

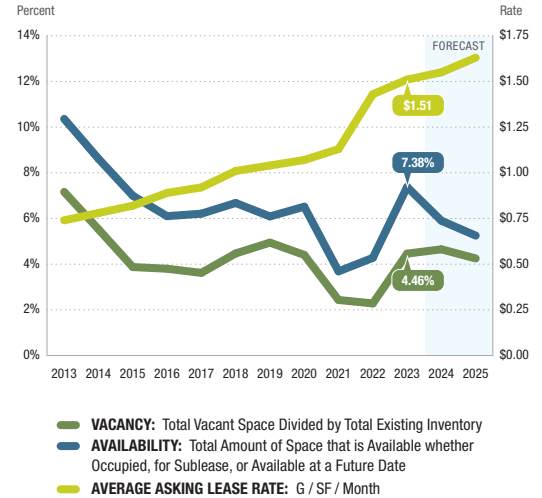
**OVERVIEW.** Leasing and sales activity volume in the San Diego industrial market remained consistently low throughout all of 2023. Construction activity is still strong, though largely concentrated in the South County. The meteoric rise in rental rates finally slowed in Q4. There was negative net absorption in all four quarters of 2023 which moved the vacancy rate up. The industrial market has clearly shifted into a lower gear, and the leverage which had been significantly tilted towards landlords and owners in recent years has started to achieve more balance.

**VACANCY & AVAILABILITY.** Direct/sublease space (unoccupied) finished Q4 at 4.5%, a substantial increase of 84 basis points from the previous quarter's vacancy rate of 3.6%. In 2010, during the "Great Recession," the overall vacancy rate for the county peaked at 9.7%. At the end of Q4 2023, every submarket other than South County had a vacancy rate below 5%. Available space being marketed (regardless of occupancy status) was 7.4% of the county's inventory at the end of Q4. South County had a 13.1% availability rate at the end of Q4, more than double any other submarket in the county. South County's availability rate has been pushed up by the glut of recent construction occurring in Otay Mesa. Overall, buildings between 10,000 and 20,000 SF had the lowest availability rate at 2.9%, while the buildings above 100,000 SF had the highest availability rate at 11.3%.

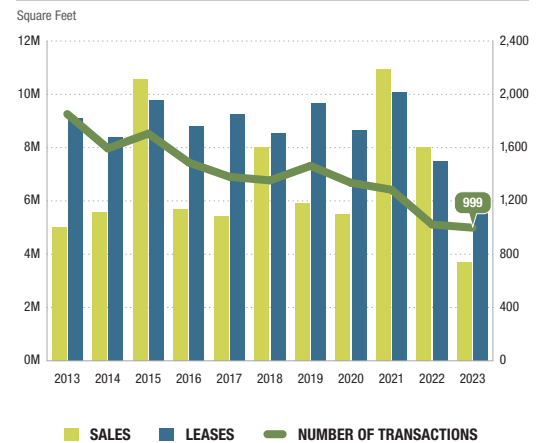
**LEASE RATES.** The average asking lease rate checked in at \$1.51 per square foot per month, unchanged from the previous quarter. Compared with Q4 2022, we see a 5.6% annual increase. Over the past five years, asking rental rates have increased by an average of 8.7% per year. With the broader economy slowing, sentiment in the market is that the pace of rental rate growth will continue to moderate through 2024. By and large, negotiating leverage in the industrial market remains in the hands of the landlords due to the limited availability in most parts of the county, especially within the multi-tenant incubator parks. Over the past two years, contractual 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 211 lease transactions recorded in Q4. Since the beginning of 2021 there has been an average of 217 leases recorded per quarter. The preceding five years had a quarterly average of 294 lease transactions. The market has now seen seven consecutive quarters without Amazon among the largest leases recorded. Amazon continues to scale back following its rapid expansion which had been a major component of the leasing volume in recent years. From 2020–2022, Amazon executed a dozen different leases in San Diego County totaling more than 2.5 MSF, along with the 3.4 MSF build-to-suit in Otay Mesa. Amazon's pullback has taken some of the wind out

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



### Market Statistics

	Change Over Last Quarter	Q4 2023	Q3 2023	Q4 2022	% Change Over Last Year
Vacancy Rate	▲ UP	4.46%	3.62%	2.28%	95.63%
Availability Rate	▬ FLAT	7.38%	7.46%	4.28%	72.54%
Average Asking Lease Rate	▬ FLAT	\$1.51	\$1.51	\$1.43	5.59%
Sale & Lease Transactions	▬ FLAT	2,261,004	2,371,319	5,003,212	(54.81%)
Gross Absorption	▬ FLAT	1,159,182	1,248,720	1,864,085	(37.81%)
Net Absorption	▼ NEGATIVE	(471,527)	(408,491)	677,536	N/A

