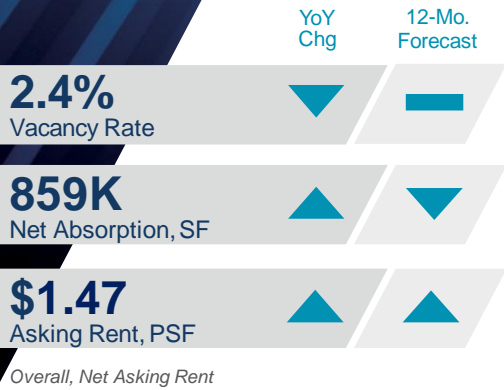
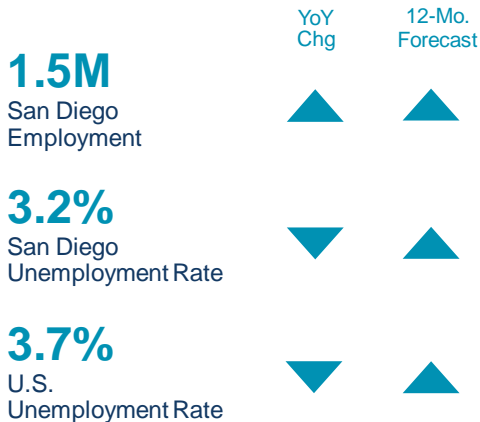


Industrial Q4 2022



ECONOMIC INDICATORS Q4 2022



Source: BLS

ECONOMIC OVERVIEW

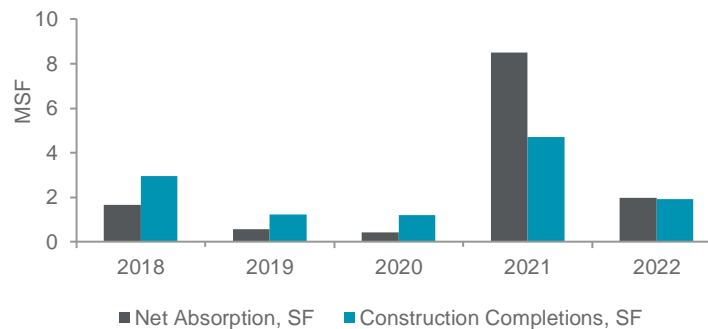
Total nonfarm employment in San Diego grew by 48,400 or +3.2% year-over-year (YOY) between November 2021 through November 2022. The leisure and hospitality sector accounting for the most significant gains or 19,900 jobs added (+10.9% YOY), followed by professional and business services adding 12,700 jobs (+4.6% YOY). Employment sectors driving demand for industrial space, such as the transportation and warehousing sector, recorded losses of 2,200 jobs (-6.3% YOY), followed by the manufacturing sector shedding 1,500 jobs (-1.3% YOY). The wholesale trade sector added 1,400 jobs, growing 3.3% YOY. During the same time, the monthly unemployment rate decreased from 4.5% last year to 3.3% and is currently 10 basis points (bps) above the quarterly average of 3.2%.¹ The nearly 250,000 jobs lost between March and April 2020 have been fully recovered as of November 2022. It is welcome news for the region's labor market, but the pace at which employment has recently climbed is likely to be relatively muted in the year ahead. All employment sectors are expected to grow at a combined rate of 0.8% (+12,340 jobs) in 2023, while the annual unemployment rate is forecasted to decrease from 3.6% in 2022 and 3.5% in 2023. San Diego's economy of \$260.0 billion as measured by 2022 gross regional product is forecasted to grow 1.2% in 2023.²

SUPPLY AND DEMAND

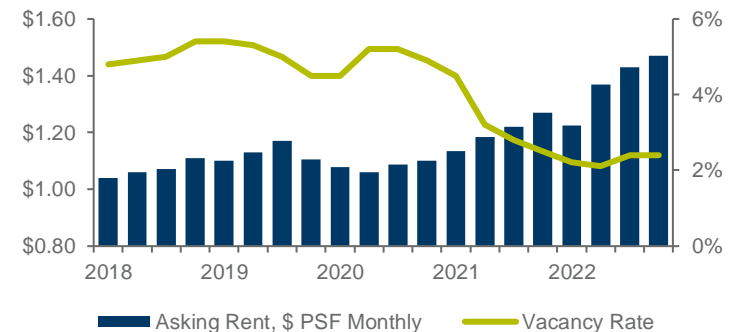
San Diego's overall industrial vacancy rate remained unchanged quarter-over-quarter (QOQ) and decreased 10 bps YOY to 2.4% in Q4 2022. Overall occupancy increased by 858,678 square feet (sf) countywide in Q4 2022, marking the 10th consecutive quarter of occupancy gains since the beginning of the COVID-19 pandemic. Occupancy grew the most in South County (+654,566 sf), while tenants absorbed 342,575 sf in Central County but returned 138,463 sf to North County. Sublease vacancy increased 10 bps QOQ and 40 bps YOY to 0.6%. On a direct basis, tenants absorbed 1.1 million square feet (msf) during Q4 2022. Consequently, the direct vacancy rate dipped 10 bps QOQ and decreased 50 bps YOY to 1.8%. The deliveries of buildings for e-commerce distributors in Central and South counties were the primary drivers of absorption, as well as occupancies from large tenants like PIRCH and RF Industries.

