

MARKET TRENDS

# SAN DIEGO INDUSTRIAL

MARKET DRIVERS

**AFTER THE HISTORICALLY TIGHT MARKET** in the past couple years, vacancy and availability rates rose in Q2, a notable 65% YOY increase and 121% YOY increase respectively. Demand softened as leasing activity fell to a 15-year low, posting approx. 1.4M SF in Q2.

**SUBLEASE AVAILABILITY** hit its highest level in more than a decade in Q2, surpassing the 3M SF threshold with roughly 3.1M SF on the market. Large scale companies, such as Amazon and the latest being Illumina, have placed large blocks of spaces up for sublease in the past two quarters.

**SALES VOLUME** dropped significantly in Q2 with a mere 796K SF total transaction volume, a YOY decrease of 77% when 2Q22 posted at 3.5M SF. Higher interest rates and economic uncertainty have resulted in a decrease in sales, as bank have become more cautious with industrial loans in the past year.

ECONOMIC REVIEW

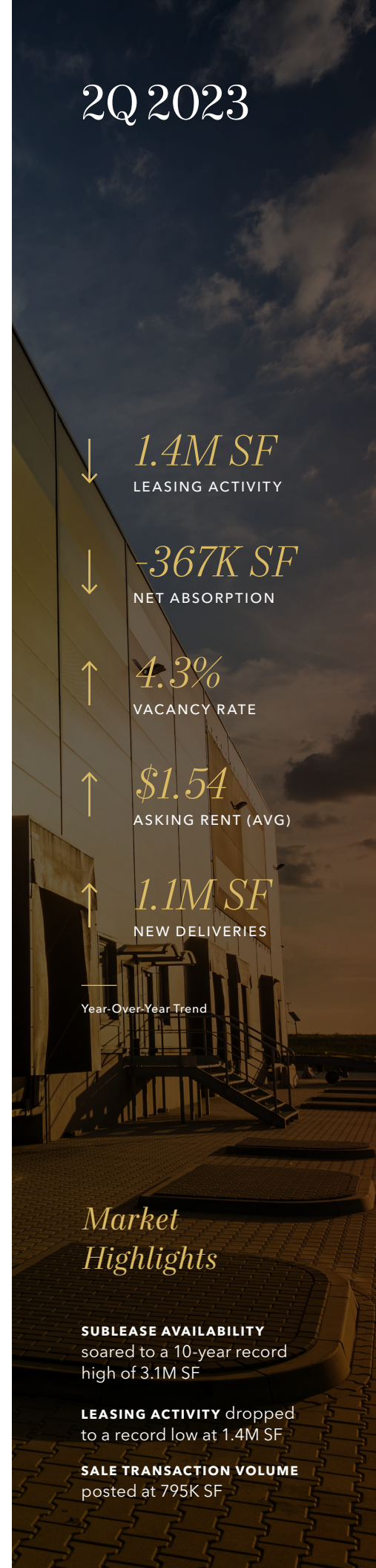
**THE SAN DIEGO COUNTY** unemployment rate in May was 3.5%, above the year-ago estimate of 2.9%. It is up 2 basis points month-over-month, adding 4,900 jobs from April to May. This compares with an unadjusted unemployment rate of 4.5% for California and 3.4% for the nation during the same period.

**THE COUNTY'S** month-over-month job gains were led by the private education and health services sector with 2,300 jobs added. Professional and business services added 900 jobs month-over-month, yet companies across the county continue to lay off employees into the year. Tech and life science firms, such as Qualcomm and Illumina, have announced more layoffs in Q2.

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Market Summary

	2Q23	1Q23	2Q22	Annual Change
Vacancy Rate	4.3%	3.7%	2.6%	<b>65.38%</b>
Availability Rate	8.4%	6.7%	3.8%	<b>121.05%</b>
Asking Lease Rate	\$1.54	\$1.49	\$1.37	<b>12.41%</b>
Lease Transactions	1,423,252	2,484,081	2,837,049	<b>-49.83%</b>
Sale Transactions	795,983	1,962,443	3,546,215	<b>-77.55%</b>
Net Absorption (SF)	(367,135)	(516,200)	638,525	<b>N/A</b>



