

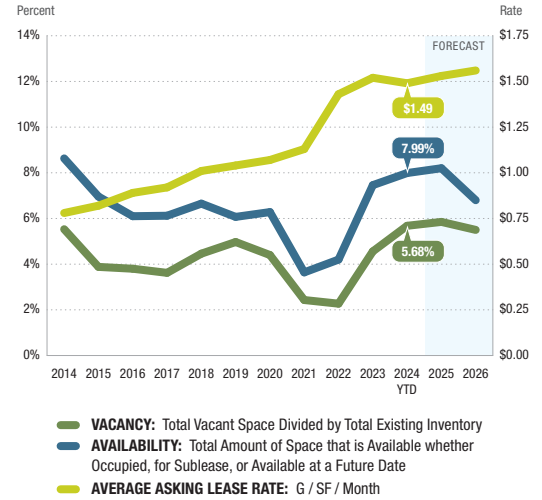
**OVERVIEW.** A reduced level of leasing and sales volume in the San Diego industrial market continued in the first half of 2024. Construction activity is still strong, and Amazon reappeared among the buildings under construction for the first time in over a year. There was negative net absorption in each of the first two quarters of the year, which moved the vacancy rate up, and asking rental rates decreased for the second consecutive quarter.

**VACANCY & AVAILABILITY.** Direct/sublease space (unoccupied) finished Q2 at 5.68%, an increase of 32 basis points from the previous quarter's vacancy rate of 5.36%, and a massive spike of nearly 2.5 percentage points compared with Q2 2023's rate of 3.20%. In 2010, during the "Great Recession," the overall vacancy rate for the county peaked at 9.7%. At the end of Q2 2024, every submarket other than South County had a vacancy rate of 5.2% or less. Available space being marketed (regardless of occupancy status) was 7.99% of the county's inventory at the end of Q2. South County had the highest availability rate in the county at the end of Q2, at 12.80%, followed by the North County which had an availability rate of 7.39%.

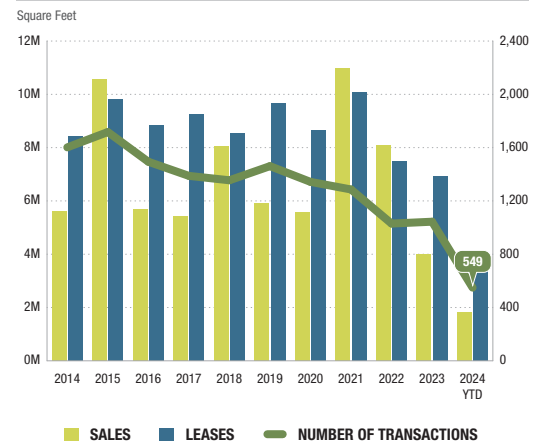
**LEASE RATES.** The average asking lease rate checked in at \$1.49 per square foot per month, which is a decrease of one cent per square foot from the previous quarter. Over the past three calendar years, asking rental rates have increased by an average of 13% per year. The San Diego industrial market had seen asking rental rates march ever higher since Q1 2013, peaking at \$1.52 per square foot at the end of 2023. But the decrease in asking rental rates in Q1 2024 might portend a pause in that long-term trend. The bull market in rent growth is over, at least for the short term, as increasing vacancy and slower transaction velocity have combined to curtail rental rate growth. The aggregate balance of negotiating leverage across the county has moved from heavily favoring landlords to a more balanced state. Of course, this varies depending on the submarket and building characteristics. Despite the slowing growth of starting rates, it is still common to see landlords insist on fixed annual rent increases of 4%, rather than the 3% increases which had been standard for many years preceding COVID-19.

