

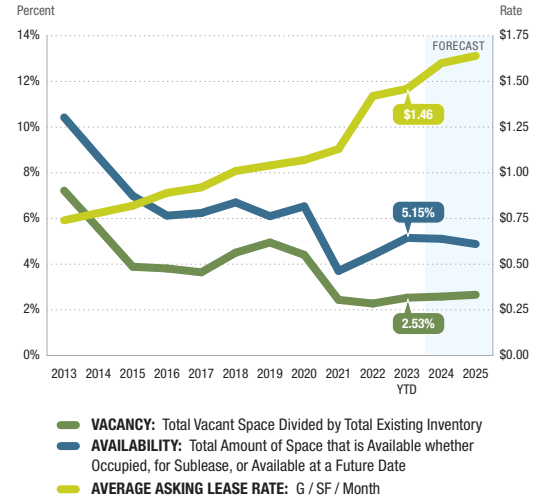
**OVERVIEW.** The reduced level of leasing and sales volume in the San Diego industrial market continued in the first quarter of the year. Construction activity is still strong, though nearly entirely concentrated in the South County. The market continues to push new all-time highs in rental rates quarter after quarter. There was negative net absorption in Q1 which moved the vacancy rate up modestly, but overall the market remains tight.

**VACANCY & AVAILABILITY.** Direct/sublease space (unoccupied) finished Q1 at 2.5%, a decrease of 29 basis points from the previous year's vacancy rate of 2.2%. In 2010, during the "Great Recession," the overall vacancy rate for the county peaked at 9.7%. At the end of Q1 every submarket had a vacancy rate below 3.2%. Available space being marketed (regardless of occupancy status) was 5.1% of the county's inventory at the end of Q1. South County had an 8.6% availability rate at the end of Q1, nearly double any other submarket in the county due to South County projects under construction which have available space not yet ready for occupancy.

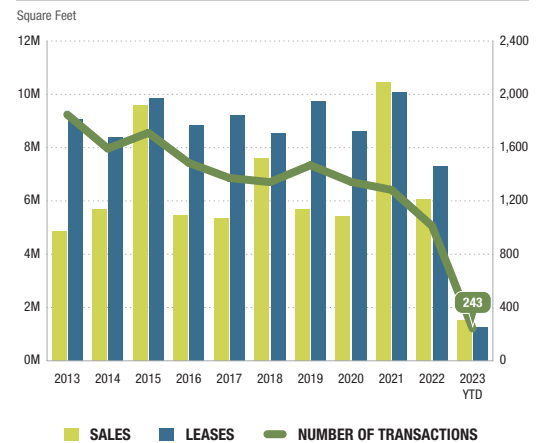
**LEASE RATES.** The average asking lease rate checked in at \$1.46 per square foot per month, which is an increase of four cents per square foot over the previous quarter. Compared with Q1 2022, we see an astonishing 25.8% annual increase. By and large, negotiating leverage in the industrial market remains in the hands of the landlords, and rental rates remain elevated. In many cases, tenants with expiring leases do not have a single alternative 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 198 lease transactions recorded in Q1. Since the beginning of 2021 there has been an average of 216 leases recorded per quarter. The preceding five years had a quarterly average of 294 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. The market has now seen four consecutive quarters without Amazon 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 leasing volume in recent years. 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 has taken some of the wind out of the sails of the leasing market. Sales activity was slow in Q1 with only 43 buildings trading hands. This marks the lowest quarterly total since the pandemic-constrained Q2 2020.

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



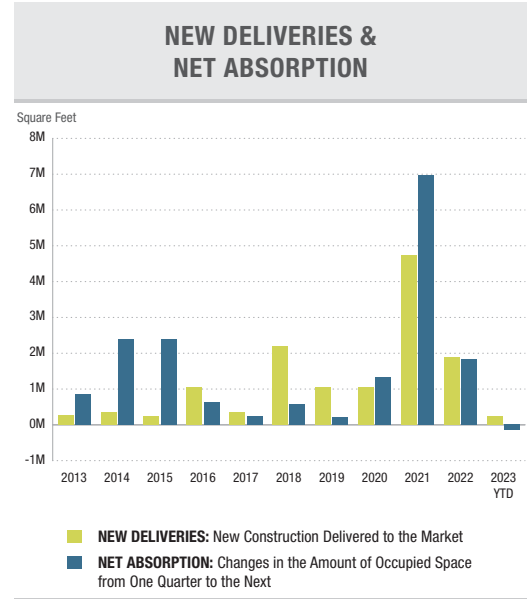
### Market Statistics

	Change Over Last Quarter	Q1 2023	Q4 2022	Q1 2022	% Change Over Last Year
Vacancy Rate	▲ UP	2.53%	2.28%	2.24%	12.79%
Availability Rate	▲ UP	5.15%	4.40%	3.28%	56.81%
Average Asking Lease Rate	▲ UP	\$1.46	\$1.42	\$1.17	24.79%
Sale & Lease Transactions	▼ DOWN	2,734,976	2,935,984	2,950,385	(7.30%)
Gross Absorption	▼ DOWN	1,506,545	1,750,736	1,673,934	(10.00%)
Net Absorption	▼ NEGATIVE	(147,262)	797,817	687,935	N/A

