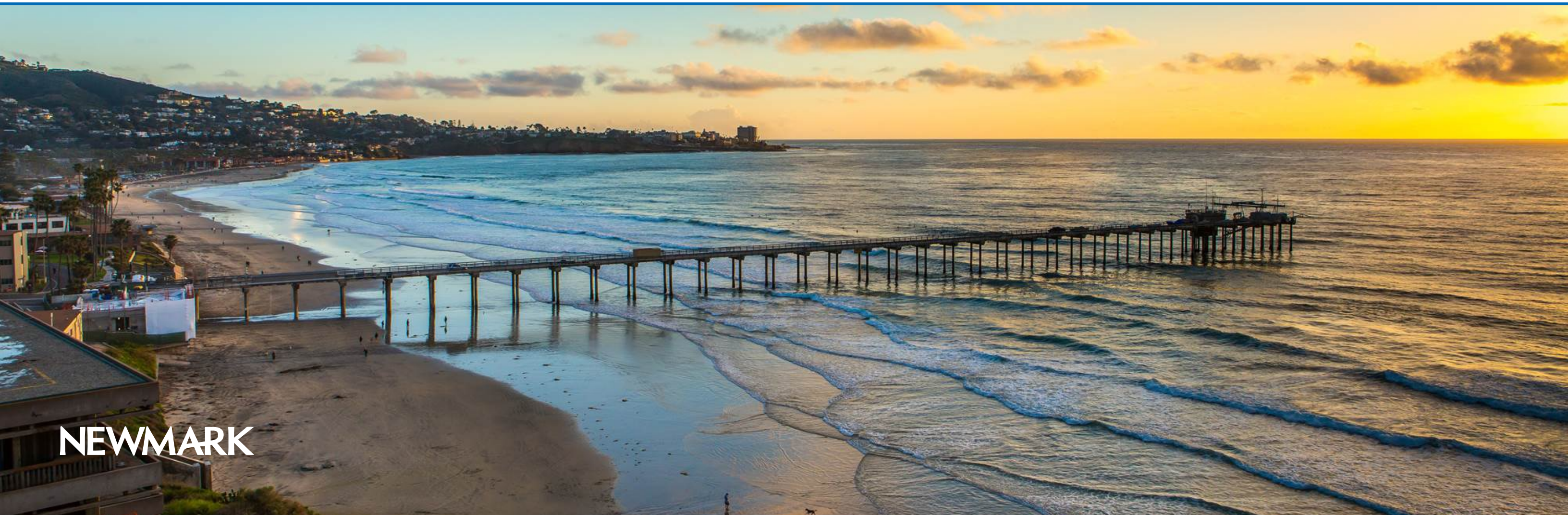


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San Diego Industrial Market Overview



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Market Observations

Economy

- Local unemployment was 4.7% in February 2024, up 100 basis points over the past year and higher than the U.S. average of 3.9%.
- The region’s labor market added 13,600 jobs in the 12-month period ending February 2024. Most of the gains came from sectors that had contracted during the pandemic (e.g., leisure/hospitality). Trade/transportation/utilities lost 400 jobs and manufacturing jobs fell by 3,200.
- Inflation has eased after interest rate increases from the Federal Reserve. The metro’s Consumer Price Index rose 3.8% year-over-year in February 2024, down from a high of 8.1% in May 2022. The Fed has hinted at rate cuts later this year.

Major Transactions

- Marketing.com executed the largest lease of the quarter, signing for 153,166 SF in Otay Mesa for an envelope manufacturing and printing operation.
- Acon Laboratories executed a notable large sublease, taking 97,162 SF of space that had previously been leased by Thermo Fisher in Mira Mesa.
- BKM Capital Partners purchased a 13-building portfolio that was 99% leased from Gateway West Properties for \$70.2 million.

Leasing Market Fundamentals

- The average asking rent fell \$0.01 to \$1.37/SF NNN. Although asking rates appear to have peaked after rising vacancy, the first quarter average was up 5.4% over the year-ago quarter.
- Net absorption was negative for the quarter, posting 191,523 SF in losses, marking the fifth straight quarter of negative absorption.
- Sublease availability remains elevated with 2.2 MSF for sublet, compared to 10.9 MSF of available direct space.
- Construction levels have steadily fallen from the all-time high in 2021, with 1.5 MSF underway after 252,009 SF delivered this quarter.

Outlook

- Asking rates have lost momentum as vacancy has increased; rent growth is likely to remain negative or subdued over the coming year.
- The construction pipeline will dry out speculative groundbreakings will be rare for the foreseeable future.
- Fewer deliveries will help vacancy to stabilize.
- Interest rate cuts that are scheduled to take place by the end of 2024 will give a welcome boost to lagging leasing activity and sales transactions.

1. Economy
2. Leasing Market Fundamentals
3. Submarkets

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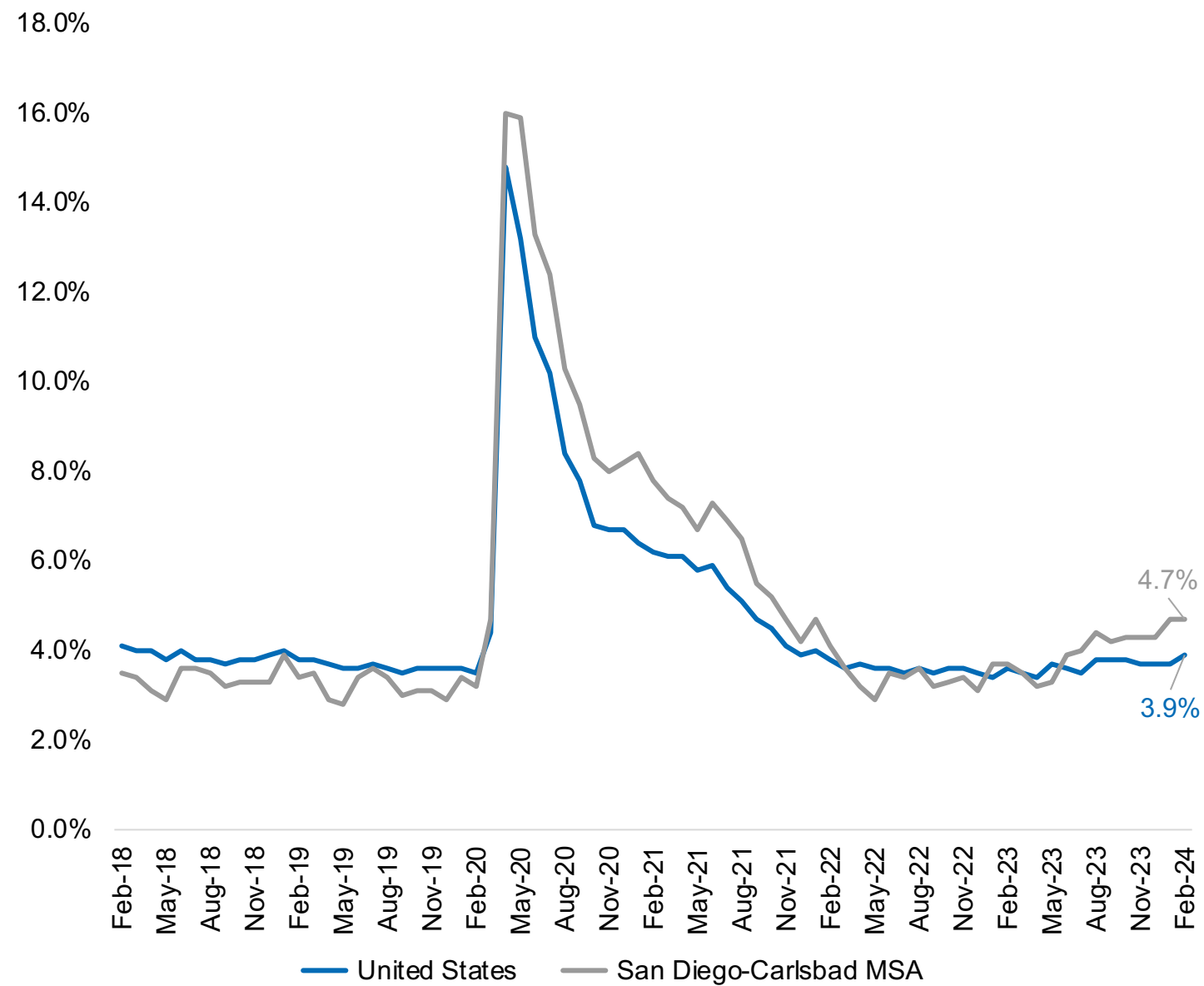
Economy



