

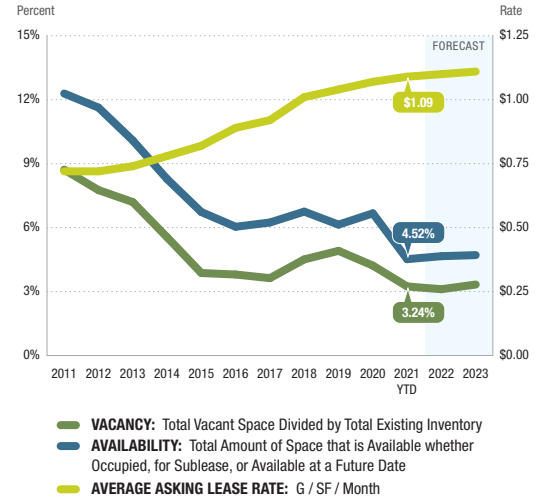
OVERVIEW. While the office and retail markets are still trying to find their way in the post-pandemic world, the industrial market is at decade-high levels of new development and transaction activity. Following the “Great Recession,” new industrial development in the county did not pick up again until 2016. There have been 10 MSF of new industrial real estate inventory added to the market since then, and yet the vacancy rate is now half a percentage point lower than it was at the end of 2015.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 3Q 2021 at 3.24%, a decrease of nearly a third from the previous year’s vacancy rate of 4.68%. As was called out in our previous reports, the 3Q completion of Amazon’s build-to-suit facility in Otay Mesa added 3.4 MSF of occupied space to the countywide total. This one project alone accounted for most of the dramatic drop in the vacancy rate this quarter. Effectively all of the county’s 2.2 MSF of industrial buildings currently under construction are in Otay Mesa. These new developments have less than half of their space preleased, which is the primary cause of the gap between vacancy and availability, which finished 3Q at 4.52%.

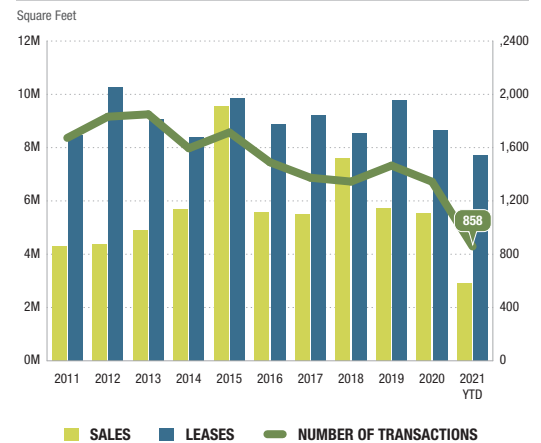
LEASE RATES. The average asking lease rate checked in at \$1.09 per square foot per month, which is an increase of two cents per square foot over the previous quarter. Compared with 3Q last year, we see a 2.8% annual increase. By and large, negotiating leverage in the industrial market remains in the 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, 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 5.8%. So rental rates continue to move higher, but the pace has slowed.

TRANSACTION ACTIVITY. The total space leased and sold in 3Q was approximately 3.3 MSF, a decrease from the 3.8 MSF of transactions in 3Q 2020. Amazon was notably absent from the top lease transactions of 3Q, as they have typically been a part of this over the past two years. Amazon is the biggest driver of the growth in the San Diego industrial market, but it’s not the whole story. The industrial sector beyond the headlines remains quite healthy. There were 190 lease transactions recorded in 3Q, which is a slow quarter compared with the quarterly average of 286 leases consummated in the prior three years. The market is so tight there are many tenants deciding to stay in their current location rather than move to a new facility because of the lack of available options. These renewals don’t all show up in the transaction counts, which lowers the activity volume. The registered number of leases is down, but the total area being leased has increased. The market is on pace to finish the year above 10 MSF of leasing, the highest such total since 2012.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



