

SAN DIEGO COUNTY | INDUSTRIAL

Q1 2019

Industrial Demand Drives Construction Levels Not Seen In Over A Decade

Behind the Numbers

- > Vacancy increased slightly to 5.1% (+0.2%) as new construction completions (1.13 million SF) outpaced demand (+424,405 SF).
- > More than 2.74 million SF of new construction is slated for completion in 2019 – the most product built since 2007.
- > Countywide average asking NNN rental rates bumped up \$0.03 during Q1 to stand at \$1.17/SF/month – a 17% year-over-year increase.

Net Absorption

Combined Industrial/R&D net absorption in San Diego County totaled 424,405 SF during Q1 2019. Industrial buildings (manufacturing, warehouse, distribution and multi-tenant/incubator uses) posted 395,607 SF of positive net absorption and R&D buildings (flex, wet lab and R&D uses) posted positive net absorption of 28,798 SF.

Otay Mesa posted the greatest net absorption (+408,857 SF) for the quarter. Trident Maritime Systems (+182,910 SF) and Mainfreight (+33,116 SF) occupied newly completed buildings in Q1. Trident vacated 111,644 SF in another building in Otay Mesa, creating a net expanded tenancy of 71,266 SF in the submarket. Other large tenant occupancies included CareFusion (+97,200 SF), Biotix (+94,315 SF), RC Freight (+60,596 SF), and Vmaco (+21,974 SF).

The North County submarkets of Carlsbad (+363,256 SF) and Oceanside (+51,282 SF) had the second and third highest levels of absorption during the quarter. In Carlsbad, PODS (+121,093 SF) a newly completed building in Pacific Vista Commerce Center. Other major Carlsbad move-ins included Zodiac (+106,122 SF) and DPR Construction (+27,464 SF). In Oceanside, owner-user Sadie Rose Baking Company occupied a 28,900 SF building at 2614-2616 Temple Height Dr.

Other notable move-ins included General Atomics (+65,755 SF) in Rancho Bernardo, Carbon by Design (+49,384 SF) in Vista, and Anderson Windows (+22,099 SF) in Miramar. The largest block of space vacated during the quarter was by Takeda Pharmaceuticals (-93,819 SF) at 10410 Science Center Dr. Takeda relocated to a new office building in UTC during the quarter creating a net expansion of 56,181 in market area.

Vacancy

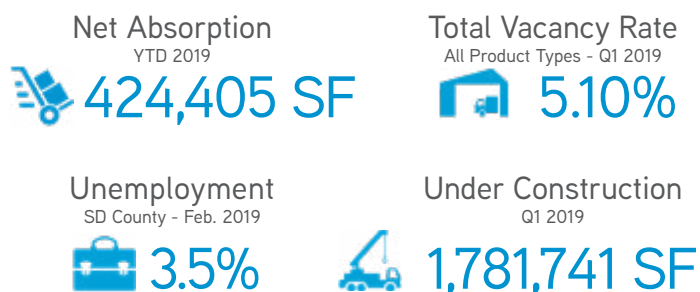
Countywide combined industrial/R&D vacancy stood at 5.1% at the end of Q1 - a 17 basis points increase from the prior quarter. Direct vacancy made up 4.7% of the inventory, while sublease vacancy stood at 0.4%.

CampusPoint/Eastgate (10.4%) and Carlsbad (10.1%) were the only submarkets with double-digit vacancy rates. The increase in Carlsbad's vacancy was

SAN DIEGO COUNTY SUMMARY

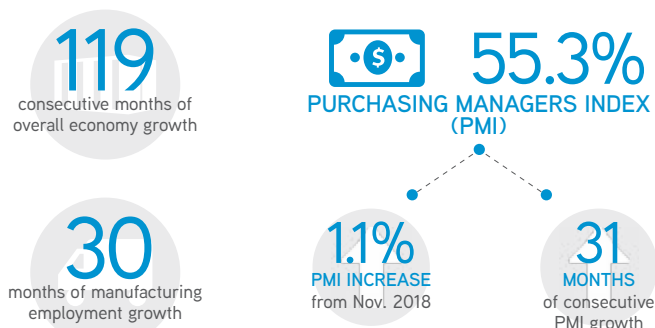
All Markets, Q1 2019

	Q1 2019	Q1 2018	Change
Overall Vacancy (incl. sublease)	5.10%	4.16%	↑
Net Absorption SF	424,405	540,728	+
Under Construction SF	1,781,741	2,895,943	↑
Average Asking Rent (NNN)	\$1.17	\$1.00	↑



NATIONAL INDUSTRIAL INDICATORS

Source: Institute for Supply Management (ISM), March 2019



driven by new construction completed in Q1, while Campus Point/Eastgate's vacancy was concentrated exclusively in life science and wet lab space. Of the major market areas countywide, only North County had vacancy over 6%. This market will see its vacancy drop as new construction in Carlsbad and Oceanside continues to absorb over the next nine months of the year. East County was the tightest submarket with an overall vacancy of 1.7%.

