

MARKET OVERVIEW. The San Diego County industrial market started 2019 with a good showing of more than half a million square feet of positive net absorption in the first quarter. Rental rates again set an all-time high and have not shown any signs of slowing down. The vacancy rate decreased due to the strong positive net absorption, and a slowdown in new deliveries during the quarter, while the amount of available space being marketed for lease was flat, quarter-over-quarter.

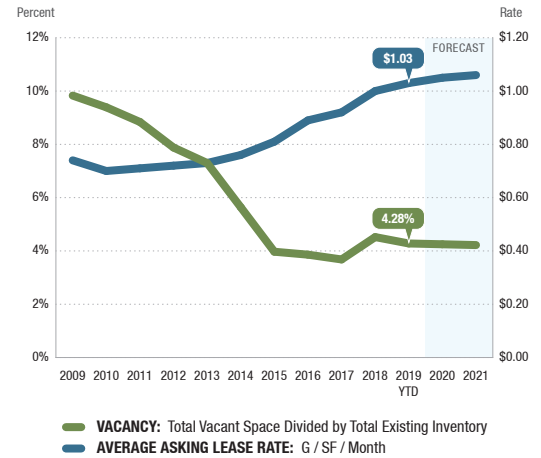
VACANCY. Direct/sublease space (unoccupied) finished the first quarter of 2019 at 4.28%, a decrease of 24 basis points from the previous quarter's vacancy rate of 4.52%. However, the vacancy rate for San Diego County's industrial market is still significantly lower than the best number posted in the last period of economic expansion, which was roughly 6% in 2006. Unsurprisingly, the areas with the least amount of recent construction, Central County and East County, both have overall vacancy rates below 3%.

LEASE RATES. The average asking lease rate checked in at \$1.03 per square foot per month, a 9.6% increase year-over-year. The average asking rate is at an all-time high for the San Diego industrial market.

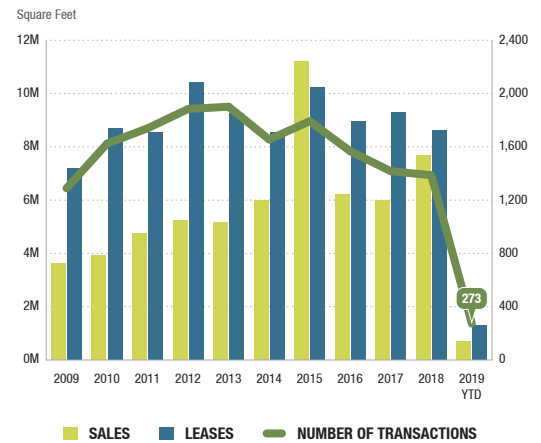
TRANSACTION ACTIVITY. The total square feet leased and sold in the first quarter was approximately 2 million square feet, a significant slowdown from the 3.9 million square feet of transactions in the fourth quarter of 2018. The sales volume of 7.7 million square feet in sales for 2018 was the second highest level in the past decade, while 2019 is off to a slow start with only 0.7 million square feet in industrial property sales recorded in the first quarter. 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 3.5% in February 2019, down from a revised 3.8% in January 2019, and unchanged from the year-ago estimate of 3.5%. This compares with an unadjusted unemployment rate of 4.4% for California and 4.1% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 19,900 payroll jobs between February 2018 and February 2019, including 6,900 from education and health services, which reported the largest overall gain. The professional and business services sector reported a growth of 5,400 jobs, the second most among the major employment sectors. The largest year-over-year loss was in trade, transportation, and utilities which reported 2,600 fewer jobs than the prior year.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	1Q 2019	4Q 2018	1Q 2018	% Change Over Last Year
Vacancy Rate	▼ DOWN	4.28%	4.52%	3.61%	18.53%
Availability Rate	▬ FLAT	7.14%	7.15%	6.58%	8.58%
Average Asking Lease Rate	▲ UP	\$1.03	\$1.00	\$0.94	9.57%
Sale & Lease Transactions	▼ DOWN	1,981,241	3,859,277	3,979,346	(50.21%)
Gross Absorption	▲ UP	2,365,640	1,846,781	1,678,363	40.95%
Net Absorption	▲ POSITIVE	522,547	55,746	278,240	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.

