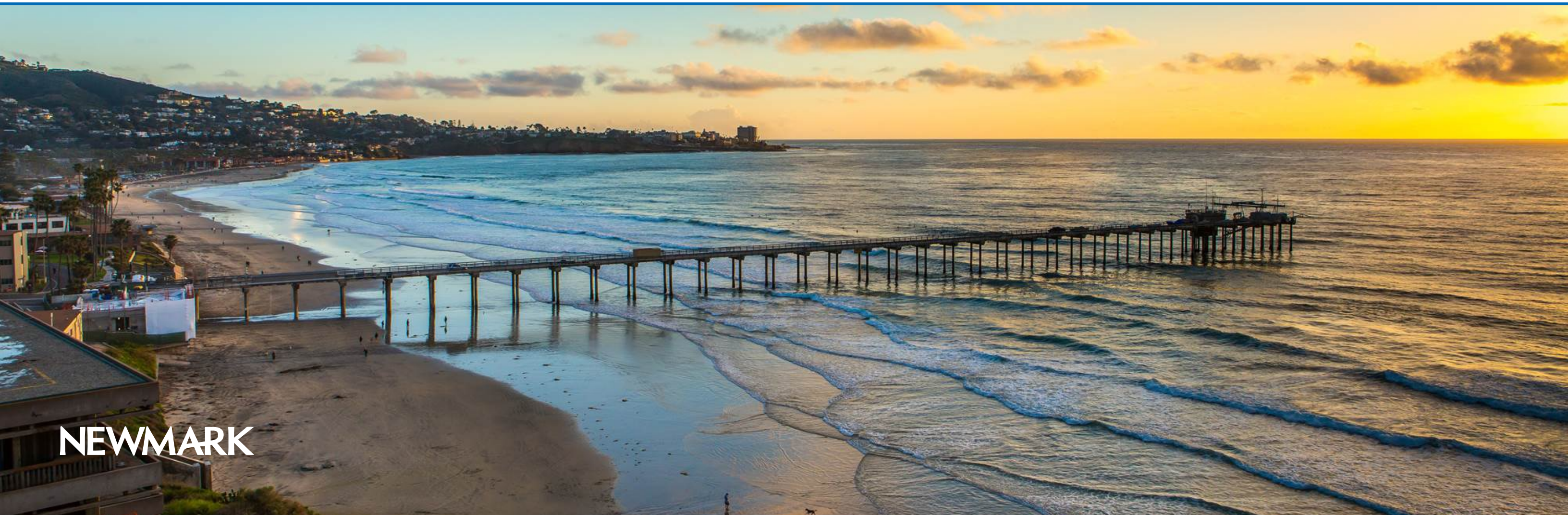


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San Diego Industrial Market Overview



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Market Observations

Economy

- Local unemployment was 4.2% in November 2023, up 90 basis points over the past year and slightly higher than the U.S. average of 3.7%.
- The region’s labor market added 21,900 jobs in the 12-month period ending November 2023. Most of these job gains came from sectors that had contracted during the pandemic. Trade/transportation/utilities added 4,200 jobs and manufacturing jobs fell by 2,100.
- Inflation has eased in response to interest rates increases from the Federal Reserve. The Consumer Price Index for the metro rose 5.2% year-over-year in November 2023, down from a high of 8.1% in May 2022. The Fed has announced plans to lower interest rates by the end of 2024.

Major Transactions

- Indoor kart racing company K1 Speed renewed its 70,000-SF space in Carlsbad, the largest lease transaction of the quarter.
- Leasing activity totaled only 1.5 MSF in the fourth quarter, the lowest quarterly total since 2008.
- Hines executed the largest acquisition of the quarter, purchasing a 203,000-SF warehouse in Otay Mesa from Murphy Development for \$60.9M.
- Sales volume for the year totaled \$1.5 B, down 53.6% from the record-setting total of 2022.

Leasing Market Fundamentals

- The average asking rent fell \$0.02 off the all-time high it set last quarter to \$1.38/SF NNN, up 7.4% year-over-year.
- Net absorption was negative for the quarter, posting 514,923 SF in losses, bringing total absorption losses for the year to negative 1.8 MSF.
- Sublease availability fell slightly after reaching a 12-year high in the third quarter, with 2.1 MSF available, compared to 9.5 MSF of available direct space.
- Construction levels remain elevated, with 2.4 MSF underway after 1.7 MSF of new projects delivered during 2023.

Outlook

- Vacancy will climb a bit higher over the short term as the robust construction pipeline continues to deliver.
- Asking rates have lost momentum as vacancy has increased, and rent growth is likely to be subdued over the coming year.
- Interest rate cuts that are scheduled to take place by the end of 2024 should give a welcome boost to lagging leasing activity and sales transactions.
- As leasing activity picks back up, the average lease size should start to increase again as well, after falling in 2023 as occupiers took a cautious approach to their space requirements.

1. Economy
2. Leasing Market Fundamentals
3. Submarkets

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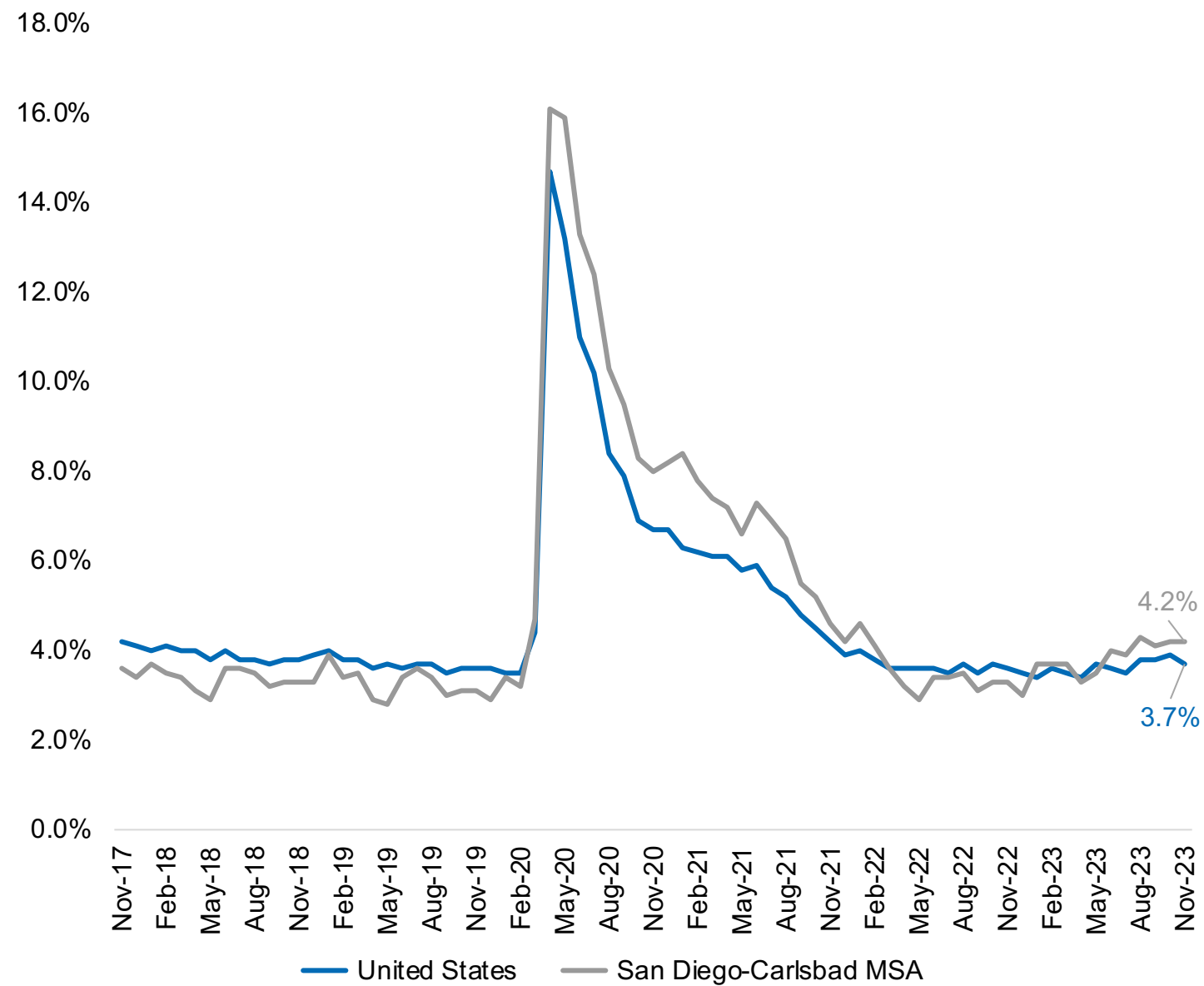
Economy



