

San Diego Industrial Market Report

Activity Decelerates at the End of a Positive Overall Year

- Vacancy climbed 40 basis points to 3.0%, mostly from speculative construction delivering vacant.
- Despite the increase, vacancy remains near an all-time low and well below the five-year average of 4.2%.
- The average asking rent reached a new high of \$1.28/SF, up 7.0% over the past year. Rent growth has averaged 5.5% annually over the past three years.
- Net absorption was slightly negative this quarter, with 89,154 square feet. Although Otay Mesa, San Diego's largest submarket, had a strong quarter with 309,681 square feet in gains, it was not enough to offset losses elsewhere.
- Construction activity continues to decelerate as the pipeline cools from the record highs of 2021; 675,352 square feet of new projects delivered, leaving 1.5 million square feet under construction. Speculative development is likely to remain low for the time being, as demand has cooled and the cost of development has spiked with inflation and interest rates.
- Sales volume for the quarter was \$687.3 million, bringing the year-end total to \$2.9 billion, the second-highest annual total in history after the \$3.8 billion that traded in 2021.

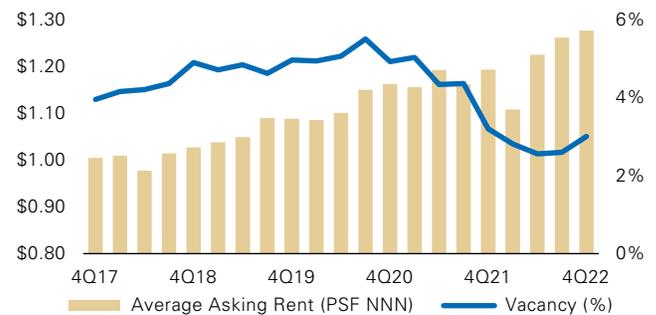
Largest Deals of the Quarter Were Sale-leasebacks

Two major deals counted amongst both the largest sales and leases of the quarter. Anheuser-Busch InBev sold its location in the Rose Canyon neighborhood to LBA Realty and then leased it back from the new owner for an undisclosed term length.

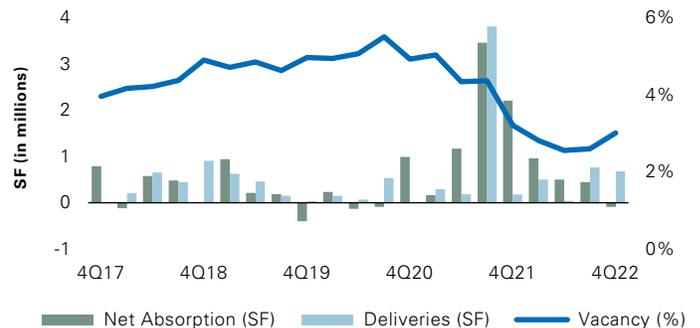
In Carlsbad, Ionis Pharmaceuticals sold two life sciences buildings to Oxford Properties Group for \$258.4 million and agreed to lease the buildings for at least 15 years. Ionis Pharmaceuticals also signed an agreement with Sudberry Properties to pre-lease a new, 217,000-square-foot manufacturing development in nearby Oceanside, which will nearly double the company's footprint.

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)	166.9M	166.4M	165.6M	↑
Total Vacancy Rate	3.0%	2.6%	3.2%	↑
Quarterly Net Absorption (SF)	-89K	448K	2.2M	→
Average Asking Rent/SF/Month	\$1.28 NNN	\$1.26 NNN	\$1.19 NNN	→
Deliveries (SF)	675K	764K	178K	↓
Under Construction (SF)	1.5M	2.2M	2.4M	↓

An Unusual Amount of Sublease Space

Available sublease jumped by 63.2% from last quarter to 1.8 million square feet, while the amount of vacant sublease space more than doubled to 1.0 million square feet over the same period. There are now 11 spaces larger than 50,000 square feet available for sublease, seven of which came online this quarter. Companies looking to sublease large amounts of space include Amazon and Aptera Motors.

Although these are unusually high totals for the market, total sublease availability remains manageable at 1.1%, and continued demand and high asking rents make it likely that most of this space will be absorbed next year.

Employment and Economic Outlook

San Diego’s unemployment rate was 3.3% in November, a notable improvement from the 4.5% rate in November 2021. The region has added 48,400 total nonfarm jobs over the past year, but industrial sectors have shed jobs during this period; manufacturing jobs are down 1,500 over the past year and trade,

transportation and utilities jobs are down by 600.

