

INDUSTRIAL ON PACE FOR INCREDIBLE YEAR. At the close of 3Q, the San Diego County industrial market occupancy and rental rates both remain at the highest level on record. Net absorption for the county is now near one million square feet, with a quarter of the year remaining, putting the market on pace for another record year of growth. The pipeline of industrial properties under construction is at the highest level in more than a decade, and the vacancy rate remains well below 4%.

VACANCY. Direct/sublease space (unoccupied) finished the quarter at 3.62%, a 39 basis point decrease over the vacancy level of a year ago. 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 5.5%.

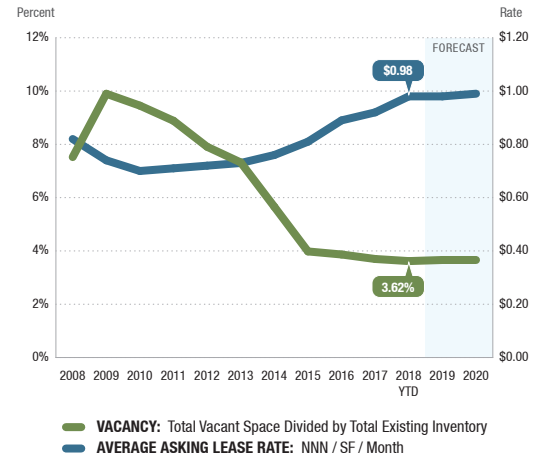
LEASE RATES. The average asking lease rate checked in at \$0.98 per square foot per month, a 7.7% increase year-over-year. The average asking rate is at an all-time high for the San Diego industrial market. The lack of availability has left tenants with limited options in many submarkets, keeping rental rates high. Rental rates continue to climb, and it has now been more than two years since the rental rates surpassed their pre-recession high.

TRANSACTION ACTIVITY. The total square feet leased and sold in the 3Q was approximately 4.6 MSF, an incredible volume driven in a large part by sales transactions being on pace for the second highest annual total in the last decade. 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.

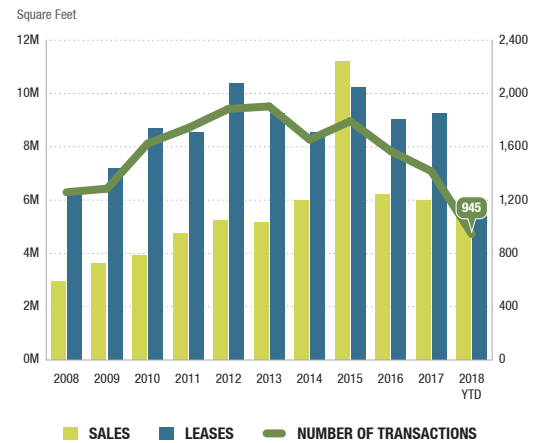
EMPLOYMENT. The unemployment rate in San Diego County was 3.4% in August 2018, down from a revised 3.5% in July 2018, and below the year-ago estimate of 4.3%. This compares with an unadjusted unemployment rate of 4.3% for California and 3.9% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 24,100 payroll jobs between August 2017 and August 2018, including 13,000 from professional and business services, which reported the largest overall gain. The education and health services sector reported a growth of 5,800 jobs, and the manufacturing sector reported an increase of 5,800 jobs. The largest year-over-year loss was in leisure and hospitality which reported 4,500 fewer jobs than the prior year.

OVERALL. The San Diego industrial market conditions remain at or near record highs in terms of the overall occupancy and rental rates, but this has contributed to lower leasing transaction volume. 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. However, that trend is nearing a tipping point as we are witnessing the highest level of industrial real estate construction since the year 2000.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	3Q 2018	2Q 2018	3Q 2017	% Change Over Last Year
Vacancy Rate	▼ DOWN	3.62%	3.71%	4.01%	(9.67%)
Availability Rate	▼ DOWN	6.98%	7.19%	6.63%	5.31%
Average Asking Lease Rate	▲ UP	\$0.98	\$0.96	\$0.91	7.69%
Sale & Lease Transactions	▲ UP	4,638,590	2,779,290	3,635,401	27.60%
Gross Absorption	▲ UP	2,158,247	2,043,409	1,691,517	27.59%
Net Absorption	▲ POSITIVE	451,545	240,602	46,621	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 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 2% to 3% over the next four quarters.

