

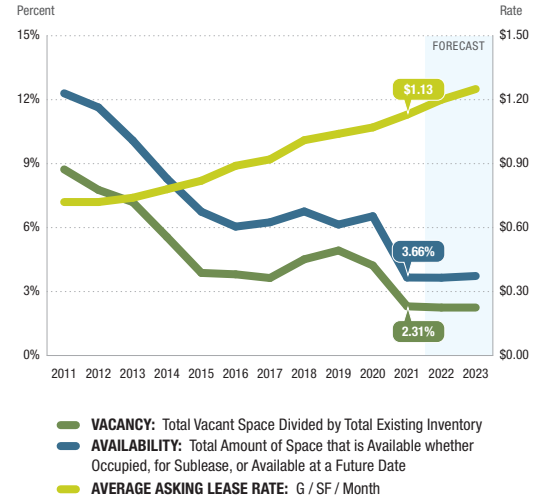
OVERVIEW. While the office and retail markets are still trying to find their way in the post-pandemic world, the industrial market is seeing extremely high levels of new development and transaction activity. Following the “Great Recession,” new industrial development in the county did not pick up again 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 one and a half percentage points lower than it was at the end of 2015. In this high-demand environment, rental rates have gone through the roof.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 2021 at 2.31%, a decrease of nearly half from the previous year’s vacancy rate of 4.21%. 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 past year. The availability rate also decreased in 2021, finishing the year at 3.66%. The South County cluster of submarkets finished the year with a 7.63% availability rate, more than double the next highest availability rate in the county. This is due to the 1.9 MSF under construction in Otay Mesa, of which less than half has been preleased.

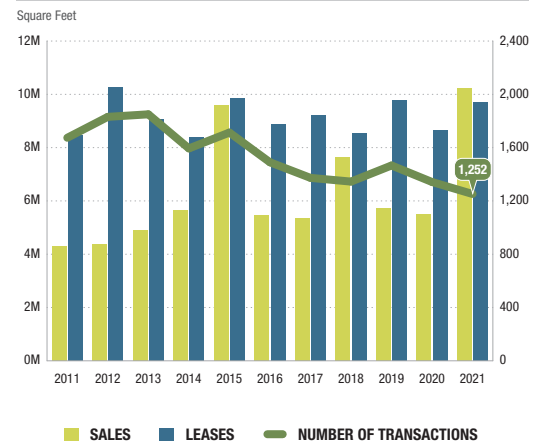
LEASE RATES. The average asking lease rate checked in at \$1.13 per square foot per month, which is an increase of three cents per square foot over the previous quarter. Compared with 4Q last year, we see a 5.6% annual increase. By and large, negotiating leverage in the industrial market remains in the hands of the landlords, and rental rates remain elevated. Over the past decade, the average asking rental rate in San Diego has increased a total of 57%, and over the past five years the rental rates have increased at an average of 4.9% per year. In many cases, tenants with expiring leases have no alternative options in their submarket, placing the negotiating leverage squarely in the hands of landlords. In the most competitive areas, landlords are increasingly able to backfill new availabilities before the existing tenant vacates.

TRANSACTION ACTIVITY. The total space leased and sold in 4Q was approximately 5.6 MSF, an increase from the 4.7 MSF of transactions in 4Q 2020. The largest lease recorded in 4Q was Amazon taking 315,000 SF in Kearny Mesa. Amazon is the biggest driver of the growth in the San Diego industrial market. The rise of e-commerce accelerated after the onset of COVID-19, and there has been an ongoing wave of large blocks of industrial space snatched up by Amazon in recent years. Interestingly, in 2021 the market tallied the third largest amount of space leased of the past decade, but the fewest number of leases recorded during the same time frame. 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.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



