



San Diego Industrial Market Report

Vacancy Remains Tight Despite New Deliveries and Sublease Space

- The average asking rent increased to \$1.26/SF, up 8.0% over the past year. In the last five years, rent growth has averaged 6.1% annually.
- Vacancy climbed 20 basis points this quarter to 2.9% as new deliveries outpaced net absorption. Vacancy was 4.5% five years ago and 10.3% ten years ago, showing how much the market has tightened over the past decade.
- Quarterly net absorption recorded 415,862 square feet in gains, bringing the year-to-date total to 1.6 million square feet.
- 738,469 square feet delivered in two projects; an additional 2.3 million square feet will come online in the quarters ahead.
- Sublease availability started to climb after reaching a 20-year low, from 0.4% to 0.7%. The number of executed sublease deals also increased, demonstrating continued overall demand for space at discounted rental rates.

Sublessors and Sublessees Both Make a Comeback

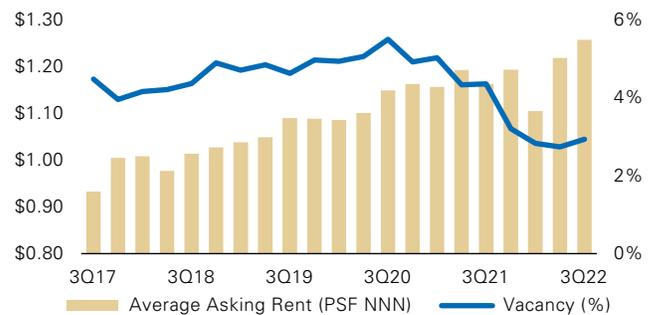
Changing market dynamics led to an increasing number of tenants subletting their space this quarter. This is a reversal from sublet availability trending downwards for the past two years amid historically low vacancy.

Amazon, which announced it was pausing any further expansion of its distribution facilities in April, has started offering some of its warehouse space for sublease, including 161,000 square feet in Carlsbad that it leased in 2021. Since 2019, Amazon has leased 6.4 million square feet of space in San Diego, which represents 68.4% of the region’s net absorption during this time.

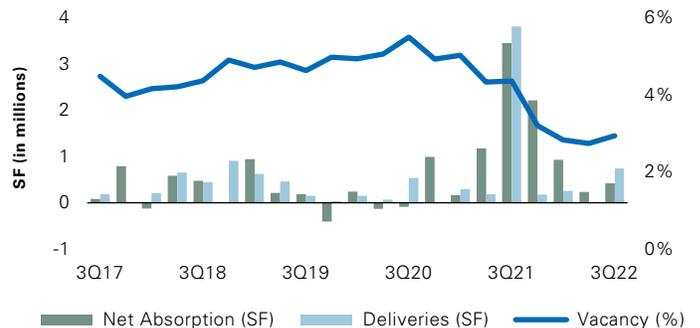
This additional source of available space has been welcomed by the market for the time being. Companies that signed deals for large blocks of sublease space during the quarter included ShipLabs, which subleased Peloton’s 86,000-square-foot space in Vista, and G-Global, which subleased Artisan Home’s 58,000-square-foot space in Otay Mesa.

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)	167.0M	166.2M	165.7M	↑
Total Vacancy Rate	2.9%	2.7%	4.4%	↑
Quarterly Net Absorption (SF)	416K	231K	3.5M	→
Average Asking Rent/SF/Month	\$1.26 NNN	\$1.22 NNN	\$1.16 NNN	↑
Deliveries (SF)	738K	0	3.8M	↑
Under Construction (SF)	2.3M	2.4M	2.4M	↓

Industrial Remains a Popular Target for Investors

Sales activity remained robust, although it slowed from the record-setting pace of 2021. Quarterly sales volume was \$641.4 million, down 26.3% compared to the third quarter of 2021, and year-to-date sales totaled \$1.7 billion, down 14.8% compared with the first three quarters of 2021. Owner-users were particularly active, accounting for half of the quarter’s sales volume, which is unusually high compared with the five-year average of 11.1%.

Land sales for future industrial development peaked between the fourth quarter of 2021 and first quarter of 2022, which saw \$257.5 million and \$219.0 million in industrial land sales respectively. Development site deals progressively fell to \$50.0 million in the second quarter of 2022 and then \$19.3 million in the third quarter of 2022, foretelling a diminished construction pipeline in the years to come.

Employment and Economic Outlook

San Diego’s unemployment rate was 3.4% in August 2022, down

from 6.5% in August 2021. The region has added 59,600 nonfarm jobs over the past year, including 4,400 in trade, transportation and utilities. The manufacturing sector declined slightly over the same period, shedding 1,300 jobs.