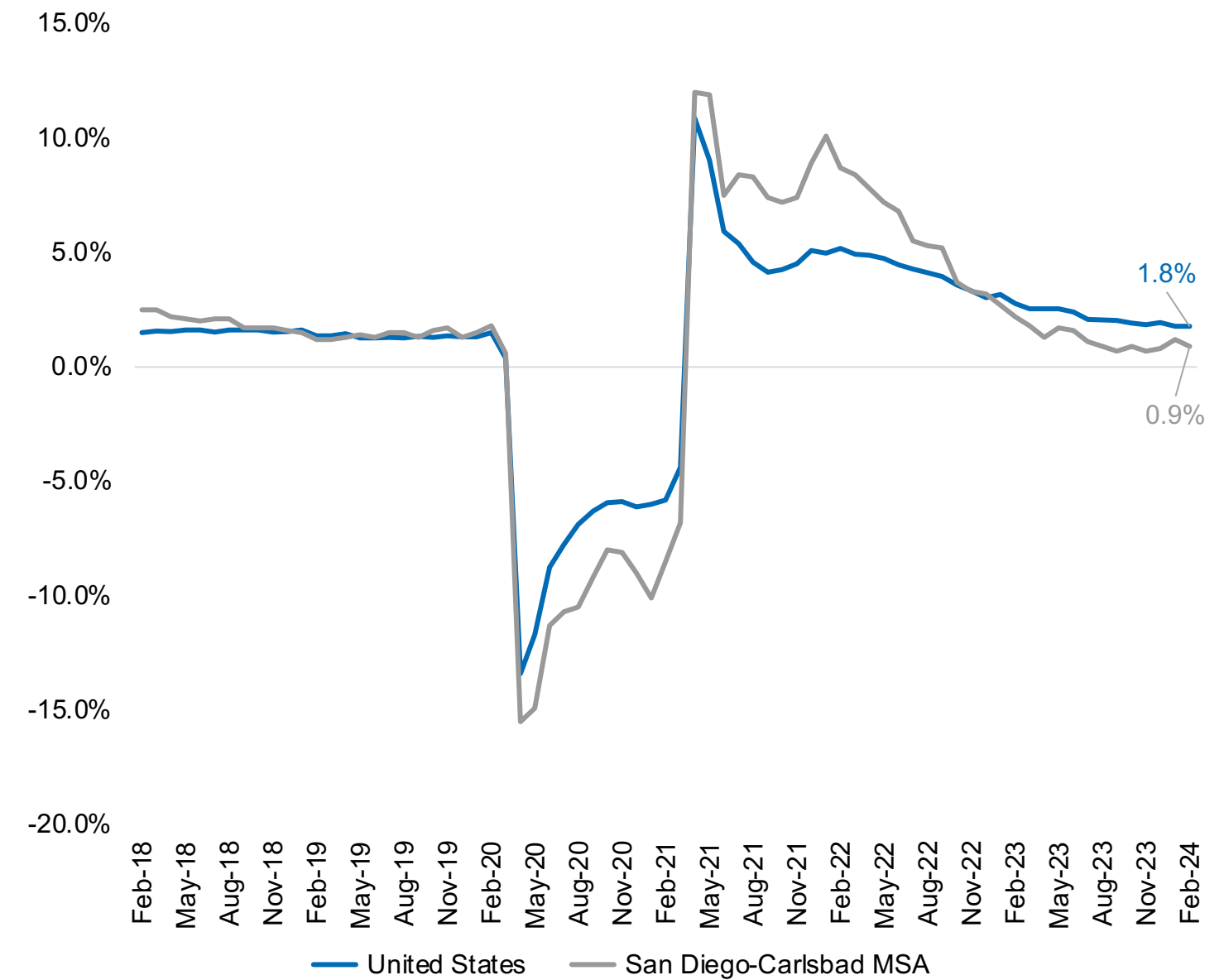
Metro Employment Flattens Out As Job Growth Slows

At the onset of the pandemic, the San Diego Metro experienced higher rates of unemployment than the national average due to the region's large tourism and hospitality sectors, but it also recovered jobs more quickly and by 2022 saw levels of unemployment close to or lower than the national average. Local unemployment has trended slightly upward since April 2023 as job growth lagged the national average and stood at 4.7% as of February 2024, up 100 bps over the past 12 months.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

