

# MARKET TRENDS | SAN DIEGO

# INDUSTRIAL

3RD QUARTER  
2019

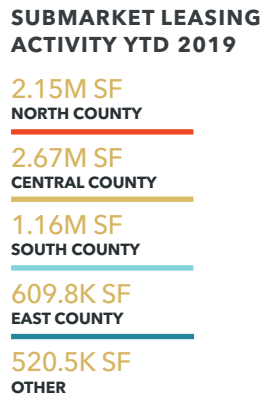
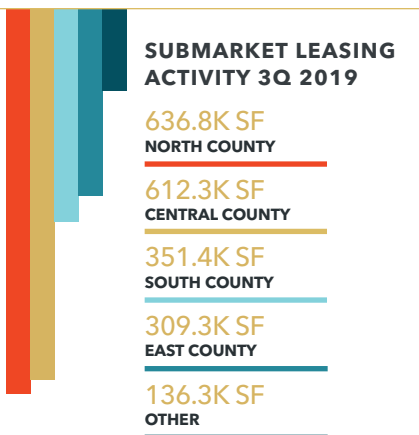
▼ ABSORPTION | ▲ VACANCY | ▲ RENTAL RATE | ▲ CONSTRUCTION DELIVERIES

A strong local economy has supported a thriving industrial market in San Diego. At the end of the third quarter, average asking rental rates soared to an all-time record high as rent growth nearly doubled the historical average. Additionally, the San Diego industrial market received the largest volume of new supply last year in over a decade and developers show no signs of slowing down, with almost two million square feet projected to be delivered by year's end.

Even with the swollen pipeline, vacancies and availabilities across the county hover near the post-recession low. However, the plethora of new supply will inevitably have some affect on fundamentals, evidenced by the recent increase in vacancies and availabilities. A majority of the projects underway are speculative and approximately 80% of that space in the pipeline is available for lease. Overall employment growth remains positive, as the San Diego County unemployment rate drops 20 basis points (bps) to 3.4% month-over-month, and below the year-ago estimate of 3.5%. The unemployment rate continuously beats that of the state and the nation, comparing at 4.2% and 3.8% respectively. San Diego's unemployment growth has outperformed the national benchmark consistently over the past decade. According to the State of California's Employment Development Department, San Diego County's total non-farm employment increased by 27,400 jobs year over year between August 2018 and August 2019. As occupiers continue to expand their distribution channels to meet the rising demand of e-commerce sales, coupled with the booming growth of the biotech and life science

industries, the industrial market will stay highly competitive into the last few months of the year.

The San Diego industrial market posted negative net absorption for the third quarter at approximately 103K s.f. Nonetheless, the annual net absorption year-to-date keeps positive at 177K s.f. The Sorrento Mesa submarket posted the highest negative net absorption in the county after Sony downsized their footprint in the region to 130K s.f. in The Park. County-wide total vacancy increased to 5.5%, the highest level of vacancy the market has experienced in over four years. The Carlsbad submarket posted the highest total vacancy rate at 12.4%, a much-needed relief due to a high volume of deliveries in the region 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 s.f. in inventory include Poway at 1.1% and El Cajon at 1.7%.



### 3Q 2019 MARKET HIGHLIGHTS

**VACANCY RATES** increased 20 bps from 2Q 2019 to 5.50%

**RENTAL RATES** have grown for 31 consecutive quarters, concluding 3Q 2019 at \$1.14/s.f. NNN

**AVG. SALE PRICE** is at a record high of \$261/s.f.

Although vacancies have increased since reaching an all-time low in 2017, much of that is supply induced due to the flood of new projects coming online throughout the last couple years. While North County dominated the construction pipeline in 2018 contributing to over half the new supply, developers have shown strong interest in Poway this year as well as South County. These regions are seeing much of the new development and construction in 2019, with Poway leading the way with the highest volume of projects currently under construction. A notable project in Poway is Vantage Point, one of San Diego's largest spec developments in years, with approximately 533K s.f. currently under construction estimated to complete mid-2020.

Rental rates are just one indication of the highly competitive nature of the San Diego industrial market, as asking rates climbed to a new record high of \$1.14/s.f. on a triple net basis, an increase from last quarter at \$1.12/s.f. Annual rent growth across the industrial region was above the long-term average, marking the 31st consecutive quarter of positive rent growth. Every submarket across the county has posted an annual rent growth of over 6% over the past year and rent growth is forecasted to remain positive in the upcoming quarters. Industrial rent growth is strongest among the tech submarkets which is widely known to be comprised of Sorrento Mesa, Torrey Pines, and UTC. In contrast, Otay Mesa, home to the second largest volume of inventory in the metro, has the lowest rents and is one of few submarkets with average rents below \$1.00/s.f.

