MARKETBEAT

SAN DIEGO

Industrial Q2 2020

	YoY Chg	12-Mo. Forecast
4.9% Vacancy Rate		
-901K Net Absorption, SF		
$1.10 Asking Rent, PSF		

Direct, Net Asking Rent

ECONOMIC INDICATORS QX 20XX

	YoY Chg	12-Mo. Forecast
1.3M San Diego Employment		
15.3% San Diego Unemployment Rate		
13.0% U.S. Unemployment Rate		

Source: BLS, May 2020

ECONOMIC OVERVIEW: Unemployment Remains High as Outbreaks Reverse Reopening Plans

The San Diego employment market was significantly affected by COVID-19 stay-at-home orders, resulting in loss of 195,800 jobs (-13.0%) year-over-year (YOY) through May 2020.[1] Of the 195,800 jobs lost, 91,200 or 47% were in the leisure and hospitality sector. During the same time period, monthly unemployment rate increased from 2.8% to 15.0% a year ago and is currently 930 basis points (bps) above the 30-year average of 5.7% and 30 bps below the Q2 2020 quarterly average of 15.3%. All employment sectors are expected to shrink at a combined rate of -6.6% in 2020 and grow 0.4% in 2021. San Diego's economy of $244.9 billion as measured by gross regional product is forecasted to shrink by 5.7% in 2020 and return to growth 1.7% in 2021, below its 10-year average of 3.2%.[2]

The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID here.

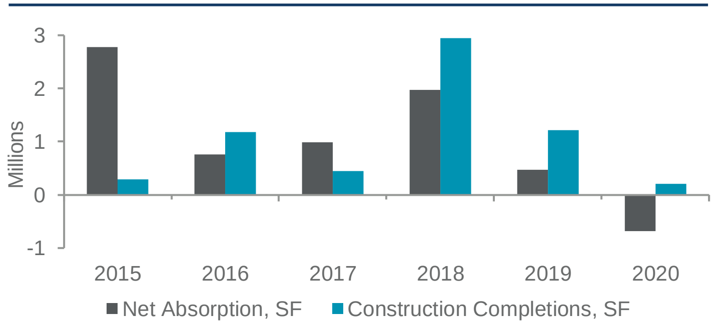
SUPPLY AND DEMAND: Large Vacancies and Limited Occupancies

At the end of Q2 2020, San Diego's industrial direct vacancy was 4.9%, up 40 bps from last quarter and 50 bps from a year ago. Tenants returned 901,226 sf to the market in Q2 2020 – quarterly occupancy losses not seen in 12 years or since Q3 2009 - primarily among distribution space, including large vacancies from companies like Imperial Toys (258,053 sf) and Markstein Beverage Company (102,245 sf). South County experienced the most negative absorption (357,086 sf) followed by North County (287,379 sf) and Central County (256,761 sf). Though fewer tenants occupied space this quarter, there were large deals inked this quarter including a 72,425 square foot new location and expansion for GenMark, a 51,000-sf expansion for Northrop Grumman and a 48,000-sf facility for Cutwater Spirits. However, the largest deal was a 532,000-sf lease by an eCommerce giant for the entirety to Vantage Point in Poway, currently under construction.

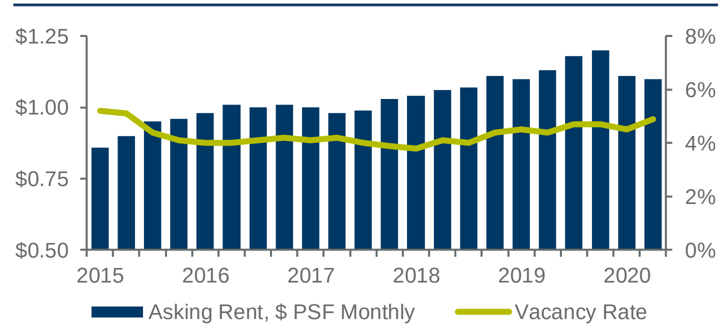
PRICING: Warehouse Vacancies Push Rents Down

Average asking rent for all product types combined was $1.10 per square foot (psf) per month on a triple net basis, compared to $1.11 psf last quarter (-0.9%) and $1.13 psf a year ago (-2.7%). Driven by the addition of over 1.4 million square feet (msf) of space to the market since 2019, average asking rent for distribution space decreased by 7.1% to $0.91 psf. Average rent for incubator

SPACE DEMAND / DELIVERIES



DIRECT VACANCY & ASKING RENT



multi-tenant (IMT) space however increased 4.0% to $1.29, for research & development (R&D) 1.4% to $1.48 and manufacturing 1.0% to $1.05 YOY. Average rent for incubator multi-tenant (IMT) space however increased 4.0% to $1.29, for research & development (R&D) 1.4% to $1.48 and manufacturing 1.0% to $1.05 YOY.

