

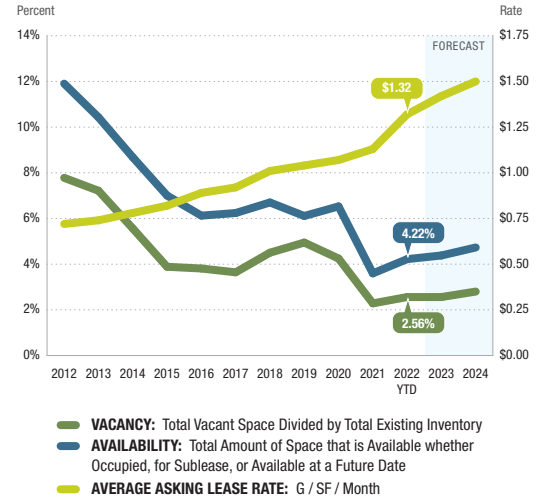
OVERVIEW. The San Diego industrial market saw a slight pullback in 3Q, evidenced by decreased leasing and sales volume, along with negative net absorption. Notwithstanding a decrease in the occupancy rate, vacancy remains very low by historical standards, and rental rates are still moving up rapidly.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 3Q at 2.6%, a decrease of 21% from the previous year's vacancy rate of 3.2%. 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. In 2010, during the "Great Recession," the overall vacancy rate for the county peaked at 9.7%. At the end of 3Q every major submarket had a vacancy rate below 3.4%. Available space being marketed (regardless of occupancy status) was 4.2% of the county's inventory at the end of 3Q.

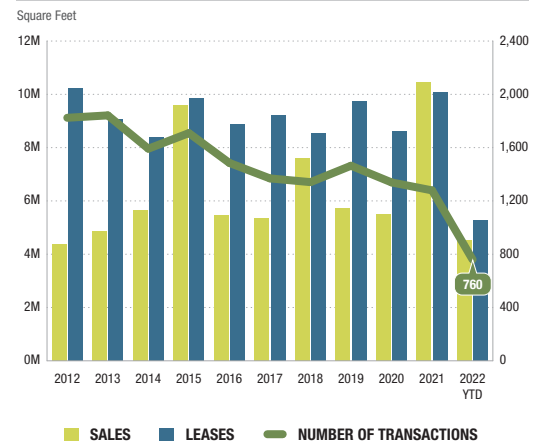
LEASE RATES. The average asking lease rate checked in at \$1.32 per square foot per month, which is an increase of seven cents per square foot over the previous quarter. Compared with 3Q last year, we see an astonishing 20% annual increase. By and large, negotiating leverage in the industrial market remains in the hands of the landlords, and rental rates remain elevated. In many cases, tenants with expiring leases have no alternatives 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. Fixed annual rental increases are also moving up. It is now common to see landlords insist on increases of 4% per year, rather than 3%, which had been the standard for many years.

TRANSACTION ACTIVITY. There were 174 lease transactions recorded in 3Q bringing the average number of leases recorded per quarter over the last year down to 196. The preceding five years had a quarterly average of 283 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. Many of these renewals do not get captured in the quarterly tally. For the second consecutive quarter, Amazon was not found among the largest leases recorded. Amazon is reportedly reevaluating its real estate strategy and slowing down on its rapid expansion which has been a major component of the recent leasing volume. From 2020–2021 Amazon executed a dozen different leases in San Diego County totaling more than 2.5 MSF. This does not include the 3.4 MSF build-to-suit in Otay Mesa. Amazon's pullback will take some of the wind out of the sails of the leasing market. Sales activity was slow in 3Q with only 44 buildings trading hands, the lowest quarterly total of the past two years. The average price per square foot across the county was \$335 in 3Q, more than double the level of just five years ago.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

