

MARKET OVERVIEW. Simply put, sales and leasing activity in the first half of 2020 was a shadow of the levels typical in recent years. The market remains stable, however, as the vacancy rate only moved nominally higher, and the available space on the market for lease was actually a net decrease in the second quarter. It is becoming cliché, but Amazon continues to remain extremely active in expansion, and the increased demand from stay-at-home consumers is rapidly translating to additional real estate activity from the e-commerce behemoth.

VACANCY. Direct/sublease space (unoccupied) finished the second quarter 2020 at 5.04%, an increase of 34 basis points from the previous quarter's vacancy rate of 4.70%. The two outermost sections of the county, the North County and South County, had the highest vacancy rates at 7.3% and 5.8%, respectively.

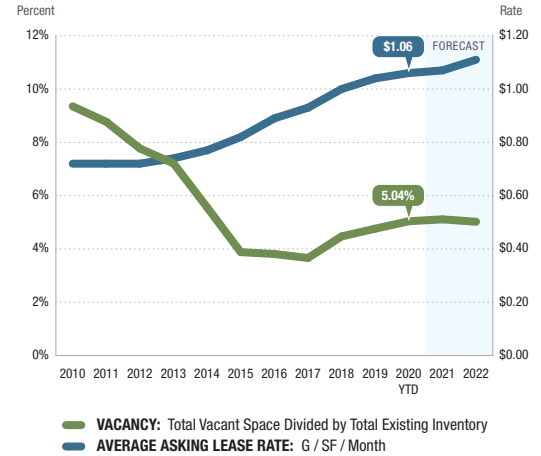
LEASE RATES. The average asking lease rate checked in at \$1.06 per square foot per month, which is an increase of two cents per square foot over the previous quarter. Average asking lease rates have increased a total of 47% over the past 10 years.

TRANSACTION ACTIVITY. The total space leased and sold in the second quarter was approximately 2.2 MSF, a decrease from the 2.5 MSF of transactions in the first quarter 2020. If the current pace of sales and leasing activity continued, it would lead to an annual total less than half of 2019's transaction volume.

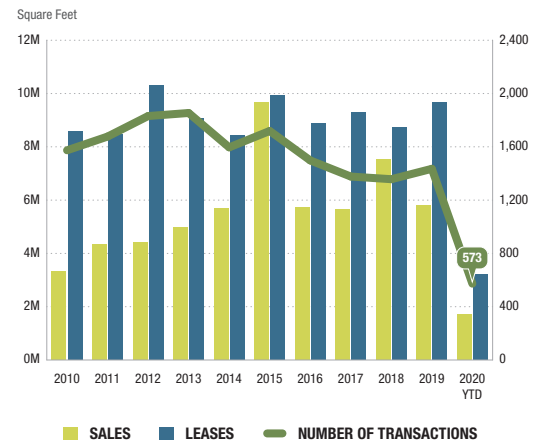
EMPLOYMENT. The unemployment rate in San Diego County was 15.0% in May 2020, unchanged from a revised 15.0% in April 2020, and substantially greater than the year-ago estimate of 2.8%. This compares with an unadjusted unemployment rate of 15.9% for California and 13.0% for the nation during the same period. According to the State of California Employment Development Department, San Diego County lost 195,800 payroll jobs between May 2019 and May 2020 and gained 18,200 jobs between April 2020 and May 2020. In June, the employment data for the United States as a whole came in with 4.8 million jobs added which was a record for the most jobs added in a month. With the normal delay in reporting from the California EDD, employment figures from June were unavailable at the time of publishing this report.

CONSTRUCTION. 213,000 square feet of new industrial projects were delivered in the first half of 2020. Based upon the delivery timeline for the current under-construction pipeline, 2020 will be the fourth year out of the past five with more than 1 MSF of new construction completed. This is in contrast to the 360,000 per year of new construction

