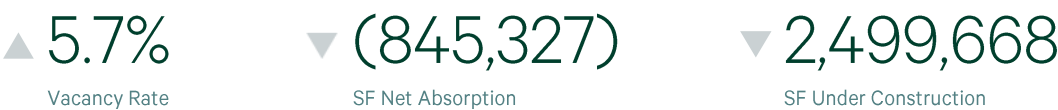


FIGURES | SAN DIEGO INDUSTRIAL | Q3 2024

Vacancies Continue to Rise but Rents Show Resiliency



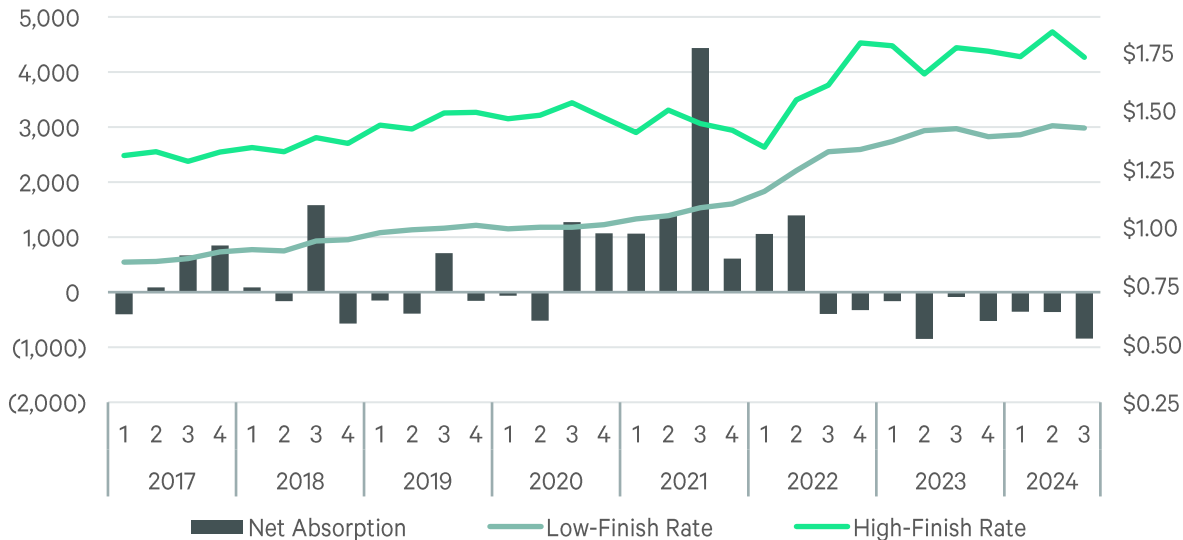
Note: Arrows indicate change from previous quarter.

HIGHLIGHTS

- The industrial availability rate increased by 40 bps in Q3 to 8.1%, after expanding by 70 bps in Q2.
- Net absorption was negative for a ninth consecutive quarter and occupancy losses more than doubled Q-o-Q.
- Low-finish asking rents, despite decreasing from Q2's record-high, came in well above the 12-quarter average.
- High-finish asking rents, after similarly surging to an all-time high in Q2, moderately surpassed the 12-quarter average in Q3.
- Available sublet space increased 10 bps from Q2 to 1.6%, a post-2009 peak.
- Deliveries fell to the lowest level since Q4 2022, but the construction pipeline remained virtually on par with the three-year average.



FIGURE 1: Net Absorption (SF in Thousands) vs. Asking Lease Rate (PSF/MO/NNN)



Source: CBRE Research, Q3 2024

MARKET OVERVIEW

The San Diego industrial market saw vacancies increase and demand soften in Q3, but overall market fundamentals remained healthy when compared to pre-pandemic historical averages. In the long-term that trend is likely to continue, as the market should benefit from a relatively finite supply of industrial product. Outside of South San Diego, most areas have little land available for growth, which will stunt new construction and keep supply-driven pressure to a minimum.

The local industrial market appears to be well positioned for the future, and though vacancies could move higher in the near-term, modest inventory expansion and a growing economy should hold fundamentals in check.

