

SAN DIEGO COUNTY | INDUSTRIAL

Q4 2019

Industrial demand slowed down in 2019, but remains positive

Behind the Numbers

- > Countywide vacancy of 5.3% remained relatively flat in Q4 as net absorption of 154,878 SF was not enough demand to cause a significant reduction in vacancy.
- > Nearly 1.6 million SF of construction was completed in 2019, the second highest year of new supply for the past decade.
- > Countywide average asking NNN rental rate bumped up by \$0.04/SF in Q4 to reach an all-time high of \$1.25/SF/month - a 9.6% increase year-over-year.

Net Absorption

Industrial buildings (manufacturing, warehouse, distribution and multi-tenant/incubator uses) posted 86,362 SF of positive net absorption and R&D buildings (flex, wet lab and R&D uses) posted positive net absorption of 68,516 SF, for a combined industrial/R&D net absorption of 154,878 SF in Q4.

Sorrento Mesa posted the greatest net absorption (+170,669 SF). Some of the larger move-ins included Maravai LifeSciences (95,000 SF), PCI Pharma Services (38,294 SF), SmartDrive Systems (25,029 SF), and PlanetArt (19,878 SF).

Otay Mesa was the second most active market (+158,488 SF) for a second quarter in a row. In addition to a strong second half of the year, the submarket posted the most absorption in the first two quarters of 2019, leading to nearly 1 million SF of net absorption for the year. Key move-ins included QS Customs Brokers (132,864 SF) and KARR (16,000 SF). G Global Logistics relocated within the submarket from 79,255 SF on Customhouse Plaza into 111,644 SF on Customhouse Ct.

Other sizable tenant move-ins included Cubework (81,928 SF) and San Diego Food Bank (67,221 SF) in Vista and Wayfair (79,023 SF) in Oceanside. ShipCalm vacated 155,069 SF in Vista but relocated into 66,084 SF at RAF Pacifica Group's recently built (2018) vector project in Carlsbad.

Vacancy

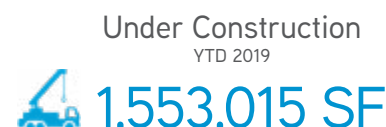
Countywide combined industrial/R&D vacancy stood at 5.3% at the end of Q4 - an 8-basis point decrease from the prior quarter. Direct vacancy made up 4.9% of the inventory, while sublease vacancy stood at 0.4%. Vacancy in the industrial inventory dropped by 6 basis points to 3.9%, while the R&D inventory fell 13 basis points to 8.8%.

Sorrento Mesa (12.1%), Torrey Pines (12.0%), and Carlsbad (11.2%) were the only submarkets with double-digit vacancy rates. Carlsbad posted the second highest level of net absorption in 2019 (+222,472 SF), but it also posted the most new construction completed (602,641 SF), thereby causing an increase of vacancy for the year.

SAN DIEGO COUNTY SUMMARY

All Markets, Q4 2019

	Q4 2019	Q4 2018	Change
Overall Vacancy (incl. sublease)	5.26%	5.16%	↑
Net Absorption SF	154,878	-59,836	+
Under Construction SF	1,553,015	1,832,420	↓
Average Asking Rent (NNN)	\$1.25	\$1.14	↑



NATIONAL INDUSTRIAL INDICATORS

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



New Supply

No new construction was completed in Q4. However, 1.59 million SF was completed for 2019. New construction for the year ranked second only to 2018's banner year of 2.47 million SF – the most space built since 2007.

The steady decrease in vacancy of more than 630 basis points over the past decade can be attributed to ten consecutive years of positive net absorption totaling 20.0 million SF, while new construction totaled 8.0 million SF. This equated to demand outpacing new supply by 1.5 times.

At year-end, there was 1.55 million SF under construction throughout the county, all of which will be completed primarily within the first half of 2020.

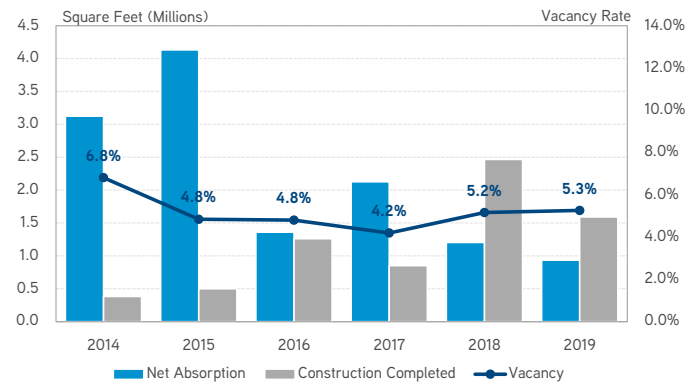
Trends and Outlook

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%). 2018 had been the largest year of new construction in more than a decade. While demand had been very strong, it did not reach the same levels as was prevalent during the period from 2012-2017. Consequently, the conditions caused vacancy to increase at the end of 2018 and through 2019.

