

San Diego Industrial Market

Sustained Demand for Industrial Drives Vacancy Down, Rents Up

- Rent growth resumed after asking rates remained relatively stagnant over the past three quarters, climbing \$0.03/SF to \$1.14/SF. The average rate is up 7.5% over the past year.
- Vacancy fell 60 basis points to 4.5%, reflecting healthy move-in activity throughout the county amid sustained demand for distribution and warehousing space.
- This low vacancy rate is reassuring, given the large amount of product in the construction pipeline. Most of the space under construction is also pre-leased, so vacancy is not projected to be adversely affected by deliveries.
- Net absorption was strongly positive, with 932,416 square feet of gains. Otay Mesa saw the largest amount of absorption in the county with 254,427 square feet, followed closely by San Marcos with 232,110 square feet.
- Development activity set another new record with 5.3 million square feet under construction. 95.5% of this new construction is in Otay Mesa, which is the most attractive area for developers due to the affordability of land, an extreme rarity in this coastal market, and its close proximity to the U.S.-Mexico border.
- Amazon signed leases for another 400,000 square feet of distribution space in three locations around the county, in Carlsbad, Chula Vista and Oceanside.

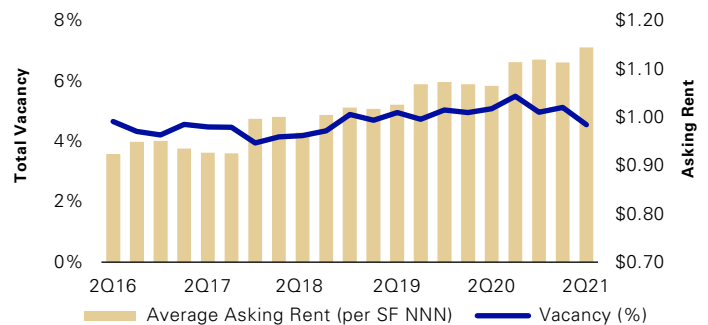
Leading the Recovery

Rents have started to rise as vacancy tightens, bucking the trend of the office and retail sectors that have seen rents retreat as they have struggled with leasing activity. Although there is a historically high level of construction activity, new projects have not yet started to deliver at a pace sufficient to meet surging demand for industrial space.

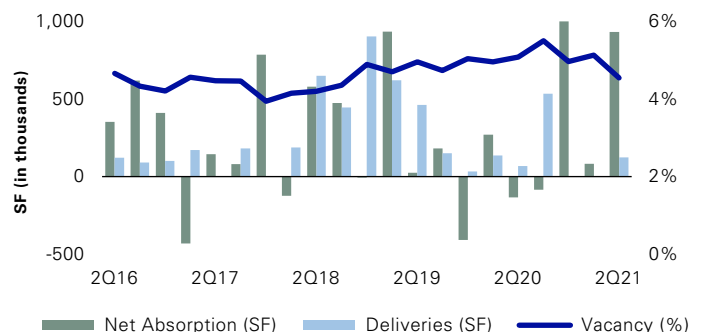
Marathon Construction Corporation delivered a 125,000-square-

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)	165.5M	165.4M	164.2M	↑
Total Vacancy Rate	4.5%	5.1%	5.1%	→
Quarterly Net Absorption (SF)	932,416	83,257	-134,479	↑
Average Asking Rent/SF/Month	\$1.14 NNN	\$1.11 NNN	\$1.07 NNN	↑
Deliveries (SF)	125,000	0	68,774	↑
Under Construction (SF)	5.3M	5.3M	1.2M	↓

RESEARCH Q2 2021

foot warehouse leased to PepsiCo in Lakeside, expanding the beverage giant's presence in San Diego and its distribution network in the Southern California region.

Sales volume totaled \$650.5 million for the quarter, up 58.6% from the year-ago quarter. Product that was sold averaged over 90% occupancy, the highest level in four years, reflecting the low vacancy in the market.

The Future is in Otay Mesa

Otay Mesa, already the largest industrial submarket in the county, is growing at a tremendous rate with no signs of slowing down. The submarket has the most undeveloped land left in San Diego County, which in turn passes savings on to tenants in terms of the lowest average rent in the market. Otay Mesa is the only destination in the county that can feasibly support the enormous modern logistics developments demanded by the growing ecommerce industry, such as Amazon's 3.3 million-square-foot distribution center, which is due to deliver next quarter.

A second land-based international port of entry, called Otay

Mesa East, is scheduled to begin construction in 2022. An extension to State Route 11 is currently being built to reach the site of this new border crossing located two miles to the east of the existing port of entry, which currently supports more than \$48 billion of international trade annually via trucking.

