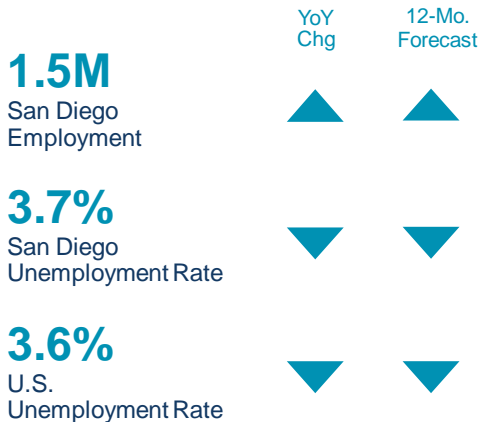


### ECONOMIC INDICATORS Q2 2022



Source: BLS

### ECONOMIC OVERVIEW

The total nonfarm employment in San Diego grew by 83,900 or +5.9% year-over-year (YOY) between May 2021 through May 2022, with the leisure and hospitality sector accounting for the most significant gains or 36,900 jobs added (+23.3% YOY). During the same time, the monthly unemployment rate decreased from 6.6% last year to 2.7% and is currently 100 basis points (bps) below the quarterly average of 3.7%.<sup>1</sup>

All employment sectors are expected to grow at a combined rate of 5.4% (+77,340 jobs) in 2022, while office employment is forecasted to grow by 3.3% (+12,500 jobs) and high-tech employment by 0.2% (+4,880 jobs). The annual unemployment rate is forecasted to decrease from 6.6% in 2021 to 3.8% in 2022 and 3.1% in 2023. San Diego's economy of \$252.3 billion as measured by 2021 gross regional product is forecasted to grow 5.2% in 2022 and 3.3% in 2023, above its 10-year average of 3.1%.<sup>2</sup>

### SUPPLY AND DEMAND

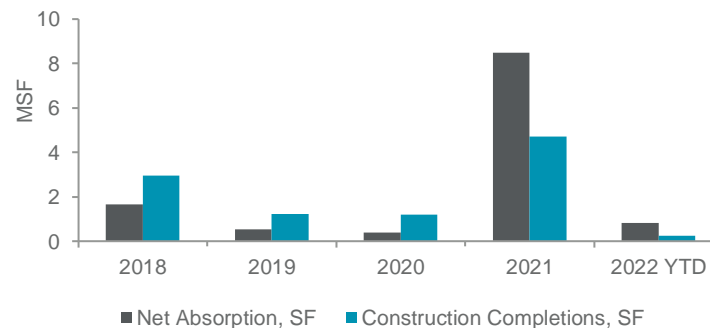
At the end of Q1 2022, San Diego's overall industrial vacancy was 2.1%, a 10 bps decrease from last quarter and a 110 bps decrease from a year ago, marking the lowest vacancy rate ever recorded. Tenants absorbed 314,700 square feet (sf) in Q2 2022, continuing occupancy growth with the eighth consecutive quarter of positive absorption. Consequently, 2021 annual occupancy gains reached 8.5 million square feet (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. North County recorded the most absorption (+154,400 sf), followed by South County (+119,700 sf). Tenants like Aptera Motors and Thompson Instruments in Carlsbad and Sohnen Enterprises and Avanza Loop in Otay Mesa drove this growth.

New leasing activity, excluding renewals, totaled 1.6 msf across 91 deals in Q2 2022 compared to 1.7 msf (97 deals) in Q1 2022 and 3.0 msf (127 deals) in Q2 2021. Otay Mesa experienced over one-third of all new leasing or 553,300 sf (35%), followed by Miramar with 242,700 sf (15%) and Oceanside with 144,300 sf (9%) of new leasing activity. Comparing leasing by product type, distribution space accounted for most or 784,000 sf (49%) leased, followed by manufacturing space (42%).

