the Inland Empire... until now. Amazon is reportedly planning a 2.6 million square foot distribution center in Otay Mesa, which represents a 1.8% increase to the total San Diego market inventory.

The large-scale Amazon project is just one more sign that the San Diego industrial market remains strong. 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. ©2019 Voit Real Estate Services, Inc. DRE License #01991785.

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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

EAST COUNTY

El Cajon, La Mesa / Spring Valley, Santee / Lakeside, Outlying SD County South

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, South San Diego