While new construction completions will reach similar levels in 2020 as in 2019, net absorption is not likely to exceed it. Overall vacancy is expected to be in the 5.1% to 5.5% range by the end of 2020.

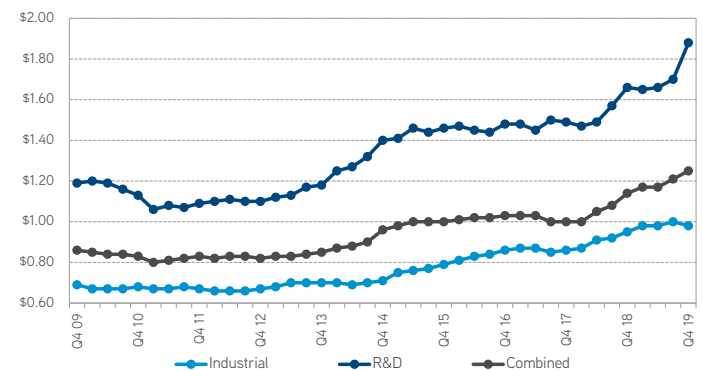
In Q4, the countywide average asking NNN rental rate increased by 3.3% to \$1.25/SF/month. This was the seventh consecutive quarter of increasing rents since remaining relatively flat in the prior three years (Q2 2015 through Q1 2018). This trend of rising rents is expected to continue provided vacancy 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 - Q4 2019

Leasing

Property/Address	Tenant	Submarket	Use	Size (SF)	Deal Type
2020 Piper Ranch Rd	QS Custom Brokers	Otay Mesa	Industrial	132,864	Relocation within the existing submarket.
2695 Customhouse Ct	G-Global Logistics	Otay Mesa	Industrial	111,644	Relocation within the existing submarket.
1224 Exposition Way	Storage and Fullfillment	Otay Mesa	Industrial	62,983	New lease.
12375 World Trade Dr	U-Haul Moving and Storage	Rancho Bernardo	Industrial	46,936	New lease.
7750 Panasonic Way	Transform Innovel Properties LLC	Otay Mesa	Industrial	46,830	New lease.
6659 Top Gun St	Sekisui Diagnostics, LLC	Sorrento Mesa	R&D	45,550	New lease.

Sales

Property/Address	Submarket	Use	Size (SF)	Sale Price	\$/SF	Buyer	Seller
Pacific Coast Collection	Oceanside	Ind.	226,691	\$43,557,714	\$192	EastGroup Properties	Black Creek Industrial Property Trust
Moda Sorrento	Sorrento Mesa	R&D	105,771	\$40,300,000	\$381	The Blackstone Group	Cypress Office Propeties
4181 Ruffin Rd	Kearny Mesa	R&D	148,488	\$23,750,000	\$160	IDS Real Estate Group	Office Properties Income Trust
Scripps Ranch Business Park	Scripps Ranch	R&D	97,073	\$23,200,000	\$239	Dollinger Properties	Hill Properties
Element	Carlsbad	R&D	83,212	\$23,100,000	\$278	Nelli-Regen Three, LLC	Alvarez & Marsal Property Inv.
9330 Balboa Ave	Kearny Mesa	Ind.	150,000	\$21,500,000	\$143	San Diego Unified School Dist.	Jack In The Box, Inc.