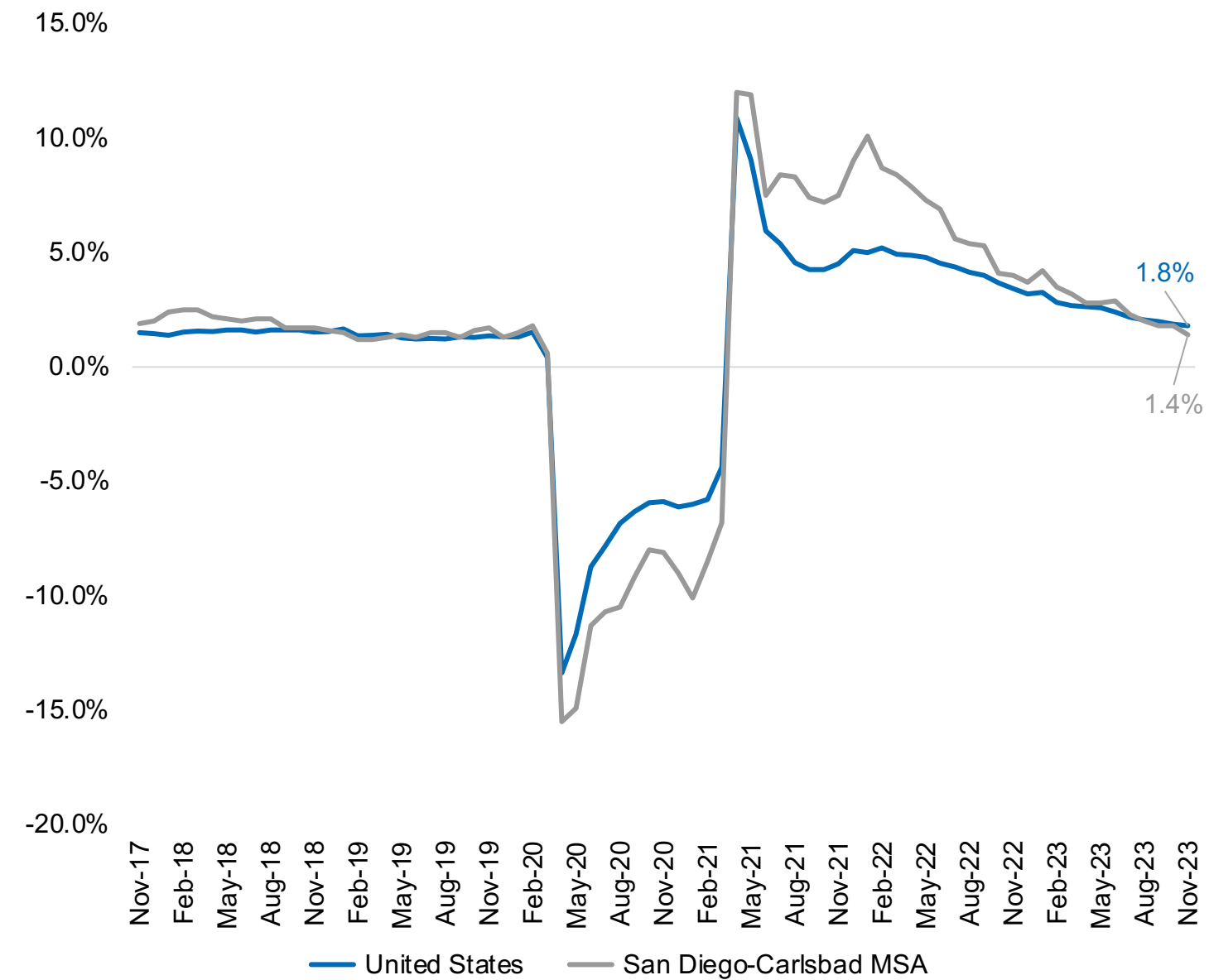
Metro Employment Flattens Out As Job Growth Slows

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 starting in 2021. Since 2022 the region has seen sustained levels of unemployment close to or lower than the national average. Unemployment has trended slightly upward since April 2023 and stood at 4.2% as of November 2023.

