

2.1%
Vacancy Rate



340K
Net Absorption, SF



\$1.24
Asking Rent, PSF



Direct, Net Asking Rent

ECONOMIC INDICATORS Q1 2022

1.49M
San Diego Employment



4.9%
San Diego Unemployment Rate



3.6%
U.S. Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW: Employment Fundamentals Rebounding

The total nonfarm employment in San Diego grew by 104,300 or +7.5% year-over-year (YOY) between February 2021 through February 2022, with the leisure and hospitality sector accounting for the most significant gains or 52,700 jobs added (+40.2% YOY). During the same time, the monthly unemployment rate decreased from 7.2% last year to 4.0% and is currently 90 basis points (bps) below the quarterly average of 4.9%.¹ All employment sectors are expected to grow at a combined rate of 4.7% (+66,010 jobs) in 2022, while office employment is forecasted to grow by 2.8% (+10,390 jobs) and high-tech employment by 3.6% (+5,060 jobs). The annual unemployment rate is forecasted to decrease from 6.5% in 2021 to 4.2% in 2022 and 3.1% in 2023. San Diego's economy of \$252.7 billion as measured by 2021 gross regional product is forecasted to grow 3.9% in 2022 and 3.5% in 2023, above its 10-year average of 3.1%.²

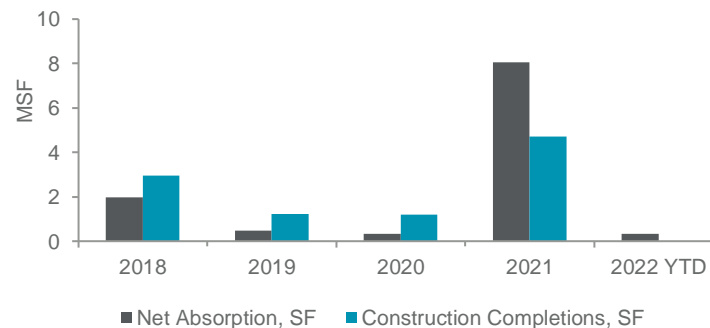
SUPPLY AND DEMAND: Tenants Search for Space Amid Low Vacancy

At the end of Q1 2022, San Diego's direct industrial vacancy was 2.1%, a 30 bps decrease from last quarter and a 210 bps decrease from a year ago, marking the lowest vacancy rate ever recorded. Tenants absorbed 339,600 square feet (sf) in Q1 2022, continuing occupancy growth with the seventh 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 County continues to grow, absorbing 229,500 sf while North and Central County absorbed 34,400 sf and 75,600 sf, respectively. Large occupancies include Dynalectric (110,600 sf) in East County, MC Group Logistics (72,000 sf) in Otay Mesa and Turning Point Church (60,600 sf) in Morena. Notable vacates include Jabil (79,600 sf) in Chula Vista and Pemcor Packaging (55,250 sf) in East County. New leasing activity, excluding renewals, totaled 1.1 million square feet (msf) across 60 deals in Q1 2022 compared to 1.7 msf (86 deals) in Q4 2021 and 2.0 msf (114 deals) in Q1 2021. Otay Mesa experienced almost half of all new leasing or 530,000 sf (48%), followed by Rancho Bernardo with 96,300 sf (9%) and Carlsbad with 82,000 sf (7%) of new leasing activity. Comparing leasing by product type, distribution space accounted for most or 687,000 sf (63%) leased, followed by manufacturing (26%) and IMT space (12%).

