

San Diego Industrial Market Report

Rents Rise as Vacancy Dips Below 3.0%

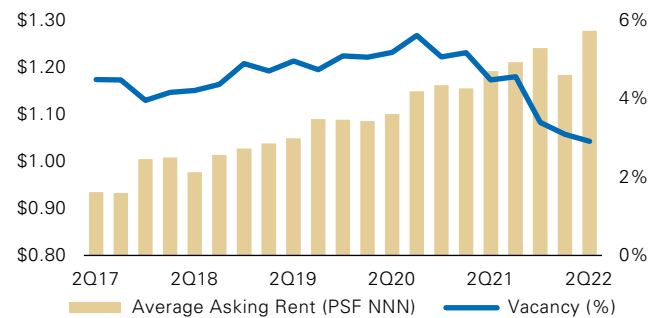
- The average asking rent reached an all-time high of \$1.28/SF in concert with historically low vacancy and diminishing available space. Asking rents are up 7.2% over the past year and have averaged 6.4% annual growth over the past five years.
- Vacancy decreased 20 basis points this quarter to reach 2.9%, the first time in San Diego’s history that vacancy has fallen below 3.0%.
- Absorption was relatively modest at 106,823 square feet as the frenetic pace of the past year slowed.
- Construction activity was 2.4 million square feet, representing 1.5% of existing inventory, significantly lower than the 5.8 million square feet that was under construction a year ago. Although vacancy is historically tight, developers have eased off the massive pipeline amid uncertainty over future demand.
- Sales volume fell to \$738.4 million, although it remained above the quarterly average of \$613.5 million set over the past five years. The trailing four quarters of sales was at an all-time high of \$4.4 billion due to the blockbuster performance in the fourth quarter of 2021, which saw nearly \$1.9 billion in volume.
- Lincoln Property acquired an eight-building portfolio in North County for \$205.0 million in the largest transaction of the quarter.

Hot Market Losing Steam

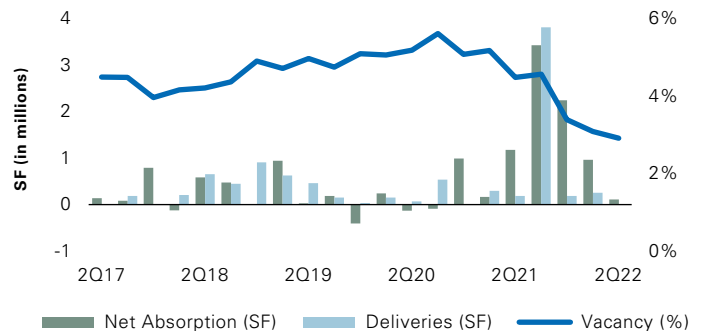
There is a sense that the booming market is slowing down on all fronts, in terms of leasing, sales and construction. Amazon, the market’s primary driver of leasing activity over the past several years, has signaled that it will stop adding new distribution space, ending its aggressive expansion campaign begun in 2020 that doubled its real estate footprint. Sales volume remains robust but has fallen from recent record levels, and higher interest rates are likely to cool future sales. Speculative construction has slowed in the face of rising construction costs and as developers weigh the economic outlook.

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)	166.6M	166.8M	162.7M	↑
Total Vacancy Rate	2.9%	3.1%	4.2%	↑
Quarterly Net Absorption (SF)	107K	959K	1.2M	→
Average Asking Rent/SF/Month	\$1.28 NNN	\$1.18 NNN	\$1.19 NNN	→
Deliveries (SF)	0	255K	184K	↑
Under Construction (SF)	2.4M	2.3M	5.8M	→

RESEARCH Q2 2022

Despite these decelerations, current market activity remains positive and there are still plenty of occupiers chasing opportunities. Although current vacancy rates seem low by local historical standards, the giant Southern California markets of Los Angeles and the Inland Empire are even tighter, with sub-1% vacancies, demonstrating the sector's continued potential.

Employment and Economic Outlook

San Diego's unemployment rate was 2.7% in May 2022, the lowest level in more than 20 years. The Metro has now recouped all the jobs lost during the onset of the pandemic in March 2020, and total nonfarm employment in May was only slightly below the all-time peak achieved in November 2019.