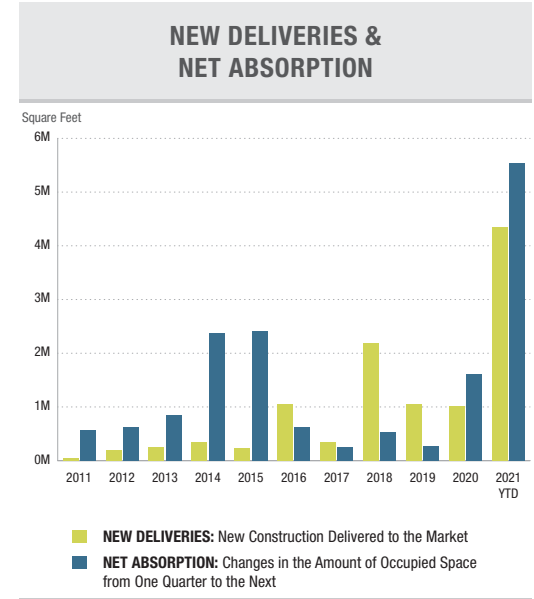
Market Statistics

	Change Over Last Quarter	3Q 2021	2Q 2021	3Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	3.24%	3.73%	4.68%	(30.65%)
Availability Rate	▼ DOWN	4.52%	4.98%	6.80%	(33.59%)
Average Asking Lease Rate	▲ UP	\$1.09	\$1.07	\$1.06	2.83%
Sale & Lease Transactions	▼ DOWN	3,267,328	5,502,125	3,782,472	(13.62%)
Gross Absorption	▲ UP	5,305,866	2,696,580	2,249,645	135.85%
Net Absorption	▲ POSITIVE	4,013,149	1,259,518	735,801	N/A

ABSORPTION. There was 4,013,149 SF of positive net absorption in 3Q, with 3,431,229 of that coming from the completion of Amazon’s new facility in Otay Mesa. This is the latest and largest sign of Amazon’s impact on the San Diego industrial market. The market has now seen 5,545,215 SF of tenant footprint growth through the first three quarters of 2021. This three-quarter tally exceeds the total net absorption from the past five years combined. Every submarket cluster in the county has posted positive net absorption for the year thus far, a demonstration that the strength of the local market is not limited to one category, or one area.

CONSTRUCTION. 4.6 MSF of new industrial projects were delivered in the first three quarters of 2021, which is now the fifth year out of the past six with more than a million square feet 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. With very little land available in the central county area available for development, most new construction in the county is happening around the edges. Over the past six years there have been more than 1.5 MSF of new industrial development in South County, North County and the I-15 Corridor, while Central County and East County have seen less than half a million total square feet of new development during that span.

EMPLOYMENT. The unemployment rate in San Diego County was 6.6% in August 2021, down from a revised 6.9% in July 2021, and below the year-ago estimate of 10.8%. This compares with an unadjusted unemployment rate of 7.5% for California and 5.3% for the nation during the same period. Over the 12-month period between August 2020 and August 2021, San Diego County employment increased by 59,200 jobs, or 4.4%. With the normal delay in reporting from the California EDD, employment figures from September were unavailable at the time of publishing this report. At the end of September, the 4-week average of initial unemployment claims in the U.S. dropped to 336,000, the lowest figure since the start of the pandemic. The total employment for the U.S. is still 5.3 million jobs fewer than the pre-pandemic level.



Forecast

There is nothing on the visible horizon that suggests any disruption to the current strength in the industrial market fundamentals, barring an unforeseen shock to the entire U.S. economy. Moreover, COVID-19, which would qualify as a shock, did not upend the industrial market. For the San Diego market we will continue to see a bifurcation between the Central County where industrial property inventory is no longer being built at significant levels, and the outer submarkets which have the land for new construction and continued growth.

Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
990-995 Joshua Way & 2750-2765 Progress St.	Vista	493,898	\$147,500,000	Black Creek Group	Barings
13500 Danielson St. & 237 Via Vera Cruz	Poway & San Marcos	152,857	\$36,640,000	JLL Income Property Trust	Bixby Land Company
2500 Sweetwater Springs Blvd.*	Spring Valley	182,332	\$23,900,000	AG Sweetwater Owners, LLC	Lomas Rancho SD, LLC
4665 North Ave.	Oceanside	92,017	\$20,375,000	EverWest Real Estate Investors, LLC	Rancho California Center
8150 Airway Rd.	Otay Mesa	135,623	\$23,750,000	Black Creek Group	Rockefeller Group

