

MARKET TRENDS

SAN DIEGO INDUSTRIAL

MARKET DRIVERS

The flood of demand in the San Diego industrial market has caused the market to tighten over recent years, however, availability increased slightly to 5.1%. This uptick comes from new planned developments bringing space to the market, as well as Amazon giving back space they leased last year.

The average asking rental rate climbed to a record high in 3Q at \$1.40 PSF on a triple-net basis, a reflection of the highly competitive nature of the current market. Otay Mesa is one of the strongest performers in rent growth throughout the county while still maintaining the lowest rents in the region at \$0.93 PSF.

Investors remain active throughout the county, attracted to the diverse tenant pool and strong rent growth. Otay Mesa has been favored due to proximity to the border, while North County logistics buildings are also in high demand.

ECONOMIC REVIEW

The San Diego County unemployment rate in August was 3.4%, a sharp decrease from the YOY estimate of 6.5% and is on par with pre-pandemic levels. This compares with an unadjusted unemployment rate of 4.1% for California and 3.8% for the nation during the same period.

San Diego's reputation as a top life science and biotech market has grown over recent years and 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.

continued on page 3

MARKET SUMMARY

	3Q22	2Q22	3Q21	Annual Change
Vacancy Rate	3.3%	2.7%	4.2%	-21.43%
Availability Rate	5.1%	3.9%	5.1%	0.00%
Asking Lease Rate	\$1.40	\$1.36	\$1.22	14.75%
Leasing Activity (SF)	1,836,923	2,803,961	3,190,204	-42.42%
Sale Volume (SF)	2,714,075	3,479,117	4,278,579	-36.57%
Net Absorption (SF)	483,890	381,812	4,097,570	N/A

↓ **1.8M SF**
LEASING ACTIVITY

↑ **483K SF**
NET ABSORPTION

↓ **3.3%**
VACANCY RATE

↑ **\$1.40**
ASKING RENT (AVG)