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

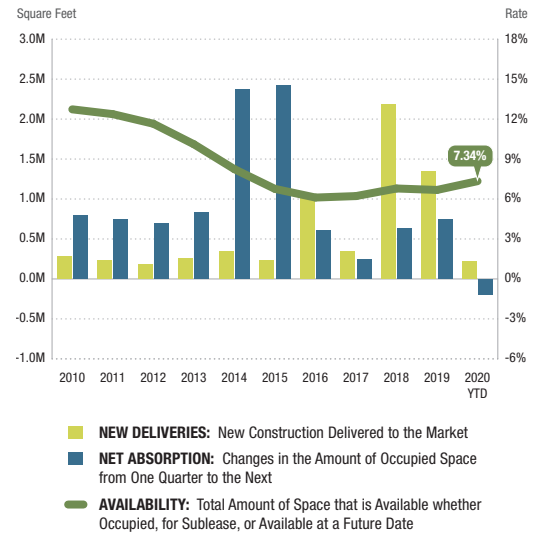
	Change Over Last Quarter	2Q 2020	1Q 2020	2Q 2019	% Change Over Last Year
Vacancy Rate	▲ UP	5.04%	4.70%	4.63%	8.76%
Availability Rate	▼ DOWN	7.34%	7.51%	6.95%	5.63%
Average Asking Lease Rate	▲ UP	\$1.06	\$1.04	\$1.04	1.92%
Sale & Lease Transactions	▼ DOWN	2,223,614	2,573,061	3,956,854	(43.80%)
Gross Absorption	▼ DOWN	1,162,024	2,062,488	1,422,081	(18.29%)
Net Absorption	▼ NEGATIVE	(412,373)	222,254	(139,784)	N/A

which was the annual average from 2008 through 2015. In the second quarter, Ryan Companies leased its entire 534,000-square-foot project under construction in Poway to Amazon. None of the other 633,000 square feet of industrial buildings under construction has been preleased.

ABSORPTION. There was 412,373 square feet of negative net absorption in the second quarter pushing the total net absorption for the first half of the year to negative 190,119 square feet. The Amazon lease in Poway, however, will more than make up for the negative absorption from the first half of the year. Through the end of the second quarter, Chula Vista had the largest negative net absorption in the county at approximately 300,000 square feet. This stems from the Collins /UTC Aerospace manufacturing facility downsizing. The San Diego industrial market has not seen a calendar year of negative net absorption since 2009.

AVAILABILITY. Direct/sublease space being marketed was 7.3% at the end of the second quarter, a decrease from the previous quarter's availability rate of 7.5%, but an increase of 5.6% year over year. The availability rate remains more than two percentage points higher than the vacancy rate. Most of this available space which is not vacant is in the current construction pipeline.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Forecast

It's too early to tell precisely what the long-term impact the reaction to the virus will have on the San Diego industrial market, but we do predict a near-term decrease in transaction volume. All eyes will be fixed upon the depth of the downturn and the speed of the recovery to formulate forward guidance. Early indications are that as the economy opens up and principals feel more comfortable making business decisions, leasing activity will rebound.

Based upon the current conditions and outlook, we anticipate a decrease in net effective rental rates in the second half of the year as concessions will increase in our diminished transaction-volume environment. At present, these movements are anticipated to be moderate on average, and will fluctuate significantly based upon the specific submarket within the county. The situation remains fluid and any potential government actions such as further lockdowns or additional economic stimulus can influence the market one way or another.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2882 Whiptail Loop	Carlsbad	169,825	\$44,000,000	4433 South Alameda, LLC	RAF Pacifica Group
505 S. Pacific St.	San Marcos	113,500	\$18,900,000	Stos Partners	Markstein Beverage Company
5255 Federal Blvd.	Southeast City	30,000	\$8,350,000	Alchalel RE Investment Trust	Alessio Leasing
8745-8775 Production Ave.	Miramar	46,820	\$7,850,000	Rexford Industrial Realty	HMS Partnership
1360 N. Magnolia Ave.	El Cajon	17,000	\$4,400,000	AJ Rental	Halbert Construction

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
14500 Kirkham Way	Poway	533,950	Jun-2020	Amazon	Ryan Companies
10054 Old Grove Rd.	Scripps Ranch	85,824	Feb-2020	Amazon	CRI
7130 Miramar Rd.	Miramar	50,922	Apr-2020	Undisclosed	GIC
8123 Miralani Dr.	Miramar	48,000	Apr-2020	Cutwater Spirits	Milan Associates
2780 Via Orange Way	Spring Valley	47,300	Apr-2020	Undisclosed	BCD Property, LLC

