

Real Estate Market Review

# San Diego Industrial

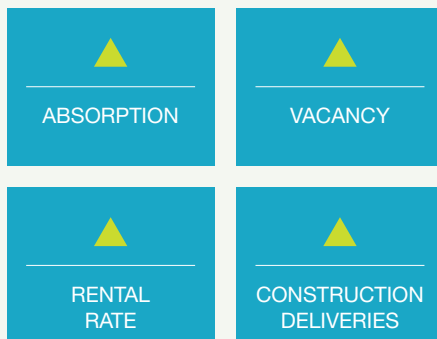
The San Diego industrial real estate market kept pace the first quarter from the record breaking metrics across the board at year end 2018, with rent growth reaching a new all-time high showing no signs of slowing down and sale prices at its peak from the annual historical average. The development pipeline accomplished a decade high of new deliveries last year and continues to hold steadfast with approximately 2 million square feet due to complete by the end of 2019, of which nearly 45% of that inventory came online in the first quarter alone. Overall employment growth remains positive, as the San Diego County unemployment rate drops 30 basis points to 3.5% month-over-month, and keeps still from the year-ago estimate of 3.5%. The unemployment rate repeatedly beats that of the state and the nation, comparing at 4.4% and 4.1% respectively. The industrial market is on its continued track to becoming one of the strongest property sectors in San Diego, as occupiers are expanding their distribution channels to meet the rising demand of e-commerce sales, as well as the booming growth of the biotech and life science industries.

Countywide, total vacancy remained static from the previous quarter holding at 5.0%, an uptick from 4.3% when compared to this time last year. The Carlsbad submarket posted the highest total vacancy rate at 10.6%, a much needed relief due to a high development pipeline in the area

from the previous year, amounting to approximately 40% of the delivered projects in the county. Primary submarkets with the least vacant space that have at least 5M square feet in inventory include Poway at 1.2% and Escondido at 1.9%.

