

**OVERVIEW.** The San Diego industrial market tightened further in the first quarter with three-quarter of a million square feet of positive net absorption pushing vacancy and availability rates lower. The surge in construction over the past five years has not been able to keep up with the level of demand in the market. As a result, average asking lease rates continued their ascent, rising to another record high in Q1.

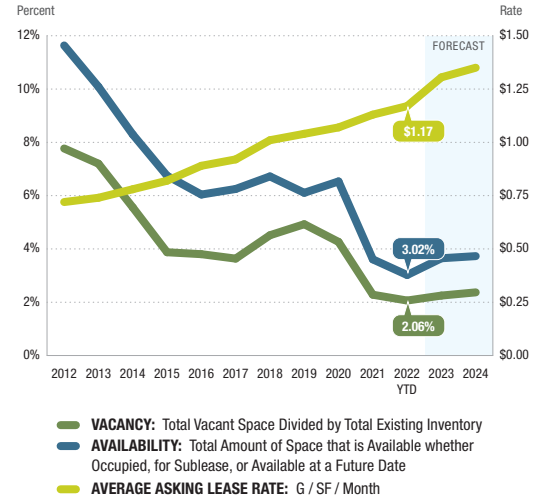
**VACANCY & AVAILABILITY.** Direct/sublease space (unoccupied) finished 1Q at 2.1%, a decrease of over half from the previous year's vacancy rate of 4.2%. A large portion of this decrease can be attributed to the delivery of Amazon's build-to-suit facility in Otay Mesa in 2021. This added 3.4 MSF of occupied space to the countywide total. The availability rate decreased at an equal measure and finished 1Q 2022 at 3%. Ten years ago, the vacancy rate for the county as a whole was 9%. Today the vacancy rate for every submarket cluster outside of South County is at 3% or less.

**LEASE RATES.** The average asking lease rate checked in at \$1.17 per square foot per month, which is an increase of four cents per square foot over the previous quarter. Compared with 1Q last year, we see a 10.4% 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 65%, and over the past five years the rental rates have increased at an average of 5.7% 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.

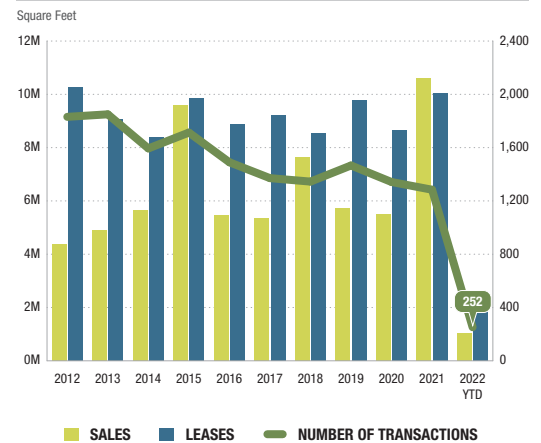
**TRANSACTION ACTIVITY.** The total space leased and sold in 1Q was approximately 2.9 MSF, a 24% decrease from the 3.9 MSF of transactions in 1Q 2021. There were 203 lease transactions recorded in 1Q bringing the average number of leases recorded per quarter over the last year down to 228. The preceding five years had a quarterly average of 292 lease transactions. 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. All five of the largest leases in 1Q were in Otay Mesa buildings. This is a direct result of Otay Mesa leading the entire county in new construction the past couple of years. The largest space leased in the quarter was taken by Amazon who continues to show up in the largest transaction category quarter after quarter. 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. Sales volume was down in 1Q as well, but this is typical for this time of year. Four of the past six years saw the fewest building sales occur in the first quarter.

**ABSORPTION.** There was 730,863 SF of positive net absorption in 1Q 2021. The San Diego market is on track for its twelfth consecutive year of growth to the total tenant footprint.

