

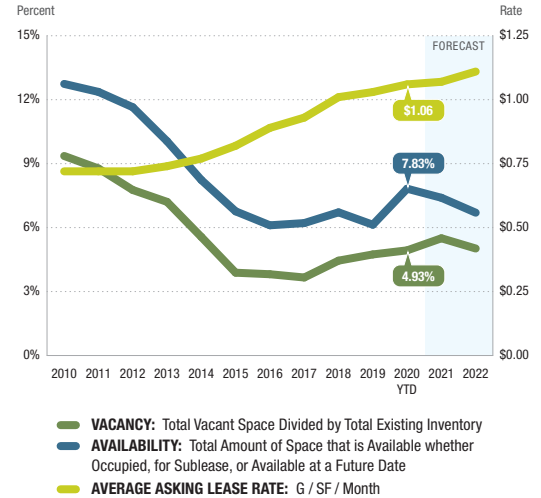
OVERVIEW. The 3Q was an improvement from the dismal 2Q, with some delayed 2Q activity coming to fruition this past quarter. Leasing activity increased, and there was significant positive absorption pushing the county's vacancy rate back below 5%, following one quarter above that mark. There was one trend in the market that took over the 3Q — everywhere you looked the explosive growth of Amazon was evident in the San Diego industrial market. Amazon drove the largest properties under construction in the 3Q, the largest new buildings completed and occupied in 3Q, and the largest new leases signed in 3Q. Amazon is active in all areas of the county in 2020; from Rose Canyon, to Otay Mesa, to Poway, to Vista, and areas in between. The socially distant nature of 2020 has accelerated many societal changes, and the growth of e-commerce is currently in warp speed.

VACANCY & AVAILABILITY. Direct / sublease space (unoccupied) finished 3Q 2020 at 4.93%, a decrease of 15 basis points from the previous quarter's vacancy rate of 5.08%. The I-15 Corridor now sits below 2% vacancy thanks in large part to the more than 0.5 MSF that Amazon took possession of here in 3Q. The North County and South County areas have overall vacancy rates above 6%, while Central County and East County have an overall vacancy rate below 4%. The countywide vacancy rate has increased 10.4% versus this time last year, and the countywide availability rate has increased 21.3% year-over-year. The availability rate includes space which is being marketed for lease which is not currently ready for new occupiers. There are currently 1.4 MSF under construction outside of the Amazon build-to-suit in Otay Mesa. These other developments under construction have seen almost no preleasing to speak of thus far which is the primary cause of the widening gap between vacancy and availability rates.

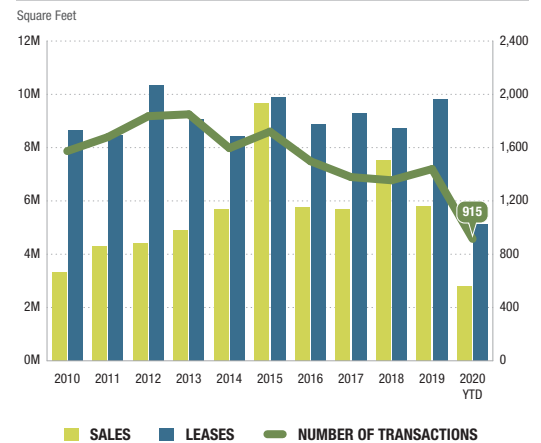
LEASE RATES. The average asking lease rate checked in at \$1.06 PSF per month, which is an increase of \$0.01 PSF over the previous quarter. Compared with 3Q last year, we see a 1.9% annual increase. The last five calendar years have had an average annual asking rental rate increase of 6.5%, so the increase over the last twelve months has been somewhat tame in comparison. On the other hand, considering that we have experienced a recession unlike any other in modern times, a 2% annual increase points towards strength in the industrial market.

