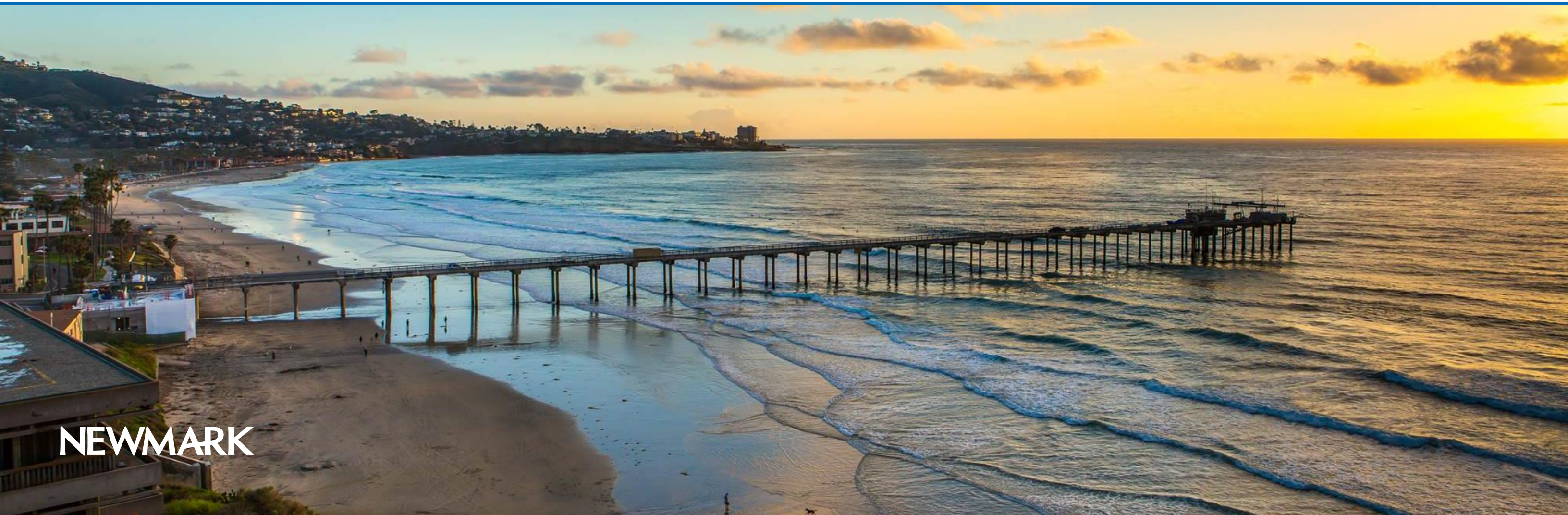


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San Diego Industrial Market Overview



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Market Observations

Economy

- The region’s unemployment rate was 4.6% as of November 2024, up from 4.3% the previous year.
- Total nonfarm jobs grew by 8,900 over the past year, trailing the growth of the labor force. The manufacturing sector lost 4,500 jobs over the past year while trade/transportation/utilities added 1,400 jobs.
- The consumer price index for all urban customers in the San Diego metropolitan area was up 2.6% year-over-year in November 2024, down from an annual rate of 5.2% in November 2023 and 6.7% in November 2022.
- Imports and exports at the Otay Mesa port of entry totaled \$61.6 billion over the 12-month period ending November 2024, just short of the all-time high set in 2023.

Major Transactions

- Japanese developer Tokyu Land Corporation paid \$76.9 million to create a joint venture with BKM Capital Partners, recapitalizing three business parks BKM owned in Otay Mesa totaling 342,000 SF.
- Center Capital Partners purchased a 200,000-SF distribution center leased to FedEx in Miramar for \$62.0 million.
- Apparel manufacturer Cotton Collective leased 62,576 SF from KKR at San Diego Business Park in Otay Mesa.

Leasing Market Fundamentals

- The average asking rent fell to \$1.48/SF, down 4.5% over the past year as rising vacancy has weighed on asking rates.
- Total vacancy climbed to 6.9% as net absorption posted 813,915 SF in losses this quarter. Annual net absorption for 2024 was negative 1.1 MSF.
- Sublet availability reached a new all-time high of 3.4 MSF, up from 2.0 MSF at the end of 2023.
- 679,723 SF of new projects delivered in the fourth quarter and under-construction activity fell to 1.9 MSF, down from 3.1 MSF in the first quarter of 2024. Developers are starting less speculative projects as market demand has failed to keep up with new supply for eight consecutive quarters.

Outlook

- Recent new deliveries and historically high sublease availability will continue to drive vacancy rates higher.
- Rent growth will remain negative until new deliveries ease and demand has a chance to catch up with new and existing supply.
- The prospect of increased tariffs could affect demand in Otay Mesa, San Diego’s largest submarket that is largely dependent on trade with Mexico.
- The Federal Reserve has indicated it is only likely to enact two more interest cuts in 2025. While this is less than investors had hoped for, a definitive timeline should encourage capital that had been waiting for lower interest rates to finally deploy.

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

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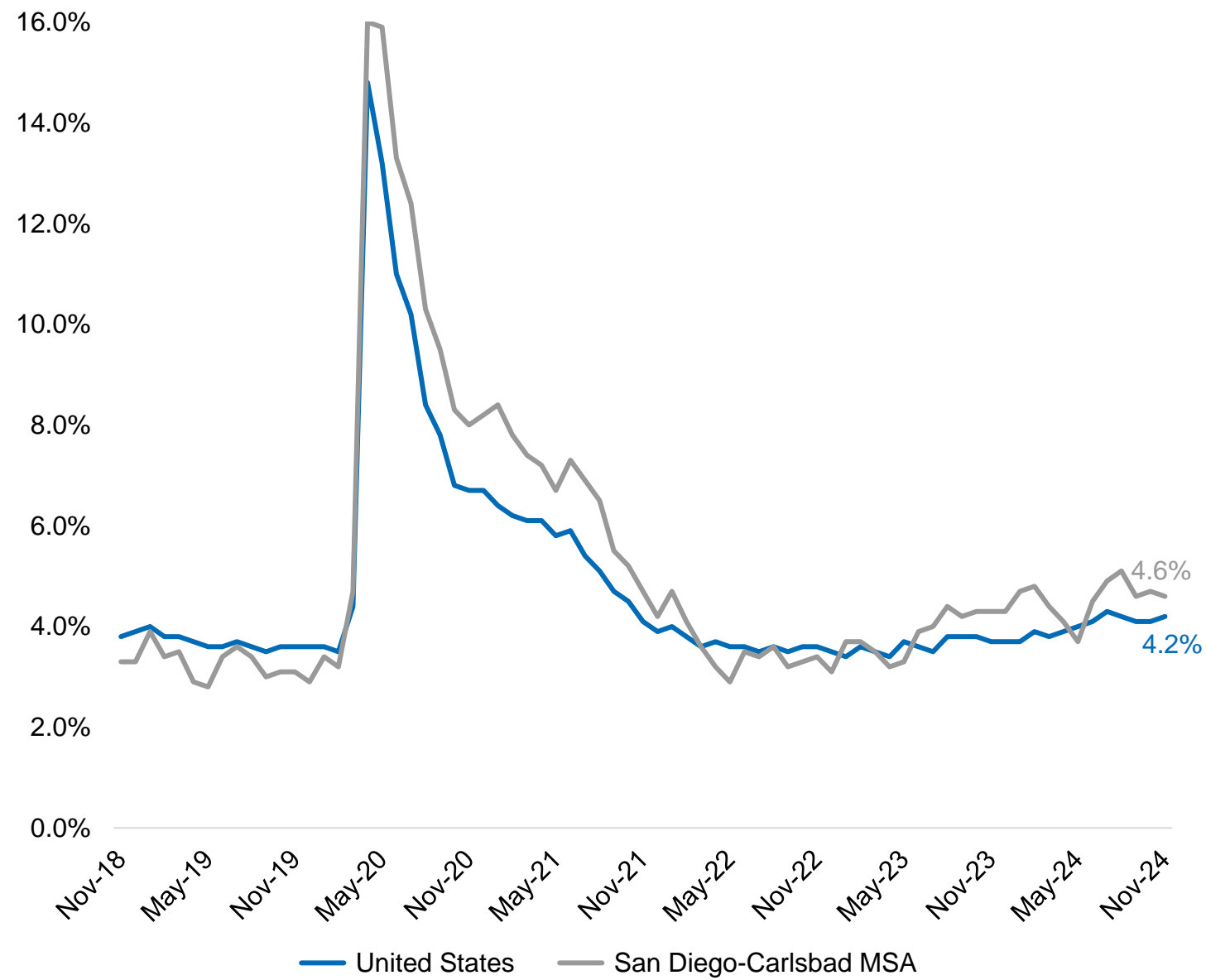
Economy



