Kidder Mathews

1Q 2022

MARKET TRENDS | SAN DIEGO

INDUSTRIAL

MARKET DRIVERS

THE SURGE in demand over the last year in the San Diego Industrial market has, in turn, caused vacancies and availabilities to fall to all-time lows in Q1, both dropping over 40% year-over-year to 2.9% and 4.0% respectively.

LEASING ACTIVITY cooled off slightly in Q1, but the slowdown in leasing is attributed to the extreme shortage of availability across the county, not the lack of interest and demand. Because of the tight market, landlords have been able to increase rental rates in their favor and average asking rental rate soared to an all-time high of $1.33/SF on a triple-net basis in the first quarter.

OTAY MESA stands as one of the strongest performing submarkets in the county over the past 12 months with rent growth above 10%, while still attracting tenants with some of the lowest rents in the region. The region also accounts for nearly all the spec development in the county and what has been delivered has been almost all-preleased.

SALES PRICES reached all-time high of $437/SF in Q1, as available inventory is still roughly 25% below what it was in 2020, furthering the upward pressure on sales prices.

ECONOMIC OVERVIEW

THE SAN DIEGO COUNTY UNEMPLOYMENT rate in February dropped to a new post pandemic low of 4.0%, down seven basis points from 4.7% month-over-month, while adding 16,500 jobs within the last month. This compares with an unadjusted unemployment rate of 4.8% for California and 4.1% for the nation during the same period.

THE COUNTY'S MONTH-OVER JOB gains were led by the professional and business services with 6,100 jobs added, which includes the fast-growing life sciences sector. Increased leasing activity among biotech firms have been driving demand in the market and hiring will continue to rise as these tenants expand further.

NEAR-TERM OUTLOOK

SAN DIEGO'S REPUTATION as a top life science and biotech market has grown rapidly over recent years and the race for high-end lab space in the region has buyers targeting outdated industrial facilities and office buildings to convert to life science campuses.

THE INDUSTRIAL MARKET may experience some further tightening of fundamentals in the coming quarters as demand continues to rise, rent growth remains above the long-term average, and supply remains low. However, there is almost 3M SF planned in the development pipeline so that could bring a little relief to the tight market.

Market Summary

	1Q22	4Q21	1Q21	Annual Change
Vacancy Rate	2.9%	3.2%	5.0%	-43.1%
Availability Rate	4.0%	4.5%	6.8%	-41.18%
Asking Lease Rate	$1.33	$1.31	$1.23	8.13%
Lease Transactions	2,686,749	2,714,272	3,504,426	-23.3%
Sale Transactions	3,211,816	2,522,033	2,001,164	60.5%
Net Absorption (SF)	860,778	2,398,326	467,013	N/A

▼ 2.6M
LEASING ACTIVITY

▲ 861K
NET ABSORPTION (SF)

