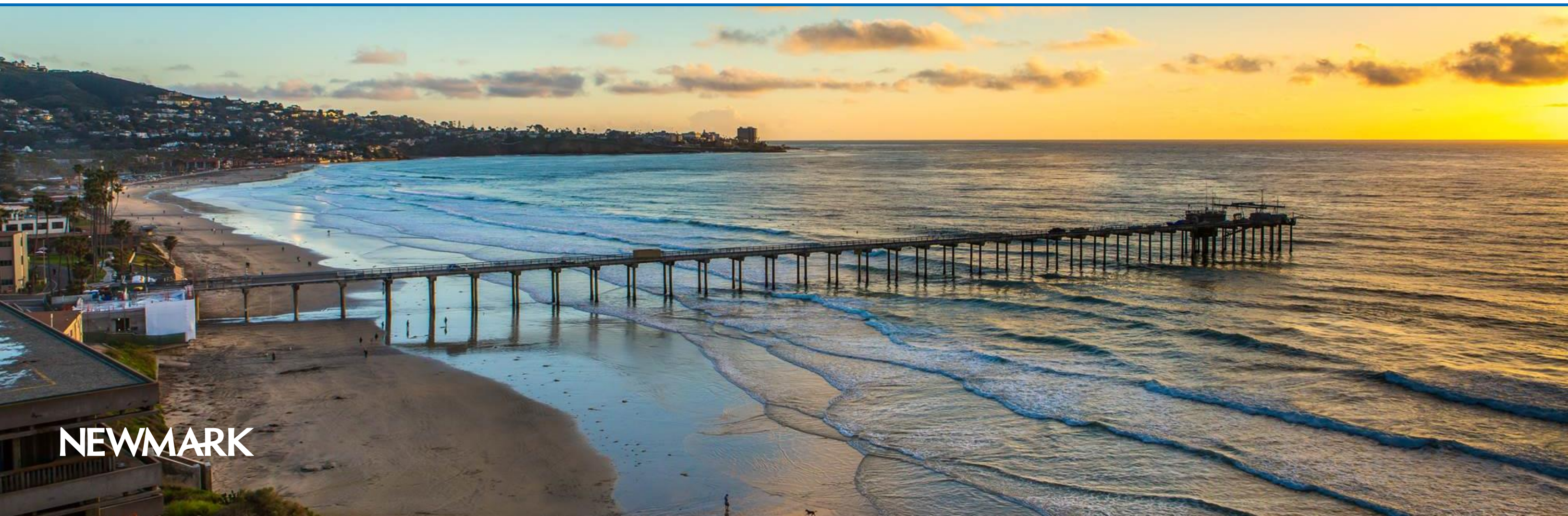


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San Diego Industrial Market Overview



NEWMARK

Market Observations

Economy

- The region’s unemployment rate stood at 5.0% in August 2024, up 60 basis points over the past year and higher than the national average of 4.2%.
- Total nonfarm employment grew by 10,800 jobs over the past year, while industrial sectors cumulatively shed 4,600 jobs.
- The consumer price index for all urban customers in the San Diego metropolitan area was up 3.5% over the past year as of July 2024. Although inflation has eased, consumer spending has seen only marginal growth over the past year.
- International trade at the Otay Mesa port of entry remained robust, as import and export volume for the past 12 months totaled \$60.4 billion.

Major Transactions

- Foxx Development expanded its location in Britannia Tech Park in Otay Mesa to 101,000 SF.
- Avis Budget Car Rental leased 91,000 SF in National City for vehicle maintenance and storage.
- Hyundai Translead purchased 37.9 acres of undeveloped land in Otay Mesa for \$58.0 million from Badiee Development.
- Users and private investors were the most active buyers in the first three quarters of 2024, accounting for 70.0% of all sales volume.

Leasing Market Fundamentals

- The average asking rent fell to \$1.48/SF, down 4.5% over the past year as climbing vacancy impacts leasing market dynamics.
- Net absorption posted 68,441 SF in losses this quarter, bringing year-to-date total to negative 341,512 SF. Vacancy climbed to 6.2%, up from 4.4% a year ago.
- Sublet availability reached an all-time high of 3.0 MSF, up from 2.4 MSF a year ago and 1.1 MSF two years ago.
- Construction levels are declining as developers scale back the pipeline. 573,124 SF in new supply delivered this quarter, leaving 2.2 MSF underway, the lowest level of construction activity since 2020.

Outlook

- The still-considerable construction pipeline and historically high available sublease space will both continue to exert upward pressure on vacancy.
- Rent growth will remain muted or negative until the market has had time to absorb some of the 15.0 MSF of available space (8.9% of existing inventory).
- After the current pipeline of speculative projects delivers, only build-to-suit groundbreakings are likely as developers exercise more caution.
- The Federal Reserve’s interest rate cuts, the first of which came in September, will give investors some long-awaited relief and contribute to more capital markets activity after two years of slow investment.

1. Economy
2. Leasing Market Fundamentals and Sales Activity
3. Submarkets

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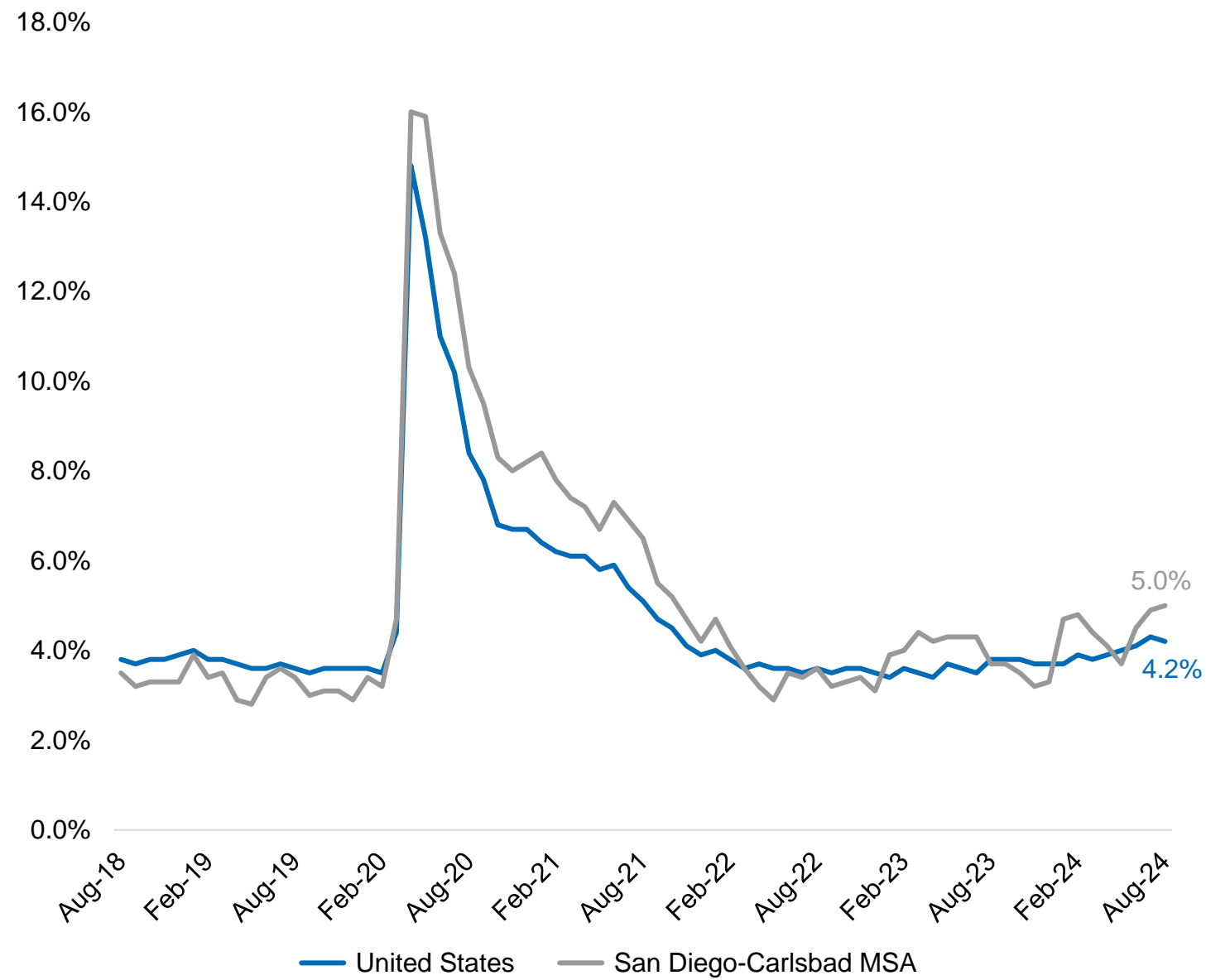
Economy