↓ **347K SF**
NEW DELIVERIES

Year-Over-Year Trend

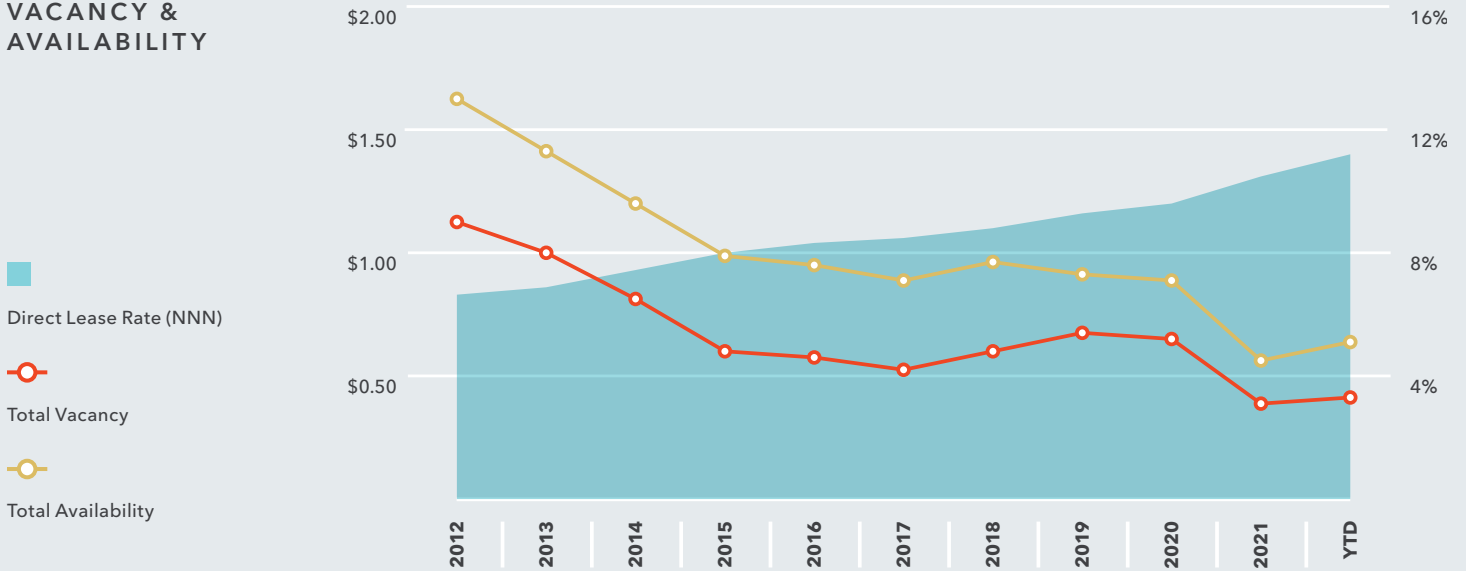
MARKET HIGHLIGHTS

Availability rates increased slightly to 5.1%

Rental rates soared to an all-time high of \$1.40/SF NNN

Sale prices hovered at record highs of \$396/SF

LEASE RATE, VACANCY & AVAILABILITY

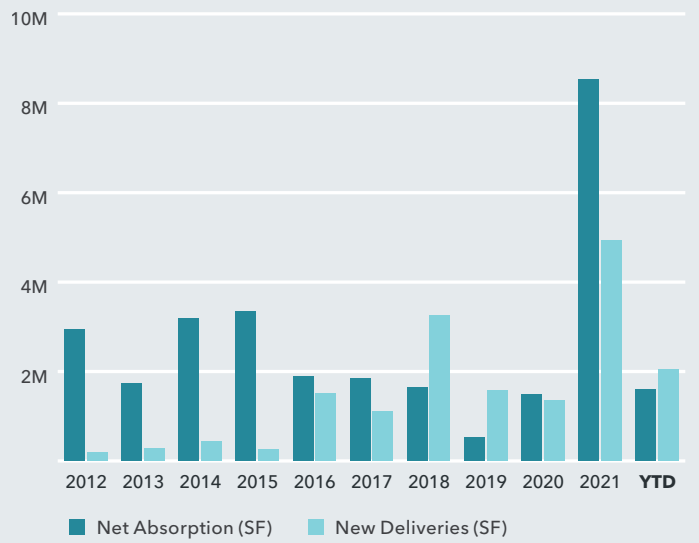


BIGGEST SALE OF THE QUARTER

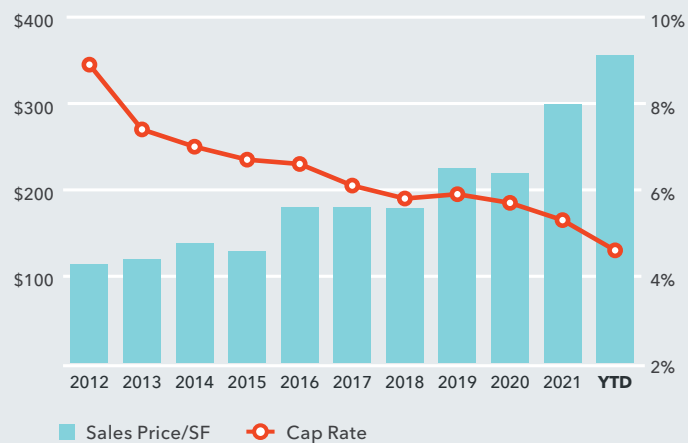
*Kearny Mesa Logistics Center
San Diego, CA*