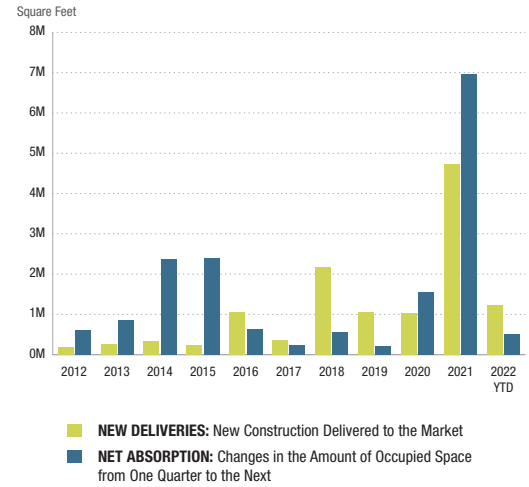
	Change Over Last Quarter	3Q 2022	2Q 2022	3Q 2021	% Change Over Last Year
Vacancy Rate	▲ UP	2.56%	2.09%	3.24%	(21.02%)
Availability Rate	▲ UP	4.22%	2.92%	4.17%	1.26%
Average Asking Lease Rate	▲ UP	\$1.32	\$1.25	\$1.10	20.00%
Sale & Lease Transactions	▼ DOWN	2,319,540	4,531,143	4,887,689	(52.54%)
Gross Absorption	▬ FLAT	1,668,034	1,650,882	5,324,722	(68.67%)
Net Absorption	▼ NEGATIVE	(234,759)	62,555	4,013,397	N/A

ABSORPTION. There were 234,759 SF of negative net absorption in 3Q 2022. The San Diego market remains on track for its twelfth consecutive year of growth to the total tenant footprint, with 515,731 SF of positive net absorption year to date. The South County area accounts for 915,806 SF of positive net absorption for 2022, demonstrating that the areas which have seen the majority of recent growth of industrial inventory are able to accommodate the growth of industrial tenants.

CONSTRUCTION. 1.2 MSF of new industrial projects have been delivered through the first three quarters of 2022. This is now the sixth year out of the past seven with more than 1.0 MSF of new construction completed. This is in stark contrast to the 360,000 SF 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 1.0 MSF of new industrial development in each of South County, North County, and the I-15 Corridor, while Central County and East County have each seen less than a half a million total square feet of new development during that span. More recently, construction has been especially concentrated in Otay Mesa, which accounts for 80% of the construction completions since the start of 2020, and 87% of the industrial real estate currently under construction.

EMPLOYMENT. The unemployment rate in San Diego County was 3.4% in August 2022, up from a revised 3.1% in July 2022, and below the year-ago estimate of 6.5%. This compares with an unadjusted unemployment rate of 4.1% for California and 3.8% for the nation during the same period. Over the 12-month period between August 2021 and August 2022, San Diego County employment increased by 59,600 jobs, an increase of 4.1%. With the normal delay in reporting from the California EDD, employment figures from September were unavailable at the time of publishing this report. For the nation as a whole, the unemployment rate declined to 3.3% in September, demonstrating that the labor market remains tight.

NEW DELIVERIES & NET ABSORPTION



Forecast

Going into the final quarter of 2022 we find ourselves in a high-inflation environment and a time of steadily increasing interest rates. Thus far, tenant demand has exceeded the recent wave of new construction supply, so limited availability in the market will continue to place upward pressure on rental rates in the coming quarters. We are seeing signs of a cooldown in investment sales, and the projected further interest rate increases will exacerbate that trend.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
5670 Kearny Mesa Rd.	Kearny Mesa	315,000	\$162,100,000	LDS Property Reserve	Lincoln Property Group
1395 Park Center Dr.	Vista	155,069	\$43,715,500	DWS Group	Oxford Properties Group
7615 Siempre Viva Rd.	Otay Mesa	86,680	\$24,850,000	Dalfen Industrial	Alcion Ventures
7520 Convoy Ct.	Kearny Mesa	29,442	\$12,600,000	SD County Office of Education	CEG Capital Partners
6989 Corte Santa Fe	Miramar	29,491	\$12,300,000	Weinstein Joint Trust	Pacific Entertainment Productions

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
8409 Kerns St.	Otay Mesa	124,000	Aug-2022	Suarez Brokerage	IDS
3055 Enterprise Ct.	Vista	86,465	Aug-2022	ShipLab, LLC	Hamann
2858 Loker Ave. E.	Carlsbad	85,511	Sep-2022	Undisclosed	BLT Enterprises
2055 Sanyo Ave.	Otay Mesa	67,500	Aug-2022	BAE	JLL Income Property Trust
10605 Jamacha Blvd.	Spring Valley	55,250	Jul-2022	HASA	1 Legacy Holdings, LLC

