

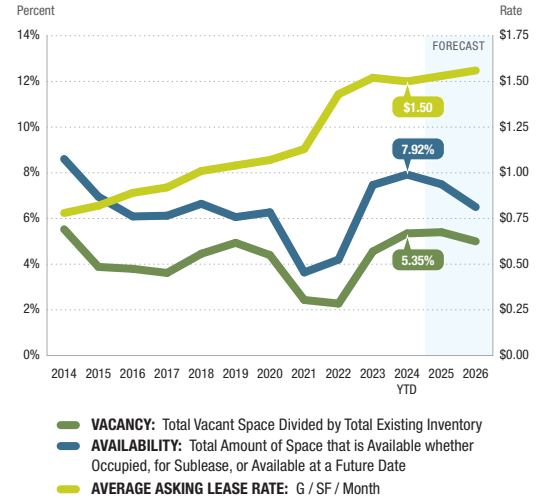
OVERVIEW. A reduced level of leasing and sales volume in the San Diego industrial market continued in the first quarter of the year. Construction activity is still strong, and for the first time in a few years, it is significantly spreading to areas other than Otay Mesa. There was negative net absorption in the first quarter of the year which moved the vacancy rate up, and asking rental rates decreased.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q1 at 5.35%, an increase of 79 basis points from the previous quarter's vacancy rate of 4.56%, and a massive spike of 2.75 basis points compared to Q1 2023's rate of 2.60%. In 2010, during the "Great Recession," the overall vacancy rate for the county peaked at 9.7%. At the end of Q1 2024, every submarket other than South County had a vacancy rate of 5% or less. Available space being marketed (regardless of occupancy status) was 7.92% of the county's inventory at the end of Q1. South County had a 13% availability rate at the end of Q1, followed by the North County area which had an availability rate of 7%.

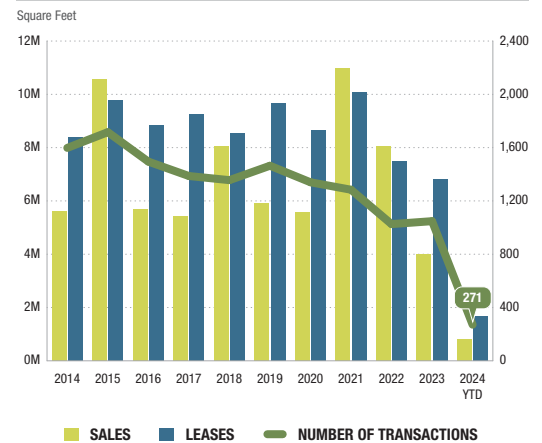
LEASE RATES. The average asking lease rate checked in at \$1.50 per square foot per month, which is a decrease of \$0.02 per square foot from the previous quarter. Compared with Q1 2023, we see a modest 2% annual increase. Over the past three years, asking rental rates have increased by an average of 8% per year. The San Diego industrial market has seen asking rental rates march ever higher since Q1 2013, but the decrease in asking rental rates in Q1 2024 might portend a pause in that long-term trend. The bull market in rent growth is over, at least for the short term, as increasing vacancy and slower transaction velocity have combined to curtail rental rate growth. The aggregate balance of negotiating leverage across the county has moved from heavily favoring landlords to a more balanced state. Of course, this varies depending on the submarket and building characteristics. Despite the slowing growth of starting rates, it is common to see landlords insist on fixed annual rent increases of 4%, rather than the 3% increases which had been standard for many years.

TRANSACTION ACTIVITY. There were 220 lease transactions recorded in Q1. This lines up exactly with the average of 220 leases recorded per quarter since the beginning of 2021, while the preceding five years had a quarterly average of 295 lease transactions. The top three leases in Q1 were all in Otay Mesa, which has the largest selection in the county of large blocks of available space. On the sales side, 2023 marked the first year since 2017 without a sales volume of a billion dollars. Q1 2024 continued that same pace, with less than a quarter billion dollars of industrial buildings trading hands. Interest rates remain elevated, and this has dampened activity levels in the sales market, especially on the investment side. While sales volume is down, sales pricing remains high. The median price for industrial sales in Q1 was \$320 per square foot, a record high. This figure is highly influenced by the composition of properties which trade, and three of the top five sales in Q1 were in the Central County. Overall, sales pricing in San Diego has cooled, but it certainly remains elevated by historical standards.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

