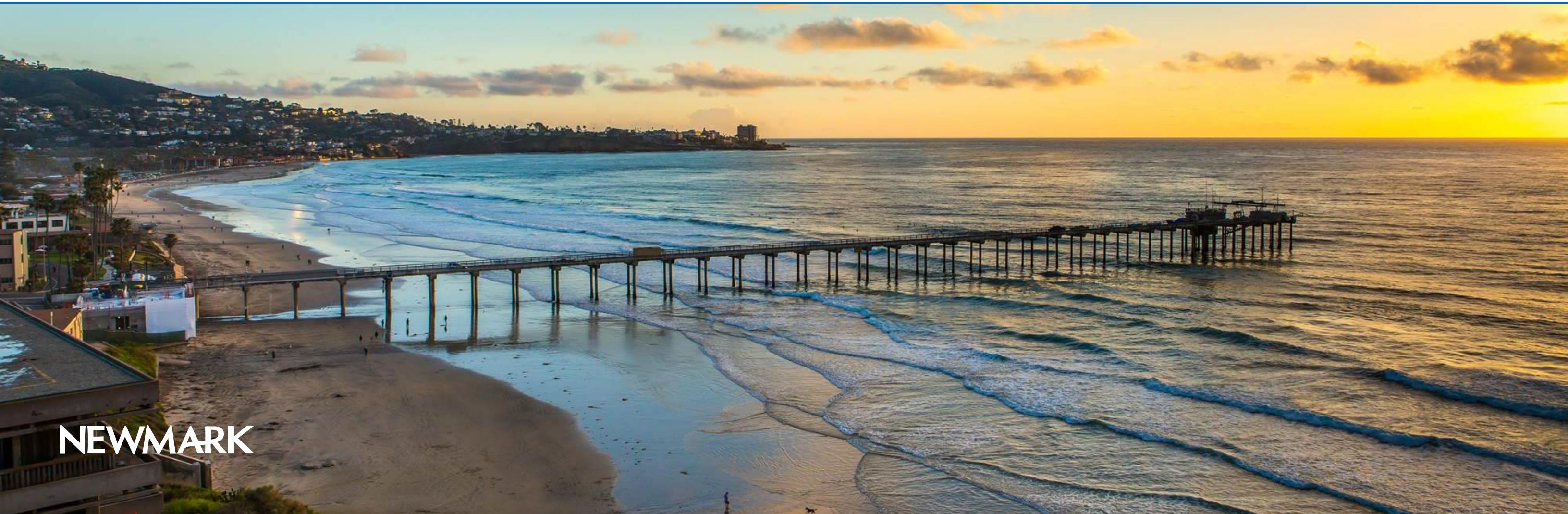


3Q25

# San Diego Industrial Market Overview



**NEWMARK**

# Market Observations

## Economy

- The region’s unemployment rate was 5.0% in August 2025, up 10 basis points over last year and the highest rate since 2021. Over the past 12 months the manufacturing sector lost 2,800 jobs and trade/transportation/utilities lost 900 jobs.
- The consumer price index for all urban customers in the San Diego metropolitan area was 4.0% as of July 2025, down from the high of 8.1% in the first half of 2022.
- Imports and exports at the Otay Mesa port of entry fell to \$61.7 billion over the 12-month period ending July 2025, down from a high of \$63.7B, as tariffs weighed on international trade.
- In September, the Federal Reserve cut the interest rate target by 25 basis points and anticipates making two more cuts by the end of the year.

## Major Transactions

- Beverage distributor Hillebrand signed the largest lease of the third quarter, renewing its 136,654-SF distribution facility in Otay Mesa.
- Gas turbine manufacturer Solar Turbines signed the largest new lease of the quarter, committing to Rexford Industrial Realty’s recently delivered 8888 Balboa Avenue project in Kearny Mesa.
- The market saw only \$139.2M in sales volume during the third quarter, the lowest quarterly total since 2013.
- GID purchased a 76,482-SF warehouse in Carlsbad Oaks Business Park from MetLife for \$17.8M.

## Leasing Market Fundamentals

- The average asking rent fell to \$1.43/SF NNN, down 3.6% over the past year. Asking rents have fallen from the historical peak in 2023 as leasing activity has slowed and vacancy rates have climbed.
- Total vacancy climbed to 7.8%, mostly unchanged from the previous quarter but up 270 basis points over the past year and near a 10-year high.
- Net absorption posted 261,846 SF of gains for the third quarter, the first positive net absorption since the fourth quarter of 2022.
- Sublet availability fell slightly from the previous quarter’s all-time to 3.2 MSF, still well above the 10-year average of 1.6 MSF.
- One 124,000-SF project delivered as construction activity fell to 1.3 MSF. This level represents 0.8% of existing inventory, below the 10-year average of 1.2%.

## Outlook

- Developers have slowed speculative developments considerably in response to rising vacancy and the market appears to have reached equilibrium between leasing activity and new deliveries. Construction levels will remain low until the market achieves a sustained period of positive net absorption.
- Tariffs on foreign raw materials are putting a damper on manufacturing activity and tariffs on foreign products is limiting demand for distribution space, making the outlook for leasing activity uncertain.
- Investment activity has slowed since the start of the year as investors have paused to assess changing macroeconomic conditions. The Federal Reserve is planning for two more rate cuts this year, which would spur more investors to reengage.

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

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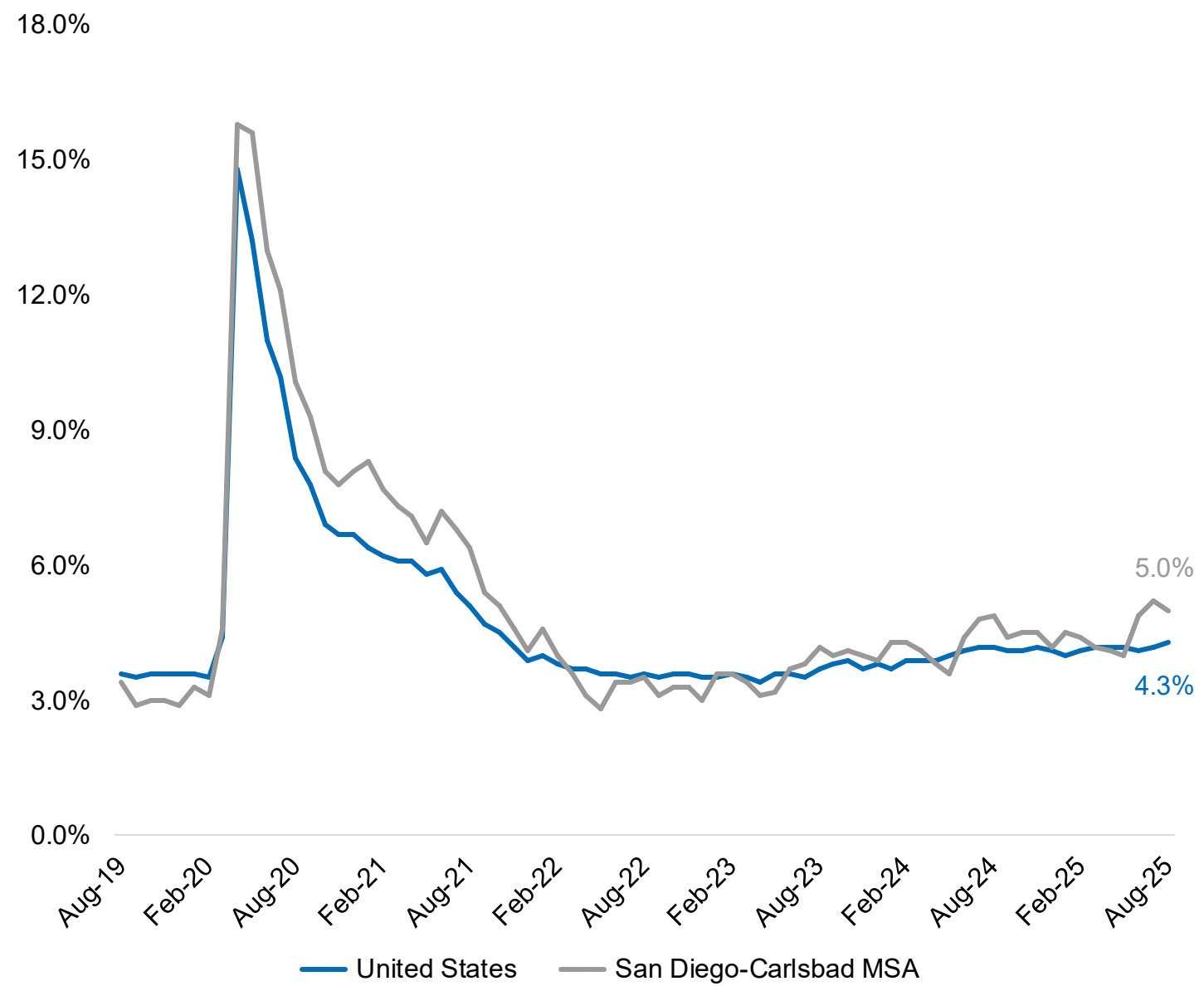
# Economy



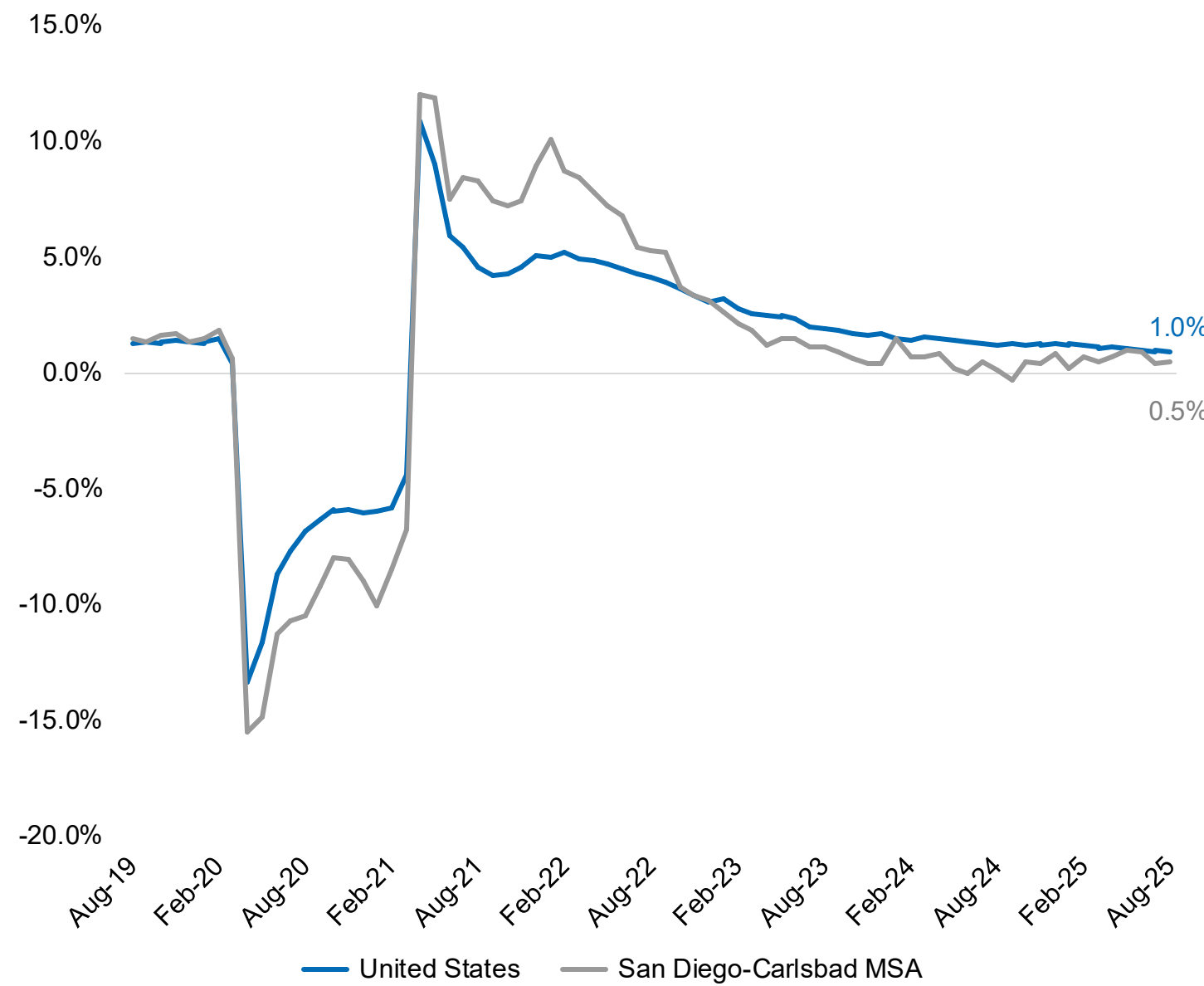
# Unemployment Remains Low as Job Growth Slows

The local unemployment rate was 5.0% in August 2025, up 10 basis points over the past year and the highest since 2021. During this time total nonfarm employment posted minimal gains: employers reported an additional 7,700 jobs over the past year, representing growth of 0.5%, which lagged the national average.

