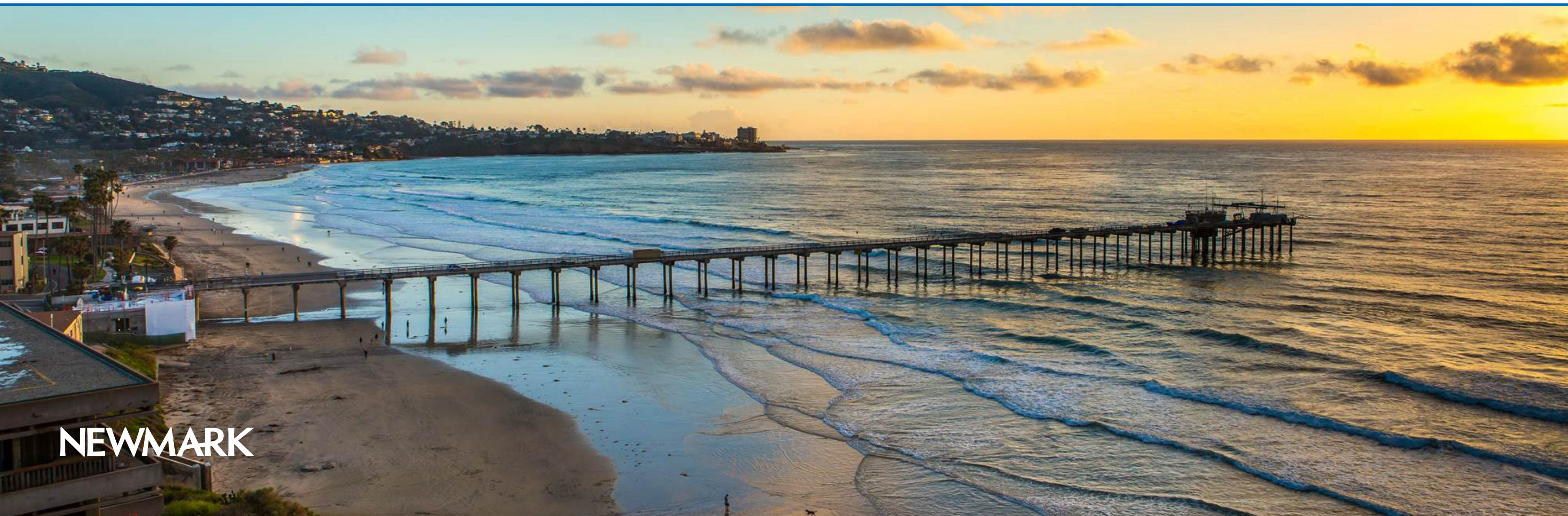


1Q25

San Diego Industrial Market Overview



NEWMARK

Market Observations

Economy

- The region’s unemployment rate was 4.4% as of February 2025, down 10 basis from February 2024. The metro added 9,900 jobs during this time, an increase of 0.6%. The manufacturing sector lost 3,300 jobs over the past year while trade/transportation/utilities lost 700 jobs.
- The consumer price index for all urban customers in the San Diego metropolitan area was up 3.8% year-over-year as of January 2025, down from the peak of 8.3% in annual increases experienced during 2022.
- Imports and exports at the Otay Mesa port of entry totaled \$64.3 billion over the 12-month period ending February 2025, a new all-time high.

Major Transactions

- Anheuser-Busch InBev renewed the lease for its 131,299-SF Budweiser distribution facility in Morena, where the company has operated for more than 20 years.
- Custom brokerage and logistics company Brokerage & Logistics Solutions leased the 119,044-SF Building 2 at the Sanyo Logistics Center in Otay Mesa, which was completed in 2024 by developer and owner Badiie Development.
- Electronics manufacturer Foxx Development leased a 102,099-SF building at Britannia Tech Park from Hines.

Leasing Market Fundamentals

- The average asking rent fell to \$1.45/SF, down 5.3% over the past year, as rising vacancy has weighed on asking rates.
- Total vacancy climbed to 7.3% as net absorption posted 373,966 SF in losses for the first quarter. Vacancy is at its highest rate since 2014.
- Sublet availability fell to 3.0 MSF, down 412,359 SF from the all-time high set last quarter.
- 256,796 SF of new projects delivered in the first quarter as under-construction activity fell to 1.3 MSF, down from 2.9 MSF in the first quarter of 2024. Developers are starting few new speculative projects as market demand has failed to keep up with new supply for nine consecutive quarters.

Outlook

- Vacancy will decelerate now that the speculative pipeline has mostly delivered, and developers have few plans to start new projects without a signed lease in hand.
- Rent growth will remain negative until demand picks up and starts to make progress against rising vacancies.
- Ongoing volatility from tariffs could affect demand in Otay Mesa, San Diego’s largest submarket, where international trade with Mexico is a major demand driver.
- The Federal Reserve has signaled that two more interest cuts originally planned for 2025 will depend on the rate of inflation, adding uncertainty to investors who have been hesitant to transact.

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

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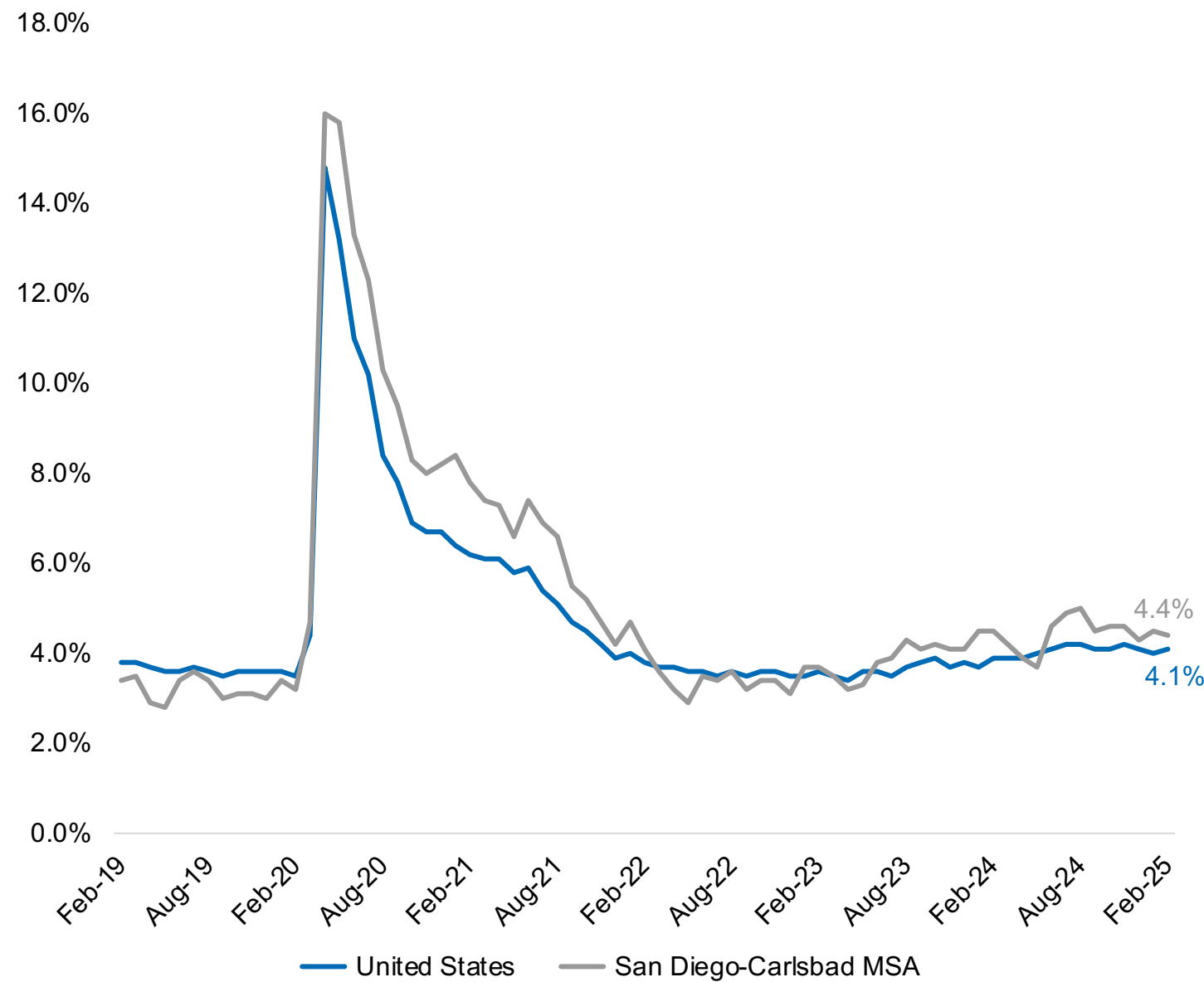
Economy



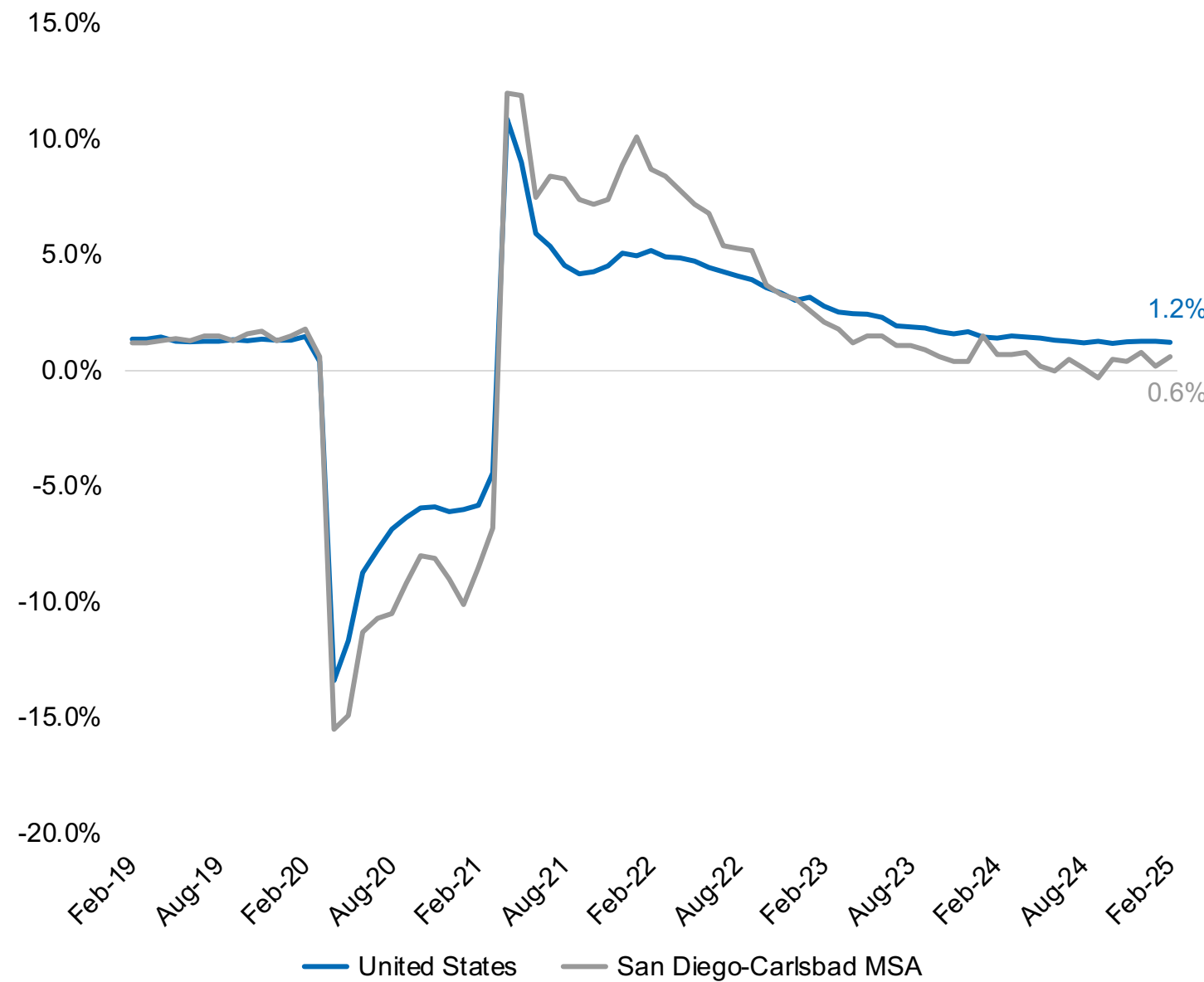
Unemployment Little Changed From Last Year

The local unemployment rate was 4.4% in February 2025, down 10 basis points over the past year. During this time nonfarm employment has continued to post modest but positive gains: employers reported an additional 9,900 jobs over the past year, representing growth of 0.6%, which trailed the national average of 1.2%.