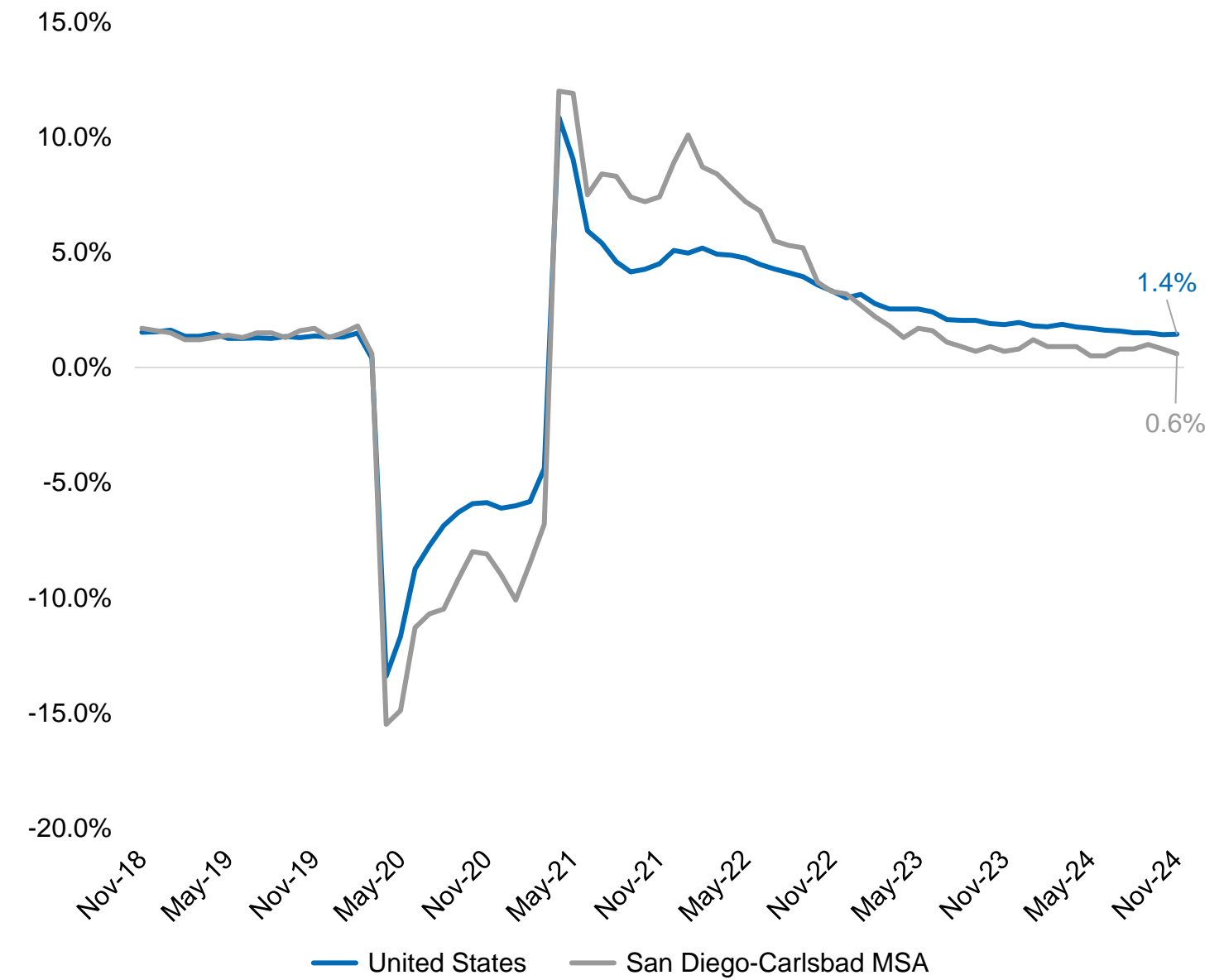
Unemployment Retreats From a Three-Year High

The local unemployment rate reached 4.6% in November 2024, up 30 basis points over the past year but down from the three-year high of 5.1% set in August 2024. Nonfarm employment has continued to post modest but positive gains as employers reported an additional 8,900 jobs over the past year, representing growth of 0.6%, trailing the national average of 1.4%. The rising unemployment rate shows that the labor force is growing faster than the region can create new jobs.

