



San Diego County

Industrial

21Q1

Key Takeaways

- Countywide average asking rental rate dipped by \$0.02 to stand at \$1.36/SF.
- Vacancy dropped 25 basis points (BPS) to reach 4.79%.
- At the current rate of demand, vacancy is likely to fall below 4.25% by year-end, the lowest rate ever.
- 5.74 million SF is currently under construction, 94% of which is in Otay Mesa.



Headline

The COVID-19 pandemic has negatively affected most segments of the commercial real estate sector with the exception of the industrial market. Demand equating to 2.62 million SF of net absorption over the past 12 months is the most recorded since the 12-month period ending in Q4 2015. Construction activity continues to be robust and vacancy – now below 5% for the first time in two-and-a-half years – is poised to reach an all time low by year end.

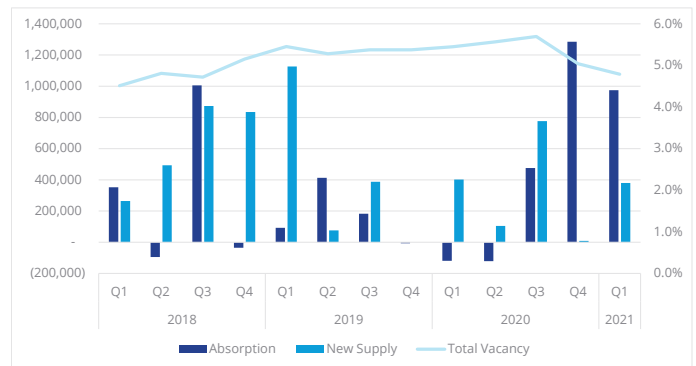
Market Indicators



Historic Comparison

	20Q1	20Q4	21Q1
Total Inventory (in Thousands of SF)	194,612.8	195,502.1	190,958.4
New Supply (in Thousands of SF)	402.0	9.0	379.6
Net Absorption (in Thousands of SF)	(119.4)	1,285.2	974.9
Overall Vacancy	5.45%	5.04%	4.79%
Under Construction (in Thousands of SF)	1,290.5	5,771.6	5,739.5
Overall Asking Lease Rates (NNN)	\$1.32	\$1.38	\$1.36

Historical Market Trends



The last four quarters have yielded 2.62 million SF of net absorption driving vacancy down 66 BPS to 4.79% at the end of Q1. New construction that will be completed later this year is likely to contribute an additional 3.83 million SF of net absorption. 2021 has the potential to record unprecedented levels of net absorption – between 5 and 6 million SF.