Unemployment Rate, Seasonally Adjusted



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

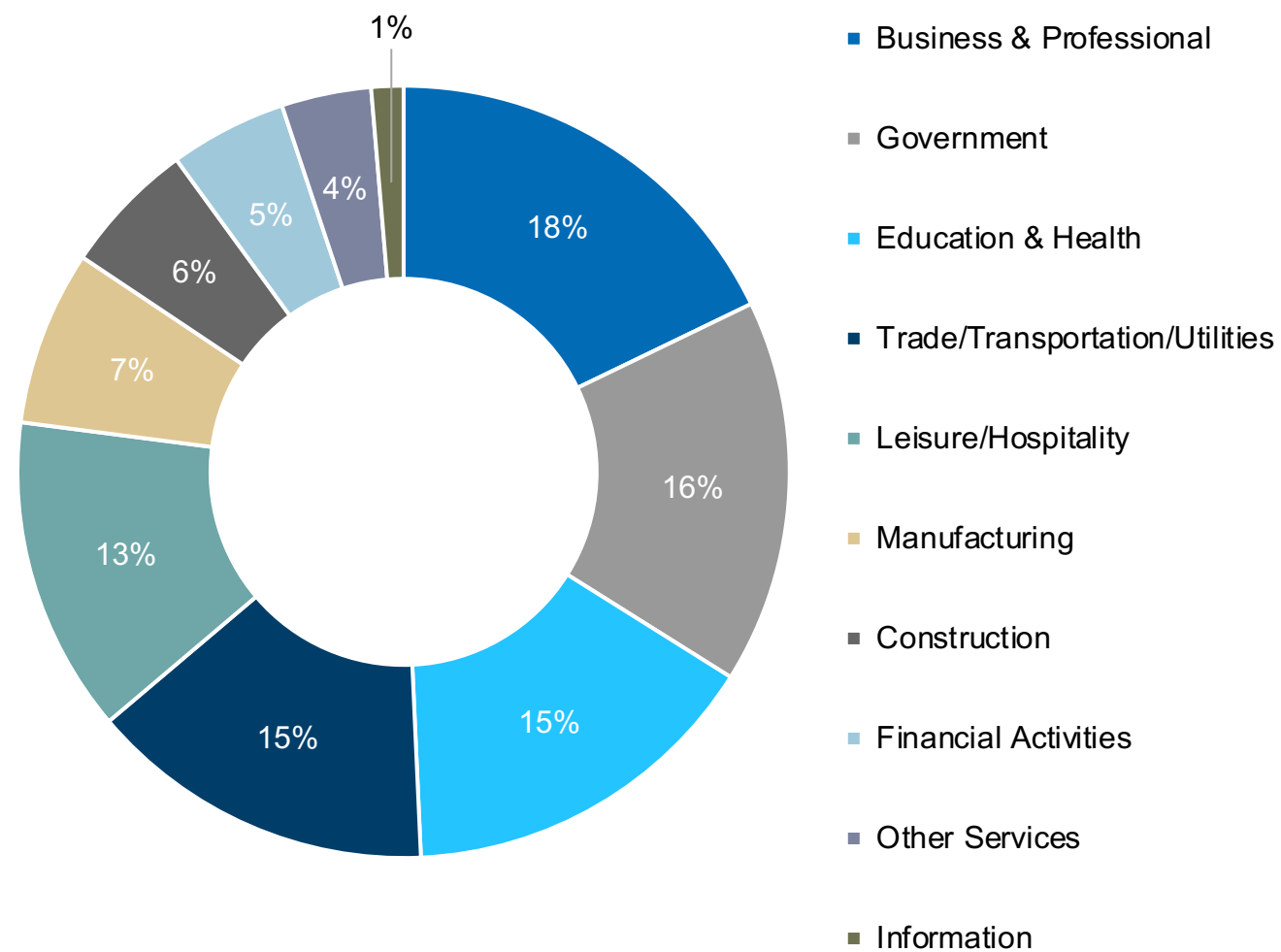


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

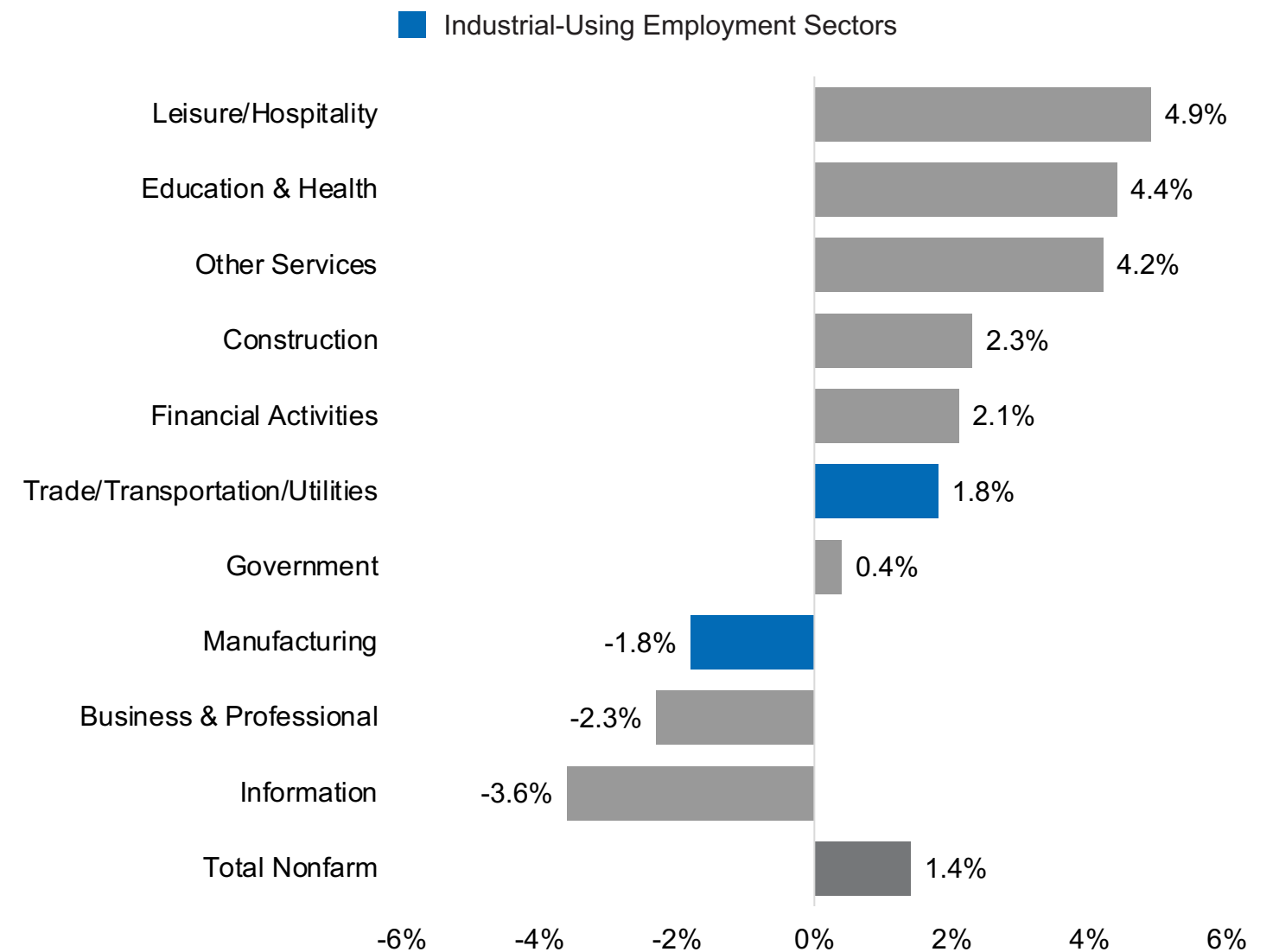
Industrial Jobs Experienced Minor Growth, Lagging Other Sectors

The San Diego metro added 21,900 nonfarm jobs over the past year. Most of this job creation came from the leisure/hospitality and education and health sectors, which were the hardest hit in the downturn of 2020. Industrial-using jobs had a mixed performance over the past year; the trade, transportation and utilities industry added 4,200 jobs but manufacturing shed 2,100 jobs.

