

MARKET TRENDS | SAN DIEGO

INDUSTRIAL

MARKET DRIVERS

HEIGHTENED DEMAND in the market compressed vacancies and availabilities to record lows. The severe lack of availability in the central county specifically, pushed tenants to seek space directly north. Traditional e-commerce, HQ users, and biotech firms alike have rapidly expanded into North County, resulting in a tightened market.

THE AVERAGE ASKING RENTAL RATE climbed to an all-time high in the second quarter and shows no signs of slowing in the highly competitive nature of the current market. Logistics as well as lab inventory have been the main drivers of rent growth, with rents growing 6-6.5% YOY.

WHILE DEMAND AND INTEREST from owner/users and investors has remained high, sales transactions have decreased by virtue of a lack of sale inventory, down 30% over the past six months when compared to last year. The low inventory is a direct correlation to the high prices experienced throughout the county.

ECONOMIC OVERVIEW

THE SAN DIEGO COUNTY UNEMPLOYMENT RATE in May dropped three basis points to 6.4% month-over-month, adding 2,000 jobs within the last month. This compares with an unadjusted unemployment rate of 7.5% for California and 5.5% for the nation.

SAN DIEGO'S REPUTATION as a top life science and biotech market has grown exponentially over recent years. Furthermore, the heightened demand for logistics space throughout the county for e-commerce and last-mile distribution continues to increase. These two leading sectors will help the industrial market remain strong and flourish.

NEAR TERM OUTLOOK

VACANCIES MAY INCREASE due to the new supply in 2021 but only slightly as over half the development pipeline has already been committed to. It is not likely to apply substantial upward pressure to the vacancy rate given the level of recent demand.

THE INDUSTRIAL MARKET may experience some tightening of fundamentals in the near future as demand continues to surge, rent growth remains above the long-term average, and supply remains low.

SOURCE: COSTAR, EDD, SD BUSINESS JOURNAL

Market Summary

	2Q 2021	1Q 2021	2Q 2020	Annual Change
Vacancy Rate	4.50%	5.00%	5.50%	-18.18%
Availability Rate	6.10%	7.10%	7.40%	-17.57%
Asking Lease Rate	\$1.24	\$1.23	\$1.17	5.98%
Lease Transactions	3,627,352	3,366,819	3,303,453	9.80%
Sale Transactions	2,222,184	2,143,880	1,211,235	83.46%
Net Absorption (SF)	1,546,941	508,672	29,943	N/A

▲ 3.62M
LEASING ACTIVITY
▲ 1.54M
NET ABSORPTION (SF)
▼ 4.5%
VACANCY RATE
▲ \$1.24
AVERAGE ASKING RENT
▲ 633K
NEW DELIVERIES (SF)
YEAR-OVER-YEAR CHANGE