Unemployment Rate, Seasonally Adjusted



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

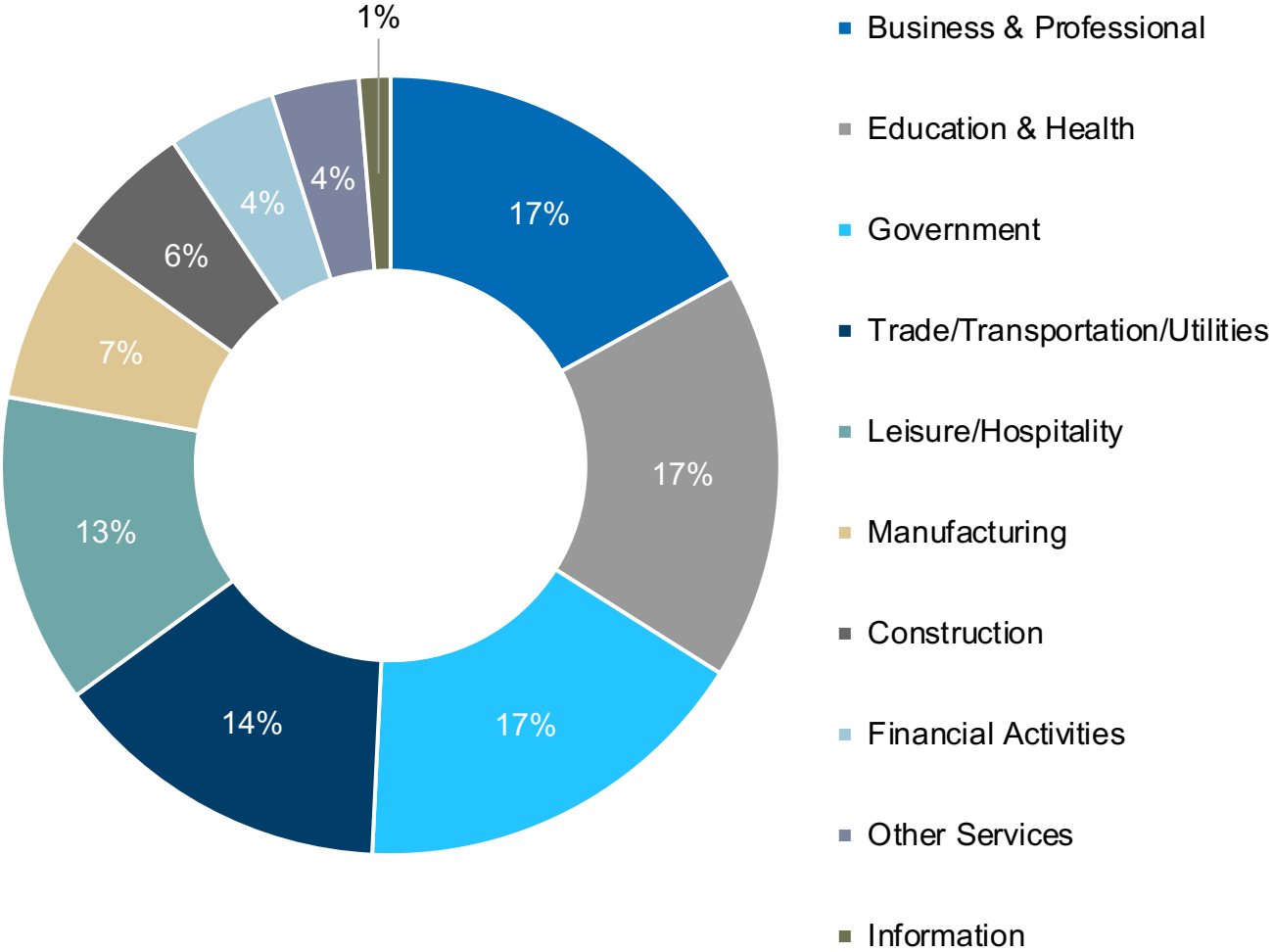


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

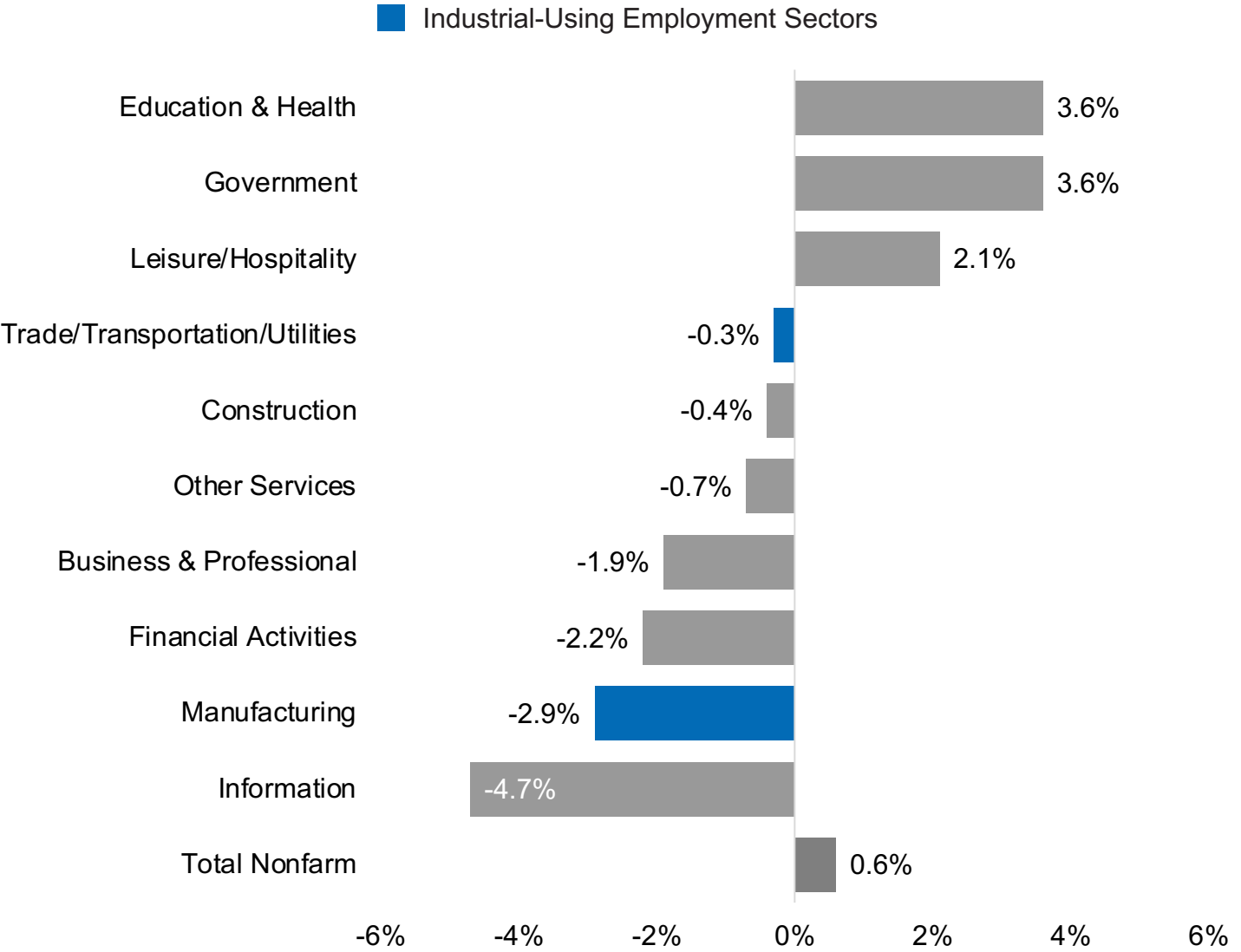
Industrial Jobs Experienced Minor Losses Over the Past Year

The San Diego metro added 9,900 nonfarm jobs over the past year, although industrial-using sectors shed jobs during this period. The manufacturing sector lost 3,300 jobs and the trade/transportation/utilities (TPU) sector shed 700 jobs. TPU’s decline follows a cyclical pattern in which employment peaks in December (for the holiday season) and drops gradually in the first months of the following year.

Employment by Industry, February 2025



Employment Growth by Industry, 12-Month % Change, February 2025

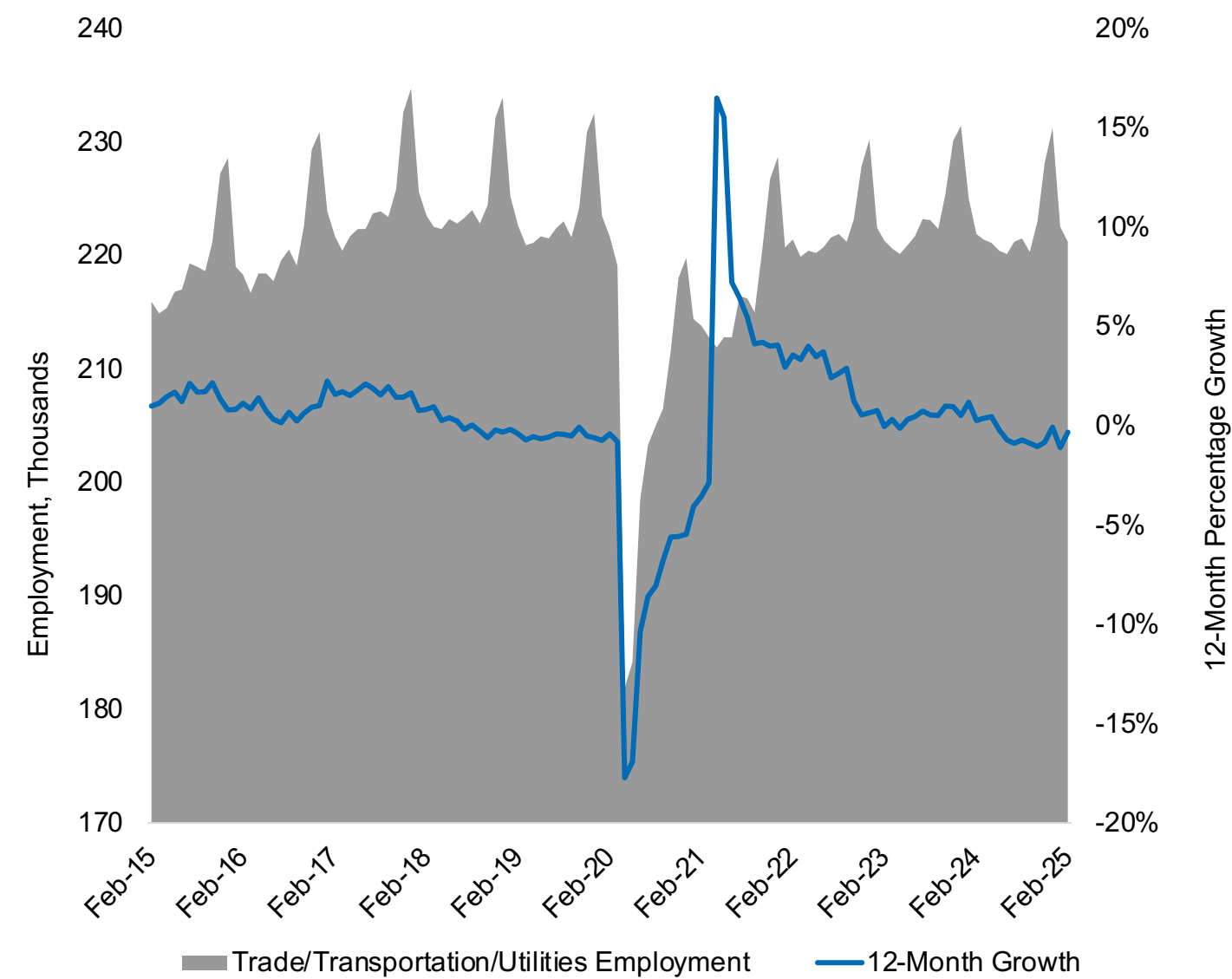


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

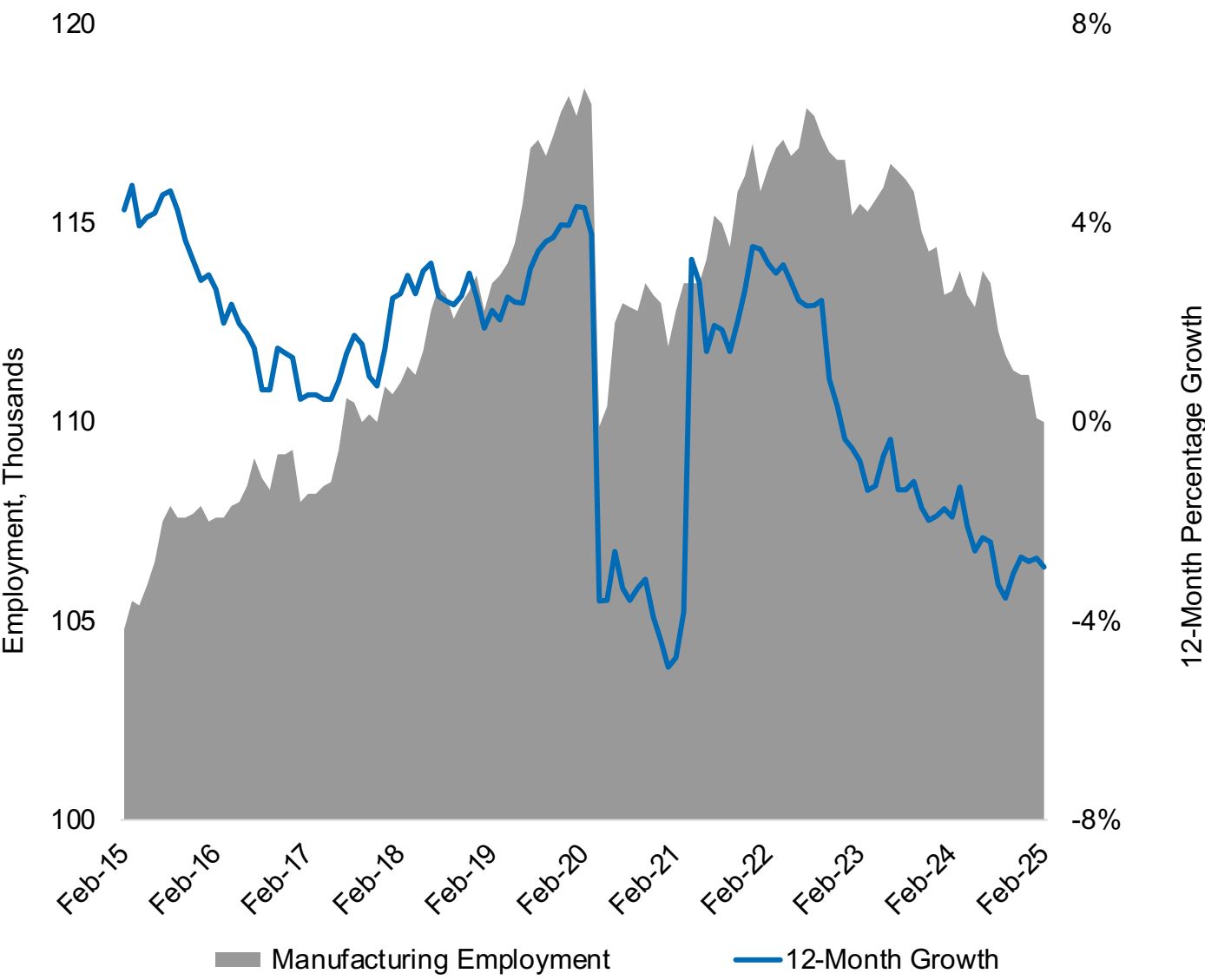
Trade/Transportation/Utilities Jobs Stabilize While Manufacturing Declines

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; manufacturing employment was near a record high in July of 2022 but has since declined by 7,900 jobs.

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



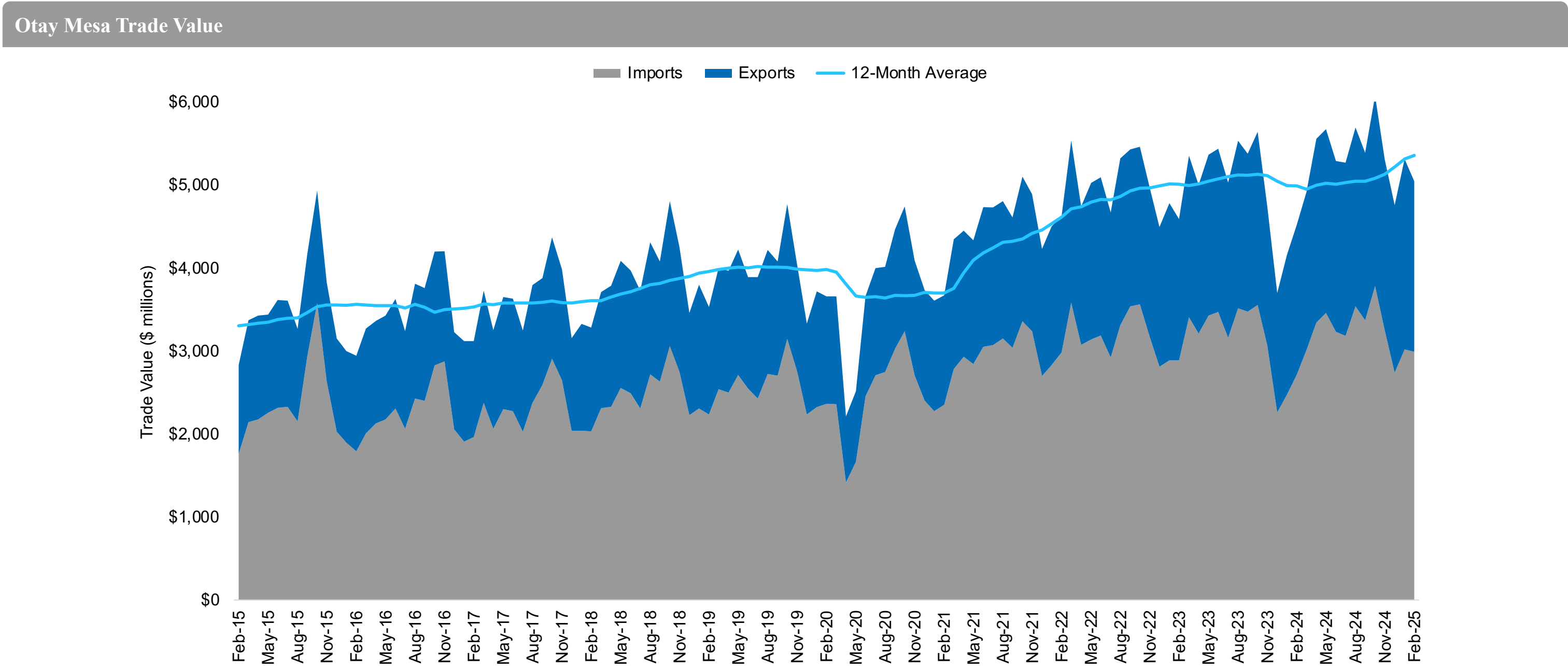
Manufacturing Employment and 12-Month Growth Rate



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

Otay Mesa Annual Trade Volume Sets a New Record

The Otay Mesa Port of Entry is the sixth largest port for North American inbound and outbound truck freight in the United States. Total trade volume, including imports and exports, over the 12-month period ending February 2025 reached \$64.3 billion, a new all-time high and \$4.4B higher than the previous year. International trade and cross-border manufacturing have made Otay Mesa San Diego’s largest industrial submarket and construction on a second port of entry (“Otay Mesa East”) is underway with completion scheduled by 2028.