Employment by Industry, November 2023



Employment Growth by Industry, 12-Month % Change, November 2023

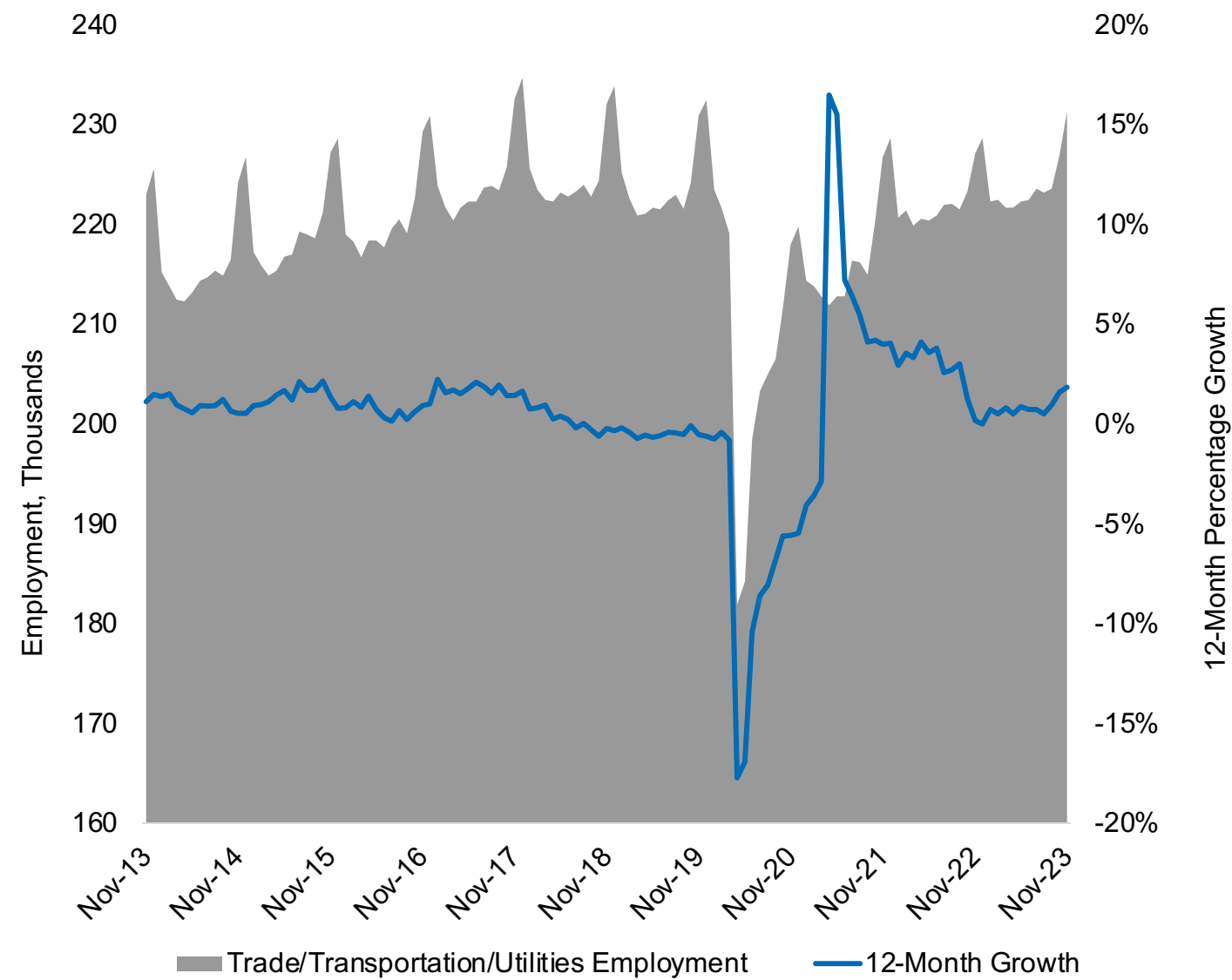


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

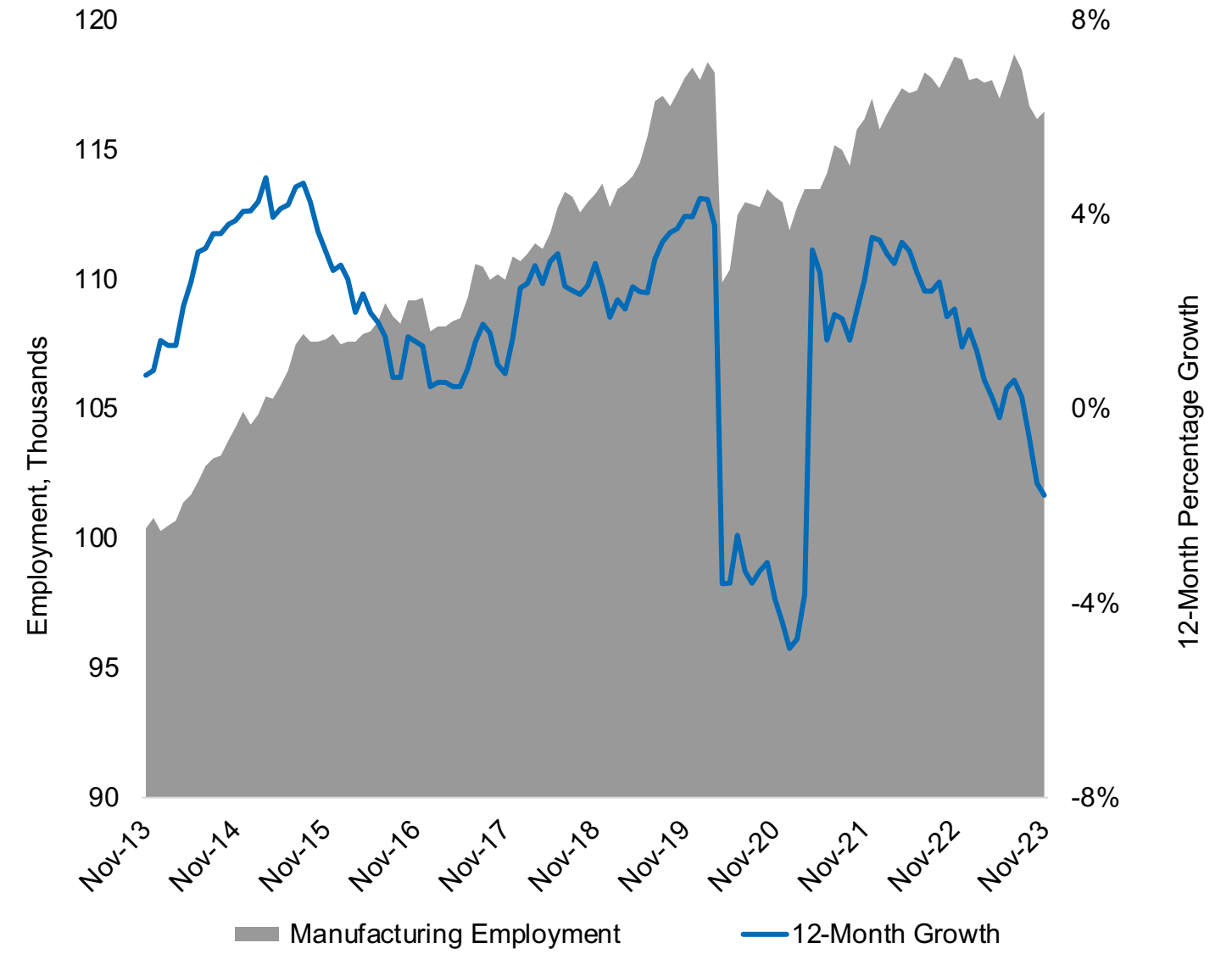
Industrial Employment Strong But Subject to Seasonal Swings

Trade/transportation/utilities employment has trended upwards since 2021 and is now at similar levels to prepandemic trends. The pandemic downturn interrupted seven years of manufacturing expansion, but jobs in the sector reached a new high in July 2023 before declining by the end of the 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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Otay Mesa Port Annual Volume Reaches an All-Time High

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Industrial Sales Volume Declines From Recovery Highs

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Private Buyers Most Active As Volume Declines

