

An aerial photograph of a multi-lane highway in San Diego, California, winding through a lush, green forested area. In the background, the city skyline is visible under a clear sky. The highway has several lanes in both directions, with cars visible. Overhead signs indicate directions to Downtown and 4th Ave. The overall scene is a blend of urban infrastructure and natural landscape.

# INDUSTRIAL MARKET REPORT

SAN DIEGO, CA | Q1 OF 2023

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**NAI** San Diego

SOURCE: COSTAR



12 Mo Deliveries in SF

**2M**

12 Mo Net Absorption in SF

**(637K)**

Vacancy Rate

**4.0%**

12 Mo Rent Growth

**9.4%**

Leasing activity has moderated over the past several quarters after averaging about 3 million SF since the start of 2020. Leasing during 22Q4 was propped up by Ionis Pharmaceuticals' 245,000-SF leaseback of its existing space after the biotech firm sold its Carlsbad flex campus to Oxford Properties. That deal accounted for roughly 10% of leasing volume during the quarter. As part of the deal, Ionis agreed to lease a new proposed 217,000-SF building in Oceanside that is scheduled to open in 2025.

Larger space users have become more cautious amid economic concerns, and many are trying to renew instead of seeking new space. That could spell further moderation in new leasing activity throughout 2023. Conversely, smaller space users have shown less trepidation, according to local brokers, with some advisors suggesting that larger spaces be broken out to accommodate those tenants. Similar to the apartment market, locals have expressed that the market is normalizing.

Vacancy has been on the rise in 2023 with demand declining at the beginning of the year. However, San Diego is generally not weighed down by excessive speculative development that might create a supply-demand imbalance. The surfeit of speculative development is along the border with Mexico in Otay Mesa, where firms are increasingly pivoting to take advantage of tax incentives from cross-border distribution and manufacturing channels. The number of lanes that can process cargo trucks into San Diego at Otay Mesa Port of Entry increased from nine to 16 in 2022 which should only improve access. This is where Amazon built its 3.4-million SF distribution facility in 2021 and where the e-commerce giant opened a separate 700,000-SF facility in 22Q3. There is roughly 1.2 million SF of space available under construction within two miles of the port of entry there. Given recent demand patterns there, buildings are often leased within a short window of the delivery date.

But developers are not just focusing on logistics space. Alexandria Real Estate Equities is building the Scripps

Ranch Technology Park. The 145,000-SF lab property was fully leased to Arrowhead Pharmaceuticals at the end of 2021 and is scheduled to deliver in 2023. That is one of Alexandria's largest developments outside of the UC San Diego area and the REIT's first in Scripps Ranch.

In Torrey Pines, Healthpeak Properties is working on Callan Ridge, a 185,000-SF development that was fully pre-leased to Turning Point Therapeutics. However, that entire project had been placed on the sublease market at the end of 2022. It is scheduled to complete in 2023 with a lease term that runs until 2035. That is one of several additions to the sublease market in recent quarters, as the amount of sublet space has reached its highest level in 10 years during the second quarter. Part of that rise can be attributed to Amazon, which has placed three local buildings on the sublease market.

Annual rent growth remains firmly above the long-term average and rate of inflation, and at 9.4%, compares to the national rate of 9.9%. It has been supported by the strength of San Diego's logistics sector, and Otay Mesa has stood atop the leaderboard for several quarters. It took until 22Q4 for rent growth to show signs of moderation on a quarterly basis. That was one quarter later than the national trend. Rent growth is expected to moderate even further in 2023. For context, the long-term average in San Diego is 4.1% on an annualized basis.

National investors remain active here even as deal flow has moderated since mid-2022 due to high interest rates. That could lead to a softening in pricing and rising cap rates. Investors have been attracted to the diverse tenant pool and strong rent growth. Buyers continue to target the region's north and south county logistics nodes and formidable life sciences submarkets for lab campuses and the potential to convert outdated industrial facilities and office buildings into lab space. There have been fewer opportunities in areas such as Sorrento Mesa after more than 50% of the submarket's inventory has turned over in the past five years.

### KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Logistics	87,395,188	2.7%	\$17.76	5.9%	(300,065)	0	1,943,484
Specialized Industrial	65,231,498	2.7%	\$18.30	4.2%	9,927	0	0
Flex	52,832,304	7.8%	\$31.32	11.0%	(111,283)	0	1,284,404
<b>Market</b>	<b>205,458,990</b>	<b>4.0%</b>	<b>\$21.45</b>	<b>6.7%</b>	<b>(401,421)</b>	<b>0</b>	<b>3,227,888</b>

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	1.0%	7.0%	4.6%	11.2%	2010 Q1	2.8%	2022 Q2
Net Absorption SF	(637K)	1,747,894	1,115,992	8,568,862	2022 Q1	(4,554,080)	2009 Q3
Deliveries SF	2M	2,046,239	2,539,196	6,628,712	2000 Q2	75,015	2011 Q2
Rent Growth	9.4%	4.1%	3.9%	12.7%	2022 Q3	-5.5%	2009 Q4
Sales Volume	\$3.2B	\$1.5B	N/A	\$5.2B	2022 Q3	\$348.9M	2009 Q3

San Diego is firmly established as one of the top life sciences markets in the country, with the heaviest concentration of those firms in the UC San Diego area and Sorrento Mesa. These firms, along with defense contractors that are spread along the I-805 and I-15 freeways, and logistics users have supported stability in the industrial market, and supply pressure is not readily apparent.

The vacancy rate of 4.0% has shifted by 1.0% year over year after -640,000 SF was absorbed in the past 12 months. That compares to the three-year average of 3.2 million SF. That is coming off a vacancy trough of 2.8% in the first half of 2022.

The availability rate is trending at 6.6%, totaling 13.9 million SF. With new supply entering the pipeline since mid-2022, the amount of available space has ticked up to its highest level since mid-2021. That has come as the median time on the market for available space is trending near three months, which is about half of the length of time in the years prior to 2020.

The volume of tours, particularly for larger spaces, has moderated. Local brokers are largely not too concerned yet, but they are paying close attention to a possible recession and slowdown in demand for retail goods as consumers have shifted to services. That could spill over into industrial demand, particularly as leasing volume has moderated over the past few quarters. Landlords are, again, having to negotiate, something that wasn't necessary over the past several years.

One other metric worth monitoring is available sublet space. The amount has increased for three straight quarters, and there is roughly 2.9 million SF available during the second quarter. It has reached its highest level in more than 10 years, which has also added pressure to the availability rate.

Amazon has added some space to the sublet market as the firm reevaluates its footprint. After leasing 175,000 SF in the Carlsbad Raceway Business Park in 2021, it placed that space on the sublease market during 22Q3 followed by another 90,000 SF at Carlsbad Oaks during 22Q4. Amazon also placed its 70,000-SF facility along the Morena corridor up for sublease during 22Q3. Panasonic added nearly half of its buildings, 170,000 SF, at The Campus in Otay Mesa to the sublease market at the beginning of 2023.

More than half of the available sublet space is with flex

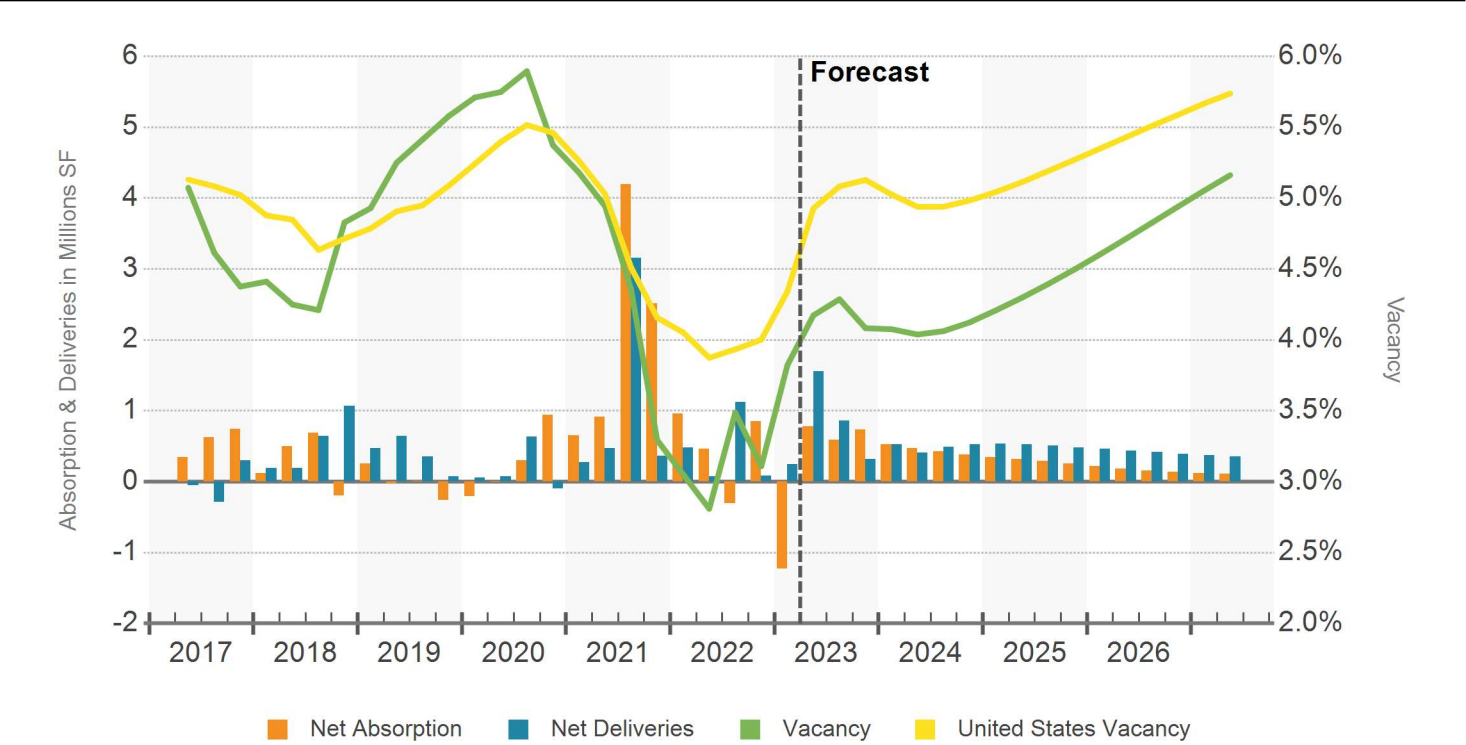
buildings. Turning Point Therapeutics has one of the largest available spaces in Torrey Pines for a building that is still under construction. Other larger sublet availabilities in flex space include the Summers Ridge Science Park in Sorrento Mesa. The biotech firm AbbVie added 70,000 SF to the sublease market during 22Q4 and vacated the building. The term runs through the start of 2033. Dexcom also added its 92,000-SF space at Pacific Corporate Center in Sorrento Mesa up for sublease with a term until 2028. Overall biotech demand has moderated since the middle of 2022, which has coincided with a 50% year-over-year drop in venture capital funding in San Diego. Many deals have been put on hold in recent quarters as a result due to the majority of newer and growing firms operating in a pre-revenue environment.

A slew of firms have signed significant expansions near the border in Otay Mesa. RL Jones Customhouse Brokers leased 150,000 SF at Landmark at Otay in 2021 and pre-leased 240,000 SF at the newest phase of the park at the beginning of 2023. Suarez Brokerage more than doubled its footprint in the submarket when the firm leased 124,000 SF at the Viva Logistics Center during 22Q3. Mad Engine signed a lease for 200,000 SF during 22Q2 for the warehouse that MOR furniture vacated at the end of 2021 after moving to Murietta, and Home Depot leased 125,000 SF at the newly built Brown Field Technology Park during 22Q2. That doubled the space it occupied in the submarket. Amazon has also opened four facilities in Otay Mesa totaling nearly 4.5 million SF since 2021. That diversity of firms speaks to the demand that has spread across multiple industries for space in the submarket, and brokers' biggest concern is the dwindling supply there.

