

# San Diego Industrial Market

## Demand for Industrial Remains High During Pandemic

- The average asking rent fell slightly to \$1.11/SF, down \$0.03/SF from last quarter but still up \$0.02/SF from last year. Rents are projected to resume growing this year as demand for industrial space increases further during the economic recovery.
- Vacancy ticked up 20 basis points to 5.3%. Vacancy has been consistently low as new supply has lagged demand, averaging 5.0% over the past three years, and the continued need for industrial space during the pandemic had little impact on demand. Although there is a record amount of space in the construction pipeline, most of it is pre-leased and will not negatively affect vacancy.
- Absorption was mostly flat for the quarter, with minimal losses of 29,610 square feet. Leasing activity remains robust, but later start dates in recently signed deals will delay positive absorption until later this year.
- There were no new deliveries during the quarter, but construction soared to 5.2 million square feet, the highest level of activity in more than 20 years. More than 98% of this under-construction space is in Otay Mesa, which is experiencing a boom of distribution development that will increase the submarket's inventory by more than 30%.

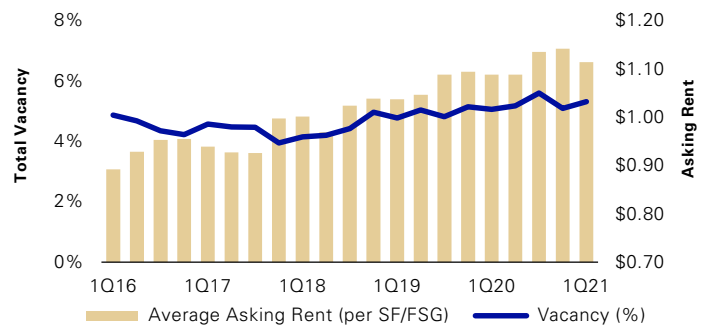
### Distribution Facilities Among Largest Deals

Stone Brewing's distribution arm signed a 113,500-square-foot lease in San Marcos, returning to the city where the craft brewing pioneer was first founded 25 years ago. The company provides distribution for other beer and spirits brands in addition to its own products, a strategy that has generated new business for the company rather than competition as the craft beer industry has grown.

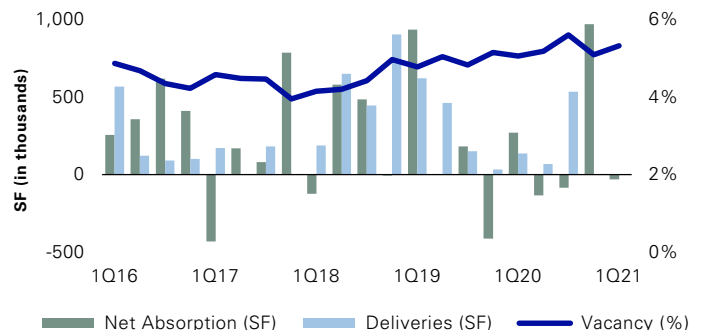
OnTrac leased 104,000 square feet at the Pacific Vista Commerce Center in Carlsbad, expanding its last-mile delivery

### Market Analysis

#### VACANCY AND ASKING RENT



#### NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



### Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	165.7M	165.3M	164.5M	↑
Total Vacancy Rate	5.3%	5.1%	5.1%	→
Quarterly Net Absorption (SF)	-29,610	970,190	270,504	↑
Average Asking Rent/SF/Month	\$1.11 NNN	\$1.14 NNN	\$1.09 NNN	↑
Deliveries (SF)	0	0	137,000	↑
Under Construction (SF)	5.1M	4.2M	1.2M	↓

## RESEARCH Q1 2021

capabilities in North County.

On the capital markets front, KKR acquired the two-building Three Piper Ranch distribution facility in Otay Mesa for \$57.75 million. The project has a total size of more than 333,000 square feet and was fully leased to multiple tenants at the time of purchase.

Diagnostic testing company Quidel Corporation signed a lease for a 128,000-square-foot manufacturing facility in Carlsbad. Quidel plans for the facility to be operational by the second half of the year and will use the location to manufacture COVID-19 test kits, as well as other diagnostic products.

### Outlook

San Diego's unemployment rate declined to 7.2% in February, down from last May's historic high of 15.2%. Over the past year the number of jobs in the trade, transportation and utilities sector has decreased by 5.2%, while manufacturing jobs have decreased by 1.3%. Economists hope that vaccination efforts

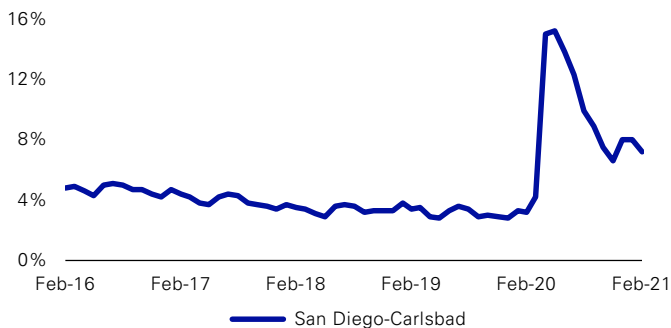
and reopening businesses will boost hiring later in the year.