Industrial Market Overview - Q4 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	42,295,416	2.8%	0.2%	3.0%	2.8%	(69,828)	(164,962)	0	24,188	0	\$1.19
North County	44,904,701	6.5%	0.2%	6.7%	6.7%	28,622	118,857	0	812,051	177,774	\$0.95
I-15 Corridor	10,731,088	1.6%	0.0%	1.6%	1.5%	(9,731)	148,656	0	82,742	674,977	\$1.26
South County	30,071,716	2.6%	0.1%	2.7%	3.2%	154,150	938,131	0	290,982	464,482	\$0.76
East County	12,464,704	1.8%	0.0%	1.8%	1.7%	(16,851)	60,862	0	82,933	0	\$0.98
TOTAL	140,467,625	3.8%	0.1%	3.9%	4.0%	86,362	1,101,544	0	1,292,896	1,317,233	\$0.98
R&D Flex, wet lab and R&D											
Central County	31,578,435	8.6%	1.2%	9.8%	10.4%	165,213	(141,976)	0	152,099	235,782	\$2.20
North County	11,155,293	7.5%	0.7%	8.3%	7.3%	(110,510)	(13,190)	0	146,108	0	\$1.20
I-15 Corridor	8,501,691	6.8%	0.9%	7.7%	8.0%	30,263	(13,127)	0	0	0	\$1.78
South County	672,860	3.4%	0.0%	3.4%	1.0%	(16,450)	(8,322)	0	0	0	\$1.04
East County	1,455,821	0.5%	0.0%	0.5%	0.5%	0	9,969	0	0	0	\$1.28
TOTAL	53,364,100	7.8%	1.0%	8.8%	8.9%	68,516	(166,646)	0	298,207	235,782	\$1.88
SAN DIEGO COUNTY TOTAL (INDUSTRIAL + R&D)											
Central County	73,873,851	5.3%	0.6%	5.9%	6.1%	95,385	(306,938)	0	176,287	235,782	\$1.81
North County	56,059,994	6.7%	0.3%	7.0%	6.9%	(81,888)	105,667	0	958,159	177,774	\$0.99
I-15 Corridor	19,232,779	3.9%	0.4%	4.3%	4.4%	20,532	135,529	0	82,742	674,977	\$1.45
South County	30,744,576	2.6%	0.1%	2.7%	3.2%	137,700	929,809	0	290,982	464,482	\$0.80
East County	13,920,525	1.7%	0.0%	1.7%	1.6%	(16,851)	70,831	0	82,933	0	\$0.98
TOTAL	193,831,725	4.9%	0.4%	5.3%	5.3%	154,878	934,898	0	1,591,103	1,553,015	\$1.25

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

CENTRAL COUNTY											
Airport / SA	1,901,222	1.1%	0.0%	1.1%	1.2%	1,680	(9,865)	0	0	0	\$1.33
Campus Pt / Egate	4,616,344	5.6%	0.9%	6.4%	6.2%	(11,764)	95,474	0	0	98,282	\$3.10
Central San Diego	9,014,742	2.7%	0.2%	2.9%	1.7%	(107,631)	(169,084)	0	0	0	\$0.91
Kearny Mesa	16,547,365	3.4%	0.6%	4.0%	3.9%	(20,481)	105,503	0	24,188	0	\$1.61
Miramar	14,016,995	3.8%	0.0%	3.8%	4.0%	23,116	98,479	0	152,099	0	\$1.37
Mission Gorge / Vly	2,179,369	4.9%	0.0%	4.9%	4.3%	(14,017)	(59,168)	0	0	0	\$1.57
Rose Cyn / Morena	4,045,685	0.5%	0.0%	0.5%	1.1%	23,185	21,176	0	0	0	\$1.20
Sorrento Mesa	12,718,676	10.8%	1.3%	12.1%	13.4%	170,669	(345,823)	0	0	0	\$2.09
Sorrento Valley	3,437,184	8.5%	0.0%	8.5%	8.8%	8,124	17,315	0	0	0	\$3.11
Torrey Pines	5,396,269	9.7%	2.2%	12.0%	12.4%	22,504	(60,945)	0	0	137,500	\$4.64
TOTAL	73,873,851	5.3%	0.6%	5.9%	6.1%	95,385	(306,938)	0	176,287	235,782	\$1.81
NORTH COUNTY											
Carlsbad	16,066,550	10.7%	0.5%	11.2%	11.0%	(32,998)	222,472	0	602,641	50,150	\$1.12
Escondido	7,705,414	2.6%	0.4%	3.0%	2.8%	(10,565)	(68,323)	0	0	0	\$0.97
Oceanside	9,403,841	3.9%	0.1%	4.0%	4.6%	56,129	331,153	0	277,793	100,000	\$0.88
San Marcos	8,655,871	5.7%	0.1%	5.7%	5.9%	9,636	(33,827)	0	0	27,624	\$0.95
Vista	14,228,318	6.9%	0.2%	7.1%	6.4%	(104,090)	(345,808)	0	77,725	0	\$0.93
TOTAL	56,059,994	6.7%	0.3%	7.0%	6.9%	(81,888)	105,667	0	958,159	177,774	\$0.99
I-15 CORRIDOR											
Poway	9,139,994	1.3%	0.0%	1.3%	1.2%	(3,385)	153,955	0	82,742	533,950	\$1.08
Rancho Bernardo	8,230,777	6.5%	0.9%	7.4%	7.4%	(361)	(57,779)	0	0	141,027	\$1.67
Scripps Ranch	1,862,008	5.3%	0.0%	5.3%	6.6%	24,278	39,353	0	0	0	\$1.22
TOTAL	19,232,779	3.9%	0.4%	4.3%	4.4%	20,532	135,529	0	82,742	674,977	\$1.45
SOUTH COUNTY											
Otay Mesa	16,147,575	3.1%	0.0%	3.1%	4.1%	158,488	988,007	0	290,982	464,482	\$0.75
South Bay	14,597,001	2.1%	0.2%	2.3%	2.1%	(20,788)	(58,198)	0	0	0	\$1.02
TOTAL	30,744,576	2.6%	0.1%	2.7%	3.2%	137,700	929,809	0	290,982	464,482	\$0.80
EAST COUNTY											
TOTAL	13,920,525	1.7%	0.0%	1.7%	1.6%	(16,851)	70,831	0	82,933	0	\$0.98

