

YoY
Chg

12-Mo.
Forecast

4.7%

Vacancy Rate

**-42,000K**

Net Absorption, SF

**\$1.20**

Asking Rent, PSF



Direct, Net Asking Rent

ECONOMIC INDICATORS Q4 2019

YoY
Chg

12-Mo.
Forecast

1.5MSan Diego
Employment**2.9%**San Diego
Unemployment Rate**3.6%**U.S.
Unemployment Rate

Source: BLS, November 2019

ECONOMIC OVERVIEW

The San Diego employment market continued to record job growth, adding 34,300 jobs (+2.3%) year-over-year (YOY) through November 2019.¹ During the same time period, the unemployment rate decreased 20 basis points (bps) to 2.9% and is currently 280 bps below the 30-year average of 5.7%. All employment sectors are forecasted to grow at a combined growth rate of 1.6% in 2020 and 1.2% in 2021. San Diego's economy of \$245.1 billion,² as measured by gross regional product, is forecasted to grow an additional 1.9% in 2020 and 2.3% in 2021, below its 10-year average of 3.7%.³

SUPPLY AND DEMAND

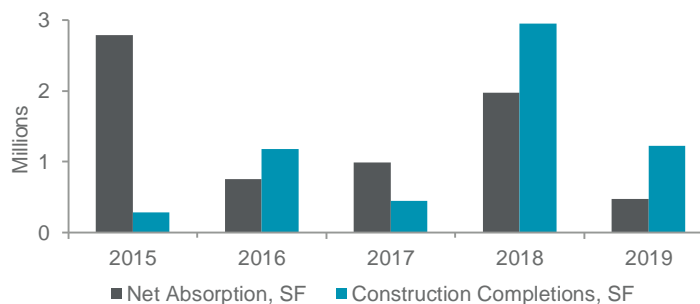
At the end of 2019, San Diego's industrial direct vacancy was 4.7%, a figure unchanged since the previous quarter and 30 bps higher than a year ago. This slight increase in vacancy is a combination of 1.2 million square feet (msf) of new product – mostly speculative (SPEC) development – being added to the existing inventory over the last year as well as tenants returning 797,000 sf of manufacturing space to North County and 129,000 sf of incubator multi-tenant (IMT) space to Central County throughout 2019. On an annual basis, 2019 market the 10th year of positive occupancy growth. Over that 10-year period, tenants have absorbed 16.0 msf combined, of which 7.5 msf (47%) is distribution and 4.0 msf (25%) is manufacturing space. Direct vacancy remains historically low, and Q4 2019 marked the 18th consecutive quarter of sub 5% vacancy for the region. New development notably peaked in 2018 with 2.9 msf delivered and continued in 2019 with 1.2 msf delivered, well above the 10-year annual completion average of 756,000 sf.

Although the market returned 41,700 sf in Q4 2019 countywide, a notable number of tenants also signed leases and took occupancy. In Oceanside, Wayfair occupied 79,023 sf and Hydranautics occupied 50,851 sf. Central County saw notable move ins with Illumina occupying 66,619 sf in Kearny Mesa and U-Haul taking 46,270 sf in Carmel Mountain. In South County, Tforce Final Mile West signed a lease for 45,183 sf (with an estimated Q1 2020 move in) and Super Trading, Inc. occupied 18,345 sf.

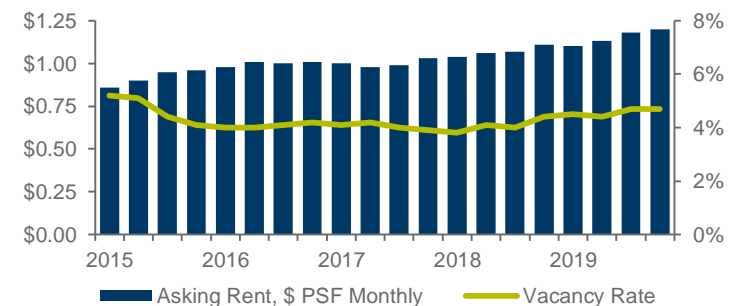
PRICING

Average asking rent for all product types combined was \$1.20 per square foot (psf) per month on a triple net basis, compared to \$1.18 psf last quarter (+1.7%) and \$1.11 psf a year ago (+8.1%). Comparing current average rents by product type to a year ago, average asking rent has increased the most for a distribution space (+22% YOY), followed by manufacturing (+6.1%), R&D (+5.2%) and IMT (+4.9%). This trend is driven by the demand for and availability of modern and specialized space for industrial users.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



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In response, we are not only seeing asking rental rates increasing for existing buildings, but also in newly constructed buildings that command the highest rental rates.