↓ 1.4M SF  
LEASING ACTIVITY

↓ -367K SF  
NET ABSORPTION

↑ 4.3%  
VACANCY RATE

↑ \$1.54  
ASKING RENT (AVG)

↑ 1.1M SF  
NEW DELIVERIES

Year-Over-Year Trend

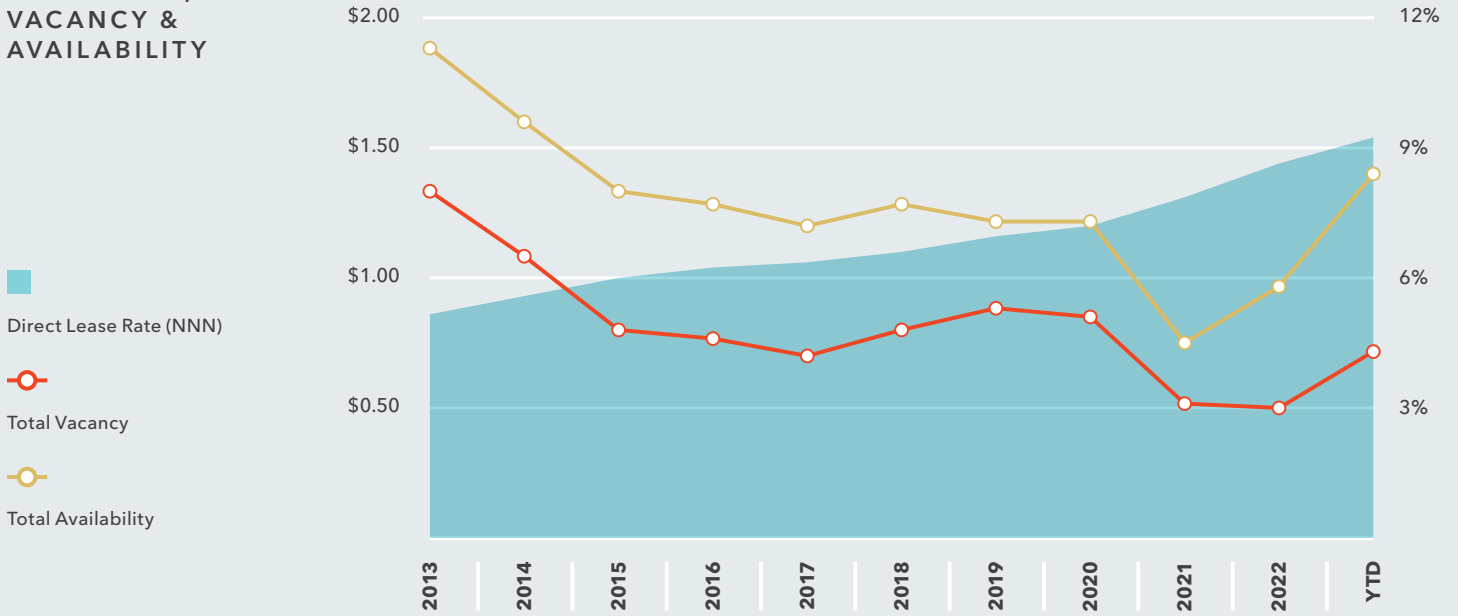
Market Highlights

**SUBLEASE AVAILABILITY** soared to a 10-year record high of 3.1M SF

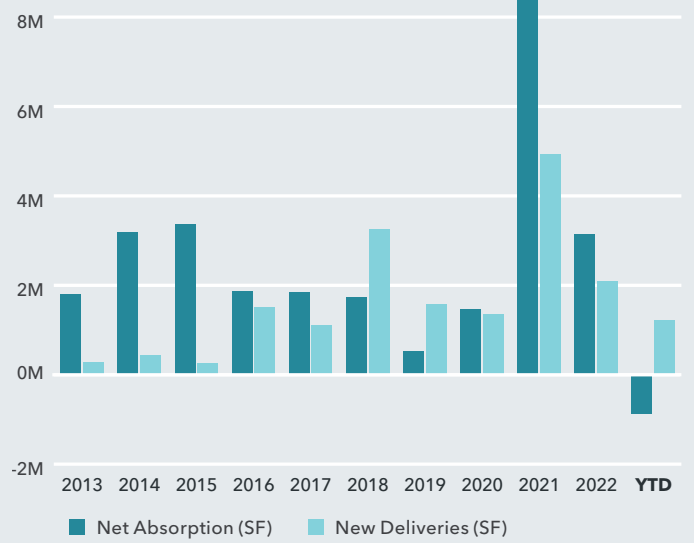
**LEASING ACTIVITY** dropped to a record low at 1.4M SF