Across the region, the market is the tightest for IMT and R&D space with direct vacancy at 4.5%, with IMT vacancy increasing by 110 bps and R&D decreasing by 100 bps from a year ago. Vacancy for manufacturing space now stands at 4.7% countywide versus 3.9% a year ago. Distribution space has a vacancy of 5.9%, an increase of 100 bps since last year. Though direct vacancy is up from a year ago, total availability including sublease remains low, down 40 bps from 7.4% in Q2 2019 to 7.0% in Q2 2020.

Tenant demand continues to be strong from online retail and distribution tenants, especially as the COVID-19 pandemic continues to discourage in-person shopping. Additionally, the continued growth of life sciences in Central County and North County submarkets will continue to affect inventory as demand for life sciences space grows supported by an increased capital investment into the life sciences sector, fueled by requirements for Covid-19 test kits, vaccines and therapeutics. We expect landlords to continue to seek industrial product to convert to lab space.

FUTURE INVENTORY

Two projects, totaling nearly 69,000 sf, were delivered this quarter, of which 21,422 sf were occupied by multiple tenants. Only two build-to-suit projects totaling 124,352 sf remain under construction in North County. In the I-15 corridor there is over 673,000 sf of speculative (SPEC) development under construction with the 532,000-sf Vantage Point distribution project in Poway (which is 100% pre-leased) and the 141,000-sf RB Vista manufacturing project in Rancho Bernardo. South County also has 490,900 sf of SPEC development of distribution space under construction, including 163,000 sf at Otay River Business Park in Chula Vista, 227,300 sf at Majestic Sunroad Center in Otay Mesa and 100,600 sf at Vogt Industrial Park in Otay Mesa. Overall, 51% of inventory under construction have commitments in place. Future potential development in South County includes a 313,000-sf project by Murphy Development Company in Otay Mesa, anchored by an 85,000-sf BTS for the Salvation Army, among other projects..

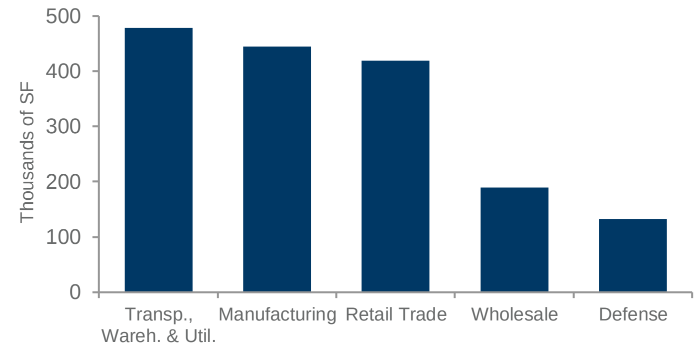
Sources: [1]www.bls.gov [2] Moody's Analytics economy.com 6/2020.

Outlook

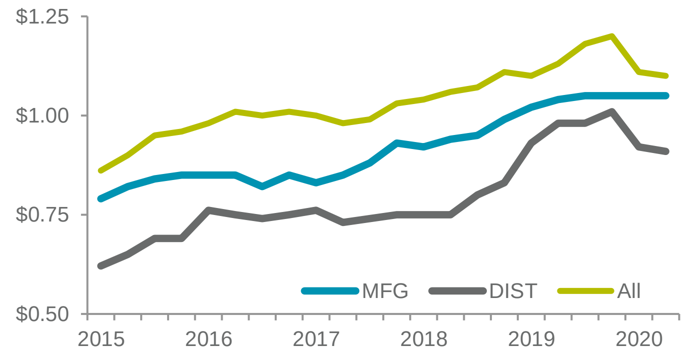
- Rising positivity rates for COVID-19 can delay the reopening plans in California, continuing slow activity through the summer. Tenants are reassessing their footprint based on work-from-home policies of their employees as well as both short and long-term needs working through and after the pandemic. Leasing within the 10,000 to 50,000 sf range will continue to be the main driver of activity, accounting for 44% of total sf in lease obligations set to expire over the next 18 months, while tenants over 50,000 sf make up another 36%.