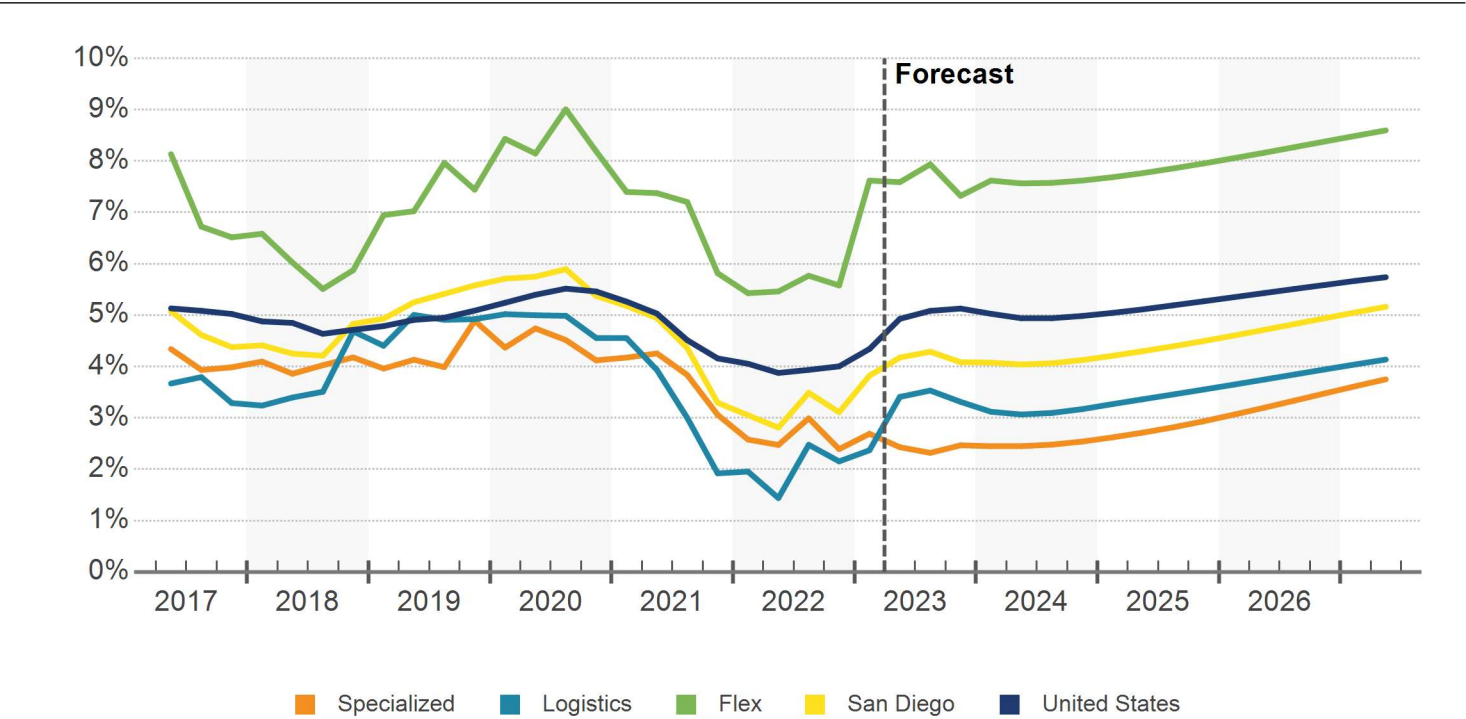
On the other end of the metro, demand remains high for the Vista area. Vista is easily accessible to dense North County population nodes and distribution channels for logistics firms. That provides a ready means of labor for industrial work, and it has more affordable housing costs than more coastal areas. In 2022, Gnarlywood leased 75,000 SF, downsizing from 150,000 SF in Carlsbad, and Cymer Laser Technologies took 100,000 SF, branching out from Rancho Bernardo. ShipLab LLC subleased Peloton's 90,000-SF space in the Vista Business Park. Peloton ultimately never occupied the space after leasing it in 2021. The deal marked a significant expansion for ShipLab from its 25,000-SF footprint to support and expand its e-commerce fulfillment business. PIRCH also signed a 95,000-SF lease for its first industrial showroom in Vista at the end

of the year.

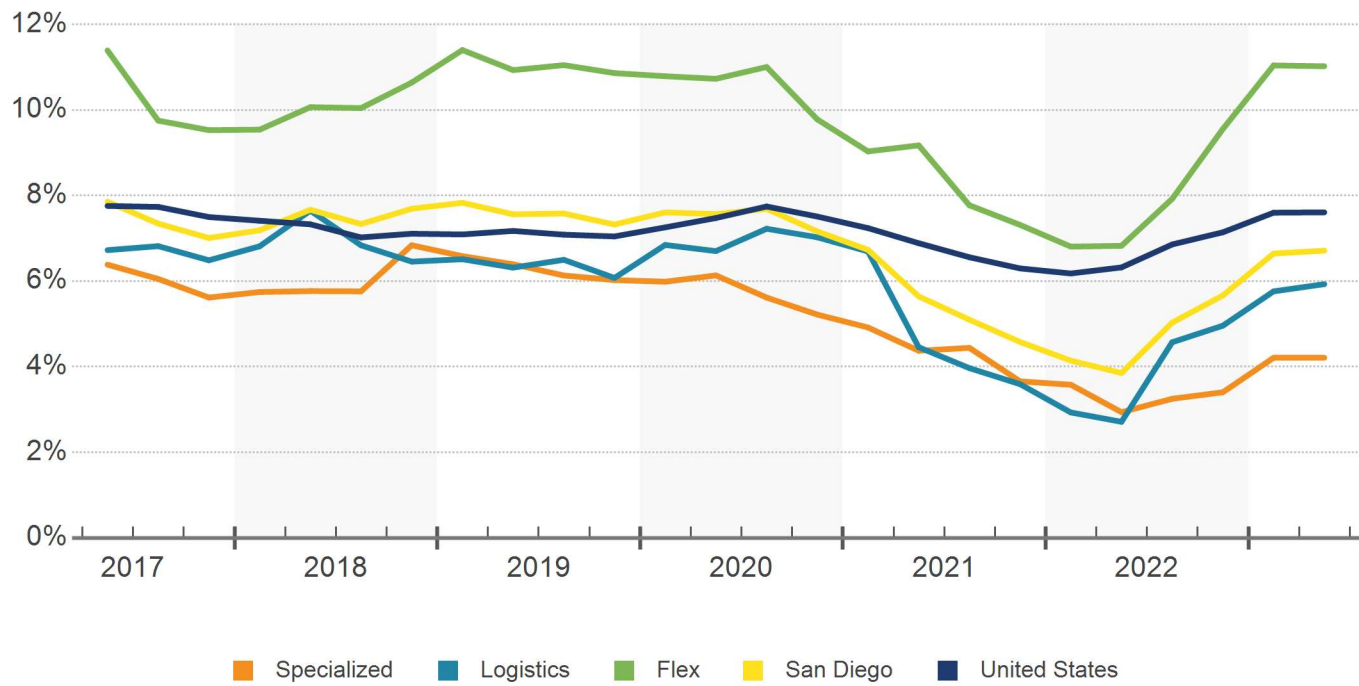
## NET ABSORPTION, NET DELIVERIES & VACANCY



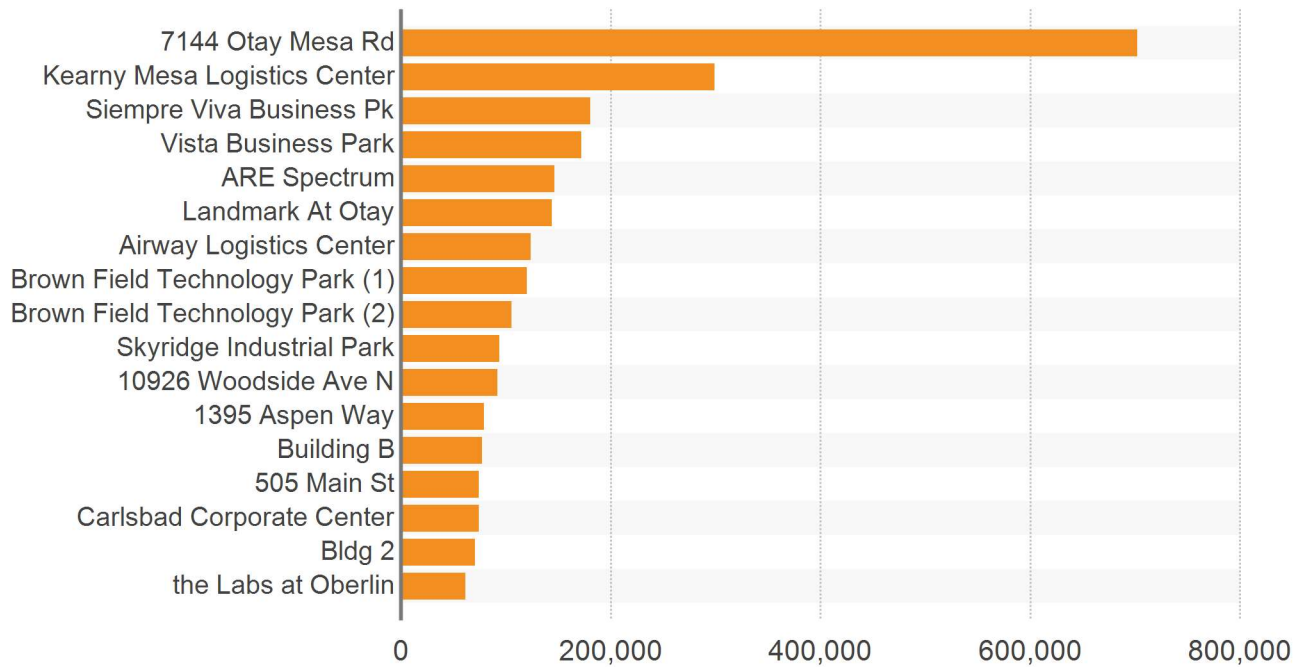
## VACANCY RATE



AVAILABILITY RATE



### 12 MONTH NET ABSORPTION SF IN SELECTED BUILDINGS



Building Name/Address	Submarket	Bldg SF	Vacant SF	Net Absorption SF				
				1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	12 Month
7144 Otay Mesa Rd	Otay Mesa Ind	702,535	0	0	0	0	0	702,535
Kearny Mesa Logistics Center	Kearny Mesa Ind	299,381	0	0	0	0	0	299,381
Siempre Viva Business Pk	Otay Mesa Ind	258,053	0	0	0	0	0	180,443
Vista Business Park	Vista Ind	175,367	0	0	0	0	0	172,054
ARE Spectrum	Torrey Pines Ind	146,368	0	0	0	0	0	146,368
Landmark At Otay	Otay Mesa Ind	216,140	0	0	0	0	0	143,712
Airway Logistics Center	Otay Mesa Ind	249,634	125,886	121,594	0	0	0	123,748
Brown Field Technology Park (1)	Otay Mesa Ind	124,223	0	0	0	0	0	120,127
Brown Field Technology Park (2)	Otay Mesa Ind	105,457	0	0	0	0	0	105,457
Skyridge Industrial Park	Vista Ind	93,662	0	93,662	0	0	0	93,662
10926 Woodside Ave N	Santee Ind	91,923	0	91,923	0	0	0	91,923
1395 Aspen Way	Vista Ind	81,928	0	0	0	0	0	79,226
Building B	Otay Mesa Ind	79,961	0	0	0	0	0	77,324
505 Main St	Chula Vista Ind	79,611	5,000	74,611	0	0	0	74,611
Carlsbad Corporate Center	Carlsbad Ind	77,147	0	0	0	0	0	74,603
Bldg 2	Otay Mesa Ind	70,862	0	50,395	0	0	0	70,862
the Labs at Oberlin	Sorrento Mesa Ind	62,800	0	0	0	0	0	61,782
<b>Subtotal Primary Competitors</b>		<b>2,915,052</b>	<b>130,886</b>	<b>432,185</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,617,818</b>
Remaining San Diego Market		202,543,938	8,120,560	(1,660,397)	(401,421)	0	0	(3,255,251)
<b>Total San Diego Market</b>		<b>205,458,990</b>	<b>8,251,446</b>	<b>(1,228,212)</b>	<b>(401,421)</b>	<b>0</b>	<b>0</b>	<b>(637,433)</b>



