

**MARKET OVERVIEW.** The San Diego Flex/R&D market is coming off three consecutive years with more than half a million square feet of new construction deliveries, which is more than double the 10-year annual average. This has placed some pressure on the market's overall occupancy rate, and all the new product has pushed the average asking rental rate up significantly. There was negative net absorption for the first half of the year, and transaction volume is down. We will be watching to see if these trends continue through the third quarter, because this would surely put the market on a path for increased vacancy at year-end.

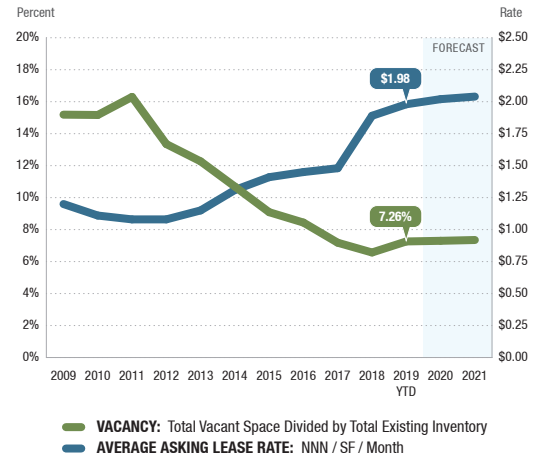
**VACANCY.** Direct/sublease space (unoccupied) finished the second quarter at 7.26%, a decrease from the previous quarter's vacancy rate of 7.63%, but a 4.4% increase year-over-year. The vacancy rate remains far less than half of the 2010 recession low of 16.12%.

**LEASE RATES.** The average asking triple net lease rate per square foot per month in San Diego County was \$1.98 at the end of the second quarter, which is a \$0.05 increase over the first quarter of 2019. The average asking lease rate has been on a long-term trend of increases, but recent increases in the average are likely due to a change in the composition of available space. There is now a larger portion of biotech space in the availability, which is pulling the average asking rate up.

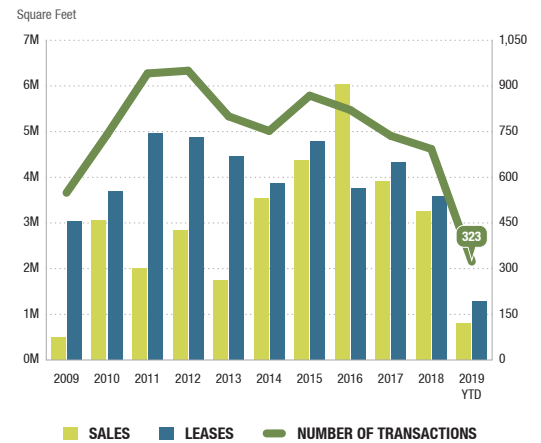
**TRANSACTION ACTIVITY.** The combined amount of square feet leased or sold in the second quarter totaled 0.9 MSF, a decrease from the 1.2 MSF transacted in the first quarter of 2019. Sales transaction volume in 2018 was at the lowest level seen in four years, and the amount of square feet leased was lower than any year since the last recession. 2019 is starting off on the same foot as the past two years, with a low level of transaction volume. The transaction volume through the first half of the year is at a pace to be the lowest amount of square feet leased and sold in the past 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 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	▼ DOWN	7.26%	7.63%	6.95%	4.41%
Availability Rate	▲ UP	12.09%	11.92%	10.62%	13.80%
Average Asking Lease Rate	▲ UP	\$1.98	\$1.93	\$1.48	33.78%
Sale & Lease Transactions	▼ DOWN	904,883	1,180,202	1,359,278	(33.43%)
Gross Absorption	▲ UP	894,023	517,116	1,060,460	(15.69%)
Net Absorption	▲ POSITIVE	183,046	(358,894)	524,639	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.** 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.

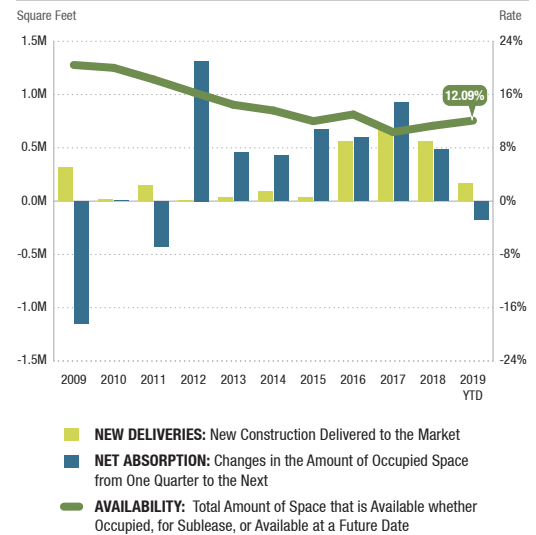
**VACANCY.** Due to the relatively large number of deliveries in 2018, and the moderate amount of demand, we expect vacancy rates to increase and remain above 7% for the second half of 2019.