Unemployment Rate, Seasonally Adjusted



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



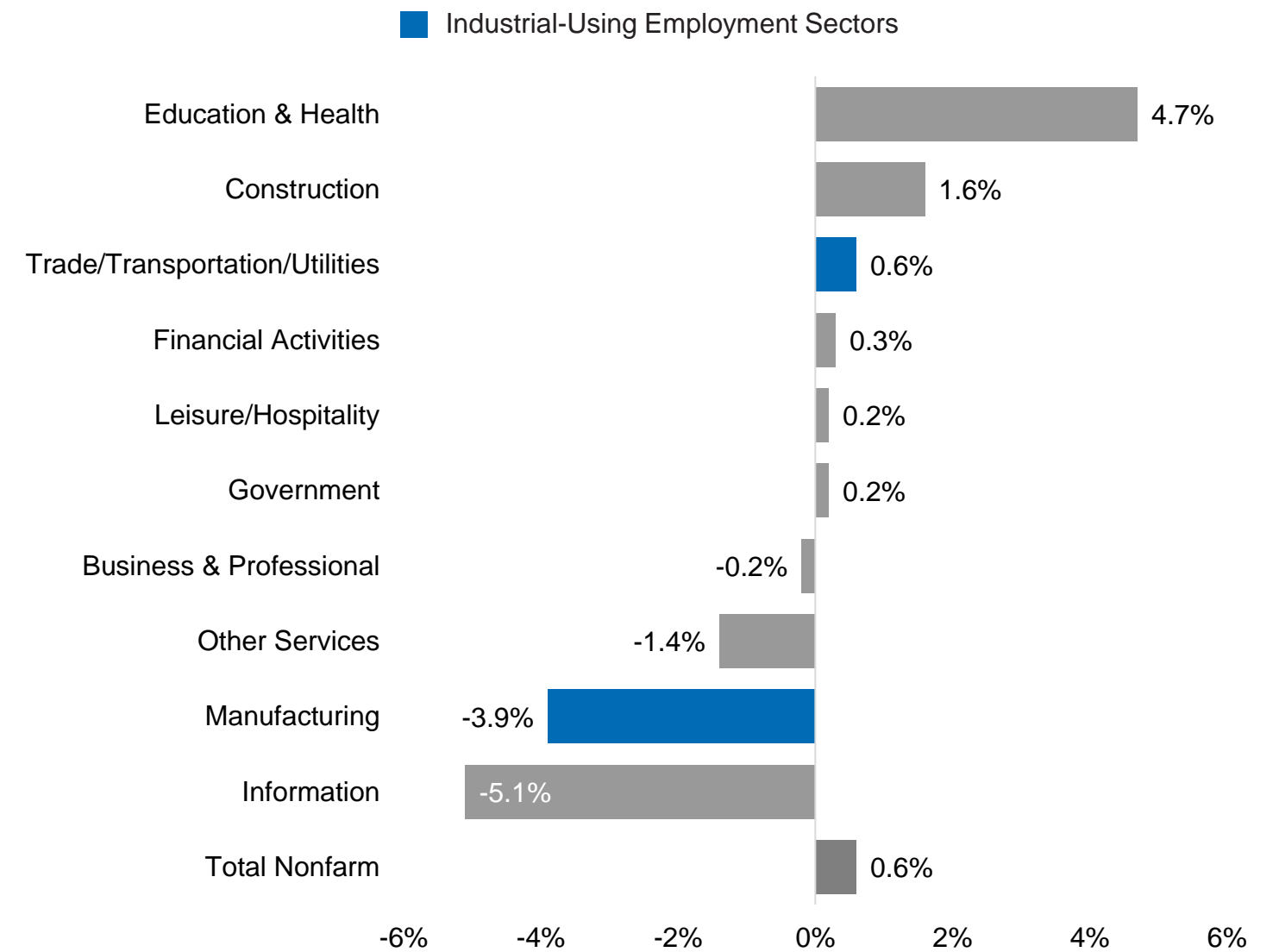
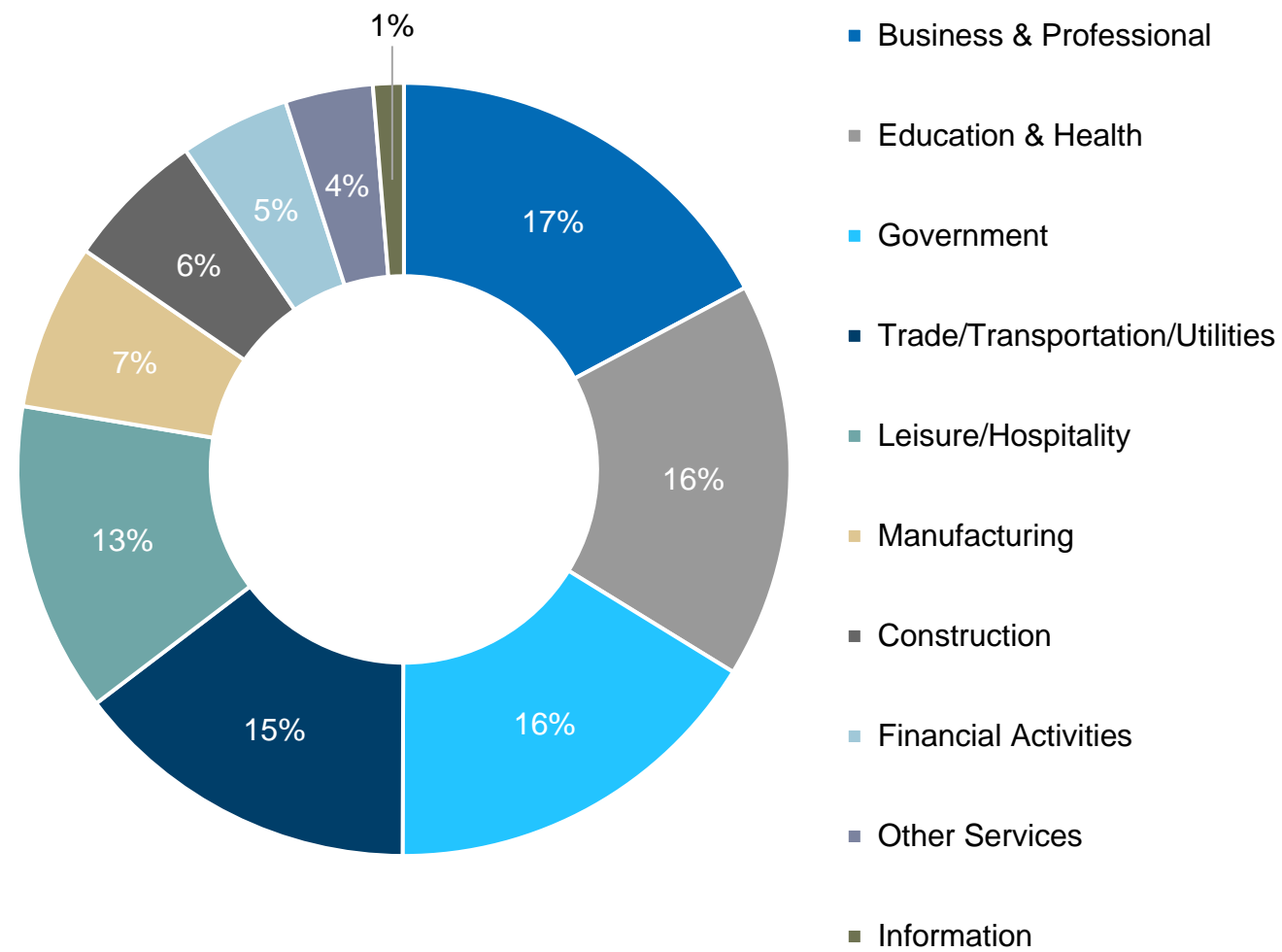
Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

Industrial Jobs Experienced Minor Losses Over the Past Year

The San Diego metro added 8,900 nonfarm jobs over the past year, although industrial-using sectors collectively shed jobs during this period. Modest growth of 1,400 jobs in the trade/transportation/utilities sector was offset by the loss of 4,500 jobs in manufacturing.