## TOP INDUSTRIAL LEASES PAST 12 MONTHS

Building Name/Address	Submarket	Leased SF	Qtr	Tenant Name	Tenant Rep Company	Leasing Rep Company
1610 Landmark Rd	Otay Mesa	240,975	Q1 23	RL Jones Customhouse B...	Cushman & Wakefield	Colliers
0 Rancho Del Oro Dr	Oceanside	217,000	Q4 22	Ionis Pharmaceuticals, Inc.	-	CBRE
7757 Saint Andrews Ave	Otay Mesa	199,359	Q2 22	Mad Engine	JLL	JLL
2340 Cousteau Ct	Vista	134,299	Q2 22	Aptera Motors Corp.	Cresa	Lee & Associates
5959 Santa Fe St *	PB/Rose Canyon/Morena	127,000	Q4 22	Anheuser-Busch Sales of...	-	CBRE
1695 Continental St	Otay Mesa	124,223	Q2 22	The Home Depot	CBRE	JLL
8409 Kerns St	Otay Mesa	124,000	Q3 22	Suarez Brokerage Company	JLL	JLL
8151 Airway Rd	Otay Mesa	123,748	Q2 22	Ontrac	-	Food Properties Group;...
7255 Otay Mesa Rd	Otay Mesa	105,457	Q4 22	PCI Pharma Services, Inc.	-	Cushman & Wakefield
1 Viper Way	Vista	100,500	Q2 22	Cymer Laser Technologies	-	Cushman & Wakefield
7828 Waterville Rd	Otay Mesa	100,000	Q4 22	Honeywell	-	CBRE
2020 Piper Ranch Rd *	Otay Mesa	99,840	Q3 22	Atlas Freight Forwarding	Colliers	CBRE;Cushman & Wa...
1445 Engineer St	Vista	93,662	Q4 22	PIRCH	Lee & Associates	Cushman & Wakefield
10926 Woodside Ave N	Santee	91,923	Q4 22	Central Admixture Pharm...	-	Cushman & Wakefield
3055 Enterprise Ct	Vista	86,465	Q3 22	ShipLab LLC	JLL	CBRE
2858 Loker Ave E	Carlsbad	85,556	Q3 22	Abzena	CBRE	Cushman & Wakefield
505 Main St	Chula Vista	79,611	Q1 23	-	Colliers	Cushman & Wakefield
1 Viper Way	Vista	74,889	Q2 22	Gnarlywood LLC	-	Cushman & Wakefield
10111 Riverford Rd *	Santee	72,783	Q3 22	Southland Envelope Co Inc	-	-
13950 Stowe Dr *	Poway	71,671	Q4 22	General Atomics	-	Cushman & Wakefield
2055 Sanyo Ave	Otay Mesa	67,500	Q3 22	BAE Systems	Colliers	JLL
1002-1008 Industrial Blvd	Chula Vista	56,665	Q4 22	Huntington Ingalls Industries	JLL	Voit Real Estate Services
10605 Jamacha Blvd	La Mesa/Spring Valley	55,250	Q3 22	HASA, Inc.	-	Inland Pacific
10605 Jamacha Blvd	La Mesa/Spring Valley	49,586	Q3 22	HASA Inc	-	Inland Pacific
780-784 Bay Blvd	Chula Vista	47,560	Q2 22	-	-	Voit Real Estate Services
8500 Kerns St	Otay Mesa	45,934	Q4 22	Suarez Brokerage Compa...	JLL	JLL
7077 Consolidated Way	Mira Mesa/Miramar	45,600	Q1 23	-	-	CBRE
6550 Mira Mesa Blvd	Sorrento Mesa	44,219	Q1 23	DPR Construction	-	Colliers
9043 Siempre Viva Rd	Otay Mesa	43,107	Q2 22	-	-	JLL
4602 North Ave	Oceanside	43,028	Q2 22	Willard Boats	-	Colliers
2057 Aldergrove Ave *	Escondido	42,333	Q3 22	Transportation Power, Inc.	CBRE	Lee & Associates
2811 La Mirada Dr	Vista	41,472	Q3 22	Leidos	JLL	Lee & Associates
649 Benet Rd	Oceanside	39,140	Q4 22	La Cabana Food Distributi...	Colliers	Colliers
3275 Corporate View *	Vista	38,808	Q3 22	Orbot	-	Cushman & Wakefield;...
2780 Via Orange Way	La Mesa/Spring Valley	38,300	Q4 22	Frontier Water Systems	-	Marcus & Millichap
3817 Ocean Ranch Blvd	Oceanside	38,115	Q4 22	Orange Circle Studio Cor...	CBRE	Cushman & Wakefield
4770 Ruffner St	Kearny Mesa	37,512	Q2 22	Biosero, Inc.	Voit Real Estate Ser...	Cushman & Wakefield
2765 Progress St	Vista	37,445	Q2 22	Riverstone Logistics	-	Cushman & Wakefield
2500 Sweetwater Springs Blvd	La Mesa/Spring Valley	35,544	Q2 22	-	-	Voit Real Estate Services
3636 Gateway Center Ave	Southeast San Diego	34,860	Q4 22	Técnico Corporation	Colliers	Retail Insite

\*Renewal



Year-over-year rent growth of 9.4% is coming off a peak of 12.7% at the end of 22Q3. It took one quarter later than the national trend for signs of moderation in quarterly rent growth, which took hold in 22Q4. Yet that figure, on an annualized basis, was still nearly twice the long-term average.

Tenants for industrial space are beginning to receive TI allowances again and some concessions. Over the past few years, a typical 20,000-SF lease might have received one month free at most on a five-year deal. But that trend has shifted since the end of 2022. Instead, while 4% escalations are still typical, tenants are now receiving up to four months of free rent for five-year terms.

Tenants coming out of five-year leases are facing a newer, challenging leasing environment with rents that have risen upwards of 50% for similar space in many cases. For these tenants that have become much more price-conscious as interest rates have risen, they're turning more toward renewals where escalations are often about 4.5%.

Otay Mesa finds itself in a familiar position as one of the strongest performers over the past 12 months with rent growth at the top of the market. Otay Mesa still has the lowest average rents in the region, and tenants can find new space close to the Otay Mesa Port of Entry for close to \$12/SF. Starting rates at the new Landmark at Otay,

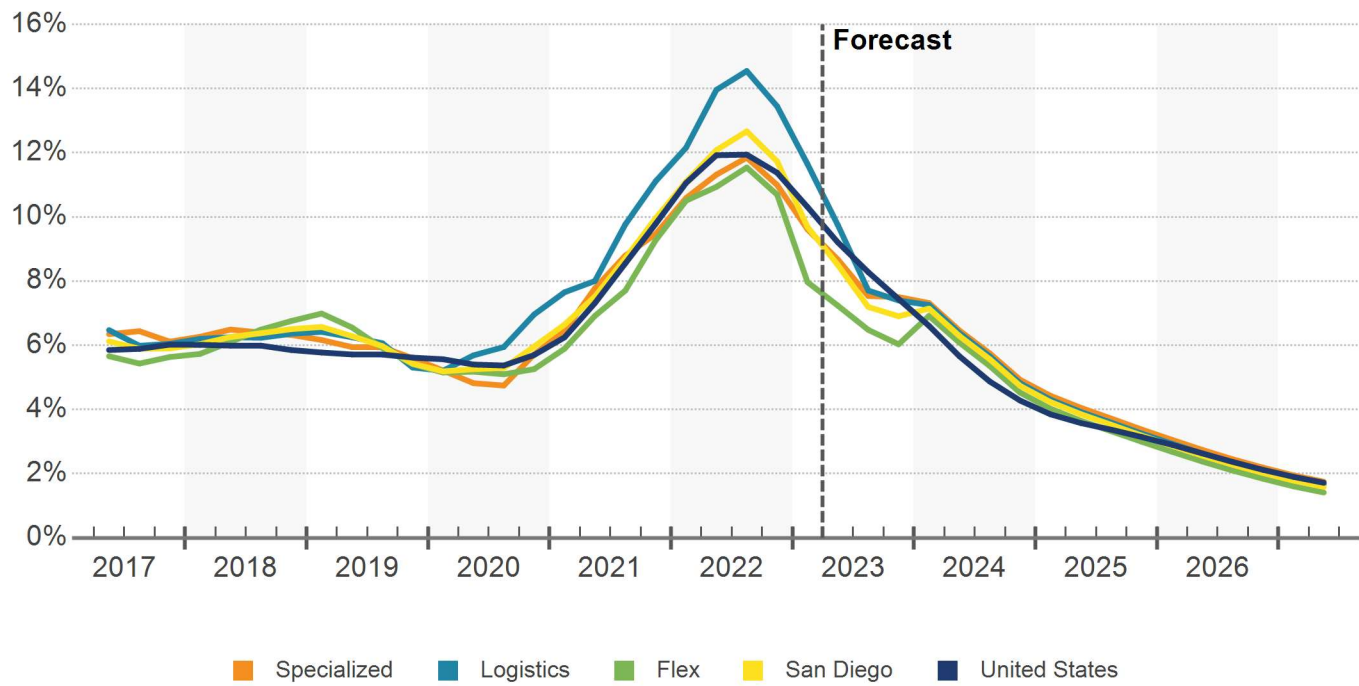
which opened in 2022, were \$10/SF NNN.

Tenants can expect to receive discounted upfront rent, free rent and high tenant improvement allowances for lab space. TI allowances for lab space typically approach, and exceed, \$200/SF.

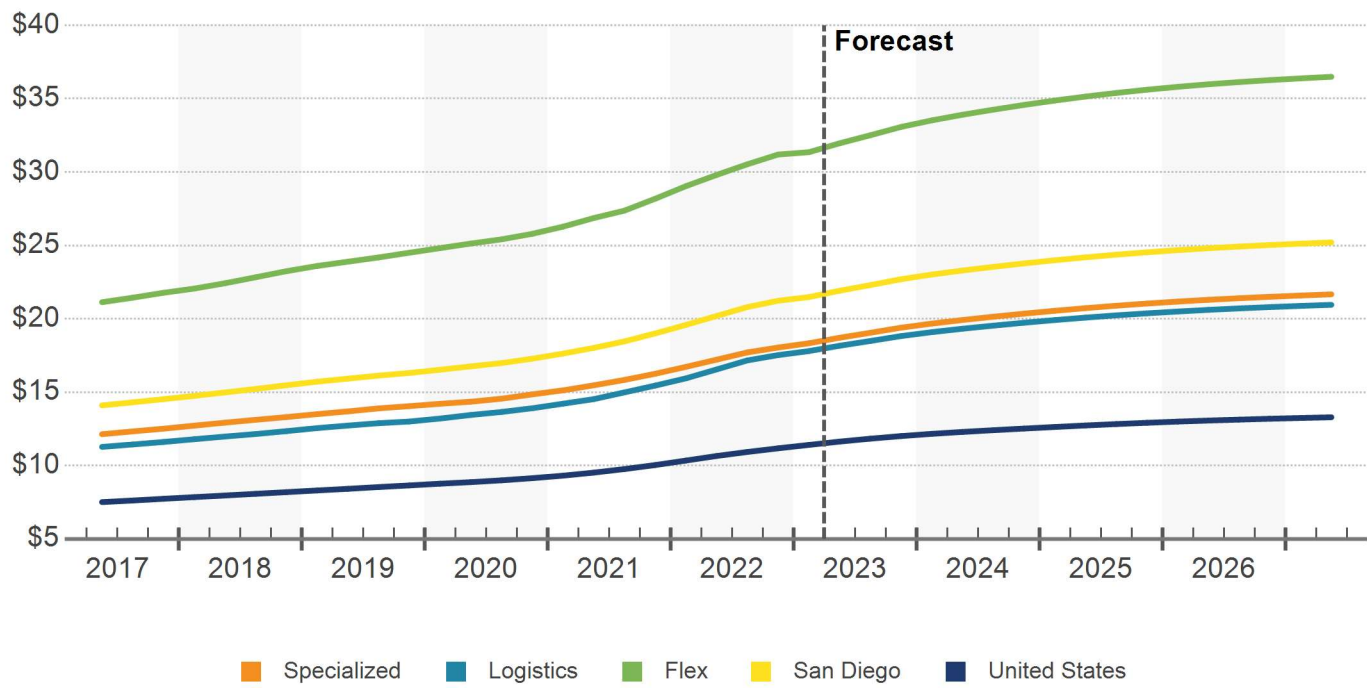
Tenants have proven that they will pay Torrey Pines prices for Sorrento Mesa. In fact, some flex buildings with lab space in those submarkets have asking rates above \$75/SF NNN, which the market has not seen before. Crinetics Pharmaceuticals' new 94,000-SF lease in Sorrento Mesa at the end of 2022 had a starting rate of almost \$68/SF gross. Similarly, the asking rate for the 50,000-SF space leased by aTyr Pharma in Sorrento Valley in 2022 was above \$70/SF NNN. The 12-year, 200,000-SF deal that Singular Genomics signed at One Alexandria Square in Torrey Pines in 2022 has an effective rate of about \$80/SF FSG. The firm received seven months of free rent upfront and nearly \$300/SF in TIs for the first-generation space. Annual escalations are 3%.