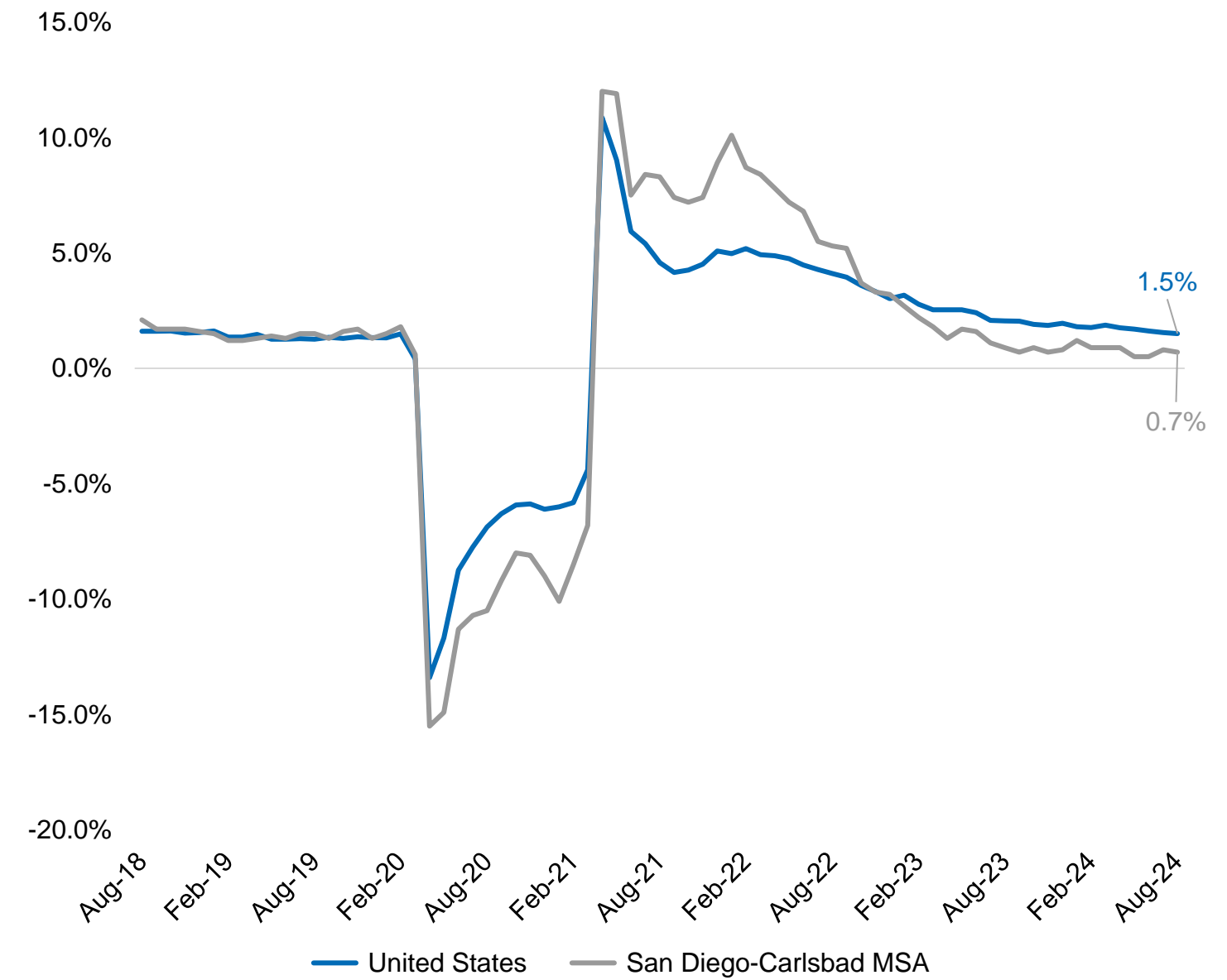
Unemployment Ticks Up to a Three-Year High

The local unemployment rate reached 5.0% in August 2024, up 60 basis points over the past year. Nonfarm employment, however, has continued to post modest but positive gains as employers reported an additional 10,800 jobs over the past year, representing growth of 0.7%, trailing the national average of 1.5%. The disparity between these two metrics shows that more residents are rejoining the labor force even as employers continue to add new jobs.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