**TRANSACTION ACTIVITY.** There were 236 lease transactions recorded in Q2. This is above the average of 221 leases recorded per quarter since the beginning of 2021. The preceding five years had a quarterly average of 295 lease transactions. On the sales side, 2023 marked the first year since 2017 without a sales volume of a billion dollars. The first half of 2024 continued at that same pace, with \$423 million of industrial buildings trading hands. Interest rates remain elevated, and this has dampened activity levels in the sales market, especially on the investment side. The median price for industrial sales in Q2 was \$275 per square foot, following the record high of \$325 per square foot in Q1 2024. This figure is highly influenced by the composition of properties which trade, and three of the top

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



### Market Statistics

	Change Over Last Quarter	Q2 2024	Q1 2024	Q2 2023	% Change Over Last Year
Vacancy Rate	▲ UP	5.68%	5.36%	3.20%	77.38%
Availability Rate	▲ UP	7.99%	7.83%	6.48%	23.23%
Average Asking Lease Rate	▼ DOWN	\$1.49	\$1.50	\$1.50	(0.67%)
Sale & Lease Transactions	▼ DOWN	2,382,720	2,873,668	2,243,968	6.18%
Gross Absorption	▲ UP	1,590,832	1,024,014	1,274,352	24.83%
Net Absorption	▼ NEGATIVE	(233,633)	(654,125)	(519,479)	N/A

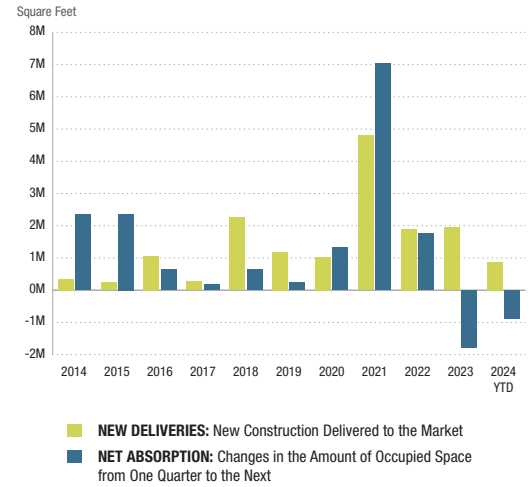
five sales in both Q1 and Q2 were in the central part of the county. Overall, sales pricing in San Diego has cooled, but it certainly remains elevated by historical standards.

**ABSORPTION.** There were 233,633 SF of negative net absorption in Q2, marking the sixth consecutive quarter of negative net absorption. This was spread out across the county, with not a single submarket registering positive net absorption in the first half of the year. The dramatic increase in rental rates in recent years has convinced some tenants to make do with a smaller footprint than they would prefer. Most areas of the county have relatively low vacancy levels. With the low levels of new construction outside of Otay Mesa, the decrease in occupied space in certain areas has given tenants in the market more options than they have had in years.

**CONSTRUCTION.** 876,000 SF of new industrial projects were delivered in the first half of 2024, and 4.7 MSF have been delivered since the start of 2022. Of the total space completed year to date, 64% remains available, while 38% of the area delivered in 2022–2023 is still available. The vast majority of the recent construction has been speculative, with minimal pre-leasing. With the constant flow of construction in Otay Mesa, most tenants looking in this area have had multiple choices of available space in recently completed buildings, negating the need to commit to buildings still underway. All but one of the construction completions in the first half of 2024 were in Otay Mesa, and more than 80% of the new construction completions in the county since 2020 have been in Otay Mesa. The largest building under construction midway through 2024 was a 1.08 MSF Amazon fulfillment center in Otay Mesa.

**EMPLOYMENT.** The unemployment rate in San Diego County was 3.6% in May 2024, down from a revised 4.1% in April 2024, and above the year-ago estimate of 3.3%. This compares with an unadjusted unemployment rate of 4.5% for California and 3.7% for the nation during the same period. Over the 12-month period between May 2023 and May 2024, San Diego County employment increased by 6,900 jobs, an increase of 0.4%. 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, the unemployment rate rose to 4.1% in June, matching the highest level since October 2021.

## NEW DELIVERIES & NET ABSORPTION



## Forecast

The rise in vacancy, along with the slowdown in leasing activity, has pulled the market out of its meteoric growth and into a more balanced state. Market-wide rental rate averages have edged back off their all-time peak, and it remains to be seen if this will become a plateau in 2024, or if vacancy rises to a level high enough to push rates significantly downward as time progresses. The second half of 2024 will see the broader market sentiment increasingly focused on The Fed and the presidential election.

## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
13450 Stowe Dr.	Poway	78,000	\$19,600,000	Staley Point Capital & Bain Capital Real Estate	SoCal Stowe, LLC
9550–9558 Camino Ruiz	Miramar	28,570	\$14,100,000	Sagard Real Estate	TPG Angelo Gordon & Co., LP
3554 Kettner Blvd.	Sports Arena/Airport	77,972	\$13,250,000	Doug Hamm	The Control Group
755–877 Vernon Way	El Cajon	52,880	\$10,950,000	Solar Manufacturing	Certified Metal Craft, Inc.
2350 Oak Ridge Way	Vista	35,469	\$8,867,250	Redback Boots USA	Hana Road Holdings, LLC

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
13100 Danielson St.	Poway	129,910	May-2024	Liberty Packaging	Lincoln Property Co.
7995 Armour St.	Kearny Mesa	116,000	May-2024	Undisclosed	(Sublease)
2080 Sanyo Ave.	Otay Mesa	58,852	Jun-2024	Undisclosed	Sudberry Properties
2210 Oakridge Way - Renewal	Vista	53,269	Apr-2024	Solatube International	Bain Capital, LP
9404 Cabot Dr. - Renewal	Miramar	46,846	Jun-2024	CORT	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 Q2 2024	Square Feet Available	Availability Rate Q2 2024	Average Asking Lease Rate	Net Absorption Q2 2024	Net Absorption 2024	Gross Absorption Q2 2024	Gross Absorption 2024
<b>Central County</b>													
Central City	82	1,397,840	0	0	37,100	2.65%	51,520	3.69%	\$1.15	(37,100)	(37,100)	0	0
East City	58	602,299	0	0	0	0.00%	0	0.00%	\$1.50	0	7,575	0	7,575
Southeast City	369	4,248,634	0	0	85,040	2.00%	209,440	4.93%	\$1.40	(4,620)	(16,591)	6,660	9,060
Kearny Mesa	420	9,947,508	219,292	0	404,495	4.07%	607,989	5.98%	\$1.83	(55,199)	(132,920)	66,975	137,218
Mission Gorge	107	1,808,623	0	0	62,282	3.44%	88,262	4.88%	\$1.88	(28,196)	(14,361)	5,211	37,664
Rose Canyon / Morena	132	2,025,333	0	0	92,423	4.56%	107,423	5.30%	\$1.52	27,501	10,746	32,839	32,869
Sports Arena / Airport	132	1,496,026	0	0	31,801	2.13%	29,801	1.99%	\$1.72	9,208	(792)	13,208	13,208
Miramar	580	13,436,207	0	85,000	722,341	5.38%	1,256,894	9.35%	\$1.78	(1,182)	(159,234)	98,366	201,275
Sorrento Mesa	69	3,247,861	0	0	123,222	3.79%	206,074	6.34%	\$1.83	(20,803)	(42,156)	23,870	23,870
Sorrento Valley/UTC	42	997,801	0	0	15,958	1.60%	15,958	1.60%	\$2.15	(800)	(800)	0	0
<b>Central County Total</b>	<b>1,991</b>	<b>39,208,132</b>	<b>219,292</b>	<b>85,000</b>	<b>1,574,662</b>	<b>4.02%</b>	<b>2,573,361</b>	<b>6.53%</b>	<b>\$1.73</b>	<b>(111,191)</b>	<b>(385,633)</b>	<b>247,129</b>	<b>462,739</b>
<b>East County</b>													
El Cajon	452	9,194,909	411,240	0	67,891	0.74%	377,006	3.92%	\$1.56	(2,066)	(634)	39,802	63,133
La Mesa / Spring Valley	307	2,663,843	7,500	3,000	27,107	1.02%	51,174	1.92%	\$1.52	(1,431)	(6,334)	27,107	35,533
Santee / Lakeside	289	3,977,317	0	0	47,050	1.18%	156,539	3.94%	\$1.43	(16,677)	(12,651)	11,897	30,588
Rural East County	87	984,450	0	0	148,400	15.07%	167,100	16.97%	\$0.63	0	(4,000)	0	0
<b>East County Total</b>	<b>1,135</b>	<b>16,820,519</b>	<b>418,740</b>	<b>3,000</b>	<b>290,448</b>	<b>1.73%</b>	<b>751,819</b>	<b>4.36%</b>	<b>\$1.36</b>	<b>(20,174)</b>	<b>(23,619)</b>	<b>78,806</b>	<b>129,254</b>
<b>North County</b>													
Escondido	637	7,648,358	147,054	67,300	148,972	1.95%	284,335	3.65%	\$1.48	2,366	(60,299)	75,351	135,541