- Active tenant requirements of all sizes remain robust at 2.3 msf over the next 24 months countywide. While many of these tenants temporarily paused their plans due to COVID-19, most of them have returned to exploring the market. A majority of these tenants have sent out proposals and are still in the intermediate stages of their search. While not all of the current tenants in the market will transact in the short term, these levels provide a barometer to leasing activity in quarters to follow.

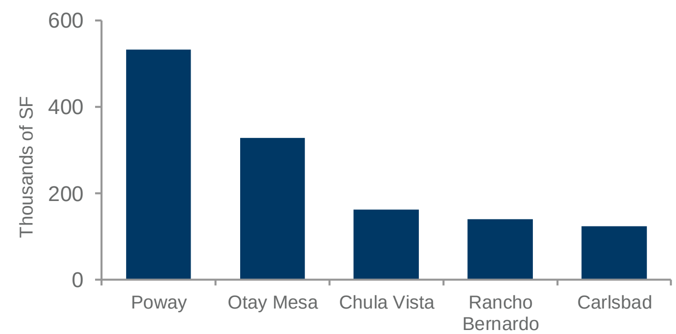
TENANT DEMAND BY INUSTRY TYPE – TOP 5



AVERAGE MONTHLY ASKING RENT TRIPLE NET



SF UNDER CONSTRUCTION BY SUBMARKET



MARKETBEAT

SAN DIEGO

Industrial Q2 2020

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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	DIRECT VACANCY RATE	CURRENT DIRECT NET ABSORPTION (SF)	YTD DIRECT NET ABSORPTION (SF)	YTD CONSTR COMPLETIONS (SF)	UNDER CNSTR (SF)	AVERAGE ASKING DIRECT RENT (ALL TYPES)*	AVERAGE ASKING DIRECT RENT (R&D)	AVERAGE ASKING DIRECT RENT (DIST)
North County	53,502,788	419,857	3,933,741	7.4%	-287,379	-239,968	68,772	124,352	$1.01	$1.23	$0.99
Central County	79,129,060	274,920	2,475,825	3.1%	-256,761	-127,840	0	673,440	$1.35	$1.69	$1.08
South County	30,813,383	147,494	1,601,688	5.2%	-357,086	-320,274	137,000	490,899	$0.87	$1.24	$0.80
R&D	31,775,690	266,562	1,438,524	4.5%	33,541	-3,119	50,148	124,352	$1.48		
MFG	64,267,199	252,482	2,866,327	4.5%	-161,811	33,607	0	141,027	$1.05		
IMT	20,415,808	119,212	955,204	4.7%	-105,014	-115,617	18,624	0	$1.29		
DIST	46,986,534	204,015	2,751,199	5.9%	-667,942	-602,953	137,000	1,023,312	$0.91		
SAN DIEGO TOTALS	**163,445,231**	**842,271**	**8,011,254**	**4.9%**	**-901,226**	**-688,082**	**205,772**	**1,288,691**	**$1.10**		

**Rental rates reflect weighted triple net asking $psf/month*

R&D = R&D/Flex, MFG = Manufacturing, IMT = Incubator Multi-Tenant, DIST = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
14400 & 14500 Kirkham Way	Poway	Undisclosed	532,413	New
2001-2055 Sanyo Ave.	Otay Mesa	Panasonic	170,782	Renewal
6221 El Camino Real	Carlsbad	GenMark	72,415	New
7411 Goen Pl.	Mission Valley	CEVA Logistics	62,482	Renewal
7130 Miramar Rd.	Miramar	Northrop Grumman	50,992	Expansion

KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / $ PSF
2882 Whiptail Loop E.	Carlsbad	RAF Pacifica Group / Lee Family Trust	169,825	$44.0M / $259
2827 Whiptail Loop W.	Carlsbad	RAF Pacifica Group / BLT Enterprises	146,108	$40.5 M / $277
505 S. Pacific St.	San Marcos	Markstein Beverage Company / Stos Partners	113,500	$18.9M / $167
8745-8775 Production Ave,	Miramar	HMS Partnership / Rexford Industrial Realty	46,820	$7.9M / $168
2000-2010 Gillespie Way	East County	Kenard Construction / Sukut Development	21,365	$3.7M / $173