**SALE TRANSACTION VOLUME** posted at 795K SF

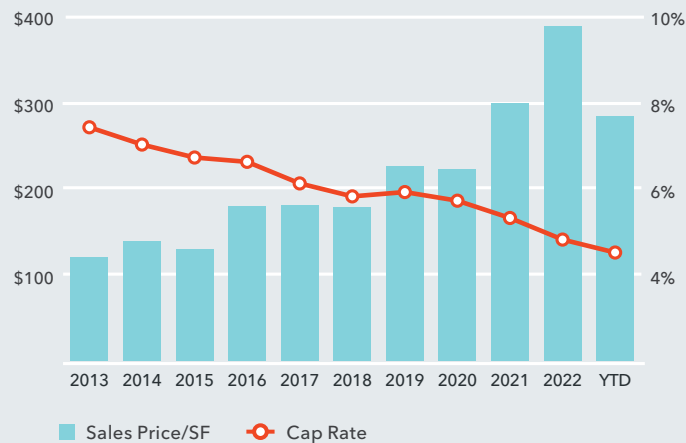
### LEASE RATE, VACANCY & AVAILABILITY



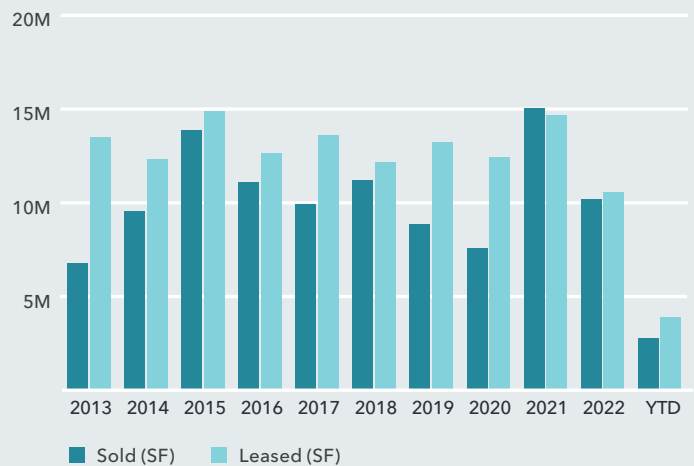
### NET ABSORPTION & NEW DELIVERIES



### AVERAGE SALES PRICE/SF & CAP RATE



### SALE VOLUME & LEASING ACTIVITY



## SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	2Q23 Direct Net Absorption	YTD Direct Net Absorption	2Q23 Leasing Activity	YTD Leasing Activity	SF Under Construction	YTD Construction Completions	Average NNN Rental Rate
Carlsbad	15,723,728	4.5%	6.5%	(763)	(107,946)	205,443	393,482	222,959	0	\$1.76
Escondido	7,600,357	2.1%	2.3%	(1,223)	(31,326)	45,106	93,493	59,091	0	\$1.41
North Beach Cities	330,356	3.8%	3.8%	3,880	(11,755)	0	3,880	0	0	-
Oceanside	10,238,007	2.9%	3.2%	(70,733)	(156,099)	56,880	173,090	0	0	\$1.32
San Marcos	8,931,712	5.6%	5.7%	(109,539)	(129,205)	74,406	122,814	0	0	\$1.33
Vista	14,107,112	3.5%	4.1%	(58,512)	(123,962)	74,780	109,744	0	0	\$1.31
<b>North County</b>	<b>56,931,272</b>	<b>3.8%</b>	<b>4.6%</b>	<b>(236,890)</b>	<b>(560,293)</b>	<b>456,615</b>	<b>896,503</b>	<b>282,050</b>	<b>0</b>	<b>\$1.44</b>
Kearny Mesa	15,055,663	2.0%	2.9%	(8,858)	(103,680)	122,102	486,632	0	0	\$1.90
Mira Mesa/ Miramar	17,802,252	3.5%	3.9%	(64,394)	(354,033)	137,335	372,556	0	0	\$1.95
PB/Rose Canyon/ Morena	2,575,419	4.9%	6.5%	(84,087)	(99,279)	115,852	146,129	0	0	\$1.58
Sorrento Mesa	10,758,420	6.1%	10.5%	(10,129)	(44,677)	78,409	345,721	0	0	\$2.40
Sorrento Valley	3,563,562	6.4%	9.0%	(21,242)	(100,086)	29,117	73,935	0	0	\$2.38
Sports Arena/ Airport	2,860,318	4.4%	5.0%	(9,625)	(18,075)	10,000	34,500	0	0	\$1.48
Torrey Pines	4,244,808	2.8%	3.9%	(76,447)	(87,717)	27,230	34,563	0	0	-
UTC	2,693,554	11.1%	13.3%	(51,372)	(159,503)	0	0	0	0	-
<b>Central County</b>	<b>59,553,996</b>	<b>4.1%</b>	<b>5.7%</b>	<b>(326,154)</b>	<b>(967,050)</b>	<b>520,045</b>	<b>1,494,036</b>	<b>0</b>	<b>0</b>	<b>\$1.78</b>
Mission Gorge	1,899,928	0.9%	1.2%	(138)	(6,685)	43,905	58,988	0	0	\$2.08
