



San Diego industrial market report

Q1 2023

**AVISON
YOUNG**

San Diego industrial market trends

8.6%

Available Space

We are seeing more space becoming available as many companies are trying to lower their space requirements based on increasing occupancy costs.

We've seen an increased amount of sublet space that has hit the market. Currently, there is 2.0 million square feet of sublet space available compared to the 410,657 square feet that was available a year ago.

Currently, 8.6% of the total industrial market is available for lease or 8.5 million square feet in San Diego.

-0.9 M

Net Absorption

During 1Q23 the San Diego industrial market saw 942,334 square feet of negative absorption. This has put upward pressure on vacancy which currently stands at 4.9% and downward pressure on pricing for lease and sale.

The main drivers of the negative absorption are higher lease rates and lower port volumes, which has led to an unprecedented amount of sublet space currently on the market. Many tenants renewing leases are experiencing sticker shock, they are experiencing their rents doubling and/or even tripling. Many of these tenants are reducing the amount of space they need to get some type of lease rate relief.

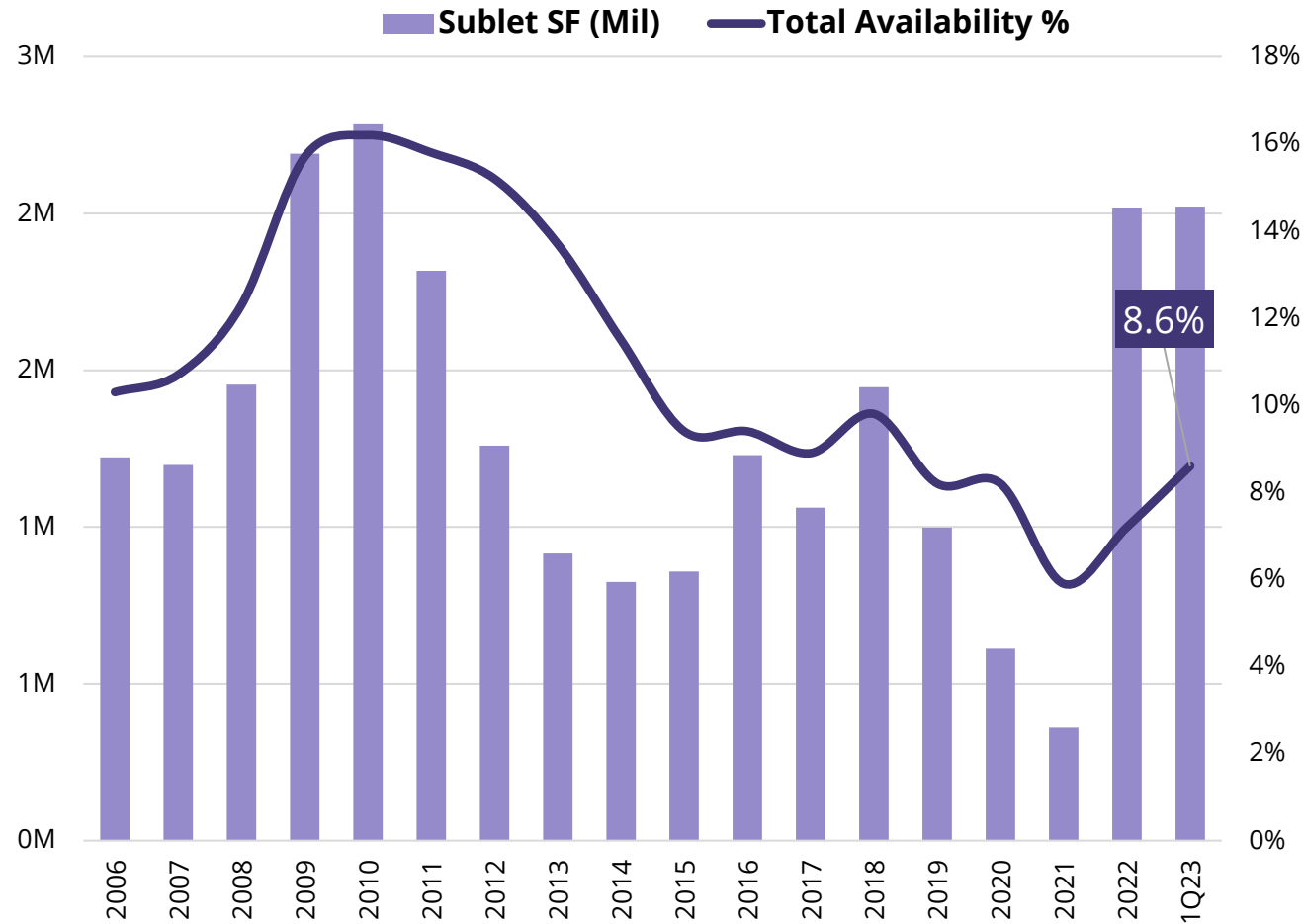
-46.1%

Investment Sales Volume

Investment sales in the first quarter of 2023 have retreated as interest rates increased and supply chain problems continue. With a looming recession and the uncertainty of inflation many investors are uneasy and have taken a pencils down approach as cap rates have begun to increase.

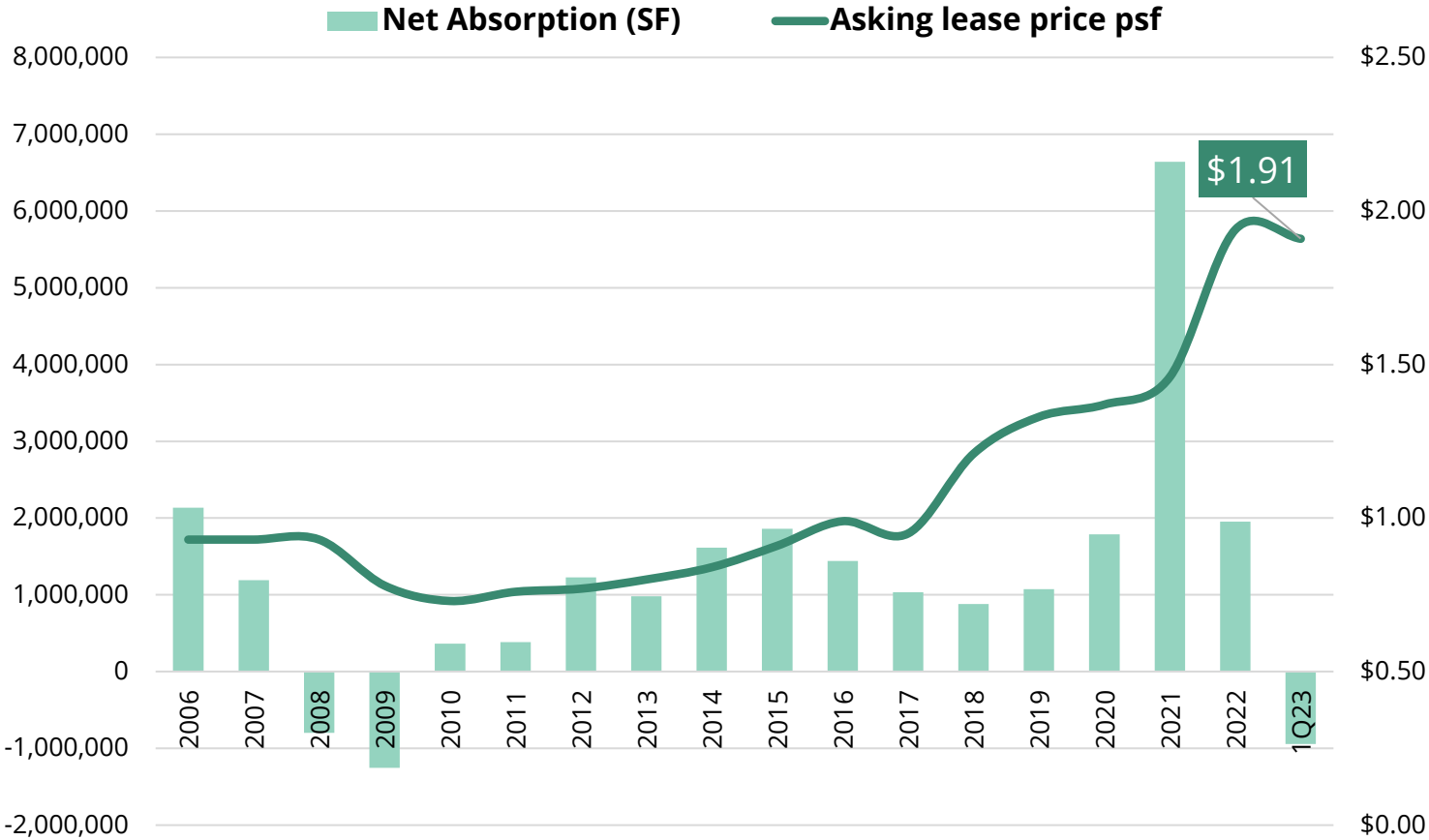
Investment sales volume decreased by 46.1% when compared to Q4 2022. Total sales volume in Q4 2022 was \$507.0 million, Q1 2023 came in at \$273.4 million. We also witnessed the price per square foot decrease by 47.8%.