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### Market Trends



YEAR-TO-YEAR BASIS

### Notable Lease Transactions

**General Atomics Aeronautical Systems, Inc.**  
13550 Stowe Dr, Poway  
112,000 SF leased (renewal)

**RL Jones**  
2020 Piper Ranch Rd, Otay Mesa  
94,686 SF leased

**HNRY Logistics**  
1424 Corporate Center Dr, Otay Mesa  
60,596 SF leased

### Notable Sale Transactions

**RAF Pacifica Group**  
Avenida Crossings, Carlsbad  
68,392 SF | \$23.9M or \$349.46/SF

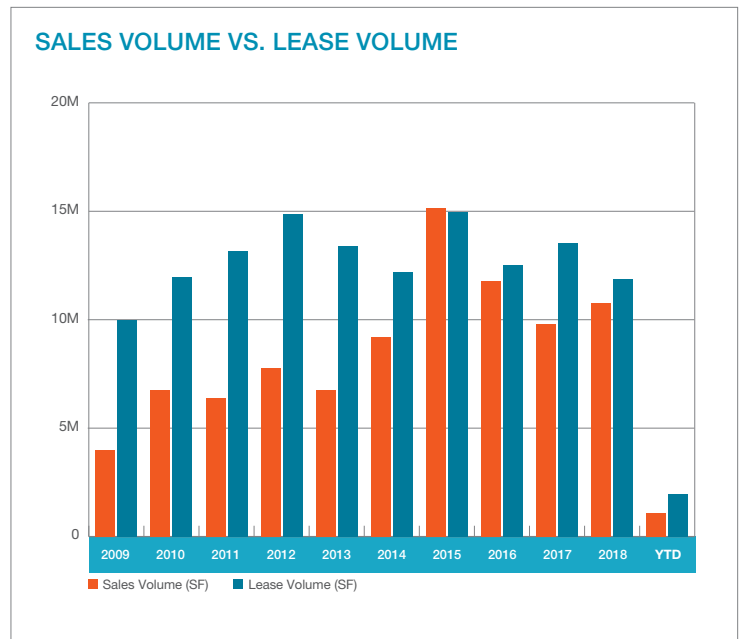
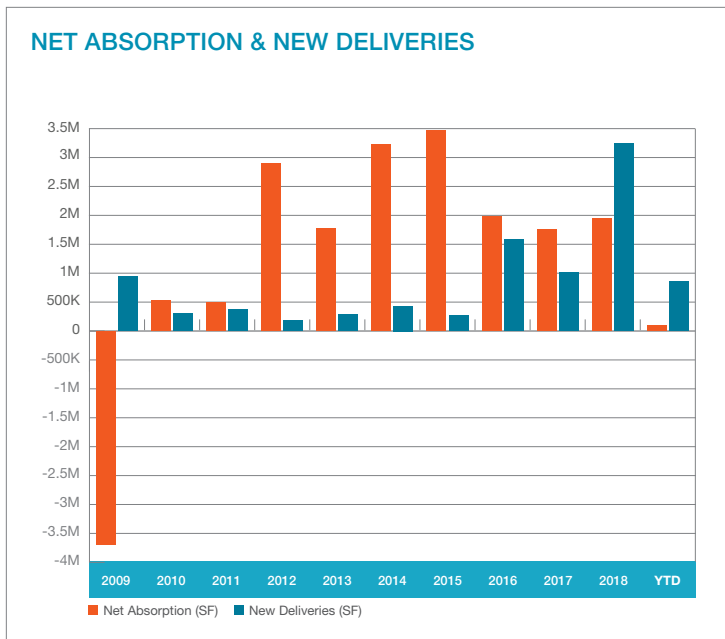
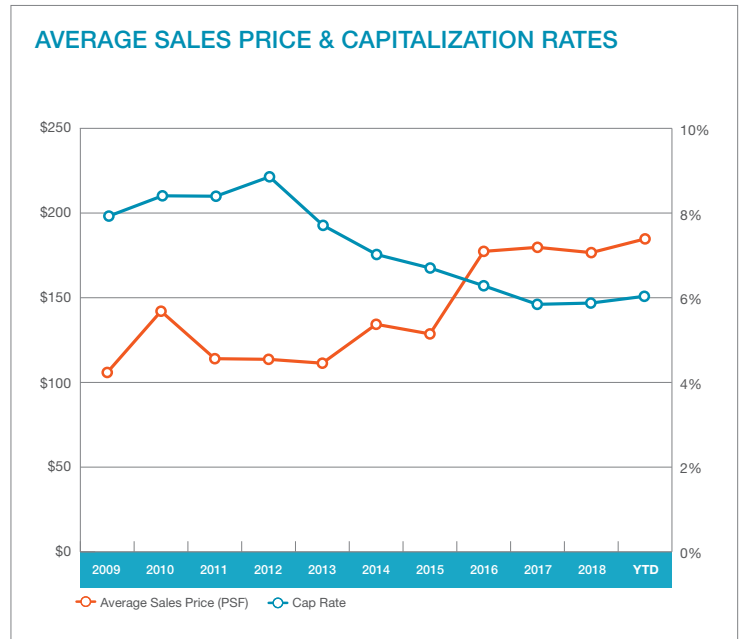
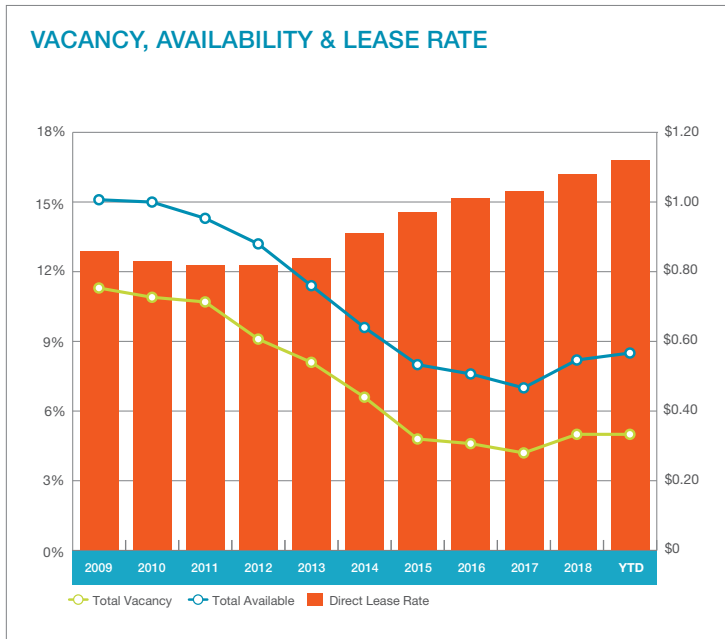
**Longfellow Real Estate Partners**  
Torrey Sorrento Science Park,  
Sorrento Valley  
37,555 SF | \$15.5M or \$412.73/SF