New leasing activity, excluding renewals, totaled 989,400 sf across 34 deals in Q4 2022 compared to 1.1 msf (70 deals) in Q3 2022 and 1.7 msf (83 deals) in Q4 2021. Leasing of manufacturing space accounted for 450,900 sf (46%), followed by warehouse & distribution (W/D) space at 321,700 sf (33%). Demand was strongest in Oceanside with 225,100 sf of leases signed (26%) in Q4 2022, followed by East County at 130,223 sf (13%) and Vista at 112,451 sf (11%). On an annual basis, new leasing activity totaled 5.5 msf at year-end, with Otay Mesa accounting for 1.8 msf leased (32%), followed by Vista at 793,300 (14%) and Miramar at 491,000 sf (9%). Distribution companies accounted for the largest share (47% or 2.6 msf) of new leasing in 2022, followed by manufacturing (39% or 2.2 msf), retail and life sciences. Deals over 100,000 sf represented the largest share of new leasing,

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



accounting for 32% of total leasing followed by deals ranging between 50,000 and 100,000 sf (23%) and deals ranging between 20,000 sf and 50,000 sf (22%).

PRICING

The countywide average overall asking rent for all product types combined, was \$1.47 per square foot (psf) per month on a triple net basis, up 3.2% QOQ and 16.1% YOY. The average overall rent for R&D space increased by 9.0% YOY to \$1.82 psf, while the average rent for manufacturing space increased by 16.1% to \$1.44 psf YOY. Warehouse and distribution space continued to reach record peak rents rising 25.7% to \$1.27 psf from one year ago.

Across the region, the market is the tightest for manufacturing space with overall vacancy at 1.9% in Q4 2022, 20 bps lower than last quarter and 80 bps lower than one year prior. Vacancy for distribution space now stands at 2.6%, 50 bps higher than last quarter and 20 bps lower than one year ago. Vacancy for R&D space ended Q4 at 2.7%, up from 2.5% last quarter but down from 2.8% in Q4 2021. Overall vacancy rates are notably lower for all product types compared to pre-pandemic levels of 2020. Tenant demand continued 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

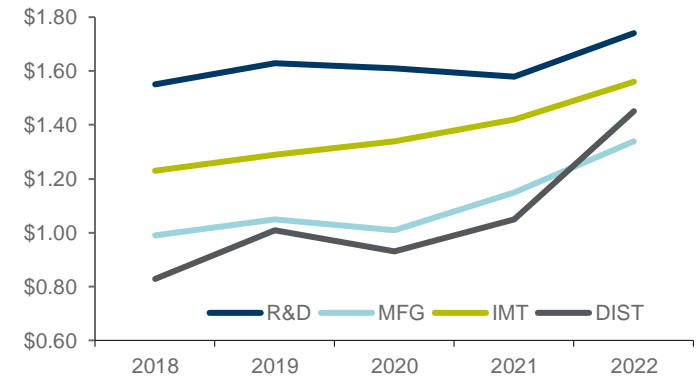
As of Q4 2022, there are five warehouse properties, totaling nearly 677,260 sf currently under construction countywide. These five buildings are split between three buildings at Heritage Industrial Park in Chula Vista and two buildings at Landmark at Otay in Otay Mesa. All of these projects are speculative with no pre-leasing as of the end of the year. Though construction is currently limited, multiple significant projects delivered this quarter including California Crossings in Otay Mesa and Kearny Logistics Center in Kearny Mesa.

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 concentrated 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 and 219,000 sf of potential growth at Otay River Business Park in Chula Vista.