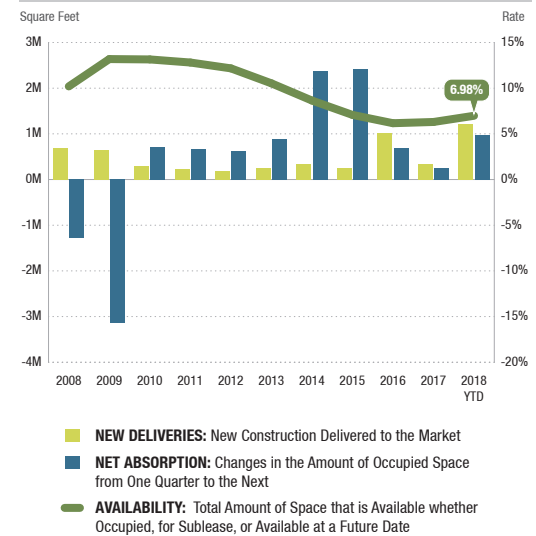
VACANCY. We anticipate the vacancy rate will start to move up from record lows as the vacancy rate is now more than three percentage points lower than availability, with 2.34 MSF currently under construction.

CONSTRUCTION. 372,484 square feet of new industrial projects were delivered in the 3Q, totaling more than 1.2 MSF for the year to date. With three months remaining in the year, the San Diego industrial market has already recorded the highest level of new deliveries since 2007, and there is an additional 2.25 MSF of industrial projects under construction. This level of new development has not been seen in San Diego in almost two decades. The current product under construction is largely concentrated in the North County, and Otay Mesa.

AVAILABILITY. Direct/sublease space being marketed was 6.98% at the end of the 3Q, 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 451,545 square feet of positive net absorption in Q3, pushing the total for the first three quarters of the year to just shy of 1 MSF. This year-to-date total surpasses the yearly totals of positive net absorption from 2016 and 2017. The San Diego industrial market is on way to its ninth consecutive year of positive net absorption. The largest component of 3Q's positive net absorption came from Veritiv taking occupancy of the 212,000 square foot project that Badiee built for them.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
3261 & 3266 Lionshead Ave., 2946–2954 Norman Strasse Rd., Et Al	North County	1,040,170	\$170,000,000	Undisclosed	RAF Pacifica
6754–6995 Calle De Linea, 2325–2375 Michael Faraday, Et Al	Otay Mesa	703,845	\$64,905,000	BKM Capital Partners	Stockbridge Capital Group
5985–5995 Pacific Center Blvd., 5960 Pacific Mesa Ct. (Leasehold)	Sorrento Mesa	288,652	\$24,000,000	Sukut Real Properties	Sickels & Associates
8851–8877 Kerns St.	Otay Mesa	115,290	\$13,834,800	Undisclosed	Otay Mesa Sales, Inc.
2980 Scott St.	Vista	126,715	\$12,260,000	Accutek	Garrison Investment Group, LP

Property Address	Submarket	Square Feet	Close Date	Buyer	Seller
2651 Drucker Ln.	Otay Mesa	174,200	Nov-2018	Trident	TIAA-CREF
2600 Melksee St.	Otay Mesa	121,970	Aug-2018	CareFusion	Murphy Development Co.
2882 Whiptail Loop E.	Carlsbad	106,122	Aug-2018	Zodiac	RAF Pacifica
237 Via Vera Cruz	San Marcos	80,257	Jul-2018	NEO Tech	Bixby Land Co.
7130 Miramar Rd.	Miramar	58,368	Jul-2018	Undisclosed	GIC/GLP

