

**MARKET OVERVIEW.** The San Diego County industrial market is finally seeing some demand pressure relief with the influx of new construction coming to the market. Vacancy rates are slowly backing off their historic lows, despite the half million square feet of positive net absorption for the year thus far indicating a growing tenant base. Rental rates continue to reach all-time highs quarter after quarter and have not shown any signs of slowing down. The impact of the new construction has been most pronounced in North County which has been the epicenter of new product coming into the market, but the current construction has shifted to the I-15 Corridor.

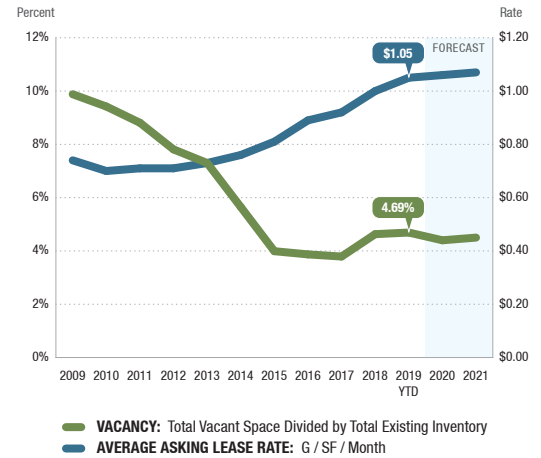
**VACANCY.** Direct/sublease space (unoccupied) finished the third quarter of 2019 at 4.69%, an increase of 9 basis points from the previous quarter's vacancy rate of 4.6%, and significantly higher than the third quarter of 2018's rate of 3.9%. The market is currently on pace for its second consecutive calendar year of increases to the vacancy rate. Unsurprisingly, the areas with the least amount of recent construction, Central County and East County, both have overall vacancy rates near 3%, well below the countywide average.

**LEASE RATES.** The average asking lease rate checked in at \$1.05 per square foot per month, a one-cent increase over the previous quarter, and an 8.3% increase year-over-year. The average asking rate is at an all-time high for the San Diego industrial market.

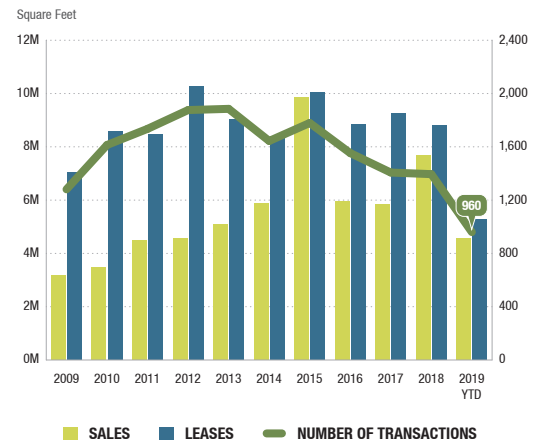
**TRANSACTION ACTIVITY.** The total square feet leased and sold in the third quarter was approximately 3.8 million square feet, an increase from the 3.4 million square feet of transactions in the second quarter of 2019. There have been a number of high-profile owner-occupiers to capitalize on the elevated pricing environment by performing sale-leasebacks recently, including Cubic and PepsiCo.

**EMPLOYMENT.** The unemployment rate in San Diego County was 3.4% in August 2019, down from a revised 3.6% in July 2019, and below the year-ago estimate of 3.5%. This compares with an unadjusted unemployment rate of 4.2% for California and 3.8% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 27,400 payroll jobs between August 2018 and August 2019, including 8,400 from the Government sector, which reported the largest overall gain. The professional and business services sector reported a growth of 6,600 jobs, the second most among the major employment sectors. The largest year-over-year loss was in trade, transportation, and utilities which reported 2,900 fewer jobs than the prior year.

### VACANCY vs. AVERAGE ASKING LEASE RATE



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



### Market Statistics

	Change Over Last Quarter	3Q 2019	2Q 2019	3Q 2018	% Change Over Last Year
Vacancy Rate	▲ UP	4.69%	4.60%	3.90%	20.44%
Availability Rate	▲ UP	7.26%	7.12%	6.58%	10.23%
Average Asking Lease Rate	▲ UP	\$1.05	\$1.04	\$0.97	8.25%
Sale & Lease Transactions	▲ UP	3,818,470	3,373,195	5,478,476	(30.30%)
Gross Absorption	▲ UP	2,077,783	1,770,924	2,160,447	(3.83%)
Net Absorption	▲ POSITIVE	29,138	(46,981)	480,618	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.** Expect average asking rates to increase by approximately 3–4% over the next four quarters.