MARKET TRENDS

Across the region, the market is the tightest for IMT space with direct vacancy at 4.0%, an increase of 90 bps from a year ago. Vacancy for manufacturing space now stands at 4.6% countywide versus 3.1% a year ago. Distribution space has a vacancy of 4.6%, a decrease of 20 bps since last year. Meanwhile, vacancy for R&D product has decreased 140 bps over the last year and now stands at 5.5%. Increase in vacancy over the last year within the manufacturing and IMT sectors can be attributed to new development in addition to negative occupancy growth in 2019. Deliveries from the last twelve months were proportionately allocated to 61% or 748,000 sf of distribution space, 21% or 256,800 sf of R&D and 18% or 217,600 sf of manufacturing space. Of 1.2 msf delivered, 74% was a SPEC development and 26% was built to suit (BTS). Most of the R&D space delivered in 2019 was the 234,700-sf BTS BioLegend Campus in the Miramar submarket. The elevated vacancy rates can be expected to diminish as the new product is absorbed.

FUTURE INVENTORY

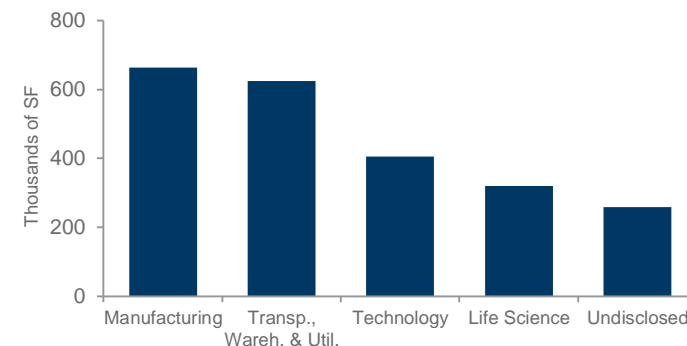
Two projects, totaling over 37,400 sf, were delivered this quarter, of which 14,511 sf were occupied as Label ID Technologies moved into a 29,022-sf property located at 2339 Marconi Pl. in Q4 2019. North County's SPEC construction continues to wind down with only 137,772 sf currently under construction compared to 790,400 sf a year ago (in Q4 2018), while significant new construction continues in I-15 and South County (627,500 sf). In the I-15 corridor there is over 672,000 sf of SPEC development under construction with the 531,000-sf Vantage Point distribution project in Poway and the 141,000-sf RB Vista manufacturing project in Rancho Bernardo. South County also has 627,000 sf of SPEC development of distribution space under construction, including 163,000 sf at Otay River Business Park in Chula Vista and 227,300 sf at Majestic Sunroad Center in Otay Mesa. Future potential development in South County includes a 313,000-sf project by Murphy Development Company in Otay Mesa, anchored by an 85,000-sf build-to-suit for the Salvation Army, among other projects.

Sources: ¹www.bls.gov ² bea.gov GDP as of 2018. ³ Moody's Analytics economy.com 11/2019. ⁴ Institute for Supply Management.

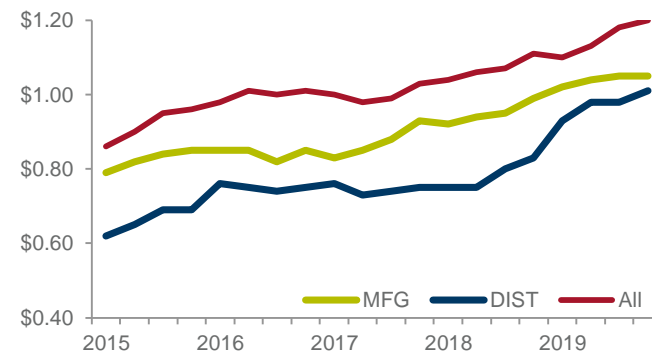
Outlook

- While we do not expect any dramatic shifts in a near future as direct vacancy remains historically low and the demand for space continues to be strong, an increase in newly constructed space will continue to cause vacancy and availability to increase slightly in the short term, hovering at a healthy equilibrium.
- There are 3.5 msf of active tenant requirements for space in the market over the next 24 months. Nearly 62% or 2.2 msf of these users are in the earliest stages of their pursuit, having opened their search or toured the market. While not all tenants in the market will transact in the short-term, these metrics provide a barometer of leasing activity in quarters to follow. Additionally, those tenants in early stages of their pursuit may line up their timing with the delivery of new product.