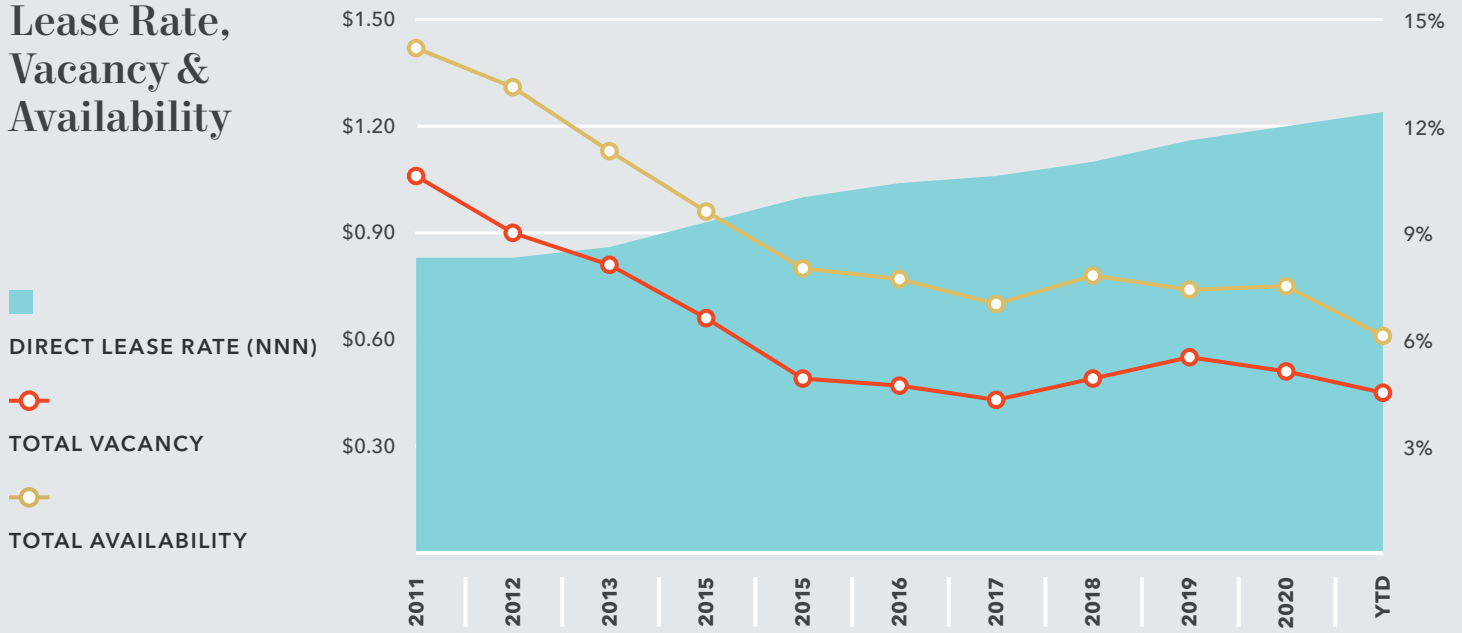
Market Highlights

RENTAL RATES reached a record high of \$1.24/SF NNN

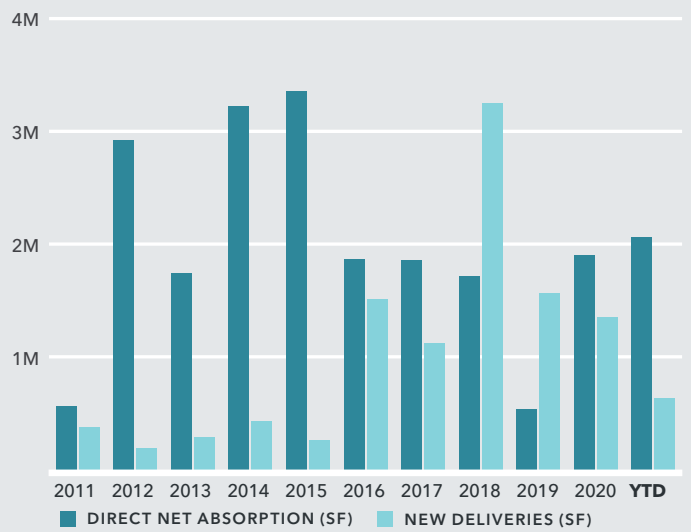
AVAILABILITY RATES decreased to an all-time low of 6.1%