Sublet space has reached 2.0% of the market



Currently there is 8.5 million sf of space available in San Diego, representing 8.6% of the industrial market. Of that, 2.0 million sf is available for sublease.

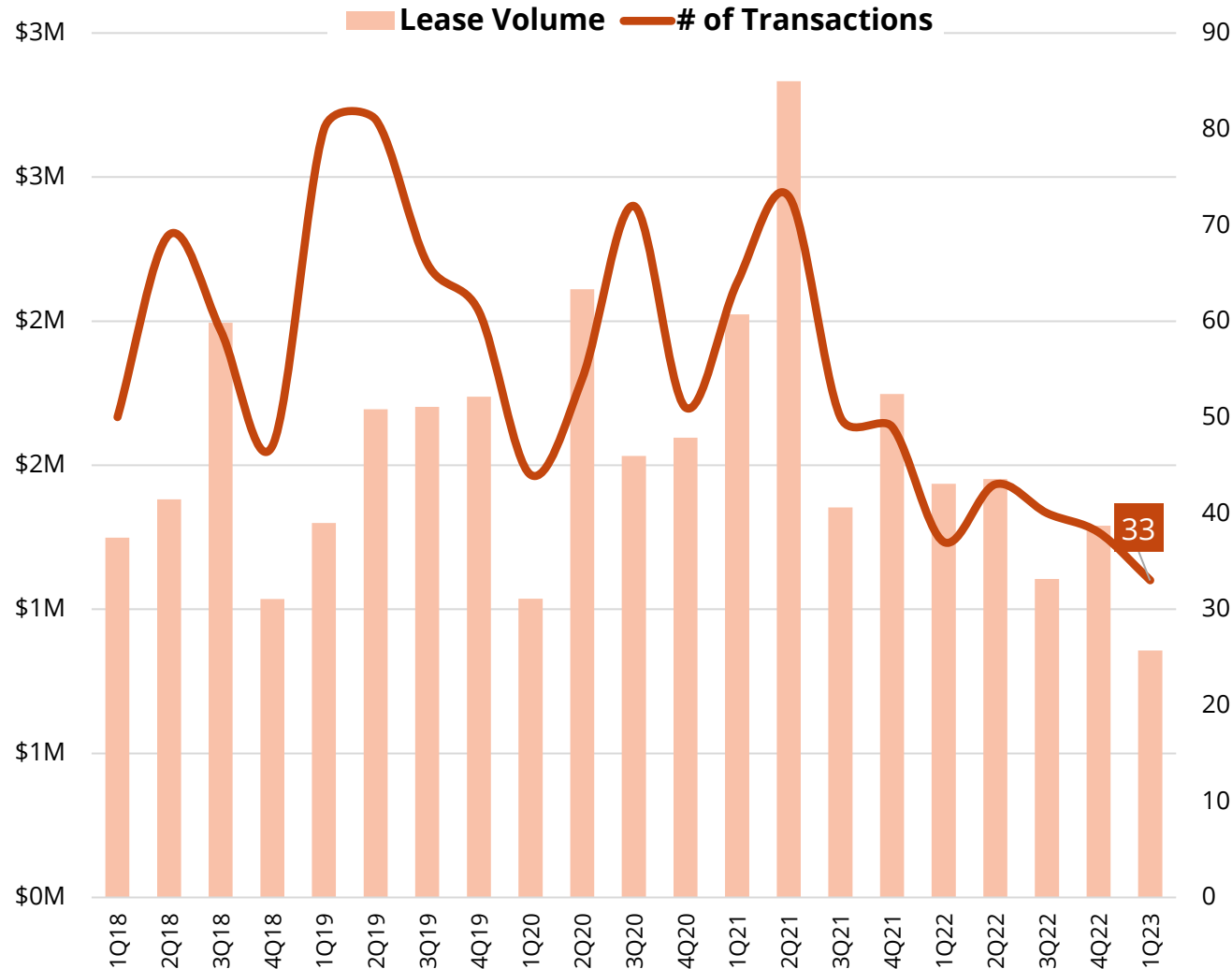
Negative absorption, lease rates decreased