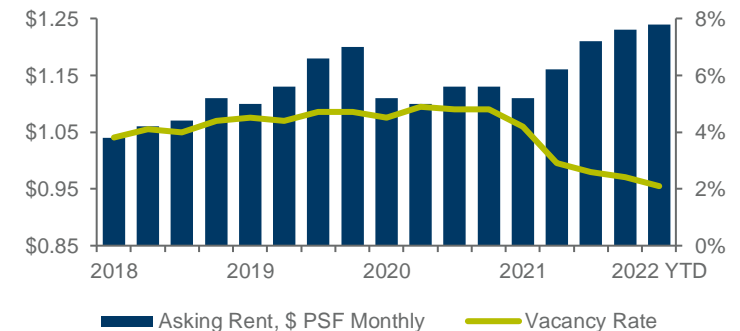
PRICING: Rents Continue to Rise

The countywide average asking rent for all product types combined was \$1.24 per square foot (psf) per month on a triple net basis, up \$0.01 (+0.8%) from the previous quarter and \$0.13 (+11.7%) from a year ago. The average asking rent for distribution space

SPACE DEMAND / DELIVERIES



DIRECT VACANCY / ASKING RENT



increased by 7.3% YOY to \$1.03 psf, while the average rent for R&D space increased by 9.3% YOY to \$1.65 psf. The average rent for manufacturing space increased by 15.7% to \$1.18 psf YOY, while the average rent for IMT buildings increased 10.4% to \$1.49 psf.

Across the region, the market is the tightest for distribution space with direct vacancy at 1.8% in Q1 2022, 370 bps lower than a year ago. Vacancy for R&D space now stands at 2.6% countywide, 100 bps lower than a year ago. Vacancy for IMT space stands at 2.0%, 210 bps lower than a year ago. Manufacturing space has a vacancy rate of 2.2% as of Q1 2022, a decrease of 130 bps compared to last year.

Direct vacancy for all product types combined is down significantly or 210 bps from a year ago, while total availability, including sublease, also remains low at 3.6% in Q1 2022 compared to 6.3% in Q1 2021. 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, 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 Remains Nexus of Development

As of Q1 2022, there are 13 properties totaling over 2.4 msf currently under construction countywide. With the exception of a multi-tenant project in East County and a warehouse BTS in Kearny Mesa, development is centered in Otay Mesa with over 2.0 msf of an ongoing development. The majority or 57% of inventory is being built as speculative (SPEC), with the remaining 43% as BTS.

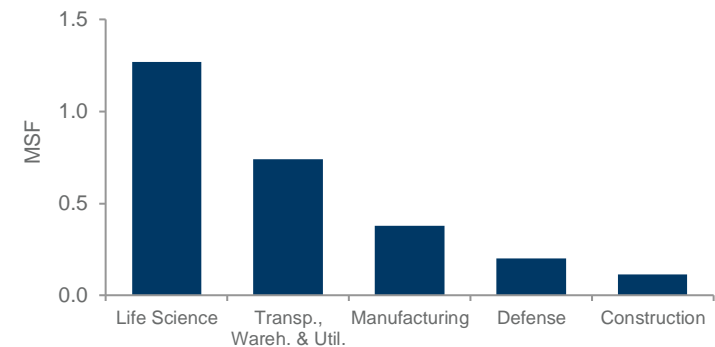
Most of the SPEC development is occurring in Otay Mesa, including 453,000 sf at California Crossings, 247,500 sf at Airway Logistics Center and two remaining buildings at Landmark at Otay for 476,000 sf. The overall pre-leasing rate of current inventory under construction stands at 53.1%, with the remaining SPEC development available for lease. Additionally, there are 23 proposed projects, totaling 3.6 msf, across all product types.

Sources: ¹www.bls.gov ²Moody's Analytics economy.com 2/2022.

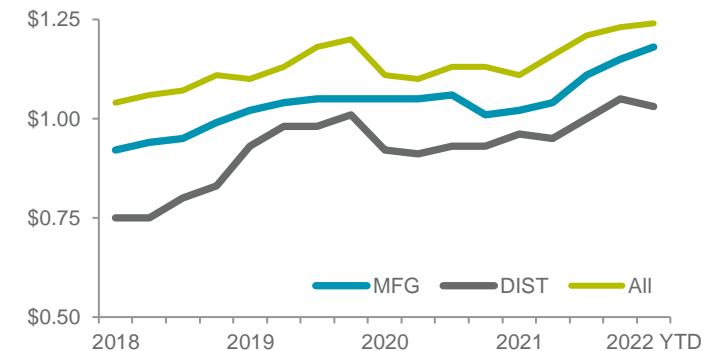
OUTLOOK

- Expanding COVID-19 vaccine eligibility in California and throughout the country will result in an 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 44% of total sf in lease obligations set to expire over the next 18 months.
- Active tenant requirements of all sizes remain robust at 3.3 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.

