

Industrial Q4 2021

	YoY Chg	12-Mo. Forecast
2.4% Vacancy Rate	▼	▬
1.1M Net Absorption, SF	▲	▼
\$1.23 Asking Rent, PSF	▲	▲

Direct, Net Asking Rent

ECONOMIC INDICATORS Q4 2021

	YoY Chg	12-Mo. Forecast
1.44M San Diego Employment	▲	▲
6.0% San Diego Unemployment Rate	▼	▼
4.2% U.S. Unemployment Rate	▼	▼

Source: BLS

ECONOMIC OVERVIEW: Employment Fundamentals Rebounding

The San Diego employment market has recovered 193,400 (83%) of the 248,000 jobs lost during the beginning of the pandemic between March and April of 2020. Nonfarm employment grew by 64,900 or +4.6% year-over-year (YOY) between November 2020 through November 2021, with the leisure and hospitality sector accounting for 28,500 jobs added (+20.2% YOY).

During the same time, the monthly unemployment rate decreased from 6.8% last year to 4.6% and is notably lower compared to the 15.9% high recorded in April of 2020. The current monthly rate is also 140 bps (basis points) lower compared to the Q4 2021 quarterly average of 6.0%.¹ All employment sectors are expected to grow at a combined rate of 4.5% in 2022 and 1.8% in 2023. San Diego's economy of \$252.7 billion as measured by 2021 gross regional product is forecasted to grow 4.9% in 2022 and 3.3% in 2023, above its 10-year average of 3.1%.²

SUPPLY AND DEMAND: Massive Build-to-Suit Breaks Records

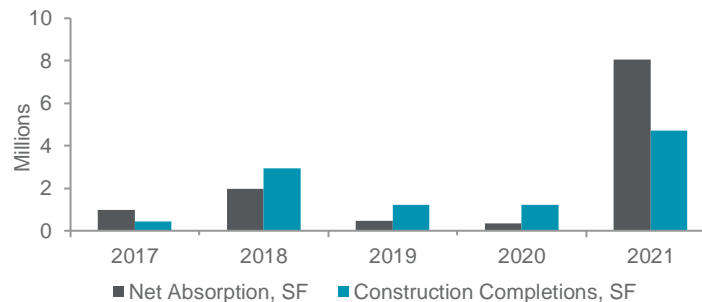
At the end of Q4 2021, San Diego's direct industrial vacancy was 2.4%, a 20-bps decrease from last quarter and a 240-bps decrease from a year ago, marking the lowest vacancy rate ever recorded. Tenants absorbed 1.1 million square feet (msf) in Q4 2021, continuing occupancy growth with the sixth consecutive quarter of positive absorption. Consequently, 2021 annual occupancy gains reached 8.1 msf - the highest level of absorption ever recorded as the result of a 3.4 msf build-to-suit (BTS) project in Otay Mesa occupied by a major e-commerce company in Q3 2021. South and North County, both experienced strong quarters, recording occupancy gains of 465,354 square feet (sf) and 326,075 sf, respectively. Large occupancies include M2 Ingredients (155,100 sf), in Vista, RL Jones (155,600 sf) in Otay Mesa and Granite Factory Direct (82,781 sf) in Miramar. Notable vacates include Hi-Tem (44,300 sf) in Miramar and 1st Career Cargo (41,900 sf) moving out of Chula Vista.

New leasing activity, excluding renewals, totaled 1.4 msf (74 deals) in Q4 2021 compared to 1.6 msf (114 deals) in Q3 2021 and 1.7 msf (136 deals) in Q4 2020. Three submarkets combined accounted for 810,000 sf or 57% of space leased in Q4 2021: Kearny Mesa (24%), Vista (17%) and Otay Mesa (16%). In 2021 combined, tenants leased 8.0 msf (426 deals), with Otay Mesa alone accounting for 2.0 msf or 25% of new leasing in 2021.

