

San Diego Industrial Market

Industrial Activity Remains Incredibly Strong

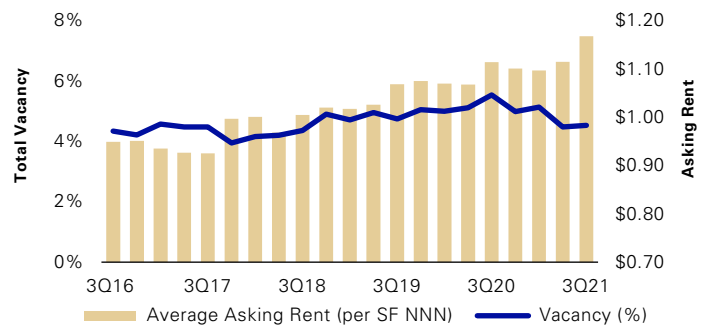
- Average asking rent increased to an all-time high of \$1.17/SF, up 4.8% over the past year.
- Over the past 10 years, rent growth has averaged 5.0% annually as vacancy has steadily fallen, from more than 10% in 2011 to less than 5% in 2021.
- Vacancy remained unchanged for the quarter at 4.5% and was down 100 basis points from a year ago. Although the market experienced one of the highest quarters of net absorption in history, almost all of it came from new deliveries.
- Quarterly net absorption was extremely strong at 3.5 million square feet, due mainly to Amazon taking occupancy of its newly completed fulfillment center in Otay Mesa. The year-to-date total climbed to 4.6 million square feet of positive net absorption.
- 3.8 million square feet of new projects delivered, the vast majority of which was in in Otay Mesa. Otay Mesa still has another 10 projects totaling 2.2 million square feet under construction. One 700,000-square-foot building currently underway is another build-to-suit facility for Amazon, but the rest of the construction pipeline is all speculative projects.

Otay Mesa Focus of Development

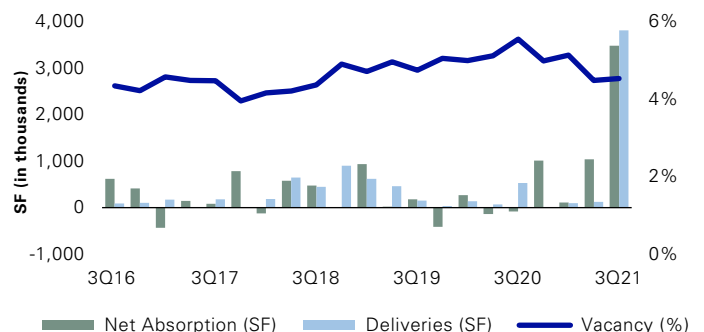
Amazon opened its massive new fulfillment center in Otay Mesa in September. The 3.3-million-square-foot facility, Amazon's largest location in California, will employ 1,500 workers once fully staffed and makes extensive use of robotics and automation to further the e-commerce giant's focus on efficiency. EastGroup Properties is currently constructing another 700,000-square-foot project that Amazon has also pre-leased just a few blocks away from the new fulfillment center.

Market Analysis

VACANCY AND ASKING RENT



NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	167.9M	164.1M	163.5M	↑
Total Vacancy Rate	4.5%	4.5%	5.5%	→
Quarterly Net Absorption (SF)	3.5M	1.0M	-83,185	↑
Average Asking Rent/SF/Month	\$1.17 NNN	\$1.12 NNN	\$1.11 NNN	↑
Deliveries (SF)	3.8M	125,000	533,952	↓
Under Construction (SF)	2.3M	5.8M	4.5M	→

Major Acquisitions Take Very Different Approaches

In the most significant industrial sale of the quarter, Black Creek Group purchased the five-building, 493,898-square-foot North County Corporate Center in Vista for \$147.5 million. The buyer paid the equivalent of a 3.10% cap rate on first-year income for the fully leased project on the assumption that the current below-market rents will be raised, reflecting confidence in the market’s strong rent performance.

Longfellow Real Estate Partners purchased a 10-building portfolio of flex and office buildings in Sorrento Mesa named Centerpark Plaza for \$149.3 million for the purpose of redeveloping it into a life science campus. Life science projects have been steadily cannibalizing both the industrial and office markets in Sorrento Mesa for years, and industrial space in the submarket that remains unconverted is overwhelmingly being leased as warehousing and manufacturing facilities for biotech companies in the area.