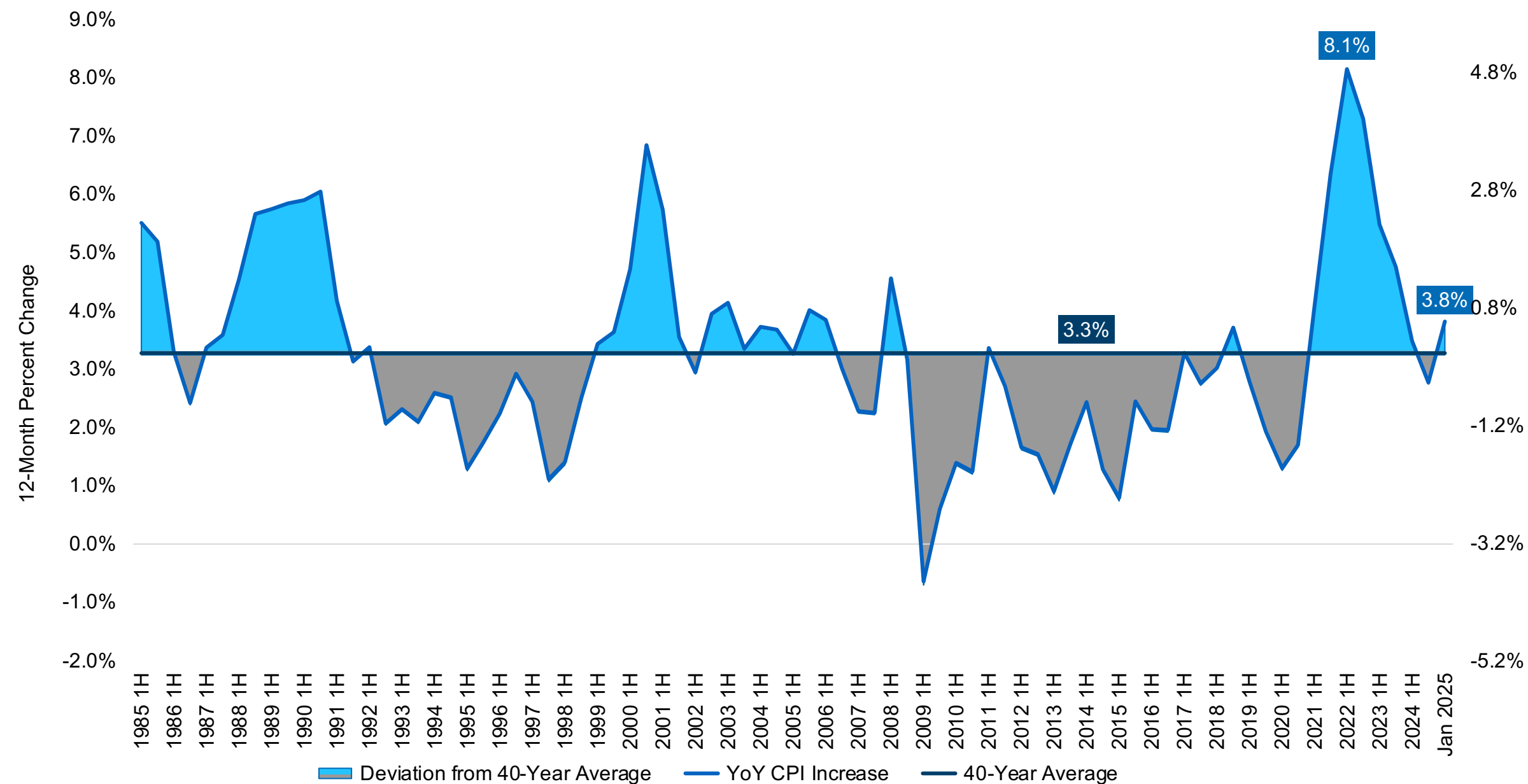


Source: Newmark Research, U.S. Department of Transportation

Inflation Eases From Historical Highs

Inflation in the San Diego metropolitan area caused prices to increase by 3.8% year-over-year as of January 2025, down from the high of 8.1% in the first half of 2022 and slightly higher than the 40-year average of 3.3%. Nationally, the annual rate of inflation was 3.0% in January 2025. The Federal Reserve is closely monitoring the progress of inflation as it considers whether to proceed with two more interest rate cuts planned for 2025.

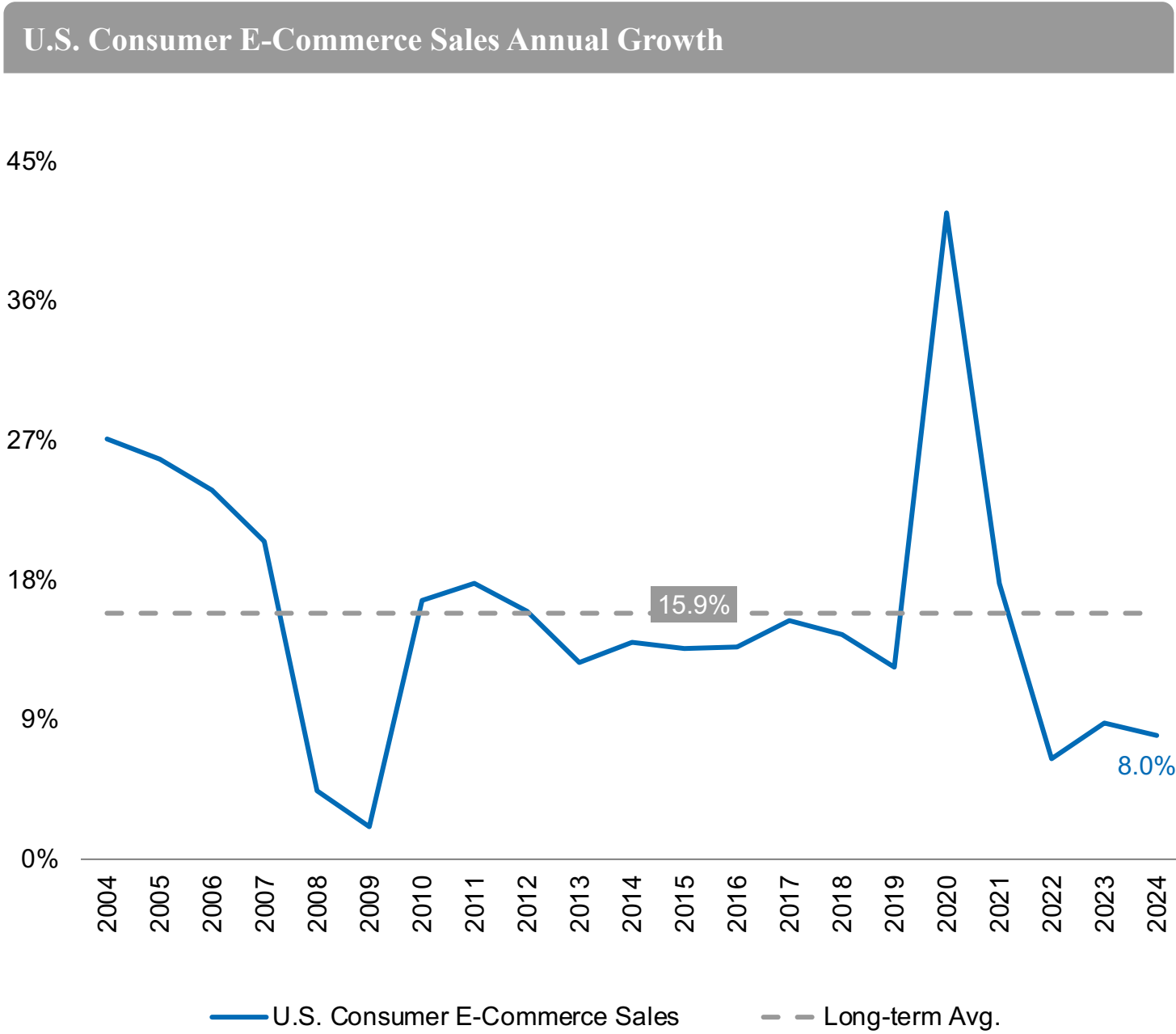
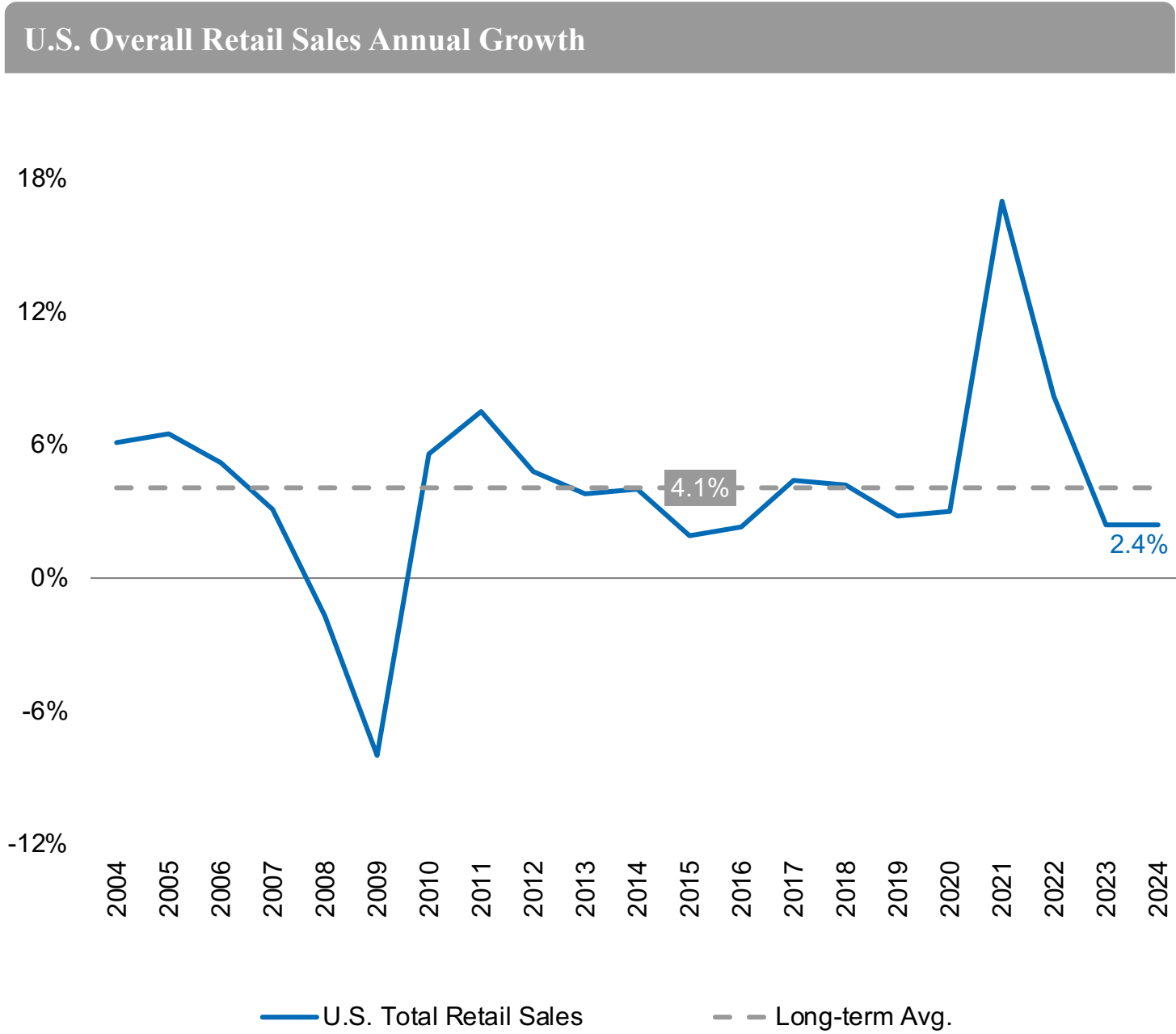
CPI for All Urban Consumers, San Diego-Carlsbad, CA, Not Seasonally Adjusted



Source: Newmark Research, U.S. Bureau of Labor Statistics

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

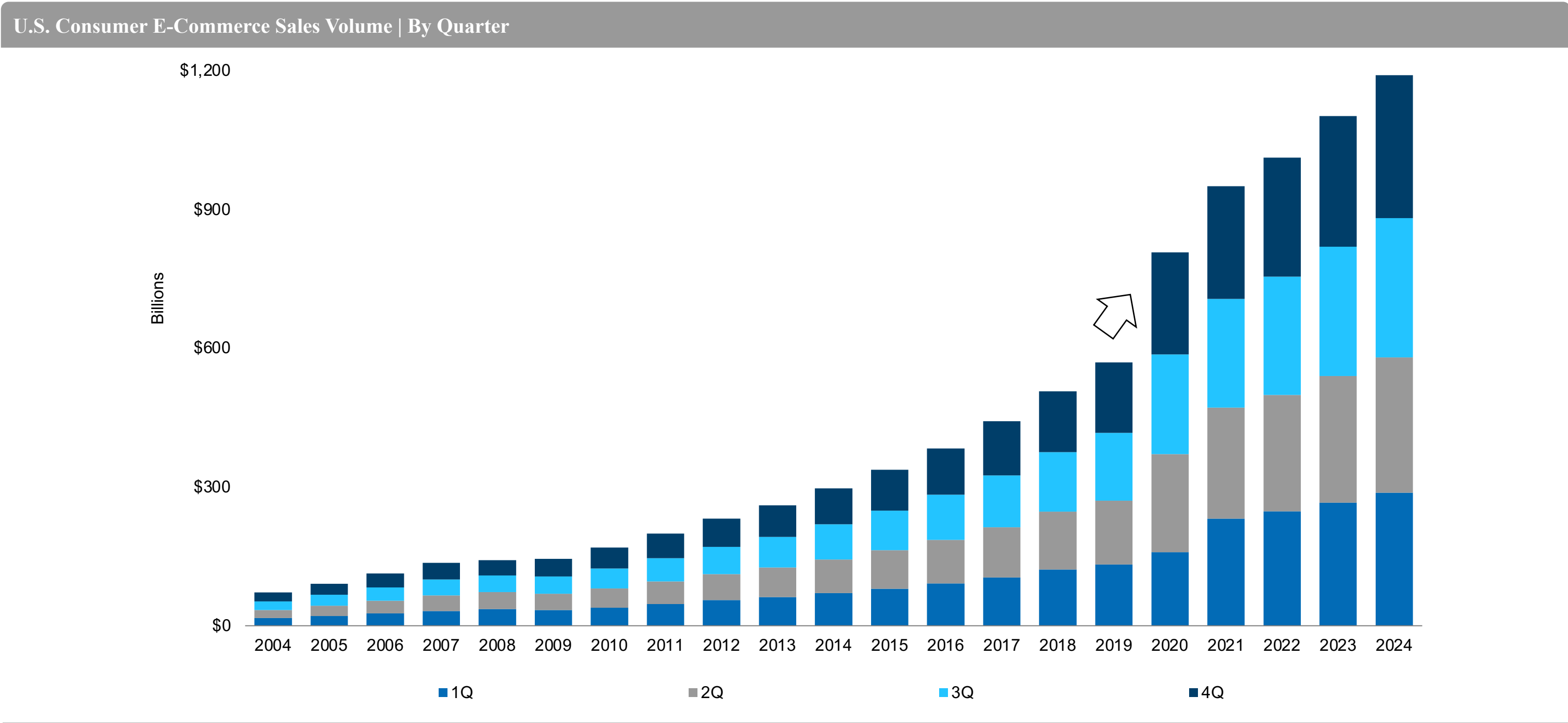
Consumer e-commerce sales were up 2.4% in 2024 relative to 2023. Although e-commerce sales growth exceeded total retail sales (+8.0% over the same period), the decline from 2021 onward is noticeable as consumer spending registers slower gains. Economists are lowering their retail growth projections due to economic uncertainty from tariffs.