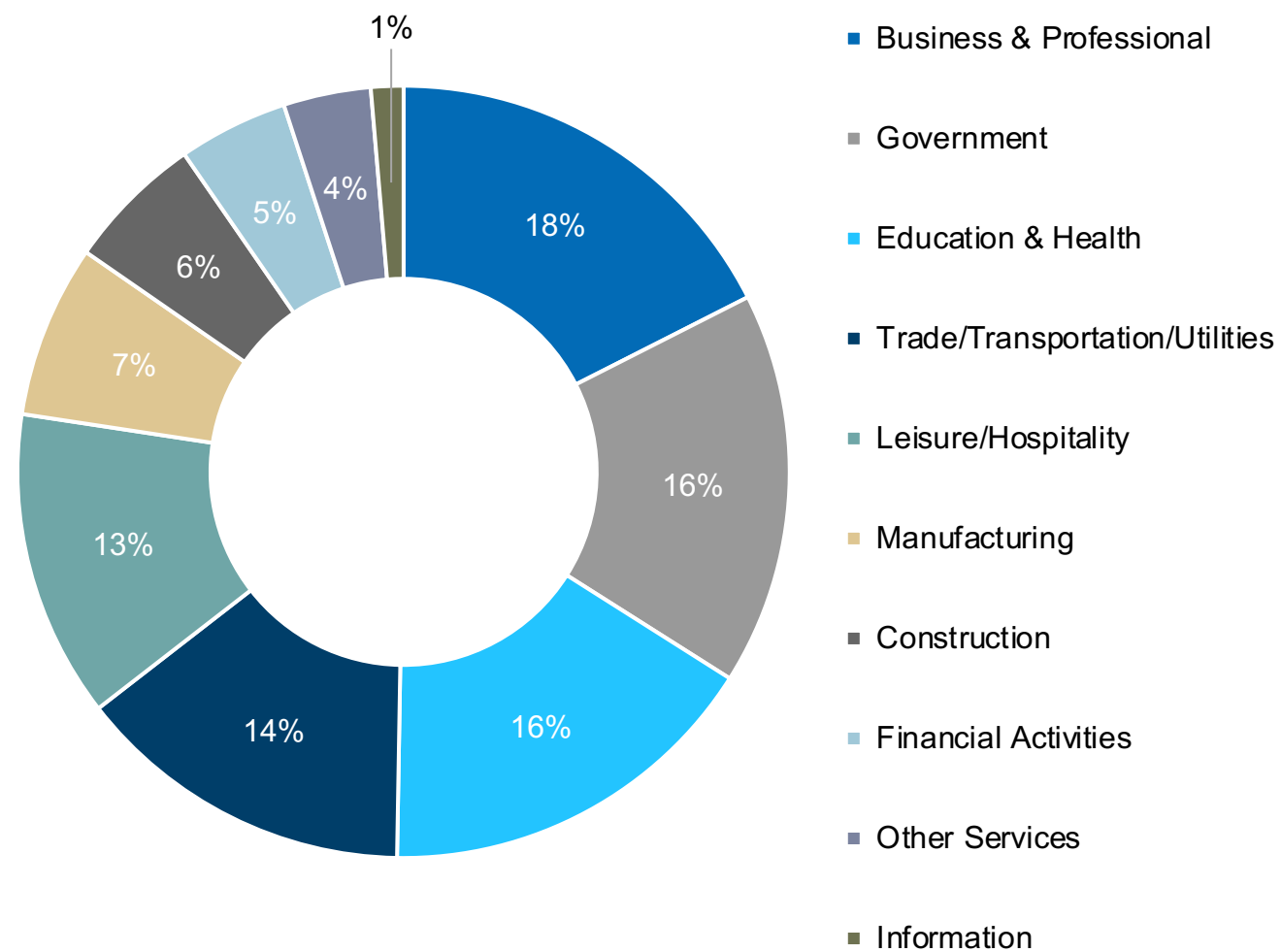


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

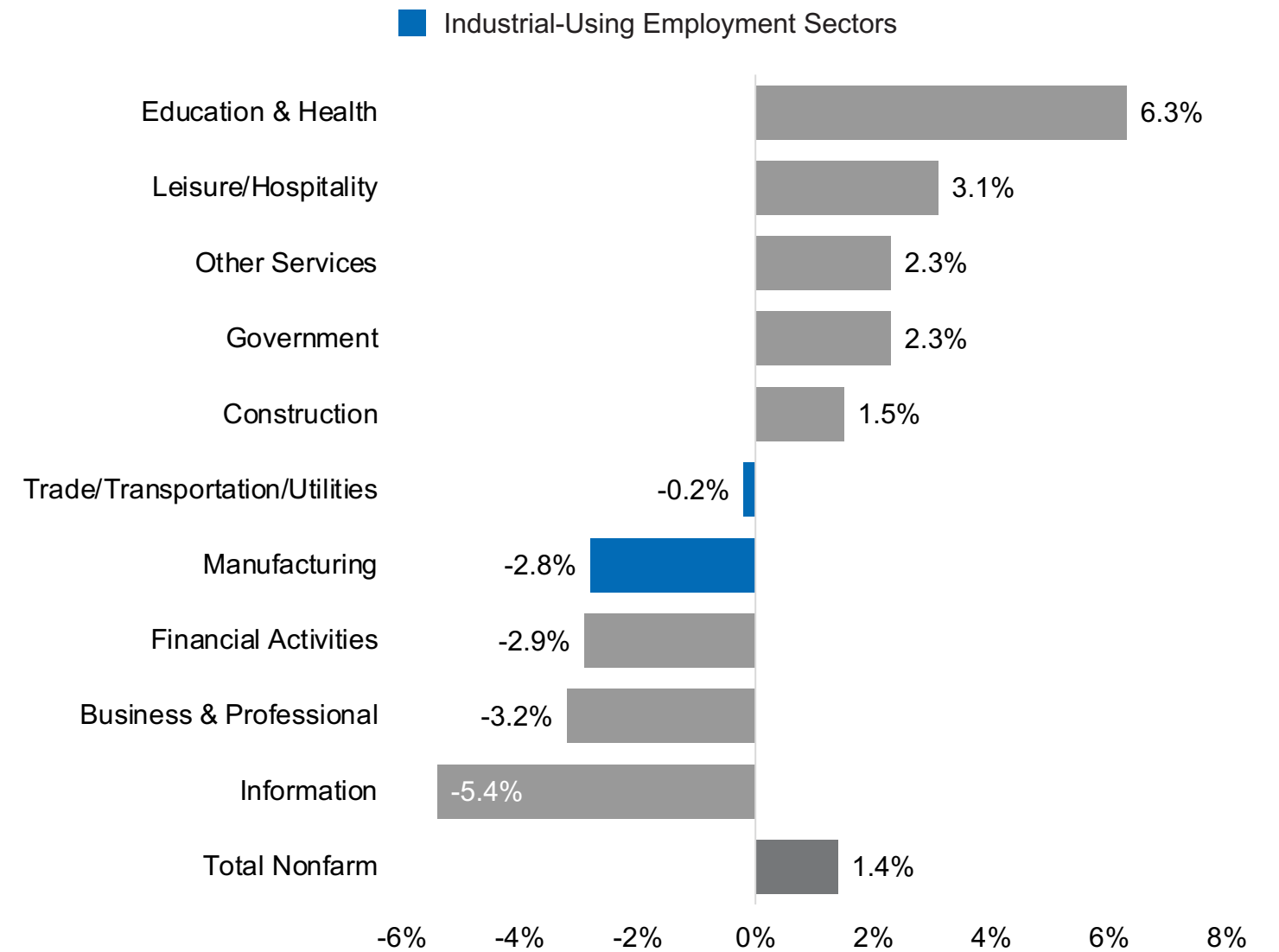
Industrial Jobs Experienced Minor Losses Over the Past Year

The San Diego metro added 13,600 nonfarm jobs over the past year. Most of this job creation came from the education and health and leisure/hospitality sectors, which were the hardest hit in the downturn of 2020. Industrial-using sectors shed jobs during this period; manufacturing lost 3,200 jobs and the trade, transportation and utilities industry lost 400 jobs.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