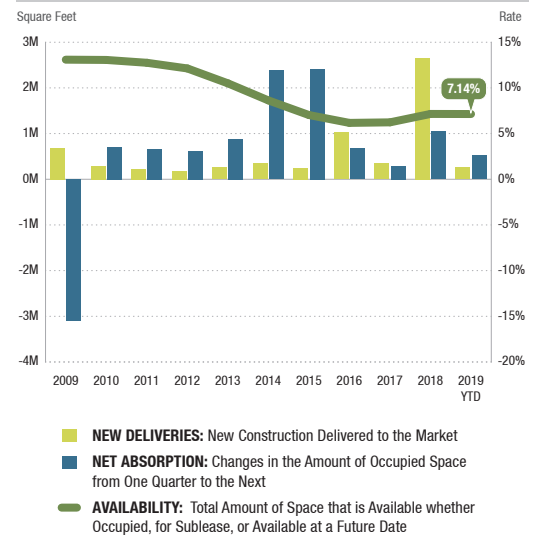
VACANCY. We anticipate the vacancy rate will continue to move up from record lows as the vacancy rate is still nearly three percentage points lower than availability, and there is 1.3 million square feet currently under construction.

CONSTRUCTION. 2.7 million square feet of new industrial projects were delivered in 2018, the most square footage delivered since 2006. Coming into 2019, the new construction pipeline still has legs, with 1.3 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.

AVAILABILITY. Direct/sublease space being marketed was 7.14% at the end of the first quarter, effectively unchanged from the previous quarter's availability rate of 7.15%. The availability rate remains nearly three percentage points higher than the vacancy rate. The majority of this available space which is not vacant is in the current construction pipeline.

ABSORPTION. There was 522,547 square feet of positive net absorption in the first quarter, and the San Diego industrial market in on track for its tenth consecutive year of positive net absorption.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1330 30th St.	South San Diego	105,465	\$13,600,000	Washington Capital Management*	Comstock Realty Partners*
6305 El Camino Real	Carlsbad	67,528	\$10,500,000	RAF Pacifica Group, Inc.	First Industrial Realty Trust
16262 W. Bernardo Dr.	Rancho Bernardo	54,964	\$10,350,000	Cushman Foundation	Carvin Corporation
1390 Engineer St.	Vista	41,949	\$7,836,500	Del Rey Avocado	Vista Carlsbad, LLC
2455 Ash St.	Vista	42,508	\$6,680,000	Rexford Industrial	Wilbur-Klein Capital, Inc.

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2750 Progress St.	Vista	109,952	Feb-2019	JELD-WEN	Barings, LLC
2020 Piper Ranch Rd.	Otay Mesa	94,686	Mar-2019	Undisclosed	Morgan Stanley & Co.
1424 Corporate Center Dr.	Otay Mesa	60,596	Feb-2019	YRC Freight	Sudberry Properties
6495 Marindustry Pl.	Miramar	40,095	Mar-2019	Tandem Diabetes	Hazard Construction Co.
9606 Kearny Villa Rd.	Kearny Mesa	37,882	Mar-2019	All In One Manufacturing	Stos Partners

