

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 2019 indicating a growing tenant base. Rental rates continue to reach all-time highs quarter after quarter. 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 even the Central County and East County areas have finally seen a small increase in vacancy.

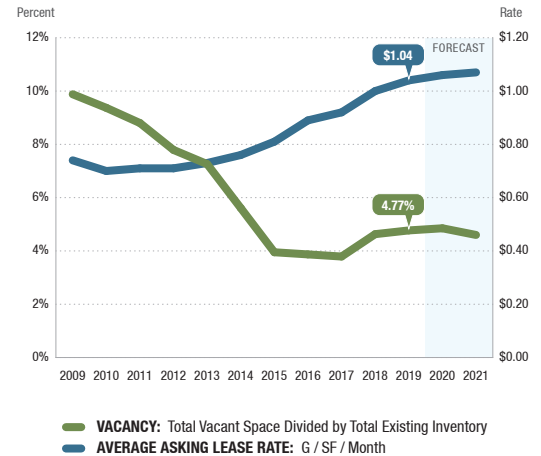
VACANCY. Direct / sublease space (unoccupied) finished the fourth quarter of 2019 at 4.77%, an increase of 15 basis points from the previous quarter's vacancy rate of 4.62%, and 3% higher than the fourth quarter of 2018's rate of 4.63%. Unsurprisingly, the areas with the least amount of recent construction, 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 \$1.04 per square foot per month, a one-cent decrease from the previous quarter, but a 4% increase year-over-year. The rate of increases has started to slow, but 4% for 2019 is nothing to shrug at. The new construction that continues to come online will push the market towards continued rental rate increases as the new product demands higher rent.

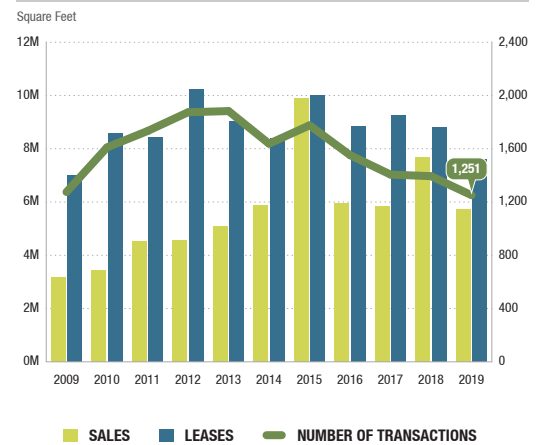
TRANSACTION ACTIVITY. The total square feet leased and sold in the fourth quarter was approximately 2.5 MSF, a decrease from the 4.7 MSF of transactions in the third quarter of 2019. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report.

EMPLOYMENT. The unemployment rate in San Diego County was 2.9% in November 2019, unchanged from a revised 2.9% in October 2019, and below the year-ago estimate of 3.1%. This compares with an unadjusted unemployment rate of 3.7% for California and 3.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 34,300 payroll jobs between November 2018 and November 2019, including 8,200 from the professional and business sector, which reported the largest overall gain. The government sector reported a growth of 7,800 jobs, the second most among the major employment sectors. The largest year-over-year loss was in trade, transportation, and utilities which reported 1,000 fewer jobs than the prior year.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	4Q 2019	3Q 2019	4Q 2018	% Change Over Last Year
Vacancy Rate	▲ UP	4.77%	4.62%	4.63%	3.05%
Availability Rate	▼ DOWN	6.88%	7.24%	6.82%	0.89%
Average Asking Lease Rate	▼ DOWN	\$1.04	\$1.05	\$1.00	4.00%
Sale & Lease Transactions	▼ DOWN	2,453,749	4,716,458	3,946,240	(37.82%)
Gross Absorption	▼ DOWN	1,663,874	2,188,976	1,767,761	(5.88%)
Net Absorption	▼ NEGATIVE	(187,560)	172,746	(39,670)	N/A

EMPLOYMENT. The labor market in San Diego County will continue to improve, although we anticipate job growth to slow. In 2019 there was a 1.7% increase in total employment, and a 1.0–1.2% increase is projected for 2019, and closer to 1% growth is projected in 2020. With the local stalwarts of Defense and Biotech remaining strong, look for these sectors to lead the way for employment gains, along with Technology.