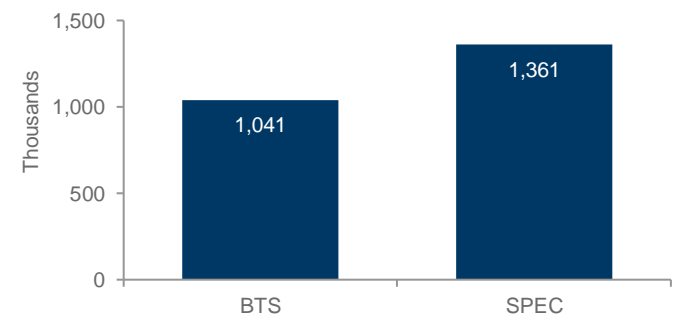
TENANT DEMAND BY INDUSTRY TYPE – TOP 5



AVERAGE 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	53,307,294	88,405	1,339,466	2.5%	34,437	34,437	0	0	\$1.19	\$1.70	\$1.17
Central County	78,027,856	126,566	1,185,135	1.5%	75,624	75,624	0	362,878	\$1.49	\$1.73	\$1.25
South County	35,571,630	3,706	1,013,285	2.8%	229,547	229,547	0	2,039,108	\$0.99	\$1.01	\$0.95
R&D	30,431,950	19,769	780,605	2.6%	18,391	18,391	0	0	\$1.65		
MFG	63,604,266	125,854	1,405,677	2.2%	-212,620	-212,620	0	0	\$1.18		
IMT	20,512,332	22,140	417,673	2.0%	21,458	21,458	0	22,164	\$1.49		
DIST	52,358,232	50,914	933,931	1.8%	512,379	512,379	0	2,379,822	\$1.03		
SAN DIEGO TOTALS	166,906,780	218,677	3,537,886	2.1%	339,608	339,608	0	2,401,986	\$1.24		

*Rental rates reflect weighted triple-net asking \$psf/month. **Renewals not included in leasing statistics.

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

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
10020 Pacific Mesa Blvd.	Sorrento Mesa	BD	318,000	Renewal**
717 Harvest Rd.	Otay Mesa	Undisclosed eCommerce	202,408	New
16868 Via Del Campo Ct.	Rancho Bernardo	RF Industries	86,952	New
1601 Landmark Rd.	67,528	Global Logistics & Fulfillment	67,528	New
2091 Rutherford Rd.	Carlsbad	Thomson Instrument Company	48,500	New

