

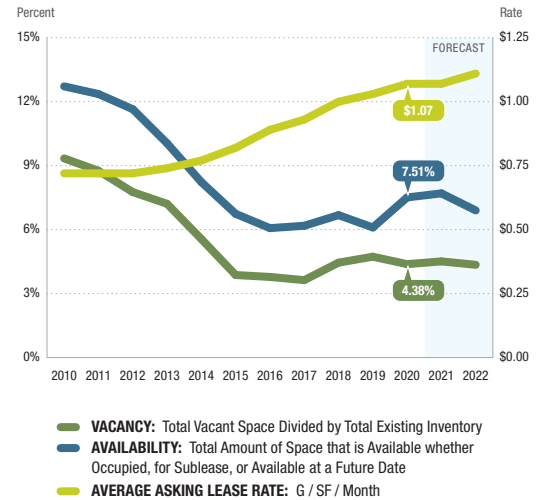
OVERVIEW. The industrial market is heading into 2021 on a roll. Leasing and sales volume in 4Q both reached the highest levels in more than a year. There was significant positive net absorption pushing the county's vacancy rate lower following two consecutive years of vacancy-rate increase. E-commerce businesses are growing and have more than made up for other industrial use types that were initially impacted by the pandemic's shutdown protocols. The extremely low interest rates have kept owner-user sales pricing in record territory. The industrial development pipeline is at a level not seen in more than a decade, but the demand in the market has kept pace with the surge of new industrial buildings over the past three years.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 4Q 2020 at 4.38%, a decrease of 44 basis points from the previous quarter's vacancy rate of 4.82%. The I-15 Corridor now sits below 2% vacancy thanks in large part to the more than half a MSF that Amazon took possession of here in 3Q. The North County and South County areas have overall vacancy rates above 5%, while Central County and East County have an overall vacancy rate below 3%. The countywide vacancy rate has decreased 7.5% versus this time last year, and the countywide availability rate has increased 23.3% year-over-year. The availability rate includes space which is being marketed for lease which is not currently ready for new occupiers. There are currently 1.9 MSF under construction outside of the Amazon build-to-suit in Otay Mesa. These other developments under construction have seen almost no preleasing to speak of thus far which is the primary cause of the widening gap between vacancy and availability rates.

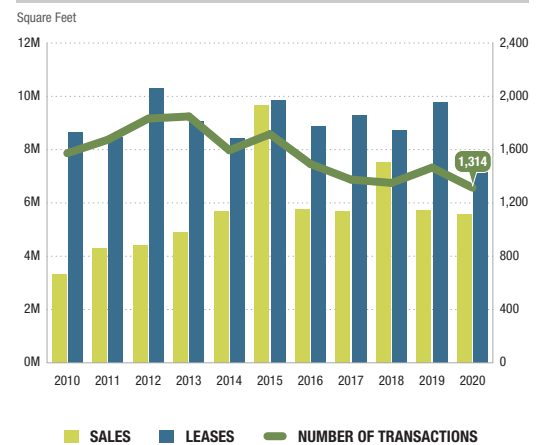
LEASE RATES. The average asking lease rate checked in at \$1.07 per square foot per month, which is an increase of one cent per square foot over the previous quarter. Compared with 4Q last year, we see a 3.9% annual increase. The last five calendar years have had an average annual asking rental rate increase of 6.5%, so the increase over the last twelve months has been somewhat tame in comparison. In the big picture view, industrial lease rates have been on an absolute tear over the past decade, increasing a hair under 50% during that time. Negotiating leverage in the industrial market remains in the hands of the landlords, and rental rates keep marching higher.

TRANSACTION ACTIVITY. The total space leased and sold in 4Q was approximately 4.7 MSF, an increase from the 3.8 MSF of transactions in 3Q, and an increase over even the pre-pandemic 4Q 2020 transaction level of 3.5 MSF. Leasing activity started slowly in 2020 but increased in each consecutive quarter. The uncertainty at the start of the pandemic quickly gave way to the reality that there would be no dive in market fundamentals for industrial real estate, and tenant requirements were not afforded the opportunity to remain in the wait-and-see mode. The 8.0 million total amount of square feet leased in 2020 was a decrease from the 9.3 MSF annual average between 2015–2019.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