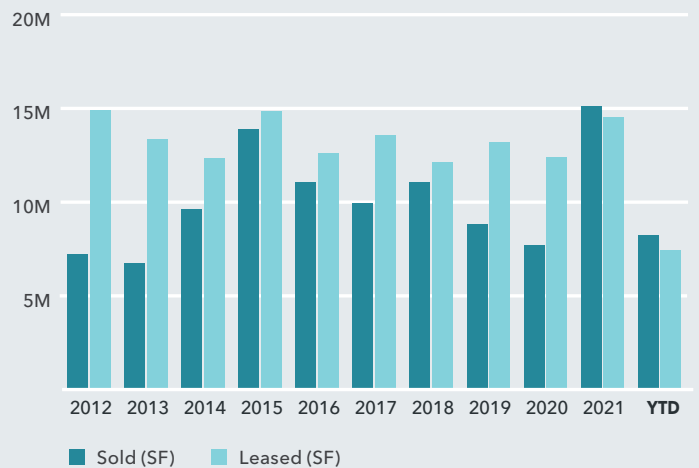
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Total Leasing Activity	YTD Leasing Activity	SF Under Construction	YTD Construction Completions	Average NNN Rental Rate
Carlsbad	15,688,983	4.3%	5.7%	(167,659)	(91,373)	180,963	713,474	0	0	\$1.54
Escondido	7,605,962	2.2%	2.3%	1,912	(31,629)	134,213	325,842	0	0	\$1.24
North Beach Cities	330,381	0.0%	0.0%	2,910	4,032	0	5,162	0	0	-
Oceanside	10,230,495	0.5%	0.5%	69,153	83,798	103,700	317,407	0	0	\$1.30
San Marcos	8,929,189	3.6%	3.7%	16,977	136,887	44,896	213,262	0	0	\$1.32
Vista	14,033,487	3.9%	4.6%	65,477	178,729	286,515	955,235	0	0	\$1.18
North County	56,818,497	3.1%	3.7%	(11,230)	280,444	750,287	2,530,382	0	0	\$1.32
Kearny Mesa	14,857,950	2.5%	2.6%	10,805	(37,883)	71,235	419,530	0	299,381	\$1.57
Mira Mesa/ Miramar	17,828,492	1.7%	1.9%	(11,886)	(22,885)	156,024	539,415	0	0	\$1.76
PB/Rose Canyon/ Morena	2,577,678	3.4%	3.4%	(56,010)	(14,946)	29,992	162,530	0	0	\$1.44
Sorrento Mesa	10,595,238	4.3%	5.4%	(22,984)	47,081	190,538	416,407	0	0	\$2.07
Sorrento Valley	3,527,059	4.6%	6.8%	31,997	150,342	41,808	168,879	0	0	\$2.21
Sports Arena/ Airport	2,870,474	4.6%	4.9%	(1,430)	10,920	8,950	21,300	0	0	\$1.46
Torrey Pines	4,232,556	0.6%	1.0%	146,368	150,643	15,451	65,325	0	146,368	-
UTC	2,613,429	4.7%	6.3%	0	4,753	0	4,753	0	0	-
Central County	59,102,876	2.8%	3.3%	96,860	288,025	513,998	1,798,139	0	445,749	\$1.26
Mission Gorge	1,890,802	0.4%	0.4%	(5,877)	10,370	29,558	59,878	0	0	\$2.07
Poway	9,701,733	0.3%	0.4%	38,724	9,861	39,149	124,802	0	0	\$1.32
Rancho Bernardo	7,727,900	2.9%	3.4%	47,915	9,756	24,746	269,138	0	0	\$1.73
Scripps Ranch	1,491,150	2.8%	4.3%	(28,493)	(14,901)	2,451	33,649	145,000	0	\$1.71
I-15 Corridor	20,811,585	1.5%	1.8%	52,269	15,086	95,904	487,467	145,000	0	\$1.57
Chula Vista	10,113,393	5.9%	5.9%	(12,746)	(384,877)	16,885	243,077	201,200	115,337	\$1.33
Downtown	1,686,851	2.0%	2.0%	(875)	19,820	0	2,478	0	0	\$1.60
National City	3,671,998	1.8%	1.8%	(20,678)	31,865	35,198	119,885	0	0	\$1.49
Otay Mesa	21,940,059	2.6%	3.1%	562,242	1,344,871	155,245	1,719,578	1,905,570	1,434,353	\$0.93
San Ysidro/ Imp Beach	1,338,893	0.0%	0.0%	4,688	6,408	0	1,640	0	0	\$0.92
South County	38,751,194	3.2%	3.5%	532,631	1,018,087	207,328	2,086,658	2,106,770	1,549,690	\$1.12
East City	562,305	0.0%	0.0%	0	0	0	0	346,128	0	\$0.95
El Cajon	9,786,522	1.0%	1.4%	14,772	135,820	70,464	143,426	0	47,878	\$1.20
La Mesa/ Spring Valley	2,540,461	4.7%	11.2%	(40,966)	(73,172)	111,865	173,505	0	0	\$1.06
Santee	4,272,419	3.1%	3.1%	8,199	4,542	44,802	86,879	0	0	\$1.26
Southeast San Diego	4,044,869	4.1%	4.9%	(109,845)	(115,834)	42,275	135,167	0	0	\$1.31
East County	21,206,576	2.5%	3.5%	(127,840)	(48,644)	269,406	538,977	346,128	47,878	\$1.21
Outlying SD County North	1,039,684	4.7%	4.7%	(44,400)	(42,646)	0	0	0	0	-
Outlying SD County South	828,395	1.7%	1.7%	(14,400)	(14,400)	0	0	0	0	-
Outlying East San Diego Cty	1,868,079	3.4%	3.4%	(58,800)	(57,046)	0	0	0	0	-
San Diego County	198,558,807	2.8%	3.3%	483,890	1,495,952	1,836,923	7,441,623	2,597,898	2,043,317	\$1.40

