

**TIGHT MARKET.** At the close of the third quarter, the San Diego County industrial market displayed strong positive net absorption, in a generally tight market. Countywide vacancy rates recorded a low of 4.38%, below the rate of 4.88% from second quarter but slightly above this time last year which posted 4.05%. Availability increased very slightly to 6.94% from last quarter's 6.92%, which are all-time record lows for the San Diego industrial market. With few projects under construction to alleviate the limited supply, asking sales prices, asking lease rates and occupancy costs continue to climb.

**VACANCY.** Direct/sublease space (unoccupied) finished the quarter at 4.38%, a decrease from last quarter's 4.88%. The vacancy rate for San Diego County's industrial market is now 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 2.87%, with Central County following close behind at 2.92%.

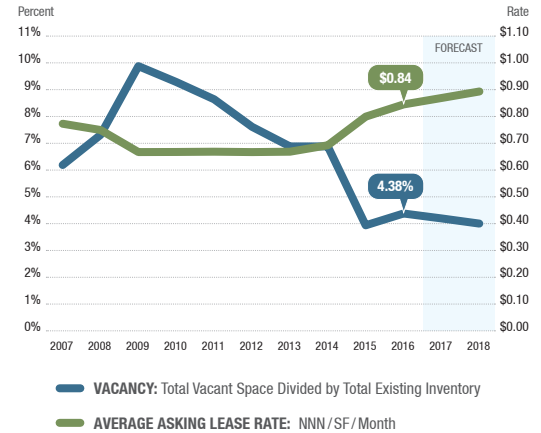
**LEASE RATES.** The average asking triple-net lease rate checked in at \$0.84 per square foot per month, a two-cent decrease in comparison with the previous quarter and four cents higher than 2015's third quarter figure of \$.80. The average asking rate is still at an all-time high for the San Diego industrial market, exceeding any rate posted in the past fifteen years. This significant increase resulted from very high demand and scarce supply in the market.

**TRANSACTION ACTIVITY.** The total square feet leased and sold in the third quarter was approximately 2.5 million square feet, a significant 58% decrease from third quarter of 2015's mark of 6 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.

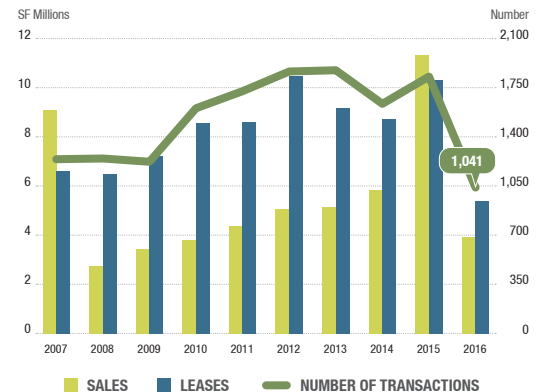
**EMPLOYMENT.** The unemployment rate in San Diego County was 5.0% in August 2016, down from a revised 5.3% in July 2016 and below the year-ago estimate of 5.2%. This compares with an unadjusted unemployment rate of 5.6% for California and 5.0% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 25,100 payroll jobs from August 2015 through August 2016, including 6,200 from government services, which reported the largest overall gain. Leisure and hospitality services reported a growth of up to 6,100 jobs, followed by the educational and health services that reported up to 6,000 jobs.

**OVERALL.** The San Diego industrial market continues to tighten, with near-record low vacancy and availability rates at the end of the third quarter. Rental rates and sale prices will continue to increase as the lack of available, competitively priced, industrial land persists. Moreover, look for construction costs to continue to rise. The depleted development pipeline in the past few years has exacerbated the vacancy rate compression, resulting in increased competition for space and guaranteeing an increase in asking rates for the remainder of 2016.