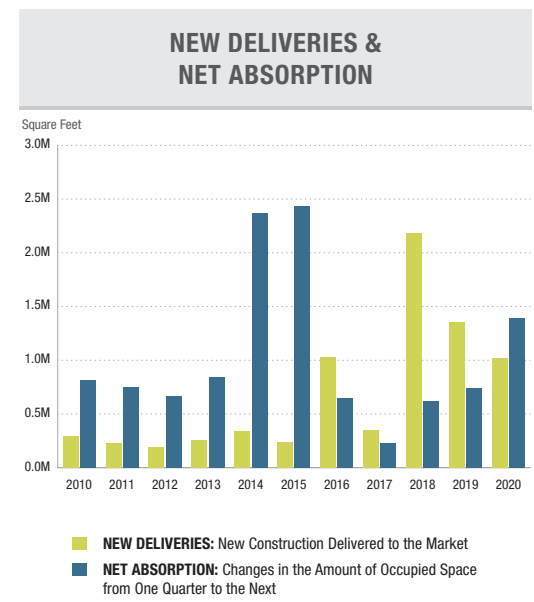
Market Statistics

	Change Over Last Quarter	4Q 2020	3Q 2020	4Q 2019	% Change Over Last Year
Vacancy Rate	▼ DOWN	4.38%	4.82%	4.73%	(7.47%)
Availability Rate	▬ FLAT	7.51%	7.50%	6.10%	23.25%
Average Asking Lease Rate	▲ UP	\$1.07	\$1.06	\$1.03	3.88%
Sale & Lease Transactions	▲ UP	4,654,770	3,754,683	3,470,775	34.11%
Gross Absorption	▼ DOWN	1,878,449	2,290,771	1,373,680	36.75%
Net Absorption	▲ POSITIVE	598,892	808,053	(226,850)	N/A

ABSORPTION. There was 598,892 SF of positive net absorption in 4Q, ending the year on a good note. The 1,390,421 SF of positive absorption in 2020 marks the largest growth of the San Diego market tenant base since 2015. The recent trend of the growing E-commerce sector was on full display with Amazon alone accounting for 900,000 SF of positive net absorption in 2020. The pandemic was not a detriment to the industrial market, as the first half of the year actually saw negative net absorption with the last two quarters of the year pushing the tally back into the black. The San Diego industrial market has not seen a calendar year of negative net absorption since 2009.

CONSTRUCTION. 1.4 MSF of new industrial projects were delivered in 2020, which is now the fourth year out of the past five with more than a MSF of new construction completed. This is in contrast to the 360,000 per year of new construction which was the annual average from 2008 through 2015. Astoundingly, there were more than 5.3 MSF of industrial buildings under construction at the end of the 2020. The San Diego industrial market has not seen more than 3 MSF of industrial buildings under construction since 1999. 97% of the industrial property under construction is in Otay Mesa, with the 4-story building under construction for Amazon accounting for 3.3 MSF of the total.

EMPLOYMENT. The unemployment rate in San Diego County was 6.6% in November 2020, down from a revised 7.5% in October 2020, and substantially greater than the year-ago estimate of 2.9%. This compares with an unadjusted unemployment rate of 7.9% for California and 6.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 14,300 jobs between October 2020 and November 2020. With the normal delay in reporting from the California EDD, employment figures from December were unavailable at the time of publishing this report. In December, the employment data for the United States as a whole came in with 140,000 jobs lost, which was the first month of net job losses for the nation since April 2020.



Forecast

The San Diego industrial market has significant momentum heading into 2021. Demand from tenants and prospective buyers is still strong and there appears to be a broad-based business recovery despite another surge in virus cases and hospitalizations. Two vaccines are in the distribution phase with at least another two likely to be approved in the next few months. That should help reduce current pandemic protocols and give the services industries some welcome relief, which will give suppliers and distributors another boost. The construction pipeline is in full swing and the availability rate will increase in the near term, but the vacancy rate is expected to remain stable keeping market fundamentals on a firm footing.

Significant Transactions

Sales						† Allocated
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
2020 Piper Ranch Rd.	Otay Mesa	601,417	\$109,000,000	Black Creek Group	Morgan Stanley Services Group	
1210 & 1320 Air Wing Rd.	Otay Mesa	333,436	\$57,750,000	Kohlberg Kravis Roberts & Co., LP	Zurich Alternative Asset Management	
8661 Kerns St.	Otay Mesa	185,796	\$33,313,493 †	Blackstone Real Estate Income Trust	Iron Mountain Inc.	
12400 Stowe Dr.	Poway	133,125	\$32,256,000	National Powersports Auctions	Greene Properties, Inc.	
2340 Cousteau Ct.	Vista	134,299	\$22,000,000	Elion Partners	Aqua Living International	
Leases						
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner	
2620 Commerce Way	Vista	197,104	Oct-2020	CUE Health	Westcore Properties	
2946 Norman Strasse Rd.	San Marcos	94,172	Nov-2020	Undisclosed	The Blackstone Group, LP	
10926 Woodside Ave. N.	Santee	91,923	Oct-2020	Wal-Mart	Rolle, LLC	
1224 Exposition Way	Otay Mesa	152,919	Nov-2020	Artissimo Designs	(Sublease)	
8409 Kerns St.	Otay Mesa	74,000	Nov-2020	NASSCO	(Sublease)	