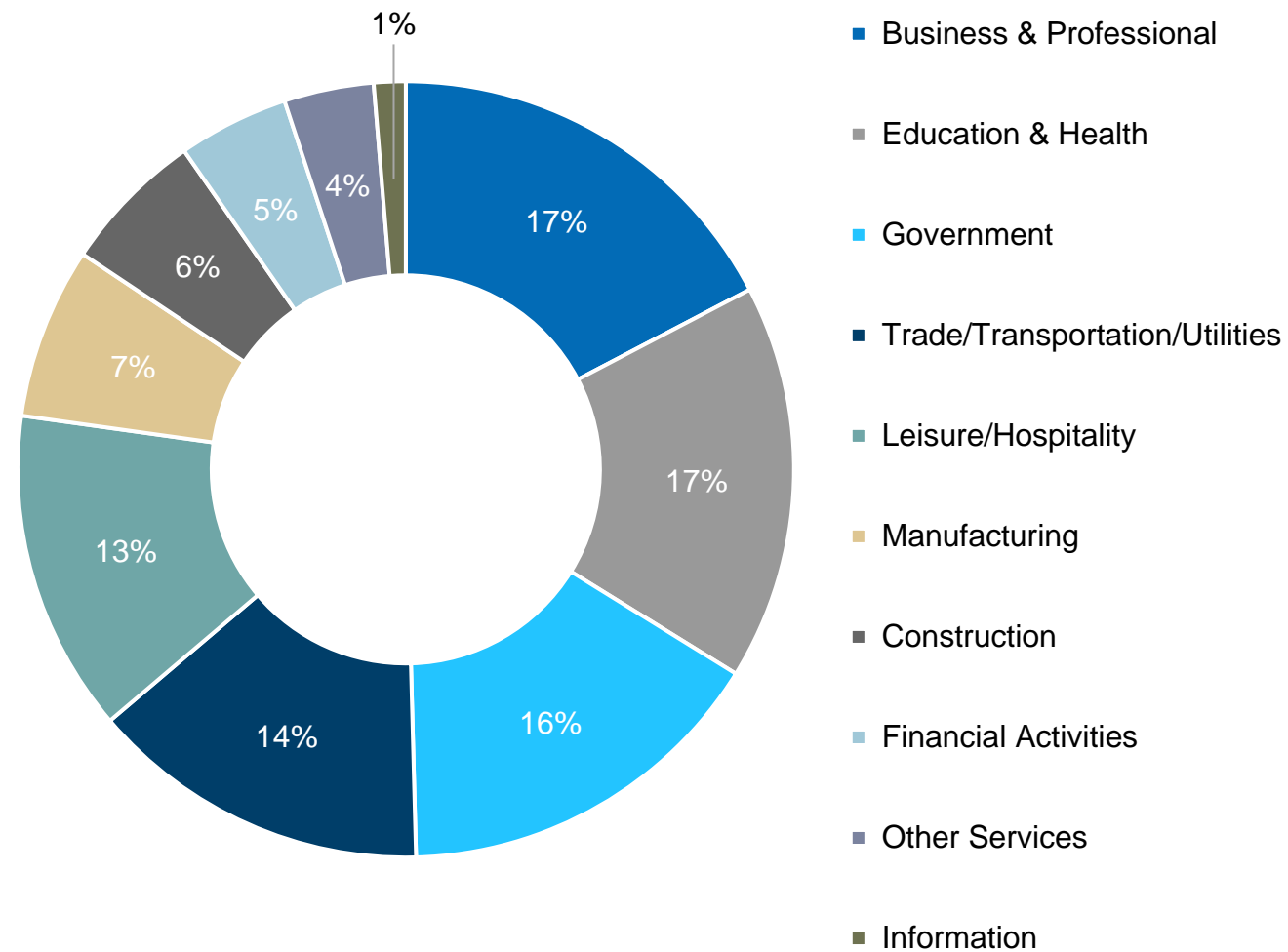


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

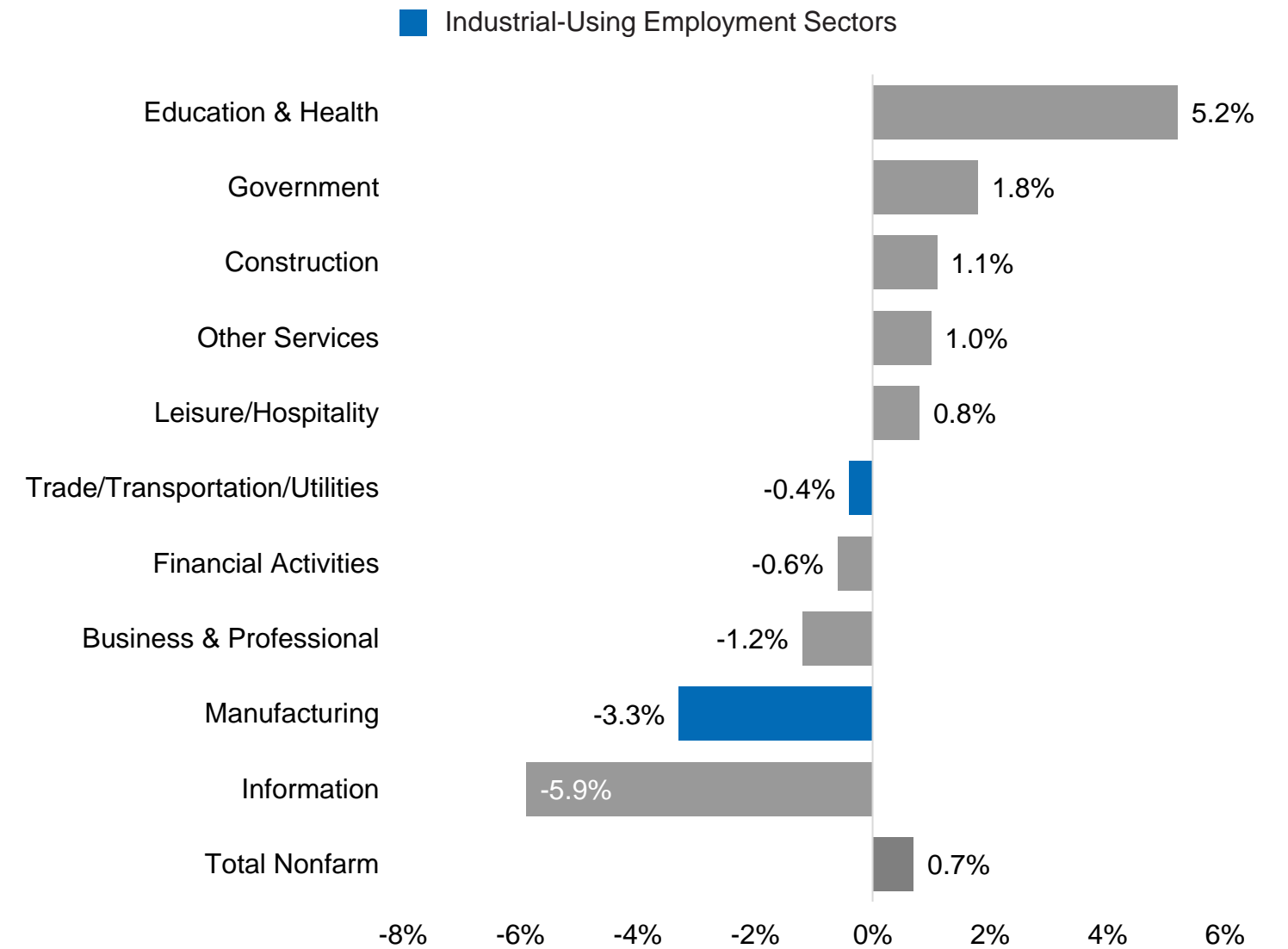
Industrial Jobs Experienced Minor Losses Over the Past Year

The San Diego metro added 10,400 nonfarm jobs over the past year, although industrial-using sectors shed jobs during this period. Trade/transportation/utilities, the fourth-largest industry in the region, lost 800 jobs over the past year while manufacturing, the sixth-largest industry, lost 3,800 jobs.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