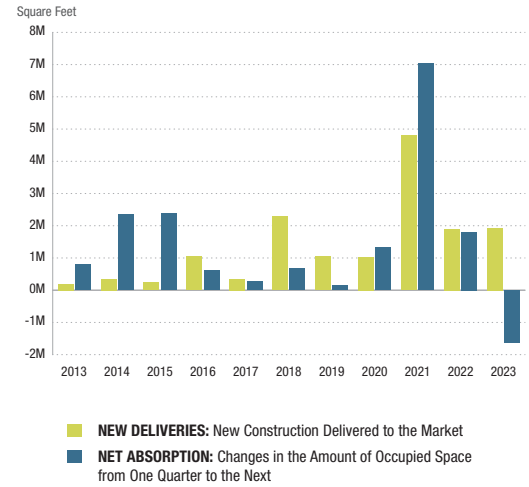
of the sails of the leasing market. Sales activity totaled \$900 million in 2023, less than half of the \$1.9 billion of 2022, and the \$2.1 billion of 2021. 2023 marks the first year since 2017 without \$1 billion of sales volume.

**ABSORPTION.** There were 471,527 SF of negative net absorption in Q4, marking the fourth consecutive quarter of negative net absorption. This was spread out across the county, with not a single submarket registering positive net absorption. Most areas of the county have low vacancy levels compared with historic norms. Without significant construction in most areas, negative net absorption is a welcome sight for tenants in the market looking for available space.

**CONSTRUCTION.** 1.9 MSF of new industrial projects were delivered in 2023, which was the seventh year out of the past eight 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 0.5 MSF of new development during that span. More recently, construction has been concentrated in Otay Mesa, which accounts for more than 81% of the construction completions since the start of 2020, and 55% of the industrial real estate currently under construction.

**EMPLOYMENT.** The unemployment rate in San Diego County was 4.2% in November 2023, unchanged from a revised 4.2% in October 2023, and above the year-ago estimate of 3.3%. This compares with an unadjusted unemployment rate of 4.9% for California and 3.5% for the nation during the same period. Over the 12-month period between November 2022 and November 2023, San Diego County employment increased by 21,900 jobs, an increase of 1.4%. With the normal delay in reporting from the California EDD, employment figures from December were unavailable at the time of publishing this report. For the nation as a whole, 216,000 jobs were added in December, and weekly new jobless benefit claims finished the year at their lowest level in two months.

## NEW DELIVERIES & NET ABSORPTION



## Forecast

Going into 2024, we find ourselves in an environment of high interest rates and lingering concern about an economic slowdown. We are seeing signs of a cooldown in investment sales, and the uncertainty surrounding the economy will exacerbate that trend. The ongoing construction boom, light leasing activity, and the widening gap between availability and vacancy all point towards an increase in vacancy in the coming quarters. This portends the attenuation of rental rate increases.

## Significant Transactions

Sales						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
7498 Colchester Ct. & 7222 Airway Rd.	Otay Mesa	203,244	\$60,917,500	Hines	Murphy Development Co.	
3330-3390 Heritage Rd.	Chula Vista	202,760	\$43,200,000	RG Escaya, LLC	Heritage, LLC*	
5450-5490 Complex St.	Kearny Mesa	110,966	\$39,550,000	H.G. Fenton	Gateway Cabrillo, Inc.	
3215 & 3225 Executive Ridge	Vista	102,239	\$29,389,000	Old Grove, LLC	DXW, LLC	
5801 & 5807 Van Allen Way	Carlsbad	102,360	\$21,250,000	Harbor Associates	SMAC	

Leases					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
6212 Corte Del Abeto	Carlsbad	70,224	Dec-2023	K1 Speed (Renewal)	Elion
9050 Airway Rd.	Otay Mesa	59,905	Nov-2023	Undisclosed	Ares Management Corp
480 N. Spruce St.	Escondido	48,976	Oct-2023	Undisclosed	City of Escondido
2025 Gillespie Way	El Cajon	37,600	Dec-2023	Brady West	Cabot Properties
9340 Cabot Dr.	Miramar	32,271	Oct-2023	RXO	Rexford Industrial

