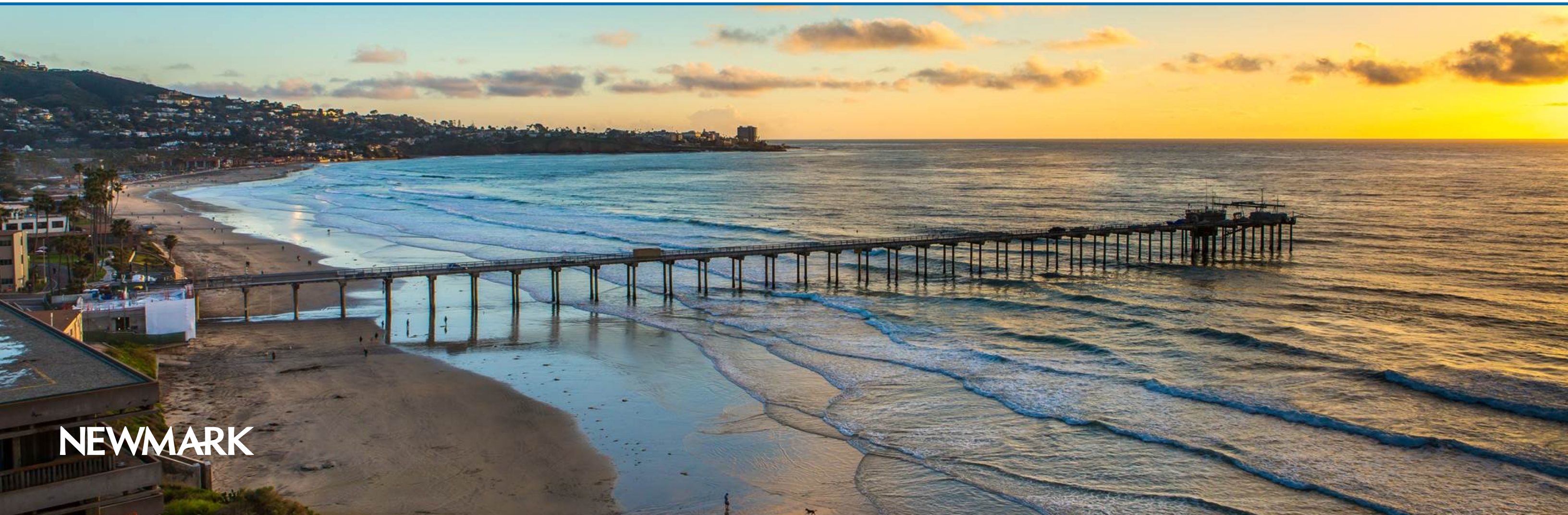


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# San Diego Industrial Market Overview



**NEWMARK**

# Market Observations

## Economy

- Local unemployment was 4.2% in November 2023, up 90 basis points over the past year and slightly higher than the U.S. average of 3.7%.
- The region’s labor market added 21,900 jobs in the 12-month period ending November 2023. Most of these job gains came from sectors that had contracted during the pandemic. Trade/transportation/utilities added 4,200 jobs and manufacturing jobs fell by 2,100.
- Inflation has eased in response to interest rates increases from the Federal Reserve. The Consumer Price Index for the metro rose 5.2% year-over-year in November 2023, down from a high of 8.1% in May 2022. The Fed has announced plans to lower interest rates by the end of 2024.

## Major Transactions

- Indoor kart racing company K1 Speed renewed its 70,000-SF space in Carlsbad, the largest lease transaction of the quarter.
- Leasing activity totaled only 1.5 MSF in the fourth quarter, the lowest quarterly total since 2008.
- Hines executed the largest acquisition of the quarter, purchasing a 203,000-SF warehouse in Otay Mesa from Murphy Development for \$60.9M.
- Sales volume for the year totaled \$1.5 B, down 53.6% from the record-setting total of 2022.

## Leasing Market Fundamentals

- The average asking rent fell \$0.02 off the all-time high it set last quarter to \$1.38/SF NNN, up 7.4% year-over-year.
- Net absorption was negative for the quarter, posting 514,923 SF in losses, bringing total absorption losses for the year to negative 1.8 MSF.
- Sublease availability fell slightly after reaching a 12-year high in the third quarter, with 2.1 MSF available, compared to 9.5 MSF of available direct space.
- Construction levels remain elevated, with 2.4 MSF underway after 1.7 MSF of new projects delivered during 2023.

## Outlook

- Vacancy will climb a bit higher over the short term as the robust construction pipeline continues to deliver.
- Asking rates have lost momentum as vacancy has increased, and rent growth is likely to be subdued over the coming year.
- Interest rate cuts that are scheduled to take place by the end of 2024 should give a welcome boost to lagging leasing activity and sales transactions.
- As leasing activity picks back up, the average lease size should start to increase again as well, after falling in 2023 as occupiers took a cautious approach to their space requirements.

1. Economy
2. Leasing Market Fundamentals
3. Submarkets

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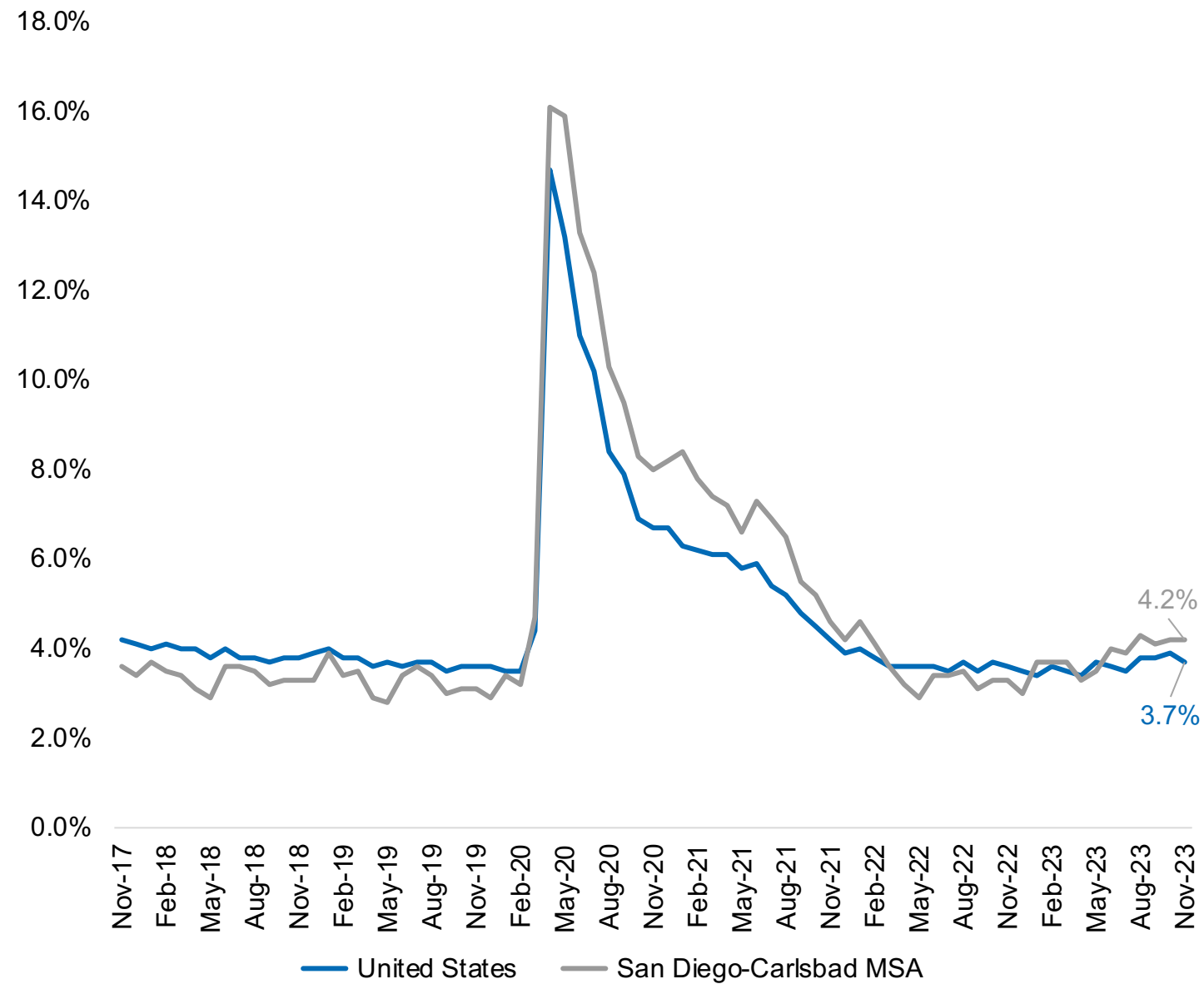
# Economy



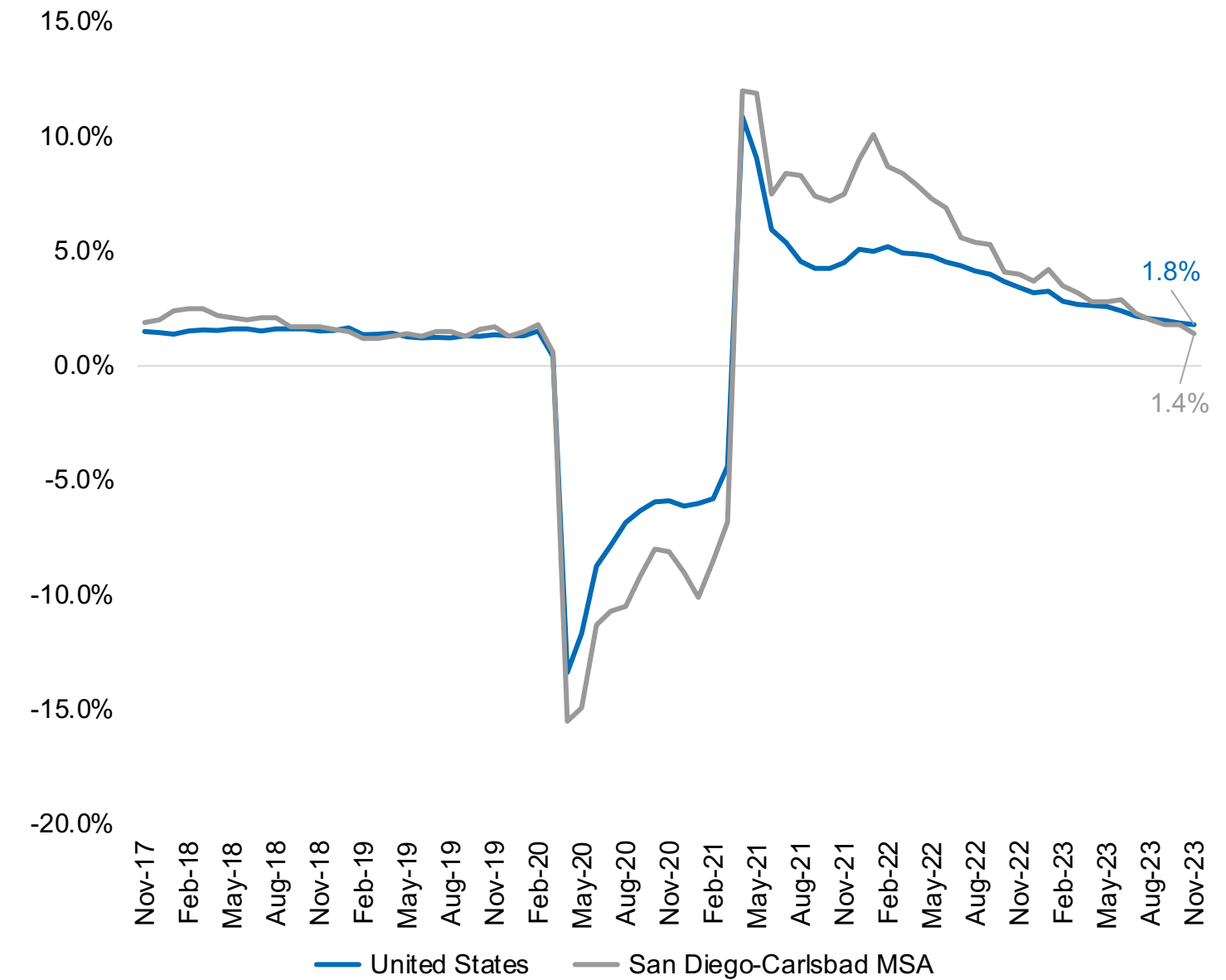
# Metro Employment Flattens Out As Job Growth Slows

At the onset of the pandemic, the San Diego Metro experienced higher rates of unemployment than the national average due to the region's large tourism and hospitality sectors, but it also recovered jobs more quickly starting in 2021. Since 2022 the region has seen sustained levels of unemployment close to or lower than the national average. Unemployment has trended slightly upward since April 2023 and stood at 4.2% as of November 2023.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