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2020	Square Feet Available	Availability Rate 4Q2020	Average Asking Lease Rate	Net Absorption 4Q2020	Net Absorption 2020	Gross Absorption 4Q2020	Gross Absorption 2020
Central County													
Central City	87	1,378,287	0	0	0	0.00%	3,353	0.24%	\$1.75	0	(81,685)	0	20,753
East City	61	966,584	0	0	0	0.00%	12,600	1.30%	-	0	0	0	0
Southeast City	368	4,299,135	0	0	74,962	1.74%	213,399	4.96%	\$1.08	5,196	59,030	21,772	140,024
Kearny Mesa	426	9,879,442	0	344,000	375,108	3.80%	391,522	3.96%	\$1.45	(84,001)	(148,324)	82,269	234,941
Mission Gorge	110	1,755,948	0	0	105,364	6.00%	71,732	4.09%	\$1.42	(4,146)	(74,977)	16,217	63,634
Rose Canyon / Morena	130	2,203,234	0	0	72,965	3.31%	40,884	1.86%	\$1.08	(8,016)	(70,481)	484	16,579
Sports Arena / Airport	140	1,611,457	0	0	24,700	1.53%	57,166	3.55%	\$1.23	15,200	(5,830)	27,200	80,040
Miramar	582	13,264,350	0	615,000	315,890	2.38%	601,156	4.53%	\$1.25	138,455	77,526	286,165	758,508
Sorrento Mesa	71	3,404,529	0	0	52,773	1.55%	61,310	1.80%	\$1.47	121,718	159,012	124,544	248,359
Sorrento Valley	41	991,783	0	451,832	27,805	2.80%	16,580	1.67%	\$1.49	(13,500)	(14,387)	0	17,329
Central County Total	2,016	39,754,749	0	1,410,832	1,049,567	2.64%	1,469,702	3.70%	\$1.28	170,906	(100,116)	558,651	1,580,167
East County													
El Cajon	450	9,142,900	0	0	340,728	3.73%	454,771	4.97%	\$1.05	13,174	(172,192)	37,843	211,686
La Mesa / Spring Valley	312	2,650,105	0	0	65,915	2.49%	127,884	4.83%	\$0.98	21,790	152,517	32,340	213,870
Santee / Lakeside	282	3,695,425	69,388	155,272	47,216	1.28%	256,759	6.95%	\$1.06	87,503	72,885	104,303	145,134
Rural East County	78	806,791	0	0	16,520	2.05%	16,520	2.05%	\$0.79	(6,300)	(16,520)	3,000	9,110
East County Total	1,122	16,295,221	69,388	155,272	470,379	2.89%	855,934	5.25%	\$1.03	116,167	36,690	177,486	579,800
North County													
Escondido	633	7,561,857	0	67,420	215,782	2.85%	263,655	3.49%	\$1.07	18,458	8,088	98,095	295,197
Oceanside	403	9,335,634	0	0	267,281	2.86%	461,917	4.95%	\$0.98	49,709	112,059	139,456	438,408
San Marcos	478	8,025,349	9,000	44,000	715,974	8.92%	734,921	9.16%	\$1.00	77,730	(15,484)	90,558	481,551
Vista	530	13,066,626	0	60,165	1,014,830	7.77%	1,426,726	10.92%	\$0.97	30,156	141,580	191,817	785,658
Carlsbad	232	8,992,194	0	249,015	865,064	9.62%	1,092,590	12.15%	\$1.17	(37,016)	290,532	53,421	543,732
North Beach Cities	42	257,017	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Rural North County	112	974,018	0	3,754	8,693	0.89%	19,415	1.99%	\$0.95	3,760	10,316	8,760	21,290
North County Total	2,430	48,212,695	9,000	424,354	3,087,624	6.40%	3,999,224	8.29%	\$1.03	142,797	547,091	582,107	2,565,836
I-15 Corridor													
Poway	187	7,890,692	0	0	95,246	1.21%	169,981	2.15%	\$1.08	28,215	598,256	34,005	725,380
Rancho Bernardo	42	3,245,463	0	0	63,345	1.95%	307,606	9.48%	\$1.38	(35,811)	321,630	0	272,107
Scripps Ranch	28	711,939	0	0	13,798	1.94%	20,525	2.88%	\$1.23	(5,665)	72,026	5,116	94,135
I-15 Corridor Total	257	11,848,094	0	0	172,389	1.45%	498,112	4.20%	\$1.26	(13,261)	991,912	39,121	1,091,622
South County													
Chula Vista	322	8,615,295	95,500	67,500	571,814	6.64%	813,760	9.45%	\$0.97	(61,399)	(292,969)	75,328	382,088
National City	253	3,713,397	0	25,000	16,739	0.45%	31,449	0.85%	\$1.29	14,753	11,453	25,996	70,507
Otay Mesa	340	16,341,479	5,191,110	542,085	1,031,523	6.31%	3,279,289	20.07%	\$0.81	218,485	177,876	409,316	1,105,001
South San Diego	63	1,331,942	0	24,121	840	0.06%	31,470	2.36%	\$0.90	10,444	18,484	10,444	47,814
South County Total	978	30,002,113	5,286,610	658,706	1,620,916	5.40%	4,155,968	13.85%	\$0.86	182,283	(85,156)	521,084	1,605,410
San Diego County Total	6,803	146,112,872	5,364,998	2,649,164	6,400,875	4.38%	10,978,940	7.51%	\$1.07	598,892	1,390,421	1,878,449	7,422,835
0-9,999	3,069	15,601,583	9,000	7,804	333,593	2.14%	490,725	3.15%	\$1.25	41,860	17,532	133,453	572,952
10,000-19,999	1,782	25,211,579	0	0	728,818	2.89%	1,182,243	4.69%	\$1.20	64,255	1,346	336,932	1,146,552
20,000-34,999	975	25,050,182	51,956	169,085	880,333	3.51%	1,476,148	5.89%	\$1.10	(11,444)	(158,405)	311,004	1,121,775
35,000-49,999	358	14,764,382	133,892	79,000	594,840	4.03%	839,936	5.69%	\$1.12	50,149	38,529	240,290	754,266
50,000-99,999	391	26,873,964	52,000	559,428	920,225	3.42%	1,614,026	6.01%	\$0.98	130,177	636,430	314,452	1,483,312
100,000 Plus	228	38,611,182	5,118,150	1,833,847	2,943,066	7.62%	5,375,862	13.92%	\$0.97	323,895	854,989	542,318	2,343,978
San Diego County Total	6,803	146,112,872	5,364,998	2,649,164	6,400,875	4.38%	10,978,940	7.51%	\$1.07	598,892	1,390,421	1,878,449	7,422,835

