

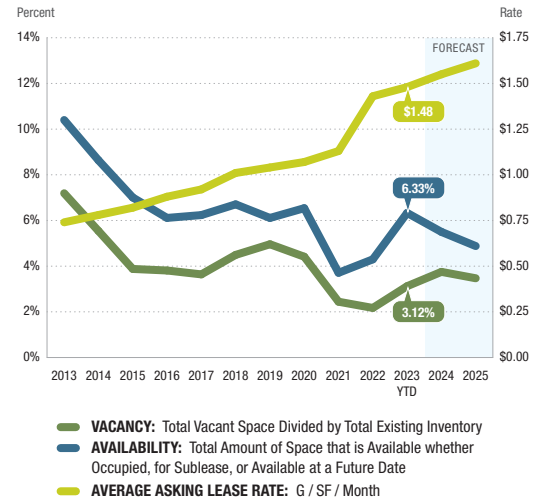
OVERVIEW. The reduced level of leasing and sales volume in the San Diego industrial market continued in the second quarter of the year. Construction activity is still strong, though largely concentrated in the South County. The market continues to push new all-time highs in rental rates quarter after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

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q2 at 3.1%, an increase of half a percentage point from the previous quarter's vacancy rate of 2.6%. In 2010, during the "Great Recession," the overall vacancy rate for the county peaked at 9.7%. At the end of Q2 every submarket cluster had a vacancy rate of 4% or less. Available space being marketed (regardless of occupancy status) was 6.3% of the county's inventory at the end of Q2. South County had a 10.4% availability rate at the end of Q2, nearly double any other submarket in the county, due to South County projects under construction which have available space not yet ready for occupancy.

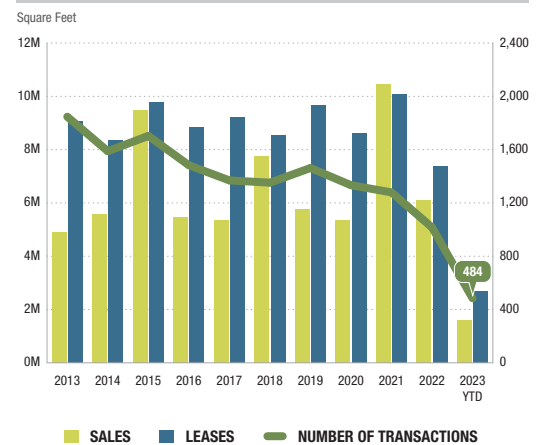
LEASE RATES. The average asking lease rate checked in at \$1.48 per square foot per month, which is an increase of one cent per square foot over the previous quarter. Compared with Q2 2022, we see an astonishing 18.4% annual increase. Over the past five years, asking rental rates have increased by an average of 8.3% per year. With the broader economy slowing, sentiment in the market is that the pace of rental rate growth will decelerate in 2023. 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 often able to backfill new availabilities before the existing tenant vacates. Over the past two years, fixed annual rental increases have moved 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 191 lease transactions recorded in Q2. Since the beginning of 2021 there has been an average of 218 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 five consecutive quarters without Amazon among the largest leases recorded. Amazon is slowing down following its rapid expansion which had 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 Q2 with only 481,226 SF of industrial real estate trading hands. This is the first time quarterly sales volume has dipped below 0.5 MSF since 2010.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



