

MARKET OVERVIEW. Most of the first quarter was in the books by the time shelter-in-place orders took effect in March. The first quarter will primarily act as a benchmark from which to compare the pandemic effects on the market over the subsequent quarter. The industrial market came into the crisis with the most momentum among commercial property types. Demand from tenants and buyers has been extremely strong, as evidenced by the dramatic increase in rental rates and sales pricing in this economic cycle. The construction pipeline finally got up and running over the past couple years which provided some relief on vacancy rates which were extremely tight. The first quarter was subdued in terms of recent expectations. There were no rental rate increases, and negative net absorption caused the vacancy rate to tick up.

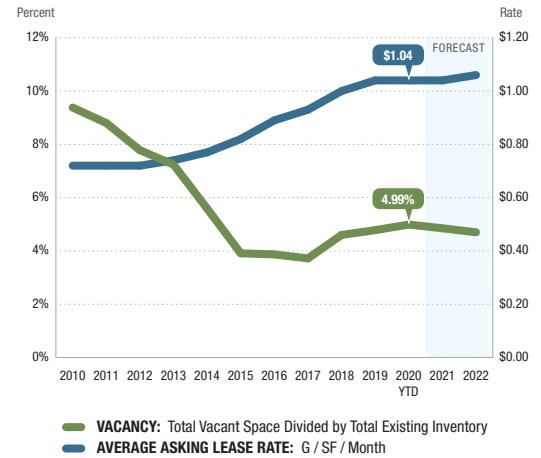
VACANCY. Direct/sublease space (unoccupied) finished the first quarter of 2020 at 4.99%, an increase of 21 basis points from the previous quarter's vacancy rate of 4.78%. Unsurprisingly, the areas with the least amount of recent construction, Central County and East County, both have overall vacancy rates near 3%, well below the countywide average.

LEASE RATES. The average asking lease rate checked in at \$1.04 per square foot per month, which is unchanged from the prior quarter, and unchanged from the rate of a year ago. Average asking lease rates have increased a total of 42% over the past 10 years.

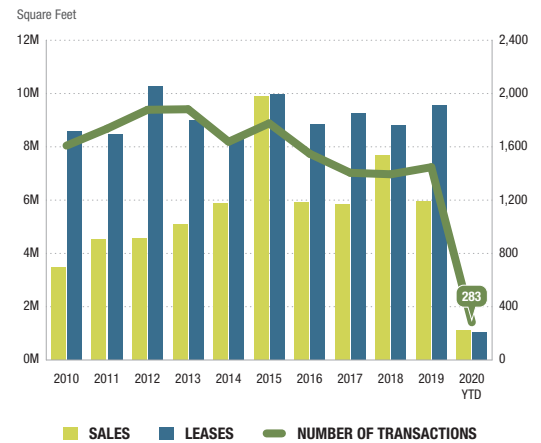
TRANSACTION ACTIVITY. The total leased and sold in the first quarter of 2020 was approximately 2.2 MSF, a decrease from the 3.3 MSF of transactions in the fourth quarter of 2019. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report.

EMPLOYMENT. The unemployment rate in San Diego County was 3.2% in February 2020, down from a revised 3.3% in January 2020, and below the year-ago estimate of 3.4%. This compares with an unadjusted unemployment rate of 4.3% for California and 3.8% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 26,400 payroll jobs between February 2019 and February 2020. In mid-March the unemployment claims for the United States as a whole came in at 3.28 million claims for a single week which was a record claim for a single week, nearly five times greater than the previous record which was set in 1982. Subsequent weeks had even more unemployment claims. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. Suffice it to say stay-at-home orders related to the COVID-19 pandemic will lead to an increase in local unemployment over the next months.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