New Supply

1.13 million SF of new construction was completed in Q1 2019. In Carlsbad, Ryan Companies' three-building 417,478 SF Pacific Vista Commerce Center was completed. PODS preleased a 121,093 SF building and occupied it upon completion. RAF Pacifica Group's 146,108 SF "cre•ate" at 2827 Whiptail Loop West was completed as well. In Miramar, First Industrial Realty Trust completed a 22,099 SF building at 8572 Spectrum Ln that was occupied by Anderson Windows. Oceanside saw the completion of Pacific Coast Collection – a 277,793 SF three-building project developed by Industrial Property Trust and located on Rocky Point Dr. In Otay Mesa, Trident Maritime Systems occupied 182,910 SF at IDS Real Estate Group's Frontera Business Park at 2651 Drucker Ln. Mainfreight occupied 33,116 SF in Murphy Development Company's Building 17 of the Siempre Viva Business Park – a 79,050 SF distribution building at 8500 Kerns St.

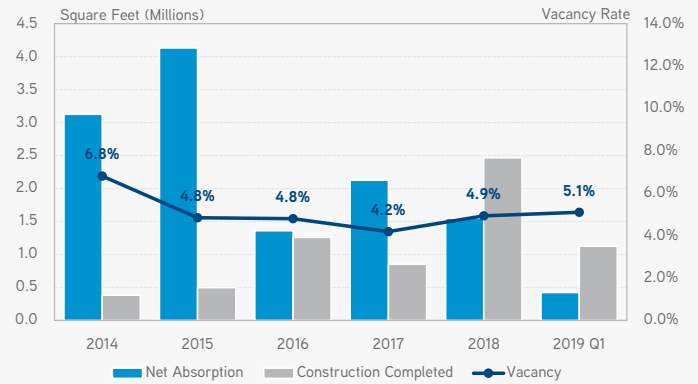
At the end of Q1, there was 1.78 million SF under construction throughout the county. Approximately 1.62 million SF of that is expected to be completed by year-end, potentially bringing total completions to 2.74 million SF.

Trends, Forecast & Outlook

The San Diego County vacancy rate has been in the 4% range for the four years leading up to Q3 2018, when it reached its lowest rate ever (4.2%). Over the past six months, the vacancy rate increased by less than a percentage point due to increased construction completions of nearly 2 million SF, while net absorption was over half a million SF. By year-end, the vacancy will continue increasing a small amount as new construction gets completed, but it is expected to remain below 6%.

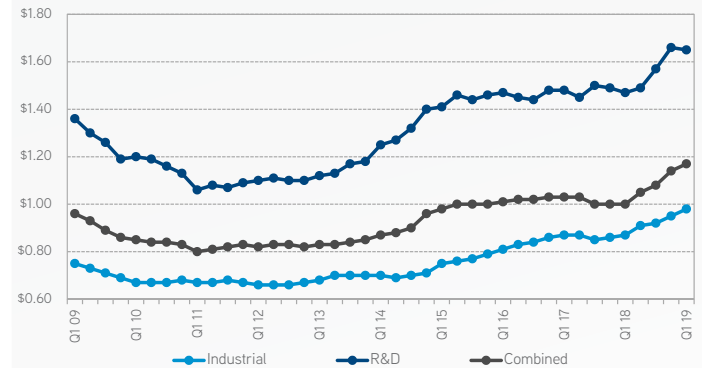
Average asking rental rates surged in Q4, increasing to \$1.17/SF/month. This was the fourth consecutive quarter of increases after remaining flat in the prior three quarters of Q3 2017 through Q1 2018. This trend of increasing rents is expected to continue as long as vacancy remains at historically low levels.