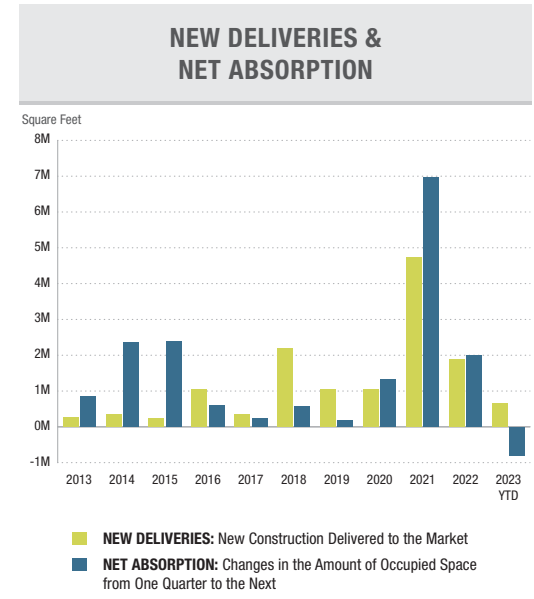
Market Statistics

	Change Over Last Quarter	Q2 2023	Q1 2023	Q2 2022	% Change Over Last Year
Vacancy Rate	▲ UP	3.12%	2.63%	1.92%	62.93%
Availability Rate	▲ UP	6.33%	5.16%	2.89%	119.16%
Average Asking Lease Rate	▲ UP	\$1.48	\$1.47	\$1.25	18.40%
Sale & Lease Transactions	▼ DOWN	1,553,842	2,701,216	4,545,670	(65.82%)
Gross Absorption	▼ DOWN	1,137,226	1,506,545	1,650,819	(31.11%)
Net Absorption	▼ NEGATIVE	(354,032)	(455,358)	570,301	N/A

ABSORPTION. There were 354,032 SF of negative net absorption in Q2, 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 the first half of 2023, the market may see more negative net absorption in coming 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 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 has 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 61% of the industrial real estate currently under construction.

EMPLOYMENT. The unemployment rate in San Diego County was 3.5% in May 2023, up from a revised 3.3% in April 2023, and above the year-ago estimate of 2.9%. This compares with an unadjusted unemployment rate of 4.5% for California and 3.4% for the nation during the same period. Over the 12-month period between May 2022 and May 2023, San Diego County employment increased by 42,500 jobs, an increase of 2.8%. With the normal delay in reporting from the California EDD, employment figures from June were unavailable at the time of publishing this report. For the nation as a whole, 209,000 jobs were added in June, the lowest monthly total in the past two and a half years.



Forecast

Going into the second half of 2023, we find ourselves in an environment of increased interest rates and lingering concern about 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 keep rental rates elevated. We are seeing signs of a cooldown in investment sales, and the uncertainty surrounding the economy will exacerbate that trend.

Significant Transactions

Sales						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
9540 & 9550 Waples St.	Sorrento Mesa	35,514	\$14,250,000	Hammer Ventures	BKM Capital Partners	
1207 Air Wing Rd.	Otay Mesa	36,475	\$9,400,000	Agramont Transport	The Complete Logistics Company	
1451 N. Johnson Ave.	El Cajon	57,484	\$9,100,000	RSA Engineered Products, LLC	Weldmac Manufacturing Company	
1730 N. Magnolia Ave.	El Cajon	7,600	\$6,400,000	San Diego Powder & Protective Coatings	JLNI, LLC	
1991 Don Lee Pl.	Escondido	25,422	\$5,875,000	ANYA Holdings, LLC	13210 G, LLC*	

