MARKET TRENDS

SAN DIEGO *INDUSTRIAL*

4Q 2023

MARKET DRIVERS

DEMAND IN THE SAN DIEGO INDUSTRIAL MARKET cooled in 4Q, recording one of the lowest transaction volumes in leasing in over fifteen years at just 1.7M SF. Concurrently, sublease availability reached a historical high, almost a quarter of the total available inventory. This uptick can be partly attributed to Amazon giving back approx. 600K SF since 2022.

ALTHOUGH THE COUNTY WIDE VACANCY RATE JUMPED 84% YOY from 3.1% to 5.7%, it is still in line with the 10-year average. The trajectory of the pandemic driven demand that drove industrial fundamentals to surge, to reflect record low vacancies and availabilities, was expected to reach its peak within a few years after the initial skyrocketing of increased demand.

INVESTMENT ACTIVITY has slowed considerably in recent quarters amid the growing interest rates, posting at 15-year record low in volume at 5.6M SF. Investment activity has been minimal across most property sectors due to the economic cool down and high interest rates.

ECONOMIC REVIEW

THE UNEMPLOYMENT RATE in San Diego County was 4.2% in November, above the year-ago estimate of 3.3% and unchanged month-over-month, adding 7,500 jobs from October to November. This compares with an unadjusted unemployment rate of 4.9% for California and 3.5% for the nation during the same period.

TRADE, TRANSPORTATION, AND UTILITIES were up 4,400, which led the way for month-over job gains, followed by seasonal hiring in retail trade which was up 3,600 jobs. On a year-over basis, job reductions were strongest in professional and business services industry which was down 6,600 jobs November 2022 to November 2023.

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Market Summary

	4Q23	3Q23	4Q22	Annual Change
Vacancy Rate	5.70%	5.00%	3.10%	**83.87%**
Availability Rate	10.10%	9.80%	6.00%	**68.33%**
Asking Lease Rate	$1.59	$1.54	$1.53	**3.92%**
Lease Transactions	1,782,413	1,945,868	2,788,094	**-36.07%**
Sale Transactions	1,301,831	940,967	3,511,350	**-62.93%**
Net Absorption (SF)	(307,039)	(705,754)	1,255,449	**N/A**

↓ *1.78M SF*
LEASING ACTIVITY

↓ *-307K SF*
NET ABSORPTION

↑ *5.7%*
VACANCY RATE

↑ *$1.59*
ASKING RENT (AVG)