UNEMPLOYMENT

As has been the standard since June 2020, San Diego’s unemployment rate remained below the California average. In August, the most recent month for which data was available, the unemployment rate was 5.0%, or 90 basis points (bps) below the state norm. However, unemployment increased 60 bps year-over-year (Y-o-Y) and touched the 5%-range for the first time since October 2021. The move higher was driven by people rejoining the workforce, as opposed to a decrease in payrolls. Industrial hiring has been largely stagnant over the past 12 months, including again in Q3. The number of industrial-using jobs fell by a combined 0.1% in July and August, compared to a 0.3% increase in Q2.

ASKING LEASE RATE ANALYSIS

Asking rents have experienced remarkable expansion this decade, particularly for low-finish product, but with demand waning growth has cooled and that trend continued in Q3.

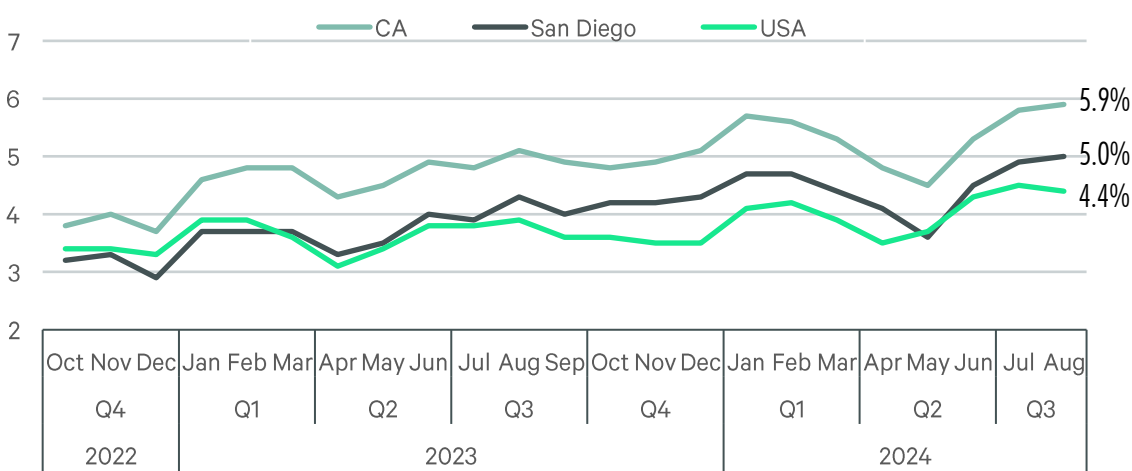
Q-o-Q, the average low-finish asking rent decreased by 0.7% and was flat Y-o-Y, but since the end of 2019, rates have increased by an extraordinary 40.6%. In contrast, high-finish rents fell 6% from Q2 and were down Y-o-Y by 2.3%. While not on par with low-finish, high-finish rents have grown by 16.1% since the beginning of 2020.

The average low-finish rate moved higher Q-o-Q in three of San Diego’s five submarkets, including Central San Diego (1.8%), East County (1.5%), and Southwest Riverside (2.7%).

As home to 64.3 million sq. ft., or 34.7%, of all local product, Central San Diego is the county’s largest industrial submarket, and Kearny Mesa, Poway, and Rancho Bernardo were among its top performing areas in Q3.

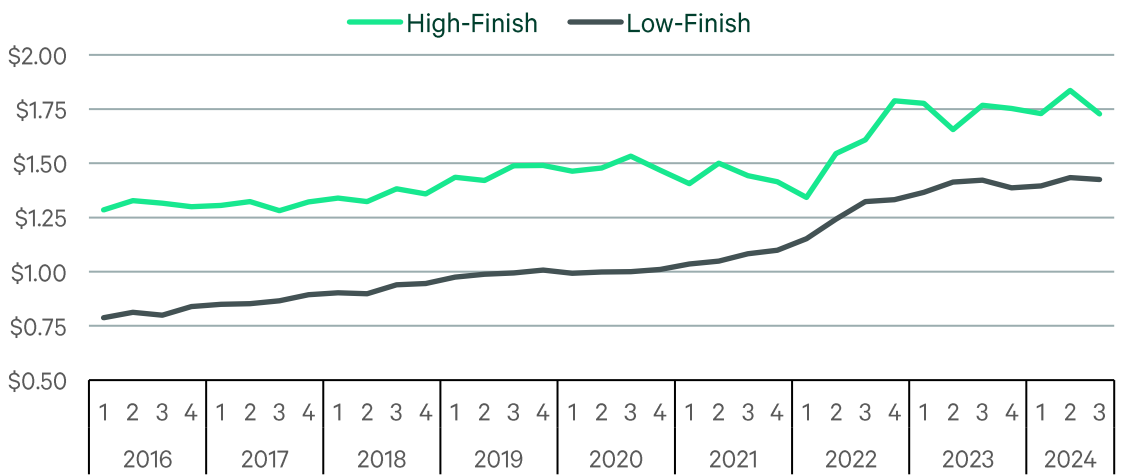
High-finish rates, in stark contrast, decreased in all local submarkets.