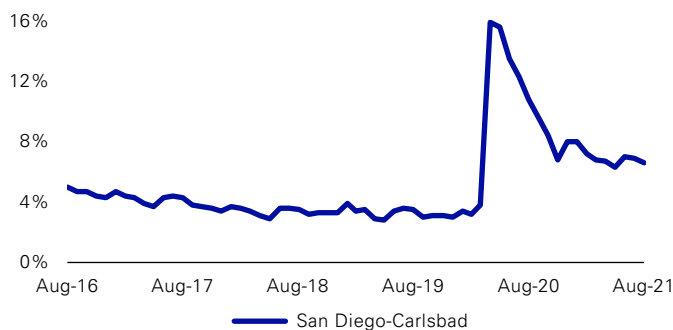
Outlook

San Diego’s unemployment rate was 6.6% in August, down 330 basis points from a year ago and less than half of the peak of 15.9% reached in April of 2020 during the height of layoffs. Industrial jobs have bounced back faster than the overall average; San Diego has recovered 92.9% of the total nonfarm jobs lost between February and April of 2020, while 95.9% of manufacturing jobs and 94.0% of trade, transportation and utilities jobs have been recovered.

Industrial product continues to be in high demand, and activity will only increase as the recovery progresses. The large amount of space under construction hasn’t been able to budge the vacancy rate, which is near historical lows, and rents will continue to grow as demand outstrips supply for the foreseeable future. All of these factors should spur even more speculative development, despite high construction and land costs.

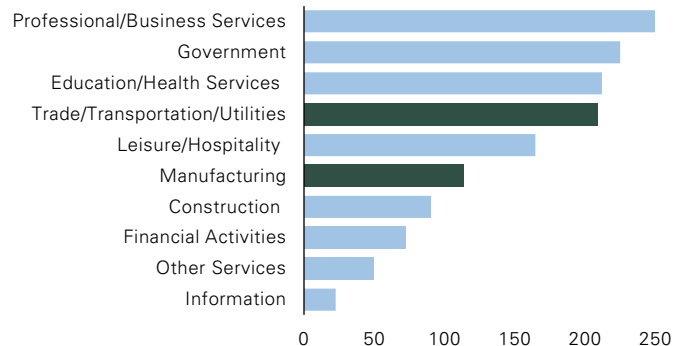
Unemployment Rate

NOT SEASONALLY ADJUSTED



Employment by Industry

NOT SEASONALLY ADJUSTED (JOBS IN THOUSANDS)



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

Lease Transactions

Tenant	Building	Market Area	Lease Type	Square Feet
Dynalectric	1111 Pioneer Way	El Cajon	New	110,663
SeaWorld	7411 Goen Place	Mission Gorge	Renewal	71,619
Glass Warehouse	1319 Rocky Point Drive	Oceanside	New	60,472

Sale Transactions

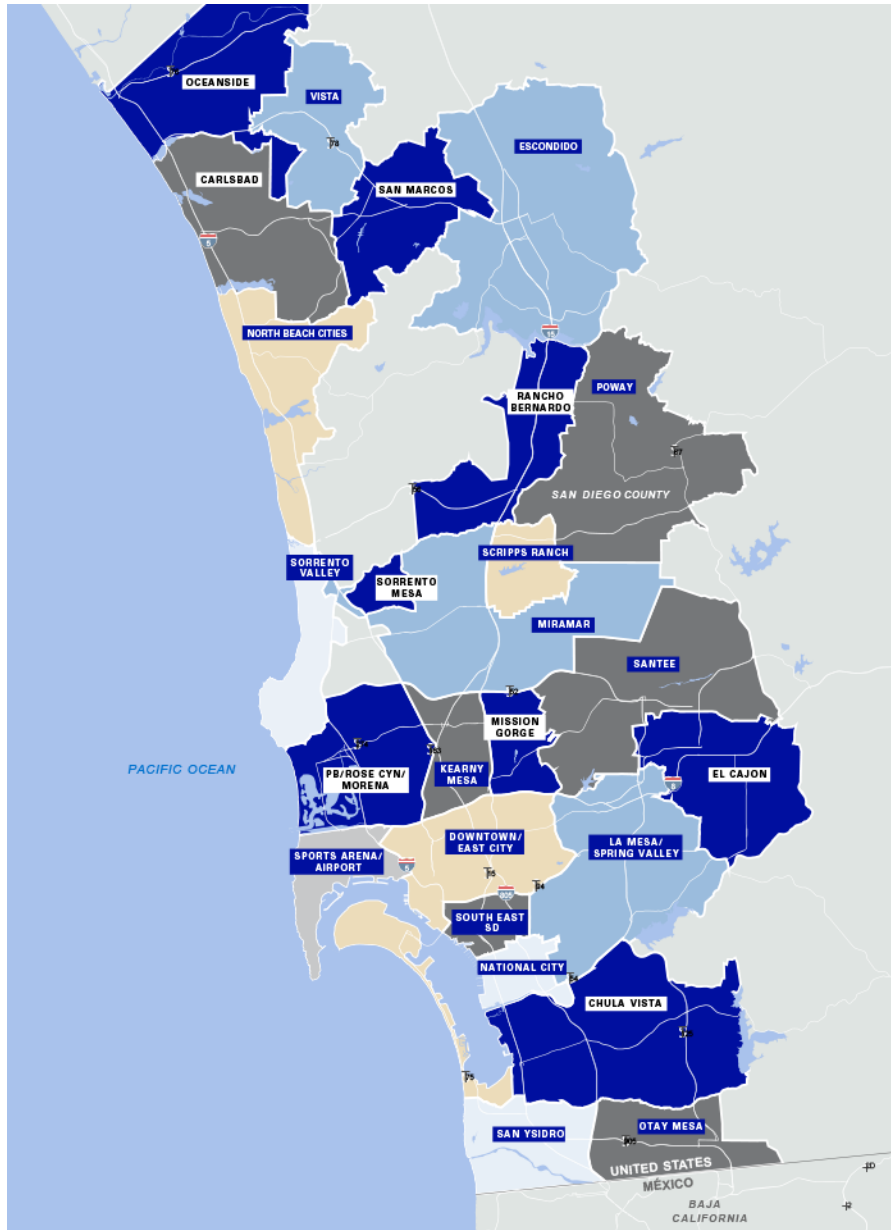
Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
Longfellow Real Estate Partners	Centerpark Plaza	Sorrento Mesa	\$149,300,000 (\$594/SF)	255,599
Black Creek Group	North County Corporate Center	Vista	\$147,500,000 (\$299/SF)	493,898
Hines	Miramar Activity Business Center	Miramar	\$40,800,000 (\$254/SF)	160,811

