

4.8%
Vacancy Rate



39K
Net Absorption, SF



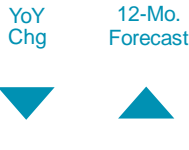
\$1.13
Asking Rent, PSF



Direct, Net Asking Rent

ECONOMIC INDICATORS Q4 2020

1.4M
San Diego Employment



7.2%
San Diego Unemployment Rate



6.7%
U.S. Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW: Unemployment Drops as Vaccine Distribution Begins

The San Diego employment market has been significantly impacted by COVID-19 stay-at-home orders, resulting in loss of 97,700 jobs or -6.4% year-over-year (YOY) through November 2020. Of the 97,700 jobs lost, 45,100 (-22.3% YOY) or 46.2% of losses were in the leisure and hospitality sector. Professional and business services sector added 7,300 jobs (+2.8% YOY). On the bright side, monthly job gains have been positive for the last four consecutive months. During the same time, the monthly unemployment rate increased from 2.9% last year to 6.6% and is currently 90 basis points (bps) above the 30-year monthly average of 5.7% and 40 bps below the Q4 2020 quarterly average of 7.2%.¹ All employment sectors are expected to grow at a combined rate of 1.3% in 2021 and 2.8% in 2022. San Diego's economy of \$241.2 billion as measured by gross regional product is forecasted to grow by 4.3% in 2021 and 5.5% in 2022, above its 10-year average of 2.7%.²

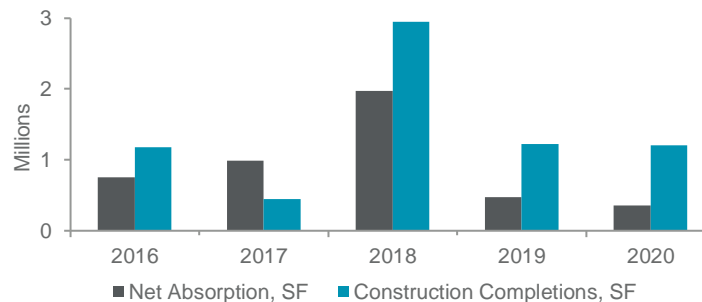
SUPPLY AND DEMAND: An Even Quarter to End the Year

At the end of Q4 2020, San Diego's direct industrial vacancy was 4.8%, a 10 bps increase from last quarter and up 10 bps from a year ago. Tenants absorbed 38,810 square feet (sf) in Q4 2020, moving into 158,172 sf of manufacturing and incubator multi-tenant (IMT) product, but vacating 119,362 sf from research and development (R&D) and warehouse and distribution (W/D) buildings. Large occupancies include multiple tenants fully occupying Vogt Industrial Park, delivered last quarter, Agorus moving into 30,000 sf in East County and Spinergy moving into 21,800 sf in San Marcos. However, large vacates including Triumph in East County (111,000 sf) and Pirch in Oceanside (38,000 sf) counteracted those gains. On annual basis, 2020 recorded the lowest occupancy gains since 2010 yet was the 11th years of positive absorption, during which tenants have absorbed 16.3 msf combined, averaging 1.5 msf per year. Leasing activity was slightly lower in Q4 2020 at 1.9 msf (118 deals), including renewals, compared to 2.4 msf (189 deals) in Q3 2020. Tenants leased 8.4 msf in 2020 combined across 634 deals of which 6.4 msf (537 deals) were new leases and 2.0 msf (97 deals) were renewals. Five submarkets combined accounted for 5.0 msf or 59% of space leased in 2020: Carlsbad (14%), Otay Mesa (14%), Miramar (11%), Vista (11%) and Sorrento Mesa (9%).