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2020	Square Feet Available	Availability Rate 2Q2020	Average Asking Lease Rate	Net Absorption 2Q2020	Net Absorption 2020	Gross Absorption 2Q2020	Gross Absorption 2020
Central County													
Central City	94	1,497,722	0	0	17,750	1.19%	21,103	1.41%	\$1.75	3,353	11,953	3,353	16,953
East City	62	966,404	0	0	0	0.00%	12,600	1.30%	-	0	0	0	0
Southeast City	367	4,287,604	0	0	131,738	3.07%	223,828	5.22%	\$1.15	(8,084)	2,556	19,935	61,422
Kearny Mesa	427	9,900,098	0	344,000	271,903	2.75%	333,336	3.37%	\$1.51	(38,806)	(45,119)	39,309	103,446
Mission Gorge	110	1,755,948	0	0	87,684	4.99%	101,270	5.77%	\$1.47	(71,035)	(57,297)	8,150	33,832
Rose Canyon / Morena	129	2,088,801	0	0	13,157	0.63%	75,251	3.60%	\$1.11	3,805	(9,295)	4,800	4,800
Sports Arena / Airport	141	1,615,801	0	0	78,440	4.85%	96,077	5.95%	\$1.27	(41,870)	(59,570)	0	2,000
Miramar	583	13,286,667	0	615,000	414,887	3.12%	722,869	5.44%	\$1.25	(21,047)	(21,471)	173,327	307,190
Sorrento Mesa	71	3,404,549	0	0	252,405	7.41%	161,576	4.75%	\$1.50	13,688	(40,620)	20,211	24,299
Sorrento Valley	42	1,022,196	0	451,832	31,876	3.12%	42,765	4.18%	\$1.40	(22,997)	(18,458)	7,112	13,418
Central County Total	2,026	39,825,790	0	1,410,832	1,299,840	3.26%	1,790,675	4.50%	\$1.31	(182,993)	(237,321)	276,197	567,360
East County													
El Cajon	448	9,132,024	0	0	242,856	2.66%	468,973	5.14%	\$1.03	(2,403)	(74,320)	46,491	126,433
La Mesa / Spring Valley	311	2,642,055	0	50,000	171,371	6.49%	110,184	4.17%	\$0.93	40,261	46,561	66,824	87,424
Santee / Lakeside	278	3,638,453	68,982	155,272	132,484	3.64%	226,269	6.22%	\$1.03	(19,096)	(14,880)	1,520	7,236
Outlying SD County South	76	772,650	0	0	8,230	1.07%	8,230	1.07%	\$1.07	(8,230)	(8,230)	3,000	3,000
East County Total	1,113	16,185,182	68,982	205,272	554,941	3.43%	813,656	5.03%	\$1.00	10,532	(50,869)	117,835	224,093
North County													
Escondido	633	7,544,751	0	0	226,305	3.00%	323,961	4.29%	\$1.03	(56,627)	(2,435)	44,659	153,552
Oceanside	404	9,333,300	0	24,036	392,229	4.20%	761,968	8.16%	\$0.95	(66,310)	(12,889)	36,163	140,022
San Marcos	477	8,011,526	9,000	84,000	937,683	11.70%	900,448	11.24%	\$1.00	(173,230)	(237,193)	105,187	171,814
Vista	529	12,942,439	0	60,165	1,055,511	8.16%	1,485,750	11.48%	\$0.96	(68,856)	100,899	82,781	361,314
Carlsbad	233	8,962,469	0	0	872,656	9.74%	1,157,214	12.91%	\$1.13	61,529	282,940	131,607	386,787
North Beach Cities	42	257,017	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Outlying SD County North	110	968,618	0	3,754	16,547	1.71%	18,047	1.86%	\$0.95	856	1,962	2,236	6,436
North County Total	2,428	48,020,120	9,000	171,955	3,500,931	7.29%	4,647,388	9.68%	\$1.01	(302,638)	133,284	402,633	1,219,925
I-15 Corridor													
Poway	184	7,330,064	533,950	0	89,121	1.22%	139,440	1.90%	\$1.12	(21,626)	70,431	28,863	134,922
Rancho Bernardo	43	3,139,850	141,518	0	27,534	0.88%	434,461	13.84%	\$1.36	36,541	215,923	36,541	272,107
Scripps Ranch	28	708,394	0	0	87,744	12.39%	21,973	3.10%	\$1.21	(1,920)	(1,920)	0	0
I-15 Corridor Total	255	11,178,308	675,468	0	204,399	1.83%	595,874	5.33%	\$1.21	12,995	284,434	65,404	407,029
South County													
Chula Vista	325	8,609,423	95,500	67,500	603,023	7.00%	854,241	9.92%	\$0.96	(10,045)	(300,958)	51,429	204,781
National City	255	3,788,210	0	25,000	42,123	1.11%	73,899	1.95%	\$1.34	(10,045)	(13,266)	18,033	25,768
Otay Mesa	338	16,196,448	327,899	4,715,304	1,089,950	6.73%	1,860,380	11.49%	\$0.78	52,611	(10,403)	205,053	545,546
South San Diego	63	1,343,919	0	24,121	14,344	1.07%	12,624	0.94%	\$1.09	17,210	4,980	25,440	30,010
South County Total	981	29,938,000	423,399	4,831,925	1,749,440	5.84%	2,801,144	9.36%	\$0.84	49,731	(319,647)	299,955	806,105
San Diego County Total	6,803	145,147,400	1,176,849	6,619,984	7,309,551	5.04%	10,648,737	7.34%	\$1.06	(412,373)	(190,119)	1,162,024	3,224,512
0-9,999	3,075	15,646,169	9,000	7,804	377,302	2.41%	558,520	3.57%	\$1.22	10,119	(4,974)	139,290	273,656
10,000-19,999	1,778	25,149,298	0	0	784,042	3.12%	1,290,859	5.13%	\$1.21	(48,740)	(43,828)	241,409	532,129
20,000-34,999	979	25,137,307	51,591	233,121	946,657	3.77%	1,530,632	6.09%	\$1.09	(173,137)	(202,450)	218,453	487,826
35,000-49,999	355	14,633,587	133,851	124,000	645,755	4.41%	963,204	6.58%	\$1.08	(593)	(16,683)	153,403	311,553
50,000-99,999	395	27,185,677	52,000	542,008	1,411,970	5.19%	2,083,419	7.66%	\$0.96	(152,451)	199,685	174,709	682,895
100,000 Plus	221	37,395,362	930,407	5,713,051	3,143,825	8.41%	4,222,103	11.29%	\$0.98	(47,571)	(121,869)	234,760	936,453
San Diego County Total	6,803	145,147,400	1,176,849	6,619,984	7,309,551	5.04%	10,648,737	7.34%	\$1.06	(412,373)	(190,119)	1,162,024	3,224,512