TRANSACTION ACTIVITY. The total space leased and sold in 3Q was approximately 2.8 MSF, an increase from the 2.5 MSF of transactions in 2Q, but a sharp decrease from the 5.2 MSF of transactions in 3Q 2019. The number of lease transactions in 3Q was the highest quarterly total since 3Q 2019. This is at least partially the byproduct of pent up demand from 2Q which had an incredibly depressed level of transaction volume stemming from the uncertainty in the early months of the COVID-19 lockdowns. The usual suspect, Amazon, was the tenant in the largest lease of the quarter. Amazon took the entire 142,000 SF building at 16915 Via Del Campo, which was the first new speculative industrial building constructed in Rancho Bernardo in a decade. Sales volume in the 3Q likewise rebounded with more than 1 MSF of industrial

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	3Q 2020	2Q 2020	3Q 2019	% Change Over Last Year
Vacancy Rate	▼ DOWN	4.93%	5.08%	4.47%	10.39%
Availability Rate	▲ UP	7.83%	7.20%	6.45%	21.27%
Average Asking Lease Rate	▲ UP	\$1.06	\$1.05	\$1.04	1.92%
Sale & Lease Transactions	▲ UP	2,817,043	2,469,459	5,178,896	-45.61%
Gross Absorption	▲ UP	2,285,078	1,158,979	2,028,585	12.64%
Net Absorption	▲ POSITIVE	808,511	-371,813	420,753	N/A

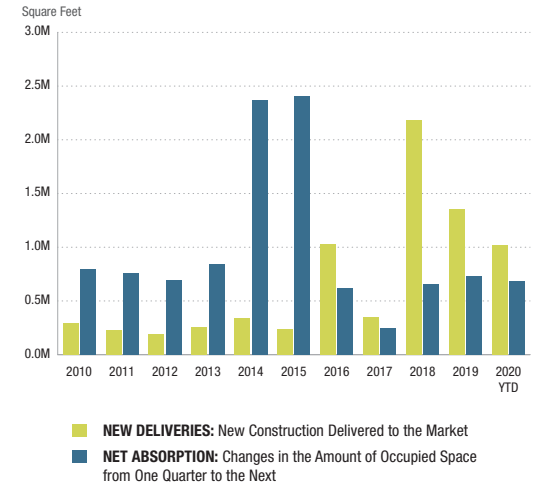
buildings sold, more than doubling the tally from 2Q. The largest industrial building sold in the quarter was 395 Bay Boulevard in Chula Vista. Earlier in 2020 this building was vacated by Collins/UTC Aerospace due to a long-planned consolidation. This vacated building accounts for the largest source of negative net absorption in San Diego County for 2020.

ABSORPTION. There was 808,511 SF of positive net absorption in 3Q, moving the San Diego industrial market back into the black for the year. Interestingly, the growth in the tenant base has been geographically limited. Through the first three quarters of the year, the Central, East, and South County areas have all seen negative net absorption, while the North County and I-15 Corridor have posted positive net absorption. The I-15 Corridor alone has posted more than 1 MSF of positive net absorption this year. The lion's share of that has come from two Amazon leases: 534,000 SF in Poway, and 142,000 SF in Rancho Bernardo. The San Diego industrial market has not seen a calendar year of negative net absorption since 2009.

CONSTRUCTION. More than 1 MSF of new industrial projects were delivered through the first three quarters of 2020, which is now the fourth year out of the past five with more than 1 MSF of new construction completed. This is in contrast to the 360,000 per year of new construction which was the annual average from 2008 through 2015. Astoundingly, there were more than 4 MSF of industrial buildings under construction at the end of the 3Q. The San Diego industrial market has not seen more than 3 MSF of industrial buildings under construction since 1999. Nearly all of the product currently under construction is in Otay Mesa, including a 4-story multi-million square foot building under construction for Amazon which will be, by far, the largest industrial building in San Diego County.