SALES TRANSACTION volume almost doubled YOY to 2.2M square feet

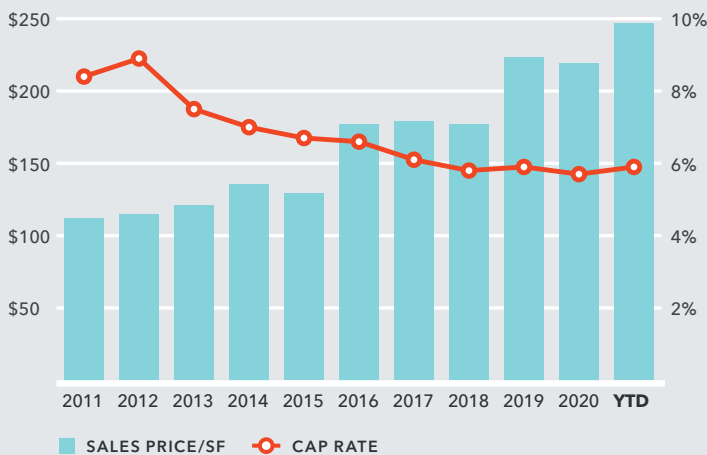
Lease Rate, Vacancy & Availability



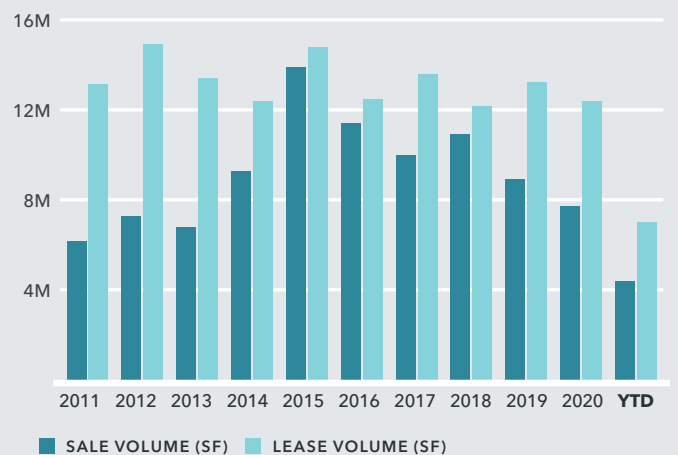
Net Absorption & New Deliveries



Average Sales Price/SF & Cap Rate



Sale Volume & Lease Volume



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	2Q Direct Net Absorption	YTD Direct Net Absorption	2Q Leasing Activity	YTD Leasing Activity	SF Under Construction	YTD Construction Completions	Avg. Rental Rate (NNN)
Carlsbad	15,688,605	8.8%	9.0%	202,506	486,012	545,536	1,082,883	70,000	231,118	\$1.24
Escondido	7,567,769	2.0%	2.2%	46,714	50,863	109,931	214,492	0	0	\$1.15
North Beach Cities	343,583	0.3%	0.3%	1,280	880	1,280	1,280	0	0	-
Oceanside	10,236,589	2.8%	3.3%	(21,872)	(87,923)	162,249	265,489	0	0	\$0.94
San Marcos	8,863,976	5.2%	5.8%	318,161	354,042	147,606	350,481	0	0	\$0.95
Vista	14,124,444	7.3%	8.1%	85,598	164,834	607,563	740,960	0	0	\$0.98
North County	56,824,966	5.8%	6.3%	632,387	968,708	1,574,165	2,655,585	70,000	231,118	\$1.06
Kearny Mesa	15,389,675	4.2%	4.6%	70,366	89,589	249,020	413,338	344,000	0	\$1.54
Mira Mesa/ Miramar	17,636,935	3.2%	3.4%	68,578	(12,137)	394,276	708,118	0	0	\$1.36
PB/Rose Canyon/ Morena	2,658,350	2.7%	3.0%	(9,464)	21,367	10,105	45,087	0	0	\$1.23
Sorrento Mesa	10,362,336	5.1%	5.4%	55,285	95,769	168,655	248,826	0	0	\$2.20
Sorrento Valley	3,411,220	6.3%	8.2%	70,727	61,318	40,955	140,871	0	0	\$2.01
Sports Arena/ Airport	2,889,541	4.4%	4.4%	(20,239)	(36,599)	0	12,700	0	0	\$1.25
Torrey Pines	3,962,124	5.1%	5.1%	(44,685)	41,132	88,704	245,830	264,078	0	\$2.50
UTC	2,618,405	4.8%	4.8%	17,621	23,363	13,702	44,563	0	0	\$2.22
Central County	58,928,586	4.2%	4.6%	208,189	283,802	965,417	1,859,333	608,078	0	\$1.24
Mission Gorge	1,894,984	0.9%	1.0%	19,902	88,386	24,487	33,346	0	0	\$1.73
Poway	9,707,333	1.2%	1.5%	(55,580)	(46,047)	115,161	164,187	0	0	\$1.12
Rancho Bernardo	7,865,186	3.4%	4.1%	(12,255)	(58,891)	127,646	197,800	0	0	\$1.45
Scripps Ranch	1,502,184	1.4%	1.5%	14,728	15,898	7,243	45,664	0	0	\$1.32
I-15 Corridor	20,969,687	2.0%	2.4%	(33,205)	(654)	274,537	440,997	0	0	\$1.31
Chula Vista	9,972,834	1.7%	1.9%	216,036	251,201	145,608	541,834	66,860	0	\$0.99
Downtown	1,695,841	1.0%	1.0%	6,500	6,500	0	3,353	0	0	-
National City	3,752,480	2.8%	3.0%	(12,495)	(87,033)	24,311	38,688	0	0	\$1.21
Otay Mesa	16,904,113	5.0%	5.6%	323,244	554,055	422,162	1,037,770	5,709,586	493,395	\$0.80
San Ysidro/ Imp Beach	1,338,893	3.1%	3.1%	(10,702)	(40,492)	0	4,870	0	0	\$0.75
South County	33,664,161	3.5%	3.9%	522,583	684,231	592,081	1,626,515	5,776,446	493,395	\$0.86
East City	912,305	0.0%	0.0%	0	0	0	0	0	0	\$0.95
El Cajon	9,745,127	3.2%	3.7%	18,408	27,978	106,160	121,116	0	0	\$1.02
La Mesa/ Spring Valley	2,491,560	2.2%	2.2%	6,380	451	38,500	49,607	0	0	\$0.93
Santee	4,225,115	3.8%	3.8%	163,004	69,745	75,954	90,848	55,545	185,195	\$1.08
Southeast San Diego	4,045,133	1.1%	1.4%	14,379	6,586	538	123,467	0	0	\$1.10
East County	21,419,240	2.7%	3.0%	202,171	104,760	221,152	385,038	55,545	185,195	\$1.03
Outlying SD County North	997,222	1.0%	1.0%	(1,704)	(1,754)	0	5,000	0	0	-
Outlying SD County South	801,777	0.0%	0.0%	16,520	16,520	0	9,300	0	0	-
Outlying East SD County	1,798,999	0.5%	0.5%	14,816	14,766	0	14,300	0	0	-
San Diego County	193,605,639	4.1%	4.5%	1,546,941	2,055,613	3,627,352	6,981,768	6,510,069	909,708	\$1.24

