

MARKET TRENDS | SAN DIEGO

INDUSTRIAL

MARKET DRIVERS

LEASING ACTIVITY slowed in Q2, but the slowdown in leasing is not because of a lack of interest but the extreme shortage of availability across the county, as demand is outpacing new availabilities and new supply throughout the county. Because of the tight market and strong competition, landlords have been able to increase rental rates in their favor, as average asking rates reached a record high of \$1.36/SF on a triple-net basis.

THE FLOOD OF 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 Q2. Availability rates, posting at 2.7% in Q2, have never dipped below 3% in history and is well below the five-year average of 4.6%.

SALES ACTIVITY SURGED at the end of 2021 reaching record high volume, and sale prices continue to reflect the high demand in Q2, hovering at record highs of \$367/SF. The Otay Mesa submarket is one of the most active for sales, with e-commerce and third-party logistics companies driving demand in the region. Additionally, with the proximity to the border, many investment firms and tenants have looked to bolster their cross-border presence in efforts to alleviate the ongoing supply-chain disruptions.

ECONOMIC OVERVIEW

THE SAN DIEGO COUNTY UNEMPLOYMENT RATE in May dropped to a 20-year low of 2.7%, a sharp decrease from the YOY estimate of 6.6% and is lower than pre-pandemic levels. It is down three basis points month-over-month, adding 8,400 jobs within the last month. This compares with an unadjusted unemployment rate of 3.4% for California and 3.4% for the nation during the same period.

THE COUNTY'S MONTH-OVER JOB gains were led by the leisure and hospitality services with 3,200 jobs added, driven by the influx of tourists for the summer season. Increased leasing activity among life science firms and tech firms have been driving demand in the market and hiring will continue to rise as these tenants expand further.

NEAR-TERM OUTLOOK

THE RECENT TREND of converting outdated office and older industrial buildings into lab and life science campuses has grown significantly over the past year, however, it may slow down especially as the venture capital industry is pulling back and funding has slowed in recent months across the country.

WHILE THERE HAS BEEN A SURGE of demand in industrial space over the past couple years, the market may cool a bit as e-commerce sales growth slows, coupled with rising interest rates and a possible recession in the coming year.

Market Summary

	2Q22	1Q22	1Q21	Annual Change
Vacancy Rate	2.7%	2.8%	4.6%	-41.3%
Availability Rate	3.8%	4.0%	5.7%	-33.33%
Asking Lease Rate	\$1.36	\$1.33	\$1.23	10.57%
Lease Transactions	2,576,909	2,796,858	4,728,432	-45.50%
Sale Transactions	2,431,195	2,055,890	2,503,898	-2.90%
Net Absorption (SF)	453,898	812,796	1,433,639	N/A

▼ 2.6M
LEASING ACTIVITY

▲ 453K
NET ABSORPTION (SF)

