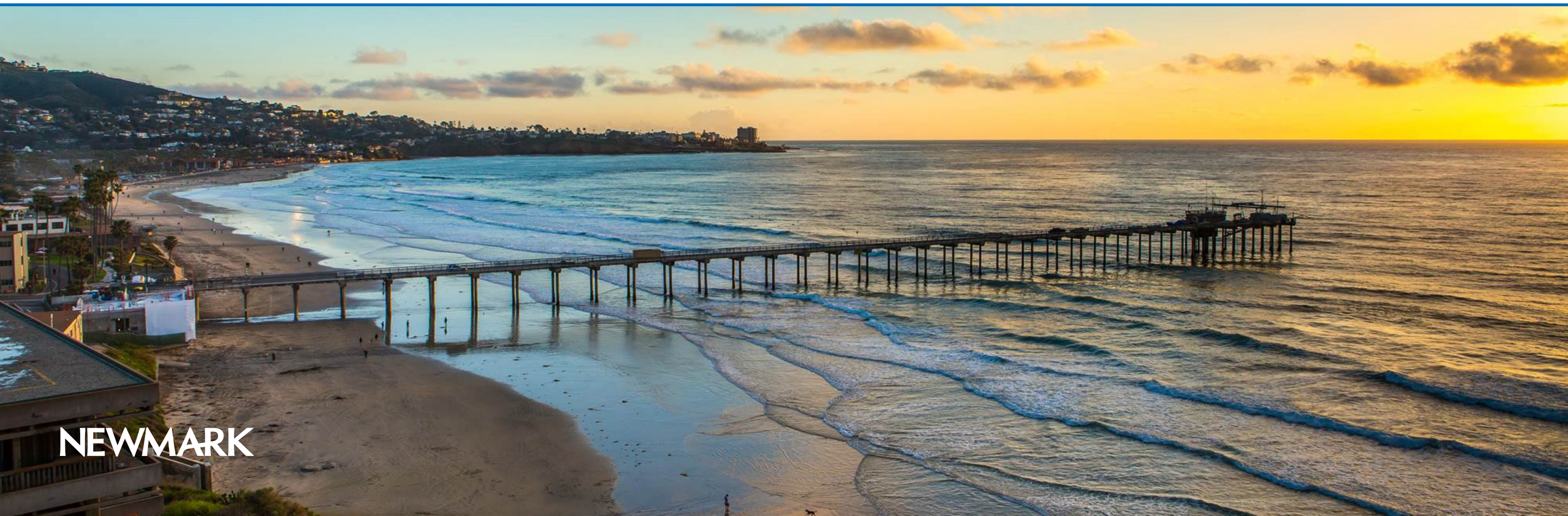


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# San Diego Industrial Market Overview