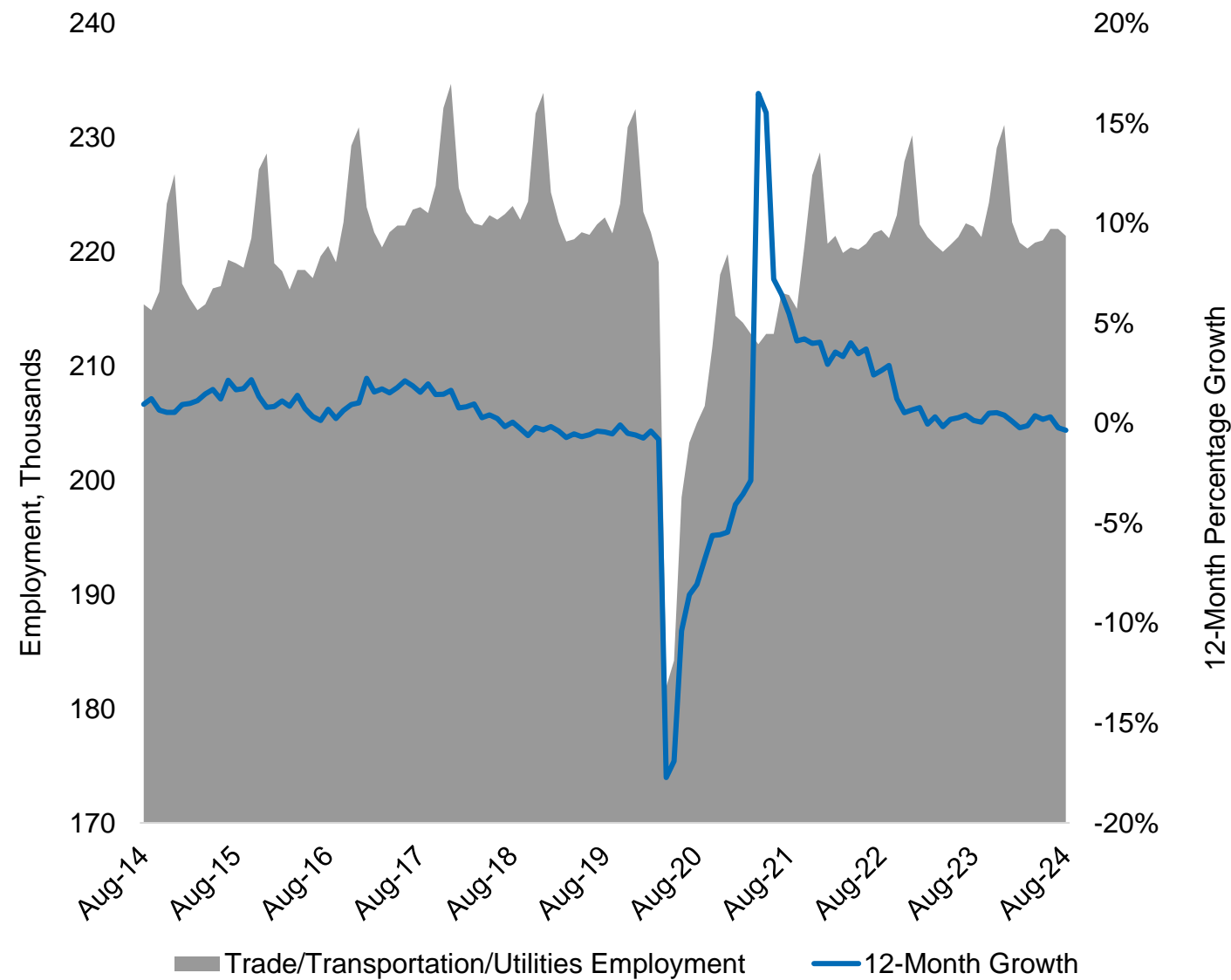


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

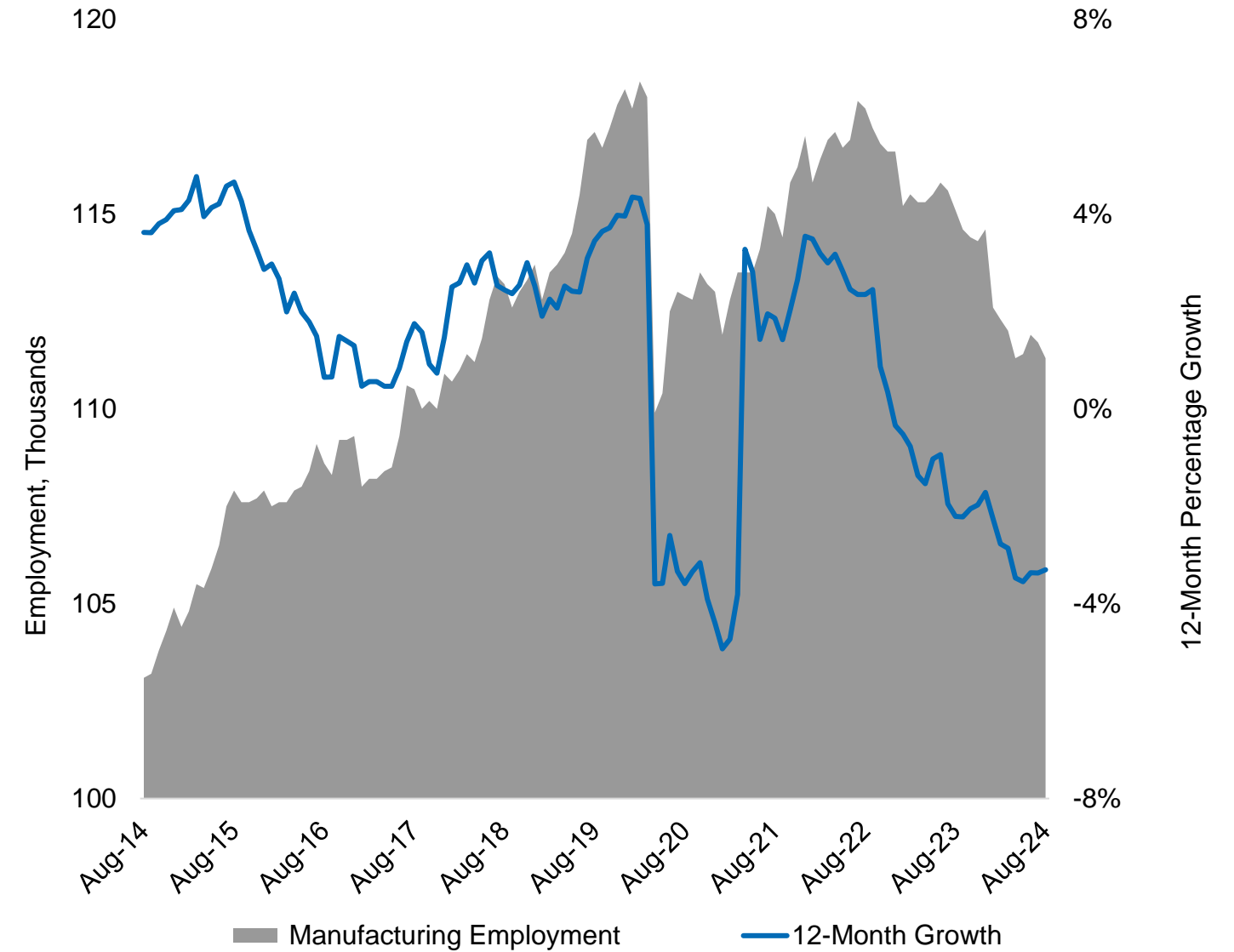
Trade/Transportation/Utilities Jobs Stabilize While Manufacturing Declines

Trade/transportation/utilities employment is at similar levels to the period before the pandemic. For manufacturing: The pandemic downturn disrupted seven years of employment growth; job totals were near record levels in July of 2022 but have since declined by 6,600 jobs.

Trade/Transportation/Utilities Employment and 12-Month Growth Rate



Manufacturing Employment and 12-Month Growth Rate



Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

Inflation Eases From Historical Highs

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Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

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The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

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Otay Mesa Port Monthly Trade Volume Near an All-Time High