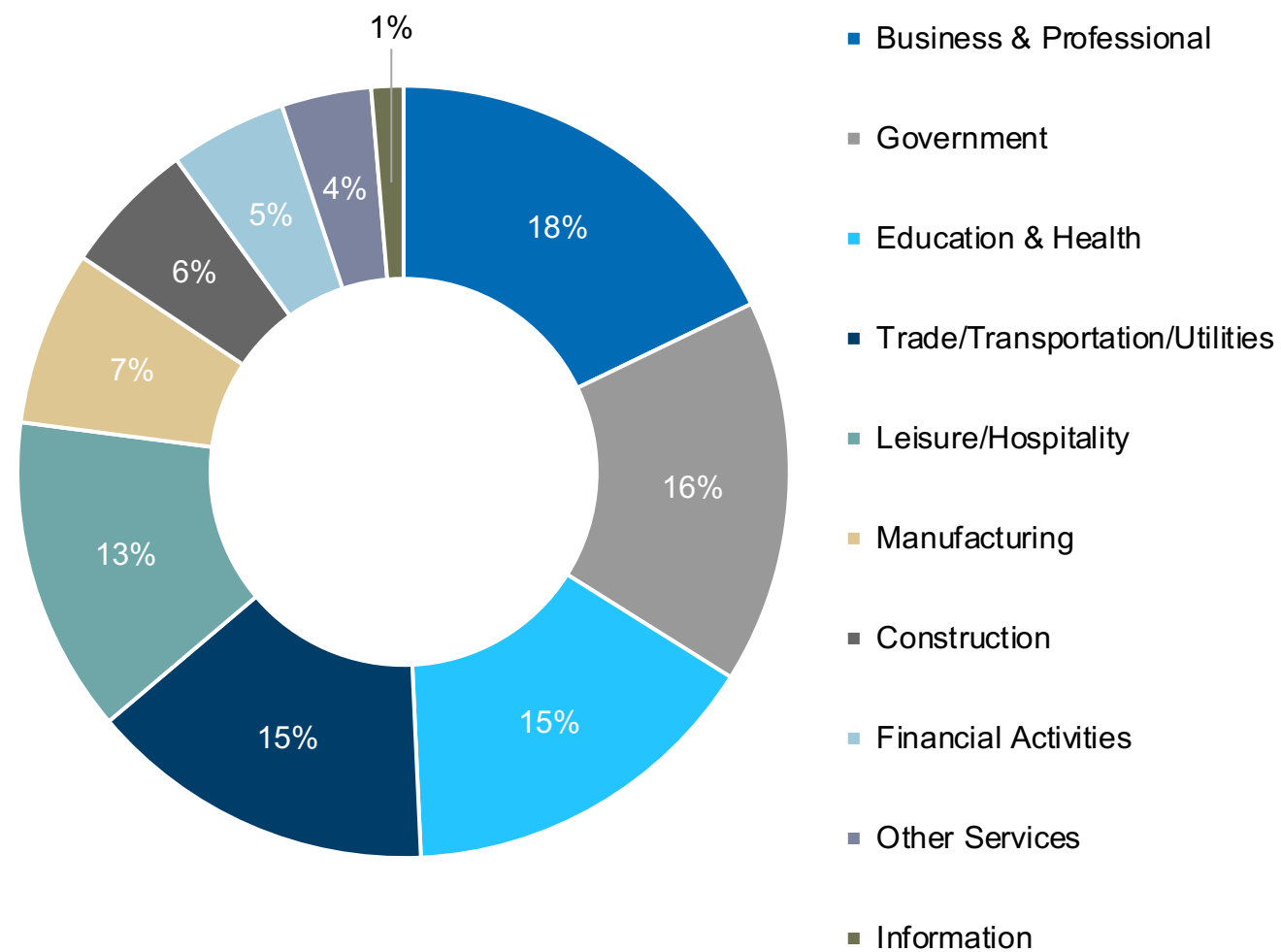


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

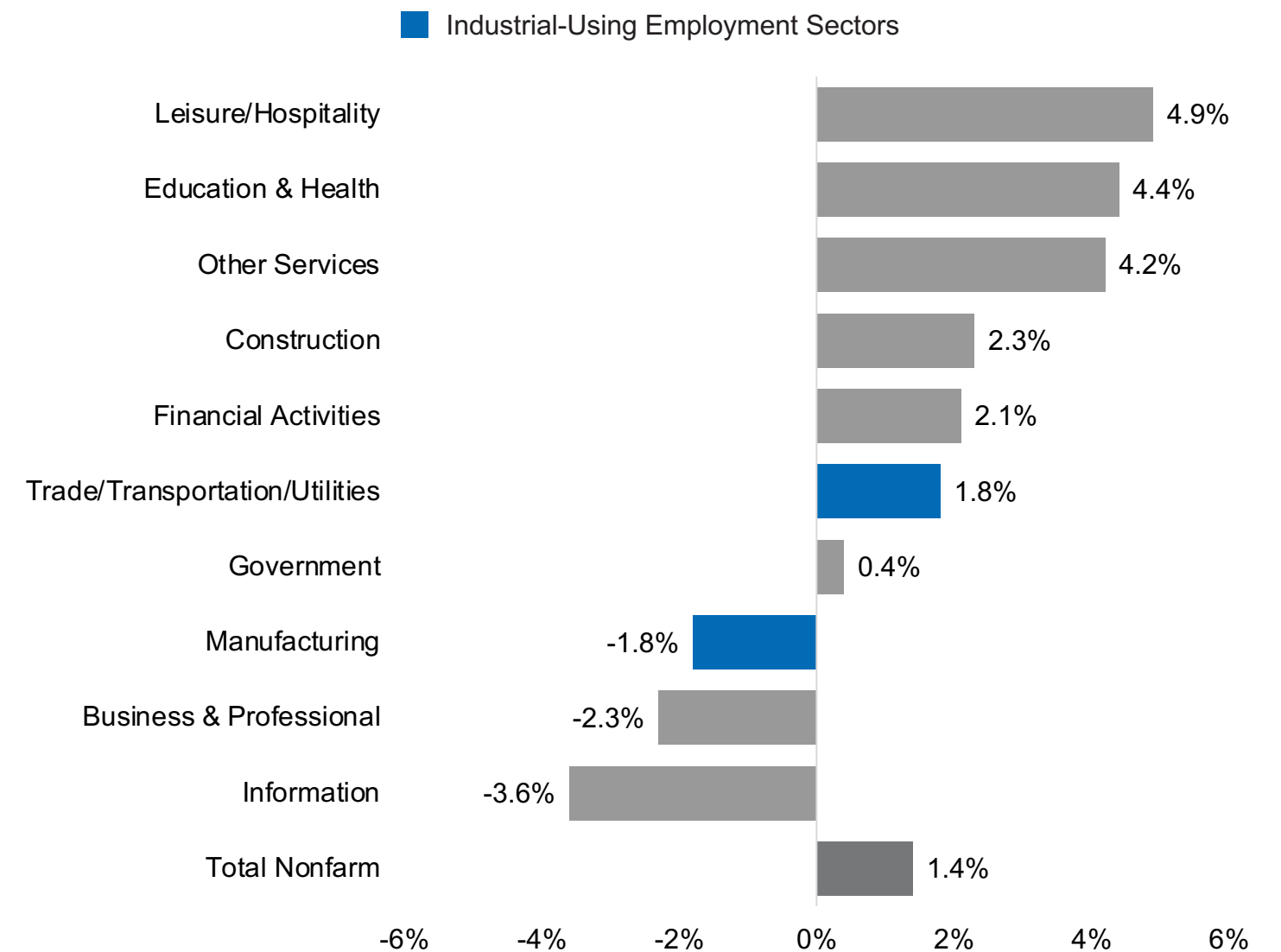
# Industrial Jobs Experienced Minor Growth, Lagging Other Sectors

The San Diego metro added 21,900 nonfarm jobs over the past year. Most of this job creation came from the leisure/hospitality and education and health sectors, which were the hardest hit in the downturn of 2020. Industrial-using jobs had a mixed performance over the past year; the trade, transportation and utilities industry added 4,200 jobs but manufacturing shed 2,100 jobs.

Employment by Industry, November 2023



Employment Growth by Industry, 12-Month % Change, November 2023



Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

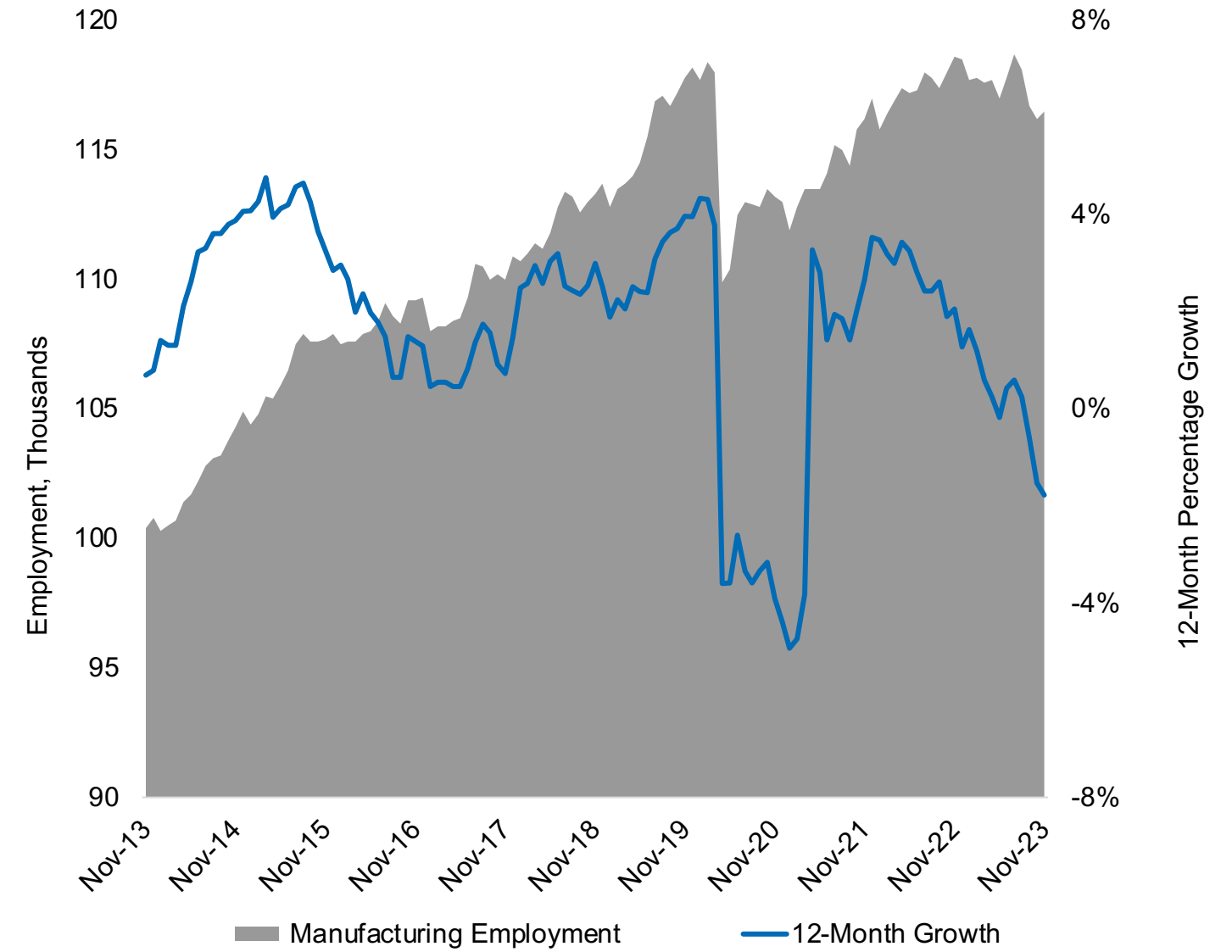
# Industrial Employment Strong But Subject to Seasonal Swings

Trade/transportation/utilities employment has trended upwards since 2021 and is now at similar levels to prepandemic trends. The pandemic downturn interrupted seven years of manufacturing expansion, but jobs in the sector reached a new high in July 2023 before declining by the end of the year.

Trade/Transportation/Utilities Employment and 12-Month Growth Rate



Manufacturing Employment and 12-Month Growth Rate

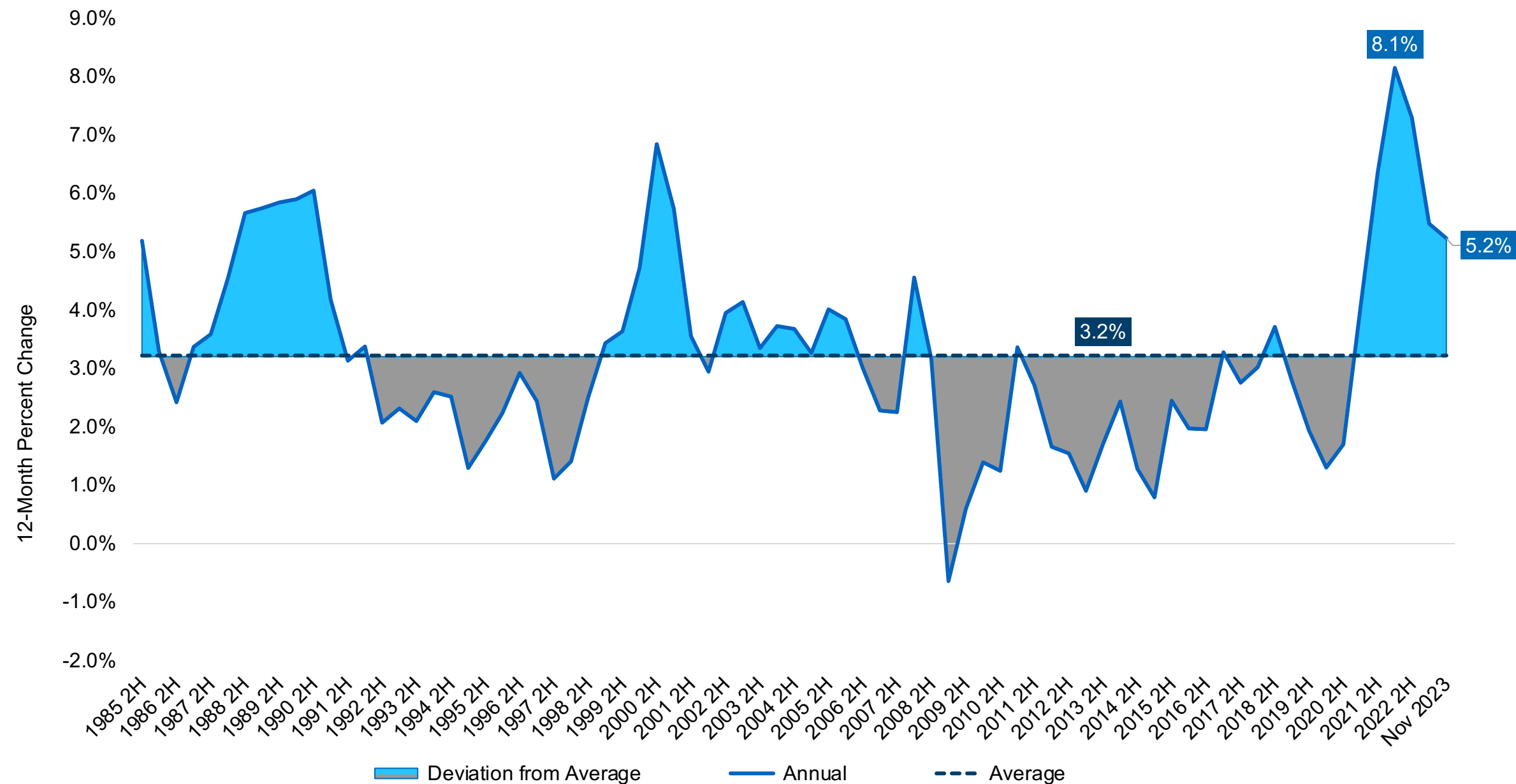


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

# Inflation Eases From Historical Highs But Local Prices Remain Elevated

Inflation in the San Diego metropolitan area caused prices to increase by 5.2% year-over-year as of November 2023, down from the high of 8.1% in the first half of 2022 but still above the long-term average of 3.2%. Nationally, the annual rate of inflation fell to 3.1% in November 2023, which led the Federal Reserve to state that it will likely lower interest rates by the end of 2024.