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



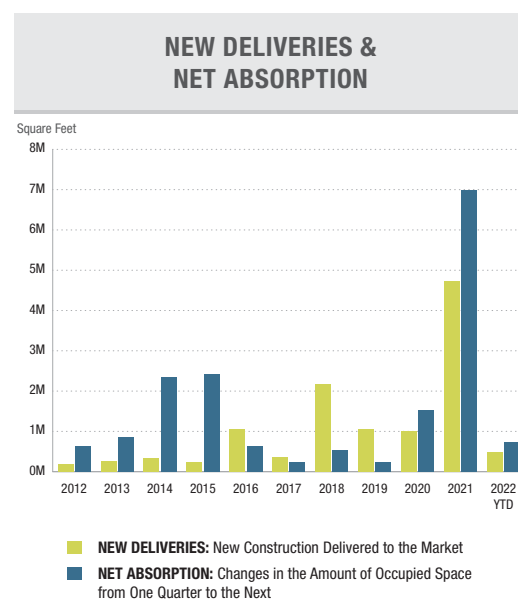
### Market Statistics

	Change Over Last Quarter	1Q 2022	4Q 2021	1Q 2021	% Change Over Last Year
Vacancy Rate	▼ DOWN	2.06%	2.28%	4.29%	(51.86%)
Availability Rate	▼ DOWN	3.02%	3.61%	6.21%	(51.34%)
Average Asking Lease Rate	▲ UP	\$1.17	\$1.13	\$1.06	10.38%
Sale & Lease Transactions	▼ DOWN	2,920,522	6,188,696	3,846,739	(24.08%)
Gross Absorption	▼ DOWN	1,677,691	2,366,384	1,537,025	9.15%
Net Absorption	▲ POSITIVE	730,863	1,805,774	272,548	N/A

The three largest absorption occurrences in 1Q were: M2 Ingredients moving into 155,000 SF in Vista, RL Jones moving into 154,000 SF in Otay Mesa, and USPS moving into 126,000 SF in Vista. Otay Mesa and North County each saw over 300,000 SF of positive absorption in 1Q. These areas have seen the majority of new construction over the past decade, and this growth of industrial inventory accommodates the growth of industrial tenants.

**CONSTRUCTION.** 4.7 MSF of new industrial projects were delivered in 2021, which was the fifth year out of the past six with more than a million square feet of new construction completed. Half a million square feet has been delivered in 1Q alone, with 1.9 million more currently under construction. This is in stark contrast to the 360,000 feet per year of new construction which was the annual average from 2008 through 2015. With very little land 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 one million square feet 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 only a half a million total square feet of new development during that span.

**EMPLOYMENT.** The unemployment rate in San Diego County was 4.0% in February 2022, down from a revised 4.7% in January 2022, and below the year-ago estimate of 7.9%. This compares with an unadjusted unemployment rate of 4.8% for California and 4.1% for the nation during the same period. Over the 12-month period between February 2021 and February 2022, San Diego County employment increased by 104,300 jobs, an increase of 7.5%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. The total employment figures for San Diego County and the U.S. are now within 1% of their pre-pandemic levels. The U.S. added an average of 562,000 jobs per month in the first quarter of 2022.



## Forecast

The brief, but drastic, recession we saw with COVID-19 was not able to slow the growth in industrial real estate. In fact, it had the opposite effect. Going into 2022 we find ourselves in a high inflation environment, entering a cycle of increasing interest rates. An increasing number of economic analysts are predicting an economic slowdown or even recession by next year. In the short term, demand in the industrial market continues to remain strong. Over the longer horizon, a slowdown of the broader economy could have a cooling effect on the industrial market.

## Significant Transactions

Sales						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
11035-11055 Technology Pl.	Rancho Bernardo	217,645	\$96,000,000	LBA Realty	Link Logistics Real Estate	
2323 Avenida Costa Este *	Otay Mesa	106,607	\$24,500,000	Greenlaw Partners *	MJW Investments, Inc.	
6800 Gateway Park Dr.	Otay Mesa	62,875	\$15,750,000	Dalfen Industrial	6800 Gateway Park, LLC	
2641-2651 La Mirada Dr.	Vista	66,682	\$13,065,000	Cabot Properties, Inc.	Kearny Real Estate Company	
3465 Ash St.	Vista	47,560	\$11,750,000	Elion	Dixon Trust	
Leases						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner	
717 Harvest Rd.	Otay Mesa	202,408	Feb-2022	Amazon	Sudberry Properties	
9043 Siempre Viva Rd.	Otay Mesa	143,488	Mar-2022	Sohnen Enterprises	EastGroup Properties	
6060 Business Center Ct. *	Otay Mesa	134,776	Mar-2022	Hybrid Apparel *	Cabot Properties	
1601 Landmark Rd.	Otay Mesa	108,177	Mar-2022	Undisclosed	Sunroad	
7707 Paseo de la Fuente	Otay Mesa	79,961	Mar-2022	MC Group	Cabot Properties	

