

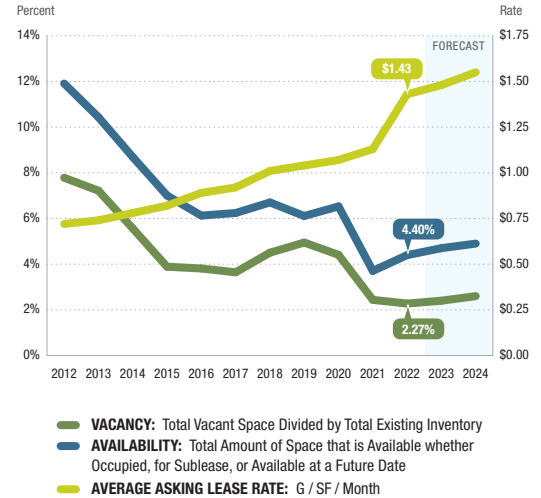
OVERVIEW. The San Diego industrial market saw a pullback in both sales and leasing volume in 2022, but a continued increase in rental rates and overall occupancy. Construction activity remains strong, though nearly entirely concentrated in South County, and the growth of the industrial tenant base continues. The market remains at an all-time high in rental rates and occupancy. The explosive growth of the prior two years has eased up, but the market remains tight.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 4Q at 2.3%, a decrease of 6.7% from the previous year's vacancy rate of 2.4%. In 2010, during the "Great Recession," the overall vacancy rate for the county peaked at 9.7%. At the end of 2022 every submarket cluster had a vacancy rate below 2.8%. Available space being marketed (regardless of occupancy status) was 4.4% of the county's inventory at the end of 4Q. While the vacancy rate is down compared to the previous quarter and year, the availability rate has increased over those same periods due to South County projects under construction which have available space not yet ready for occupancy. South County had a 7.9% availability rate at the end of 4Q, more than double any other submarket cluster in the county.

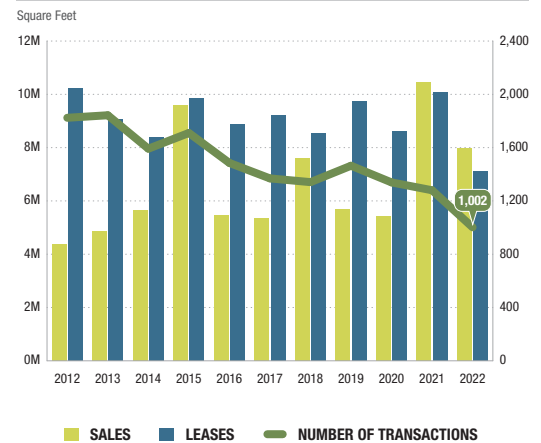
LEASE RATES. The average asking lease rate checked in at \$1.43 per square foot per month, which is an increase of \$0.11 per square foot over the previous quarter. Compared with 4Q 2021, we see an astonishing 26.6% annual increase. By and large, negotiating leverage in the industrial market remains 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 4Q, bringing the average number of leases recorded per quarter for 2022 down to 192. 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 third 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 4Q with only 54 buildings trading hands at a total of \$375.7 million. This marks the second lowest quarterly total since 3Q 2020.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