**ABSORPTION.** There were 147,262 SF of negative net absorption in Q1, only the third quarter of negative net absorption within the past three years. The low leasing volume in 2022 led to the decrease in the tenant footprint to start 2023, and with the slow start to industrial leasing in Q1, the market may see more negative net absorption in future quarters. Outside of the South County, all of the major submarkets in the county are at or near all-time low levels of vacancy. Without any significant construction in these areas, negative net absorption will be a welcome sight for tenants in the market looking for available space.

**CONSTRUCTION.** 1.98 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 more than 80% of the construction completions since the start of 2020, and 83% of the industrial real estate currently under construction.

**EMPLOYMENT.** The unemployment rate in San Diego County was 3.7% in February 2023, unchanged from a revised 3.7% in January 2023, and below the year-ago estimate of 4.1%. This compares with an unadjusted unemployment rate of 4.8% for California and 3.9% for the nation during the same period. Over the 12-month period between February 2022 and February 2023, San Diego County employment increased by 52,900 jobs, an increase of 3.5%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. For the nation as a whole, 236,000 jobs were added in March, the lowest monthly total since December 2020.



## Forecast

Going into 2023, we find ourselves in an environment of increased interest rates and pervasive predictions of an economic slowdown. Thus far, tenant demand has exceeded the recent wave of new construction supply, so the 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 uncertainty surrounding the economy will exacerbate that trend.

## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2020 Piper Ranch Rd.	Otay Mesa	601,103	\$126,836,500	LaSalle Investment Management	ARES Management, LLC
13651-13771 Danielson St.	Poway	147,907	\$38,250,000	SENTRE, Inc.	TA Realty
1611-1665 S. Rancho Santa Fe Rd.	San Marcos	158,823	\$35,250,000	Birtcher Anderson & Davis	AEW Capital Management
5444 Napa St., 5220 Gaines St., Et Al	Morena/Rose Canyon	43,291	\$18,000,000	AAA Management, LLC	Hazard Jr. Enterprises, LP
1385 Park Center Dr.	Vista	46,031	\$15,000,000	Quill Holdings, LLC	Link Logistics

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1610 Landmark Rd.	Otay Mesa	240,975	Feb-2023	RL Jones	Majestic Realty/Sunroad Enterprises
505 Main St.	Chula Vista	79,611	Jan-2023	Undisclosed	KKR
7077 Consolidated Way	Miramar	45,600	Mar-2023	Undisclosed	(Sublease)
6550 Mira Mesa Blvd.	Sorrento Mesa	44,219	Jan-2023	DPR Construction	San Diego 6550 Investments, LLC
3977 Ocean Ranch Blvd.	Oceanside	34,375	Feb-2023	Lamination Depot	(Sublease)