Lease rates are on an industrial-gross basis.



No Sky Falling Here

by **Todd Holley, SIOR**

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When it comes to the effect of the coronavirus, and the subsequent response, on commercial real estate, industrial real estate has generally fared better than office or retail. While the office and retail sectors face headwinds from telecommuting and e-commerce, industrial real estate has a tailwind from e-commerce. Additionally, there is increasing demand for repatriating and nearshoring essential supply chains from overseas. Locally, with our market butting up to the Mexican border, San Diego County would be a beneficiary of nearshoring. This would be a mid- to long-term trend, while the e-commerce growth is evident in the market here and now. Amazon continues to be the 800-pound gorilla in the room, leasing the entire half a million square foot Vantage Point project in the second quarter, just a couple months before the speculative development was set to deliver. On the Flex/R&D side, there has also been virtually no disruption to demand. The Flex/R&D product in San Diego houses a significant number of biotech and medical device companies. These fields are more important than ever, and government contract money is flowing into these sectors keeping the demand for lab space churning.

Despite outperforming the other commercial real estate segments, there has been an effect in the industrial market. Vacancy rates have been inching up from historical lows over the past 18 months as a wave of new construction comes online, and that continued in the second quarter as the market's vacancy rate moved above 5% for the first time in half a decade. Demand from tenants not mentioned above was lower than normal, with many companies taking a wait-and-see approach. As the end of the quarter approached things started to open up and there was a sense that companies were getting tired of waiting around, which led activity to pick up. A little new availability will be a welcome sight to tenants in many of the county's submarkets where there are a lack of options for tenants. On the sales side, the market remains tight for users looking to purchase. There are a number of user purchase requirements circling in hopes of new acquisition opportunities.

Overall, the industrial market remains stable.

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, Outlying SD County South

NORTH COUNTY

Escondido, Oceanside, San Marcos, Vista, Carlsbad, North Beach Cities, Outlying SD County North

I-15 CORRIDOR

Poway, Rancho Bernardo, Scripps Ranch

SOUTH BAY

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

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