

SAN DIEGO COUNTY | INDUSTRIAL

Q1 2020

Global pandemic creates uncertain conditions in the industrial market

Behind the Numbers

- > Countywide vacancy of 5.3% remained relatively flat in Q1 as demand was met by 193,739 SF of net absorption along with 372,782 SF of new construction.
- > Construction activity continues to be robust with 1.3 million SF currently under construction, most of which will be completed by year-end.
- > Countywide average asking NNN rental rate bumped up by \$0.02/SF in Q1 to reach an all-time high of \$1.27/SF/month - a 8.5% increase year-over-year.

Net Absorption

Industrial buildings (manufacturing, warehouse, distribution and multi-tenant/incubator uses) posted 54,953 SF of positive net absorption and R&D buildings (flex, wet lab and R&D uses) posted positive net absorption of 138,786 SF, for a combined industrial/R&D net absorption of 193,739 SF in Q1.

Torrey Pines posted the greatest net absorption (+175,108 SF). Some of the net absorption was due to UCSD's occupancy of more than 70,000 SF at the newly completed Center for Novel Therapeutics.

Campus Point/Eastgate was the second most active market (+69,179 SF) for a second quarter in a row. JB Biodine occupied 29,548 SF at 9381 Judicial Dr while Poseida Therapeutics expanded into the remaining 15,146 SF at 9390 Towne Centre Dr, thereby occupying the entire 72,921 SF building.

Other sizable tenant move-ins included United Technologies (+60,184 SF) in Carlsbad, Dynamex/TF Final Mile (+45,183 SF) in Chula Vista (South Bay submarket), and TEC Equipment (+40,975 SF) in Otay Mesa.

Vacancy

Countywide combined industrial/R&D vacancy stood at 5.3% at the end of Q1 - an 8-basis point increase 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 increased by 5 basis points to 4.1% and the R&D inventory increased by 14 basis points to 8.5%.

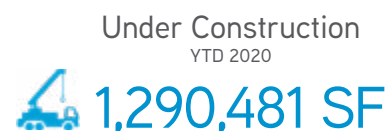
The increase in vacancy was due to new construction outpacing the positive net absorption during the quarter. Even though countywide net absorption was 193,739 SF, new construction totaled 372,782 SF, thereby causing the slight increase.

12 out of the 21 submarkets posted vacancy less than 5% and only Sorrento Mesa (11.6%) and Carlsbad (10.9%) posted double-digit rates.

SAN DIEGO COUNTY SUMMARY

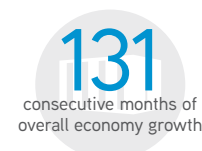
All Markets, Q1 2020

	Q1 2020	Q1 2019	Change
Overall Vacancy (incl. sublease)	5.30%	5.10%	↑
Net Absorption SF	193,739	424,405	+
Under Construction SF	1,290,481	1,781,741	↓
Average Asking Rent (NNN)	\$1.27	\$1.17	↑



NATIONAL INDUSTRIAL INDICATORS

Source: Institute for Supply Management (ISM), March 2020



New Supply

Three buildings were completed in Q1 totaling 372,782 SF. This included the 98,282 SF Alexandria GradLabs developed by Alexandria Real Estate Equities in Campus Point, Murphy Development's 137,000 SF building at The Campus at San Diego Business Park in Otay Mesa, and BioMed Realty's 137,500 SF Center for Novel Therapeutics in Torrey Pines.

New ground-up construction has been subject to high demand. In fact, even though 8.0 million SF was completed over the last decade, net absorption outpaced new construction by 1.5 times. Nevertheless, the current novel coronavirus (COVID-19) pandemic will likely delay the start of new projects that are proposed throughout the county until there is a better understanding of what industrial demand will be until the pandemic subsides. Most of the 1.3 million SF currently under construction will be completed this year but any new development after that is unknown.

