



San Diego County

# Industrial 22Q4

## Key Takeaways

- Countywide average asking monthly rental rates increased by 10% in Q4 to \$1.62/SF triple-net (NNN), equating to a 12.5% year-over-year (YoY) increase.
- Overall vacancy increased by 26 basis points (BPS) to 2.82%. The increase was driven by a few existing projects in specific markets while overall demand generally continues to be positive.
- Pure industrial vacancy increased to 2.14% while flex vacancy is 4.54%.
- Over 2.54 million SF of new construction was completed in 2022 of which 83% was preleased and occupied. The South County market made up nearly two-thirds of the new space.



## San Diego's industrial market remained strong in 2022

The industrial and flex property segments continue to display positive demand notwithstanding some negative absorption in a few select submarkets. Industrial and flex vacancy rates remain at historically low levels with industrial posting over 192,000 SF of positive net absorption and flex recording less than 7,000 SF of negative net absorption. Flex demand had been particularly strong in life science/wet lab space where office conversions continued to create the most viable options for addressing demand and increasing inventory, but there are indications of this slowing down in 2023. Barring a national recession or other major economic correction, the industrial/flex market can be expected to continue to be strong well into 2023.

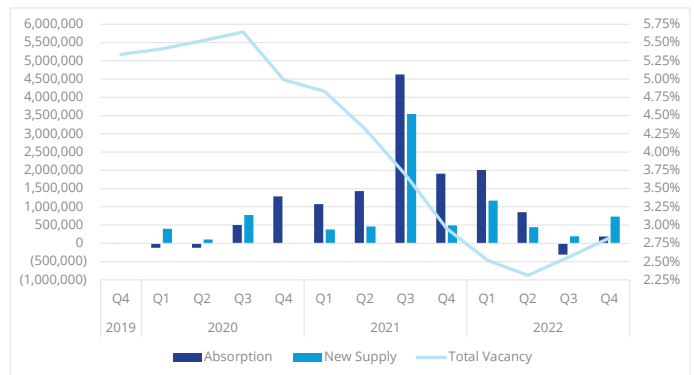
## Market Indicators



## Historic Comparison

	21Q4	22Q3	22Q4
<b>Total Inventory (in Thousands of SF)</b>	196,394.4	199,877.2	200,608.1
<b>New Supply (in Thousands of SF)</b>	493.6	194.3	730.9
<b>Net Absorption (in Thousands of SF)</b>	1,909.6	(309.5)	185.8
<b>Overall Vacancy</b>	2.95%	2.56%	2.82%
<b>Under Construction (in Thousands of SF)</b>	4,834.8	5,474.4	5,415.3
<b>Overall Asking Lease Rates (NNN)</b>	\$1.44	\$1.47	\$1.62

## Historical Market Trends



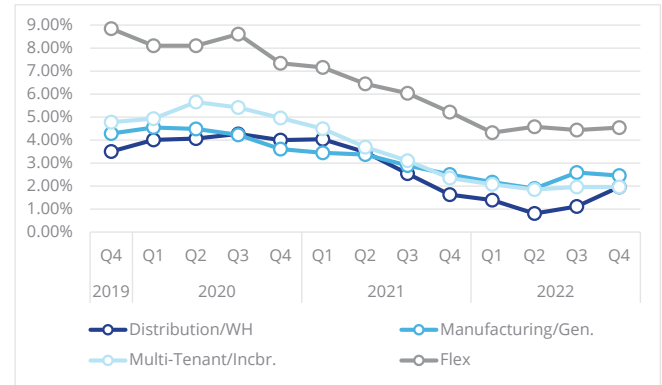
Countywide industrial/flex recorded nearly +185,809 SF of net absorption in Q4 to bring net absorption to +2.74 million SF for the year. Vacancy peaked at 5.64% in Q3 2020 during the initial COVID pandemic wave. In the following seven quarters, the countywide vacancy had fallen by 333 basis points (BPS) to a mid-year 2022 rate of 2.31%. As of year-end, the vacancy increased slightly to 2.82% because of over 925,000 SF of new construction and around 124,000 SF of negative absorption occurring in the second half of 2022.