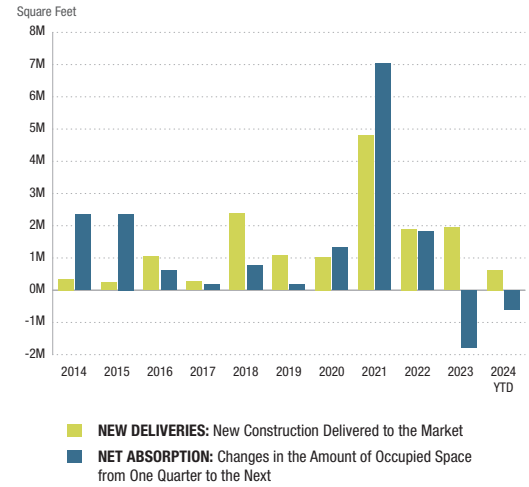
| | Change Over Last Quarter | Q1 2024 | Q4 2023 | Q1 2023 | % Change Over Last Year |
|---------------------------|--------------------------|-----------|-----------|-----------|-------------------------|
| Vacancy Rate | ▲ UP | 5.35% | 4.56% | 2.60% | 105.44% |
| Availability Rate | ▲ UP | 7.92% | 7.47% | 4.94% | 60.24% |
| Average Asking Lease Rate | ▼ DOWN | \$1.50 | \$1.52 | \$1.47 | 2.04% |
| Sale & Lease Transactions | ▼ DOWN | 2,296,302 | 2,922,661 | 3,074,160 | (25.30%) |
| Gross Absorption | ▼ DOWN | 1,053,750 | 1,216,651 | 1,510,592 | (30.24%) |
| Net Absorption | ▼ NEGATIVE | (616,027) | (415,173) | (432,997) | N/A |

ABSORPTION. There were 616,027 SF of negative net absorption in Q1, marking the fifth consecutive quarter of negative net absorption. This was spread out across the county, with only the I-15 Corridor registering positive net absorption. The dramatic increase in rental rates in recent years has pushed some tenants to make do with less space than they would prefer. Most areas of the county have low vacancy levels compared with historic norms. Without significant construction in most areas, negative net absorption is a welcome sight for tenants in the market looking for available space.

CONSTRUCTION. 632,000 SF of new industrial projects were delivered in Q1, and 4.5 MSF have been delivered since the start of 2022. Of the total space completed year to date, 95% remains available, while one third of the area delivered in 2022–2023 is still available. The vast majority of the recent construction has been speculative, with minimal pre-leasing. With the constant flow of construction in Otay Mesa, most tenants looking in this area have had multiple choices of available space in recently completed buildings, negating the need to commit to buildings still underway. The Q1 construction completions were all in Otay Mesa, and more than four fifths of the new construction completions in the county since 2020 have been in Otay Mesa. The balance of construction across the county is beginning to shift in 2024, however. Following four years of construction being skewed towards one submarket, 60% of the 1.7 MSF underway at the end of Q1 2024 was in submarkets other than Otay Mesa.

EMPLOYMENT. The unemployment rate in San Diego County was 4.7% in February 2024, unchanged from a revised 4.7% in April 2023, and above the year-ago estimate of 3.7%. This compares with an unadjusted unemployment rate of 5.6% for California and 4.2% for the nation during the same period. Over the 12-month period between February 2023 and February 2024, San Diego County employment increased by 13,600 jobs, an increase of 0.9%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. For the nation as a whole, 303,000 jobs were added in March, exceeding consensus expectations.

NEW DELIVERIES & NET ABSORPTION



Forecast

The rise in vacancy, along with the slowdown in leasing activity, has pulled the market out of its meteoric growth and into a more balanced state. Market-wide rental rate averages have edged back off their all-time peak, and it remains to be seen if this will become a plateau in 2024, or if vacancy rises to a level high enough to push rates significantly downward as the year progresses. The hope for multiple reductions in lending costs throughout the year has been put into doubt, with murmurs among national analysts of interest rates indicating there may be no rate cuts through the year.

