

NEW DELIVERIES MAKING WAVES. At the close of 2018, the San Diego County industrial market rental rates again set an all-time high, while vacancy increased over the previous year with a significant amount of new construction coming online. Net absorption was almost a million square feet to the positive in 2018, placing it among the strongest years for growth in the tenant base in recent years.

VACANCY. Direct/sublease space (unoccupied) finished the quarter at 4.34%, rising above 4% for the first time in more than a year; 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. Most of this increase in vacancy was caused by new construction in the market, and this has had the biggest impact in Carlsbad where the vacancy rate is now ten percentage points higher than the county average.

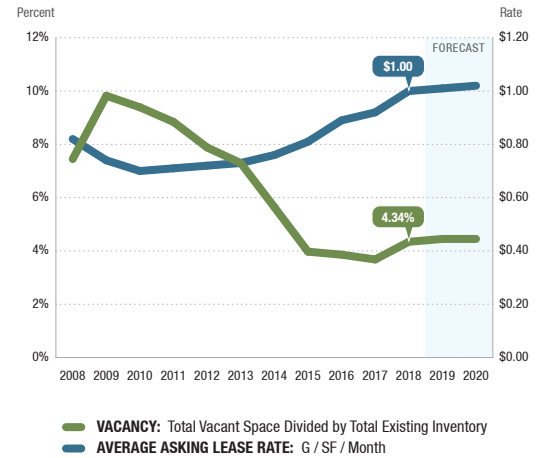
LEASE RATES. The average asking lease rate checked in at \$1.00 per square foot per month, an 8.7% increase year-over-year. The average asking rate is at an all-time high for the San Diego industrial market. The lack of availability has left tenants with limited options in many submarkets, keeping rental rates high.

TRANSACTION ACTIVITY. The total square feet leased and sold in the fourth quarter was approximately 3.1 million square feet, a significant slowdown from the 4.8 million square feet of transactions in the third quarter of 2018. The sales volume of 7.5 million square feet in sales for 2018 was the second highest level in the past decade, while the leasing volume was near a decade low in 2018. 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.

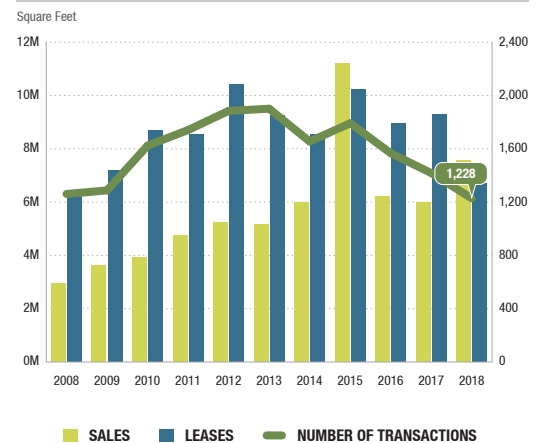
EMPLOYMENT. The unemployment rate in San Diego County was 3.2% in November 2018, down from a revised 3.3% in October 2018, and below the year-ago estimate of 3.5%. This compares with an unadjusted unemployment rate of 3.9% for California and 3.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 26,400 payroll jobs between November 2017 and November 2018, including 16,500 from professional and business services, which reported the largest overall gain. The manufacturing sector reported a growth of 6,000 jobs, the second most among the major employment sectors. The largest year-over-year loss was in trade, transportation, and utilities which reported 3,400 fewer jobs than the prior year.

OVERALL. Despite an increase in the vacancy rate at the end of the year due to a wave a new construction deliveries, the overall occupancy rate for the county remains almost two percentage points higher than the last cycle's peak in 2006. The San Diego industrial market conditions remain strong with rental rates continuing to reach new highs, quarter after quarter. The record high rental rates have suppressed the leasing activity, but conversely the sale volume has increased. The construction pipeline is still loaded with 1.4 million square feet under construction, and the overall market appears well positioned to handle the influx.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	4Q 2018	3Q 2018	4Q 2017	% Change Over Last Year
Vacancy Rate	▲ UP	4.34%	3.83%	3.68%	18.00%
Availability Rate	▲ UP	7.25%	6.98%	6.30%	15.12%
Average Asking Lease Rate	▲ UP	\$1.00	\$0.98	\$0.92	8.70%
Sale & Lease Transactions	▼ DOWN	3,068,827	4,803,251	4,579,183	(32.98%)
Gross Absorption	▼ DOWN	1,769,343	2,158,747	2,075,370	(14.75%)
Net Absorption	▼ NEGATIVE	(62,217)	457,834	430,101	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 1.0–1.2% 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 3–4% over the next four quarters.