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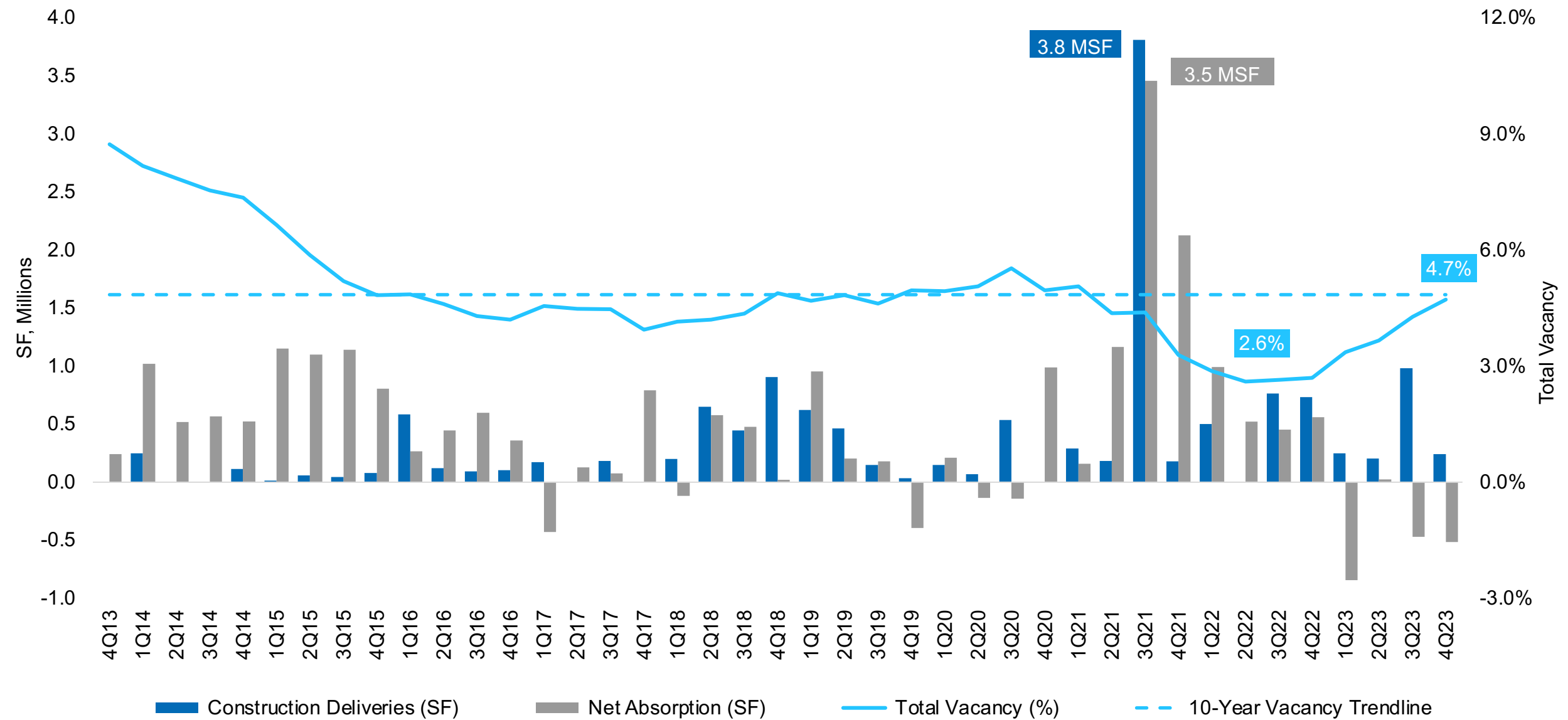
Leasing Market Fundamentals



Vacancy Continues to Rise After Bottoming Out in 2022

Total vacancy has climbed to 4.7% since the all-time low of 2.6% achieved in the second quarter of 2022, as leasing activity has slowed, although it remains just below the 10-year average of 4.8%. Construction deliveries and net absorption reached an all-time high in 2021 with the delivery and opening of Amazon's 3.4M-SF distribution facility in Otay Mesa.

Historical Construction Deliveries, Net Absorption, and Vacancy

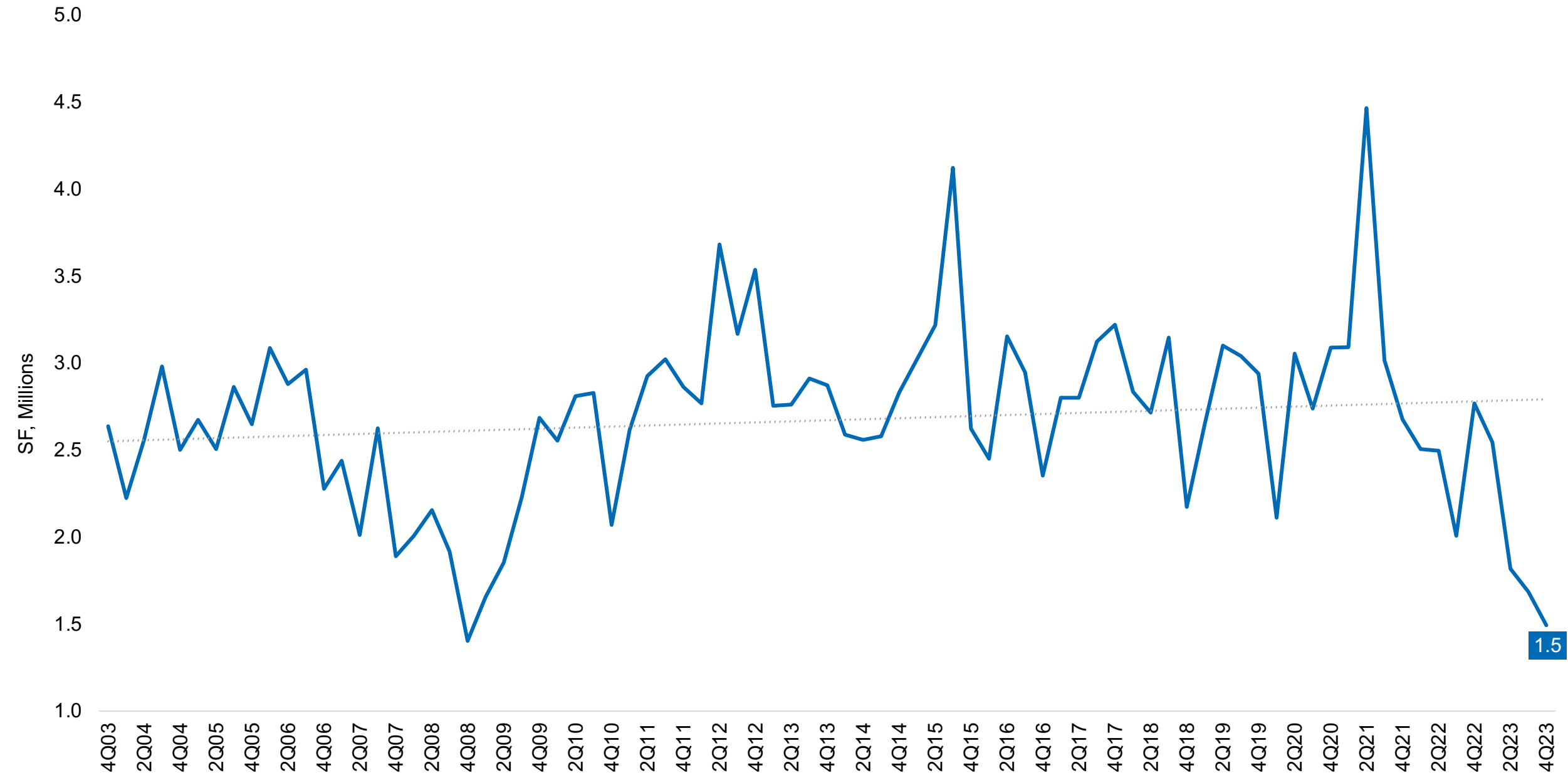


Source: Newmark Research

Industrial Leasing Falls to Lowest Quarterly Total Since 2008

Leasing activity dropped in 2023 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)