▼ 2.7%
VACANCY RATE

▲ \$1.36
AVERAGE ASKING RENT

▲ 1.1M
NEW DELIVERIES

YEAR-OVER-YEAR CHANGE

Market Highlights

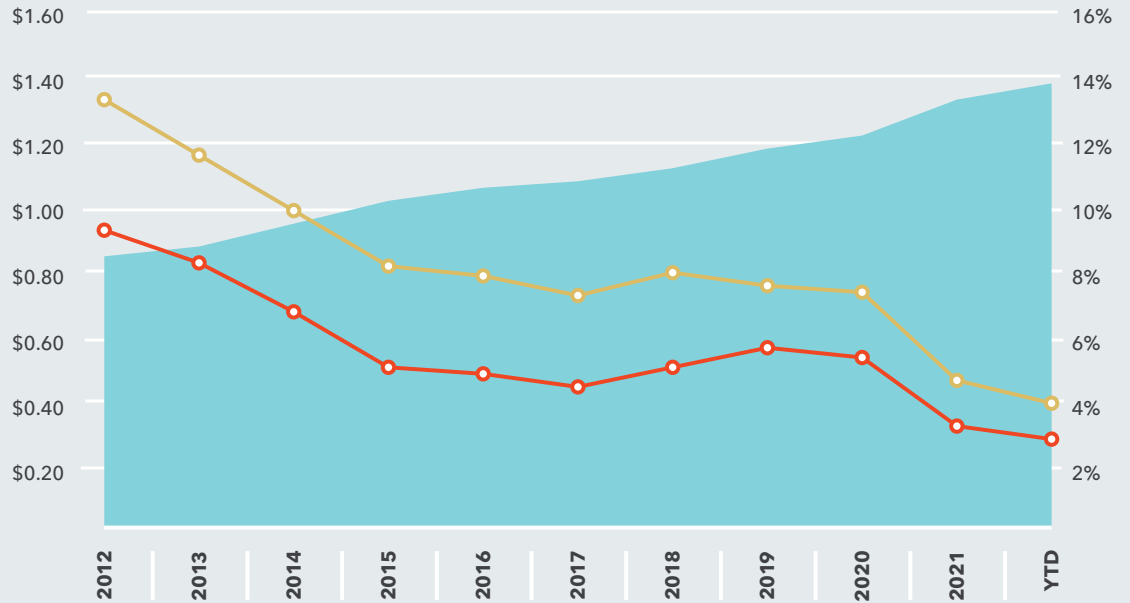
AVAILABILITY RATES dropped to a record low of 3.8%

RENTAL RATES climbed to an all-time high of \$1.36/SF NNN

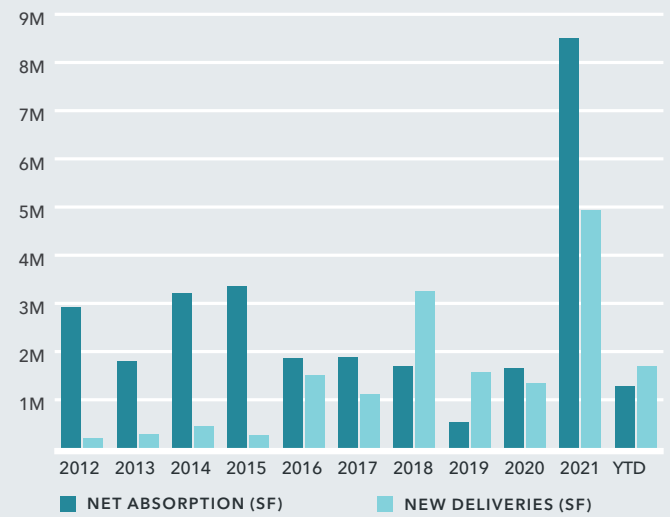
SALE PRICES hovered at record highs of \$367/SF