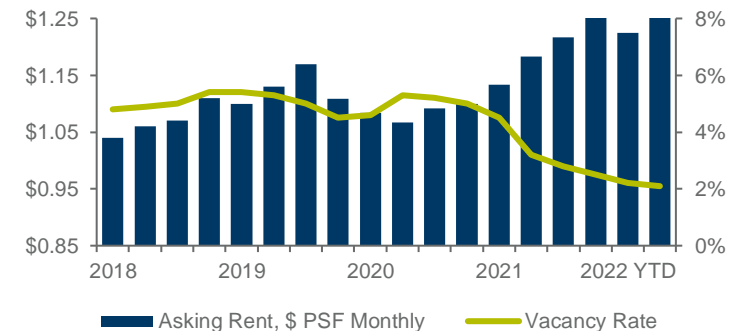
### PRICING

The countywide average asking rent for all product types combined was \$1.37 per square foot (psf) per month on a triple net basis, up 11.6% from the previous quarter and 15.5% from a year ago. The average asking rent for distribution space increased by 22.6%

### SPACE DEMAND / DELIVERIES



### OVERALL VACANCY / ASKING RENT



YOY to \$1.16 psf, while the average rent for R&D space increased by 12.9% YOY to \$1.78 psf. The average rent for manufacturing space increased by 12.2% to \$1.32 psf YOY.

Across the region, the market is the tightest for manufacturing space with overall vacancy at 1.8% in Q2 2022, 30 bps lower than last quarter at 2.1% and 120 bps lower than a year ago at 3.0%. Vacancy for distribution space now stands at 2.1%, 10 bps lower than last quarter at 2.2% and 120 bps lower than a year ago at 3.3%. Vacancy for R&D space now stands at 3.0%, 50 bps higher than last quarter at 2.5% and 90 bps lower than 3.9% last year. Overall vacancy rates are notably lower for all product types compared to pre-pandemic levels of 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

As of Q2 2022, there are 12 properties totaling nearly 2.2 msf currently under construction countywide. Except for a multi-tenant project in East County and a BTS warehouse in Kearny Mesa, development is centered in Otay Mesa with nearly 1.8 msf of ongoing development across eight properties. The majority or 52% of inventory is being built as speculative (SPEC), with the remaining 48% as BTS.

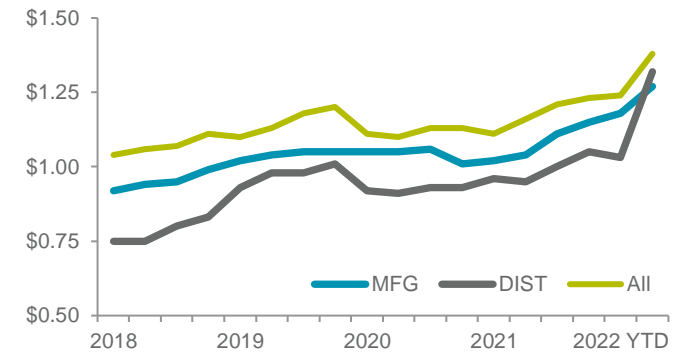
Most of the SPEC development is occurring in Otay Mesa, including 453,000 sf at California Crossings and two remaining buildings at Landmark at Otay for 476,000 sf. The overall pre-leasing rate of current inventory under construction stands at 59.2%, with the remaining SPEC development available for lease. Additionally, there are 34 proposed projects, totaling 5.3 msf, across all product types.

Though the bulk of development is occurring in Otay Mesa, a number of proposed projects elsewhere in the county are expected to break ground over the next year, including 358,000 sf Evolve campus in Carlsbad, 463,000 sf at the El Corazon site in Oceanside and 219,000 sf of potential growth at Otay River Business Park in Chula Vista.

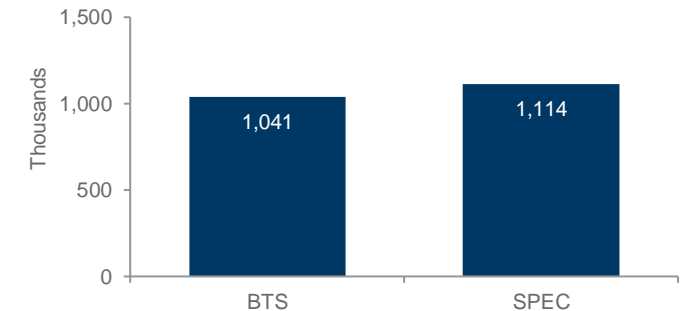
## OUTLOOK

- 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 3.6 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.