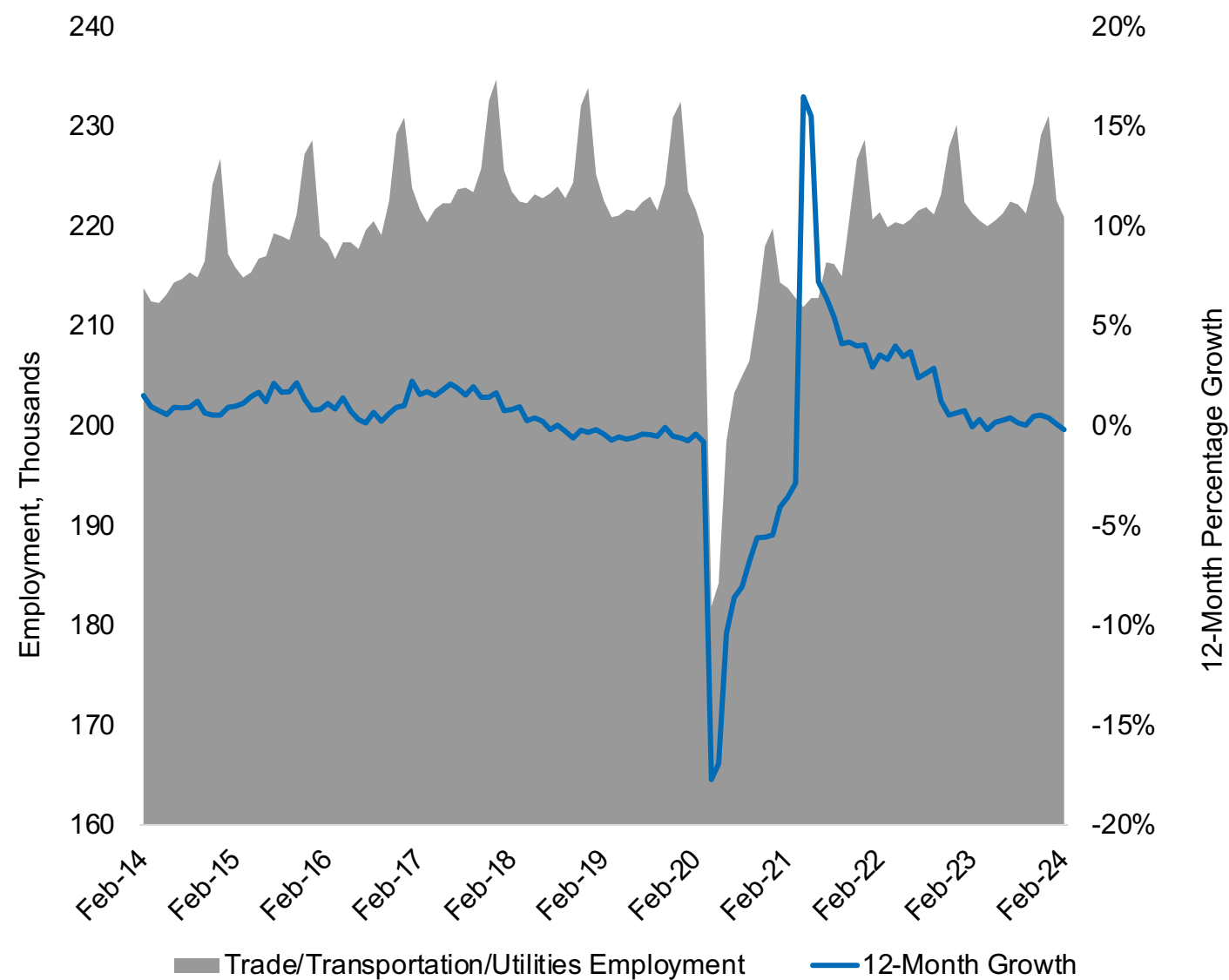


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

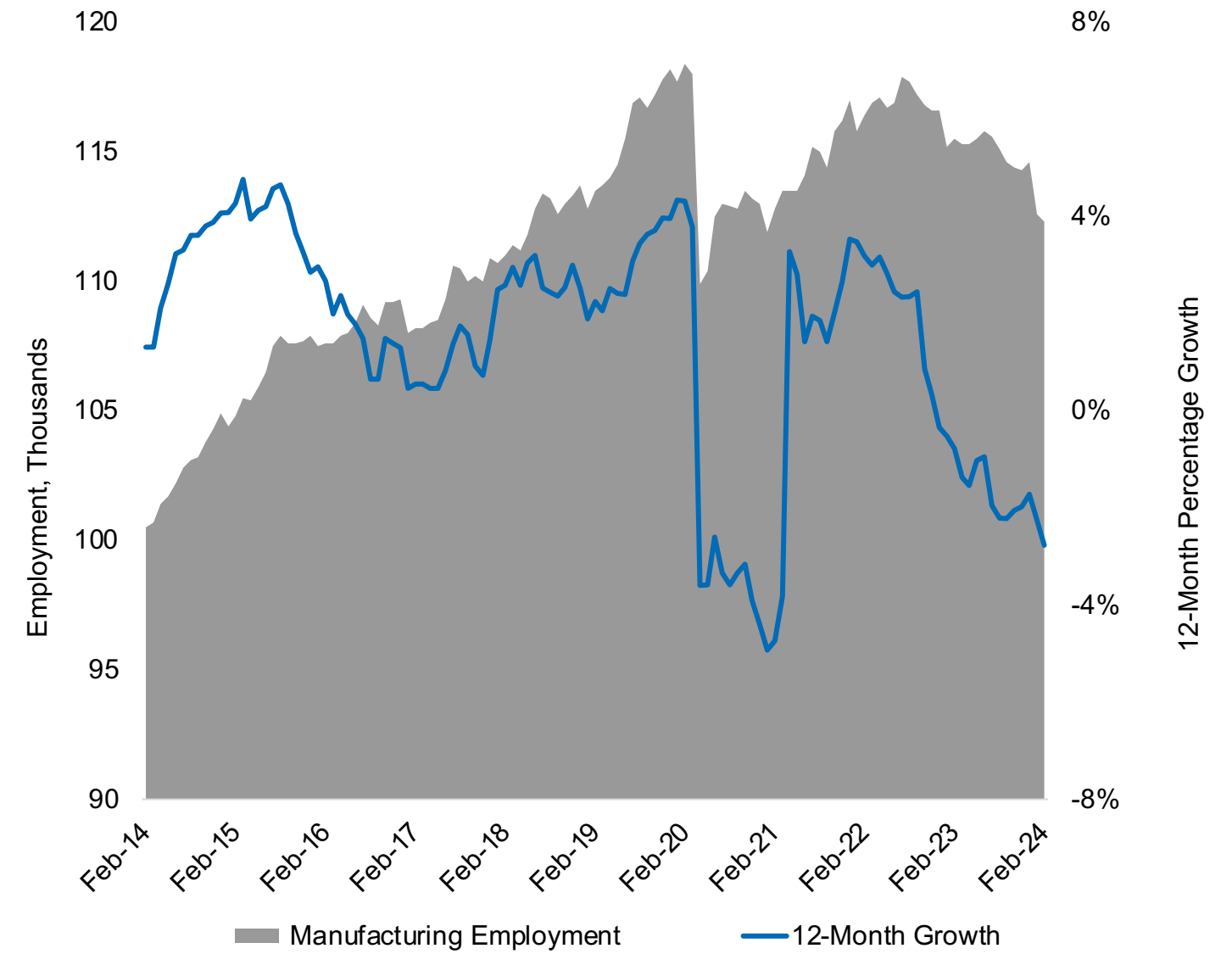
Trade, Transportation and Utilities Holds Steady While Manufacturing Declines

Trade/transportation/utilities employment has trended upwards since 2021 and is now at similar levels to prepandemic trends. The pandemic downturn disrupted seven years of manufacturing expansion. Since the recovery, jobs in the sector reached a new high in July 2023 before declining over the past year.

Trade/Transportation/Utilities Employment and 12-Month Growth Rate



Manufacturing Employment and 12-Month Growth Rate



Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

Inflation Eases From Historical Highs But Local Prices Remain Elevated

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Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

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The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

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Otay Mesa Port Annual Volume Down Slightly From All-Time High

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Industrial Sales Volume Declines From Recovery Highs

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Institutional Buyers Most Active in the First Quarter