CPI for All Urban Consumers, San Diego-Carlsbad, CA, Not Seasonally Adjusted



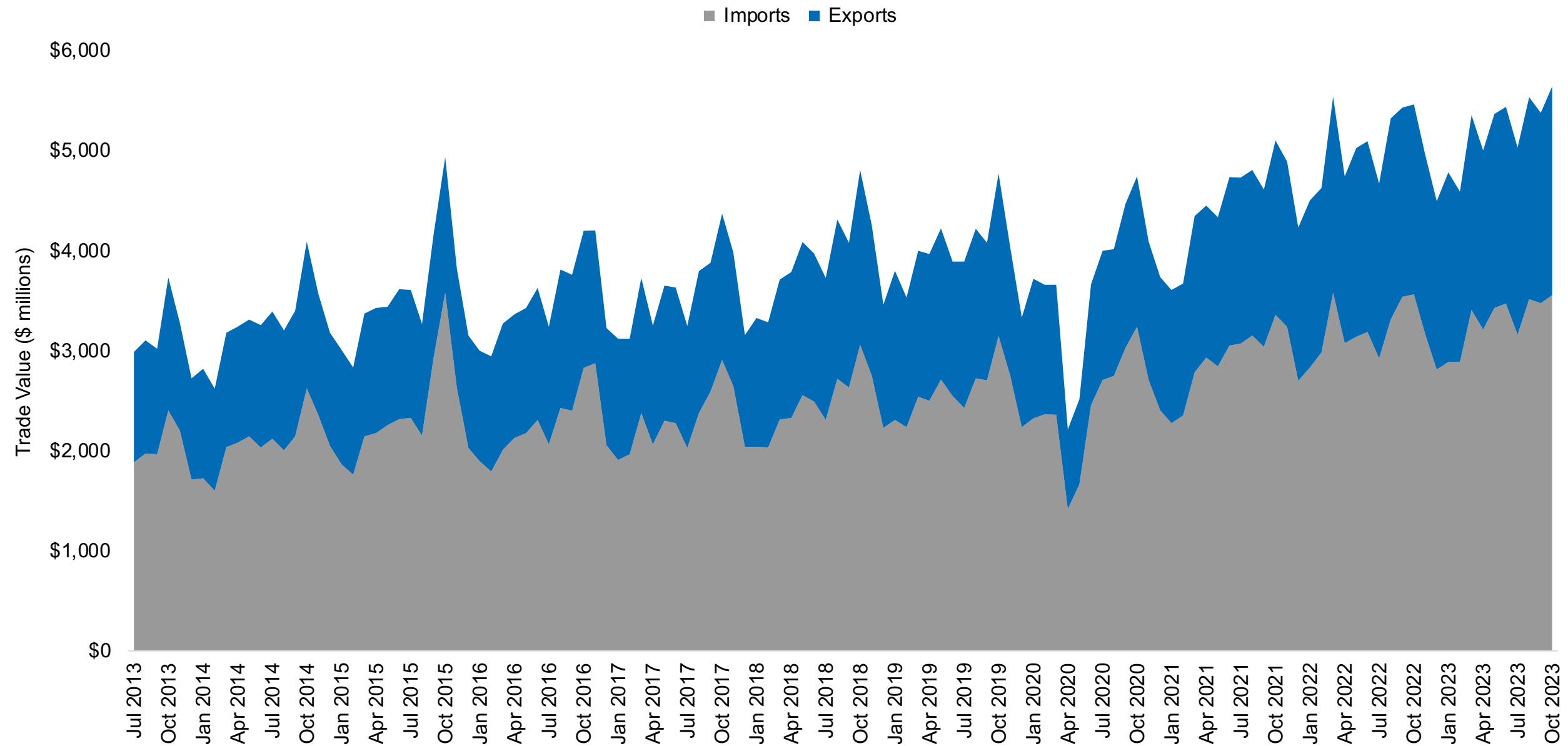
Source: Newmark Research, U.S. Bureau of Labor Statistics



# Otay Mesa Port Annual Volume Reaches an All-Time High

The Otay Mesa Port of Entry is the 6<sup>th</sup> largest port for North American inbound and outbound truck freight in the United States. Total trade volume for the 12-month period ending October 2023 totaled \$61.6 billion, a new all-time high and up 3.4% over the past year. International trade and cross-border manufacturing has fueled the growth of the Otay Mesa submarket and made it San Diego's largest industrial submarket. Construction of a second port of entry ("Otay Mesa East") is underway and scheduled to be completed by 2026.

## Otay Mesa Trade Value

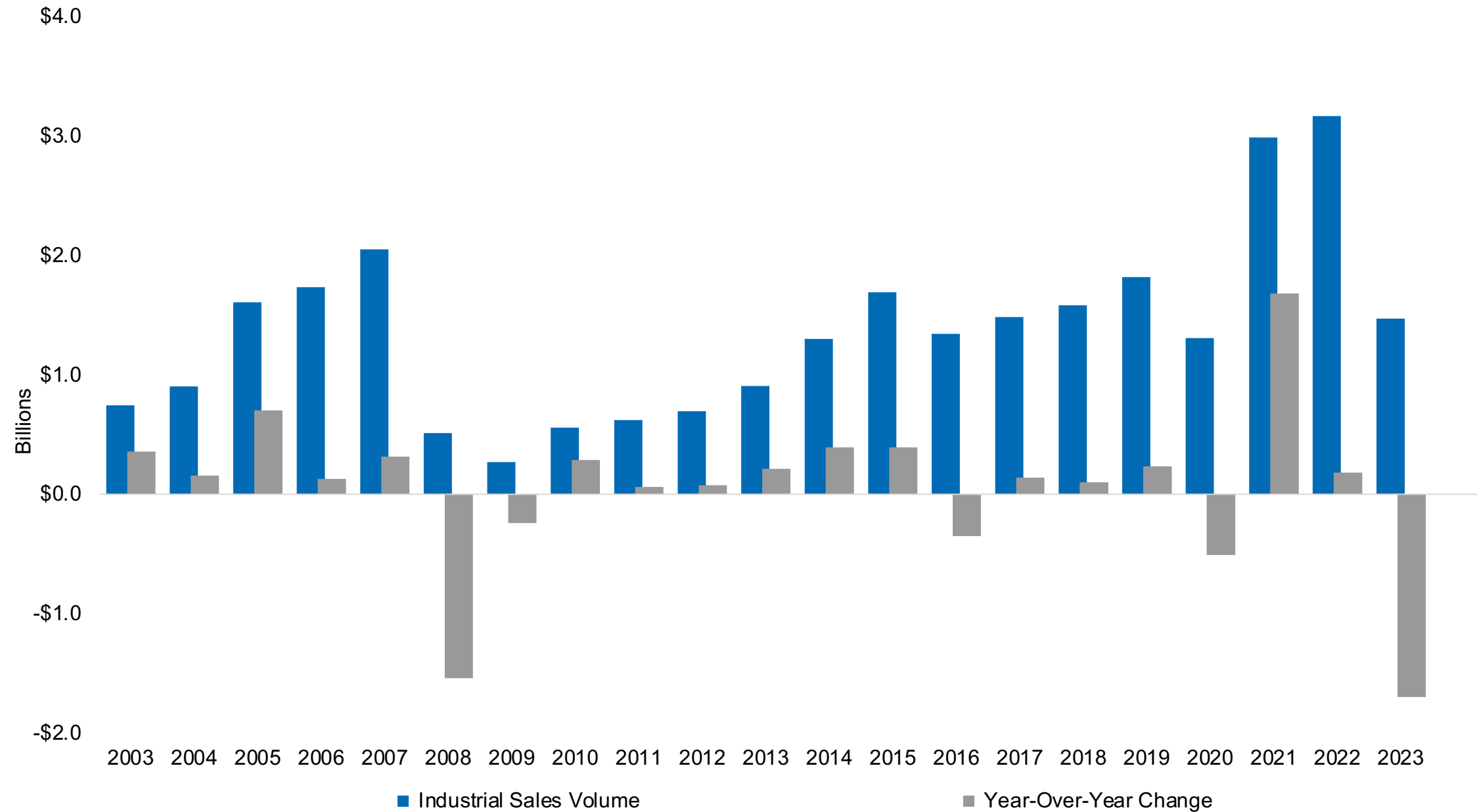


Source: Newmark Research, U.S. Department of Transportation

# Industrial Sales Volume Declines From Recovery Highs

After robust sales from 2021-2022, industrial sales declined significantly to \$1.5 billion in 2023, falling below the 10-year average of \$1.8 billion. High interest rates have been a drag on transactions, but industrial product remains a fundamentally sound target for investors.

## San Diego: Industrial Sales Volume (\$ in Billions)

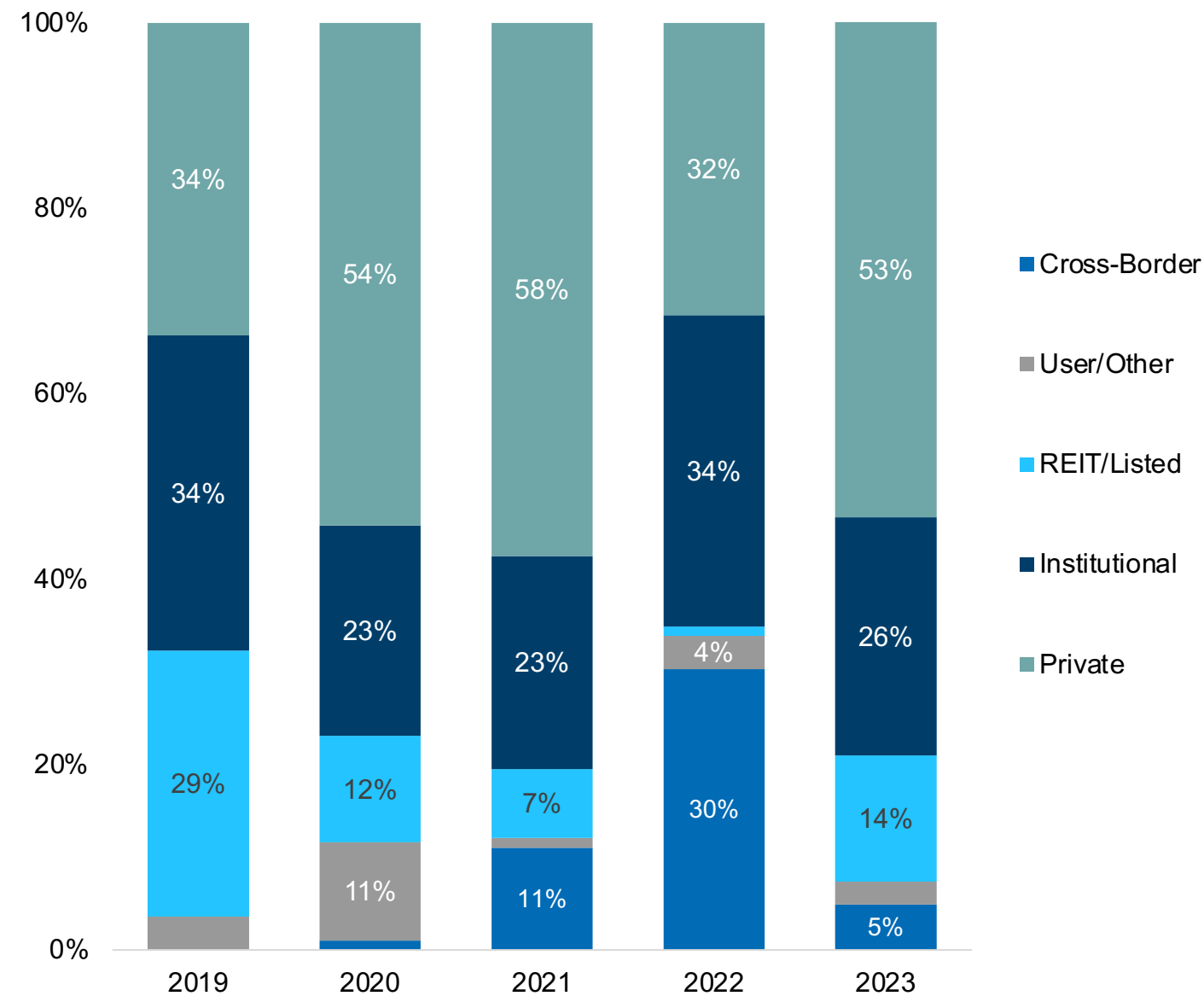


Source: Newmark Research, MSCI Real Capital Analytics  
Note: Preliminary data is cited for the fourth quarter of 2023.

