

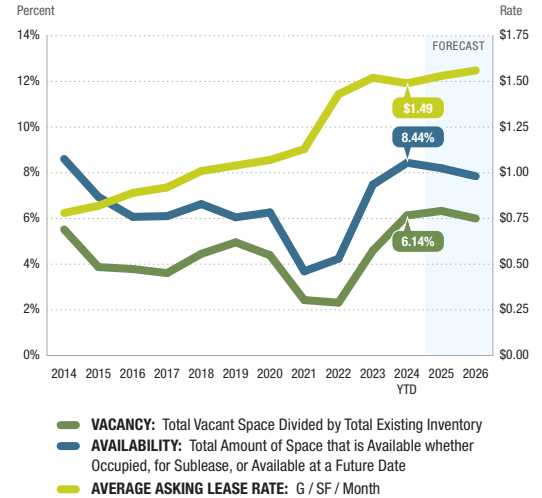
OVERVIEW. A reduced level of leasing and sales volume in the San Diego industrial market continued over the first three quarters of 2024. Construction activity is still strong, and Amazon has reappeared among the buildings under construction for the first time in more than a year. There was negative net absorption in each of the first three quarters of the year, which moved the vacancy rate up, and asking rental rates were flat in Q3.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q3 at 6.14%, an increase of 44 basis points from the previous quarter's vacancy rate of 5.70%, and a spike of nearly 2.5 percentage points compared to Q3 2023's rate of 3.80%. In 2010, during the "Great Recession," the overall vacancy rate for the county peaked at 9.7%. At the end of Q3 2024, every submarket other than South County had a vacancy rate of 5.25% or less. Available space being marketed (regardless of occupancy status) was 8.44% of the county's inventory at the end of Q3. South County had the highest availability rate in the county at the end of Q3, at 13.57%.

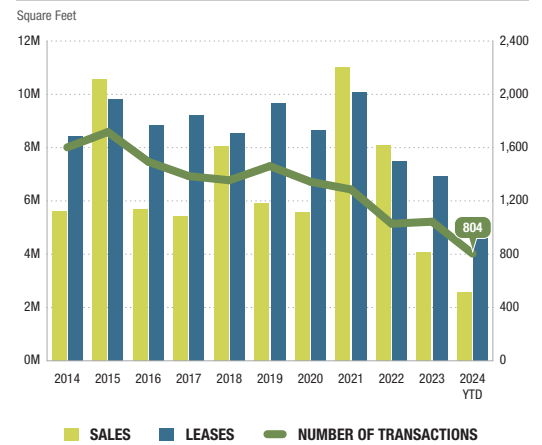
LEASE RATES. The average asking lease rate checked in at \$1.49 per square foot per month, no change from the previous quarter. Over the past three calendar years, asking rental rates have increased by an average of 13% per year. The San Diego industrial market has seen asking rental rates march ever higher since Q1 2013, peaking at \$1.52 per square foot at the end of 2023. But the decrease in asking rental rates in Q1 2024 might portend a pause in that long-term trend. The bull market in rent growth is over, at least for the short term, as increasing vacancy and slower transaction velocity have combined to curtail rental rate growth. The aggregate balance of negotiating leverage across the county has moved from heavily favoring landlords to a more balanced state. Of course, this varies depending on the submarket and building characteristics. Despite the slowing growth of starting rates, it is still common to see landlords insist on fixed annual rent increases of 4%, rather than the 3% increases which had been standard for many years preceding Covid-19.

TRANSACTION ACTIVITY. There were 214 lease transactions recorded in Q3. This is below the average of 222 leases recorded per quarter since the beginning of 2021. The preceding five years had a quarterly average of 295 lease transactions. On the sales side, 2023 marked the first year since 2017 without a sales volume of a billion dollars. The first three quarters of 2024 continued at that same pace, with \$633 million of industrial buildings trading hands. Despite the recent rate cut from the Fed, interest rates remain elevated by recent standards, and this has dampened activity levels in the sales market, especially on the investment side. While sales volume is down, pricing remains high. The median price per square foot for industrial sales in Q3 was \$327, a new high-water mark. This figure is highly influenced by the composition of properties which trade. Overall, sales pricing gains in San Diego have cooled, but pricing certainly remains elevated.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