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q4 2023	Square Feet Available	Availability Rate Q4 2023	Average Asking Lease Rate	Net Absorption Q4 2023	Net Absorption 2023	Gross Absorption Q4 2023	Gross Absorption 2023
<b>Central County</b>													
Central City	83	1,389,053	0	0	0	0.00%	63,640	4.58%	\$1.22	17,000	3,353	17,000	23,706
East City	59	605,732	0	0	7,575	1.25%	7,575	1.25%	\$1.50	0	5,348	0	14,448
Southeast City	367	4,258,980	0	0	70,201	1.65%	124,361	2.92%	\$1.42	(9,469)	20,981	34,194	110,541
Kearny Mesa	412	9,724,978	123,492	95,800	271,575	2.79%	444,581	4.51%	\$1.93	(37,724)	(151,377)	42,404	290,694
Mission Gorge	105	1,750,171	0	0	29,871	1.71%	78,338	4.48%	\$1.89	5,088	(20,398)	15,933	37,354
Rose Canyon / Morena	128	1,995,754	0	0	90,220	4.52%	100,220	5.02%	\$1.52	50,230	1,821	60,230	194,987
Sports Arena / Airport	140	1,655,813	32,661	0	31,568	1.91%	31,568	1.87%	\$1.69	8,650	27,631	8,650	62,189
Miramar	580	13,436,077	0	0	560,751	4.17%	1,063,127	7.91%	\$1.74	(103,470)	(448,382)	98,818	470,795
Sorrento Mesa	69	3,244,895	0	0	81,066	2.50%	141,578	4.36%	\$1.82	(12,778)	14,548	8,721	167,676
Sorrento Valley/UTC	42	995,427	0	0	15,158	1.52%	15,958	1.60%	-	(15,158)	(15,158)	0	800
<b>Central County Total</b>	<b>1,985</b>	<b>39,056,880</b>	<b>156,153</b>	<b>95,800</b>	<b>1,157,985</b>	<b>2.96%</b>	<b>2,070,946</b>	<b>5.28%</b>	<b>\$1.71</b>	<b>(97,631)</b>	<b>(561,633)</b>	<b>285,950</b>	<b>1,373,190</b>
<b>East County</b>													
El Cajon	449	9,162,129	381,240	0	80,789	0.88%	351,044	3.68%	\$1.64	(48,530)	25,868	11,840	143,773
La Mesa / Spring Valley	309	2,689,999	0	3,000	20,773	0.77%	29,973	1.11%	\$1.44	(1,222)	9,889	12,404	85,964
Santee / Lakeside	290	3,987,518	0	0	34,399	0.86%	171,477	4.30%	\$1.48	5,257	92,224	15,348	173,345
Rural East County	87	989,850	0	0	144,400	14.59%	163,100	16.48%	\$0.60	(89,000)	(131,926)	9,400	13,474
<b>East County Total</b>	<b>1,135</b>	<b>16,829,496</b>	<b>381,240</b>	<b>3,000</b>	<b>280,361</b>	<b>1.67%</b>	<b>715,594</b>	<b>4.16%</b>	<b>\$1.39</b>	<b>(133,495)</b>	<b>(3,945)</b>	<b>48,992</b>	<b>416,556</b>
<b>North County</b>													
Escondido	635	7,610,989	0	67,300	84,348	1.11%	214,523	2.82%	\$1.43	72,370	41,804	98,849	234,774
Oceanside	398	9,081,074	0	520,446	416,720	4.59%	569,470	6.27%	\$1.37	(192,709)	(263,083)	30,939	274,101
San Marcos	474	8,117,087	0	354,485	599,260	7.38%	600,072	7.39%	\$1.31	(19,120)	(271,933)	72,741	282,610
Vista	526	13,365,510	0	0	496,299	3.71%	923,984	6.91%	\$1.40	(51,535)	(160,027)	28,659	426,665
Carlsbad	223	8,450,504	222,959	0	462,836	5.48%	641,526	7.40%	\$1.58	27,146	(177,993)	117,693	206,771
North Beach Cities	40	236,397	0	0	0	0.00%	4,976	2.10%	-	0	4,976	0	4,976
Rural North County	118	1,051,146	0	0	22,000	2.09%	50,482	4.80%	\$0.85	0	25,000	0	36,150
<b>North County Total</b>	<b>2,414</b>	<b>47,912,707</b>	<b>222,959</b>	<b>942,231</b>	<b>2,081,463</b>	<b>4.34%</b>	<b>3,005,033</b>	<b>6.24%</b>	<b>\$1.38</b>	<b>(163,848)</b>	<b>(801,256)</b>	<b>348,881</b>	<b>1,466,047</b>
<b>I-15 Corridor</b>													
Poway	187	7,638,440	0	0	236,690	3.10%	400,082	5.24%	\$1.66	(40,370)	(200,622)	34,282	97,603
Rancho Bernardo	39	2,986,860	0	0	78,445	2.63%	78,445	2.63%	\$1.72	13,529	(27,217)	13,529	51,228
Scripps Ranch	26	696,993	0	86,000	6,000	0.86%	21,685	3.11%	\$1.58	0	31,589	0	42,819
<b>I-15 Corridor Total</b>	<b>252</b>	<b>11,322,293</b>	<b>0</b>	<b>86,000</b>	<b>321,135</b>	<b>2.84%</b>	<b>500,212</b>	<b>4.42%</b>	<b>\$1.67</b>	<b>(26,841)</b>	<b>(196,250)</b>	<b>47,811</b>	<b>191,650</b>
<b>South County</b>													
Chula Vista	327	8,894,465	205,266	438,888	657,870	7.40%	982,409	10.80%	\$1.36	(17,397)	(189,184)	28,328	363,745
National City	253	3,673,186	0	80,970	40,903	1.11%	83,555	2.27%	\$1.68	2,385	14,275	29,765	101,064
Otay Mesa	377	24,042,013	1,175,562	3,530,410	2,268,077	9.43%	3,976,613	15.77%	\$1.33	(34,700)	131,534	369,455	1,287,747
South San Diego	64	1,344,879	0	24,121	23,212	1.73%	120,393	8.95%	\$1.37	0	(20,547)	0	4,751
<b>South County Total</b>	<b>1,021</b>	<b>37,954,543</b>	<b>1,380,828</b>	<b>4,074,389</b>	<b>2,990,062</b>	<b>7.88%</b>	<b>5,162,970</b>	<b>13.13%</b>	<b>\$1.39</b>	<b>(49,712)</b>	<b>(63,922)</b>	<b>427,548</b>	<b>1,757,307</b>
<b>San Diego County Total</b>	<b>6,807</b>	<b>153,075,919</b>	<b>2,141,180</b>	<b>5,201,420</b>	<b>6,831,006</b>	<b>4.46%</b>	<b>11,454,755</b>	<b>7.38%</b>	<b>\$1.51</b>	<b>(471,527)</b>	<b>(1,627,006)</b>	<b>1,159,182</b>	<b>5,204,750</b>
0-9,999	3,065	15,606,489	0	3,000	250,378	1.60%	514,880	3.30%	\$1.64	(13,240)	(4,138)	91,309	440,247
10,000-19,999	1,764	24,994,320	14,947	16,000	521,039	2.08%	729,438	2.92%	\$1.59	(82,350)	(32,344)	197,344	928,414
20,000-34,999	967	24,820,357	32,661	51,841	684,035	2.76%	1,377,259	5.54%	\$1.51	(57,042)	(71,261)	228,151	961,620
35,000-49,999	375	15,484,045	90,455	137,438	584,235	3.77%	1,093,523	7.02%	\$1.42	(37,627)	(267,590)	114,008	498,717
50,000-99,999	392	27,012,670	200,268	429,596	1,214,984	4.50%	2,419,450	8.89%	\$1.48	(224,185)	(22,363)	210,477	1,479,476
100,000 Plus	244	45,158,038	1,802,849	4,563,545	3,576,335	7.92%	5,320,205	11.33%	\$1.41	(57,083)	(1,229,310)	317,893	896,276
<b>San Diego County Total</b>	<b>6,807</b>	<b>153,075,919</b>	<b>2,141,180</b>	<b>5,201,420</b>	<b>6,831,006</b>	<b>4.46%</b>	<b>11,454,755</b>	<b>7.38%</b>	<b>\$1.51</b>	<b>(471,527)</b>	<b>(1,627,006)</b>	<b>1,159,182</b>	<b>5,204,750</b>