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

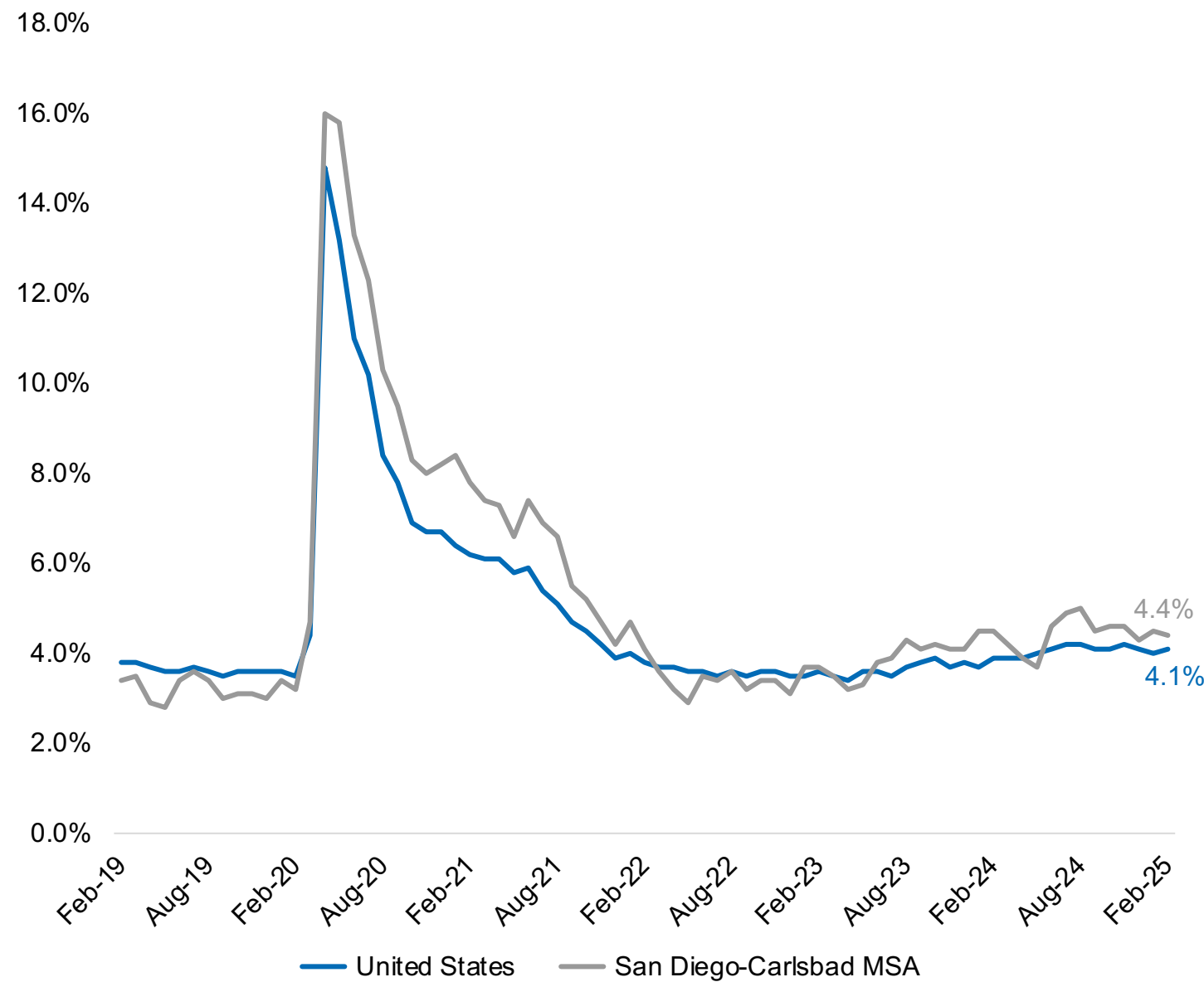




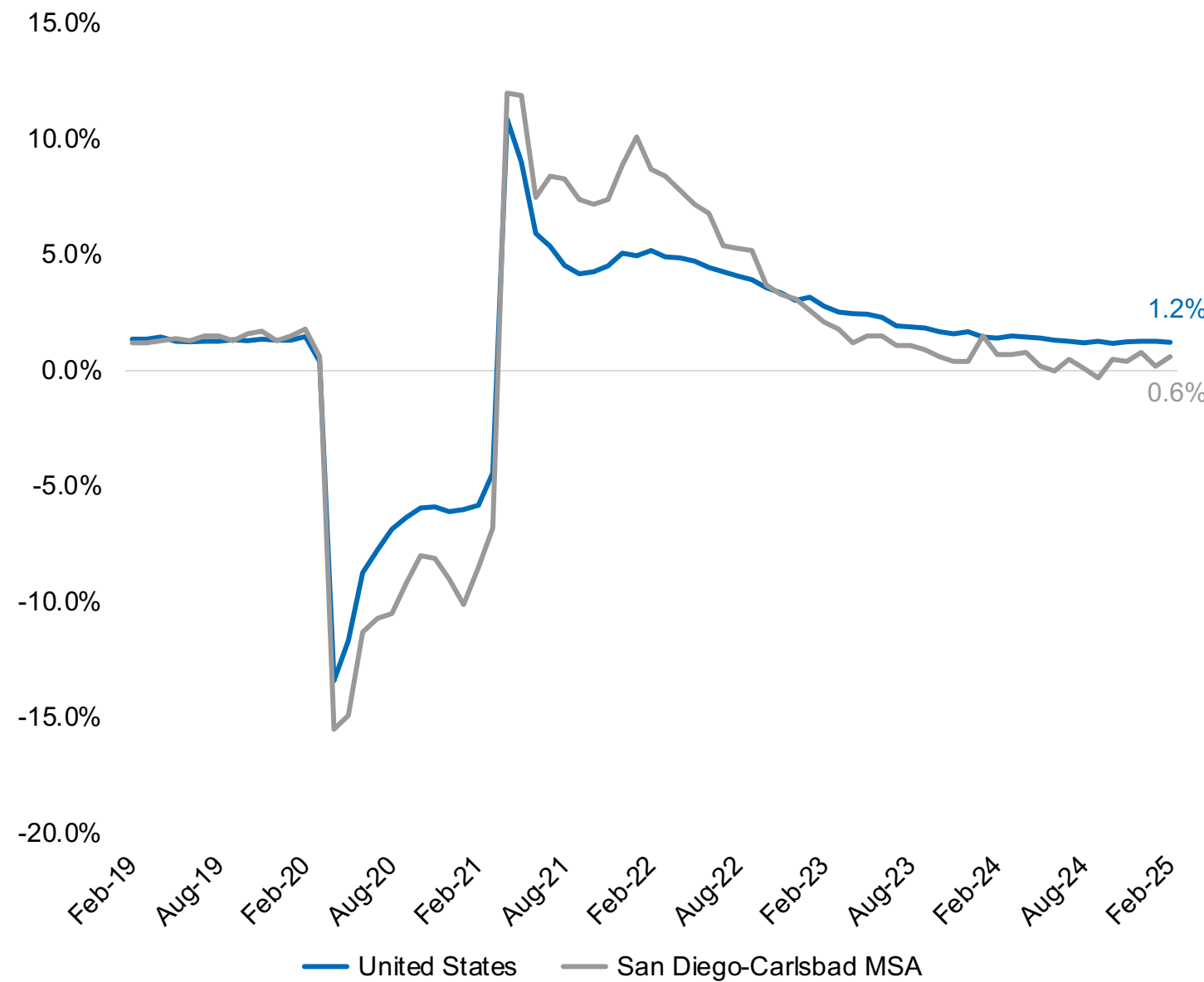
# Unemployment Little Changed From Last Year

