

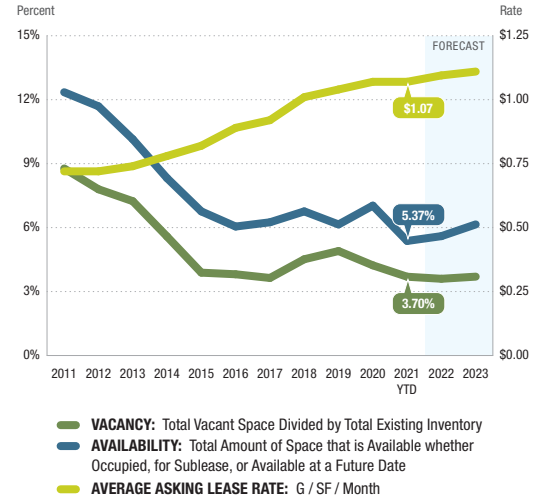
**OVERVIEW.** There was a massive 1.4 MSF of positive net absorption in 2Q. This brings the total growth in the tenant base to more than 3 MSF in the past 12 months. This is the largest total annual growth in decades. The industrial development pipeline is also at a level not seen in more than a decade, but the demand in the market has kept pace with the surge of new industrial buildings over the past three years, with the vacancy rate dipping back below 4% in 2Q.

**VACANCY & AVAILABILITY.** Direct/sublease space (unoccupied) finished 2Q 2021 at 3.70%, a decrease from the previous quarter's vacancy rate of 4.31%, and 108 basis points lower than the year-ago rate of 4.78%. The North County area has the highest vacancy rate of any segment of the county, currently at 5.6%, while South County has a 10.7% availability rate which is the highest in San Diego County. The availability rate includes space which is being marketed for lease which is not currently ready for new occupiers. There are currently 1.7 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 gap between vacancy and availability rates. When Amazon's build-to-suit facility in Otay Mesa is completed, it will add 3.3 MSF of occupied space to the countywide total. This will pull the vacancy rate lower, so look for a dramatic drop in the vacancy rate later this year.

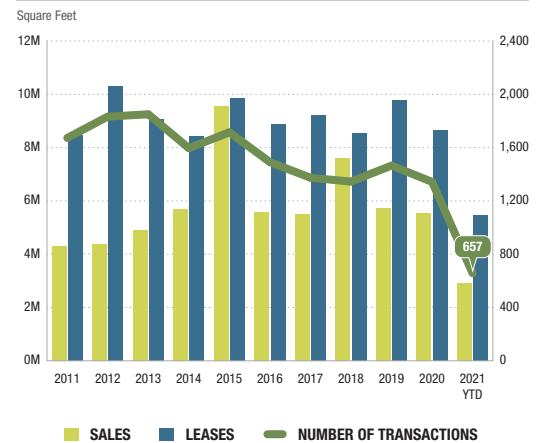
**LEASE RATES.** The average asking lease rate checked in at \$1.07 per square foot per month, which is an increase of two cents per square foot over the previous quarter. Compared with 2Q last year, we see a 1% annual increase. By and large, negotiating leverage in the industrial market remains in the hands of the landlords, and rental rates remain elevated. An exception to this dynamic is for large requirements in Otay Mesa or on the Highway 78 Corridor where the balance of negotiating power is more favorable for tenants due to the recent wave of new development in those areas. From the start of 2014 through the end of 2018 average asking rates increased 34.7% in total, at an average of 6.4% per year. Since the start of 2019, average asking rates increased a total of 3.9%. So, rental rates continue to move higher, but the pace has decelerated.

**TRANSACTION ACTIVITY.** The total space leased and sold in 2Q was approximately 4.7 MSF, an increase from the 3.8 MSF of transactions in 4Q. Two of the top three lease transactions in 2Q were executed by Amazon, which has been on an absolute tear of taking down large blocks of space over the past two years. In every paradigm change, there are winners and losers, and Amazon has grown dramatically in the era of e-commerce. That growth further accelerated during the pandemic. There were 284 lease transactions recorded in 2Q, which is right at the quarterly average of 286 leases consummated in the prior three years. In terms of sales volume, there were \$335 million of industrial building sales in 2Q, the second highest quarterly total of the past seven quarters.

