



San Diego County

Industrial 21Q4

Key Takeaways

- Countywide average asking monthly rental rates increased by \$0.09 in Q4 to \$1.44/SF triple-net (NNN).
- Overall vacancy fell 85 basis points (BPS) to reach 2.83%, continuing to reestablish a historical low.
- Industrial vacancy hovers just above 2% while flex vacancy dipped below 5%.
- Nearly 500,000 SF of new construction completed in Q4 added to a record-breaking 4.9 million SF of industrial completions in 2021. Over 92% of the industrial and flex that was built in 2021 has been occupied.



San Diego's industrial market continues record-breaking demand

Demand in the industrial and flex property segments continues to be the healthiest of all commercial real estate sectors. Industrial and flex vacancies have reached all-time low rates of 2.07% and 4.82%, respectively. Industrial demand remains concentrated in warehouse/distribution space while flex demand continues to be driven by a life science sector which has accelerated to record levels. Robust demand that has far out-paced new supply will continue to keep vacancies at tightening levels over the next year.

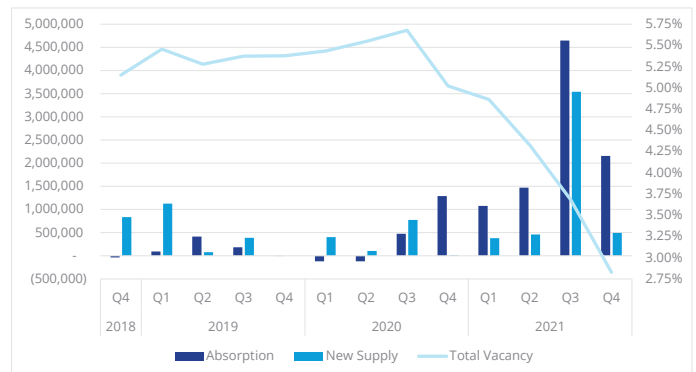
Market Indicators



Historic Comparison

	20Q4	21Q3	21Q4
Total Inventory (in Thousands of SF)	195,502.1	195,898.5	196,392.0
New Supply (in Thousands of SF)	9.0	3,540.7	493.5
Net Absorption (in Thousands of SF)	1,289.3	4,648.2	2,155.2
Overall Vacancy	5.02%	3.68%	2.83%
Under Construction (in Thousands of SF)	5,771.6	5,148.8	4,834.8
Overall Asking Lease Rates (NNN)	\$1.38	\$1.35	\$1.44

Historical Market Trends



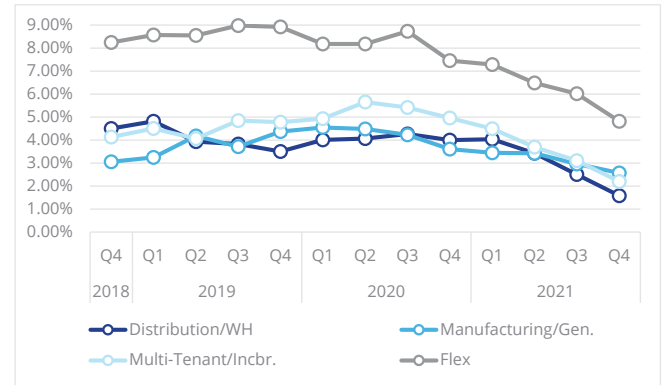
San Diego County recorded 2.2 million SF of net absorption in Q4 to add to the 9.3 million SF of net absorption in 2021 – the most absorption ever recorded. Consistent positive net absorption over the past five quarters has resulted in vacancy plunging 285 BPS from 5.68% in Q3 2020 to 2.83% in Q4 2021. 2022 will also be a strong year for demand. There is preleasing on projects currently under construction totaling over 1 million SF that will be absorbed as the projects are completed.