## Recent Transactions

					
<b>Lease</b>	<b>Lease</b>	<b>Lease</b>	<b>Sale</b>	<b>Sale</b>	<b>Sale</b>
10926 Woodside Ave N East County   92K SF	3817 Ocean Ranch Blvd Oceanside   38K SF	2070 Las Palmas Dr Carlsbad   32K SF	2850 & 2855 Gazelle Ct Carlsbad   \$1,050/SF	8870 Liquid Ct Miramar   \$314/SF	5959 Santa Fe St Rose Cyn/Morena   \$353/SF

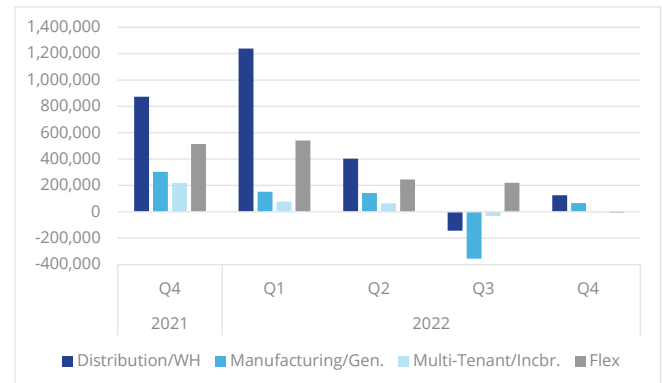
## Vacancy

Countywide industrial/flex vacancy stood at 2.82% at the end of Q4. Manufacturing (2.46%), distribution/warehouse (1.96%), and multi-tenant (1.96%) vacancy rates were all below the countywide combined average. Flex vacancy (4.54%) was higher than the countywide combined average but had decreased by 68 BPS during 2022. By the end of 2023, countywide combined industrial/flex vacancy is estimated to continue to decrease to around 2.5% based on current preleasing and absorption assumptions.



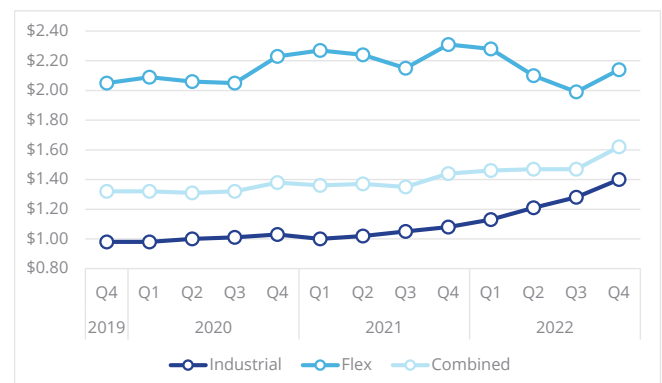
## Net Absorption

There was +185,809 SF of combined industrial/flex net absorption recorded countywide in Q4. Industrial demand increased by +192,679 SF while flex demand decreased slightly by -6,780 SF. Industrial/flex demand has trended positively over the past two-and-a-half years, but a few submarkets in Q4 had some negative demand. In particular, Carlsbad posted -105,864 SF of net absorption in Q4, added to a total net absorption of -233,158 SF for the year. Conversely, Otay Mesa had another year of soaring activity with +1.68 million SF of net absorption in 2022.



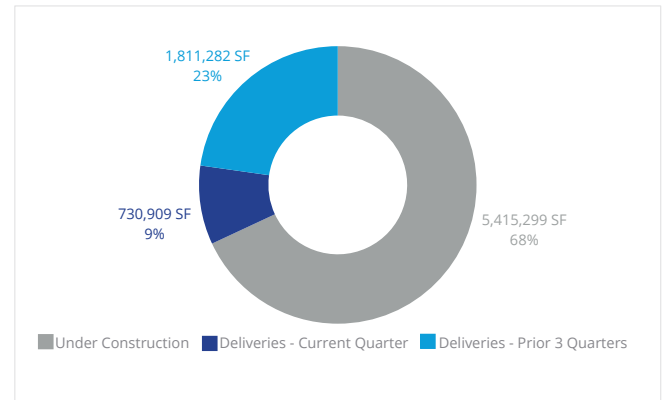
## Rental Rates

In Q4 2022, the combined industrial/flex average asking rental rate countywide increased to \$1.62/SF. The industrial and flex averages increased to \$1.40/SF (+\$0.12) and \$2.14/SF (+\$0.15), respectively. Year-over-year Industrial rents increased by 29.6% while flex rents dipped by 7.4%. Thus, the combined industrial/flex rental rate has seen a 12.5% increase overall. Strong demand and limited supply in both industrial and flex property segments will continue pressure rents upward during 2023.



## Construction

A total of 730,909 SF was completed in Q4, bringing the 2022 total to 2.54 million SF. In Kearny Mesa, construction was completed by Lincoln Property Company on a 299,381 SF build-to-suit for Amazon. Otay Mesa saw the completion of Badiie Development's 248,480 SF Airway Logistics Center and Hamann Companies' 128,491 SF Proto Logistics Center. In Lakeside (East County), Standard Drywall completed their 55,557 SF owner/user building. Of the 5.42 million SF under construction, 61% of it is life science/wet lab space.