When comparing rent growth among building sizes, larger facilities are faring best. Annual rent growth for industrial and flex facilities larger than 200,000 SF has outperformed the metro modestly. It was roughly 100 basis points higher than the average market rent growth in buildings between 100,000 and 200,000 SF and modestly below for buildings less than 100,000 SF.

MARKET RENT GROWTH (YOY)



MARKET RENT PER SQUARE FEET



Few areas of San Diego offer the development opportunities as Otay Mesa does, however much of the land remains unentitled and coupled with supply chain constraints and higher lending costs for construction loans, it will take time for more inventory to begin going vertical. The construction industry is still dealing with a shortage of labor, which continues to apply pressure to development timelines and budgets.

Raw land in South County typically sells for around \$10/SF, while partially-improved and finished pads approach \$15/SF. Those costs are about 50% lower compared with North County. This is also where planners have also zoned for upwards of 10,000 housing units near the industrial campuses so that workers can be close to their jobs. Investors have commented that land prices have softened more quickly than improved sites due to high interest rates.

Logistics firms in Otay Mesa can take advantage of the busiest land port of entry from Mexico in California. There are also eight international railroad crossings for freight shipments. The USMCA free trade agreement that replaced NAFTA provides tax benefits to American and Canadian companies that outsource manufacturing and production to Mexico in place of Asian nations. Caltrans has also been actively building freeway extensions (state routes 905 and 11) along the border and throughout the submarket to better connect the roadways, allowing for easier distribution. Additionally, the San Diego Association of Governments is hoping to complete construction on the second port of entry in the eastern part of the submarket as soon as next year.

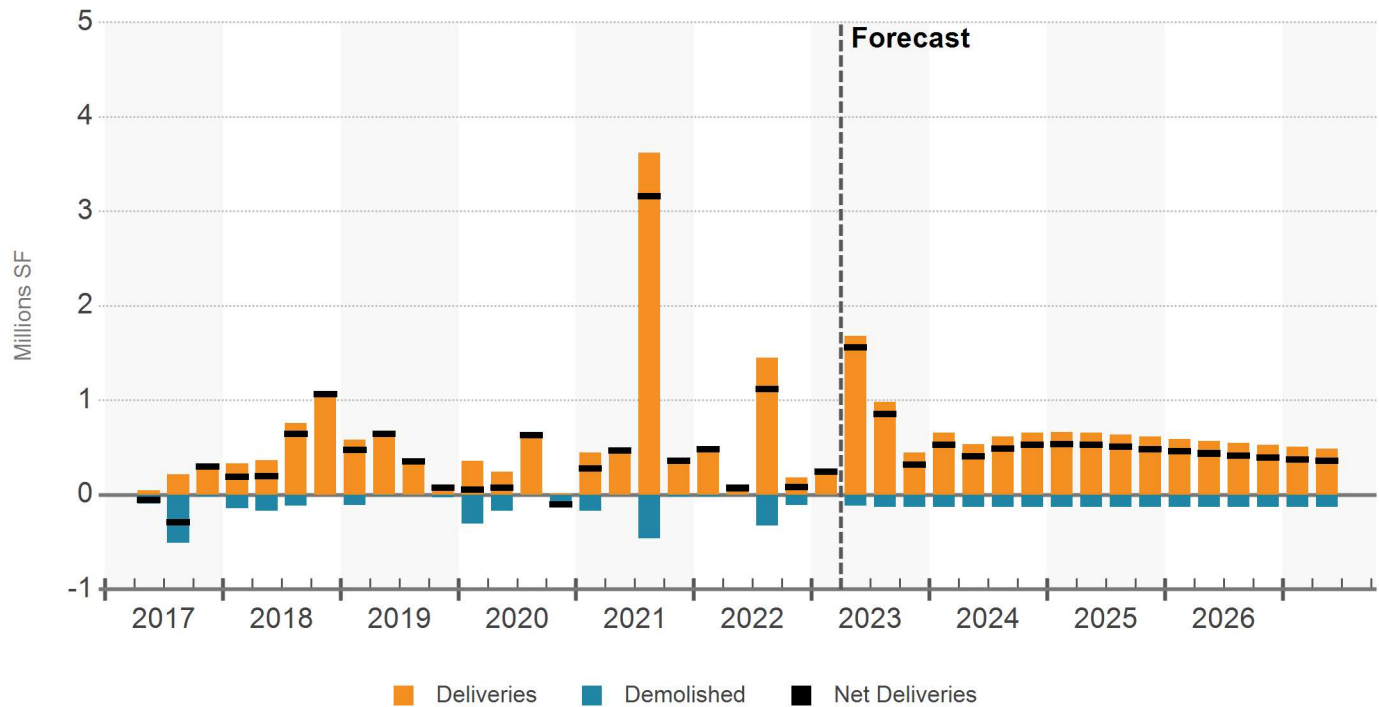
Nearly every spec building that has delivered near the port since 2019, more than 2.5 million SF, has been leased. For example, one of the two buildings at California Crossings, a 200,000-SF facility, pre-leased to Amazon ahead of its 2023 delivery, while Ontrac pre-leased half, 125,000 SF, of the Airway Logistics Center before its mid-2022 delivery. Other recent commitments for new inventory include Home Depot's 125,000-SF deal at Brown Field Technology Park, RL Jones Customhouse Brokers' 150,000-SF lease at the Landmark at Otay in 2021 followed by pre-leasing 240,000 SF in the next phase of the park in 2023. The newest phase of that campus is expected to open in 2023.

But builders are not only focusing on logistics space. San Diego is one of the primary life sciences nodes in the United States and firms such as Alexandria Real Estate have been actively adding new space.

Alexandria Real Estate Equities has a redevelopment at ARE Sunrise in Torrey Pines called One Alexandria Square that is expected to begin in the coming quarters after demolition work is complete on the existing buildings. The redevelopment received its first commitment in 22Q1, more than 200,000 SF from Singular Genomics. The deal will more than double the footprint that Singular Genomics currently occupies in the submarket. A third building was pre-leased to Boundless Bio for a significant expansion within the submarket. It is scheduled to begin delivering by the end of 2024.



### DELIVERIES & DEMOLITIONS



### SUBMARKET CONSTRUCTION

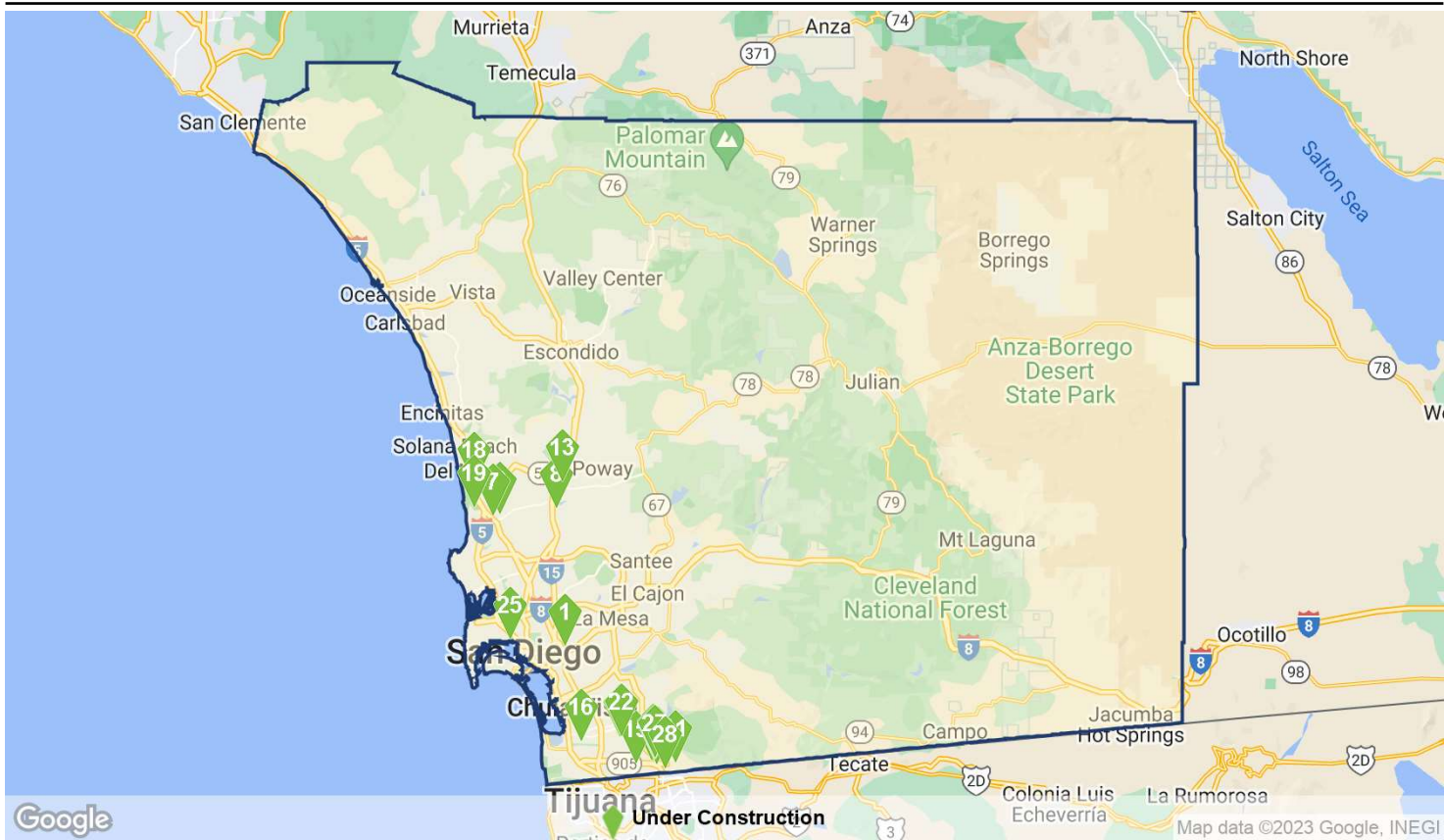
No.	Submarket	Under Construction Inventory					Average Building Size		
		Bldgs	SF (000)	Pre-Leased SF (000)	Pre-Leased %	Rank	All Existing	Under Constr	Rank
1	Otay Mesa	15	1,612	458	28.4%	5	61,004	107,488	4
2	Sorrento Mesa	2	418	163	39.0%	4	45,768	208,988	2
3	East City	1	346	346	100%	1	10,326	346,128	1
4	Chula Vista	4	299	0	0%	6	25,026	74,628	6
5	Scripps Ranch	2	248	223	90.1%	3	26,628	124,000	3
6	Torrey Pines	2	186	0	0%	6	80,128	93,150	5
7	Sports Arena/Airport	1	33	33	100%	1	17,400	32,661	7
8	Carlsbad	0	-	-	-	-	32,336	-	-
9	Central San Diego	0	-	-	-	-	17,363	-	-
10	El Cajon	0	-	-	-	-	19,013	-	-
	All Other	0	-	-	-	-	19,748	-	-
Totals		27	3,142	1,224	38.9%		23,372	116,366	

# Under Construction Properties

San Diego Industrial

Properties	Square Feet	Percent of Inventory	Released
28	3,227,888	2.1%	38.1%

## UNDER CONSTRUCTION PROPERTIES



## UNDER CONSTRUCTION

Property Name/Address	Rating	Bldg SF	Stories	Start	Complete	Developer/Owner
1 1348 47th St	★★★★☆	346,128	4	Oct 2021	Jul 2023	-
2 Building C 10075 Barnes Canyon Rd	★★★★★	254,771	5	Sep 2022	Feb 2024	Alexandria Real Estate Equities, I... Alexandria Real Estate Equities, I...
3 1610 Landmark Rd	★★★★☆	240,975	1	Sep 2022	May 2023	Majestic Realty Co. Majestic Realty Co.
4 1910 Landmark Rd	★★★★☆	235,085	1	Sep 2022	May 2023	Majestic Realty Co. Sunroad Holding Corporation
5 Bldg A 717 Harvest Rd	★★★★★	202,408	1	Nov 2020	May 2023	- Sudberry Properties, Inc.
6 8841 Sage Way	★★★★☆	183,695	1	Sep 2022	Jun 2023	Phelan Development Company -
7 Sorrento Gateway – Lot 2 4930 Directors Pl	★★★★☆	163,205	5	Feb 2022	Jun 2023	Kilroy Realty Corporation Healthpeak Properties, Inc.