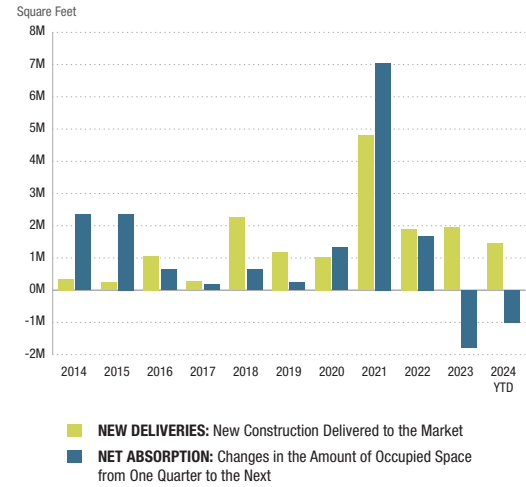
	Change Over Last Quarter	Q3 2024	Q2 2024	Q3 2023	% Change Over Last Year
Vacancy Rate	▲ UP	6.14%	5.70%	3.80%	61.44%
Availability Rate	▲ UP	8.44%	8.07%	7.27%	16.08%
Average Asking Lease Rate	▬ FLAT	\$1.49	\$1.49	\$1.51	(1.32%)
Sale & Lease Transactions	▲ UP	2,450,478	2,380,529	2,535,479	(3.35%)
Gross Absorption	▲ UP	1,605,882	1,587,729	1,245,444	28.94%
Net Absorption	▼ NEGATIVE	(128,124)	(230,736)	(431,390)	N/A

ABSORPTION. There were 128,124 SF of negative net absorption in Q3, marking the seventh consecutive quarter of negative net absorption. This was spread out across the county, with not a single submarket registering positive net absorption through the first three quarters of the year. The dramatic increase in rental rates in recent years has pushed some tenants to make do with less space than they would prefer. Most areas of the county have relatively low vacancy levels. With the low levels of new construction outside of Otay Mesa, the decrease in occupied space in certain areas has given tenants in the market more options than they have had in years.

CONSTRUCTION. 1.4 MSF of new industrial projects were delivered in the first three quarters of 2024, and 5.2 MSF have been delivered since the start of 2022. Of the total space completed year to date, 75% remains available, while 36% of the area delivered in 2022-2023 is still available. The vast majority of the recent construction has been speculative, with minimal pre-leasing. With the constant flow of construction in Otay Mesa, most tenants looking in this area have had multiple choices of available space in recently completed buildings, negating the need to commit to buildings still underway. 71% of the construction completions in the first three quarters of 2024 were in Otay Mesa, and more than 80% of the new construction completions in the county since 2020 have been in Otay Mesa. The largest building under construction midway through 2024 was a 1.1 MSF Amazon fulfillment center in Otay Mesa.

EMPLOYMENT. The unemployment rate in San Diego County was 5.0% in August 2024, up from a revised 4.9% in July 2024, and above the year-ago estimate of 4.4%. This compares with an unadjusted unemployment rate of 5.9% for California and 4.4% for the nation during the same period. Over the 12-month period between August 2023 and August 2024, San Diego County employment increased by 10,800 jobs, an increase of 0.7%. With the normal delay in reporting from the California EDD, employment figures from September were unavailable at the time of publishing this report. For the nation as a whole, 254,000 jobs were added in September, the highest monthly payroll increase in six months.

NEW DELIVERIES & NET ABSORPTION



Forecast

The rise in vacancy, along with the slowdown in leasing activity, has pulled the market out of its meteoric growth. New supply has outpaced demand, and market-wide rental rate averages have eased back off their all-time peak. The low leasing volume and negative net absorption, not to mention the U.S. presidential election (which often elicits a wait-and-see approach), signal that the market will not likely see a dramatic shift towards tightening conditions in Q4.

Significant Transactions

Sales						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
1330 30th St.	South San Diego	105,465	\$27,250,000	GID Investment Advisors, LLC	Washington Capital Management	
2345 Britannia Blvd.	Otay Mesa	115,542	\$23,450,000	EQT Exeter	Washington Capital Management	
2065 Thibodo Rd.	Vista	76,872	\$22,617,500	K-Tech Machine	TPG Angelo Gordon & Co, LP	
7191 Carroll Rd.	Miramar	6,300	\$14,600,000	Miramar Capital	TForce Freight	
2548 Cactus Rd.	Otay Mesa	44,278	\$11,442,500	Best Fit Movers *	Hamann Companies	

Leases					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2081 Faraday Ave.	Carlsbad	157,973	Aug-2024	Undisclosed	Lincoln Property Co.
7222 Airway Rd.	Otay Mesa	101,145	Jul-2024	Foxx Development	Hines
1445 Engineer St.	Vista	93,662	Aug-2024	Undisclosed	First Industrial Realty Trust
901 Bay Marina Dr.	National City	91,541	Jul-2024	Avis	DWS
1890 Ord Way	Oceanside	50,851	Aug-2024	Hydranautics	BentallGreenOak