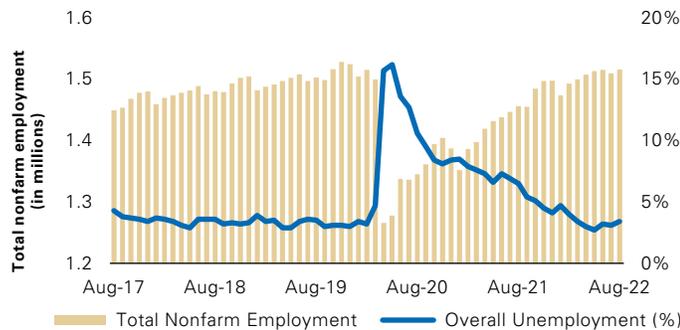
The national and global economies are at a potential tipping point, where further interest rate increases from central banks risk triggering recessions, which would cause the current historically high demand for industrial product to fall.

New development is already on track to decline due to the high cost of both construction and debt. This will likely cause demand to continue to outstrip supply in the short term unless demand drops significantly due to macroeconomic developments.

Sublease offerings will be increasingly common as some companies try to cut costs. This is especially true for companies whose earnings have drastically slowed in recent months. On the construction side, pre-leasing activity is expected to remain healthy due to the efficiencies a modern facility offers and the limited amount of deliveries expected to come online.

Unemployment Rate

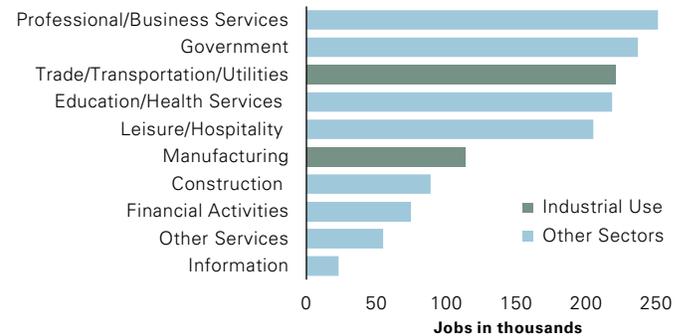
SAN DIEGO-CARLSBAD-SAN MARCOS



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
HASA Inc	10605 Jamacha Boulevard	Spring Valley	Renewal	104,836
ShipLabs	3055 Enterprise Court	Vista	Sublease	86,465
Southland Envelope Co	10111 Riverford Road	Lakeside	Renewal	72,783

Sale Transactions

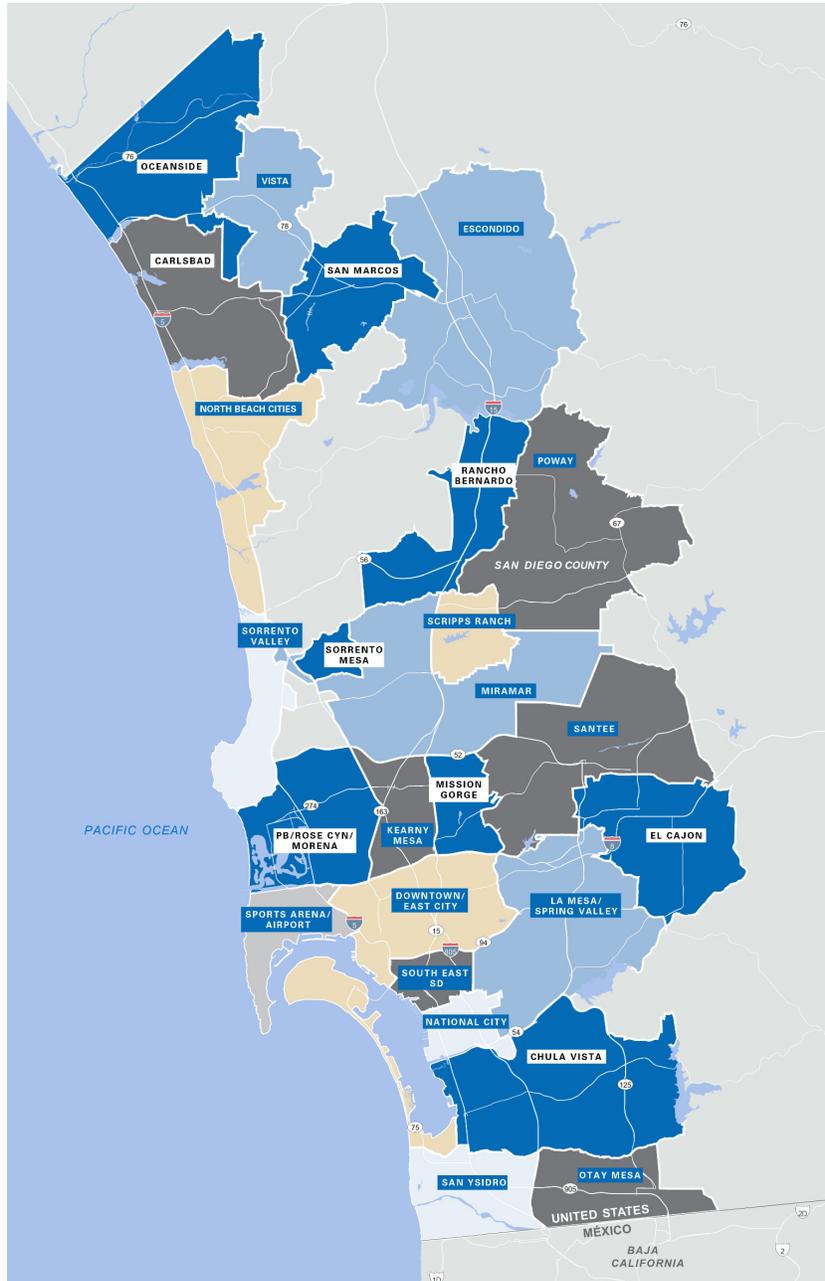
Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
GI Partners	7330 & 7360 Carroll Road	Sorrento Mesa	\$60,000,000 (\$737/SF)	81,444
DWS Group	1395 Park Center Drive	Vista	\$43,720,000 (\$282/SF)	155,069
Dalfen Industrial	7615 Siempre Viva Road	Otay Mesa	\$24,850,000 (\$287/SF)	86,680