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2018	Square Feet Available	Availability Rate 3Q2018	Average Asking Lease Rate	Net Absorption 3Q2018	Net Absorption 2018	Gross Absorption 3Q2018	Gross Absorption 2018
Central County													
Central City	96	1,461,347	0	0	8,353	0.57%	24,439	1.67%	\$1.33	1,447	45,297	4,800	53,450
East City	61	965,347	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Southeast City	362	4,293,484	0	0	83,695	1.95%	111,726	2.60%	\$1.11	1,425	(17,235)	20,025	84,361
Kearny Mesa	426	9,763,153	63,800	24,188	158,488	1.62%	289,782	2.97%	\$1.38	(4,268)	52,175	83,659	342,068
Mission Gorge	112	1,841,790	0	0	34,798	1.89%	47,171	2.56%	\$1.43	(7,684)	(56,198)	6,929	48,408
Rose Canyon / Morena	132	2,496,676	0	0	37,997	1.52%	61,505	2.46%	\$1.39	(18,823)	(4,684)	1,260	44,913
Sports Arena / Airport	142	1,633,700	0	0	14,023	0.86%	52,405	3.21%	\$1.23	7,900	2,373	18,900	62,405
Miramar	586	13,207,664	0	615,000	380,907	2.88%	732,898	5.55%	\$1.15	65,010	74,670	444,595	845,373
Sorrento Mesa	76	3,732,690	0	0	46,038	1.23%	284,109	7.61%	\$1.15	6,872	(17,865)	25,528	74,147
Sorrento Valley	41	920,625	0	0	21,248	2.31%	33,010	3.59%	\$1.15	(3,207)	52,551	17,118	91,447
Torrey Pines / UTC	3	104,448	0	149,663	0	0.00%	0	0.00%	–	0	0	0	0
Central County Total	2,037	40,420,924	63,800	788,851	785,547	1.94%	1,637,045	4.05%	\$1.21	48,672	131,084	622,814	1,646,572
East County													
El Cajon	450	9,034,544	17,060	112,126	62,271	0.69%	309,429	3.42%	\$0.97	44,880	(31,412)	84,080	150,413
La Mesa / Spring Valley	309	2,641,117	0	70,000	54,171	2.05%	161,714	6.12%	\$1.15	14,550	(16,347)	21,113	42,816
Santee / Lakeside	277	3,682,996	0	262,375	107,969	2.93%	183,705	4.99%	\$0.95	(7,008)	(66,337)	12,422	58,577
Outlying SD County South	75	758,829	0	0	12,700	1.67%	20,066	2.64%	\$0.38	(12,700)	(11,700)	0	7,000
East County Total	1,111	16,117,486	17,060	444,501	237,111	1.47%	674,914	4.19%	\$0.95	39,722	(125,796)	117,615	258,806
North County													
Escondido	629	7,505,763	0	103,500	127,145	1.69%	231,625	3.09%	\$0.96	220,920	175,970	308,283	507,120
Oceanside	403	9,025,493	277,793	131,726	464,012	5.14%	970,354	10.75%	\$0.87	(10,907)	(48,100)	79,074	291,098
San Marcos	468	7,715,222	231,028	84,000	493,446	6.40%	675,898	8.76%	\$0.83	16,137	96,550	158,563	339,502
Vista	527	12,758,821	77,725	60,165	639,614	5.01%	1,452,338	11.38%	\$0.92	74,819	(94,466)	251,871	475,490
Carlsbad	233	8,294,494	906,231	50,150	660,637	7.96%	1,579,479	19.04%	\$1.07	(65,598)	273,118	79,782	473,059
North Beach Cities	42	257,017	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Outlying SD County North	106	949,204	0	3,754	25,236	2.66%	25,236	2.66%	\$1.10	11,400	8,166	11,400	27,859
North County Total	2,408	46,506,014	1,492,777	433,295	2,410,090	5.18%	4,934,930	10.61%	\$0.95	246,771	411,238	888,973	2,114,128
I-15 Corridor													
Poway	177	7,185,258	143,742	450,000	148,269	2.06%	290,518	4.04%	\$1.03	(73,357)	247,460	55,159	519,505
Rancho Bernardo	42	3,110,726	0	140,155	237,355	7.63%	244,354	7.86%	\$1.47	24,563	(7,757)	29,093	53,768
Scripps Ranch	28	703,806	0	0	85,824	12.19%	85,824	12.19%	\$1.24	0	2,180	1,920	12,910
I-15 Corridor Total	247	10,999,790	143,742	590,155	471,448	4.29%	620,696	5.64%	\$1.20	(48,794)	241,883	86,172	586,183
South County													
Chula Vista	325	8,411,056	163,000	0	145,851	1.73%	552,616	6.57%	\$0.89	9,434	(51,309)	45,426	232,455
National City	255	3,822,814	0	0	25,432	0.67%	34,651	0.91%	\$1.20	4,973	30,002	24,070	94,536
Otay Mesa	332	15,558,615	460,818	1,345,644	1,079,361	6.94%	1,499,478	9.64%	\$0.69	156,014	319,908	355,878	886,458
San Ysidro / Imperial Beach	64	1,412,815	0	24,141	29,697	2.10%	43,656	3.09%	\$0.86	(5,247)	27,326	17,299	74,230
South County Total	976	29,205,300	623,818	1,369,785	1,280,341	4.38%	2,130,401	7.29%	\$0.77	165,174	325,927	442,673	1,287,679
San Diego County Total	6,779	143,249,514	2,341,197	3,626,587	5,184,537	3.62%	9,997,986	6.98%	\$0.98	451,545	984,336	2,158,247	5,893,368
0–9,999	3,065	15,611,047	37,184	7,804	211,937	1.36%	414,781	2.66%	\$1.22	(32,269)	1	105,405	417,907
10,000–19,999	1,775	25,068,795	71,618	30,923	684,609	2.73%	1,196,385	4.77%	\$1.13	18,689	(190,012)	370,588	995,570
20,000–34,999	979	25,069,352	65,374	324,209	512,839	2.05%	1,202,478	4.80%	\$1.00	124,542	182,503	365,189	1,151,464
35,000–49,999	361	14,879,515	128,332	248,490	412,184	2.77%	967,253	6.50%	\$0.95	(142,794)	115,081	164,037	809,928
50,000–99,999	388	26,717,560	688,668	450,658	1,267,072	4.74%	2,529,979	9.47%	\$0.90	75,903	44,302	543,846	1,178,139
100,000 Plus	211	35,903,245	1,350,021	2,564,503	2,095,896	5.84%	3,687,110	10.27%	\$0.91	407,474	832,461	609,182	1,340,360
San Diego County Total	6,779	143,249,514	2,341,197	3,626,587	5,184,537	3.62%	9,997,986	6.98%	\$0.98	451,545	984,336	2,158,247	5,893,368