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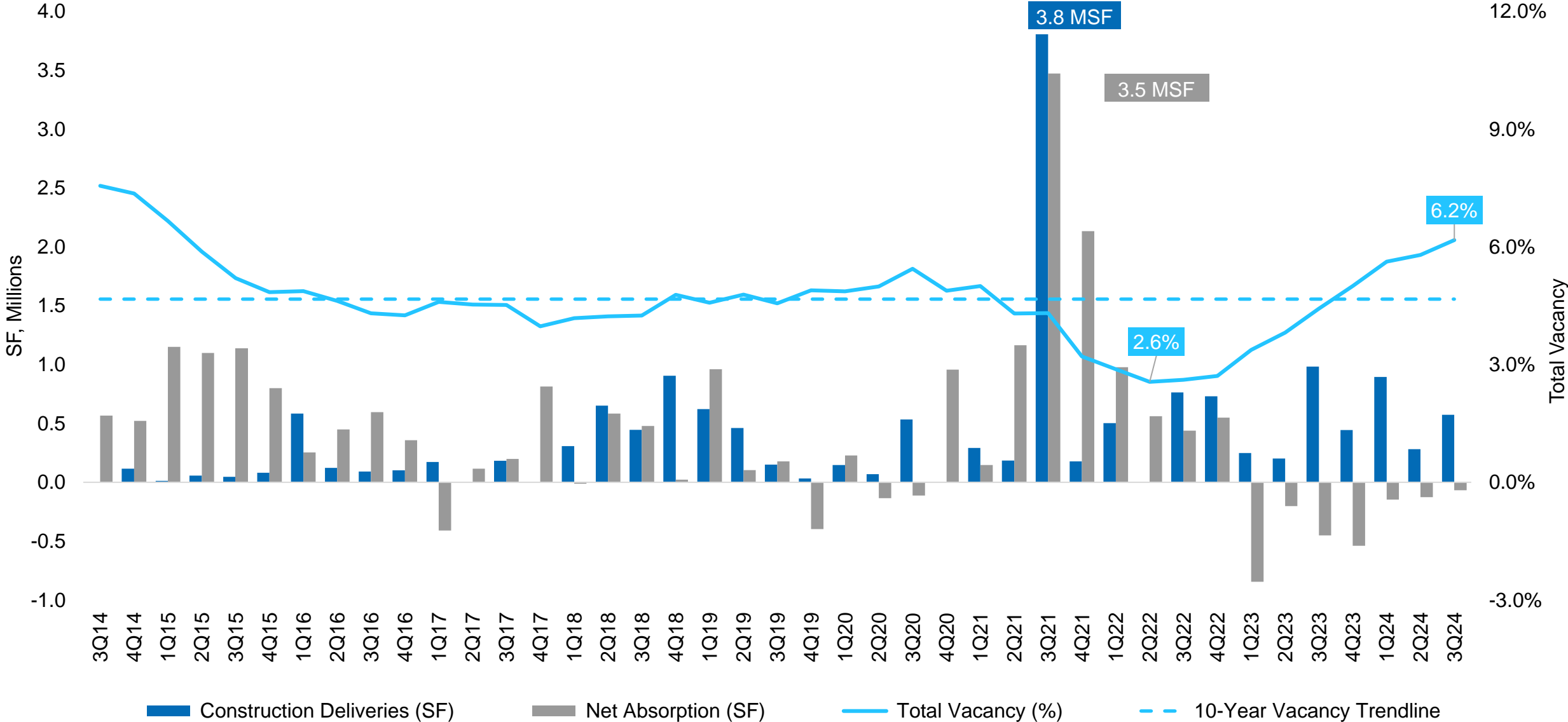
Leasing Market Fundamentals and Sales Activity



Vacancy Has Climbed Steadily Since 2022

Total vacancy has steadily climbed to 6.2% since hitting an all-time low of 2.6% in the second quarter of 2022. Leasing activity has slowed and vacancy is now above the 10-year average of 4.7%. Construction deliveries and net absorption reached an all-time high in 2021 after the delivery and opening of Amazon's 3.4M-SF distribution facility in Otay Mesa, and although construction levels have fallen since that peak, new deliveries have remained steady over the past two years, contributing to vacancy increases.

Historical Construction Deliveries, Net Absorption, and Vacancy

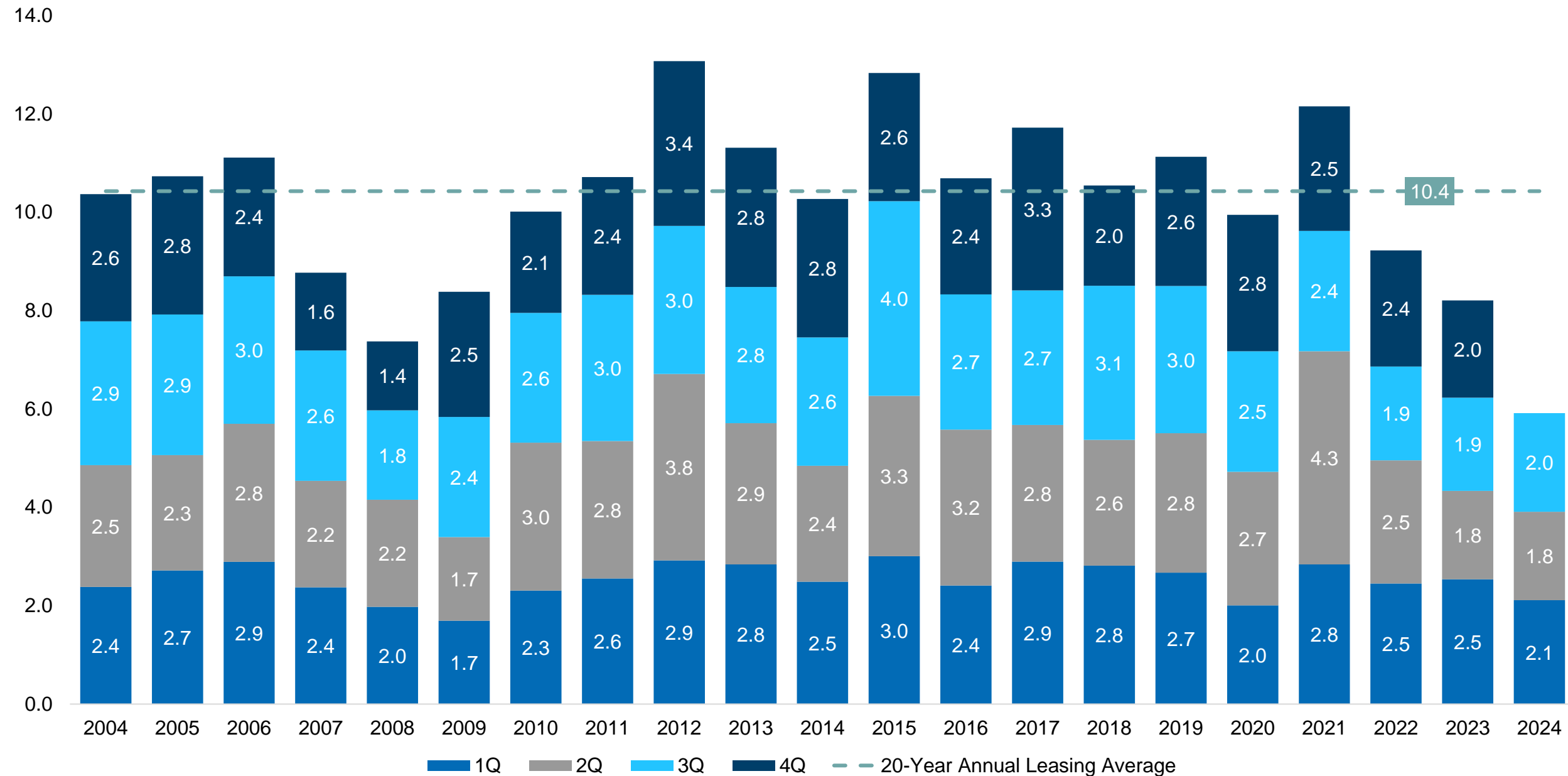


Source: Newmark Research

Industrial Leasing Remains Low

Leasing activity dropped over the past two years after experiencing robust activity in 2021, as economic uncertainty from high interest rates and inflation lead many businesses to reduce real estate requirements. Over the past four quarters there has been 7.9 MSF of leasing activity, the lowest 12-month total since 2009 during the aftermath of the Global Financial Crisis and 24.3% below the 20-year average.

