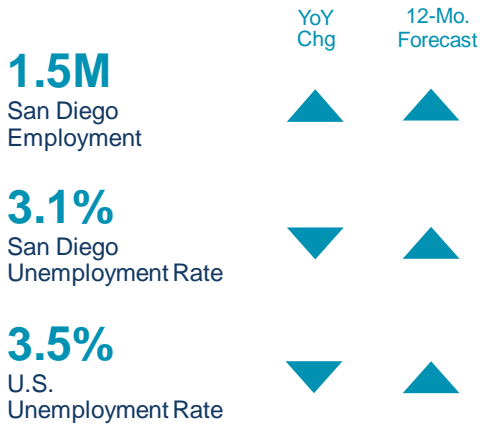


### ECONOMIC INDICATORS Q3 2022



Source: BLS

### ECONOMIC OVERVIEW

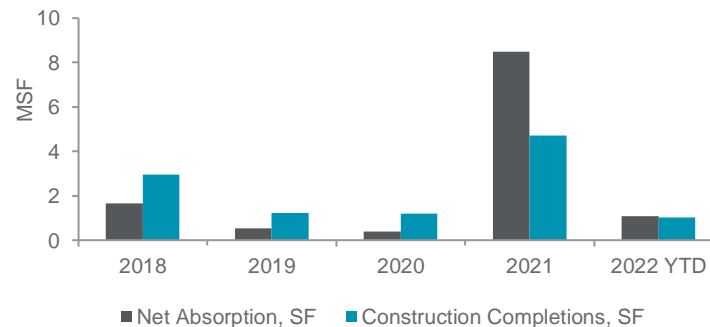
The total nonfarm employment in San Diego grew by 59,600 or +4.1% year-over-year (YOY) between August 2021 through August 2022, with the leisure and hospitality sector accounting for the most significant gains or 25,300 jobs added (+14.1% YOY). During the same time, the monthly unemployment rate decreased from 6.5% last year to 3.4% and is currently 30 basis points (bps) above the quarterly average of 3.1%.<sup>1</sup> All employment sectors are expected to grow at a combined rate of 5.3% (+76,370 jobs) in 2022, while office employment is forecasted to grow by 3.0% (+11,260 jobs) and high-tech employment by 2.9% (+4,140 jobs). The annual unemployment rate is forecasted to decrease from 6.5% in 2021 to 3.6% in 2022 and 3.3% in 2023. San Diego's economy of \$252.1 billion as measured by 2021 gross regional product is forecasted to grow 3.9% in 2022 and 1.9% in 2023.<sup>2</sup>

### SUPPLY AND DEMAND

San Diego's overall industrial vacancy rate, including sublease, increased 30 bps quarter-over-quarter (QOQ) and decreased 40 bps YOY to 2.4% in Q3 2022. Overall occupancy, including sublease, increased by 236,000 square feet (sf) countywide in Q3 2022, marking the ninth consecutive quarter of occupancy gains since the beginning of the COVID-19 pandemic. Occupancy grew the most in South County (+632,469 sf), while tenants returned 243,000 sf to North and 153,300 sf to South counties. Sublease vacancy increased 30 bps QOQ and 10 bps YOY to 0.4%. Tenants absorbed 789,712 sf on a direct basis, excluding sublease, in Q3 2022. Consequently, the direct vacancy rate remained unchanged QOQ and decreased 50 bps YOY to 2.0% in Q3 2022. South County was the primary contributor to direct net absorption (+710,256 sf) largely thanks to the delivery of a 700,000 build-to-suit (BTS) for an e-commerce company. Other notable tenants include Home Depot taking 124,000 sf at Brown Field Technology Park and Hasa expanding into 55,000 sf in East County.