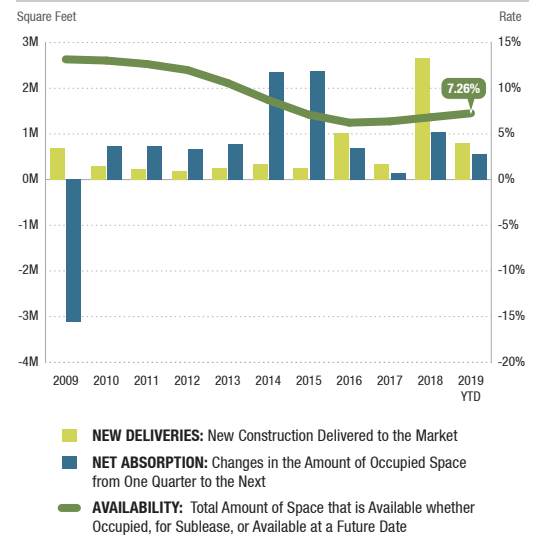
**VACANCY.** We anticipate the vacancy rate will continue to move up from record lows as the vacancy rate is still more than two and a half percentage points lower than availability, and there is 1.1 million square feet currently under construction.

**CONSTRUCTION.** 2.7 million square feet of new industrial projects were delivered in 2018, the most square feet delivered since 2006. Coming into 2019, the new construction pipeline still has legs, with 1.1 million square feet still under construction. With the majority of the North County and Otay Mesa construction already completed, Poway has moved to the forefront as the submarket with the most product currently under construction. Ryan Companies is developing a 531,000 square foot speculative project in Poway called Vantage Point, and additionally Techbilt has 83,000 square feet under way at the Poway Tech Center.

**ABSORPTION.** There was 29,138 square feet of positive net absorption in the third quarter, for a total of 551,292 square feet through the first half of the year. The San Diego industrial market is on track for its tenth consecutive year of positive net absorption.

**AVAILABILITY.** Direct/sublease space being marketed was 7.26% at the end of the third quarter, an increase from the previous quarter's availability rate of 7.12%. The availability rate remains more than two and a half percentage points higher than the vacancy rate. Most of this available space which is not vacant is in the current construction pipeline.

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



## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1402 Avenida Del Oro	Oceanside	311,995	\$73,600,000	Rexford Industrial	Scannell Properties
7995 Armour St., Et Al	Kearny Mesa	174,650	\$30,300,000	Crow Holdings Capital	PepsiCo
1395 Park Center Dr.	Vista	155,069	\$25,275,000	Kohlberg Kravis Roberts & Co., LP	CapRock Partners
1855 Dornoch Ct.	Otay Mesa	216,249	\$23,000,000	CapRock	LBA Realty
5260 Anna Ave.	Rose Canyon / Morena	72,220	\$16,300,000	New Pacific Realty Corp.	Lincoln Property Company

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2858 Loker Ave. E.	Carlsbad	80,000	Jul-2019	Undisclosed	BLT Enterprises
1291 Rocky Point Dr.	Oceanside	78,023	Jul-2019	Wayfair	Black Creek Industrial Property Trust
12455 Kerran St.	Poway	76,564	Aug-2019	Undisclosed	GM Partnership
10038 Marathon Pkwy.	Santee / Lakeside	71,486	Aug-2019	Layfield	(Sublease)
5940 Darwin Ct.	Carlsbad	60,184	Sept-2019	Undisclosed	BLT Enterprises