FIGURE 2: Unemployment Rate (%)



Source: U.S. Bureau of Labor Statistics, Q3 2024

FIGURE 3: Average Asking Lease Rate (\$PSF/MO/NNN)



Source: CBRE Research, Q3 2024

VACANCY & AVAILABILITY

Industrial availability and vacancy continued to climb in Q3. Q-o-Q, total availability increased 40 bps, to 8.1%, and similarly, total vacancy expanded by 50 bps, to 5.7%. Still, those levels are near the market’s historical norms. San Diego’s average industrial vacancy rate from 2010-19 was 6.5%, while total availability during the same period averaged 9.3%.

The vacancy rate increased in three of the five submarkets, with the largest downturn coming in South San Diego. Vacancies moved from 9.3% to 10.8%. as new product continued to deliver with no preleasing. In sum, South San Diego has gained 9.6 million sq. ft. of new inventory since 2020, Central San Diego and North San Diego both saw vacancies rise marginally, but conversely, East County and SW Riverside experienced some tightening.

Sublease availabilities have risen throughout 2024 with several large blocks of space being added to the market. In Q3, sublease availability increased to 1.6%, with 15 subleases between 20,000 – 90,000 sq. ft. on the market at quarter’s end.

NET ABSORPTION & LEASING ACTIVITY

In Q3, demand was negative for a ninth-consecutive quarter. A total of 845,327 sq. ft. of negative net absorption was recorded, or more than double the year’s first half. In Q1 and Q2, the market realized 358,851 sq. ft. of negative net absorption. Q3 leasing activity amounted to 1.7 million sq. ft., compared to a 1.96 million-sq.-ft. average in H1.

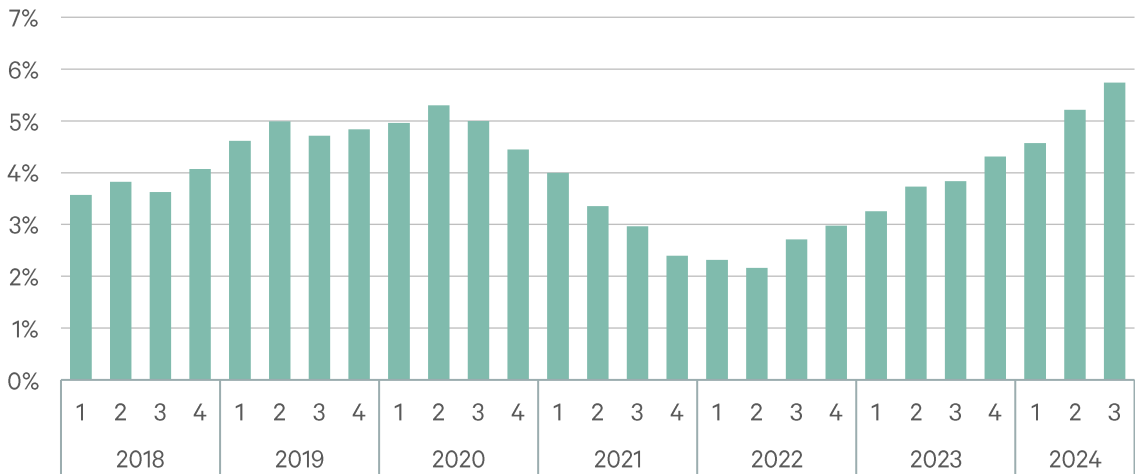
All submarkets realized negative demand in Q3. South San Diego saw 401,581 sq. ft. of negative net absorption, while North County had 42,508 sq. ft. of negative demand. Still, North County accounted for one of the largest deals of the quarter, as Upper Deck signed a lease for 2081 Faraday Ave. in Carlsbad, a 157,973-sq-ft property.