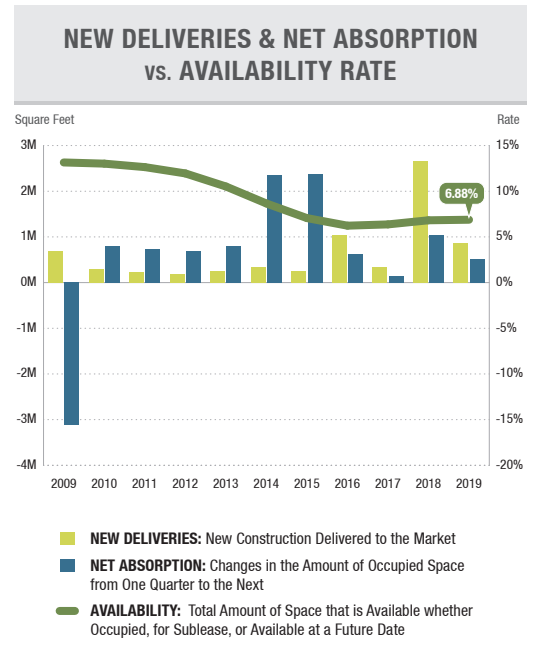
LEASE RATES. Expect average asking rates to increase by approximately 3–4% over the next four quarters.

VACANCY. The market has taken the new construction wave of the past three years in stride, but vacancy has moved off of the cycle low point reached in 2017, and with 1 MSF currently under construction we expect a slight uptick in the vacancy rate in 2020.

CONSTRUCTION. 2.7 MSF of new industrial projects were delivered in 2018, the most delivered since 2006. At the end of 2019, the new construction pipeline still has legs, with 1 MSF under construction. With the vast majority of the North County 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. Next up looks to be South County with a string of projects lined up, not the least of which is the 2.6 MSF distribution facility that Amazon is planning in Otay Mesa. It will be the first of its kind in San Diego County, and among a handful of multi-story projects Amazon has in the works across the U.S.

ABSORPTION. There were 187,560 square feet of negative net absorption in the fourth quarter, but 2019 was in the black overall with a total of 508,370 square feet for the year. The San Diego industrial market has now recorded ten consecutive years of positive net absorption.

AVAILABILITY. Direct/sublease space being marketed was 6.88% at the end of the fourth quarter, a decrease from the previous quarter’s availability rate of 7.24%, and no change versus the end of 2018. The availability rate remains more than two percentage points higher than the vacancy rate. Most of this available space which is not vacant is in the current construction pipeline.



Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
9330 Balboa Ave.	Kearny Mesa	150,000	\$21,500,000	San Diego Unified School District	Jack in the Box
101–110 Copperwood Way	Oceanside	140,945	\$20,050,000	CB Copperwood, LLC	FOCUS Real Estate, LP
5928 Farnsworth Ct.	Carlsbad	54,154	\$9,200,000	Lincoln Property Group	Carlsbad Technology
8709 Kerns St.	Otay Mesa	59,760	\$8,470,000	EastGroup Properties	Fry-Wagner Moving & Storage
10529 Vine St.	Lakeside	40,000	\$8,000,000	Hazard Construction Co.	Ahern Rentals

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2020 Piper Ranch Rd.	Otay Mesa	132,864	Oct-2019	QS Customs Brokers	Morgan Stanley Services
2280 Enrico Fermi Dr.	Otay Mesa	96,998	Oct-2019	Undisclosed	IRE Development
1395 Aspen Way	Vista	81,928	Dec-2019	Undisclosed	(Sublease)
6305 El Camino Real	Carlsbad	67,528	Oct-2019	Undisclosed	RAF Pacifica Group
1445 Engineer St.	Vista	67,221	Oct-2019	Undisclosed	(Sublease)