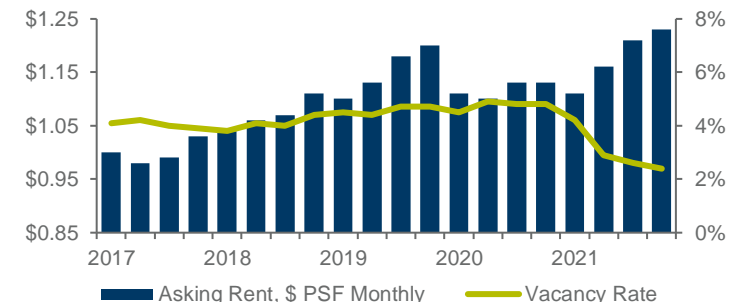
PRICING: Rents Continue to Rise

The countywide average asking rent for all product types combined was \$1.23 per square foot (psf) per month on a triple net basis, up \$0.02 (+1.7%) from the previous quarter and \$0.10 (+8.8%) from a year ago. The average asking rent for distribution space increased by 12.9% YOY to \$1.05 psf, while the average rent for R&D space decreased slightly by 1.9% YOY to \$1.58 psf. The average rent for

SPACE DEMAND / DELIVERIES



DIRECT VACANCY / ASKING RENT



manufacturing space increased by 13.9% to \$1.15 psf YOY, while the average rent for IMT buildings increased 6.0% to \$1.42 psf. Across the region, the market is the tightest for manufacturing space with direct vacancy at 1.9% in Q4 2021, 220 bps lower than a year ago. Vacancy for R&D space now stands at 2.6% countywide, 160 bps lower than a year ago. Vacancy for IMT space stands at 2.3%, 220 bps lower than a year ago. Distribution space has a vacancy rate of 2.8% as of Q4 2021, a decrease of 350 bps since last year.

Direct vacancy for all product types combined is down significantly or 240 bps from a year ago while total availability, including sublease, also remains low at 3.9% in Q4 2021 compared to 6.9% in Q4 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 products to convert to lab space. With record-low vacancies and significant demand, the continued development of new inventory is expected.

FUTURE INVENTORY: Otay Mesa Development Seeks to Meet Rising Demand

In Q4 2021, seven buildings were delivered, including two buildings at Landmark at Otay, totaling 369,770 sf, two buildings at Brown Field Technology Park North totaling 229,000 sf, and the 151,400 sf Otay II Commerce Center which was sold to Cabot Properties.

Of the seven distribution properties, totaling over 1.9 msf, currently under construction countywide, all are expected to be delivered by the end of 2022. The majority or 62% of inventory is being built as speculative (SPEC), with the remaining 38% as BTS.

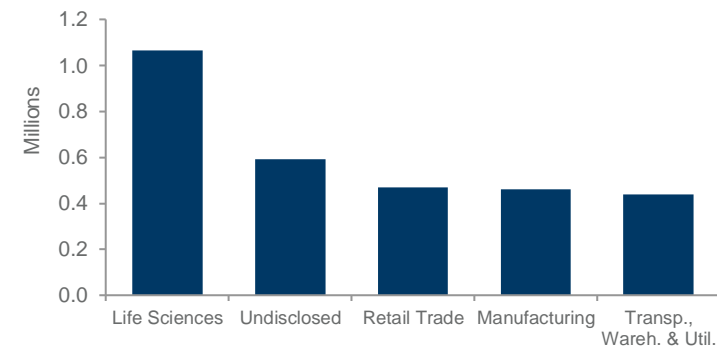
All of SPEC distribution space development across five projects is happening in Otay Mesa, including 453,000 sf at California Crossings, 247,500 sf at Airway Logistics Center and two remaining buildings at Landmark at Otay for 476,000 sf. The overall pre-leasing rate of current inventory under construction stands at 37.6%, with the remaining SPEC development available for lease. Additionally, there are 17 proposed projects, totaling 3.2 msf, across all product types.

Sources: ¹www.bls.gov ²Moody's Analytics economy.com 12/28/2021.

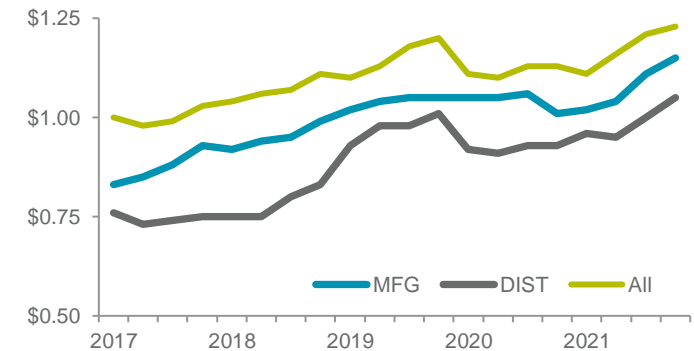
OUTLOOK

- Expanding COVID-19 vaccine eligibility in California and throughout the country will result in increased activity throughout the year. However, 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 3.5 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.