↑ *340K SF*
NEW DELIVERIES

Year-Over-Year Trend

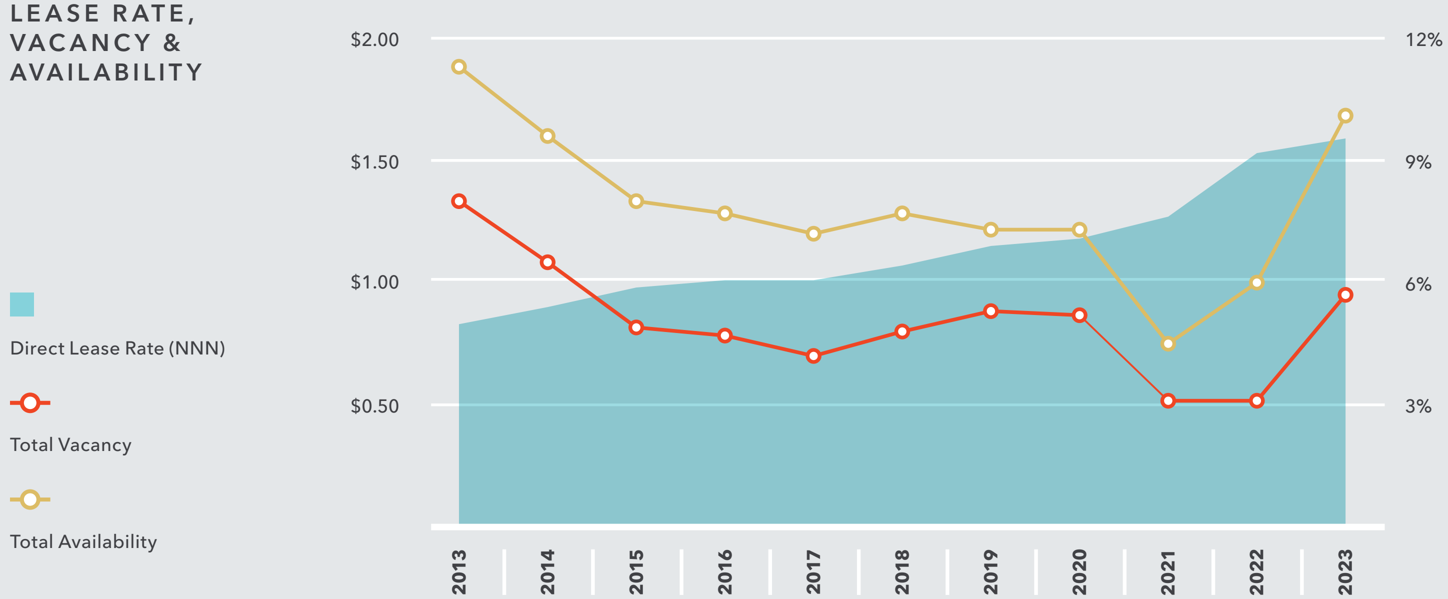
Market Highlights

LEASING VOLUME dropped to a new 15-year low to 1.8M SF

ASKING RENTAL RATES increased to a record high of $1.59/SF NNN

AVERAGE SALE PRICES fell 27% YOY to $286/SF

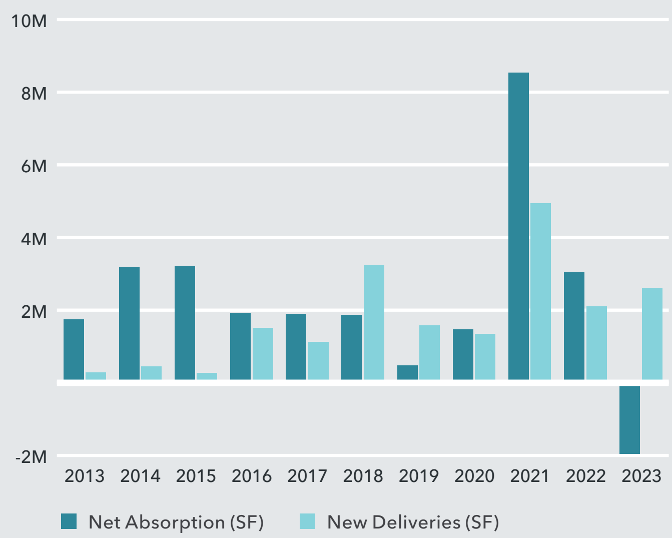
LEASE RATE, VACANCY & AVAILABILITY



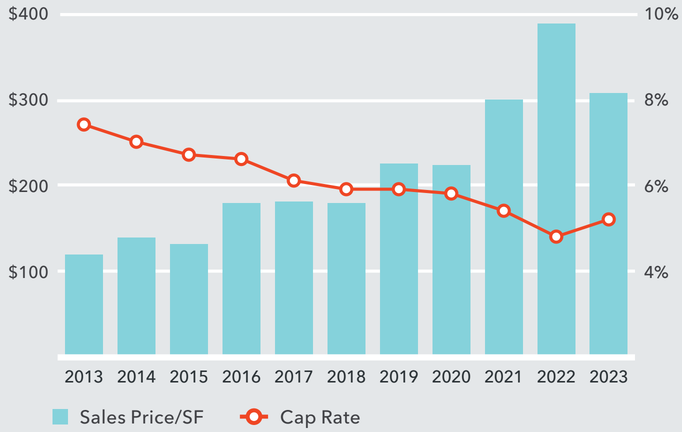
BIGGEST SALE OF THE QUARTER

7222 Airway Rd &
7498 Colchester Ct, Otay Mesa

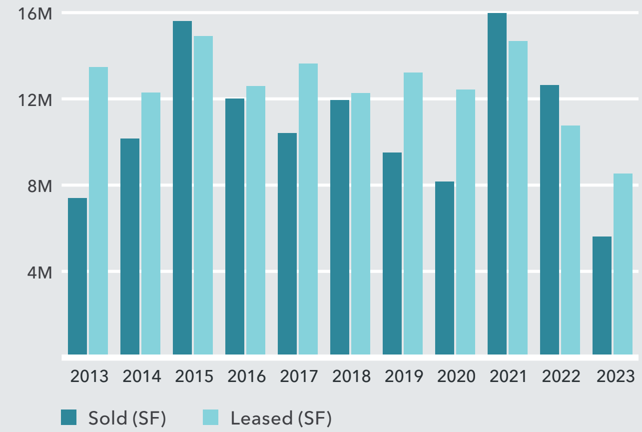
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	4Q23 Direct Net Absorption	2023 Direct Net Absorption	4Q23 Leasing Activity	2023 Leasing Activity	SF Under Construction	2023 Construction Completions	Average NNN Rental Rate
Carlsbad	15,746,603	5.3%	7.3%	30,185	(231,079)	231,951	863,813	222,959	0	$1.61
Escondido	7,659,009	1.3%	1.8%	60,667	24,297	111,102	246,067	59,091	0	$1.41
North Beach Cities	330,356	1.6%	1.6%	6,201	(4,360)	0	13,391	0	0	-
Oceanside	9,966,377	3.2%	4.3%	(108,087)	(183,974)	91,727	393,780	0	0	$1.21
San Marcos	8,954,421	5.2%	7.0%	62,299	(98,145)	54,064	305,694	0	0	$1.38
Vista	14,412,963	4.0%	4.3%	(47,890)	(196,521)	91,693	332,072	0	0	$1.38
North County	**57,069,729**	**4.0%**	**5.2%**	**3,375**	**(689,782)**	**580,537**	**2,154,817**	**282,050**	**0**	**$1.41**
Kearny Mesa	15,229,452	2.1%	3.0%	(66,087)	(111,514)	152,777	823,982	216,700	0	$1.97
Mira Mesa/ Miramar	17,771,671	3.9%	4.6%	(71,203)	(430,955)	217,251	887,955	0	0	$1.71
PB/Rose Canyon/ Morena	2,580,417	4.9%	5.2%	8,203	(101,296)	56,270	264,460	0	0	$1.52
Sorrento Mesa	11,286,994	9.2%	14.1%	(7,245)	(184,750)	83,705	659,035	0	0	$2.14
Sorrento Valley	3,607,825	10.7%	13.4%	22,860	(258,582)	28,687	194,765	0	0	$1.90
Sports Arena/ Airport	2,945,464	3.3%	3.3%	0	11,014	4,000	38,500	0	0	$1.71
Torrey Pines	4,285,249	5.4%	8.3%	(9,278)	(202,783)	35,500	130,041	0	0	$2.00
UTC	2,692,403	11.0%	12.7%	21,452	(158,352)	78,761	111,318	0	0	-
