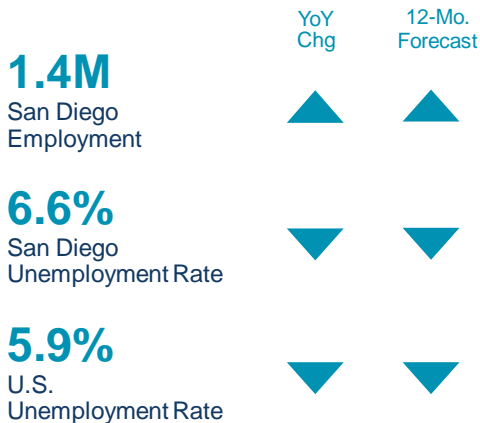


### ECONOMIC INDICATORS Q2 2021



Source: BLS

### ECONOMIC OVERVIEW: Unemployment Rates Declining

The San Diego employment market has recovered more than half (54%) of the 248,000 jobs lost during the beginning of the pandemic between March and April of 2020. Nonfarm employment grew by 119,500 or +9.3% year-over-year (YOY) between May 2020 through May 2021, with the leisure and hospitality sector accounting for 46,100 jobs added. During the same time, the monthly unemployment rate decreased from 15.6% last year to 6.4%. The current rate is 950 basis points (bps) lower compared to the 15.9% high recorded in April of 2020 and 20 bps below the Q2 2021 quarterly average of 6.6%.<sup>1</sup> All employment sectors are expected to grow at a combined rate of 2.2% in 2021 and 4.5% in 2022. Manufacturing employment is forecasted to grow 1.6% in 2021 and 1.1% in 2022. San Diego's economy of \$241.7 billion as measured by 2020 gross regional product is forecasted to return to growth of 8.4% in 2021 and 5.9% in 2022, above its 10-year average of 2.7%.<sup>2</sup>

### SUPPLY AND DEMAND: Record Level Absorption

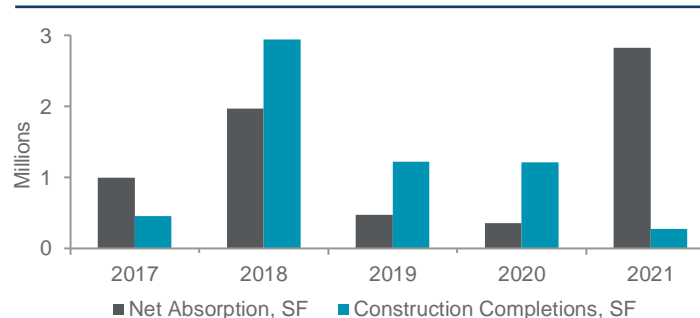
At the end of Q2 2021, San Diego's direct industrial vacancy was 2.9%, a 120 bps decrease from last quarter and down 190 bps from a year ago. Tenants absorbed 2.0 million square feet (msf) in Q2 2021, the highest level of absorption ever recorded. The majority of occupancy gains were recorded in North County (1.2 msf) with 57% of the quarterly absorption total. Vista absorbed the most space or 408,895 square feet (sf), followed by Carlsbad (327,467 sf) and San Marcos (296,655 sf). Large occupancies include Cue Health moving into 197,100 sf in Vista, an online retailer occupying 175,300 sf in Carlsbad, and Trinion America moving into 124,000 sf in Otay Mesa. Seven buildings experienced occupancies of over 100,000 sf. The market experienced only mid-sized vacates, including Goodwill moving out of 61,000 sf in Morena, Apical Industries vacating 54,000 sf in Vista and Vector International moving out of 28,000 sf in Otay Mesa.

New leasing activity, excluding renewals, totaled 1.9 msf (88 deals) in Q2 2021 compared to 2 msf (112 deals) in Q1 2021 and 1.5 msf (101 deals) in Q2 2020. Four submarkets combined accounted for 1.3 msf or 69% of space leased in Q2 2021: Vista (24%), Carlsbad (19%), Miramar (13%), and Otay Mesa (13%). North County accounted for 44% of new leasing activity in year-to-date 2021, primarily in the Carlsbad and Vista submarkets, followed by South County (32%) and Central County (24%).