Unemployment Rate, Seasonally Adjusted



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

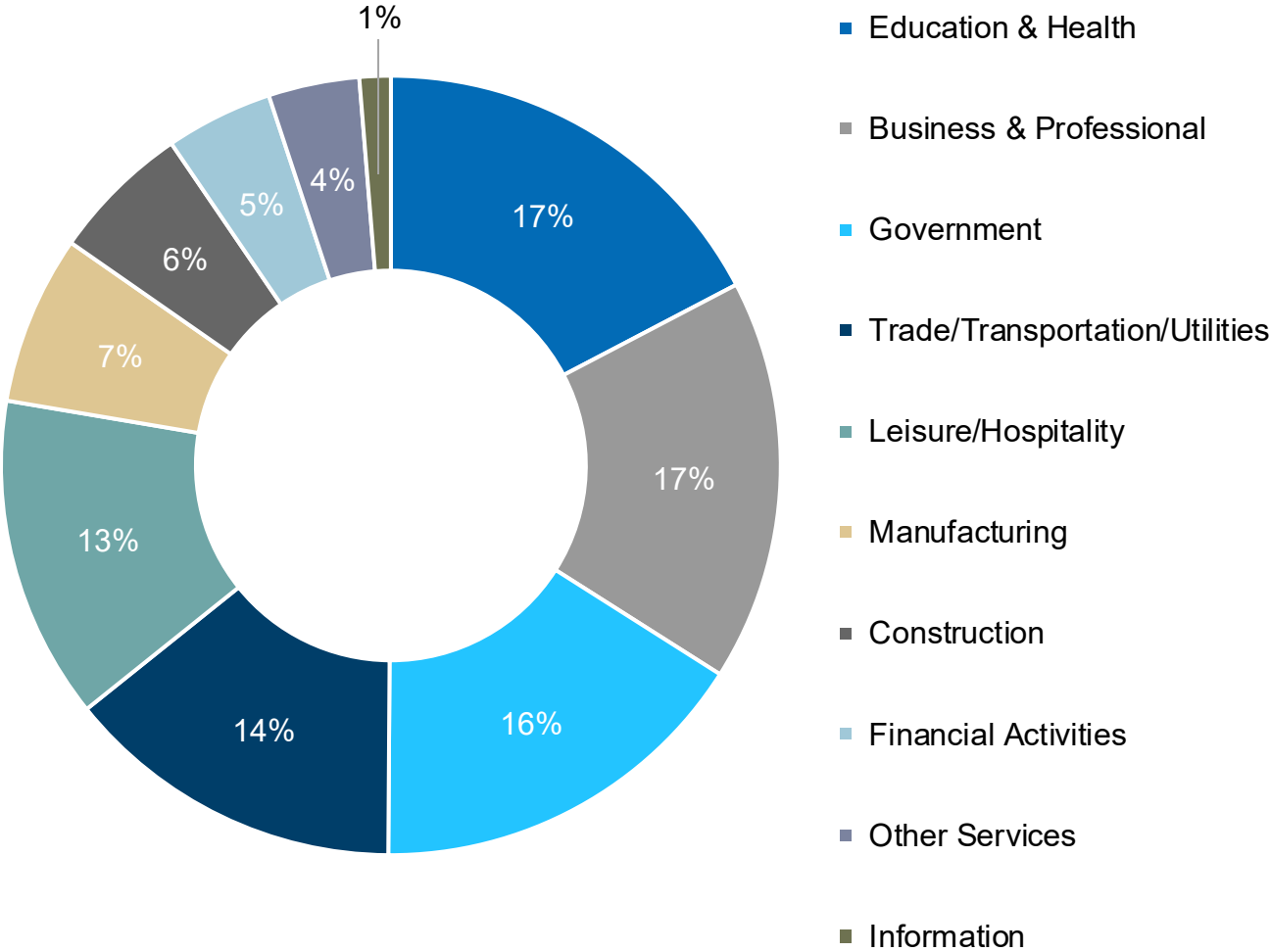


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

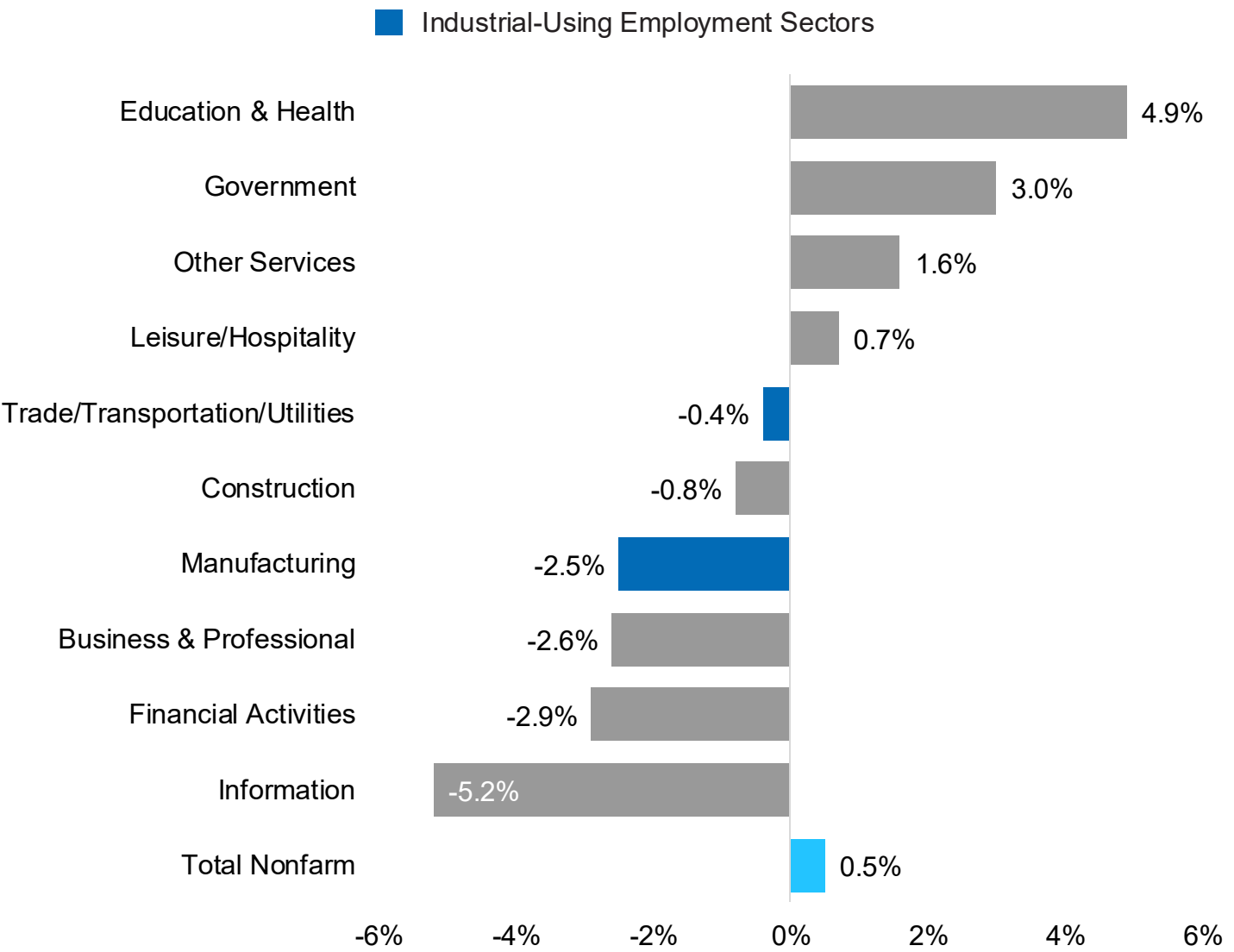
# Industrial-Using Jobs Decline

The San Diego metro added 7,700 nonfarm jobs over the past year, although industrial-using sectors shed jobs during this period. The manufacturing sector lost 2,800 jobs and the trade/transportation/utilities (TPU) sector lost 900 jobs. TPU's decline follows a cyclical pattern in which employment peaks in December (for the holiday season) and then drops gradually the following year.

Employment by Industry, August 2025



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

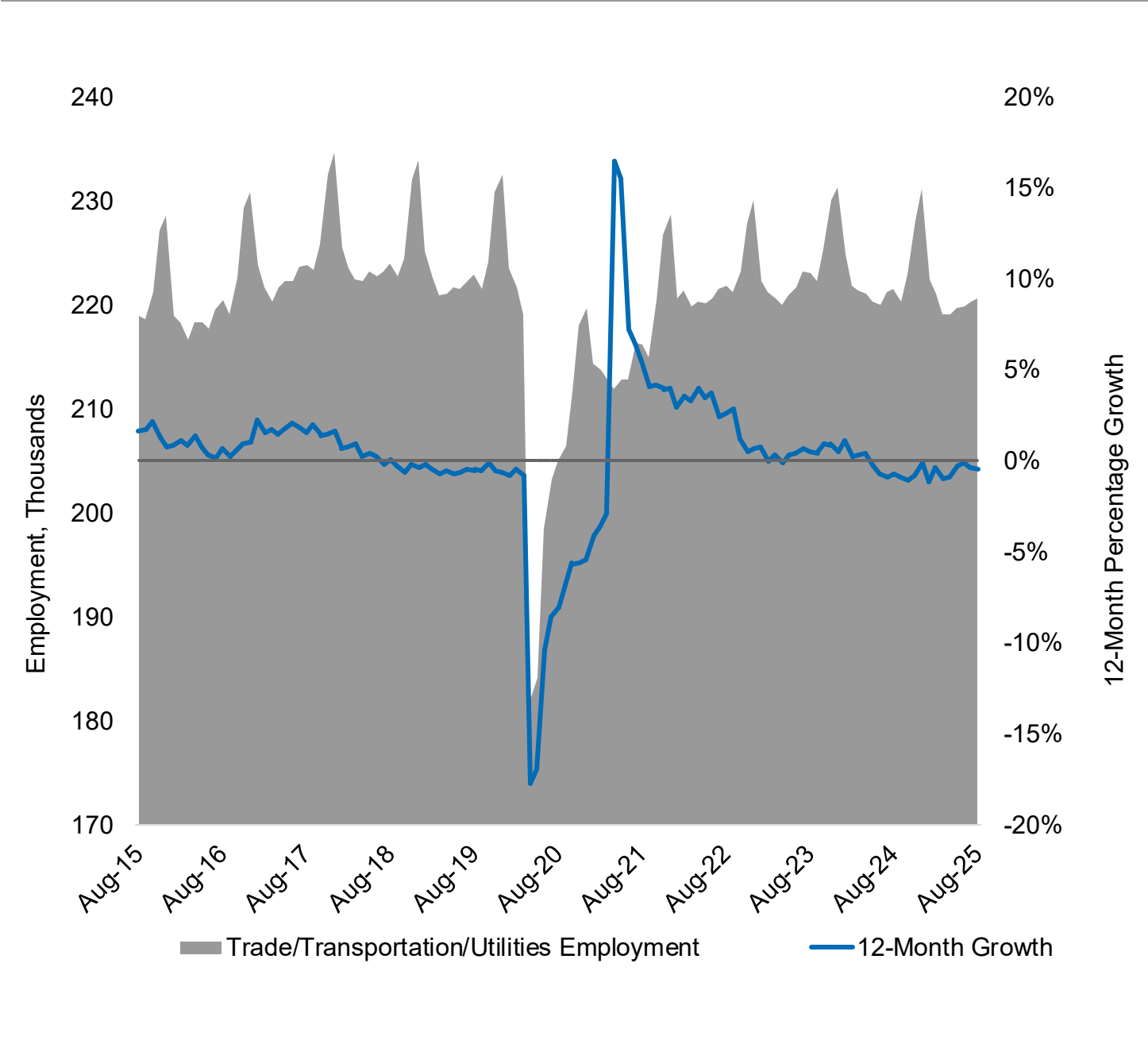


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

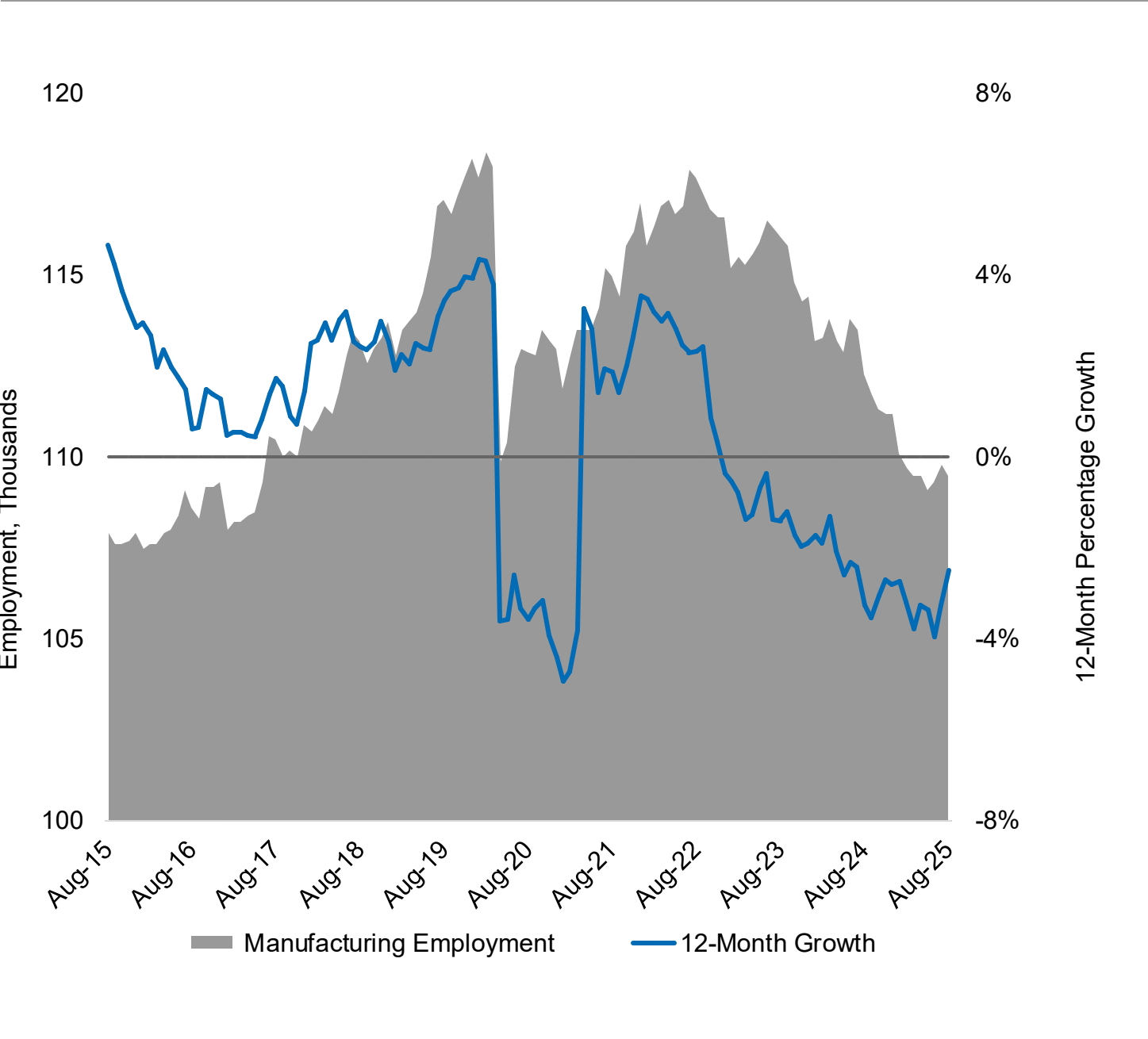
# Trade/Transportation/Utilities Stabilize While Manufacturing Continues to Decline

Trade/transportation/utilities employment is at similar levels to the period before the pandemic when accounting for seasonal cycles. As of August 2025, the number of TPU jobs was down 1.0% from the three-year average. For manufacturing: The pandemic downturn interrupted seven years of employment growth. Manufacturing employment peaked near a record high in July 2022 but has since fallen by 8,900 jobs.

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



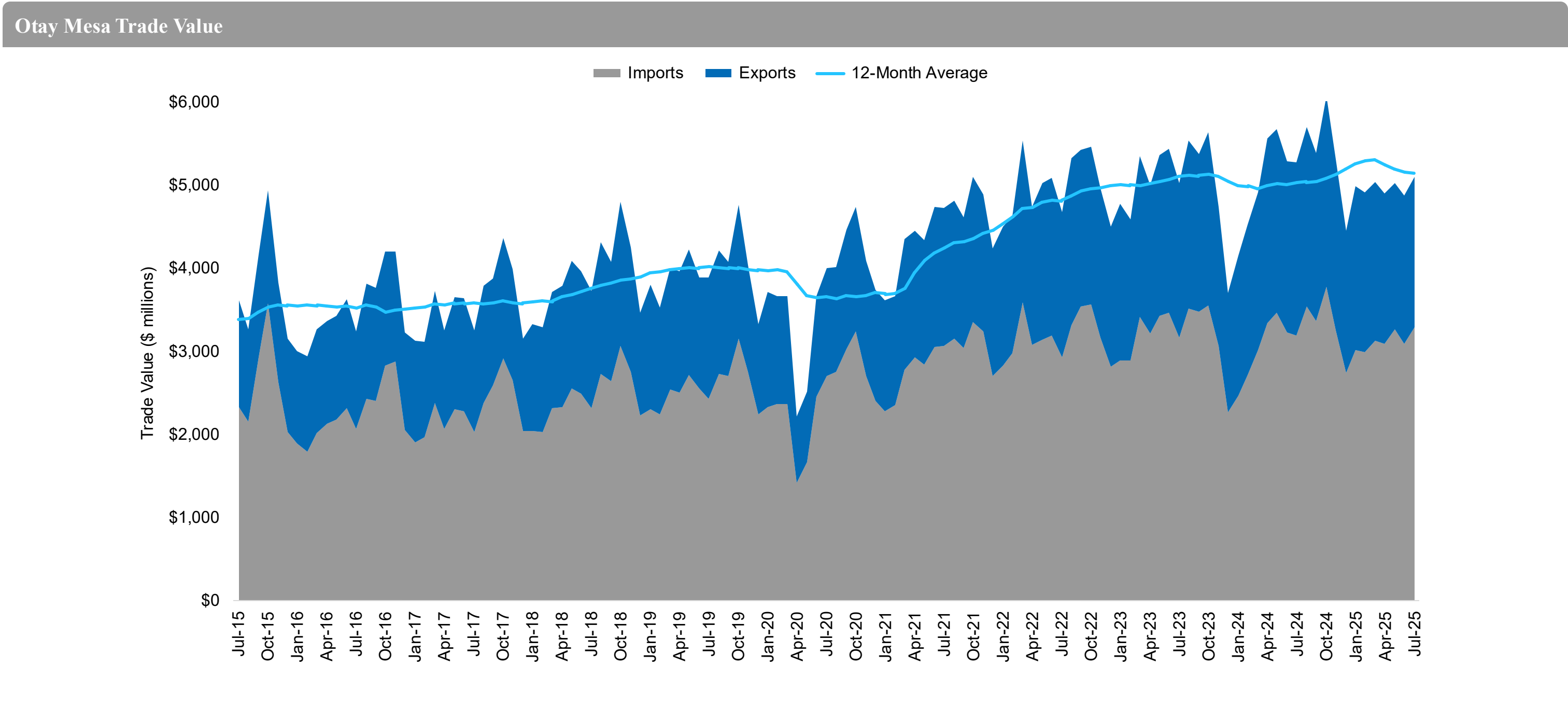
Manufacturing Employment and 12-Month Growth Rate



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

# Otay Mesa Annual Trade Volume Drops From All-Time High

The Otay Mesa Port of Entry is the sixth largest port for North American inbound and outbound truck freight in the United States. Imports and exports for the 12-month period ending July 2025 totaled \$61.7 billion, down from the high of \$63.7 billion set in March 2025 in the face of new tariffs on foreign goods. 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.