Recent Transactions

Lease	Lease	Lease	Sale	Sale	Sale
5670 Kearny Mesa Kearny Mesa 315k SF	1701 Landmark Rd Otay Mesa 154k SF	7598 Trade St Miramar 85k SF	Lusk Business Park Sorrento Mesa \$850/SF	The Campus Otay Mesa \$238/SF	7995 Armour St Kearny Mesa \$615/SF

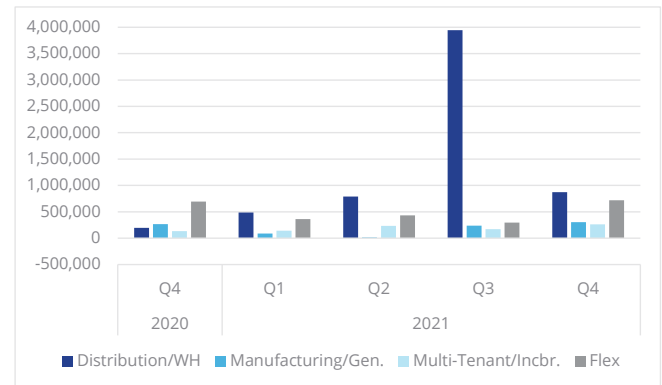
Vacancy

Countywide industrial/flex vacancy stood at 2.83% at the end of Q4. Manufacturing (2.57%), distribution/warehouse (1.58%), and multi-tenant (2.20%) vacancy rates were all below the county average with flex (4.82%) above the average. Life science/wet lab space (a flex use) vacancy is falling faster compared to other industrial or flex uses. Life science/wet lab reached 4.53% at year-end. However, leasing has been stronger than the vacancy rate suggests since it can take up to a year or more for most life science tenants to occupy their space. Consequently, the availability rate of life science space is below 2%.



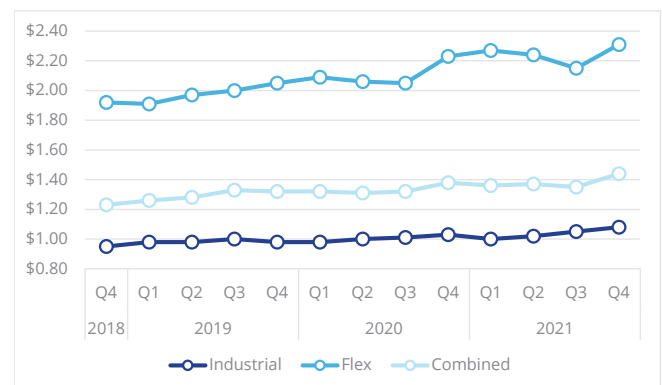
Net Absorption

All four of the industrial sub-types recorded positive absorption every quarter over five quarters. In Q3, the spike in distribution demand was mostly due to the occupancy of Amazon's new Otay Mesa facility accounting for 3.3 million SF. All 21 of San Diego County's submarkets recorded positive net absorption in Q4, with eight submarkets exceeding 100,000 SF. Carlsbad (+500,910 SF), Otay Mesa (+395,868 SF), and Rancho Bernardo (+291,351) posted the most net absorption over the quarter with Otay Mesa (+4.5M SF) and Carlsbad (+949,740 SF) posting the most for the year.



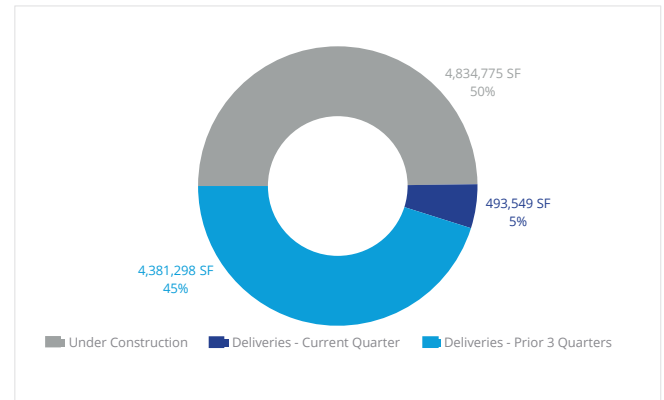
Rental Rates

Countywide average asking rental rates continue to steadily climb as they have over the last decade. In Q4 2021, the combined industrial/flex average asking rental rate countywide stood at \$1.44/SF, amounting to a year-over-year (YoY) increase of 4.3%. The increase of \$0.09 over the prior Q3 rate of \$1.35 was the largest single-quarter nominal increase as well. Industrial rents increased \$0.03 to \$1.08/SF in Q4, while flex soared \$0.16 to \$2.31/SF. Industrial and flex rents increased 4.9% and 3.6% YoY, respectively.



Construction

4.9 million SF of new industrial and flex construction was completed in 2021, exceeding the previous record of 3.4 million SF two decades ago (2001). One of the biggest projects completed during the year was the 3.3 million SF Amazon facility in Otay Mesa – the largest building in San Diego County. In addition to Amazon facility, Otay Mesa made up 88% of the new construction countywide in 2021. Otay Mesa also comprises over 37% of the 4.8 million SF currently under construction. However, life science space makes up the majority (57%) of the space currently in development.