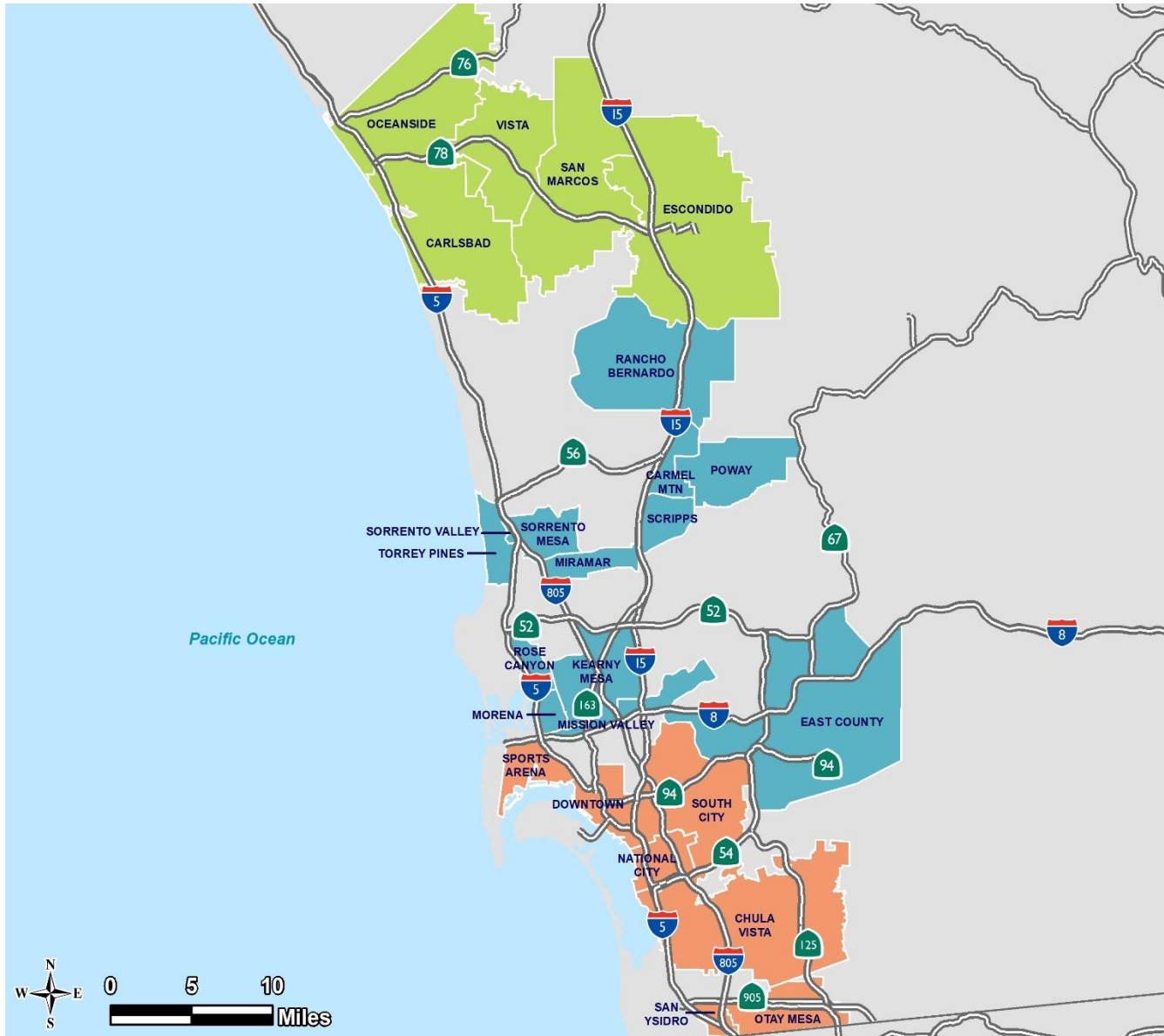
KEY SALES TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
BMR Portfolio	Sorrento Mesa, Sorrento Valley, Rose Canyon	BioMed Realty / Oxford Property Group	642,886	\$464.3M / \$722
11035-11055 Technology Pl.	Rancho Bernardo	Link Logistics / LBA Realty	217,645	\$96.0M / \$441
2641-2651 La Mirada Dr.	Vista	Blackstone / James Robbins	66,682	\$13.1M / \$196
6800 Gateway Park Dr.	Otay Mesa	6800 Gateway Park LLC / Daifan Industrial	62,875	\$15.8M / \$250
2465 Ash St.	Vista	Harley Dixon / Elion	47,560	\$11.8M / \$244

KEY PROJECTS UNDER CONSTRUCTION 2022 YTD

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER
7144 Otay Mesa Rd.	Otay Mesa	Undisclosed eCommerce	700,000	IDS Real Estate Group
Landmark at Otay	Otay Mesa	N/A	476,060	Majestic Realty / Sunroad Enterprises
California Crossings	Otay Mesa	Undisclosed eCommerce	453,330	Sudberry Properties
Kearny Logistics Center	Kearny Mesa	Undisclosed eCommerce	315,000	Lincoln Property Company

INDUSTRIAL SUBMARKETS



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