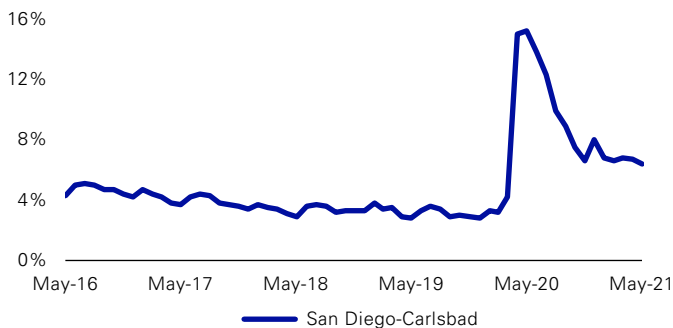
Outlook

San Diego's unemployment rate fell to 6.4% in May, the lowest has since layoffs began in the face of the pandemic, but still twice the rate of 3.2% from February 2020. Manufacturing jobs have recovered to 96.4% of their February 2020 total, while trade, transportation and utilities jobs have recovered to 93.8%.

San Diego is in very good condition as the economy recovers from the pandemic. Demand for industrial space only increased while other businesses were being forced to shut down, and the fortuitous timing of construction projects that are approaching completion means that new product will be coming online while demand is still growing. Rents will continue to increase as competition for new and existing space heats up.

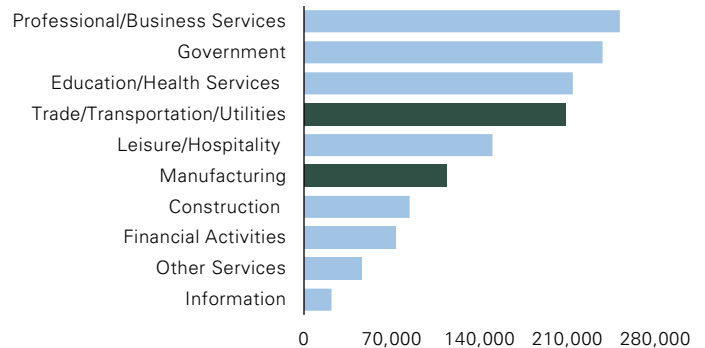
Unemployment Rate

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
Amazon	3266 Lionshead Avenue	Carlsbad	New Lease	175,258
M2 Ingredients	1395 Park Center Drive	Vista	New Lease	155,069
Amazon	4100 Ocean Ranch Boulevard	Oceanside	New Lease	142,746

Sale Transactions

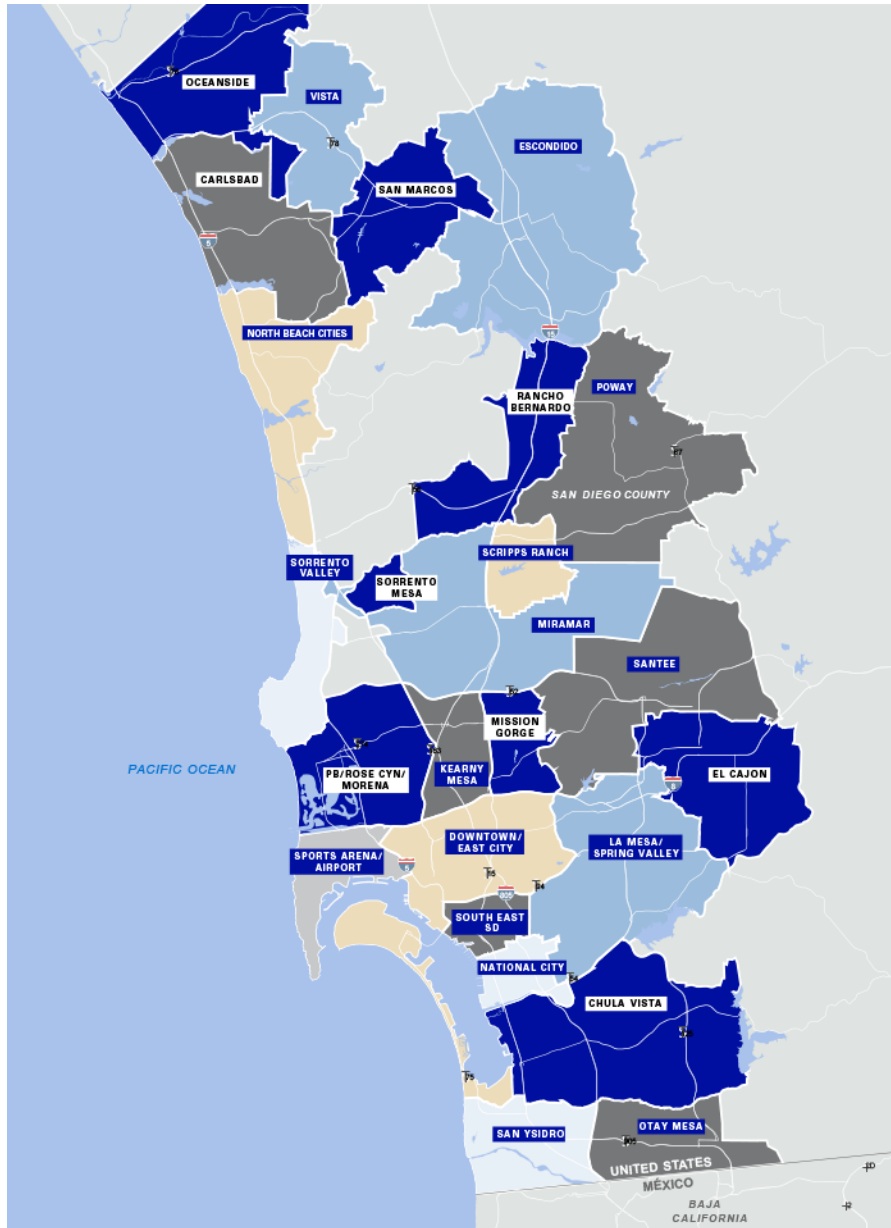
Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
Protea Properties	630-830 Bay Boulevard	Chula Vista	\$47,000,000 (\$203/SF)	231,878
Realty Income Corporation	491 C Street	Chula Vista	\$35,600,000 (\$318/SF)	111,806
EverWest Real Estate Investors	2611 Business Park Drive	Vista	\$27,000,000 (\$215/SF)	125,516