Trends and Outlook

As we publish this report, the U.S. and the world at large are facing a tremendous challenge, the scale of which is unprecedented in recent history. The spread of the novel coronavirus (COVID-19) is significantly altering day-to-day life, impacting society, the economy and, by extension, commercial real estate.

The extent, length and severity of this pandemic is unknown and continues to evolve at a rapid pace. The scale of the impact and its timing varies between locations. To better understand trends and emerging adjustments, please subscribe to [Colliers' COVID-19 Knowledge Leader page](#) for resources and recent updates.

While the COVID-19 pandemic will certainly affect all commercial real estate sectors, the industrial market will likely experience various outcomes based on the industry sectors within it. Once the pandemic subsides and we begin to return to improved economic conditions, San Diego's defense industry will likely return to normal and the life science industry may accelerate growth. Local manufacturing could also see some growth as some businesses consider relocating some international operations back to San Diego.

But smaller multi-tenant firms and incubator companies could find it hard to conduct business if these current economic conditions continue to persist. This is a period of uncertainty the likes of which have never been seen before and it will be at least several quarters until we have a hold on whether the industrial market we still be as strong – or potentially stronger – as it had been trending over the past eight years.

Significant Industrial/R&D Activity - Q1 2020

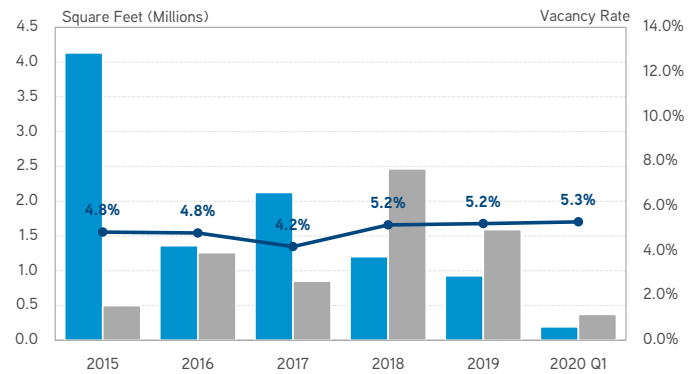
Leasing

Property/Address	Tenant	Submarket	Use	Size (SF)	Deal Type
1345 Sycamore Avenue	Ernest Packaging Solutions	Vista	Industrial	108,758	Lease renewal.
6740-6760 Cobra Way	Sekisui Diagnostics, LLC	Sorrento Mesa	Industrial	52,959	New lease within the same submarket.
1690 Brandywine Avenue	TForce Logistics Final Mile	Chula Vista	Industrial	45,183	New lease.
10048 Marathon Parkway	1-800-PACK-RAT	Lakeside	Industrial	41,137	New lease.
955 Gateway Center Way	RRD San Diego	Central San Diego	Industrial	39,777	Lease renewal.
9650-9660 Chesapeake Drive	BAE Systems	Kearny Mesa	Industrial	36,125	Lease renewal.

