

MARKET TRENDS | **SAN DIEGO**

INDUSTRIAL

4TH QUARTER
2019

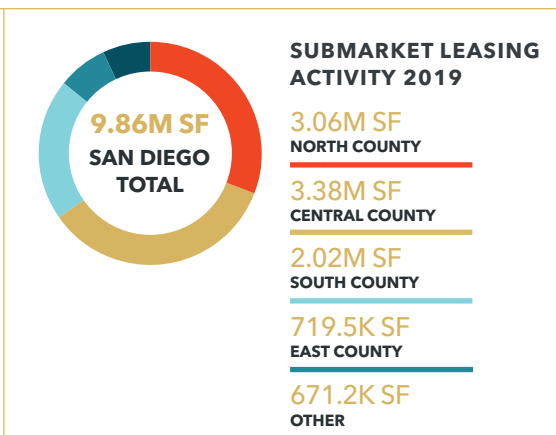
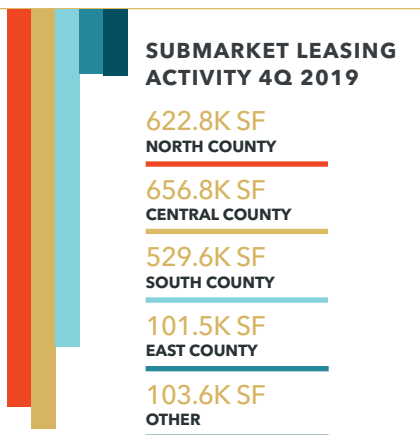
- ▲ ABSORPTION
- ▲ VACANCY
- ▲ RENTAL RATE
- ▲ CONSTRUCTION DELIVERIES

The San Diego industrial market finished the year out strong, with asking rental rates at an all-time historical high and vacancy and availability rates remaining in range of the post-recession low. Additionally, San Diego not only established a new annual high in industrial sales volume but also experienced a record high in average price per square foot.

Last year, the market-wide total for new construction soared to a decade-high of approximately 3.25 million square feet. It was the first-time inventory growth exceeded 1% since the recession. Developers have shown few signs of slowing down, with over 1.25 million square feet delivering in 2019, nearly 5 million square feet since the start of 2018. Even with the swollen pipeline, vacancies and availabilities across the county continue to hover near the post-recession low. However, the plethora of new supply is adding some pressure to the fundamentals, evidenced by the recent increase in vacancies and availabilities. Although the San Diego industrial market is in a midst of a supply wave, vacancies are only expected to modestly soften and remain below the historical benchmark due to strong local economy. Overall employment growth remains positive, as the San Diego County unemployment rate remains unchanged at a low 2.9% month-over-month, and below the year-ago estimate of 3.1%. The unemployment rate continuously beats that of the state and the nation, comparing at 3.7% and 3.3% respectively. According to the State of California's Employment Development Department, San Diego County's total nonfarm employment increased by 34,300 jobs year over year between November 2018 and November 2019.

Apple, the tech giant, has committed to providing 1,200 jobs in San Diego by the end of 2021 after signing multiple lease deals in the past two years to expand their San Diego footprint.

The San Diego industrial market posted 355,747 of positive net absorption in 2019. The annual net absorption for this year was not as strong when compared to the previous years due to a few large move-outs that were largely responsible for third quarter's negative net absorption. TRI-M-CO moved out of 100,000 square feet in San Marcos and Sony's consolidation at The Park resulted in vacating over 250,000 square feet across the market. The Otay Mesa submarket posted the highest positive net absorption in the county at nearly 600,000 square feet, as well topping the market with the highest volume of leasing activity for the year at 1.6 million square feet. It is one of the metro's largest submarkets in terms of inventory but still has among the cheapest rents throughout the county and tenants are beginning to take



2019 MARKET HIGHLIGHTS

- RENTAL RATES** have hit a record high at \$1.16/SF NNN
- AVG SALE PRICE** grew to an all-time annual high of \$229/SF
- VACANCY RATES** increased 50 basis points from 2018 to 5.6%

notice. One such tenant is e-commerce giant, Amazon, with plans in place to build a 3.1 million square foot distribution near the border. Countywide total vacancy increased to 5.6%, 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 5 million square feet in inventory include Poway at 1.9% and El Cajon at 1.8%.