Employment by Industry, November 2024

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

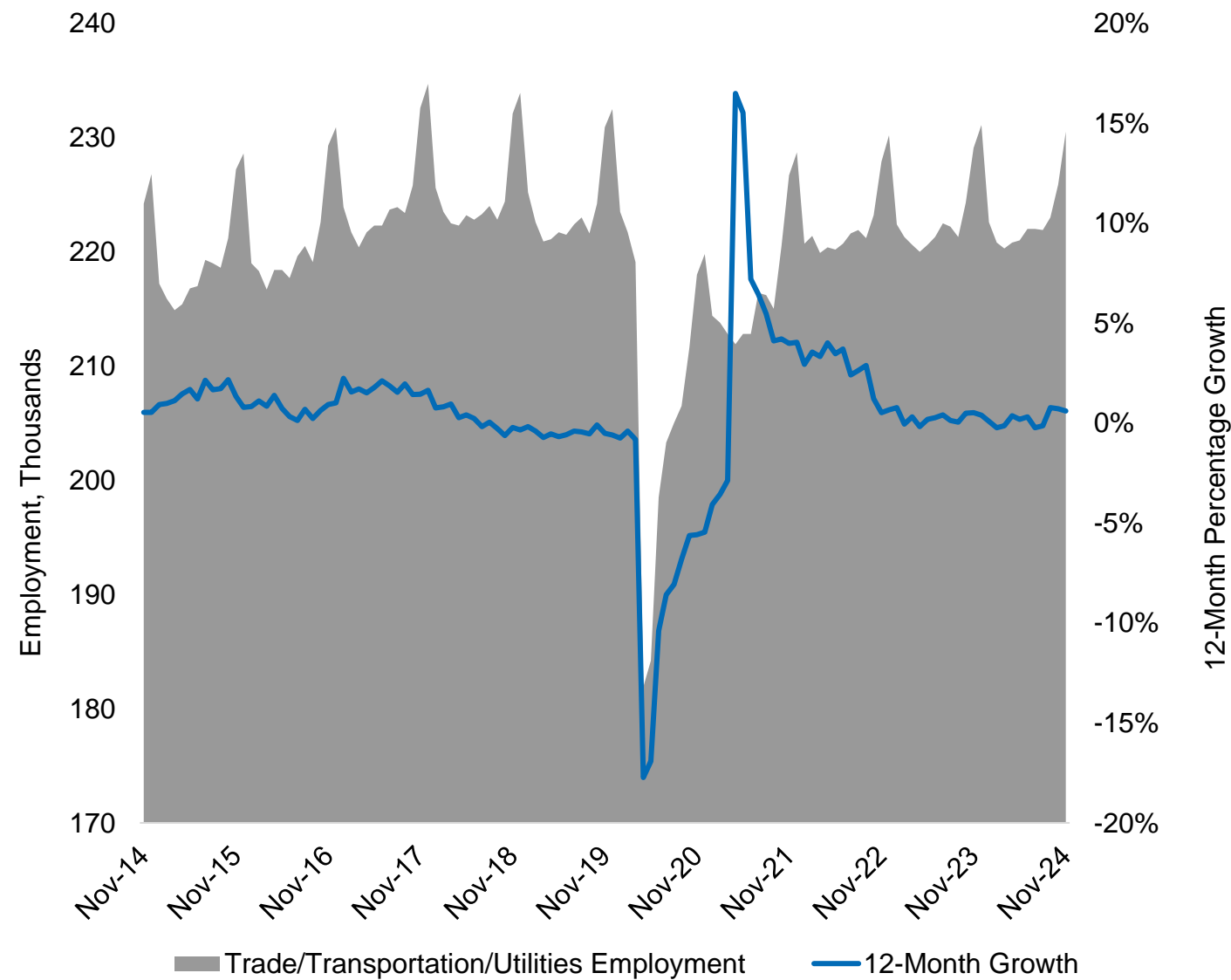


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

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 8,100 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 Annual Trade Volume Near an All-Time High

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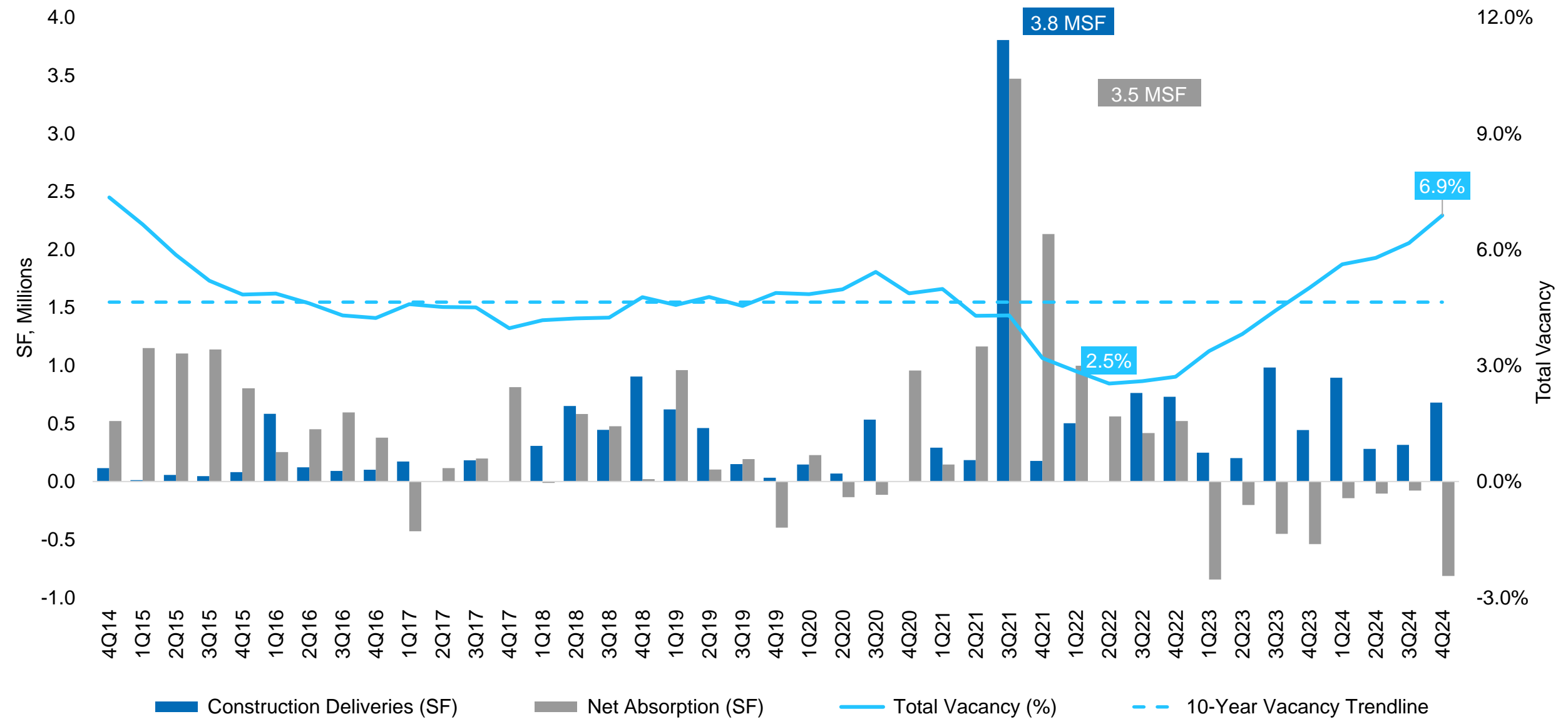
Leasing Market Fundamentals and Sales Activity