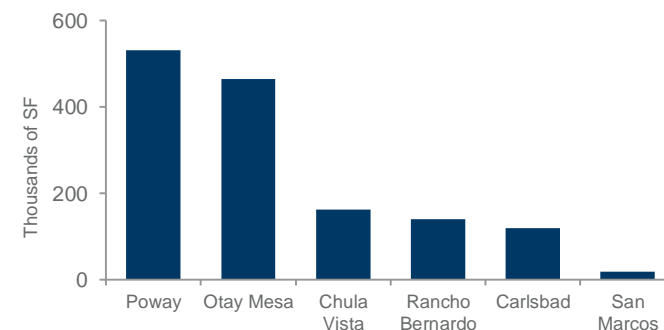
TENANT DEMAND BY INDUSTRY TYPE - TOP 5



AVERAGE MONTHLY ASKING RENT TRIPLE NET



SF UNDER CONSTRUCTION BY SUBMARKET



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MARKET STATISTICS

SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT DIRECT NET ABSORPTION (SF)	YTD DIRECT NET ABSORPTION (SF)	UNDER CNSTR (SF)	AVERAGE ASKING DIRECT RENT (ALL Types)	YTD COMPLETIONS (SF)
North County	2,048	53,893,776	294,501	3,691,899	7.4%	-87,309	-362,708	137,772	\$1.01	689,342
Central County	2,274	80,589,035	242,163	2,976,909	4.0%	-69,461	202,750	671,877	\$1.50	425,046
South County	628	30,926,876	25,526	1,168,257	3.9%	115,094	632,336	627,482	\$0.90	108,072
TOTAL	4,950	165,409,687	562,190	7,837,065	5.1%	-41,676	472,378	1,437,131	\$1.20	1,222,460
R&D	827	32,961,421	283,577	1,819,434	6.4%	-31,928	367,695	119,148	\$1.63	256,818
MF	2,463	64,936,492	160,138	3,018,784	4.9%	-138,358	-791,238	141,027	\$1.05	181,791
IMT	634	20,921,359	74,472	839,781	4.4%	-14,170	-196,690	18,624	\$1.29	35,838
DIST	1,026	46,590,415	44,003	2,159,066	4.7%	142,780	1,092,611	1,158,332	\$1.01	748,013
SAN DIEGO TOTALS	4,950	165,409,687	562,190	7,837,065	5.1%	-41,676	472,378	1,437,131	\$1.20	1,222,460

*Direct rental rates reflect weighted triple net asking \$psf/year.

R&D = Research & Development MF = Manufacturing IMT = Incubator Multi Tenant W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	SF	TYPE
2271 Cosmos Court	Carlsbad	Respironics Inc.	85,165	Renewal*
1395 Aspen Way	Vista	Cubework, Inc.	81,928	Sublease
7130 Miramar Road	Miramar	Home Express Delivery Service dba Temco	59,317	New Lease
6059 Cornerstone Court	Sorrento Mesa	Verimatrix	50,600	Renewal*
12375 World Trade Drive	Carmel Mountain	U-Haul	46,270	New Lease

*Renewals not included in leasing statistics.

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
4181 Ruffin Rd.	Kearny Mesa	Office Properties Income Trust/ IDS Real Estate	148,488	\$23,750,000/ \$159
101 Copperwood Way	Oceanside	FOCUS Real Estate/ CB Copperwood LLC	140,945	\$20,050,000/ \$142
10060 Willow Creek Rd. (Portfolio)	Scripps	Hill Properties/ Dollinger Properties	94,728	\$23,200,000/ \$244
6146 & 6166 Nancy Ridge Dr.	Sorrento Mesa	PCI Pharma Services/ New Mountain Capital	62,368	\$32,065,000/ \$514
15822 Bernardo Center Dr.	Rancho Bernardo	The Blackstone Group/ SENTRE, Inc.	60,344	\$14,250,000/ \$236