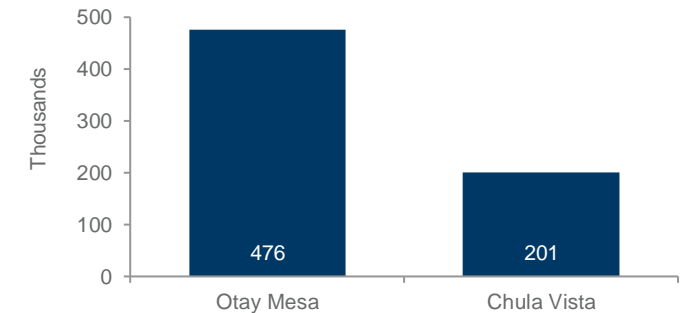
OUTLOOK

- Tenants continue to review their real estate footprint based on work-from-home policies as well as assess both short and long-term needs working through and after the pandemic. Leasing within the 10,000 to 50,000 sf range will likely be the main driver of activity going forward, accounting for 49% of total sf in lease obligations set to expire 12 to 24 months-
- Active tenant requirements of all sizes remain robust at over 3.3msf 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 for leasing activity in quarters to follow.

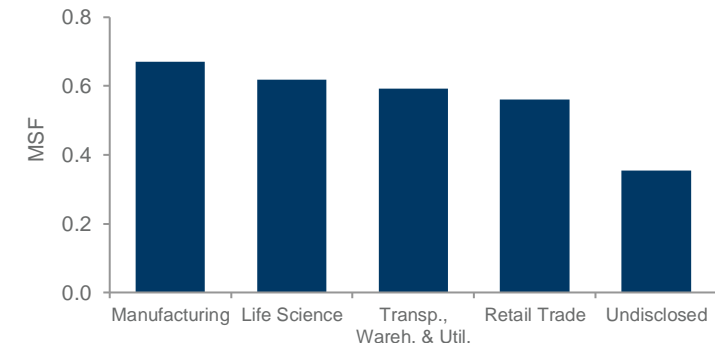
AVERAGE DIRECT ASKING RENT \$PSF MONTHLY



UNDER CONSTRUCTION BY SUBMARKET IN SF



TENANT DEMAND BY INDUSTRY TYPE – TOP 5



MARKETBEAT SAN DIEGO



Industrial Q4 2022

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS (SF)	AVERAGE ASKING OVERALL RENT (ALL TYPES)*	AVERAGE ASKING OVERALL RENT (MFG)	AVERAGE ASKING OVERALL RENT (W/D)	AVERAGE ASKING OVERALL RENT (R&D)
North County	53,276,432	1,535,298	2.9%	-138,463	-26,224	0	0	\$1.35	\$1.29	\$1.38	\$1.45
Central County	78,359,453	1,322,994	1.7%	342,575	411,183	0	362,878	\$1.78	\$1.66	\$1.47	\$2.01
South County	37,149,549	1,227,867	3.3%	654,566	1,582,170	677,260	1,563,048	\$1.21	\$1.45	\$1.13	N/A
R&D	30,415,287	984,983	3.2%	-81,666	-186,361	0	0	\$1.82			
MFG	83,833,958	1,630,360	1.9%	146,624	44,863	0	22,164	\$1.44			
W/D	54,536,189	1,470,816	2.7%	793,720	2,108,627	677,260	1,903,762	\$1.27			
SAN DIEGO TOTALS	168,785,434	4,086,159	2.4%	858,678	1,967,129	677,260	1,925,926	\$1.47	\$1.44	\$1.27	\$1.82

*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 Q4 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
7255 Otay Mesa Rd.	Otay Mesa	PCI Pharma Services	105,457	New
1445 Engineer St.	Vista	PIRCH	93,662	New
10926 W. Woodside Ave.	East County	CAPS Pharmaceuticals	91,923	New
13950 Stowe Dr.	Poway	General Atomics	71,671	Renewal
7130 Miramar Rd.	Miramar	Northrop Grumman	59,317	Expansion