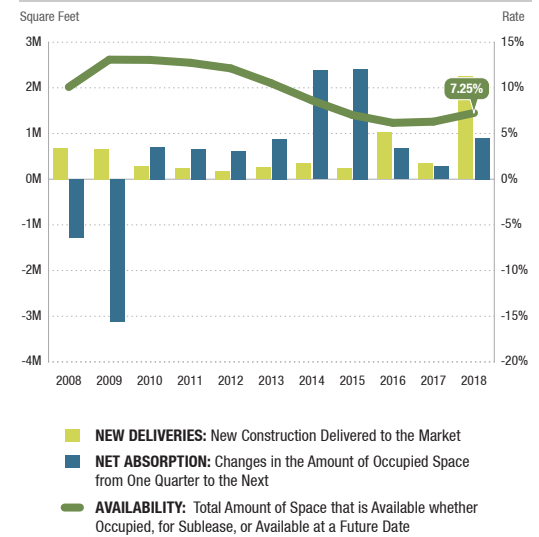
VACANCY. We anticipate the vacancy rate will continue to move up from record lows as the vacancy rate is still nearly three percentage points lower than availability, and we have 1.4 million square feet currently under construction.

CONSTRUCTION. 2.2 million square feet of new industrial projects were delivered in 2018, the most square feet delivered since 2007. The new construction will continue into 2019 with 1.4 million square feet still under construction. The current product under construction is largely concentrated in the North County, and Otay Mesa.

AVAILABILITY. Direct/sublease space being marketed was 7.25% at the end of the fourth quarter, up 15.12% from the countywide availability rate of 6.3% in the fourth quarter of 2017, and nearly 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 62,217 square feet of negative net absorption in the fourth quarter, with a total for the year of 902,690 square feet of positive net absorption. The San Diego industrial market just completed its ninth consecutive year of positive net absorption, and 2018 saw the third most positive net absorption of any year in the past decade. The East County was the only segment of the county to record more than 100,000 square feet of negative net absorption, and yet the East County area vacancy rate remains near 2%.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
9043 & 8863 Siempre Viva Rd., Et Al	Otay Mesa	544,643	\$67,500,000	IDS Real Estate Group	AFL–CIO Building Investment Trust
3250 Business Park Dr.	Vista	221,660	\$31,150,000	BLT Enterprises	DENSO Wireless Systems
2695 Customhouse Ct. & 8830 Siempre Viva Rd.	Otay Mesa	264,679	\$28,500,000	TIAA-CREF	BKM Capital Partners
2011–2101 Haffley Ave.	National City	146,700	\$24,800,000	KKR & Co, LP	Presidio Property Trust
2710 Progress St.	Vista	135,020	\$24,715,000	The Blackstone Group, LP	J&D Laboratories

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4400 Ruffin Rd.	Kearny Mesa	106,000	Dec-2018	TWI	LBA Realty
3817 Ocean Ranch Blvd.	Oceanside	66,780	Nov-2018	Undisclosed	First Industrial Realty Trust
1669 Brandywine Ave.	Chula Vista	34,460	Nov-2018	Juiced Bikes	Industrial Property Trust
7466 Carroll Rd.	Miramar	32,000	Oct-2018	Land Rover	(Sublease)
4863 Shawline St.	Kearny Mesa	31,613	Nov-2018	Oakwood Worldwide	McGrath