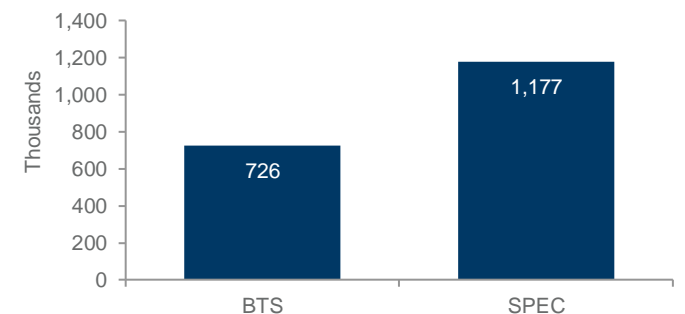
TENANT DEMAND BY INDUSTRY TYPE IN SF – TOP 5



AVERAGE MONTHLY ASKING RENT \$PSF MONTHLY NNN



UNDER CONSTRUCTION BY TYPE 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	53,497,575	184,488	1,374,080	2.6%	326,075	2,265,457	124,352	0	\$1.14	\$1.61	\$1.14
Central County	78,799,056	124,002	1,332,486	1.7%	291,064	838,537	115,740	25,714	\$1.45	\$1.64	\$1.28
South County	35,582,850	3,706	1,257,074	3.5%	465,354	4,948,758	4,466,879	1,876,870	\$0.98	\$0.99	\$0.89
R&D	30,902,809	42,993	791,307	2.6%	114,827	390,006	124,352	0	\$1.58		
MFG	63,894,834	228,969	1,240,419	1.9%	204,633	1,199,926	0	0	\$1.15		
IMT	20,613,446	0	467,006	2.3%	66,747	488,359	48,792	0	\$1.42		
DIST	52,468,392	40,234	1,464,908	2.8%	696,286	5,974,461	4,533,827	1,902,584	\$1.05		
SAN DIEGO TOTALS	167,879,481	312,196	3,963,640	2.4%	1,082,493	8,052,752	4,706,971	1,902,584	\$1.23		

*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 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Kearny Logistics Center	Kearny Mesa	E-commerce Company	315,000	New
Landmark at Otay	Otay Mesa	RL Jones	153,630	New
2611 Business Park Dr.	Vista	US Postal Service	125,516	New
5818 El Camino Real	Carlsbad	Aptera Motors	77,147	New
2820 Loker Ave.	Carlsbad	Absorption Systems	63,900	New