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q1 2023	Square Feet Available	Availability Rate Q1 2023	Average Asking Lease Rate	Net Absorption Q1 2023	Net Absorption 2023	Gross Absorption Q1 2023	Gross Absorption 2023
<b>Central County</b>													
Central City	87	1,415,549	0	106,688	13,353	0.94%	132,803	9.38%	\$1.66	(10,000)	(10,000)	0	0
East City	60	613,311	0	0	8,900	1.45%	8,900	1.45%	\$1.50	4,023	4,023	12,923	12,923
Southeast City	365	4,246,979	0	0	73,719	1.74%	114,574	2.70%	\$1.28	17,463	17,463	38,871	38,871
Kearny Mesa	415	9,825,304	0	202,251	151,474	1.54%	264,311	2.69%	\$1.85	(31,276)	(31,276)	49,085	49,085
Mission Gorge	105	1,723,749	0	0	18,808	1.09%	25,979	1.51%	\$1.85	(9,335)	(9,335)	4,246	4,246
Rose Canyon / Morena	128	1,999,477	0	0	89,041	4.45%	162,086	8.11%	\$1.55	3,000	3,000	3,000	3,000
Sports Arena / Airport	138	1,580,172	32,661	0	67,649	4.28%	81,649	5.06%	\$1.70	(8,450)	(8,450)	10,250	10,250
Miramar	582	13,389,114	0	0	280,564	2.10%	720,665	5.38%	\$1.76	(175,698)	(175,698)	49,901	49,901
Sorrento Mesa	69	3,244,785	0	0	80,656	2.49%	107,895	3.33%	\$1.89	14,958	14,958	65,306	65,306
Sorrento Valley/UTC	41	993,145	0	0	800	0.08%	0	0.00%	\$3.47	(800)	(800)	0	0
<b>Central County Total</b>	<b>1,990</b>	<b>39,031,585</b>	<b>32,661</b>	<b>308,939</b>	<b>784,964</b>	<b>2.01%</b>	<b>1,618,862</b>	<b>4.14%</b>	<b>\$1.73</b>	<b>(196,115)</b>	<b>(196,115)</b>	<b>233,582</b>	<b>233,582</b>
<b>East County</b>													
El Cajon	447	9,135,862	0	381,240	63,826	0.70%	112,796	1.23%	\$1.53	42,831	42,831	72,837	72,837
La Mesa / Spring Valley	312	2,703,506	0	3,000	205,428	7.60%	233,652	8.64%	\$1.15	(16,366)	(16,366)	27,030	27,030
Santee / Lakeside	288	3,979,024	0	0	56,892	1.43%	76,486	1.92%	\$1.48	69,731	69,731	118,778	118,778
Rural East County	81	832,767	0	0	12,474	1.50%	9,400	1.13%	-	0	0	0	0
<b>East County Total</b>	<b>1,128</b>	<b>16,651,159</b>	<b>0</b>	<b>384,240</b>	<b>338,620</b>	<b>2.03%</b>	<b>432,334</b>	<b>2.60%</b>	<b>\$1.33</b>	<b>96,196</b>	<b>96,196</b>	<b>218,645</b>	<b>218,645</b>
<b>North County</b>													
Escondido	636	7,554,616	0	67,300	163,763	2.17%	250,990	3.32%	\$1.39	(37,611)	(37,611)	38,440	38,440
Oceanside	399	9,312,452	0	449,538	238,974	2.57%	326,712	3.51%	\$1.34	(85,337)	(85,337)	75,004	75,004
San Marcos	473	8,097,888	0	223,175	368,836	4.55%	376,787	4.65%	\$1.27	(41,509)	(41,509)	69,084	69,084
Vista	526	13,014,895	0	30,165	375,934	2.89%	543,361	4.17%	\$1.27	(39,662)	(39,662)	233,762	233,762
Carlsbad	225	8,595,022	0	0	307,743	3.58%	559,555	6.51%	\$1.60	(75)	(75)	27,045	27,045
North Beach Cities	40	236,337	0	0	4,976	2.11%	4,976	2.11%	-	0	0	0	0
Rural North County	117	1,032,855	0	0	30,350	2.94%	33,150	3.21%	\$1.28	16,650	16,650	25,000	25,000
<b>North County Total</b>	<b>2,416</b>	<b>47,844,065</b>	<b>0</b>	<b>770,178</b>	<b>1,490,576</b>	<b>3.12%</b>	<b>2,095,531</b>	<b>4.38%</b>	<b>\$1.34</b>	<b>(187,544)</b>	<b>(187,544)</b>	<b>468,335</b>	<b>468,335</b>
<b>I-15 Corridor</b>													
Poway	186	7,627,948	0	0	63,856	0.84%	236,050	3.09%	\$1.60	(27,788)	(27,788)	9,798	9,798
Rancho Bernardo	40	3,008,808	0	0	20,245	0.67%	98,690	3.28%	\$1.75	30,983	30,983	30,983	30,983
Scripps Ranch	26	696,993	0	0	5,230	0.75%	103,065	14.79%	\$1.84	32,359	32,359	37,589	37,589
<b>I-15 Corridor Total</b>	<b>252</b>	<b>11,333,749</b>	<b>0</b>	<b>0</b>	<b>89,331</b>	<b>0.79%</b>	<b>437,805</b>	<b>3.86%</b>	<b>\$1.66</b>	<b>35,554</b>	<b>35,554</b>	<b>78,370</b>	<b>78,370</b>
<b>South County</b>													
Chula Vista	324	8,732,727	298,510	397,014	150,945	1.73%	820,871	9.09%	\$1.32	104,481	104,481	143,776	143,776
National City	249	3,621,002	0	80,970	68,071	1.88%	82,063	2.27%	\$1.66	(12,893)	(12,893)	13,047	13,047
Otay Mesa	364	22,528,709	1,612,313	3,949,740	901,346	4.00%	2,335,728	9.68%	\$1.27	11,434	11,434	348,365	348,365
South San Diego	63	1,331,196	0	24,121	1,040	0.08%	52,776	3.96%	\$1.14	1,625	1,625	2,425	2,425
<b>South County Total</b>	<b>1,000</b>	<b>36,213,634</b>	<b>1,910,823</b>	<b>4,451,845</b>	<b>1,121,402</b>	<b>3.10%</b>	<b>3,291,438</b>	<b>8.63%</b>	<b>\$1.33</b>	<b>104,647</b>	<b>104,647</b>	<b>507,613</b>	<b>507,613</b>
<b>San Diego County Total</b>	<b>6,786</b>	<b>151,074,192</b>	<b>1,943,484</b>	<b>5,915,202</b>	<b>3,824,893</b>	<b>2.53%</b>	<b>7,875,970</b>	<b>5.15%</b>	<b>\$1.46</b>	<b>(147,262)</b>	<b>(147,262)</b>	<b>1,506,545</b>	<b>1,506,545</b>
0-9,999	3,060	15,597,604	0	3,000	271,609	1.74%	338,515	2.17%	\$1.60	(25,369)	(25,369)	112,383	112,383
10,000-19,999	1,766	24,982,394	14,947	16,000	444,548	1.78%	828,478	3.31%	\$1.54	41,027	41,027	274,809	274,809
20,000-34,999	967	24,851,455	87,788	82,006	603,089	2.43%	1,005,566	4.03%	\$1.54	(54,382)	(54,382)	260,032	260,032
35,000-49,999	368	15,201,903	114,580	183,138	356,757	2.35%	661,140	4.32%	\$1.42	(129,202)	(129,202)	71,877	71,877
50,000-99,999	389	26,788,660	304,945	461,288	700,480	2.61%	1,712,749	6.32%	\$1.31	274,338	274,338	575,268	575,268
100,000 Plus	236	43,652,176	1,421,224	5,169,770	1,448,410	3.32%	3,329,522	7.39%	\$1.16	(253,674)	(253,674)	212,176	212,176
<b>San Diego County Total</b>	<b>6,786</b>	<b>151,074,192</b>	<b>1,943,484</b>	<b>5,915,202</b>	<b>3,824,893</b>	<b>2.53%</b>	<b>7,875,970</b>	<b>5.15%</b>	<b>\$1.46</b>	<b>(147,262)</b>	<b>(147,262)</b>	<b>1,506,545</b>	<b>1,506,545</b>