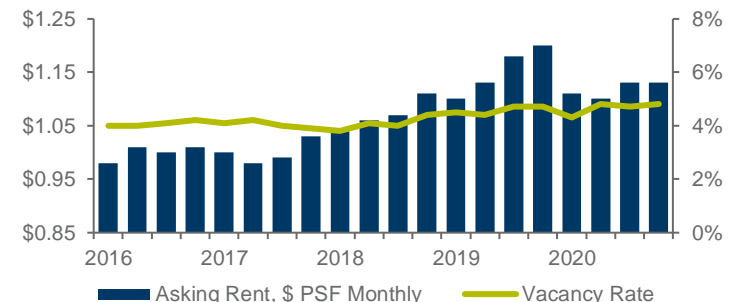
PRICING: Rents are Softening

Countywide average asking rent for all product types combined was \$1.13 per square foot (psf) per month on a triple net basis, unchanged from the previous quarter but down from \$1.20 psf a year ago (-5.8% YOY). Driven by the addition of over 2.4 msf of space to the market since 2019, average asking rent for W/D space decreased by 7.9% to \$0.93 psf, while average rent for R&D space decreased by 1.2% to \$1.61 psf from a year ago. Average rent for manufacturing space decreased by 3.8% to \$1.01 psf YOY, while average rent for IMT buildings increased 3.9% to \$1.34 psf.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY / ASKING RENT



Across the region, the market is the tightest for manufacturing space with direct vacancy at 4.1% in Q4 2020, 60 bps lower than a year ago. Vacancy for R&D space now stands at 4.2% countywide, 130 bps lower than a year ago. Vacancy for IMT space stands at 4.5%, 50 bps higher compared to a year ago. Distribution space has the highest vacancy at 6.3% as of Q4 2020, an increase of 170 bps since last year. Though direct vacancy for all product types combined is up slightly or 10 bps from a year ago, total availability, including sublease, remains low at 6.9% in Q4 2020 compared to 7.0% in Q4 2019. Tenant demand continues to be strong from online retail and distribution tenants, especially as the COVID-19 pandemic continues to discourage in-person shopping. In addition, the continued growth of life sciences in central county submarkets will continue to affect inventory as landlords seek product to convert to lab space.

FUTURE INVENTORY: Developers Continue to Focus On Otay Mesa

In 2020, 10 projects were delivered, totaling 1.2 msf, led by W/D space (83% or 997,312 sf). The majority of new W/D inventory was added to Poway (532,413 sf), followed by Otay Mesa (464,899 sf) submarket. Three speculative (SPEC) development buildings called Majestic Sunroad Center were delivered in Q4 2020, totaling 227,000 sf. Just one of these buildings was pre-leased, with the tenant occupying 31,360 sf.

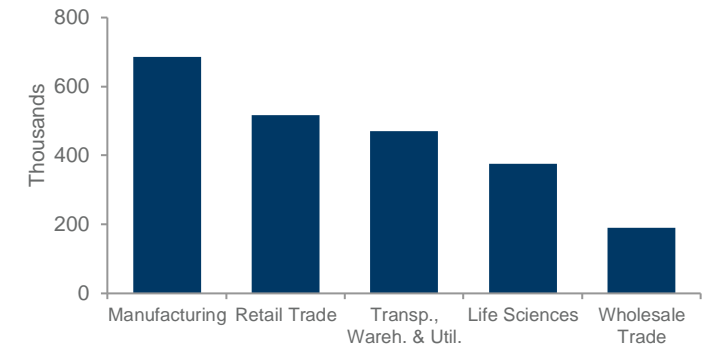
Of the 15 properties, totaling nearly 5.2 msf, currently under construction countywide, 3.9 msf (10 projects) are expected to be delivered by the end of 2021. The majority or 65% of inventory is build-to-suit (BTS) with the remaining 35% SPEC. Over 96% of SPEC distribution space development (10 of 12 projects) is happening in South County, including 846,000 sf at Landmark at Otay, 229,000 sf at Brown Field Technology Park, 136,000 sf at Airway Industrial Park and 453,000 sf at California Crossings, all located in Otay Mesa. Two BTS projects currently under construction are in North County, totaling 124,352 sf. The most notable BTS project - a 3.2 msf development for an e-commerce giant - is in the South County's Otay Mesa submarket. Due to this project being 100% pre-leased, overall pre-leasing rate of current inventory under construction stands at 64.5% with the remaining SPEC development available for lease. Additionally, there are 18 proposed projects, totaling 3.7 msf, across all product types.

Sources: ¹www.bls.gov ² GDP as of 2020. Moody's Analytics economy.com 12/2020.