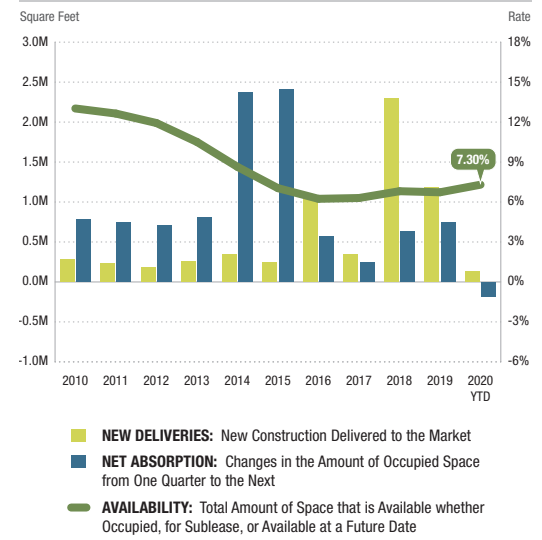
	Change Over Last Quarter	1Q 2020	4Q 2019	1Q 2019	% Change Over Last Year
Vacancy Rate	▲ UP	4.99%	4.78%	4.32%	15.65%
Availability Rate	▲ UP	7.30%	6.73%	7.09%	2.93%
Average Asking Lease Rate	▬ FLAT	\$1.04	\$1.04	\$1.04	0.00%
Sale & Lease Transactions	▼ DOWN	2,150,370	3,323,468	2,992,445	(28.14%)
Gross Absorption	▲ UP	1,714,928	1,374,030	1,885,540	(9.05%)
Net Absorption	▼ NEGATIVE	(185,609)	(224,182)	686,461	N/A

CONSTRUCTION. 2.7 MSF of new industrial projects were delivered in 2018, the most square feet delivered since 2006, followed by 1.2 MSF delivered in 2019. The construction pipeline still has legs, with 1.2 MSF under construction. With the vast majority of the North County construction already completed, Poway has moved to the forefront as the submarket with the most product currently under construction. Ryan Companies is developing a 531,000 square foot speculative project in Poway called Vantage Point. Next up looks to be South County with a string of projects lined up, not least of which is the 2.6 MSF distribution facility that Amazon is planning in Otay Mesa. It will be the first of its kind in San Diego County, and among a handful of multistory projects Amazon has in the works across the U.S.

ABSORPTION. There was negative net absorption of 185,609 square feet in the first quarter. The North County actually recorded nearly half a million square feet of positive net absorption in the first quarter, but Chula Vista had the largest negative net absorption in the county of approximately 300,000 square feet. This stems from the Collins/UTC Aerospace manufacturing downsizing. The San Diego industrial market has not seen a calendar year of negative net absorption since 2009.

AVAILABILITY. Direct /sublease space being marketed was 7.3% at the end of the first quarter, an increase from the previous quarter's availability rate of 6.73%, and an increase of 21 basis points since the first quarter of 2019. The availability rate remains more than two percentage points higher than the vacancy rate. Most of this available space which is not vacant is in the current construction pipeline.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Forecast

Last quarter we were most concerned about warnings of a global slowdown, US GDP growth and trade relations between the US and China. But the world has changed, and we are finally able to identify the Black Swan that economists have been hedging their forecasts with for years. The COVID-19 virus, first identified in China, has circled the planet in a matter of weeks, causing leaders around the world to take aggressive steps to stop it. Entire countries are on lockdown and our own federal and state governments have taken steps similar to our neighbors in Asia and Europe.

It's too early to tell what the exact long-term impact the reaction to the virus will have on the San Diego industrial market, but we do predict a near-term decrease in occupancy rates and transaction volume. We should see the statistical evidence of that in the second quarter numbers. We expect the decrease in occupancy and leasing volume to place downward pressure on rental rates in the next quarter, and all eyes will be fixed upon the depth of the downturn and the speed of the recovery to formulate forward guidance.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2620 Commerce Way	Vista	197,104	\$26,400,000	Westcore Properties	EverWest Real Estate Investors
2025 Gillespie Way	El Cajon	150,159	\$15,900,000	Cabot Properties	NSD Associates, LLC
9431 Dowdy Dr.	Miramar	55,200	\$11,000,000	Stos Partners	Providence Capital Group
1340 N. Melrose Dr.	Vista	56,975	\$8,400,000	U-Stor-It	Douglas Wheel
3201 Hoover Ave.	National City	42,700	\$6,700,000	Rancho Hoover, LLC	3201 Hoover, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1345 Sycamore Ave.	Vista	108,758	Feb-2020	Ernest Packaging Solutions	Sun Life Investment Management
10054 Old Grove Rd.	Scripps Ranch	85,824	Feb-2020	Undisclosed	CapRock Partners
2777 Loker Ave. W.	Carlsbad	59,215	Jan-2020	Amazon	First Industrial Realty Group
955 Gateway Center Way	Southeast San Diego	39,777	Feb-2020	RRD San Diego	LIA Associates, LLC
8330 Arjons Dr.	Miramar	27,510	Feb-2020	Kirei	Stos Partners