# Under Construction Properties

San Diego Industrial

## UNDER CONSTRUCTION

	Property Name/Address	Rating	Bldg SF	Stories	Start	Complete	Developer/Owner
8	<b>Lot 7 &amp; 8</b> 10102 Hoyt Park Dr	★★★★★	145,000	2	Oct 2021	May 2023	Murphy Development Company Alexandria Real Estate Equities, I...
9	<b>Runway Distribution Buil...</b> 9093 Airway Rd	★★★★★	140,092	1	Sep 2022	May 2023	- Crow Holdings
10	<b>Bldg A</b> 3020 Callan Rd	★★★★★	113,700	3	Jul 2022	Dec 2023	- Healthpeak Properties, Inc.
11	<b>Lot 16</b> 7310 Otay Crossing Ct	★★★★★	110,825	1	Jan 2023	Nov 2023	TFW Construction, Inc. Phelan Development Company
12	<b>BLDG A</b> 3330 Heritage Rd	★★★★★	104,900	1	Jul 2022	Jul 2023	Rockefeller Group Rockefeller Group
13	<b>GENESIS – Summit</b> 10636 Scripps Summit Ct	★★★★★	103,000	2	Aug 2022	Jul 2023	- -
14	<b>Building 1</b> 7498 Colchester Ct	★★★★★	102,099	2	Nov 2022	Sep 2023	- Murphy Development Company
15	<b>Building 2</b> 7222 Airway Rd	★★★★★	101,145	2	Dec 2022	Sep 2023	- Murphy Development Company
16	<b>Lot 12</b> Faivre St	★★★★★	97,310	1	Feb 2023	Jul 2023	- -
17	<b>8830 Cypress Ct</b>	★★★★★	92,030	1	Sep 2022	Jun 2023	Phelan Development Company -
18	<b>Genesis Del Mar</b> 12250 El Camino Real Dr	★★★★★	86,000	3	Sep 2022	May 2023	- Phase 3 Real Estate Partners, Inc.
19	<b>Bldg B</b> 3030 Callan Rd	★★★★★	72,600	3	Mar 2022	Dec 2023	- Healthpeak Properties, Inc.
20	<b>Runway Distribution Buil...</b> 9063 Airway Rd	★★★★★	59,905	1	Sep 2022	May 2023	- Crow Holdings
21	<b>BLDG B</b> 3360 Heritage Rd	★★★★★	55,700	1	Jul 2022	Jul 2023	Rockefeller Group Rockefeller Group
22	<b>BLDG C</b> 3390 Heritage Rd	★★★★★	40,600	1	Jul 2022	Jul 2023	Rockefeller Group Rockefeller Group
23	<b>8878 Cypress Ct</b>	★★★★★	37,607	1	Sep 2022	Jun 2023	Phelan Development Company -
24	<b>8866 Cypress Ct</b>	★★★★★	36,373	1	Sep 2022	Jun 2023	Phelan Development Company -
25	<b>2701 N Harbor Dr</b>	★★★★★	32,661	1	Nov 2022	Aug 2023	- -
26	<b>8854 Cypress Ct</b>	★★★★★	32,427	1	Sep 2022	Jun 2023	Phelan Development Company -
27	<b>8842 Cypress Ct</b>	★★★★★	22,700	1	Sep 2022	Jun 2023	Phelan Development Company -
28	<b>9848 Marconi Dr</b>	★★★★★	14,947	1	Aug 2022	Aug 2023	- -



Local lenders have almost uniformly noted that industrial deal flow has slowed since mid-2022 amid high interest rates. That has shown up in transaction data, and activity is more in line with 2020 during the height of the pandemic than with the turbo-charged environment of 2021. Pricing is expected to level off for the near term as the cost of debt remains high, while cap rates are expected to see upward pressure. Institutional deals had been selling at cap rates near 4%. The Ionis deal at the end of 2022 sold at one of the highest cap rates, 6%, in recent years for a deal of its size.

While foreign investors have placed money in San Diego over the past few years, the majority of sales volume originated from national participants in the past 12 months. The average transactional price has been about \$360/SF during that span.

Much like the office market in San Diego, investors are attracted to San Diego's life science nodes where they have the potential to convert older office buildings and outdated industrial facilities into high-end lab space to accommodate the region's expanding biotech tenants. But as interest has soared there in recent years, available inventory has dwindled, leaving fewer investments there, as evidenced in the drop in deal flow in the Sorrento Mesa area since mid-2022. More than 50% of inventory has turned over there in the past five years. Otay Mesa and North County also attract investors interested in core logistics facilities.

Oxford Properties purchased the biotech campus in Carlsbad occupied by Ionis Pharmaceuticals at the end of 2022 for \$258.4 million in a sale-leaseback. The three-building campus spans roughly 250,000 SF on 18 acres, and Ionis agreed to lease the buildings for a minimum of 15 years. The cap rates worked out to 6%, which was one of the highest in the past year in San Diego. The sale also included two nearby vacant lots for \$33 million that Oxford will build additional facilities for Ionis. The agreement allows the biotech firm the right of first offer in the event of Oxford deciding to sell them. That was Oxford's second significant purchase in San Diego in 2022 after the firm purchased 13 life science and technology buildings from BioMed Realty in Sorrento Mesa and Mira Mesa for \$464 million during 22Q1. Ionis was motivated to sell its campus due to "near-term capital needs to scale our organization to deliver on our growth initiatives," according to the firm's CFO.

LaSalle Investment Management paid \$126.8 million, or about \$210/SF, to acquire the Sunroad Corporate Center in Otay Mesa at the beginning of 2023. The 600,000-SF facility was built in 2003 and was fully occupied at the time of the sale by several firms. QS Customs Brokers, Biotix and Atlas Freight Forwarding were among the tenants. The seller, ARES Corp, purchased the building at the end of 2020 for \$109 million.

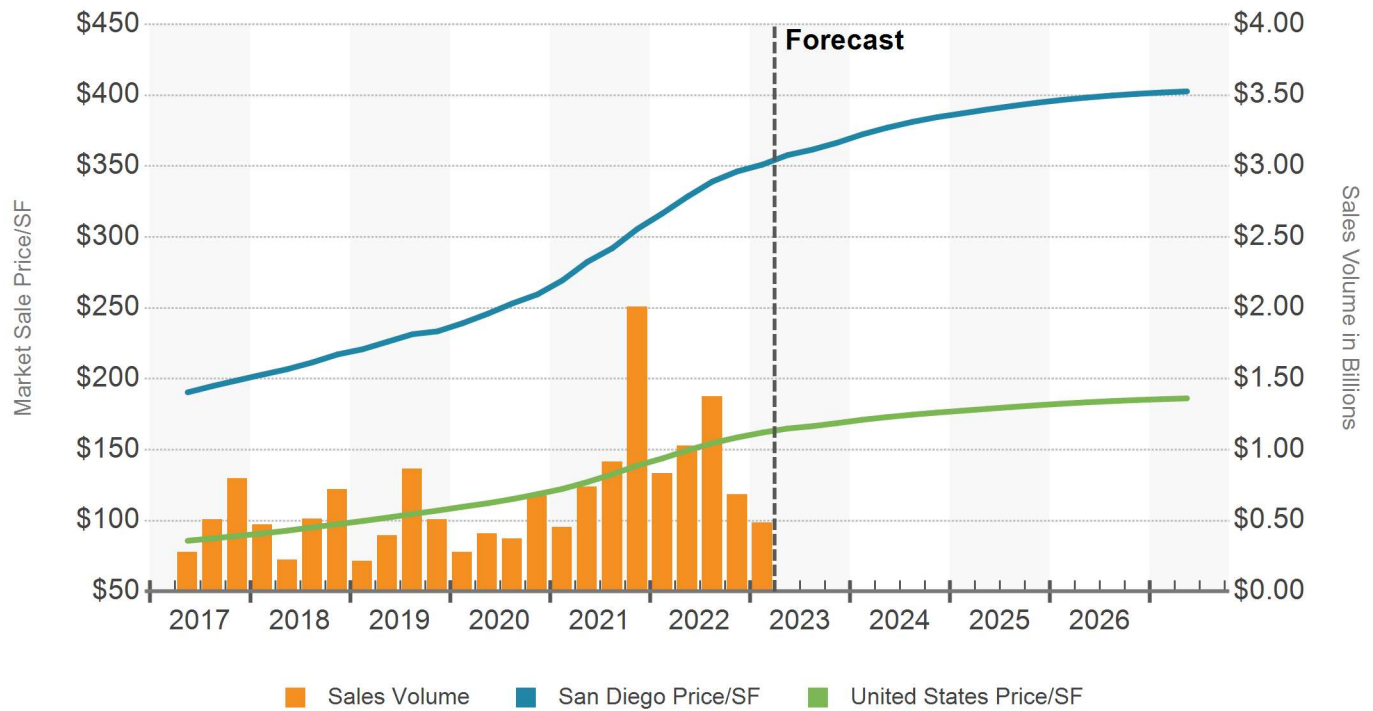
At the end of 2022, Honeywell sold its 100,000-SF facility located at the Brown Field Business Park to Murphy Development for \$15.3 million, or about \$150/SF. The seller leased back the building for an undetermined length of time. That was one of the lowest valuations in Otay Mesa in the past year for a building of its size. Honeywell had originally purchased the building to occupy in 2003 for \$9.6 million. Both of the aforementioned deals sold below the average transactional price in Otay Mesa over the past 12 months, which was closer to \$260/SF.

Hines paid \$77.1 million, or about \$336/SF, to acquire two new logistics buildings totaling 230,000 SF at Brown Field Technology Park in Otay Mesa during 22Q2. Murphy Development delivered the two buildings at the end of 2021. One received a full-building commitment during escrow for 125,000 SF from Home Depot, while the other was available for lease at the time of the sale. The new owner secured the biotech firm PCI Pharma in the entire 105,000-SF building during 22Q4.