San Diego Historical Industrial/R&D Market Trends



San Diego Historical Industrial/R&D Rental Rates

Average Asking Monthly Rate per SF, Triple Net



Significant Industrial/R&D Activity - Q1 2019

Leasing

Property/Address	Tenant	Submarket	Use	Size (SF)	Deal Type
2020 Piper Ranch Rd	R.L. Jones	Otay Mesa	Industrial	94,000	Relocation within the same submarket.
1424 Corporate Center Dr	YRC Freight	Otay Mesa	Industrial	60,596	Relocation within the same submarket.
6987 Calle De Linea	Suarez Brokerage Co.	Otay Mesa	Industrial	53,540	Lease renewal.
9244 Balboa Ave	Columbia Care	Kearny Mesa	R&D	45,600	National firm expansion into San Diego.
9455 Waples St	Dexcom, Inc.	Sorrento Mesa	Industrial	44,136	Relocation within the same submarket.
9381 Judicial Dr	Epic Sciences	Campus Pt./Eastgate	R&D	44,036	Lease renewal.

Sales

Property/Address	Submarket	Use	Size (SF)	Sale Price	\$/SF	Buyer	Seller
Avenida Crossings (2 bldgs)	Carlsbad	R&D	68,392	\$23,900,000	\$349	RAF Pacifica Group	Lincoln Property Company
10575 & 10581 Roselle St	Sorrento Valley	R&D	37,555	\$15,500,000	\$413	Longfellow Real Estate Ptrs.	Parallel Capital Ptrs.
1330 30th St	San Ysidro	Ind.	105,465	\$13,600,000	\$129	Washington Capital Mgt.	Comstock Realty Ptrs.
2320 & 2330 Faraday Ave	Carlsbad	R&D	40,826	\$12,800,000	\$314	RAF Pacifica Group	Alvarez & Marsal
1905 Aston Ave	Carlsbad	R&D	48,818	\$12,400,000	\$254	RAF Pacifica Group	Alvarez & Marsal
6305 El Camino Real	Carlsbad	Ind.	67,528	\$10,500,000	\$155	RAF Pacifica Group	First Industrial Realty Trust

Industrial Market Overview - Q1 2019

San Diego County Industrial/R&D by Market

EXISTING INVENTORY (SF)		VACANCY (%)				NET ABSORPTION (SF)		NEW SUPPLY (SF)			Avg Asking Rate
Type/ Submarket	Total Inventory	Direct	Sublet	Total	Prior Qtr	Current Qtr	YTD	Completed Current Qtr	Completed YTD	Under Construction	
INDUSTRIAL Manufacturing, warehouse, distribution, and multi-tenant/incubator											
Central County	42,185,470	2.7%	0.2%	2.9%	2.5%	(171,071)	(171,071)	0	0	24,188	\$1.15
North County	44,737,918	5.7%	0.5%	6.2%	5.8%	215,906	215,906	695,271	695,271	86,725	\$0.95
I-15 Corridor	10,648,709	2.1%	0.1%	2.2%	2.3%	3,703	3,703	0	0	613,592	\$1.22
South County	30,016,087	4.4%	0.2%	4.6%	4.9%	353,958	353,958	261,960	261,960	562,268	\$0.74
East County	12,383,817	1.1%	0.7%	1.7%	1.7%	(6,889)	(6,889)	0	0	129,186	\$1.35
TOTAL	139,972,001	3.8%	0.3%	4.2%	4.0%	395,607	395,607	957,231	957,231	1,415,959	\$0.98
R&D Flex, wet lab and R&D											
Central County	31,562,103	7.4%	0.8%	8.3%	7.9%	(140,812)	(140,812)	22,099	22,099	365,782	\$1.93
North County	10,988,901	6.6%	0.1%	6.7%	7.0%	168,634	168,634	146,108	146,108	0	\$1.26
I-15 Corridor	8,501,691	6.6%	0.9%	7.5%	7.5%	2,826	2,826	0	0	0	\$1.59
South County	672,860	2.2%	0.0%	2.2%	2.2%	0	0	0	0	0	\$1.03
East County	1,455,821	1.4%	0.0%	1.4%	1.2%	(1,850)	(1,850)	0	0	0	\$1.12
TOTAL	53,181,376	6.9%	0.7%	7.6%	7.4%	28,798	28,798	168,207	168,207	365,782	\$1.65
SAN DIEGO COUNTY TOTAL (INDUSTRIAL + R&D)											
Central County	73,747,573	4.7%	0.5%	5.2%	4.8%	(311,883)	(311,883)	22,099	22,099	389,970	\$1.56
North County	55,726,819	5.9%	0.4%	6.3%	6.1%	384,540	384,540	841,379	841,379	86,725	\$0.98
I-15 Corridor	19,150,400	4.1%	0.4%	4.6%	4.6%	6,529	6,529	0	0	613,592	\$1.38
South County	30,688,947	4.3%	0.2%	4.5%	4.8%	353,958	353,958	261,960	261,960	562,268	\$0.79
East County	13,839,638	1.1%	0.6%	1.7%	1.6%	(8,739)	(8,739)	0	0	129,186	\$1.34
TOTAL	193,153,377	4.7%	0.4%	5.1%	4.9%	424,405	424,405	1,125,438	1,125,438	1,781,741	\$1.17