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



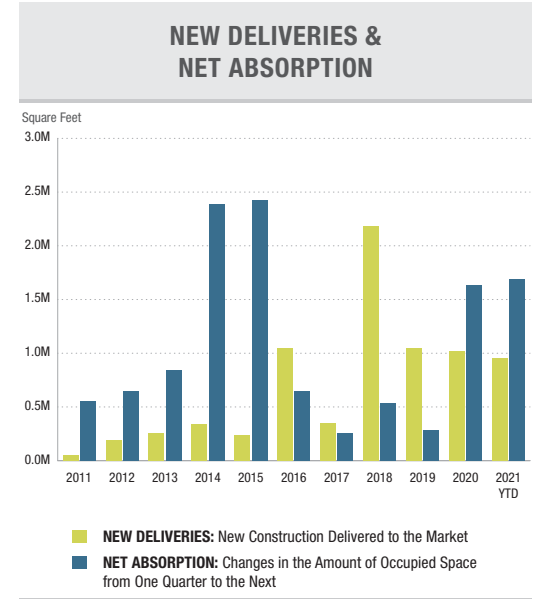
### Market Statistics

	Change Over Last Quarter	2Q 2021	1Q 2021	2Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	3.70%	4.31%	4.78%	(22.68%)
Availability Rate	▼ DOWN	5.37%	6.87%	6.72%	(20.03%)
Average Asking Lease Rate	▲ UP	\$1.07	\$1.05	\$1.06	0.94%
Sale & Lease Transactions	▲ UP	4,668,762	3,717,724	3,040,787	53.54%
Gross Absorption	▲ UP	2,858,598	1,536,825	1,159,261	146.59%
Net Absorption	▲ POSITIVE	1,446,963	242,644	(203,779)	N/A

**ABSORPTION.** There was 1,446,963 SF of positive net absorption in 2Q, continuing the streak of strong demand for industrial real estate. This was the fourth 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. The juxtaposition between the struggles of retail and office real estate versus the business growth in the industrial sector is astounding. The industrial tenant footprint, which net absorption measures, is on pace for the best annual growth in over a decade.

**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 2Q 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 6.4% in May 2021, down from a revised 6.7% in April 2021, and below the year-ago estimate of 15.6%. This compares with an unadjusted unemployment rate of 7.5% for California and 5.5% for the nation during the same period. Over the 12-month period between May 2020 and May 2021, San Diego County employment increased by 119,500 jobs, or 9.3%. 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 850,000 jobs in June, and total U.S. employment remains 7.13 million jobs below the February 2020 level.



## Forecast

During the second quarter all California adults became eligible to get a COVID-19 vaccine, and California lifted most COVID-19 restrictions. This will only add fuel to an already robust industrial market. The general economy is projected to have a greater-than-average growth rate for at least the remainder of 2021, and this will keep rental rates and sale prices at and above the current record levels. One headwind in the market is the current construction pipeline, which will add upward pressure to the countywide vacancy rate in the near term.

## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
7110-7122 Enrico Fermi Pl.	Otay Mesa	268,454	\$46,900,000	Black Creek Group	QuadReal Property Group
8320-8445 Camino Santa Fe	Miramar	172,315	\$39,550,000	Hill Properties	DWS
491 C St.	Chula Vista	111,806	\$35,600,000	Realty Income	Lincoln Property Company
2611 Business Park Dr.	Vista	125,517	\$27,000,000	EverWest Real Estate Investors, LLC	Koch Investments, LP
5433-5525 Gaines St.	Morena	53,400	\$26,000,000	San Diego Humane Society	Floit Properties

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3266 Lionshead Ave.	Carlsbad	175,258	Apr-2021	Amazon	The Blackstone Group
1395 Park Center Dr.	Vista	155,069	Jun-221	M2 Ingredients	KKR
4100 Ocean Ranch Blvd.	Oceanside	142,746	May-2021	Amazon	Lincoln Property Group
1210 Air Wing Rd.	Otay Mesa	124,032	Jun-2021	Undisclosed	KKR
2633 Progress St.	Vista	103,000	Jun-2021	JELD-WEN	Wilms Trust