Ongoing efforts to manufacture and ship COVID-19 protective gear, tests, treatments and vaccines will require large amounts of industrial space in the short term. Once an economic recovery is well underway, the resumption of traditional consumer activity will fuel increased demand for warehousing, distribution and delivery services.

Otay Mesa in particular has benefited from the continued growth of e-commerce and the logistics industry that serves it due to its proximity to foreign trade from Mexico and the availability of affordable land for development, which is a rarity in coastal San Diego. Amazon's massive 3.3-million-square-foot construction project is the most visible symbol of this growth, and its presence in the area has in turn inspired leasing activity from third-party-logistics and customs brokers. This anticipated resurgence of demand is expected to drive asking rents higher as the economy roars back to life as the pandemic ebbs.

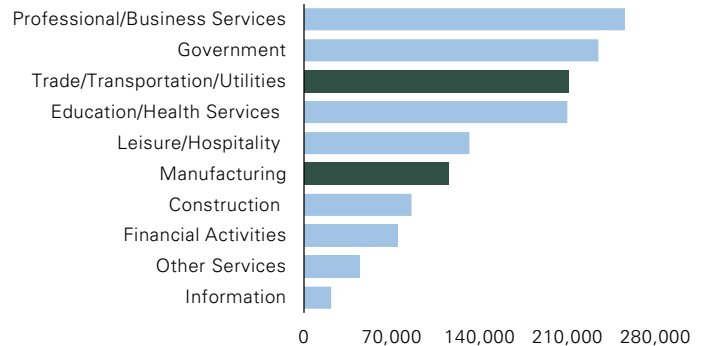
### Unemployment Rate

NOT SEASONALLY ADJUSTED



### Employment by Industry

NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics (Preliminary data, not seasonally adjusted)

### Lease Transactions

Tenant	Building	Market Area	Lease Type	Square Feet
Quidel	2285 Rutherford Road	Carlsbad	New Lease	128,745
Stone Brewing	505 S. Pacific Street	San Marcos	New Lease	113,500
OnTrac	2800 Whiptail Loop	Carlsbad	New Lease	103,984

### Sale Transactions

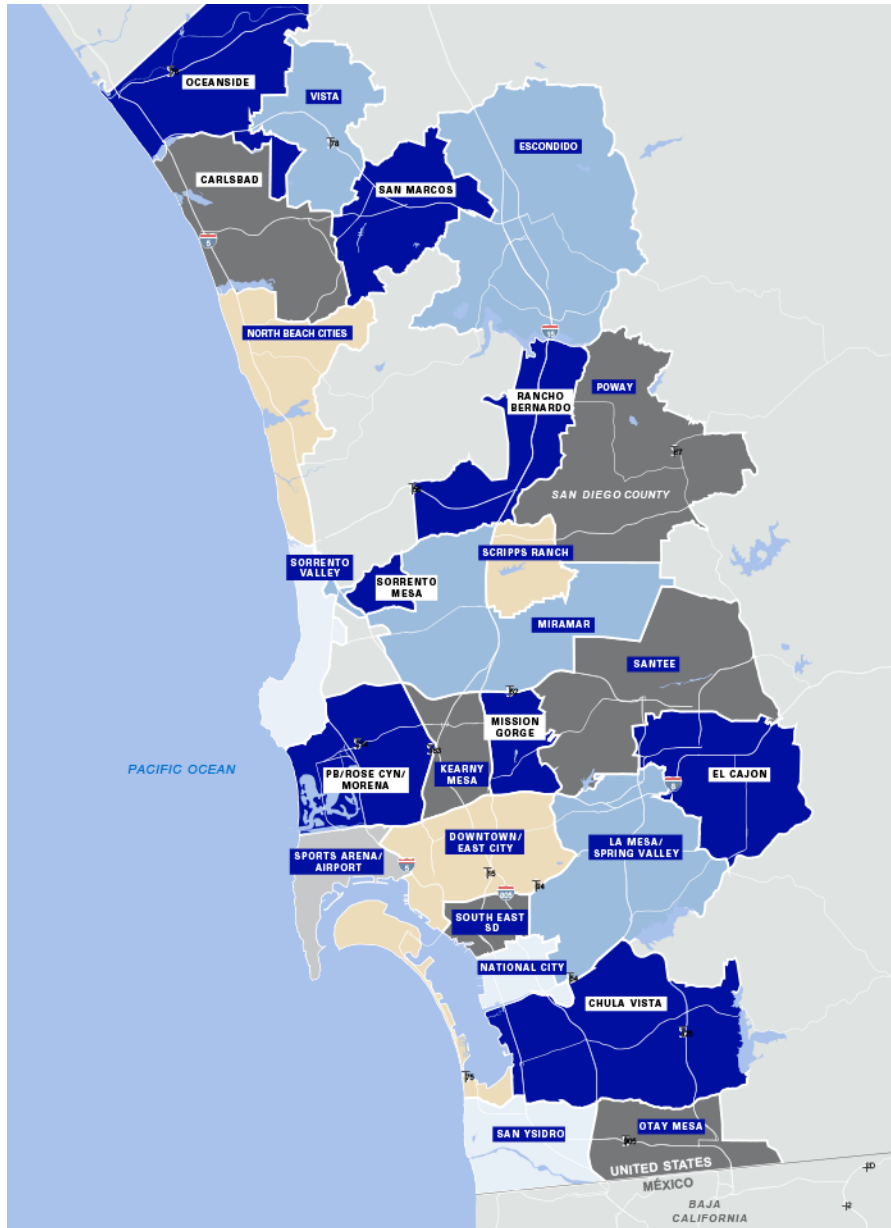
Buyer	Building(s)	Market Area	Sale Price/SF	Square Feet
KKR	1210 & 1320 Air Wing Road	Otay Mesa	\$173	333,436
Sentre Partners	16915 Via Del Campo	Rancho Bernardo	\$353	141,518
Montana Avenue Capital Partners	Millennium Health Portfolio	Rancho Bernardo	\$233	195,269