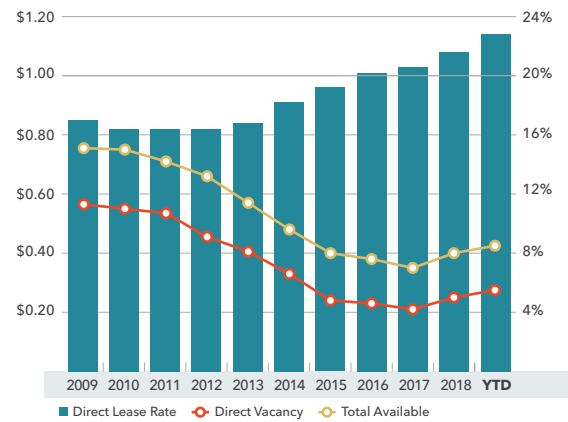
The San Diego industrial market recorded an all-time record high for average price per building, posting an impressive \$261/s.f. In July, Alexandria Real Estate Equities acquired the Genesis Campus in UTC for approximately \$255M, over \$800/s.f. making this sale one of the highest per square foot valuation in a decade. Sales transactions also increased this quarter, totaling approximately 2.8M s.f., just shy of the combined total from first and second quarter of this year. 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, KM Research, and SDBJ

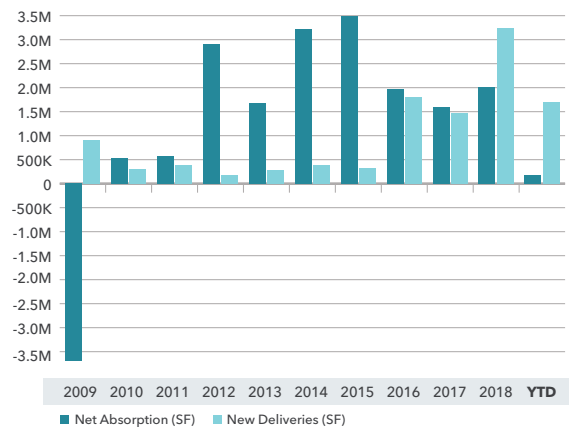
## Market Breakdown

	3Q 2019	2Q 2019	3Q 2018	Annual % Change
Vacancy Rate	5.50%	5.30%	4.50%	<b>22.22%</b>
Availability Rate	8.50%	8.30%	7.60%	<b>11.84%</b>
Asking Lease Rate	\$1.14	\$1.12	\$1.07	<b>6.54%</b>
Leased SF	2,046,017	2,521,933	3,425,379	<b>-40.27%</b>
Sold SF	2,770,140	1,920,471	3,287,756	<b>-15.74%</b>
Net Absorption	-103,387	349,374	645,101	<b>N/A</b>