Lease rates are on an industrial-gross basis.



## A Period of Transition & Complacency

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As 2023 concludes, it has proven to be a year of transition. The frenetic leasing and sale activity of years past is indeed in the rearview mirror.

San Diego Industrial, countywide, has experienced a year of relatively slower activity on both the leasing and building sales fronts, as tenants, owner-user buyers, and institutional investors were taking a more cautious and measured approach to making decisions. This is a return to a moderate tenant and buyer velocity, that is typical in San Diego. We are now in a period of complacency, as the general market remains strong, but tenants, owner-user buyers, and investors are becoming, arguably, complacent in their approach to the market.

It is predicted that building sale prices and asking lease rates will hold steady at these current levels, even in the face of more than two million square feet of industrial currently under construction, most of which is slated for completion this year in Otay Mesa. Multinational corporations continue the “nearshoring” of their manufacturing in Tijuana, and their subsequent need for product distribution on the United States side favors Otay Mesa. This continued demand to locate manufacturing in Tijuana will help with maintaining a healthy absorption rate of new and existing industrial product in Otay Mesa and will help maintain upward pressure on industrial demand throughout San Diego County.

Larger institutional investment sales will remain slow, as this category of investors will remain complacent, as they continue to sit on the sidelines for a few quarters of 2024 to see where interest rates, cap rates, leasing activity, and the general economy go, in this all-important election year.

In summary, the industrial market is healthy, and is predicted to remain strong in San Diego, throughout 2024, countywide. There will be little to no erosion in lease rates, nor in owner-user building sale prices, as San Diego has an extremely balanced economy, with no single, major employer dominating the market. As such San Diego industrial real estate remains in high demand and is favored by institutional investors, who will be back in the market after this short respite.

## 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