Source: US Census Bureau (consumer adjusted retail sales); most current data available

The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

Every \$1.0 billion in e-commerce sales is supported by roughly 1.2 MSF of logistics space. More e-commerce facilities are to be expected, especially in markets with large populations.

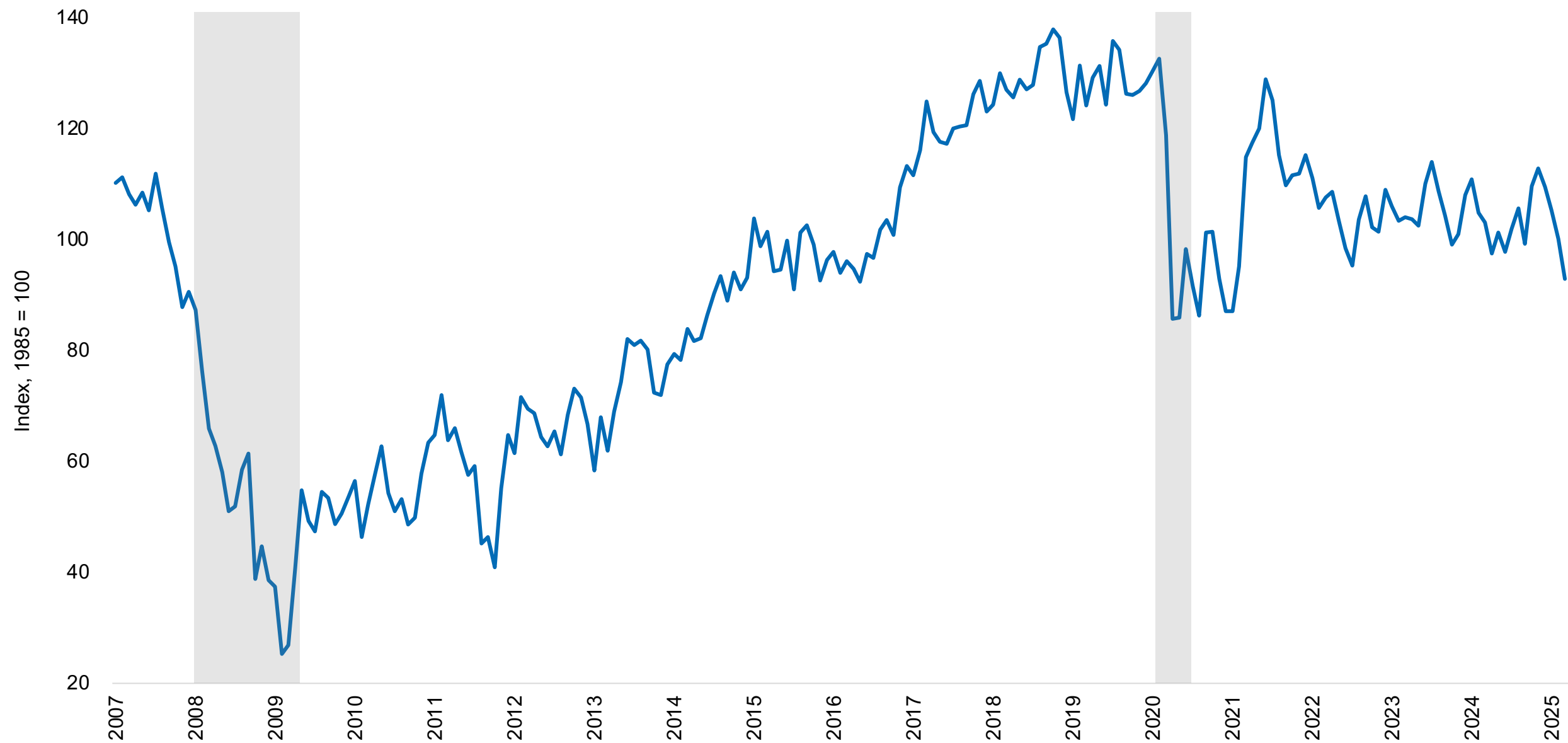


Source: US Census Bureau (consumer adjusted retail sales); most current data available.

U.S. Consumer Confidence Dropped for Fourth-Straight Month

March 2025's reading (92.9) is the lowest level in four years, with households fearing a recession in the future and higher inflation due to tariffs. Several big-box retailers have warned of higher prices and are bearish on their near-term earnings outlooks.

U.S. Consumer Confidence Index



Source: U.S. Bureau of Labor Statistics, The Conference Board
Note: Shaded areas indicate U.S. recessions

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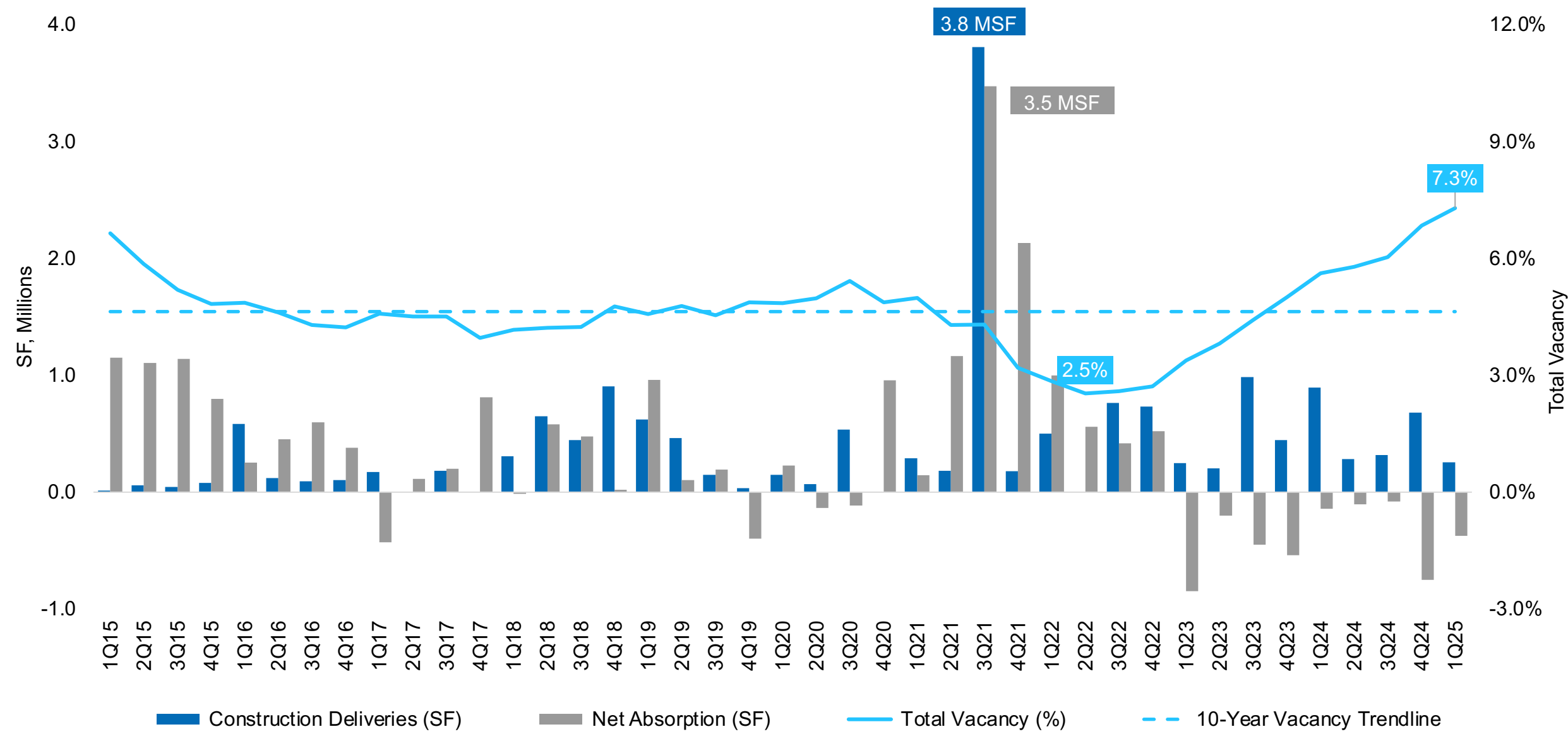
Leasing Market Fundamentals and Sales Activity



Vacancy Has Climbed Steadily Since 2022

Total vacancy has steadily climbed to 7.3% 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 5.8 MSF in construction deliveries and 2.5 MSF of negative net absorption. Although construction levels have steadily fallen, there is still 1.3 MSF in underway product.

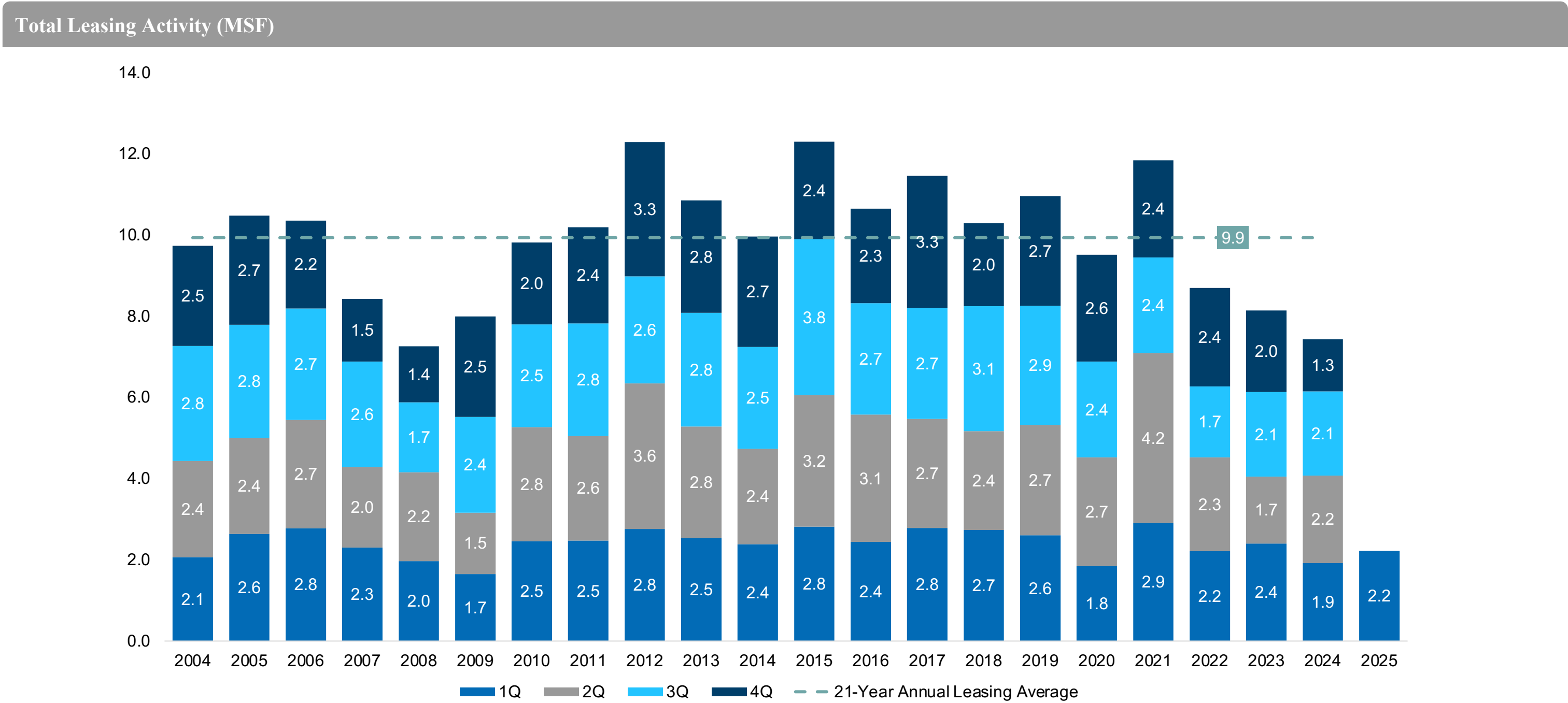
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Declines for the Third Year in a Row

Leasing activity 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 scale back operations. The latter of the two caused retail sales growth to cool. 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 25.3% below the 20-year average. The first quarter of 2025 saw 2.2 MSF of leasing, inline with activity over the past three years.

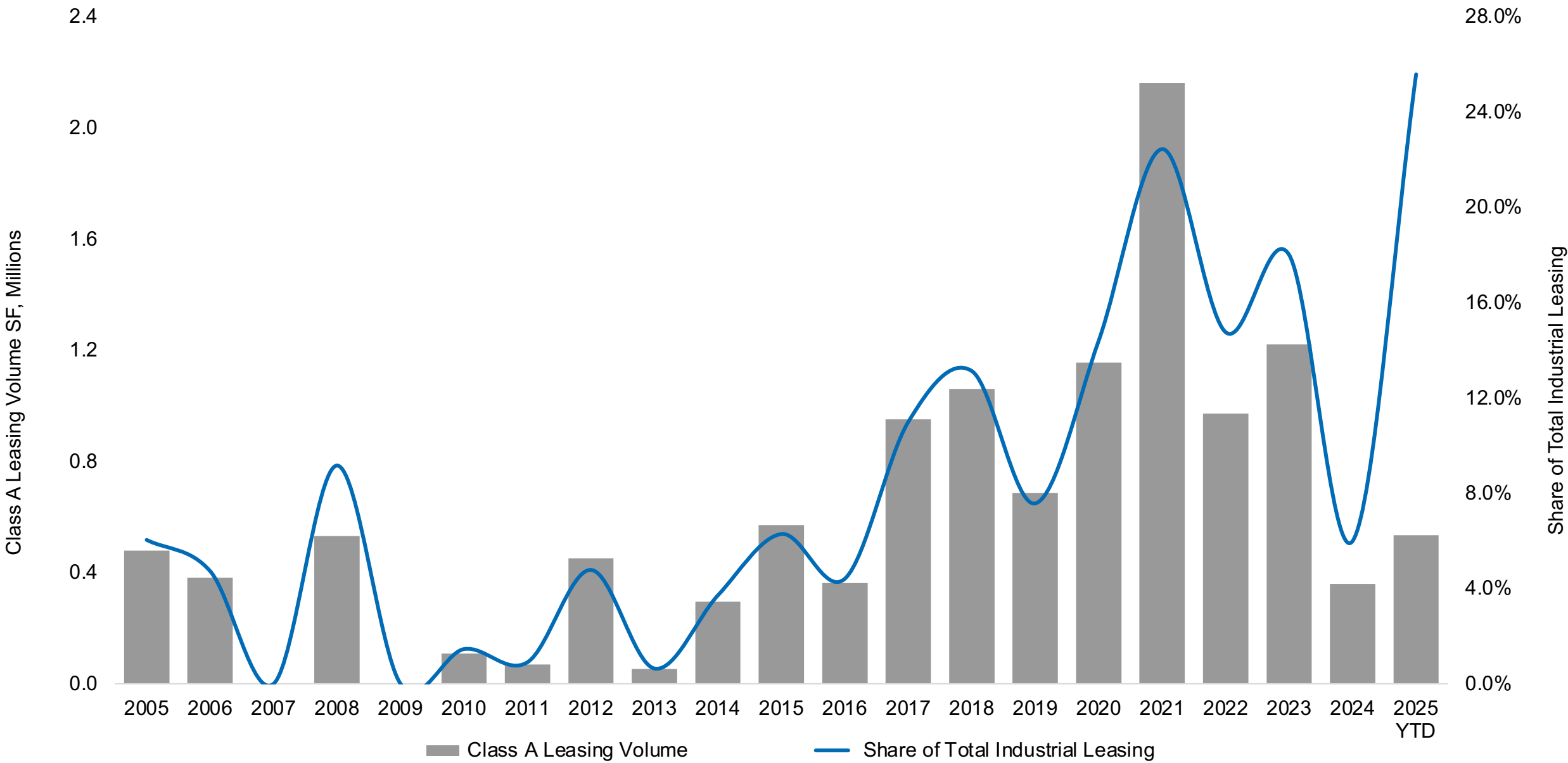


Source: Newmark Research, CoStar

Class A Leasing Jumped in the First Quarter

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 the first quarter of 2025 Class A leasing surged to a record of 25.6% of total activity, due in part to the low amount of total industrial leasing.