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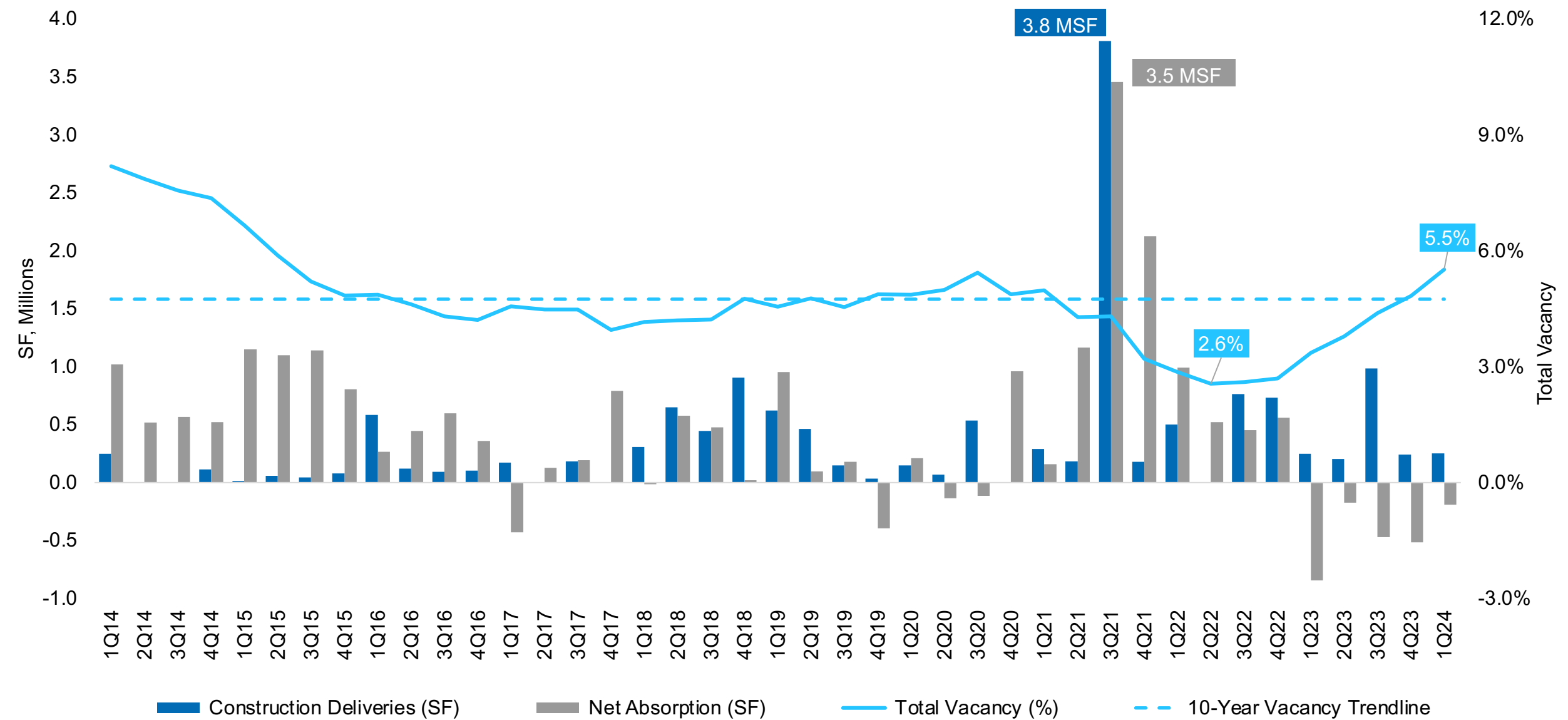
Leasing Market Fundamentals



Vacancy Has Climbed Steadily Since 2022

Total vacancy has climbed to 5.5% since the all-time low of 2.6% achieved in the second quarter of 2022. Leasing activity has slowed and vacancy is now above the 10-year average of 4.7%. Construction deliveries and net absorption reached an all-time high in 2021 after the delivery and opening of Amazon's 3.4M-SF distribution facility in Otay Mesa.

Historical Construction Deliveries, Net Absorption, and Vacancy

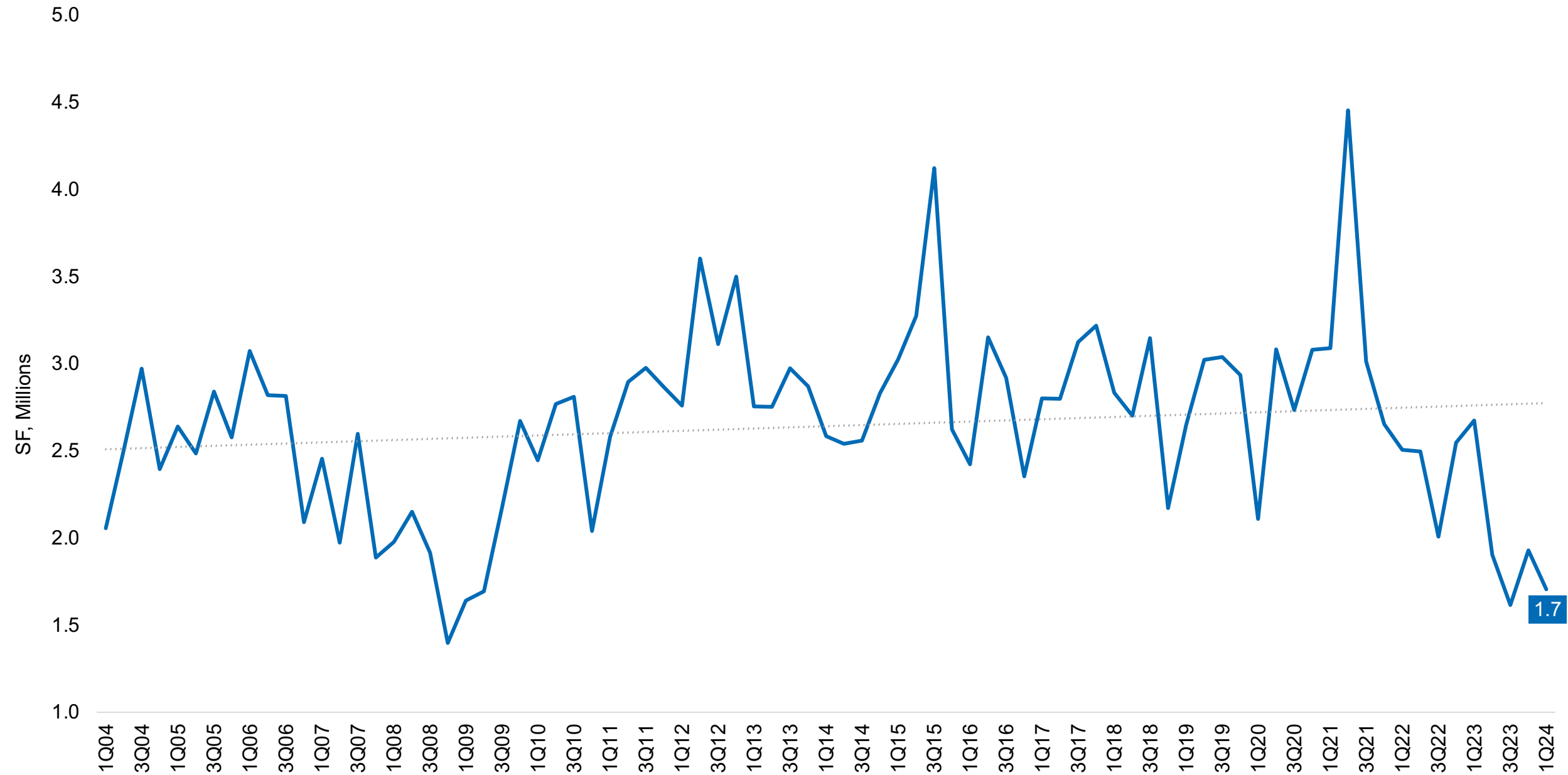


Source: Newmark Research

Industrial Leasing Falls to Lowest Quarterly Total Since 2008

Leasing activity dropped over the past two years after experiencing robust activity in 2021, as economic uncertainty from high interest rates and inflation lead many businesses to reduce real estate requirements. The last time quarterly activity was this low was in 2008, during the aftermath of the Global Financial Crisis.

