

## MARKET TRENDS

# SAN DIEGO INDUSTRIAL

### MARKET DRIVERS

The vacancy rate in San Diego’s industrial market has experienced a significant shift, nearly doubling year-over-year (YOY) to reach 6.6% in 1Q24. This uptick in vacancy rate is largely attributed to a persistent trend of negative direct net absorption since the start of 2023. That said, the increase in vacancy has slowed quarter-over-quarter (QOQ) increasing by only 90 bps.

Transaction volume in leasing continues to trail the 5-year quarterly average of approximately 3M SF, posting 1.9M SF in total leasing activity in 1Q24. Sublease availability fell 10 bps QOQ from a record high 1.9% in 4Q23– matching similar rates not seen since mid-2010. That said, demand for small-bay properties (Sub 50k SF) remains robust, suggesting continued resilience in certain segments of the market.

Demand for industrial space throughout the region surged following the onset of the pandemic, leading to record low vacancy and availability rates. Overall market activity has begun to normalize as the current 6.6% vacancy rate is below the pre-pandemic 10-year average of 7.2%.

Although reticent lenders, high interest rates, and general economic slowdown continue to depress the investment market, activity has slowly ramped up from a multi-year low in transaction volume in mid-2023. This quarter posted \$480M in transactional volume, the highest figure since 1Q23, though notably lower than every quarterly figure proceeding back through 1Q21.

### ECONOMIC REVIEW

The unemployment rate in San Diego County was 4.7% in February, above the 3.7% estimate from a year ago and steady month-over-month. The county added 6,000 jobs between January and February in total nonfarm employment. This compares with an unadjusted unemployment rate of 5.6% throughout the state and 4.2% for the nation in the same time period.

Professional and business services led all industries with an addition of 3,100 jobs, bouncing back from the previous month’s decline of 3,600 jobs. Year-over-year, Private education and health services led all sectors adding 15,000 jobs. Job gains were reported across every health care subsector.

continued on page 3

## Market Summary

	1Q24	4Q23	1Q23	YOY Change
Direct Vacancy Rate	6.60%	5.70%	3.80%	<b>280 bps</b>
Availability Rate	10.60%	10.10%	6.50%	<b>410 bps</b>
Asking Lease Rate	\$1.55	\$1.59	\$1.49	<b>4.03%</b>

	1Q24	2023 Total	1Q23	YOY Change
Leasing Activity (SF)	1,935,907	9,556,489	2,994,959	<b>-35.36%</b>
Sales Volume (SF)	1,492,416	6,007,010	2,031,986	<b>-26.55%</b>
Net Absorption (SF)	-902,185	-1,875,162	-404,799	<b>N/A</b>

↓ **1.9M SF**  
LEASING ACTIVITY

↓ **-902K SF**  
NET ABSORPTION

↑ **6.6%**  
VACANCY RATE

↑ **\$1.55**  
ASKING RENT (AVG)