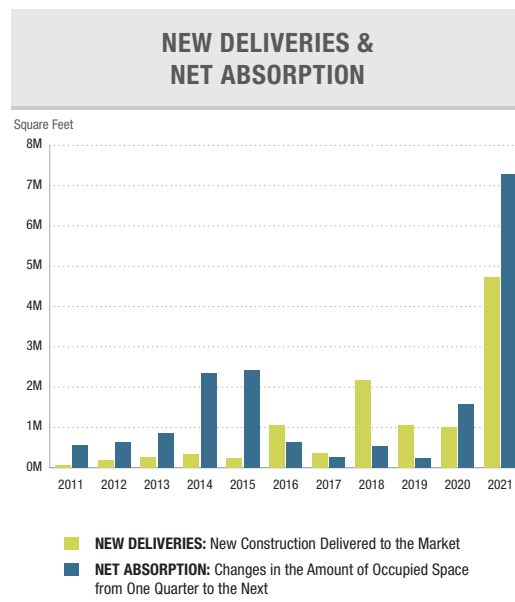
Market Statistics

	Change Over Last Quarter	4Q 2021	3Q 2021	4Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	2.31%	3.25%	4.22%	(45.39%)
Availability Rate	▼ DOWN	3.66%	4.21%	6.53%	(44.01%)
Average Asking Lease Rate	▲ UP	\$1.13	\$1.10	\$1.07	5.61%
Sale & Lease Transactions	▲ UP	5,629,998	4,864,906	4,702,910	19.71%
Gross Absorption	▼ DOWN	2,366,384	5,328,422	1,878,449	25.98%
Net Absorption	▲ POSITIVE	1,757,286	4,017,097	587,759	N/A

ABSORPTION. There was 7,295,473 SF of positive net absorption in 2021, with 3,431,229 of that coming from the completion of Amazon’s new facility in Otay Mesa in 3Q. The growth of the total industrial tenant footprint extends beyond just the impact from Amazon. There was 1,757,286 SF of positive absorption in 4Q alone. This one-quarter tally exceeds the total net absorption from each of the past five years. Every submarket cluster in the county has posted positive net absorption for the past quarter and the past year, a demonstration that the strength of the local market is not limited to one category, or one area.

CONSTRUCTION. 4.7 MSF of new industrial projects were delivered in 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 square feet 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 of the county. Over the past six years there have been more than 1.5 MSF of new industrial development in each of South County, North County, and the I-15 Corridor, while Central County and East County combined have seen a half a million total square feet of new development during that span.

EMPLOYMENT. The unemployment rate in San Diego County was 4.6% in November 2021, down from a revised 5.3% in October 2021, and below the year-ago estimate of 6.8%. This compares with an unadjusted unemployment rate of 5.4% for California and 3.9% for the nation during the same period. Over the 12-month period between November 2020 and November 2021, San Diego County employment increased by 64,900 jobs, an increase of 4.6%. 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 U.S. unemployment rate fell below 4% for the first time since February 2020. The total employment for the U.S. is still 3.6 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 have qualified 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					
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
8863 & 9043 Siempre Viva Rd., Et Al	Otay Mesa	544,724	\$134,525,000	EastGroup Properties	IDS Real Estate Group
1340 N. Melrose Dr.	Vista	56,975	\$34,000,000	Buchanan Street Partners	U Stor It Vista, LLC
2840 Loker Ave. E.	Carlsbad	104,298	\$25,950,000	LaSalle Investment Mgmt.	Bixby Land Co.
7707 & 7715 Paseo de la Fuente	Otay Mesa	152,469	\$22,870,500	Cabot Properties, Inc.	Kearny Real Estate Company
505 Main St.	Chula Vista	79,611	\$16,000,000	Kohlberg Kravis Roberts & Co, LP	Rethwisch Enterprises, LLC
Leases					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5670 Kearny Mesa Rd.	Kearny Mesa	315,000	Oct-2021	Amazon	Lincoln Property Co.
1701 Landmark Rd.	Otay Mesa	153,630	Nov-2021	RL Jones Customhouse Brokers	Sunroad Holding Corporation
2611 Business Park Dr.	Vista	125,516	Oct-2021	Undisclosed	EverWest Real Estate Investors
4039 Calle Platino	Oceanside	73,418	Oct-2021	Undisclosed	Rexford Industrial
5818 El Camino Real	Carlsbad	77,147	Oct-2021	Aptera Motors	H.G. Fenton

