

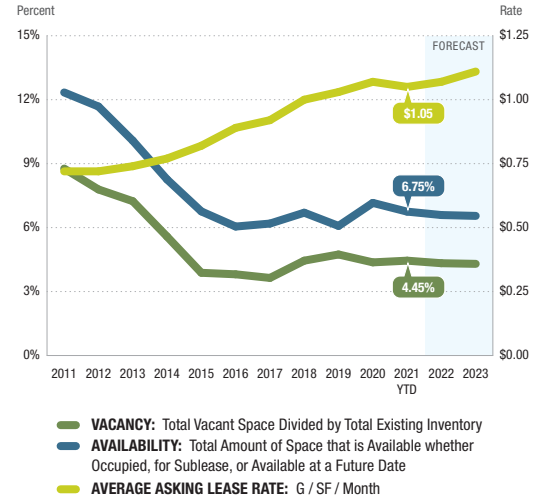
OVERVIEW. The industrial market is heading into 2021 sluggishly in comparison with recent activity levels. Both leasing and sales volume in 1Q started the year well below normal levels. This balances out 2020's strong end-of-the-year push. The slow start aside, fundamentals keep improving with 0.25 MSF of positive net absorption in 1Q, and a year-over-year increase to the county's occupancy rate. 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 1Q 2021 at 4.45%, a slight increase over the previous quarter's vacancy rate of 4.37%, but lower than the year ago rate of 4.67%. The I-15 Corridor now sits below 1% vacancy thanks in large part to the more than 0.5 MSF that Amazon took possession of here in 3Q 2020. The North County area has the highest vacancy rate of any segment of the county, currently at 6.3%, while South County has a 12.7% availability rate which is the highest in San Diego County. The countywide vacancy rate has decreased 4.7% versus this time last year, while the countywide availability rate has increased 0.7% 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 less than 10% of their space preleased, which is the primary cause of the widening gap between vacancy and availability rates.

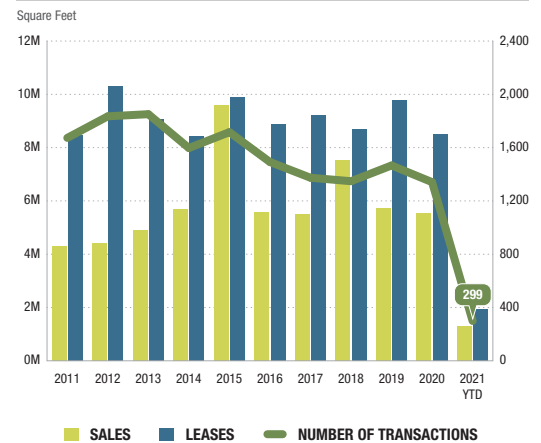
LEASE RATES. The average asking lease rate checked in at \$1.07 per square foot per month, which is a decrease of two cents per square foot over the previous quarter. Compared with 1Q last year, we see a 1% annual increase. Over the past two years the average asking rental rate has increased at an average of 3.4% per year. The preceding five years saw an average annual increase of 6.2%. So, rental rates remain at all-time highs, but the rate of increase appears to be slowing. In the big-picture view, industrial lease rates have been on an absolute tear since the end of 2012, increasing nearly 50% during that time. By and large, negotiating leverage in the industrial market remains in the hands of the landlords, and rental rates remain elevated.

TRANSACTION ACTIVITY. The total space leased and sold in 1Q was approximately 3.2 MSF, a decrease from the 4.7 MSF of transactions in 4Q, but an increase over the 1Q 2020 transaction level of 2.6 MSF. The largest lease of the quarter was Quidel's taking 128,7745 SF in Carlsbad in a building which Alexandria acquired in the quarter. This is a testament to the impact from recent increases in biotech and life sciences demand. There were 249 lease transactions recorded in 1Q which was well below the quarterly average of 297 leases consummated in the prior two years. Similarly, the 46 industrial buildings sold in 1Q was a decrease from the quarterly average of 54 buildings sold per quarter between 2019-2020.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



