San Diego County

Industrial 22Q3

Key Takeaways

- Countywide average asking monthly rental rates remained flat in Q3 at $1.47/SF triple-net (NNN); this equated to a 9% year-over-year (YoY) increase.
- Overall vacancy increased slightly by 13 basis points (BPS) to 2.66%. The increase was driven by a few projects in specific markets while overall demand generally has continued to otherwise be positive.
- Pure industrial vacancy increased to 1.68% while flex vacancy is 5.09%. Flex vacancy is at its lowest rate ever recorded; industrial vacancy increased slightly over last quarter's lowest rate on record.
- Over 1.8 million SF of new construction was completed in the nine months of this year. The South County market made up three-quarters of the space completed.

		YOY	FORECAST
Vacancy Rate	2.66%	▼	▼
Net Absorption	-66K SF	—	+
Under Construction	5.5M SF	▲	▼
Overall Industrial Asking Lease Rates (NNN)	$1.47/SF	▲	▲

San Diego's industrial market remains stable

The industrial and flex property segments continue to exhibit stable demand despite some negative absorption in a few select submarkets. Industrial and flex vacancy rates stood at 1.68% and 5.09%, respectively, which still remain at historically low levels. Flex demand has been particularly strong in life science/wet lab space where office conversions continue to create the most viable options for addressing demand and increasing inventory. Additionally, around 60% of the new first-generation space under construction is devoted to life science/wet lab uses. Barring any recession concerns, the industrial/flex market can be expected to continue to be strong for the remainder of the year and into 2023.

Market Indicators

4.66% Unemployment Rate

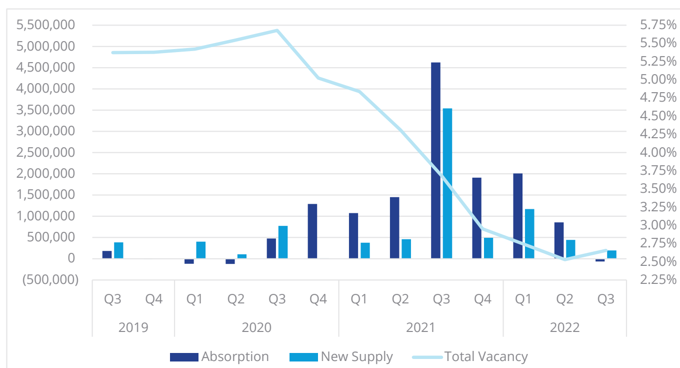
5.06% GDP - Quarterly % change yr/yr

3.829% U.S. 10 Year Treasury Note

Historic Comparison

	21Q3	22Q2	22Q3
Total Inventory (in Thousands of SF)	195,900.9	200,177.0	200,371.3
New Supply (in Thousands of SF)	3,540.7	444.0	194.3
Net Absorption (in Thousands of SF)	4,621.4	858.1	(65.6)
Overall Vacancy	3.68%	2.53%	2.66%
Under Construction (in Thousands of SF)	5,392.8	4,732.1	5,474.4
Overall Asking Lease Rates (NNN)	$1.35	$1.47	$1.47

Historical Market Trends



San Diego County industrial/flex recorded nearly -65,753 SF of net absorption in Q3 to bring net absorption to +2.8 million SF year-to-date. Vacancy peaked at 5.68% in Q3 2020 during the initial COVID pandemic wave. In the subsequent seven quarters, the countywide vacancy has fallen by 323 basis points (BPS) to a Q2 rate of 2.53%. The increase in vacancy to 2.66% in Q3 was major vacancies of approximately 12 projects in a few key submarkets such as Carlsbad, Rose Canyon, Rancho Bernardo, and Downtown.

Recent Transactions

Lease
2055 Sanyo Ave
Otay Mesa | 68K SF

Lease
2057 Aldergrove Ave
Escondido | 42K SF

Lease
2811 La Mirada Dr
Vista | 41K SF

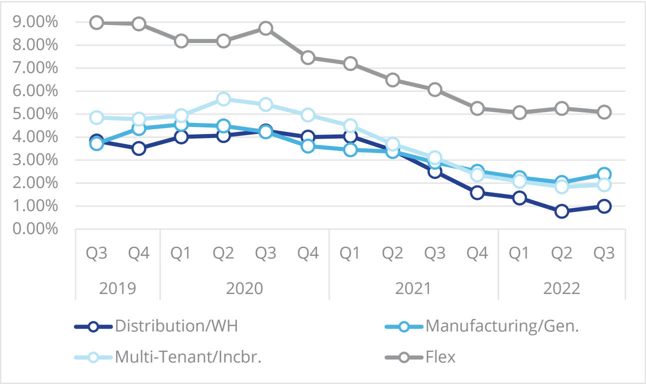
Sale
5670 Kearny Mesa Rd
Kearny Mesa | $515/SF