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2019	Square Feet Available	Availability Rate 1Q2019	Average Asking Lease Rate	Net Absorption 1Q2019	Net Absorption 2019	Gross Absorption 1Q2019	Gross Absorption 2019
Central County													
Central City	96	1,442,275	0	0	15,753	1.09%	22,947	1.59%	\$1.59	(7,400)	(7,400)	5,000	5,000
East City	61	965,347	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Southeast City	365	4,301,564	0	0	72,946	1.70%	149,420	3.47%	\$1.04	6,420	6,420	25,600	25,600
Kearny Mesa	427	9,825,859	24,188	0	286,989	2.92%	0	0.00%	\$1.36	(71,908)	(71,908)	86,360	86,360
Mission Gorge	108	1,771,766	0	0	23,532	1.33%	42,257	2.39%	\$1.52	16,854	16,854	37,738	37,738
Rose Canyon / Morena	132	2,497,036	0	0	9,900	0.40%	92,704	3.71%	\$1.16	352	352	8,252	8,252
Sports Arena / Airport	143	1,635,492	0	0	35,932	2.20%	45,727	2.80%	\$1.25	(26,705)	(26,705)	4,827	4,827
Miramar	587	13,245,046	0	615,000	306,100	2.31%	767,448	5.79%	\$1.22	154,836	154,836	348,815	348,815
Sorrento Mesa	76	3,732,690	0	0	278,425	7.46%	300,891	8.06%	\$1.17	(99,755)	(99,755)	6,597	6,597
Sorrento Valley	44	1,024,617	0	149,663	21,515	2.10%	35,015	3.42%	\$1.53	10,241	10,241	14,386	14,386
Central County Total	2,039	40,441,692	24,188	764,663	1,051,092	2.60%	1,456,409	3.60%	\$1.25	(17,065)	(17,065)	537,575	537,575
East County													
El Cajon	448	9,005,914	82,060	32,000	48,536	0.54%	353,696	3.93%	\$0.99	12,608	12,608	75,136	75,136
La Mesa / Spring Valley	309	2,637,160	0	50,000	85,900	3.26%	196,400	7.45%	\$1.29	5,955	5,955	26,355	26,355
Santee / Lakeside	277	3,683,010	0	262,395	190,813	5.18%	240,414	6.53%	\$0.96	(11,372)	(11,372)	18,617	18,617
Outlying SD County South	75	756,319	0	0	0	0.00%	0	0.00%	\$0.75	0	0	0	0
East County Total	1,109	16,082,403	82,060	344,395	325,249	2.02%	790,510	4.92%	\$1.05	7,191	7,191	120,108	120,108
North County													
Escondido	633	7,511,635	0	103,500	132,081	1.76%	333,539	4.44%	\$0.99	9,975	9,975	70,404	70,404
Oceanside	402	9,004,286	277,793	131,726	337,508	3.75%	825,455	9.17%	\$0.90	48,662	48,662	156,055	156,055
San Marcos	471	7,941,859	9,000	84,000	611,785	7.70%	757,170	9.53%	\$0.91	10,207	10,207	83,436	83,436
Vista	528	12,761,950	77,725	60,165	759,763	5.95%	1,813,986	14.21%	\$0.94	(201,898)	(201,898)	140,624	140,624
Carlsbad	240	9,194,513	37,439	50,150	1,077,077	11.71%	1,417,949	15.42%	\$1.07	379,514	379,514	642,902	642,902
North Beach Cities	42	257,017	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Outlying SD County North	107	955,420	0	3,754	4,472	0.47%	9,272	0.97%	\$1.22	2,236	2,236	2,236	2,236
North County Total	2,423	47,626,680	401,957	433,295	2,922,686	6.14%	5,157,371	10.83%	\$0.97	248,696	248,696	1,095,657	1,095,657
I-15 Corridor													
Poway	177	7,229,810	613,592	0	89,049	1.23%	805,486	11.14%	\$1.11	33,788	33,788	69,291	69,291
Rancho Bernardo	43	3,135,052	0	141,027	275,916	8.80%	345,461	11.02%	\$1.43	(41,788)	(41,788)	6,050	6,050
Scripps Ranch	28	705,554	0	0	113,662	16.11%	93,238	13.21%	\$1.22	(22,963)	(22,963)	3,642	3,642
I-15 Corridor Total	248	11,070,416	613,592	141,027	478,627	4.32%	1,244,185	11.24%	\$1.19	(30,963)	(30,963)	78,983	78,983
South County													
Chula Vista	324	8,314,261	163,000	0	241,363	2.90%	563,699	6.78%	\$0.89	(67,299)	(67,299)	30,245	30,245
National City	255	3,822,676	0	0	63,694	1.67%	82,731	2.16%	\$1.31	6,761	6,761	29,084	29,084
Otay Mesa	335	16,015,296	0	1,520,878	1,111,130	6.94%	1,029,393	6.43%	\$0.71	345,329	345,329	438,621	438,621
South San Diego	64	1,378,032	0	24,121	7,424	0.54%	15,730	1.14%	\$0.94	29,897	29,897	35,367	35,367
South County Total	978	29,530,265	163,000	1,544,999	1,423,611	4.82%	1,691,553	5.73%	\$0.79	314,688	314,688	533,317	533,317
San Diego County Total	6,797	144,751,456	1,284,797	3,228,379	6,201,265	4.28%	10,340,028	7.14%	\$1.03	522,547	522,547	2,365,640	2,365,640
0–9,999	3,068	15,611,185	37,184	7,804	228,551	1.46%	463,754	2.97%	\$1.18	22,249	22,249	175,917	175,917
10,000–19,999	1,779	25,132,907	71,618	30,923	717,542	2.85%	1,112,938	4.43%	\$1.17	(132,293)	(132,293)	378,017	378,017
20,000–34,999	979	25,082,168	54,708	363,381	673,819	2.69%	1,346,684	5.37%	\$1.07	(19,726)	(19,726)	274,533	274,533
35,000–49,999	360	14,835,880	128,144	245,090	517,064	3.49%	1,110,685	7.49%	\$1.05	17,425	17,425	213,713	213,713
50,000–99,999	393	27,063,980	235,602	430,658	1,578,765	5.83%	2,433,048	8.99%	\$0.90	(39,903)	(39,903)	231,412	231,412
100,000 Plus	218	37,025,336	757,541	2,150,523	2,485,524	6.71%	3,872,919	10.46%	\$1.00	674,795	674,795	1,092,048	1,092,048
San Diego County Total	6,797	144,751,456	1,284,797	3,228,379	6,201,265	4.28%	10,340,028	7.14%	\$1.03	522,547	522,547	2,365,640	2,365,640