Leases					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3266 Lionshead Ave.	Carlsbad	76,000	May-2023	ShipLab	(Sublease)
4370 Juttland Dr.	Morena/Rose Canyon	72,716	Apr-2023	TopBuild	Alchalel Trust
2055 Sanyo Ave.	Otay Mesa	54,500	May-2023	Intelligent Blend	JLL Income Property Trust
1210 Air Wing Rd.	Otay Mesa	54,404	Apr-2023	Chipman Relocations	DWS Group
5625-5629 Copley Dr.	Kearny Mesa	33,300	Apr-2023	Paladin Technologies	TPI Properties, 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 Q2 2023	Square Feet Available	Availability Rate Q2 2023	Average Asking Lease Rate	Net Absorption Q2 2023	Net Absorption 2023	Gross Absorption Q2 2023	Gross Absorption 2023
Central County													
Central City	87	1,415,549	0	0	47,673	3.37%	167,123	11.81%	\$1.23	(34,320)	(44,320)	0	0
East City	59	605,732	0	0	9,100	1.50%	9,100	1.50%	\$1.50	(200)	3,823	0	12,923
Southeast City	365	4,251,403	0	0	70,867	1.67%	152,744	3.59%	\$1.31	2,852	20,315	26,557	65,428
Kearny Mesa	411	9,610,160	0	322,251	284,138	2.96%	312,946	3.26%	\$1.95	(84,029)	(163,940)	69,776	118,861
Mission Gorge	105	1,737,860	0	0	20,823	1.20%	78,594	4.52%	\$1.88	(2,015)	(11,350)	10,791	15,037
Rose Canyon / Morena	127	1,990,568	0	0	135,220	6.79%	139,520	7.01%	\$1.50	(46,179)	(43,179)	90,041	93,041
Sports Arena / Airport	138	1,575,513	32,661	0	73,449	4.66%	43,657	2.71%	\$1.50	(5,800)	(14,250)	4,200	14,450
Miramar	584	13,449,085	0	0	485,349	3.61%	980,787	7.29%	\$1.78	1,420	(372,980)	171,075	220,976
Sorrento Mesa	69	3,244,895	0	0	57,805	1.78%	89,114	2.75%	\$1.94	22,851	37,809	50,348	115,654
Sorrento Valley/UTC	41	993,145	0	0	0	0.00%	0	0.00%	\$3.47	800	0	800	800
Central County Total	1,986	38,873,910	32,661	322,251	1,184,424	3.05%	1,973,585	5.07%	\$1.69	(144,620)	(588,072)	423,588	657,170
East County													
El Cajon	451	9,148,699	381,240	0	58,966	0.64%	499,206	5.24%	\$1.68	4,860	47,691	17,853	90,690
La Mesa / Spring Valley	312	2,703,564	0	3,000	45,964	1.70%	63,703	2.36%	\$1.19	1,064	(15,302)	4,702	31,732
Santee / Lakeside	288	3,979,766	0	0	51,378	1.29%	53,996	1.36%	\$1.54	5,514	75,245	9,514	128,292
Rural East County	83	888,857	0	0	55,400	6.23%	55,400	6.23%	\$0.42	(42,426)	(42,926)	3,074	3,074
East County Total	1,134	16,720,886	381,240	3,000	211,708	1.27%	672,305	3.93%	\$1.31	(30,988)	64,708	35,143	253,788
North County													
Escondido	635	7,554,487	0	67,300	171,337	2.27%	214,408	2.84%	\$1.36	(9,174)	(45,185)	48,064	86,504
Oceanside	398	9,298,031	0	449,538	285,230	3.07%	477,942	5.14%	\$1.37	(53,350)	(131,593)	52,640	127,644
San Marcos	473	8,107,227	0	223,175	448,124	5.53%	582,382	7.18%	\$1.31	(88,780)	(120,797)	36,258	105,342
Vista	525	13,060,620	0	30,165	461,261	3.53%	747,092	5.72%	\$1.34	(85,327)	(124,989)	41,911	275,673
Carlsbad	223	8,441,244	249,015	0	281,741	3.34%	563,516	6.48%	\$1.59	3,177	3,102	45,639	72,684
North Beach Cities	40	236,337	0	0	4,976	2.11%	4,976	2.11%	-	0	0	0	0
Rural North County	117	1,034,668	0	0	35,993	3.48%	32,300	3.12%	\$0.94	(5,643)	11,007	12,043	37,043
North County Total	2,411	47,732,614	249,015	770,178	1,688,662	3.54%	2,622,616	5.47%	\$1.36	(239,097)	(408,455)	236,555	704,890
I-15 Corridor													
Poway	186	7,627,948	0	0	70,704	0.93%	274,350	3.60%	\$1.64	(6,848)	(34,636)	44,852	54,650
Rancho Bernardo	39	2,986,860	0	0	98,690	3.30%	91,974	3.08%	\$1.75	0	(47,462)	0	30,983
Scripps Ranch	26	696,993	0	0	0	0.00%	90,699	13.01%	\$1.84	5,230	37,589	5,230	42,819
I-15 Corridor Total	251	11,311,801	0	0	169,394	1.50%	457,023	4.04%	\$1.70	(1,618)	(44,509)	50,082	128,452
South County													
Chula Vista	323	8,731,969	406,466	288,814	252,788	2.89%	922,639	10.10%	\$1.30	(92,903)	11,578	38,521	182,297
National City	249	3,622,002	0	80,970	42,690	1.18%	58,850	1.62%	\$1.65	25,381	12,488	40,162	53,209
Otay Mesa	367	22,943,878	1,731,911	3,599,484	1,156,629	5.04%	2,992,526	12.13%	\$1.17	147,122	158,556	313,175	661,540
South San Diego	63	1,331,196	0	24,121	18,349	1.38%	54,305	4.08%	\$1.38	(17,309)	(15,684)	0	2,425
South County Total	1,002	36,629,045	2,138,377	3,993,389	1,470,456	4.01%	4,028,320	10.39%	\$1.28	62,291	166,938	391,858	899,471
San Diego County Total	6,784	151,268,256	2,801,293	5,088,818	4,724,644	3.12%	9,753,849	6.33%	\$1.48	(354,032)	(809,390)	1,137,226	2,643,771
0-9,999	3,062	15,615,380	0	3,000	282,238	1.81%	448,281	2.87%	\$1.65	(12,041)	(35,998)	116,939	229,322
10,000-19,999	1,763	24,963,494	14,947	16,000	451,879	1.81%	753,442	3.02%	\$1.57	(17,011)	33,696	221,668	496,477
20,000-34,999	964	24,761,132	87,788	82,006	690,589	2.79%	1,236,935	4.98%	\$1.52	(85,654)	(132,942)	138,137	398,169
35,000-49,999	369	15,244,841	204,558	137,438	454,778	2.98%	1,023,908	6.63%	\$1.37	(71,711)	(250,048)	102,237	174,114
50,000-99,999	389	26,783,488	347,396	358,688	976,886	3.65%	2,262,212	8.34%	\$1.34	(208,998)	65,340	271,094	846,362
100,000 Plus	237	43,899,921	2,146,604	4,491,686	1,868,274	4.26%	4,029,071	8.75%	\$1.40	41,383	(489,438)	287,151	499,327
San Diego County Total	6,784	151,268,256	2,801,293	5,088,818	4,724,644	3.12%	9,753,849	6.33%	\$1.48	(354,032)	(809,390)	1,137,226	2,643,771