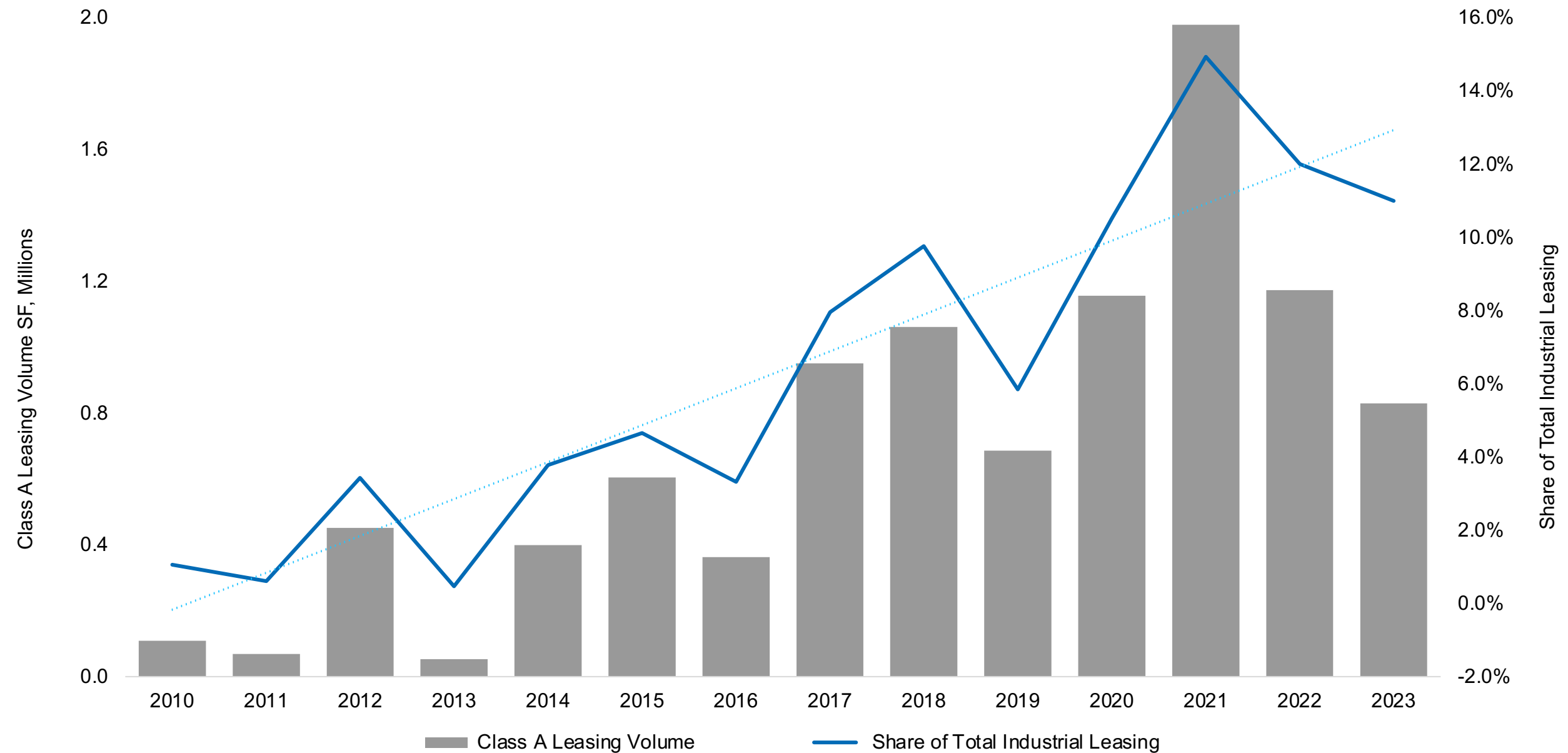


Source: Newmark Research, CoStar

Class A Leasing Remains Elevated 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 has increased substantially in the era of super-sized distribution facilities. Amazon's lease for its 3.4M-SF facility in Otay Mesa in 2021 set the high-water mark of Class A demand.