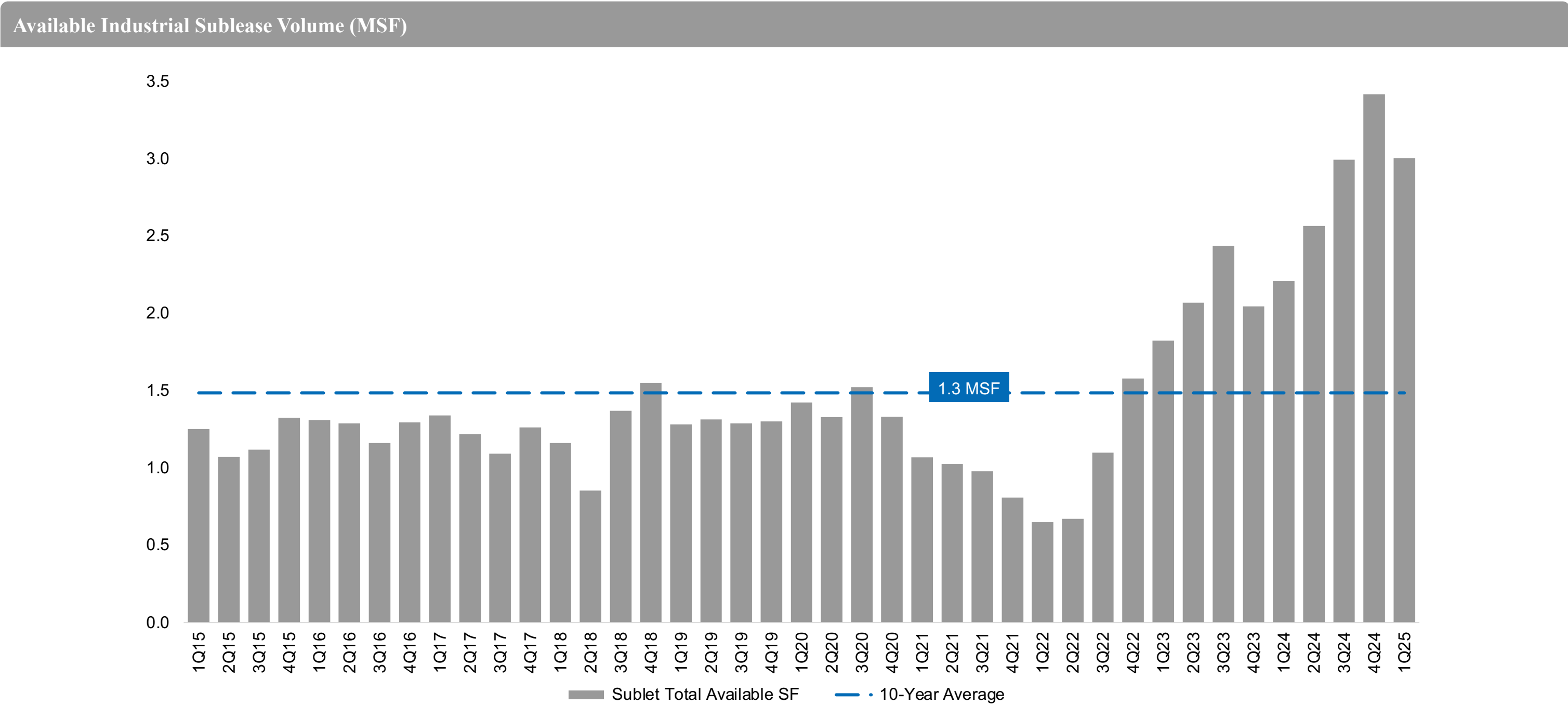
Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



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 Backs Off Record High

Sublease availability totaled 3.0 MSF this quarter, down 412,000 SF from year-end 2024's all-time high. 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 heightened amount of available sublease space.

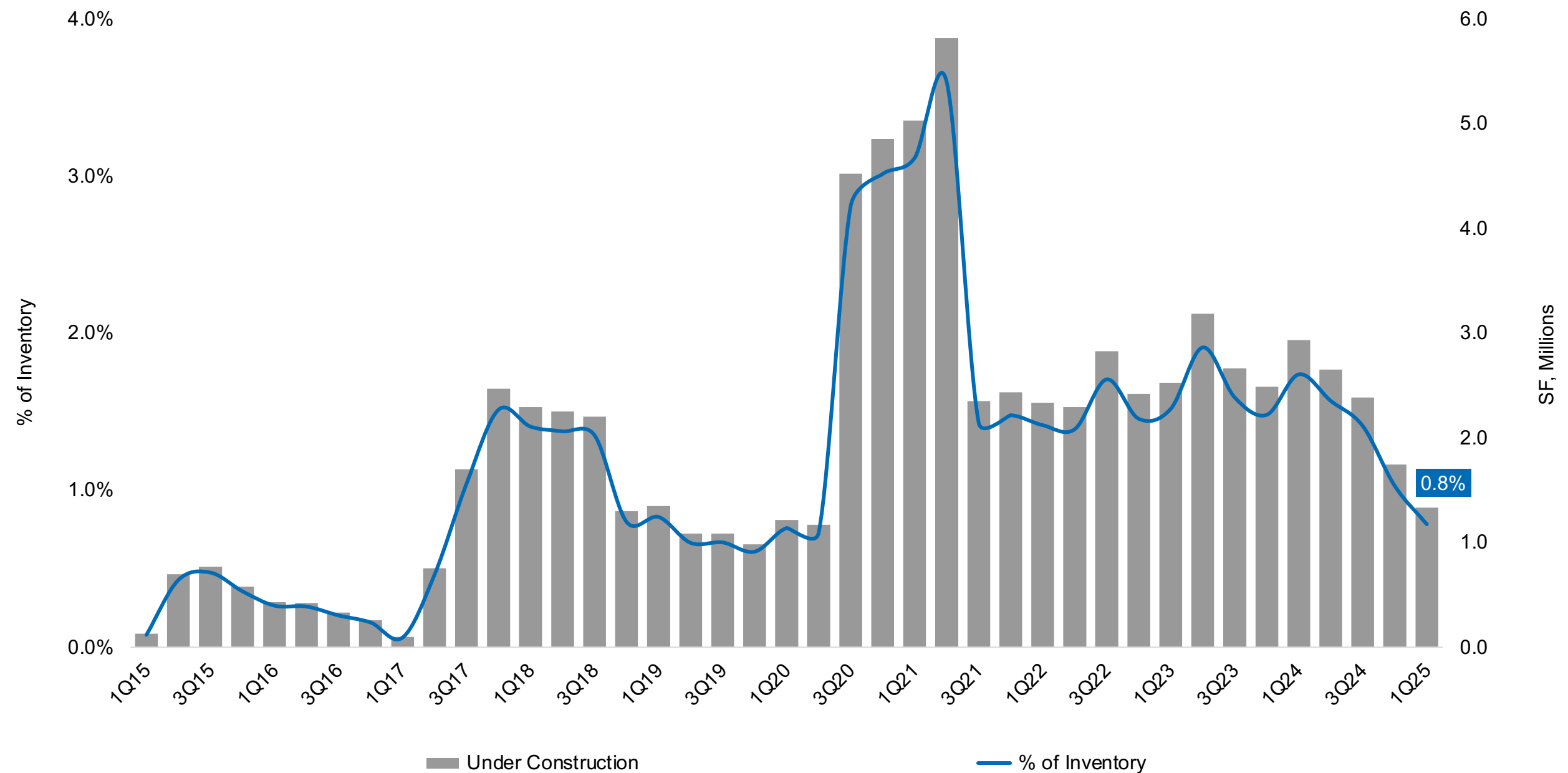


Source: Newmark Research, CoStar

Development Pipeline Eases 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 0.8% of existing inventory is below the 10-year average of 1.2%.

Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

New California Bill Adds Regulations on Warehouse Development in the State

Building setbacks, facility design features and truck routes are among the bill’s focus---regulations that will ultimately increase warehouse occupancy costs. It is also worth noting that the state will have more control over matters that have historically fallen under the jurisdiction of counties and cities.

California Assembly Bill 98 (also known as “The Planning Logistics and Neighborhood Standards Act”)

Macro

- Signed into law on September 29, 2024.
- Prohibits California cities and counties from approving all new development or expansions (20%+) of logistics centers unless they meet specified standards.
- Commences on January 1, 2026.

Standards

- Establishes setback requirements for new 250,000+ SF warehouse developments that are within 900 feet of homes, schools, daycares, parks or healthcare facilities.
 - Truck loading bays must be at least 300 feet from the property line in areas zoned for industrial use and 500 feet from the property line in areas not zoned for industrial use.
- Guidelines for sub-250,000 SF warehouse developments are [here](#); see Section 65098.1. (d)
- For all new/expanded logistics facilities: Imposes other standards relating to warehouse design, including landscaping buffers, entry gates, signage and the infrastructure to accommodate future truck and car charging stations.
- Facility operators must prepare and submit a truck routing plan to and from the state highway system based on the jurisdiction’s latest truck map before receiving a certificate of occupancy.
- A logistics developer must replace demolished housing at a 2-to-1 ratio. The developer will also be required to pay any evicted tenant’s rent for 12 months.

Agency Requirements

- Requires cities and counties to establish designated truck routes that avoid residential areas and sensitive receptors.
- SCAQMD will deploy mobile air monitoring systems in Riverside and San Bernardino Counties to study air pollution in communities. It will report its findings to the California State Legislature.

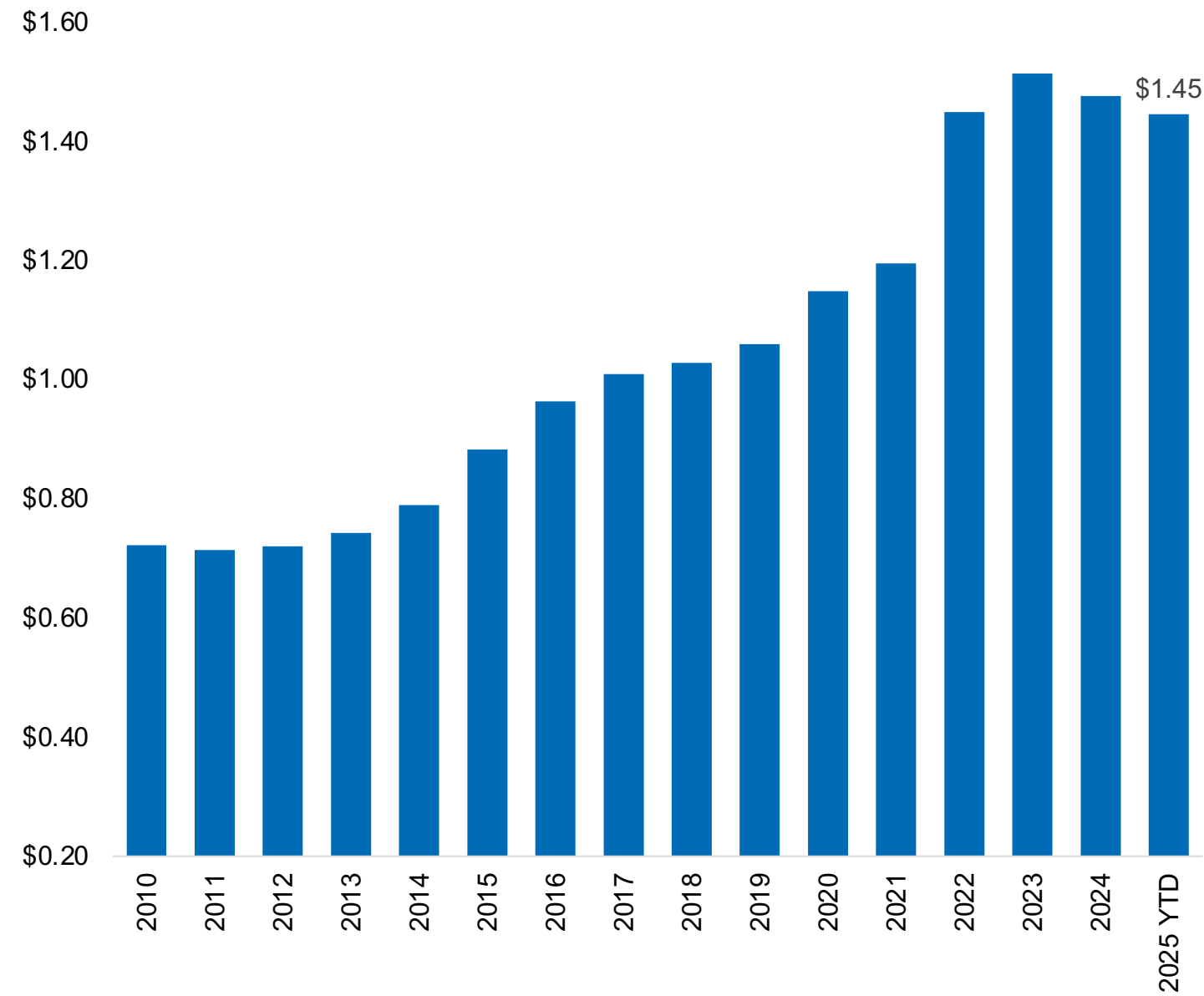
Impacts on Industrial Market Across California

- Cities and counties will need to update their general plans. Critics of the bill point to unclear provisions that will likely cause confusion for municipalities and delay the entitlement of proposed projects.
- Most jurisdictions in the state have until 2028 to enforce the changes; the Inland Empire has until 2026.
- Will limit new industrial construction in established areas of a given market; pre-existing facilities near residential populations will command rent premiums.
- Building plans for many unentitled sites will be revised.
- Development costs will rise.
- The Inland Empire, with the largest concentration of warehouse development in the state, will be most affected. Construction will grow in tertiary areas, such as the High Desert.