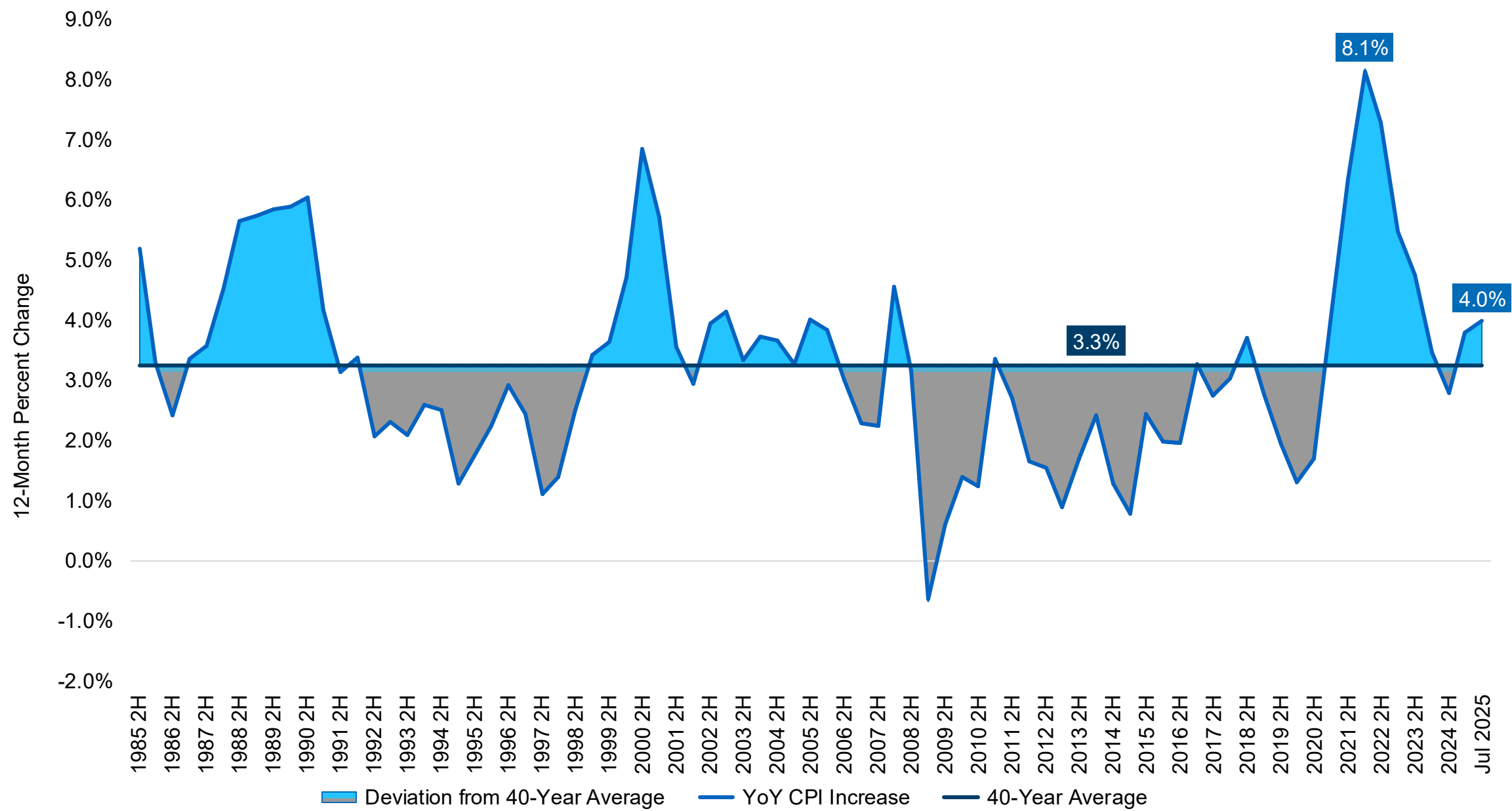


Source: Newmark Research, U.S. Department of Transportation

# Inflation Eases From Historical Highs

Inflation in the San Diego metropolitan area caused prices to increase by 4.0% year-over-year as of July 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 2.7% in July 2025. The Federal Reserve is closely monitoring the progress of inflation as it considers whether to proceed with two interest rate cuts currently scheduled to take place later this year.

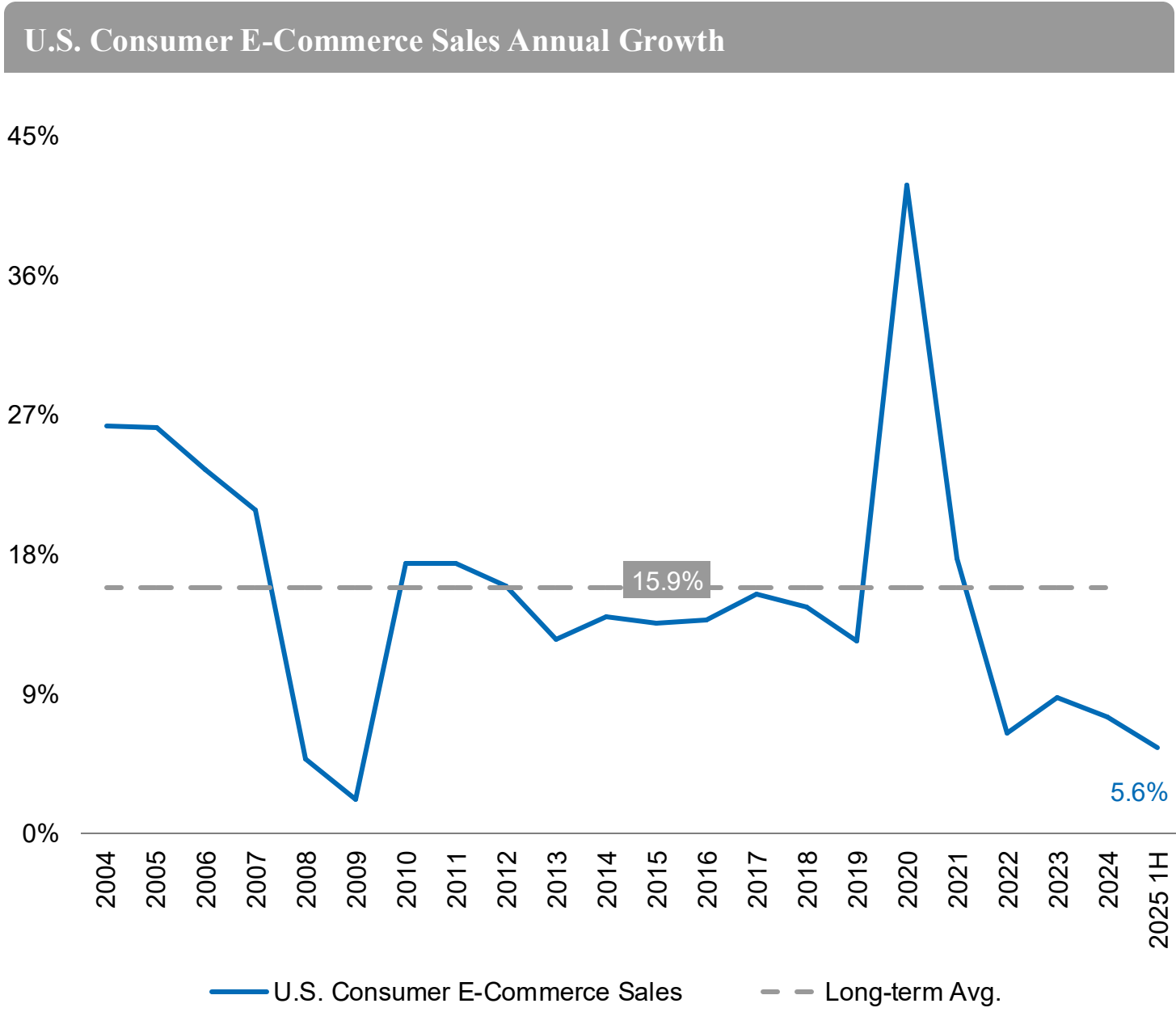
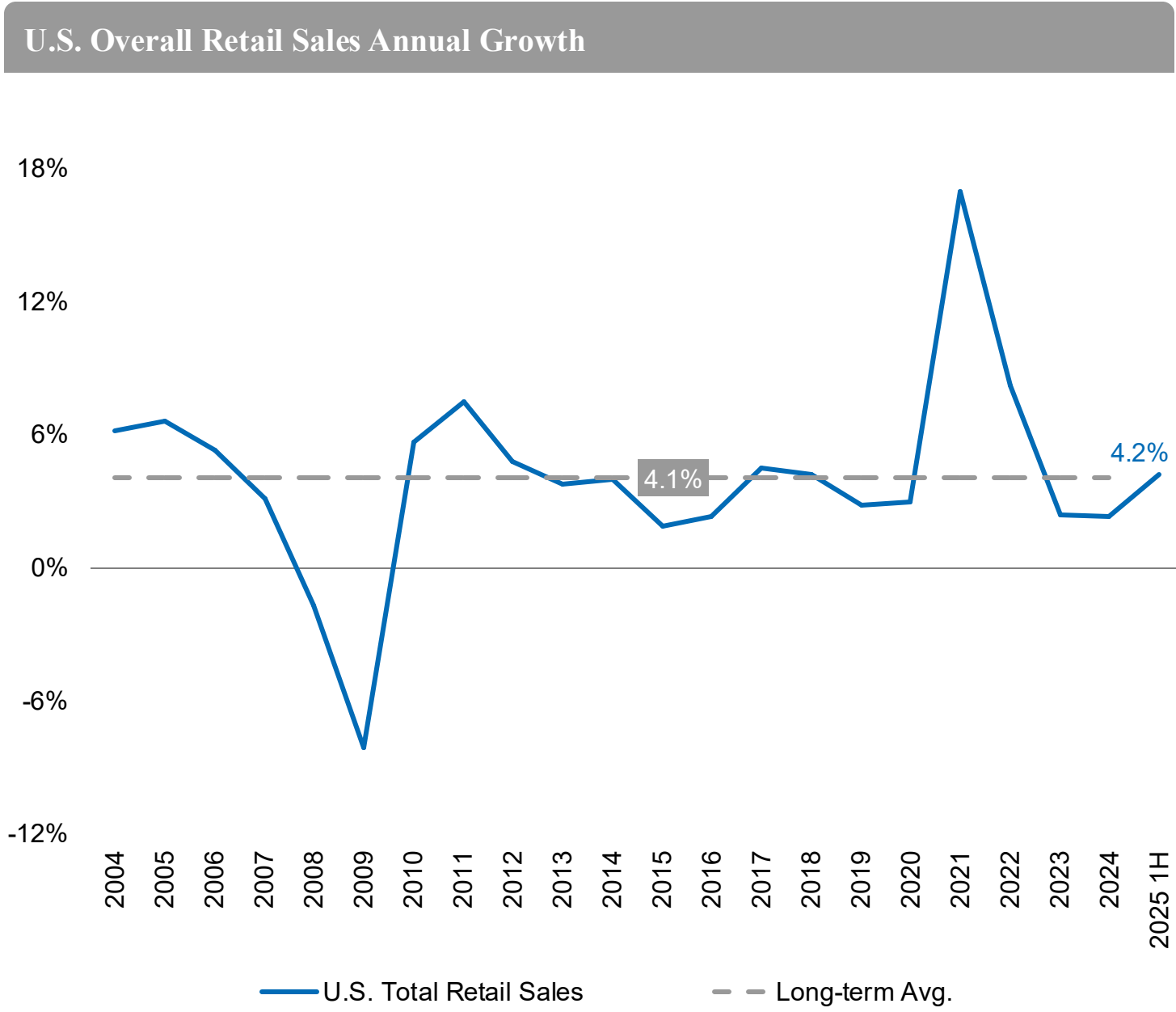
CPI for All Urban Consumers, San Diego-Carlsbad, CA, Not Seasonally Adjusted



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

# Retail Sales (an Indicator of Warehouse Demand) Up, But Projected to Slow

Overall retail sales were up 4.2% in the first half of 2025 relative to the same period in 2024 as consumers frontloaded purchases – led by motor vehicles – ahead of expected higher prices due to impending tariffs. For e-commerce specifically: Growth exceeded total retail sales (+5.6% over the same period), yet the decline from 2021 onward is noticeable as consumer spending generally registers slower gains. Since tariffs are typically stagflationary shocks, which simultaneously increase the likelihood of an economic slowdown while putting upward pressure on prices, many economists have lowered their retail sales growth projections.