**Washington Capital Management, Inc.**  
Trolley Industrial Center,  
San Ysidro/Imperial Beach  
105,465 SF | \$13.6M or \$128.95/SF

## Market Breakdown

|                   | 1Q19      | 4Q18      | 1Q18      | Annual % Change |
|-------------------|-----------|-----------|-----------|-----------------|
| Vacancy Rate      | 5.00%     | 5.00%     | 4.30%     | 16.28%          |
| Availability Rate | 8.50%     | 8.20%     | 7.30%     | 16.44%          |
| Asking Lease Rate | \$1.12    | \$1.08    | \$1.00    | 12.00%          |
| Leased SF         | 1,958,827 | 2,435,257 | 3,185,680 | -38.51%         |
| Sold SF           | 1,101,126 | 3,733,788 | 2,308,002 | -52.29%         |
| Net Absorption    | 96,703    | 154,462   | 15,633    | N/A             |

## San Diego Industrial Charts



## Submarket Statistics

|                                    | Total Inventory    | Direct Vacancy Rate | Total Vacancy SF | Total Vacancy Rate | 1Q19 Direct Net Absorption | 2018 Direct Net Absorption | SF Under Construction | YTD Construction Completions | Avg NNN Rental Rate |
|------------------------------------|--------------------|---------------------|------------------|--------------------|----------------------------|----------------------------|-----------------------|------------------------------|---------------------|
| Carlsbad                           | 15,400,712         | 10.4%               | 1,636,346        | 10.6%              | 225,187                    | 371,327                    | 34,439                | 289,907                      | \$1.11              |
| Escondido                          | 7,524,021          | 1.9%                | 141,160          | 1.9%               | -17,760                    | 202,496                    | 0                     | 0                            | \$0.97              |
| North Beach Cities                 | 353,115            | 1.7%                | 5,846            | 1.7%               | 2,055                      | -1,508                     | 0                     | 0                            | \$1.95              |
| Oceanside                          | 9,898,056          | 3.4%                | 340,519          | 3.4%               | 64,413                     | -25,092                    | 0                     | 277,807                      | \$0.88              |
| San Marcos                         | 8,812,492          | 7.5%                | 673,863          | 7.6%               | 337                        | 107,743                    | 0                     | 0                            | \$0.83              |
| Vista                              | 13,800,606         | 5.1%                | 818,861          | 5.9%               | -172,352                   | -63,867                    | 77,725                | 0                            | \$0.93              |
| <b>North County</b>                | <b>55,789,002</b>  | <b>6.2%</b>         | <b>3,616,595</b> | <b>6.5%</b>        | <b>101,880</b>             | <b>591,099</b>             | <b>112,164</b>        | <b>567,714</b>               | <b>\$0.97</b>       |
| Kearny Mesa                        | 15,442,303         | 4.8%                | 802,811          | 5.2%               | -99,716                    | 193,202                    | 24,188                | 0                            | \$1.59              |
| Mira Mesa/ Miramar                 | 17,443,762         | 3.6%                | 648,941          | 3.7%               | -46,828                    | 122,179                    | 130,000               | 22,099                       | \$1.32              |
| PB/Rose Canyon/ Morena             | 3,044,225          | 1.8%                | 59,563           | 2.0%               | -1,353                     | 601                        | 0                     | 0                            | \$1.22              |
| Sorrento Mesa                      | 9,824,013          | 7.1%                | 776,612          | 7.9%               | -104,231                   | -85,200                    | 28,000                | 0                            | \$1.43              |
| Sorrento Valley                    | 3,251,883          | 6.6%                | 213,816          | 6.6%               | 21,000                     | -4,152                     | 0                     | 0                            | \$1.69              |
| Sports Arena/ Airport              | 2,893,228          | 1.9%                | 55,788           | 1.9%               | -35,304                    | -11,817                    | 0                     | 0                            | \$1.20              |
| Torrey Pines                       | 3,918,199          | 6.6%                | 318,791          | 8.1%               | -108,455                   | 132,071                    | 0                     | 0                            | \$2.94              |
| UTC                                | 2,370,248          | 7.9%                | 186,460          | 7.9%               | 2,618                      | 188,393                    | 246,862               | 0                            | \$1.92              |
| <b>Central County</b>              | <b>58,187,861</b>  | <b>4.9%</b>         | <b>3,062,782</b> | <b>5.3%</b>        | <b>-372,269</b>            | <b>535,277</b>             | <b>429,050</b>        | <b>22,099</b>                | <b>\$1.24</b>       |