The majority of demand came from low-finish space, which constitutes almost 85% of San Diego’s industrial product. Net absorption for this type of space amounted to (676,658) sq. ft. However, in terms of leasing activity, warehouse/distribution was the strongest subtype, with 1.8 million sq. ft. of activity in Q3.

Three new deals were signed in Q3 for at least 100,000 sq. ft.

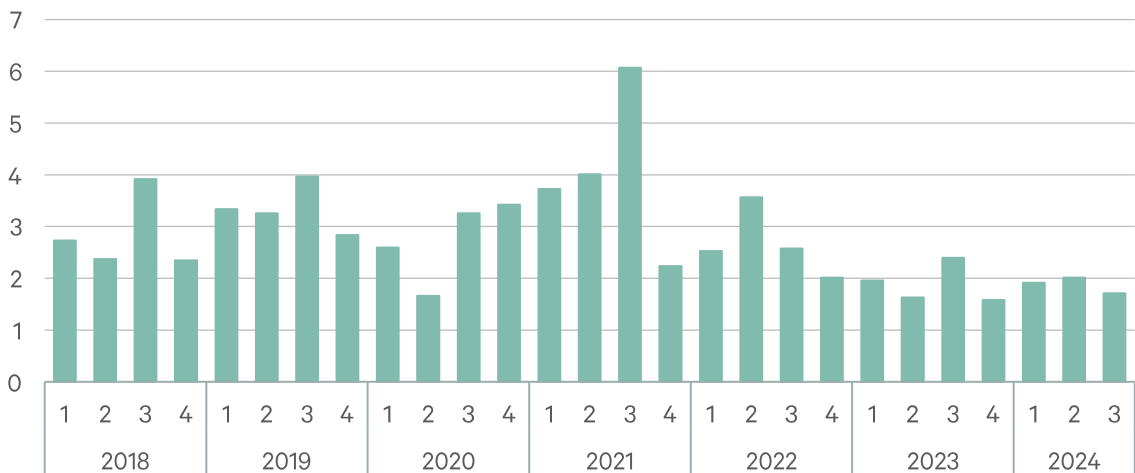
The negative absorption of recent quarters may provide a potential benefit. Many occupiers have struggled to meet their space needs due to a lack of availabilities, but the recent uptick in availability could provide needed solutions for expanding tenants, particularly in the most impacted submarkets.

FIGURE 4: Vacancy Rate (%)



Source: CBRE Research, Q3 2024

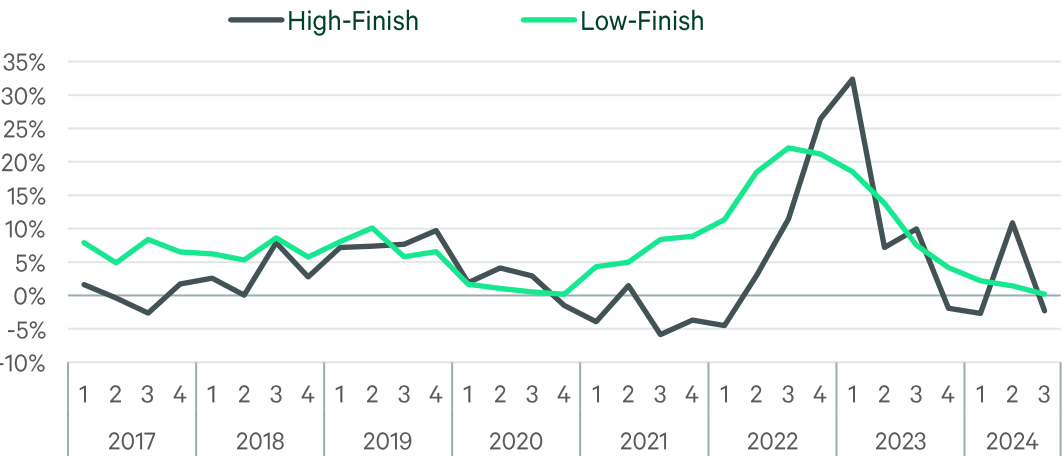
FIGURE 5: Leasing Activity (SF in Millions)