TOP SALE TRANSACTIONS FOR 2Q 2021

Property	Submarket	Buyer	Seller	Sale Price	\$/SF	SF
Otay Logistics Center	Otay Mesa	Black Creek Group	QuadReal Property Group	\$46,900,000	\$174.70	268,454
10455 Pacific Center Ct	Sorrento Mesa	Nuveen Real Estate	Graymark Capital	\$46,000,000	\$497.42	92,477
505 S Pacific St	San Marcos	Lincoln Advisors	Stos Partners	\$42,200,000	\$371.81	113,500
491 C St	Chula Vista	Realty Income Corporation	Lincoln Property Group	\$35,600,000	\$318.41	111,806
2611 Business Park Dr	Vista	EverWest Real Estate Investors, LLC	Koch Investments, LP	\$27,000,000	\$215.11	125,516

TOP LEASE TRANSACTIONS FOR 2Q 2021

Property	Submarket	Landlord	Tenant	Sign Date	SF
7144 Otay Mesa Rd	Otay Mesa	IDS/EastGroup	Amazon	June 2021	700,000
dis.trib.ute	Carlsbad	Link Logistics	Amazon	April 2021	175,258
1395 Park Center Dr	Vista	PCD Owner, LLC	M2 Ingredient, Inc.	June 2021	155,069
4100 Ocean Ranch Blvd	Oceanside	Lincoln Property Company	Amazon	May 2021	142,746
Piper Ranch	Otay Mesa	Kohlberg Kravis Roberts & Co. LP	Trinion	June 2021	124,032

TOP UNDER CONSTRUCTION

Property	Address	Submarket	Owner	Delivery Date	SF
11 Otay Mesa Rd - Amazon	11 Otay Mesa Rd	Otay Mesa	Amazon	July 2021	3,300,000
Landmark at Otay	1601-1910 Landmark Rd	Otay Mesa	Majestic Realty Co.	August 2021	845,830
7144 Otay Mesa Rd - Amazon	7144 Otay Mesa Rd	Otay Mesa	IDS Real Estate/EastGroup	October 2021	700,000
California Crossings	Otay Mesa Rd & Harvest Rd	Otay Mesa	Sudberry Properties, Inc.	October 2021	453,330
Kearny Mesa Logistics Center	5670 Kearny Mesa Rd	Kearny Mesa	Crow Holdings	June 2022	344,000

DATA SOURCE: COSTAR

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 21 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, project and construction management, and debt equity finance services for all property types.

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Commercial Brokerage

\$8B
 TRANSACTION VOLUME (ANNUAL)

23M
 SALES SF (ANNUAL)

42M
 LEASING SF (ANNUAL)

Valuation Advisory

1,800+
 ASSIGNMENTS ANNUALLY

40/19
 TOTAL NO. APPRAISERS/MAI'S

Asset Services

70M
 MANAGEMENT PORTFOLIO SF

\$12B
 IN ASSETS UNDER MANAGEMENT

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