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2018	Square Feet Available	Availability Rate 4Q2018	Average Asking Lease Rate	Net Absorption 4Q2018	Net Absorption 2018	Gross Absorption 4Q2018	Gross Absorption 2018
Central County													
Central City	95	1,441,347	0	0	8,353	0.58%	29,439	2.04%	\$1.31	0	35,297	5,000	58,450
East City	61	965,347	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Southeast City	363	4,297,936	0	0	79,366	1.85%	163,328	3.80%	\$1.06	5,829	(12,906)	28,000	112,361
Kearny Mesa	427	9,826,536	0	24,188	215,081	2.19%	317,361	3.23%	\$1.41	6,007	58,182	93,057	435,125
Mission Gorge	112	1,841,686	0	0	40,386	2.19%	49,973	2.71%	\$1.43	(5,588)	(61,786)	12,609	61,017
Rose Canyon / Morena	132	2,496,676	0	0	15,823	0.63%	122,523	4.91%	\$1.31	22,174	17,490	76,666	121,579
Sports Arena / Airport	143	1,635,200	0	0	9,227	0.56%	60,579	3.70%	\$1.22	4,796	7,169	6,296	68,701
Miramar	587	13,224,864	0	615,000	469,936	3.55%	690,418	5.22%	\$1.16	(99,262)	(14,359)	144,520	989,893
Sorrento Mesa	76	3,732,690	0	0	180,926	4.85%	294,404	7.89%	\$1.16	(134,888)	(152,753)	25,710	99,857
Sorrento Valley	41	920,625	0	0	31,756	3.45%	37,998	4.13%	\$1.48	(10,508)	42,043	5,240	96,687
Torrey Pines / UTC	3	104,448	0	149,663	0	0.00%	0	0.00%	–	0	0	0	0
Central County Total	2,040	40,487,355	0	788,851	1,050,854	2.60%	1,766,023	4.36%	\$1.21	(211,440)	(81,623)	397,098	2,043,670
East County													
El Cajon	448	9,005,325	17,060	112,126	61,144	0.68%	306,790	3.41%	\$1.00	1,127	(30,285)	25,069	175,482
La Mesa / Spring Valley	309	2,641,117	0	70,000	91,855	3.48%	195,669	7.41%	\$1.34	(37,684)	(54,031)	19,223	62,039
Santee / Lakeside	277	3,684,324	0	262,395	179,441	4.87%	234,541	6.37%	\$0.94	(71,472)	(137,809)	4,108	62,685
Outlying SD County South	76	762,629	0	0	0	0.00%	0	0.00%	\$0.75	12,700	1,000	12,700	19,700
East County Total	1,110	16,093,395	17,060	444,521	332,440	2.07%	737,000	4.58%	\$1.05	(95,329)	(221,125)	61,100	319,906
North County													
Escondido	633	7,516,284	0	103,500	147,389	1.96%	280,370	3.73%	\$0.98	(29,412)	155,726	79,250	586,870
Oceanside	402	9,020,819	277,793	131,726	389,369	4.32%	836,776	9.28%	\$0.90	74,643	26,543	152,647	443,745
San Marcos	472	7,937,350	9,000	84,000	621,992	7.84%	676,949	8.53%	\$0.91	93,482	190,032	167,343	506,845
Vista	528	12,768,326	77,725	60,165	557,865	4.37%	1,888,169	14.79%	\$0.92	92,255	(12,717)	174,601	650,091
Carlsbad	237	8,782,556	417,478	50,150	1,241,875	14.14%	1,456,366	16.58%	\$1.07	(93,209)	179,909	126,582	599,641
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	6,708	0.70%	11,508	1.20%	\$1.11	18,528	26,694	23,000	51,359
North County Total	2,421	47,237,772	781,996	433,295	2,965,198	6.28%	5,150,138	10.90%	\$0.96	156,287	566,187	723,423	2,838,551
I-15 Corridor													
Poway	178	7,246,533	82,742	530,850	136,037	1.88%	303,610	4.19%	\$1.06	73,232	320,692	167,739	687,244
Rancho Bernardo	42	3,110,636	0	140,155	234,128	7.53%	310,353	9.98%	\$1.47	3,227	(4,530)	3,227	56,995
Scripps Ranch	28	703,806	0	0	92,619	13.16%	91,995	13.07%	\$1.22	(6,795)	(4,615)	7,680	20,590
I-15 Corridor Total	248	11,060,975	82,742	671,005	462,784	4.18%	705,958	6.38%	\$1.21	69,664	311,547	178,646	764,829
South County													
Chula Vista	324	8,325,018	163,000	0	174,064	2.09%	579,054	6.96%	\$0.89	(38,701)	(107,065)	64,159	279,559
National City	255	3,822,916	0	0	43,725	1.14%	68,015	1.78%	\$1.22	(18,293)	11,709	5,092	99,628
Otay Mesa	333	15,757,655	398,960	1,201,610	1,194,499	7.58%	1,393,824	8.85%	\$0.71	83,219	403,628	334,628	1,221,086
San Ysidro / Imperial Beach	64	1,412,815	0	24,141	37,321	2.64%	53,687	3.80%	\$0.93	(7,624)	19,702	5,197	79,427
South County Total	976	29,318,404	561,960	1,225,751	1,449,609	4.94%	2,094,580	7.14%	\$0.78	18,601	327,974	409,076	1,679,700
San Diego County Total	6,795	144,197,901	1,443,758	3,563,423	6,260,885	4.34%	10,453,699	7.25%	\$1.00	(62,217)	902,960	1,769,343	7,646,656
0–9,999	3,072	15,639,118	37,184	7,804	252,750	1.62%	427,721	2.73%	\$1.21	(58,024)	(40,812)	104,330	523,237
10,000–19,999	1,775	25,078,230	71,618	30,923	599,792	2.39%	1,170,244	4.67%	\$1.15	84,127	(115,195)	376,340	1,371,910
20,000–34,999	979	25,081,648	30,520	324,209	632,578	2.52%	1,224,369	4.88%	\$1.03	(72,272)	97,618	304,911	1,456,375
35,000–49,999	362	14,918,310	90,705	248,490	553,260	3.71%	1,227,501	8.23%	\$0.99	(103,449)	11,632	100,621	910,549
50,000–99,999	392	26,975,405	331,321	450,658	1,459,812	5.41%	2,663,242	9.87%	\$0.90	152,919	180,166	508,530	1,669,614
100,000 Plus	215	36,505,190	882,410	2,501,339	2,762,693	7.57%	3,740,622	10.25%	\$0.95	(65,518)	769,551	374,611	1,714,971
San Diego County Total	6,795	144,197,901	1,443,758	3,563,423	6,260,885	4.34%	10,453,699	7.25%	\$1.00	(62,217)	902,960	1,769,343	7,646,656