### VACANCY vs. AVERAGE ASKING LEASE RATE



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



### Market Statistics

	Change Over Last Quarter	3Q 2016	2Q 2016	3Q 2015	% Change Over Last Year
Vacancy Rate	▼ DOWN	4.38%	4.88%	4.05%	8.15%
Availability Rate	▲ UP	6.94%	6.92%	7.01%	-1.00%
Average Asking Lease Rate	▼ DOWN	\$0.84	\$0.86	\$0.80	5.00%
Sale & Lease Transactions	▼ DOWN	2,512,765	3,960,636	6,019,098	-58.25%
Gross Absorption	▼ DOWN	2,074,783	2,304,610	2,169,904	-4.38%
Net Absorption	▲ POSITIVE	719,418	(127,324)	777,353	N/A

**EMPLOYMENT.** We anticipate job growth of around 2.5%, or 35,000 jobs, in San Diego County over the year. Look for sectors like professional, scientific, & technical services, construction, and real estate, rental and leasing services to lead the way for employment gains in 2016.

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

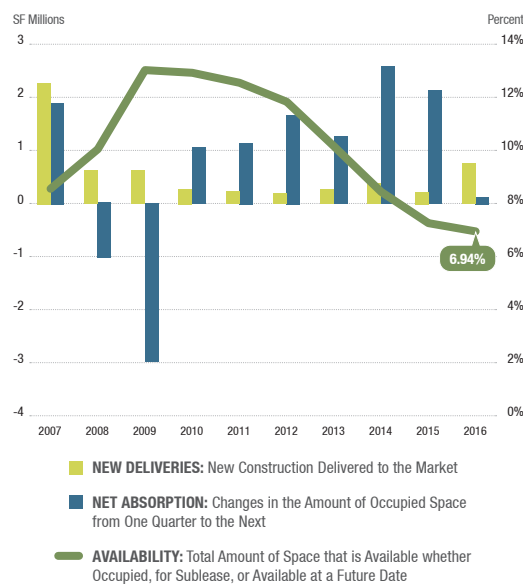
**VACANCY.** We anticipate the vacancy rate continuing to descend, dropping approximately 40 basis points, to around 4% by the end of the fourth quarter of 2016.

**CONSTRUCTION.** Deliveries for 2016 year to date currently stand at 757,274 square feet, which exceeds any full year's deliveries since the recession in 2008. Current construction checked in at approximately 419,798 square feet at the end of the third quarter. The majority of this construction is taking place in the least expensive land markets of San Diego County which are Oceanside and Carlsbad. A prominent project includes the construction of 193,000 square feet at Elevate at Carlsbad Oaks North, which has been partially leased by Unite Eurotherapy (58,045 square feet). Currently, approximately 4.6 million square feet is planned or being seriously considered to be built. One notable project that is planned is Brown Field Technology Park in Otay Mesa, which has a master plan of 1 million square feet of industrial product. During the recession and recovery, construction has been limited to sporadic build-to-suit projects. The tight development pipeline has helped to push vacancy down and lease rates up for industrial product.

**AVAILABILITY.** Direct/sublease space being marketed was 6.94% at the end of the third quarter, a 1% decrease relative to 2015's third quarter rate of 7.01%. The lack of available space is creating pent up demand in some size ranges and is applying upward pressure on pricing.

**ABSORPTION.** After coming off of a negative net absorption of 127,324 square feet in second quarter, the third quarter ended with strong positive net absorption of 719,418 square feet. Otay Mesa had the most substantial positive absorption in the county, recording 293,000 square feet, with notable tenants such as Hybrid Apparel and Emerald Textiles expanding their footprints. Over the past six years, the market has accumulated a total of over 11.1 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
12340 World Trade Dr.	Rancho Bernardo	81,980	\$14,450,000	Wentworth Property Company, LLC	Carvin Corporation
3937 Ocean Ranch Blvd.	Oceanside	91,974	\$13,219,000	MagnaFlow	Hamann Companies
1445 Engineer St.	Vista	99,307	\$11,867,000	First Industrial Realty Trust, Inc.	Gorgee, LLC
12250-12254 Lavelli Way	Poway	65,828	\$10,532,000	Robert J. Wright	Metier, LLC
9845 Customhouse Plz.	Otay Mesa	102,520	\$7,850,000	Patricia Colman	Lotus Real Estate Partners