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	13,674,747	80,000	5.5%	-317,385	-153,453	\$1.21	\$1.38	\$1.33
Chula Vista	9,329,228	201,200	5.9%	30,169	-419,652	\$1.33	-	\$1.33
Downtown/East City	2,165,054	346,128	4.3%	-27,083	-24,910	\$1.19	-	\$1.26
El Cajon	9,640,364	0	1.2%	-9,743	81,386	\$1.24	-	\$1.14
Escondido	6,109,244	0	3.6%	-21,546	-85,694	\$1.16	-	\$1.19
Kearny Mesa	13,724,405	315,000	3.0%	1,859	-47,249	\$1.67	\$1.50	\$1.56
La Mesa/Spring Valley	1,884,793	0	2.5%	-26,760	-3,812	\$1.35	-	\$0.97
Miramar	15,191,086	0	1.3%	29,670	40,621	\$1.32	\$3.03	\$1.41
Mission Gorge	1,788,950	0	0.9%	-3,758	-1,317	\$1.67	-	\$1.53
National City	2,652,817	0	1.3%	2,172	61,779	\$1.31	-	\$1.29
North Beach Cities	458,966	0	0.0%	-	-	-	-	-
Oceanside	8,387,518	0	1.3%	10,387	62,801	\$1.14	-	\$1.08
Otay Mesa	21,730,191	1,395,049	2.7%	739,821	1,443,630	\$0.76	-	\$0.85
PB/Rose Cyn/Morena	2,272,986	0	3.7%	-52,543	-10,557	-	\$1.54	\$1.60
Poway	9,309,828	0	0.5%	23,378	10,456	\$1.30	-	\$1.29
Rancho Bernardo	7,496,156	0	6.1%	14,460	23,974	\$2.20	\$1.75	\$1.63
San Marcos	7,485,039	0	1.5%	-245	146,965	\$1.17	-	\$1.09
San Ysidro	1,422,808	0	0.8%	-7,249	4,303	\$0.54	-	\$0.88
Santee	3,720,090	0	3.4%	-4,230	11,244	\$1.29	-	\$1.26
Scripps Ranch	1,310,165	0	4.6%	-41,187	-33,615	-	\$1.25	\$1.89
Sorrento Mesa	8,104,284	0	1.4%	-7,633	-1,779	\$1.08	\$1.74	\$1.40
Sorrento Valley	1,631,691	0	0.5%	4,234	57,482	\$3.18	-	\$3.18

Submarket Statistics								
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Southeast San Diego	3,254,154	0	1.9%	-41,477	-40,071	\$1.20	-	\$1.22
Sports Arena/Airport	1,455,441	0	10.5%	-10,030	-24,380	\$1.17	-	\$1.12
Vista	12,801,893	0	4.1%	130,581	471,305	\$0.93	-	\$1.08
Market	167,001,898	2,337,377	2.9%	415,862	1,569,457	\$1.17	\$1.65	\$1.26

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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