Sales

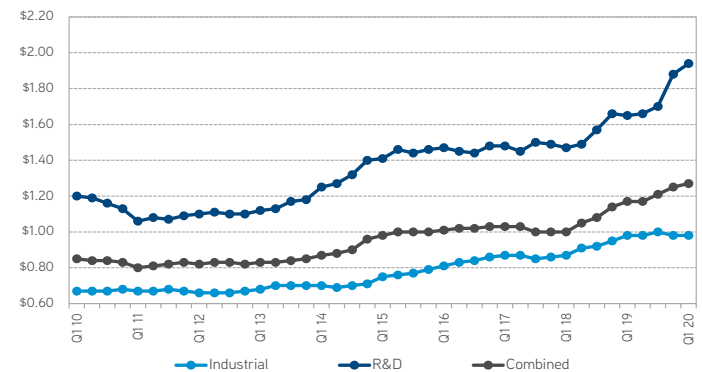
Property/Address	Submarket	Use	Size (SF)	Sale Price	\$/SF	Buyer	Seller
2620 Commerce Way	Vista	Ind.	197,104	\$26,400,000	\$134	Westcore Properties	EverWest Real Estate Investors
9431 Dowdy Drive	Miramar	Ind.	55,200	\$11,000,000	\$199	Fidelity Investments	Providence Capital Group
1340 N Melrose Drive	Vista	Ind.	56,975	\$8,400,000	\$147	U-Stor-It	Douglas Wheel, Inc.
7630 Carroll Road	Miramar	R&D	42,261	\$6,800,000	\$161	University Vista LLC	Miramar Metroplex LP
3201 Hoover Avenue	National City	Ind.	42,700	\$6,700,000	\$157	Rancho Hoover LP	3021 Hoover LLC
2460 Ash Street	Vista	Ind.	36,284	\$6,100,000	\$168	Closet World	Progressive Medical Intl.

San Diego Historical Industrial/R&D Market Trends



San Diego Historical Industrial/R&D Rental Rates

Average Asking Monthly Rate per SF, Triple Net



Industrial Market Overview - Q1 2020

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	42,301,232	2.8%	0.2%	3.1%	3.0%	(16,974)	(16,974)	0	0	0	\$1.25
North County	44,311,592	6.5%	0.2%	6.7%	6.9%	65,251	65,251	0	0	77,774	\$0.97
I-15 Corridor	10,731,088	1.5%	0.3%	1.7%	1.6%	(11,516)	(11,516)	0	0	674,977	\$1.26
South County	30,208,716	3.1%	0.1%	3.2%	3.0%	73,213	73,213	137,000	137,000	327,899	\$0.77
East County	12,464,704	2.3%	0.0%	2.3%	1.8%	(55,021)	(55,021)	0	0	7,413	\$0.95
TOTAL	140,017,332	3.9%	0.2%	4.1%	4.0%	54,953	54,953	137,000	137,000	1,088,063	\$0.98
R&D Flex, wet lab and R&D											
Central County	31,686,346	8.2%	1.3%	9.4%	9.3%	158,035	158,035	235,782	235,782	202,418	\$2.30
North County	12,438,276	7.1%	0.6%	7.8%	7.5%	(27,093)	(27,093)	0	0	0	\$1.19
I-15 Corridor	8,501,691	6.8%	0.9%	7.6%	7.7%	3,075	3,075	0	0	0	\$1.81
South County	672,860	2.4%	0.0%	2.4%	3.4%	6,500	6,500	0	0	0	\$1.04
East County	1,455,821	0.7%	0.0%	0.7%	0.5%	(1,731)	(1,731)	0	0	0	\$1.28
TOTAL	54,754,994	7.4%	1.0%	8.5%	8.3%	138,786	138,786	235,782	235,782	202,418	\$1.94
SAN DIEGO COUNTY TOTAL (INDUSTRIAL + R&D)											
Central County	73,987,578	5.1%	0.7%	5.8%	5.7%	141,061	141,061	235,782	235,782	202,418	\$1.89
North County	56,749,868	6.7%	0.3%	6.9%	7.0%	38,158	38,158	0	0	77,774	\$1.00
I-15 Corridor	19,232,779	3.8%	0.5%	4.3%	4.3%	(8,441)	(8,441)	0	0	674,977	\$1.45
South County	30,881,576	3.0%	0.1%	3.2%	3.0%	79,713	79,713	137,000	137,000	327,899	\$0.80
East County	13,920,525	2.1%	0.0%	2.1%	1.7%	(56,752)	(56,752)	0	0	7,413	\$0.95
TOTAL	194,772,326	4.9%	0.4%	5.3%	5.2%	193,739	193,739	372,782	372,782	1,290,481	\$1.27