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



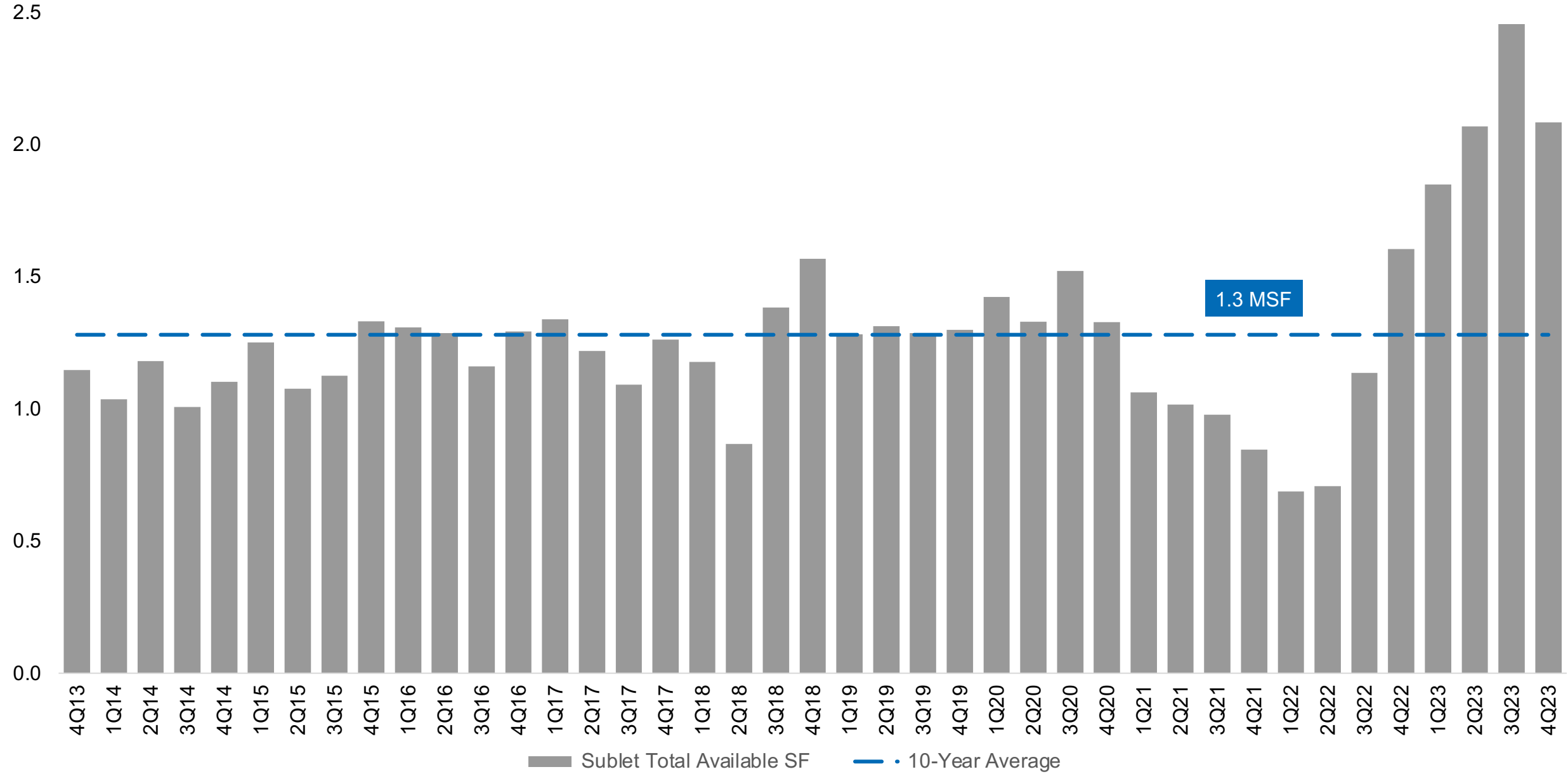
Source: Newmark Research, CoStar

Note: Class A is defined as 100,000+ SF warehouse/distribution facilities constructed since 2000 with a 30'+ minimum interior ceiling height.

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 now no longer needed has contributed to the upward trend of sublease space.

Available Industrial Sublease Volume (MSF)

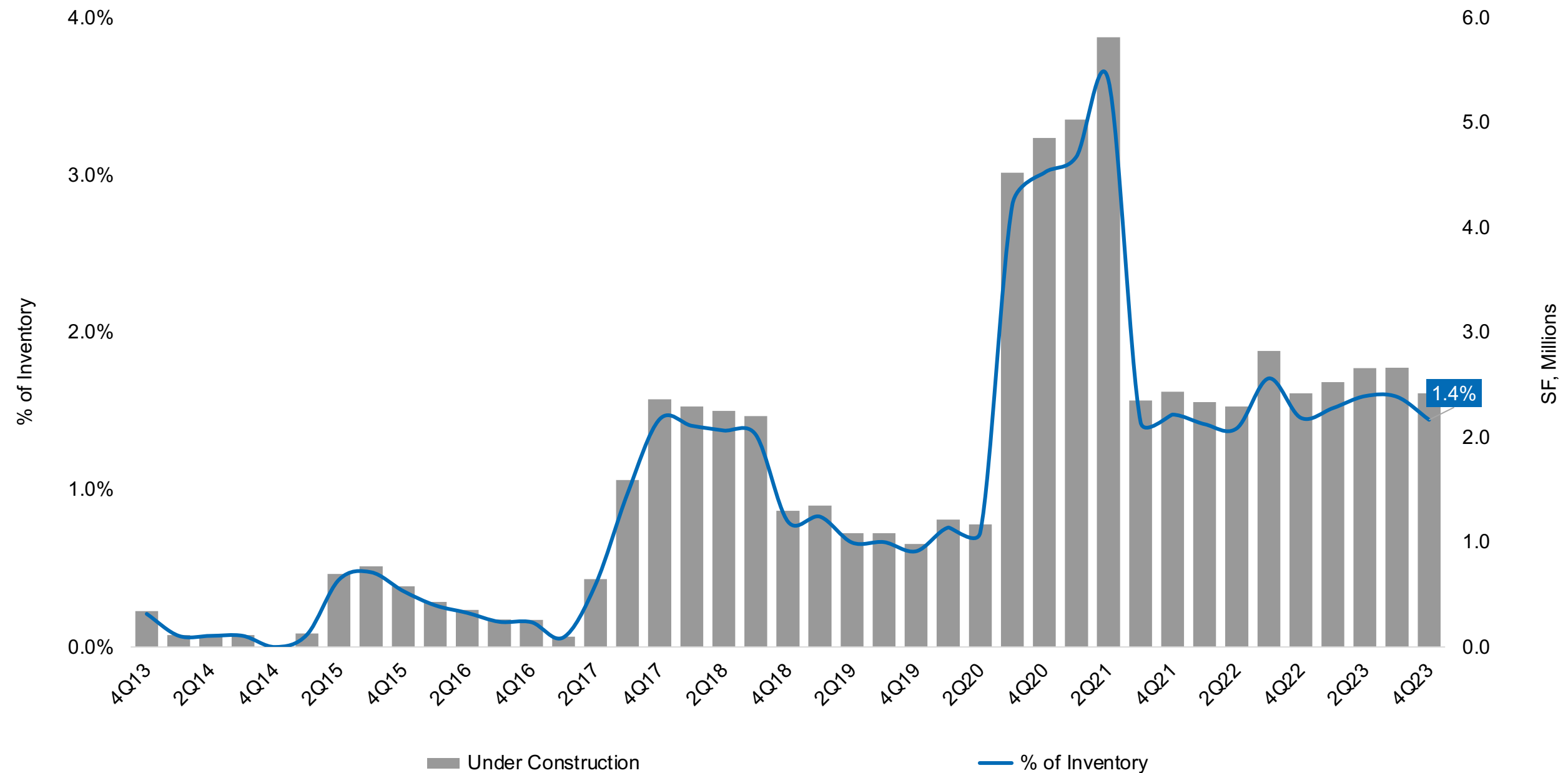


Source: Newmark Research, CoStar

Industrial Pipeline Holding Steady

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. Although construction has fallen from this historical peak, overall activity remains elevated compared to the historical average, and the third quarter of 2023's construction rate of 1.4% of existing inventory remains higher than most of the past decade.