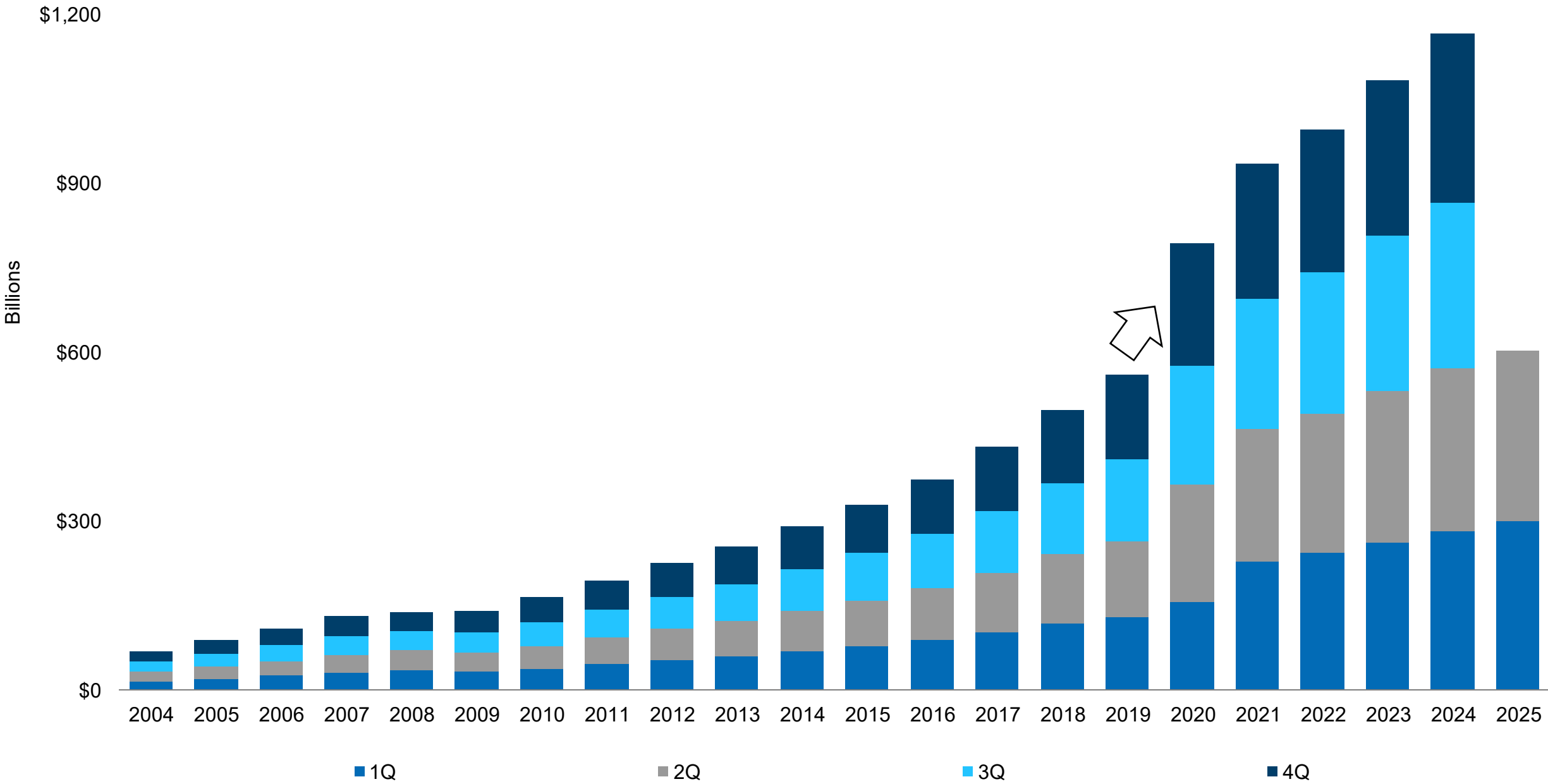


Source: US Census Bureau (consumer adjusted retail sales); most current data available

# 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.

U.S. Consumer E-Commerce Sales Volume | By Quarter

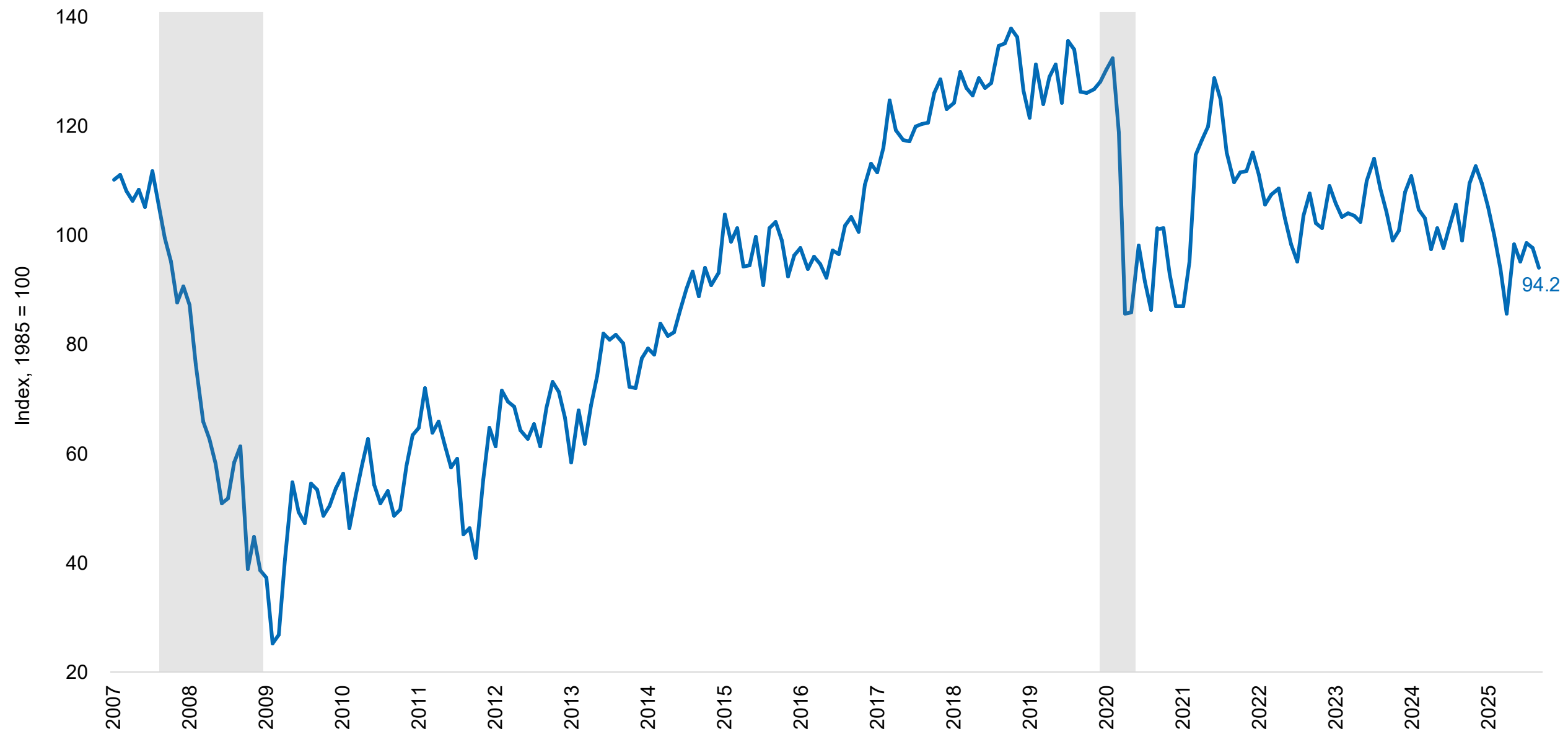


Source: US Census Bureau (consumer adjusted retail sales); most current data available.

# U.S. Consumer Confidence is Down

The drop-off since late 2024 signals economic pessimism among Americans. Worries about tariffs, which consumers frequently link to negative economic and price impacts, persist. Slower U.S. employment gains will exert downward pressure on the index.

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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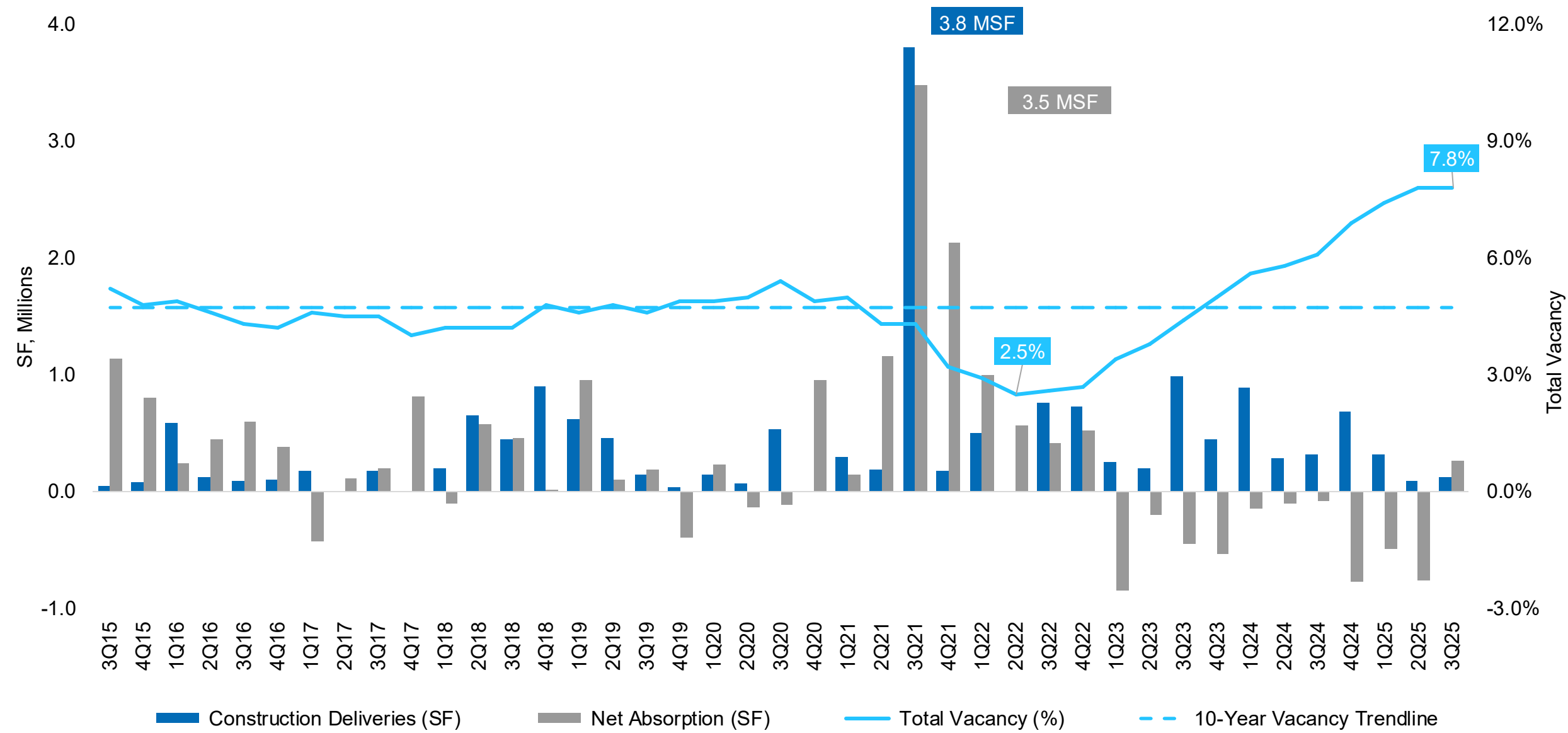
# Leasing Market Fundamentals and Sales Activity



# Vacancy Has Climbed Steadily Since 2022

Total vacancy has steadily climbed to 7.8% since hitting an all-time low of 2.5% in the second quarter of 2022. Leasing activity has slowed from the post-pandemic recovery, and vacancy is now at a 10-year high. Since the low-water mark in 2022, the market has seen 6.1 MSF in construction deliveries and 3.2 MSF of negative net absorption. Although construction levels have fallen from record highs in 2022, there is still 1.3 MSF in construction underway.

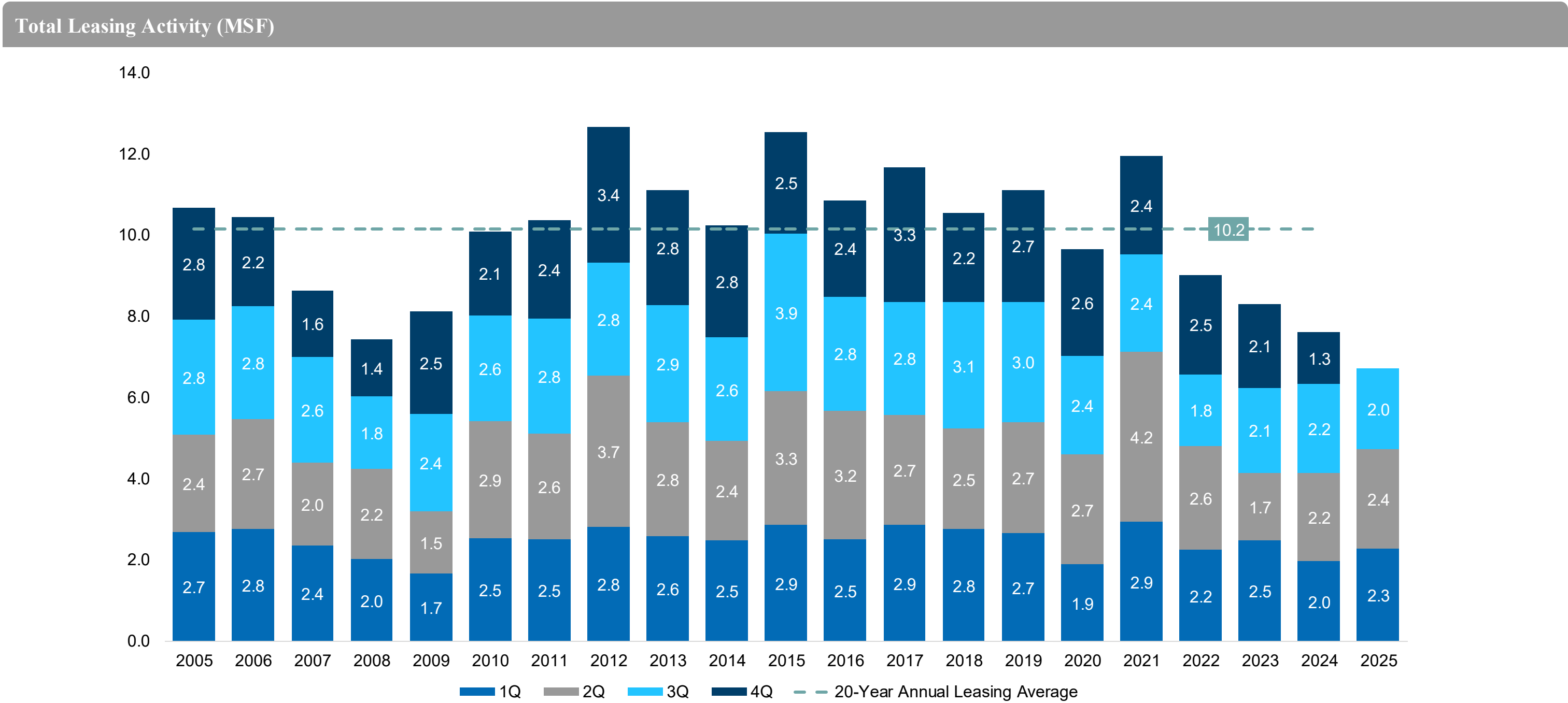
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Industrial Leasing Activity Rebounds From Three Years of Decline

Leasing activity has steadily dropped over the past four years after experiencing robust activity in 2021, as economic uncertainty from high interest rates and inflation lead many businesses to scale back operations. Inflation, in particular, has slowed retail sales growth. In 2024, leasing activity totaled 7.6 MSF, 25.0% below the 20-year average and nearly as low as the 2008 total following the Global Financial Crisis. 2025 has recorded 6.7 MSF of leasing year-to-date, up slightly from the trend over the past three years.