Source: CBRE Research, Q3 2024

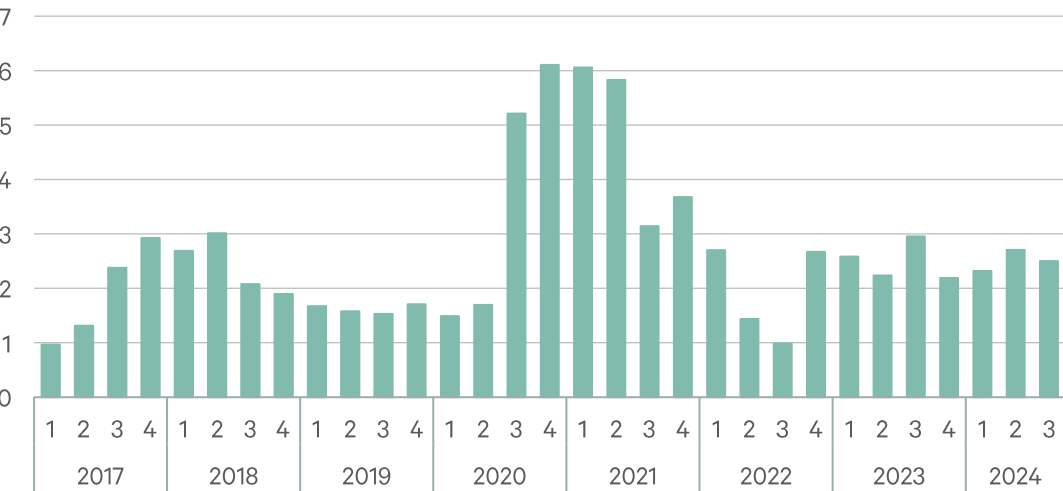
FIGURES INSERT | SAN DIEGO | Q3 2024

FIGURE 1: Historical Avg. Asking Lease Rate Growth (%)



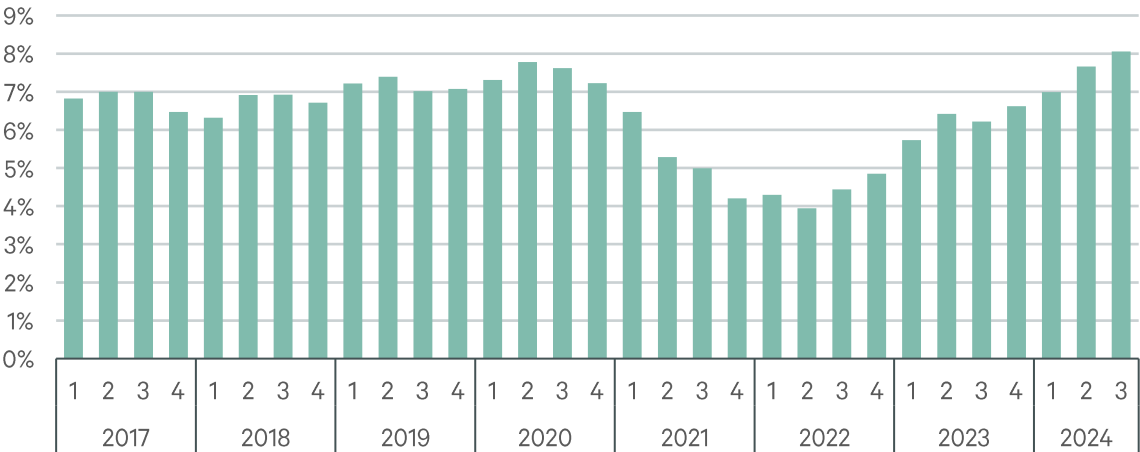
Source: CBRE Research, Q3 2024

FIGURE 3: Historical Under Construction (SF in Millions)