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2021	Square Feet Available	Availability Rate 2Q2021	Average Asking Lease Rate	Net Absorption 2Q2021	Net Absorption 2021	Gross Absorption 2Q2021	Gross Absorption 2021
<b>Central County</b>													
Central City	89	1,391,138	0	0	514	0.04%	514	0.04%	\$1.67	0	(514)	0	0
East City	61	963,379	0	0	2,675	0.28%	55,104	5.72%	\$1.02	0	(3,456)	0	0
Southeast City	366	4,267,262	0	0	58,578	1.37%	73,578	1.72%	\$1.11	19,275	16,384	34,577	48,291
Kearny Mesa	425	9,779,060	0	464,900	251,809	2.57%	378,165	3.87%	\$1.45	93,656	123,299	134,559	264,337
Mission Gorge	110	1,755,948	0	0	10,538	0.60%	87,744	5.00%	\$1.48	24,342	94,826	29,796	123,794
Rose Canyon / Morena	129	2,111,303	0	0	68,601	3.25%	68,601	3.25%	\$1.21	(21,666)	4,364	46,935	75,077
Sports Arena / Airport	139	1,604,088	0	0	61,299	3.82%	69,499	4.33%	\$1.25	(18,439)	(36,599)	14,500	26,500
Miramar	582	13,270,198	0	0	292,968	2.21%	447,758	3.37%	\$1.25	108,058	22,922	167,401	237,721
Sorrento Mesa	70	3,307,717	0	0	45,147	1.36%	43,320	1.31%	\$1.67	2,199	7,626	13,720	28,746
Sorrento Valley/UTC	41	991,783	0	0	30,496	3.07%	34,393	3.47%	\$1.41	(14,135)	(2,691)	5,233	19,805
<b>Central County Total</b>	<b>2,012</b>	<b>39,441,876</b>	<b>0</b>	<b>464,900</b>	<b>822,625</b>	<b>2.09%</b>	<b>1,258,676</b>	<b>3.19%</b>	<b>\$1.31</b>	<b>193,290</b>	<b>226,161</b>	<b>446,721</b>	<b>824,271</b>
<b>East County</b>													
El Cajon	450	9,144,405	0	0	340,033	3.72%	450,660	4.93%	\$1.04	11,270	695	51,283	104,402
La Mesa / Spring Valley	313	2,654,687	0	0	49,544	1.87%	66,344	2.50%	\$1.05	15,201	16,371	15,201	26,472
Santee / Lakeside	284	3,870,923	101,245	25,944	157,031	4.06%	145,884	3.77%	\$1.10	162,030	75,380	173,374	193,847
Rural East County	78	806,491	0	0	0	0.00%	0	0.00%	\$0.96	20,020	16,520	20,020	20,020
<b>East County Total</b>	<b>1,125</b>	<b>16,476,506</b>	<b>101,245</b>	<b>25,944</b>	<b>546,608</b>	<b>3.32%</b>	<b>662,888</b>	<b>4.02%</b>	<b>\$1.05</b>	<b>208,521</b>	<b>108,966</b>	<b>259,878</b>	<b>344,741</b>
<b>North County</b>													
Escondido	633	7,549,036	0	68,900	153,574	2.03%	166,172	2.20%	\$1.10	48,364	62,708	103,725	188,704
Oceanside	403	9,335,723	0	142,746	317,031	3.40%	350,067	3.75%	\$1.00	(38,346)	(49,751)	85,667	220,124
San Marcos	478	8,040,770	0	221,674	445,829	5.54%	512,742	6.38%	\$1.00	258,648	277,978	315,716	395,056
Vista	528	13,058,731	0	30,165	863,546	6.61%	917,640	7.03%	\$1.00	65,232	151,284	462,957	611,394
Carlsbad	231	8,820,653	70,000	249,015	870,610	9.87%	368,611	4.18%	\$1.22	203,311	156,572	301,901	337,830
North Beach Cities	42	257,017	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Rural North County	113	989,236	0	0	15,797	1.60%	23,519	2.38%	\$0.98	(1,704)	(7,104)	5,000	5,000
<b>North County Total</b>	<b>2,428</b>	<b>48,051,166</b>	<b>70,000</b>	<b>712,500</b>	<b>2,666,387</b>	<b>5.55%</b>	<b>2,338,751</b>	<b>4.87%</b>	<b>\$1.05</b>	<b>535,505</b>	<b>591,687</b>	<b>1,274,966</b>	<b>1,758,108</b>
<b>I-15 Corridor</b>													
Poway	186	7,620,906	0	0	105,174	1.38%	36,107	0.47%	\$1.10	(55,700)	(10,142)	35,049	101,877
Rancho Bernardo	42	3,245,463	0	0	49,713	1.53%	259,302	7.99%	\$1.22	(366)	13,632	0	43,702
Scripps Ranch	28	711,939	0	0	15,336	2.15%	20,315	2.85%	\$1.23	(555)	(1,538)	14,301	17,318
<b>I-15 Corridor Total</b>	<b>256</b>	<b>11,578,308</b>	<b>0</b>	<b>0</b>	<b>170,223</b>	<b>1.47%</b>	<b>315,724</b>	<b>2.73%</b>	<b>\$1.16</b>	<b>-56,621</b>	<b>1,952</b>	<b>49,350</b>	<b>162,897</b>
<b>South County</b>													
Chula Vista	324	8,764,221	0	262,716	139,322	1.59%	442,429	5.05%	\$1.01	225,632	277,212	272,168	369,868
National City	253	3,705,409	0	0	93,323	2.52%	85,527	2.31%	\$1.26	4,094	(77,709)	9,522	17,911
Otay Mesa	346	16,835,018	5,009,636	875,604	923,088	5.48%	2,703,207	16.06%	\$0.82	347,244	601,830	541,963	912,757
South San Diego	63	1,318,244	0	24,121	41,332	3.14%	48,581	3.69%	\$0.92	(10,702)	(40,492)	4,030	4,870
<b>South County Total</b>	<b>986</b>	<b>30,622,892</b>	<b>5,009,636</b>	<b>1,162,441</b>	<b>1,197,065</b>	<b>3.91%</b>	<b>3,279,744</b>	<b>10.71%</b>	<b>\$0.87</b>	<b>566,268</b>	<b>760,841</b>	<b>827,683</b>	<b>1,305,406</b>
<b>San Diego County Total</b>	<b>6,807</b>	<b>146,170,748</b>	<b>5,180,881</b>	<b>2,365,785</b>	<b>5,402,908</b>	<b>3.70%</b>	<b>7,855,783</b>	<b>5.37%</b>	<b>\$1.07</b>	<b>1,446,963</b>	<b>1,689,607</b>	<b>2,858,598</b>	<b>4,395,423</b>
0-9,999	3,070	15,618,359	0	0	280,980	1.80%	315,711	2.02%	\$1.27	17,673	68,422	178,235	322,212
10,000-19,999	1,781	25,184,767	0	0	533,783	2.12%	639,765	2.54%	\$1.22	196,021	203,932	384,298	655,408
20,000-34,999	975	25,061,818	50,535	80,230	1,002,908	4.00%	1,137,316	4.54%	\$1.14	(38,449)	(91,215)	297,084	652,449
35,000-49,999	362	14,943,294	80,700	38,469	462,543	3.10%	529,470	3.54%	\$1.14	130,322	269,828	238,105	480,000
50,000-99,999	391	26,821,138	221,423	309,400	853,160	3.18%	1,177,008	4.39%	\$1.01	429,969	288,059	597,211	735,608
100,000 Plus	228	38,541,372	4,828,223	1,937,686	2,269,534	5.89%	4,056,513	10.53%	\$0.92	711,427	950,581	1,163,665	1,549,746
<b>San Diego County Total</b>	<b>6,807</b>	<b>146,170,748</b>	<b>5,180,881</b>	<b>2,365,785</b>	<b>5,402,908</b>	<b>3.70%</b>	<b>7,855,783</b>	<b>5.37%</b>	<b>\$1.07</b>	<b>1,446,963</b>	<b>1,689,607</b>	<b>2,858,598</b>	<b>4,395,423</b>