# Private Buyers Most Active As Volume Declines

Private investors made up more than half of all investment volume over the past 12 months and cross-border buyers represented a much smaller share of activity after being unusually active last year. Prologis was the largest investor during the year, due to its \$175.6 million purchase of three buildings in Carlsbad, which was part of its acquisition of a national industrial portfolio from Blackstone.

Buyer Composition, by Year | Based on Sales Volume



Most Active Buyers, Last 12 Months

Company	Investor Type	Volume	# of Properties	Size (SF)
Prologis	REIT	\$175,642,200	3	486,394
LaSalle	Institutional	\$126,836,500	1	601,400
Clarion Partners	Institutional	\$112,350,000	1	163,648
Vertical Ventures	Private	\$72,750,000	1	232,863
Hines	Institutional	\$60,917,500	1	203,244
AIREIT	Private	\$56,996,000	1	195,093
Monro Capital	Private	\$46,500,000	1	155,529
HG Fenton	Private	\$39,550,000	1	99,999
Brookfield AM	Institutional	\$36,000,000	1	60,818
King Street Properties	Private	\$36,000,000	1	122,093
BentallGreenOak	Institutional	\$35,750,000	1	159,000
Birtcher Anderson & Davis	Private	\$35,250,000	1	132,826

Source: Newmark Research  
 Note: Preliminary data is cited for the fourth quarter of 2023.

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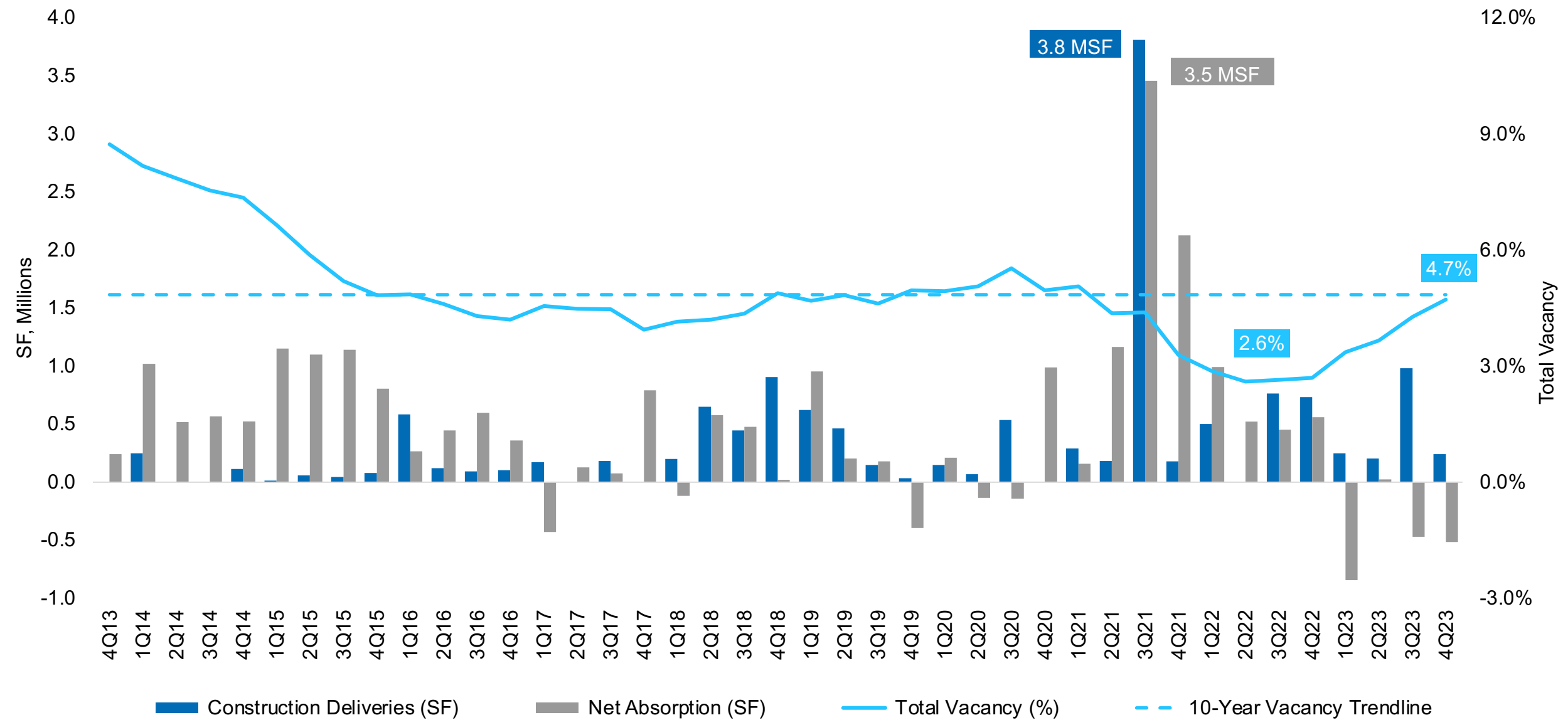
# Leasing Market Fundamentals



# Vacancy Continues to Rise After Bottoming Out in 2022

Total vacancy has climbed to 4.7% since the all-time low of 2.6% achieved in the second quarter of 2022, as leasing activity has slowed, although it remains just below the 10-year average of 4.8%. Construction deliveries and net absorption reached an all-time high in 2021 with the delivery and opening of Amazon's 3.4M-SF distribution facility in Otay Mesa.

## Historical Construction Deliveries, Net Absorption, and Vacancy

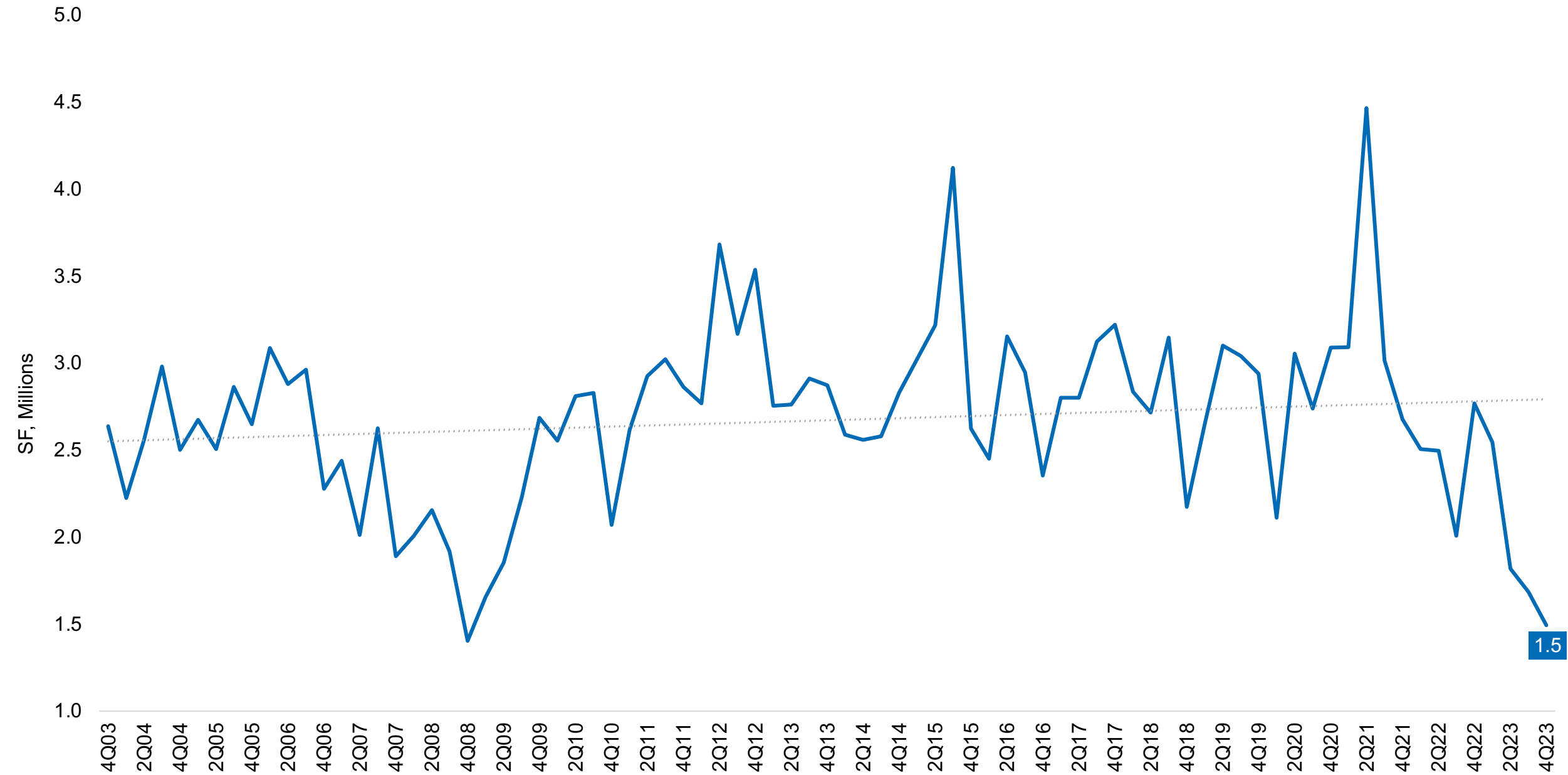


Source: Newmark Research

# Industrial Leasing Falls to Lowest Quarterly Total Since 2008

Leasing activity dropped in 2023 after experiencing robust activity in 2021, as economic uncertainty from high interest rates and inflation lead many businesses to reduce real estate requirements. The last time quarterly activity was this low was in 2008, during the aftermath of the Global Financial Crisis.

## Total Leasing Activity (SF)

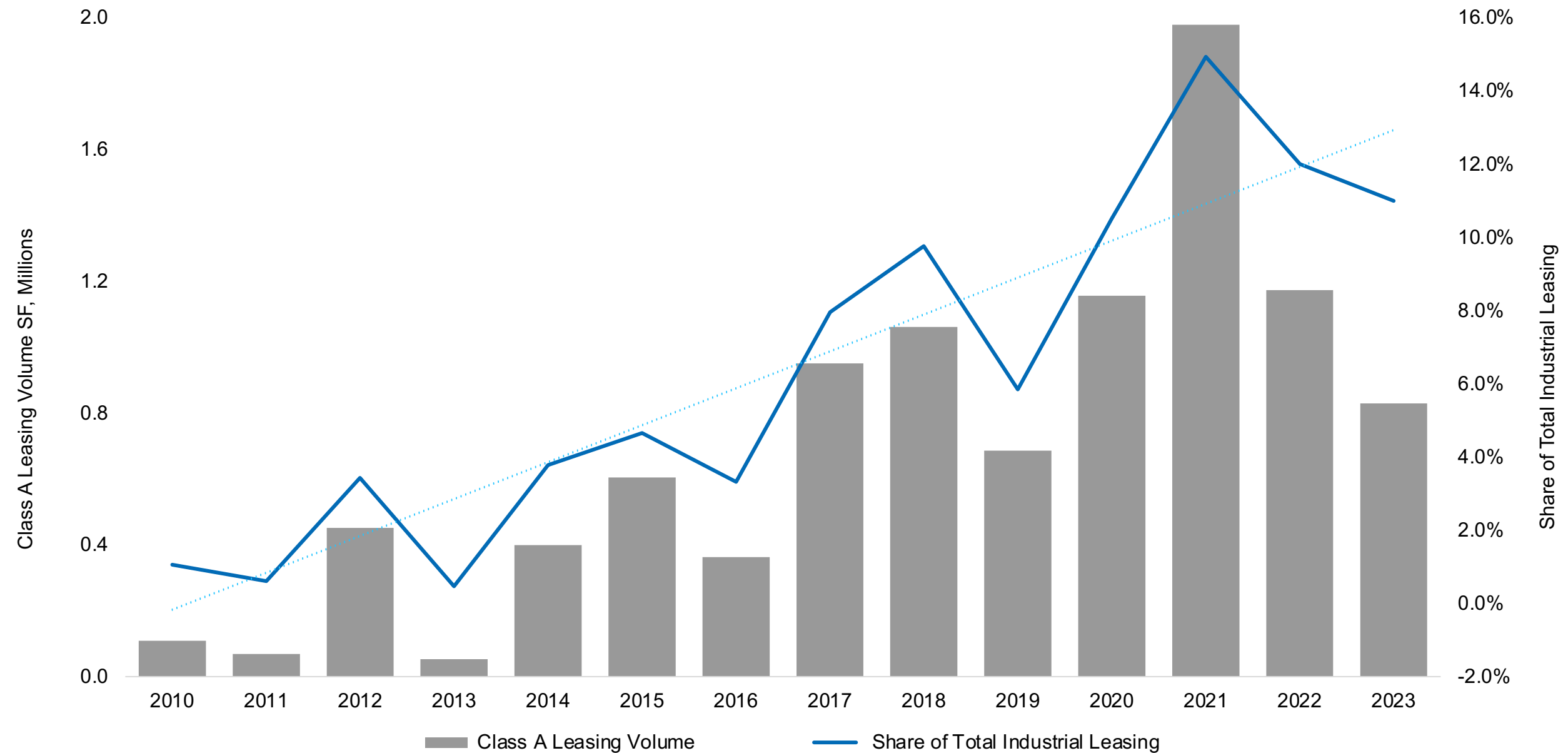


Source: Newmark Research, CoStar

# Class A Leasing Remains Elevated After Declining From All-Time High

San Diego has not seen the same amount of new development as Los Angeles and the Inland Empire, but Class A inventory and demand has increased substantially in the era of super-sized distribution facilities. Amazon's lease for its 3.4M-SF facility in Otay Mesa in 2021 set the high-water mark of Class A demand.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