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2020 Piper Ranch Rd.	Otay Mesa	98,500	Aug-2016	Balboa Water Group	Morgan Stanley & Co., Inc.
7130 Miramar Rd.	Miramar	81,944	Jul-2016	MS International	GIC Real Estate Intl., Ltd.
2091 Rutherford Rd.	Carlsbad	62,381	Aug-2016	Laired Technologies	DTC Industrial Trust
8515 Miramar Pl.	Miramar	54,560	Aug-2016	Hyperikon, Inc.	MGM Partnership
2580 Progress St.	Vista	45,465	Aug-2016	Globarket Tire Recycling, LLC	Atomic Investments, Inc.

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2016	Square Feet Available	Availability Rate 3Q2016	Average Asking Lease Rate	Net Absorption 3Q2016	Net Absorption 2016	Gross Absorption 3Q2016	Gross Absorption 2016
<b>Central County</b>													
Central City	147	2,286,999	0	0	45,000	1.97%	76,100	3.33%	\$2.00	25,000	18,200	45,000	45,000
East City	61	976,691	0	0	0	0.00%	9,359	0.96%	\$0.00	0	1,100	0	1,100
Southeast City	317	3,539,187	0	0	42,520	1.20%	68,718	1.94%	\$0.00	57,942	82,213	118,591	187,296
Kearny Mesa	427	9,844,655	0	20,600	153,686	1.56%	247,630	2.52%	\$1.18	79,802	55,934	144,374	341,523
Mission Gorge	120	1,946,633	0	0	24,471	1.26%	10,318	0.53%	\$1.05	3,498	(2,362)	26,279	64,937
Rose Canyon / Morena	137	2,771,769	0	0	172,230	6.21%	244,730	8.83%	\$0.75	(4,000)	(164,876)	3,000	7,474
Sports Arena / Airport	139	1,589,007	2,500	0	40,207	2.53%	32,532	2.05%	\$1.82	(11,699)	(14,353)	20,275	39,171
Miramar	591	13,288,695	0	615,000	612,643	4.61%	883,082	6.65%	\$0.97	(30,223)	(265,955)	312,497	659,253
Sorrento Mesa	78	3,885,392	0	0	101,993	2.63%	463,390	11.93%	\$1.02	(6,085)	29,008	50,305	145,873
Sorrento Valley	46	1,036,303	0	0	12,123	1.17%	24,623	2.38%	\$1.75	(2,144)	(10,243)	4,107	21,081
Torrey Pines / UTC	3	104,448	0	149,663	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>Central County Total</b>	<b>2,066</b>	<b>41,269,779</b>	<b>2,500</b>	<b>785,263</b>	<b>1,204,873</b>	<b>2.92%</b>	<b>2,060,482</b>	<b>4.99%</b>	<b>\$1.02</b>	<b>112,091</b>	<b>(271,334)</b>	<b>724,428</b>	<b>1,512,708</b>
<b>East County</b>													
El Cajon	449	9,055,206	0	112,126	291,037	3.21%	294,925	3.26%	\$0.76	11,885	(79,453)	35,131	269,199
La Mesa / Spring Valley	311	2,670,528	0	0	83,368	3.12%	152,441	5.71%	\$0.69	(4,066)	27,841	0	68,916
Santee / Lakeside	278	3,696,575	0	239,050	67,988	1.84%	198,456	5.37%	\$0.75	16,839	(28,081)	46,328	116,038
<b>East County Total</b>	<b>1,038</b>	<b>15,422,309</b>	<b>0</b>	<b>351,176</b>	<b>442,393</b>	<b>2.87%</b>	<b>645,822</b>	<b>4.19%</b>	<b>\$0.75</b>	<b>24,658</b>	<b>(79,693)</b>	<b>81,459</b>	<b>454,153</b>
<b>North County</b>													
Escondido	628	7,268,592	0	175,168	123,880	1.70%	400,825	5.51%	\$0.90	5,265	(3,351)	96,920	227,913
Oceanside	399	8,673,055	101,715	283,804	532,095	6.14%	511,940	5.90%	\$0.69	66,663	455,928	161,043	622,609
San Marcos	508	8,094,351	0	84,000	366,458	4.53%	880,902	10.88%	\$0.64	(2,563)	87,564	42,190	202,228
Vista	498	12,590,164	0	408,015	436,903	3.47%	956,425	7.60%	\$0.79	86,422	(89,246)	160,763	298,510