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
6955 Consolidated Way	Miramar	82,781	Sept-2021	Granite Factory Direct	Elion artners
7411 Goen Pl.	Mission Gorge	71,619	Sept-2021	SeaWorld	BentallGreenOak
9043 Siempre Viva Rd.	Otay Mesa	71,458	Sept-2021	Hologic	IDS
9255 Customhouse Plz.	Otay Mesa	68,827	Jul-2021	Undisclosed	TIAA
1319 Rocky Point Dr.	Oceanside	60,472	Sept-2021	Glass Warehouse, LLC	MagnaFlow

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2021	Square Feet Available	Availability Rate 3Q2021	Average Asking Lease Rate	Net Absorption 3Q2021	Net Absorption 2021	Gross Absorption 3Q2021	Gross Absorption 2021
Central County													
Central City	89	1,391,138	0	0	36,514	2.62%	46,514	3.34%	\$0.97	(36,000)	(36,514)	0	0
East City	61	963,379	0	0	41,249	4.28%	41,249	4.28%	\$1.02	(38,574)	(42,030)	2,675	2,675
Southeast City	366	4,262,545	0	0	54,399	1.28%	89,234	2.09%	\$1.12	4,179	20,563	32,372	80,663
Kearny Mesa	423	9,709,048	0	464,900	254,780	2.62%	312,794	3.22%	\$1.47	(2,971)	43,881	116,277	380,614
Mission Gorge	110	1,755,948	0	0	10,278	0.59%	21,708	1.24%	\$1.53	260	95,086	7,379	131,173
Rose Canyon / Morena	129	2,111,303	0	0	70,813	3.35%	94,042	4.45%	\$1.24	(2,212)	2,152	0	75,077
Sports Arena / Airport	139	1,604,088	0	0	76,026	4.74%	69,776	4.35%	\$1.24	(14,727)	(51,326)	0	26,500
Miramar	582	13,330,256	0	0	228,922	1.72%	371,522	2.79%	\$1.29	64,046	86,968	131,347	369,068
Sorrento Mesa	70	3,312,179	0	0	54,508	1.65%	63,607	1.92%	\$1.78	(9,361)	(1,735)	7,671	36,417
Sorrento Valley/UTC	41	991,783	0	0	32,118	3.24%	31,318	3.16%	\$1.43	(1,622)	(4,313)	800	20,605
Central County Total	2,010	39,431,667	0	464,900	859,607	2.18%	1,141,764	2.90%	\$1.33	-36,982	112,732	298,521	1,122,792
East County													
El Cajon	450	9,133,177	0	0	285,135	3.12%	163,592	1.79%	\$1.06	54,898	55,593	57,898	162,300
La Mesa / Spring Valley	313	2,680,241	3,000	0	95,322	3.56%	77,322	2.88%	\$1.11	(45,778)	(29,407)	12,400	38,872
Santee / Lakeside	286	3,938,548	35,000		96,888	2.46%	120,988	3.07%	\$1.16	126,388	201,768	131,641	325,488
Rural East County	78	806,491	0	0	0	0.00%	0	0.00%	\$0.93	0	16,520	0	20,020
East County Total	1,127	16,558,457	38,000	0	477,345	2.88%	361,902	2.19%	\$1.09	135,508	244,474	201,939	546,680
North County													
Escondido	634	7,547,647	0		111,702	1.48%	138,530	1.84%	\$1.08	41,872	104,580	93,175	281,879
Oceanside	403	9,337,123	0		244,790	2.62%	281,257	3.01%	\$1.01	71,928	22,177	115,788	335,912
San Marcos	477	8,022,602	0	223,175	482,489	6.01%	427,125	5.32%	\$1.00	(36,660)	233,318	90,402	485,458
Vista	528	13,089,323	0	30,165	900,869	6.88%	862,511	6.59%	\$1.01	(37,323)	113,961	252,434	863,828
Carlsbad	232	8,829,485	0	249,015	672,766	7.62%	361,986	4.10%	\$1.20	198,724	252,498	278,257	454,269
North Beach Cities	42	257,017	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Rural North County	114	995,236	0	0	13,397	1.35%	19,119	1.92%	\$1.06	2,400	(4,704)	2,400	7,400
North County Total	2,430	48,078,433	0	502,355	2,426,013	5.05%	2,090,528	4.35%	\$1.05	240,941	721,830	832,456	2,428,746
I-15 Corridor													
Poway	186	7,620,906	0	0	47,499	0.62%	38,378	0.50%	\$1.09	57,675	47,533	75,979	177,856
Rancho Bernardo	42	3,245,463	0	0	0	0.00%	0	0.00%	\$1.32	20,009	63,345	20,009	63,711
Scripps Ranch	28	711,939	0	0	11,107	1.56%	7,379	1.04%	\$1.25	4,229	2,691	4,229	21,547
I-15 Corridor Total	256	11,578,308	0	0	58,606	0.51%	45,757	0.40%	\$1.15	81,913	113,569	100,217	263,114
South County													
Chula Vista	323	8,813,161	0	247,030	59,432	0.67%	558,982	6.34%	\$1.02	79,890	360,842	87,387	460,995
National City	251	3,630,409	0		84,707	2.33%	97,037	2.67%	\$1.31	8,616	(72,833)	13,592	27,763
Otay Mesa	347	20,305,436	2,181,666	1,471,913	847,936	4.18%	2,406,116	11.85%	\$0.85	3,506,381	4,108,211	3,767,623	4,680,380
South San Diego	63	1,318,244	0	24,121	44,450	3.37%	58,138	4.41%	\$0.96	(3,118)	(43,610)	4,131	9,001
South County Total	984	34,067,250	2,181,666	1,743,064	1,036,525	3.04%	3,120,273	9.16%	\$0.90	3,591,769	4,352,610	3,872,733	5,178,139
San Diego County Total	6,807	149,714,115	2,219,666	2,710,319	4,858,096	3.24%	6,760,224	4.52%	\$1.09	4,013,149	5,545,215	5,305,866	9,539,471
0-9,999	3,069	15,609,896	3,000	0	208,871	1.34%	255,736	1.64%	\$1.26	73,009	141,911	145,273	475,965
10,000-19,999	1,783	25,209,715	0	0	413,726	1.64%	540,980	2.15%	\$1.24	123,612	315,809	306,238	953,466
20,000-34,999	970	24,948,473	29,990	54,286	800,428	3.21%	906,751	3.63%	\$1.16	219,450	98,706	446,916	1,099,365
35,000-49,999	366	15,115,861	35,000	38,469	368,988	2.44%	325,745	2.15%	\$1.14	138,942	365,427	238,701	718,701
50,000-99,999	389	26,758,568	151,423	369,059	814,232	3.04%	1,394,970	5.21%	\$1.05	38,928	385,987	254,829	990,437
100,000 Plus	230	42,071,602	2,000,253	2,248,505	2,251,851	5.35%	3,336,042	7.93%	\$0.93	3,419,208	4,237,375	3,913,909	5,301,537
San Diego County Total	6,807	149,714,115	2,219,666	2,710,319	4,858,096	3.24%	6,760,224	4.52%	\$1.09	4,013,149	5,545,215	5,305,866	9,539,471