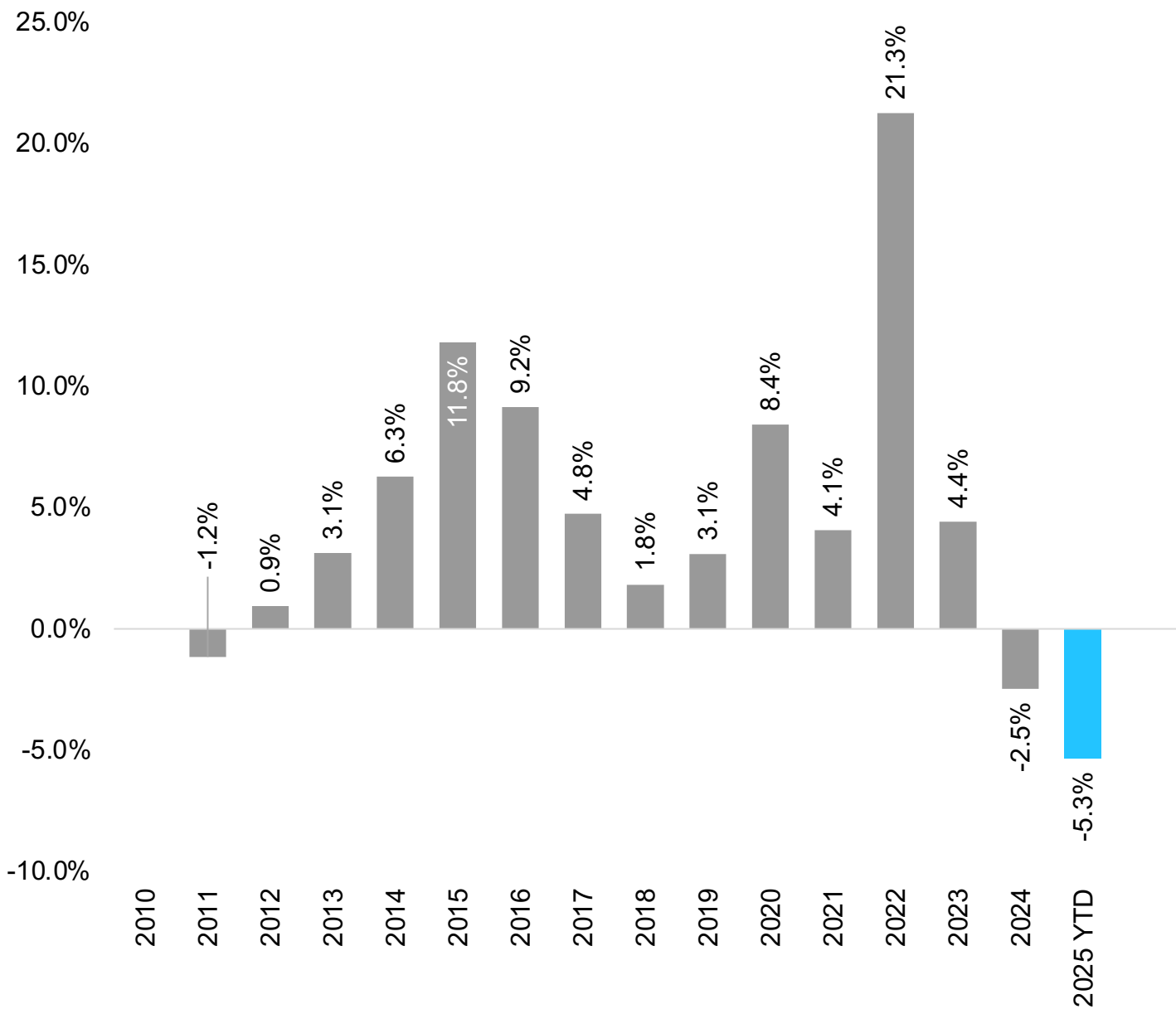
Asking Rents Start to Decline

The slowdown in leasing activity and rising vacancy has caused asking rents to dip to \$1.45/SF, down 5.3% over the past year. 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

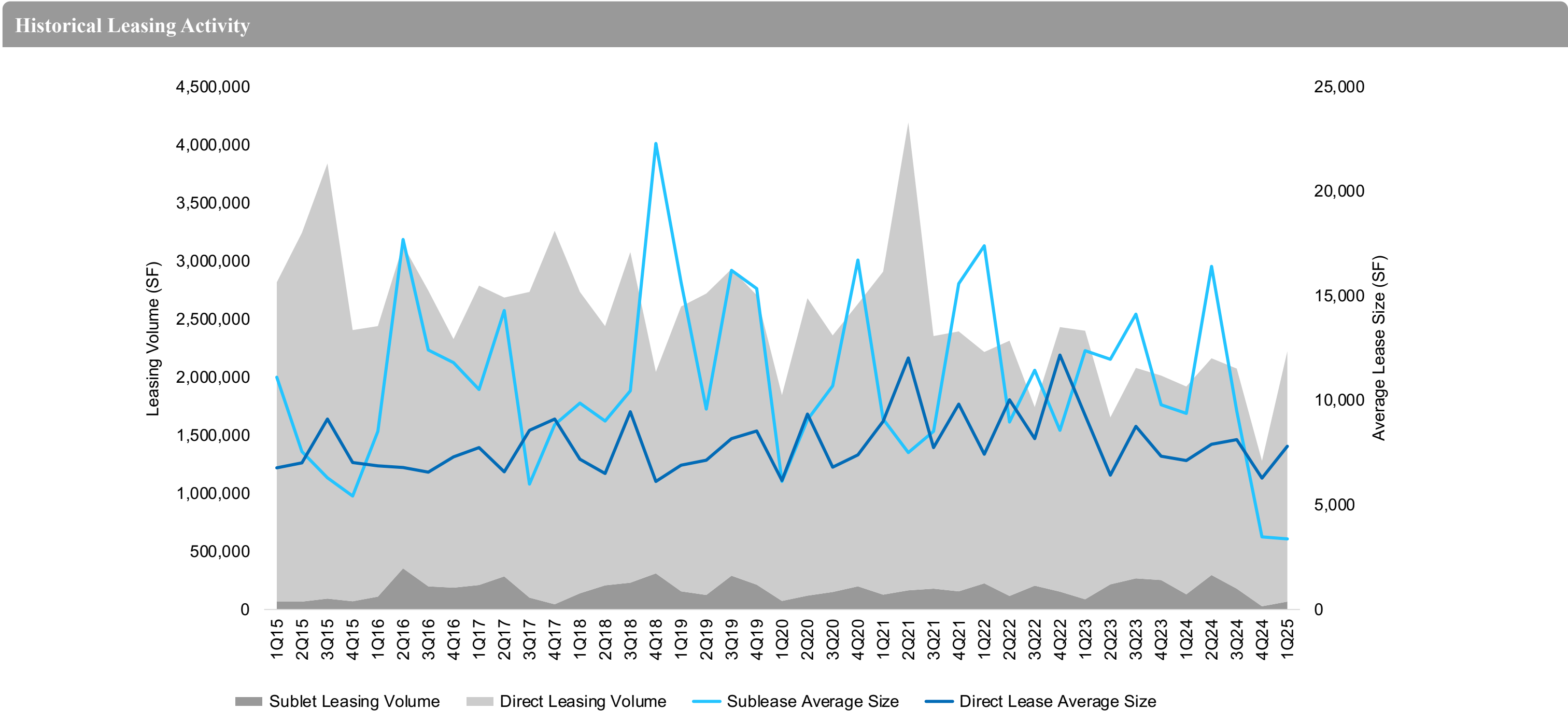
Otay Mesa continues to attract the most leasing activity due to the affordability of industrial space in the submarket and its proximity to the U.S.-Mexico border. The largest deal of the quarter took place in the central submarket of Morena, where Anheuser-Busch renewed the lease for its Budweiser distribution center.

Select Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Anheuser-Busch InBev	5959 Santa Fe St	Morena	Renewal	131,299
Anheuser-Busch, the brewer of Budweiser and the largest brewing company in the world, renewed the lease for its Morena Canyon distribution, where it has long operated.				
Brokerage & Logistics Solutions	9350 Airway Rd	Otay Mesa	New Lease	119,044
Freight transportation arrangement company headquartered in San Diego leased a new location in Otay Mesa.				
Foxx Development	7498 Colchester Ct	Otay Mesa	New Lease	102,099
R&D company that manufactures Internet-of-Things products for buildings expanded into new space in Otay Mesa after going public.				
American Lithium Energy Corp.	1395 Aspen Wy	Vista	New Lease	81,928
Lithium battery manufacturer based in Carlsbad leased new space in nearby Vista.				
GoodFarms	7820 Paseo de la Fuente	Otay Mesa	New Lease	80,031
A producer and distributor of conventional and organic fruits and vegetables relocated its operations to a new project within Otay Mesa.				

Source: Newmark Research, CoStar

Average Lease Sizes Have Declined Amid Lower Leasing Volume

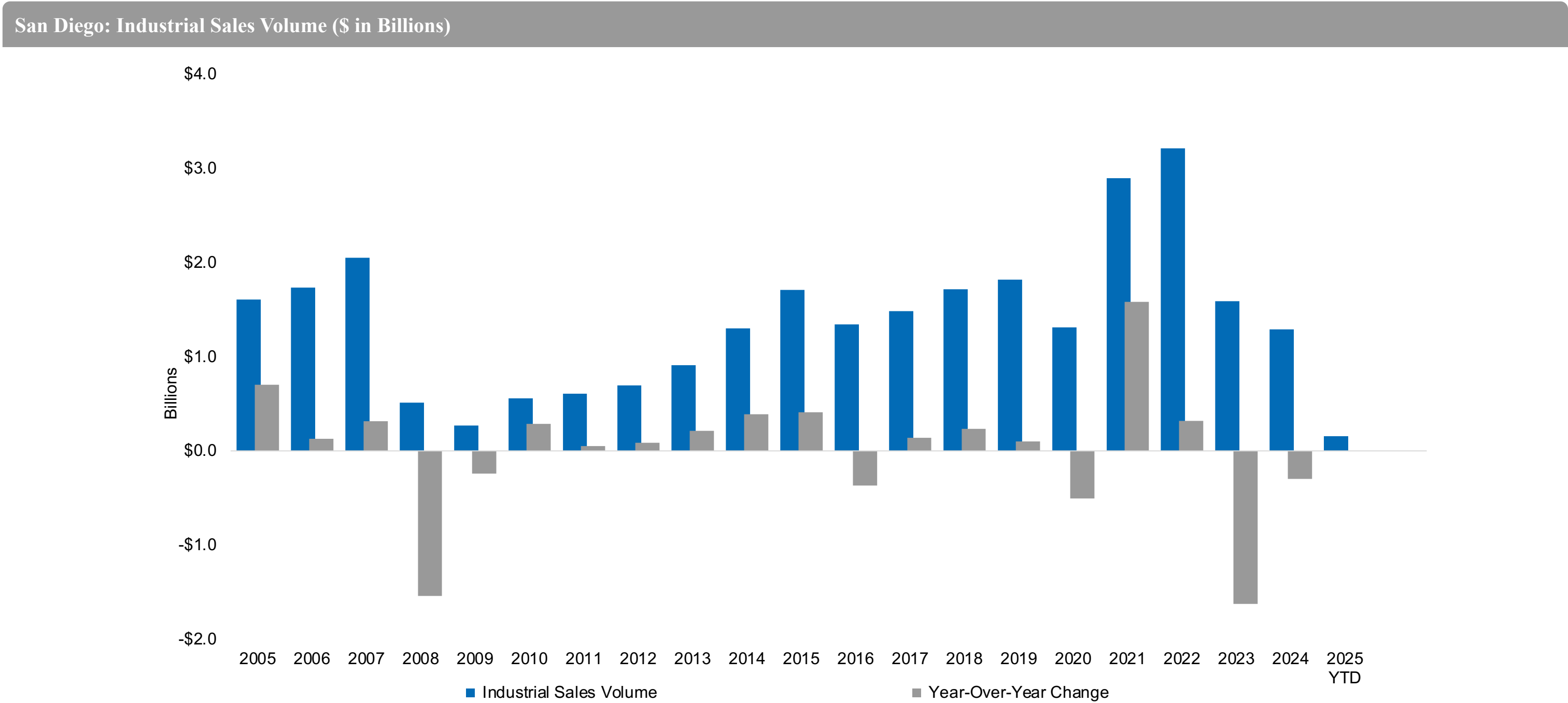
The rapid growth of e-commerce and increased development of 2021-2022 led to progressively larger deals, but a slowdown in leasing activity has led to smaller deals, averaging 7,800 SF for direct leases in the first quarter. The average deal size of subleases was even smaller as subleasing activity has significantly declined over the past two quarters.



Source: Newmark Research, CoStar

Industrial Sales Volume Declines From Recovery Highs

After robust sales from 2021-2022, industrial sales declined significantly to \$1.3 billion in 2024, less than half of 2022’s record \$3.2 billion and below the 20-year average of \$1.4 billion. Industrial sales in the first quarter of 2025 totaled \$155.4 million, less than half of the 20-year quarterly average of \$355.2 million.

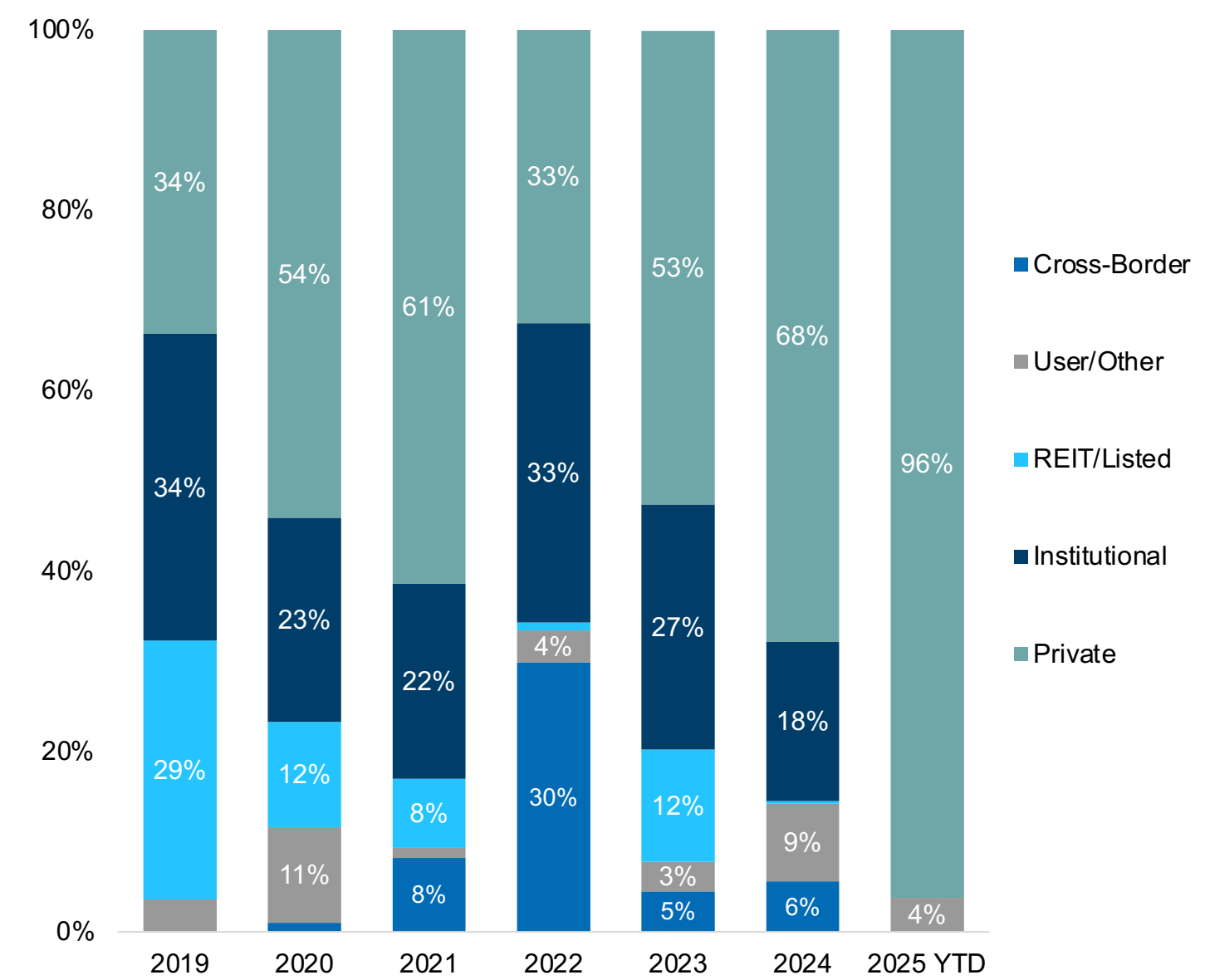


Source: Newmark Research, MSCI Real Capital Analytics
Note: Preliminary data is cited for the first quarter of 2025.

Private Buyers Only Active Investors During First Quarter

Private investors and users together made up 74.0% of all investment volume in 2024. REITs and institutional investors were less active than usual, mostly holding their dry powder as they awaited interest rate cuts.