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

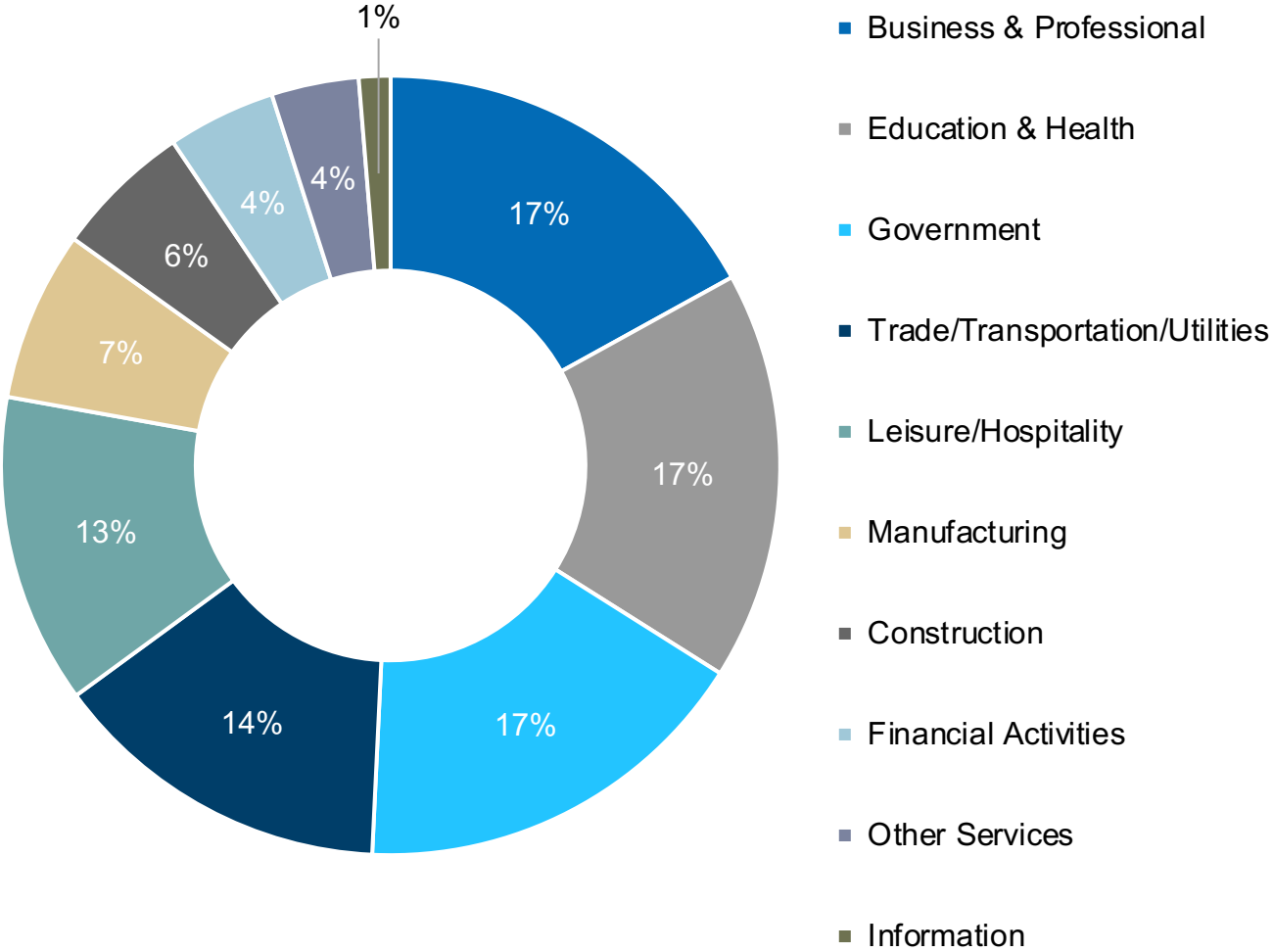


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