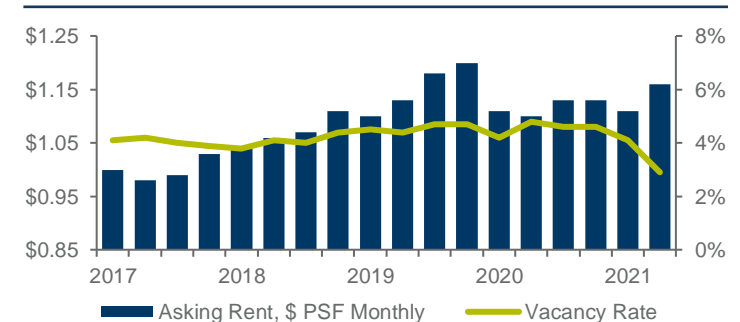
### PRICING: Rents Begin to Rise

Countywide average asking rent for all product types combined was \$1.16 per square foot (psf) per month on a triple net basis, up \$0.05 (+4.5%) from the previous quarter and \$0.06 (+5.5%) from a year ago. Driven by the addition of over 2.6 msf of space to the

### SPACE DEMAND / DELIVERIES



### DIRECT VACANCY / ASKING RENT



market since 2019, average asking rent for distribution space increased by 4.5% to \$0.95 psf, while average rent for R&D space increased by 6.0% to \$1.57 psf from a year ago. Average rent for manufacturing space decreased one cent to \$1.04 psf (-0.7%YOY), while average rent for IMT buildings increased 8.0% to \$1.39 psf.

Across the region, the market is the tightest for manufacturing space with direct vacancy at 2.5% in Q2 2021, 190 bps lower than a year ago. Vacancy for R&D space now stands at 3.4% countywide, 190 bps lower than a year ago. Vacancy for IMT space stands at 3.1%, 160 bps lower than to a year ago. Distribution space has a vacancy rate of 3.1% as of Q2 2021, a decrease of 270 bps since last year. Direct vacancy for all product types combined is down significantly or 190 bps from a year ago while total availability, including sublease, also remains low at 4.9% in Q2 2021 compared 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. 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: Otay Mesa Development Seeks to Meet Rising Demand

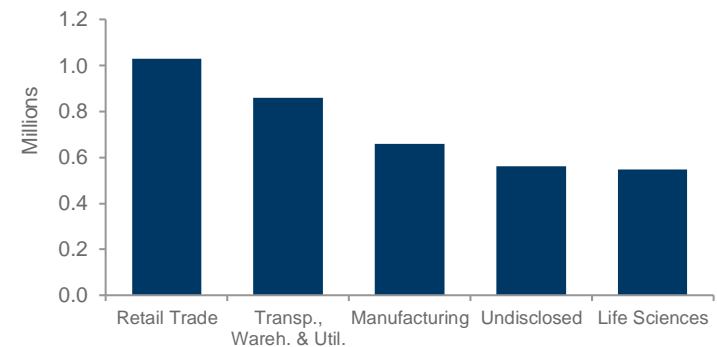
In Q2 2021, one project was delivered, a build-to-suit (BTS) project in Carlsbad for SMAC Corporation 55,352 sf. Of the 16 properties, totaling over 5.4 msf, currently under construction countywide, 5.2 msf (15 projects) are expected to be delivered by the end of 2021. The majority or 61% of inventory is BTS with the remaining 39% built as speculative (SPEC). Over 98% of SPEC distribution space development (11 of 13 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. The most notable BTS project - a 3.2 msf development for an e-commerce giant - is in 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 62% with the remaining SPEC development available for lease. Additionally, there are 18 proposed projects, totaling 4.0 msf, across all classes.

Sources: <sup>1</sup>[www.bls.gov](http://www.bls.gov) <sup>2</sup> GDP as of 2020. Moody's Analytics economy.com 6/2021.