Industrial Buyer Composition, by Year | Based on Sales Volume



Most Active Buyers, Last 12 Months

Company	Investor Type	Volume	# of Properties	Size (SF)
General Atomics	Private	\$76,200,000	3	293,669
Center Capital Partners	Private	\$62,000,000	1	200,000
Authentic Capital Group	Private	\$62,000,000	1	200,000
Hyundai Translead	Private	\$58,000,000	1	243,000
Hammer Ventures	Private	\$46,000,000	1	160,943
Kayne Anderson	Institutional	\$42,825,000	1	228,381
San Diego County Water Authority	Private	\$38,760,360	1	88,552
CIP Real Estate	Private	\$34,250,000	2	127,009
GID	Private	\$27,250,000	1	111,955
Badiee Development Inc	Private	\$25,860,250	1	243,000
EQT Exeter	Institutional	\$24,350,000	1	107,583
K-Tech Machine Inc	Private	\$22,617,500	1	76,872

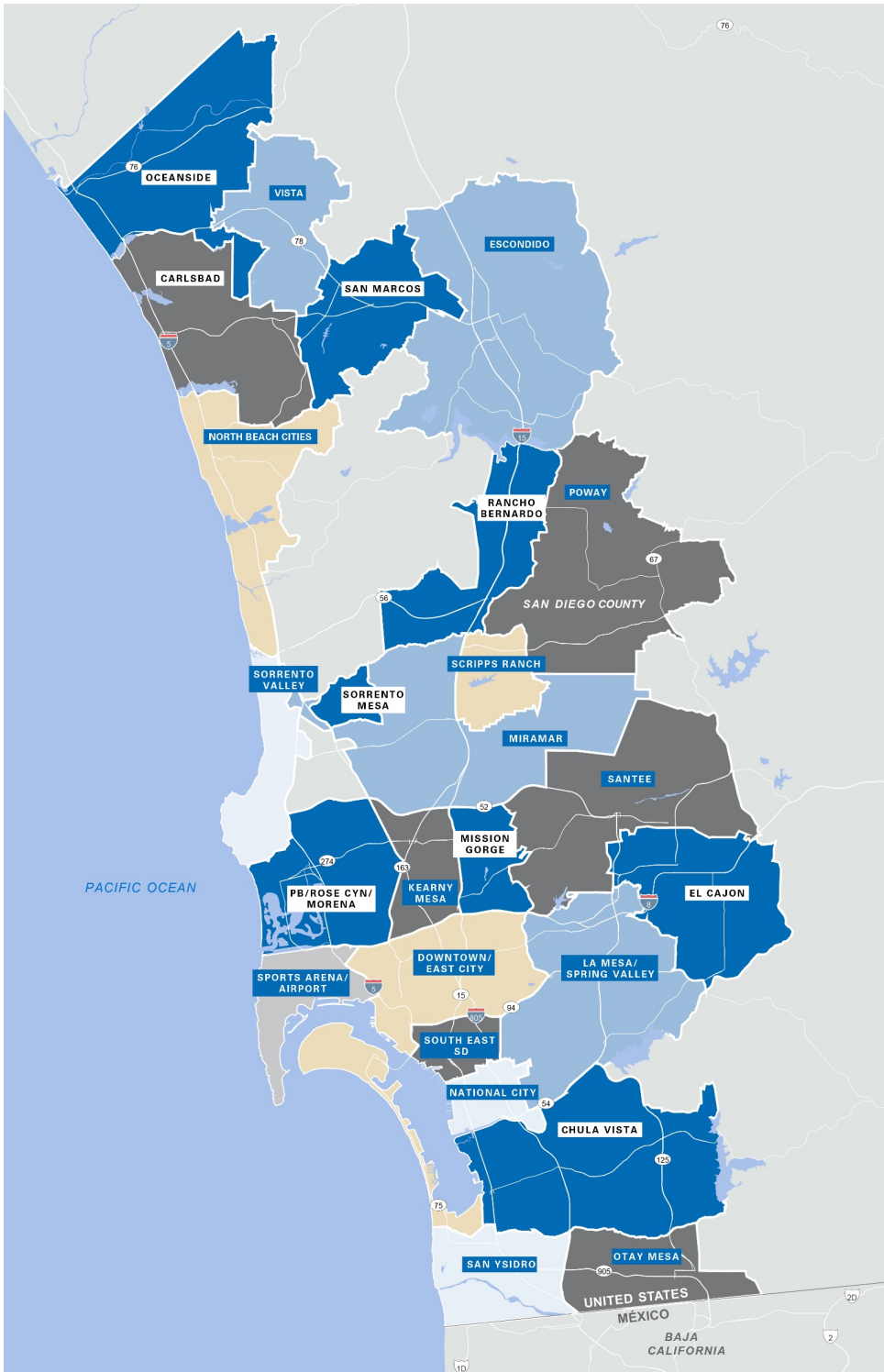
Source: Newmark Research, MSCI Real Capital Analytics
Note: Preliminary data is cited for the first quarter of 2025.

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Submarkets



San Diego Submarket Map and High-Level Statistics | 1Q25



Marketwide Statistics | 1Q25

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	170.6M	170.2M	168.9M	↑
Total Vacancy Rate	7.3%	6.8%	5.6%	→
Qtr. Net Absp. (SF)	-374K	-751K	-143K	↑
Average Asking Rent/SF/Month	\$1.45 NNN	\$1.48 NNN	\$1.53 NNN	→
Deliveries (SF)	257K	680K	895K	↓
Under Const. (SF)	1.3M	1.7M	2.9M	↓

Source: Newmark Research

San Diego Submarket Statistics | 1Q25 (page 1 of 2)

Submarket Statistics – All Classes								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Qtr Construction Deliveries (SF)	YTD Construction Deliveries (SF)	Total Asking Rent (Price/SF)
Carlsbad	14,209,146	67,714	8.6%	-37,457	-37,457	0	0	\$1.62
Chula Vista	9,642,720	0	11.6%	-34,357	-34,357	0	0	\$1.49
Downtown/East City	2,657,704	0	2.4%	24,690	24,690	0	0	\$1.10
El Cajon	9,937,495	0	2.9%	-20,621	-20,621	0	0	\$1.59
Escondido	6,101,715	0	4.6%	-118,209	-118,209	0	0	\$1.35
Kearny Mesa	14,296,101	0	5.4%	-68,623	-68,623	0	0	\$2.02
La Mesa/Spring Valley	1,858,811	0	1.2%	18,633	18,633	0	0	\$1.46
Miramar	14,935,825	0	8.2%	-240,669	-240,669	0	0	\$1.73
Mission Gorge	1,746,570	0	1.8%	7,626	7,626	0	0	\$1.56
National City	2,655,713	0	5.3%	-67,123	-67,123	0	0	\$1.54
North Beach Cities	458,966	0	0.4%	-1,810	-1,810	0	0	-
Oceanside	8,176,064	0	4.5%	53,659	53,659	0	0	\$1.19
Otay Mesa	24,837,142	1,244,413	14.2%	-32,463	-32,463	256,796	256,796	\$1.13
PB/Rose Cyn/Morena	2,237,096	0	5.2%	-5,789	-5,789	0	0	\$1.55

Source: Newmark Research

San Diego Submarket Statistics | 1Q25 (page 2 of 2)

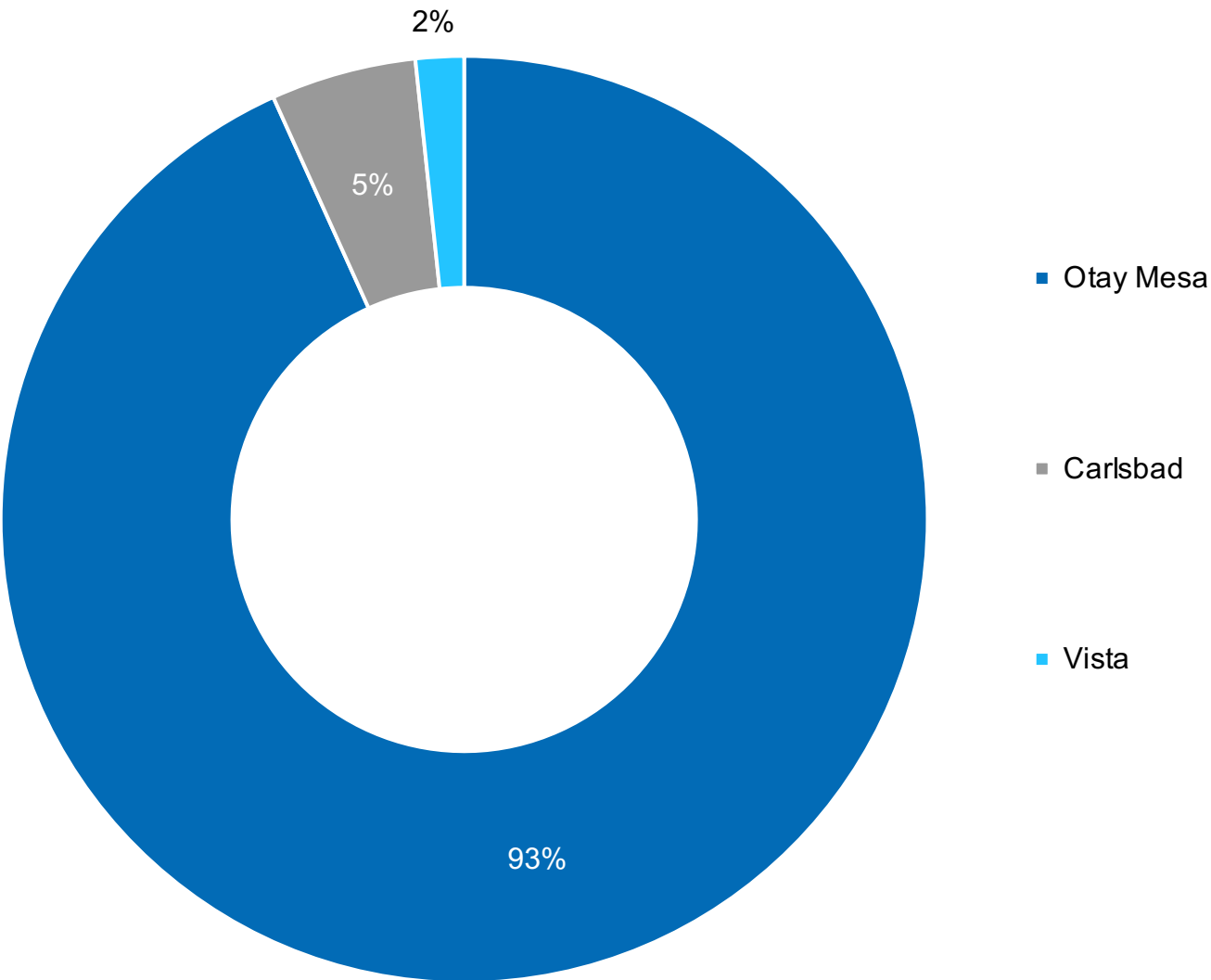
Submarket Statistics – All Classes								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Qtr Construction Deliveries (SF)	YTD Construction Deliveries (SF)	Total Asking Rent (Price/SF)
Poway	9,233,515	0	2.6%	3,957	3,957	0	0	\$1.56
Rancho Bernardo	7,254,796	0	6.5%	59,477	59,477	0	0	\$1.70
San Marcos	7,492,155	0	6.8%	-70,707	-70,707	0	0	\$1.25
San Ysidro	1,385,618	0	0.6%	-4,131	-4,131	0	0	\$1.38
Santee	3,560,177	0	0.7%	10,247	10,247	0	0	\$1.54
Scripps Ranch	1,317,906	0	8.1%	-475	-475	0	0	\$1.74
Sorrento Mesa	7,646,416	0	6.4%	16,347	16,347	0	0	\$1.82
Sorrento Valley	1,660,679	0	6.9%	-10,694	-10,694	0	0	\$1.77
Southeast San Diego	3,211,350	0	6.3%	3,706	3,706	0	0	\$1.21
Sports Arena/Airport	1,332,528	0	3.0%	7,000	7,000	0	0	\$1.59
Vista	12,728,480	22,480	8.2%	133,820	133,820	0	0	\$1.25
San Diego	170,574,688	1,334,607	7.3%	-373,966	-373,966	256,796	256,796	\$1.45

Source: Newmark Research

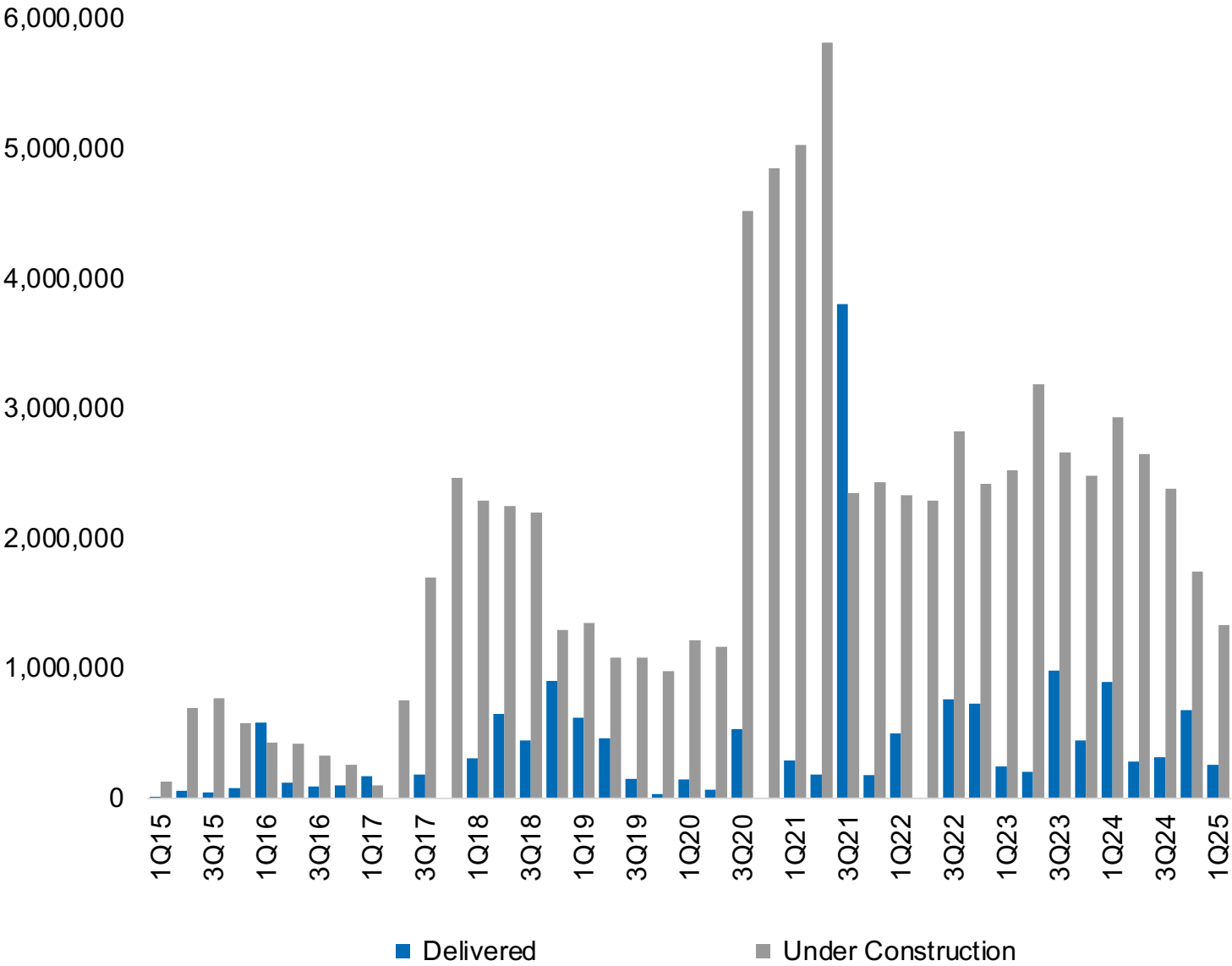
Construction Levels Decline From Historical High

Construction levels peaked at 5.8 MSF in 2021 with Amazon’s 3.4-MSF, build-to-suit distribution facility in Otay Mesa. Since then, construction activity has decelerated, falling to 1.3 MSF in the first quarter of 2025. Developers are focusing on major areas of the metro and there are only three submarkets with active construction projects. The vast majority of this construction is based in Otay Mesa, dominated by a 1.0-MSF build-to-suit distribution facility for Amazon.