Lease rates are on a triple-net basis.



Industrial 2018: If You Own It, They Will Come

by **Weston Yahn**

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Since 2014, industrial occupancy in Central San Diego County has sustained occupancy levels between 95%–98%. Geographically land locked by Mexico to the south and Camp Pendleton to the north, limited areas for new development continue to constrain growth for new industrial product in San Diego. As of October 2018, the new construction pipeline for industrial product in San Diego was 2.34 million square feet. Local innovation, historically high levels of venture capital, and the rise of e-commerce are among the leading factors that are driving vacancy for both flex and industrial product to all-time lows.

San Diego landlords have reaped the benefits of historically high lease rates, critically low vacancy, and moderate to low supply. But how much runway is left? That is the question for investors considering San Diego industrial properties today. Favorable tax reform and unwavering demand has enticed developers to seek value-add opportunities. Cap rates for industrial product also compressed to historic lows in 2018, currently at an average of 5.8% for the year. RAF Pacifica, a local developer, sold one of the largest portfolios of industrial product in San Diego history at just over 1 million square feet.

Although some have enjoyed the benefits of a booming flex and industrial market, multi-tenant industrial occupants are not celebrating. The average small business owner operating a warehouse in a premier industrial submarket like Kearny Mesa is experiencing sticker shock with their lease renewal. These business owners are facing increases in occupancy costs, up to 50% higher than their lease rate of 5 years ago. In addition to increased lease rates, little to no concessions are being offered on renewals or even new deals. Alternatively, the small business owner that purchased an industrial building or condo years ago is reaping the reward of controlled occupancy cost and soaring appreciation.

As industrial lease rates and sales prices continue to set new records, one thing is certain: it pays to own industrial real estate in San Diego. San Diego is and will always be a supply-constrained market. As property owners and investors seek higher returns, traditional industrial will be slowly replaced and repositioned by product types that can yield higher returns. World-renowned research institutions, coupled with investor confidence in San Diego's innovation economy, will continue to gentrify our local industrial market.

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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. ©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