

# San Diego Industrial Market Report

## Vacancy at Historical Low as High Demand Persists

- The average asking rent retreated slightly to \$1.21/SF after reaching an all-time high of \$1.24/SF at the end of 2021. The average asking rent is now up 4.5% over the past year and has averaged 5.5% annual growth over the past 10 years.
- Vacancy fell 20 basis points from last quarter to reach 3.2%, a new all-time low. Current vacancy is down 200 basis points from the first quarter of 2021.
- Net absorption remained strongly positive with 697,939 square feet, marking the sixth consecutive quarter of net gains. This was a bit lower compared to the blockbuster numbers from the previous three quarters, because the market is simply running out of space to lease. The last four quarters have logged 7.4 million square feet of net absorption, which would be more than enough to lease up the 7.1 million square feet of currently available space.
- Sublease availability also reached an all-time low of 0.4% as tenants scoured the market for spaces.
- Construction remained at 2.1 million square feet, most of which is speculative development. No new projects delivered.

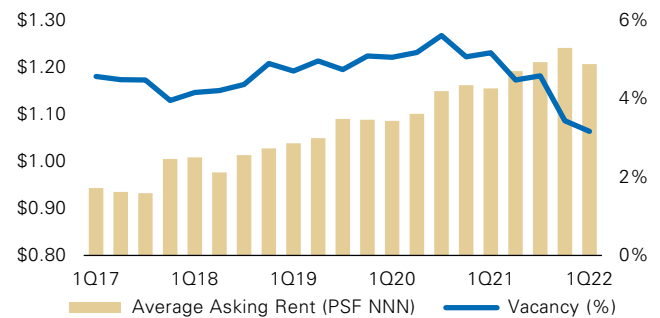
### Dwindling Availability Propels Development

As existing availabilities become increasingly scarce, developers have focused heavily on speculative developments. Otay Mesa remains the busiest submarket for new construction due to the availability of developable land, with 1.7 million square feet of construction currently underway.

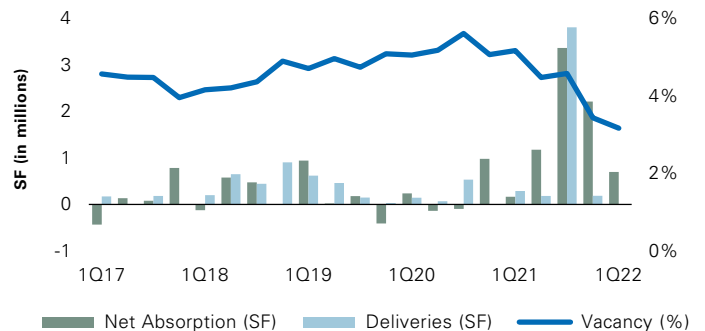
While most of this construction commenced on a speculative basis, an increasing number of projects are signing leases prior to completion, including to the perennially expanding Amazon, which pre-leased 202,000 square feet from Sudberry Properties at the under-construction California Crossings project in Otay Mesa. Developers have preferred to hold off on signing deals until close to delivery, because market rent growth has been so

### Market Analysis

#### ASKING RENT AND VACANCY



#### NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



### Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	167.2M	166.9M	162.7M	↑
Total Vacancy Rate	3.2%	3.4%	5.2%	↓
Quarterly Net Absorption (SF)	698K	2.2M	166K	→
Average Asking Rent/SF/Month	\$1.21 NNN	\$1.24 NNN	\$1.16 NNN	↑
Deliveries (SF)	0	185K	291K	↑
Under Construction (SF)	2.1M	2.1M	5.1M	→

## RESEARCH Q1 2022

strong that the upside of future rates has outweighed the security of a guaranteed tenant.

Transaction volume cooled in the first quarter of 2022 relative to the record-setting numbers set in the third and fourth quarters of 2021, but still totaled a healthy \$566.0 million in sales. Sales volume over the past 12 months totaled \$3.1 billion, the highest four-quarter total in San Diego's history. Industrial investors increasingly compete with life science product for existing buildings and development sites, driving up prices.

### Employment and Economic Outlook

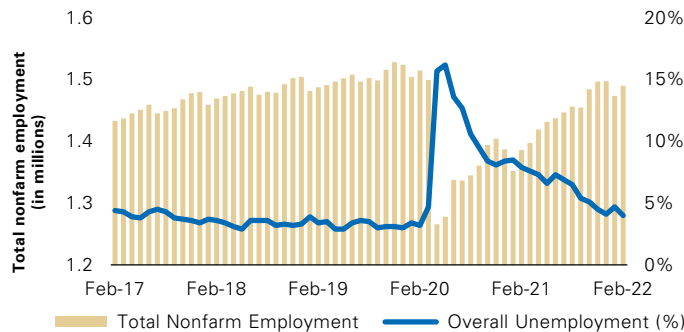
San Diego's unemployment rate was 4.0% in February, a new pandemic era low and close to the 3.2% rate from February 2019. Total nonfarm employment was just 24,900 jobs short of February 2020's level; since April 2020, the market has added 224,400 jobs. Transportation jobs in particular bounced back as employers expanded hiring to accommodate the record amount of goods moving through the global supply chain.