Significant Transactions

Sales

| Property Address | Submarket | Square Feet | Sale Price | Buyer | Seller |
|---|---------------|-------------|--------------|---------------------------|------------------------------|
| 9424-9560 Chesapeake Dr. | Kearny Mesa | 198,728 | \$70,200,000 | BKM Capital Partners | LACERA |
| 2946-2954 Norman Strasse Rd. & 195 Bosstick Blvd. | San Marcos | 221,009 | \$50,000,000 | Investcorp | ShopCore Properties |
| 10151-10211 Pacific Mesa Blvd. & 5945-5965 Pacific Center Blvd. | Sorrento Mesa | 139,340 | \$45,000,000 | Invesco Limited | Sorrento Seven, LLC |
| 7949 Stromesa Ct. | Miramar | 107,564 | \$26,500,000 | Birtcher Anderson & Davis | Stromesa Court, LLC |
| 2210 Oak Ridge Way & 2325 Cousteau Ct. | Vista | 111,500 | \$24,500,000 | Staley Point Capital | Solatube International, Inc. |

Leases

* Voit Real Estate Services Deal

| Property Address | Submarket | Square Feet | Transaction Date | Tenant | Owner |
|---------------------------|-----------|-------------|------------------|---------------------|---------------------------|
| 8830 Siempre Viva Rd. | Otay Mesa | 153,166 | Mar-2024 | Marketing.com | TIAA |
| 755 Harvest Rd. | Otay Mesa | 127,141 | Mar-2024 | Undisclosed | Sudberry Properties |
| 1462 Corporate Center Dr. | Otay Mesa | 91,753 | Mar-2024 | Undisclosed | Sudberry Properties |
| 13500 Danielson St. | Poway | 72,600 | Jan-2024 | SOMACIS | JLL Income Property Trust |
| 7545 Carroll Rd. | Miramar | 51,409 | Feb-2024 | Rivulis Irrigation* | 051 Properties, LLC |