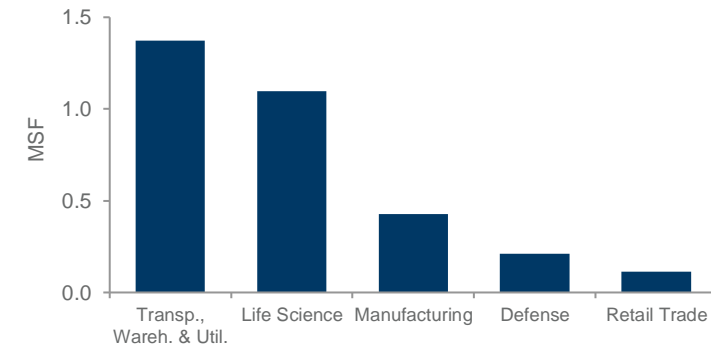
## AVERAGE ASKING RENT \$PSF MONTHLY NNN



## UNDER CONSTRUCTION BY TYPE IN SF



## TENANT DEMAND BY INDUSTRY TYPE – TOP 5



### MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD CONSTR COMPLETIONS (SF)	UNDER CNSTR (SF)	AVERAGE ASKING OVERALL RENT (ALL TYPES)*	AVERAGE ASKING OVERALL RENT (R&D)	AVERAGE ASKING OVERALL RENT (DIST)
North County	53,284,817	29,771	1,153,102	2.2%	207,002	342,098	0	0	\$1.19	\$1.39	\$1.11
Central County	78,076,346	89,374	1,076,084	1.5%	77,856	207,241	0	362,878	\$1.63	\$2.10	\$1.42
South County	35,822,981	69,829	1,141,505	3.4%	53,588	283,135	247,480	1,791,628	\$1.15	\$1.07	\$1.09
R&D	30,415,595	48,063	867,418	3.0%	-160,463	-101,356	0	0	\$1.78		
MFG	83,899,557	74,716	1,470,191	1.8%	215,685	109,946	0	22,164	\$1.32		
W/D	52,868,992	66,195	1,033,082	2.1%	283,224	823,884	247,480	2,132,342	\$1.16		
<b>SAN DIEGO TOTALS</b>	<b>167,184,144</b>	<b>188,974</b>	<b>3,370,691</b>	<b>2.1%</b>	<b>338,446</b>	<b>832,474</b>	<b>247,480</b>	<b>2,154,506</b>	<b>\$1.37</b>		

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

R&D = R&D/Flex, MFG = Manufacturing, W/D = Warehouse/Distribution

### KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
7757 Saint Andrews Ave.	Otay Mesa	Mad Engine	199,359	New
2340 Cousteau Ct.	Carlsbad	Aptera Motors	134,299	New
1695 Continental St.	Otay Mesa	Home Depot	124,233	New
8151 Airway Rd.	Otay Mesa	OnTrac	123,748	New
7130 Miramar Rd.	Miramar	MS International	81,944	Renewal**