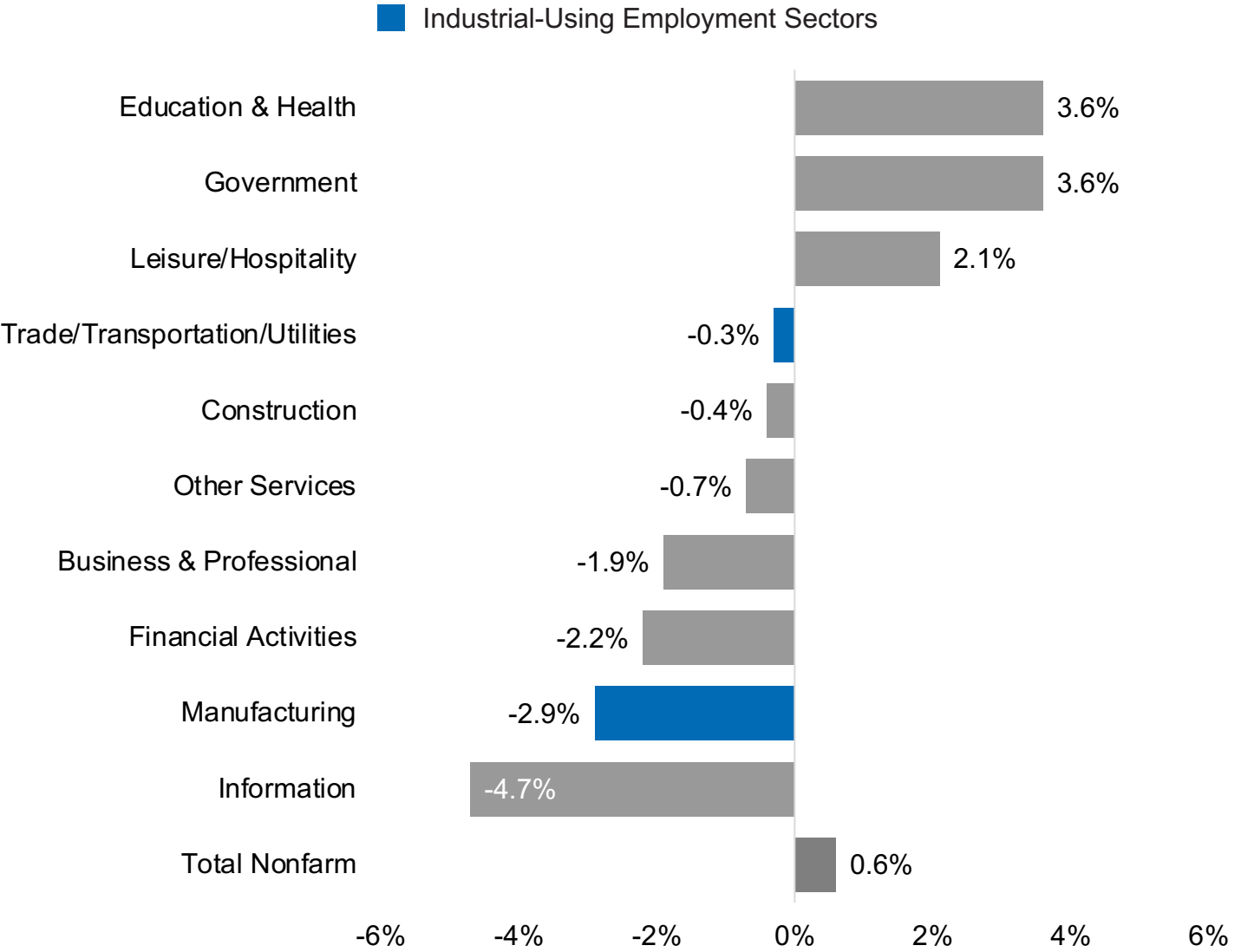
# Industrial Jobs Experienced Minor Losses Over the Past Year