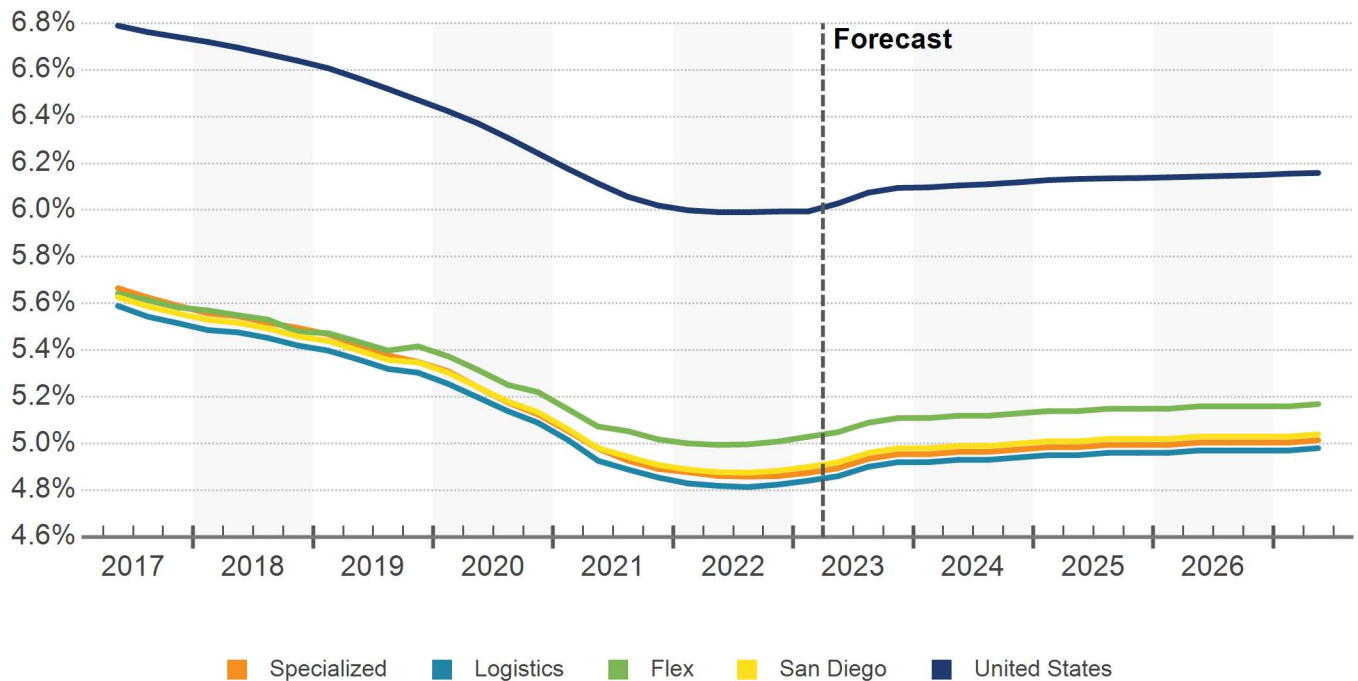
Salt Lake City-based Property Reserve Inc. purchased the newly built, 315,000-SF Kearny Mesa Logistics Center that was fully leased to Amazon for \$162.1 million, or about \$515/SF, during 22Q3 from Lincoln Property Co. The building delivered at the end of 22Q3, and Amazon's lease runs through 2034. The deal marked one of the largest for a single building in San Diego during 2022 and among the highest logistics valuations in the region.

One of the largest deals in North County in years closed in mid-2022. Lincoln Property acquired a portfolio of facilities located in San Marcos, Vista and Carlsbad for \$205 million. The facilities span more than 600,000 SF and were sold by Link Logistics Real Estate. Four buildings were located within the Vista Business Park, one of the premier logistics parks in San Diego.

### SALES VOLUME & MARKET SALE PRICE PER SF



### MARKET CAP RATE



# Sales Past 12 Months

San Diego Industrial

Sale Comparables

357

Avg. Cap Rate

4.9%

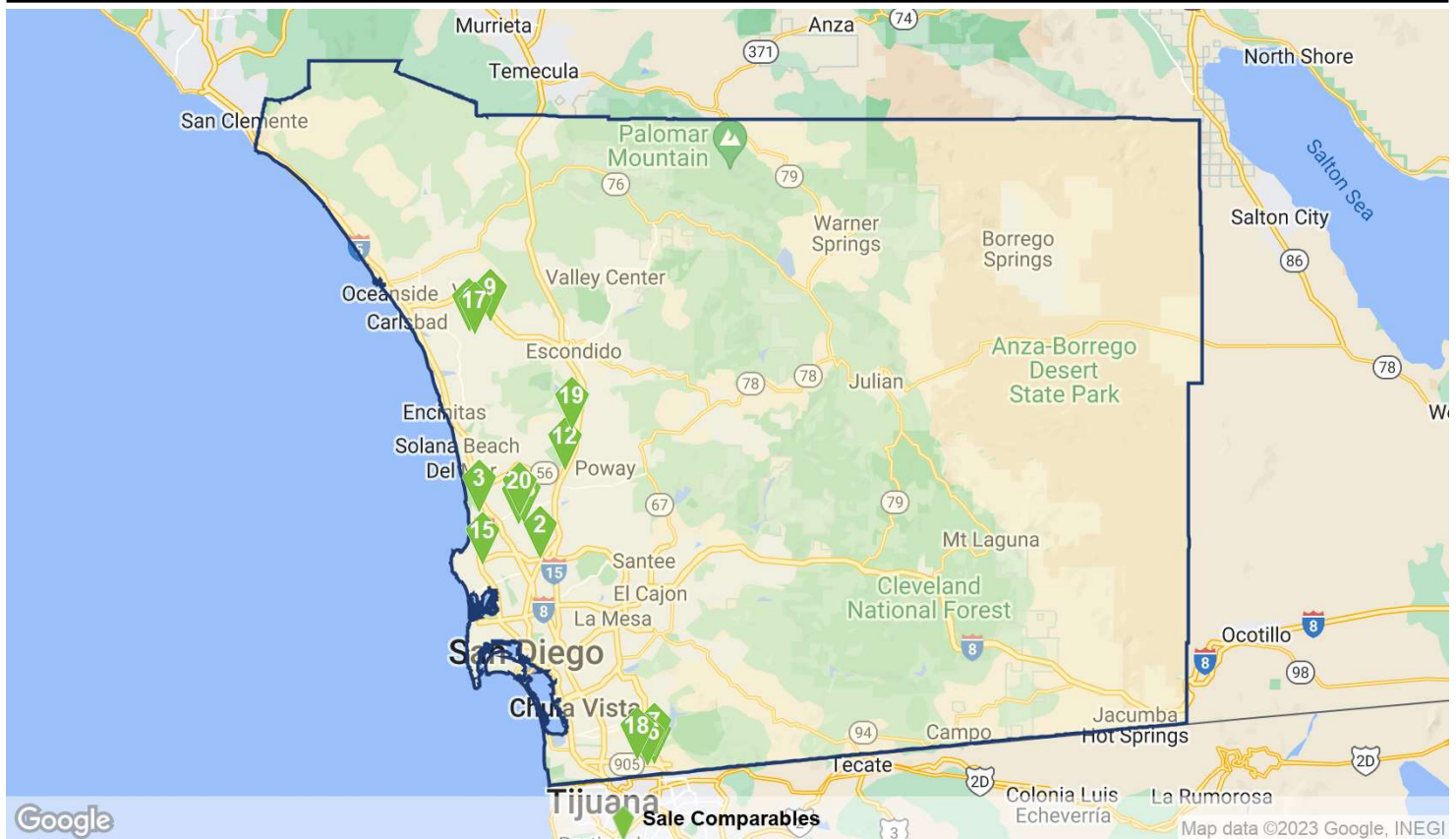
Avg. Price/SF

\$372

Avg. Vacancy At Sale

13.4%

## SALE COMPARABLE LOCATIONS



## SALE COMPARABLES SUMMARY STATISTICS

Sales Attributes	Low	Average	Median	High
Sale Price	\$125,000	\$11,027,593	\$4,000,000	\$173,720,905
Price/SF	\$5.00	\$372	\$300	\$2,588
Cap Rate	1.4%	4.9%	4.9%	10.1%
Time Since Sale in Months	0.0	6.5	6.5	12.0
Property Attributes	Low	Average	Median	High
Building SF	676	30,552	14,036	601,103
Ceiling Height	10'	20'1"	20'	40'
Docks	0	2	0	66
Vacancy Rate At Sale	0%	13.4%	0%	100%
Year Built	1900	1984	1982	2022
Star Rating	★ ★ ★ ★ ★	★ ★ ★ ★ ★ 2.3	★ ★ ★ ★ ★	★ ★ ★ ★ ★



# Sales Past 12 Months

San Diego Industrial

## RECENT SIGNIFICANT SALES

Property Name - Address	Property				Sale			
	Rating	Yr Built	Bldg SF	Vacancy	Sale Date	Price	Price/SF	Cap Rate
<b>1</b> <b>Ionis HQ</b> 2855 Gazelle Ct	★★★★★	2011	176,000	0%	10/20/2022	\$173,720,905	\$987	-
<b>2</b> <b>Kearny Mesa Logistics C...</b> 5670 Kearny Mesa Rd	★★★★★	2022	299,381	100%	9/27/2022	\$162,100,000	\$541	-
<b>3</b> <b>Spectrum IV</b> 3215 Merryfield Row	★★★★★	2018	170,523	0%	9/30/2022	\$149,940,000	\$1,256	4.5%
<b>4</b> <b>Sunroad Corporate Center</b> 2020 Piper Ranch Rd	★★★★★	2003	601,103	0%	1/27/2023	\$126,836,500	\$211	-
<b>5</b> <b>Building 65</b> 16399 W Bernardo Dr	★★★★★	1997	144,628	0%	7/27/2022	\$95,529,776	\$661	-
<b>6</b> <b>Ionis Conference Center</b> 2850 Gazelle Ct	★★★★★	2021	70,000	0%	10/20/2022	\$84,679,095	\$1,210	-
<b>7</b> <b>Building 1</b> 1210 Air Wing Rd	★★★★★	2007	178,436	0%	7/7/2022	\$84,230,000	\$472	-
<b>8</b> <b>8870 Liquid Ct</b>	★★★★★	1989	198,702	0%	12/14/2022	\$64,300,000	\$324	-
<b>9</b> <b>1 Viper Way</b>	★★★★★	1999	175,367	42.7%	6/30/2022	\$58,000,000	\$331	-
<b>10</b> <b>Building 61A</b> 16399 W Bernardo Dr	★★★★★	1976	129,107	0%	7/27/2022	\$57,319,046	\$444	-
<b>11</b> <b>Building 61</b> 16399 W Bernardo Dr	★★★★★	1970	133,144	0%	7/27/2022	\$57,280,932	\$430	-
<b>12</b> <b>13112 Evening Creek Dr</b>	★★★★★	1989	109,780	0%	9/26/2022	\$55,500,000	\$506	-
<b>13</b> <b>Building 3</b> 7330 Carroll Rd	★★★★★	1982	66,244	0%	9/16/2022	\$53,000,000	\$800	-
<b>14</b> <b>9985 Summers Ridge Rd</b>	★★★★★	2005	92,570	0%	9/29/2022	\$46,383,719	\$716	-
<b>15</b> <b>5959 Santa Fe St</b>	★★★★★	1980	131,299	0%	10/27/2022	\$46,300,000	\$353	-
<b>16</b> <b>Airway Logistics Center</b> 8151 Airway Rd	★★★★★	2022	249,634	50.0%	5/24/2022	\$44,650,000	\$179	-
<b>17</b> <b>1395 Park Center Dr</b>	★★★★★	2000	155,069	0%	8/15/2022	\$43,715,500	\$282	-
<b>18</b> <b>Brown Field Technology...</b> 7255 Otay Mesa Rd	★★★★★	2021	105,457	100%	6/6/2022	\$43,500,000	\$412	-
<b>19</b> <b>Building 61B</b> 16399 W Bernardo Dr	★★★★★	1985	84,491	0%	7/27/2022	\$41,161,355	\$487	-
<b>20</b> <b>9975 Summers Ridge Rd</b>	★★★★★	2005	81,898	0%	9/29/2022	\$40,609,309	\$708	-

After ending 2022 with the second-lowest unemployment rate in 20 years, the rate surged to 3.7% in January following the loss of more than 16,000 nonfarm jobs, according to the latest jobs report released by the Bureau of Labor Statistics. The jump from a revised 3% is still below California's unemployment rate of 4.6%, although it's the highest local rate since February 2022.

Part of that increase in the unemployment rate can also be attributed to the rise in the civilian labor force. It climbed to the highest level since February 2020 in January, reaching 1.6 million people for the first time since then, nearly matching the pre-pandemic level.

In January, the government sector was the only employment industry to see more than marginal job growth, adding 4,900 positions during the month.

Conversely, nearly every other employment sector posted job losses, with none more than the professional and business services sector. It shed 6,900 jobs in January. That was the driving force behind the widely recognized office-using sectors that also includes information and financial activities to see a drop in 6,600 jobs.

That sector could see further turbulence in the coming months given that several notable high-tech and life science firms have announced layoffs in the past month, according to Work Adjustment and Retraining Notices, known as WARN notices, filed with the State of California.

Among the layoff notices that have spread across the region: Thermo Fisher Scientific announced 384 layoffs; Sorrento Therapeutics announced 538; Qualcomm filed a notice for 79 layoffs; and Pfizer laid off 196 workers.

That could spell further disruption in the office market, particularly in the sublease market that has already seen the level reach a record high during the first quarter.