Recent Transactions



Lease
2800 Whiptail Loop
Carlsbad | 104k SF



Lease
7603 St Andrews Ave
Otay Mesa | 63k SF



Lease
491 C St
Chula Vista | 59k SF



Sale
Three Piper Ranch
Otay Mesa | \$173/SF



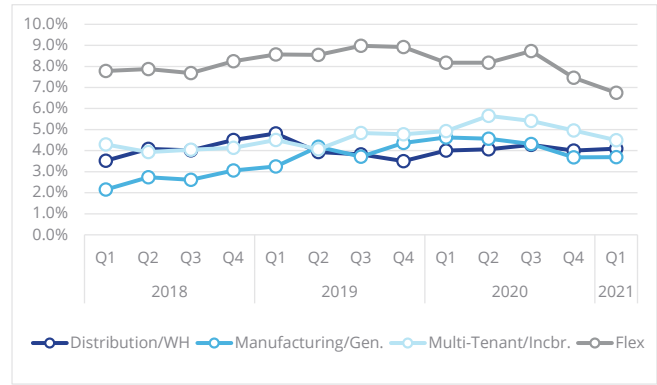
Sale
16915 Via Del Campo
RB | \$353/SF



Sale
Viper Way
Vista | \$129/SF

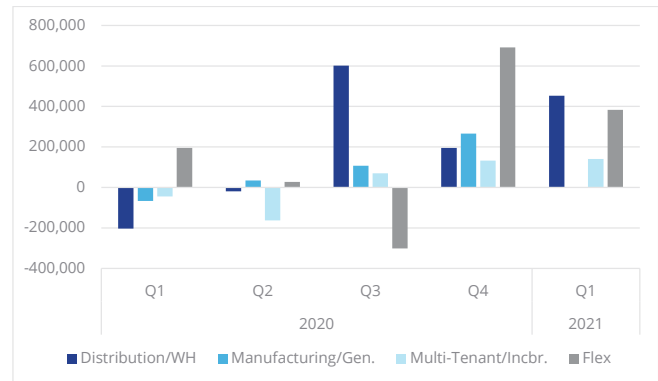
Vacancy

Countywide industrial/flex vacancy rate stood at 4.79% at the end of Q1. Manufacturing (3.69%), distribution/warehouse (4.10%), and multi-tenant (4.50%) vacancy rates were all below the county average with flex (6.75%) above the average. Flex vacancy has historically been higher than other industrial categories, but in the last two years, it has seen the most improvement. This is expected to continue as life science space – a flex use – is experiencing outstanding demand. This has also translated in new construction and office-space renovation throughout the North City market and other areas.



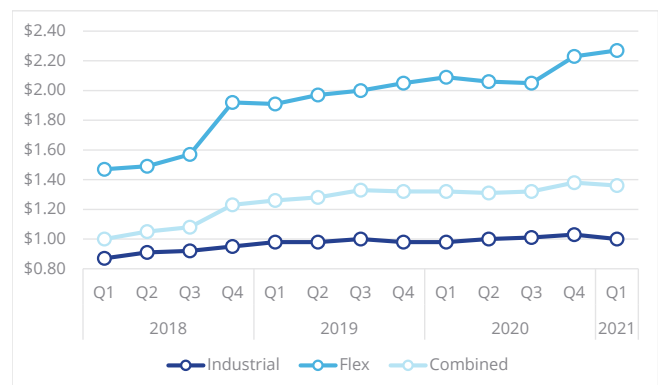
Net Absorption

There was 974,920 SF of net absorption throughout the county in Q1. Most of the demand occurred in distribution/warehouse space (+453,249 SF) and flex space (+383,323 SF). North City (+414,497 SF) and North County (+340,750 SF) topped out all the markets. This year, South County will be the epicenter of new construction in the county. As a result, the market is estimated to record more than 4 million SF of net absorption. Amazon will absorb more than 3.43 million SF in their new project and an additional half-a-million square feet will be occupied in other new and existing projects throughout Otay Mesa.



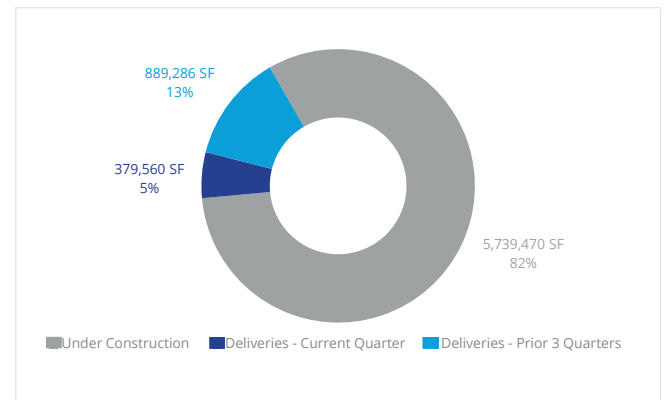
Rental Rates

Countywide average asking rental rates have been steadily increasing for the past 10 years. In Q4 2020, the combined industrial/flex average reached \$1.38/SF. In Q1, it dipped by \$0.02 to stand at \$1.36/SF. The Q1 industrial average decreased by \$0.03 to stand at \$1.00, while the flex average increased by \$0.04 to reach an all-time high or \$2.27/SF. The flex average has increased by nearly 9% over the last year, bolstered by the soaring demand for life science space. Rents are forecasted to increase throughout 2021, considering industrial and flex demand continues to be strong.



Construction

Industrial/flex construction continues strong countywide. Overall, 379,500 SF was delivered in Q1. The largest project was Majestic Realty Co./Sunroad Enterprises' three-building 227,268 SF Majestic Sunroad Center, which was 100% preleased by Colliers San Diego. An additional 5.74 million SF is under construction of which 3.34 million SF is the new Amazon facility in Otay Mesa. The Amazon facility and all Otay Mesa projects make up 94% of all new construction countywide. Two-thirds of all the space under construction has already been preleased or is build-to-suit. 2021 is projected to have the most industrial and flex space ever built.