| | INVENTORY | | | | VACANCY & LEASE RATES | | | | | ABSORPTION | | | |
|-------------------------------|------------------|--------------------------|-------------------|---------------------|-----------------------|----------------------|-----------------------|---------------------------|---------------------------|------------------------|---------------------|--------------------------|-----------------------|
| | Number of Bldgs. | Net Rentable Square Feet | Square Feet U / C | Square Feet Planned | Square Feet Vacant | Vacancy Rate Q1 2024 | Square Feet Available | Availability Rate Q1 2024 | Average Asking Lease Rate | Net Absorption Q1 2024 | Net Absorption 2024 | Gross Absorption Q1 2024 | Gross Absorption 2024 |
| Central County | | | | | | | | | | | | | |
| Central City | 82 | 1,401,376 | 0 | 0 | 0 | 0.00% | 28,600 | 2.04% | \$1.22 | 0 | 0 | 0 | 0 |
| East City | 58 | 602,299 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$1.50 | 7,575 | 7,575 | 7,575 | 7,575 |
| Southeast City | 367 | 4,260,236 | 0 | 0 | 80,420 | 1.89% | 154,962 | 3.64% | \$1.43 | (11,971) | (11,971) | 2,400 | 2,400 |
| Kearny Mesa | 417 | 9,837,970 | 219,292 | 0 | 349,296 | 3.55% | 736,732 | 7.33% | \$1.82 | (77,721) | (77,721) | 70,243 | 70,243 |
| Mission Gorge | 107 | 1,818,604 | 0 | 0 | 34,086 | 1.87% | 59,294 | 3.26% | \$1.90 | 13,835 | 13,835 | 32,453 | 32,453 |
| Rose Canyon / Morena | 132 | 2,059,882 | 0 | 0 | 119,924 | 5.82% | 130,350 | 6.33% | \$1.56 | (16,755) | (16,755) | 30 | 30 |
| Sports Arena / Airport | 139 | 1,668,725 | 0 | 0 | 41,568 | 2.49% | 28,360 | 1.70% | \$1.67 | 24,380 | 24,380 | 34,380 | 34,380 |
| Miramar | 581 | 13,424,381 | 0 | 85,000 | 719,597 | 5.36% | 1,100,536 | 8.20% | \$1.75 | (159,614) | (159,614) | 99,785 | 99,785 |
| Sorrento Mesa | 69 | 3,244,895 | 0 | 0 | 102,419 | 3.16% | 210,672 | 6.49% | \$1.83 | (21,353) | (21,353) | 0 | 0 |
| Sorrento Valley/UTC | 42 | 997,801 | 0 | 0 | 15,158 | 1.52% | 15,958 | 1.60% | - | 0 | 0 | 0 | 0 |
| Central County Total | 1,994 | 39,316,169 | 219,292 | 85,000 | 1,462,468 | 3.72% | 2,465,464 | 6.24% | \$1.70 | (241,624) | (241,624) | 246,866 | 246,866 |
| East County | | | | | | | | | | | | | |
| El Cajon | 450 | 9,171,404 | 381,240 | 0 | 70,160 | 0.76% | 403,994 | 4.23% | \$1.62 | (2,903) | (2,903) | 23,331 | 23,331 |
| La Mesa / Spring Valley | 306 | 2,671,698 | 7,500 | 3,000 | 25,676 | 0.96% | 50,134 | 1.87% | \$1.51 | (4,903) | (4,903) | 8,426 | 8,426 |
| Santee / Lakeside | 289 | 3,977,317 | 0 | 0 | 30,373 | 0.76% | 173,052 | 4.35% | \$1.44 | 4,026 | 4,026 | 18,691 | 18,691 |
| Rural East County | 88 | 993,850 | 0 | 0 | 148,400 | 14.93% | 167,100 | 16.81% | \$0.63 | (4,000) | (4,000) | 0 | 0 |
| East County Total | 1,133 | 16,814,269 | 388,740 | 3,000 | 274,609 | 1.63% | 794,280 | 4.62% | \$1.37 | (7,780) | (7,780) | 50,448 | 50,448 |
| North County | | | | | | | | | | | | | |
| Escondido | 635 | 7,623,967 | 0 | 67,300 | 151,338 | 1.99% | 209,727 | 2.75% | \$1.41 | (62,665) | (62,665) | 60,190 | 60,190 |
| Oceanside | 399 | 9,085,291 | 0 | 520,446 | 425,792 | 4.69% | 642,697 | 7.07% | \$1.34 | (26,723) | (26,723) | 106,873 | 106,873 |
| San Marcos | 476 | 8,149,070 | 0 | 223,175 | 671,119 | 8.24% | 708,016 | 8.69% | \$1.34 | (71,859) | (71,859) | 30,019 | 30,019 |
| Vista | 526 | 13,359,730 | 0 | 0 | 481,005 | 3.60% | 1,103,889 | 8.26% | \$1.41 | 14,128 | 14,128 | 118,882 | 118,882 |
| Carlsbad | 223 | 8,450,541 | 222,959 | 0 | 514,100 | 6.08% | 636,044 | 7.33% | \$1.58 | (51,264) | (51,264) | 11,187 | 11,187 |
| North Beach Cities | 39 | 231,421 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | - | 0 | 0 | 0 | 0 |
| Rural North County | 120 | 1,062,021 | 0 | 0 | 40,113 | 3.78% | 82,804 | 7.80% | \$0.87 | (18,113) | (18,113) | 0 | 0 |
| North County Total | 2,418 | 47,962,041 | 222,959 | 810,921 | 2,283,467 | 4.76% | 3,383,177 | 7.02% | \$1.37 | (216,496) | (216,496) | 327,151 | 327,151 |
| I-15 Corridor | | | | | | | | | | | | | |
| Poway | 187 | 7,647,302 | 0 | 0 | 194,613 | 2.54% | 375,191 | 4.91% | \$1.63 | 42,077 | 42,077 | 52,605 | 52,605 |
| Rancho Bernardo | 39 | 2,986,860 | 0 | 0 | 78,445 | 2.63% | 198,483 | 6.65% | \$1.74 | 0 | 0 | 0 | 0 |
| Scripps Ranch | 26 | 696,993 | 0 | 86,000 | 9,840 | 1.41% | 13,450 | 1.93% | \$1.64 | (3,840) | (3,840) | 0 | 0 |
| I-15 Corridor Total | 252 | 11,331,155 | 0 | 86,000 | 282,898 | 2.50% | 587,124 | 5.18% | \$1.65 | 38,237 | 38,237 | 52,605 | 52,605 |
| South County | | | | | | | | | | | | | |
| Chula Vista | 325 | 8,813,959 | 205,266 | 438,888 | 878,117 | 9.96% | 977,157 | 10.83% | \$1.37 | (37,290) | (37,290) | 23,139 | 23,139 |
| National City | 254 | 3,741,968 | 0 | 80,970 | 71,829 | 1.92% | 235,543 | 6.29% | \$1.73 | (30,926) | (30,926) | 6,434 | 6,434 |
| Otay Mesa | 385 | 24,661,553 | 701,369 | 3,926,410 | 2,949,753 | 11.96% | 3,768,115 | 14.86% | \$1.34 | (114,832) | (114,832) | 347,107 | 347,107 |
| South San Diego | 64 | 1,344,879 | 0 | 0 | 28,528 | 2.12% | 126,879 | 9.43% | \$1.35 | (5,316) | (5,316) | 0 | 0 |
| South County Total | 1,028 | 38,562,359 | 906,635 | 4,446,268 | 3,928,227 | 10.19% | 5,107,694 | 12.94% | \$1.40 | (188,364) | (188,364) | 376,680 | 376,680 |
| San Diego County Total | 6,825 | 153,985,993 | 1,737,626 | 5,431,189 | 8,231,669 | 5.35% | 12,337,739 | 7.92% | \$1.50 | (616,027) | (616,027) | 1,053,750 | 1,053,750 |
| 0-9,999 | 3,067 | 15,628,725 | 7,500 | 3,000 | 310,350 | 1.99% | 565,255 | 3.62% | \$1.68 | (47,500) | (47,500) | 103,947 | 103,947 |
| 10,000-19,999 | 1,772 | 25,128,361 | 14,947 | 0 | 546,054 | 2.17% | 960,241 | 3.82% | \$1.59 | (24,351) | (24,351) | 207,357 | 207,357 |
| 20,000-34,999 | 966 | 24,827,185 | 0 | 27,720 | 824,173 | 3.32% | 1,330,605 | 5.36% | \$1.49 | (125,499) | (125,499) | 264,743 | 264,743 |
| 35,000-49,999 | 378 | 15,611,560 | 44,278 | 272,573 | 572,624 | 3.67% | 1,114,258 | 7.12% | \$1.42 | 49,898 | 49,898 | 249,216 | 249,216 |
| 50,000-99,999 | 395 | 27,175,868 | 192,866 | 578,535 | 1,474,867 | 5.43% | 2,918,475 | 10.66% | \$1.44 | (188,017) | (188,017) | 91,863 | 91,863 |
| 100,000 Plus | 247 | 45,614,294 | 1,478,035 | 4,549,361 | 4,503,601 | 9.87% | 5,448,905 | 11.57% | \$1.37 | (280,558) | (280,558) | 136,624 | 136,624 |
| San Diego County Total | 6,825 | 153,985,993 | 1,737,626 | 5,431,189 | 8,231,669 | 5.35% | 12,337,739 | 7.92% | \$1.50 | (616,027) | (616,027) | 1,053,750 | 1,053,750 |