Recent & Near Future Deliveries

Partial List

Submarket	Project / Address	Type	Total SF	Availability	Developer	Status
Torrey Pines	The Boardwalk 10275 Science Center Dr	Flex / Life Science	76,407	0% Leased to Zentalis	Healthpeak Properties	Completed Q4 2021
Otay Mesa	Brown Field Technology Park 7225 Otay Mesa Rd & 1695 Continental St	Industrial	229,673	100%	Murphy Development Company	Completed Q4 2021
Otay Mesa	Otay II Commerce Center 7707 & 7715 Paseo De La Fuente	Industrial	152,469	79%	Cabot Properties	Completed Q4 2021
East County	Tower Glass Built-to-Suit 9702 Prospect St, Santee	Industrial	35,000	0%	Tower Glass	Completed Q4 2021
Otay Mesa	Landmark at Otay - Phase 1 1601 & 1701 Landmark Rd	Industrial	369,770	100%	Majestic Realty & Sunroad Enterprises	Under Construction Est. Q1 2022
Otay Mesa	8055 St. Andrews Ave	Industrial	29,990	100%	Hamann Companies	Under Construction Est. Q1 2022
Otay Mesa	California Crossings 715 & 755 Harvest Rd	Industrial	453,330	100%	Sudberry Properties	Under Construction Est. Q1 2022
Torrey Pines	ARE Spectrum III 3115 Merryfield Row	Flex / Life Science	146,456	0%	Alexandria Real Estate Equities	Under Construction Est. Q1 2022
Otay Mesa	Airway Logistics Center 8151 Airway Rd	Industrial	247,480	100%	Badiee Development	Under Construction Est. Q2 2022
Sorrento Mesa	Alexandria Tech Center 10055 Barnes Canyon Rd	Flex / Life Science	176,910	0% Leased to Element Biosciences	Alexandria Real Estate Equities	Under Construction Est. Q2 2022

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Submarket/ Class	Total Inventory SF	Direct Vacancy Rate	Sublease Vacancy Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (NNN)
Industrial - distribution/warehouse, manufacturing/general, and multi-tenant/incubator										
Central San Diego	24,306,376	1.99%	0.01%	2.00%	2.84%	203,413	240,991	0	0	\$1.30
North City	16,227,846	1.03%	0.17%	1.20%	2.28%	175,487	326,651	0	0	\$1.33
North County	43,382,007	2.44%	0.31%	2.75%	3.75%	435,346	1,580,354	0	59,000	\$1.05
I-15 Corridor	11,365,609	0.59%	0.03%	0.63%	1.16%	60,824	170,239	0	0	\$1.11
South County	34,611,680	2.38%	0.01%	2.39%	2.56%	431,822	4,791,784	1,982,635	4,409,766	\$0.90
East County	12,228,785	1.36%	0.00%	1.36%	2.15%	129,914	432,825	0	286,440	\$1.08
TOTAL	142,122,303	1.95%	0.12%	2.07%	2.79%	1,436,806	7,542,844	1,982,635	4,755,206	\$1.08
Flex - R&D and wet lab/life science										
Central San Diego	7,333,614	2.03%	0.27%	2.29%	2.77%	35,131	110,169	2,088,000	0	\$1.69
North City	24,602,712	4.96%	0.52%	5.48%	5.76%	140,411	1,198,498	671,571	119,641	\$3.35
North County	12,368,665	3.88%	0.34%	4.22%	6.44%	274,835	431,198	0	0	\$1.44
I-15 Corridor	7,955,205	6.23%	0.43%	6.65%	10.13%	276,309	105,067	0	0	\$1.58
South County	617,860	1.46%	0.00%	1.46%	0.49%	(5,999)	(8,999)	66,855	0	\$1.09
East County	1,391,665	1.50%	1.29%	2.79%	2.62%	(2,296)	(29,344)	25,714	0	\$1.18
TOTAL	54,269,721	4.37%	0.45%	4.82%	6.01%	718,391	1,806,589	2,852,140	119,641	\$2.31
Total - Industrial + Flex										
Central San Diego	31,639,990	2.00%	0.07%	2.07%	2.82%	238,544	351,160	2,088,000	0	\$1.46
North City	40,830,558	3.40%	0.38%	3.78%	4.38%	315,898	1,525,149	671,571	119,641	\$2.52
North County	55,750,672	2.76%	0.31%	3.07%	4.35%	710,181	2,011,552	0	59,000	\$1.11
I-15 Corridor	19,320,814	2.91%	0.19%	3.11%	4.85%	337,133	275,306	0	0	\$1.42
South County	35,229,540	2.36%	0.01%	2.38%	2.53%	425,823	4,782,785	2,049,490	4,409,766	\$0.91
East County	13,620,450	1.38%	0.13%	1.51%	2.20%	127,618	403,481	25,714	286,440	\$1.08
TOTAL	196,392,024	2.62%	0.21%	2.83%	3.68%	2,155,197	9,349,433	4,834,775	4,874,847	\$1.44