▼ 2.9%
VACANCY RATE

▲ $1.33
AVERAGE ASKING RENT

▲ 561K
NEW DELIVERIES

YEAR-OVER-YEAR CHANGE

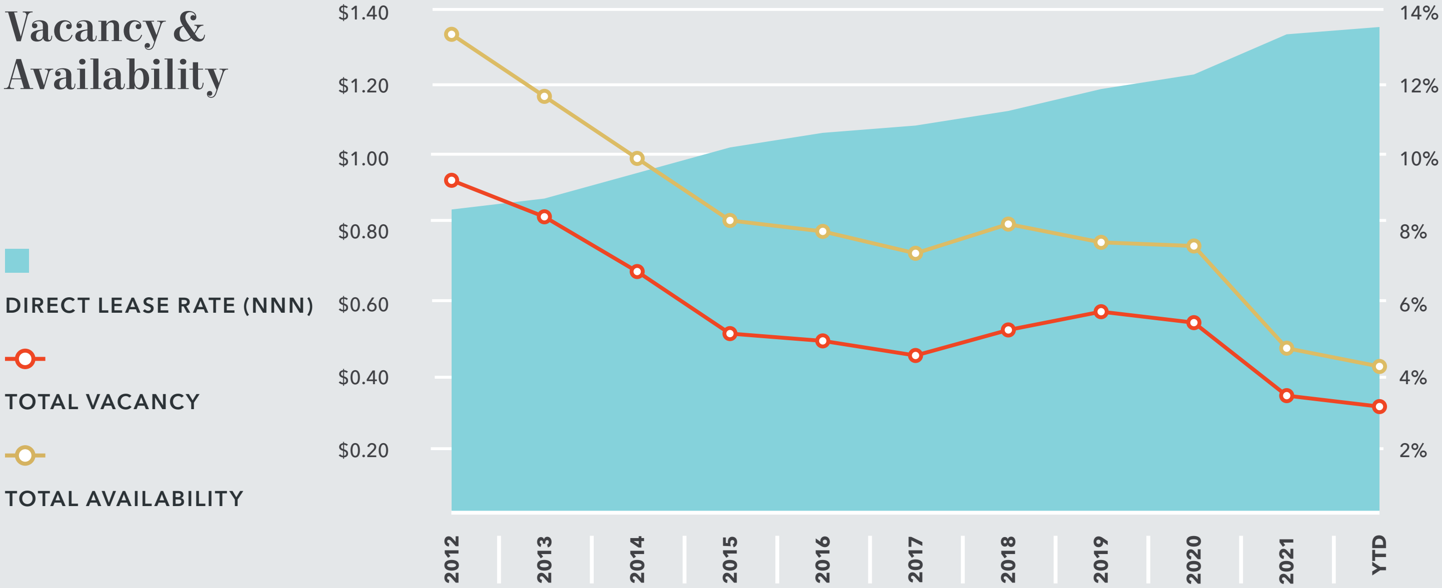
Market Highlights

AVAILABILITY RATES decreased to a new low of 4.0%

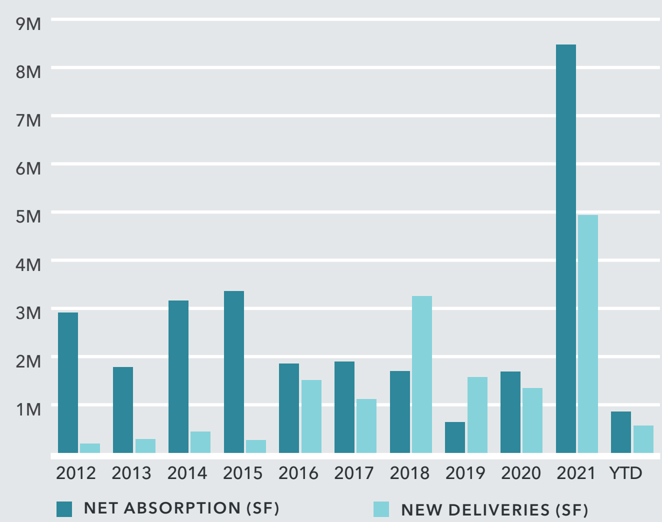
RENTAL RATES soared to an all-time high of $1.33/SF NNN