Vacancy Has Climbed Steadily Since 2022

Total vacancy has steadily climbed to 6.9% since hitting an all-time low of 2.5% in the second quarter of 2022. Leasing activity has slowed and vacancy is now above the 10-year average of 4.6%. Since the low-water mark in 2022, the market has seen 5.5 MSF of deliveries and 2.2 MSF of negative net absorption. Although construction levels have steadily fallen, there is still 1.9 MSF of new inventory under construction.

Historical Construction Deliveries, Net Absorption, and Vacancy

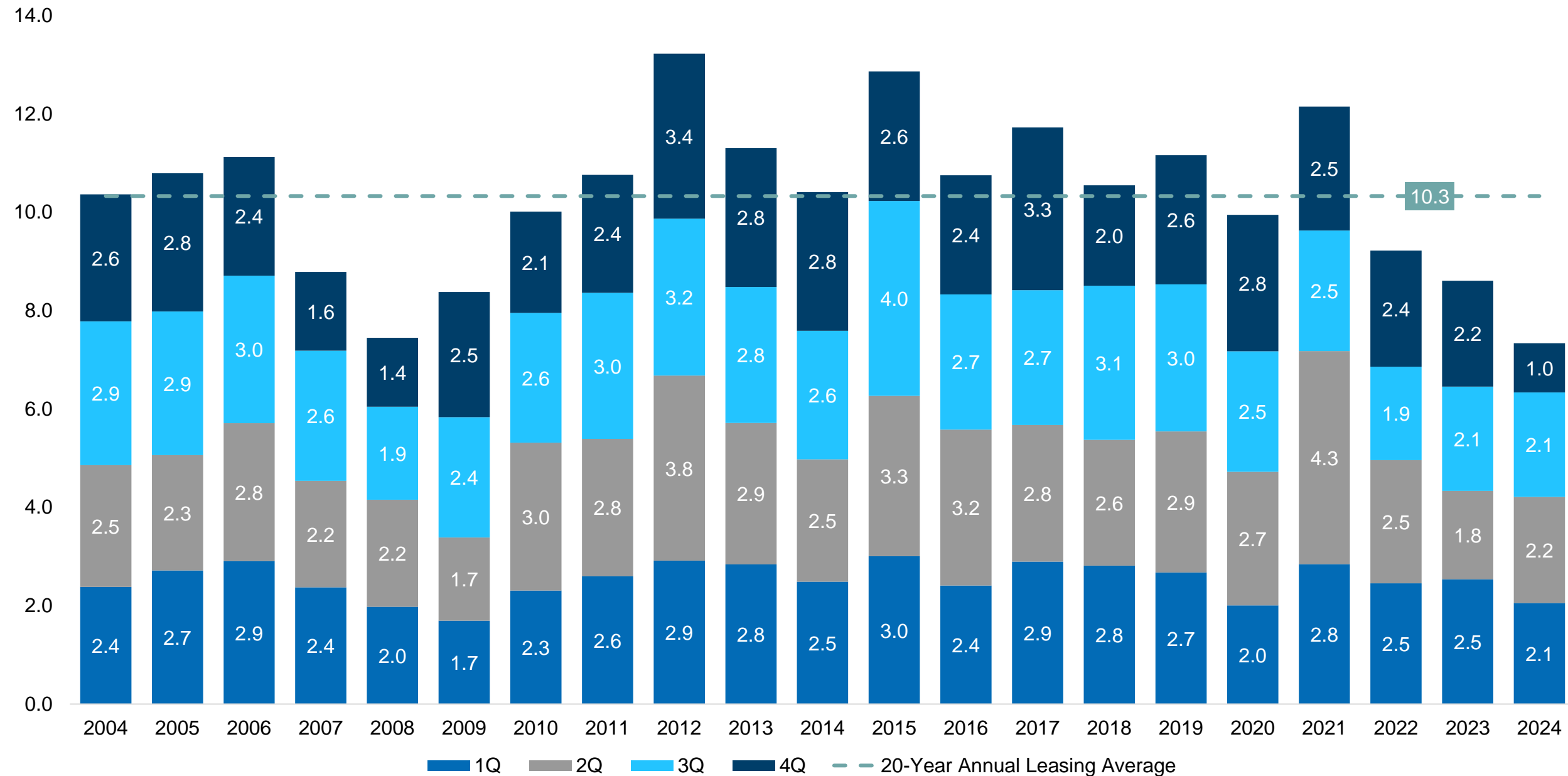


Source: Newmark Research

Industrial Leasing Declines for the Third Year in a Row

Leasing activity has steadily dropped over the past three years after experiencing robust activity in 2021, as economic uncertainty from high interest rates and inflation lead many businesses to reduce real estate requirements. In 2024 there was 7.3 MSF of leasing activity, lower than even 2008's total in the aftermath of the Global Financial Crisis and 24.3% below the 20-year average.

Total Leasing Activity (MSF)

