

**GROWTH IS SLOWING.** The San Diego Flex/R&D market is still seeing improvement in the fundamentals with positive net absorption for the year, and rental rates continuing to rise. However, transaction volume is down, and net absorption in the market, while still positive, was at the lowest level it has been in years.

**VACANCY.** Direct/sublease space (unoccupied) finished the fourth quarter at 6.51%, an increase from the previous quarter's vacancy rate of 6.09%, but down 59 basis points from the vacancy rate of a year ago. The vacancy rate remains far less than half of the 2010 recession low of 16.12%.

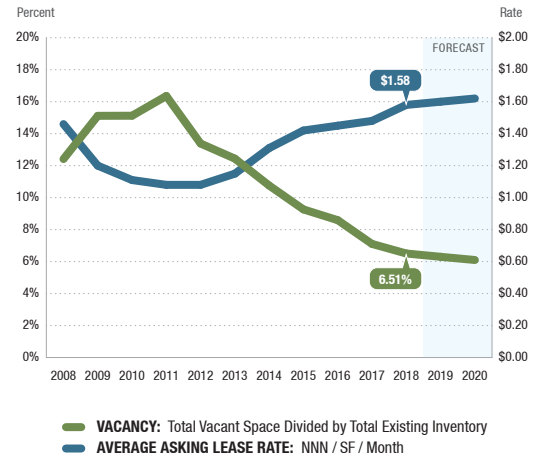
**LEASE RATES.** The average asking triple net lease rate per square foot per month in San Diego County was \$1.58 at the end of the fourth quarter, which is a 6.7% increase, year-over-year. The average asking lease rates have risen more than \$0.48 per square foot since the recession lows seen in 2011, and are continuing their upward long-term trend.

**TRANSACTION ACTIVITY.** The combined amount of square feet leased or sold in the fourth quarter totaled 2.1 million square feet, easily surpassing the paltry 1.2 million square feet of transaction activity in the third quarter. Sales transaction volume in 2018 was at the lowest level seen in four years, and the amount of square feet leased was lower than any other year since 2008. 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.

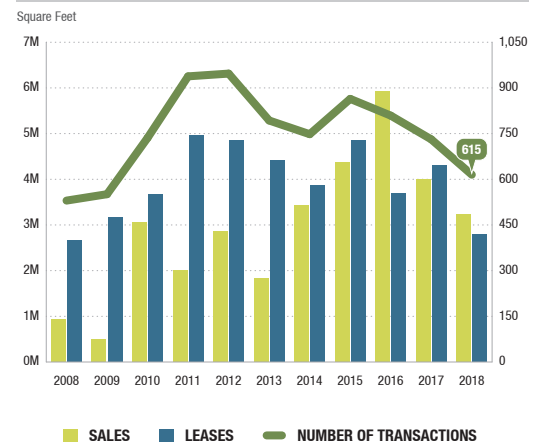
**EMPLOYMENT.** The unemployment rate in San Diego County was 3.2% in November 2018, down from a revised 3.3% in October 2018, and below the year-ago estimate of 3.5%. This compares with an unadjusted unemployment rate of 3.9% for California and 3.5% for the nation during the same period. According to 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.** From 2011 through 2017 the San Diego Flex/R&D market cut its vacancy rate in half, while the asking rental rate increased almost 40%. 2018 was a slower year in terms of occupancy gains and net absorption. Transaction volume was the lowest in years, while construction was one of the few metrics not to see a dip in 2018. This past year saw an 8.42% decrease in the vacancy rate, while the availability rate rose by 8.74%. The market remains on solid footing, but things slowed in comparison with other recent years.

### 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	6.51%	6.09%	7.10%	(8.42%)
Availability Rate	▲ UP	11.15%	10.53%	10.26%	8.74%
Average Asking Lease Rate	▲ UP	\$1.58	\$1.55	\$1.48	6.76%
Sale & Lease Transactions	▲ UP	2,078,790	1,249,567	2,970,496	(30.02%)
Gross Absorption	▬ FLAT	859,857	929,413	829,404	3.67%
Net Absorption	▼ NEGATIVE	(200,822)	345,491	(35,281)	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.

**CONSTRUCTION.** Construction in the Flex/R&D sector has been largely concentrated in the biotech subset of properties. For the remainder of the Flex/R&D market, there has been remarkably little new construction. We expect this to change with the “creative industrial” trend migrating into the Flex/R&D market.

**LEASE RATES.** Despite a decrease in transaction volume, landlords are still pushing asking rental rates up. Expect average asking rates to increase by approximately 2–3% over the next four quarters.