AVERAGE SALE PRICES reached a record high of $437/SF

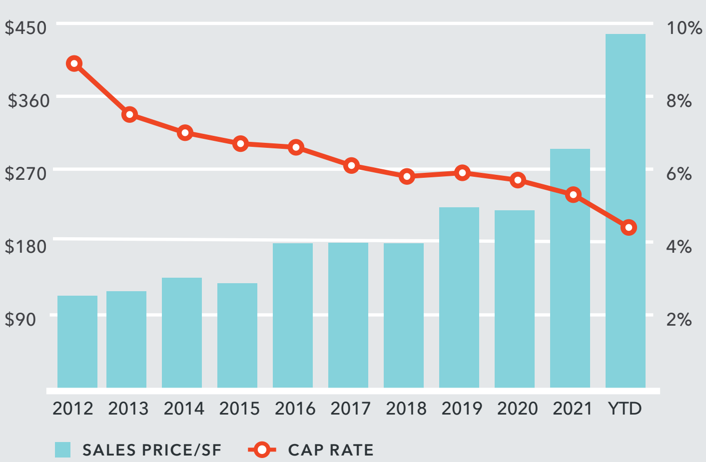
Lease Rate, Vacancy & Availability



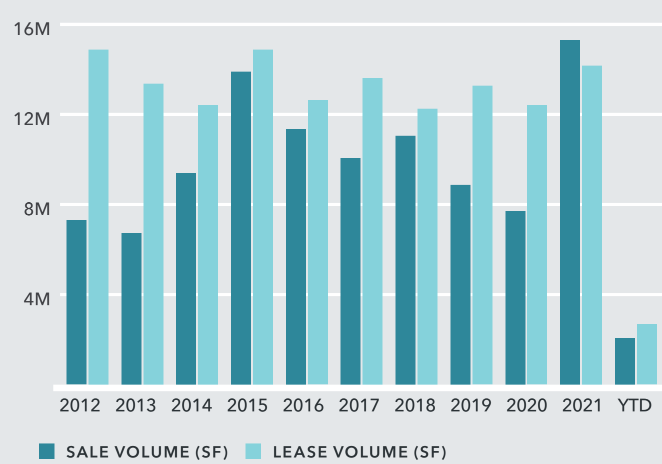
Net Absorption & New Deliveries



Average Sales Price/SF & Cap Rate



Sale Volume & Lease Volume



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	1Q Direct Net Absorption	2021 Direct Net Absorption	1Q Leasing Activity	2021 Leasing Activity	SF Under Construction	2021 Construction Completions	Avg. Rental Rate (NNN)
Carlsbad	15,686,661	2.7%	2.8%	155,813	1,201,430	332,864	1,725,077	0	0	$1.33
Escondido	7,577,610	1.9%	2.0%	(6,942)	62,094	96,161	333,922	0	0	$1.17
North Beach Cities	341,090	1.2%	1.2%	0	(1,952)	0	2,480	0	0	-
Oceanside	10,237,477	1.1%	1.1%	16,869	(4,885)	87,172	506,463	0	0	$1.07
San Marcos	8,976,765	4.0%	4.0%	101,822	353,208	59,685	592,279	0	0	$1.13
Vista	14,092,584	5.4%	6.2%	(13,459)	437,471	198,544	1,204,890	0	0	$1.05
North County	**56,912,187**	**3.2%**	**3.4%**	**254,103**	**2,047,366**	**774,426**	**4,365,111**	**0**	**0**	**$1.15**
Kearny Mesa	15,040,034	3.5%	3.5%	(59,338)	240,765	179,959	830,594	299,381	0	$1.56
Mira Mesa/ Miramar	17,711,926	1.5%	1.7%	491	260,016	154,497	1,230,366	0	0	$1.46
PB/Rose Canyon/ Morena	2,699,150	0.6%	0.6%	56,903	19,443	76,931	86,269	0	0	$1.27
Sorrento Mesa	10,737,787	4.6%	5.5%	100,234	241,909	111,487	639,165	0	0	$1.42
Sorrento Valley	3,394,904	4.7%	5.8%	95,304	(22,754)	46,400	474,455	0	0	$2.09
Sports Arena/ Airport	2,867,448	4.8%	4.8%	6,000	(63,199)	0	25,927	0	0	$1.50
Torrey Pines	4,012,456	0.5%	0.5%	8,629	332,597	0	380,486	146,368	0	-
UTC	2,613,429	4.7%	4.7%	4,753	23,363	4,753	133,656	0	0	$2.24
Central County	**59,077,134**	**3.0%**	**3.3%**	**212,976**	**1,032,140**	**574,027**	**3,800,918**	**445,749**	**0**	**$1.10**
Mission Gorge	1,891,914	2.2%	2.2%	(24,946)	86,314	17,609	123,373	0	0	$1.88
Poway	9,699,812	0.8%	0.9%	(32,469)	32,744	45,612	216,125	0	0	$1.14
Rancho Bernardo	7,906,528	2.5%	2.5%	197	12,376	147,789	358,241	0	0	$1.60
Scripps Ranch	1,506,181	0.9%	0.9%	13,005	9,591	8,743	113,500	145,000	0	$1.66
I-15 Corridor	**21,004,435**	**1.6%**	**1.6%**	**(44,213)**	**141,025**	**219,753**	**811,239**	**145,000**	**0**	**$1.42**
Chula Vista	10,088,386	2.6%	2.6%	(53,266)	259,445	68,520	745,937	0	115,337	$1.30
Downtown	1,686,851	3.3%	3.3%	0	(29,500)	0	3,353	0	0	$1.60
National City	3,697,456	1.2%	1.2%	54,009	(85,889)	72,440	98,712	0	0	$1.38
Otay Mesa	21,182,812	3.7%	3.7%	389,596	4,487,687	869,256	2,521,608	2,007,896	445,869	$0.89
San Ysidro/ Imp Beach	1,338,893	0.4%	0.4%	920	(5,568)	12,990	72,190	0	0	$0.92
South County	**37,994,398**	**3.0%**	**3.0%**	**391,259**	**4,626,175**	**1,023,206**	**3,441,800**	**2,007,896**	**561,206**	**$1.08**
East City	562,305	0.0%	0.0%	0	0	0	41,249	346,128	0	$0.95
El Cajon	9,733,827	1.1%	1.3%	85,762	141,986	35,871	472,550	47,878	0	$1.08
La Mesa/ Spring Valley	2,540,361	4.4%	4.4%	(65,950)	9,131	0	95,728	0	0	$1.04
Santee	4,317,494	2.7%	2.7%	20,576	204,736	17,948	209,769	0	0	$1.18
Southeast San Diego	4,050,157	1.1%	1.1%	4,511	4,099	40,193	157,467	0	0	$1.28
East County	**21,204,144**	**1.8%**	**1.9%**	**44,899**	**359,952**	**94,012**	**976,763**	**394,006**	**0**	**$1.13**
Outlying SD County North	1,003,222	0.5%	0.5%	1,754	1,546	0	13,004	0	0	-
Outlying SD County South	813,495	0.0%	0.0%	0	16,520	1,325	10,625	0	0	-
Outlying East SD County	**1,816,717**	**0.3%**	**0.3%**	**1,754**	**18,066**	**1,325**	**23,629**	**0**	**0**	**-**
San Diego County	**198,009,015**	**2.7%**	**2.9%**	**860,778**	**8,224,724**	**2,686,749**	**13,419,460**	**2,992,651**	**561,206**	**$1.33**