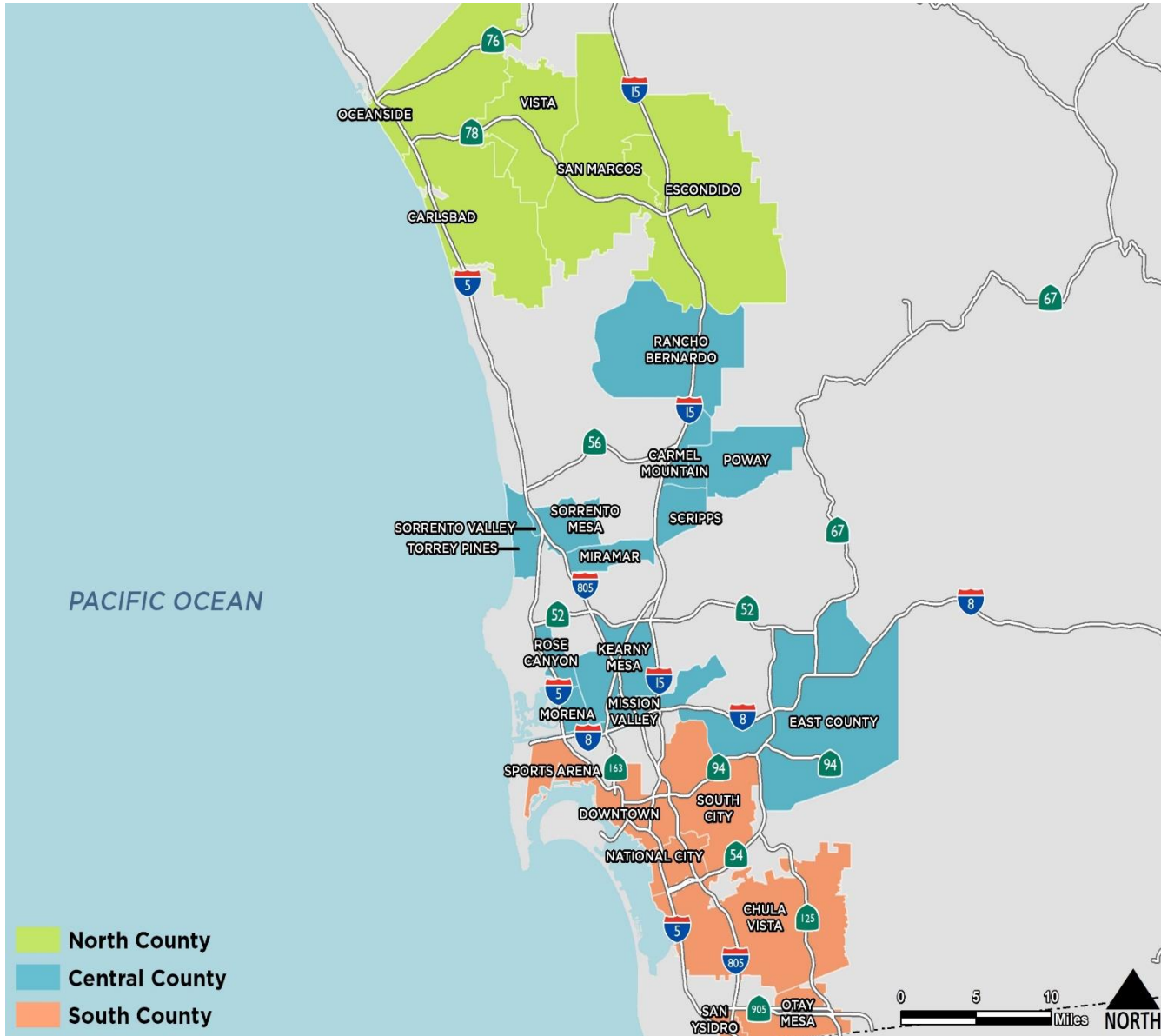
### KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Link Portfolio	Carlsbad, San Marcos, Vista	Link Logistics / BentallGreenOak	614,051	\$205.5M / \$335
Brown Field Tech Park	Otay Mesa	Murphy Development Company / Hines	229,680	\$77.1M / \$336
Environmental Plaza	Sorrento Valley	Hill Properties & Westport Capital / Breakthrough Properties	91,669	\$48.0M / \$524
Siempre Viva Business Park	Otay Mesa	Royal Flavor LLC / Daifen Industrial	66,243	\$18.3M / \$276
9431 Dowdy Dr.	Miramar	Stos Partners & Long Wharf Capital / EverWest Real Estate	55,544	\$17.4M / \$312

### 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



**JUSTIN BALAGTAS**

Senior Research Analyst

Tel: +1 858 625 5245

[justin.balagtas@cushwake.com](mailto:justin.balagtas@cushwake.com)

**JOLANTA CAMPION**

Senior Research Director, Southern California

Tel: +1 858 625 5235

[jolanta.campion@cushwake.com](mailto:jolanta.campion@cushwake.com)

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