

INVESTMENT FORECAST

INDUSTRIAL
San Diego Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2019

Diverse Industrial Users Maintain Tight Conditions; High Returns, Variety of Listings Attract Mix of Investors

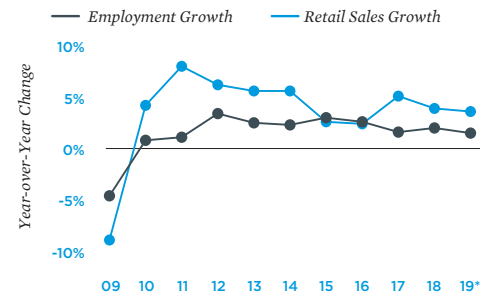
Northern and southern submarkets benefit from limited availability elsewhere. Home to one of the largest biotech sectors in the nation, San Diego County witnessed an uptick in vacancy for the first time this cycle during 2018, largely driven by the delivery of 2.8 million square feet of space and a collection of larger move outs. Despite this increase, availability in the metro held below 6 percent for a fourth consecutive year. Moving forward, vacancy is slated to adjust marginally amid another strong year for manufacturing-related job creation and continued growth by pharmaceutical, life science, and logistical/warehouse companies. Expansion among these firms will bolster demand for the already limited stock of vacant R&D and flex buildings in the La Jolla and Torrey Pines areas as well as along Miramar Road. Tight vacancy in these locales and central San Diego County requires tenants looking for lower-cost warehouses and distribution facilities to occupy floor plans in South Bay and the SR-78 Corridor, benefiting leasing velocity and asking rent growth in these submarkets.

Buyers seek strategically located Southern California assets at regionally above-average returns. San Diego County's variety of available industrial assets maintains its diverse buyer pool, as numerous opportunities exist for both \$3 million to \$10 million and \$15 million-plus capital deployments. Local and in-state private investors with an eye for Class B and C warehouses and manufacturing facilities target South Bay and the SR 78 Corridor. In both locales, post-2000-built properties are obtainable at mid-5 to 6 percent first-year cap rates. R&D space in the biotech hub of North San Diego remains coveted by institutional investors willing to pay a premium for 1980s- to 1990s-built Class B buildings that provide high-5 to high-6 percent yields. Buyers seeking slightly higher returns in the same submarket acquire light manufacturing facilities in Miramar and Sorrento Valley.

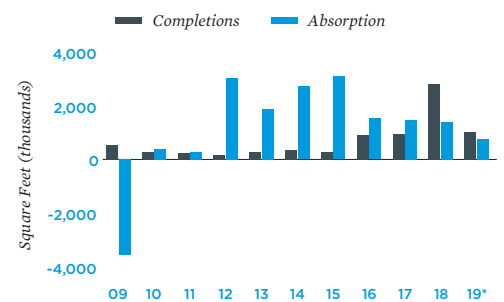
2019 Market Forecast

- Employment up 1.5%
Organizations create 23,000 positions in 2019. Last year, employers added 28,800 jobs.
- Construction 1 million sq. ft.
Completions fall by 1.8 million square feet this year. The SR-78 Corridor is home to the majority of speculative warehouse space slated for finalization in 2019.
- Vacancy up 10 bps
On net absorption of 760,000 square feet, metro vacancy inches up to 5.4 percent this year following an increase of 80 basis points in 2018.
- Rent up 5.4%
After rising by more than 19 percent last year, the metro's average asking rent will climb to a historically high \$15.95 per square foot in 2019.
- Investment
The number of multi-property transactions over the past year should create opportunities for private investors to acquire multi-tenant properties on a one-off basis, as institutional owners trim down their newly-acquired portfolios.

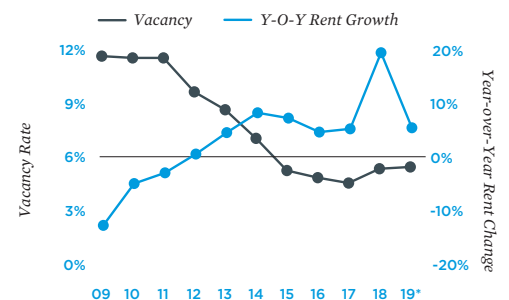
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



* Forecast;

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2018. Asking rent is based on the full-service marketed rental rate. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.