Oceanside	398	8,999,948	0	520,446	408,897	4.54%	473,309	5.26%	\$1.35	16,895	(13,189)	143,104	246,616
San Marcos	475	8,136,704	24,461	223,175	734,940	9.03%	783,939	9.61%	\$1.31	(65,946)	(135,680)	89,740	119,759
Vista	526	13,378,070	0	146,185	563,980	4.22%	1,166,219	8.72%	\$1.39	(82,975)	(68,847)	94,912	213,794
Carlsbad	225	8,641,981	0	0	582,621	6.74%	783,426	9.07%	\$1.52	163,168	98,644	284,249	295,436
North Beach Cities	39	232,596	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Rural North County	121	1,070,321	0	0	40,233	3.76%	75,884	7.09%	\$0.94	(120)	(18,233)	2,880	2,880
<b>North County Total</b>	<b>2,421</b>	<b>48,107,978</b>	<b>171,515</b>	<b>957,106</b>	<b>2,479,643</b>	<b>5.15%</b>	<b>3,567,112</b>	<b>7.39%</b>	<b>\$1.38</b>	<b>33,388</b>	<b>(197,604)</b>	<b>690,236</b>	<b>1,014,026</b>
<b>I-15 Corridor</b>													
Poway	187	7,626,302	0	0	277,829	3.64%	300,566	3.94%	\$1.59	(83,216)	(41,139)	84,541	137,146
Rancho Bernardo	38	2,876,004	0	0	78,445	2.73%	124,715	4.34%	\$1.65	0	0	0	0
Scripps Ranch	26	696,993	0	86,000	11,253	1.61%	11,253	1.61%	\$1.72	(1,413)	(5,253)	10,805	10,805
<b>I-15 Corridor Total</b>	<b>251</b>	<b>11,199,299</b>	<b>0</b>	<b>86,000</b>	<b>367,527</b>	<b>3.28%</b>	<b>436,534</b>	<b>3.90%</b>	<b>\$1.60</b>	<b>(84,629)</b>	<b>(46,392)</b>	<b>95,346</b>	<b>147,951</b>
<b>South County</b>													
Chula Vista	324	8,746,121	205,732	288,814	926,874	10.60%	956,853	10.69%	\$1.40	(51,511)	(88,801)	34,263	57,402
National City	254	3,767,768	0	80,970	94,061	2.50%	236,300	6.27%	\$1.72	(22,232)	(53,158)	15,375	21,809
Otay Mesa	388	24,788,817	1,762,557	3,883,410	3,001,475	12.11%	3,952,284	14.89%	\$1.30	2,622	(107,329)	409,583	761,571
South San Diego	64	1,345,081	0	0	8,434	0.63%	52,943	3.94%	\$1.64	20,094	14,778	20,094	20,094
<b>South County Total</b>	<b>1,030</b>	<b>38,647,787</b>	<b>1,968,289</b>	<b>4,253,194</b>	<b>4,030,844</b>	<b>10.43%</b>	<b>5,198,380</b>	<b>12.80%</b>	<b>\$1.38</b>	<b>(51,027)</b>	<b>(234,510)</b>	<b>479,315</b>	<b>860,876</b>
<b>San Diego County Total</b>	<b>6,828</b>	<b>153,983,715</b>	<b>2,777,836</b>	<b>5,384,300</b>	<b>8,743,124</b>	<b>5.68%</b>	<b>12,527,206</b>	<b>7.99%</b>	<b>\$1.49</b>	<b>(233,633)</b>	<b>(887,758)</b>	<b>1,590,832</b>	<b>2,614,846</b>
0-9,999	3,068	15,617,914	7,500	3,000	319,370	2.04%	531,534	3.40%	\$1.68	(15,480)	(54,475)	103,724	209,716
10,000-19,999	1,775	25,167,400	0	0	580,179	2.31%	963,206	3.83%	\$1.59	(5,918)	(42,929)	270,493	478,450
20,000-34,999	965	24,778,960	54,461	50,200	960,989	3.88%	1,582,633	6.37%	\$1.49	(139,527)	(298,444)	258,222	491,109
35,000-49,999	379	15,651,443	43,000	137,438	752,423	4.81%	1,044,098	6.65%	\$1.37	(134,561)	(84,663)	85,995	335,211
50,000-99,999	394	27,040,586	339,920	520,596	1,658,937	6.13%	2,950,794	10.78%	\$1.45	(184,070)	(377,493)	191,778	278,235
100,000 Plus	247	45,727,412	2,332,955	4,673,066	4,471,226	9.78%	5,454,941	11.35%	\$1.31	245,923	(29,754)	680,620	822,125
<b>San Diego County Total</b>	<b>6,828</b>	<b>153,983,715</b>	<b>2,777,836</b>	<b>5,384,300</b>	<b>8,743,124</b>	<b>5.68%</b>	<b>12,527,206</b>	<b>7.99%</b>	<b>\$1.49</b>	<b>(233,633)</b>	<b>(887,758)</b>	<b>1,590,832</b>	<b>2,614,846</b>