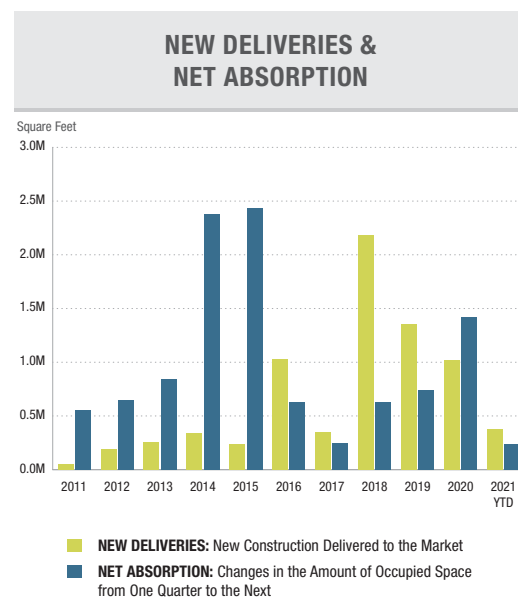
Market Statistics

	Change Over Last Quarter	1Q 2021	4Q 2020	1Q 2020	% Change Over Last Year
Vacancy Rate	▲ UP	4.45%	4.37%	4.67%	(4.66%)
Availability Rate	▼ DOWN	6.75%	7.16%	6.70%	0.74%
Average Asking Lease Rate	▼ DOWN	\$1.05	\$1.07	\$1.04	0.96%
Sale & Lease Transactions	▼ DOWN	3,206,470	4,722,180	2,642,953	21.32%
Gross Absorption	▼ DOWN	1,538,250	1,878,449	2,086,924	(26.29%)
Net Absorption	▲ POSITIVE	241,315	595,732	260,661	N/A

ABSORPTION. There was 241,315 SF of positive net absorption in 1Q, continuing the streak of strong demand for industrial real estate. This was the third consecutive quarter of more space being occupied than vacated. The San Diego industrial market has not seen a calendar year of negative net absorption since 2009.

CONSTRUCTION. 1 MSF of new industrial projects were delivered in 2020, which is now the fourth year out of the past five with more than 1 MSF of new construction completed. This is in stark contrast to the 360,000 per year of new construction which was the annual average from 2008 through 2015. Astoundingly, there were more than 5.2 MSF of industrial buildings under construction at the end of 1Q 2021. 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 7.2% in February 2021, down from a revised 8.0% in January 2021, and substantially greater than the year-ago estimate of 3.2%. This compares with an unadjusted unemployment rate of 8.4% for California and 6.6% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 31,900 jobs between January 2021 and February 2021. Over the 12-month period between February 2020 and February 2021, San Diego County employment fell by 131,700 jobs, or 8.7%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. The jobs report for the U.S. overall showed a gain of 916,000 jobs in March, the largest monthly increase of jobs since August.



Forecast

Within less than a month of this report being published all California adults will be eligible to get a COVID-19 vaccine, and the Governor has announced his intention to have the California economy “fully reopen” before the end of 2Q. U.S. Treasury Secretary Janet Yellen recently predicted a return to full employment in 2022. Based upon these and other predictions from prominent analysts, the economy is projected to have a period of strong growth for at least the upcoming 12-18 months. There are some factors that could put a damper on the local industrial market growth. While mortgage interest rates remain near all-time lows, they have begun an upward trajectory in recent months. Additionally, the current construction pipeline will add upward pressure to the countywide vacancy rate in the near term. However, we do not expect a significant increase in vacancy, and rental rates along with owner-user sale prices should remain high.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1210 & 1320 Air Wing Rd.	Otay Mesa	333,436	\$57,750,000	Kphlberg Kravis Roberts & Co, LP	Zurich Alternative Asset Management
16915 Via Del Campo	Rancho Bernardo	141,518	\$50,000,000	SENTRE, Inc.	The Greystone Group
2611 Business Park Dr.	Vista	125,517	\$27,000,000	EverWest Real Estate Investors, LLC	Koch Investments, LP
2285 Rutherford Rd.	Carlsbad	128,745	\$25,750,000	Alexandria Real Estate Equities	Link Logistics Real Estate
7615 Siempre Viva Rd.	Otay Mesa	83,411	\$13,444,500	Lincoln Property Company	Tara Materials, Inc.