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

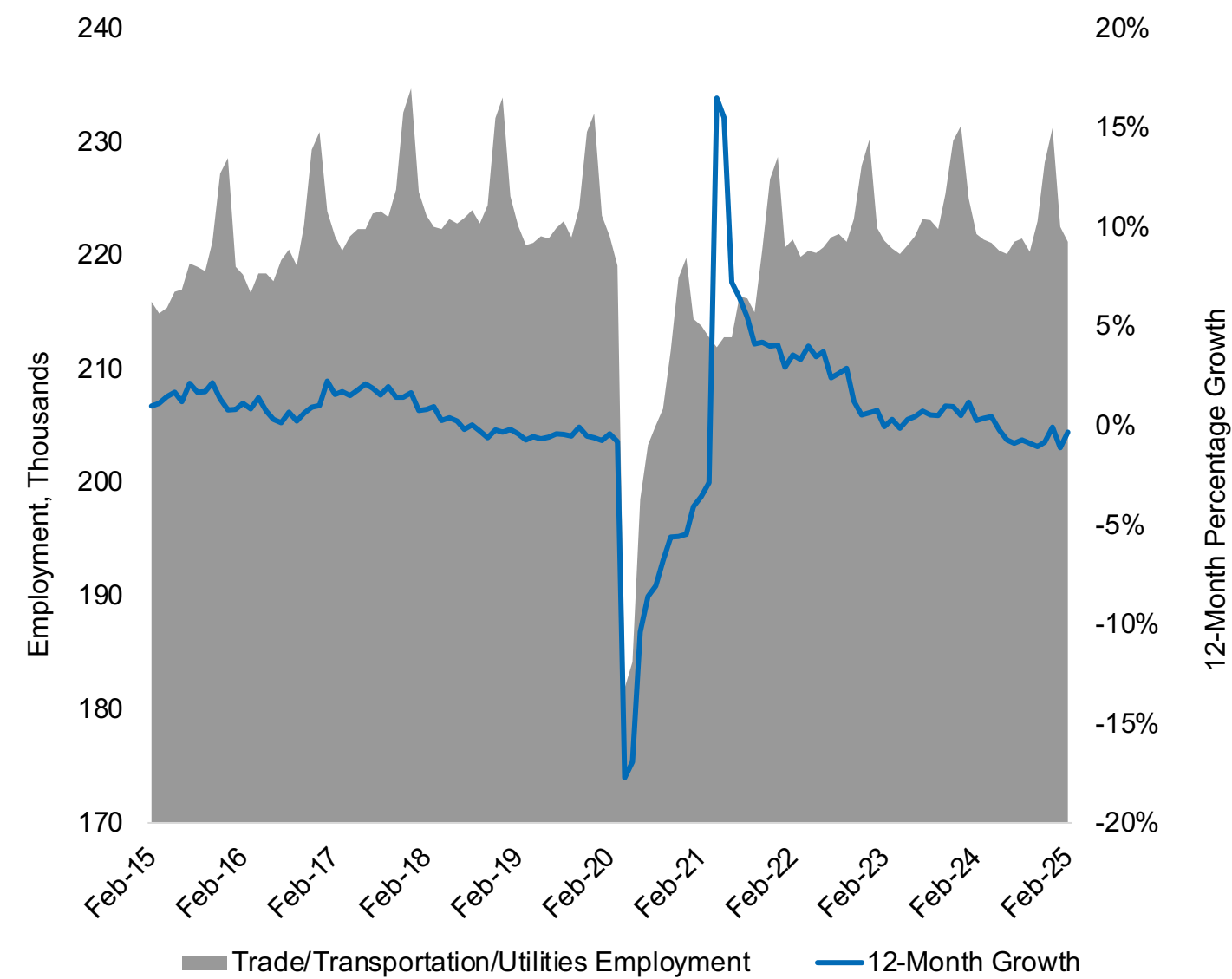


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

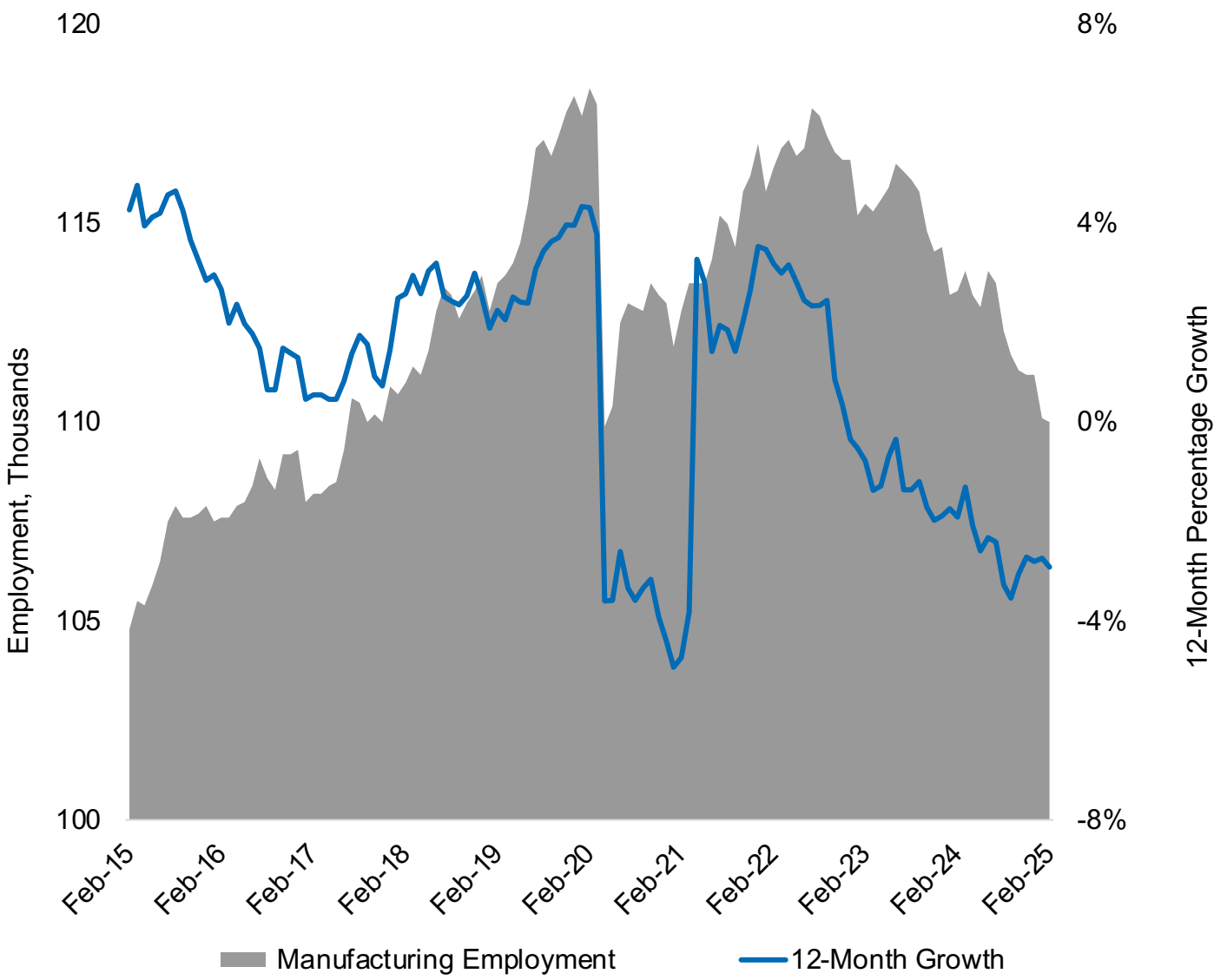
# Trade/Transportation/Utilities Jobs Stabilize While Manufacturing Declines