Carlsbad	227	7,388,888	271,499	748,243	526,379	7.12%	747,496	10.12%	\$0.98	3,175	(51,035)	51,153	368,435
North Beach Cities	43	261,294	0	0	0	0.00%	5,100	1.95%	\$0.00	0	0	0	0
Outlying SD County North	102	913,848	0	3,754	12,176	1.33%	18,151	1.99%	\$0.85	3,474	3,725	5,150	9,951
<b>North County Total</b>	<b>2,405</b>	<b>45,190,192</b>	<b>373,214</b>	<b>1,702,984</b>	<b>1,997,891</b>	<b>4.42%</b>	<b>3,520,839</b>	<b>7.79%</b>	<b>\$0.82</b>	<b>162,436</b>	<b>403,585</b>	<b>517,219</b>	<b>1,729,646</b>
<b>I-15 Corridor</b>													
Poway	176	7,385,203	0	383,160	165,515	2.24%	572,763	7.76%	\$0.94	(36,079)	204,157	66,761	437,661
Rancho Bernardo	46	4,243,652	0	0	370,137	8.72%	315,553	7.44%	\$0.94	16,847	(35,305)	16,847	59,033
Scripps Ranch	29	745,005	0	0	201,303	27.02%	201,303	27.02%	\$0.95	10,584	(86,999)	22,063	41,979
<b>I-15 Corridor Total</b>	<b>251</b>	<b>12,373,860</b>	<b>0</b>	<b>383,160</b>	<b>736,955</b>	<b>5.96%</b>	<b>1,089,619</b>	<b>8.81%</b>	<b>\$0.94</b>	<b>(8,648)</b>	<b>81,853</b>	<b>105,671</b>	<b>538,673</b>
<b>South Bay</b>													
Chula Vista	335	8,664,731	0	0	506,287	5.84%	705,911	8.15%	\$0.84	127,383	38,491	229,398	430,717
National City	245	3,517,779	0	0	52,974	1.51%	88,083	2.50%	\$0.73	17,490	48,828	38,719	88,802
Otay Mesa	327	15,351,078	44,084	1,359,262	1,267,321	8.26%	1,624,227	10.58%	\$0.63	293,252	(93,548)	354,045	913,858
San Ysidro / Imperial Beach	67	1,454,572	0	24,121	97,597	6.71%	234,624	16.13%	\$0.92	(5,844)	(24,214)	13,906	26,366
Outlying SD County South	72	714,911	0	0	4,400	0.62%	24,427	3.42%	\$0.00	(3,400)	(3,400)	9,938	55,900
<b>South Bay Total</b>	<b>1,046</b>	<b>29,703,071</b>	<b>44,084</b>	<b>1,383,383</b>	<b>1,928,579</b>	<b>6.49%</b>	<b>2,677,272</b>	<b>9.01%</b>	<b>\$0.68</b>	<b>428,881</b>	<b>(33,843)</b>	<b>646,006</b>	<b>1,515,643</b>
<b>San Diego County Total</b>	<b>6,806</b>	<b>143,959,211</b>	<b>419,798</b>	<b>4,605,966</b>	<b>6,310,691</b>	<b>4.38%</b>	<b>9,994,034</b>	<b>6.94%</b>	<b>\$0.84</b>	<b>719,418</b>	<b>100,568</b>	<b>2,074,783</b>	<b>5,750,823</b>
0-9,999	3,072	15,622,073	2,500	7,804	223,202	1.43%	477,566	3.06%	\$1.21	36,665	30,265	151,512	411,351
10,000-19,999	1,792	25,275,180	0	0	659,355	2.61%	1,182,216	4.68%	\$1.05	16,183	154,965	445,247	1,364,023
20,000-34,999	989	25,297,081	0	317,735	832,650	3.29%	1,432,782	5.66%	\$0.96	(49,146)	(90,994)	341,820	1,076,197
35,000-49,999	366	15,121,966	85,986	161,560	459,164	3.04%	827,565	5.47%	\$0.77	132,213	30,547	230,489	590,127
50,000-99,999	376	25,949,241	114,522	1,109,688	1,380,469	5.32%	2,355,252	9.08%	\$0.81	274,611	94,729	446,767	870,272
100,000 Plus	212	36,708,060	216,790	3,009,179	2,755,851	7.51%	3,718,653	10.13%	\$0.78	308,892	(118,944)	458,948	1,438,853
<b>San Diego County Total</b>	<b>6,806</b>	<b>143,959,211</b>	<b>419,798</b>	<b>4,605,966</b>	<b>6,310,691</b>	<b>4.38%</b>	<b>9,994,034</b>	<b>6.94%</b>	<b>\$0.84</b>	<b>719,418</b>	<b>100,568</b>	<b>2,074,783</b>	<b>5,750,823</b>