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2022	Square Feet Available	Availability Rate 1Q2022	Average Asking Lease Rate	Net Absorption 1Q2022	Net Absorption 2022	Gross Absorption 1Q2022	Gross Absorption 2022
<b>Central County</b>													
Central City	87	1,384,255	0	0	36,000	2.60%	46,000	3.32%	\$1.10	0	0	0	0
East City	60	613,379	0	0	4,778	0.78%	4,778	0.78%	\$1.19	(4,778)	(4,778)	0	0
Southeast City	366	4,257,766	0	0	47,582	1.12%	81,322	1.91%	\$1.21	(489)	(489)	36,000	36,000
Kearny Mesa	417	9,542,891	315,000	120,900	182,510	1.91%	0	0.00%	\$1.50	8,470	8,470	70,934	70,934
Mission Gorge	106	1,745,285	0	0	18,466	1.06%	18,367	1.05%	\$1.63	(18,466)	(18,466)	0	0
Rose Canyon / Morena	129	2,112,124	0	0	0	0.00%	30,569	1.45%	\$1.30	62,519	62,519	62,519	62,519
Sports Arena / Airport	138	1,581,995	0	0	71,299	4.51%	71,299	4.51%	\$1.65	6,000	6,000	6,000	6,000
Miramar	583	13,377,875	0	0	136,402	1.02%	221,705	1.66%	\$1.35	(10,823)	(10,823)	97,902	97,902
Sorrento Mesa	70	3,282,738	0	0	31,272	0.95%	61,709	1.88%	\$1.77	1,154	1,154	8,075	8,075
Sorrento Valley/UTC	41	993,133	0	0	0	0.00%	0	0.00%	\$1.29	8,000	8,000	8,000	8,000
<b>Central County Total</b>	<b>1,997</b>	<b>38,891,441</b>	<b>315,000</b>	<b>120,900</b>	<b>528,309</b>	<b>1.36%</b>	<b>535,749</b>	<b>1.37%</b>	<b>\$1.41</b>	<b>51,587</b>	<b>51,587</b>	<b>289,430</b>	<b>289,430</b>
<b>East County</b>													
El Cajon	448	9,128,771	0	0	90,177	0.99%	90,062	0.99%	\$1.10	89,061	89,061	117,136	117,136
La Mesa / Spring Valley	314	2,695,179	0	3,000	113,558	4.21%	135,829	5.04%	\$1.05	(55,490)	(55,490)	16,260	16,260
Santee / Lakeside	286	3,965,326	0	0	114,753	2.89%	99,653	2.51%	\$1.19	17,928	17,928	36,488	36,488
Rural East County	80	820,489	0	0	0	0.00%	0	0.00%	-	0	0	0	0
<b>East County Total</b>	<b>1,128</b>	<b>16,609,765</b>	<b>0</b>	<b>3,000</b>	<b>318,488</b>	<b>1.92%</b>	<b>325,544</b>	<b>1.96%</b>	<b>\$1.11</b>	<b>51,499</b>	<b>51,499</b>	<b>169,884</b>	<b>169,884</b>
<b>North County</b>													
Escondido	633	7,544,405	0	62,000	130,555	1.73%	157,624	2.09%	\$1.20	(28,897)	(28,897)	33,974	33,974
Oceanside	402	9,330,398	0	400,000	115,903	1.24%	147,794	1.58%	\$1.10	483	483	88,799	88,799
San Marcos	478	8,113,118	0	223,175	319,917	3.94%	353,525	4.36%	\$1.11	119,915	119,915	141,596	141,596
Vista	527	13,025,182	0	30,165	520,157	3.99%	534,836	4.11%	\$1.06	152,759	152,759	271,210	271,210
Carlsbad	231	8,669,266	0	0	77,997	0.90%	264,128	3.05%	\$1.24	106,392	106,392	138,708	138,708
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	3,693	0.37%	11,415	1.15%	\$1.03	7,704	7,704	7,704	7,704
<b>North County Total</b>	<b>2,427</b>	<b>47,923,457</b>	<b>0</b>	<b>715,340</b>	<b>1,168,222</b>	<b>2.44%</b>	<b>1,469,322</b>	<b>3.07%</b>	<b>\$1.12</b>	<b>358,356</b>	<b>358,356</b>	<b>681,991</b>	<b>681,991</b>
<b>I-15 Corridor</b>													
Poway	186	7,613,843	0	0	48,574	0.64%	135,557	1.78%	\$1.15	(30,779)	(30,779)	0	0
Rancho Bernardo	41	3,238,502	0	0	0	0.00%	62,423	1.93%	\$1.45	0	0	0	0
Scripps Ranch	28	711,985	0	0	7,375	1.04%	41,118	5.78%	\$1.70	(7,375)	(7,375)	0	0
<b>I-15 Corridor Total</b>	<b>255</b>	<b>11,564,330</b>	<b>0</b>	<b>0</b>	<b>55,949</b>	<b>0.48%</b>	<b>239,098</b>	<b>2.07%</b>	<b>\$1.33</b>	<b>-38,154</b>	<b>-38,154</b>	<b>0</b>	<b>0</b>
<b>South County</b>													
Chula Vista	324	8,812,947	0	247,030	183,895	2.09%	490,232	5.56%	\$1.16	(67,698)	(67,698)	51,892	51,892
National City	252	3,644,115	0	80,970	47,714	1.31%	40,522	1.11%	\$1.38	51,355	51,355	65,569	65,569
Otay Mesa	354	21,071,365	1,574,188	2,001,036	783,770	3.72%	1,462,829	6.46%	\$0.90	322,998	322,998	417,205	417,205
South San Diego	63	1,318,244	0	24,121	5,488	0.42%	21,511	1.63%	\$0.97	920	920	1,720	1,720
<b>South County Total</b>	<b>993</b>	<b>34,846,671</b>	<b>1,574,188</b>	<b>2,353,157</b>	<b>1,020,867</b>	<b>2.93%</b>	<b>2,015,094</b>	<b>5.53%</b>	<b>\$0.96</b>	<b>307,575</b>	<b>307,575</b>	<b>536,386</b>	<b>536,386</b>
<b>San Diego County Total</b>	<b>6,800</b>	<b>149,835,664</b>	<b>1,889,188</b>	<b>3,192,397</b>	<b>3,091,835</b>	<b>2.06%</b>	<b>4,584,807</b>	<b>3.02%</b>	<b>\$1.17</b>	<b>730,863</b>	<b>730,863</b>	<b>1,677,691</b>	<b>1,677,691</b>
0-9,999	3,068	15,612,929	0	3,000	165,752	1.06%	187,792	1.20%	\$1.34	(10,682)	(10,682)	76,951	76,951
10,000-19,999	1,776	25,124,276	0	0	386,275	1.54%	506,570	2.02%	\$1.34	(86,127)	(86,127)	163,368	163,368
20,000-34,999	968	24,909,843	0	82,006	516,829	2.07%	703,577	2.82%	\$1.26	103,217	103,217	287,743	287,743
35,000-49,999	365	15,060,746	42,352	83,469	193,598	1.29%	347,414	2.30%	\$1.22	77,876	77,876	180,262	180,262
50,000-99,999	391	26,899,258	128,491	319,663	812,261	3.02%	1,013,832	3.75%	\$1.07	(11,092)	(11,092)	278,166	278,166
100,000 Plus	232	42,228,612	1,718,345	2,704,259	1,017,120	2.41%	1,825,622	4.15%	\$0.96	657,671	657,671	691,201	691,201
<b>San Diego County Total</b>	<b>6,800</b>	<b>149,835,664</b>	<b>1,889,188</b>	<b>3,192,397</b>	<b>3,091,835</b>	<b>2.06%</b>	<b>4,584,807</b>	<b>3.02%</b>	<b>\$1.17</b>	<b>730,863</b>	<b>730,863</b>	<b>1,677,691</b>	<b>1,677,691</b>