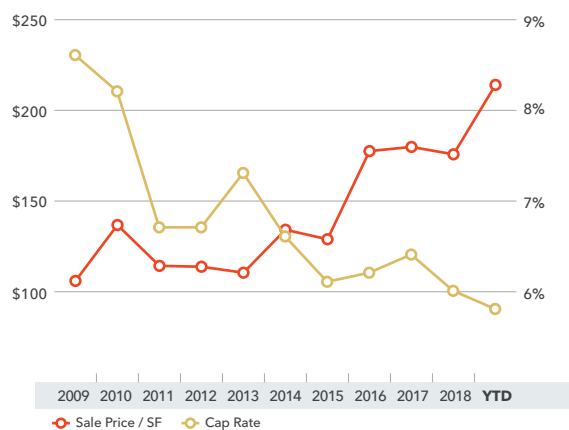
### LEASE RATE, VACANCY & AVAILABILITY



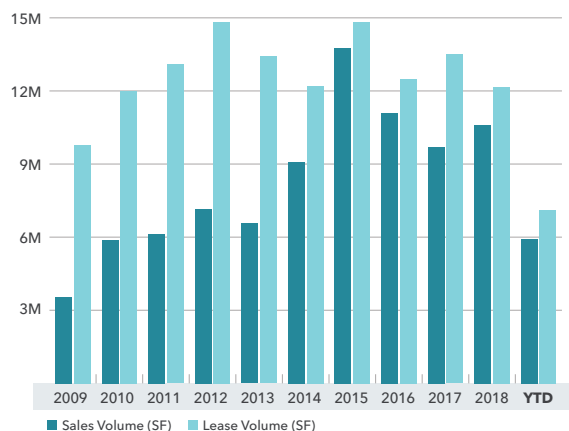
### NET ABSORPTION & NEW DELIVERIES



### AVERAGE SALE PRICE & CAP RATES

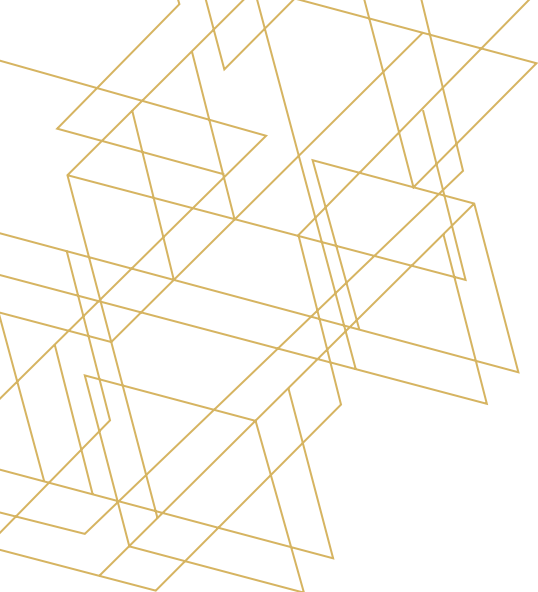


### SALES VOLUME VS. LEASE VOLUME



## SAN DIEGO SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Leasing Activity	YTD Leasing Activity	SF Under Construction	YTD Construction Completions	Rental Rate (NNN)
Carlsbad	15,412,105	12.1%	12.4%	(150,832)	132,280	217,924	610,589	50,150	436,581	\$1.09
Escondido	7,534,009	2.8%	3.0%	(10,322)	(85,244)	57,499	224,480	0	0	\$1.00
North Beach Cities	353,115	2.5%	2.5%	(14)	(1,073)	1,870	5,075	0	0	\$1.95
Oceanside	10,169,763	4.1%	4.6%	20,931	265,651	222,987	596,041	0	277,800	\$0.88
San Marcos	8,814,182	8.0%	8.2%	345	(42,108)	59,473	216,173	18,624	9,000	\$0.92
Vista	13,873,093	6.6%	7.4%	72,703	(313,856)	77,075	498,179	0	77,725	\$0.94
<b>North County</b>	<b>56,156,267</b>	<b>7.4%</b>	<b>7.7%</b>	<b>(67,189)</b>	<b>(44,350)</b>	<b>636,828</b>	<b>2,150,537</b>	<b>68,774</b>	<b>801,106</b>	<b>\$0.98</b>
Kearny Mesa	15,405,358	3.9%	4.4%	(51,321)	68,810	92,997	602,854	0	24,188	\$1.58
Mira Mesa/ Miramar	17,543,422	4.1%	4.6%	94,431	(12,511)	279,790	951,248	0	152,099	\$1.39
PB/Rose Canyon/ Morena	2,612,582	2.1%	2.2%	(11,246)	644	20,002	89,582	0	0	\$1.18
Sorrento Mesa	9,832,085	9.1%	10.8%	(230,559)	(300,145)	71,701	351,856	28,000	0	\$1.56
Sorrento Valley	3,238,390	7.2%	7.2%	(21,372)	2,369	38,917	125,077	0	0	\$1.57
Sports Arena/ Airport	2,892,481	1.7%	1.7%	6,000	(28,619)	15,012	31,339	0	0	\$1.25
Torrey Pines	4,063,561	9.6%	11.0%	(21,667)	(105,420)	93,854	429,504	0	0	\$3.00
UTC	2,370,248	5.1%	5.1%	0	67,861	0	85,073	256,370	137,500	\$2.05
<b>Central County</b>	<b>57,958,127</b>	<b>5.3%</b>	<b>6.0%</b>	<b>(235,734)</b>	<b>(307,011)</b>	<b>612,273</b>	<b>2,666,533</b>	<b>284,370</b>	<b>313,787</b>	<b>\$1.27</b>
Mission Gorge	1,894,984	1.2%	1.2%	12,385	16,952	12,294	58,845	0	0	\$1.57
Poway	9,160,622	1.1%	1.1%	86,444	90,893	105,574	355,037	533,950	82,766	\$1.12
Rancho Bernardo	7,799,452	7.4%	7.4%	(98,899)	(71,273)	10,937	42,356	141,027	0	\$1.55
Scripps Ranch	1,454,771	6.2%	6.2%	24,515	6,678	4,371	61,214	0	0	\$1.22
<b>I-15 Corridor</b>	<b>20,309,829</b>	<b>3.9%</b>	<b>3.9%</b>	<b>24,445</b>	<b>43,250</b>	<b>133,176</b>	<b>517,452</b>	<b>674,977</b>	<b>82,766</b>	<b>\$1.33</b>
Chula Vista	9,631,683	4.1%	4.4%	(51,866)	(88,987)	90,394	228,476	163,000	0	\$1.04
Downtown	1,711,819	3.7%	3.7%	(19,374)	(50,643)	2,660	5,138	0	0	-
National City	3,849,407	1.5%	1.6%	(3,967)	3,889	25,273	64,770	0	0	\$1.23
Otay Mesa	16,102,703	4.6%	4.6%	254,935	706,771	230,638	842,743	496,482	261,960	\$0.76
San Ysidro/ Imp Beach	1,360,013	1.3%	1.3%	(4,555)	(2,302)	2,419	16,850	0	0	\$1.00
<b>South County</b>	<b>32,655,625</b>	<b>3.9%</b>	<b>4.0%</b>	<b>175,173</b>	<b>568,728</b>	<b>351,384</b>	<b>1,157,977</b>	<b>659,482</b>	<b>261,960</b>	<b>\$0.87</b>
East City	913,649	0.0%	0.0%	0	0	0	0	0	0	-
El Cajon	9,643,580	1.4%	1.4%	70,318	17,281	51,364	194,848	0	82,733	\$1.00
La Mesa/ Spring Valley	2,472,354	6.1%	6.1%	(50,771)	(61,531)	47,304	125,189	0	0	\$0.97
Santee	3,998,312	2.9%	4.7%	13,371	(4,882)	124,008	156,301	0	0	\$1.00
Southeast San Diego	4,046,498	2.4%	2.4%	(40,524)	(19,033)	86,606	133,472	0	0	\$1.27
<b>East County</b>	<b>21,074,393</b>	<b>2.4%</b>	<b>2.7%</b>	<b>(7,606)</b>	<b>(68,165)</b>	<b>309,282</b>	<b>609,810</b>	<b>0</b>	<b>82,733</b>	<b>\$1.00</b>
Outlying SD County North	982,004	1.2%	1.2%	(1,550)	(5,194)	0	0	0	0	-
Outlying SD County South	747,305	2.0%	2.0%	9,074	(9,775)	3,074	3,074	0	0	-
<b>Outlying East San Diego</b>	<b>1,729,309</b>	<b>1.5%</b>	<b>1.5%</b>	<b>7,524</b>	<b>(14,969)</b>	<b>3,074</b>	<b>3,074</b>	<b>0</b>	<b>0</b>	<b>-</b>
<b>San Diego Total</b>	<b>189,883,550</b>	<b>5.2%</b>	<b>5.5%</b>	<b>(103,387)</b>	<b>177,483</b>	<b>2,046,017</b>	<b>7,105,383</b>	<b>1,687,603</b>	<b>1,542,352</b>	<b>\$1.14</b>