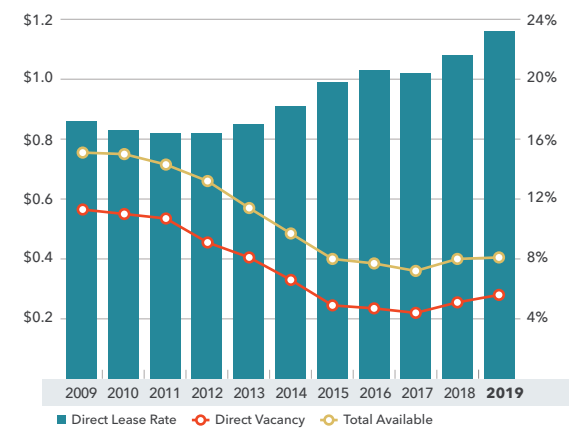
Although the vacancy rate ticked up in 2019, that was almost entirely due to the influx of new supply in the last couple years and not a weakening in demand. While North County still dominates the construction pipeline in 2018 contributing to over half the new supply, developers have shown strong interest in Otay Mesa as well as Poway. 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 533,000 square feet currently under construction estimated to complete mid-2020. Otay Mesa trails behind Poway with the second highest volume of projects currently under construction but will far surpass any other market once Amazon's 3.1 million square foot distribution breaks ground.

Rental rates are another strong indicator of the highly competitive nature of the San Diego industrial market, as asking rates climbed to a record breaking high of \$1.16 per square foot on a triple net basis, a notable increase from last year which posted at \$1.08 per square foot. Annual rent growth across the industrial region is still well above the long-term average, marking the 32nd 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 per square foot.

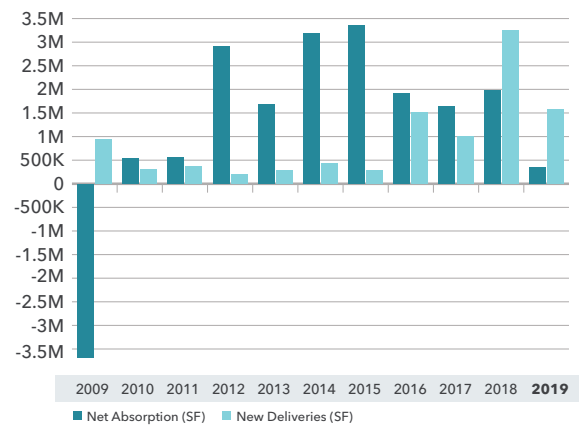
In terms of sales in 2019, the San Diego industrial market recorded an all-time record high for average price per building, posting an astounding \$229/SF. In July, Alexandria Real Estate Equities acquired the Genesis Campus in UTC for approximately \$255 million, over \$800/SF marking this sale one of the highest per square foot valuation in a decade. Sales volume also hit a record high totaling approximately \$1.88 billion, a number this market has yet to experience until this year. San Diego's reputation as a top life science and tech market is firmly established, and also includes increased traction of logistics demand especially in South County. Demand from these sectors should continue to feed investment, and 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.