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q3 2024	Square Feet Available	Availability Rate Q3 2024	Average Asking Lease Rate	Net Absorption Q3 2024	Net Absorption 2024	Gross Absorption Q3 2024	Gross Absorption 2024
Central County													
Central City	82	1,397,840	0	0	27,500	1.97%	43,520	3.11%	\$1.17	9,600	(27,500)	9,600	9,600
East City	58	602,299	0	0	0	0.00%	0	0.00%	\$1.50	0	7,575	0	7,575
Southeast City	368	4,266,960	0	0	239,253	5.61%	343,811	8.06%	\$1.39	(154,213)	(170,804)	51,560	60,620
Kearny Mesa	420	9,963,850	219,292	0	457,344	4.59%	631,367	6.20%	\$1.85	(52,849)	(187,335)	43,612	179,264
Mission Gorge	107	1,793,229	0	0	65,283	3.64%	119,763	6.68%	\$1.93	(3,001)	(17,362)	26,622	64,286
Rose Canyon / Morena	132	2,025,333	0	0	105,727	5.22%	95,987	4.74%	\$1.52	(13,304)	(2,558)	1,420	34,289
Sports Arena / Airport	132	1,483,439	0	0	39,360	2.65%	112,906	7.61%	\$1.68	(7,559)	(8,351)	2,000	15,208
Miramar	582	13,421,096	0	85,000	795,889	5.93%	1,279,324	9.53%	\$1.75	(73,048)	(232,782)	190,017	391,292
Sorrento Mesa	69	3,249,642	0	0	155,009	4.77%	208,028	6.40%	\$1.88	(31,787)	(73,943)	22,357	46,227
Sorrento Valley/UTC	40	980,361	0	0	800	0.08%	800	0.08%	\$2.11	0	(800)	2,400	2,400
Central County Total	1,990	39,184,049	219,292	85,000	1,886,165	4.81%	2,835,506	7.20%	\$1.73	(326,161)	(713,860)	349,588	810,761
East County													
El Cajon	452	9,192,222	381,240	0	49,783	0.54%	354,570	3.70%	\$1.55	18,108	17,474	38,213	101,346
La Mesa / Spring Valley	308	2,678,156	7,500	0	94,229	3.52%	103,750	3.86%	\$1.72	(63,122)	(73,456)	10,244	35,777
Santee / Lakeside	289	3,980,557	0	251,500	55,107	1.38%	172,149	4.32%	\$1.49	(8,057)	(20,708)	27,092	57,680
Rural East County	87	984,450	0	0	100,000	10.16%	117,400	11.93%	\$0.99	48,400	44,400	48,400	48,400
East County Total	1,136	16,835,385	388,740	251,500	299,119	1.78%	747,869	4.34%	\$1.42	(4,671)	(32,290)	123,949	243,203
North County													
Escondido	636	7,642,425	147,054	67,300	126,280	1.65%	266,039	3.42%	\$1.54	19,595	(37,607)	37,510	176,148
Oceanside	399	9,015,345	0	520,446	453,285	5.03%	552,961	6.13%	\$1.33	(45,111)	(57,577)	153,123	399,739
San Marcos	475	8,145,011	24,461	223,175	713,178	8.76%	782,128	9.57%	\$1.37	21,762	(113,918)	89,365	209,124
Vista	526	13,443,182	22,480	123,705	761,872	5.67%	1,361,767	10.11%	\$1.38	(121,020)	(189,867)	161,668	375,462
Carlsbad	225	8,639,011	0	0	427,766	4.95%	704,111	8.15%	\$1.48	154,855	253,499	199,516	494,952
North Beach Cities	39	232,596	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Rural North County	122	1,071,818	0	0	32,625	3.04%	76,896	7.17%	\$0.90	7,608	(10,625)	14,313	17,193
North County Total	2,422	48,189,388	193,995	934,626	2,515,006	5.22%	3,743,902	7.74%	\$1.39	37,689	(156,095)	655,495	1,672,618
I-15 Corridor													
Poway	187	7,736,033	0	0	234,734	3.03%	256,155	3.31%	\$1.58	43,095	1,956	73,858	211,004
Rancho Bernardo	38	2,876,004	0	0	78,445	2.73%	124,715	4.34%	\$1.75	0	0	0	0
Scripps Ranch	26	696,993	0	86,000	11,253	1.61%	14,753	2.12%	\$1.60	0	(5,253)	0	10,805
I-15 Corridor Total	251	11,309,030	0	86,000	324,432	2.87%	395,623	3.50%	\$1.61	43,095	(3,297)	73,858	221,809
South County													
Chula Vista	326	8,958,173	0	178,156	1,055,039	11.78%	932,325	10.41%	\$1.44	77,270	(11,531)	104,679	162,081
National City	255	3,773,421	0	80,970	100,526	2.66%	154,785	4.10%	\$1.70	(6,465)	(59,623)	55,796	77,605
Otay Mesa	391	25,359,536	1,394,943	3,883,410	3,322,101	13.10%	4,403,310	16.46%	\$1.26	46,988	(57,541)	238,386	1,003,757
South San Diego	63	1,342,682	0	0	4,303	0.32%	48,812	3.64%	\$1.60	4,131	18,909	4,131	24,225
South County Total	1,035	39,433,812	1,394,943	4,142,536	4,481,969	11.37%	5,539,232	13.57%	\$1.36	121,924	(109,786)	402,992	1,267,668
San Diego County Total	6,834	154,951,664	2,196,970	5,499,662	9,506,691	6.14%	13,262,132	8.44%	\$1.49	(128,124)	(1,015,328)	1,605,882	4,216,059
0-9,999	3,063	15,615,461	7,500	0	259,900	1.66%	485,314	3.11%	\$1.68	53,170	(205)	143,208	352,924
10,000-19,999	1,781	25,257,528	0	0	655,525	2.60%	1,112,880	4.41%	\$1.59	(69,704)	(126,999)	271,724	752,408
20,000-34,999	964	24,756,370	46,941	27,720	930,055	3.76%	1,712,236	6.90%	\$1.51	11,837	(262,335)	208,152	707,533
35,000-49,999	383	15,816,291	43,000	95,538	761,913	4.82%	1,086,253	6.85%	\$1.40	(3,490)	(94,153)	150,889	476,100
50,000-99,999	394	27,143,178	242,854	527,038	1,925,872	7.10%	2,945,715	10.76%	\$1.42	(67,110)	(475,501)	407,160	680,220
100,000 Plus	249	46,362,836	1,856,675	4,849,366	4,973,426	10.73%	5,919,734	12.28%	\$1.28	(52,827)	(56,135)	424,749	1,246,874
San Diego County Total	6,834	154,951,664	2,196,970	5,499,662	9,506,691	6.14%	13,262,132	8.44%	\$1.49	(128,124)	(1,015,328)	1,605,882	4,216,059