| Mission Gorge                      | 1,920,324          | 1.0%                | 20,537           | 1.1%               | 22,060                     | -5,185                     | 0                     | 0                            | \$1.50              |
| Poway                              | 9,052,695          | 1.2%                | 110,460          | 1.2%               | 42,278                     | 262,121                    | 613,212               | 0                            | \$1.11              |
| Rancho Bernardo                    | 7,725,278          | 6.2%                | 485,713          | 6.3%               | 2,091                      | 15,588                     | 0                     | 0                            | \$1.57              |
| Scripps Ranch                      | 1,454,771          | 8.1%                | 118,373          | 8.1%               | 14,754                     | -37,663                    | 0                     | 0                            | \$1.21              |
| <b>I-15 Corridor</b>               | <b>20,153,068</b>  | <b>3.6%</b>         | <b>735,083</b>   | <b>3.6%</b>        | <b>81,183</b>              | <b>234,861</b>             | <b>613,212</b>        | <b>0</b>                     | <b>\$1.33</b>       |
| Chula Vista                        | 9,642,928          | 4.0%                | 387,766          | 4.0%               | -77,569                    | -168,308                   | 163,000               | 0                            | \$0.97              |
| Downtown                           | 1,720,851          | 1.1%                | 19,490           | 1.1%               | -7,400                     | 37,120                     | 0                     | 0                            | -                   |
| National City                      | 3,853,707          | 1.4%                | 54,279           | 1.4%               | 8,676                      | 35,510                     | 0                     | 0                            | \$1.23              |
| Otay Mesa                          | 16,097,118         | 6.9%                | 1,144,573        | 7.1%               | 346,329                    | 289,821                    | 487,216               | 261,960                      | \$0.70              |
| San Ysidro/ Imp Beach              | 1,395,685          | 0.5%                | 7,424            | 0.5%               | 7,350                      | 26,836                     | 0                     | 0                            | \$1.00              |
| <b>South County</b>                | <b>32,710,289</b>  | <b>4.8%</b>         | <b>1,613,532</b> | <b>4.9%</b>        | <b>277,386</b>             | <b>220,979</b>             | <b>650,216</b>        | <b>261,960</b>               | <b>\$0.82</b>       |
| East City                          | 913,649            | 0.0%                | 0                | 0.0%               | 0                          | 0                          | 0                     | 0                            | -                   |
| El Cajon                           | 9,574,888          | 0.6%                | 63,554           | 0.7%               | 12,147                     | -37,802                    | 97,060                | 0                            | \$1.14              |
| La Mesa/ Spring Valley             | 2,486,137          | 3.5%                | 85,900           | 3.5%               | 3,992                      | -338                       | 0                     | 0                            | \$2.02              |
| Santee                             | 4,008,578          | 3.1%                | 195,338          | 4.9%               | -11,227                    | -64,329                    | 0                     | 0                            | \$1.25              |
| Southeast San Diego                | 4,089,784          | 1.6%                | 66,616           | 1.6%               | 11,150                     | -15,635                    | 0                     | 0                            | \$0.99              |
| <b>East County</b>                 | <b>21,073,036</b>  | <b>1.6%</b>         | <b>411,408</b>   | <b>2.0%</b>        | <b>16,062</b>              | <b>-118,104</b>            | <b>97,060</b>         | <b>0</b>                     | <b>\$1.19</b>       |
| Outlying SD County North           | 973,492            | 0.5%                | 4,472            | 0.5%               | 2,236                      | 9,488                      | 0                     | 0                            | \$1.00              |
| Outlying SD County South           | 747,305            | 2.0%                | 14,775           | 2.0%               | -9,775                     | -12,700                    | 0                     | 0                            | -                   |
| <b>Outlying East San Diego Cty</b> | <b>1,720,797</b>   | <b>1.1%</b>         | <b>19,247</b>    | <b>1.1%</b>        | <b>-7,539</b>              | <b>-3,212</b>              | <b>0</b>              | <b>0</b>                     | <b>\$1.00</b>       |
| <b>San Diego County Total</b>      | <b>189,634,053</b> | <b>4.7%</b>         | <b>9,458,647</b> | <b>5.0%</b>        | <b>96,703</b>              | <b>1,460,900</b>           | <b>1,901,702</b>      | <b>851,773</b>               | <b>\$1.12</b>       |