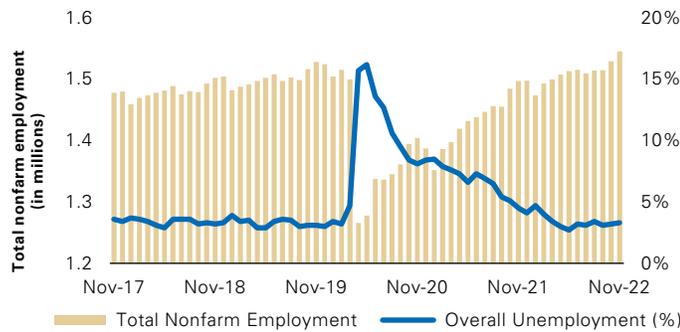
The outlook for industrial in 2023 is mixed, with strong – though cooling – consumer demand on one side and challenging macroeconomic conditions on the other. Most economists expect a mild recession in the new year.

Inflation eased to 7.1% in November after peaking at 9.1% in July, and consumer spending was strong for much of the year as retailers slashed prices to clear out excess inventory. Unemployment, which will likely see moderate increases next year, will shape consumer spending.

From a landlord’s perspective, the situation is less cheery. Sublease listings will remain unusually elevated over the short term as occupiers who aggressively expanded during the pandemic-era industrial boom shed space they no longer need. New speculative developments will remain low in the face of slowing leasing activity. Interest rates are expected to remain elevated for most of 2023, which will depress property sales after two years of historically high transaction volumes.

Unemployment Rate

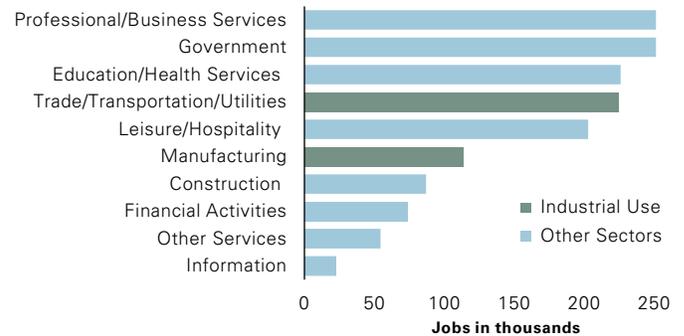
SAN DIEGO-CARLSBAD-SAN MARCOS



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(s)	Market Area	Lease Type	Square Feet
Ionis Pharmaceuticals	2850 & 2855 Gazelle Court	Carlsbad	Sale-leaseback	246,000
Ionis Pharmaceuticals	Rancho Del Oro Drive	Oceanside	Pre-lease	217,000
Anheuser-Busch InBev	5959 Santa Fe Street	Rose Canyon	Sale-leaseback	131,299

Sale Transactions

Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
Oxford Properties Group	2850 & 2855 Gazelle Court	Carlsbad	\$258,400,000 (\$1,050/SF)	246,000
LBA Realty	8870 Liquid Court	Mira Mesa/Miramar	\$64,300,000 (\$314/SF)	204,851
LBA Realty	5959 Santa Fe Street	Rose Canyon	\$46,300,000 (\$353/SF)	131,299