Lease rates are on an industrial-gross basis.



A New Beginning

by **Michael Mossmer**

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2020 was a year to remember, or rather, one that we will never forget. The daily news headlines were dominated by the inconceivable. Each new day seemed to “trump” the previous day’s news. What would normally cause outrage was summarily accepted, because it was too much for most people to absorb. The barrage of truths and untruths that were foisted upon us from news/fake news ran the gamut from coronavirus and impeachment hearings to extreme civil unrest/riots/looting etc. All of this negativity in 2020 was inexplicably juxtaposed with a record- breaking stock market, the lowest interest rates in our lifetime, steadily increasing lease rates and soaring real estate values. The affluent among us continued their wealth creation, as we recently witnessed Amazon’s Jeff Bezos eclipsed by Tesla/Space-X’s Elon Musk as the wealthiest man in the world — and all of this was happening in the midst of a pandemic.

Yes, 2020 left all of us clamoring for a new beginning, a need to press the restart button. Oh well! Barely seven days into 2021, the capitol building in D.C., our most sacred institution housing our legislative body, was under attack! So much for a new beginning!

All that said, it is the opinion of this eternal optimist that we are poised to have another banner year in industrial real estate in 2021. Consistently low vacancy in existing product in most submarkets, a constraint on future supply as there is little land to develop and is it prohibitively expensive to construct new buildings, the unstoppable march of E-commerce companies gobbling up large chunks of prime real estate for packaging, distribution, and last mile deliveries — this has all contributed to upward pricing pressure. However, there is a cautionary tale that lingers in the background of all of this. The positive prognostication for industrial real estate is tempered by the amount of money printed for government handouts, if or how quickly and to what extent the tax cuts that Trump implemented will be reversed, and the long-term ill effects that inflation will have on the United States economy as a whole. Inflation is inevitable. The need to hedge against it by owning hard assets, such as real estate, will continue pushing all real estate values higher, as the simple truth is that there’s just not enough good real estate available to purchase. For this reason, and others expressed in this editorial, we should experience increasing values throughout 2021, and we remain hopeful that this bull market we are experiencing has legs to carry us through the end of this year. We shall see what the future holds for all of us.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a 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. ©2021 Voit Real Estate Services, Inc. DRE License #01991785.

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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