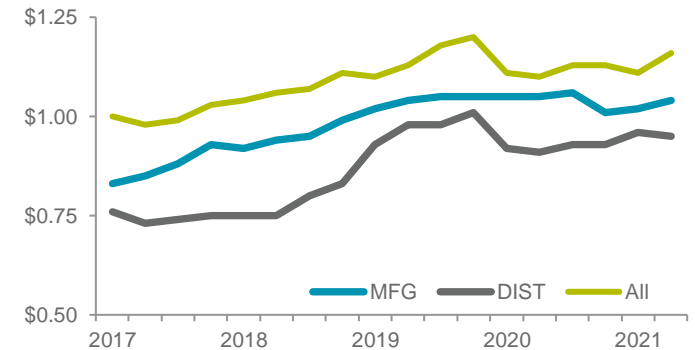
### OUTLOOK

- Expanding COVID-19 vaccine eligibility in California and throughout the country will result in increased activity through the year. However, some tenants are reassessing their real estate footprint based on work-from-home policies as well as assessing 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 48% of total sf in lease obligations set to expire over the next 18 months.
- Active tenant requirements of all sizes remain robust at 4.5 msf over the next 24 months countywide. While some 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 current tenants in the market will transact in the short term, these levels provide a barometer to leasing activity in quarters to follow.

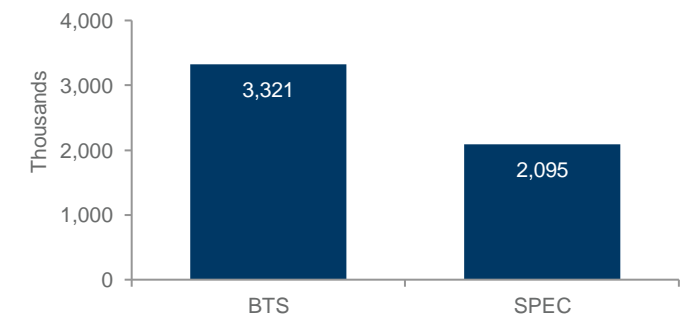
### TENANT DEMAND BY INDUSTRY TYPE IN SF – TOP 5



### AVERAGE MONTHLY ASKING RENT \$PSF MONTHLY NNN



### UNDER CONSTRUCTION BY TYPE IN SF



## Industrial Q2 2021

## 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	53,488,794	415,619	1,803,255	3.4%	1,156,697	1,830,941	124,352	0	\$1.10	\$1.43	\$1.03
Central County	78,663,062	166,998	1,865,822	2.4%	259,881	271,957	48,792	66,948	\$1.36	\$1.66	\$1.11
South County	31,208,106	30,207	1,106,803	3.5%	612,327	727,650	95,500	5,348,249	\$0.89	\$0.75	\$0.83
R&D	30,909,716	191,557	1,054,672	3.4%	76,170	136,631	124,352	0	\$1.57		
MFG	63,864,421	218,684	1,596,460	2.5%	509,257	838,544	0	0	\$1.04		
IMT	20,611,939	74,165	646,313	3.1%	188,520	312,292	48,792	0	\$1.39		
DIST	47,973,886	128,418	1,478,435	3.1%	1,254,958	1,543,081	95,500	5,415,197	\$0.95		
<b>SAN DIEGO TOTALS</b>	<b>163,359,962</b>	<b>612,824</b>	<b>4,775,880</b>	<b>2.9%</b>	<b>2,028,905</b>	<b>2,830,548</b>	<b>268,644</b>	<b>5,415,197</b>	<b>\$1.16</b>		

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

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

## KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
3266 Lionshead Ave.	Carlsbad	Online Retailer	175,259	New
1395 Park Center Dr.	Vista	M2 Ingredients	155,069	New
1210 Air Wing Rd.	Otay Mesa	Trinion America	124,032	New
2633 Progress St.	Vista	Jeld-Wen	103,000	New
7170 Miramar Rd.	Miramar	Penske	87,439	New