↓ **0 SF**  
NEW DELIVERIES

Year-Over-Year Trend

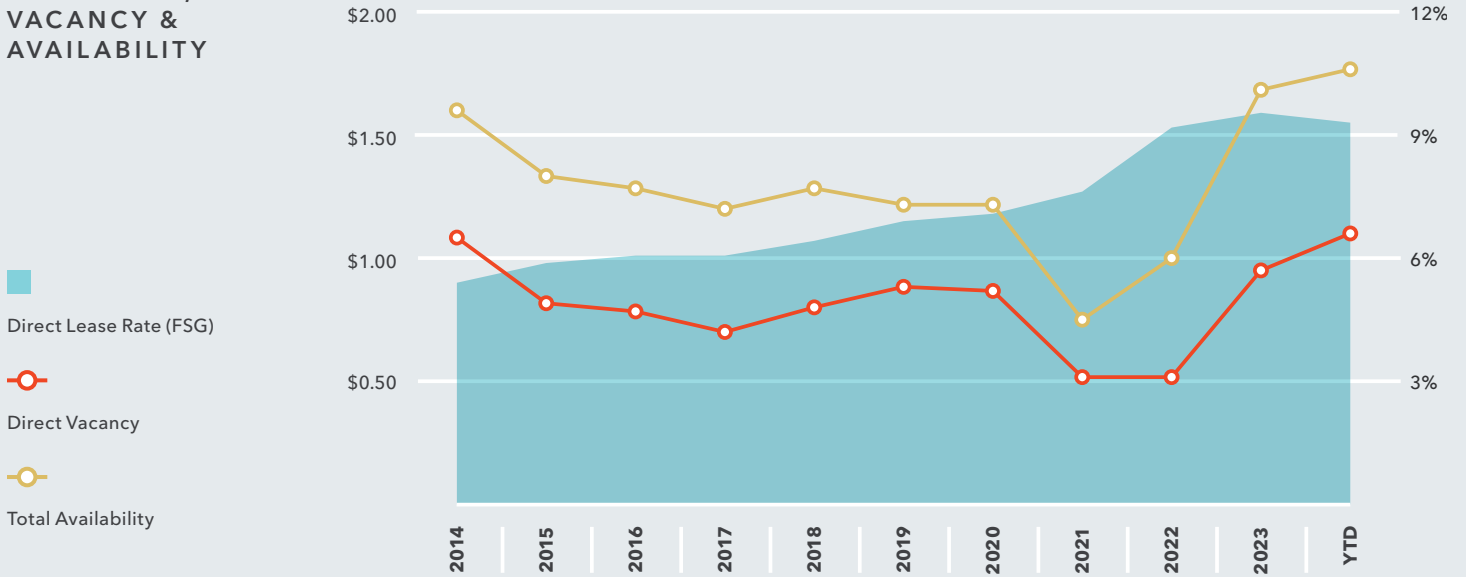
## Market Highlights

**LEASING VOLUME** dropped YOY to 1.9M SF

**AVERAGE RENTAL RATES** fell slightly QOQ to \$1.55/SF NNN

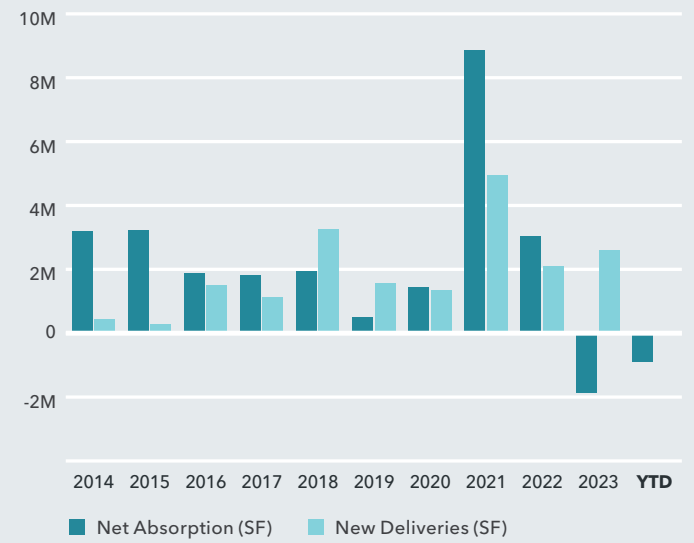
**SALES VOLUME** fell 26% YOY to 1.5M SF