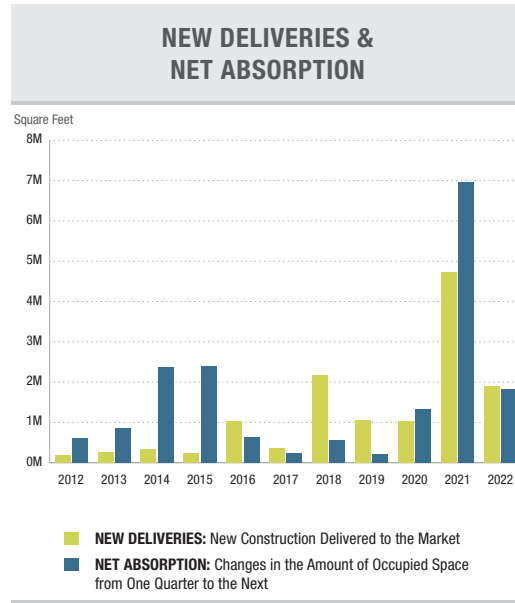
Market Statistics

	Change Over Last Quarter	4Q 2022	3Q 2022	4Q 2021	% Change Over Last Year
Vacancy Rate	▼ DOWN	2.27%	2.76%	2.44%	(6.69%)
Availability Rate	▲ UP	4.40%	4.15%	3.70%	18.68%
Average Asking Lease Rate	▲ UP	\$1.43	\$1.32	\$1.13	26.55%
Sale & Lease Transactions	▲ UP	4,693,025	2,945,000	6,109,988	(23.19%)
Gross Absorption	▲ UP	1,805,829	1,638,543	2,338,569	(22.78%)
Net Absorption	▲ POSITIVE	857,624	-299,250	1,778,353	N/A

ABSORPTION. There were 857,624 SF of positive net absorption in 4Q 2022, pushing the 2022 total up to 1,834,313 SF, the second largest annual total of the past seven years. The San Diego market has now recorded twelve consecutive years of growth to the total tenant footprint. The South County area accounts for 1,505,573 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. 1.9 MSF of new industrial projects were delivered in 2022, which was the sixth year out of the past seven with more than 1 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 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 concentrated in Otay Mesa, which accounts for 80% of the construction completions since the start of 2020, and 88% of the industrial real estate currently under construction.

EMPLOYMENT. The unemployment rate in San Diego County was 3.3% in November 2022, up from a revised 3.2% in October 2022, and below the year-ago estimate of 4.5%. This compares with an unadjusted unemployment rate of 4.0% for California and 3.4% for the nation during the same period. Over the 12-month period between November 2021 and November 2022, San Diego County employment increased by 48,400 jobs, an increase of 3.2%. 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, 223,000 jobs were added in December, the smallest monthly gain in two years.



Forecast

Going into 2023, we find ourselves in an environment of steadily increasing interest rates and increasing predictions of an economic slowdown. 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
8870 Liquid Ct.	Miramar	204,851	\$64,300,000	LBA Realty	Martin Brower Global
5959 Santa Fe St.	Morena/Rose Canyon	131,299	\$46,300,000	LBA Realty	Anheuser-Busch
13100 Danielson St.	Poway	129,910	\$35,100,000	Lincoln Property Company	Spectrum Investments, LLC
970 Park Center Dr.	Vista	76,954	\$23,000,000	Altemus Copmany	Sea Vista Properties, LLC
2425 Auto Park Way	Escondido	88,690	\$20,000,000	Stos Partners	Sound Image