Total Leasing Activity (SF)

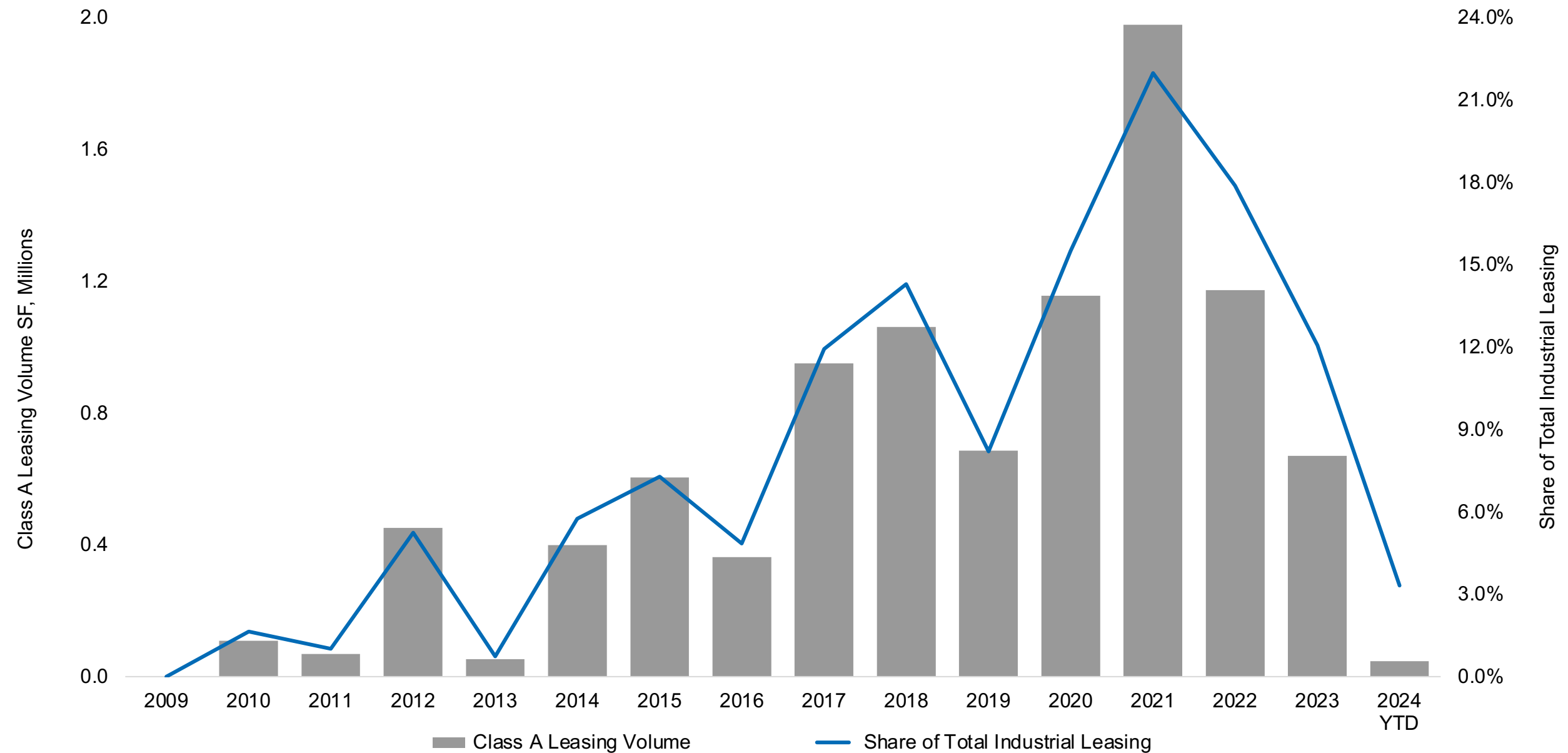


Source: Newmark Research, CoStar

Class A Leasing Remained Elevated in 2022-2023 After Declining From All-Time High

San Diego has not seen the same amount of new development as Los Angeles and the Inland Empire, but Class A inventory and demand increased substantially in the heyday of super-sized distribution facilities. Amazon's lease for its 3.4M-SF facility in Otay Mesa in 2021 set the high-water mark for Class A demand. Class A leasing activity was notably muted in the first quarter of 2024.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



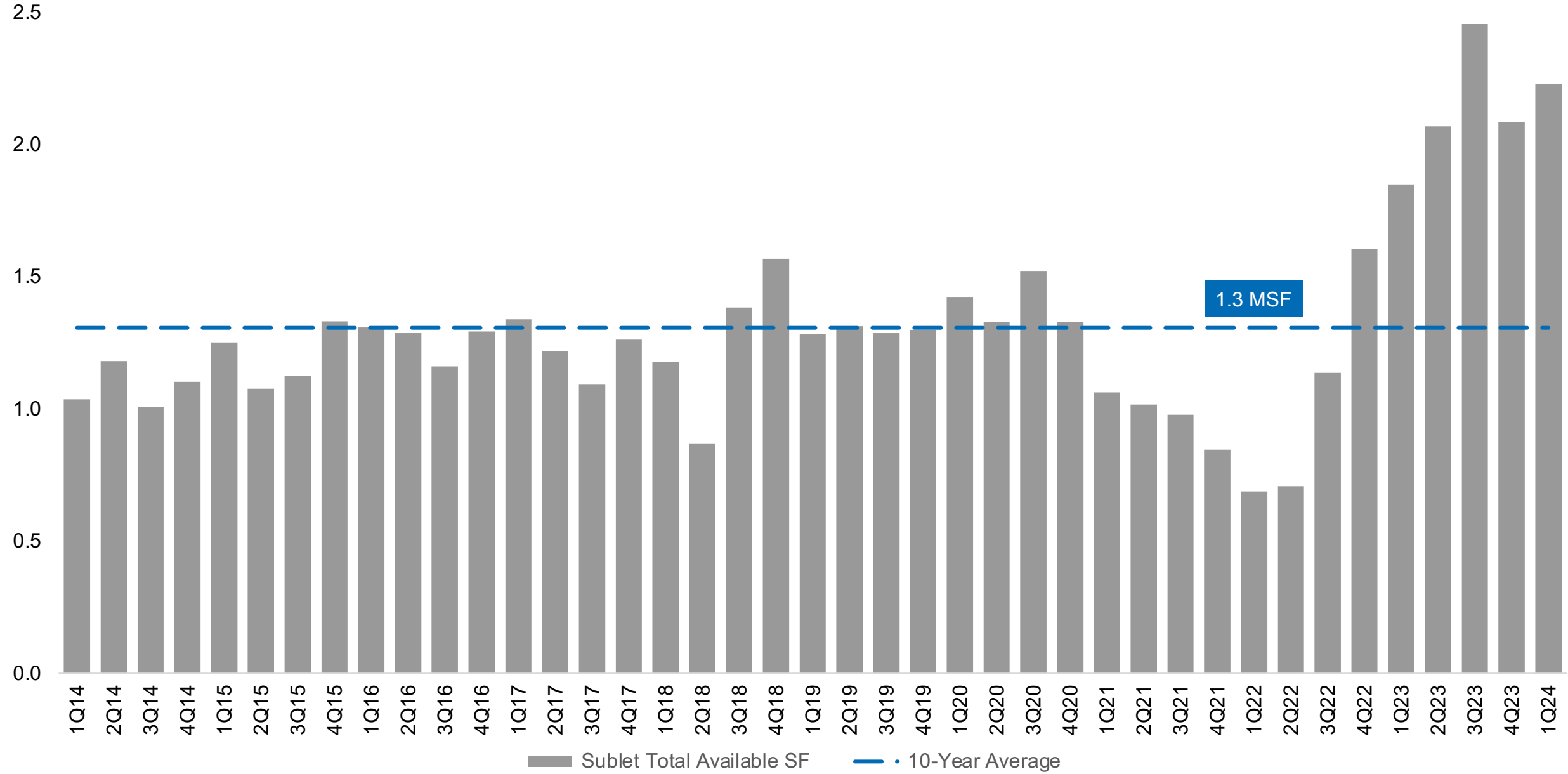
Source: Newmark Research, CoStar

Note: Class A is defined as 100,000+ SF warehouse/distribution facilities constructed since 2000 with a 30'+ minimum interior ceiling height. Industrial leasing does not include flex product.