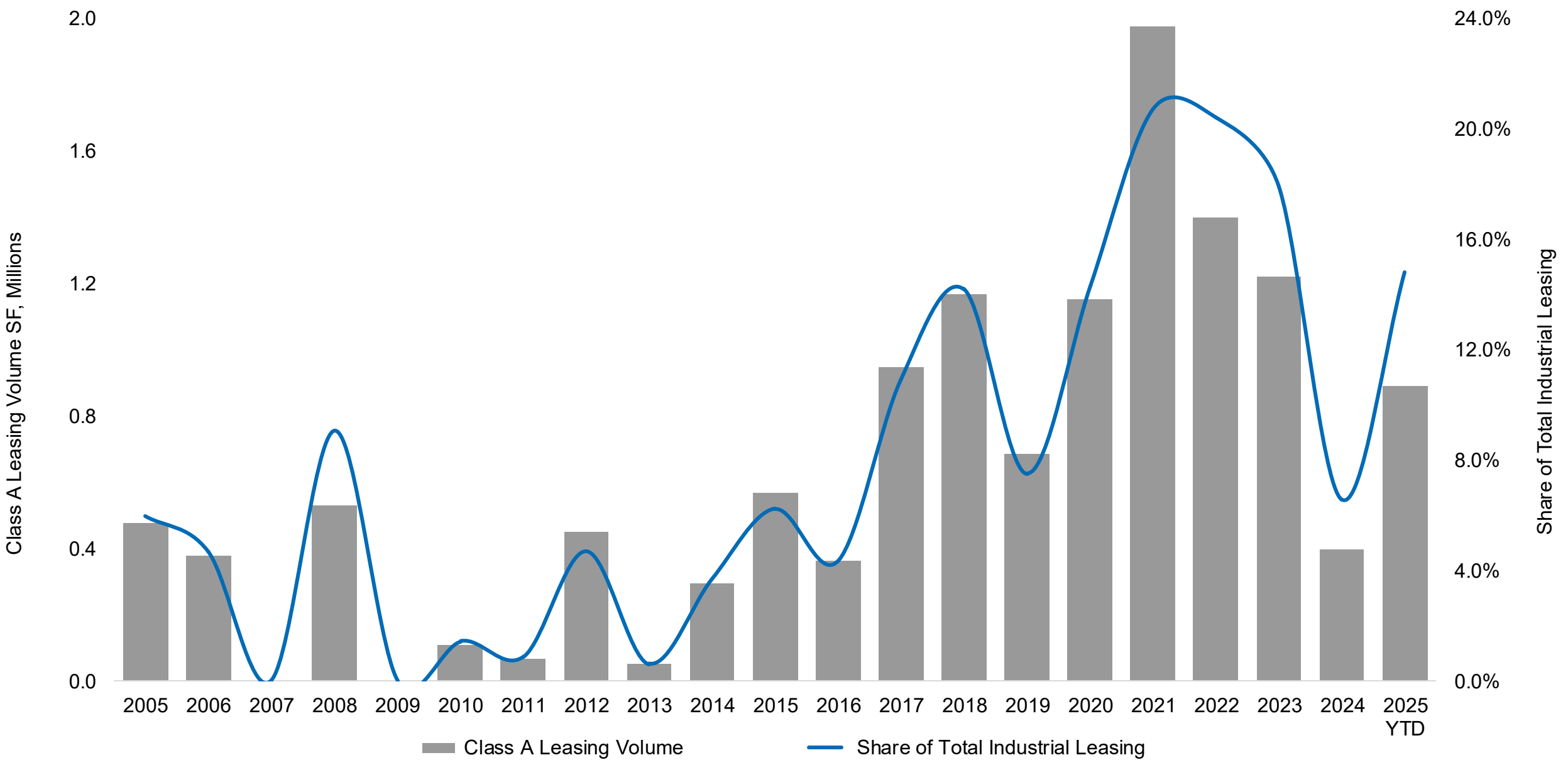


Source: Newmark Research, CoStar

# Class A Leasing Recovers From Last Year's Slump

Class A leasing bounced back in 2025, and after three quarters already surpassed the annual total of 2024, which saw the lowest level of Class A activity in eight years. 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 major industrial markets, such as Los Angeles and the Inland Empire. Amazon's leases for large distribution facilities in Otay Mesa has driven the majority of Class A activity since 2021.

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

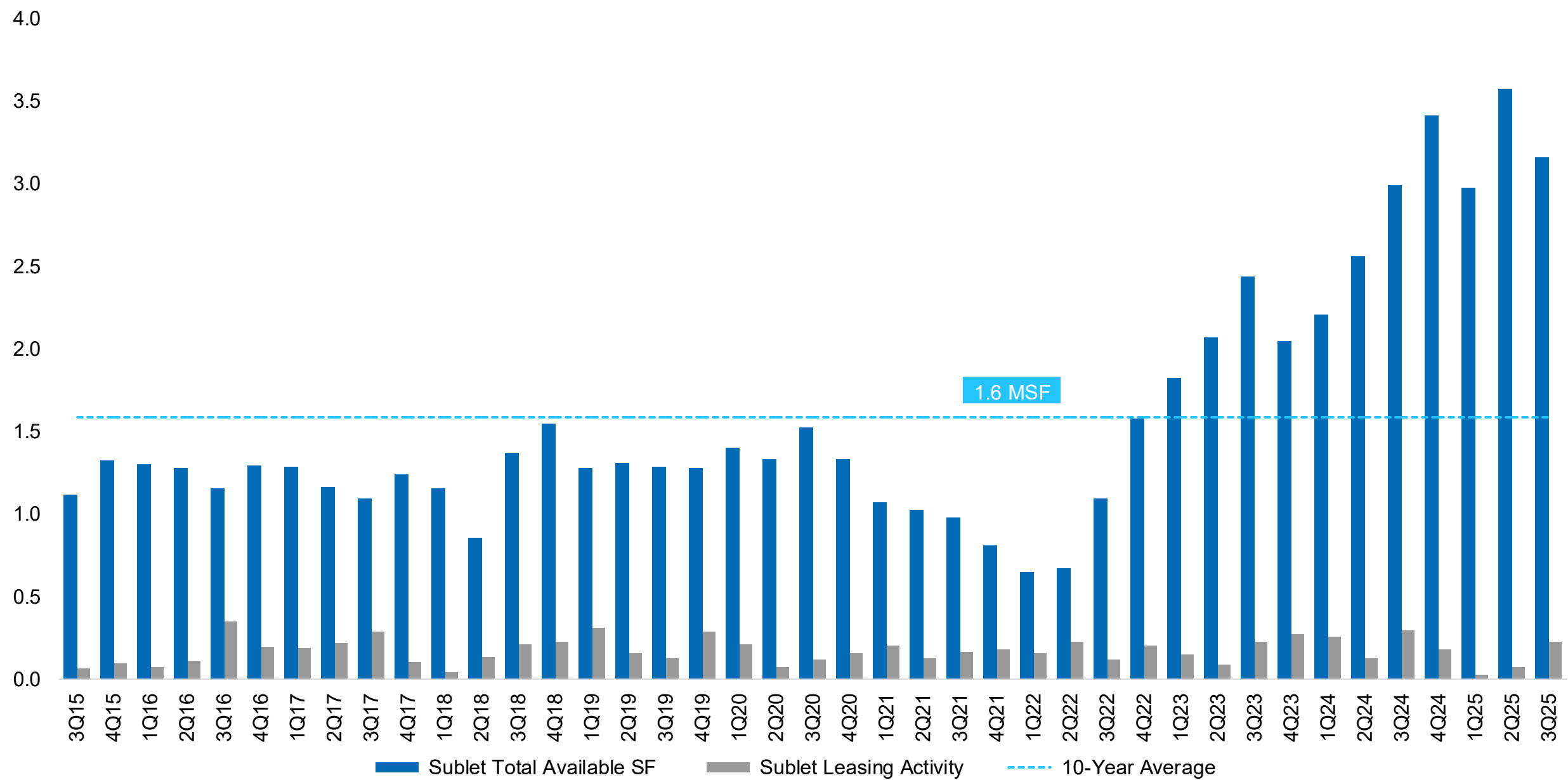


Source: Newmark Research, CoStar  
Note: Class A is defined as 100,000+ SF warehouse/distribution facilities constructed since 2000 with a 30'+ minimum interior ceiling height. Industrial leasing does not include flex product.

# Sublease Availability At Record Levels While Sublease Deals Remain Low

Sublease availability fell to 3.2 MSF in the third quarter, down from the previous quarter’s all time high but still double the 10-year average, largely due to a massive increase of sublease space in the tech-oriented submarket of Rancho Bernardo. Sublease listings bottomed out in 2022 during the surging demand for industrial space during COVID and have increased steadily over the past three years as demand fell. The amount of sublease space that is actually leased is much smaller.

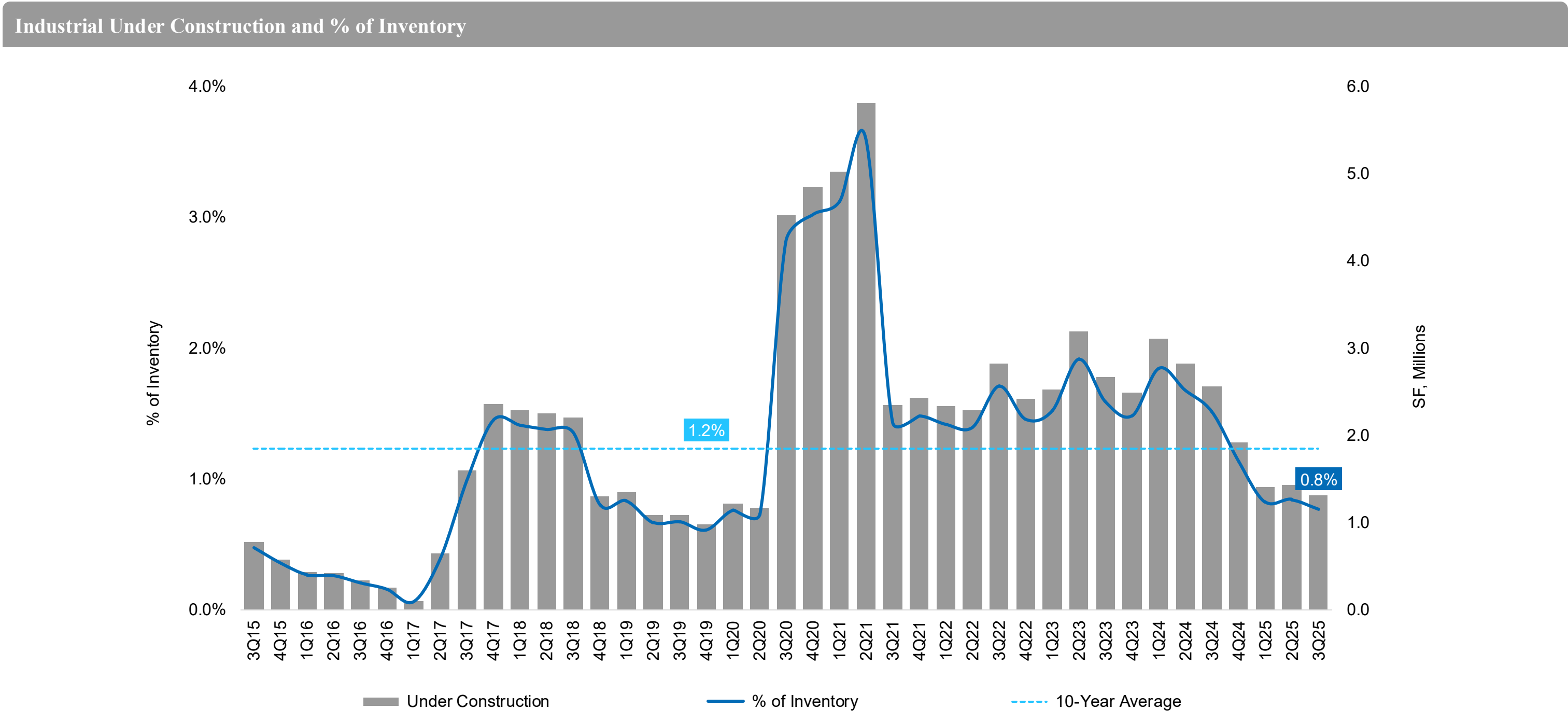
Industrial Sublease Availability vs. Leasing Activity (MSF)



Source: Newmark Research, CoStar

# Development Pipeline Eases as the Market Struggles to Absorb New Product

The construction pipeline peaked at record levels from 2020 to 2021, driven largely by Amazon’s 3.4-MSF build-to-suit distribution facility in Otoy Mesa. Since then, the pipeline has steadily declined as developers have scaled back on speculative projects. The current construction rate, at 0.8% of existing inventory, is below the 10-year average of 1.2%, reflecting the conservative approach of developers.