Supply chain disruptions eased this quarter, as businesses and government authorities slowly unravel container ship congestion and other logistical bottlenecks caused by last year's lurching resumption of global economy activity. Costs for transportation remain elevated, largely due to spiking inflation for fuel and vehicles, which will mitigate the overall rate of growth for the industrial sector.

Industrial product remains in high demand nationwide. San Diego's position as a land and sea port of entry makes it attractive to occupiers, investors and developers. Even though San Diego's vacancy rate of 3.2% is historically low, it is still higher than the major Southern California markets of Los Angeles (0.9%) and the Inland Empire (0.6%), allowing the region to attract tenants from these areas that cannot wait for new space to be vacated or built. It remains a landlord's market, and rents are forecast to continue to grow while economic conditions hold steady. Even more construction seems inevitable as the pipeline is being absorbed as fast as it comes online.

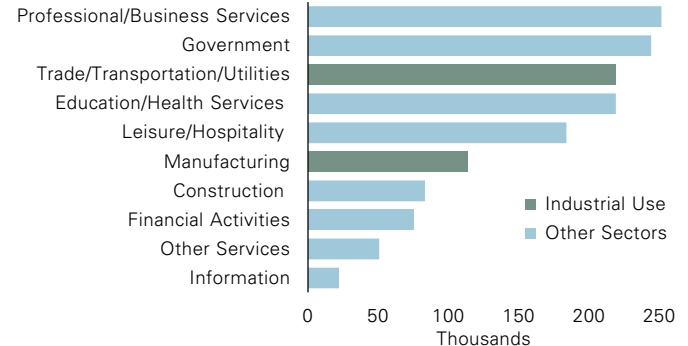
### Unemployment Rate

NOT SEASONALLY ADJUSTED



### Employment by Industry

NOT SEASONALLY ADJUSTED (JOBS IN THOUSANDS)



Source: U.S. Bureau of Labor Statistics (Preliminary data, not seasonally adjusted). Includes information, financial activities and professional and business services jobs.

### Lease Transactions

Tenant	Building	Market Area	Lease Type	Square Feet
Amazon	717 Harvest Road	Otay Mesa	Pre-lease	202,408
RF Industries	16868 Via Del Campo Court	Rancho Bernardo	Direct	86,952
MC Group	7707 Paseo de la Fuente	Otay Mesa	Direct	79,961

### Sale Transactions

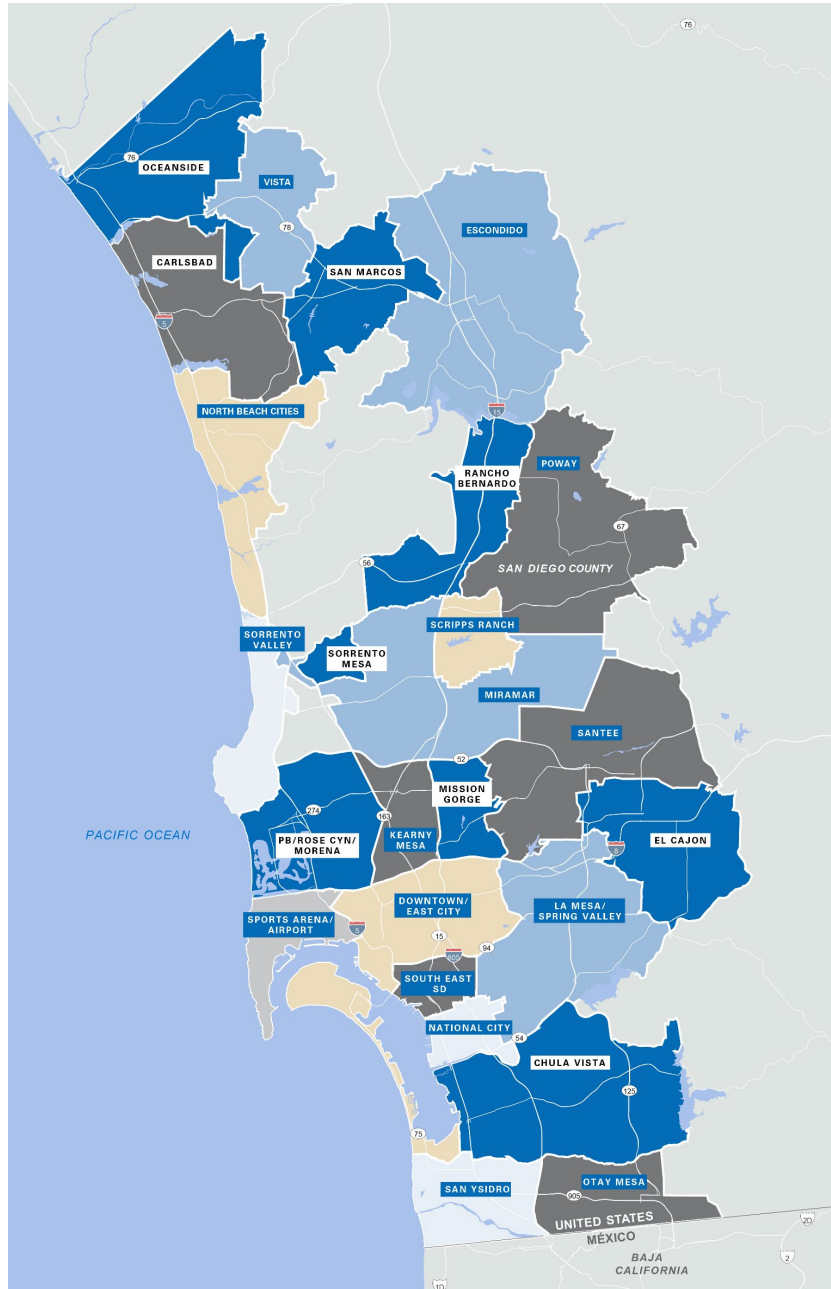
Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
Oxford Properties Group	13-Property Portfolio	Multiple	\$464,300,000 (\$722/SF)	642,886
LBA Realty	11035-11055 Technology Place	Rancho Bernardo	\$96,000,000 (\$441/SF)	217,645
Alexandria Real Estate Equities	10256 Meanly Drive	Scripps Ranch	\$20,500,000 (\$375/SF)	54,664