### LEASE RATE, VACANCY & AVAILABILITY

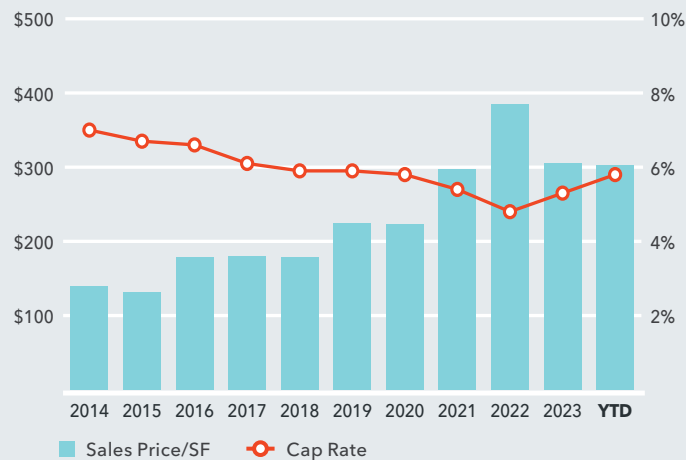


**BIGGEST SALE OF THE QUARTER**  
*Canyon Industrial Center*  
 San Diego, CA

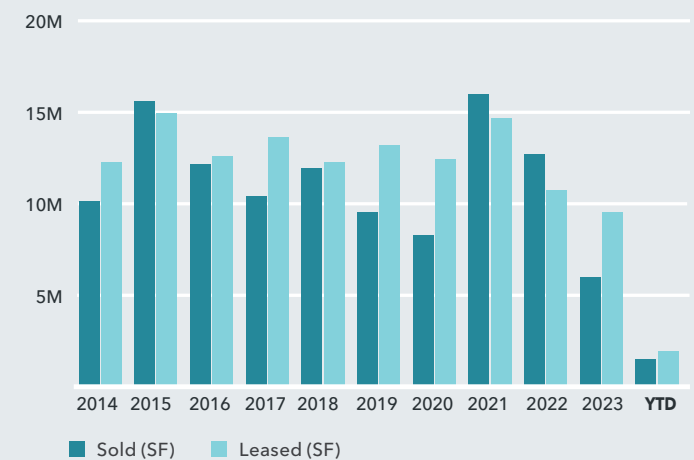
### NET ABSORPTION & NEW DELIVERIES



### AVERAGE SALES PRICE/SF & CAP RATE



### SALE VOLUME & LEASING ACTIVITY



## SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	1Q24 Direct Net Absorption	YTD Direct Net Absorption	1Q24 Leasing Activity	YTD Leasing Activity	SF Under Construction	YTD Construction Completions	Average NNN Rental Rate
Carlsbad	15,750,531	6.4%	8.4%	(166,717)	(166,717)	131,394	131,394	387,959	0	\$1.67
Escondido	7,660,876	1.8%	2.6%	(37,210)	(37,210)	99,640	99,640	147,091	0	\$1.36
North Beach Cities	330,356	1.6%	2.3%	0	0	0	0	0	0	-
Oceanside	9,967,594	4.0%	4.9%	(90,016)	(90,016)	38,567	38,567	0	0	\$1.29
San Marcos	8,988,624	5.7%	7.6%	(45,712)	(45,712)	61,261	61,261	26,118	0	\$1.34
Vista	14,406,943	3.6%	4.1%	57,240	57,240	83,914	83,914	0	0	\$1.37
<b>North County</b>	<b>57,104,924</b>	<b>4.5%</b>	<b>5.8%</b>	<b>(282,415)</b>	<b>(282,415)</b>	<b>414,776</b>	<b>414,776</b>	<b>561,168</b>	<b>0</b>	<b>\$1.42</b>
Kearny Mesa	15,355,150	2.8%	3.9%	(65,463)	(65,463)	138,212	138,212	216,700	0	\$1.92
Mira Mesa/ Miramar	17,756,746	5.0%	5.6%	(190,807)	(190,807)	331,184	331,184	0	0	\$1.78
PB/Rose Canyon/ Morena	2,580,773	5.9%	6.0%	(24,015)	(24,015)	17,351	17,351	0	0	\$1.56
Sorrento Mesa	11,214,944	9.5%	13.4%	(20,451)	(20,451)	94,027	94,027	0	0	\$2.20
Sorrento Valley	3,629,502	11.8%	14.9%	(42,244)	(42,244)	46,484	46,484	0	0	\$1.95
Sports Arena/ Airport	2,959,524	3.7%	3.7%	24,380	24,380	10,000	10,000	0	0	\$1.71
Torrey Pines	4,484,849	6.6%	12.3%	(60,984)	(60,984)	12,226	12,226	0	0	\$2.00
UTC	2,802,841	11.3%	14.7%	(20,141)	(20,141)	0	0	0	0	-
<b>Central County</b>	<b>60,784,329</b>	<b>6.0%</b>	<b>8.0%</b>	<b>(399,725)</b>	<b>(399,725)</b>	<b>649,484</b>	<b>649,484</b>	<b>216,700</b>	<b>0</b>	<b>\$1.82</b>