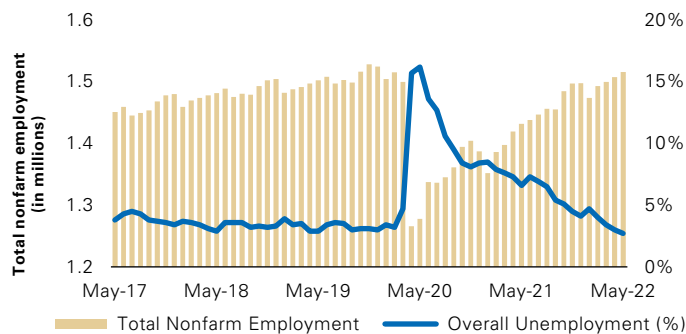
The outlook for the San Diego market is a balance of current positive indicators weighed against concerns of possible future headwinds. On the positive front, the jobs outlook remains strong as the number of job openings continues to exceed the number of job seekers. The expansion of NATO in Europe bodes well for

the region's defense contractors, as existing member nations plan to increase military spending and new applicants Finland and Sweden also represent new potential for sales. Freight issues and supply chain bottlenecks that have hampered the economy over the past year are slowly unwinding, although they have not yet fully returned to business as usual.

On the potential for downside, inflation remains very high, especially for fuel costs, which could hurt demand for transportation, the lifeblood of the industrial sector. High costs for products could also negatively impact consumer spending, which has sustained the growth of the ecommerce industry and its appetite for distribution space. Declining venture capital investment in the first half of 2022 has led to a slowdown in life science deals, which have fueled manufacturing demand and property sales intended for lab conversions over the past several years.

Unemployment Rate

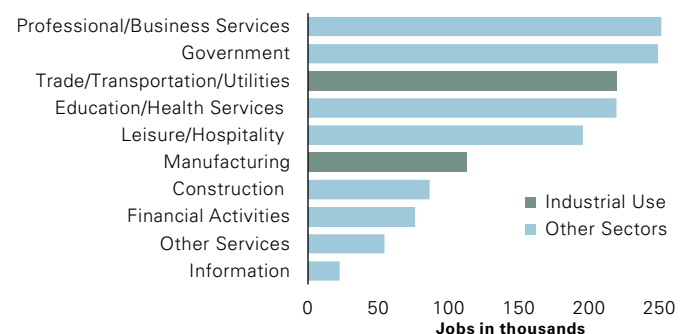
SAN DIEGO-CARLSBAD-SAN MARCOS



Source: U.S. Bureau of Labor Statistics (Preliminary data, not seasonally adjusted)

Employment by Industry

SAN DIEGO-CARLSBAD-SAN MARCOS



Source: U.S. Bureau of Labor Statistics (Preliminary data, not seasonally adjusted)

Lease Transactions

Tenant	Building	Market Area	Lease Type	Square Feet
Mad Engine	7757 Saint Andrews Avenue	Otay Mesa	New	199,359
Aptera Motors	2340 Cousteau Court	Vista	New	134,299
OnTrac	8151 Airway Road	Otay Mesa	New	123,748

Sale Transactions

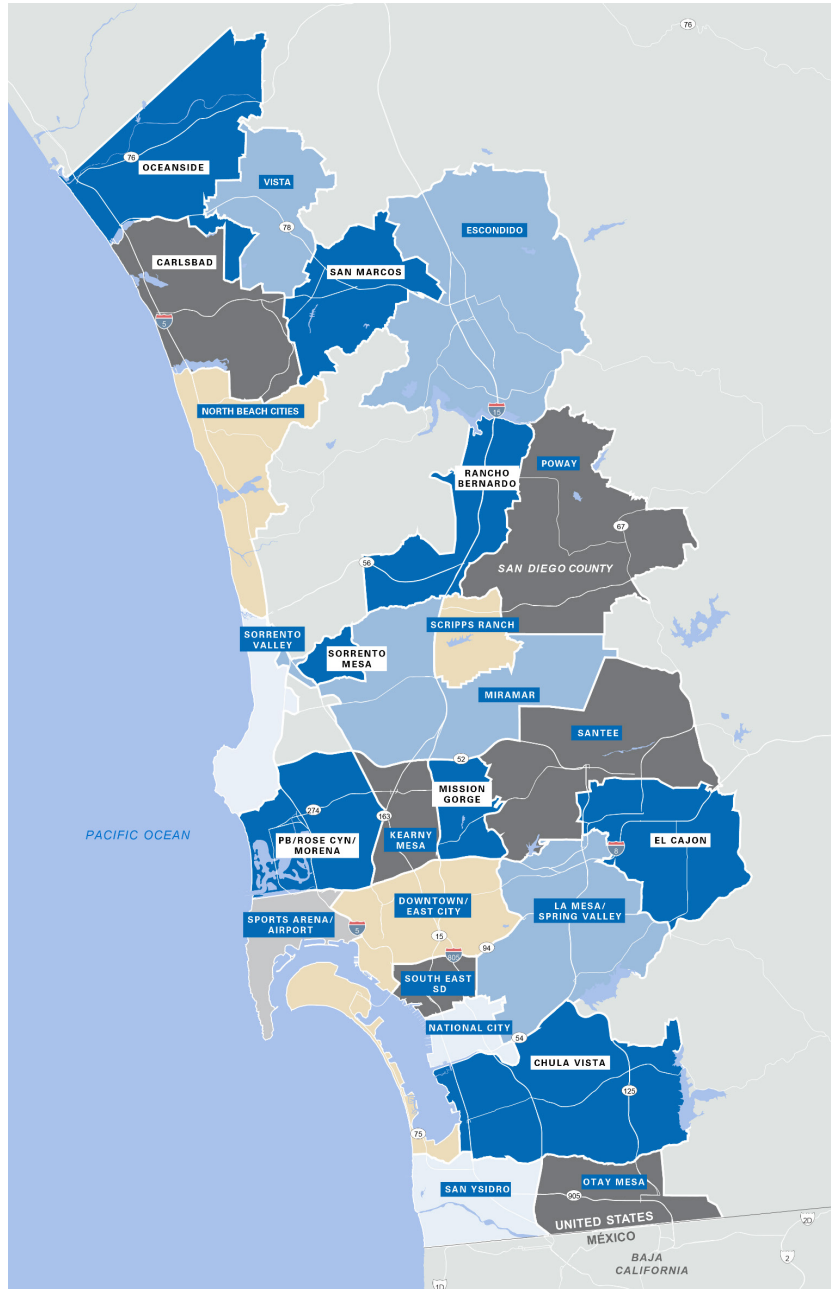
Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
Lincoln Property	8 properties	North County	\$205,500,000 (\$335/SF)	614,051
Hines	1695 Continental Street	Otay Mesa	\$77,100,000 (\$336/SF)	229,680
Breakthrough Properties	Sorrento Valley Road	Sorrento Valley	\$48,000,000 (\$524/SF)	91,669