Lease rates are on an industrial-gross basis.



2024 Will Be Interesting

by **Greg Marx**

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The year 2024 is turning into an interesting year, with the commercial real estate industry continuing to hold its breath as we wait to see how the upcoming months will play out. Q1, unfortunately, was relatively unfruitful in terms of unraveling many questions that we had on a macro level. Aspects of the overall economy remain uncertain as inflation persists, despite some indication of it lowering. In turn, this has caused interest rates to hold firm rather than decreasing as previously hoped. An election year always comes with a little extra uncertainty, but many of us still expect some sort of reprieve in terms of declining rates.

Transaction volume for industrial sales and leasing has remained relatively stagnant compared with previous years. We saw a handful of property trades in central county through Q1, compared to only one or two each in the preceding quarters. Recent activity of note in Central County includes the large business park sales of Cabrillo Business Park purchased by HG Fenton and Canyon Industrial Center purchased by BKM Capital Partners, which each traded for more than \$350 per square foot.

Additionally, owner-user building purchases are up, which is surprising given interest rates where they are. In talking to one buyer who owns a large flooring business he relayed, "I am starting to realize these new interest rates are here to stay, it's unlikely we will ever see 2-3% interest rates again. At the end of the day, I want to buy and occupy because my current lease rate is just too expensive." This reflects the current reality in the market—everything in San Diego has gotten more expensive, whether you prefer to lease or purchase.

Things are a bit slower on the leasing side. In late 2023 we saw a large amount of negative absorption out of the Central County markets, which has now spilled over into the start of 2024. The result is that the constant rise of rental rates is tapering off, and available spaces are sitting on the market a bit longer than they used to. This is minimally true in the smallest size ranges and most visible in the largest size ranges. Landlords are focusing on cash flow and retaining tenants even if they have to shorten the term or lower the leasing rate a little.

There is some new industrial distribution construction underway in Central County, which is rare. Caprock Partners are beginning on an 85,000 SF high bay, concrete tilt-up distribution center on Nancy Ridge Drive in Sorrento Mesa expected to be open for business in January 2025. In central Kearny Mesa, Rexford Industrial is in the middle of construction on a 123,495 SF distribution facility expected to be completed in Q3 2024. Given the slowdown in the largest size ranges, it will be interesting to see how quickly these sites lease up.

Notwithstanding the headwinds in sales and leasing, San Diego still has single-digit vacancy countywide (5.4%) and Central County remains below 4%. We've seen an unprecedented market through the last decade given the rise in building values and rental rates, and now it seems as if we're on a plateau.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on an industrial-gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services

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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