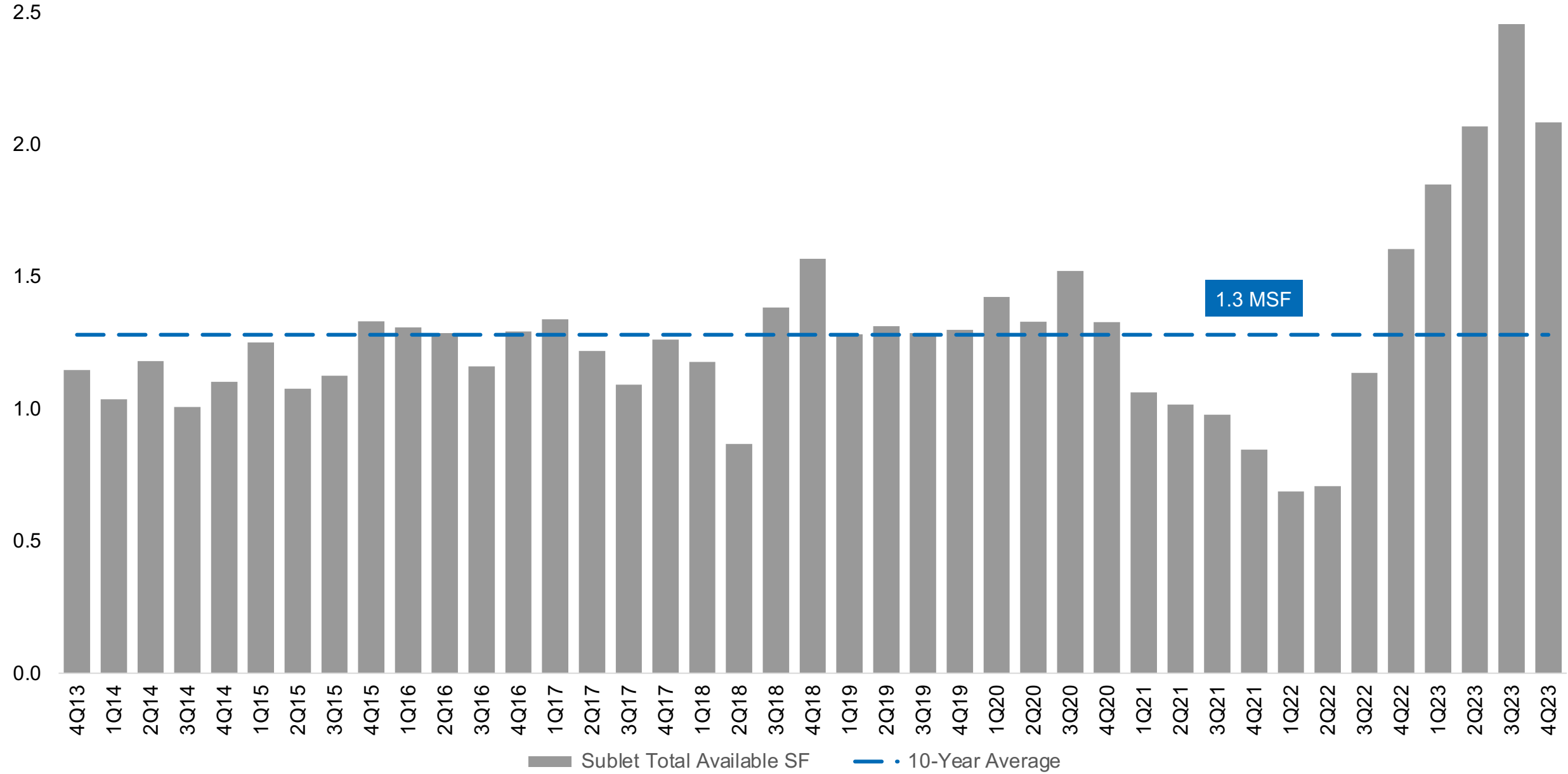
Source: Newmark Research, CoStar

Note: Class A is defined as 100,000+ SF warehouse/distribution facilities constructed since 2000 with a 30'+ minimum interior ceiling height.

# Sublease Availability Dips After Reaching 10-Year High

Sublease availability was steady for nearly ten years prior to the pandemic, which caused major disruptions. Sublease listings briefly dipped during surging demand for industrial space during COVID before increasing at the end of 2022 as demand moderated. Under-construction space that was pre-leased during the pandemic development boom and is now no longer needed has contributed to the upward trend of sublease space.

Available Industrial Sublease Volume (MSF)



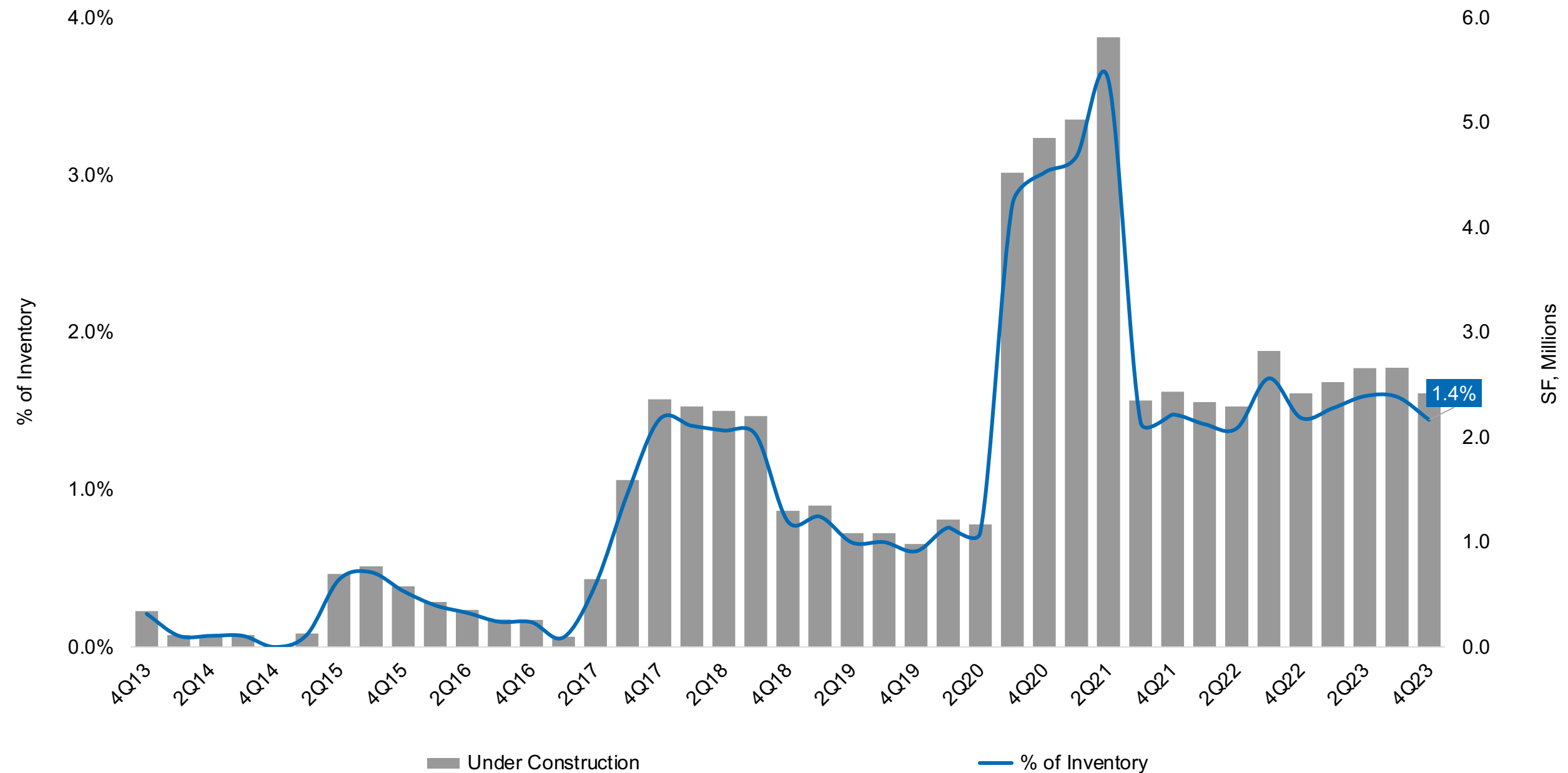
Source: Newmark Research, CoStar



# Industrial Pipeline Holding Steady

The construction pipeline was at record highs from 2020-2021, primarily due to Amazon's 3.4-MSF build-to-suit distribution facility in Otay Mesa. Although construction has fallen from this historical peak, overall activity remains elevated compared to the historical average, and the third quarter of 2023's construction rate of 1.4% of existing inventory remains higher than most of the past decade.