Lease rates are on an industrial-gross basis.



## Times are Good, But Changes May Be Coming

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The major theme in San Diego real estate during 2020 was uncertainty. People were working from home instead of the office, worldwide logistics experienced previously unseen problems and delays, some industries were completely shut down or slowed dramatically, and there was a contentious election that worried business owners and patrons alike. Yet, outside of an initial blip on the radar, the Industrial market thrived. Leasing rates rose across the board, sale prices have continued to climb, and owners of Industrial real estate continue to have a leg up on tenants in negotiations. Part of this is a result of the incredibly low interest rates being offered, but it is also due to a major shift in consumer purchasing habits.

Brick and mortar retail has lost a large chunk of business to online shopping, and with that change in habits came a huge rise in demand for warehouse space due to increased logistics use across the board. Amazon is a large part of this rise in demand, as they will occupy more than 6 MSF in the Greater San Diego area by the end of 2022, as new requirements for large blocks of space seem to pop up every quarter.

Although the enormous space absorption from Amazon helps the overall market metrics, they are not the only reason that the sector is booming with investor interest. The general feeling around commercial real estate right now is that industrial warehouses and multi-family are the safest place to put your money. Cap rates for quality product in both sectors is below 5%, and in some industrial cases below 4%. On the owner-user side, low interest rates are helping to drive a rise in demand. The monthly price for owning is still less than leasing, and buyers are taking advantage of the low SBA rates to lock in long-term savings. These owner-user opportunities are hard to find, however.

However, current proposals from the Oval Office lead us to wonder if the market is going to turn. Most significant would be the raising of the capital gains tax. The current proposal would move the tax rate on the sale of most California commercial real estate from an average of approximately 33% (federal and state rates combined), to more than 50% in total capital gains tax in some cases. Nothing is official at this time, but the rise in the tax rate would certainly have a negative impact on transaction volume and investor interest in the commercial real estate sector. A tax increase by itself would slow transaction activity, but if the current proposal to also eliminate or severely limit the 1031 tax deferred exchange is also passed, commercial real estate values would take a large hit across the board. Let's hope that doesn't happen but prepare ourselves for the possibility that changes are coming.

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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