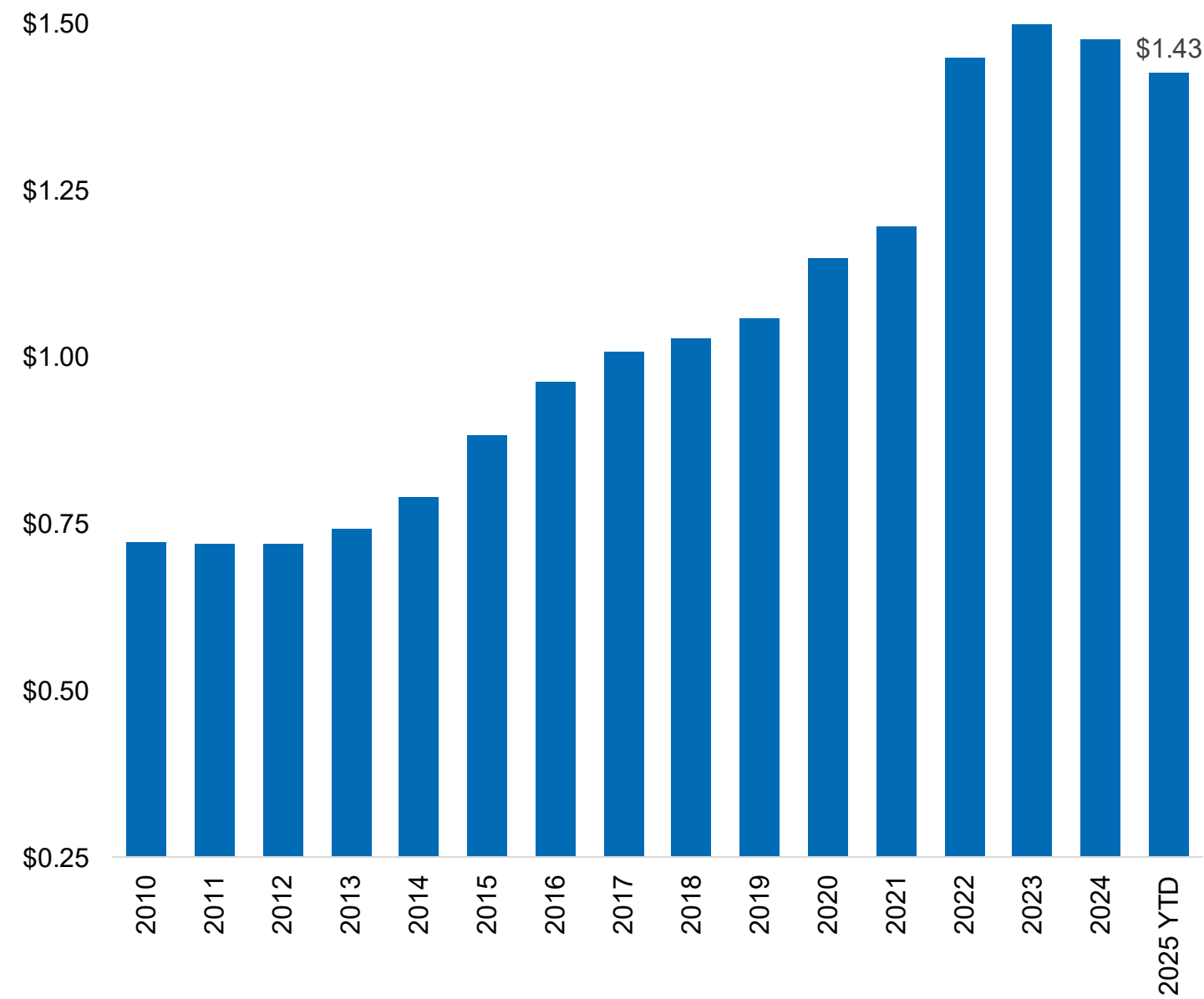


Source: Newmark Research, CoStar

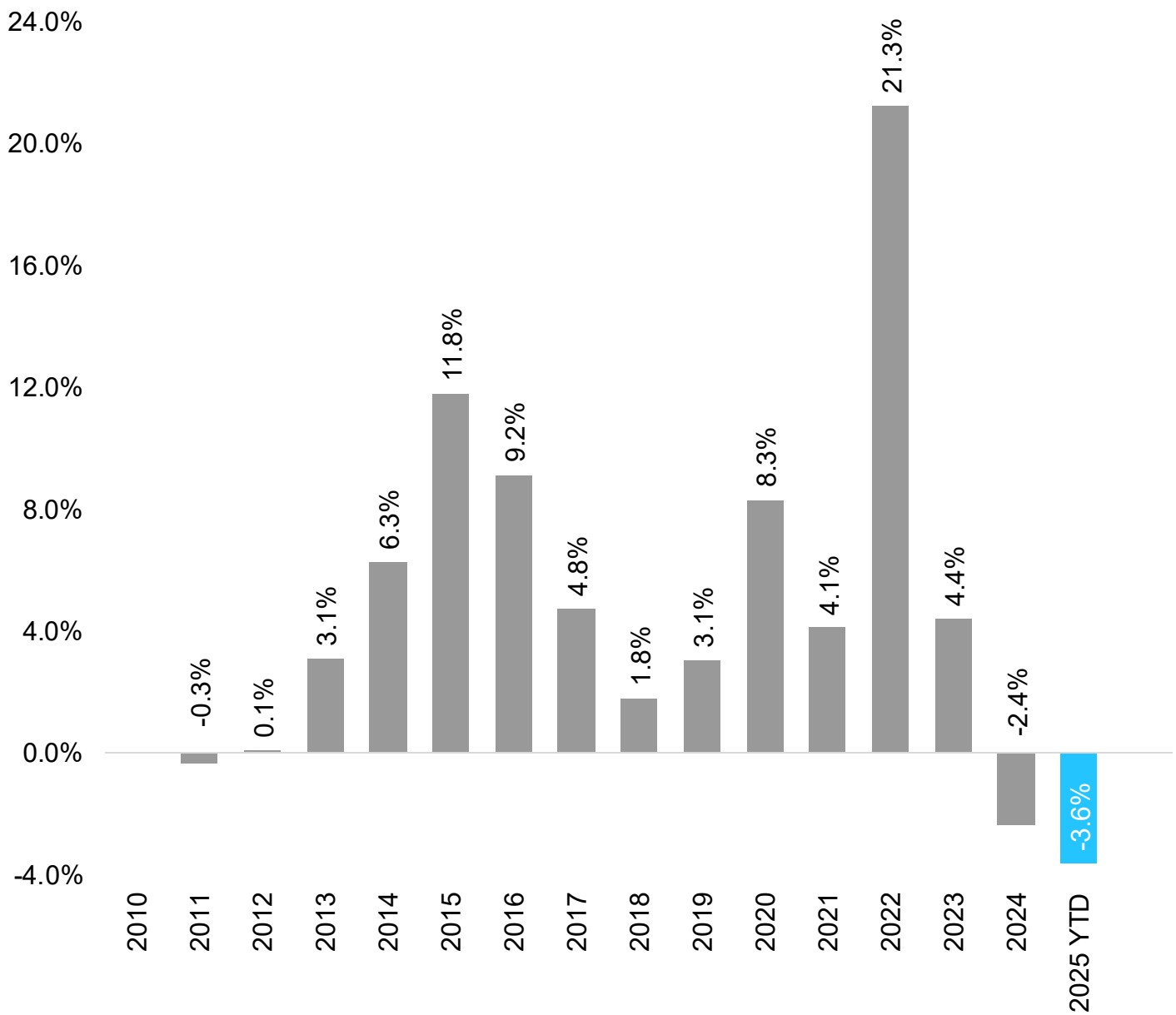
# Asking Rents Gradually Decline

The slowdown in leasing activity and rising vacancy has caused asking rents to dip to \$1.43/SF, down 3.6% over the past year. This follows a 2.4% annual decline over the course of 2024. Both rent growth and construction activity spiked in 2022 when economic disruptions caused by the pandemic resulted in record demand for industrial space, but the market is now undergoing a correction in the opposite direction.

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



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

# Notable Lease Transactions

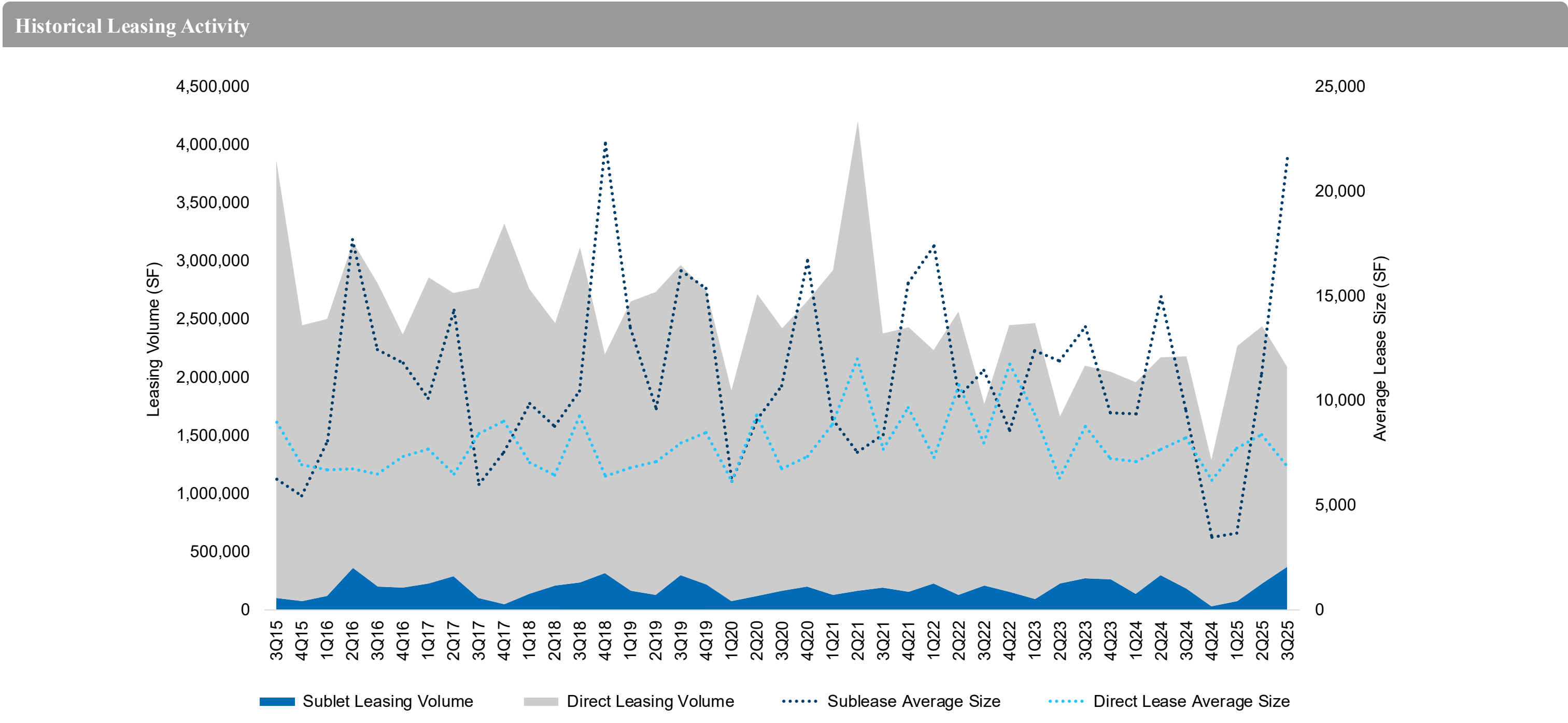
Several distribution occupiers signed large renewals during the quarter. The largest new deal of the quarter was signed by Solar Turbines, which leased Rexford Industrial Realty’s recently delivered project in Kearny Mesa. Despite the overall slowdown in the manufacturing sector, two large manufacturing spaces were leased during the quarter.

Select Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Hillebrand	2065 Sanyo Ave	Otay Mesa	Renewal	136,654
Distributor of alcoholic beverages renewed its lease at The Campus at San Diego Business Park.				
Solar Turbines	8888 Balboa Ave	Kearny Mesa	New Lease	123,492
Solar Turbines leased a distribution facility in Kearny Mesa that was built by Rexford Industrial in 2024.				
Highland Homes	10926 Woodside Ave N	Santee	Sublease	91,923
Home builder headquartered in Texas leased manufacturing space in Santee.				
Goggin Warehousing	2660 Sarnen St	Otay Mesa	Renewal	71,500
Third-party logistics provider renewed its distribution center at Viva Logistics Center.				
Sivana	2611 Commerce Wy	Vista	New Lease	55,296
Carlsbad-based clothing manufacturer that uses bamboo-derived fibers leased manufacturing space in Vista.				

Source: Newmark Research, CoStar

# Average Lease Sizes Have Trended Lower

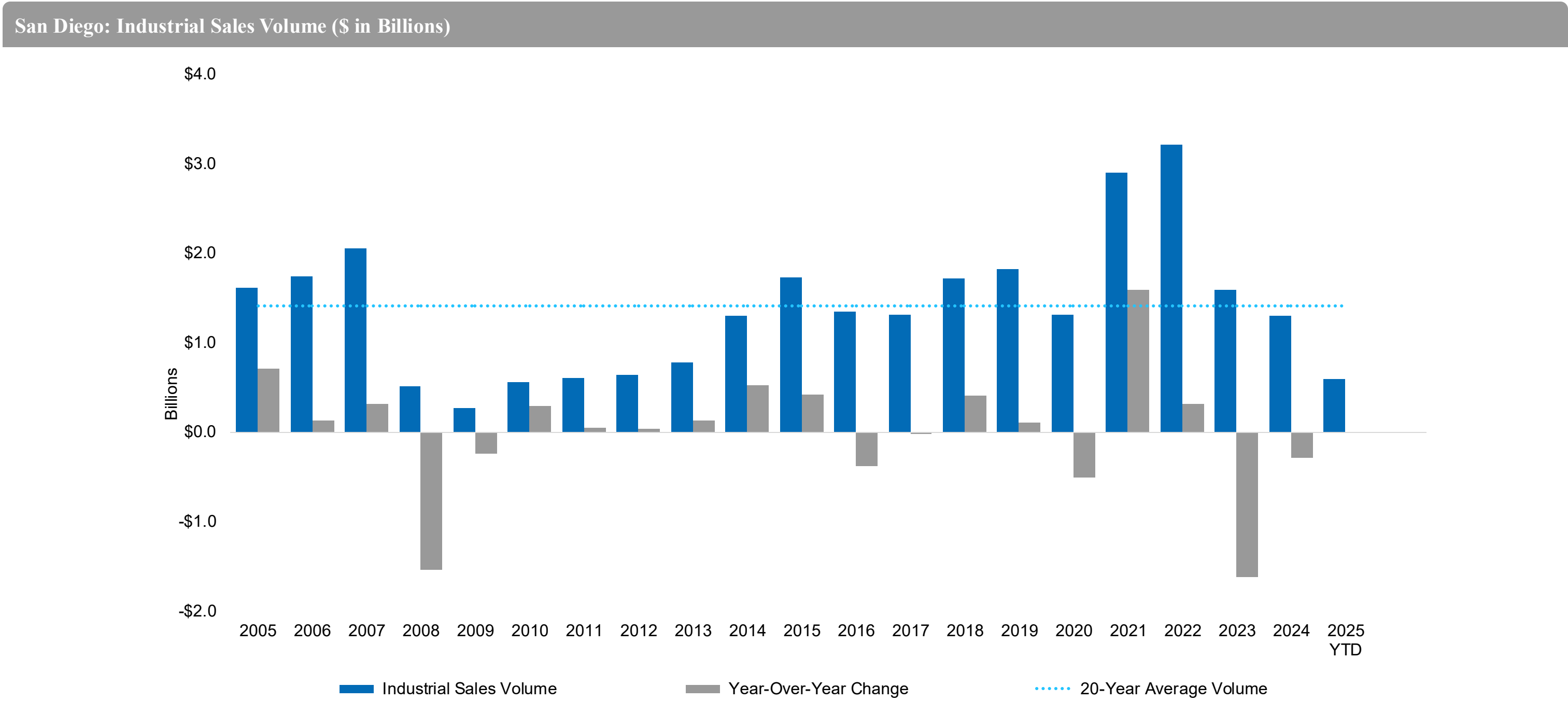
The rapid growth of e-commerce and increased development of 2021-2022 led to progressively larger deals, but a slowdown in leasing activity has led to smaller deals, averaging 6,847 SF for direct leases in the third quarter. The average size of sublease deals tends to be larger, despite much lower overall leasing volume, reflecting the incentives for companies to sublet large unused spaces. The average sublease size in the third quarter jumped to 21,639 SF.



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. The third quarter saw only \$139.2M in sales volume, the lowest quarterly total since 2013. Industrial sales year-to-date 2025 totaled \$594.7 million, only 45.8% of 2024’s annual total.

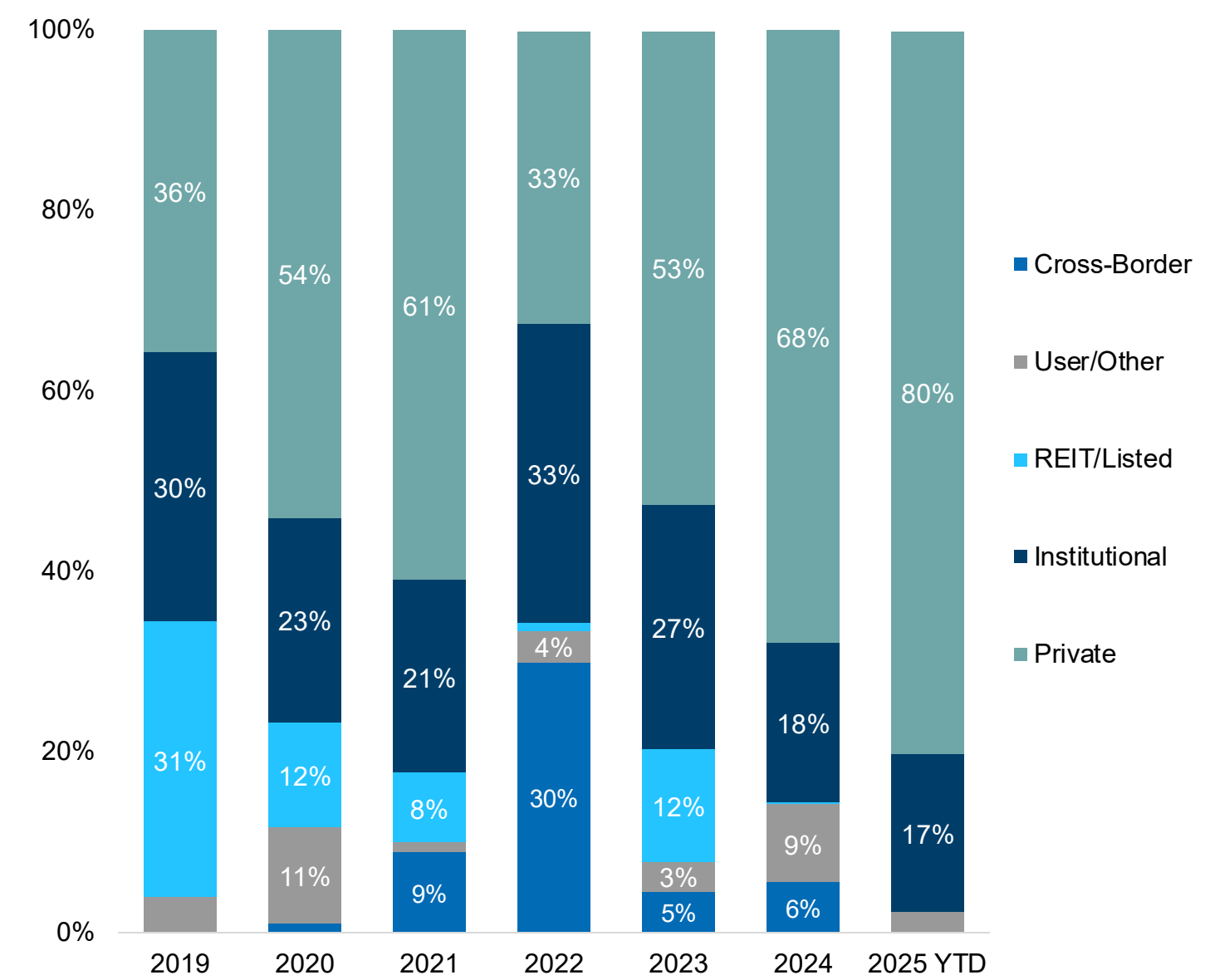


Source: Newmark Research, MSCI Real Capital Analytics  
Note: Preliminary data is cited for the third quarter of 2025.