Lease Rate, Vacancy & Availability

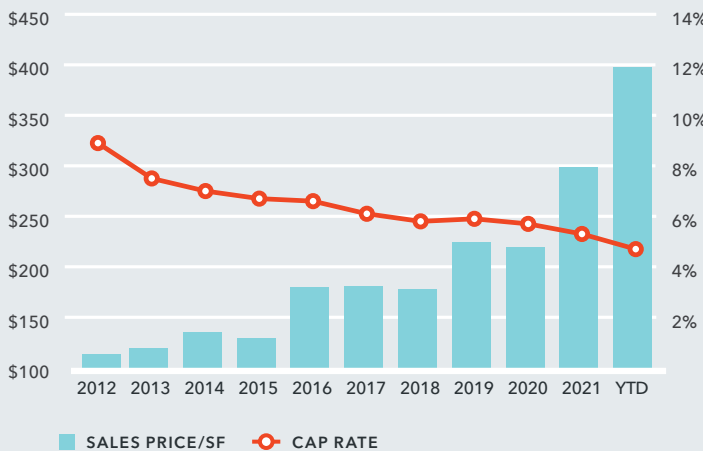
■ DIRECT LEASE RATE (NNN)
○ TOTAL VACANCY
○ TOTAL AVAILABILITY



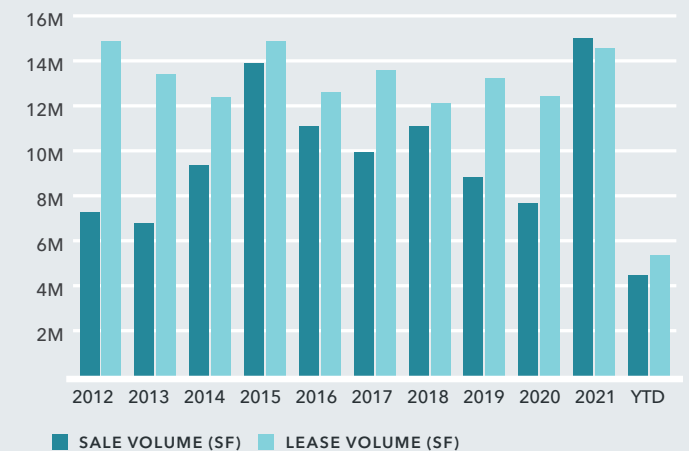
Net Absorption & New Deliveries



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	15,670,447	3.1%	3.3%	(76,514)	80,411	163,950	498,914	0	0	\$1.33
Escondido	7,601,400	2.4%	2.5%	(53,121)	(43,399)	47,385	148,532	0	0	\$1.17
North Beach Cities	330,381	0.9%	0.9%	1,122	1,122	5,162	5,162	0	0	-
Oceanside	10,225,822	1.1%	1.1%	3,147	20,016	107,690	194,862	0	0	\$1.07
San Marcos	8,926,868	3.8%	3.8%	17,155	118,977	108,681	168,366	0	0	\$1.13
Vista	14,057,409	4.2%	4.3%	170,545	157,086	434,962	633,506	0	0	\$1.05
North County	56,812,327	3.0%	3.1%	62,334	2,047,366	867,830	4,365,111	0	0	\$1.15
Kearny Mesa	14,804,069	2.3%	2.3%	58,110	(6,087)	157,262	347,271	299,381	0	\$1.56
Mira Mesa/ Miramar	17,805,415	1.5%	1.8%	18,775	(1,454)	191,560	383,391	0	0	\$1.46
PB/Rose Canyon/ Morena	2,575,898	1.2%	1.2%	(15,839)	41,064	55,607	132,538	0	0	\$1.27
Sorrento Mesa	10,641,255	4.0%	4.9%	41,160	141,394	107,343	220,041	0	0	\$1.42
Sorrento Valley	3,394,680	4.0%	4.9%	23,041	118,345	56,975	103,375	0	0	\$2.09
Sports Arena/ Airport	2,868,672	4.5%	4.5%	6,350	12,350	12,350	12,350	0	0	\$1.50
Torrey Pines	4,089,234	0.6%	0.6%	(4,354)	4,275	0	5,193	0	146,368	-
UTC	2,613,429	4.7%	5.2%	0	4,753	0	4,753	0	0	\$2.24
Central County	58,792,652	2.5%	2.9%	127,243	1,032,140	581,097	3,800,918	299,381	146,368	\$1.09
Mission Gorge	1,891,914	0.1%	0.1%	41,193	16,247	3,385	30,320	0	0	\$1.88
Poway	9,701,652	0.7%	0.8%	4,384	(28,085)	40,041	85,653	0	0	\$1.14
Rancho Bernardo	7,962,080	3.2%	3.2%	(20,890)	(20,693)	75,968	244,392	0	0	\$1.60
Scripps Ranch	1,506,181	0.7%	0.9%	3,038	16,043	22,455	31,198	145,000	0	\$1.66
I-15 Corridor	21,061,827	1.6%	1.6%	27,725	141,025	141,849	811,239	145,000	0	\$1.42
Chula Vista	10,128,317	5.8%	5.8%	(322,333)	(375,599)	149,949	218,469	0	115,337	\$1.30
Downtown	1,686,851	1.9%	1.9%	23,522	20,695	0	0	0	0	\$1.60
National City	3,697,456	1.3%	1.3%	(1,402)	52,607	12,247	84,687	0	0	\$1.38
Otay Mesa	21,221,281	1.7%	2.0%	506,642	853,886	666,366	1,564,333	1,122,681	1,434,353	\$0.89
San Ysidro/ Imp Beach	1,338,893	0.4%	0.4%	800	1,720	800	1,640	0	0	\$0.92
South County	38,072,798	2.7%	2.9%	207,229	4,626,175	829,362	3,441,800	1,122,681	1,549,690	\$1.08
East City	562,305	0.0%	0.0%	0	0	0	41,249	346,128	0	\$0.95
El Cajon	9,736,952	0.7%	0.9%	34,616	125,378	27,303	67,212	47,878	0	\$1.08
La Mesa/ Spring Valley	2,540,461	3.1%	3.3%	33,744	(32,206)	61,640	64,640	0	0	\$1.04
Santee	4,293,834	3.4%	3.4%	(28,493)	(7,917)	24,129	42,077	0	0	\$1.18
Southeast San Diego	4,048,279	1.3%	1.4%	(10,500)	(5,989)	43,699	83,892	0	0	\$1.28
East County	21,181,831	1.6%	1.7%	29,367	359,952	156,771	976,763	394,006	0	\$1.13
Outlying SD County North	1,003,222	0.5%	0.5%	0	1,754	0	0	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%	0	18,066	1,325	23,629	0	0	-
San Diego County	197,738,152	2.5%	2.7%	453,898	8,224,724	2,578,234	13,419,460	1,961,068	1,696,058	\$1.36