Industrial Under Construction and % of Inventory

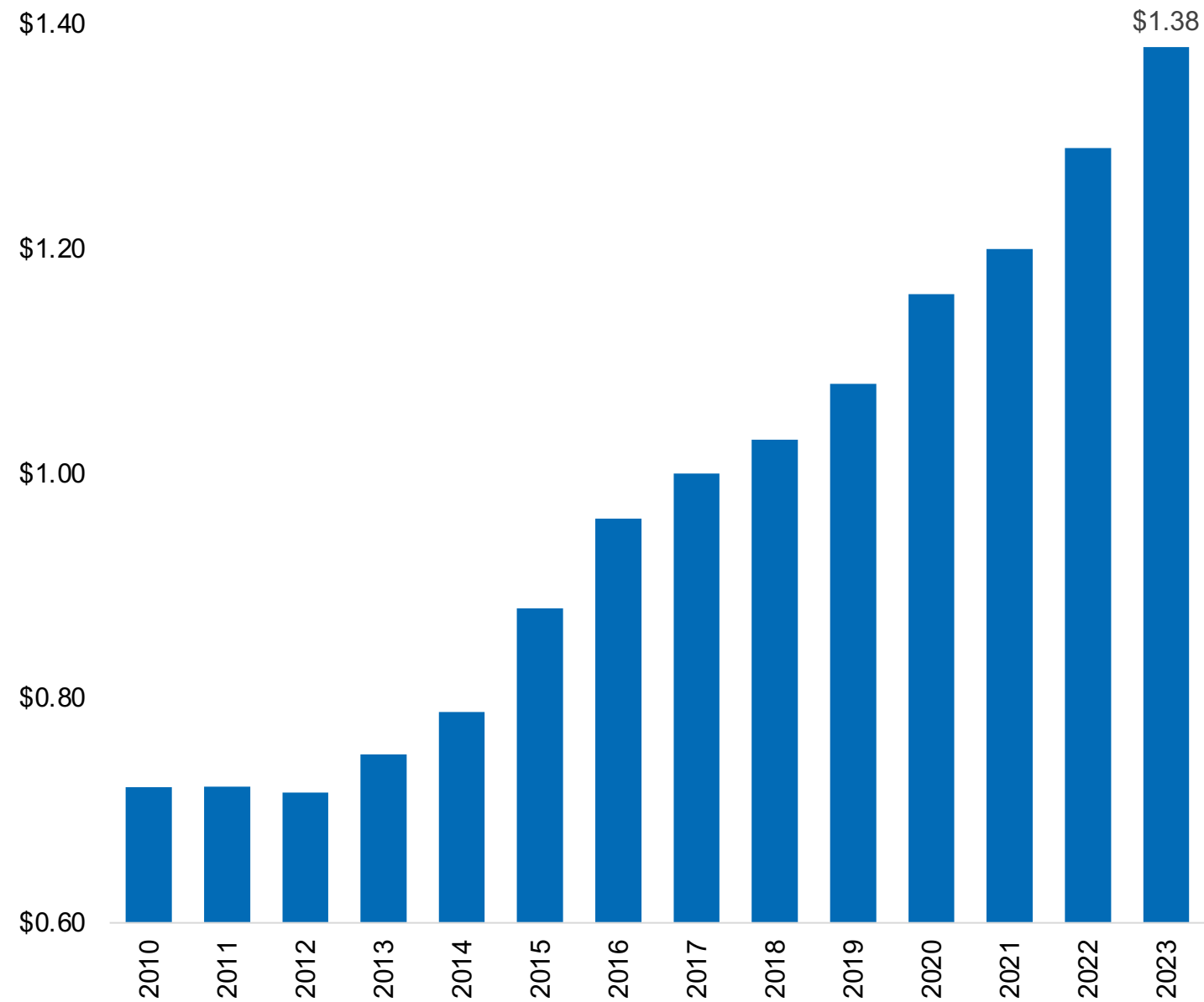


Source: Newmark Research, CoStar

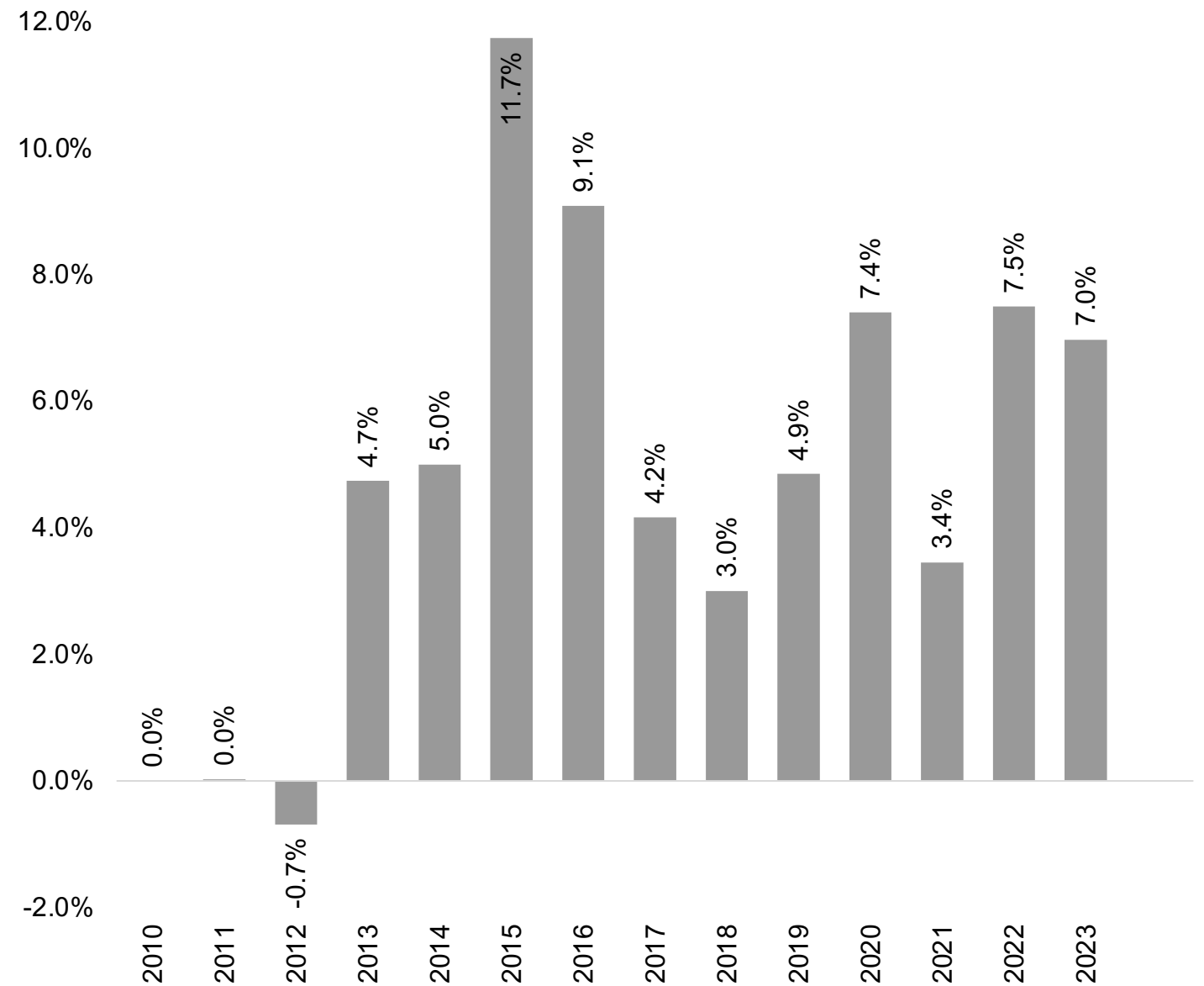
Industrial Asking Rent Surged in 2023

Despite a slowdown in industrial leasing activity, asking rents reached a new all-time high for the 11th consecutive year in 2023. The amount of new space that has delivered over the past five years has built momentum for rent growth 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

Most of the largest deals of the quarter were renewals, as leasing activity slowed and companies took a conservative approach to their real estate needs.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
K1 Speed	6212 Corte Del Abeto	Carlsbad	Renewal	70,224
<i>Indoor kart racing company renewed the lease for its Carlsbad location.</i>				
SMAC	5807 Van Allen Wy	Carlsbad	Renewal	47,946
<i>Electric equipment supplier renewed the manufacturing facility it has occupied since 1999.</i>				
Calderon Auto	Otay Center Dr	Otay Mesa	New Lease	43,000
<i>Automotive wholesaler leased a 1-acre lot for vehicle storage.</i>				
K Flex	8917 Kerns St	Otay Mesa	Sublease	31,072
<i>International insulation manufacturer subleased warehouse space next to the U.S./Mexico border.</i>				
Artifacts International	150 Reed Ct	Chula Vista	Renewal	27,000
<i>Furniture retailer renewed its warehouse facility.</i>				

Average Lease Size Drops After Decade of Upward Trend

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Submarkets



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Construction Remains Concentrated in Otay Mesa

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Otay Mesa Has Seen the Most Progress Over the Past Decade

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Sublease Availability Eases After Reaching a New High Last Quarter

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