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2021	Square Feet Available	Availability Rate 4Q2021	Average Asking Lease Rate	Net Absorption 4Q2021	Net Absorption 2021	Gross Absorption 4Q2021	Gross Absorption 2021
Central County													
Central City	87	1,383,138	0	0	36,000	2.60%	46,000	3.33%	\$1.10	514	(36,000)	514	514
East City	61	963,379	0	0	0	0.00%	0	0.00%	\$1.19	41,249	(781)	41,249	43,924
Southeast City	365	4,259,445	0	0	47,093	1.11%	70,528	1.66%	\$1.16	7,206	27,769	22,206	102,869
Kearny Mesa	419	9,559,022	0	435,900	190,980	2.00%	276,895	2.90%	\$1.48	55,350	107,681	107,567	494,831
Mission Gorge	108	1,763,239	0	0	0	0.00%	16,482	0.93%	\$1.58	10,278	88,907	10,278	141,451
Rose Canyon / Morena	129	2,112,124	0	0	62,519	2.96%	87,748	4.15%	\$1.29	8,294	10,446	10,212	85,289
Sports Arena / Airport	138	1,583,488	0	0	77,299	4.88%	71,299	4.50%	\$1.79	(1,273)	(63,199)	8,727	24,627
Miramar	583	13,371,296	0	0	125,579	0.94%	155,794	1.17%	\$1.34	103,343	190,311	141,463	510,531
Sorrento Mesa	70	3,282,756	0	0	32,426	0.99%	63,041	1.92%	\$1.77	22,082	20,347	25,458	61,875
Sorrento Valley/UTC	41	989,354	0	0	8,000	0.81%	8,000	0.81%	\$1.28	23,046	19,805	27,702	48,307
Central County Total	2,001	39,267,241	0	435,900	579,896	1.48%	795,787	2.03%	\$1.38	270,089	365,286	395,376	1,514,218
East County													
El Cajon	450	9,139,427	0	0	179,238	1.96%	75,984	0.83%	\$1.08	105,897	161,490	157,013	319,313
La Mesa / Spring Valley	314	2,685,241	0	3,000	58,068	2.16%	59,241	2.21%	\$1.10	37,254	7,847	43,518	82,390
Santee / Lakeside	286	3,945,474	35,000	0	97,681	2.48%	112,781	2.83%	\$1.17	(793)	200,975	3,000	328,488
Rural East County	78	808,209	0	0	0	0.00%	0	0.00%	\$0.93	0	16,520	0	20,020
East County Total	1,128	16,578,351	35,000	3,000	334,987	2.02%	248,006	1.49%	\$1.11	142,358	386,832	203,531	750,211
North County													
Escondido	634	7,550,415	0		101,658	1.35%	179,518	2.38%	\$1.17	10,044	109,769	44,967	326,846
Oceanside	402	9,332,135	0		189,804	2.03%	87,692	0.94%	\$1.03	54,986	77,163	143,301	479,213
San Marcos	478	8,111,918	0	223,175	439,832	5.42%	414,857	5.11%	\$1.02	42,657	275,599	71,069	556,151
Vista	528	13,089,580	0	30,165	672,916	5.14%	587,517	4.49%	\$1.03	215,077	341,914	309,294	1,187,418
Carlsbad	231	8,668,909	0	0	184,389	2.13%	279,827	3.23%	\$1.19	488,377	740,875	523,196	977,465
North Beach Cities	41	244,892	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Rural North County	115	996,196	0	0	11,397	1.14%	14,415	1.45%	\$1.01	2,000	(2,704)	2,000	9,400
North County Total	2,429	47,994,045	0	253,340	1,599,996	3.33%	1,563,826	3.26%	\$1.08	813,141	1,542,616	1,093,827	3,536,493
I-15 Corridor													
Poway	186	7,622,571	0	0	17,795	0.23%	107,337	1.41%	\$1.11	29,704	77,237	44,873	222,729
Rancho Bernardo	42	3,245,463	0	0	0	0.00%	20,103	0.62%	\$1.17	0	63,345	0	63,711
Scripps Ranch	28	711,985	0	0	0	0.00%	38,108	5.35%	\$1.26	11,107	13,798	11,107	32,654
I-15 Corridor Total	256	11,580,019	0	0	17,795	0.15%	165,548	1.43%	\$1.14	40,811	154,380	55,980	319,094
South County													
Chula Vista	324	8,813,224	179,530	67,500	116,197	1.32%	720,320	8.01%	\$1.04	(56,765)	304,077	32,765	493,760
National City	252	3,639,875	0	0	99,069	2.72%	89,635	2.46%	\$1.43	(14,362)	(87,195)	10,087	37,850
Otay Mesa	351	20,684,780	1,896,105	2,147,913	703,251	3.40%	1,971,971	8.73%	\$0.88	525,582	4,635,045	536,666	5,217,046
South San Diego	63	1,318,244	0	24,121	6,408	0.49%	5,528	0.42%	\$0.95	36,432	(5,568)	38,152	48,763
South County Total	990	34,456,123	2,075,635	2,239,534	924,925	2.68%	2,787,454	7.63%	\$0.96	490,887	4,846,359	617,670	5,797,419
San Diego County Total	6,804	149,875,779	2,110,635	2,931,774	3,457,599	2.31%	5,560,621	3.66%	\$1.13	1,757,286	7,295,473	2,366,384	11,917,435
0-9,999	3,073	15,647,933	0	3,000	164,210	1.05%	210,042	1.34%	\$1.36	48,789	177,260	106,770	582,735
10,000-19,999	1,779	25,175,090	0	0	291,008	1.16%	444,706	1.77%	\$1.31	113,336	417,976	270,013	1,216,878
20,000-34,999	964	24,799,638	29,990	54,286	586,299	2.36%	721,524	2.91%	\$1.18	208,319	310,310	339,753	1,443,003
35,000-49,999	365	15,070,018	35,000	83,469	236,474	1.57%	275,749	1.83%	\$1.11	132,514	497,941	229,701	948,402
50,000-99,999	392	26,969,267	93,000	276,059	801,169	2.97%	1,105,151	4.08%	\$1.07	151,236	551,519	238,128	1,242,861
100,000 Plus	231	42,213,833	1,952,645	2,514,960	1,378,439	3.27%	2,803,449	6.35%	\$0.98	1,103,092	5,340,467	1,182,019	6,483,556
San Diego County Total	6,804	149,875,779	2,110,635	2,931,774	3,457,599	2.31%	5,560,621	3.66%	\$1.13	1,757,286	7,295,473	2,366,384	11,917,435