Lease rates are on an industrial-gross basis.



Watching and Waiting in Q3

by **Alex Jize**

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As we wrap up the third quarter of 2024, we continue to see the market cool down. Buyer and tenant demand has slowed, as there are more options appearing on the market. Many business and property owners have retreated to the sidelines as a very important presidential election is just around the corner. Notwithstanding these dynamics, industrial continues to be the strongest commercial asset class in the San Diego market, with relatively high demand from investors and owner-occupants.

Buyers who are currently in the market have gained the benefit of The Federal Reserve cutting rates by 50 basis points, with a signal for more rate cuts ahead. This has had a positive impact on conventional and SBA loan rates. We have seen consecutive rate cuts each month of the third quarter. The SBA 504 rate for 25-year money in September was 5.76%, which is approximately 93 basis points lower than where it was this past April. The consensus is that we will continue to see both conventional and SBA rates come down in the coming months ahead. This will continue to be a major factor in driving buyer activity and keeping pricing stable.

We have continued to see time-on-market for available properties for lease rise as more competing spaces come online, now often extending for months. Landlords are having to give up more concessions in free rent and come off their asking rate to be able to get deals done in today's marketplace. As available inventory continues to increase, owners with lower operating expenses will have a major advantage in attracting price-conscious tenants to their projects.

Overall, San Diego's industrial market remains relatively stable in comparison to the rest of the nation. We have seen pricing remain firm and building owners are still able to achieve near-peak prices on their industrial properties. Many investors and user-purchasers alike are in pursuit of industrial outdoor storage (IOS) properties, which rarely come to market. Investors have a strong appetite for industrial real estate and are actively in the market looking to purchase, but the lack of available inventory and the inability to make deals pencil has kept transaction volume low, which has been the case throughout 2024.

In conclusion, we have seen a continued slowdown in transaction volume and leasing activity through the third quarter but have high hopes there will be elevated activity as we head into the last quarter of the year. Lower interest rates coupled with putting the 2024 election behind us will lead to business owners committing to leasing or purchasing property and building owners executing on their disposition / acquisition strategies.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on an industrial-gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services

Product Type

MFG./DIST.

Manufacturing / Distribution / Warehouse facilities with up to 49.9% office space.

Submarkets

CENTRAL COUNTY

Central City, East City, Southeast City, Kearny Mesa, Mission Gorge, Rose Canyon / Morena, Sports Arena / Airport, Miramar, Sorrento Mesa, Sorrento Valley

EAST COUNTY

El Cajon, La Mesa / Spring Valley, Santee / Lakeside, Rural East County

NORTH COUNTY

Escondido, Oceanside, San Marcos, Vista, Carlsbad, North Beach Cities, Rural North County

I-15 CORRIDOR

Poway, Rancho Bernardo, Scripps Ranch

SOUTH BAY

Chula Vista, National City, Otay Mesa, South San Diego