Lease rates are on an industrial-gross basis.



Hangover from Gangbuster Years

by **Randy LaChance**

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The San Diego industrial market was firing on all cylinders during the pandemic with record leasing activity and development. Investment in industrial / logistic projects was at all-time highs due to historically low interest rates, an abundance of capital and double-digit rent growth, all of which helped to push industrial properties to record property values.

From 2010 to 2020, the San Diego County industrial markets averaged 6.7 MSF of gross leasing transactions per year, while the inventory rose from 142 million to 145 million (only 300,000 a year). In 2021, the county recorded over 10 MSF of leasing activity while the area delivered over 7,000,000 SF in new inventory from 2021 to 2022. But, after ten Fed rate hikes, we have started to see a slowdown in activity and development in 2023. Leasing activity has fallen to 2.7 MSF and just 650,000 SF of new inventory has been delivered.

The vacancy rate sits at just 3.1%, but that is up from 1.7% since the final quarter of 2022, and square footage available has increased by over 3,000,000 SF. We have also seen a spike in sublease space, which has increased by 300,000 SF since the first of the year.

From 2010 to 2020 we saw rent growth of 3% to 4% annually, while the last three years have produced unprecedented annual rent growth of 6% to 20% per year. However, we expect rent growth to moderate or even flatten in the near term, especially if the vacancy rate remains on its current trajectory through the rest of the year.

Industrial investments are still a preferred product type, but if vacancy does keep moving higher and interest rates remain elevated, downward pressure on pricing will mount. For the moment, we are in a transition period when sellers are still seeking peak values from a year or two ago, while many buyers are demanding higher yields in anticipation of further softening in market metrics.

Although the macro-market fundamentals are still really strong for the overall San Diego industrial market, we are experiencing a bit of a “hangover” from the exceptionally strong performance in 2021 and 2022.

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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