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
Rancho Del Oro Dr.	Oceanside	217,000	Oct-2022	Ionis	Sudberry
5959 Santa Fe St.	Morena/Rose Canyon	127,000	Oct-2022	Anheuser-Busch	LBA Realty
7255 Otay Mesa Rd.	Otay Mesa	105,457	Oct-2022	PCI Pharma Services	Hines
1445 Engineer St.	Vista	93,662	Nov-2022	Undisclosed	First Industrial Realty Trust
10926 Woodside Ave. N.	Santee	91,923	Oct-2022	Central Admixture Pharmacy Services	Rolle, 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 4Q2022	Square Feet Available	Availability Rate 4Q2022	Average Asking Lease Rate	Net Absorption 4Q2022	Net Absorption 2022	Gross Absorption 4Q2022	Gross Absorption 2022
Central County													
Central City	87	1,384,255	0	0	3,353	0.24%	11,353	0.82%	\$1.11	10,000	32,647	10,000	46,000
East City	60	613,391	0	0	12,923	2.11%	0	0.00%	-	(12,923)	(12,923)	0	4,778
Southeast City	365	4,247,979	0	0	91,182	2.15%	139,163	3.28%	\$1.27	39,639	(44,089)	59,474	128,489
Kearny Mesa	414	9,861,222	0	202,251	120,198	1.22%	254,831	2.58%	\$1.77	372,266	370,163	404,390	630,387
Mission Gorge	106	1,744,436	0	0	9,473	0.54%	34,017	1.95%	\$1.85	(2,063)	(9,473)	3,277	24,936
Rose Canyon / Morena	128	1,999,477	0	0	92,041	4.60%	165,261	8.27%	\$1.55	(7,065)	(29,522)	9,260	77,119
Sports Arena / Airport	138	1,594,521	32,661	0	59,199	3.71%	81,699	5.02%	\$1.71	17,180	18,100	33,430	57,780
Miramar	583	13,406,516	0	0	104,866	0.78%	339,417	2.53%	\$1.71	24,837	20,713	79,031	349,120
Sorrento Mesa	69	3,247,276	0	0	95,614	2.94%	181,814	5.60%	\$1.87	(51,981)	(63,188)	1,605	44,243
Sorrento Valley/UTC	41	993,145	0	0	0	0.00%	5,812	0.59%	\$3.47	0	8,000	0	8,000
Central County Total	1,991	39,092,218	32,661	202,251	588,849	1.51%	1,213,367	3.10%	\$1.69	389,890	290,428	600,467	1,370,852
East County													
El Cajon	447	9,134,682	0	381,240	106,657	1.17%	112,036	1.23%	\$1.40	9,631	72,581	58,170	205,963
La Mesa / Spring Valley	311	2,701,638	0	3,000	189,062	7.00%	196,241	7.26%	\$1.15	105,816	(130,994)	112,501	195,219
Santee / Lakeside	286	3,932,823	0	0	126,623	3.22%	43,617	1.11%	\$1.39	(8,700)	6,058	16,005	91,318
Rural East County	81	832,767	0	0	12,474	1.50%	12,474	1.50%	-	(3,074)	(12,474)	0	1,800
East County Total	1,125	16,601,910	0	384,240	434,816	2.62%	364,368	2.19%	\$1.27	103,673	(64,829)	186,676	494,300
North County													
Escondido	634	7,570,197	0	67,300	126,152	1.67%	236,483	3.12%	\$1.30	47,249	(24,494)	87,614	247,566
Oceanside	399	9,307,884	0	449,538	153,637	1.65%	224,243	2.41%	\$1.32	(110,725)	(37,251)	43,634	316,902
San Marcos	477	8,106,970	0	223,175	327,327	4.04%	279,350	3.45%	\$1.25	(39,587)	112,505	22,679	307,737
Vista	526	13,014,895	0	30,165	336,272	2.58%	462,046	3.55%	\$1.26	83,763	325,238	178,059	820,946
Carlsbad	225	8,594,992	0	0	307,668	3.58%	574,393	6.68%	\$1.54	81,190	(123,279)	125,271	352,059
North Beach Cities	40	236,337	0	0	4,976	2.11%	4,976	2.11%	-	(4,976)	(4,976)	0	0
Rural North County	116	1,031,205	0	0	47,000	4.56%	50,000	4.85%	\$1.08	(720)	(37,416)	14,280	21,984
North County Total	2,417	47,862,480	0	770,178	1,303,032	2.72%	1,831,491	3.83%	\$1.30	56,194	210,327	471,537	2,067,194
I-15 Corridor													
Poway	186	7,617,763	0	0	36,068	0.47%	90,727	1.19%	\$1.44	(11,669)	(18,273)	2,722	35,017
Rancho Bernardo	40	3,008,904	0	0	51,324	1.71%	129,769	4.31%	\$1.76	(37,375)	(51,324)	250	20,885
Scripps Ranch	26	696,993	0	0	37,589	5.39%	110,265	15.82%	\$1.78	(6,496)	(37,589)	3,013	13,398
I-15 Corridor Total	252	11,323,660	0	0	124,981	1.10%	330,761	2.92%	\$1.59	(55,540)	(107,186)	5,985	69,300
South County													
Chula Vista	324	8,732,886	201,200	397,014	255,426	2.92%	721,271	8.07%	\$1.32	44,303	(139,229)	144,353	276,786
National City	249	3,620,522	0	80,970	55,178	1.52%	76,929	2.12%	\$1.57	2,118	43,891	24,676	105,429
Otay Mesa	363	22,275,820	1,749,098	2,290,254	665,170	2.99%	2,115,527	8.81%	\$1.20	319,651	1,597,168	372,135	2,378,119
South San Diego	63	1,331,196	0	24,121	2,665	0.20%	64,811	4.87%	\$1.14	(2,665)	3,743	0	7,208
South County Total	999	35,960,424	1,950,298	2,792,359	978,439	2.72%	2,978,538	7.86%	\$1.30	363,407	1,505,573	541,164	2,767,542
San Diego County Total	6,784	150,840,692	1,982,959	4,149,028	3,430,117	2.27%	6,718,525	4.40%	\$1.43	857,624	1,834,313	1,805,829	6,769,188
0-9,999	3,053	15,533,146	0	3,000	243,190	1.57%	306,837	1.98%	\$1.54	1,761	(100,945)	137,650	362,700
10,000-19,999	1,771	25,037,390	14,947	16,000	488,625	1.95%	690,817	2.76%	\$1.46	(103,709)	(188,477)	190,611	859,212
20,000-34,999	968	24,892,458	87,788	115,614	548,803	2.20%	892,106	3.57%	\$1.52	82,405	67,092	297,072	994,769
35,000-49,999	368	15,209,069	114,580	183,138	227,555	1.50%	614,127	4.01%	\$1.37	135,570	124,740	237,977	704,913
50,000-99,999	390	26,864,734	207,635	461,288	974,818	3.63%	1,295,845	4.79%	\$1.35	222,129	(45,158)	349,569	998,446
100,000 Plus	234	43,303,895	1,558,009	3,369,988	947,126	2.19%	2,918,793	6.51%	\$1.16	519,468	1,977,061	592,950	2,849,148
San Diego County Total	6,784	150,840,692	1,982,959	4,149,028	3,430,117	2.27%	6,718,525	4.40%	\$1.43	857,624	1,834,313	1,805,829	6,769,188