**CONSTRUCTION.** In the first half of 2019 there was a total of 168,000 square feet of new construction completed, and there was 551,870 square feet under construction. The biotech subset within the Flex R&D market continues to be the primary driver of new construction.

**AVAILABILITY.** Direct/sublease space being marketed was 12.09%, which is a significant 13.8% increase year-over-year from the second quarter of 2018 availability rate of 10.62%.

**ABSORPTION.** The San Diego Flex R&D market recorded 183,046 square feet of positive net absorption in the second quarter of 2019, but the market remains in the red for the year thus far with a total net absorption of negative 175,848 square feet for the first half of 2019. The San Diego market has not seen a calendar year with negative net absorption since 2011.

**NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE**



Significant Transactions

Sales

† Portion / Allocated Portion of Bulk Portfolio

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2270 Camino Vida Roble	Various	106,311 †	\$16,800,000 †	Rexford Industrial Realty, LP	Colony Capital, Inc.
10455 Pacific Center Ct.	Sorrento Mesa	92,477	\$16,500,000	Graymark Capital	City Office REIT, Inc.
9985 Huennekens St.	Sorrento Mesa	26,215	\$7,100,000	Ilko Trust	Menlo Equities
1396 Poinsettia Ave.	Vista	24,000	\$4,400,000	Sears Family Properties, LP	CJ Klopek Associates, LLC
3194 Lionshead Ave.	Carlsbad	20,339	\$4,170,000	Lionshead 3194, LLC	RQ Holdings, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
6965 Lusk Blvd.	Sorrento Mesa	74,558	May-2019	Omnio	HCP
3248 Lionshead Ave.	Carlsbad	55,573	Apr-2019	Tesla	Badiee Development
6920 Carroll Rd.	Miramar	38,294	May-2019	PCI Pharma Services	The Irvine Company
10628 Science Center Dr.	Torrey Pines	33,864	Jun-2019	Turning Point Therapeutics	Alexandria Real Estate
10300 Campus Point Dr.	UTC	33,116	Jun-2019	Truvian	Alexandria 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 2Q2019	Square Feet Available	Availability Rate 2Q2019	Average Asking Lease Rate	Net Absorption 2Q2019	Net Absorption 2019	Gross Absorption 2Q2019	Gross Absorption 2019
<b>Central</b>													
Central City	12	172,281	0	0	10,606	6.16%	27,426	15.92%	\$1.65	(6,869)	(6,869)	0	12,478
East City	2	26,892	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Southeast City	21	223,879	0	0	0	0.00%	0	0.00%	\$1.44	0	3,000	0	3,000
Kearny Mesa	204	5,496,415	0	0	386,161	7.03%	640,027	11.64%	\$1.74	136,566	104,319	188,047	262,224
Mission Gorge	27	279,740	0	0	9,852	3.52%	21,302	7.61%	\$1.65	(1,797)	(3,369)	3,598	5,724
Rose Canyon/Morena	38	610,727	0	0	43,523	7.13%	50,232	8.22%	\$1.47	7,352	4,435	7,352	9,449
Sports Arena/Airport	31	397,195	0	0	23,971	6.04%	28,017	7.05%	\$1.46	(315)	(11,214)	0	0
Miramar	220	4,774,354	130,000	11,760	323,879	6.78%	510,728	10.70%	\$1.58	55,382	(73,483)	112,098	148,343
Sorrento Mesa	153	6,141,887	28,000	618,000	665,153	10.83%	1,038,248	16.90%	\$2.27	46,524	12,422	112,581	143,106
Sorrento Valley	101	2,325,170	0	220,180	177,190	7.62%	337,176	14.50%	\$2.23	15,111	25,870	43,238	86,593
Torrey Pines/UTC	71	6,177,164	393,870	945,262	536,559	8.69%	1,199,984	19.43%	\$4.40	43,469	(131,047)	161,965	176,647
<b>Central County Total</b>	<b>880</b>	<b>26,625,704</b>	<b>551,870</b>	<b>1,795,202</b>	<b>2,176,894</b>	<b>8.18%</b>	<b>3,853,140</b>	<b>14.47%</b>	<b>\$2.40</b>	<b>295,423</b>	<b>(75,936)</b>	<b>628,879</b>	<b>847,564</b>