EMPLOYMENT. The unemployment rate in San Diego County was 9.9% in August 2020, down from a revised 12.4% in July 2020, and substantially greater than the year-ago estimate of 3.4%. This compares with an unadjusted unemployment rate of 11.6% for California and 8.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 20,500 jobs between July 2020 and August 2020. With the normal delay in reporting from the California EDD, employment figures from September were unavailable at the time of publishing this report. In September, the employment data for the United States as a whole came in with 661,000 jobs added which was the fifth straight month of net job gains.

NEW DELIVERIES & NET ABSORPTION



Forecast

The road forward heavily depends on factors outside of traditional free market considerations, including COVID-19 vaccine development, state and local government restrictions on business operations, and economic stimulus actions. Based upon the current conditions and outlook, we anticipate a decrease in net effective rental rates as concessions will increase in the current diminished transaction-volume environment. At present, these movements are anticipated to be moderate on average, and will fluctuate significantly based upon the specific submarket within the county. The fourth quarter looks to be another period of below typical sales and leasing volume, but occupancy levels will remain high leading nominal rental rates to remain relatively stable for the county overall.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
10054 Old Grove Rd.	Scripps Ranch	85,824	\$22,714,500	Padma Laxmi, LLC	CapRock Partners
6060 Business Center Ct.	Otay Mesa	134,776	\$20,215,000	Cabot Properties	TREPCO West Company
395 Bay Blvd.	Chula Vista	300,000	\$19,163,000	Wohl Properties	Rohr
491 C St.	Chula Vista	112,000	\$17,000,000	Lincoln Property Company	GES
1111 Pioneer Way	El Cajon	110,663	\$16,250,000	Elion Partners	1111 Pioneer Partners, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
16915 Via Del Campo	Rancho Bernardo	141,518	Jul-2020	Amazon	The Silverstone Company, LP
8863 Siempre Viva Rd.*	Otay Mesa	112,430	Jul-2020	Bose Corporation*	IDS
2065 Sanyo Ave.	Otay Mesa	111,491	Aug-2020	Hillebrand	Murphy Development Company
10015 Waples Ct.	Sorrento Mesa	106,412	Sep-2020	Quidel Corp.	Rexford Industrial Realty
1322 Rocky Point Dr.	Oceanside	67,913	Sep-2020	Pirch	EastGroup Properties