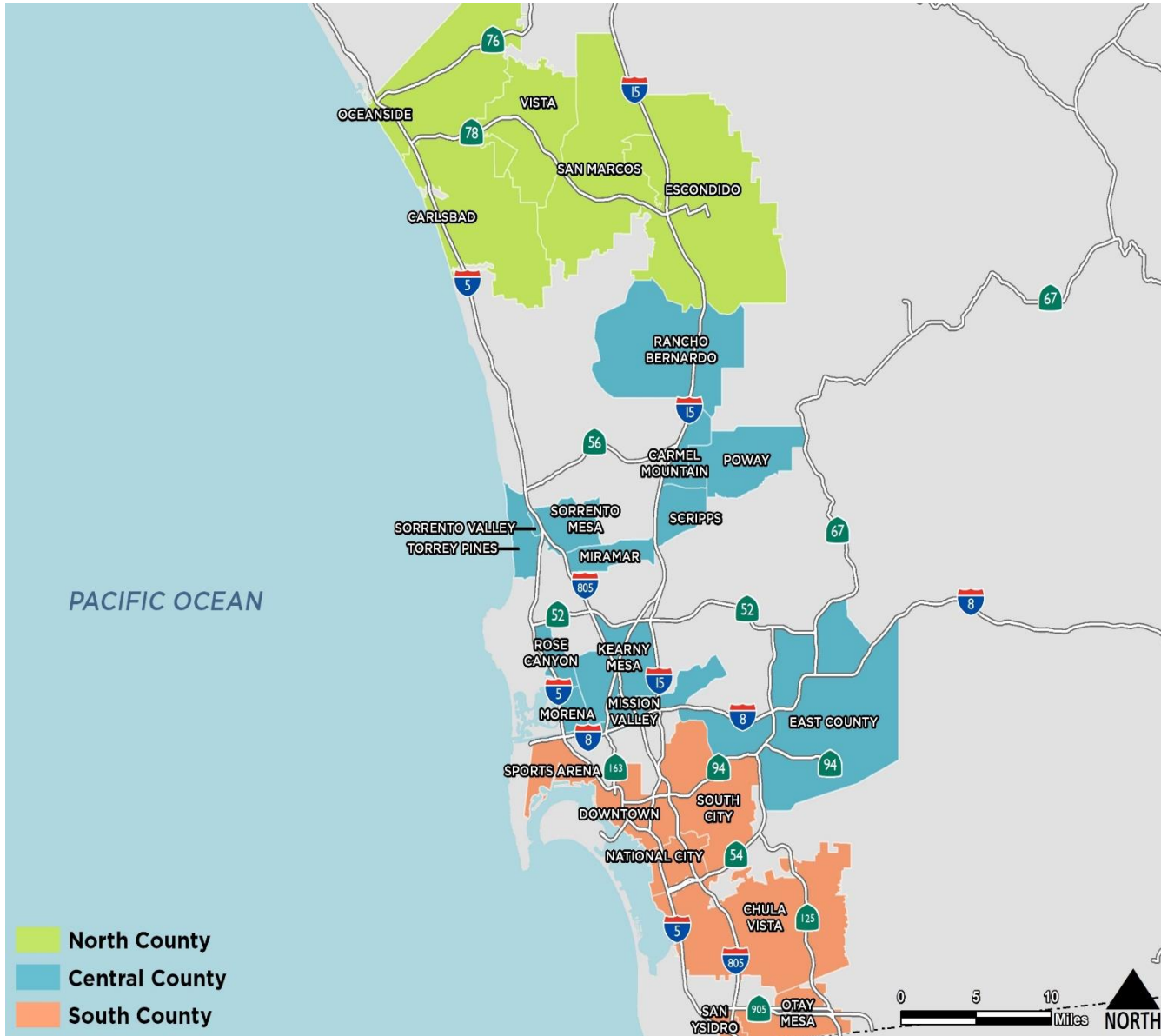
KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
8870 Liquid Ct.	Miramar	Martin Brower Global / LBA Realty	204,851	\$64.3M / \$314
5959 Santa Fe St.	Rose Canyon	Anheuser-Busch / LBA Realty	131,299	\$46.3M / \$353
13100 Danielson St.	Poway	Spectrum Investments / New York Life & Lincoln Property Company	129,910	\$35.1M / \$270
2425 Auto Park Way	Escondido	Sound Image / Stos Partners	88,690	\$20.0M / 226
15822 Bernardo Center Dr.	Rancho Bernardo	SENTRÉ, Inc. / Cush Enterprises	64,019	\$27.4M / \$429

KEY CONSTRUCTION COMPLETIONS 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER
7144 Otay Mesa Rd.	Otay Mesa	Undisclosed e-commerce	700,000	IDS Real Estate Group
California Crossings	Otay Mesa	Undisclosed e-commerce	453,330	Sudberry Properties
Kearny Logistics Center	Kearny Mesa	Undisclosed e-commerce	315,000	Lincoln Property Company
Airway Logistics Center	Otay Mesa	OnTrac	247,480	Badiee Development

INDUSTRIAL SUBMARKETS



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