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



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# Otay Mesa Annual Trade Volume Sets a New Record



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



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# Leasing Market Fundamentals and Sales Activity

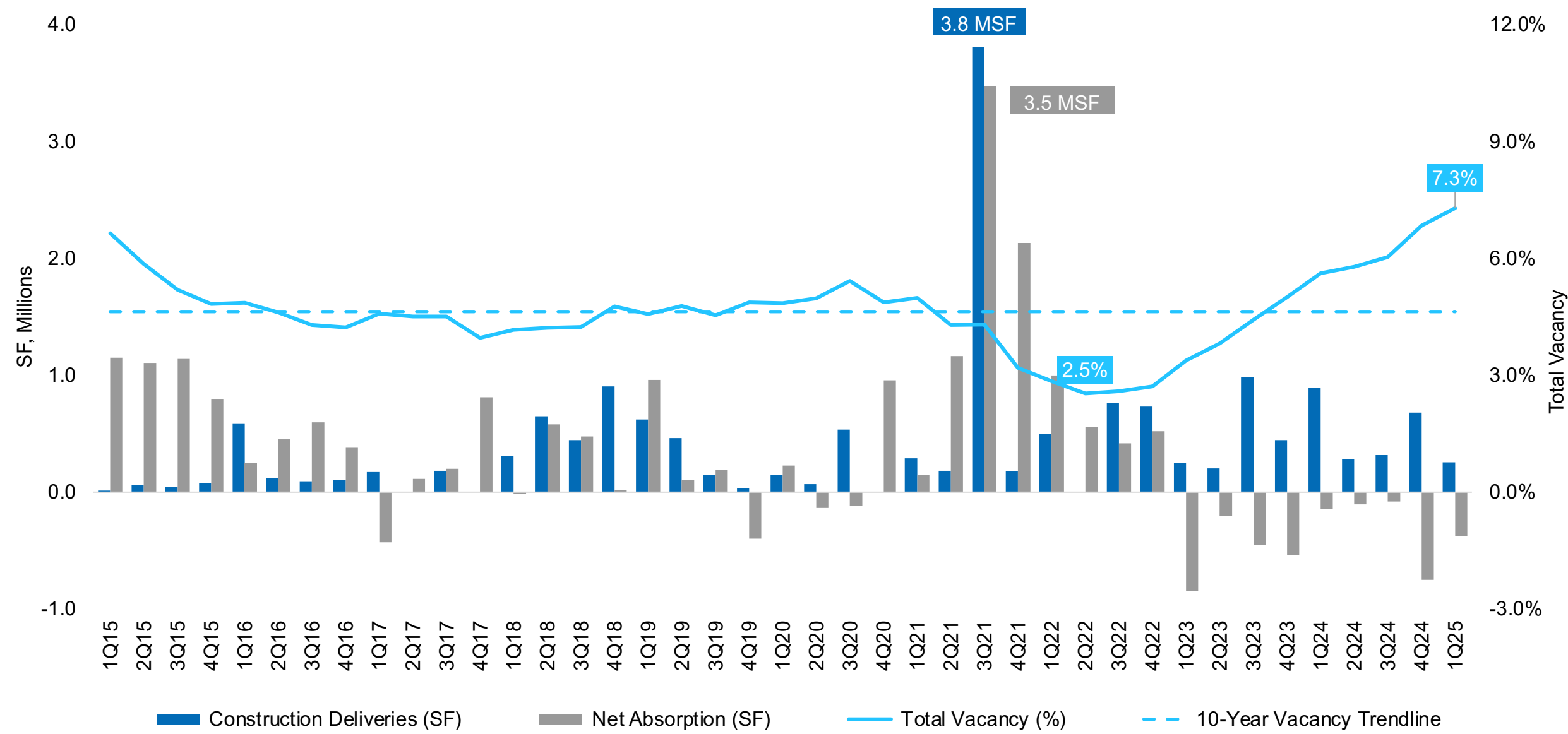