TOP SALE TRANSACTIONS FOR 2Q 2022

Property	Submarket	SF	Sale Price	Price/SF	Buyer	Seller
Sorrento View Bus. Pk *ground lease	Sorrento Mesa	425,146	\$185,000,000	\$435.15 land	Invesco Ltd.	Madison Ptnrs.
Brown Field Technology Park - A&B	Otay Mesa	229,680	\$77,100,000	\$335.68	Hines	Murphy Development Company
Environmental Plaza	Sorrento Valley	234,788	\$48,000,000	\$204.43 land	Breakthrough Properties	Hill Prop./Westport Capital Ptnrs.
10111 Riverford Rd *low coverage site	Santee	72,783	\$30,000,000	\$412.18	Costco Whsle Corp.	Southland Envelope Co., Inc.
1695 Faraday Ave	Carlsbad	62,997	\$19,000,000	\$301.60	Lincoln Property Company	SMAC Inc.

TOP LEASE TRANSACTIONS FOR 2Q 2022

Property	Submarket	Square Feet	Transaction Date	Landlord	Tenant
7757 Saint Andrews Ave	Otay Mesa	199,359	May 2022	Hamann Companies	Mad Engine
2340 Cousteau Ct	Vista	134,299	April 2022	Elion Partners, LLC	Aptera Motors Corp.
Brown Field Technology Park	Otay Mesa	124,233	April 2022	Murphy Development Company	Home Depot
Airway Logistics Center	Otay Mesa	123,748	May 2022	CPT Condor Airway, LLC	Ontrac Logistics, Inc.
1 Viper Way	Vista	100,500	April 2022	RAF Pacifica Group, Inc.	Cymer Laser Technologies

TOP UNDER CONSTRUCTION

Property	Address	Submarket	Square Feet	Owner	Delivery Date
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.	3Q 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	3Q 2022
Scripps Ranch Technology Park	10102 Hoyt Park Dr	Scripps Ranch	145,000	Alexandria Real Estate Equities, Inc.	2Q 2023

DATA SOURCE: COSTAR, EDD, SD BUSINESS JOURNAL

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

**Commercial
Brokerage**

\$10.9B
TRANSACTION
VOLUME (ANNUAL)

49.7M **43.7M**
SALES SF
(ANNUAL) LEASING SF
(ANNUAL)

**Valuation
Advisory**

2,600+
ASSIGNMENTS
ANNUALLY

46/24
TOTAL NO.
APPRAISERS/MAI'S

**Asset
Services**

62M
MANAGEMENT
PORTFOLIO SF

\$11B
IN ASSETS UNDER
MANAGEMENT

GARY BARAGONA
Director of Research
415.229.8925
gary.baragona@kidder.com

ERIC PAULSEN
Regional President, Brokerage
Southern California & Arizona
eric.paulsen@kidder.com

LIC N° 01001040

858.509.1200

KIDDER.COM

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