Lease rates are on an industrial-gross basis.



All Signs Point to Another Good Year

by **Randy LaChance**

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Even though we have been in the middle of a pandemic for all of 2021, we have seen three factors influencing the industrial markets: 1) a quickly recovering economy with annual GDP growth estimated to be above 4%, 2) a fundamental change from spending at brick-and-mortar retail stores to online shopping, and 3) supply chain disruptions requiring companies that import their goods to increase their inventories to be able to meet demand.

2021 was one of the best years ever for industrial markets nationwide, and San Diego was no exception. All three key indicators (lease rates, owner-user pricing, and investment sales) have hit all-time record price points, and with limited availability and continued strong demand, there is no reason to believe this run will end in 2022. In 2021, we saw the average asking industrial lease rate increase by 6%, but some submarkets and product types experienced increases in excess of 20%. Investment cap rates compressed below 4% for high quality industrial property, as it became a preferred product type for both individual and institutional investors. Owner-user prices increased across all submarkets with some buildings selling for more than \$300 per square foot. We also saw an increase in speculative purchases of second-generation buildings with plans to redevelop sites for distribution product, resulting in investors paying over \$80 per square foot in land value.

Gross leasing activity exceeded 9.6 million square feet, which is the third highest in the last ten years. There was over 4.5 million square feet of new product delivered during the year, most of which was leased or sold prior to completion. Net absorption topped 7 million square feet, which is more than the previous seven years combined.

The vacancy rate countywide fell to 2.3% as the year ended, and with limited land available and only 2.1 million square feet currently under construction, we should see another year of strong rent growth as demand continues to outpace supply.

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 an 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