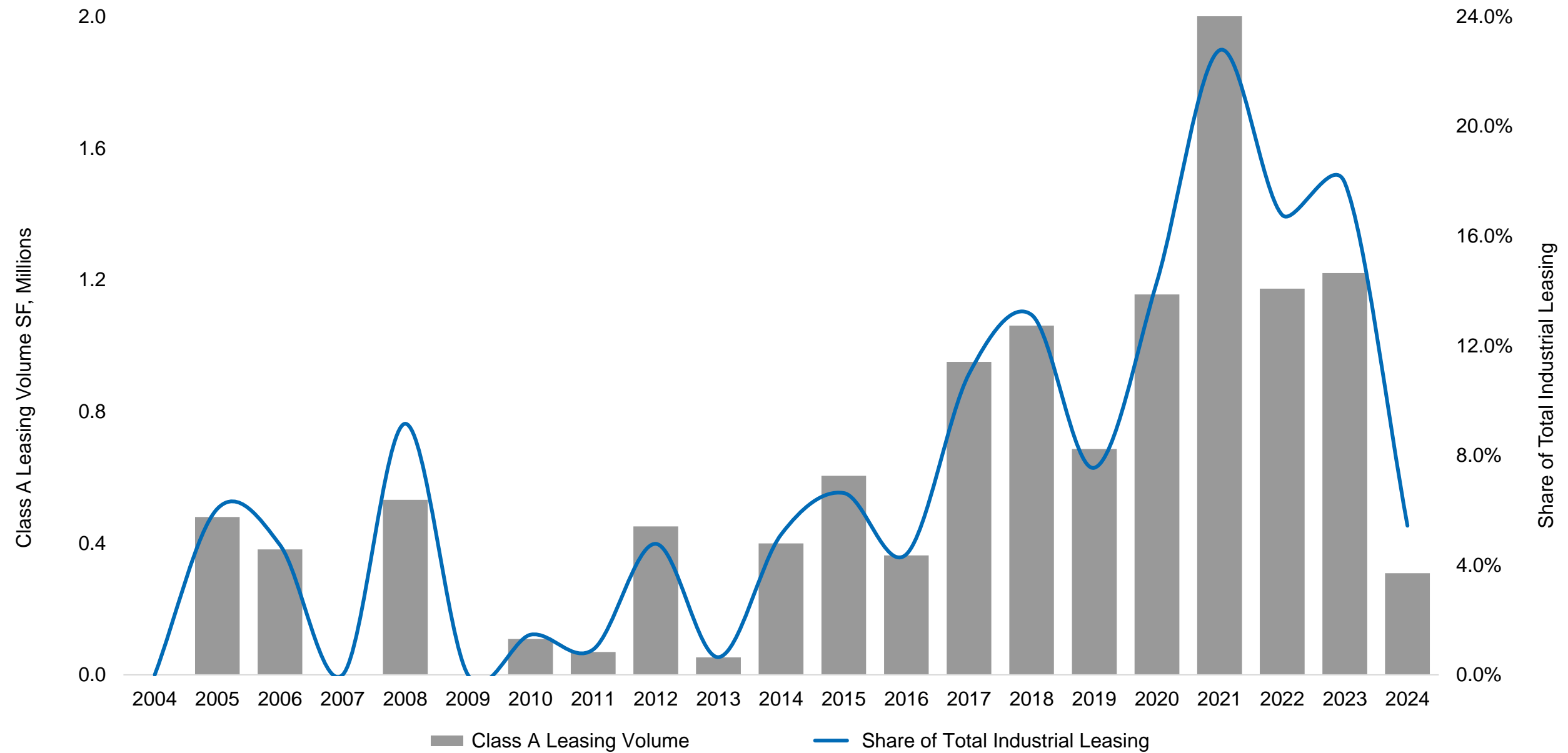


Source: Newmark Research, CoStar

Class A Leasing Has Declined Significantly

San Diego's Class A inventory and demand increased substantially in the heyday of super-sized distribution facilities, although the region didn't see the same level of development as the major industrial markets, such as Los Angeles and the Inland Empire. Amazon's 2021 lease for its 3.4-MSF facility in Otay Mesa set the high-water mark for Class A demand. In 2024 Class A leasing activity was notably muted, although the largest current construction project is another 1.0-MSF Class A fulfillment center being built for Amazon in Otay Mesa.

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



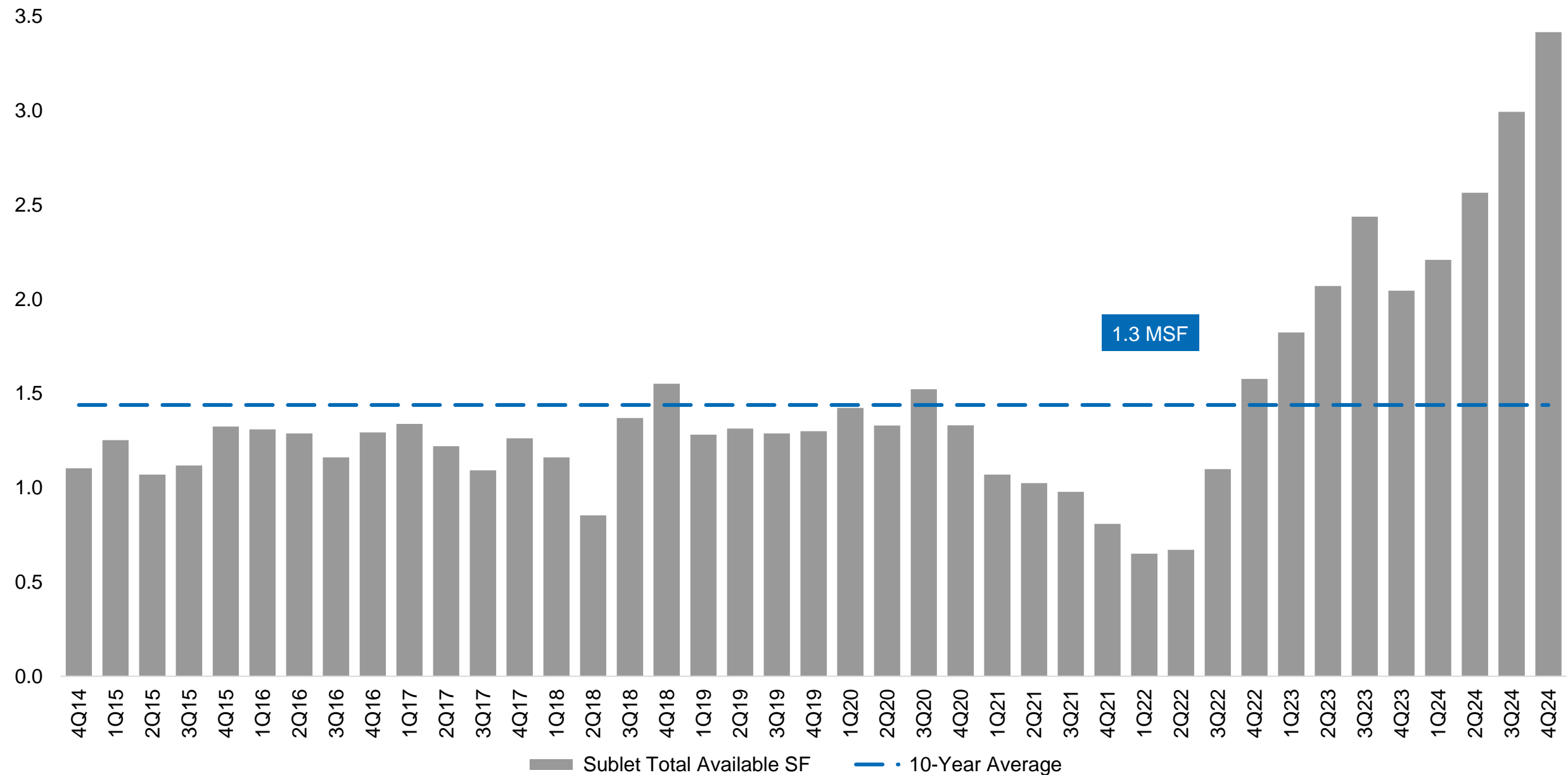
Source: Newmark Research, CoStar

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 3.4 MSF during the fourth quarter, an all-time high and up 322% over the past three years. Sublease listings bottomed out during the surging demand for industrial space during COVID, before increasing at the end of 2022 as demand moderated. Large spaces that were leased during the pandemic e-commerce boom and are no longer needed have contributed to the upward trend of available sublease space.