Lease rates are on an industrial-gross basis.



## San Diego Faring Better Than Friends to the North

by **Randall LaChance**

EXECUTIVE VICE PRESIDENT / PARTNER, SAN DIEGO

858.458.3374 . rlachance@voitco.com . Lic. #00969674

The San Diego industrial market has been one of the best-performing industrial markets in the country for the past several years. Until recently, a limited supply of developable land, and a highly diversified tenant base including logistics operators, defense contractors, and cross-border commerce with Mexico, combined to generate robust transaction velocity. Like most industrial markets, the post-pandemic market experienced unprecedented industrial demand from all companies responding to a spike in their online sales. Industrial vacancy dropped to less than 2% in San Diego County, rents increased annually by double digits, and new industrial developments started popping up where land was available.

Then the Fed started raising rates dramatically in 2022 to slow down the overheated economy and 9% inflation. This, along with ominous predictions of recession from prominent economists, slowed tenant demand. We have seen negative absorption for seven of the last eight quarters, and vacancy rates have climbed by 3.8 percentage points. This is causing rent growth to flatten and, in some submarkets and certain size ranges, to actually pull back. In these areas, this has been coupled with an increase in leasing incentives, as some spaces are seeing longer downtime.

That said, San Diego is faring better than our neighbors to the north for two reasons: 1) San Diego is a smaller market (approximately 154 MSF) compared with Los Angeles, Orange County and the Inland Empire, and 2) we did not see the same rent growth those markets experienced during the last five years. San Diego's rent growth was approximately 40% over the last five years, while other Southern California markets saw nearly 60%. In the Inland Empire, rents have increased by nearly 300% over the last ten years.

Although all Southern California industrial markets are relatively healthy with single-digit vacancy metrics, they have all experienced multiple quarters of negative absorption over the past couple of years. This has pushed previous all-time-low vacancy rates of 1% to 3% into the 4% range and higher. Leasing activity in all of the Southern California markets is off approximately 20% from its "gold rush" pace of 2021.

Overall, San Diego is a strong, healthy, industrial market due to its diversified tenant base and limited supply. Historically, the end of a real estate up-cycle is characterized by an over-supply of new inventory coupled with waning demand for space. This time around, development was hampered by the scarcity of available land suitable for industrial development. So, supply and demand seem to be returning to "normal" without a sudden correction. Finally, the market is returning to a balance point where tenants and buyers once again have bargaining power and a choice of quality buildings that will help them increase operational efficiency.

The investment sales market has been heavily impacted by the increase in mortgage interest rates. Buyers are looking for higher returns due to increased debt costs and slowing rent growth, while sellers are waiting for rates to move back down, hoping that will increase buyer activity and get prices moving up again.

### Please Contact Us for Further Information

**Joshua Brant**  
Regional Director of Research  
jbrant@voitco.com

Anaheim, CA  
714.978.7880

Carlsbad, CA  
760.472.5620

Inland Empire, CA  
909.545.8000

Irvine, CA  
949.851.5100

Los Angeles, CA  
424.329.7500

San Diego, CA  
858.453.0505

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