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

CENTRAL COUNTY											
Airport / SA	1,901,222	0.9%	1.1%	2.0%	1.1%	(18,160)	(18,160)	0	0	0	\$1.66
Campus Pt / Egate	4,688,896	4.7%	2.3%	7.0%	6.5%	69,179	69,179	98,282	98,282	0	\$3.99
Central San Diego	9,020,530	2.9%	0.2%	3.2%	2.9%	(23,505)	(23,505)	0	0	0	\$1.16
Kearny Mesa	16,547,365	3.5%	0.5%	4.0%	4.1%	19,613	19,613	0	0	0	\$1.64
Miramar	14,017,023	3.8%	0.1%	4.0%	3.8%	(23,803)	(23,803)	0	0	0	\$1.48
Mission Gorge / Vly	2,179,369	4.4%	0.0%	4.4%	4.9%	11,187	11,187	0	0	0	\$1.57
Rose Cyn / Morena	4,045,685	0.3%	0.0%	0.3%	0.5%	7,821	7,821	0	0	0	\$1.35
Sorrento Mesa	12,669,867	10.3%	1.3%	11.6%	11.2%	(49,654)	(49,654)	0	0	0	\$2.14
Sorrento Valley	3,441,461	9.0%	0.3%	9.3%	8.5%	(26,725)	(26,725)	0	0	0	\$3.17
Torrey Pines	5,476,160	8.4%	1.3%	9.7%	10.7%	175,108	175,108	137,500	137,500	202,418	\$4.84
TOTAL	73,987,578	5.1%	0.7%	5.8%	5.7%	141,061	141,061	235,782	235,782	202,418	\$1.89
NORTH COUNTY											
Carlsbad	16,060,151	10.4%	0.5%	10.9%	11.2%	51,028	51,028	0	0	50,150	\$1.11
Escondido	7,705,530	2.4%	0.4%	2.9%	3.0%	6,741	6,741	0	0	0	\$0.96
Oceanside	10,098,054	3.5%	0.0%	3.5%	3.7%	22,322	22,322	0	0	0	\$0.92
San Marcos	8,656,540	6.0%	0.0%	6.0%	5.7%	(23,795)	(23,795)	0	0	27,624	\$0.95
Vista	14,229,593	7.4%	0.2%	7.6%	7.5%	(18,138)	(18,138)	0	0	0	\$0.93
TOTAL	56,749,868	6.7%	0.3%	6.9%	7.0%	38,158	38,158	0	0	77,774	\$1.00
I-15 CORRIDOR											
Poway	9,139,994	0.9%	0.1%	1.1%	1.3%	20,485	20,485	0	0	533,950	\$1.06
Rancho Bernardo	8,230,777	6.5%	1.1%	7.6%	7.4%	(13,635)	(13,635)	0	0	141,027	\$1.65
Scripps Ranch	1,862,008	5.8%	0.4%	6.2%	5.3%	(15,291)	(15,291)	0	0	0	\$1.22
TOTAL	19,232,779	3.8%	0.5%	4.3%	4.3%	(8,441)	(8,441)	0	0	674,977	\$1.45
SOUTH COUNTY											
Otay Mesa	16,284,575	3.8%	0.0%	3.9%	3.4%	49,308	49,308	137,000	137,000	327,899	\$0.75
South Bay	14,597,001	2.2%	0.2%	2.4%	2.6%	30,405	30,405	0	0	0	\$1.05
TOTAL	30,881,576	3.0%	0.1%	3.2%	3.0%	79,713	79,713	137,000	137,000	327,899	\$0.80
EAST COUNTY											
TOTAL	13,920,525	2.1%	0.0%	2.1%	1.7%	(56,752)	(56,752)	0	0	7,413	\$0.95

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.