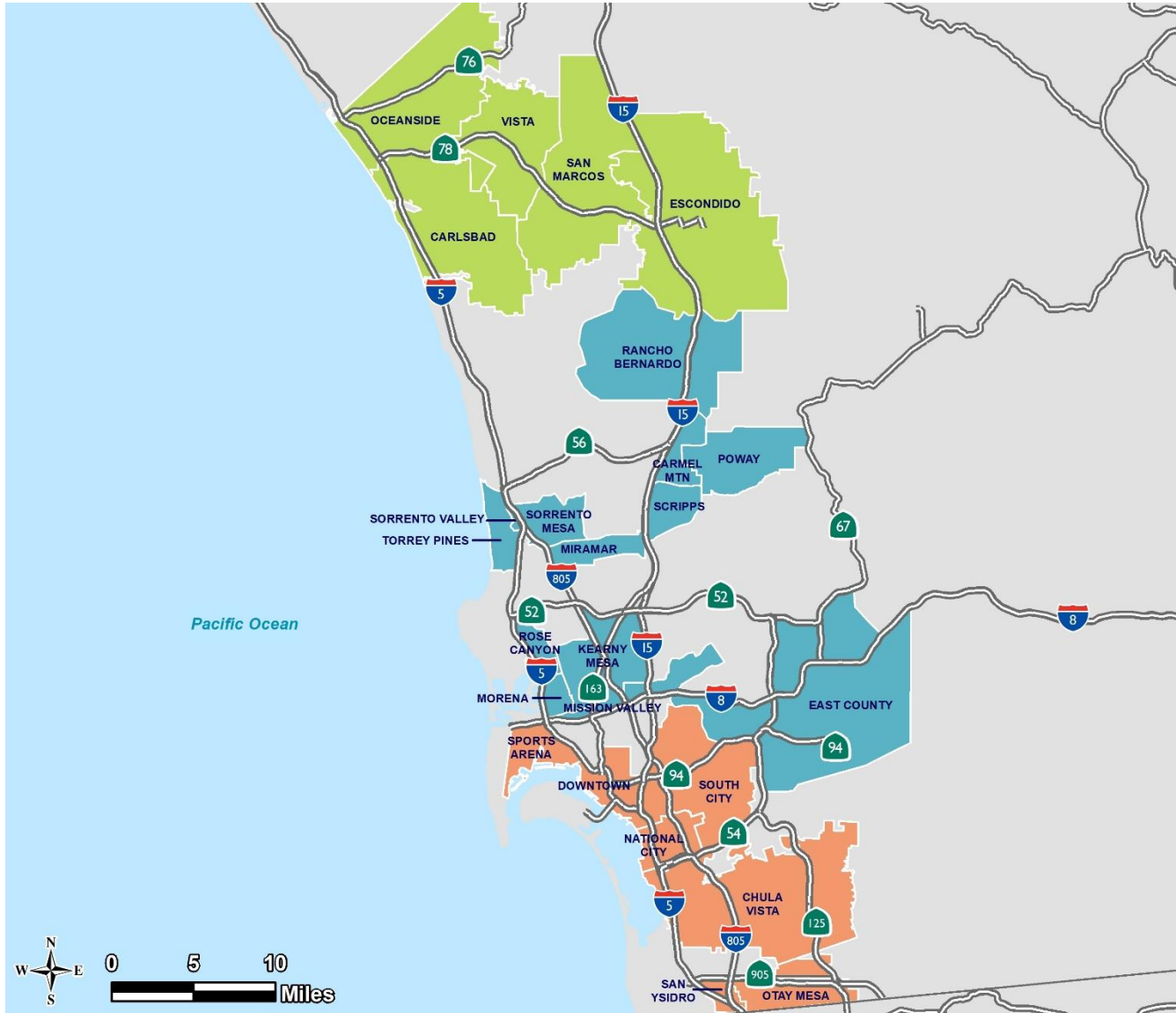
KEY SALES TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
The Campus at San Diego Business Park	Otay Mesa	Murphy Development Company / LaSalle Investment Management	665,229	\$158.5M / \$238
Viva Logistics Center	Otay Mesa	IDS Real Estate Group / EastGroup Properties	544,724	\$134.5M / \$247
2620 Commerce Way	Vista	Westcore Properties / KKR	197,104	\$58.8M / \$298
10450 Pacific Center Ct.	Sorrento Mesa	Crown Realty and Development / Lincoln Property Company	134,000	\$63.0M / \$470
7995 Armour St.	Kearny Mesa	Lincoln Property Company & Crow Holdings / Realterm Logistics	104,510	\$64.3M / \$615

KEY CONSTRUCTION COMPLETIONS 2021

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER
11 Otay Mesa Rd.	Otay Mesa	E-commerce Company	3,400,000	E-commerce Company
Landmark at Otay	Otay Mesa	RL Jones	369,770	Majestic Realty / Sunroad Enterprises
Otay II Commerce Center	Otay Mesa	N/A	151,423	Cabot Properties
Airway Industrial Park	Otay Mesa	E-commerce Company	135,623	Black Creek Group

INDUSTRIAL SUBMARKETS



JUSTIN BALAGTAS

Senior Research Analyst

Tel: +1 858 625 5245

justin.balagtas@cushwake.com

JOLANTA CAMPION

Senior Director of Research

Nevada, Utah & San Diego

Tel: +1 858 625 5235

jolanta.campion@cushwake.com

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