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Wh/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Average Asking Rent (Price/SF)
Carlsbad	13,532,209	0	9.7%	135,650	135,650	\$1.21	\$1.35	\$1.19
Chula Vista	9,267,487	66,860	4.4%	18,491	18,491	\$0.89	\$1.35	\$1.10
Downtown/East City	2,463,604	0	0.7%	5,147	5,147	-	-	\$1.54
El Cajon	9,865,031	0	3.4%	32,573	32,573	\$1.03	\$0.99	\$0.97
Escondido	6,143,588	0	3.8%	-9,594	-9,594	\$0.73	\$0.64	\$0.83
Kearny Mesa	14,667,753	0	4.2%	4,652	4,652	\$1.40	\$1.98	\$1.57
La Mesa/Spring Valley	2,010,768	0	2.3%	29,621	29,621	\$0.89	-	\$0.88
Miramar	15,150,207	0	3.5%	-19,768	-19,768	\$1.23	\$1.49	\$1.20
Mission Gorge	1,904,084	0	5.2%	3,038	3,038	\$1.12	\$1.65	\$1.25
National City	2,897,861	0	1.3%	-17,113	-17,113	\$1.22	-	\$1.22
North Beach Cities	552,065	0	0.4%	-1,200	-1,200	-	-	\$2.29
Oceanside	8,421,157	0	3.3%	27,452	27,452	\$0.93	-	\$1.01
Otay Mesa	16,451,531	5,048,842	7.5%	29,322	29,322	\$0.79	-	\$0.79
PB/Rose Cyn/Morena	2,379,357	0	3.0%	14,976	14,976	\$1.27	\$0.83	\$1.22
Poway	9,385,393	0	1.2%	19,806	19,806	\$1.01	-	\$1.04
Rancho Bernardo	7,535,864	0	8.9%	-143,031	-143,031	\$1.38	\$1.66	\$1.52
San Marcos	7,791,276	0	10.0%	943	943	\$0.89	\$1.02	\$0.80
San Ysidro	1,528,457	0	2.0%	-22,826	-22,826	\$0.75	-	\$0.73
Santee	3,514,280	20,231	5.1%	-92,030	-92,030	\$1.07	-	\$0.97
Scripps Ranch	1,308,331	0	2.0%	-7,585	-7,585	\$1.07	\$1.47	\$1.20
Sorrento Mesa	8,202,925	0	3.2%	-43,309	-43,309	\$1.50	\$1.34	\$2.12
Sorrento Valley	2,131,933	0	7.4%	-22,761	-22,761	\$1.23	\$1.95	\$1.80

Submarket Statistics								
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Southeast San Diego	3,830,051	0	0.9%	0	0	\$1.08	-	\$1.10
Sports Arena/Airport	2,131,276	0	5.0%	-7,360	-7,360	\$1.09	-	\$1.15
Vista	12,613,254	0	9.8%	35,296	35,296	\$0.93	-	\$0.94
<b>Market</b>	<b>165,679,742</b>	<b>5,135,933</b>	<b>5.3%</b>	<b>-29,610</b>	<b>-29,610</b>	<b>\$0.99</b>	<b>\$1.62</b>	<b>\$1.11</b>

*Net absorption is the change in physically occupied space. A hypothetical vacant and available space could lease this quarter with the tenant set to take occupancy six months later; positive absorption is not recorded until this physical move-in occurs. The space will remain vacant, but not available, until occupancy.*

*The total asking rent is the weighted average across warehouse, manufacturing, flex, incubator and general industrial properties.*



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