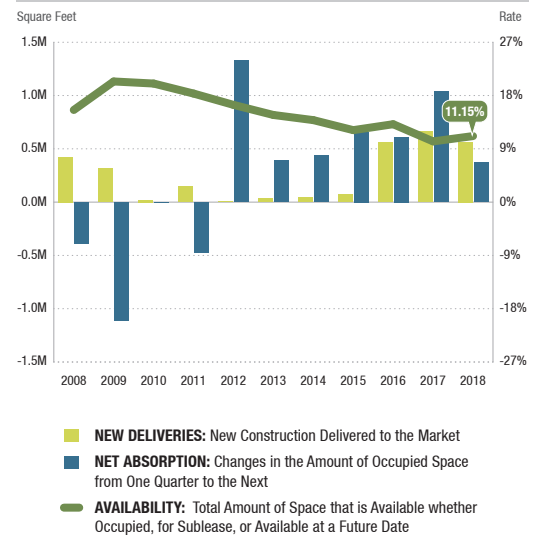
**VACANCY.** With the relatively large number of deliveries last year, we expect vacancy rates to move back towards the 7–8% range.

**CONSTRUCTION.** 2018 saw 563,837 square feet of new construction delivered to the market, realizing the third consecutive year with more than half a million square feet of deliveries. There are 555,329 square feet still under construction. Notably, most of the under-construction projects are in the Central County area, in contrast to the purely industrial construction which is concentrated on the edges of the county.

**AVAILABILITY.** Direct/sublease space being marketed was 11.15%, an 8.74% increase over 2017’s year-end availability rate.

**ABSORPTION.** The San Diego Flex/R&D market recorded 200,822 square feet of negative net absorption in the fourth quarter of 2018, to finish the year with a total of 373,055 square feet of positive net absorption in 2018. This marks the lowest level of positive net absorption since 2011.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

\* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
11494 Sorrento Valley Rd.	Sorrento Valley	318,969	\$112,000,000	Longfellow Real Estate Partners	Parallel Capital Partners
10222 Barnes Canyon Rd.	Sorrento Mesa	81,976	\$43,200,000	TIAA-CREF	Bollert I Lebeau
2051 Palomar Airport Rd.	Carlsbad	208,904	\$35,025,000	SteelWave	Hines Securities
5205–5375 Avenida Encinas	Carlsbad	126,630	\$28,200,000	Cruzan	Property Reserve
5454 Ruffin Rd.	Kearny Mesa	54,437	\$18,000,000	San Diego Unified School District	BLT Enterprises

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
10115–10119 Carroll Canyon Rd.	Scripps Ranch	35,840	Oct-2018	Undisclosed	H.G. Fenton
4980 Carroll Canyon Rd	Sorrento Mesa	20,897	Dec-2018	Undisclosed	BiomMed Realty
6275 Nancy Ridge Dr.	Miramar	14,685	Nov-2018	Undisclosed	Alexandria Real Estate
4224 Campus Point Ct.	UTC	13,438	Dec-2018	Acea Therapeutics	Phase3 Real Estate
7260 Clairemont Mesa Blvd.	Kearny Mesa	10,000	Nov-2018	Undisclosed	John Hancock Real Estate