Although the San Diego industrial market remains tight, it has experienced some relief from the downward pressure over the last few quarters due to the plethora of new supply throughout the county. While North County dominated the construction pipeline in 2018 contributing to over half the new supply, developers are showing a renewed interest in South County in 2019. This region is seeing much of the new development and construction in 2019, making up nearly 1/3 of the volume currently under construction, as well as projects already completed this year. A total of approximately 2.8M square feet of new construction will be delivered by the end of the year, which is the second highest volume of deliveries in over 10 years, closely behind the record breaking 3.3M square feet of new construction in 2018.

Rental rates peaked, yet again, to an astounding record breaking \$1.12 per square foot on a triple net basis, surpassing the previous quarter's all-time high of \$1.08 per square foot. This reflects an asking rate the industrial market has never experienced in the history of over 20 years, another indication of the highly competitive nature of the San Diego industrial market. Accordingly, asking rental rates broke past historical records across the San Diego market for R&D and manufacturing and warehouse properties alike, averaging at a high of \$1.53 and \$0.99

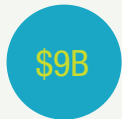
per square foot, respectively. With tight vacancies and robust demand, annual rent growth has slowly risen over 25 consecutive quarters and we believe this upward trend will continue in the year to come.

San Diego's industrial market experienced a notable decrease in sales transactions in the first quarter, totaling approximately 1.1 million square feet, less than half the volume when compared to this last time last year which posted at 2.3M square feet. Although the level of trading cooled off in the first quarter, the average price per SF reached a new record annual high of \$185, a modest increase from last year's average price per SF of \$170 and up from the previous record high of \$180 in 2017. It is anticipated that sales activity in the San Diego industrial market will remain strong, as investors and owners continue to show plenty of interest and enthusiasm in the highly dynamic San Diego market.

Source: CoStar

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#### COMMERCIAL BROKERAGE



ANNUAL TRANSACTION VOLUME



ANNUAL LEASING SF



ANNUAL SALES SF



# BROKERS

#### PROPERTY MANAGEMENT



MANAGEMENT PORTFOLIO

#### VALUATION ADVISORY



ASSIGNMENTS ANNUALLY



TOTAL # APPRAISERS/MAI'S

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