Sublease Availability Dips After Reaching 10-Year High

Sublease availability was steady for nearly ten years prior to the pandemic, which caused major disruptions. Sublease listings briefly dipped during surging demand for industrial space during COVID before increasing at the end of 2022 as demand moderated. Under-construction space that was pre-leased during the pandemic development boom and is no longer needed has contributed to the upward trend of sublease space.

Available Industrial Sublease Volume (MSF)

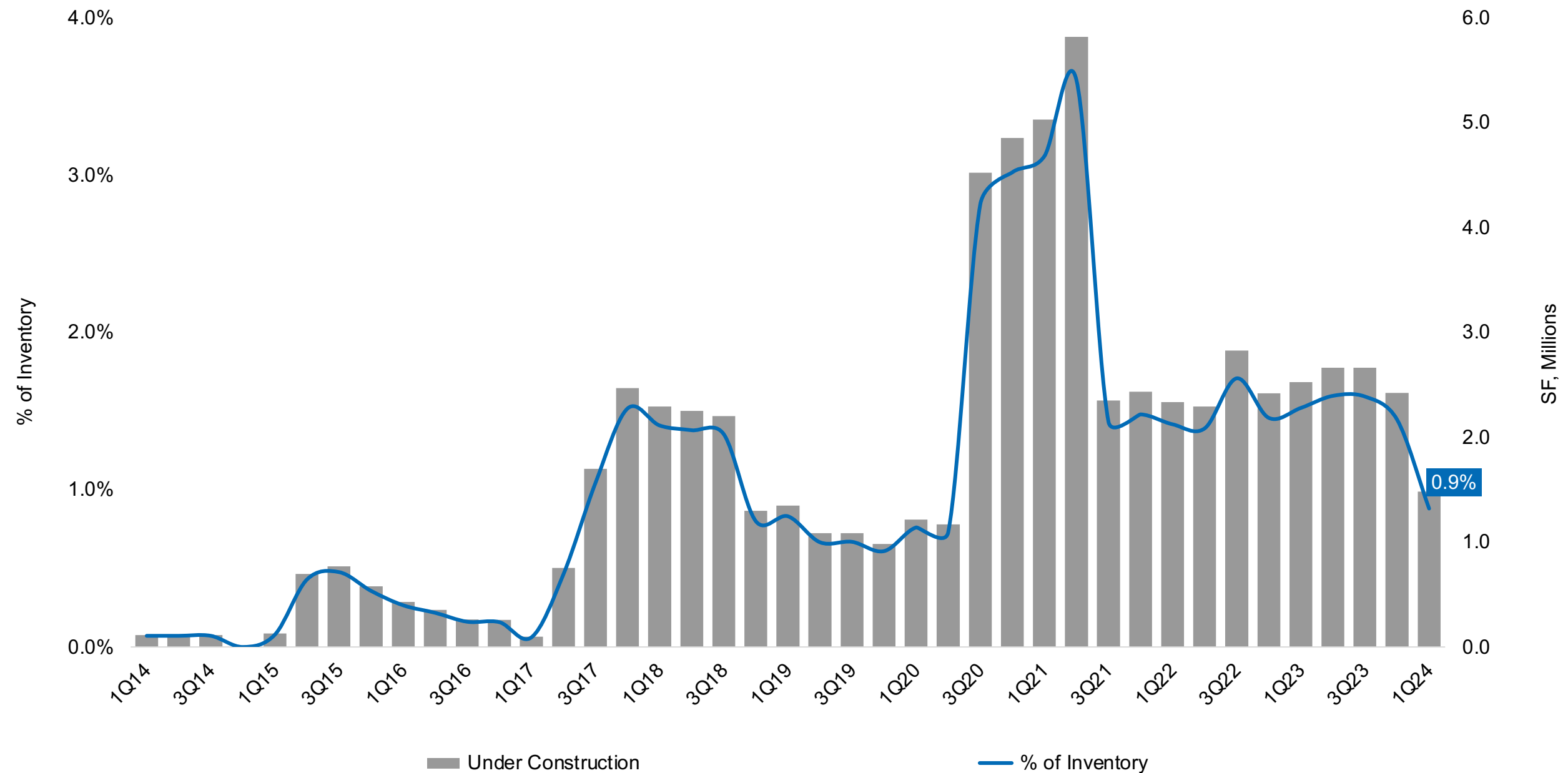


Source: Newmark Research, CoStar

Industrial Pipeline Has Dropped Off

The construction pipeline was at record highs from 2020-2021, primarily due to Amazon's 3.4-MSF build-to-suit distribution facility in Otay Mesa. Construction has steadily fallen from this historical peak and the first quarter of 2024's construction rate of 0.9% of existing inventory is slightly lower than the 1.1% average of the past decade.