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	13,731,935	25,714	8.2%	2,992	321,908	\$1.26	\$1.40	\$1.28
Chula Vista	9,118,972	66,860	1.1%	144,661	304,018	\$1.11	\$1.60	\$1.16
Downtown/East City	2,312,970	0	2.3%	-32,647	-30,853	\$0.81	-	\$0.81
El Cajon	9,739,494	0	3.3%	11,760	39,770	\$1.07	\$1.09	\$0.90
Escondido	6,115,299	0	2.7%	31,004	59,684	\$0.93	\$1.04	\$0.96
Kearny Mesa	14,280,250	0	4.7%	-110,855	-75,992	\$1.41	\$2.08	\$1.55
La Mesa/Spring Valley	1,957,354	0	2.3%	1,722	29,743	-	-	\$0.81
Miramar	15,122,770	0	2.6%	62,083	113,376	\$1.30	\$1.04	\$1.25
Mission Gorge	1,904,084	0	1.0%	6,864	83,499	-	\$1.80	\$1.35
National City	2,690,661	0	3.8%	-6,133	-82,171	\$1.20	-	\$1.35
North Beach Cities	489,103	0	0.2%	1,280	-320	-	-	\$2.29
Oceanside	8,410,767	0	3.5%	78,498	4,239	\$0.96	-	\$1.04
Otay Mesa	20,148,887	2,181,666	4.4%	3,662,550	3,825,126	\$0.84	-	\$0.83
PB/Rose Cyn/Morena	2,292,931	0	3.3%	-67,885	9,198	\$1.27	\$1.54	\$1.30
Poway	9,444,875	0	1.8%	-19,926	-44,323	\$0.74	-	\$1.09
Rancho Bernardo	7,447,324	0	8.1%	-66,246	-215,242	\$1.65	\$1.61	\$1.56
San Marcos	7,551,390	0	7.6%	-40,648	207,181	\$0.90	-	\$0.81
San Ysidro	1,489,785	0	3.3%	-21,981	-40,607	\$0.79	-	\$0.85
Santee	3,734,394	35,000	3.3%	134,269	27,327	\$1.08	-	\$1.15
Scripps Ranch	1,308,331	0	0.5%	26,119	12,215	\$1.16	\$1.49	\$1.38
Sorrento Mesa	8,286,247	0	2.8%	-90,297	-70,438	-	\$1.31	\$1.77
Sorrento Valley	2,131,700	0	5.5%	34,493	14,857	\$1.62	\$1.81	\$1.74

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Southeast San Diego	3,698,736	0	2.5%	-55,996	-56,816	\$1.20	-	\$1.01
Sports Arena/Airport	1,659,990	0	7.8%	-36,550	-31,210	\$0.80	-	\$0.84
Vista	12,793,154	0	9.6%	-173,034	1,429	\$0.88	-	\$0.94
Market	167,861,403	2,309,240	4.5%	3,476,097	4,405,598	\$1.05	\$1.64	\$1.17

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.



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