## Industrial Under Construction and % of Inventory

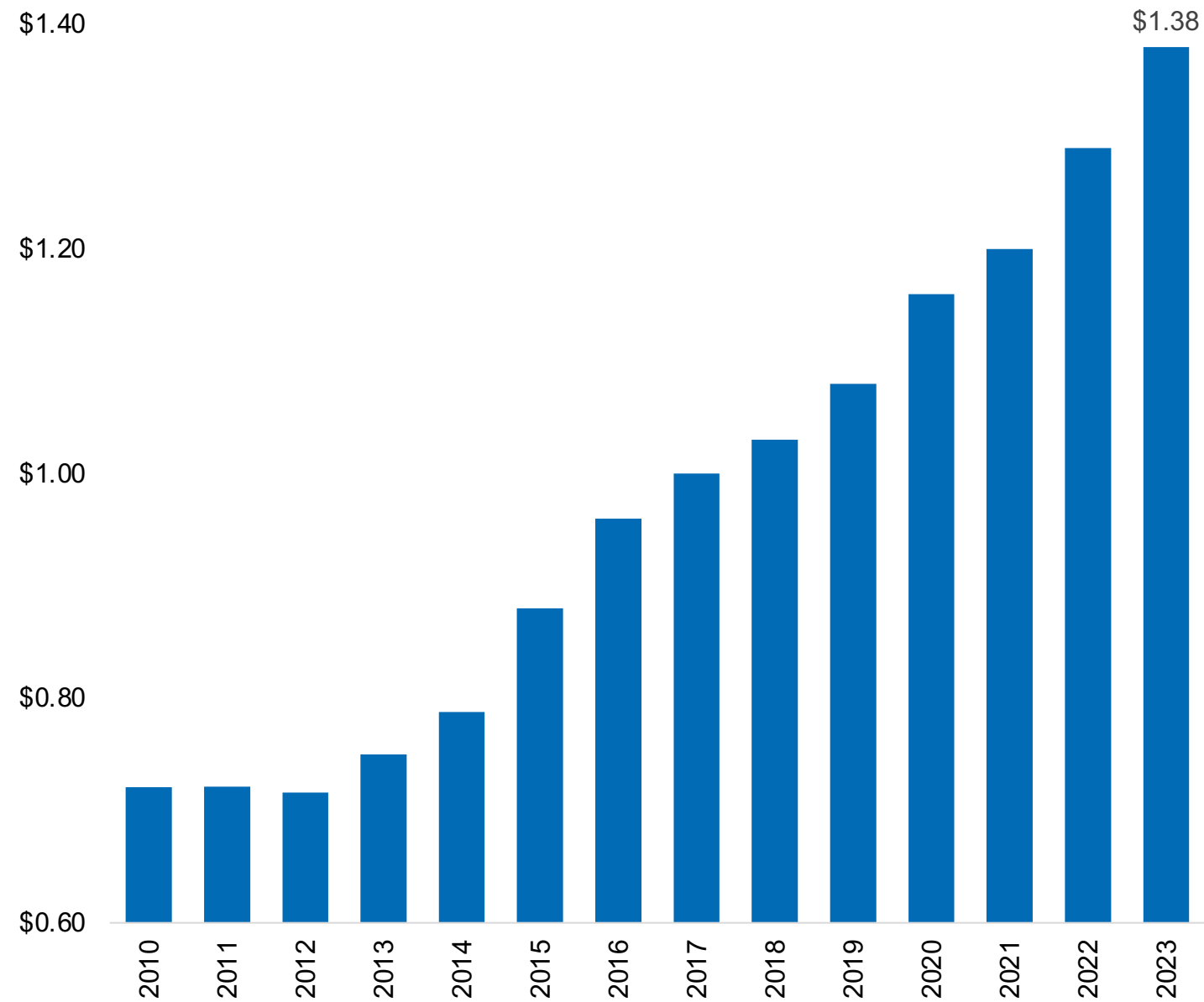


Source: Newmark Research, CoStar

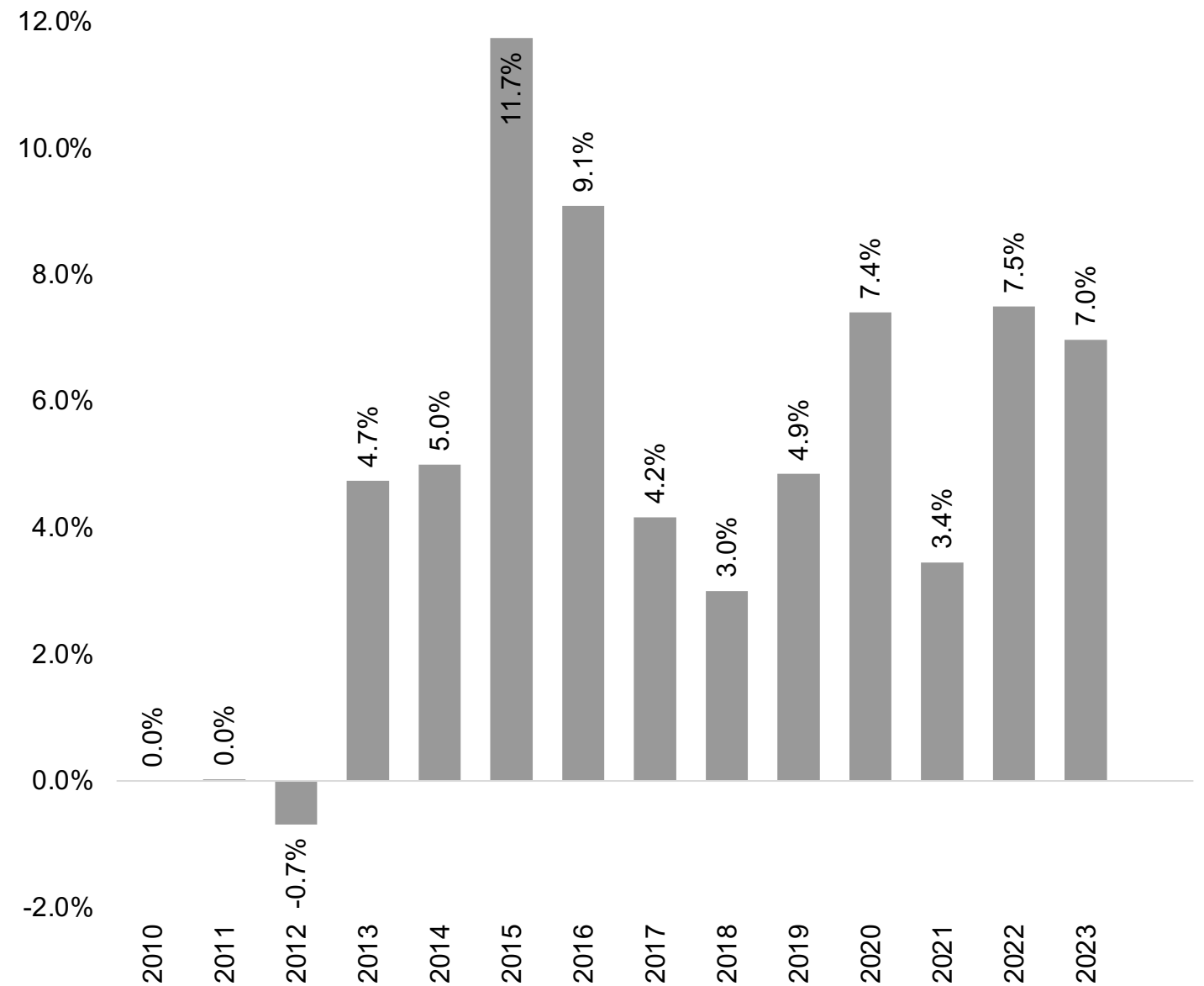
# Industrial Asking Rent Surged in 2023

Despite a slowdown in industrial leasing activity, asking rents reached a new all-time high for the 11<sup>th</sup> consecutive year in 2023. The amount of new space that has delivered over the past five years has built momentum for rent growth as newer, more expensive product makes up an increasing portion of the market compared to older, smaller properties.

Industrial Direct Average Asking Rent, \$/SF/Month, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

# Notable Lease Transactions

Most of the largest deals of the quarter were renewals, as leasing activity slowed and companies took a conservative approach to their real estate needs.

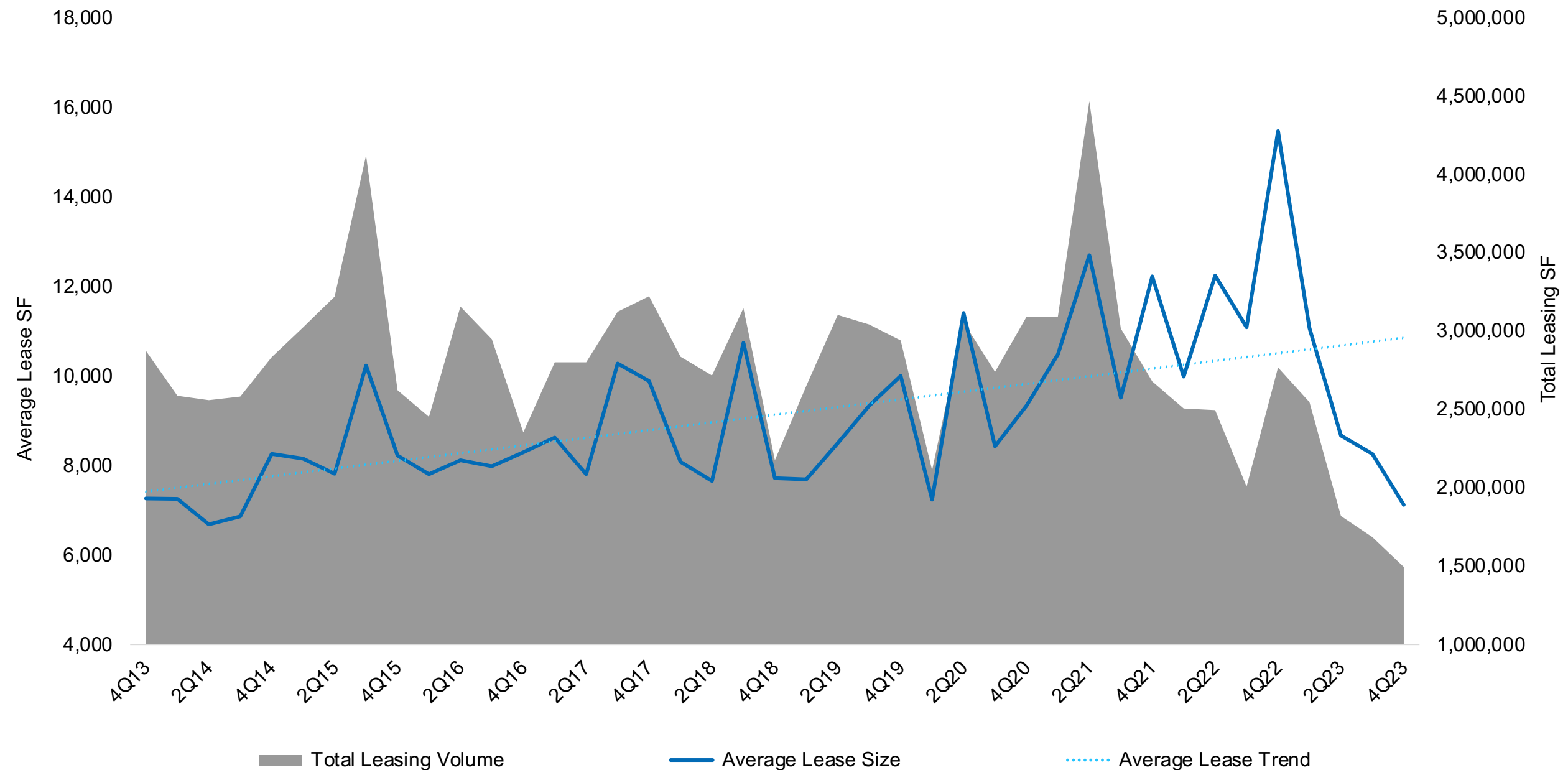
## Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
K1 Speed	6212 Corte Del Abeto	Carlsbad	Renewal	70,224
<i>Indoor kart racing company renewed the lease for its Carlsbad location.</i>				
SMAC	5807 Van Allen Wy	Carlsbad	Renewal	47,946
<i>Electric equipment supplier renewed the manufacturing facility it has occupied since 1999.</i>				
Calderon Auto	Otay Center Dr	Otay Mesa	New Lease	43,000
<i>Automotive wholesaler leased a 1-acre lot for vehicle storage.</i>				
K Flex	8917 Kerns St	Otay Mesa	Sublease	31,072
<i>International insulation manufacturer subleased warehouse space next to the U.S./Mexico border.</i>				
Artifacts International	150 Reed Ct	Chula Vista	Renewal	27,000
<i>Furniture retailer renewed its warehouse facility.</i>				

# Average Lease Size Drops After Decade of Upward Trend

The rapid growth of e-commerce and increased development of 2021-2022 led to progressively larger deals, but a slowdown in 2023 leasing activity has led to smaller deals over the past three quarters. Despite the recent steep decline in 2023, over the past 10 years the average lease size has trended consistently higher as developers and occupiers have shown a preference for larger, more modern spaces.

## Historical Leasing Activity



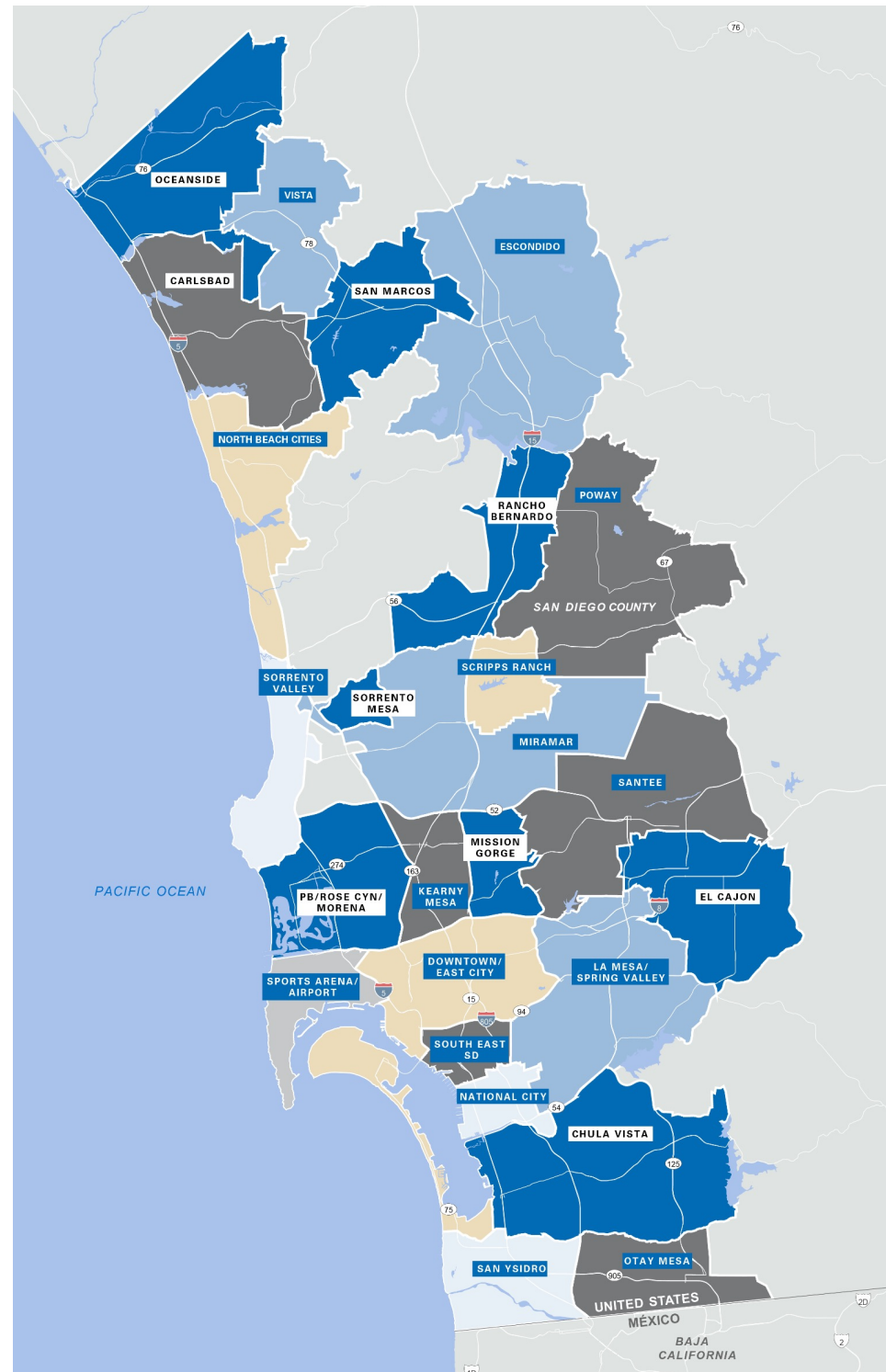
Source: Newmark Research, CoStar

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# Submarkets



# San Diego Submarket Map and High-Level Statistics | 4Q23



## Marketwide Statistics | 4Q23

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	167.6M	167.4M	166.0M	↑
Total Vacancy Rate	4.7%	4.3%	2.7%	↑
Qtr. Net Absp. (SF)	-515K	-470K	560K	↑
Average Asking Rent/SF/Month	\$1.38 NNN	\$1.40 NNN	\$1.29 NNN	→
Deliveries (SF)	241K	982K	731K	↑
Under Const. (SF)	2.4M	2.7M	2.4M	↓