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	13,603,861	105,714	3.0%	-77,172	163,932	\$1.60	\$1.18	\$1.38
Chula Vista	9,313,478	0	6.3%	-323,979	-449,821	\$1.18	-	\$1.25
Downtown/East City	2,163,324	346,128	3.1%	-12,827	2,173	\$1.17	-	\$1.26
El Cajon	9,623,359	0	1.1%	11,361	91,129	\$1.13	-	\$0.98
Escondido	6,100,738	0	3.2%	-66,910	-64,148	\$1.33	-	\$1.14
Kearny Mesa	13,600,089	315,000	3.1%	-75,770	-120,359	\$1.65	\$1.36	\$1.48
La Mesa/Spring Valley	1,884,793	0	1.1%	30,948	22,948	\$1.50	-	\$1.50
Miramar	15,159,584	0	1.6%	-60,786	-18,540	\$1.35	\$1.67	\$1.29
Mission Gorge	1,788,950	0	0.7%	24,170	2,441	\$1.75	-	\$1.58
National City	2,652,817	0	1.4%	6,474	59,607	\$1.20	-	\$1.27
North Beach Cities	458,966	0	0.0%	0	0	-	-	-
Oceanside	8,376,650	0	1.4%	20,665	52,414	\$0.95	\$1.19	\$1.08
Otay Mesa	21,016,597	1,657,458	2.8%	340,212	715,019	\$0.81	-	\$0.86
PB/Rose Cyn/Morena	2,272,986	0	1.4%	-21,099	41,986	-	\$1.54	\$1.37
Poway	9,289,828	0	0.8%	23,985	-12,922	\$1.33	-	\$1.28
Rancho Bernardo	7,496,156	0	6.3%	-18,904	9,514	\$1.75	\$1.65	\$1.60
San Marcos	7,490,906	0	4.1%	47,721	147,210	\$1.05	-	\$1.01
San Ysidro	1,422,808	0	0.3%	0	11,552	-	-	\$0.90
Santee	3,720,090	0	3.2%	-14,394	-19,526	\$1.37	-	\$1.26
Scripps Ranch	1,310,165	0	1.4%	6,699	7,572	-	\$1.29	\$1.90
Sorrento Mesa	8,125,846	0	1.6%	-18,333	5,854	\$1.00	\$4.50	\$1.81
Sorrento Valley	2,194,729	0	3.1%	57,564	104,525	\$1.69	\$5.00	\$4.77

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Southeast San Diego	3,254,154	0	0.7%	0	1,406	\$1.23	-	\$1.09
Sports Arena/Airport	1,458,029	0	9.8%	0	-14,350	\$1.17	-	\$1.11
Vista	12,772,846	0	5.1%	227,198	368,201	\$0.87	-	\$1.03
Market	166,551,749	2,424,300	2.9%	106,823	1,107,817	\$1.17	\$2.19	\$1.28

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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