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2022	Square Feet Available	Availability Rate 3Q2022	Average Asking Lease Rate	Net Absorption 3Q2022	Net Absorption 2022	Gross Absorption 3Q2022	Gross Absorption 2022
Central County													
Central City	87	1,384,255	0	0	13,353	0.96%	15,453	1.12%	\$1.11	(3,353)	22,647	0	36,000
East City	60	613,391	0	0	0	0.00%	0	0.00%	\$0.95	4,778	0	4,778	4,778
Southeast City	365	4,253,979	0	0	130,821	3.08%	105,821	2.49%	\$1.26	(75,739)	(83,728)	11,322	69,015
Kearny Mesa	414	9,564,247	315,000	202,251	193,083	2.02%	176,683	1.79%	\$1.71	(39,858)	(2,103)	71,380	225,997
Mission Gorge	106	1,744,753	0	0	7,410	0.42%	13,540	0.78%	\$1.87	(1,164)	(7,410)	3,193	21,659
Rose Canyon / Morena	128	1,995,178	0	0	84,976	4.26%	83,496	4.18%	\$1.45	(74,936)	(22,457)	5,340	67,859
Sports Arena / Airport	138	1,585,021	0	0	76,379	4.82%	86,379	5.45%	\$1.70	(11,430)	920	6,000	24,350
Miramar	584	13,435,937	0	0	129,703	0.97%	277,242	2.06%	\$1.59	(6,566)	(4,124)	86,304	299,580
Sorrento Mesa	69	3,247,276	0	0	43,633	1.34%	116,700	3.59%	\$1.82	3,819	(11,207)	18,641	42,638
Sorrento Valley/UTC	41	993,145	0	0	0	0.00%	12,250	1.23%	\$2.84	0	8,000	0	8,000
Central County Total	1,992	38,817,182	315,000	202,251	679,358	1.75%	887,564	2.27%	\$1.59	(204,449)	(99,462)	206,958	799,876
East County													
El Cajon	447	9,133,902	0	381,240	116,288	1.27%	123,237	1.35%	\$1.32	(48,874)	62,950	5,312	147,793
La Mesa / Spring Valley	313	2,695,343	0	3,000	294,878	10.94%	250,967	9.31%	\$1.12	(198,646)	(236,810)	13,150	82,718
Santee / Lakeside	286	3,932,823	0	0	117,923	3.00%	109,483	2.78%	\$1.38	(3,829)	14,758	18,920	75,313
Rural East County	82	833,232	0	0	14,400	1.73%	14,400	1.73%	-	(12,600)	(14,400)	1,800	1,800
East County Total	1,128	16,595,300	0	384,240	543,489	3.27%	498,087	3.00%	\$1.23	(263,949)	(173,502)	39,182	307,624
North County													
Escondido	633	7,565,953	0	67,300	173,401	2.29%	224,062	2.96%	\$1.29	(20,315)	(71,743)	56,735	159,952
Oceanside	399	9,318,750	0	449,538	42,912	0.46%	162,141	1.74%	\$1.31	54,334	73,474	88,144	273,268
San Marcos	477	8,113,203	0	223,175	287,740	3.55%	167,365	2.06%	\$1.28	5,799	152,092	72,826	285,058
Vista	525	12,993,439	0	30,165	420,035	3.23%	411,575	3.17%	\$1.22	(31,536)	241,475	174,339	642,887
Carlsbad	225	8,580,937	0	0	388,858	4.53%	568,262	6.62%	\$1.46	(228,819)	(204,469)	43,889	226,788
North Beach Cities	40	234,183	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Rural North County	116	1,030,845	0	0	46,280	4.49%	46,280	4.49%	\$1.03	(44,400)	(36,696)	0	7,704
North County Total	2,415	47,837,310	0	770,178	1,359,226	2.84%	1,579,685	3.30%	\$1.27	(264,937)	154,133	435,933	1,595,657
I-15 Corridor													
Poway	186	7,616,664	0	0	24,399	0.32%	147,801	1.94%	\$1.40	26,072	(6,604)	28,016	32,295
Rancho Bernardo	40	3,008,904	0	0	13,949	0.46%	130,019	4.32%	\$1.72	6,686	(243,547)	20,635	20,635
Scripps Ranch	26	696,993	0	0	31,093	4.46%	127,045	18.23%	\$1.77	(28,080)	(31,093)	0	10,385
I-15 Corridor Total	252	11,322,561	0	0	69,441	0.61%	404,865	3.58%	\$1.57	4,678	(281,244)	48,651	63,315
South County													
Chula Vista	324	8,802,135	201,200	397,014	526,089	5.98%	818,885	9.10%	\$1.27	(16,449)	(409,892)	20,164	132,433
National City	249	3,621,226	0	80,970	57,296	1.58%	59,836	1.65%	\$1.55	(23,656)	41,773	1,110	80,753
Otay Mesa	358	21,870,964	1,901,785	2,453,690	608,850	2.78%	2,175,529	9.15%	\$0.97	529,315	1,277,517	911,348	2,005,984
South San Diego	63	1,318,244	0	24,121	0	0.00%	16,023	1.22%	\$0.94	4,688	6,408	4,688	7,208
South County Total	994	35,612,569	2,102,985	2,955,795	1,192,235	3.35%	3,070,273	8.14%	\$1.06	493,898	915,806	937,310	2,226,378
San Diego County Total	6,781	150,184,922	2,417,985	4,312,464	3,843,749	2.56%	6,440,474	4.22%	\$1.32	(234,759)	515,731	1,668,034	4,992,850
0-9,999	3,053	15,521,719	0	3,000	249,951	1.61%	291,595	1.88%	\$1.52	(71,922)	(107,706)	74,700	225,050
10,000-19,999	1,772	25,044,105	0	16,000	384,916	1.54%	609,553	2.43%	\$1.44	(70,355)	(84,768)	205,519	668,601
20,000-34,999	968	24,895,453	55,051	82,006	631,208	2.54%	874,160	3.50%	\$1.38	(91,302)	(15,313)	215,261	727,188
35,000-49,999	369	15,253,990	114,500	231,038	323,125	2.12%	584,429	3.80%	\$1.29	(87,231)	29,170	88,376	466,936
50,000-99,999	388	26,754,957	333,118	412,188	1,068,456	3.99%	1,489,911	5.50%	\$1.31	(381,454)	(267,287)	82,341	648,877
100,000 Plus	231	42,714,698	1,915,316	3,568,232	1,186,093	2.78%	2,590,826	5.81%	\$1.01	467,505	961,635	1,001,837	2,256,198
San Diego County Total	6,781	150,184,922	2,417,985	4,312,464	3,843,749	2.56%	6,440,474	4.22%	\$1.32	(234,759)	515,731	1,668,034	4,992,850