Mission Gorge	1,963,872	0.9%	1.7%	21,003	21,003	3,348	3,348	0	0	\$1.97
Poway	9,736,085	1.7%	2.3%	51,267	51,267	83,270	83,270	0	0	\$1.58
Rancho Bernardo	7,715,896	5.5%	7.1%	(283)	(283)	15,372	15,372	0	0	\$1.92
Scripps Ranch	1,758,007	9.1%	9.1%	(53,695)	(53,695)	12,075	12,075	0	0	\$1.55
<b>I-15 Corridor</b>	<b>21,173,860</b>	<b>3.6%</b>	<b>4.6%</b>	<b>18,292</b>	<b>18,292</b>	<b>114,065</b>	<b>114,065</b>	<b>0</b>	<b>0</b>	<b>\$1.74</b>
Chula Vista	10,110,616	9.0%	9.0%	(37,913)	(37,913)	60,112	60,112	205,266	0	\$1.34
Downtown	1,721,801	2.0%	2.2%	(4,000)	(4,000)	0	0	0	0	\$1.24
National City	3,756,186	1.6%	1.8%	(17,674)	(17,674)	24,874	24,874	0	0	\$1.77
Otay Mesa	24,726,930	10.9%	11.9%	(176,327)	(176,327)	516,453	516,453	1,298,469	0	\$1.31
San Ysidro/ Imp Beach	1,364,332	1.2%	2.1%	0	0	25,251	25,251	0	0	\$1.15
<b>South County</b>	<b>41,679,865</b>	<b>8.9%</b>	<b>9.6%</b>	<b>(235,914)</b>	<b>(235,914)</b>	<b>626,690</b>	<b>626,690</b>	<b>1,503,735</b>	<b>0</b>	<b>\$1.35</b>
East City	900,774	0.0%	0.0%	7,575	7,575	0	0	0	0	-
El Cajon	9,806,592	0.8%	0.9%	4,642	4,642	83,580	83,580	381,240	0	\$1.45
La Mesa/ Spring Valley	2,523,815	0.9%	0.9%	316	316	2,147	2,147	0	0	\$1.46
Santee	4,348,512	0.6%	0.7%	17,828	17,828	33,289	33,289	0	0	\$1.31
Southeast San Diego	4,055,168	1.9%	1.9%	(13,371)	(13,371)	11,876	11,876	0	0	\$1.41
<b>East County</b>	<b>21,634,861</b>	<b>0.9%</b>	<b>1.0%</b>	<b>16,990</b>	<b>16,990</b>	<b>130,892</b>	<b>130,892</b>	<b>381,240</b>	<b>0</b>	<b>\$1.36</b>
Outlying SD County North	1,073,964	4.0%	4.0%	(19,413)	(19,413)	0	0	0	0	\$0.70
Outlying SD County South	980,020	14.5%	14.5%	0	0	0	0	0	0	-
<b>Outlying East San Diego Cty</b>	<b>2,053,984</b>	<b>9.0%</b>	<b>9.0%</b>	<b>(19,413)</b>	<b>(19,413)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$0.70</b>
<b>San Diego County</b>	<b>204,431,823</b>	<b>5.4%</b>	<b>6.6%</b>	<b>(902,185)</b>	<b>(902,185)</b>	<b>1,935,907</b>	<b>1,935,907</b>	<b>2,662,843</b>	<b>0</b>	<b>\$1.55</b>