Available Industrial Sublease Volume (MSF)

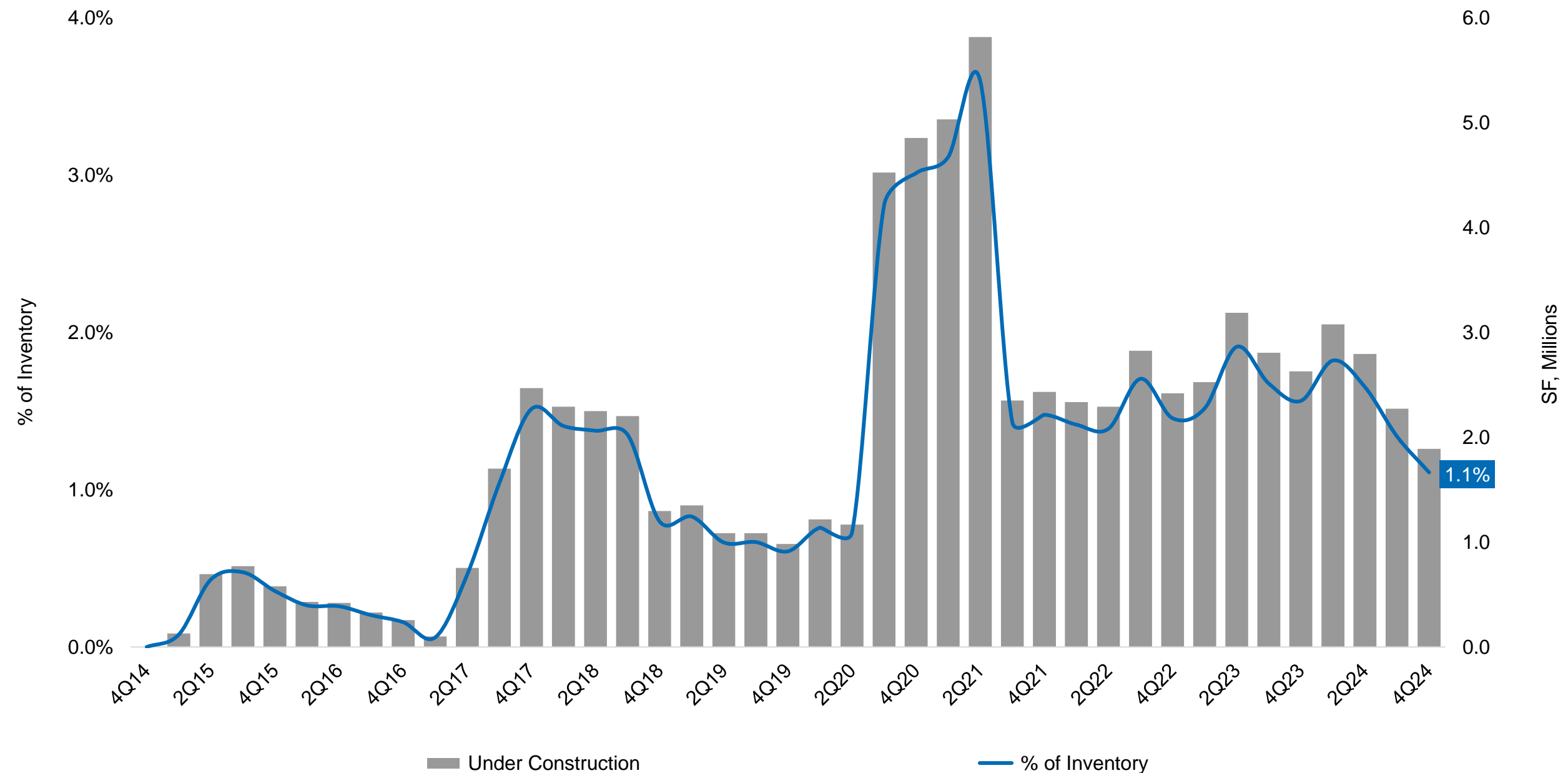


Source: Newmark Research, CoStar

Pipeline Has Eased as the Market Struggles to Absorb New Product

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 and the current construction rate of 1.1% of existing inventory is now in-line with the 10-year average.

Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

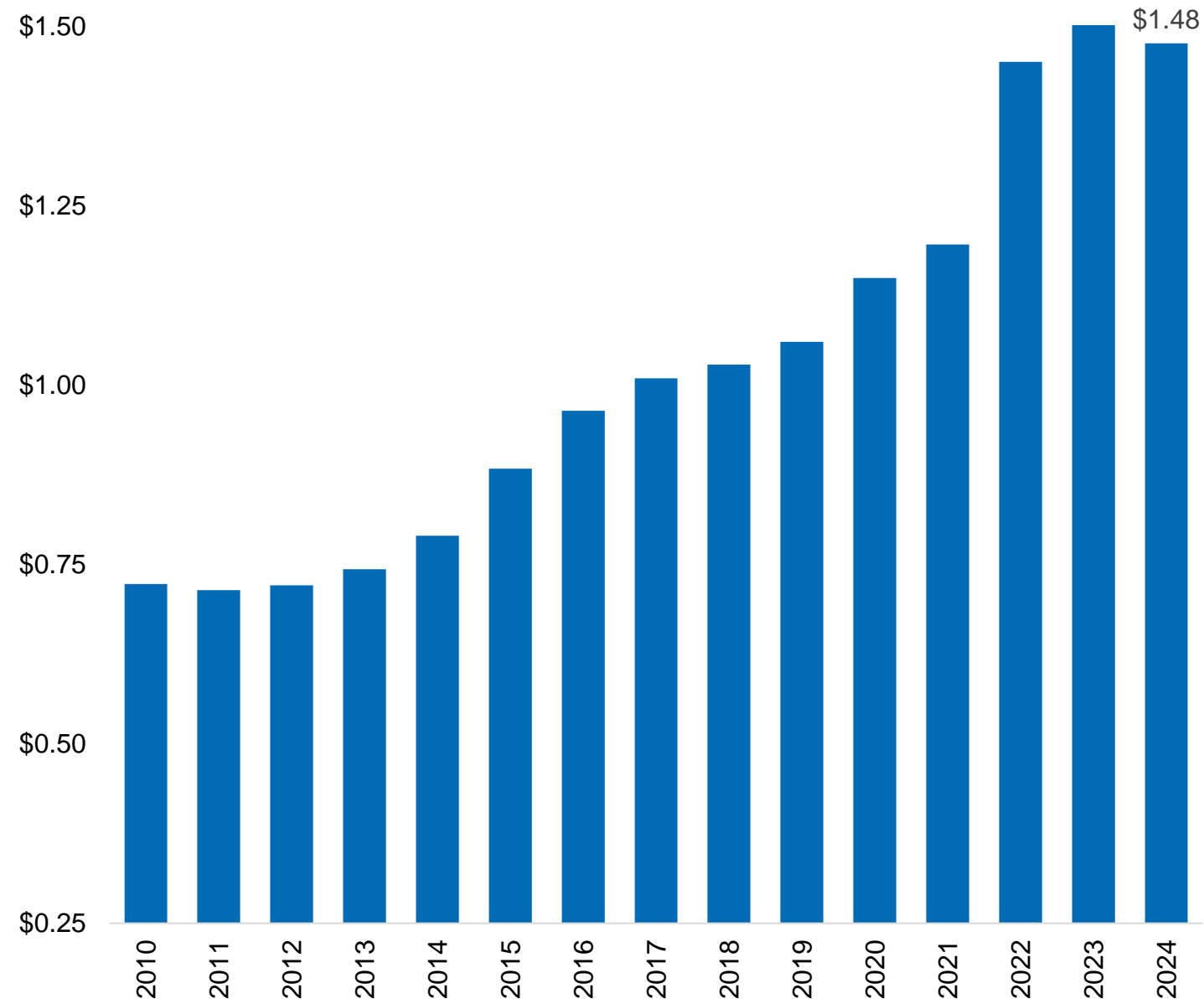
New California Bill Adds Regulations on Warehouse Development in the State