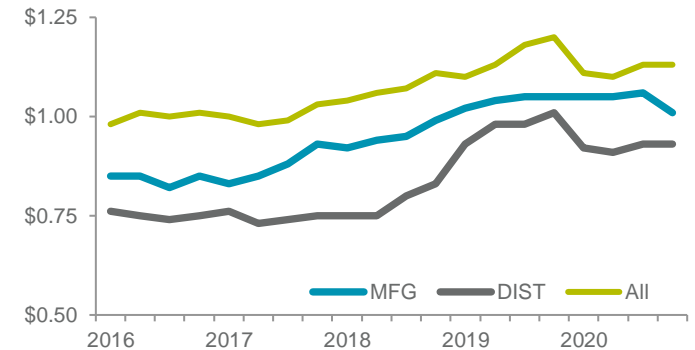
OUTLOOK

- Rising positivity rates for COVID-19 delayed reopening plans in California, resulting in a slower leasing activity through the second half of 2020. Tenants are reassessing their footprint based on work-from-home policies of their employees as well as both short and long-term needs of 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 48% of total sf in lease obligations set to expire over the next 18 months, while tenants over 50,000 sf make up another 30%.
- Active tenant requirements of all sizes remain robust at 2.8 msf over the next 24 months countywide. While many of these tenants paused their plans due to COVID-19, most of them have returned to exploring the market, have sent out proposals and are 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.

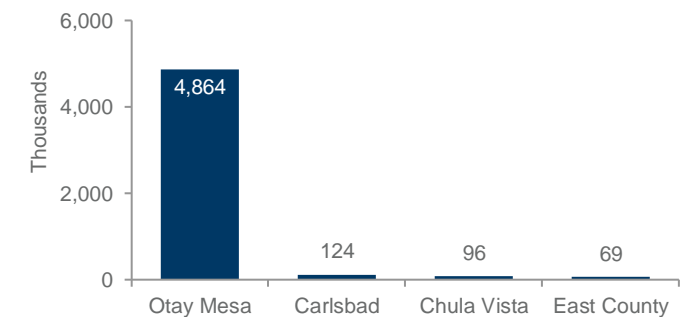
TENANT DEMAND BY INDUSTRY TYPE IN SF – TOP 5



AVERAGE MONTHLY ASKING RENT \$PSF MONTHLY NNN



UNDER CONSTRUCTION BY SUBMARKET IN SF



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	53,537,192	526,846	3,645,936	6.8%	115,300	44,546	68,772	124,352	\$1.05	\$1.37	\$1.00
Central County	79,743,777	673,411	2,489,738	3.1%	-10,565	488,906	673,931	69,023	\$1.39	\$1.82	\$1.05
South County	31,163,169	174,402	1,779,981	5.7%	-65,925	-179,053	464,899	4,959,342	\$0.91	\$1.21	\$0.84
R&D	31,723,323	409,705	1,347,693	4.2%	-50,301	134,218	50,148	124,352	\$1.61		
MFG	64,422,590	408,777	2,623,692	4.1%	81,240	324,842	141,518	0	\$1.01		
IMT	20,397,327	100,636	918,701	4.5%	76,932	-84,039	18,624	48,792	\$1.34		
DIST	47,900,898	455,541	3,025,569	6.3%	-69,061	-20,622	997,312	4,979,573	\$0.93		
SAN DIEGO TOTALS	164,444,138	1,374,659	7,915,655	4.8%	38,810	354,399	1,207,602	5,152,717	\$1.13		

*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 Q4 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
2620 Commerce Way	Vista	Cue Health	197,104	New
7411 Goen Pl.	Mission Valley	LKQ / Keystone Automotive Industries	62,948	New
6060 Nancy Ridge Dr.	Sorrento Mesa	Hologic	60,737	New
2810 Whiptail Loop	Carlsbad	Nixon	44,075	New
10390 Willow Ct.	Rancho Bernardo	Cal Pacific Truck Center	35,811	New