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2020	Square Feet Available	Availability Rate 1Q2020	Average Asking Lease Rate	Net Absorption 1Q2020	Net Absorption 2020	Gross Absorption 1Q2020	Gross Absorption 2020
Central County													
Central City	94	1,496,590	0	0	21,103	1.41%	21,103	1.41%	-	8,600	8,600	13,600	13,600
East City	62	966,404	0	0	0	0.00%	12,600	1.30%	-	0	0	0	0
Southeast City	367	4,281,680	0	0	123,754	2.89%	162,536	3.80%	\$1.16	10,540	10,540	41,487	41,487
Kearny Mesa	427	9,873,716	0	344,000	233,097	2.36%	0	0.00%	\$1.48	(6,313)	(6,313)	64,137	64,137
Mission Gorge	110	1,755,746	0	0	20,892	1.19%	170,213	9.69%	\$1.49	9,495	9,495	25,682	25,682
Rose Canyon / Morena	130	2,089,801	0	0	17,962	0.86%	138,201	6.61%	\$0.92	(14,100)	(14,100)	0	0
Sports Arena / Airport	141	1,615,801	0	0	42,470	2.63%	62,370	3.86%	\$1.29	(23,600)	(23,600)	2,000	2,000
Miramar	583	13,128,111	0	615,000	409,433	3.12%	682,822	5.20%	\$1.26	(16,017)	(16,017)	141,353	141,353
Sorrento Mesa	71	3,402,781	0	0	266,093	7.82%	163,014	4.79%	\$1.45	(54,308)	(54,308)	4,088	4,088
Sorrento Valley	42	1,021,287	0	451,832	8,879	0.87%	23,528	2.30%	\$1.45	4,539	4,539	6,306	6,306
Central County Total	2,027	39,631,917	0	1,410,832	1,143,683	2.89%	1,436,387	3.62%	\$1.31	(81,164)	(81,164)	298,653	298,653
East County													
El Cajon	453	9,124,730	0	0	240,453	2.64%	526,468	5.77%	\$1.05	(71,917)	(71,917)	79,942	79,942
La Mesa / Spring Valley	310	2,641,110	0	50,000	211,632	8.01%	261,968	9.92%	\$0.93	6,300	6,300	20,600	20,600
Santee / Lakeside	277	3,632,435	7,413	221,872	105,975	2.92%	130,943	3.60%	\$1.00	4,216	4,216	5,716	5,716
Outlying SD County South	76	770,730	0	0	3,200	0.42%	3,200	0.42%	\$1.00	0	0	0	0
East County Total	1,116	16,169,005	7,413	271,872	561,260	3.47%	922,579	5.71%	\$1.00	(61,401)	(61,401)	106,258	106,258
North County													
Escondido	632	7,529,813	0	0	166,101	2.21%	284,835	3.78%	\$1.00	56,710	56,710	107,728	107,728
Oceanside	406	9,291,385	0	24,036	323,514	3.48%	525,732	5.66%	\$0.96	55,826	55,826	103,859	103,859
San Marcos	474	7,973,713	27,624	84,000	744,229	9.33%	809,635	10.15%	\$1.00	(63,963)	(63,963)	66,627	66,627
Vista	530	12,827,753	0	60,165	992,204	7.73%	1,558,067	12.15%	\$0.95	164,463	164,463	283,825	283,825
Carlsbad	232	8,906,063	50,150	0	876,403	9.84%	1,064,650	11.95%	\$1.08	229,043	229,043	255,180	255,180
North Beach Cities	42	257,017	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Outlying SD County North	110	968,618	0	3,754	17,403	1.80%	21,889	2.26%	\$0.98	1,106	1,106	4,200	4,200
North County Total	2,426	47,754,362	77,774	171,955	3,119,854	6.53%	4,264,808	8.93%	\$0.99	443,185	443,185	821,419	821,419
I-15 Corridor													
Poway	184	7,400,032	533,950	0	93,323	1.26%	688,047	9.30%	\$1.11	66,229	66,229	109,344	109,344
Rancho Bernardo	43	3,135,718	141,027	0	293,673	9.37%	446,980	14.25%	\$1.36	(50,216)	(50,216)	5,968	5,968
Scripps Ranch	28	707,899	0	0	85,824	12.12%	4,875	0.69%	\$1.23	0	0	0	0
I-15 Corridor Total	255	11,243,649	674,977	0	472,820	4.21%	1,139,902	10.14%	\$1.22	16,013	16,013	115,312	115,312
South County													
Chula Vista	325	8,609,208	95,500	67,500	592,978	6.89%	882,858	10.25%	\$0.91	(290,913)	(290,913)	153,352	153,352
National City	255	3,787,210	0	25,000	32,078	0.85%	56,406	1.49%	\$1.38	(3,221)	(3,221)	7,735	7,735
Otay Mesa	338	16,199,018	327,899	4,714,233	1,275,425	7.87%	1,836,034	11.33%	\$0.77	(195,878)	(195,878)	207,629	207,629
South San Diego	63	1,343,919	0	24,121	31,554	2.35%	24,354	1.81%	\$1.09	(12,230)	(12,230)	4,570	4,570
South County Total	981	29,939,355	423,399	4,830,854	1,932,035	6.45%	2,799,652	9.35%	\$0.81	(502,242)	(502,242)	373,286	373,286
San Diego County Total	6,805	144,738,288	1,183,563	6,685,513	7,229,652	4.99%	10,563,328	7.30%	\$1.04	(185,609)	(185,609)	1,714,928	1,714,928
0-9,999	3,080	15,658,215	16,413	7,804	385,923	2.46%	571,900	3.65%	\$1.24	(17,702)	(17,702)	139,658	139,658
10,000-19,999	1,777	25,104,614	18,624	18,200	730,024	2.91%	1,180,056	4.70%	\$1.21	(11,199)	(11,199)	289,555	289,555
20,000-34,999	982	25,202,507	31,360	233,121	780,937	3.10%	1,276,170	5.06%	\$1.08	(36,473)	(36,473)	276,863	276,863
35,000-49,999	354	14,583,314	85,100	172,400	642,140	4.40%	1,044,221	7.16%	\$1.07	(13,068)	(13,068)	161,435	161,435
50,000-99,999	392	26,973,519	102,150	542,008	1,231,912	4.57%	1,896,422	7.03%	\$0.92	329,593	329,593	508,186	508,186
100,000 Plus	220	37,216,119	929,916	5,711,980	3,458,716	9.29%	4,594,559	12.35%	\$0.96	(436,760)	(436,760)	339,231	339,231
San Diego County Total	6,805	144,738,288	1,183,563	6,685,513	7,229,652	4.99%	10,563,328	7.30%	\$1.04	(185,609)	(185,609)	1,714,928	1,714,928