## Recent & Near Future Deliveries

*Partial List*

Submarket	Project / Address	Type	Total SF	Availability	Developer	Status
Kearny Mesa	Kearny Mesa Logistics Center 5670 Kearny Mesa Rd	Industrial	299,381	0% Leased to Amazon	Lincoln Property Company	Completed Q4 2022
Otay Mesa	Airway Logistics Center 8151 Airway Rd	Industrial	247,480	50%	Badiie Development	Completed Q4 2022
Otay Mesa	Proto Logistics Center 8020 & 8070 St. Andrews Ave	Industrial	128,491	0%	Hamann Companies	Completed Q4 2022
East County	9825 Channel Rd	Flex	55,557	0%	Standard Drywall (owner/user)	Completed Q4 2022
Southeast SD	Crest Beverage Building 1348 47th St	Industrial	346,128	0% Leased to Crest Beverage	Reyes Holdings	Under Construction Est. Q1 2023
Otay Mesa	California Crossings 717 & 755 Harvest Rd	Industrial	450,018	55%	Sudberry Properties	Under Construction Est. Q1 2023
Otay Mesa	Interchange NEC Piper Ranch Rd & Otay Mesa Rd	Industrial	404,832	100%	Phelan Development Company	Under Construction Est. Q1 2023
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

## San Diego County | 22Q4 | 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)
<b>Industrial - distribution/warehouse, manufacturing/general, and multi-tenant/incubator</b>										
<b>Central San Diego</b>	24,057,700	2.60%	0.34%	2.94%	1.97%	61,376	51,106	346,128	299,381	\$1.56
<b>North City</b>	16,205,966	1.37%	0.14%	1.51%	1.09%	(67,725)	(28,816)	0	0	\$1.83
<b>North County</b>	43,341,377	1.61%	0.75%	2.37%	2.27%	(40,105)	131,200	0	0	\$1.28
<b>I-15 Corridor</b>	11,329,030	0.87%	0.01%	0.87%	0.65%	(25,149)	(27,662)	0	0	\$1.65
<b>South County</b>	36,157,733	1.67%	0.34%	2.01%	1.70%	257,946	1,663,910	1,747,054	1,520,492	\$1.18
<b>East County</b>	12,244,251	0.78%	1.37%	2.15%	2.20%	6,336	(48,078)	0	47,878	\$1.17
<b>TOTAL</b>	143,336,057	1.63%	0.50%	2.14%	1.81%	192,679	1,741,660	2,093,182	1,867,751	\$1.40
<b>Flex - R&amp;D and wet lab/life science</b>										
<b>Central San Diego</b>	7,509,297	3.55%	0.78%	4.32%	4.48%	11,776	(2,429)	2,053,063	0	\$1.75
<b>North City</b>	27,051,316	2.70%	2.66%	5.37%	5.52%	40,537	775,561	1,124,146	552,028	\$3.95
<b>North County</b>	12,427,083	3.19%	0.15%	3.34%	2.49%	(105,573)	85,324	0	0	\$1.68
<b>I-15 Corridor</b>	8,147,113	3.79%	0.60%	4.39%	4.39%	(125)	21,140	144,908	0	\$1.69
<b>South County</b>	684,715	0.20%	0.00%	0.20%	0.00%	(1,390)	74,464	0	66,855	\$1.00
<b>East County</b>	1,452,491	2.15%	1.24%	3.39%	2.97%	47,905	45,176	0	55,557	\$1.25
<b>TOTAL</b>	57,272,015	3.03%	1.51%	4.54%	4.43%	(6,870)	999,236	3,322,117	674,440	\$2.14
<b>Total - Industrial + Flex</b>										
<b>Central San Diego</b>	31,566,997	2.82%	0.45%	3.27%	2.58%	73,152	48,677	2,399,191	299,381	\$1.60
<b>North City</b>	43,257,282	2.20%	1.72%	3.92%	3.86%	(27,188)	746,745	1,124,146	552,028	\$2.76
<b>North County</b>	55,768,460	1.97%	0.62%	2.58%	2.32%	(145,678)	216,524	0	0	\$1.37
<b>I-15 Corridor</b>	19,476,143	2.09%	0.25%	2.34%	2.22%	(25,274)	(6,522)	144,908	0	\$1.68
<b>South County</b>	36,842,448	1.64%	0.33%	1.98%	1.67%	256,556	1,738,374	1,747,054	1,587,347	\$1.15
<b>East County</b>	13,696,742	0.92%	1.35%	2.28%	2.28%	54,241	(2,902)	0	103,435	\$1.17
<b>TOTAL</b>	200,608,072	2.03%	0.79%	2.82%	2.56%	185,809	2,740,896	5,415,299	2,542,191	\$1.62