Submarket	Project / Address	Type	Total SF	Availability	Developer	Status
Chula Vista	Otay River Business Park 2890 & 2970 Faivre St	Industrial	95,500	100%	Sudberry Properties	Completed Q1 2021
Lakeside	River Run West 10050 Marathon Pkwy	Industrial	48,792	20%	Hamann Companies	Completed Q1 2021
Otay Mesa	Majestic Sunroad Center 8115, 8140 & 8175 St Andrews Ave	Industrial	227,268	0%	Majestic Realty & Sunroad Enterprises	Completed Q1 2021
Otay Mesa	Airway Industrial Park 8150 Airway Rd	Industrial	135,623	100%	Rockefeller Group	Under Construction Est. Q2 2021
Otay Mesa	Amazon 11 Otay Mesa Rd	Industrial	3,341,229	0% Leased to Amazon	Seefried Properties	Under Construction Est. Q2 2021
Otay Mesa	Brown Field Technology Park 7225 Otay Mesa Rd & 1695 Continental St	Industrial	229,063	100%	Murphy Development Company	Under Construction Est. Q3 2021
Torrey Pines	The Boardwalk 10275 & 10285 Science Center Dr	Flex	117,709	0% Leased to Zentalis	Healthpeak Properties	Under Construction Est. Q2 2021
Otay Mesa	California Crossings Otay Mesa Rd & Harvest Rd	Industrial	453,330	100%	Sudberry Properties	Under Construction Est. Q1 2022
Otay Mesa	Landmark at Otay 100-400 Landmark Rd	Industrial	845,830	100%	Majestic Realty & Sunroad Enterprises	Under Construction Est. Q3 2021

San Diego County | 21Q1 | Industrial | Market Statistics

Submarket/ Class	Total Inventory SF	Direct Vacancy Rate	Sublease Vacancy Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (FSG)
Industrial - distribution/warehouse, manufacturing/general, and multi-tenant/incubator										
Central San Diego	24,290,030	2.56%	0.13%	2.69%	2.91%	75,195	75,195	0	0	\$1.19
North City	16,227,579	2.82%	0.22%	3.04%	3.17%	27,950	27,950	0	0	\$1.23
North County	43,313,588	5.33%	0.42%	5.75%	6.19%	256,785	256,785	0	0	\$0.99
I-15 Corridor	11,365,609	1.58%	0.35%	1.93%	2.12%	21,819	21,819	0	0	\$1.15
South County	30,447,615	4.26%	0.09%	4.35%	3.98%	214,898	214,898	5,376,502	330,768	\$0.82
East County	11,990,505	2.83%	0.23%	3.06%	2.51%	(5,050)	(5,050)	31,948	48,792	\$1.00
TOTAL	137,634,926	3.78%	0.25%	4.03%	4.10%	591,597	591,597	5,408,450	379,560	\$1.00
Flex - R&D and wet lab/life science										
Central San Diego	7,312,969	3.22%	0.42%	3.64%	5.28%	12,203	12,203	0	0	\$1.64
North City	23,596,231	6.82%	0.45%	7.27%	8.70%	386,547	386,547	264,165	0	\$3.19
North County	12,368,935	6.76%	0.27%	7.03%	7.63%	83,965	83,965	0	0	\$1.27
I-15 Corridor	7,964,345	7.62%	1.50%	9.12%	7.51%	(87,828)	(87,828)	0	0	\$1.77
South County	672,860	0.00%	0.00%	0.00%	0.00%	0	0	66,855	0	\$0.96
East County	1,408,086	1.49%	0.00%	1.49%	0.65%	(11,564)	(11,564)	0	0	\$1.18
TOTAL	53,323,426	6.20%	0.54%	6.75%	7.46%	383,323	383,323	331,020	0	\$2.27
Total - Industrial + Flex										
Central San Diego	31,602,999	2.71%	0.20%	2.91%	3.46%	87,398	87,398	0	0	\$1.36
North City	39,823,810	5.19%	0.36%	5.54%	6.43%	414,497	414,497	264,165	0	\$2.42
North County	55,682,523	5.65%	0.38%	6.03%	6.51%	340,750	340,750	0	0	\$1.03
I-15 Corridor	19,329,954	4.07%	0.82%	4.89%	4.42%	(66,009)	(66,009)	0	0	\$1.46
South County	31,120,475	4.17%	0.09%	4.26%	3.90%	214,898	214,898	5,443,357	330,768	\$0.83
East County	13,398,591	2.69%	0.21%	2.90%	2.32%	(16,614)	(16,614)	31,948	48,792	\$1.00
TOTAL	190,958,352	4.46%	0.33%	4.79%	5.04%	974,920	974,920	5,739,470	379,560	\$1.36