Poway	9,715,831	0.5%	1.0%	21,905	(5,883)	1,350	55,741	0	0	\$1.57
Rancho Bernardo	7,704,501	5.9%	7.0%	(27,197)	(263,159)	20,614	148,177	0	0	\$1.82
Scripps Ranch	1,636,150	4.7%	4.7%	150,230	182,979	19,826	27,026	0	145,000	\$1.79
<b>I-15 Corridor</b>	<b>20,956,410</b>	<b>2.8%</b>	<b>3.5%</b>	<b>144,800</b>	<b>(92,748)</b>	<b>85,695</b>	<b>289,932</b>	<b>0</b>	<b>145,000</b>	<b>\$1.73</b>
Chula Vista	10,045,758	1.9%	3.0%	(85,830)	13,115	56,283	198,581	201,200	0	\$1.25
Downtown	1,718,145	4.3%	4.3%	(34,320)	(50,820)	6,630	6,630	0	0	\$1.14
National City	3,668,457	1.2%	1.2%	25,631	3,726	15,694	43,017	0	0	\$1.72
Otay Mesa	23,009,255	3.9%	5.0%	180,100	352,583	186,431	611,483	1,730,270	720,539	\$1.07
San Ysidro/ Imp Beach	1,351,845	1.4%	1.4%	(17,309)	(15,684)	4,553	6,978	0	0	\$1.15
<b>South County</b>	<b>39,793,460</b>	<b>3.1%</b>	<b>4.0%</b>	<b>68,272</b>	<b>302,920</b>	<b>269,591</b>	<b>866,689</b>	<b>1,931,470</b>	<b>720,539</b>	<b>\$1.18</b>
East City	900,774	1.0%	1.0%	(200)	349,951	0	76,822	0	346,128	-
El Cajon	9,807,895	0.6%	0.8%	14,628	39,669	33,883	149,691	0	0	\$1.30
La Mesa/ Spring Valley	2,547,429	1.4%	1.7%	(3,638)	(23,232)	15,068	38,970	0	0	\$1.10
Santee	4,362,855	1.5%	1.5%	5,552	65,993	23,766	49,030	0	0	\$1.40
Southeast San Diego	4,045,169	1.4%	1.7%	15,292	32,755	14,625	38,622	0	0	\$1.30
<b>East County</b>	<b>21,664,122</b>	<b>1.1%</b>	<b>1.2%</b>	<b>31,634</b>	<b>465,136</b>	<b>87,342</b>	<b>353,135</b>	<b>0</b>	<b>346,128</b>	<b>\$1.24</b>
Outlying SD County North	1,040,044	3.4%	3.5%	(3,300)	14,700	3,964	3,964	0	0	-
Outlying SD County South	884,020	6.3%	6.3%	(45,500)	(46,000)	0	3,074	0	0	-
<b>Outlying East San Diego Cty</b>	<b>1,924,064</b>	<b>4.7%</b>	<b>4.8%</b>	<b>(48,800)</b>	<b>(31,300)</b>	<b>3,964</b>	<b>7,038</b>	<b>0</b>	<b>0</b>	<b>-</b>
<b>Submarket Total</b>	<b>200,823,324</b>	<b>3.4%</b>	<b>4.3%</b>	<b>(367,138)</b>	<b>(883,335)</b>	<b>1,423,252</b>	<b>3,907,333</b>	<b>2,213,520</b>	<b>1,211,667</b>	<b>\$1.54</b>