New leasing activity, excluding renewals, totaled 766,300 sf across 56 deals in Q3 2022 compared to 1.7 msf (98 deals) in Q2 2022 and 1.6 msf (120 deals) in Q3 2021. Leasing of manufacturing space accounted for 462,200 sf (60%), followed by warehouse & distribution (W/D) space at 256,400 sf (33%) in Q3 2022. Otay Mesa experienced the largest amount of new leasing activity in Q3 2022 at 161,400 sf (21%), followed by Vista at 155,600 sf (20%) and East County at 118,000 sf (15%). Notable leases include Hasa's renewal and expansion in East County, ShipLabs subleasing Peloton's space in Vista and BAE Systems leasing 67,500 sf in Otay Mesa. On an annual basis, new leasing activity totaled 4.2 million square feet (msf) as of Q3 2022, with Otay Mesa accounting for 1.5 msf leased (35%), followed by Vista at 654,200 sf (15%) and Miramar at 410,400 sf (10%). Leasing of W/D space accounted for 2.2 msf (52%), followed by manufacturing at 1.6 msf (38%).

### SPACE DEMAND / DELIVERIES



### OVERALL VACANCY / ASKING RENT



## PRICING

The countywide average overall asking rent for all product types combined, was \$1.41 per square foot (psf) per month on a triple net basis, up 2.9% QOQ and 15.6% YOY. The average overall rent for R&D space increased by 15.7% YOY to \$1.84 psf, while the average rent for manufacturing space increased by 14.6% to \$1.38 psf YOY.

Across the region, the market is the tightest for manufacturing space with overall vacancy at 2.1% in Q3 2022, 30 bps higher than last quarter at 1.8% and 60 bps lower than a year ago at 2.7%. Vacancy for distribution space now stands at 2.6%, 50 bps higher than last quarter at 2.1% and 20 bps lower than a year ago at 2.8%. Vacancy for R&D space now stands at 3.0%, unchanged from the previous quarter and a year ago. 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 Q3 2022, there are 10 warehouse properties, totaling nearly 1.6 msf currently under construction countywide. Except for a BTS Kearny Logistics Center in Kearny Mesa and a multi-building Heritage Industrial Park project in Chula Vista, development is centered in Otay Mesa with nearly 1.1 msf of ongoing development across six properties. The majority or 80% of inventory is being built as speculative (SPEC), with the remaining 20% as BTS.

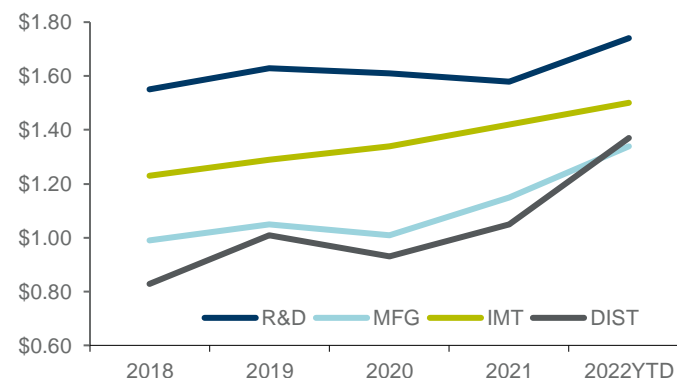
Most of the SPEC development is occurring in Otay Mesa, including two buildings at California Crossings, 453,000 sf, and two remaining buildings at Landmark at Otay, totaling 476,000 sf. The overall pre-leasing rate of current inventory under construction stands at 35.8%, with the remaining SPEC development available for lease.

Additionally, there are 46 proposed projects, totaling 6.7 msf, across all product types. Though the bulk of proposed development or 3.7 msf (56%) is occurring in Otay Mesa, several proposed projects are expected to break ground elsewhere in the county 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.

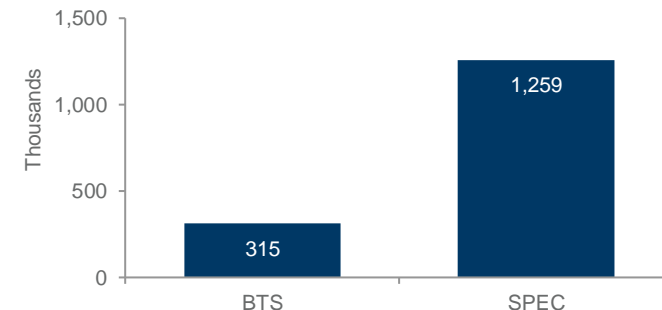
## OUTLOOK

- Tenants continue to review 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 54% of total sf in lease obligations set to expire 12 to 24 months from the end of the quarter.
- Active tenant requirements of all sizes remain robust at over 4.0 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.