Total Leasing Activity (MSF)

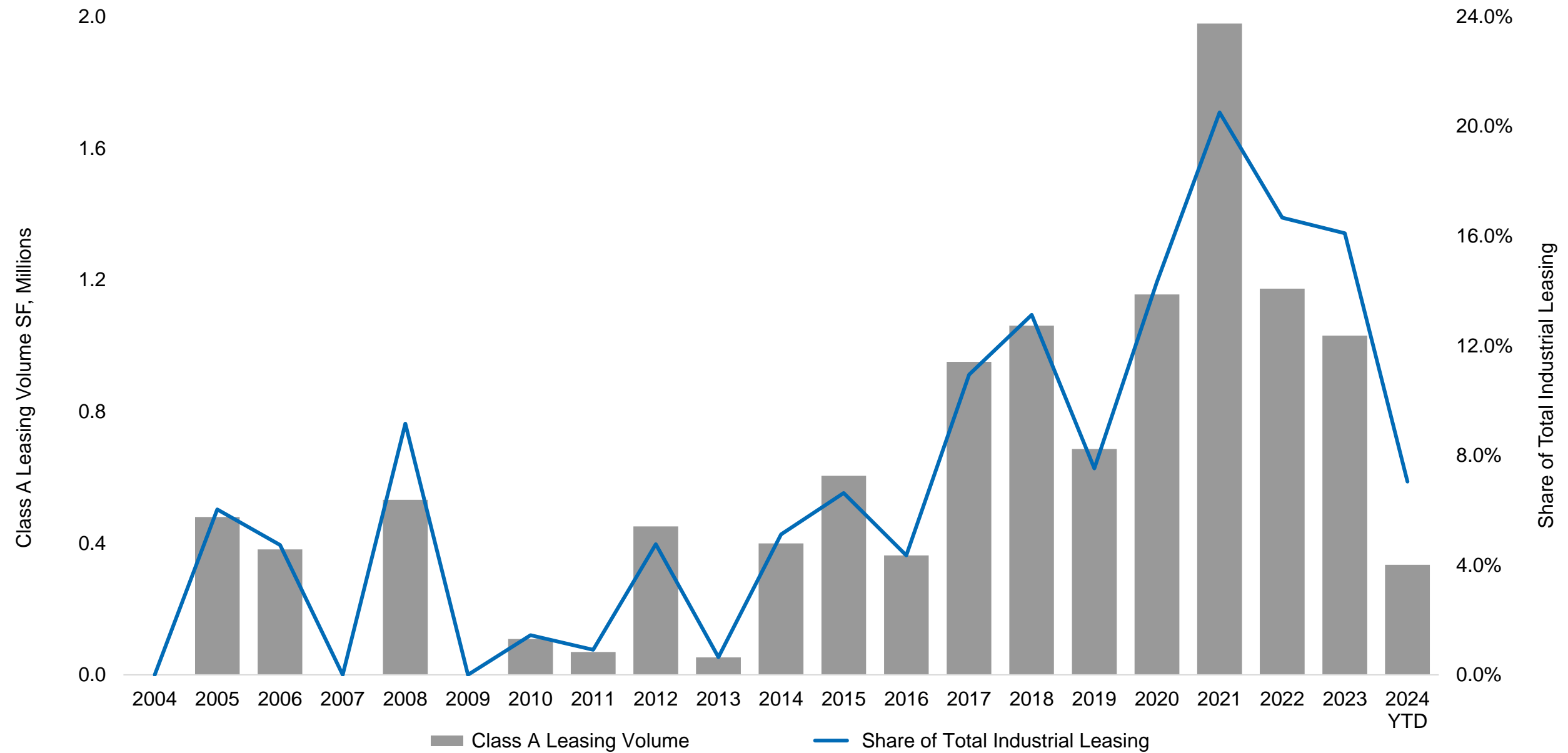


Source: Newmark Research, CoStar

Class A Leasing Declines From Recent Highs

San Diego has not seen the same amount of new developments as Los Angeles and the Inland Empire, but local Class A inventory and demand increased substantially in the heyday of massive distribution facilities. Amazon's 2021 lease for its 3.4-MSF facility in Otay Mesa set the high-water mark for Class A demand. Class A leasing activity was notably muted in the first half of 2024. The largest current construction project is another 1.0M-SF Class A fulfillment center being built for Amazon in Otay Mesa.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



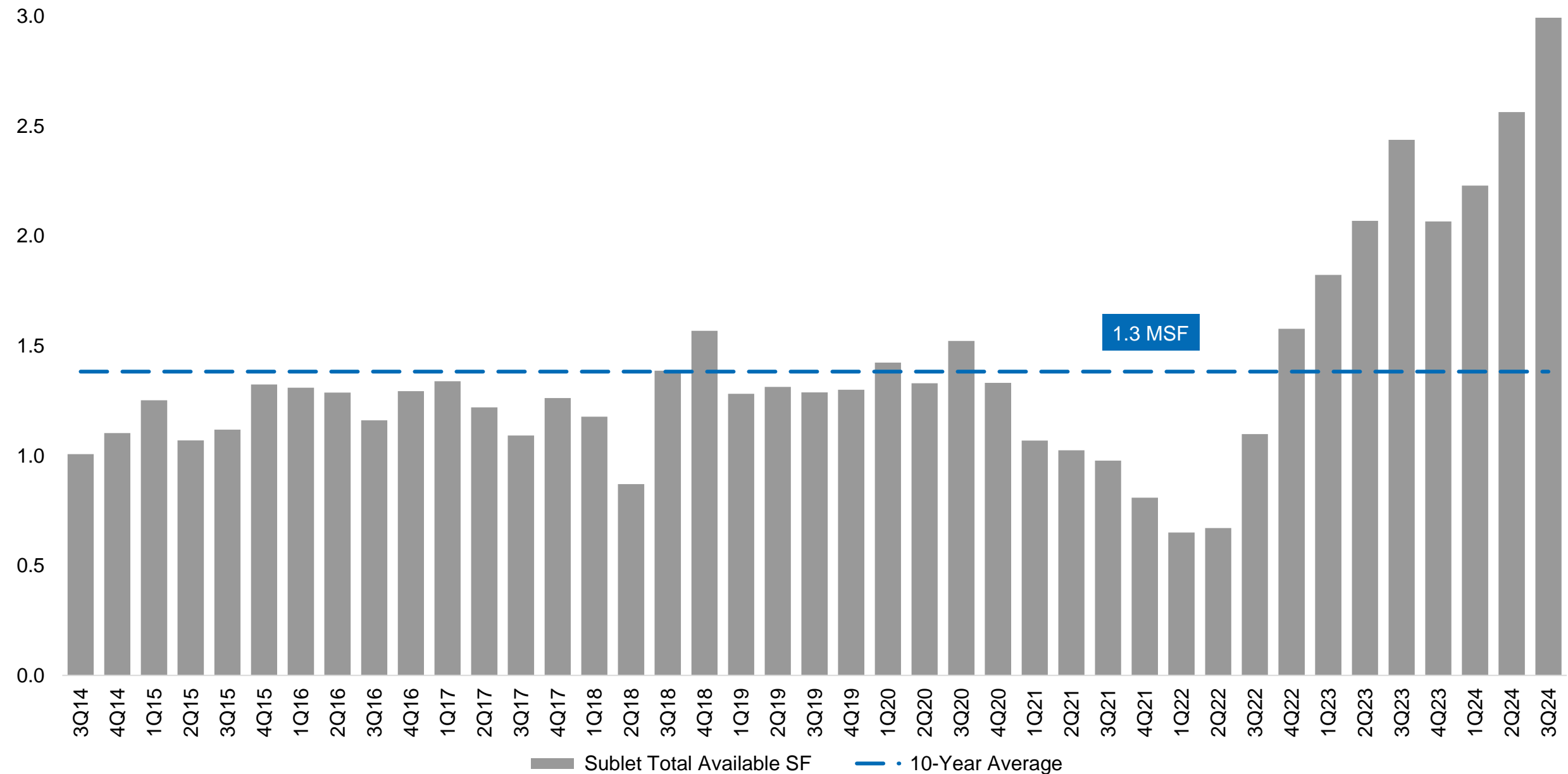
Source: Newmark Research, CoStar

Note: Class A is defined as 100,000+ SF warehouse/distribution facilities constructed since 2000 with a 30'+ minimum interior ceiling height. Industrial leasing does not include flex product.