## NEAR-TERM OUTLOOK

**THE SAN DIEGO INDUSTRIAL MARKET** is projected to experience a softening in fundamentals in the coming year, as experienced in the first half of the year due to economic concerns. Rent growth is also expected to slow, and although vacancies and availabilities are slowly rising, the local market is still well positioned for the near future.

**ALTHOUGH VACANCIES AND AVAILABILITIES** have increased in the first half of the year, the limited construction pipeline will help with any upward pressure of the supply-driven demand going forward. Roughly half of the inventory under construction is located in Otay Mesa, and while a majority of the space is still available for lease, it is expected that businesses remain bullish in the region.

TOP SALE TRANSACTIONS 2Q 2023

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
4205-4247 Ponderosa Ave	Kearny Mesa	156,079	\$46,500,000	\$297.93	Monro Capital, Inc.	Canyon Partners Real Estate
5205-5375 Avenida Encinas	Carlsbad	127,408	\$44,000,000	\$345.35	BKM Capital Partners	Alexandria Real Estate Equities
9540 & 9550 Waples St	Sorrento Mesa	35,514	\$14,250,000	\$401.25	Hammer Ventures	BKM Capital Partners
1900 Aston Ave	Carlsbad	44,757	\$12,300,000	\$274.82	Equity Oak Ventures, LLC	Providence Real Estate Group
11225-11245 W Bernardo Ct	Rancho Bernardo	42,862	\$10,200,000	\$237.97	Equity Oak Ventures, LLC	Providence Real Estate Group

TOP LEASE TRANSACTIONS 2Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
3266 Lionshead Ave	Carlsbad	76,000	May 2023	Blackstone Inc.	Shiplab
4370 Jutland Dr	Sorrento Mesa	72,716	April 2023	The Alchalel Children's Trust	TopBuilding Corp.
2735 Cactus Rd	Otay Mesa	72,000	June 2023	Hamann Co.	Knapheide
3210 Executive Ridge Dr	Vista	67,476	June 2023	Executive Ridge 3210 Corp.	Vista Industrial Products, Inc.
2055 Sanyo Ave	Otay Mesa	54,500	May 2023	JLL Income Property Trust	Intelligent Blend

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.	3Q23
Interchange Industrial Otay	8830-8878 Cypress Ct	Otay Mesa	404,723	Phelan Development	2Q23
Sanyo Logistics Center	2066 Sanyo Rd	Otay Mesa	242,969	Badiee Development	1Q24
Carlsbad Raceway Industrial Park - UPS	Lionshead Ave - Lots 1-4	Carlsbad	222,959	Hines	1Q24
Brownfield Technology Park - Phase II	Airway Rd - Bldg 1 & 2	Otay Mesa	203,244	Murphy Development Co.	3Q23

Data Source: CoStar, EDD, SD Business Journal



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

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<b>COMMERCIAL BROKERAGE</b>	<i>\$12B</i> TRANSACTION VOLUME ANUALLY	<i>32.1M</i> ANNUAL SALES SF	<i>41.2M</i> ANNUAL LEASING SF
<b>ASSET SERVICES</b>	<i>53M</i> MANAGEMENT PORTFOLIO SF	<i>771+</i> ASSETS UNDER MANAGEMENT	<i>250+</i> ASSET SERVICES CLIENTS
<b>VALUATION ADVISORY</b>	<i>2,600+</i> ASSIGNMENTS ANNUALLY	<i>46</i> TOTAL APPRAISERS	<i>23</i> WITH MAI DESIGNATIONS

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