San Diego County | 21Q1 | Industrial | Market Statistics

Suburban Markets & Submarkets - Industrial & Flex



Submarket/ Class	Total Inventory SF	Direct Vacancy Rate	Sublease Vacancy Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (FSG)
Central San Diego										
Dwntwn/Barrio/SE	8,874,595	1.96%	0.10%	2.06%	2.33%	14,752	14,752	0	0	\$1.06
Kearny Mesa	15,612,165	3.07%	0.35%	3.42%	4.49%	62,552	62,552	0	0	\$1.52
Mission Gorge/Vly	2,110,639	4.59%	0.00%	4.59%	5.06%	12,107	12,107	0	0	\$1.72
Rose Cyn/Morena	3,421,479	1.89%	0.00%	1.89%	2.36%	20,347	20,347	0	0	\$1.14
Sports Arena	1,584,121	2.59%	0.00%	2.59%	0.45%	(22,360)	(22,360)	0	0	\$1.25
TOTAL	31,602,999	2.71%	0.20%	2.91%	3.46%	87,398	87,398	0	0	\$1.36
North City										
Miramar	13,816,360	3.40%	0.17%	3.56%	3.45%	(11,691)	(11,691)	0	0	\$1.46
Sorrento Mesa	12,694,579	7.31%	0.20%	7.51%	8.99%	71,054	71,054	0	0	\$2.63
Sorrento Valley	3,274,359	14.27%	0.16%	14.43%	14.06%	14,020	14,020	0	0	\$3.60
Torrey Pines	5,349,012	3.11%	0.17%	3.29%	6.86%	350,172	350,172	264,165	0	\$4.32
UTC	4,689,500	0.73%	1.69%	2.42%	2.22%	(9,058)	(9,058)	0	0	\$5.02
TOTAL	39,823,810	5.19%	0.36%	5.54%	6.43%	414,497	414,497	264,165	0	\$2.42
North County										
Carlsbad	15,971,600	7.91%	0.26%	8.17%	8.48%	61,933	61,933	0	0	\$1.26
Escondido	7,405,020	2.77%	0.37%	3.15%	3.03%	527	527	0	0	\$1.08
Oceanside	9,953,336	2.71%	0.40%	3.11%	3.94%	89,486	89,486	0	0	\$0.92
San Marcos	8,437,911	4.81%	0.20%	5.00%	6.49%	142,204	142,204	0	0	\$0.89
Vista	13,914,656	7.20%	0.64%	7.83%	7.98%	46,600	46,600	0	0	\$0.97
TOTAL	55,682,523	5.65%	0.38%	6.03%	6.51%	340,750	340,750	0	0	\$1.03
I-15 Corridor										
Poway	9,639,177	0.62%	0.43%	1.04%	1.26%	21,282	21,282	0	0	\$1.08
Rancho Bernardo	7,834,128	8.19%	1.51%	9.69%	8.03%	(86,903)	(86,903)	0	0	\$1.63
Scripps Ranch	1,856,649	4.65%	0.00%	4.65%	4.63%	(388)	(388)	0	0	\$1.27
TOTAL	19,329,954	4.07%	0.82%	4.89%	4.42%	(66,009)	(66,009)	0	0	\$1.46
South County										
Otay Mesa	16,448,844	5.84%	0.03%	5.87%	5.25%	125,030	125,030	5,376,502	227,268	\$0.78
South Bay	14,671,631	2.29%	0.16%	2.46%	2.38%	89,868	89,868	66,855	103,500	\$0.97
TOTAL	31,120,475	4.17%	0.09%	4.26%	3.90%	214,898	214,898	5,443,357	330,768	\$0.83
East County										
TOTAL	13,398,591	2.69%	0.21%	2.90%	2.32%	(16,614)	(16,614)	31,948	48,792	\$1.00

FOR MORE INFORMATION
 Christopher Reutz
 Research Director
 San Diego
 +1 858 677 5385
chris.reutz@colliers.com

Andy La Dow
 Managing Director
 San Diego
 +1 858 677 5311
andy.ladow@colliers.com

Copyright © 2021 Colliers
 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.