TOP SALE TRANSACTIONS FOR 1Q 2022

Property	Submarket	SF	Sale Price	Price/SF	Buyer	Seller
Rancho Bernardo Distribution Center	Rancho Bernardo	216,519	$96,000,000	$443.38	LBA Realty	Link Logistics Real Estate
Sorrento Ridge Research Park	Mira Mesa/Miramar	59,478	$34,000,000	$571.64	Sterling Bay	Prandium, Inc.
San Diego International Center	Otay Mesa	106,607	$24,500,000	$229.82	Greenlaw Partners	Marc & Joann Weinstein
Otay West Logistics Center	Otay Mesa	62,875	$15,750,000	$250.50	Dalfen Industrial	Babak Nassirzadeh
2641 & 2651 La Mirada Dr	Vista	66,682	$13,065,000	$195.93	James Robbins	Blackstone, Inc.

TOP LEASE TRANSACTIONS FOR 1Q 2022

Property	Submarket	Square Feet	Transaction Date	Landlord	Tenant
Lionshead Ave & S Melrose Dr	Carlsbad	255,599	January 2022	Hines	UPS
California Crossings	Otay Mesa	202,408	February 2022	Sudberry Properties, Inc.	Amazon
Viva Logistics Center	Otay Mesa	129,247	March 2022	EastGroup Properties	Sohnen Enterprises
6060 Business Center Ct	Otay Mesa	134,776	March 2022	Cabot Properties, Inc.	Hybrid Apparel
10931 N Torrey Pines Rd	Torrey Pines	113,094	January 2022	Alexandria Real Estate Equities, Inc.	Singular Genomics

TOP UNDER CONSTRUCTION

Property	Address	Submarket	Square Feet	Owner	Delivery Date
7144 Otay Mesa Rd - Amazon	7144 Otay Mesa Rd	Otay Mesa	702,535	IDS Real Estate	2Q 2022
Landmark at Otay - 3&4	1610 & 1910 Landmark Rd	Otay Mesa	476,060	Majestic Realty Co.	4Q 2022
California Crossings	717 & 755 Harvest Rd	Otay Mesa	453,330	Sudberry Properties, Inc.	2Q 2022
1348 47th St	1348 47th St	East City	346,128	Lone Oak Realty, LLC	3Q 2022
Kearny Mesa Logistics Center	5670 Kearny Mesa Rd	Kearny Mesa	299,381	Crow Holdings	2Q 2022

DATA SOURCE: COSTAR, EDD, SD BUSINESSS JOURNAL

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.

Commercial Brokerage

$10.9B TRANSACTION VOLUME (ANNUAL)

49.7M SALES SF (ANNUAL)

43.7M LEASING SF (ANNUAL)

Valuation Advisory

2,600+ ASSIGNMENTS ANNUALLY

51/24 TOTAL NO. APPRAISERS/MAI'S

Asset Services

62M MANAGEMENT PORTFOLIO SF

$11B IN ASSETS UNDER MANAGEMENT

The information in this report was composed by the Kidder Mathews Research Group.

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