Sale
7330 & 7360 Carroll Rd
Sorrento Mesa | $737/SF

Sale
13112 Evening Creek Dr
Rancho Bernardo | $506/SF

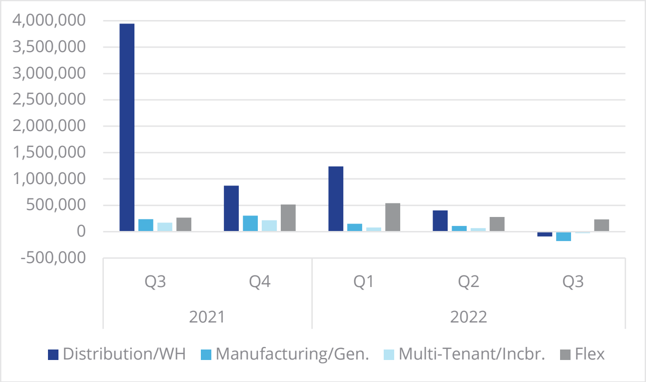
Vacancy

Countywide industrial/flex vacancy stood at 2.66% at the end of Q3. Manufacturing (2.38%), distribution/warehouse (0.99%), and multi-tenant (1.93%) vacancy rates were all below the countywide combined average, yet each had increased over their respective Q2 levels. Flex (5.09%) was higher than the countywide combined average but improved compared to Q2. By year-end, the countywide combined industrial/flex vacancy is estimated to fall just below 2.5% based on current preleasing and absorption assumptions.



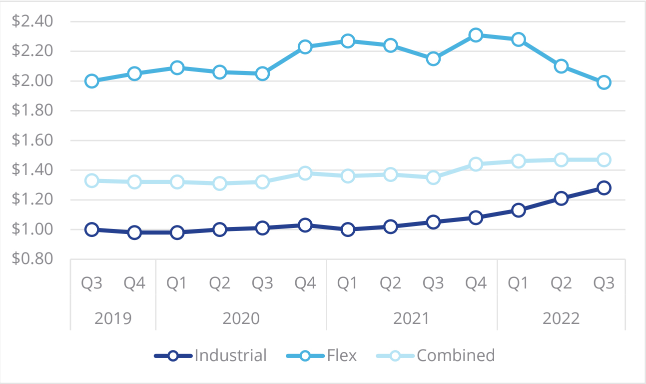
Net Absorption

There was -65,573 SF of combined industrial/flex net absorption recorded countywide in Q3. Industrial demand dipped by -297,359 SF while flex space posted positive demand of +231,786 SF. Demand in industrial and flex space has trended positive over the prior four quarters, but a few submarkets in Q3 had some negative demand. In particular, Carlsbad posted -276,059 SF of net absorption, most of which was caused by the vacancy of 161,240 SF of sublease space by Amazon at 3266 Lionshead Avenue in addition to -56,107 SF of multi-tenant move-outs at the COMMERCE project on Avenida Encinas.



Rental Rates

In Q3 2022, the combined industrial/flex average asking rental rate countywide remained at $1.47/SF. The industrial average increased to $1.28/SF (+$0.07) and the flex average decreased to $1.99/SF (-$0.11). Industrial rents have steadily gone up by 28.0% over the past three years while flex rates have decreased by 0.5%. Thus, the combined industrial/flex rental rate has seen a 10.5% increase overall.



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Industrial

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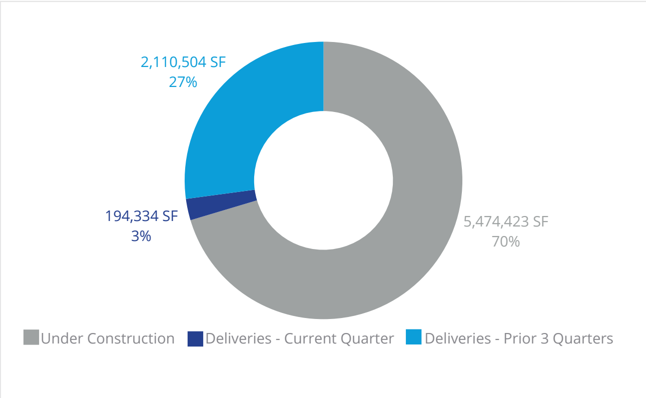
Construction

A total of 194,334 SF was completed in Q3, bringing the year-to-date total to 1.81 million SF. In Q3, three quarters of the space was life science/wet lab space at the 146,456 SF ARE Spectrum III in the Torrey Pines submarket. The building was fully preleased with Erasca occupying over a third of the building. In El Cajon, three buildings totaling 47,878 SF in the Marshall Avenue Industrial Park were fully leased to multiple industrial tenants. Of the 5.47 million SF under construction, 60% of it is life science/wet lab space.