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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)
<b>Central San Diego</b>										
Downtown/Barrio/SE	8,720,013	3.42%	0.00%	3.42%	4.20%	67,247	49,414	2,399,191	0	\$1.30
Kearny Mesa	15,748,377	3.33%	0.43%	3.77%	1.78%	(17,857)	(11,347)	0	299,381	\$1.67
Mission Gorge/Valley	2,110,639	0.64%	0.00%	0.64%	0.43%	(4,523)	(2,860)	0	0	\$2.03
Rose Cyn/Morena	3,422,492	0.11%	2.12%	2.23%	2.35%	3,960	625	0	0	\$1.56
Sports Arena	1,565,476	3.19%	0.00%	3.19%	4.74%	24,325	12,845	0	0	\$1.46
<b>TOTAL</b>	<b>31,566,997</b>	<b>2.82%</b>	<b>0.45%</b>	<b>3.27%</b>	<b>2.58%</b>	<b>73,152</b>	<b>48,677</b>	<b>2,399,191</b>	<b>299,381</b>	<b>\$1.60</b>
<b>North City</b>										
Del Mar Hts/Carmel Vy	1,410,005	1.42%	7.42%	8.84%	8.02%	(11,547)	131,179	519,870	228,662	n/a
Miramar	13,821,103	1.14%	0.11%	1.25%	1.43%	24,794	57,951	0	0	\$2.03
Sorrento Mesa	14,266,631	4.04%	1.78%	5.82%	5.77%	(7,312)	378,252	417,976	176,910	\$2.76
Sorrento Valley	3,243,752	2.71%	2.37%	5.07%	5.64%	18,482	147,857	0	0	\$2.95
Torrey Pines	5,719,473	1.63%	2.00%	3.63%	3.47%	(9,467)	25,961	186,300	146,456	\$6.95
UTC	4,796,318	0.36%	3.72%	4.08%	3.20%	(42,138)	5,545	0	0	n/a
<b>TOTAL</b>	<b>43,257,282</b>	<b>2.20%</b>	<b>1.72%</b>	<b>3.92%</b>	<b>3.86%</b>	<b>(27,188)</b>	<b>746,745</b>	<b>1,124,146</b>	<b>552,028</b>	<b>\$2.76</b>
<b>North County</b>										
Carlsbad	16,063,840	2.80%	1.75%	4.55%	3.89%	(105,864)	(233,158)	0	0	\$1.58
Escondido	7,414,587	1.66%	0.08%	1.74%	2.57%	61,324	5,029	0	0	\$1.26
Oceanside	9,974,314	1.21%	0.21%	1.42%	0.70%	(71,328)	2,248	0	0	\$1.30
San Marcos	8,420,284	1.36%	0.13%	1.49%	0.69%	(67,612)	16,481	0	0	\$1.30
Vista	13,895,435	2.07%	0.19%	2.26%	2.53%	37,802	425,924	0	0	\$1.28
<b>TOTAL</b>	<b>55,768,460</b>	<b>1.97%</b>	<b>0.62%</b>	<b>2.58%</b>	<b>2.32%</b>	<b>(145,678)</b>	<b>216,524</b>	<b>0</b>	<b>0</b>	<b>\$1.37</b>
<b>I-15 Corridor</b>										
Poway	9,639,177	0.42%	0.09%	0.51%	0.44%	(6,603)	1,852	0	0	\$1.47
Rancho Bernardo	7,675,100	2.41%	0.52%	2.93%	3.51%	44,357	39,422	0	0	\$1.74
Scripps Ranch	2,161,866	8.42%	0.03%	8.45%	5.53%	(63,028)	(47,796)	144,908	0	\$1.75
<b>TOTAL</b>	<b>19,476,143</b>	<b>2.09%</b>	<b>0.25%</b>	<b>2.34%</b>	<b>2.22%</b>	<b>(25,274)</b>	<b>(6,522)</b>	<b>144,908</b>	<b>0</b>	<b>\$1.68</b>
<b>South County</b>										
Otay Mesa	22,056,512	1.92%	0.20%	2.12%	1.80%	297,609	1,684,024	1,545,854	1,520,492	\$1.04
South Bay	14,785,936	1.23%	0.53%	1.76%	1.48%	(41,053)	54,350	201,200	66,855	\$1.35
<b>TOTAL</b>	<b>36,842,448</b>	<b>1.64%</b>	<b>0.33%</b>	<b>1.98%</b>	<b>1.67%</b>	<b>256,556</b>	<b>1,738,374</b>	<b>1,747,054</b>	<b>1,587,347</b>	<b>\$1.15</b>
<b>East County</b>										
<b>TOTAL</b>	<b>13,696,742</b>	<b>0.92%</b>	<b>1.35%</b>	<b>2.28%</b>	<b>2.28%</b>	<b>54,241</b>	<b>(2,902)</b>	<b>0</b>	<b>103,435</b>	<b>\$1.17</b>

## FOR MORE INFORMATION

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