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68 countries on
6 continents

\$3.5 billion in annual revenue
2.0 billion square feet managed
70,000 lease and sale transactions

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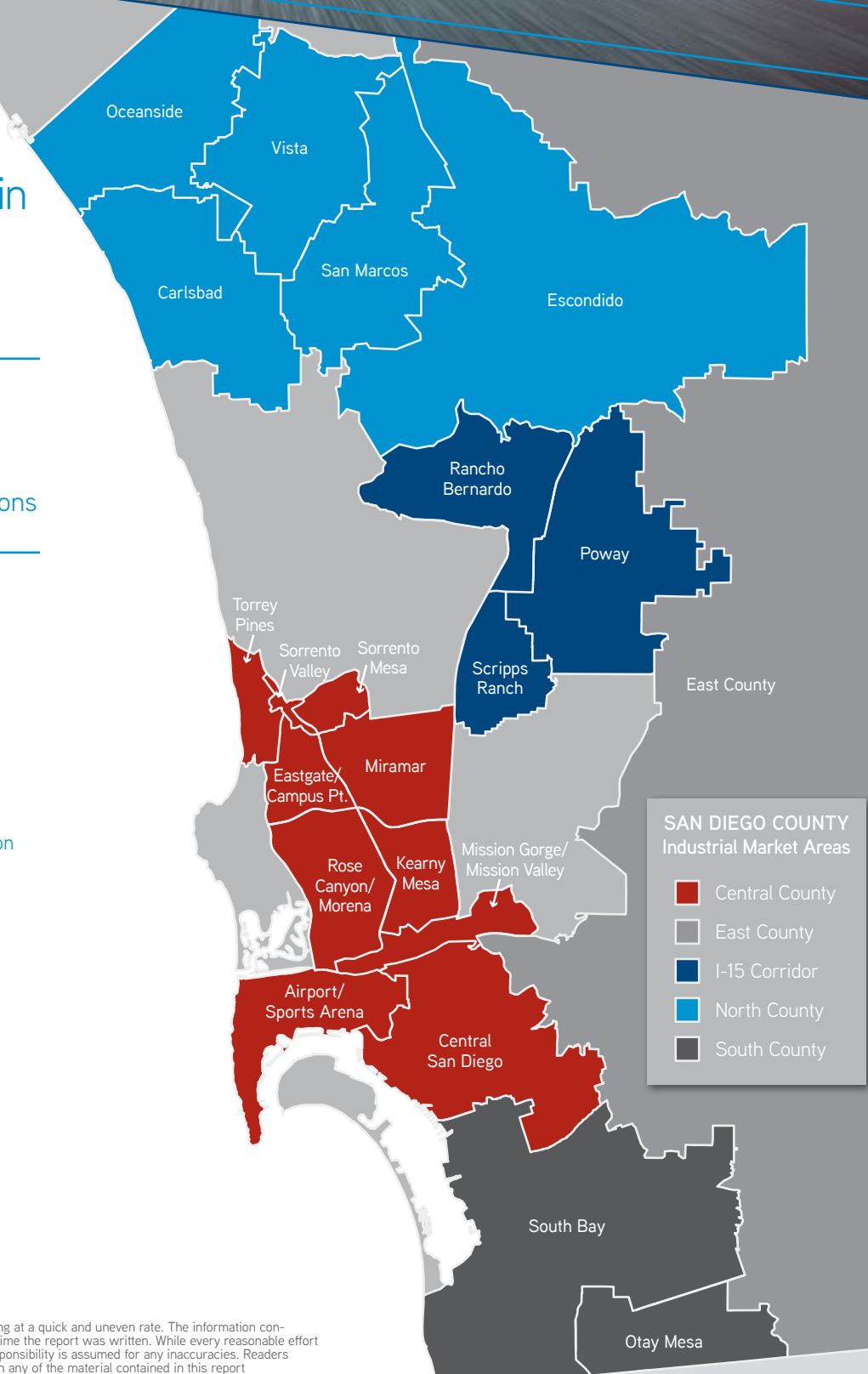
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SAN DIEGO COUNTY Industrial Market Areas

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

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