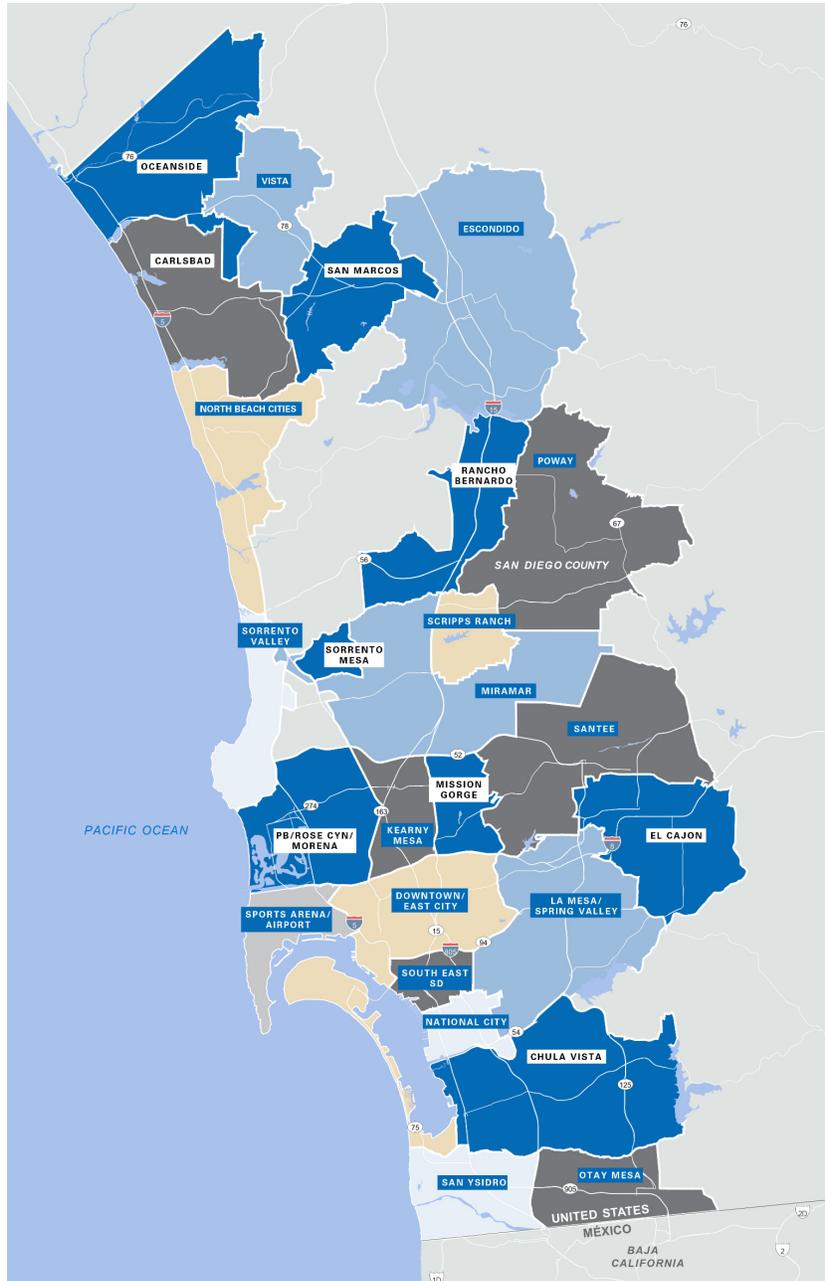
RESEARCH Q4 2022

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	72,600	5.6%	-14,943	-168,396	\$1.40	\$1.19	\$1.33
Chula Vista	9,259,979	201,200	3.0%	6,091	-147,201	\$0.96	\$1.54	\$1.19
Downtown/East City	2,100,054	346,128	3.8%	-23,653	-48,563	\$1.63	-	\$1.73
El Cajon	9,596,607	0	1.4%	-17,211	64,175	\$1.26	-	\$1.17
Escondido	6,036,289	0	1.8%	104,719	15,369	\$1.21	-	\$1.17
Kearny Mesa	13,938,025	0	4.7%	-8,153	-55,402	\$1.64	\$1.79	\$1.51
La Mesa/Spring Valley	1,884,793	0	8.9%	-119,769	-123,581	\$1.24	-	\$1.24
Miramar	15,191,086	0	1.3%	-11,120	29,501	\$1.37	-	\$1.25
Mission Gorge	1,762,616	0	0.9%	-4,441	-808	\$1.65	-	\$1.65
National City	2,652,817	0	2.0%	-19,561	42,218	\$1.34	-	\$1.41
North Beach Cities	458,966	0	0.2%	-880	-880	-	-	-
Oceanside	8,387,518	0	2.2%	-79,268	-16,467	\$1.05	\$1.18	\$1.07
Otay Mesa	22,106,162	926,078	3.0%	309,681	1,753,311	\$1.00	-	\$1.00
PB/Rose Cyn/Morena	2,272,986	0	3.5%	4,876	-5,681	-	\$1.54	\$1.46
Poway	9,309,828	0	0.5%	566	11,022	\$0.94	-	\$1.22
Rancho Bernardo	7,266,558	0	2.3%	62,595	86,569	-	\$1.70	\$1.60
San Marcos	7,485,039	0	1.8%	-22,507	124,458	\$1.17	\$1.15	\$1.11
San Ysidro	1,422,808	0	0.2%	2,123	13,675	-	-	\$0.88
Santee	3,639,872	0	3.6%	-626	3,593	\$1.07	-	\$1.18
Scripps Ranch	1,310,165	0	9.6%	-85,247	-98,921	\$1.48	-	\$1.58
Sorrento Mesa	8,053,993	0	2.9%	-129,971	-120,250	\$1.29	-	\$1.48
Sorrento Valley	1,671,533	0	0.6%	-2,249	95,075	-	\$1.74	\$1.41

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)
Southeast San Diego	3,229,506	0	0.3%	53,199	13,128	\$1.16	-	\$1.16
Sports Arena/Airport	1,455,441	0	7.9%	37,725	13,345	\$1.50	-	\$1.47
Vista	12,753,797	0	5.1%	-131,130	340,175	\$1.11	-	\$1.16
Market	166,921,185	1,546,006	3.0%	-89,154	1,819,464	\$1.25	\$1.38	\$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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