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

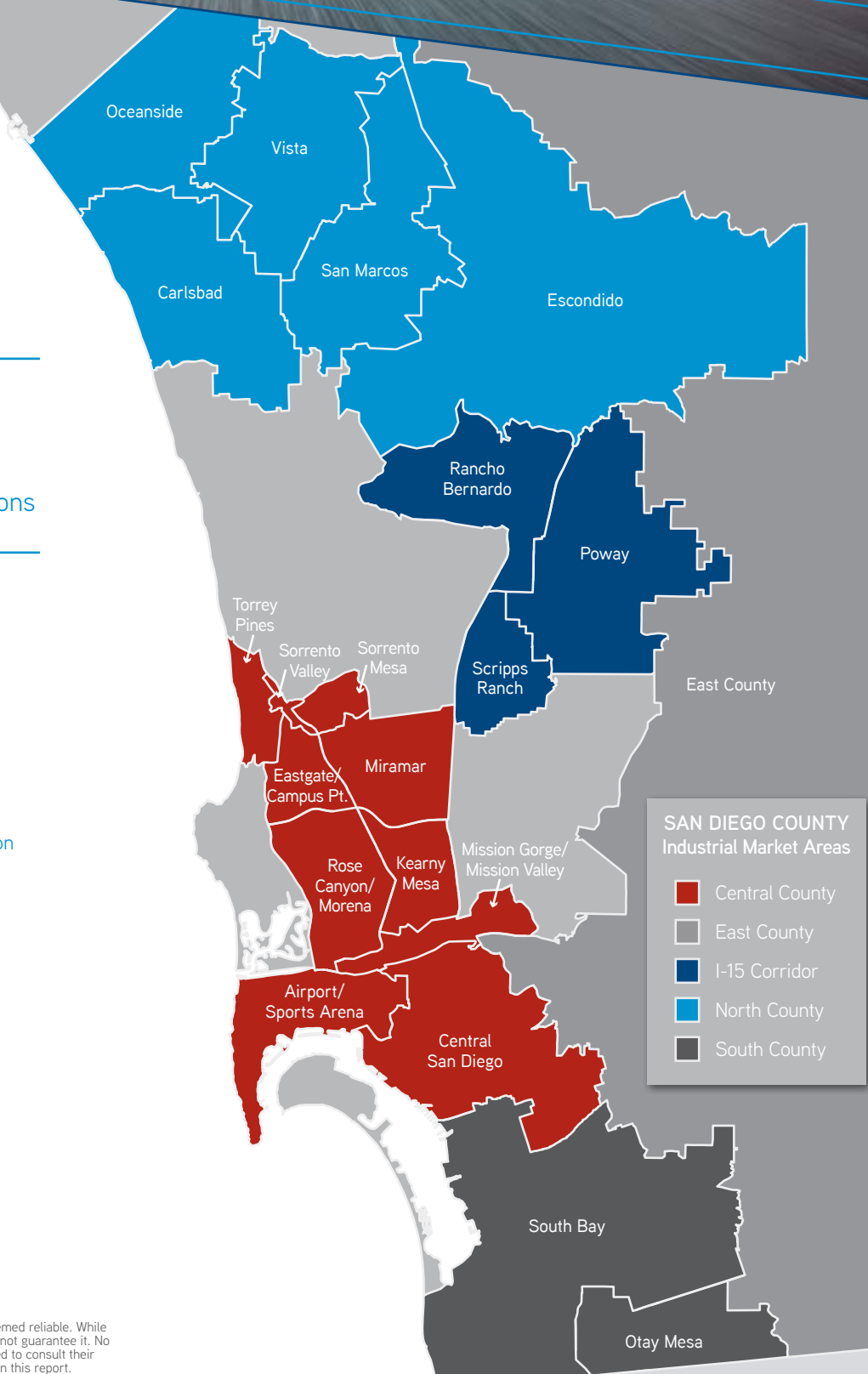
ANDY LA DOW
Regional Managing Director | San Diego Region
+1 858 455 1515
andy.ladow@colliers.com

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.