There was a total of 942,334 square feet of negative absorption in the first quarter of 2023.

Lease rates decreased 1.5% in the first quarter of 2023 compared to the last quarter of 2022.

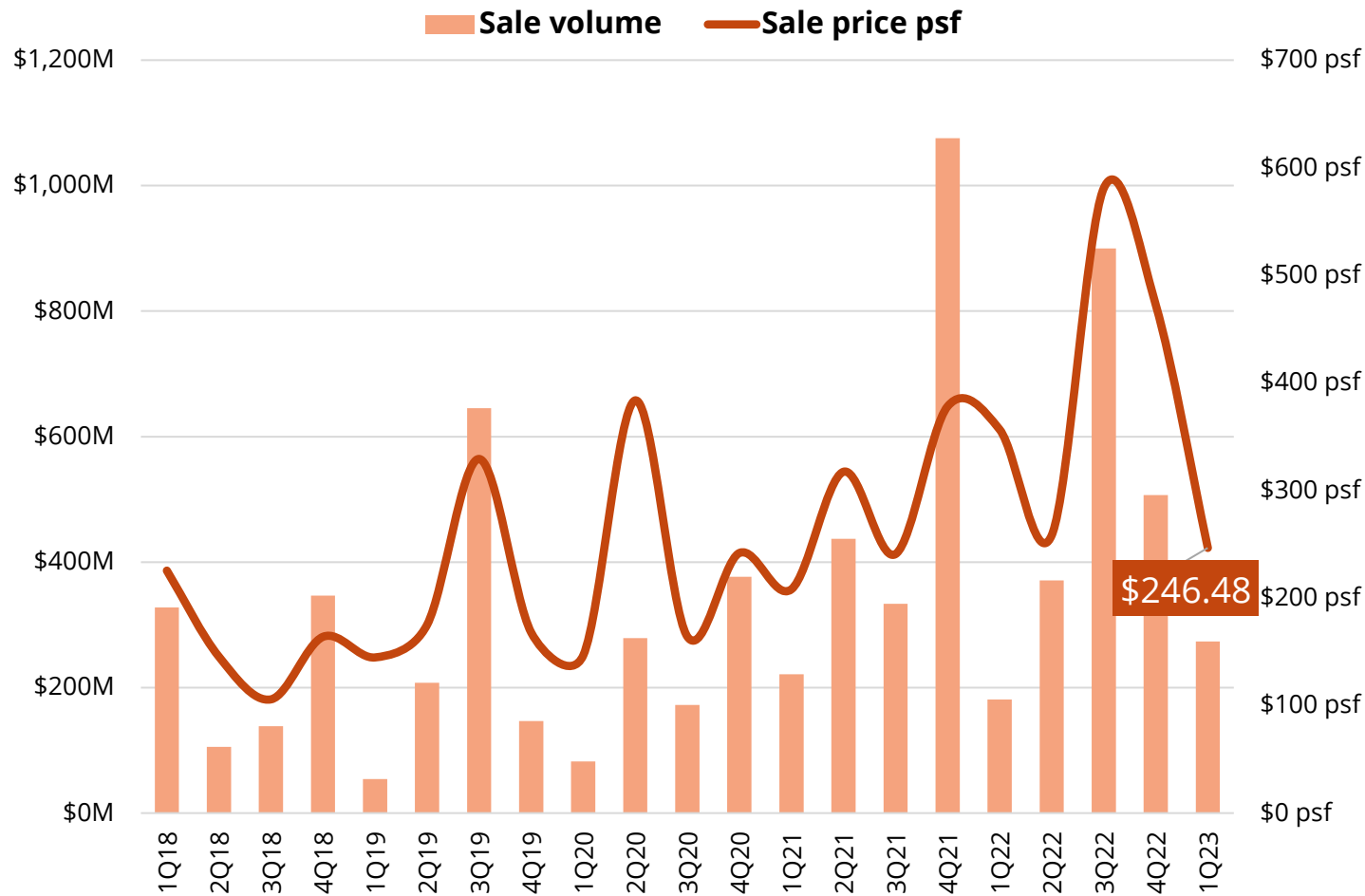
Leasing activity slowed down in the first quarter