KEY CONSTRUCTION COMPLETIONS YTD 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER
2065 Sanyo Ave.	Otay Mesa	N/A	137,000	Murphy Development Company
2810 Caribou Ct.	Carlsbad	N/A	50,148	Badiee Development
737 Windy Point Dr.	San Marcos	N/A	18,624	Sawtooth Development Group

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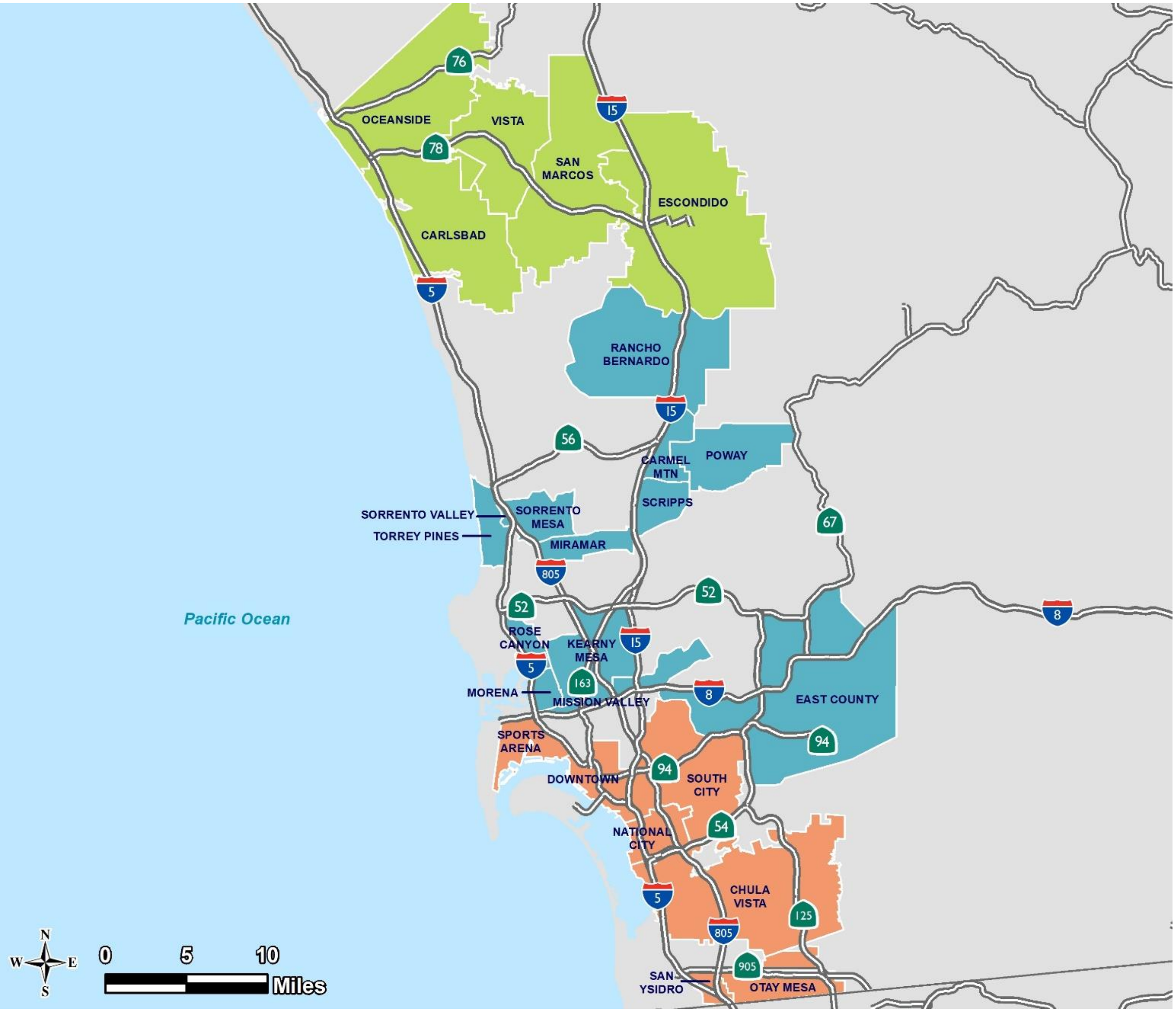
INDUSTRIAL SUBMARKETS



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