Sorrento Therapeutics' announcement came after it filed for bankruptcy at the end of February. The biotech firm has a new 163,000-square-foot lab property nearing completion in Sorrento Mesa and extended all of its local leases in 2022, covering more than 350,000 square feet, for 15 years.

Thermo Fisher occupies more than 1 million square feet from Carlsbad to Sorrento Mesa. The firm announced the layoffs, citing the drop in demand for COVID-19 testing kits coupled with economic headwinds.

It's possible that those same economic headwinds could lead to further turbulence across San Diego's employment landscape as firms navigate a period of economic uncertainty.

More than 80 research institutes are located in San Diego, from Scripps Research Institute to Salk Institute for Biological Studies, in addition to five universities. This cluster of research in the Golden Triangle has created one of the strongest life science cores in the United States. Furthermore, Scripps Health has five campuses across the metro and announced that it is spending \$2.6 billion on upgrades to its facilities, further bolstering San Diego as a destination for "medical tourism."

San Diego is also home to more than 140,000 active duty and civilian military employees. The defense industry accounts for more than 350,000 jobs in the region according to the San Diego Military Advisory Council. That is close to 25% of the economy. And the Navy's renewed focus on the Pacific theater of operation will result in a 60/40 split between the Pacific and Atlantic fleets, further solidifying San Diego's status as a major Navy hub.

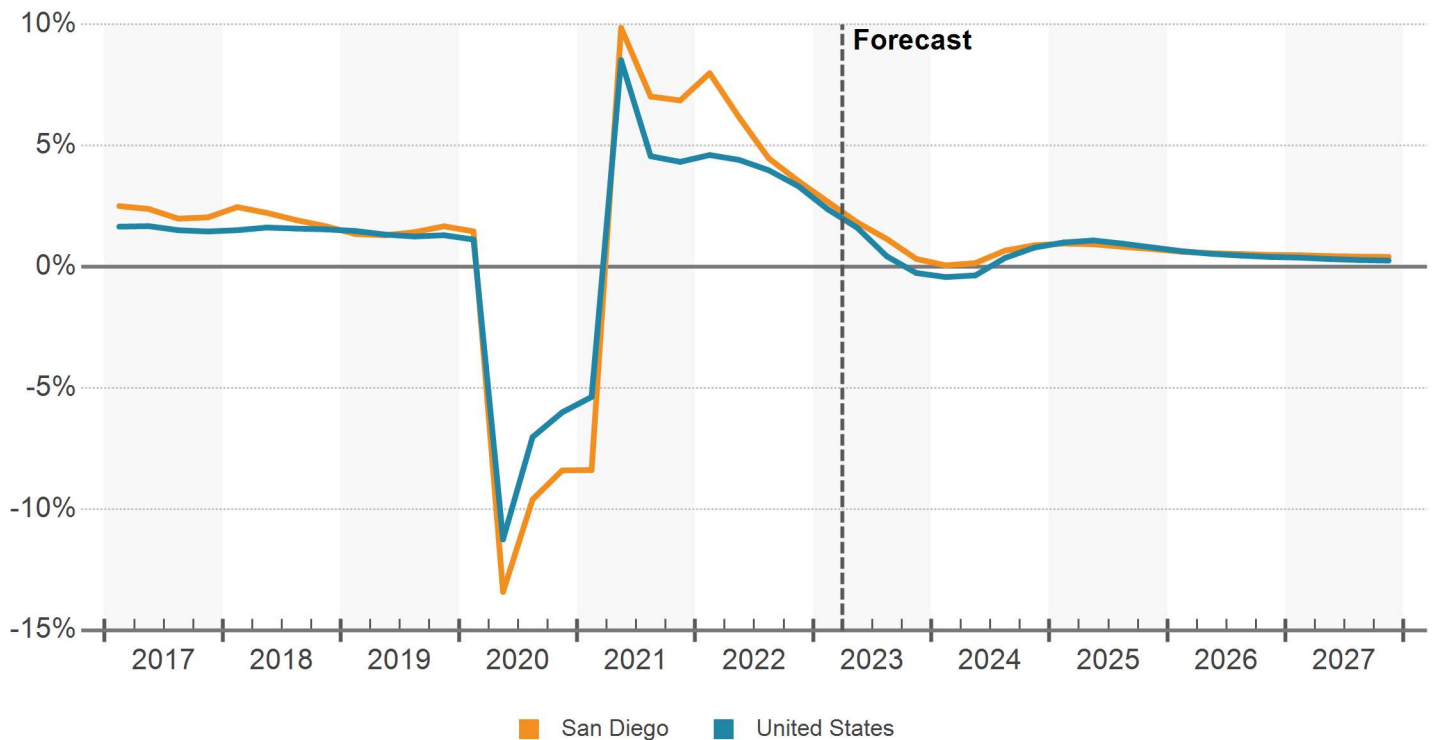
It is also why San Diego has one of the largest concentrations of millennials in the country, accounting for 25% of the population.

### SAN DIEGO EMPLOYMENT BY INDUSTRY IN THOUSANDS

Industry	CURRENT JOBS		CURRENT GROWTH		10 YR HISTORICAL		5 YR FORECAST	
	Jobs	LQ	Market	US	Market	US	Market	US
Manufacturing	115	0.9	0.58%	2.52%	1.50%	0.78%	0.18%	-0.03%
Trade, Transportation and Utilities	225	0.8	1.82%	0.89%	0.56%	1.17%	0.00%	0.07%
Retail Trade	145	0.9	1.99%	-0.03%	0.41%	0.54%	0.05%	0.08%
Financial Activities	75	0.8	-0.56%	1.39%	0.60%	1.39%	0.03%	0.08%
Government	249	1.1	2.75%	1.18%	0.99%	0.25%	0.54%	0.55%
Natural Resources, Mining and Construction	88	1.0	3.79%	2.66%	3.83%	2.40%	0.71%	0.21%
Education and Health Services	228	0.9	3.78%	3.38%	2.42%	1.72%	0.91%	0.53%
Professional and Business Services	282	1.3	1.84%	2.41%	2.72%	2.07%	0.35%	0.33%
Information	23	0.7	3.90%	4.67%	-0.47%	1.32%	0.40%	0.21%
Leisure and Hospitality	199	1.2	4.99%	4.75%	1.95%	1.35%	1.08%	1.03%
Other Services	55	1.0	3.71%	2.56%	1.10%	0.59%	0.46%	0.30%
<b>Total Employment</b>	<b>1,540</b>	<b>1.0</b>	<b>2.66%</b>	<b>2.35%</b>	<b>1.69%</b>	<b>1.28%</b>	<b>0.50%</b>	<b>0.37%</b>

Source: Oxford Economics  
LQ = Location Quotient

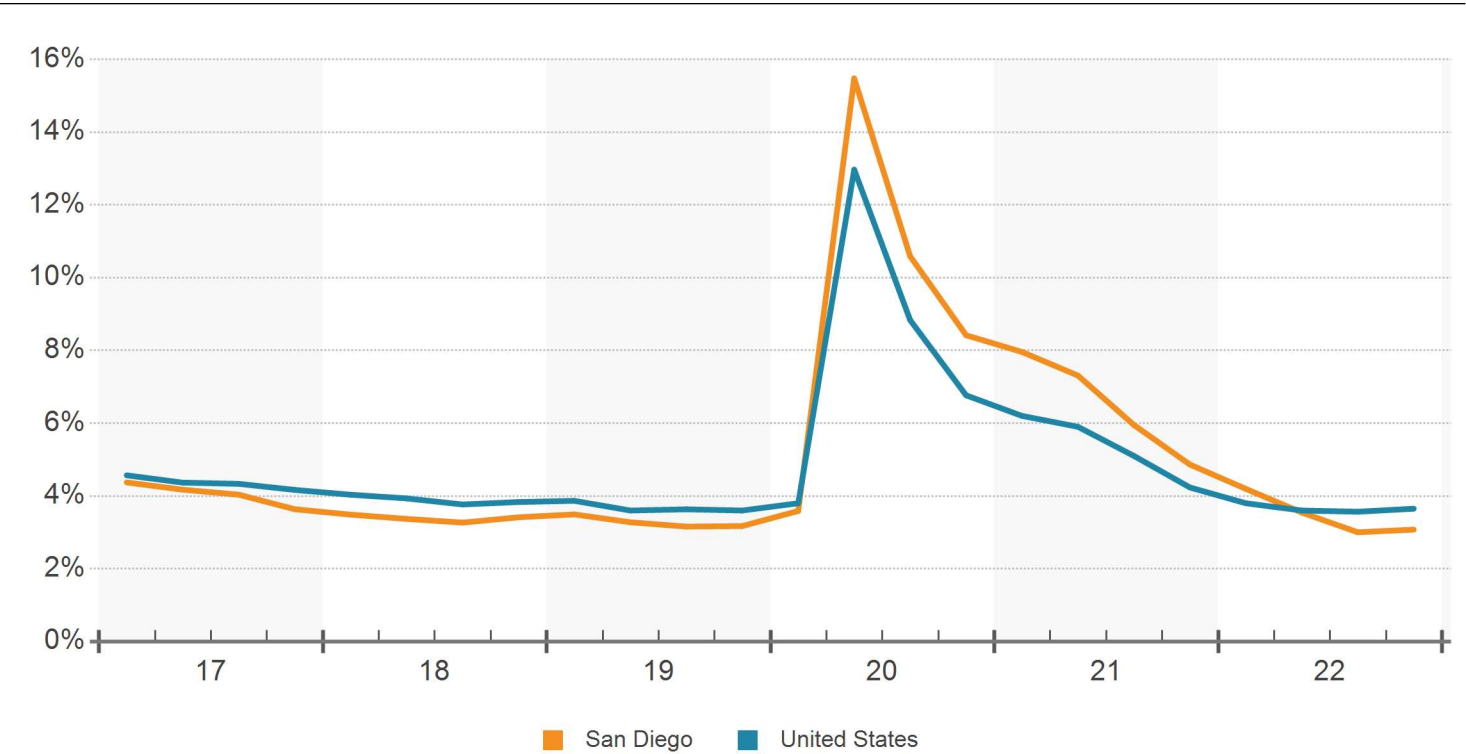
### JOB GROWTH (YOY)