Lease rates are on an industrial-gross basis.



## It's Hot Out There

by **Greg Marx**

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Building values continue to reach record levels, vacancy rates remain extremely low, and rents continue to increase across San Diego County. In the 1st quarter of 2022, we saw a bit of a slowdown in the market: leasing activity pulled back. Many tenants are having a tough time finding new locations to fit their needs. This is no surprise when some of the largest industrial submarkets, like Miramar, El Cajon, Carlsbad, and Poway, have vacancy rates of 1% or less. Not only are tenants finding few options to lease in many instances, but they're experiencing a sticker shock from current rental rates. An industrial tenant coming off of a five-year lease will find today's rates well over 50% higher than the last time they were looking at their options. The market remains a "landlord's market" as we continue to see rents rise to record levels with a reduction of concessions and downtime.

Because rental rates have been increasing to such an extent, and now we see high economy-wide inflation on top of that, gone are the days of across-the-board 3% annual escalations in leases. It's now common to see 3.5% or 4% increases in a growing number of leases. Moreover, this is not limited to the Central County areas. Otay Mesa used to be known as the best location to find a bargain rate in San Diego County, but even this submarket at the Mexican border is seeing leases with escalations above 3% now.

San Diego companies in the market to purchase a building are feeling the squeeze as well. The average price per square foot for industrial buildings was \$274 in the first quarter. Incredibly, the price per square foot has actually doubled in just the last five years. This is the overall county average--prices in some areas are much higher. Kearny Mesa is now seeing industrial sales that exceed \$400 per square foot. And rising interest rates promise to exacerbate the situation.

Despite the dramatic increase in rental rates and sales prices, there is still an imbalance between supply and demand with occupancy rates so high across the county. We anticipate that 2022 will continue to experience upward pressure on rents, with concessions such as free rent and tenant improvement packages all but disappearing because the occupancy levels continue to remain high. San Diego's diverse employment base, its wonderful climate, proximity to Mexico and the Pacific Rim all help support our local economy's continued growth, with only a lack of existing and new industrial inventory standing in the way.

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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

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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