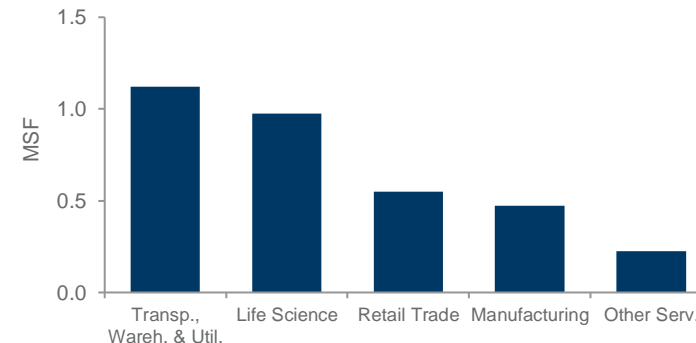
## AVERAGE DIRECT ASKING RENT \$PSF MONTHLY



## UNDER CONSTRUCTION BY TYPE IN SF



## TENANT DEMAND BY INUSTRY 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	53,287,280	303,086	1,101,792	2.6%	-243,268	104,590	0	0	\$1.26	\$1.42	\$1.34
Central County	78,028,939	292,104	1,058,465	1.7%	-153,321	68,608	47,878	315,000	\$1.70	\$2.06	\$1.56
South County	36,556,728	147,616	1,152,996	3.6%	632,469	927,604	981,227	1,259,081	\$1.19	\$1.50	\$1.11
R&D	30,379,482	139,668	767,549	3.0%	-7,239	-108,595	0	0	\$1.84		
MFG	83,864,959	297,442	1,483,685	2.1%	-235,904	-105,510	22,164	0	\$1.38		
W/D	53,628,506	305,696	1,062,019	2.6%	479,023	1,314,907	1,006,941	1,574,081	\$1.22		
<b>SAN DIEGO TOTALS</b>	<b>167,872,947</b>	<b>742,806</b>	<b>3,313,253</b>	<b>2.4%</b>	<b>235,880</b>	<b>1,100,802</b>	<b>1,029,105</b>	<b>1,574,081</b>	<b>\$1.41</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 Q3 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
10605 Jamacha Blvd.	East County	Hasa	102,250	Renewal** & Expansion
2020 Piper Ranch Rd.	Otay Mesa	Atlas Freight Forwarding	99,840	Renewal
3055 Enterprise Ct.	Vista	ShipLab	86,465	Sublease
2001-2055 Sanyo Ave.	Otay Mesa	BAE Systems	67,500	New
2811 La Mirada Dr.	Vista	Leidos	41,472	New