NEAR-TERM OUTLOOK

Because of the extremely tight market and strong competition, landlords have been able to increase rental rates in their favor, as asking rates soar to record highs quarter after quarter. However, astronomical rent growth is not sustainable in the long run so rent growth may stall in near future.

While there has been a surge of demand in industrial investment, the market may cool a bit as e-commerce sales growth slows, coupled with rising interest rates and fears of a possible recession.

TOP SALE TRANSACTIONS 3Q 2022

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Kearny Mesa Logistics Ctr.	Kearny Mesa	299,381	\$162,100,000	\$541.45	Property Reserve, Inc.	Lincoln Property Co./Crow Holdings Capital
7330 Carroll Rd	Mira Mesa/Miramar	66,244	\$53,000,000	\$800.07	GI Partners	Alexandria RE Equities, Inc.
1395 Park Center Dr	Vista	155,069	\$43,715,500	\$281.91	DWS Group	Oxford Properties Group
7615 Siempre Viva Rd	Otay Mesa	86,680	\$24,850,000	\$286.69	Dalfen Industrial	Alcion Ventures
7520 Convoy Ct	Kearny Mesa	29,442	\$12,600,000	\$427.96	SD County Office of EDU	CEG Capital Partners

TOP LEASE TRANSACTIONS 3Q 2022

Property	Submarket	SF	Transaction Date	Landlord	Tenant
8409 Kerns St	Otay Mesa	124,068	September 2022	IDS Real Estate Group	Suarez
3055 Enterprise Ct	Vista	86,465	August 2022	Hamann Companies	Shiplab
10111 Riverford Rd	Santee	72,783	July 2022	Costco Wholesale Corp.	Southland Envelope Co., Inc.
2055 Sanyo Ave	Otay Mesa	67,500	August 2022	Jones Lang LaSalle Income Property Trust	BAE
9485 Cutomhouse Plz	Otay Mesa	57,681	July 2022	TIAA	G-Global Logistics, Inc.

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
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.	4Q 2022
Interchange Industrial Otay	8830-8878 Cypress Ct	Otay Mesa	404,723	Phelan Development	1Q 2023
Sanyo Logistics Center	2066 Sanyo Rd	Otay Mesa	242,969	Badiee Development	1Q 2024
Heritage Industrial Center	3330-3390 Heritage Rd	Chula Vista	201,200	Rockefeller Group	3Q 2023

Data Source: EDD, CoStar, SD Business Journal



Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 20 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.

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

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

ERIC PAULSEN
 Regional President, Brokerage
 Southern California & Arizona
 858.509.1200
 eric.paulsen@kidder.com
 LIC N° 01001040

COMMERCIAL BROKERAGE	<i>\$10.9B</i> TRANSACTION VOLUME ANNUALLY	<i>49.7M</i> ANNUAL SALES SF	<i>43.7M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>52M</i> MANAGEMENT PORTFOLIO SF	<i>875+</i> ASSETS UNDER MANAGEMENT	<i>270+</i> ASSET SERVICES CLIENTS
VALUATION ADVISORY	<i>2,600+</i> ASSIGNMENTS ANNUALLY	<i>47</i> TOTAL APPRAISERS	<i>24</i> WITH MAI DESIGNATIONS

This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. Consult your attorney, accountant, or other professional advisor.