Current Construction by Submarket



Historical Deliveries & Construction Levels

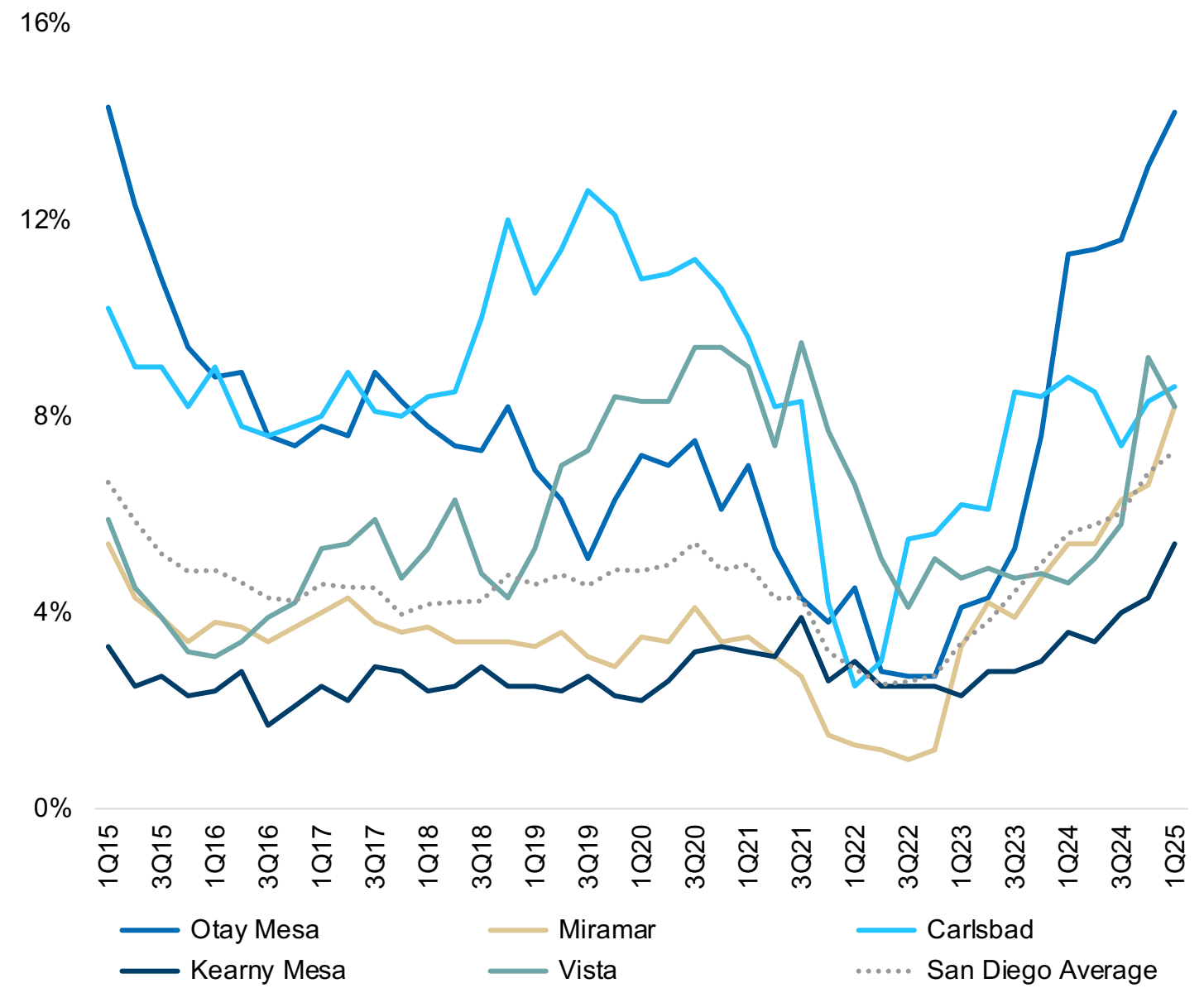


Source: Newmark Research, CoStar

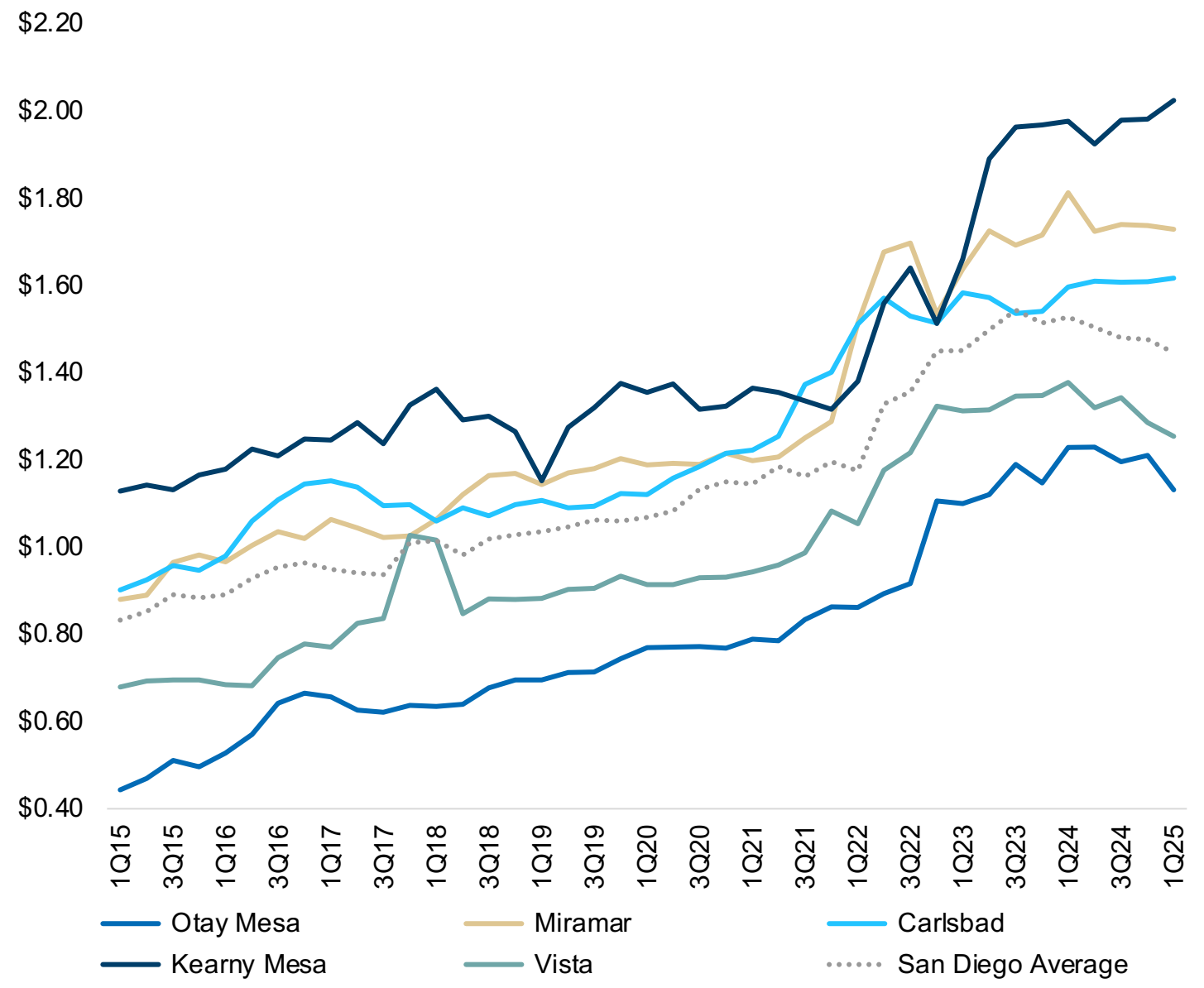
Asking Rents Level Off As Vacancy Climbs

Otay Mesa’s vacancy climbed to 14.2% after years of large deliveries, although the submarket is still faring better than in the aftermath of the Global Financial Crisis, when vacancy exceeded 20%. Climbing vacancy rates throughout the region have impacted rent growth. Asking rates in the more affordable submarkets of Otay Mesa and Vista have fallen over the past year, while the more expensive submarkets of Miramar and Carlsbad have flattened out. Only Kearny Mesa has seen rent growth over the past year.

Historical Total Vacancy, Top Submarkets



Historical Asking Rents, Top Submarkets

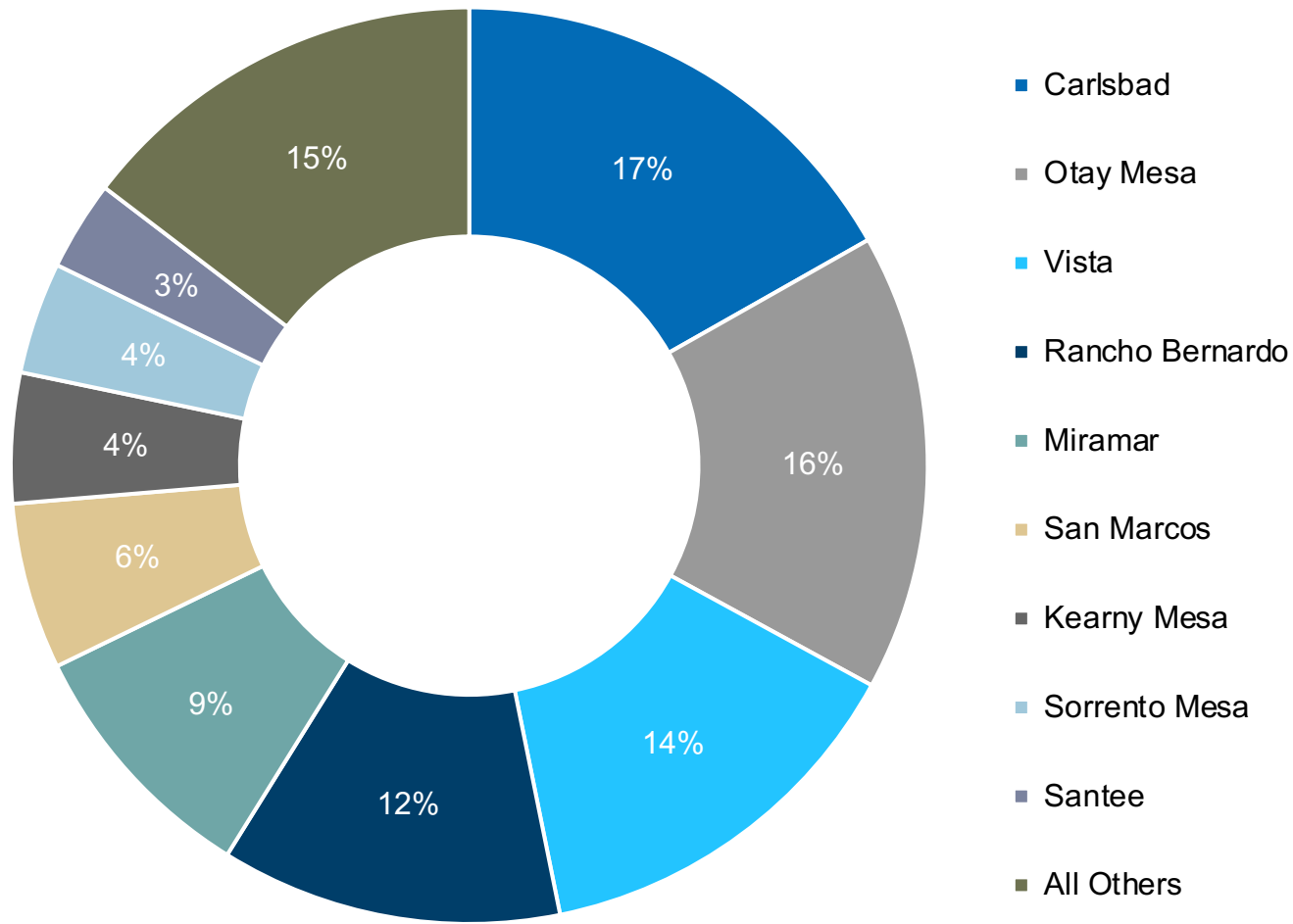


Source: Newmark Research, CoStar

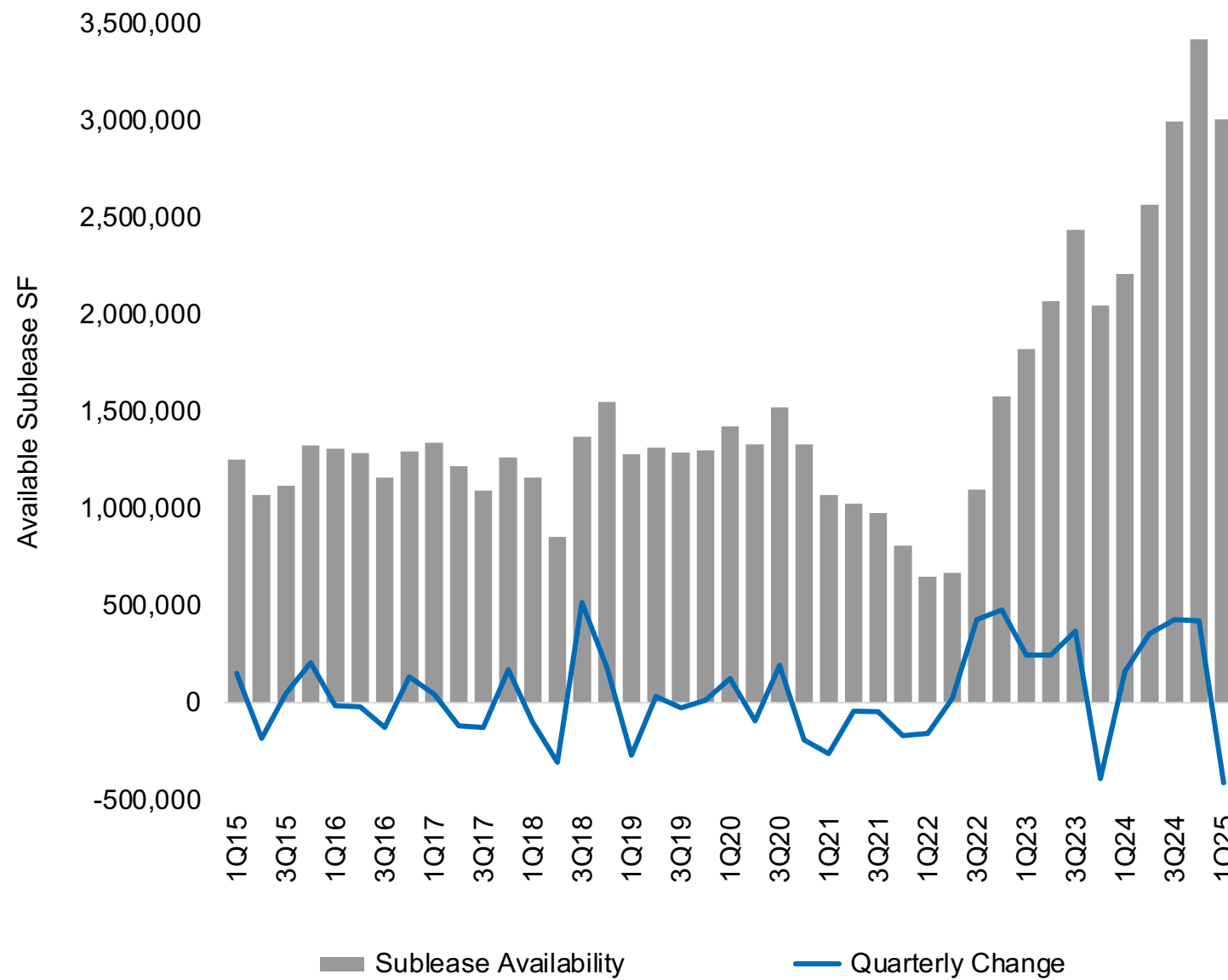
Sublease Availability is Spread Across the Region

Sublease space has increased markedly since 2022, after many occupiers expanded aggressively during the e-commerce boom caused by the pandemic and now have more space than needed. Sublease availability has eased slightly since the all-time high set in the fourth quarter of 2024. Carlsbad, Otay Mesa, and Vista, major industrial submarkets with more modern projects, account for almost half of all available sublease space.

Sublease Space by Submarket



Historical Sublease Availability



Source: Newmark Research, CoStar

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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