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	13,534,002	0	8.7%	139,766	275,416	\$1.20	\$1.34	\$1.21
Chula Vista	9,245,440	66,860	2.7%	140,866	159,357	\$0.96	\$1.60	\$1.08
Downtown/East City	2,463,604	0	0.8%	-3,353	1,794	\$1.20	-	\$1.20
El Cajon	9,865,031	0	3.4%	-4,563	28,010	\$0.94	\$1.09	\$0.93
Escondido	6,143,588	0	3.2%	38,274	28,680	\$0.94	\$1.04	\$0.87
Kearny Mesa	14,518,110	0	3.9%	11,011	34,863	\$1.40	\$2.06	\$1.60
La Mesa/Spring Valley	2,010,768	0	2.3%	-1,600	28,021	-	-	\$0.87
Miramar	15,150,207	0	3.0%	71,061	51,293	\$1.22	\$1.45	\$1.21
Mission Gorge	1,904,084	0	1.4%	73,597	76,635	\$1.14	\$1.80	\$1.33
National City	2,897,861	0	3.3%	-58,925	-76,038	\$1.19	-	\$1.32
North Beach Cities	552,065	0	0.4%	-400	-1,600	-	-	\$2.29
Oceanside	8,410,767	0	4.5%	-101,711	-74,259	\$0.94	-	\$1.00
Otay Mesa	16,451,531	5,245,265	5.5%	254,427	360,903	\$0.78	-	\$0.79
PB/Rose Cyn/Morena	2,379,357	0	0.3%	45,594	77,083	\$1.25	\$1.54	\$1.27
Poway	9,385,393	0	1.6%	-44,203	-24,397	\$0.98	-	\$1.03
Rancho Bernardo	7,403,864	0	7.3%	-5,965	-148,996	\$1.36	\$1.73	\$1.56
San Marcos	7,791,276	0	7.0%	232,110	233,053	\$0.85	-	\$0.79
San Ysidro	1,528,457	0	1.7%	4,200	-18,626	\$0.78	-	\$0.76
Santee	3,639,280	20,231	5.3%	-14,912	-106,942	\$1.00	-	\$0.96
Scripps Ranch	1,308,331	0	2.5%	-6,319	-13,904	\$1.07	\$1.49	\$1.22
Sorrento Mesa	8,181,395	0	2.8%	9,289	-34,020	-	\$1.56	\$2.38
Sorrento Valley	2,131,933	0	7.3%	3,125	-19,636	\$1.62	\$1.79	\$1.69

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	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)
Southeast San Diego	3,830,051	0	1.0%	-820	-820	\$1.14	-	\$1.14
Sports Arena/Airport	2,131,276	0	4.4%	12,700	5,340	\$1.09	-	\$1.00
Vista	12,614,529	0	8.4%	139,167	174,463	\$0.87	-	\$0.93
Market	165,472,200	5,332,356	4.5%	932,416	1,015,673	\$0.98	\$1.73	\$1.14

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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