Lease rates are on an industrial gross basis.



A lot of noise out there...

by **Randy LaChance**

SENIOR VICE PRESIDENT/PARTNER, SAN DIEGO
858.458.3374 · rlachance@voitco.com · Lic. #00969674

If you listen to the “talking heads” you might want to put your money under your mattress and take some time off. Whether it is talk of impeachment, the government shutdown, rising interest rates, Chinese tariffs, inverted yield curve or... Right now, the news is dominating the equity markets and creating a ton of volatility.

Even with all of these headwinds, 2018 is expected to have close to 3% GDP growth and most economists are still predicting GDP growth in 2019 to be in the 2.5% range, unemployment to remain low and inflation to remain relatively low.

The San Diego industrial markets continue to enjoy some of their best times. Vacancy rates are still at or near all-time lows, even with the addition of more than 2,000,000 square feet of new product built this year, and rental rates across all markets are at all-time highs. Rents have increased a healthy 9% overall in 2018, mostly caused by the rents for the new product that came online. With limited land available in the county, and with current land prices being high, industrial development will be constrained and will not be able to keep up with market demand, which should continue to push rates even higher. With limited availability in the Central County, leasing concessions have been reduced and most owners are limiting their tenant improvement contribution, except for the most creditworthy tenants and even then, they are requiring amortization. Net absorption finished the year with a strong 900,000 square feet, which is the most in the last three years. This was facilitated in large part by the new construction that came online.

In 2018, more than 2.2 million square feet of industrial development occurred (the most in San Diego since 2006), mostly in perimeter markets of San Diego – San Marcos / Escondido (450,000 square feet), Carlsbad (860,000 square feet), Poway (400,000 square feet) and Otay Mesa (330,000 square feet). These industrial properties provide features that are not available in most of the older properties throughout the county, such as ESFR sprinklers for higher density storage, higher clear height, better truck courts with dock and grade level loading. With limited choices in the Central County markets these new developments have seen good activity.

Sales prices for both owner / user properties and investment sales continued to rise in 2018 as demand outpaced supply. 2019 should bring more of the same, as industrial property owners benefit from the market fundamentals.

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 an industrial gross 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.

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