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2019	Square Feet Available	Availability Rate 3Q2019	Average Asking Lease Rate	Net Absorption 3Q2019	Net Absorption 2019	Gross Absorption 3Q2019	Gross Absorption 2019
<b>Central County</b>													
Central City	92	1,428,637	0	0	34,703	2.43%	34,703	2.43%	–	(1,950)	(37,260)	0	5,000
East City	61	965,504	0	0	0	0.00%	12,600	1.31%	–	0	0	0	0
Southeast City	366	4,277,018	0	0	100,649	2.35%	173,065	4.05%	\$1.24	(41,474)	(20,783)	68,540	128,411
Kearny Mesa	427	9,885,929	0	11,200	312,224	3.16%	326,884	3.31%	\$1.40	(87,013)	(72,983)	94,807	316,095
Mission Gorge	111	1,756,746	0	0	23,183	1.32%	54,546	3.10%	\$1.44	13,623	17,203	24,919	84,791
Rose Canyon/Morena	131	2,059,978	0	0	3,862	0.19%	126,601	6.15%	\$1.23	29,063	6,390	41,141	64,716
Sports Arena/Airport	142	1,623,457	0	0	21,307	1.31%	39,907	2.46%	\$1.30	6,000	(12,080)	12,262	25,889
Miramar	584	13,171,351	0	615,000	442,639	3.36%	675,653	5.13%	\$1.25	(59,495)	18,297	281,936	762,066
Sorrento Mesa	73	3,526,183	0	0	287,416	8.15%	358,879	10.18%	\$1.28	(34,629)	(108,746)	50,735	65,174
Sorrento Valley	43	1,022,367	0	149,663	13,642	1.33%	47,386	4.63%	\$1.53	22,403	18,114	27,327	44,113
<b>Central County Total</b>	<b>2,030</b>	<b>39,717,170</b>	<b>0</b>	<b>775,863</b>	<b>1,239,625</b>	<b>3.12%</b>	<b>1,850,224</b>	<b>4.66%</b>	<b>\$1.30</b>	<b>(153,472)</b>	<b>(191,848)</b>	<b>601,667</b>	<b>1,496,255</b>
<b>East County</b>													
El Cajon	454	9,078,090	8,400	0	124,745	1.37%	393,745	4.34%	\$1.01	70,066	10,932	94,666	225,097
La Mesa/Spring Valley	309	2,626,386	0	50,000	150,638	5.74%	223,943	8.53%	\$1.01	(44,771)	(58,783)	18,237	124,325
Santee/Lakeside	275	3,672,580	0	280,295	186,346	5.07%	133,235	3.63%	\$0.99	13,471	(6,905)	38,090	78,611
Outlying SD County South	75	756,319	0	0	0	0.00%	0	0.00%	\$0.80	3,074	0	3,074	3,074
<b>East County Total</b>	<b>1,113</b>	<b>16,133,375</b>	<b>8,400</b>	<b>330,295</b>	<b>461,729</b>	<b>2.86%</b>	<b>750,923</b>	<b>4.65%</b>	<b>\$1.00</b>	<b>41,840</b>	<b>(54,756)</b>	<b>154,067</b>	<b>431,107</b>
<b>North County</b>													
Escondido	632	7,510,947	0	73,500	201,409	2.68%	360,712	4.80%	\$1.01	(27,588)	(59,353)	67,212	254,382
Oceanside	406	9,277,698	71,000	60,726	468,760	5.05%	538,432	5.80%	\$0.91	(32,378)	195,203	154,184	549,548
San Marcos	473	7,944,897	27,624	84,000	681,237	8.57%	848,591	10.68%	\$0.97	(19,882)	(58,345)	165,593	302,208
Vista	530	12,846,448	0	60,165	1,059,557	8.25%	1,648,580	12.83%	\$0.94	38,320	(423,967)	200,428	541,937
Carlsbad	234	8,904,454	50,150	0	1,165,414	13.09%	1,165,228	13.09%	\$1.07	(130,210)	407,996	42,914	827,177
North Beach Cities	42	257,017	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Outlying SD County North	109	966,618	0	3,754	13,352	1.38%	25,874	2.68%	\$0.75	(3,000)	(6,644)	0	2,236
<b>North County Total</b>	<b>2,426</b>	<b>47,708,079</b>	<b>148,774</b>	<b>282,145</b>	<b>3,589,729</b>	<b>7.52%</b>	<b>4,587,417</b>	<b>9.62%</b>	<b>\$0.98</b>	<b>(174,738)</b>	<b>54,890</b>	<b>630,331</b>	<b>2,477,488</b>
<b>I-15 Corridor</b>													
Poway	181	7,337,737	577,619	0	88,160	1.20%	741,880	10.11%	\$1.11	81,636	73,750	119,209	236,644
Rancho Bernardo	43	3,135,718	141,027	0	288,955	9.21%	459,481	14.65%	\$1.36	(54,827)	(54,827)	0	47,838
Scripps Ranch	28	705,554	0	0	85,824	12.16%	87,744	12.44%	\$1.24	24,883	4,875	26,803	35,320
<b>I-15 Corridor Total</b>	<b>252</b>	<b>11,179,009</b>	<b>718,646</b>	<b>0</b>	<b>462,939</b>	<b>4.14%</b>	<b>1,289,105</b>	<b>11.53%</b>	<b>\$1.20</b>	<b>51,692</b>	<b>23,798</b>	<b>146,012</b>	<b>319,802</b>
<b>South County</b>													
Chula Vista	324	8,317,146	0	163,000	234,568	2.82%	412,064	4.95%	\$0.99	(32,815)	(60,504)	78,951	185,565
National City	256	3,820,987	0	0	57,763	1.51%	75,448	1.97%	\$1.30	3,251	12,692	17,535	71,429
Otay Mesa	336	16,033,482	266,236	5,362,434	706,688	4.41%	1,484,366	9.26%	\$0.77	297,935	749,771	444,513	1,086,939
South San Diego	63	1,339,364	0	24,121	17,076	1.27%	17,076	1.27%	\$1.01	(4,555)	17,249	4,707	44,104
<b>South County Total</b>	<b>979</b>	<b>29,510,979</b>	<b>266,236</b>	<b>5,549,555</b>	<b>1,016,095</b>	<b>3.44%</b>	<b>1,988,954</b>	<b>6.74%</b>	<b>\$0.84</b>	<b>263,816</b>	<b>719,208</b>	<b>545,706</b>	<b>1,388,037</b>
<b>San Diego County Total</b>	<b>6,800</b>	<b>144,248,612</b>	<b>1,142,056</b>	<b>6,937,858</b>	<b>6,770,117</b>	<b>4.69%</b>	<b>10,466,623</b>	<b>7.26%</b>	<b>\$1.05</b>	<b>29,138</b>	<b>551,292</b>	<b>2,077,783</b>	<b>6,112,689</b>
0–9,999	3,076	15,623,501	26,689	7,804	330,242	2.11%	509,892	3.26%	\$1.22	(61,899)	(73,553)	158,685	468,507
10,000–19,999	1,775	25,059,383	53,004	42,123	551,839	2.20%	1,244,276	4.97%	\$1.22	17,934	88,183	374,587	1,228,883
20,000–34,999	983	25,197,360	29,022	271,981	839,367	3.33%	1,537,397	6.10%	\$1.04	74,528	(128,750)	458,272	1,007,196
35,000–49,999	358	14,780,737	0	335,890	631,662	4.27%	914,987	6.19%	\$1.06	77,540	21,493	349,775	798,503
50,000–99,999	391	26,934,934	121,150	509,008	1,713,849	6.36%	2,283,995	8.48%	\$0.91	(173,811)	7,482	405,975	1,049,060
100,000 Plus	217	36,652,697	912,191	5,771,052	2,703,158	7.38%	3,976,076	10.85%	\$1.00	94,846	636,437	330,489	1,560,540
<b>San Diego County Total</b>	<b>6,800</b>	<b>144,248,612</b>	<b>1,142,056</b>	<b>6,937,858</b>	<b>6,770,117</b>	<b>4.69%</b>	<b>10,466,623</b>	<b>7.26%</b>	<b>\$1.05</b>	<b>29,138</b>	<b>551,292</b>	<b>2,077,783</b>	<b>6,112,689</b>