Lease rates are on an industrial-gross basis.



Industrial Still Outperforming Other Sectors

by **Brian Mulvaney, CCIM, SIOR**

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San Diego has a very dynamic commercial real estate market, and our 150 MSF industrial base is no exception. The industrial market has gone through tremendous rental and value growth over recent years and continues to remain at all-time highs. While the retail and office markets have had their challenges, the industrial market continues to remain extremely stable with an overall countywide vacancy rate of approximately 2.56%, and an availability rate of only 4.22%.

In any market this would be a strong indicator of the need to develop new product. But in San Diego there is an extremely limited supply of vacant buildable industrial land, so most new construction will be occurring on land containing existing product. Almost all of the Central County markets are completely built out. Even North County is getting to the point where there are very few buildable parcels available. South County is the only exception, however much of the existing land in Otay Mesa has been developed and that market has become stable while experiencing tremendous rent growth over the past few years.

Clearly the inflationary period we are in, combined with high interest rates, will have its effect on values. But the industrial investment market is still seeing all-time high values, although velocity has slowed over the past two quarters. Prices are still breaking records and fundamentals remain strong in the county with only approximately 2.4 MSF of development in the pipeline. Most of this development is in South County. Although the third quarter posted negative net absorption of 234,000 SF, we have seen 515,000 SF of positive net absorption year to date along with over 1.6 MSF of gross absorption in the third quarter.

While the market is still experiencing a slight uptick in the amount of available sublease space, it is not likely to affect vacancy and/or asking rental rates in a meaningful way. With an average countywide asking lease rate of \$1.32 per square foot per month, the industrial market is still riding its all-time high plateau. Central County and the I-15 corridor are leading the way, with average asking lease rents of \$1.59 and \$1.57 respectively.

It will be interesting to see if this is sustainable given the headwinds of economic uncertainty, high inflation, and the continued increase in interest rates, which could have a softening effect on the future industrial market.

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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

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