Lease rates are on an industrial-gross basis.



How Will the COVID-19 Impact COMMERCIAL REAL ESTATE?

by **Alex Jize**

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As an active commercial real estate agent, I spend a lot of my time each day on the phone with commercial owners. Over just the last few days, it has become more evident what the reality of this current pandemic mean to the commercial real estate industry.

I have spoken with clothing distribution companies, food processing businesses, machine shop owners and others who are all being directly affected by what is going on globally, all in different ways. Many business owners are yet to feel an impact, but are closely monitoring the situation. Some are making moves to conserve cash in response to higher levels of near-term economic uncertainty.

On a positive note, I am currently managing escrows for clients who are taking advantage of the lowest interest rates in history. Fully amortized, 25-year SBA mortgages are currently available at the stunning low rate of 2.93%, a nice surprise for those who expected to pay a much higher rate when their escrows opened just weeks ago. Also, investors who are buying assets with long-term leases in place, with credit tenants, are in a great position. Unlike what we are seeing with the volatility of the stock and bond markets, commercial real estate is remaining strong and is offering much higher returns than any other asset class. Currently, the US 10-year Treasury bond is at 0.75%. You can buy a quality triple-net property with zero or minimal ownership responsibilities, with a long-term corporate-backed lease, at a cap rate ranging from 4.00% to 5.50%, depending on location and tenant's credit strength.

As a local owner, it makes the most sense to stay the course and let this unexpected anomaly run its natural course. Low-rate mortgage money from the SBA will be an offsetting factor and should help demand keep pace with current supply. As far as the leasing market stands, I believe there is going to be a bit of a slowdown over the next two or three months due to the coronavirus and its global repercussions.

Product Type

MFG./DIST.

Manufacturing / Distribution / Warehouse facilities with up to 49.9% office space.

Submarkets

CENTRAL COUNTY

Central City, East City, Southeast City, Kearny Mesa, Mission Gorge, Rose Canyon / Morena, Sports Arena / Airport, Miramar, Sorrento Mesa, Sorrento Valley

EAST COUNTY

El Cajon, La Mesa / Spring Valley, Santee / Lakeside, Outlying SD County South

NORTH COUNTY

Escondido, Oceanside, San Marcos, Vista, Carlsbad, North Beach Cities, Outlying SD County North

I-15 CORRIDOR

Poway, Rancho Bernardo, Scripps Ranch

SOUTH BAY

Chula Vista, National City, Otay Mesa, South San Diego

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