KEY CONSTRUCTION COMPLETIONS 2019

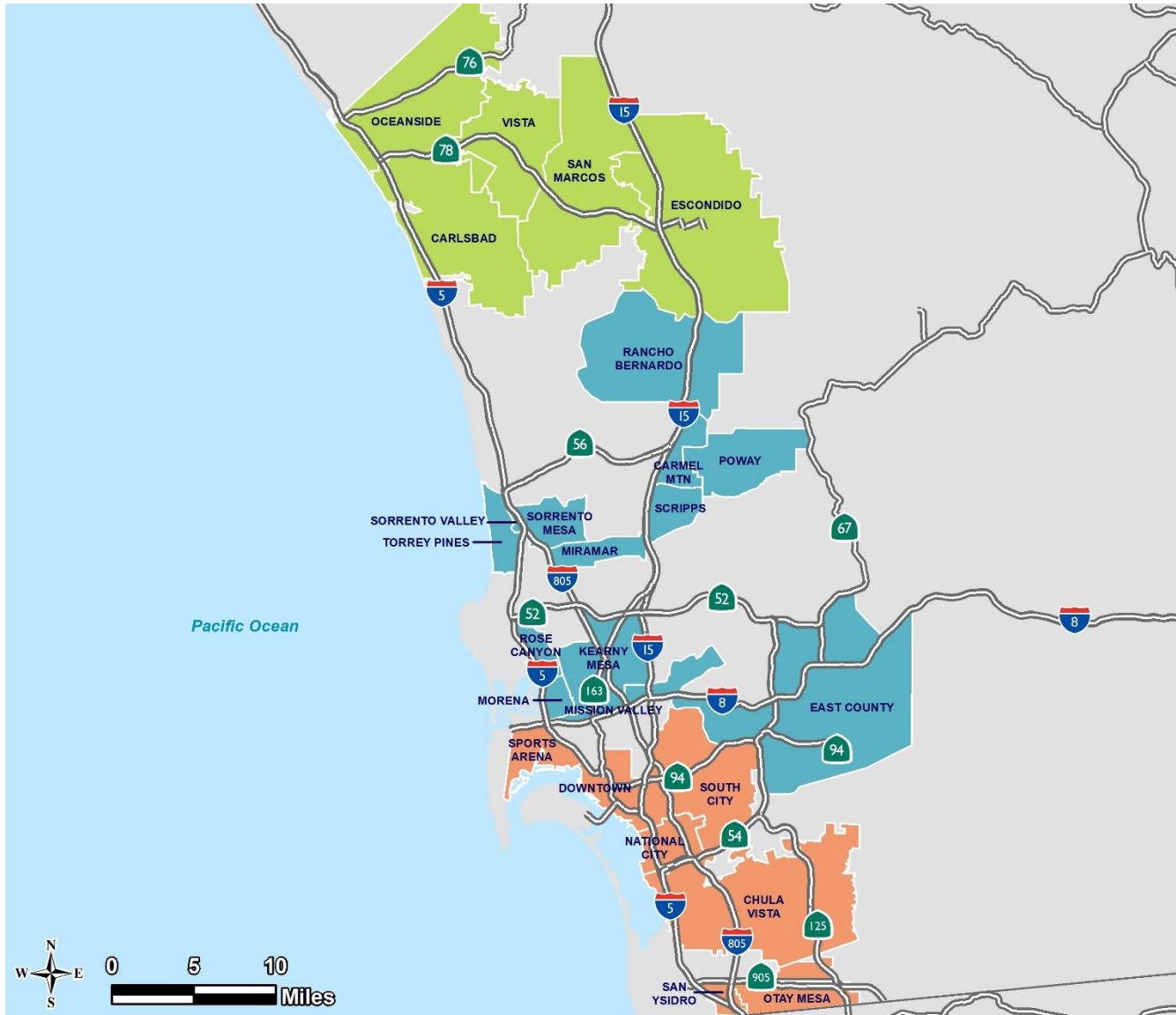
PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
8928-8929 & 8958-8959 Terman Court	Miramar	BioLegend	234,719	BioLegend / Delawie
2800 & 2810 Whiptail Loop A & C	Carlsbad	N/A	296,385	Ryan Companies

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INDUSTRIAL SUBMARKETS



DALTON BRUSSEAU

Research Analyst

Tel: +1 858 546 5406

dalton.brusseau@cushwake.com

JOLANTA CAMPION

Director of Research, San Diego & Nevada

Tel: +1 858 625 5235

jolanta.campion@cushwake.com

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