Lease rates are on a triple-net basis.



Same Story, Different Year...

by Josh West

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The San Diego Industrial market started the year strong. With a market-wide vacancy of 4.28% and demand staying strong, the market should remain steady for 2019. Tenant demand during the quarter remained consistent with approximately 2,000,000 square feet of gross absorption (square footage of tenant move-ins). Net absorption finished above average, at 519,880 square feet which reflected a 54% increase over the same period in 2018. Due to the strong demand in the market, many tenants are forced to renew in their existing space regardless of functionality or business needs.

Owners are benefiting from the strong market as concessions such as rental abatement have thinned dramatically and, in some cases, disappeared. Although the total square footage leased reflected a sizeable increase over 1st quarter 2018, there was a 28% decrease in the total number of leases. With rents reaching an average of \$1.03 per square foot countywide and leasing velocity holding steady, San Diego will remain a "landlord's market" for 2019.

With these strong fundamentals we are seeing speculative ground-up development in markets such as Carlsbad, Poway, and Otay Mesa. There are currently more than 1,200,000 square feet of product being developed. Developers are counting on the continuously vigorous and pent-up tenant demand for space.

The owner-user market was also strong this quarter due to increasing rents and historically low interest rates. Values have reached an all-time high with markets such as Poway cresting well over \$200 per square foot. The total volume of sale transactions decreased by 26% over the same period in 2018. This was mainly due to a lack of available product.

Investments have also remained active; however, volume has decreased from 2018. This slowdown is mainly attributed to record-low cap rates (higher pricing) and lack of available product, especially in our core market. The market remains flush with capital which will keep the investment market steady for the foreseeable future.

2019 will likely be very similar to 2018 with consistent demand across the board. While it seems this recovery should be losing steam by now, all signs continue to point to steady growth and strong fundamentals moving forward.

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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.

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