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Suburban Markets & Submarkets - Industrial & Flex

Submarket/ Class	Total Inventory SF	Direct Vacancy Rate	Sublease Vacancy Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (NNN)
Central San Diego										
Dwntwn/Barrio/SE	8,873,444	1.75%	0.00%	1.75%	2.59%	74,366	42,007	2,088,000	0	\$1.14
Kearny Mesa	15,658,952	2.08%	0.14%	2.23%	3.04%	126,704	247,033	0	0	\$1.56
Mission Gorge/Vly	2,110,639	0.51%	0.00%	0.51%	1.06%	11,686	98,199	0	0	\$1.85
Rose Cyn/Morena	3,421,479	2.25%	0.00%	2.25%	2.57%	10,861	7,931	0	0	\$1.28
Sports Arena	1,575,476	3.98%	0.00%	3.98%	4.93%	14,927	(44,010)	0	0	\$1.25
TOTAL	31,639,990	2.00%	0.07%	2.07%	2.82%	238,544	351,160	2,088,000	0	\$1.46
North City										
Miramar	13,816,579	1.33%	0.16%	1.49%	2.39%	123,420	274,226	0	0	\$1.63
Sorrento Mesa	13,642,856	6.49%	0.79%	7.28%	7.59%	43,019	325,312	340,115	0	\$2.58
Sorrento Valley	3,232,657	8.13%	0.00%	8.13%	8.62%	15,629	256,911	0	0	\$3.76
Torrey Pines	5,377,653	0.67%	0.00%	0.67%	1.63%	126,912	609,779	331,456	119,641	\$6.79
UTC	4,760,813	0.42%	0.53%	0.95%	1.10%	6,918	58,921	0	0	\$3.95
TOTAL	40,830,558	3.40%	0.38%	3.78%	4.38%	315,898	1,525,149	671,571	119,641	\$2.52
North County										
Carlsbad	16,030,330	2.82%	0.15%	2.97%	6.09%	500,910	949,740	0	59,000	\$1.31
Escondido	7,412,297	1.66%	0.15%	1.81%	1.92%	8,134	99,626	0	0	\$1.15
Oceanside	9,953,480	1.41%	0.03%	1.44%	2.59%	114,102	255,458	0	0	\$0.97
San Marcos	8,437,924	1.39%	0.29%	1.68%	2.32%	53,641	422,535	0	0	\$0.96
Vista	13,916,641	5.07%	0.81%	5.88%	6.12%	33,394	284,193	0	0	\$1.02
TOTAL	55,750,672	2.76%	0.31%	3.07%	4.35%	710,181	2,011,552	0	59,000	\$1.11
I-15 Corridor										
Poway	9,639,177	0.42%	0.11%	0.53%	0.88%	34,090	70,735	0	0	\$1.08
Rancho Bernardo	7,824,988	5.77%	0.34%	6.11%	9.84%	291,351	189,968	0	0	\$1.59
Scripps Ranch	1,856,649	3.84%	0.00%	3.84%	4.47%	11,692	14,603	0	0	\$1.34
TOTAL	19,320,814	2.91%	0.19%	3.11%	4.85%	337,133	275,306	0	0	\$1.42
South County										
Otay Mesa	20,528,245	3.07%	0.00%	3.08%	3.20%	395,868	4,537,870	1,803,105	4,306,266	\$0.86
South Bay	14,701,295	1.37%	0.03%	1.40%	1.60%	29,955	244,915	246,385	103,500	\$1.03
TOTAL	35,229,540	2.36%	0.01%	2.38%	2.53%	425,823	4,782,785	2,049,490	4,409,766	\$0.91
East County										
TOTAL	13,620,450	1.38%	0.13%	1.51%	2.20%	127,618	403,481	25,714	286,440	\$1.08

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