Sources: KM Research, CoStar, RCA & SDBJ

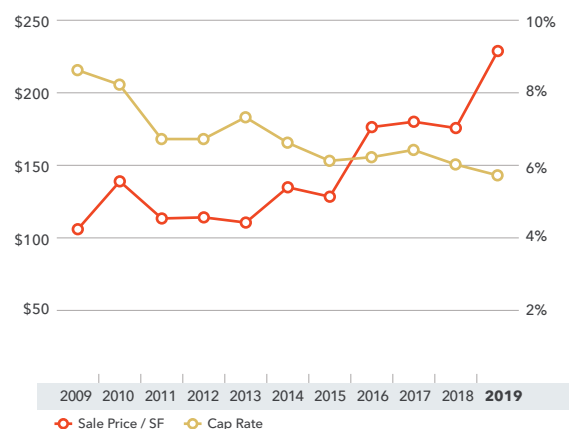
LEASE RATE, VACANCY & AVAILABILITY



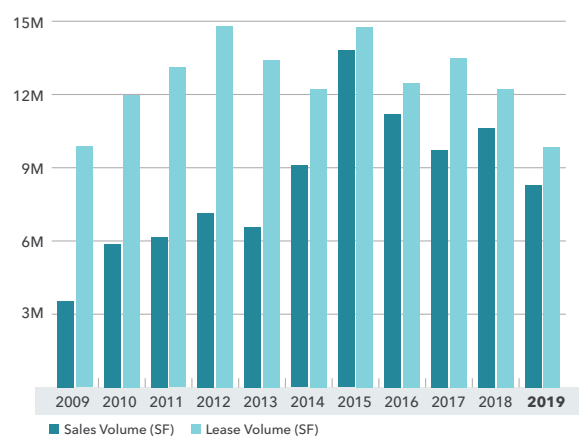
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALE PRICE & CAP RATES



SALES VOLUME VS. LEASE VOLUME



SAN DIEGO SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	4Q Direct Net Absorption	2019 Direct Net Absorption	4Q Leasing Activity	2019 Leasing Activity	SF Under Construction	2019 Construction Completions	Avg NNN Rental Rate
Carlsbad	15,416,737	11.8%	12.4%	40,320	159,397	242,421	874,900	50,150	436,581	\$1.11
Escondido	7,531,418	2.9%	3.2%	(10,063)	(95,307)	47,888	298,458	0	0	\$0.97
North Beach Cities	353,115	2.7%	2.7%	(637)	(1,710)	2,014	7,089	0	0	\$1.95
Oceanside	10,183,568	3.5%	4.1%	55,851	321,502	51,546	661,732	0	277,800	\$0.88
San Marcos	8,852,799	8.2%	8.5%	(14,158)	(54,376)	76,791	296,054	18,624	9,000	\$0.90
Vista	13,859,252	7.3%	8.3%	(91,087)	(406,443)	202,140	921,979	0	77,725	\$0.93
North County	56,196,889	7.4%	8.0%	(19,774)	(76,937)	622,800	3,060,212	68,774	801,106	\$0.98
Kearny Mesa	15,390,099	3.6%	4.1%	47,096	115,906	63,797	679,562	0	24,188	\$1.62
Mira Mesa/ Miramar	17,490,637	3.7%	4.0%	67,420	54,909	242,769	1,219,978	0	152,099	\$1.36
PB/Rose Canyon/ Morena	2,624,238	1.7%	1.8%	10,121	10,765	151,682	241,264	0	0	\$1.20
Sorrento Mesa	10,014,898	9.0%	10.5%	169,950	(130,207)	67,388	555,265	28,000	0	\$1.88
Sorrento Valley	3,270,975	7.7%	7.9%	(20,984)	(18,615)	32,363	159,143	0	0	\$1.63
Sports Arena/ Airport	2,893,629	3.5%	3.5%	(53,296)	(81,915)	3,825	49,545	0	0	\$1.33
Torrey Pines	3,945,163	7.1%	8.4%	112,443	7,023	53,518	357,949	0	0	\$3.00
UTC	2,393,782	2.3%	3.1%	65,620	133,481	41,496	122,162	98,000	137,500	\$2.05
Central County	58,023,421	4.9%	5.5%	398,370	91,347	656,838	3,384,868	126,000	313,787	\$1.28
Mission Gorge	1,894,984	2.1%	2.1%	(15,729)	1,223	27,112	91,352	0	0	\$1.57
Poway	9,222,917	1.9%	1.9%	(73,055)	61,507	10,537	376,012	533,950	82,766	\$1.12
Rancho Bernardo	7,799,452	6.5%	6.5%	68,053	(3,220)	65,992	108,348	141,027	0	\$1.58
Scripps Ranch	1,457,116	6.4%	6.9%	(2,539)	4,139	0	95,492	0	0	\$1.22
I-15 Corridor	20,374,469	4.0%	4.0%	(23,270)	63,649	103,641	671,204	674,977	82,766	\$1.35
Chula Vista	9,618,450	4.4%	4.6%	(23,538)	(112,525)	46,405	284,881	163,000	0	\$1.02
Downtown	1,836,272	3.1%	3.1%	45,700	5,941	0	5,138	0	0	\$2.00
National City	3,843,906	1.2%	1.2%	14,440	18,329	7,215	75,225	0	0	\$1.21
Otay Mesa	16,125,480	5.5%	5.5%	(107,869)	598,902	464,867	1,625,015	464,482	293,960	\$0.75
San Ysidro/ Imp Beach	1,360,013	1.4%	1.4%	(2,248)	(4,550)	11,142	27,992	0	0	\$1.00
South County	32,784,121	4.3%	4.4%	(73,515)	506,097	529,629	2,018,251	627,482	293,960	\$0.85
East City	913,649	0.0%	0.0%	0	0	0	0	0	0	-
El Cajon	9,707,230	1.8%	1.8%	(37,291)	(20,010)	69,777	271,825	0	82,733	\$1.00
La Mesa/ Spring Valley	2,486,354	9.0%	9.0%	(73,007)	(134,538)	15,471	140,660	0	0	\$0.98
Santee	3,974,311	2.9%	2.9%	2,819	(2,063)	8,648	165,963	7,413	0	\$1.00
Southeast San Diego	4,043,862	3.7%	4.0%	(51,107)	(70,140)	7,600	141,072	0	0	\$1.20
East County	21,125,406	3.1%	3.2%	(158,586)	(226,751)	101,496	719,520	7,413	82,733	\$0.99
Outlying SD County North	982,004	1.4%	1.4%	(1,464)	(6,658)	0	4,472	0	0	-
Outlying SD County South	761,571	0.0%	0.0%	14,775	5,000	0	3,074	0	0	-
Outlying East San Diego	1,743,575	0.8%	0.8%	13,311	(1,658)	0	7,546	0	0	-
San Diego Total	190,247,881	5.2%	5.6%	136,536	355,747	2,014,404	9,861,601	1,504,646	1,574,352	\$1.16