	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
<b>Central</b>													
Central City	12	172,281	0	0	3,737	2.17%	20,557	11.93%	\$2.25	13,882	5,705	13,882	21,802
East City	2	26,892	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Southeast City	22	225,469	0	0	3,000	1.33%	3,000	1.33%	\$1.44	(3,000)	(3,000)	0	2,500
Kearny Mesa	205	5,586,435	0	0	443,883	7.95%	462,227	8.27%	\$1.59	(200,353)	69,635	159,138	673,541
Mission Gorge	27	279,740	0	0	15,483	5.53%	17,547	6.27%	\$1.57	2,066	(4,103)	4,734	41,197
Rose Canyon/Morena	38	609,335	0	0	47,958	7.87%	50,090	8.22%	\$1.41	(2,728)	(28,368)	3,147	28,487
Sports Arena/Airport	30	380,720	0	0	840	0.22%	840	0.22%	\$1.25	8,750	6,160	8,750	17,150
Miramar	219	4,771,548	130,000	33,859	229,886	4.82%	536,636	11.25%	\$1.55	21,241	193	74,048	356,406
Sorrento Mesa	153	6,149,033	28,000	618,000	677,575	11.02%	977,864	15.90%	\$2.36	(109,056)	(118,488)	124,300	363,452
Sorrento Valley	100	2,326,682	0	0	203,060	8.73%	246,931	10.61%	\$2.02	11,153	(46,688)	44,592	239,919
Torrey Pines/UTC	71	6,174,807	251,221	1,104,217	405,512	6.57%	1,115,757	18.07%	\$4.15	57,182	408,800	89,928	676,308
<b>Central County Total</b>	<b>879</b>	<b>26,702,942</b>	<b>409,221</b>	<b>1,756,076</b>	<b>2,030,934</b>	<b>7.61%</b>	<b>3,431,449</b>	<b>12.85%</b>	<b>\$2.39</b>	<b>(200,863)</b>	<b>289,846</b>	<b>522,519</b>	<b>2,420,762</b>
<b>East County</b>													
El Cajon	78	867,524	0	0	16,932	1.95%	15,782	1.82%	\$0.98	(9,800)	(15,262)	2,727	12,927
La Mesa/Spring Valley	39	293,035	0	0	1,425	0.49%	10,270	3.50%	\$1.10	5,000	19,735	7,500	28,868
Santee/Lakeside	54	554,061	0	0	7,670	1.38%	10,070	1.82%	\$1.38	(6,370)	(4,362)	1,942	8,490
Outlying SD County S	20	77,930	0	0	0	0.00%	0	0.00%	–	0	0	0	0
<b>East County Total</b>	<b>191</b>	<b>1,792,550</b>	<b>0</b>	<b>0</b>	<b>26,027</b>	<b>1.45%</b>	<b>36,122</b>	<b>2.02%</b>	<b>\$1.13</b>	<b>(11,170)</b>	<b>111</b>	<b>12,169</b>	<b>50,285</b>
<b>North County</b>													
Escondido	78	747,932	0	0	21,602	2.89%	21,602	2.89%	\$1.07	(5,194)	(3,834)	7,703	21,742
Oceanside	33	984,170	0	0	20,906	2.12%	37,907	3.85%	\$0.95	(6,853)	12,057	7,193	39,946
San Marcos	61	1,094,862	0	0	57,762	5.28%	98,849	9.03%	\$1.23	4,257	789	11,537	61,456
Vista	62	1,393,694	0	0	42,903	3.08%	111,622	8.01%	\$1.11	15,508	6,311	21,268	61,104
Carlsbad	252	6,218,935	146,108	0	423,868	6.82%	830,035	13.35%	\$1.31	10,630	118,057	186,328	664,962
North Beach Cities	19	164,051	0	0	8,391	5.11%	6,701	4.08%	\$2.09	(2,128)	(7,536)	4,390	8,765
Outlying SD County North	19	137,615	0	0	704	0.51%	2,144	1.56%	\$1.15	1,440	618	1,440	4,084
<b>North County Total</b>	<b>524</b>	<b>10,741,259</b>	<b>146,108</b>	<b>0</b>	<b>576,136</b>	<b>5.36%</b>	<b>1,108,860</b>	<b>10.32%</b>	<b>\$1.27</b>	<b>17,660</b>	<b>126,462</b>	<b>239,859</b>	<b>862,059</b>
<b>I-15 Corridor</b>													
Poway	60	1,830,757	0	0	34,169	1.87%	40,690	2.22%	\$1.20	(1,513)	(3,179)	29,927	78,687
Rancho Bernardo	95	4,664,276	0	0	276,779	5.93%	481,885	10.33%	\$1.69	(1,165)	81,356	41,358	248,481
Scripps Ranch	28	749,217	0	233,741	42,428	5.66%	2,451	0.33%	\$1.15	0	(39,843)	0	23,407
<b>I-15 Corridor Total</b>	<b>183</b>	<b>7,244,250</b>	<b>0</b>	<b>233,741</b>	<b>353,376</b>	<b>4.88%</b>	<b>525,026</b>	<b>7.25%</b>	<b>\$1.60</b>	<b>(2,678)</b>	<b>38,334</b>	<b>71,285</b>	<b>350,575</b>
<b>South County</b>													
Chula Vista	80	1,511,380	0	14,850	136,358	9.02%	155,686	10.30%	\$1.47	(1,271)	(87,241)	13,100	71,259
National City	23	333,628	0	0	3,425	1.03%	6,593	1.98%	\$1.11	(2,500)	4,343	925	34,873
Otay Mesa	7	166,652	0	197,381	34,443	20.67%	154,443	92.67%	\$0.75	0	0	0	3,000
San Ysidro/Imperial Beach	5	86,361	0	0	0	0.00%	0	0.00%	–	0	1,200	0	1,200
<b>South County Total</b>	<b>115</b>	<b>2,098,021</b>	<b>0</b>	<b>212,231</b>	<b>174,226</b>	<b>8.30%</b>	<b>316,722</b>	<b>15.10%</b>	<b>\$1.12</b>	<b>(3,771)</b>	<b>(81,698)</b>	<b>14,025</b>	<b>110,332</b>
<b>San Diego County Total</b>	<b>1,892</b>	<b>48,579,022</b>	<b>555,329</b>	<b>2,202,048</b>	<b>3,160,699</b>	<b>6.51%</b>	<b>5,418,179</b>	<b>11.15%</b>	<b>\$1.58</b>	<b>(200,822)</b>	<b>373,055</b>	<b>859,857</b>	<b>3,794,013</b>

Lease rates are on a triple-net basis.



A lot of noise out there...

**by Randy LaChance**

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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.

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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.:** Flex/Research and Development (R&D) buildings can be one story, one story with a mezzanine, and two story built-out structures with a high ratio of window wall to floor area with lower ceilings. They generally have over 50% built-out office space or laboratory use, with the remaining space being utilized as light manufacturing or warehousing. In addition, the parking ratio must be at least 3 spaces or greater per 1,000 square feet.

**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