# Private Buyers Most Active During First Half

As sales volume has declined, private investors have been the most active in the marketplace. Private investors are more likely to make cash purchases or to utilize alternative financing options, while REIT and institutional investors have been dissuaded by high interest rates. CenterPoint Properties, a subsidiary of CalPERS, was the largest institutional investor active during the past 12 months, purchasing 4400 Ruffin Road for \$80.0 million.

Industrial Buyer Composition, by Year | Based on Sales Volume



Most Active Buyers, Last 12 Months

Company	Investor Type	Volume	# of Properties	Size (SF)
Parallel Capital Partners	Private	\$81,500,000	2	304,460
CalPERS	Institutional	\$80,050,000	1	202,500
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
MCA Realty	Private	\$30,700,000	1	106,311
Lincoln Property Co	Private	\$26,233,000	1	98,250
GID	Private	\$17,800,000	1	76,482

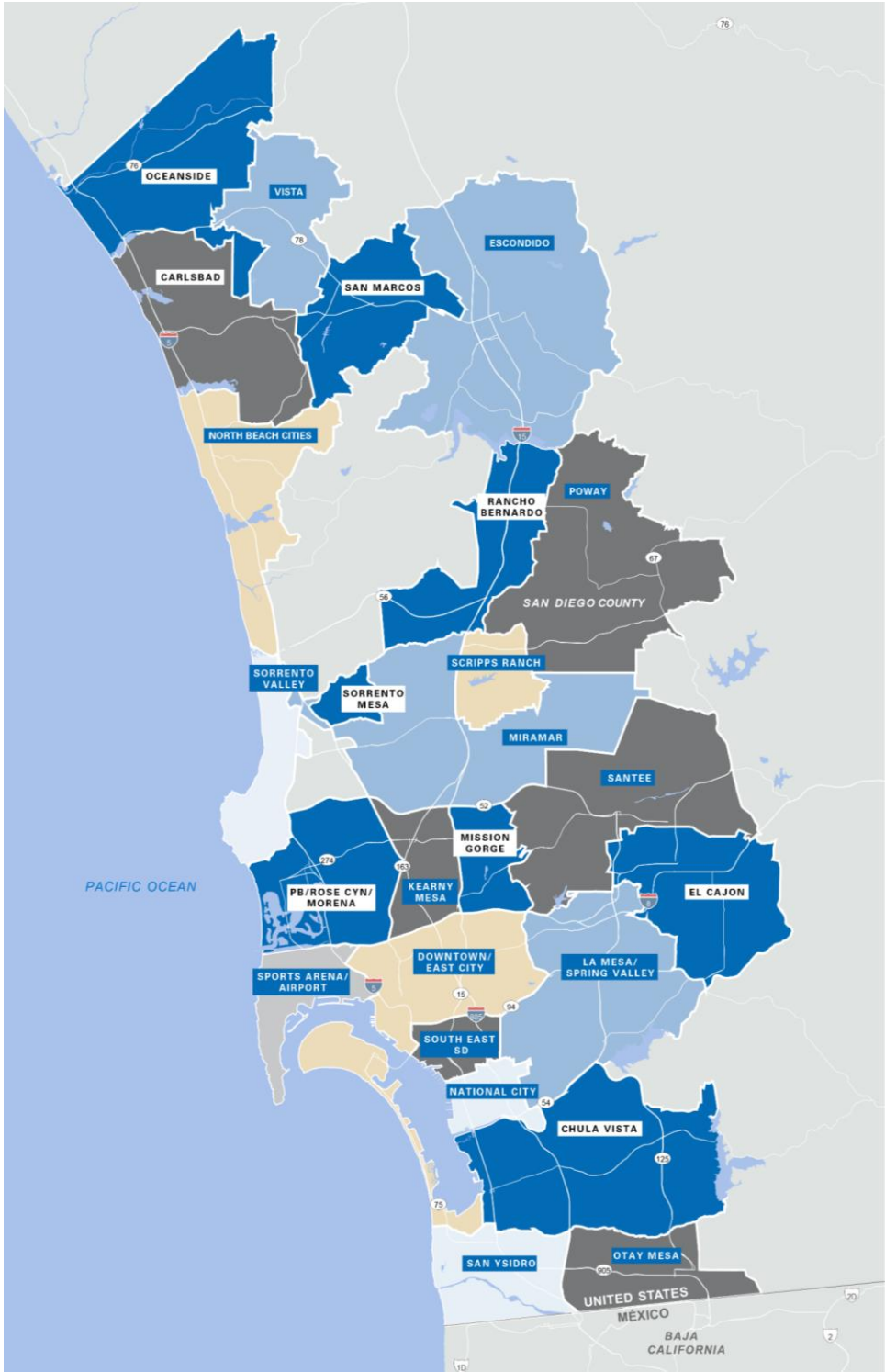
Source: Newmark Research, MSCI Real Capital Analytics  
Note: Preliminary data is cited for the third quarter of 2025.

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# Submarkets



# San Diego Submarket Map and High-Level Statistics | 3Q25



## Marketwide Statistics | 3Q25

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	170.3M	170.1M	168.7M	↑
Total Vacancy Rate	7.8%	7.8%	6.1%	↓
Qtr. Net Absp. (SF)	262K	-765K	-78K	→
Average Asking Rent/SF/Month	\$1.43 NNN	\$1.44 NNN	\$1.48 NNN	→
Deliveries (SF)	124K	92K	316K	→
Under Const. (SF)	1.3M	1.4M	2.6M	↓

Source: Newmark Research

# San Diego Submarket Statistics | 3Q25 (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	14,166,514	63,366	9.4%	-61,865	-151,614	0	0	\$1.53
Chula Vista	9,684,994	0	12.3%	49,972	-106,666	0	0	\$1.44
Downtown/East City	2,616,659	0	2.2%	-17,123	33,436	0	0	\$1.34
El Cajon	9,826,831	0	3.3%	19,063	-63,452	0	0	\$1.62
Escondido	6,037,715	0	5.0%	63,528	-134,759	0	58,502	\$1.37
Kearny Mesa	14,119,482	0	4.0%	148,699	138,897	0	0	\$2.03
La Mesa/Spring Valley	1,824,811	0	1.3%	-5,920	17,509	0	0	\$1.36
Miramar	14,899,828	0	8.7%	-45,404	-278,046	0	0	\$1.71
Mission Gorge	1,746,570	0	6.4%	4,066	-73,403	0	0	\$1.33
National City	2,655,713	0	5.1%	-1,174	-62,605	0	0	\$1.72
North Beach Cities	458,966	0	0.0%	0	0	0	0	-
Oceanside	8,266,520	0	4.1%	-11,631	148,720	0	70,000	\$1.17
Otay Mesa	24,820,766	1,120,413	13.4%	503,732	291,022	124,000	380,796	\$1.11
PB/Rose Cyn/Morena	2,227,893	0	9.4%	21,394	-98,443	0	0	\$1.63

Source: Newmark Research

# San Diego Submarket Statistics | 3Q25 (page 2 of 2)

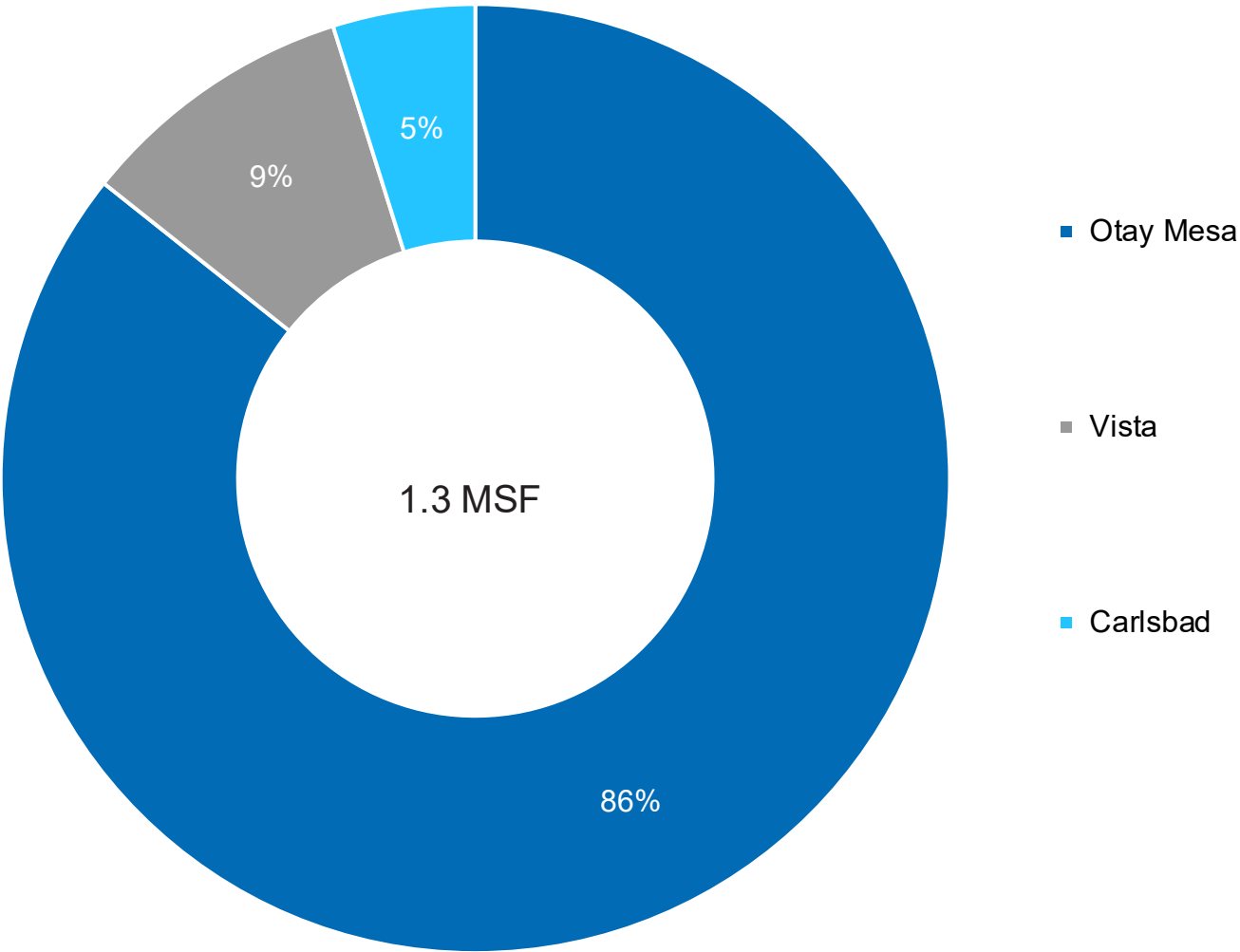
Submarket Statistics – All Classes								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Qtr Construction Deliveries (SF)	YTD Construction Deliveries (SF)	Total Asking Rent (Price/SF)
Poway	9,182,498	0	2.9%	-11,855	-18,141	0	0	\$1.49
Rancho Bernardo	7,187,836	0	6.2%	-13,944	90,782	0	0	\$1.56
San Marcos	7,441,935	0	7.1%	-12,775	-115,820	0	0	\$1.25
San Ysidro	1,372,866	0	6.6%	-73,279	-86,092	0	0	\$1.36
Santee	3,560,177	0	1.3%	-17,269	-11,483	0	0	\$1.29
Scripps Ranch	1,317,906	0	12.4%	-56,259	-57,592	0	0	\$1.79
Sorrento Mesa	7,647,037	0	10.5%	-38,952	-302,337	0	0	\$1.88
Sorrento Valley	1,660,679	0	10.0%	-8,050	-62,295	0	0	\$1.63
Southeast San Diego	3,280,854	0	7.9%	-85,000	-53,389	0	0	\$1.28
Sports Arena/Airport	1,332,528	0	3.7%	79,460	-3,000	0	0	\$1.50
Vista	12,972,320	123,705	9.5%	-167,568	-33,647	0	22,480	\$1.22
San Diego	170,309,898	1,307,484	7.8%	261,846	-992,418	124,000	531,778	\$1.43

Source: Newmark Research

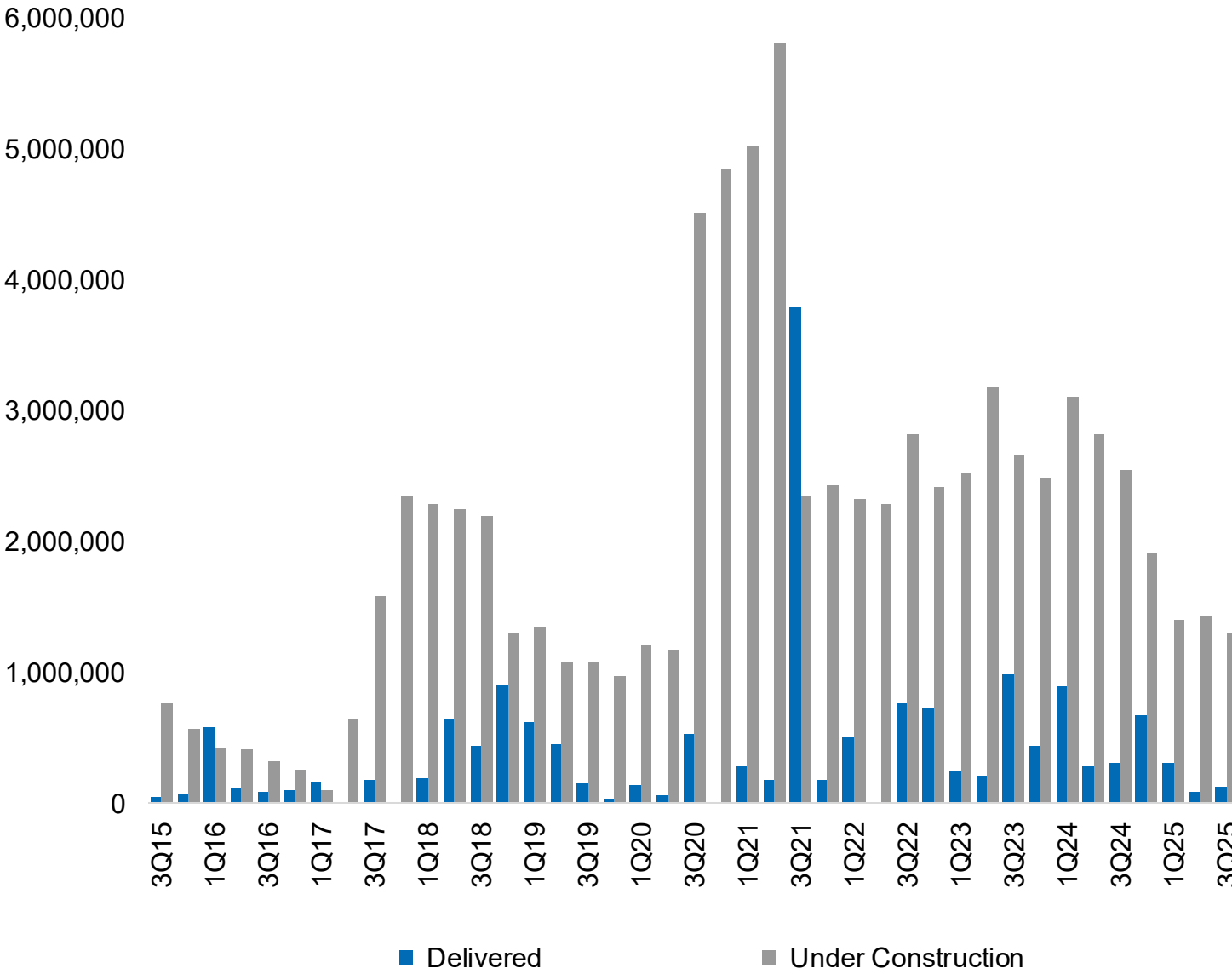
# Construction Levels Decline From Historical High

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 as developers have reacted to softening demand, falling to 1.4 MSF in the third 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 another 1.0-MSF build-to-suit distribution facility for Amazon.