# Vacancy Has Climbed Steadily Since 2022

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

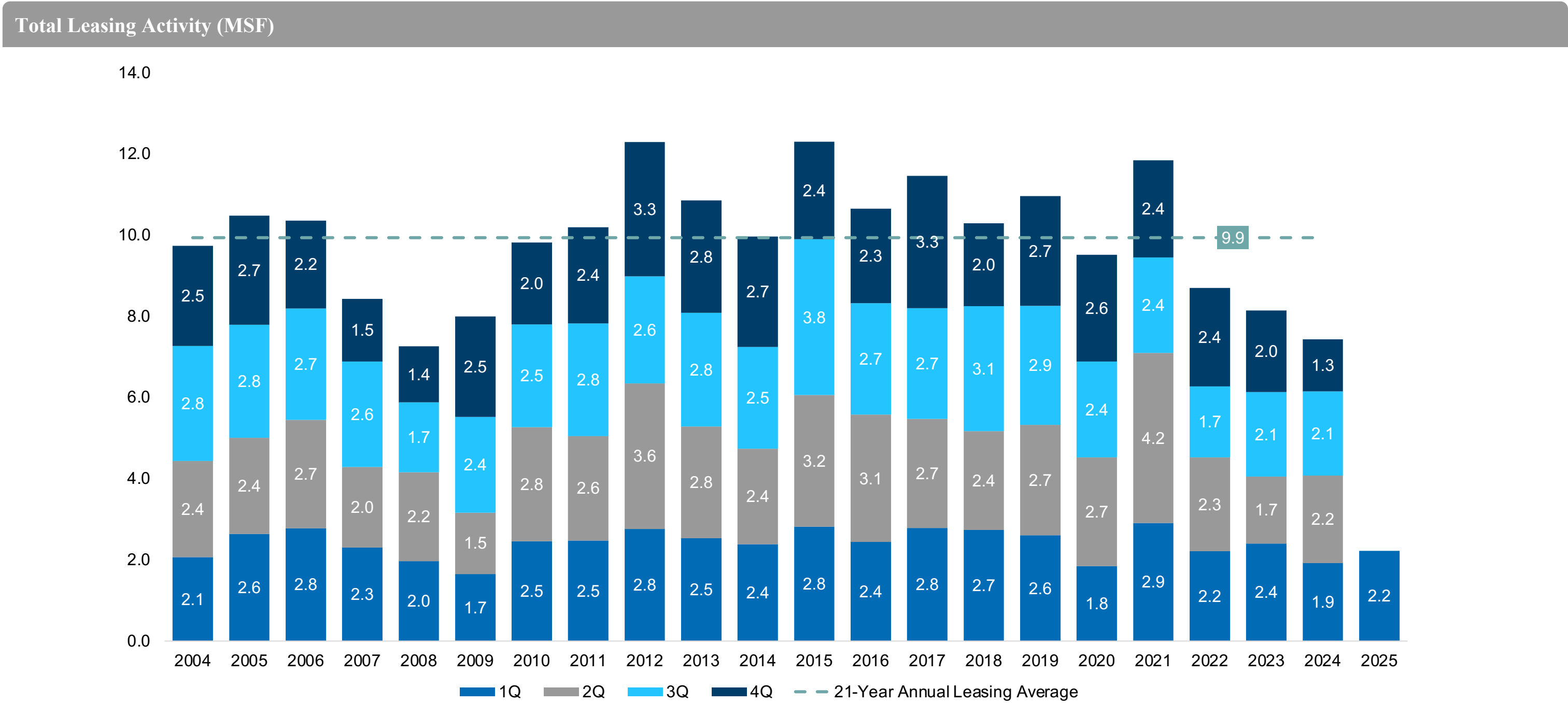


Source: Newmark Research



# 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.

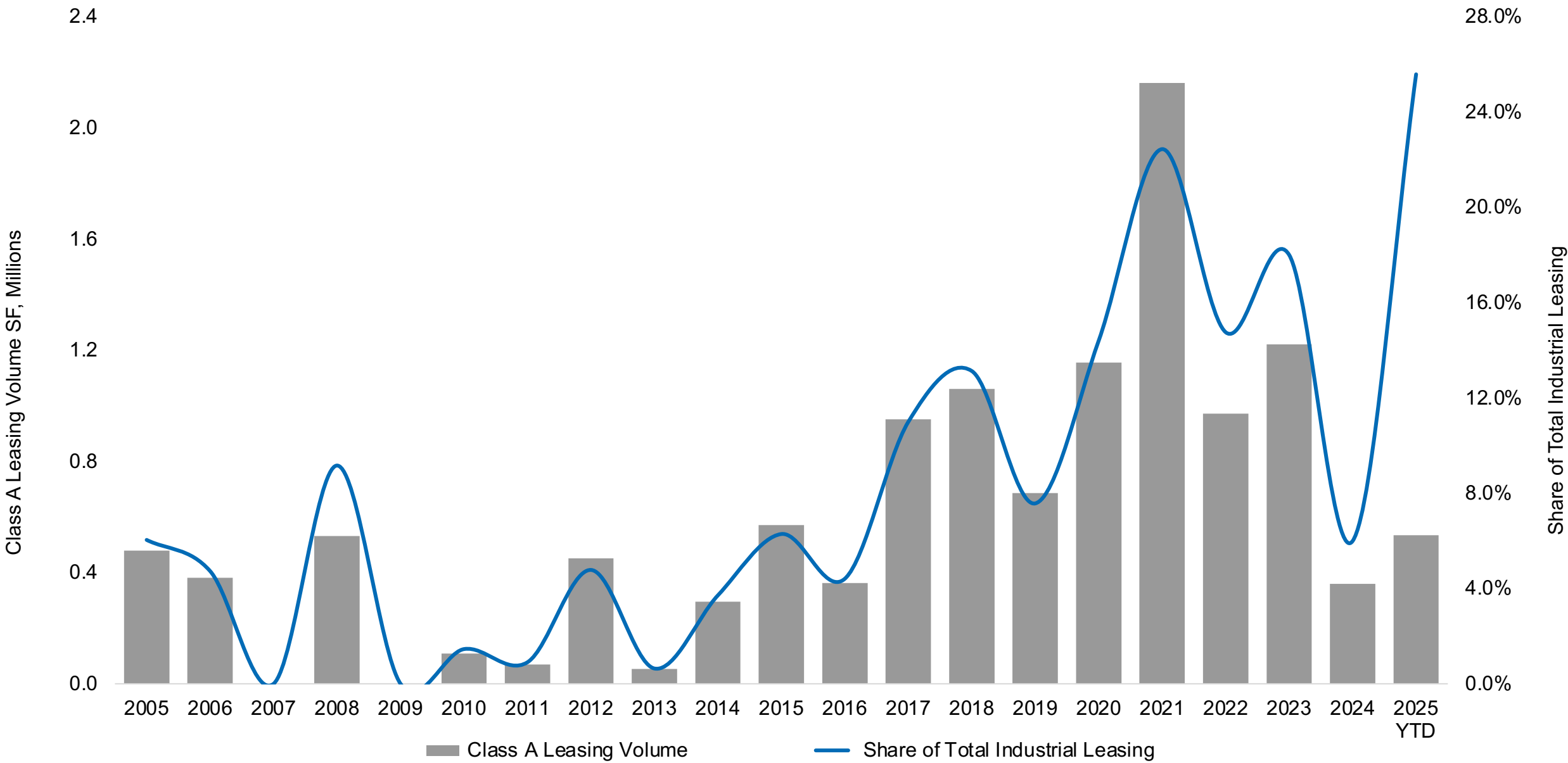


Source: Newmark Research, CoStar