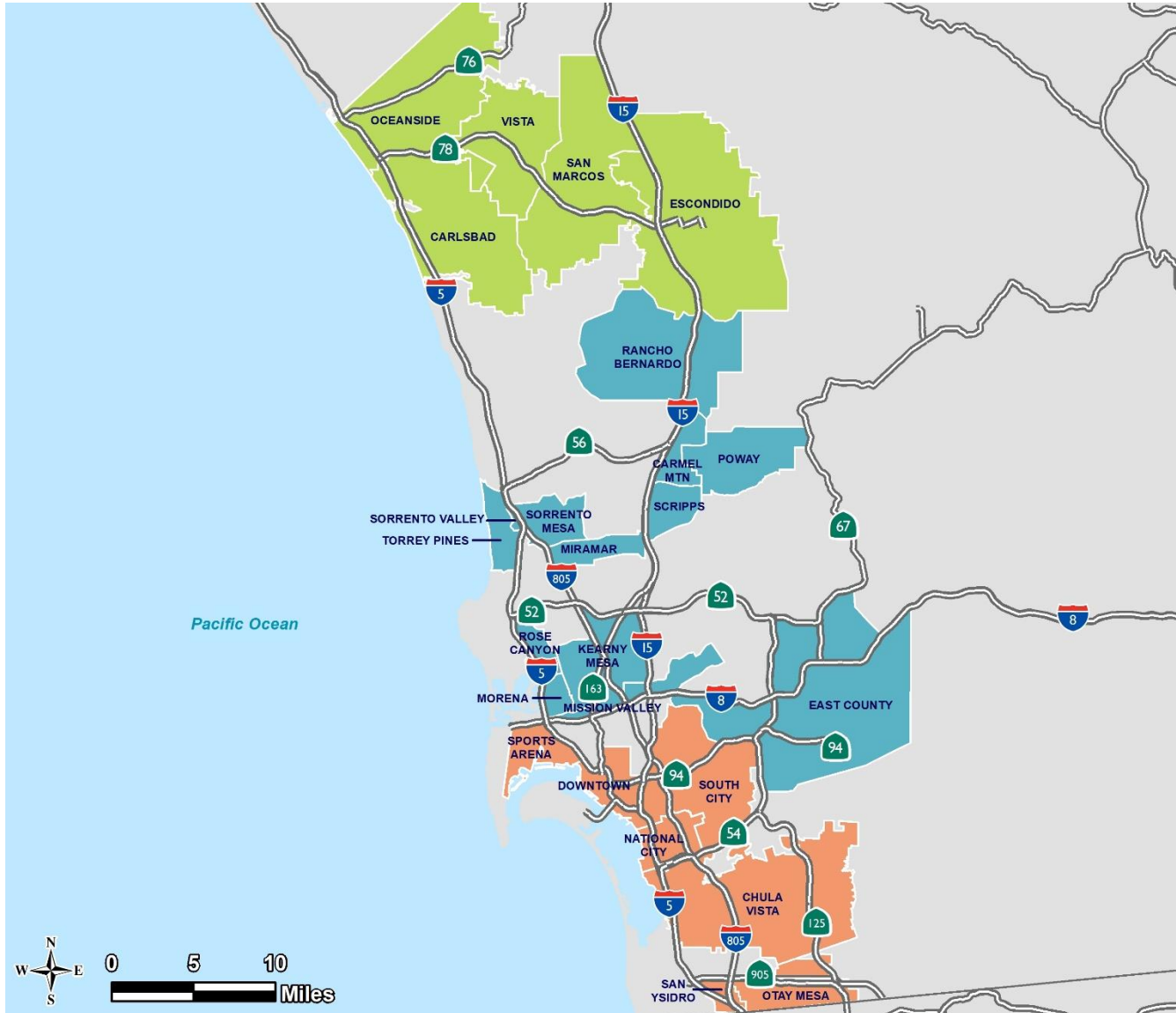
## KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
South Bay Portfolio	Chula Vista	Carleton Management / Protea Properties	231,878	\$47.0M / \$203
Camino Santa Fe Business Park	Miramar	DWS / Hill Properties & Westport Capital	172,315	\$39.6M / \$230
Activity Business Center	Miramar	BKM Capital Partners / Hines	160,811	\$40.8M / \$254
491 C St.	Chula Vista	Lincoln Property Co. & Crow Holdings / Realty Income Corp.	111,806	\$35.6M / \$318
9151 Rehco Rd.	Miramar	Rhino Linings USA / LLJ Ventures	68,937	\$13.8M / \$200

## KEY CONSTRUCTION COMPLETIONS 2021

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER
2890 & 2970 Faivre St.	Chula Vista	N/A	95,500	Sudberry Properties
2850 Gazelle Ct.	Carlsbad	Ionis Pharmaceuticals	69,000	Ionis Pharmaceuticals
5807 Van Allen Way	Carlsbad	SMAC	55,352	SMAC
10050 Marathon Pkwy.	East County	Undisclosed	48,792	Hamann Companies

INDUSTRIAL SUBMARKETS



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