Central County	**60,399,475**	**5.3%**	**7.1%**	**(101,298)**	**(1,437,218)**	**656,951**	**3,110,056**	**216,700**	**0**	**$1.80**
Mission Gorge	1,912,239	2.0%	2.3%	(8,012)	(27,527)	35,578	169,310	0	0	$1.72
Poway	9,726,323	2.2%	2.7%	(50,247)	(174,816)	35,183	152,704	0	0	$1.62
Rancho Bernardo	7,715,378	5.5%	7.2%	16,883	(231,955)	24,695	263,398	0	0	$1.92
Scripps Ranch	1,708,152	6.2%	6.2%	5,175	151,992	5,175	37,076	0	145,000	$1.61
I-15 Corridor	**21,062,092**	**3.7%**	**4.6%**	**(36,201)**	**(282,306)**	**100,631**	**622,488**	**0**	**145,000**	**$1.74**
Chula Vista	10,176,122	6.8%	6.8%	(21,712)	(283,309)	90,860	340,567	205,266	201,200	$1.42
Downtown	1,709,478	1.8%	1.9%	23,500	(6,647)	0	9,983	0	0	$1.60
National City	3,690,355	1.2%	1.2%	3,492	4,491	29,088	88,952	0	0	$1.78
Otay Mesa	24,107,390	7.9%	9.4%	(25,092)	418,928	179,173	1,196,858	1,298,469	1,915,392	$1.26
San Ysidro/ Imp Beach	1,364,332	1.2%	1.7%	0	(13,298)	0	16,674	0	0	$1.15
South County	**41,047,677**	**6.6%**	**7.5%**	**(19,812)**	**120,165**	**299,121**	**1,653,034**	**1,503,735**	**2,116,592**	**$1.36**
East City	900,774	0.8%	0.8%	0	351,476	0	76,822	0	346,128	-
El Cajon	9,805,525	1.0%	1.1%	(63,245)	5,556	72,557	468,617	381,240	0	$1.37
La Mesa/ Spring Valley	2,548,854	0.9%	0.9%	6,359	(8,747)	12,474	98,277	0	0	$1.53
Santee	4,358,713	1.0%	1.0%	11,255	86,502	37,150	106,118	0	0	$1.31
Southeast San Diego	4,054,914	1.8%	1.8%	(22,069)	14,749	20,192	21,606	0	0	$1.33
East County	**21,668,780**	**1.1%**	**1.2%**	**(67,700)**	**449,536**	**142,373**	**771,440**	**381,240**	**346,128**	**$1.31**
Outlying SD County North	1,054,301	2.2%	2.2%	1,200	26,550	2,800	23,584	0	0	-
Outlying SD County South	980,020	14.5%	14.5%	(86,600)	(132,600)	0	12,474	0	0	-
Outlying East San Diego Cty	**2,034,321**	**8.1%**	**8.1%**	**(85,400)**	**(106,050)**	**2,800**	**36,058**	**0**	**0**	-
San Diego County	**203,282,074**	**4.6%**	**5.7%**	**(307,036)**	**(1,945,655)**	**1,782,413**	**8,347,893**	**2,383,725**	**2,607,720**	**$1.59**