Leasing transactions in 1Q23 decreased by 10.8% when compared to 1Q22 with 33 transactions.

Leasing volume decreased by 40.3% during that same period.

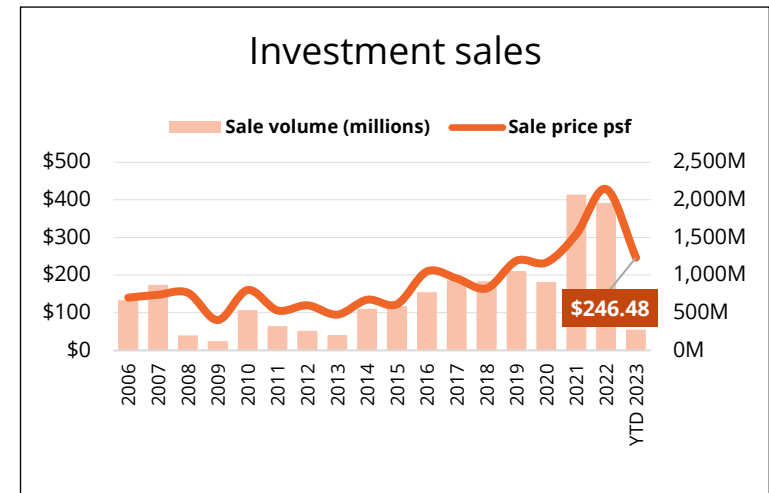
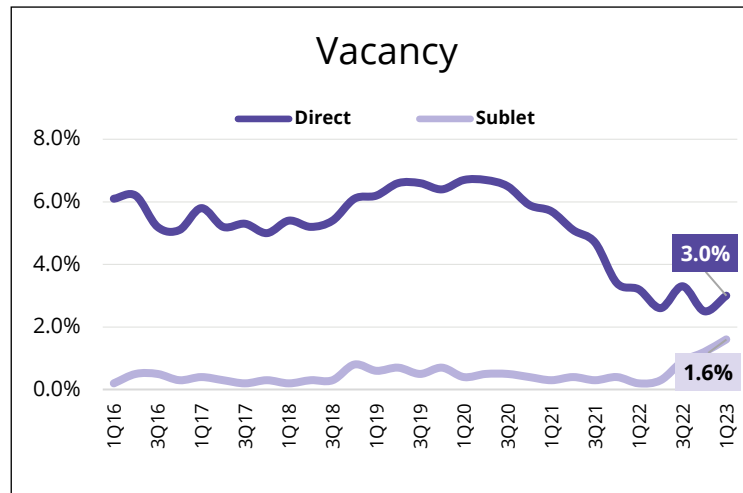