Sublease Availability Climbs to a New Record

Sublease availability totaled 3.0M SF during the third quarter, an all-time high and up more than 200% over the past two years. Sublease listings briefly dipped during surging demand for industrial space during COVID before increasing at the end of 2022 as demand moderated. Space that was pre-leased while under construction during the pandemic development boom and is no longer needed has contributed to the upward trend of sublease space.

Available Industrial Sublease Volume (MSF)

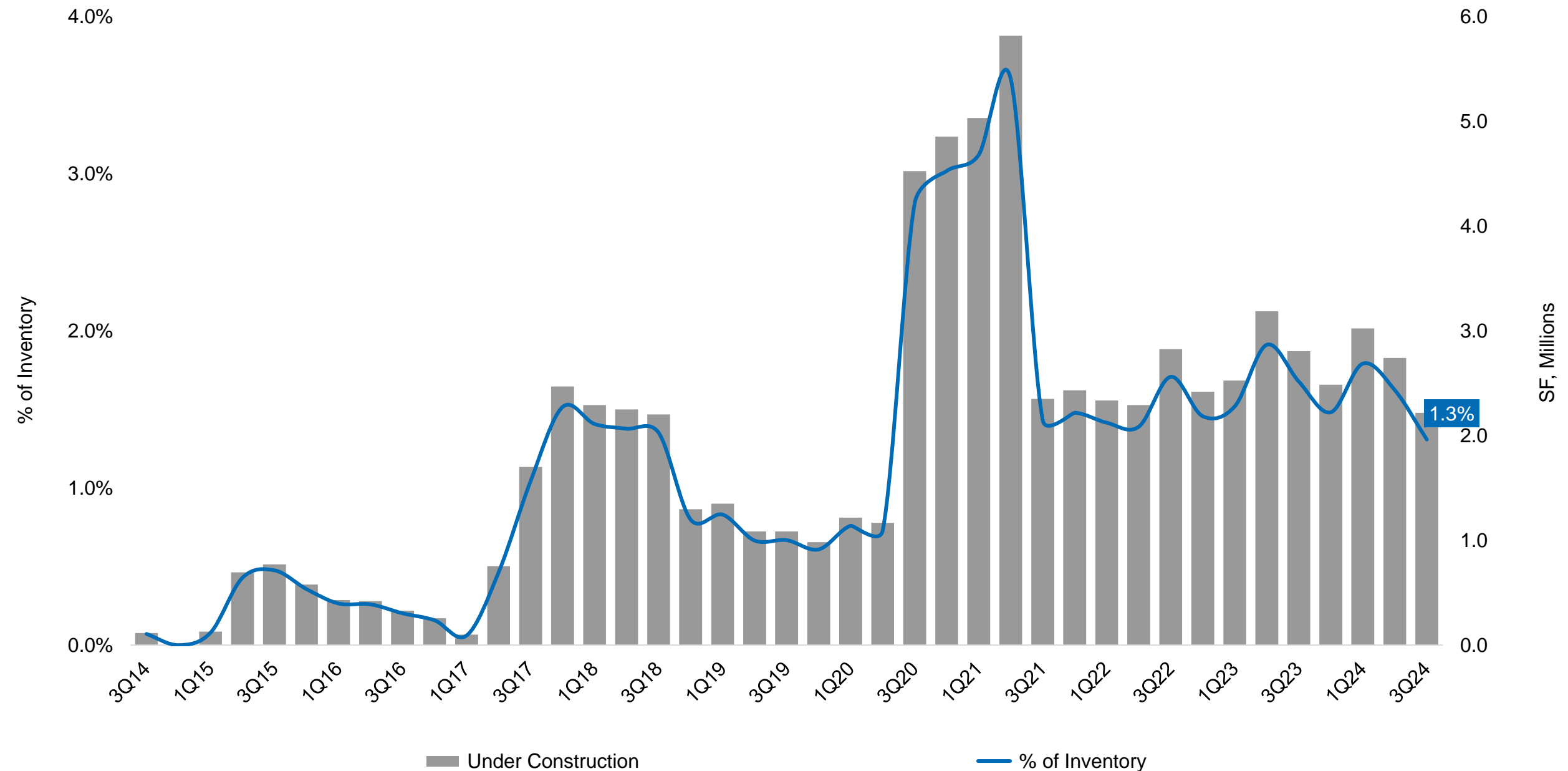


Source: Newmark Research, CoStar

Industrial Pipeline Has Eased But Remains Elevated by Historical Standards

The construction pipeline was at record highs from 2020-2021, primarily due to Amazon's 3.4-MSF build-to-suit distribution facility in Otay Mesa. Construction has steadily fallen from this historical peak, but the current construction rate of 1.6% of existing inventory remains higher than the average of 1.1% over the past decade.

Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

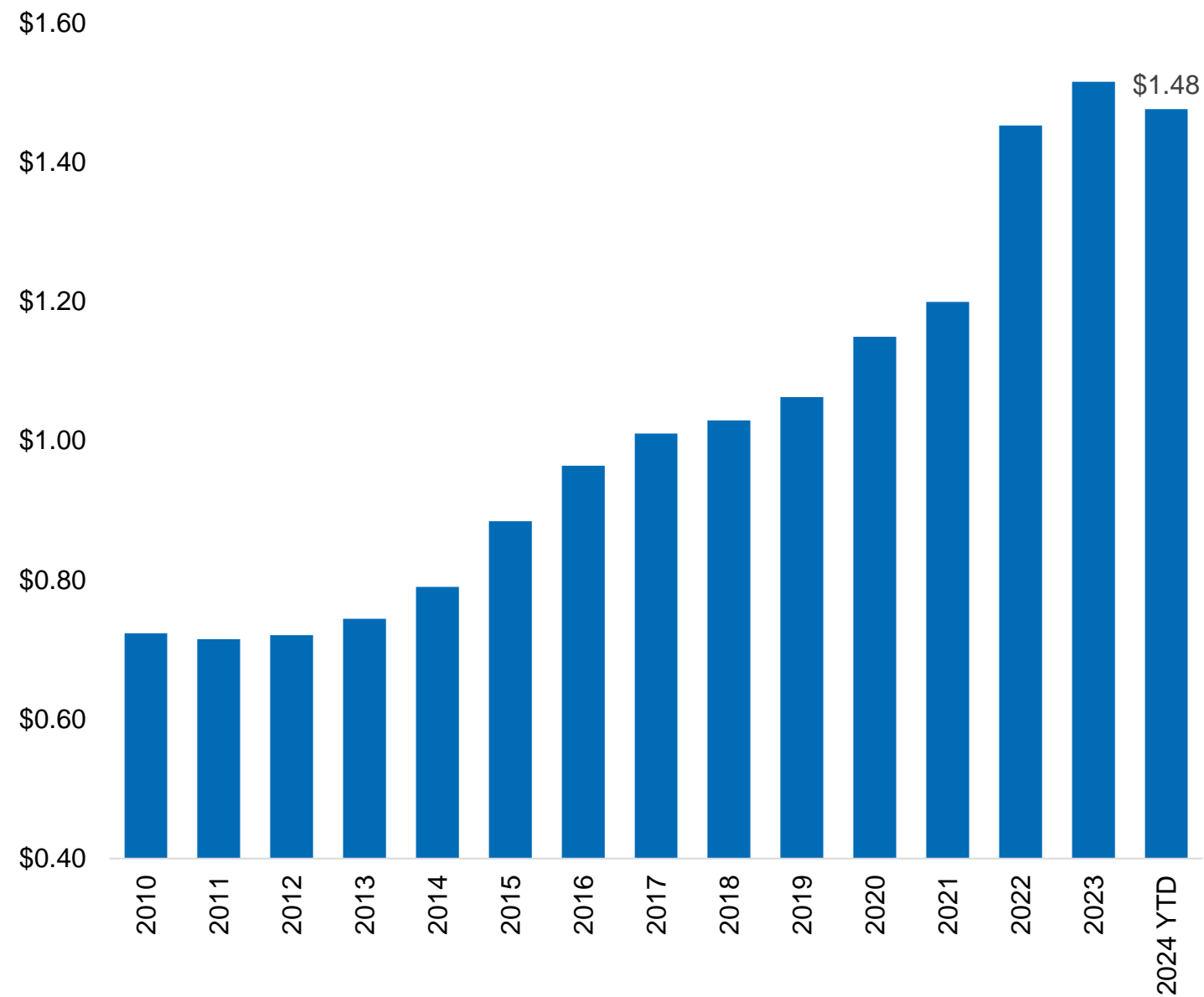
New California Bill Adds Regulations on Warehouse Development in the State

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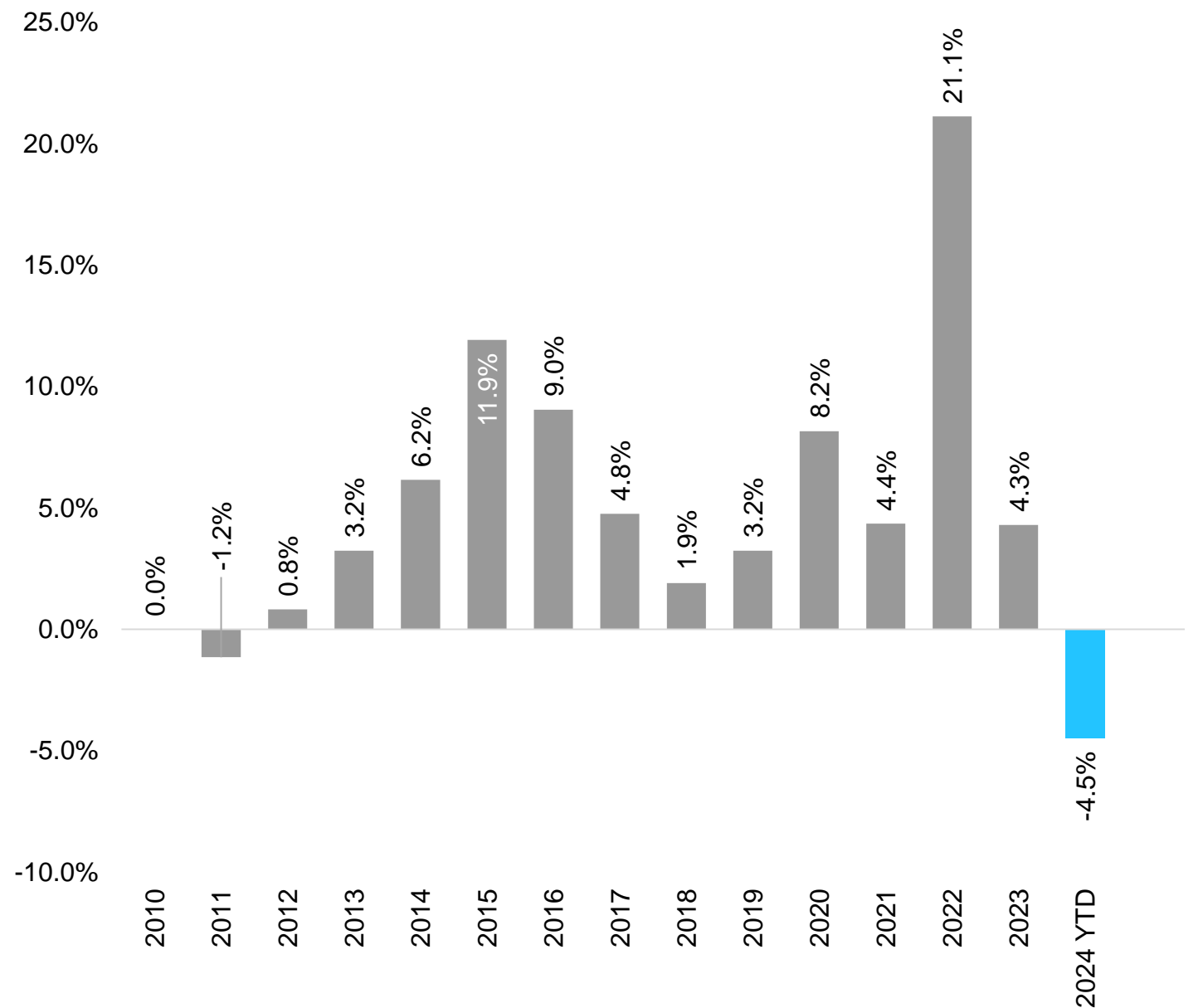
Asking Rents Start to Decline

The slowdown in leasing activity and rising vacancy has caused asking rents to dip from an all-time high after 12 consecutive years of growth. The amount of new space that has delivered over the past three years still has considerable momentum for higher rents as newer, more expensive product makes up an increasing portion of the market compared to older, smaller properties.

Industrial Direct Average Asking Rent, \$/SF/Month, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable Lease Transactions

Although leasing activity picked up slightly in the third quarter, the largest deals were mostly expansions and renewals.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Foxx Development	7222 Airway Rd	Otay Mesa	Expansion	101,145
<i>Electronics manufacturer expanded its location in Britannia Tech Park.</i>				
Avis Budget Car Rental	901 Bay Marina Dr	National City	New Lease	91,541
<i>Rental car firm leased industrial space for the storage and maintenance of its fleet of vehicles.</i>				
Hydranautics	1890 Ord Way	Oceanside	Renewal	50,851
<i>Water treatment supplier renewed industrial space near its headquarters in Oceanside.</i>				
SEACON	1700 Gillespie Way	El Cajon	Renewal	34,864
<i>Manufacturer of underwater electrical and fiber optic connectors renewed its space in El Cajon.</i>				
Jump Around Now	1675 Brandywine Ave	Chula Vista	Renewal	31,182
<i>Trampoline park and family entertainment center renewed its lease.</i>				

Source: Newmark Research, CoStar

Average Lease Size Dropped Significantly After 2022

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Industrial Sales Volume Declines From Recovery Highs

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Private Buyers Are the Most Active

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Submarkets



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Construction Levels Decline From Historical High

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Vacancy Starts to Level Off As Deliveries Slow

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Sublease Availability At Record Level

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