Recent & Near Future Deliveries

Partial List

Submarket	Project / Address	Type	Total SF	Availability	Developer	Status
Torrey Pines	ARE Spectrum III 3115 Merryfield Row	Flex / Life Science	146,456	0%	Alexandria Real Estate Equities	Completed Q3 2022
El Cajon	Marshall Avenue Industrial Park 1948, 1960, 1990 N Marshall Ave	Industrial	47,878	0%	La Jolla Investment Company	Completed Q3 2022
Kearny Mesa	Kearny Mesa Logistics Center 5670 Kearny Mesa Rd	Industrial	315,000	0% Leased to Amazon	Lincoln Property Company	Under Construction Est. Q4 2022
Otay Mesa	Airway Logistics Center 8151 Airway Rd	Industrial	247,480	50%	Badiee Development	Under Construction Est. Q4 2022
Otay Mesa	California Crossings 717 & 755 Harvest Rd	Industrial	450,018	55%	Sudberry Properties	Under Construction Est. Q4 2022
Otay Mesa	Proto Logistics Center 8020 & 8070 St. Andrews Ave	Industrial	128,491	64%	Hamann Companies	Under Construction Est. Q4 2022
Southeast SD	Crest Beverage Building 1348 47th St	Industrial	346,128	0% Leased to Crest Beverage	Reyes Holdings	Under Construction Est. Q4 2022
Otay Mesa	Landmark at Otay 1610 & 1910 Landmark Rd	Industrial	476,060	100%	Majestic Realty / Sunroad Enterprises	Under Construction Est. Q1 2023
Scripps Ranch	Scripps Ranch Technology Park 10102 Hoyt Park Dr	Flex / Life Science	144,908	0% Leased to Arrowhead Pharmaceuticals	Alexandria Real Estate Equities	Under Construction Est. Q2 2023
Sorrento Mesa	Sorrento Gateway Business Park 4930 Directors Pl	Flex / Life Science	163,205	0% Leased to Sorrento Therapeutics	Healthpeak Properties	Under Construction Est. Q2 2023

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San Diego County | 22Q3| Industrial | Market Statistics

Submarket/ Class	Total Inventory SF	Direct Vacancy Rate	Sublease Vacancy Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (NNN)
Industrial - distribution/warehouse,manufacturing/general, and multi-tenant/incubator										
Central San Diego	23,843,761	1.92%	0.17%	2.09%	1.65%	(103,638)	(11,671)	661,128	0	$1.49
North City	16,205,851	0.70%	0.13%	0.83%	0.95%	19,782	58,109	0	0	$1.71
North County	43,319,585	1.73%	0.52%	2.25%	1.51%	(318,626)	187,633	0	0	$1.25
I-15 Corridor	11,329,030	0.79%	0.05%	0.84%	0.67%	(19,359)	(23,512)	0	0	$1.58
South County	35,780,590	1.56%	0.02%	1.58%	1.94%	131,063	1,450,638	1,503,249	1,144,521	$0.99
East County	12,243,885	0.98%	0.05%	1.03%	0.59%	(6,581)	88,286	0	47,878	$1.17
TOTAL	142,722,702	1.46%	0.21%	1.68%	1.43%	(297,359)	1,749,483	2,164,377	1,192,399	$1.28
Flex - R&D and wet lab/life science										
Central San Diego	7,721,011	6.24%	0.00%	6.24%	6.53%	22,485	36,463	2,053,063	0	$1.59
North City	27,049,921	3.64%	1.88%	5.52%	5.26%	69,378	735,024	1,112,075	552,028	$3.20
North County	12,427,083	2.54%	0.08%	2.62%	3.96%	167,042	190,897	0	0	$1.66
I-15 Corridor	8,368,970	6.26%	0.82%	7.07%	6.57%	(42,439)	16,324	144,908	0	$1.70
South County	684,715	0.00%	0.00%	0.00%	0.00%	0	75,854	0	66,855	$1.03
East County	1,396,934	1.69%	1.29%	2.97%	4.07%	15,320	(2,729)	0	0	$1.25
TOTAL	57,648,634	4.04%	1.05%	5.09%	5.25%	231,786	1,051,833	3,310,046	618,883	$1.99
Total - Industrial + Flex										
Central San Diego	31,564,772	2.98%	0.13%	3.11%	2.85%	(81,153)	24,792	2,714,191	0	$1.52
North City	43,255,772	2.54%	1.22%	3.76%	3.64%	89,160	793,133	1,112,075	552,028	$2.43
North County	55,746,668	1.91%	0.42%	2.33%	2.06%	(151,584)	378,530	0	0	$1.34
I-15 Corridor	19,698,000	3.11%	0.38%	3.49%	3.17%	(61,798)	(7,188)	144,908	0	$1.66
South County	36,465,305	1.53%	0.02%	1.55%	1.91%	131,063	1,526,492	1,503,249	1,211,376	$0.99
East County	13,640,819	1.05%	0.18%	1.23%	0.95%	8,739	85,557	0	47,878	$1.17
TOTAL	200,371,336	2.20%	0.45%	2.66%	2.53%	(65,573)	2,801,316	5,474,423	1,811,282	$1.47