Industrial Under Construction and % of Inventory

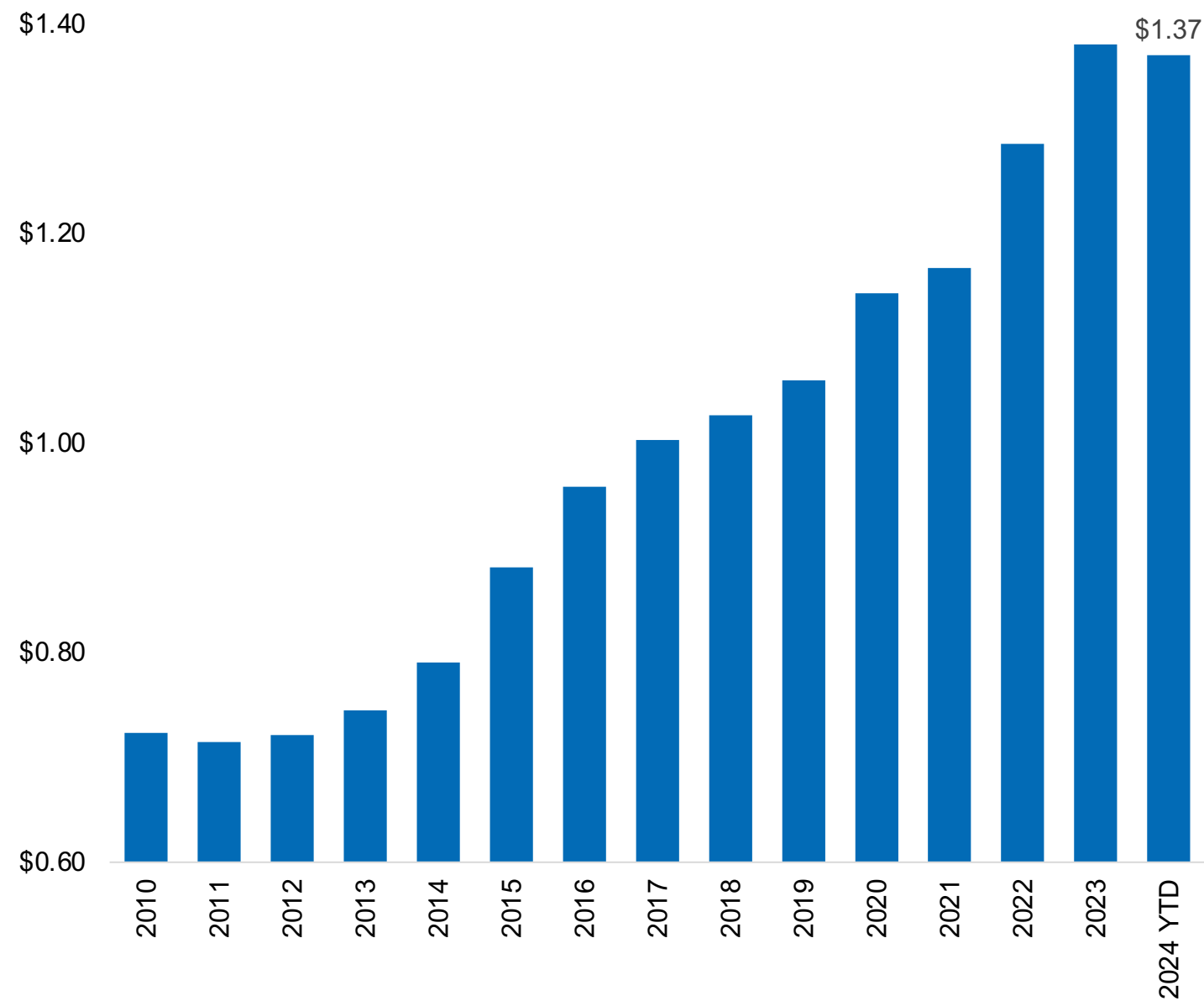


Source: Newmark Research, CoStar

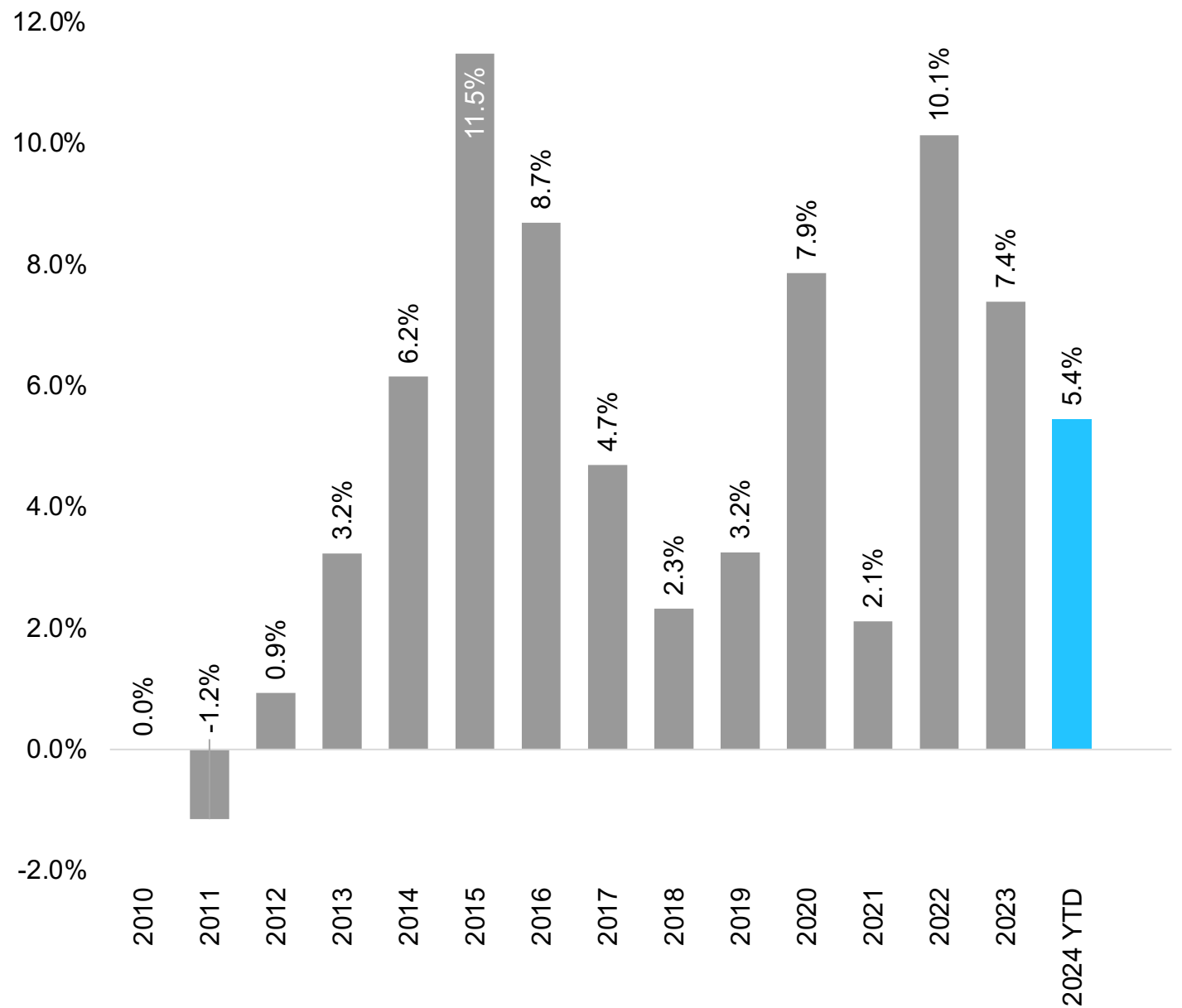
Asking Rents Appear to Have Peaked

The slowdown in leasing activity and rising vacancy has caused asking rents to dip from an all-time high after 11 consecutive years of growth. The amount of new space that has delivered over the past five years still has considerable momentum for higher rents as newer, more expensive product makes up an increasing portion of the market compared to older, smaller properties.

Industrial Direct Average Asking Rent, \$/SF/Month, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable Lease Transactions

The average lease size fell as leasing activity slowed. Marketing.com signed the largest lease of the quarter, committing to a full warehouse building at Nuveen's project in Otay Mesa.

Select Lease Transactions

| Tenant | Building(s) | Submarket | Type | Square Feet |
|--|----------------------|-------------------|-----------|-------------|
| Marketing.com | 8830 Siempre Viva Rd | Otay Mesa | New Lease | 153,166 |
| <i>Manufacturer and distributor of envelopes leased an entire building in Frontera Business Park.</i> | | | | |
| Acon Laboratories | 9440 Carroll Park Dr | Mira Mesa/Miramar | Sublease | 97,162 |
| <i>Medical diagnostics company subleased the former Thermo Fisher space, expiring in 2027.</i> | | | | |
| SOMACIS | 13500 Danielson St | Poway | Renewal | 72,600 |
| <i>Printed circuit board manufacturer renewed its U.S. facility in Poway.</i> | | | | |
| Daltile | 7484 Raytheon Rd | Kearny Mesa | Renewal | 62,031 |
| <i>Tile and ceramic manufacturer renewed its showroom and warehouse that it has occupied since 2005.</i> | | | | |
| ATX Networks | 2800 Whiptail Loop | Carlsbad | New Lease | 46,838 |
| <i>Broadband networking company leased new space in Carlsbad.</i> | | | | |

Average Lease Size Drops After Decade of Upward Trend

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Submarkets



San Diego Submarket Map and High-Level Statistics | 1Q24

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Construction Levels Decline From Historical High

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Otay Mesa Sees Climbing Vacancy After Deliveries

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Sublease Availability Remains Near Historical High

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