Lease rates are on an industrial-gross basis.



Waiting On the World to Change

by **Todd Holley, SIOR**

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There is a large segment of buyers and tenants who have been sitting on the sideline waiting for the bottom of the industrial market to fall out. It hasn't happened. Perceptions of the market are being clouded by the memory of the local residential market, which went from dozens of competing offers on every new listing to a swift decline following interest rate hikes. In the Central County industrial market, we are still seeing multiple offers on new availabilities for sale and for lease, for anything that isn't functionally obsolete. Rental rates are holding strong with minimal concessions, and there aren't enough owner-user options for sale in the market to satisfy existing demand. Landlords are, generally, still able to pick and choose high-credit tenants for new availabilities, and sellers are still seeing enough demand to prefer cash buyers and quick closings. There is still strength in the industrial market. There is, however, a growing bid/ask differential in the user sales market. Buyers are reading doom and gloom headlines thinking the world is falling apart, and sellers would like to somewhat disregard the effect rising interest rates have on the market. With more interest rate increases forecast for the coming quarters, now is the time to capitalize on the massive price increases of the past couple years before higher interest rates become more of a hinderance.

On the R&D side, tenant demand for labs in the market has pulled back along with venture capital activity. There are half a dozen projects in the Sorrento Mesa area which are still in the midst of lab conversion, and by the time all of these projects get to market, someone may be left holding the bag. Underwriting for this repositioning and redevelopment was often based upon rental rates in the \$7.00 NNN range to make things pencil for the acquisition and capital improvements cost. That's an extremely high rate for San Diego by historical standards, and if demand and venture capital activity remains reduced at the time of completion, we may see some of these projects leasing for much less than was initially projected.

The San Diego Industrial market remains extremely tight, as it has been for the past five years. We are still at all-time highs for rental rates, with very minimal rent concessions, and extremely limited availability.

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