NEAR-TERM OUTLOOK

ALTHOUGH VACANCIES AND AVAILABILITIES have hit record highs over the last few quarters, the limited construction pipeline will help with any upward pressure of the supply-driven demand going forward. While a majority of the space under construction is still available for lease, it is anticipated that the underlying demand drivers in the local industrial market will allow for businesses to remain active and fill the new inventory.

MODERATION IN THE SAN DIEGO INDUSTRIAL MARKET is expected to continue into the new year due to high interest rates and economic concerns. Rent growth will continue to slow, and although vacancies and availabilities have been rising, it is predicted that it will max out and hit its peak in the coming quarters.

Source: CoStar, EDD, ES Business Journal

TOP SALE TRANSACTIONS 4Q 2023

Property	Submarket	SF	Sale Price	$/SF	Buyer	Seller
Brown Field Tech Park II	Otay Mesa	203,244	$60,917,500	$299.73	Hines	Murphy Development Company
3215 & 3225 Executive Ridge	Vista	102,239	$29,400,000	$287.56	Chandru Wadhwani	DXW, LLC
5801-5807 Van Allen Way	Carlsbad	102,360	$21,250,000	$207.60	Harbor Associates/F&F Capital Group	SMAC Inc.
7440 Convoy Ct	Kearny Mesa	53,978	$17,140,000	$317.54	Burke Real Estate Group, Inc.	ViaWest Group
11065 & 11075 Roselle St	Sorrento Valley	43,530	$14,900,000	$342.29	W.P. Carey, Inc.	Alexandria Real Estate Equities, Inc.

TOP LEASE TRANSACTIONS 4Q 3023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
6212 Corte Del Abeto	Carlsbad	70,224	December 2023	Elion	K1 Speed *renewal
9050 Airway Rd	Otay Mesa	59,902	October 2023	Ares Management	DC Logistics
1462 Corporate Center Dr	Otay Mesa	41,047	October 2023	Sudberry Properties, Inc.	Record Xpress of California
2025 Gillespie Way	El Cajon	37,600	December 2023	Cabot Properties, Inc.	Brady West
9340 Cabot Dr	Mira Mesa/Miramar	32,271	October 2023	Rexford Industrial	RXO *renewal

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Gillespie Field Park	1756 Weld Blvd	El Cajon	381,240	Chestnut Properties	2Q 2024
Otay Border Crossings OBX	7727-7823 Paseo De La Fuente	Otay Mesa	353,800	Kearny Real Estate Company	1Q 2024
Landmark Phase III	8425 Otay Mesa Rd & 1911 Landmark Rd	Otay Mesa	256,789	Majestic Realty Co.	2Q 2024
Sanyo Logistics Center	2080 Sanyo Ave & 7133 Airway Rd	Otay Mesa	242,969	Badiee Development	1Q 2024
Otay River Business Park Lots 10-12	2855 & 2995 Faivre St	Otay Mesa	205,266	Sudberry Properties, Inc.	1Q 2024

Data Source:CoStar, EDD, SD Business Journal

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COMMERCIAL BROKERAGE	$12B TRANSACTION VOLUME ANUALLY	32.1M ANNUAL SALES SF	41.2M ANNUAL LEASING SF
ASSET SERVICES	53M MANAGEMENT PORTFOLIO SF	771+ ASSETS UNDER MANAGEMENT	250+ ASSET SERVICES CLIENTS
VALUATION ADVISORY	2,800+ ASSIGNMENTS ANNUALLY	42 TOTAL APPRAISERS	23 WITH MAI DESIGNATIONS

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

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