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2285 Rutherford Rd.	Carlsbad	128,745	Jan-2021	Quidel	LBA
505 S. Pacific St.	San Marcos	113,500	Feb-2021	Stone Distributing Co.	Stos Partners
2800 Whiptail Loop	Carlsbad	103,984	Jan-2021	onTrac	Ryan Companies
655 Gateway Center Way	Southeast SD	86,254	Feb-2021	DHL	JTF Enterprises, LLC
9255 Customhouse Plz.	Otay Mesa	79,255	Mar-2021	Jonathan Louis International	TIAA

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2021	Square Feet Available	Availability Rate 1Q2021	Average Asking Lease Rate	Net Absorption 1Q2021	Net Absorption 2021	Gross Absorption 1Q2021	Gross Absorption 2021
Central County													
Central City	89	1,390,211	0	0	514	0.04%	3,867	0.28%	\$1.67	(514)	(514)	0	0
East City	62	967,839	0	0	2,675	0.28%	2,675	0.28%	-	0	0	0	0
Southeast City	368	4,299,262	0	0	77,853	1.81%	93,178	2.17%	\$1.07	(2,891)	(2,891)	13,714	13,714
Kearny Mesa	426	9,912,942	0	464,900	347,175	3.50%	0	0.00%	\$1.44	27,933	27,933	129,778	129,778
Mission Gorge	110	1,755,948	0	0	34,880	1.99%	132,927	7.57%	\$1.45	70,484	70,484	93,998	93,998
Rose Canyon / Morena	130	2,203,247	0	0	46,935	2.13%	85,124	3.86%	\$1.14	26,030	26,030	28,142	28,142
Sports Arena / Airport	139	1,603,400	0	0	42,860	2.67%	50,360	3.14%	\$1.26	(18,160)	(18,160)	12,000	12,000
Miramar	582	13,269,356	0	615,000	401,026	3.02%	785,995	5.92%	\$1.24	(85,136)	(85,136)	70,320	70,320
Sorrento Mesa	70	3,307,717	0	0	47,346	1.43%	61,238	1.85%	\$1.68	5,427	5,427	15,026	15,026
Sorrento Valley/UTC	41	991,783	0	451,832	16,361	1.65%	14,475	1.46%	\$1.48	11,444	11,444	14,572	14,572
Central County Total	2,017	39,701,705	0	1,531,732	1,017,625	2.56%	1,229,839	3.10%	\$1.29	34,617	34,617	377,550	377,550
East County													
El Cajon	450	9,144,192	0	0	351,303	3.84%	506,238	5.54%	\$1.05	(10,575)	(10,575)	53,119	53,119
La Mesa / Spring Valley	312	2,651,975	0	0	64,745	2.44%	123,593	4.66%	\$0.98	1,170	1,170	11,271	11,271
Santee / Lakeside	283	3,744,595	31,948	155,272	182,658	4.88%	222,308	5.94%	\$1.09	(86,650)	(86,650)	20,473	20,473
Rural East County	78	806,491	0	0	20,020	2.48%	10,720	1.33%	\$0.96	(3,500)	(3,500)	0	0
East County Total	1,123	16,347,253	31,948	155,272	618,726	3.78%	862,859	5.28%	\$1.04	(99,555)	(99,555)	84,863	84,863
North County													
Escondido	633	7,550,053	0	67,420	201,938	2.67%	224,553	2.97%	\$1.09	14,344	14,344	84,979	84,979
Oceanside	403	9,335,813	0	0	278,685	2.99%	406,924	4.36%	\$0.97	(11,405)	(11,405)	134,457	134,457
San Marcos	477	8,030,669	9,000	44,000	696,644	8.67%	627,659	7.82%	\$0.95	19,330	19,330	79,340	79,340
Vista	528	13,065,892	0	60,165	928,778	7.11%	1,430,587	10.95%	\$0.98	86,052	86,052	148,437	148,437
Carlsbad	231	8,823,674	0	249,015	911,803	10.33%	772,257	8.75%	\$1.22	(46,739)	(46,739)	35,929	35,929
North Beach Cities	42	257,017	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Rural North County	112	982,532	0	3,754	14,093	1.43%	16,815	1.71%	\$0.83	(5,400)	(5,400)	0	0
North County Total	2,426	48,045,650	9,000	424,354	3,031,941	6.31%	3,478,795	7.24%	\$1.02	56,182	56,182	483,142	483,142
I-15 Corridor													
Poway	189	7,923,570	0	0	49,688	0.63%	145,041	1.83%	\$1.09	45,558	45,558	66,828	66,828
Rancho Bernardo	42	3,245,463	0	0	49,347	1.52%	308,992	9.52%	\$1.22	13,998	13,998	43,702	43,702
Scripps Ranch	28	711,939	0	0	14,781	2.08%	12,672	1.78%	\$1.23	(983)	(983)	3,017	3,017
I-15 Corridor Total	259	11,880,972	0	0	113,816	0.96%	466,705	3.93%	\$1.15	58,573	58,573	113,547	113,547
South County													
Chula Vista	323	8,667,165	0	67,500	589,184	6.80%	625,191	7.21%	\$0.98	51,880	51,880	98,000	98,000
National City	253	3,715,697	0	25,000	101,917	2.74%	109,848	2.96%	\$1.28	(85,178)	(85,178)	9,514	9,514
Otay Mesa	343	16,568,747	5,245,773	1,125,834	1,004,205	6.06%	3,064,122	18.49%	\$0.81	254,586	254,586	370,794	370,794
South San Diego	63	1,318,244	0	24,121	30,630	2.32%	31,288	2.37%	\$0.82	(29,790)	(29,790)	840	840
South County Total	982	30,269,853	5,245,773	1,242,455	1,725,936	5.70%	3,830,449	12.65%	\$0.86	191,498	191,498	479,148	479,148
San Diego County Total	6,807	146,245,433	5,286,721	3,353,813	6,508,044	4.45%	9,868,647	6.75%	\$1.05	241,315	241,315	1,538,250	1,538,250
0-9,999	3,068	15,593,629	9,000	7,804	291,363	1.87%	389,839	2.50%	\$1.25	52,795	52,795	144,277	144,277
10,000-19,999	1,782	25,205,128	11,403	0	724,282	2.87%	935,056	3.71%	\$1.21	4,536	4,536	272,235	272,235
20,000-34,999	976	25,090,985	20,545	135,230	964,459	3.84%	1,511,082	6.02%	\$1.10	(52,766)	(52,766)	355,365	355,365
35,000-49,999	361	14,897,987	45,000	117,469	589,225	3.96%	700,399	4.70%	\$1.13	139,506	139,506	241,895	241,895
50,000-99,999	392	26,884,653	236,927	474,428	1,114,135	4.14%	1,922,247	7.15%	\$0.98	(141,910)	(141,910)	138,397	138,397
100,000 Plus	228	38,573,051	4,963,846	2,618,882	2,824,580	7.32%	4,410,024	11.43%	\$0.93	239,154	239,154	386,081	386,081
San Diego County Total	6,807	146,245,433	5,286,721	3,353,813	6,508,044	4.45%	9,868,647	6.75%	\$1.05	241,315	241,315	1,538,250	1,538,250