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Wh/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Average Asking Rent (Price/SF)
Carlsbad	13,739,646	25,714	2.4%	241,104	241,104	\$1.37	\$1.41	\$1.36
Chula Vista	9,286,061	66,860	3.1%	-176,142	-176,142	\$0.96	-	\$0.97
Downtown/East City	2,147,004	0	2.5%	15,000	15,000	\$1.22	-	\$1.27
El Cajon	9,649,064	0	1.2%	79,768	79,768	\$1.11	-	\$1.01
Escondido	6,054,054	0	2.1%	2,762	2,762	\$1.12	-	\$1.13
Kearny Mesa	14,009,561	315,000	3.8%	-44,589	-44,589	\$1.42	\$2.16	\$1.57
La Mesa/Spring Valley	1,884,793	0	2.8%	-8,000	-8,000	-	-	\$0.80
Miramar	15,117,860	0	1.2%	42,246	42,246	\$1.25	\$0.96	\$1.16
Mission Gorge	1,788,950	0	2.0%	-21,729	-21,729	\$1.62	-	\$1.65
National City	2,652,817	0	1.3%	62,381	62,381	\$1.26	-	\$1.33
North Beach Cities	489,103	0	0.0%	-	-	-	-	-
Oceanside	8,382,602	0	1.7%	31,749	31,749	\$1.07	-	\$1.06
Otay Mesa	20,754,622	1,681,187	4.5%	145,078	145,078	\$0.85	-	\$0.85
PB/Rose Cyn/Morena	2,236,889	0	0.5%	63,085	63,085	\$1.50	\$1.54	\$1.33
Poway	9,321,417	0	1.1%	-36,907	-36,907	\$1.28	-	\$1.27
Rancho Bernardo	7,407,386	0	6.3%	28,418	28,418	\$0.95	\$1.67	\$1.53
San Marcos	7,426,918	0	4.8%	99,489	99,489	\$1.08	-	\$0.96
San Ysidro	1,422,808	0	0.3%	11,552	11,552	-	-	\$0.90
Santee	3,723,708	35,000	2.8%	-5,132	-5,132	\$1.33	-	\$1.25
Scripps Ranch	1,310,165	0	1.9%	873	873	\$1.24	\$1.32	\$1.73
Sorrento Mesa	8,230,827	0	2.1%	24,187	24,187	\$1.85	\$3.75	\$1.77
Sorrento Valley	2,235,271	0	7.0%	14,687	14,687	\$1.52	\$4.48	\$4.19

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Southeast San Diego	3,629,736	0	0.6%	1,406	1,406	\$1.19	-	\$1.11
Sports Arena/Airport	1,458,029	0	9.8%	-14,350	-14,350	\$1.17	-	\$1.31
Vista	12,799,168	0	6.9%	141,003	141,003	\$0.85	-	\$0.97
<b>Market</b>	<b>167,158,459</b>	<b>2,123,761</b>	<b>3.2%</b>	<b>697,939</b>	<b>697,939</b>	<b>\$1.02</b>	<b>\$2.34</b>	<b>\$1.21</b>

*Net absorption is the change in physically occupied space. A hypothetical vacant and available space could lease this quarter with the tenant set to take occupancy six months later; positive absorption is not recorded until this physical move-in occurs. The space will remain vacant, but not available, until occupancy.*

*The total asking rent is the weighted average across warehouse, manufacturing, flex, incubator and general industrial properties. Older, available buildings often cite asking rents, while newer facilities often withhold rent values. Based on this, today's asking rent averages are materially understated.*



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