<b>East County</b>													
El Cajon	78	865,729	0	40,000	19,360	2.24%	49,172	5.68%	\$1.16	(3,117)	(2,428)	7,095	11,175
La Mesa/Spring Valley	39	293,035	0	0	3,546	1.21%	12,391	4.23%	\$1.18	(2,121)	(2,121)	0	0
Santee/Lakeside	54	554,061	0	0	5,547	1.00%	13,129	2.37%	\$1.28	1,978	2,123	12,872	15,017
Outlying SD County South	21	92,705	0	0	14,775	15.94%	14,775	15.94%	–	0	(9,775)	0	0
<b>East County Total</b>	<b>192</b>	<b>1,805,530</b>	<b>0</b>	<b>40,000</b>	<b>43,228</b>	<b>2.39%</b>	<b>89,467</b>	<b>4.96%</b>	<b>\$1.21</b>	<b>(3,260)</b>	<b>(12,201)</b>	<b>19,967</b>	<b>26,192</b>
<b>North County</b>													
Escondido	78	747,932	0	0	38,651	5.17%	33,030	4.42%	\$1.07	(21,732)	(17,049)	1,565	6,248
Oceanside	33	984,770	0	0	6,953	0.71%	20,759	2.11%	\$1.03	9,180	13,953	16,701	24,195
San Marcos	61	1,094,862	0	0	64,062	5.85%	116,236	10.62%	\$1.22	2,016	(6,300)	10,673	31,231
Vista	62	1,392,680	0	0	64,351	4.62%	116,396	8.36%	\$1.11	3,153	(21,448)	16,790	20,660
Carlsbad	253	6,460,217	0	0	684,779	10.60%	887,588	13.74%	\$1.30	(92,827)	(97,071)	137,285	206,543
North Beach Cities	19	164,051	0	0	8,960	5.46%	8,640	5.27%	\$2.20	(3,114)	(1,059)	66	3,271
Outlying SD County North	19	138,287	0	0	704	0.51%	704	0.51%	\$1.42	0	0	0	0
<b>North County Total</b>	<b>525</b>	<b>10,982,799</b>	<b>0</b>	<b>0</b>	<b>868,460</b>	<b>7.91%</b>	<b>1,183,353</b>	<b>10.77%</b>	<b>\$1.26</b>	<b>(103,324)</b>	<b>(128,974)</b>	<b>183,080</b>	<b>292,148</b>
<b>I-15 Corridor</b>													
Poway	61	1,847,147	0	0	16,864	0.91%	32,617	1.77%	\$1.23	6,675	17,305	14,628	36,104
Rancho Bernardo	95	4,646,678	0	0	246,914	5.31%	418,999	9.02%	\$1.69	(16,956)	29,865	31,426	158,162
Scripps Ranch	28	749,217	0	235,227	5,036	0.67%	9,821	1.31%	\$1.19	(325)	1,552	2,260	11,299
<b>I-15 Corridor Total</b>	<b>184</b>	<b>7,243,042</b>	<b>0</b>	<b>235,227</b>	<b>268,814</b>	<b>3.71%</b>	<b>461,437</b>	<b>6.37%</b>	<b>\$1.61</b>	<b>(10,606)</b>	<b>48,722</b>	<b>48,314</b>	<b>205,565</b>
<b>South County</b>													
Chula Vista	80	1,523,033	0	14,930	145,565	9.56%	158,198	10.39%	\$1.45	5,565	(9,207)	6,850	24,811
National City	23	333,628	0	0	1,677	0.50%	9,143	2.74%	\$1.10	(752)	1,748	6,933	14,859
Otay Mesa	7	166,652	0	197,381	34,443	20.67%	141,443	84.87%	\$0.73	0	0	0	0
San Ysidro/Imperial Beach	5	86,361	0	0	0	0.00%	0	0.00%	–	0	0	0	0
<b>South County Total</b>	<b>115</b>	<b>2,109,674</b>	<b>0</b>	<b>212,311</b>	<b>181,685</b>	<b>8.61%</b>	<b>308,784</b>	<b>14.64%</b>	<b>\$1.09</b>	<b>4,813</b>	<b>97,459</b>	<b>13,783</b>	<b>39,670</b>
<b>San Diego County Total</b>	<b>1,896</b>	<b>48,766,749</b>	<b>551,870</b>	<b>2,282,740</b>	<b>3,539,081</b>	<b>7.26%</b>	<b>5,896,181</b>	<b>12.09%</b>	<b>\$1.98</b>	<b>183,046</b>	<b>(175,848)</b>	<b>894,023</b>	<b>1,411,139</b>

Lease rates are on a triple-net basis.



## Firing On All Cylinders

by **Todd Holley, SIOR**

SENIOR VICE PRESIDENT / PARTNER, SAN DIEGO  
858.458.3349 · tholley@voitco.com · Lic. #01046508

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.

### 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 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.

Represented in 150 Markets  
Nationally & Internationally.



## 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, 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, San Ysidro / Imperial Beach