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Colliers: Industrial vacancy hits record low

By Thor Kamban Biberman

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Ionis Pharmaceuticals recently paid \$79.4 million for a new, 176,000-square-foot building at 2855 Gazelle Court in Carlsbad. BioMed Realty Trust is the developer.

The combined industrial and R&D vacancy rate in San Diego County reached an all-time low in the third quarter, according to the latest report from Colliers International.

The report found the overall countywide industrial vacancy rate -- which includes both direct and sublease space -- dipped to 4.51 percent in the third quarter. The figure hasn't risen higher than 5 percent during the past two years.

"Vacancy will likely break the 4.5 percent threshold at year-end," Colliers stated. "The lowest historical rate was 4.9 percent, recorded nearly 20 years ago [the fourth quarter of 1997]. It has stayed in this range because the last seven quarters have seen a balance between supply and demand: 2.7 million square feet of net absorption along with 2.1 million square feet of new construction."

Colliers added that another 2 million square feet of industrial space was under construction as of Sept. 30 and construction completions in 2018 are projected to reach their highest levels in 11 years.

The report said even though more than 81 percent of the new construction is speculative, the overall vacancy rate should remain between 4.5 and 5 percent next year because of constant demand.

Only six of the county's 21 submarkets posted a vacancy rate higher the county average, and Campus Point/Eastgate was the only one to post a double-digit vacancy rate of 18.2 percent.

The Campus Point vacancy rate is entirely comprised of R&D space, but positive demand even caused this submarket to see slight vacancy rate improvement of 49 basis points during the quarter.

All submarkets continue to remain under 9 percent for their industrial, non-R&D inventories. The total countywide vacancy rate of 3.5 percent for industrial space decreased six basis points quarter-over-quarter in the third quarter.

The county's net industrial absorption amounted to 522,609 square feet in the third quarter, a decrease of more than 400,000 square feet from a year ago, according to Colliers. Net industrial/R&D absorption amounted to approximately 1.49 million square feet through the first nine months of the year.

In Rancho Bernardo, Amazon signed a lease for the entire 180,946 square feet at 16550 Via Esprillo. The building was sold to Realterm Logistics for \$60.5 million this month.

Petco also renewed its lease at its 260,000-square-foot headquarters building at 10850 Via Frontera in Rancho Bernardo, following an earlier sale leaseback transaction.

A total of 138,213 square feet of industrial construction was completed in the third quarter.

Badiee Development completed the 55,573-square-foot Innovation Ridge at 3248 Lionshead Avenue in Carlsbad. Additionally, Techbilt Cos. completed the 82,640 square-foot Poway Corporate Center building at 11905 Community Road. It is occupied by General Atomics.

There was an additional 1.96 million square feet under construction in the third quarter, of which 63,900 square feet will be completed by the end of the year.

Techbilt will be completing a 63,900-square-foot building in Carlsbad Oaks East Business Park during the fourth quarter.

In one of the biggest sales of the third quarter, Ionis Pharmaceuticals paid \$79.4 million for a 176,000-square-foot building it is occupying at 2855 Gazelle Court in Carlsbad. BioMed Realty Trust is the developer.

Crown Acquisition Associates paid \$44 million in September for the 134,000-square-foot old Time Warner Cable building at 10450 Pacific Center Court in Sorrento Mesa.

Gramercy Property Trust paid \$23.8 million for the 184,000-square-foot Sears Distribution Center building at 960 Sherman Street in San Diego's Morena area in July.

Nine older buildings in Chula Vista's Southrail Business Park were picked up by George Rollins Focus Real Estate Services for \$18 million.