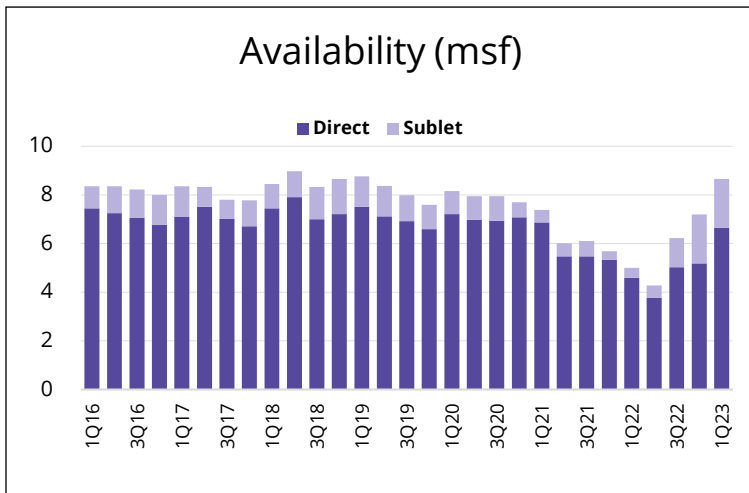
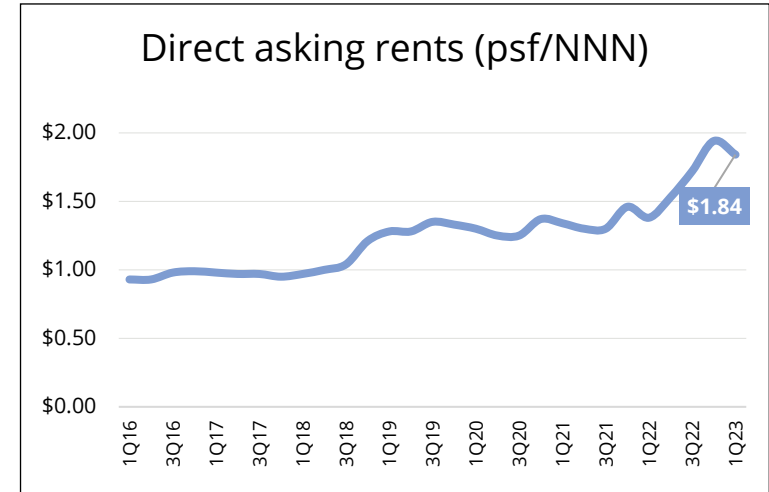
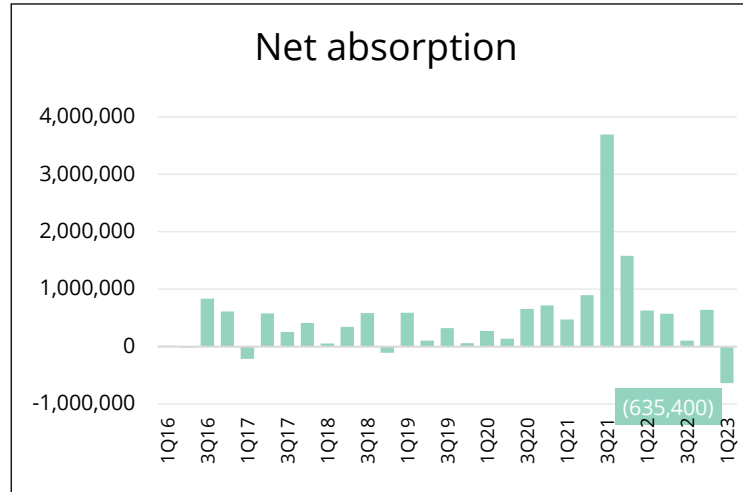
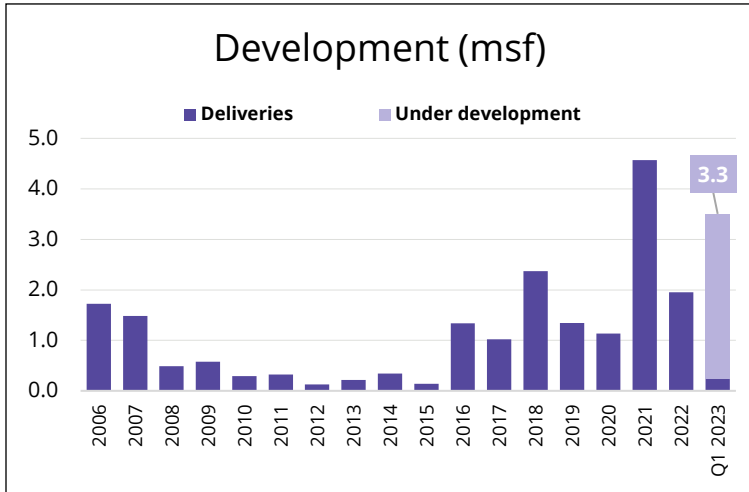
Industrial investment sales have taken a pause



Sale prices decreased by 30.9% when compared to 1Q22.