KEY SALES TRANSACTIONS Q3 2022

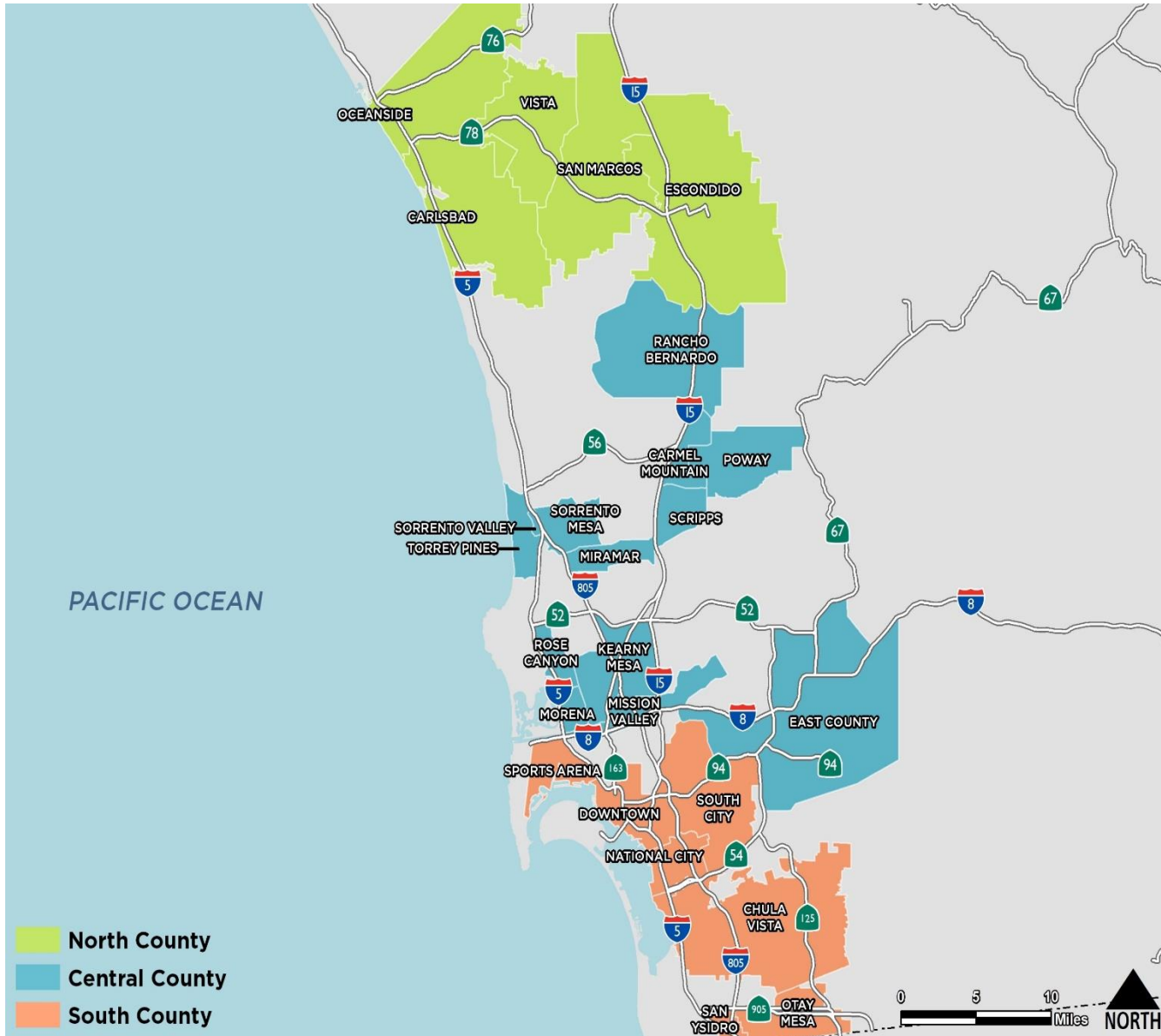
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
1395 Park Center Dr.	Vista	Oxford Properties Group / DWS Group	155,069	\$43.7M / \$282
7615 Siempre Viva Rd.	Otay Mesa	Lincoln Property Company / Dalfen Industrial	86,680	\$24.9M / \$287
7666 Formula Pl.	Miramar	JLNI LLC / First Industrial Realty Trust	29,945	\$10.5M / \$351
8710 Avenida de la Fuente	Otay Mesa	Las Troyanas LLC / Realterm US	23,634	\$9.8M / \$413
7081 Consolidated Way	Miramar	7081 Consolidated Way LLC / JLCR Family Trust	22,750	\$7.3M / \$319

KEY PROJECTS UNDER CONSTRUCTION 2022 YTD

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER
Landmark at Otay	Otay Mesa	N/A	476,060	Majestic Realty / Sunroad Enterprises
California Crossings	Otay Mesa	Undisclosed e-commerce	453,330	Sudberry Properties
Kearny Logistics Center	Kearny Mesa	Undisclosed e-commerce	315,000	Lincoln Property Company
Heritage Industrial Park	Chula Vista	N/A	201,200	Rockefeller Group



INDUSTRIAL SUBMARKETS



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