* Voit Real Estate Services Deal

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2020	Square Feet Available	Availability Rate 3Q2020	Average Asking Lease Rate	Net Absorption 3Q2020	Net Absorption 2020	Gross Absorption 3Q2020	Gross Absorption 2020
Central County													
Central City	92	1,482,787	0	0	12,000	0.81%	15,353	1.04%	\$1.75	5,000	10,815	5,000	20,753
East City	61	966,584	0	0	0	0.00%	12,600	1.30%	-	0	0	0	0
Southeast City	368	4,308,658	0	0	88,558	2.06%	213,607	4.96%	\$1.14	43,180	45,486	57,132	118,304
Kearny Mesa	427	9,882,756	0	344,000	298,012	3.02%	430,822	4.36%	\$1.48	(29,499)	(71,228)	47,565	148,611
Mission Gorge	110	1,755,948	0	0	99,323	5.66%	117,827	6.71%	\$1.46	(11,639)	(68,936)	13,585	47,417
Rose Canyon / Morena	130	2,204,612	0	0	151,643	6.88%	172,072	7.81%	\$1.06	(53,170)	(147,781)	11,295	16,095
Sports Arena / Airport	140	1,606,074	0	0	39,900	2.48%	63,900	3.98%	\$1.23	38,540	(21,030)	50,840	52,840
Miramar	585	13,345,619	0	615,000	515,738	3.86%	748,722	5.61%	\$1.25	(81,351)	(122,322)	176,119	483,309
Sorrento Mesa	71	3,404,529	0	0	176,274	5.18%	57,122	1.68%	\$1.51	76,131	35,511	99,516	123,815
Sorrento Valley	42	1,023,206	0	451,832	45,424	4.44%	63,071	6.16%	\$1.45	(13,548)	(32,006)	3,911	17,329
Central County Total	2,026	39,980,773	0	1,410,832	1,426,872	3.57%	1,895,096	4.74%	\$1.30	(26,356)	(371,491)	464,963	1,028,473
East County													
El Cajon	449	9,141,178	0	0	355,502	3.89%	536,528	5.87%	\$1.04	(112,646)	(186,966)	45,810	172,243
La Mesa / Spring Valley	313	2,648,689	0	50,000	87,705	3.31%	101,095	3.82%	\$1.00	84,166	130,727	94,106	181,530
Santee / Lakeside	279	3,639,376	68,982	155,272	134,719	3.70%	221,474	6.09%	\$1.06	(2,235)	(17,115)	16,898	24,134
Rural East County	78	806,791	0	0	10,220	1.27%	10,220	1.27%	\$0.60	(1,990)	(10,220)	3,110	6,110
East County Total	1,119	16,236,034	68,982	205,272	588,146	3.62%	869,317	5.35%	\$1.03	(32,705)	(83,574)	159,924	384,017
North County													
Escondido	633	7,558,717	0	0	234,240	3.10%	327,271	4.33%	\$1.06	(14,482)	(10,370)	49,585	198,352
Oceanside	403	9,331,619	0	0	316,990	3.40%	678,314	7.27%	\$0.98	75,239	62,350	158,930	298,952
San Marcos	478	8,022,705	9,000	44,000	794,904	9.91%	830,482	10.35%	\$1.00	140,309	(94,414)	215,039	390,993
Vista	530	13,057,707	0	60,165	1,044,986	8.00%	1,658,414	12.70%	\$0.95	6,711	111,424	232,527	593,841
Carlsbad	232	8,886,222	0	0	830,178	9.34%	1,028,708	11.58%	\$1.14	53,793	325,418	103,524	490,311
North Beach Cities	42	257,017	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Rural North County	111	971,018	0	3,754	12,453	1.28%	13,953	1.44%	\$0.95	4,594	6,556	6,094	12,530
North County Total	2,429	48,085,005	9,000	107,919	3,233,751	6.73%	4,537,142	9.44%	\$1.02	266,164	400,964	765,699	1,984,979
I-15 Corridor													
Poway	187	7,881,180	0	0	123,461	1.57%	189,468	2.40%	\$1.08	499,610	570,041	556,453	691,375
Rancho Bernardo	43	3,268,355	0	0	27,534	0.84%	292,943	8.96%	\$1.36	0	357,441	0	272,107
Scripps Ranch	28	710,436	0	0	8,133	1.14%	26,738	3.76%	\$1.23	79,611	77,691	89,019	89,019
I-15 Corridor Total	258	11,859,971	0	0	159,128	1.34%	509,149	4.29%	\$1.26	579,221	1,005,173	645,472	1,052,501
South County													
Chula Vista	323	8,621,213	95,500	67,500	510,415	5.92%	830,362	9.63%	\$0.96	71,288	(231,570)	101,999	306,760
National City	254	3,712,064	0	25,000	32,157	0.87%	55,139	1.49%	\$1.32	10,466	(3,300)	18,743	44,511
Otay Mesa	340	16,336,588	4,602,157	1,176,038	1,250,008	7.65%	2,732,500	16.73%	\$0.79	(62,627)	(40,609)	120,918	695,685
South San Diego	63	1,343,919	0	24,121	11,284	0.84%	10,284	0.77%	\$1.13	3,060	8,040	7,360	37,370
South County Total	980	30,013,784	4,697,657	1,292,659	1,803,864	6.01%	3,628,285	12.09%	\$0.85	22,187	(267,439)	249,020	1,084,326
San Diego County Total	6,812	146,175,567	4,775,639	3,016,682	7,211,761	4.93%	11,438,989	7.83%	\$1.06	808,511	683,633	2,285,078	5,534,296
0-9,999	3,074	15,636,659	9,000	7,804	381,472	2.44%	536,392	3.43%	\$1.24	(8,235)	(17,252)	171,324	436,775
10,000-19,999	1,780	25,183,568	0	0	837,022	3.32%	1,393,269	5.53%	\$1.21	(50,640)	(94,858)	274,126	811,045
20,000-34,999	980	25,178,660	51,591	169,085	927,913	3.69%	1,587,011	6.30%	\$1.10	(15,908)	(179,485)	281,271	797,218
35,000-49,999	359	14,801,639	133,851	124,000	680,976	4.60%	967,579	6.54%	\$1.07	(8,020)	(50,104)	185,726	497,279
50,000-99,999	391	26,873,581	52,000	542,008	1,106,800	4.12%	1,800,574	6.70%	\$0.98	305,170	504,855	500,327	1,183,222
100,000 Plus	228	38,501,460	4,529,197	2,173,785	3,277,578	8.51%	5,154,164	13.39%	\$0.96	586,144	520,477	872,304	1,808,757
San Diego County Total	6,812	146,175,567	4,775,639	3,016,682	7,211,761	4.93%	11,438,989	7.83%	\$1.06	808,511	683,633	2,285,078	5,534,296