Sales volume increased by 51.1% during that same period.

San Diego industrial market indicators



San Diego industrial market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2022)	Net absorption sf (YTD)	Direct asking rent NNN
Central San Diego	2,346,278	0	346,128	0.7%	0.0%	0.7%	0	0	\$1.59
Central Suburban	8,116,757	0	0	2.2%	1.0%	3.2%	(22,082)	(22,082)	\$1.37
East County	4,271,722	0	0	0.1%	0.4%	0.5%	247,876	247,876	\$0.94
I-15 Corridor	13,736,291	0	248,000	3.3%	0.3%	3.6%	(337,855)	(337,855)	\$1.77
I-5 Corridor	8,164,457	0	249,015	6.5%	3.1%	9.6%	(228,599)	(228,599)	\$1.57
North San Diego	20,212,871	0	86,000	4.7%	2.7%	7.4%	(539,885)	(539,885)	\$3.20
South Bay	24,748,611	247,610	604,276	2.5%	1.0%	3.5%	131,756	131,756	\$1.03
SR-78 Corridor	14,016,478	0	1,726,169	4.8%	0.5%	5.3%	(193,545)	(193,545)	\$1.33
Market total	95,613,465	247,610	3,259,588	3.6%	1.3%	4.9%	(942,334)	(942,334)	\$1.91

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2022)	Net absorption sf (YTD)	Direct asking rent NNN
Industrial	71,339,633	247,610	1,975,184	2.4%	0.9%	3.3%	(181,764)	(181,764)	\$1.27
Flex	24,273,832	0	1,284,404	7.0%	2.6%	9.6%	(760,570)	(760,570)	\$3.15
Market total	95,613,465	247,610	3,259,588	3.6%	1.3%	4.9%	(942,334)	(942,334)	\$1.91

San Diego industrial activity

Recent leasing activity

Occupier Name	Industry	Address	Submarket	Size (sf)	Deal Type	Lease Type
RL Jones Customhouse Brokers	Transportation	1610 Landmark Rd., Otay Mesa	South Bay	240,975	New	Direct
Dexcom	Manufacturing	6290 Sequence Dr., San Diego	North San Diego	90,000	Renewal	Direct
ReadySpaces	Real Estate	505 Main St., Chula Vista	South Bay	79,611	New	Direct
Bekins Moving Solutions	Transportation	2025 Gillespie Way, El Cajon	East County	71,865	Renewal	Direct

Recent sales activity

Buyer(s)	Address	Sale date	Sale price*	Sale psf	Leased at Sale	Buyer Type	Seller(s)
Rexford Industrial Realty	Cubic Campus, Kearny Mesa – 5 Properties**	Mar-23	\$200,000,000	\$400	100%	Public REIT	Cubic (Sale Leaseback)
SENTRE	Parkway Commerce Center – 4 Properties**	Mar-23	\$38,250,000	\$259	98%	Institutional	TA Realty
LaSalle Value Partners	2020 Piper Ranch Rd., San Diego	Jan-23	\$126,840,000	\$211	100%	Institutional	ARES Management
BentallGreenOak	2210 Faraday Ave., Carlsbad	Jan-23	\$35,750,000	\$299	100%	Institutional	Hill Companies

*sale price is rounded to the nearest thousandth ** denotes property is part of a portfolio

Notable Development

Name	Address	Delivery	Size (sf)	Available sf	Lead Developer
Alexandria Tech Center	Scranton Road	Q1 2024	254,771	254,771	Alexandria Real Estate Equities
Lots 1-4	Lionshead Ave, Carlsbad	Q4 2023	249,015	249,015	Hines
Landmark at Otay - 3	1610 Landmark Rd., Otay Mesa	Q2 2023	240,975	0	Majestic Realty
Landmark at Otay - 4	1910 Landmark Rd., Otay Mesa	Q2 2023	235,085	235,085	Majestic Realty