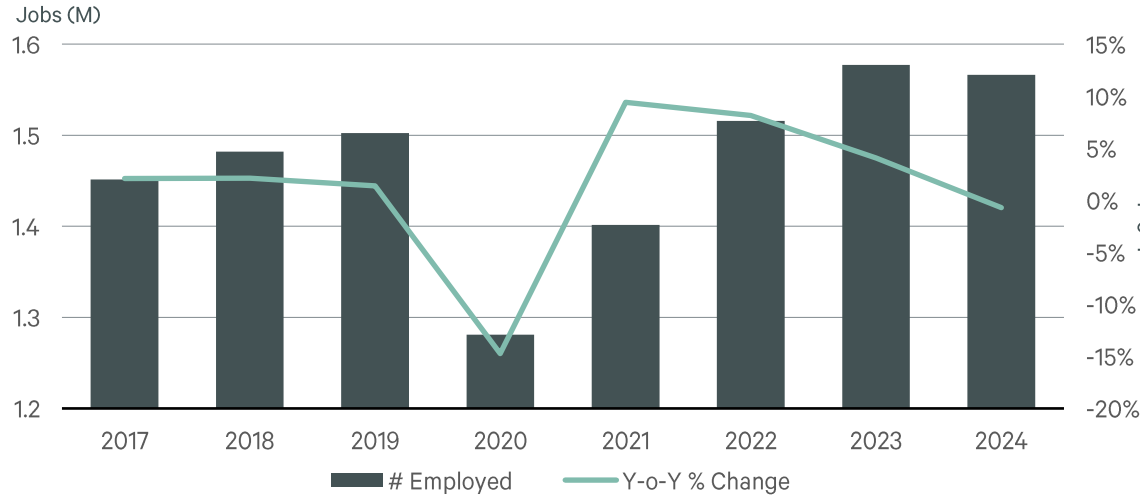
Source: CBRE Research, Q3 2024

FIGURE 2: Historical Availability (%)



Source: CBRE Research, Q3 2024

FIGURE 4: Year-Over-Year Job Growth



Source: CBRE Research, Q3 2024

FIGURE 5: Market Statistics

	RBA	Total Vacant	Total Available	Net Absorption	Under Construction	Construction Deliveries	Asking Rate Low Finish	Asking Rate High Finish	Leasing Activity
Central San Diego	64,343,080	4.3%	6.8%	(343,288)	216,800	0	\$1.69	\$1.82	428,777
East County	15,115,536	1.6%	2.6%	(56,647)	384,501	0	\$1.38	\$1.16	93,888
North County	50,918,412	5.5%	8.0%	(42,508)	143,122	0	\$1.36	\$1.66	850,336
South San Diego	40,237,645	10.8%	13.2%	(401,581)	1,755,245	205,845	\$1.32	\$0.00	251,251
Southwest Riverside	15,065,092	3.6%	5.4%	(1,303)	0	0	\$1.16	\$1.10	85,492
San Diego Totals	185,679,765	5.7%	8.1%	(845,327)	2,499,668	205,845	\$1.42	\$1.73	1,709,744
High-Finish	31,555,096	5.1%	8.0%	(168,669)	0	0	\$0.00	\$1.73	202,631
Business Park R&D	8,599,591	4.1%	6.1%	27,415	0	0	\$0.00	\$1.75	124,319
R&D	22,955,505	5.5%	8.7%	(196,084)	0	0	\$0.00	\$1.72	78,312
Low-Finish	154,124,669	5.9%	8.1%	(676,658)	2,499,668	205,845	\$1.42	\$0.00	1,507,113
Business Park Ind	25,712,393	4.6%	6.2%	(95,347)	0	0	\$1.56	\$0.00	393,604
Warehouse / Distribution	62,130,281	9.4%	11.7%	(312,487)	2,499,668	205,845	\$1.40	\$0.00	664,469
Manufacturing	66,281,995	3.1%	5.4%	(268,824)	0	0	\$1.37	\$0.00	449,040

FIGURE 6: Key Lease Transactions

Occupier	Industry Sector	Location	Subtype	Total Sq. Ft.
Upper Deck Company	Consumer Products & Services	Carlsbad	Warehouse/Distribution	157,973
BradyPlus (R)	Consumer Products & Services	Miramar	Warehouse/Distribution	114,318
Foxx Development	Telecommunications	Otay Mesa	Warehouse/Distribution	101,145
Avis Budget Group	Consumer Products & Services	National City	Warehouse/Distribution	91,541
Terry Town (R)	Consumer Products & Services	Otay Mesa	Warehouse/Distribution	90,538

Source: CBRE Research, Q3 2024
(R): Renewal

FIGURE 7: Key Sale Transactions

Property	Buyer	Location	Total Price	\$/Sq. Ft.	RBA
1330 30th St	GID Investment Advisor	South Bay	\$27.3M	\$258	105,469
2345 Britannia Blvd	EQT Exeter	Otay Mesa	\$23.5M	\$203	115,542
2065 Thibodo Rd	K-Tech Machine	Vista	\$22.6M	\$294	76,872
2548 Cactus Rd	Best Fit Movers	Otay Mesa	\$11.4M	\$258	44,278
12300 Crosthwaite Cir	Box Appliance Service Co.	Poway	\$7.8M	\$360	21,542