Lease rates are on an industrial-gross basis.



Standing Steady

by **Brian Mulvaney, CCIM, SIOR**

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Through the third quarter of 2020, industrial real estate remains the one pillar of stability when it comes to the major regional sectors of commercial real estate. Despite the economic shock that has reverberated around the U.S. since March, and the tremendous loss of jobs, there is not a single submarket in San Diego County with a double-digit vacancy rate. The county overall had a vacancy rate north of ten percent as recently as 2013, and yet it sits currently under five percent (4.93%) even with the wave of recent construction that has delivered over the past five years.

Among the larger industrial and Flex/R&D buildings, two sectors have really been doing the heavy lifting when it comes to the growth in the tenant base we have seen in 2020. Everyone knows of the rise of e-commerce, vis-à-vis Amazon and other third-party logistics companies, but also the life sciences and biotechnology sectors are going gangbusters. For larger industrial requirements, the current pool of active tenants shrinks significantly beyond those sectors. Talking about the growth of Amazon has become the broken record that we keep hearing quarter after quarter, but they are leasing hundreds of thousands of square feet, all while a multi-million square foot new development for them in Otay Mesa is underway.

The e-commerce growth speaks to the key position that industrial real estate currently holds. Many office tenants can telecommute, drawing down the current demand for office space. Many retailers have been restricted or hampered by the public nature of their business. Companies that operate in industrial and R&D properties tend to be less conducive to telecommuting, while most do not have the restrictions and risks that come along with businesses that are open to the general public.

On the multi-tenant business park side of things there has been an increase in availability. However, in many areas this has provided an opportunity for tenants to have more options in contrast to this time last year when some areas of the county had vacancy rates under 2% or 3%. Rental rates are not pulling back yet. It should be noted that concessions and negotiations are softening up throughout the county.

Industrial and R&D real estate has felt some effects from the COVID-19 shutdowns, but overall things have remained more stable than the other sectors. Hopefully, we may have seen the worst of it already from an industrial and R&D property perspective.

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Product Type

MFG./DIST.

Manufacturing / Distribution / Warehouse facilities with up to 49.9% office space.

Submarkets

CENTRAL COUNTY

Central City, East City, Southeast City, Kearny Mesa, Mission Gorge, Rose Canyon / Morena, Sports Arena / Airport, Miramar, Sorrento Mesa, Sorrento Valley

EAST COUNTY

El Cajon, La Mesa / Spring Valley, Santee / Lakeside, Rural East County

NORTH COUNTY

Escondido, Oceanside, San Marcos, Vista, Carlsbad, North Beach Cities, Rural North County

I-15 CORRIDOR

Poway, Rancho Bernardo, Scripps Ranch

SOUTH BAY

Chula Vista, National City, Otay Mesa, South San Diego