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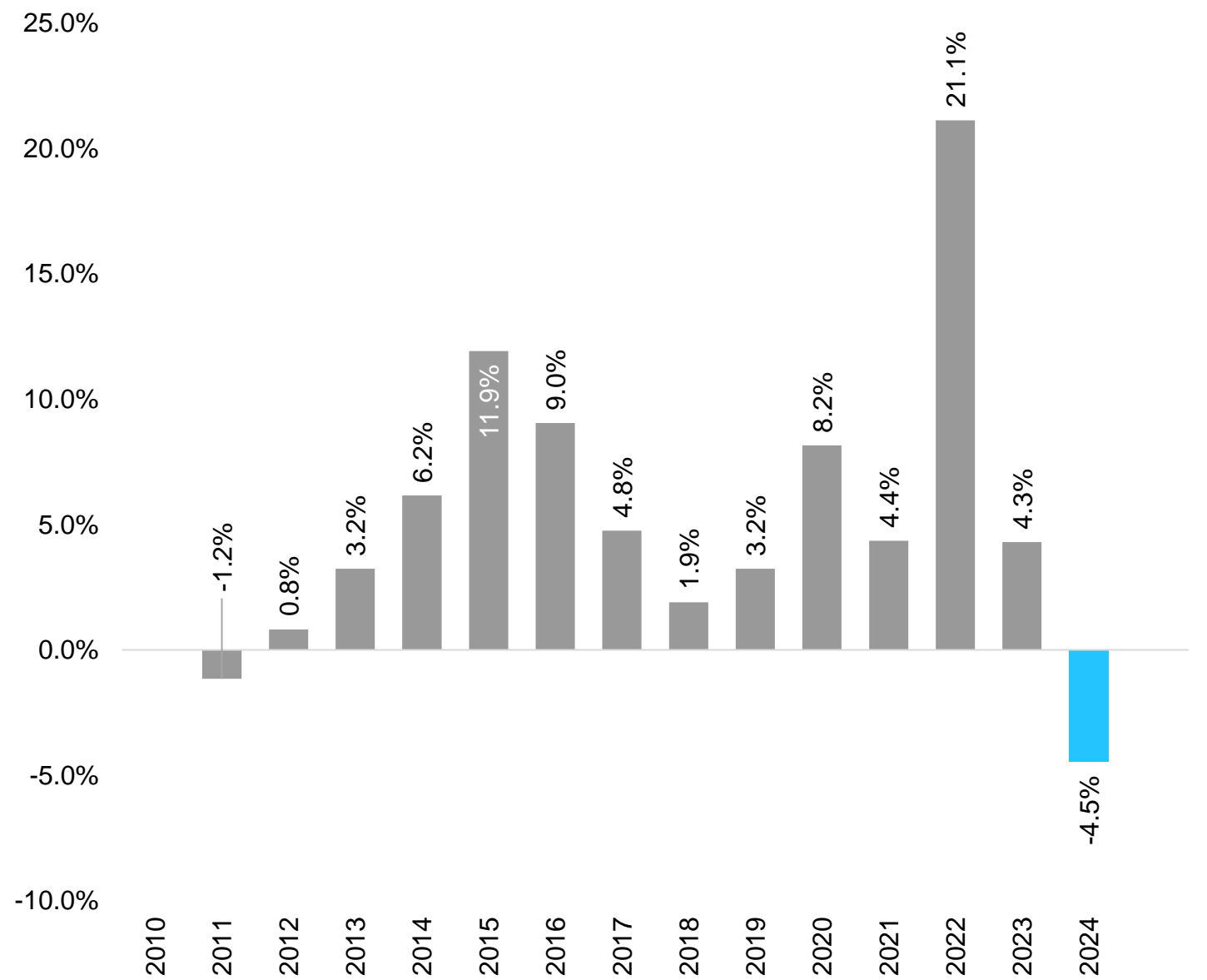
Asking Rents Start to Decline

The slowdown in leasing activity and rising vacancy has caused asking rents to dip to \$1.48/SF, down 4.5% from the all-time high in 2023 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

Otay Mesa continues to attract the most leasing activity due to the affordability of industrial space in the submarket and its proximity to the international border with Mexico. Central urban submarkets like Miramar and Kearny Mesa also saw healthy leasing activity, albeit for smaller spaces.

Select Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Cotton Collective	1855 Dornoch Ct	Otay Mesa	New Lease	62,576
<i>Apparel manufacturing company leased distribution space in Otay Mesa.</i>				
VMACO	8425 Otay Mesa Rd	Otay Mesa	New Lease	35,647
<i>Import-export logistics company relocated to Otay Mesa.</i>				
Pacific Event Productions	6989 Corte Santa Fe	Miramar	Lease Extension	29,491
<i>Event management company extended the lease for its Miramar location.</i>				
Global Ally Customs Brokers	2155 Britannia Blvd	Otay Mesa	New Lease	23,734
<i>Customs brokerage company leased a new location in Otay Mesa.</i>				
Trane	3562 Ruffin Rd	Kearny Mesa	New Lease	23,520
<i>Heating equipment supplier leased a second building adjacent to its existing Kearny Mesa location.</i>				

Source: Newmark Research, CoStar

Average Lease Sizes Dropped Significantly As Leasing Volume Declined

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Industrial Sales Volume Declines From Recovery Highs

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Private Buyers Are the Most Active in a Slow Investment Market

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Submarkets



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Construction Levels Decline From Historical High

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Asking Rents Level Off As Vacancy Climbs

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Record Sublease Availability is Spread Across the Region

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