Lease rates are on an industrial-gross basis.



## Economic Headwinds vs. Strong Market Fundamentals

by **Curt Perry**

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In 2022 we witnessed the effects that rising interest rates, increasing inflation, and the pandemic hangover have had on real estate. Contrary to the other product types, these negative influences had little effect on the San Diego industrial market, which weathered the storm — we saw demand at record highs, lease rates and sale prices at record levels, and vacancy at a historical low.

However, the industrial market has taken a breather and cooled slightly over the past few quarters. This is primarily due to cautious tenants' concern with economic uncertainty attributed to geopolitical tensions, regional bank instability, and inflation. The industrial market is reliant on a dependable supply chain. Further disruption of supply chains due to geopolitical issues would have an adverse effect on the market, but fortunately this concern appears to be waning.

The recent bank instability brings back memories of the 2008 crash. This has caused banks to tighten their lending practices as they are being scrutinized by both their depositors and their government regulators. Another concern we foresee is the pressure real estate owners will face who have loans coming due this year. In the past, these owners were able to finance properties at historically low rates, but they may not be able to refinance at today's higher interest rates and could be forced to sell. This possibility, coupled with a steady influx of industrial building supply hitting the market at the same time, could put some pressure on sale prices and could have a negative effect on the overall industrial market.

While the market has generally cooled, the outlook for San Diego industrial is still favorable owing to several factors such as lack of developable land. In addition, the robust logistics sector, distribution, and cross-border manufacturing with Mexico are positive influences for the San Diego market. Low vacancy in most submarkets and the constraints on future inventory deliveries will bode well for real estate/hard asset owners and further support pricing stability.

Even with the aforementioned persistent economic headwinds, the San Diego industrial market is poised to have another solid year, as evidenced by available spaces under 50,000 SF still leasing with little down time. Additionally, inflation is still being outpaced by industrial rent growth, which remains well above the historical average. As we launch into the second quarter of 2023, we will need to keep a close eye on the economic headwinds and monitor the metrics that influence tenant decisions.

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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