San Diego County | 22Q3 | Industrial | Market Statistics

Suburban Markets & Submarkets - Industrial & Flex

Submarket/ Class	Total Inventory SF	Direct Vacancy Rate	Sublease Vacancy Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (NNN)
Central San Diego										
Downtown/Barrio/SE	8,720,013	3.80%	0.40%	4.20%	3.67%	(45,650)	(17,833)	2,399,191	0	$1.30
Kearny Mesa	15,746,152	2.83%	0.03%	2.86%	3.06%	30,541	55,777	315,000	0	$1.57
Mission Gorge/Valley	2,110,639	0.43%	0.00%	0.43%	0.17%	(5,525)	1,663	0	0	$2.07
Rose Cyn/Morena	3,422,492	2.35%	0.00%	2.35%	0.60%	(59,639)	(3,335)	0	0	$1.45
Sports Arena	1,565,476	4.74%	0.00%	4.74%	4.68%	(880)	(11,480)	0	0	$1.46
TOTAL	31,564,772	2.98%	0.13%	3.11%	2.85%	(81,153)	24,792	2,714,191	0	$1.52
North City										
Del Mar Hts/Carmel Vy	1,410,005	1.78%	6.24%	8.02%	8.02%	0	142,726	519,870	228,662	
Miramar	13,820,988	0.99%	0.13%	1.12%	1.09%	(3,799)	52,357	0	0	$2.00
Sorrento Mesa	14,266,631	4.86%	0.91%	5.77%	5.95%	25,446	385,564	407,205	176,910	$2.15
Sorrento Valley	3,243,478	3.31%	2.33%	5.64%	6.81%	37,845	129,375	0	0	$2.41
Torrey Pines	5,719,473	1.53%	1.94%	3.47%	1.97%	57,943	35,428	185,000	146,456	$6.95
UTC	4,795,197	0.98%	2.22%	3.20%	2.61%	(28,275)	47,683	0	0	n/a
TOTAL	43,255,772	2.54%	1.22%	3.76%	3.64%	89,160	793,133	1,112,075	552,028	$2.43
North County										
Carlsbad	16,063,605	2.54%	1.30%	3.83%	2.11%	(276,059)	(118,233)	0	0	$1.54
Escondido	7,414,587	1.79%	0.12%	1.91%	2.24%	24,473	(7,319)	0	0	$1.24
Oceanside	9,955,128	0.82%	0.00%	0.82%	0.95%	12,346	61,342	0	0	$1.30
San Marcos	8,420,284	0.67%	0.01%	0.69%	0.66%	(2,015)	84,093	0	0	$1.32
Vista	13,893,064	2.79%	0.11%	2.90%	3.54%	89,671	358,647	0	0	$1.23
TOTAL	55,746,668	1.91%	0.42%	2.33%	2.06%	(151,584)	378,530	0	0	$1.34
I-15 Corridor										
Poway	9,639,177	0.33%	0.11%	0.44%	0.48%	3,665	8,455	0	0	$1.42
Rancho Bernardo	7,904,698	5.88%	0.51%	6.39%	5.70%	(54,537)	(10,934)	0	0	$1.73
Scripps Ranch	2,154,125	5.41%	1.07%	6.48%	5.97%	(10,926)	(4,709)	144,908	0	$1.71
TOTAL	19,698,000	3.11%	0.38%	3.49%	3.17%	(61,798)	(7,188)	144,908	0	$1.66
South County										
Otay Mesa	21,680,541	1.59%	0.00%	1.59%	1.74%	31,800	1,431,089	1,302,049	1,144,521	$0.93
South Bay	14,784,764	1.44%	0.04%	1.48%	2.15%	99,263	95,403	201,200	66,855	$1.23
TOTAL	36,465,305	1.53%	0.02%	1.55%	1.91%	131,063	1,526,492	1,503,249	1,211,376	$0.99
East County										
TOTAL	13,640,819	1.05%	0.18%	1.23%	0.95%	8,739	85,557	0	47,878	$1.17

FOR MORE INFORMATION
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