Notable Sale Transactions

LASALLE INVESTMENT MANAGEMENT purchased Illumina World HQ Campus in UTC (mix of R&D and office)
792,687 s.f. | \$286.75M or \$738.25/s.f.

ALEXANDRIA REAL ESTATE EQUITIES, INC. Genesis Campus Point in UTC
314,135 s.f. | \$255M or \$812/s.f.

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

Notable Lease Transactions

AMAZON 3250 Business Park Dr in Vista
221,660 s.f. leased

NATIONAL POWERSPORT AUCTIONS 12400 Stowe Dr in Poway (renewal)
133,125 s.f. leased

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

Market Breakdown

	2019	2018	2017	Annual % Change
Vacancy Rate	5.60%	5.10%	4.40%	9.80%
Availability Rate	8.10%	8.00%	8.41%	1.25%
Asking Lease Rate	\$1.16	\$1.08	\$1.02	9.26%
Lease Transactions	9,861,601	12,239,613	13,499,029	-19.43%
Sale Transactions	8,304,924	10,624,621	9,735,266	-21.83%
Net Absorption	355,747	1,989,338	1,651,135	N/A

DATA SOURCE: COSTAR

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 800 real estate professionals and staff in 22 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt equity finance services for all property types.

COMMERCIAL BROKERAGE

20M
ANNUAL SALES \$F

40M
ANNUAL LEASING \$F

420+
NO. OF BROKERS

\$9B
ANNUAL TRANSACTION VOLUME

VALUATION ADVISORY

1,600+
APPRAISALS ANNUALLY

39/24
TOTAL NO. APPRAISERS/MAI'S

PROPERTY MANAGEMENT

70M+
MANAGEMENT PORTFOLIO \$F

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