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2019	Square Feet Available	Availability Rate 4Q2019	Average Asking Lease Rate	Net Absorption 4Q2019	Net Absorption 2019	Gross Absorption 4Q2019	Gross Absorption 2019
Central County													
Central City	94	1,496,590	0	0	29,703	1.98%	29,703	1.98%	–	700	(32,260)	700	5,700
East City	62	966,404	0	0	0	0.00%	12,600	1.30%	–	0	0	0	0
Southeast City	367	4,276,182	0	0	174,071	4.07%	200,821	4.70%	\$1.25	(70,822)	(94,205)	29,321	157,732
Kearny Mesa	427	9,872,877	0	344,000	221,984	2.25%	326,264	3.30%	\$1.41	66,052	17,257	106,865	422,960
Mission Gorge	110	1,755,746	0	0	30,387	1.73%	53,616	3.05%	\$1.44	(7,204)	9,999	20,919	105,710
Rose Canyon/Morena	130	2,086,295	0	0	3,862	0.19%	131,901	6.32%	\$1.14	0	6,390	11,500	76,216
Sports Arena/Airport	142	1,624,605	0	0	20,620	1.27%	49,220	3.03%	\$1.36	687	(11,393)	4,687	30,576
Miramar	583	13,117,212	0	615,000	403,773	3.08%	670,117	5.11%	\$1.26	25,710	57,163	225,074	991,840
Sorrento Mesa	73	3,525,562	0	0	276,764	7.85%	339,667	9.63%	\$1.29	10,652	(98,094)	19,637	84,811
Sorrento Valley	42	1,004,777	0	451,832	13,418	1.34%	10,856	1.08%	\$1.53	2,602	18,338	4,202	48,315
Central County Total	2,030	39,726,250	0	1,410,832	1,174,582	2.96%	1,824,765	4.59%	\$1.31	28,377	(126,805)	422,905	1,923,860
East County													
El Cajon	454	9,123,080	0	0	168,536	1.85%	344,034	3.77%	\$1.02	(38,991)	(24,459)	50,676	275,773
La Mesa/Spring Valley	310	2,640,386	0	50,000	215,232	8.15%	255,312	9.67%	\$1.04	(64,594)	(123,377)	42,038	168,363
Santee/Lakeside	277	3,646,723	7,413	280,295	110,191	3.02%	163,691	4.49%	\$1.01	76,155	69,250	96,097	174,708
Outlying SD County South	76	770,730	0	0	3,200	0.42%	3,200	0.42%	\$1.00	(3,200)	(3,200)	0	3,074
East County Total	1,117	16,180,919	7,413	330,295	497,159	3.07%	766,237	4.74%	\$1.02	(30,630)	(81,786)	188,811	621,918
North County													
Escondido	632	7,513,438	0	0	228,940	3.05%	373,703	4.97%	\$0.99	(16,033)	(86,884)	68,921	323,303
Oceanside	406	9,291,041	0	60,726	401,054	4.32%	580,945	6.25%	\$0.91	65,036	262,909	172,082	721,630
San Marcos	473	7,957,690	27,624	84,000	681,012	8.56%	867,858	10.91%	\$1.00	(19,340)	(58,120)	90,043	414,816
Vista	530	12,817,733	0	60,165	1,076,687	8.40%	1,623,375	12.67%	\$0.95	(114,618)	(442,597)	125,164	749,029
Carlsbad	232	8,880,530	50,150	0	1,106,058	12.45%	995,612	11.21%	\$1.08	59,356	465,882	164,905	990,612
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	18,509	1.91%	32,531	3.37%	\$0.84	(5,157)	(11,801)	2,236	4,472
North County Total	2,424	47,684,067	77,774	208,645	3,512,260	7.37%	4,474,024	9.38%	\$0.98	(30,756)	129,389	623,351	3,203,862
I-15 Corridor													
Poway	184	7,400,032	533,950	0	159,552	2.16%	671,906	9.08%	\$1.13	(71,392)	46,027	30,638	267,282
Rancho Bernardo	43	3,135,718	141,027	0	243,457	7.76%	415,057	13.24%	\$1.36	45,498	(9,329)	51,466	99,304
Scripps Ranch	28	707,899	0	0	85,824	12.12%	92,619	13.08%	\$1.24	0	4,875	0	35,320
I-15 Corridor Total	255	11,243,649	674,977	0	488,833	4.35%	1,179,582	10.49%	\$1.21	(25,894)	41,573	82,104	401,906
South County													
Chula Vista	324	8,301,202	0	163,000	297,626	3.59%	422,961	5.10%	\$0.91	(18,506)	(123,562)	50,837	236,402
National City	255	3,815,486	0	25,000	55,827	1.46%	70,000	1.83%	\$1.28	1,936	14,628	34,049	105,478
Otay Mesa	337	16,058,358	237,214	5,492,434	845,549	5.27%	1,175,862	7.32%	\$0.76	(109,839)	639,932	250,675	1,337,614
South San Diego	63	1,339,364	0	24,121	19,324	1.44%	19,324	1.44%	\$1.03	(2,248)	15,001	11,142	55,246
South County Total	979	29,514,410	237,214	5,704,555	1,218,326	4.13%	1,688,147	5.72%	\$0.81	(128,657)	545,999	346,703	1,734,740
San Diego County Total	6,805	144,349,295	997,378	7,654,327	6,891,160	4.77%	9,932,755	6.88%	\$1.04	(187,560)	508,370	1,663,874	7,886,286
0–9,999	3,080	15,648,985	16,413	7,804	370,015	2.36%	559,887	3.58%	\$1.24	(39,001)	(97,137)	158,565	632,663
10,000–19,999	1,779	25,122,276	18,624	30,923	730,368	2.91%	1,353,102	5.39%	\$1.20	(145,235)	(57,788)	296,496	1,522,792
20,000–34,999	981	25,174,944	0	264,481	801,199	3.18%	1,304,044	5.18%	\$1.06	(6,229)	(61,208)	314,219	1,346,206
35,000–49,999	354	14,600,734	0	339,890	673,666	4.61%	932,204	6.38%	\$1.06	(39,644)	(20,511)	251,287	1,043,376
50,000–99,999	393	27,028,520	50,150	594,008	1,445,346	5.35%	1,949,276	7.21%	\$0.91	112,957	275,985	321,299	1,458,701
100,000 Plus	218	36,773,836	912,191	6,417,221	2,870,566	7.81%	3,834,242	10.43%	\$0.98	(70,408)	469,029	322,008	1,882,548
San Diego County Total	6,805	144,349,295	997,378	7,654,327	6,891,160	4.77%	9,932,755	6.88%	\$1.04	(187,560)	508,370	1,663,874	7,886,286