San Diego County Combined Industrial/R&D by Market and Submarket

CENTRAL COUNTY											
Airport / SA	1,901,222	0.5%	0.0%	0.5%	0.5%	0	0	0	0	0	\$1.20
Campus Pt / Egate	4,597,506	8.9%	1.6%	10.4%	11.7%	16,997	16,997	0	0	98,282	\$2.75
Central San Diego	8,930,746	1.6%	0.0%	1.6%	1.0%	(53,295)	(53,295)	0	0	0	\$0.99
Kearny Mesa	16,517,382	4.4%	0.5%	4.9%	4.4%	(70,348)	(70,348)	0	0	24,188	\$1.59
Miramar	13,884,635	3.4%	0.4%	3.7%	3.4%	(27,448)	(27,448)	22,099	22,099	130,000	\$1.32
Mission Gorge / Vly	2,179,369	1.6%	0.2%	1.8%	2.2%	10,193	10,193	0	0	0	\$1.50
Rose Cyn / Morena	4,044,257	0.8%	0.1%	1.0%	1.0%	2,404	2,404	0	0	0	\$1.22
Sorrento Mesa	12,787,347	8.8%	0.7%	9.5%	8.6%	(113,218)	(113,218)	0	0	0	\$1.57
Sorrento Valley	3,448,110	7.9%	0.0%	7.9%	9.3%	39,471	39,471	0	0	0	\$2.28
Torrey Pines	5,456,999	4.7%	1.2%	6.0%	3.9%	(116,639)	(116,639)	0	0	137,500	\$4.74
TOTAL	73,747,573	4.7%	0.5%	5.2%	4.8%	(311,883)	(311,883)	22,099	22,099	389,970	\$1.56
NORTH COUNTY											
Carlsbad	16,023,814	9.9%	0.2%	10.1%	9.2%	363,256	363,256	563,586	563,586	0	\$1.12
Escondido	7,696,697	1.7%	0.0%	1.7%	2.1%	30,092	30,092	0	0	0	\$0.97
Oceanside	9,403,831	7.0%	0.0%	7.0%	7.5%	51,282	51,282	277,793	277,793	0	\$0.88
San Marcos	8,624,589	5.1%	0.1%	5.2%	5.4%	13,184	13,184	0	0	9,000	\$0.83
Vista	13,977,888	3.3%	1.4%	4.8%	4.2%	(73,274)	(73,274)	0	0	77,725	\$0.90
TOTAL	55,726,819	5.9%	0.4%	6.3%	6.1%	384,540	384,540	841,379	841,379	86,725	\$0.98
I-15 CORRIDOR											
Poway	9,057,615	1.7%	0.1%	1.7%	2.1%	32,659	32,659	0	0	613,592	\$1.02
Rancho Bernardo	8,230,777	6.1%	1.0%	7.1%	6.7%	(29,477)	(29,477)	0	0	0	\$1.57
Scripps Ranch	1,862,008	7.3%	0.0%	7.3%	7.5%	3,347	3,347	0	0	0	\$1.21
TOTAL	19,150,400	4.1%	0.4%	4.6%	4.6%	6,529	6,529	0	0	613,592	\$1.38
SOUTH COUNTY											
Otay Mesa	16,116,690	6.4%	0.2%	6.6%	7.6%	408,857	408,857	261,960	261,960	399,268	\$0.70
South Bay	14,572,257	2.1%	0.2%	2.2%	1.9%	(54,899)	(54,899)	0	0	163,000	\$1.05
TOTAL	30,688,947	4.3%	0.2%	4.5%	4.8%	353,958	353,958	261,960	261,960	562,268	\$0.79
EAST COUNTY											
TOTAL	13,839,638	1.1%	0.6%	1.7%	1.6%	(8,739)	(8,739)	0	0	129,186	\$1.34

Average asking rates are defined as the average asking monthly rate per square foot across all direct available spaces quoted on a "triple net" basis.