## Notable Sale Transactions

**ALEXANDRIA REAL ESTATE EQUITIES, INC.** purchased Genesis Campus Point in UTC  
314,135 s.f. | \$255.0M or \$812/s.f.

**REXFORD INDUSTRIAL REALTY, INC.** purchased 1402 Avenida Del Oro - FedEx Distribution Center in Oceanside  
311,995 s.f. | \$73.6M or \$236/s.f.

**CROW HOLDINGS CAPITAL** purchased a 3-property portfolio in Kearny Mesa  
174,650 s.f. | \$30.3M or \$173/s.f.

## Notable Lease Transactions

**QS CUSTOMS BROKERS, INC.** 2020 Piper Ranch Rd, Otay Mesa  
132,864 s.f. leased

**WAYFAIR** 1291 Rocky Point Dr, Oceanside  
79,023 s.f. leased

**TIRE CENTERS, LLC** 2858 Loker Ave E, Carlsbad  
75,000 s.f. leased



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The information in this report was composed by the Kidder Mathews Research Group.

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### COMMERCIAL BROKERAGE

<b>20M</b>	<b>ANNUAL SALES SF</b>	<b>420+</b>	<b>NO. OF BROKERS</b>
<b>\$9B</b>	<b>ANNUAL TRANSACTION VOLUME</b>	<b>40M</b>	<b>ANNUAL LEASING SF</b>

### VALUATION ADVISORY

<b>1,600+</b>	<b>APPRAISALS ANNUALLY</b>	<b>39/24</b>	<b>TOTAL NO. APPRAISERS/MAI'S</b>
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### PROPERTY MANAGEMENT

<b>70M+</b>	<b>MANAGEMENT PORTFOLIO SF</b>
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