Source: Newmark Research

# San Diego Submarket Statistics | 4Q23 (page 1 of 2)

## Submarket Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Qtr. Construction Deliveries (SF)	YTD Construction Deliveries (SF)	Total Asking Rent (Price/SF)
Carlsbad	13,912,460	222,959	8.4%	15,403	-256,127	0	140,092	\$1.41
Chula Vista	9,393,081	205,510	7.1%	-7,066	-186,280	0	201,200	\$1.33
Downtown/East City	2,365,962	0	1.3%	24,827	491,616	0	346,128	\$1.35
El Cajon	9,556,255	381,240	0.8%	-26,874	59,541	0	0	\$1.30
Escondido	6,026,590	0	2.2%	8,207	-29,365	0	0	\$1.31
Kearny Mesa	13,840,358	0	3.1%	-31,601	-116,392	0	0	\$1.68
La Mesa/Spring Valley	1,880,861	0	0.5%	3,927	-922	0	0	\$1.12
Miramar	15,115,232	0	4.8%	-116,040	-519,025	0	0	\$1.38
Mission Gorge	1,762,616	0	2.3%	-9,447	-25,560	0	0	\$1.74
National City	2,655,713	0	1.0%	1,480	15,742	0	0	\$1.65
North Beach Cities	458,966	0	1.1%	7,395	-4,360	0	0	\$1.95
Oceanside	8,228,153	0	4.6%	-167,038	-194,744	0	0	\$1.30
Otay Mesa	23,117,526	1,610,670	6.8%	-118,261	14,674	240,975	985,983	\$1.07
PB/Rose Cyn/Morena	2,272,986	0	5.1%	36,040	-35,052	0	0	\$1.58

Source: Newmark Research

# San Diego Submarket Statistics | 4Q23 (page 2 of 2)

## Submarket Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Qtr. Construction Deliveries (SF)	YTD Construction Deliveries (SF)	Total Asking Rent (Price/SF)
Poway	9,313,020	0	2.7%	-54,642	-208,376	0	0	\$1.59
Rancho Bernardo	7,254,796	0	7.0%	-56,036	-339,626	0	0	\$1.92
San Marcos	7,475,834	0	5.9%	-15,784	-301,632	0	0	\$1.27
San Ysidro	1,385,618	0	2.3%	2,146	-29,647	0	0	\$1.40
Santee	3,634,045	0	1.2%	807	67,512	0	0	\$1.32
Scripps Ranch	1,317,906	0	6.5%	-	38,996	0	0	\$1.58
Sorrento Mesa	7,695,222	0	5.3%	-7,649	-210,308	0	0	\$1.48
Sorrento Valley	1,619,713	0	2.3%	25,820	-27,650	0	0	\$1.89
Southeast San Diego	3,240,885	0	2.0%	-20,948	-55,491	0	0	\$1.30
Sports Arena/Airport	1,434,012	0	7.1%	-	12,710	0	0	\$1.09
Vista	12,654,775	0	4.4%	-9,589	33,696	0	0	\$1.19
<b>San Diego</b>	<b>167,612,585</b>	<b>2,420,379</b>	<b>4.7%</b>	<b>-514,923</b>	<b>-1,806,070</b>	<b>240,975</b>	<b>1,673,403</b>	<b>\$1.38</b>

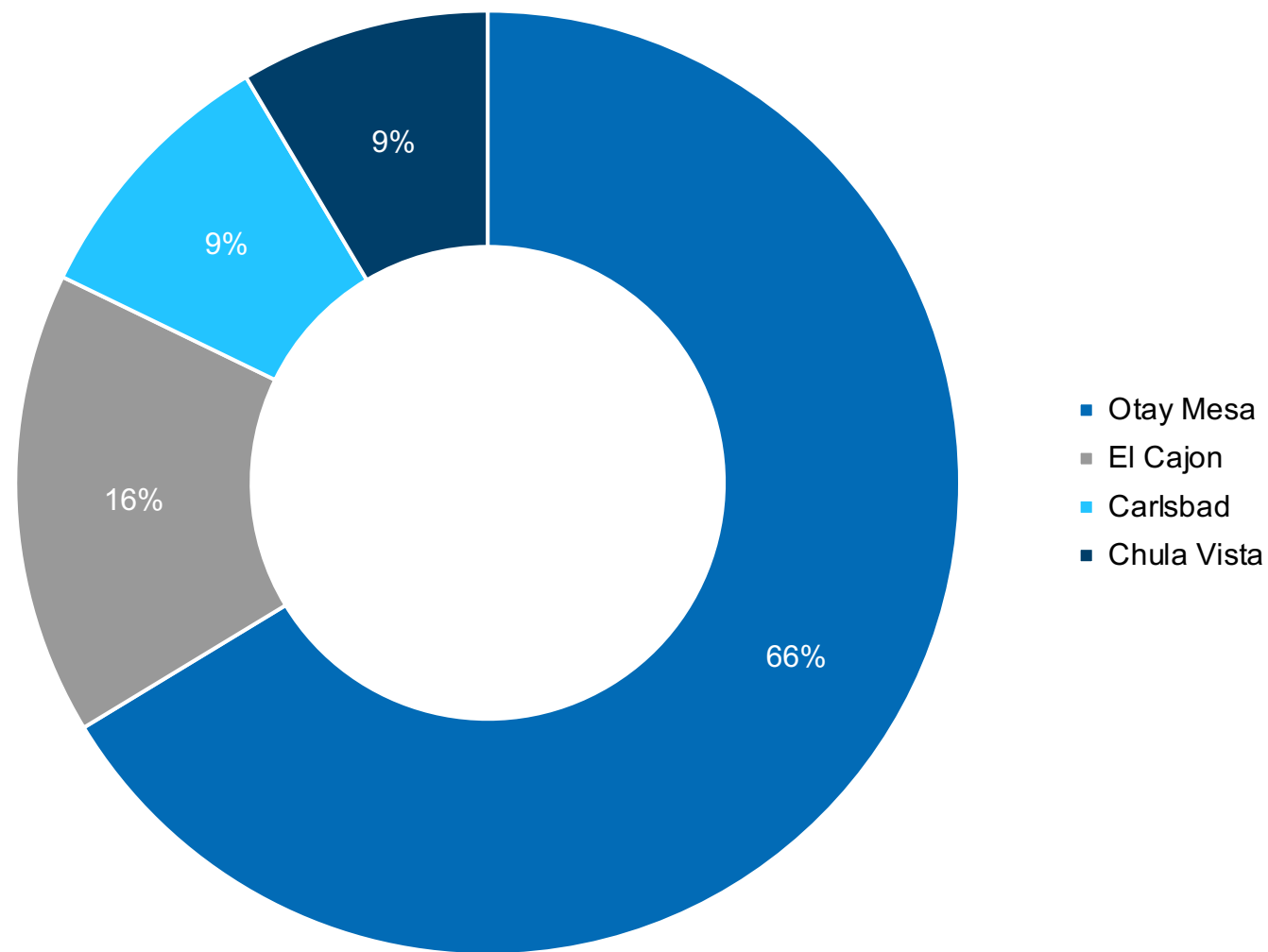
Source: Newmark Research



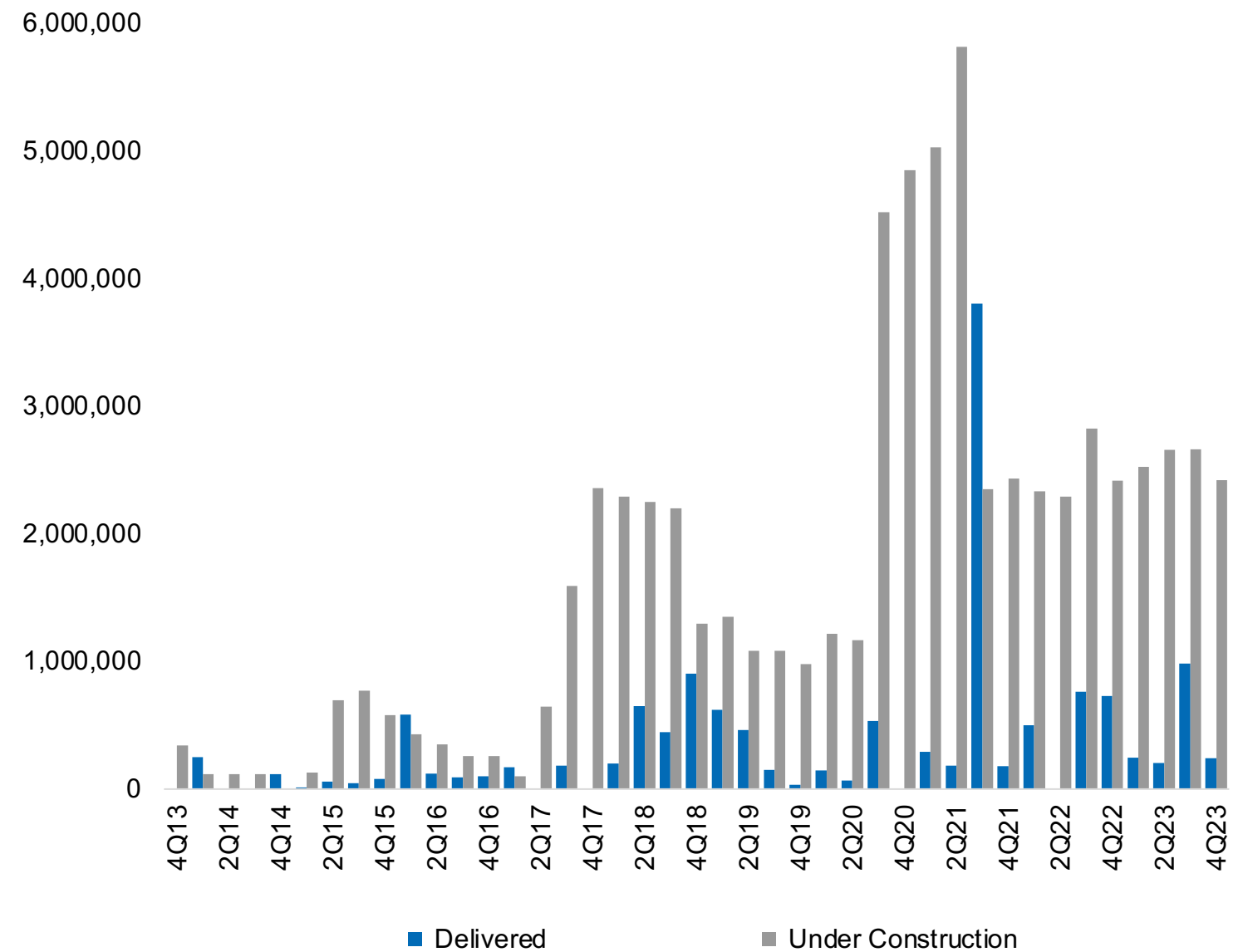
# Construction Remains Concentrated in Otay Mesa

Construction levels peaked at 5.8 MSF in 2021 with the construction of Amazon's 3.4-MSF, build-to-suit distribution facility in Otay Mesa. Since then, under construction activity has leveled off at around 2.4 MSF. There are only four submarkets with active construction projects as developers focus on the major industrial submarkets, with the vast majority of development located in Otay Mesa.