Lease rates are on a triple-net basis.



## Market Update

by **Brian Mulvaney, SIOR, CCIM**

SENIOR VICE PRESIDENT, SAN DIEGO

The San Diego industrial market remains red hot and the overall vacancy decreased 10% this quarter, compared with last quarter. The availability rate has tightened in most markets as a result of positive net absorption and a lack of new product. The Central County multitenant industrial and flex product has seen the most significant gains in occupancy and lease rate increases, outpacing most other markets of the county. North County is seeing new construction with more than 1 million square feet planned, and South Bay has limited new speculative construction either completed or planned.

Most projects are seeing record high activity in virtually every market throughout the county and concessions are at a low point, creating an extremely tight market that is experiencing tremendous rent growth. While this is good for owners and landlords, it is becoming increasingly difficult for industrial tenants to find suitable space for expansion. This is further complicated by the high land values within most of San Diego County markets and even the tertiary markets are experiencing record high leasing costs.

Owner/user sale transactions in the industrial sector have slowed slightly from the second quarter of 2016 and have decreased from the same quarter in 2015, due to the lack of availability, although demand remains high for owner/user purchasers. While velocity is down slightly, we are seeing a definite increase in the owner/user sale prices countywide.

Investment sales activity is still at a brisk pace, however that segment of the market has also slowed slightly from 2015 numbers, due to lower cap rates (higher pricing) and lack of available product. Capital remains abundant and some sellers have been rewarded with peak pricing due to the lack of availability and lack of land for future development, especially in central San Diego. We anticipate seeing an increase in interest rates perhaps in December which may result in slightly higher cap rates.

We anticipate that the industrial market will stay in single digit vacancy and experience historically high rents for the foreseeable future. There is still a lack of new product and land values prohibit the construction of most multitenant industrial, as well as warehouse and distribution space. This is good for the existing land and building owners, but will likely pose a challenge for tenants in the local markets moving forward.

## Please Contact Us for Further Information

**Jooyoung Kim**  
Market Research Analyst  
jkim@voitco.com

Anaheim, CA  
714.978.7880

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. ©2016 Voit Real Estate Services, Inc. License #01333376.

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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, 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