## NEAR-TERM OUTLOOK

Moderation in the San Diego industrial market is expected to continue in 2024 due to high interest rates, economic uncertainty, and softening market dynamics. Though the growth in availability rates has slowed, a significant and consistent pipeline of deliveries are scheduled to come online in 2024, primarily in the South County Areas of Otay Mesa and Chula Vista, which will continue to saturate the market and slow rent growth.

Following two quarters of recovering investment activity, consistency in a new higher interest rate environment will cause investment activity to stabilize near pre-pandemic levels.

## SIGNIFICANT SALE TRANSACTIONS 1Q 2024

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Canyon Industrial Center	Kearny Mesa	198,728	\$70,200,000	\$353.25	BKM Capital Partners	Gateway Pacific Properties
production At Bosstick Blvd	San Marcos	221,009	\$50,000,000	\$226.24	Investcorp	ShopCore Properties
7949 Stromesa Ct	Mira Mesa/ Miramar	107,604	\$26,500,000	\$246.27	Birtcher Anderson & Davis	Stromesa Court LLC
2325 Cousteau Ct & 2210 Oak Ridge Way	Vista	111,500	\$24,500,000	\$219.73	Staley Point Capital	Solatube International, Inc
10140 Mesa Rim Rd - Bldg A	Sorrento Mesa	42,547	\$23,000,000	\$540.58	Hangzhou Biotest Biotech	SITE Capital Partners

## SIGNIFICANT LEASE TRANSACTIONS 1Q 2024

Property	Submarket	SF	Transaction Date	Landlord	Tenant
8830 Siempre Viva Rd	Otay Mesa	153,166	March 2024	TIAA	Southland Envelope Company Inc
755 Harvest Rd	Otay Mesa	127,141	March 2024	Sudberry Properties, Inc.	Agorus
13500 Danielson St	Poway	72,600	January 2024	JLL Income Property Trust	Somacis
2800 Whiptail Loop	Carlsbad	46,838	February 2024	Aethercomm, Inc.	ATX
6779 Mesa Ridge Road	Sorrento Mesa	43,811	March 2024	Jewell Capital	Digital Force Technologies, LLC

## SIGNIFICANT UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Gillespie Field Park	1756 Weld Blvd	El Cajon	381,240	Chestnut Properties	2Q24
Otay Border Crossings OBX	7727-7823 Paseo De La Fuente	Otay Mesa	353,800	Kearny Real Estate Company	2Q24
Landmark Phase III	8425 Otay Mesa Rd & 1911 Landmark Rd	Otay Mesa	256,789	Majestic Realty Co.	2Q24
Sanyo Logistics Center	2080 Sanyo Ave & 9350 Airway Airway Rd	Otay Mesa	242,969	Badiee Development	2Q24
Carlsbad Raceway Industrial Park	Lionshead Ave - Lots 1-4	Carlsbad	222,959	Hines	2Q24

Data Source: CoStar, EDD, SD Business Journal



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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

<b>COMMERCIAL BROKERAGE</b>	<b>\$10B</b> 3-YEAR AVERAGE TRANSACTION VOLUME	<b>31.7M</b> ANNUAL SALES SF	<b>42.4M</b> ANNUAL LEASING SF
<b>ASSET SERVICES</b>	<b>51M SF</b> MANAGEMENT PORTFOLIO SIZE	<b>750+</b> ASSETS UNDER MANAGEMENT	<b>250+</b> CLIENTS SERVED
<b>VALUATION ADVISORY</b>	<b>2,600+</b> 3-YEAR AVERAGE ASSIGNMENTS	<b>43</b> TOTAL APPRAISERS	<b>25</b> WITH MAI DESIGNATIONS

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