Current Construction by Submarket



Historical Deliveries & Construction Levels

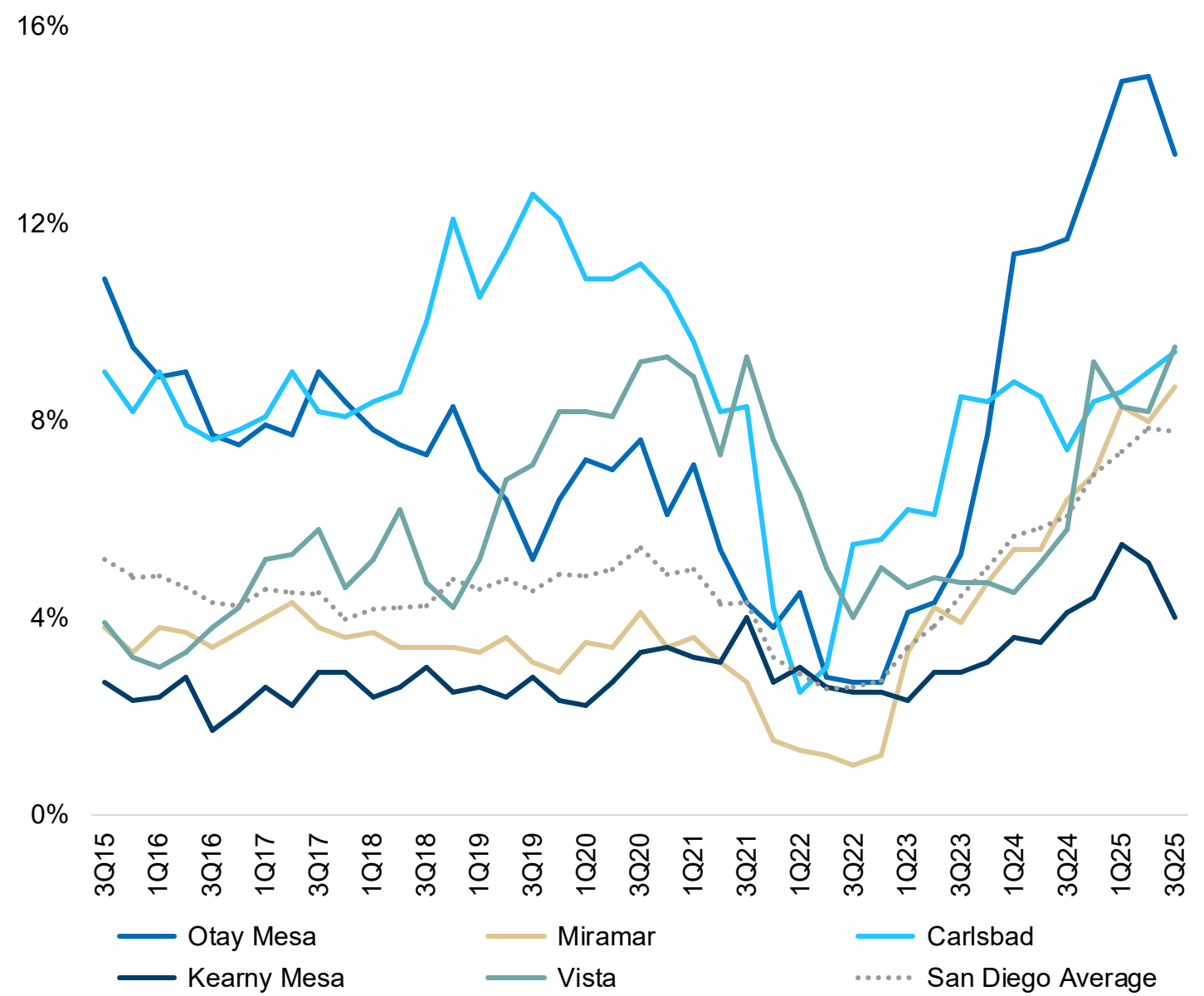


Source: Newmark Research, CoStar

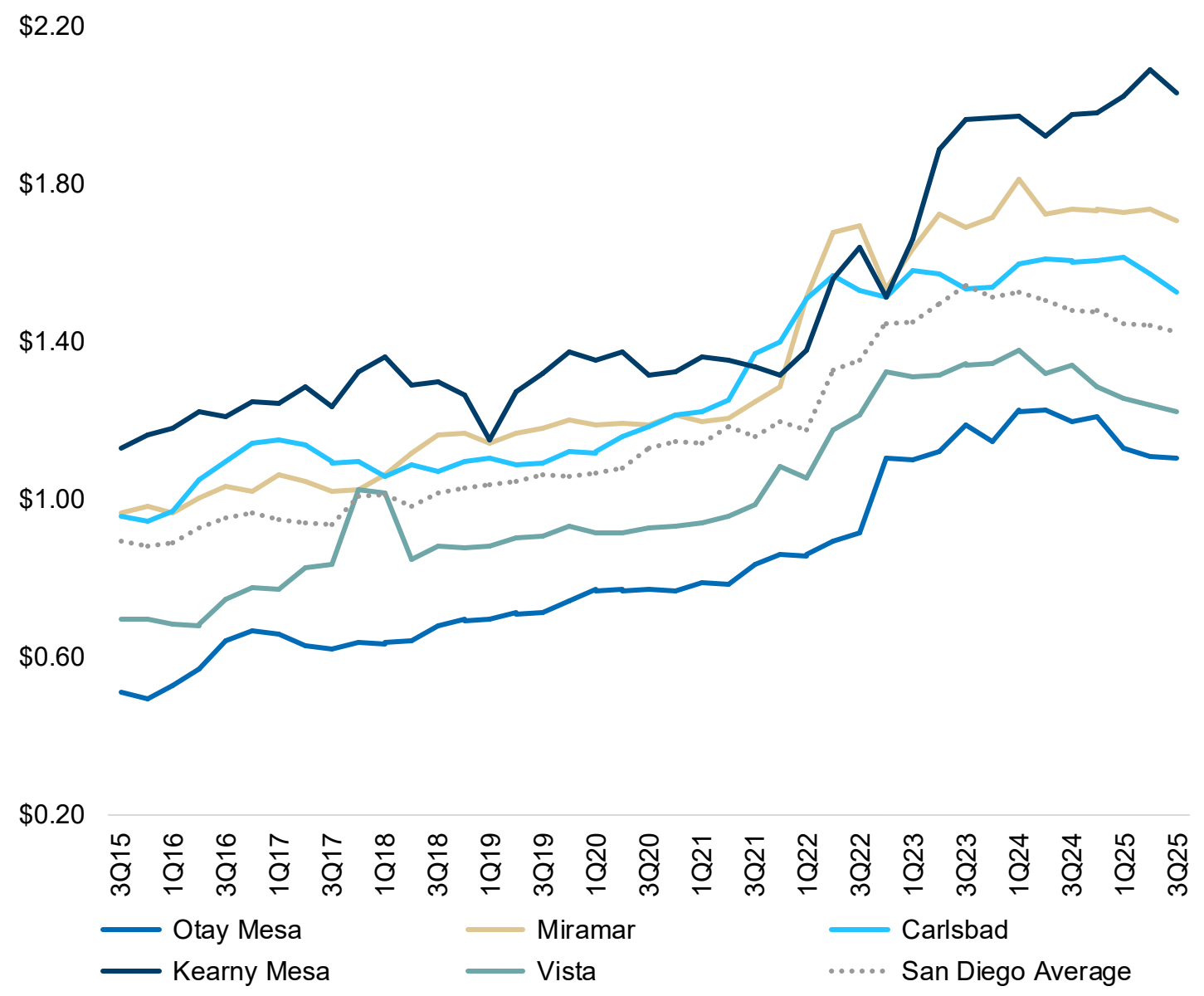
# Asking Rents Level Off As Vacancy Climbs

Otay Mesa’s vacancy climbed to 13.4% after years of large deliveries, although the submarket is still faring better than it did in the Global Financial Crisis, when vacancy exceeded 20.0%. 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 just started to decline. Only Kearny Mesa has seen rents increase over the past year.

Historical Total Vacancy, Top Submarkets



Historical Asking Rents, Top Submarkets

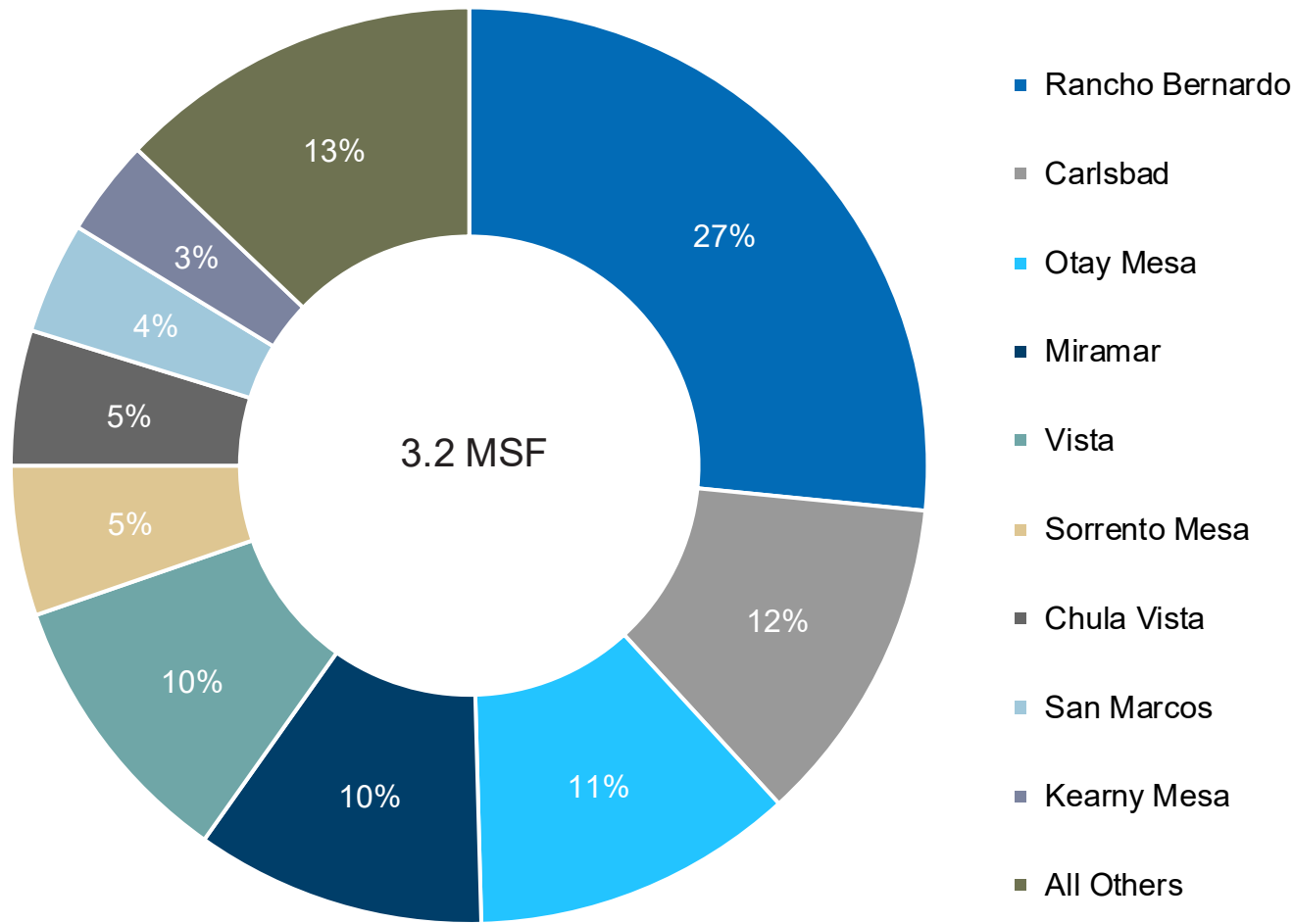


Source: Newmark Research, CoStar

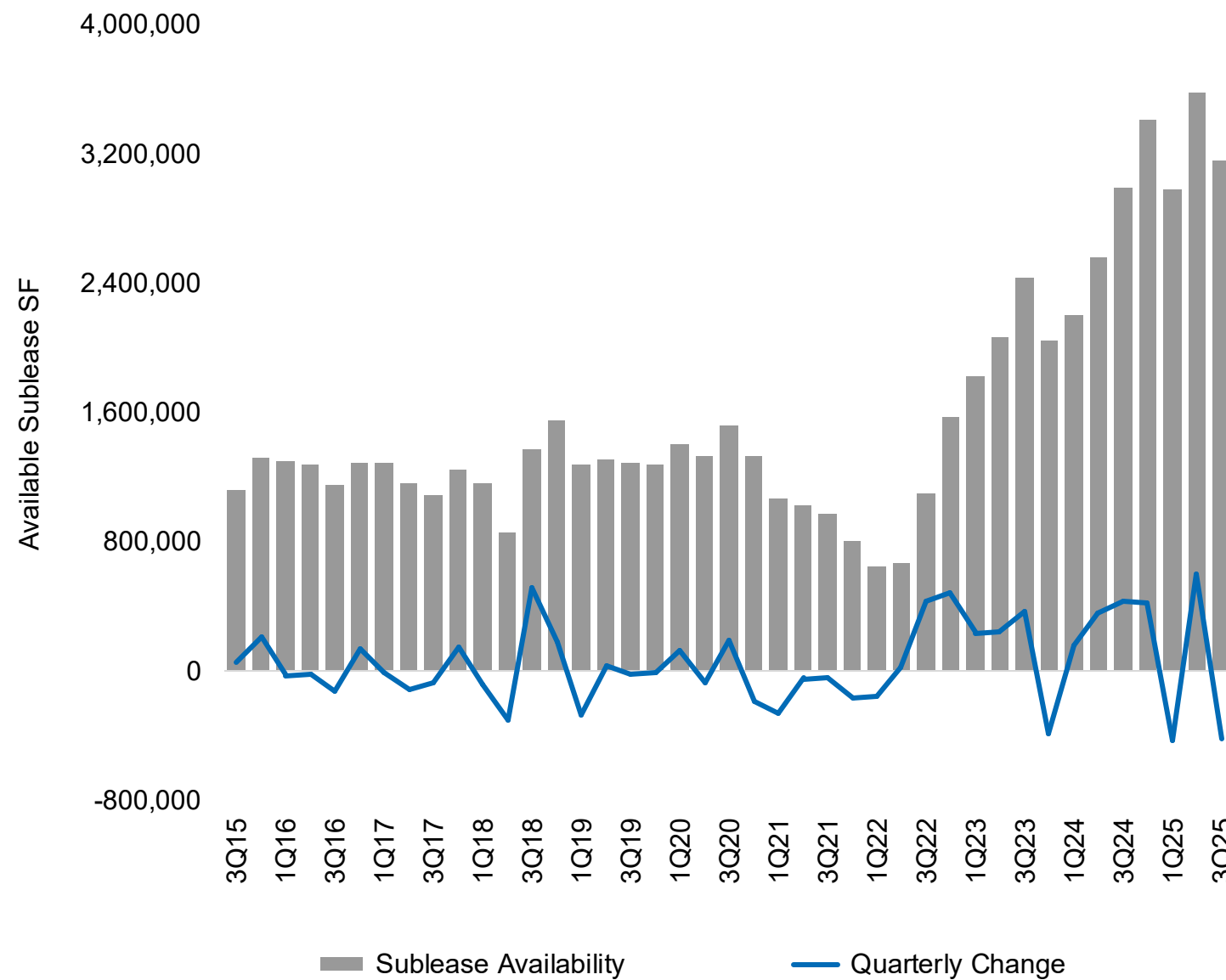
# Sublease Availability is Spread Across the Region

Sublease availability is near the all-time high due to 499,000 SF of R&D space in Rancho Bernardo in Rancho Vista Corporate Center. Apple purchased the eight-building project in 2022, and the available buildings are currently leased to HP and First Tech Federal Credit Union. The major industrial submarkets of Carlsbad, Otay Mesa, and Vista have also seen elevated levels of sublease availability over the past three years.

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](http://nmrk.com/insights).

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