Current Construction by Submarket



Historical Deliveries & Construction Levels

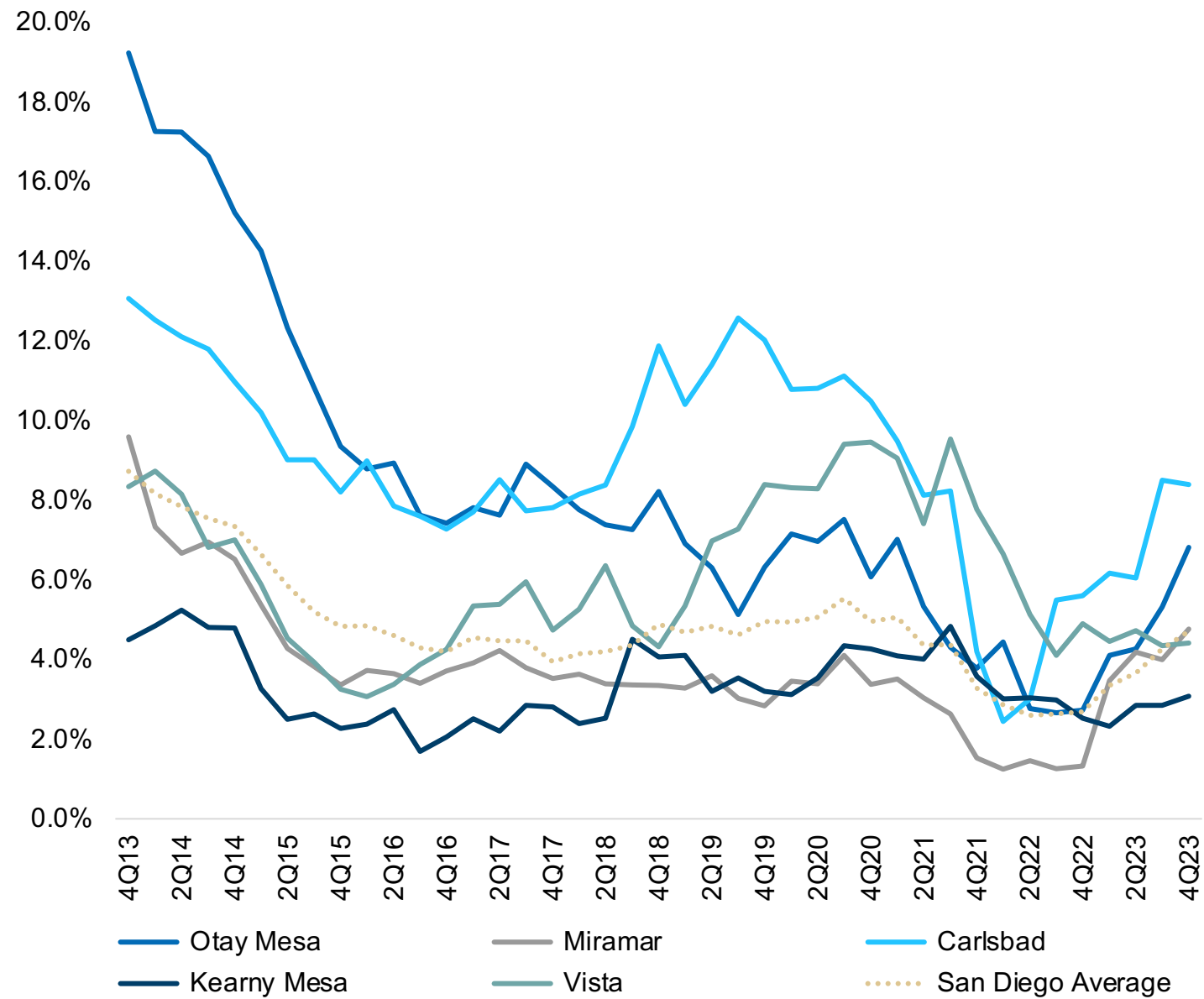


Source: Newmark Research, CoStar

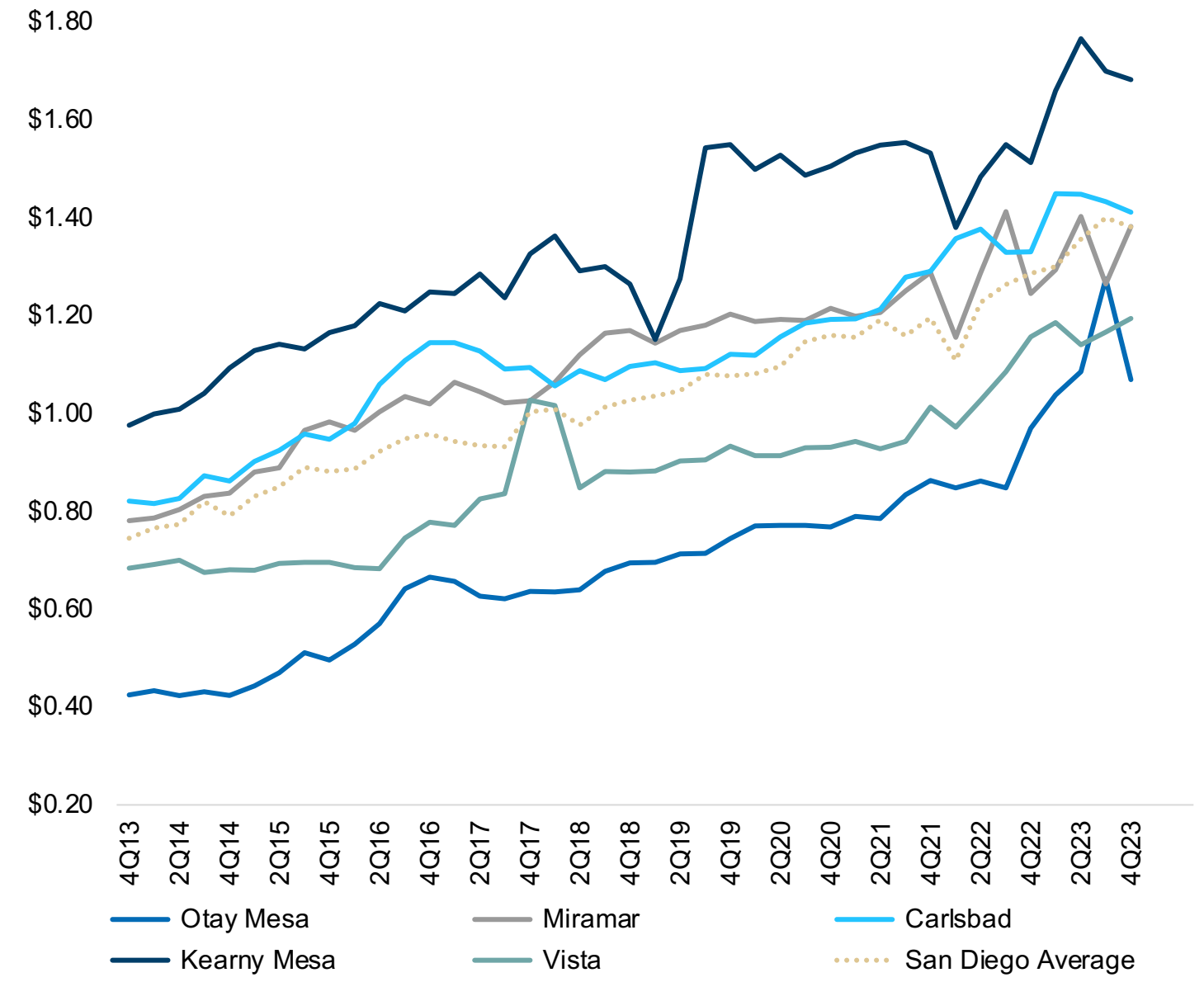
# Otay Mesa Has Seen the Most Progress Over the Past Decade

Otay Mesa has long been the most affordable submarket in San Diego County due to the availability of developable land, but the rent gap with other major submarkets has tightened considerably over the past decade as its vacancy fell. After the Global Financial Crisis, Otay Mesa's vacancy rose to more than 20%, which steadily fell below 8% by 2015, and by 2021 its vacancy was closely tracking the county average. Kearny Mesa currently commands the highest asking rent due to its central location in the county.

Historical Total Vacancy, Top Submarkets



Historical Asking Rents, Top Submarkets

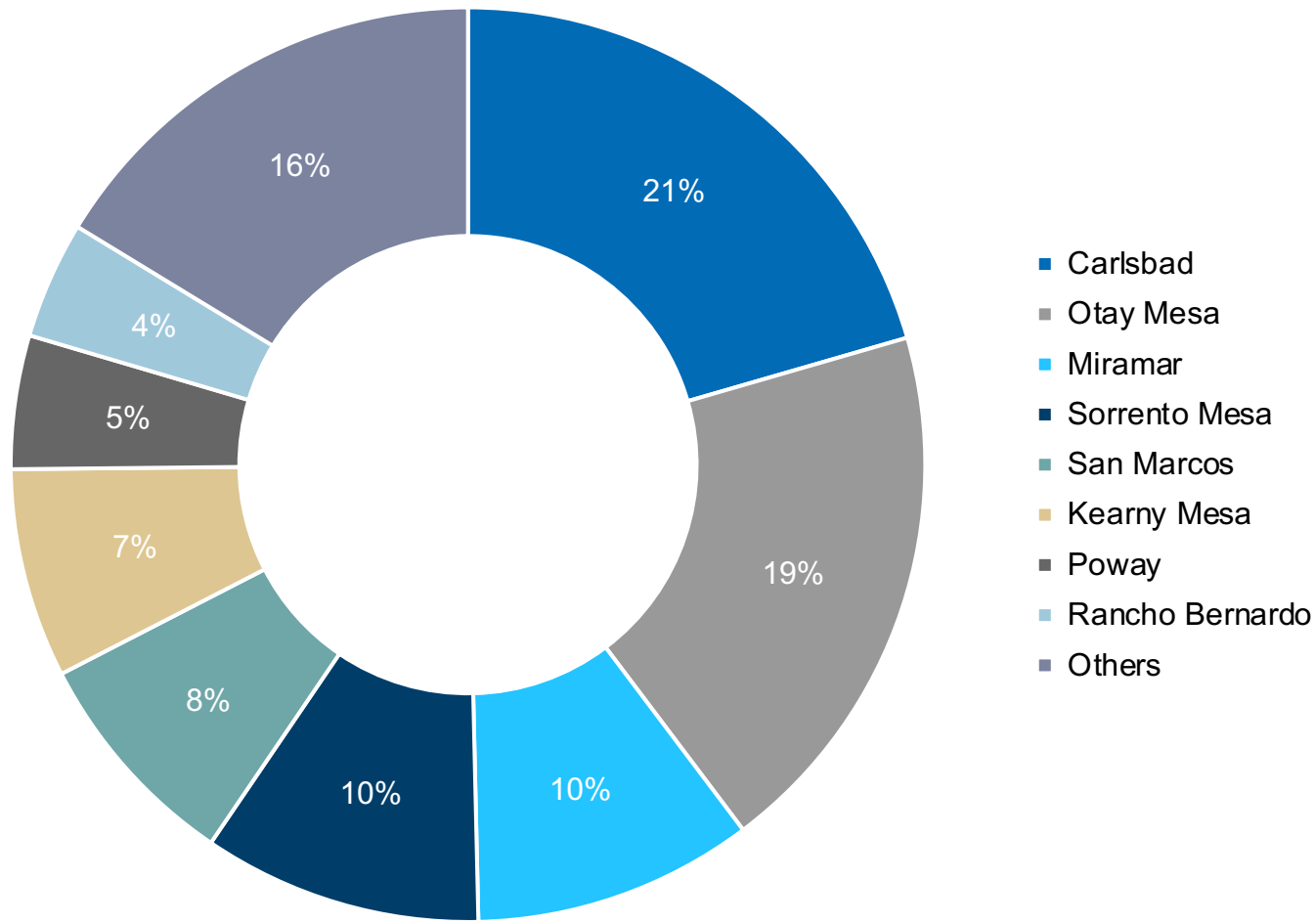


Source: Newmark Research, CoStar

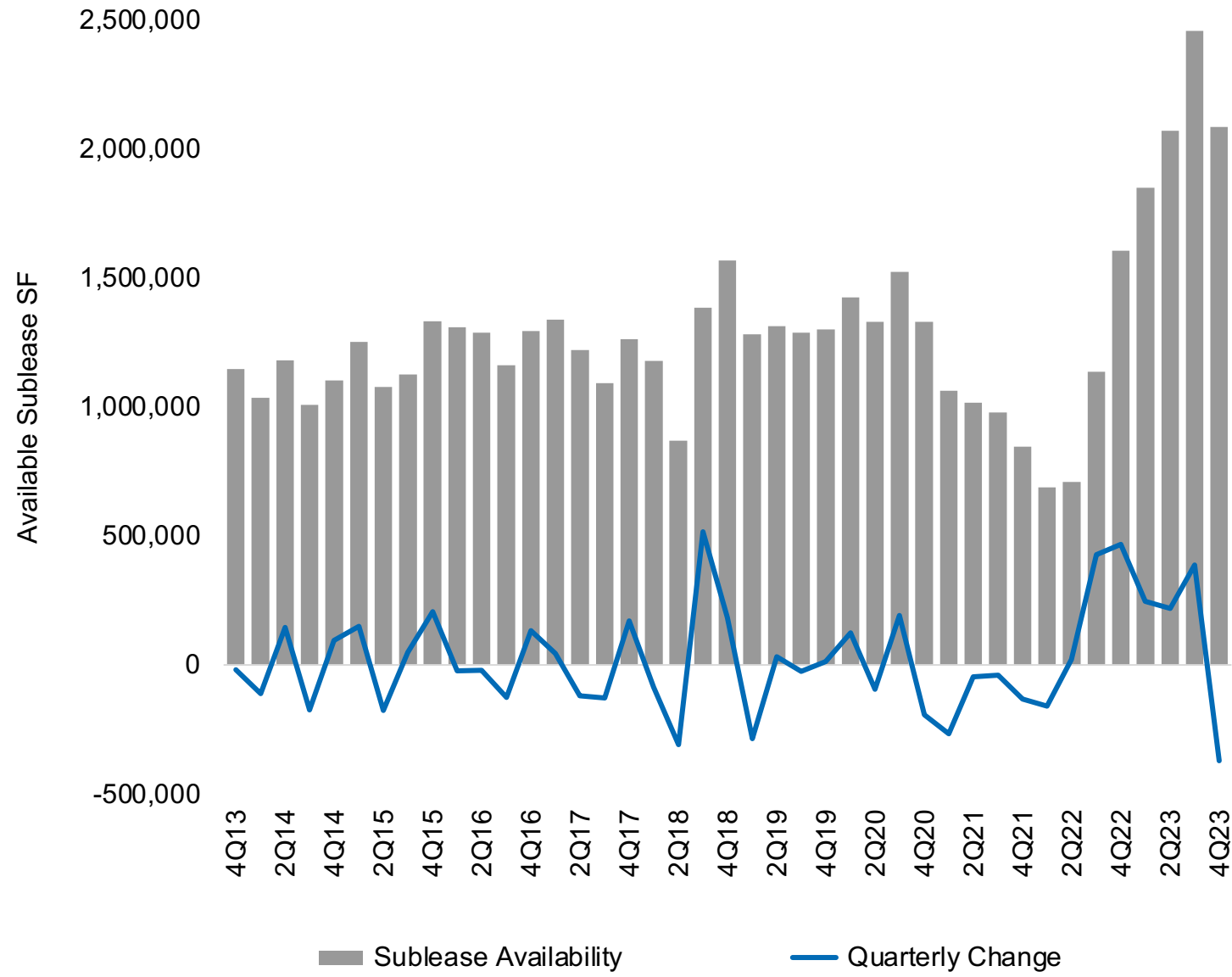
# Sublease Availability Eases After Reaching a New High Last Quarter

Sublease space has increased markedly since 2022, after many occupiers expanded aggressively during the e-commerce boom caused by the pandemic and now have more space than needed. Sublease availability is distributed fairly equally throughout the county, although Carlsbad and Otay Mesa, submarkets with more modern projects that leased up in the recent past, do have the most amount of sublease space.

Sublease Space by Submarket



Historical Sublease Availability



Source: Newmark Research, CoStar

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