Lease rates are on an industrial-gross basis.



Volume Down, Prices up

by **Josh West**

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As we wrap up the third quarter of 2021, “normal” life seems to be coming back into the picture. With market confidence as strong as ever, vacancy has continued to plummet and rental rates remain high. This has proved to create problems for tenants and owner/users in their search for quality space.

The low vacancy has reduced the volume of leases/deals completed as many tenants are deciding to renew in place due to the lack of options. The I-15 Corridor, for example, finished third quarter 2021 at an all-time low vacancy rate of 0.51%. Much of this demand is driven by e-commerce business. 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 resulting from increased logistics demand across the board.

Due to high demand and limited options, lease rates and sale prices have continued to soar. The average lease rate in the San Diego market is \$1.09 per square foot NNN while the Central County average lease rate is closer to \$1.33 per square foot NNN. As of now, there does not seem to be an end in sight for the demand. As such, developers are scrambling to get quality product on the market as soon as possible. Central County currently has approximately 464,900 square feet of proposed development and the South Bay has closer to 1.7 million square feet.

The overall market is flush with capital and either industrial or multi-family are considered the safest places to put your money. Cap rates for quality product in both sectors are below 5% and in some industrial cases below 4%. The low cap rates are also partially driven by the low interest rates currently offered.

Overall, the market is healthy and will continue to do well for the foreseeable future. New product will relieve the pressure and will allow occupiers to move within the inventory base. Blue skies ahead!

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

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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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