17,000+ professionals in
68 countries on
6 continents

\$3.3 billion in annual revenue
2.0 billion square feet managed
69,000 lease and sale transactions

FOLLOW US ONLINE



colliers.com/sandiego

Market Contact

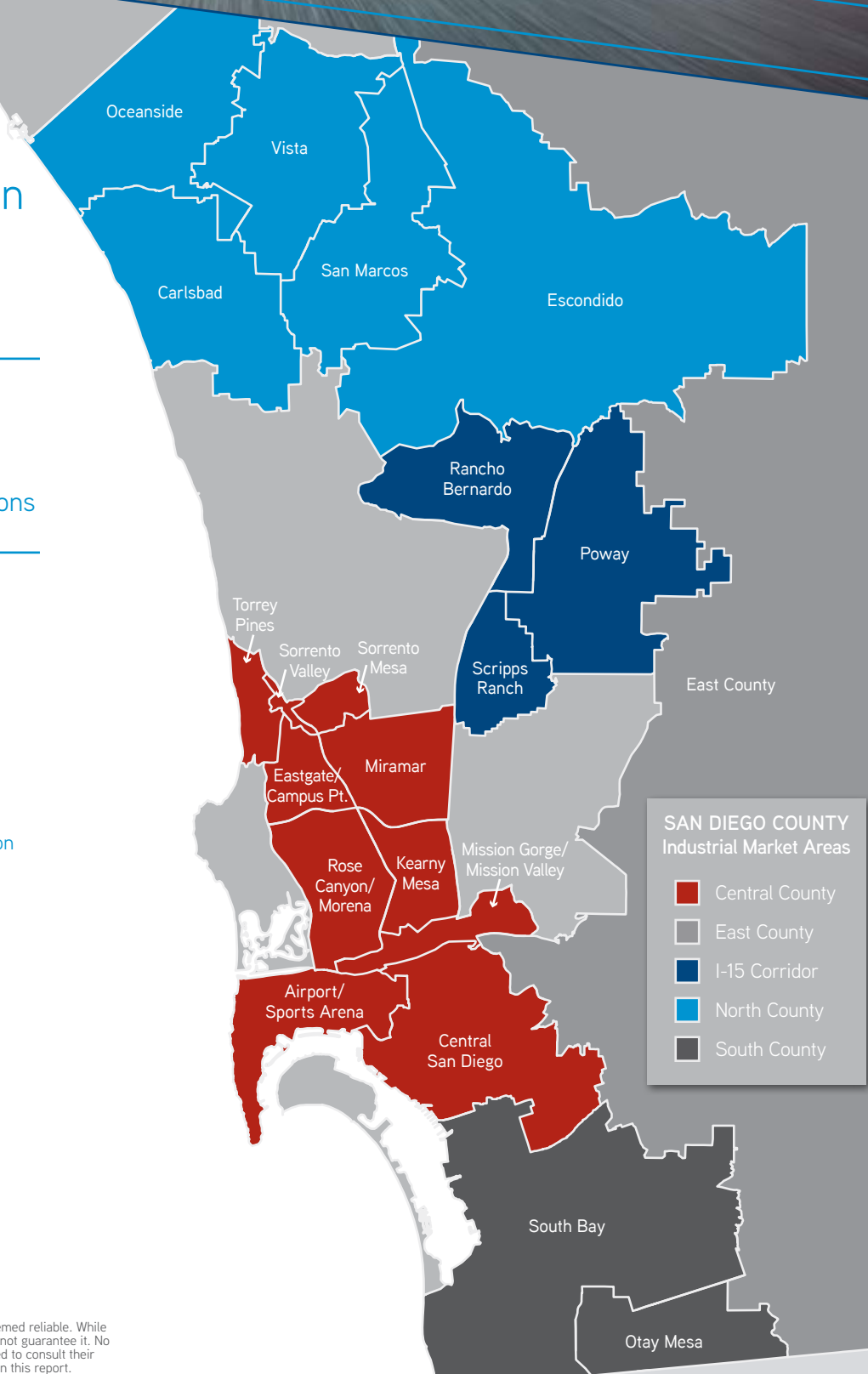
ANDY LA DOW
Regional Managing Director | San Diego Region
+1 858 455 1515
andy.ladow@colliers.com

Regional Author

CHRISTOPHER REUTZ
Research Director | San Diego Region
chris.reutz@colliers.com



Accelerating success.



SAN DIEGO COUNTY Industrial Market Areas

- Central County
- East County
- I-15 Corridor
- North County
- South County

Copyright © 2019 Colliers International. The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.