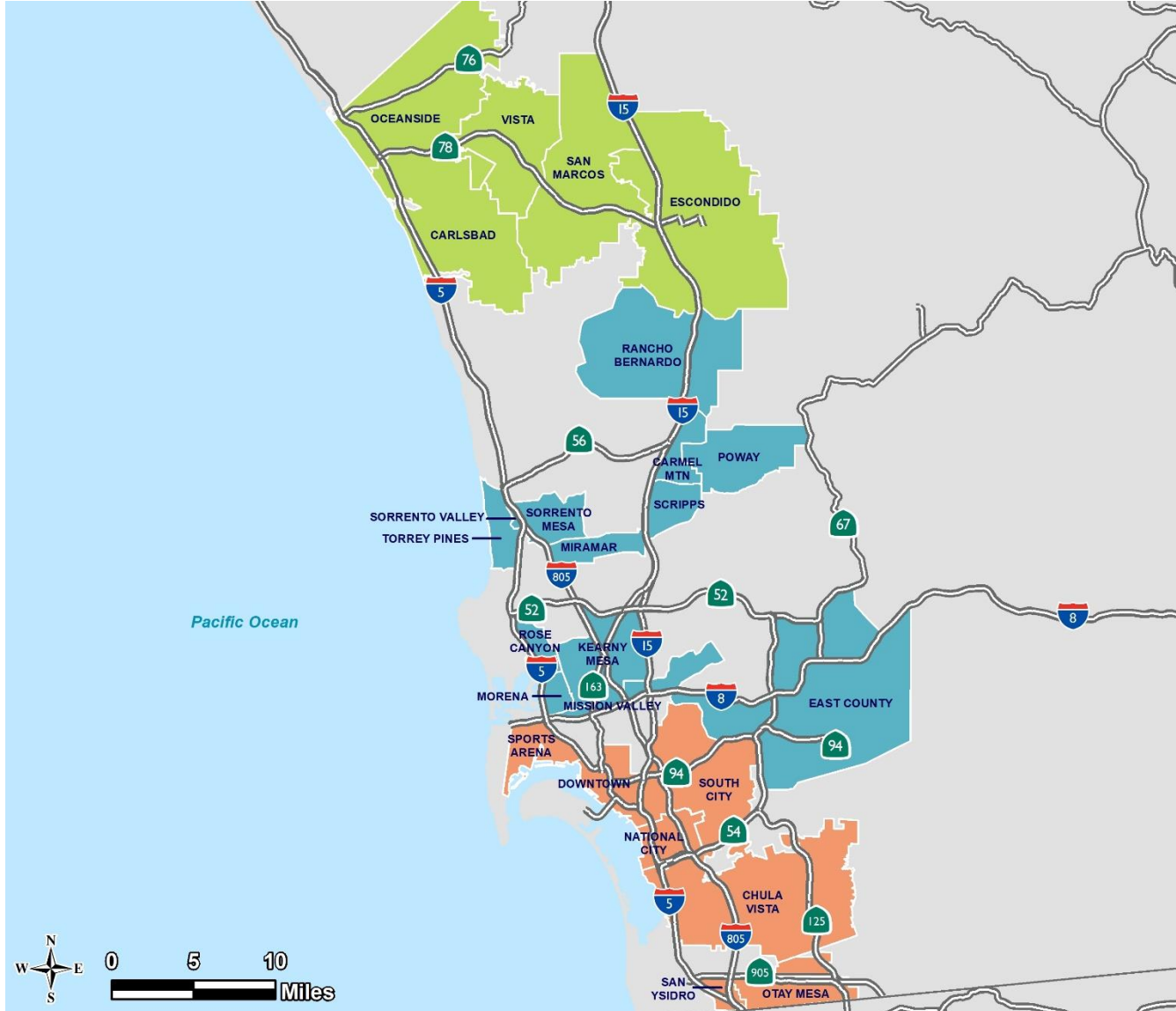
KEY SALES TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
2020 Piper Ranch	Otay Mesa	Morgan Stanley / Black Creek Group	601,417	\$109.0M / \$181
2340 Cousteau Ct.	Vista	Aqua Lung International / Elion Partners	134,299	\$22.0M / \$164
Environmental Plaza	Sorrento Valley	Starkey Investment / Hill Properties & Westport Capital Partners	91,669	\$15.3M / \$166
10240 Flanders Ct.	Sorrento Mesa	TIG Real Estate Holdings / Bioscience Properties	64,036	\$13.3M / \$207
8250-8260 Camino Santa Fe	Miramar	Providence Capital Group / Hill Properties & Westport Capital Partners	61,635	\$11.6M / \$188

KEY CONSTRUCTION COMPLETIONS 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER
14400 & 14500 Kirkham Way	Poway	Undisclosed	532,413	Ryan Companies / DWS Group
16915 Via Del Campo	Rancho Bernardo	Undisclosed	141,518	Sunstone Group LP
2065 Sanyo Ave.	Otay Mesa	JF Hillebrand	137,000	Murphy Development Company
9505 Airway Rd.	Otay Mesa	Undisclosed	100,631	IRE Development

INDUSTRIAL SUBMARKETS



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