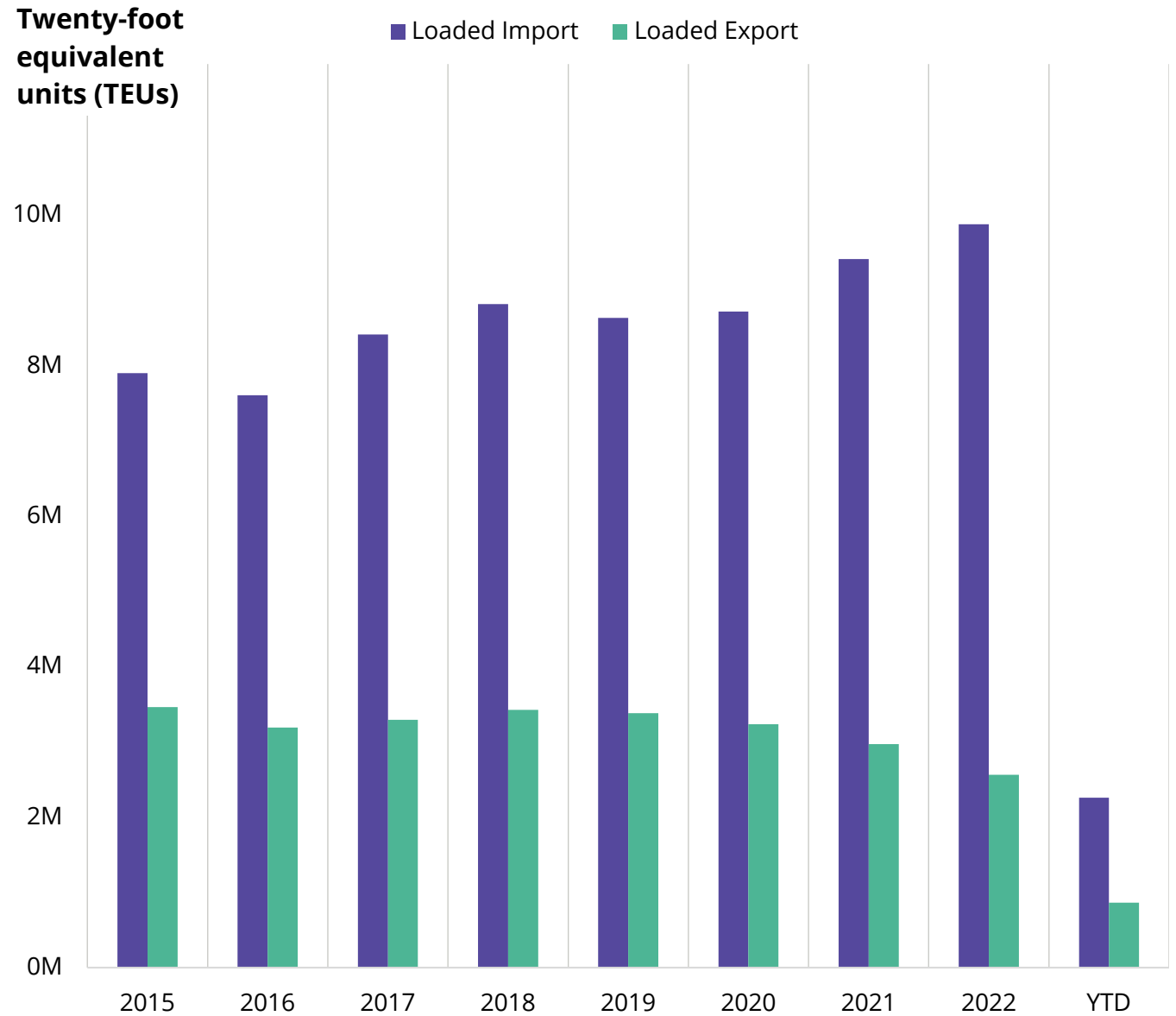
*denotes development delivers in multiple phases

Loaded import and export container volumes

-32%

The Los Angeles and Long Beach ports both reported a soft first quarter

Economic conditions has slowed global trade along with already full warehouses and a decrease in consumer spending. The amount of loaded goods imported/exported throughout the ports in the first quarter of 2023 has declined by 32% when compared to the same time period last year which was a record setting quarter for both ports.



Industrial insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Industrial rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
information visit **avisonyoung.com**

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