Source: CBRE Research, Q3 2024

Market Area Overview

Definitions

Net Rentable Area The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies and stairwell areas. **Available Sq. Ft.** Space Available for lease which is either physically vacant or occupied. Includes Subleases. **Vacant Sq. Ft.** Portion of Available sq. ft. which is either physically vacant or immediately available. Includes Subleases. **Direct Vacancy Sq. Ft.** Portion of Available sq. ft. which is either physically vacant or immediately available. Excludes subleases. **Vacancy Rate** Vacant sq. ft. divided by the NRA. **Occupied Sq. Ft.** NRA not considered vacant. **Net Absorption** The change in Occupied sq. ft. from one period to the next. Positive absorption is reflected when a lease is signed, which may not coincide with the date of occupancy. **Average Asking Lease Rate** The rate determined by multiplying the asking gross lease rate for each building in the summary by its associated available space, summing the products, then dividing by the sum of the available spaces with gross lease rates for all buildings in the summary. Direct leases only; excludes sublease space and parking charges. **Full Service Gross (FSG)** Lease Type whereby the landlord assumes responsibility for all of the operating expenses and taxes for the property. **Normalization** Due to a reclassification of the market, the base, number and square footage of buildings for previous quarters have been adjusted to match the current base. Availability and Vacancy figures for those buildings have been adjusted in previous quarters.

Inventory Update

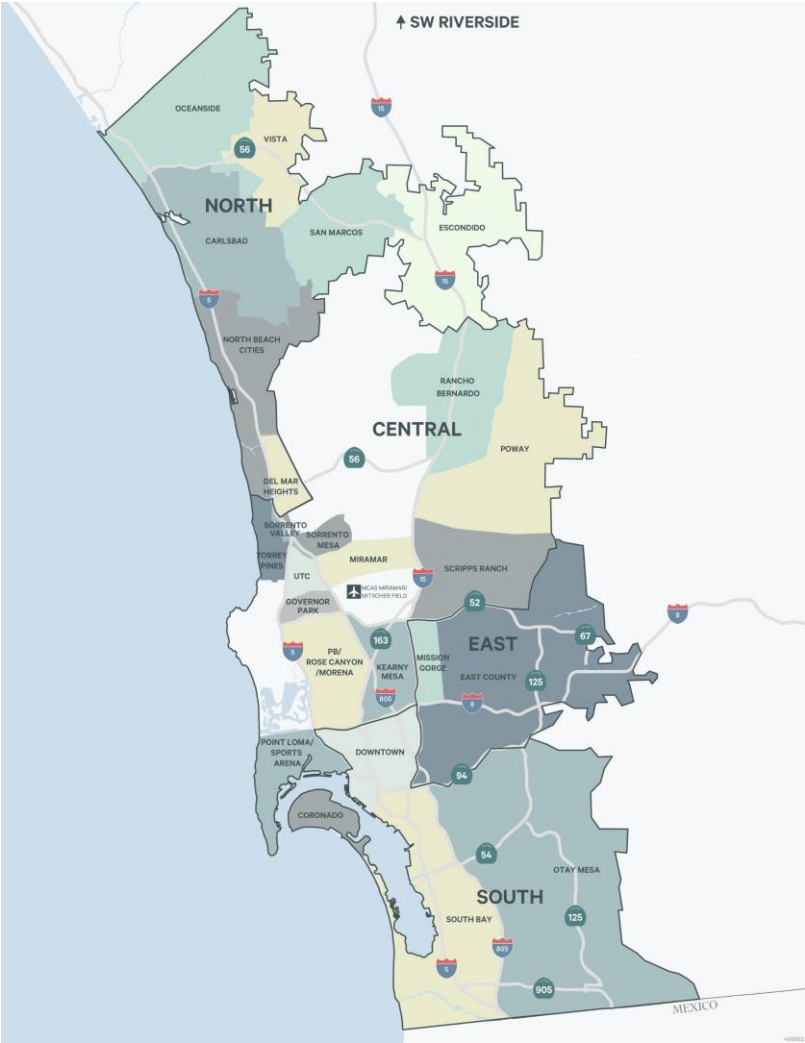
Effective Q1 2022, Lab space has been removed from the Industrial inventory and will be reported as a separate property type. Lab space has been removed from historical data so figures reported previously may have changed.

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