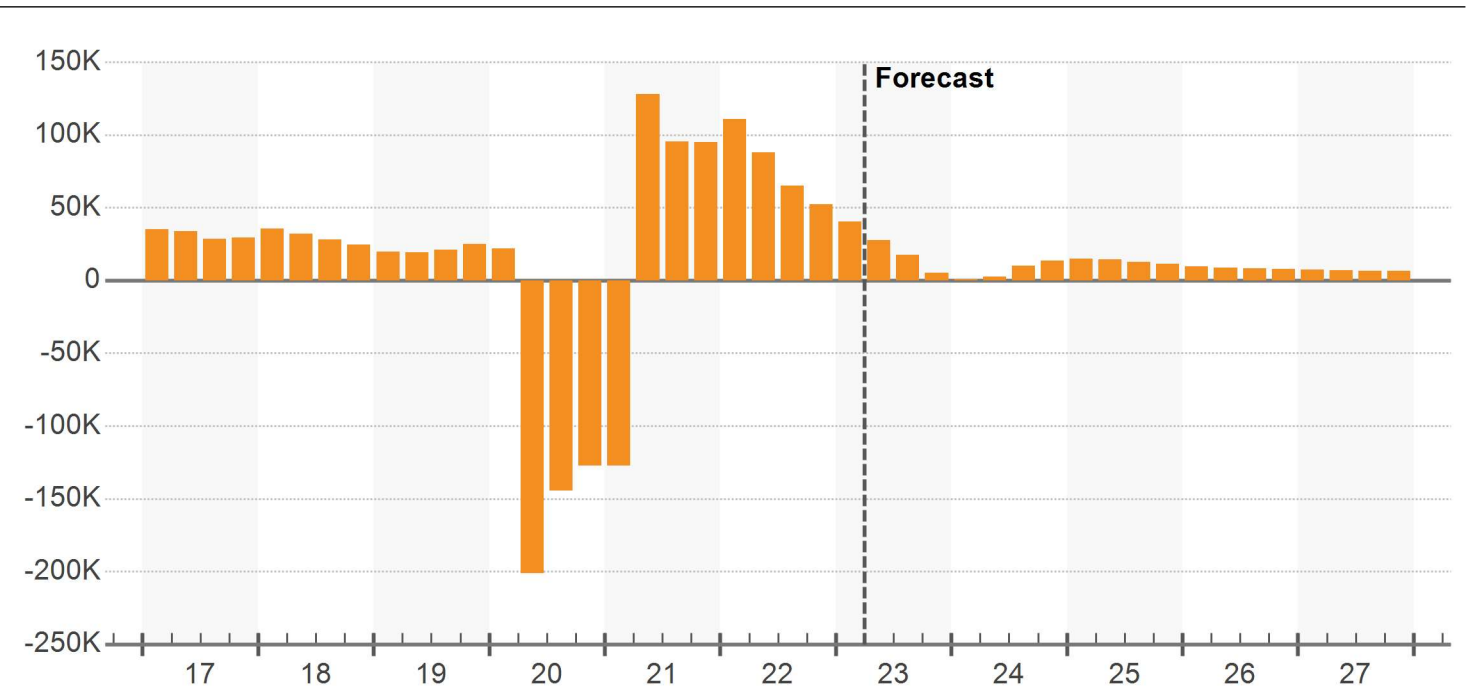
Source: Oxford Economics



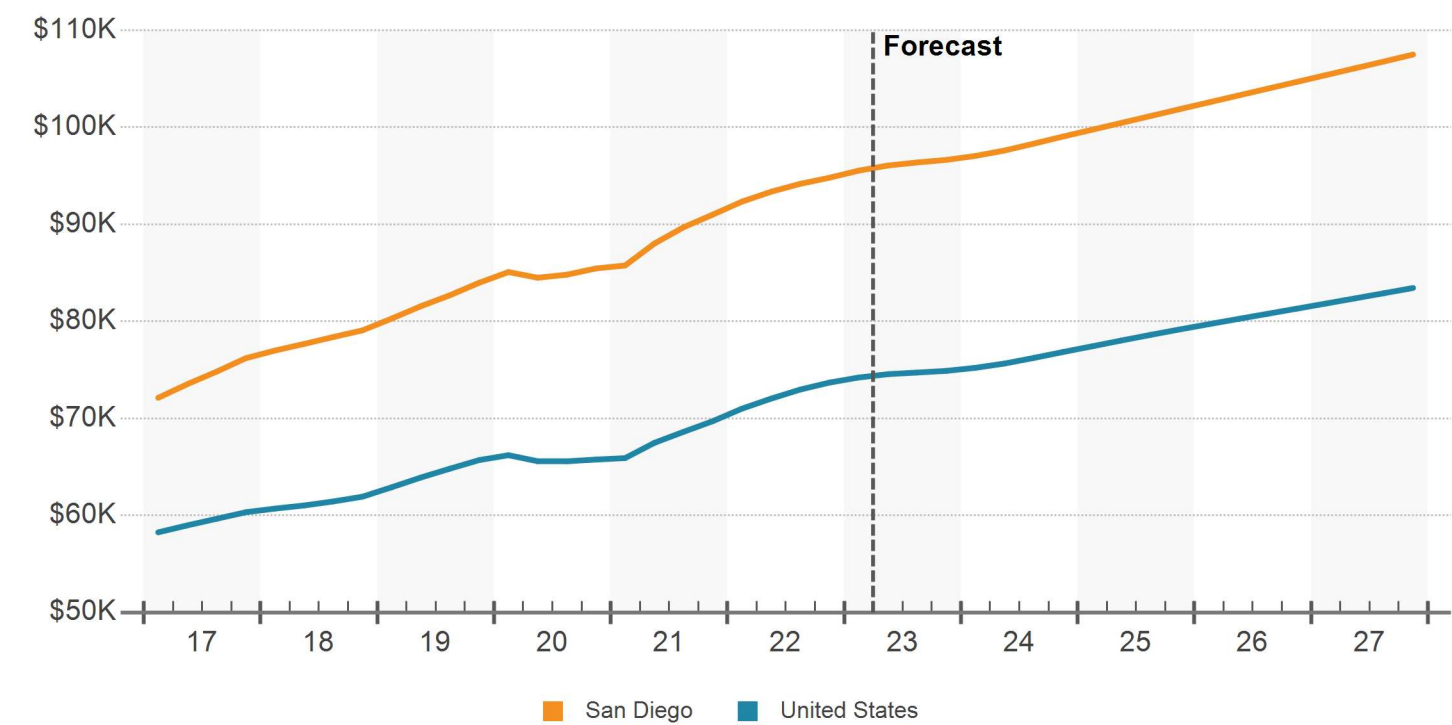
UNEMPLOYMENT RATE (%)



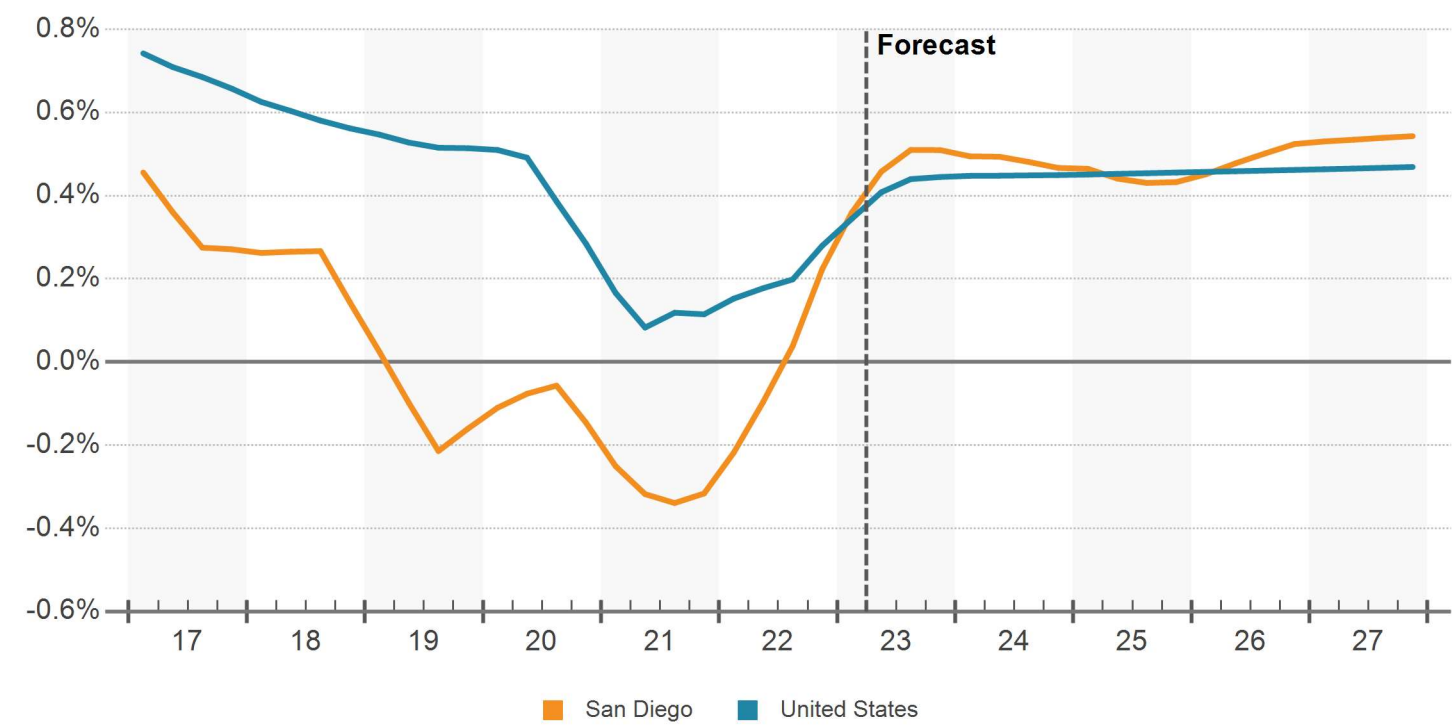
NET EMPLOYMENT CHANGE (YOY)



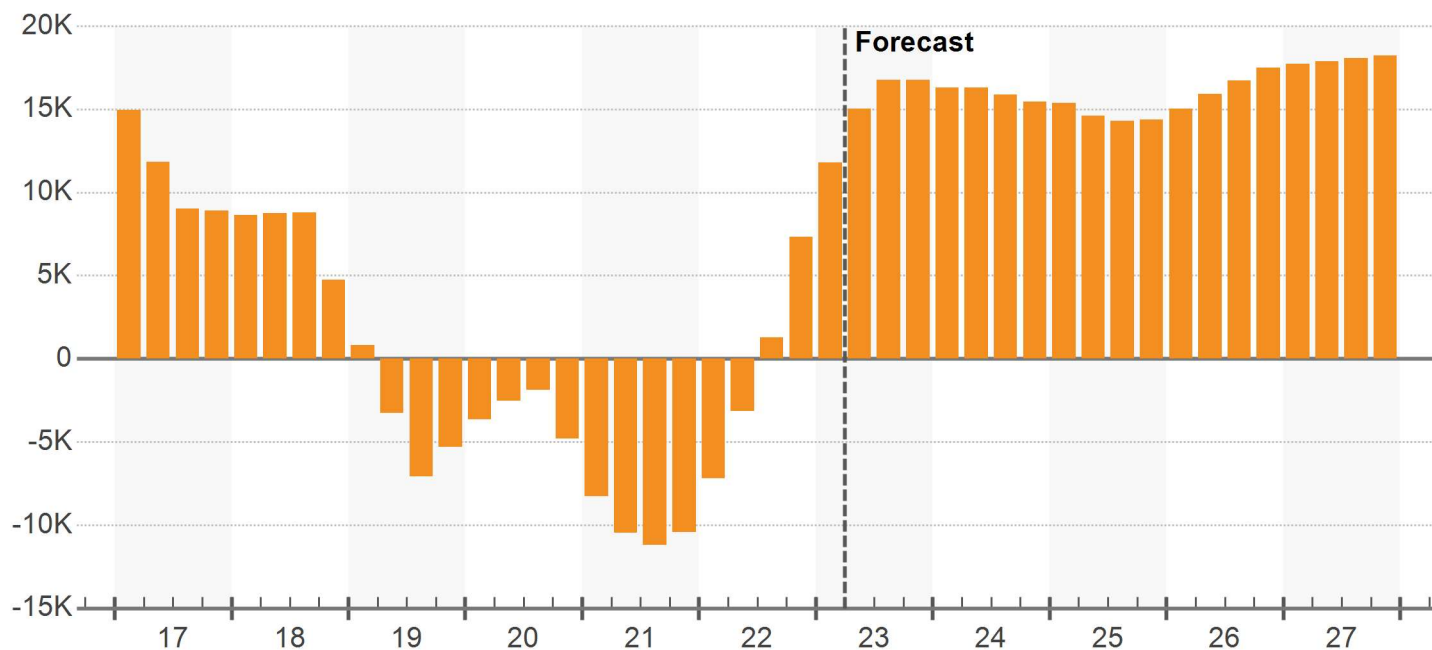
MEDIAN HOUSEHOLD INCOME



POPULATION GROWTH (YOY %)



### NET POPULATION CHANGE (YOY)

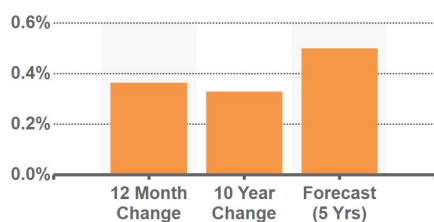


### DEMOGRAPHIC TRENDS

Demographic Category	Current Level		12 Month Change		10 Year Change		5 Year Forecast	
	Metro	US	Metro	US	Metro	US	Metro	US
Population	3,295,919	333,309,000	0.4%	0.3%	0.3%	0.5%	0.5%	0.5%
Households	1,177,999	129,340,727	0.9%	0.9%	0.4%	0.8%	0.6%	0.6%
Median Household Income	\$95,555	\$74,229	3.4%	4.5%	4.7%	3.7%	2.5%	2.5%
Labor Force	1,590,587	165,148,906	0.5%	0.7%	0.4%	0.6%	0.4%	0.4%
Unemployment	3.1%	3.7%	-1.1%	-0.1%	-0.5%	-0.4%	-	-

Source: Oxford Economics

### POPULATION GROWTH



### LABOR FORCE GROWTH



### INCOME GROWTH



Source: Oxford Economics