Lease rates are on an industrial-gross basis.



Market Moves Forward Amid Concerns

by **Randy LaChance**

SENIOR VICE PRESIDENT/PARTNER, SAN DIEGO

858.458.3374 · rlachance@voitco.com · Lic. #00969674

While 2019 certainly had its fair share of distractions, from the inverted yield curve, the tariff battles and the Presidential impeachment debacle, nothing seemed to have a major negative impact on the economy or the industrial commercial real estate markets around the country or, specifically, in San Diego.

The San Diego combined Industrial market net absorption did slow to just 500,000 square feet in 2019, down from 1,000,000 square feet in 2018. Though that decline can be explained, in part, by the lack of supply of quality functional product. The vacancy rate remained historically low throughout the year, ending 2019 at just 4.8%. Another reason for this reduction in absorption could be that higher rents are causing tenants to find ways to postpone expansion plans by running extra shifts, increasing the frequency of incoming shipments or becoming more efficient in their use of space. As the old saying goes, “necessity is the mother of invention.” As a result, asking rent growth slowed a bit in 2019, but still posted a solid 4% increase, down from 9% in 2018.

Since 2017, there have been more than 5,000,000 square feet of new industrial and R&D product built in San Diego County, 25% of which remains vacant, and this accounts for 10% of the vacancy countywide. Most this product has been built in the perimeter submarkets and is slower to absorb due to its location and higher asking rents.

A major contributor to the strength of the Flex market in San Diego had been the strong performance of the biotech sector. San Diego has become one of the top biotech hubs in the country and has experienced tremendous growth in the last two years, both in new developments and in the conversion of traditional flex buildings to biotech/lab buildings.

2020 should be more of the same. Barring a true ‘black swan’ event, the biggest wildcard will likely be our upcoming presidential election. Markets do not like uncertainty and if the run-up to November creates a situation in which it is unclear who our next President will be, it could potentially cause businesses to delay long-term decisions and capital investments, which, in turn, would slow down the real estate markets.

Please Contact Us for Further Information

Josh Brant
Regional Director of Research
jbrant@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.517.4000

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

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. ©2020 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