Lease rates are on an industrial-gross basis.



## Much of the Same

by **Greg Marx**

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Industrial owner/user building values as well as investment sale prices continue to reach record levels due to the overwhelming lack of supply. Industrial distribution rents are in the \$0.90–\$1.10 triple net range depending on location. Vacancy rates remain in the low single digits and rents continue to increase across all of San Diego County. The desire for last-mile space and the conversion of industrial buildings to creative office continues to drive down vacancy. A prime example is Amazon and their developer purchase of 65 acres to build a 2.6 million square foot, four-story fulfillment center in Otay Mesa. Ryan Companies and DWS recently closed escrow on 39 acres in Poway and will construct 530,850 square feet of industrial space on a speculative basis. The partnership expects to break ground in early 2020.

Total net absorption across San Diego County was back in the black following its slight pullback in the second quarter. This slight increase of absorption can be partly attributed to an overall increase in total lease transaction volume, with quarterly transaction volume increasing since the start of the year. The market remains tight with vacancy rates remaining at 4.7% countywide.

The combination of a lack of available space and lack of land has driven average lease rates to a high of \$1.05–\$1.10 per square foot on a triple net basis. Lease rates continue to climb higher and year-over-year industrial rents rose by 8.25%. The market will continue to be a “landlord’s market” for the foreseeable future.

We anticipate that current conditions will continue to place upward pressure on rents, with concessions such as free rent and tenant improvement packages all but disappearing as the occupancy levels continue to remain high. San Diego’s diverse employment base, wonderful climate, and proximity to Mexico and the Pacific Rim, all help support our local economy’s continued growth, with only a lack of existing and new industrial inventory standing in the way.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a 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.

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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

### 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, South San Diego