Lease rates are on an industrial-gross basis.



Coming Out Stronger

by **Chris Duncan**

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As we finish the first quarter, we have now eclipsed one year since the initial COVID-19 outbreak. While the after-effects on the business world have left millions unemployed, and clobbered vast swaths of the economy, strikingly, the industrial real estate sector is coming out stronger than a year ago.

One of the pillars of San Diego has long been the biotech and life sciences industry, and that is more evident now than ever. Throughout the past year biotechnology and life sciences has been the single largest catalyst of growth in San Diego. This has accelerated some trends that were already present in the market, such as the conversion of office, R&D, and industrial buildings for lab use. This trend is most visible in the Downtown submarket which went from having no significant biotech presence to now being on the verge of becoming the next major secondary biotech hub in San Diego County, along with North County. IQHQ acquired 8+ acres on the Downtown San Diego bayfront for development of a landmark life sciences campus, and Stockdale Capital Partners which bought the Horton Plaza Mall for redevelopment has expanded their initial focus beyond hi-tech to target biotech as well. The latest domino to fall was the purchase of the former Thomas Jefferson Law School building in Downtown San Diego. This 8-story 200,000 SF building was built in 2011 and was recently purchased by P3RE for conversion to lab use. While Downtown stands out because of its visibility, this conversion trend has been ongoing in the submarkets surrounding UCSD. This has funneled the strong demand for biotech and lab space into office, flex, and industrial properties. Numerous developers and operators such as BioScience Properties are working their way through Sorrento Mesa snapping up properties for conversion. The biotech influence continues to creep towards the east farther into Miramar.

As devastating as the past year has been, it is incredible to realize that rental rates and sales prices have never been higher in San Diego industrial and R&D real estate. For companies in the market looking to buy a facility for their business, they are typically competing with multiple other offers, including stronger offers of all cash, or a shorter escrow period.

All signs point towards the U.S. having turned the corner on the COVID-19 pandemic. Some things will never go back to how they were before March 2020. Amazon, which has single-handedly accounted for hundreds of thousands of square feet worth of demand in the past year, will not be going back to the footprint that it had pre-COVID. That being said, there will be some bounce back in certain industrial businesses which were set back by the pandemic. As California moves to open up vaccination eligibility to all adults in the next month, we will eventually see some return of the service-related uses which have taken a big hit, such as food service, entertainment, etc. The San Diego industrial market is moving forward as strong as ever.

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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