# 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

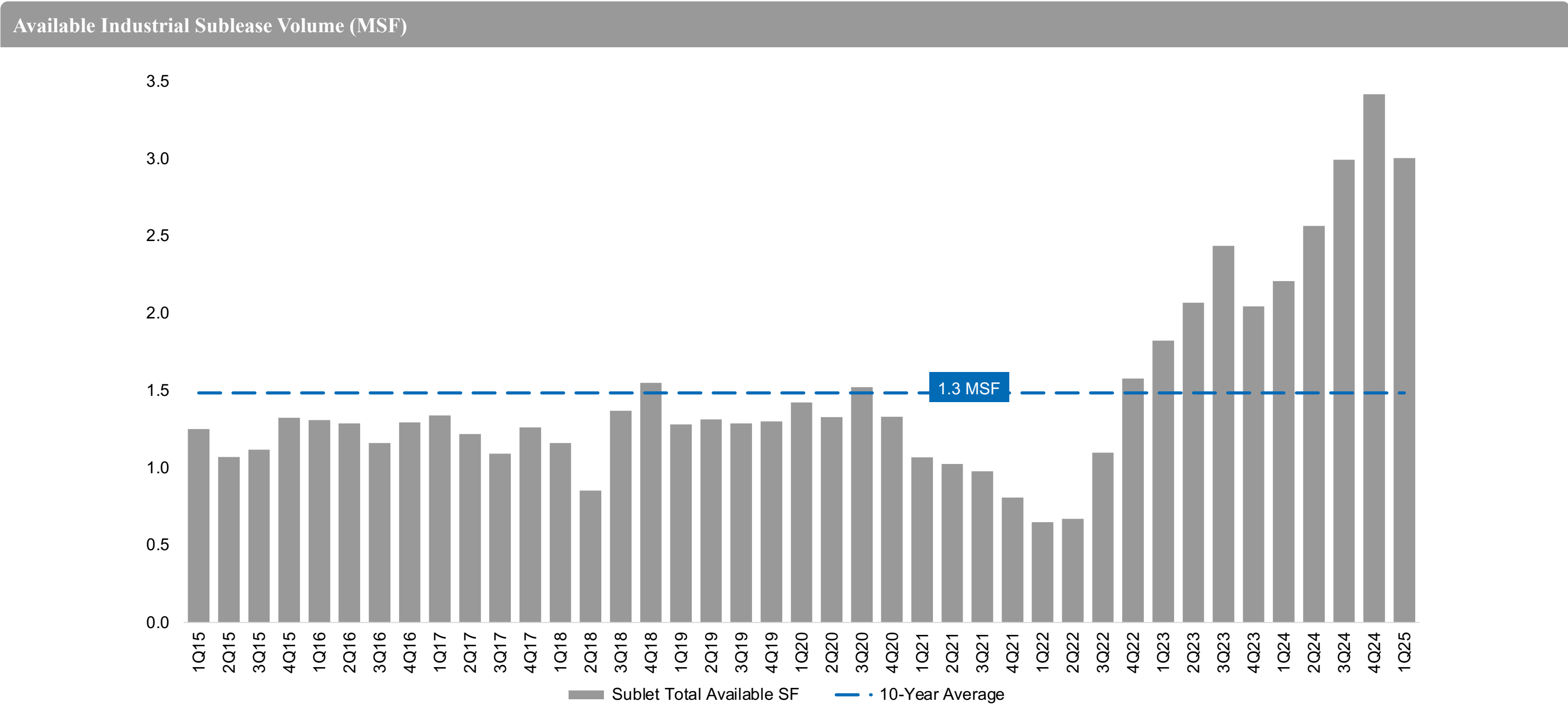


Source: Newmark Research, CoStar  
Note: Class A is defined as 100,000+ SF warehouse/distribution facilities constructed since 2000 with a 30'+ minimum interior ceiling height. Industrial leasing does not include flex product.



# 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.

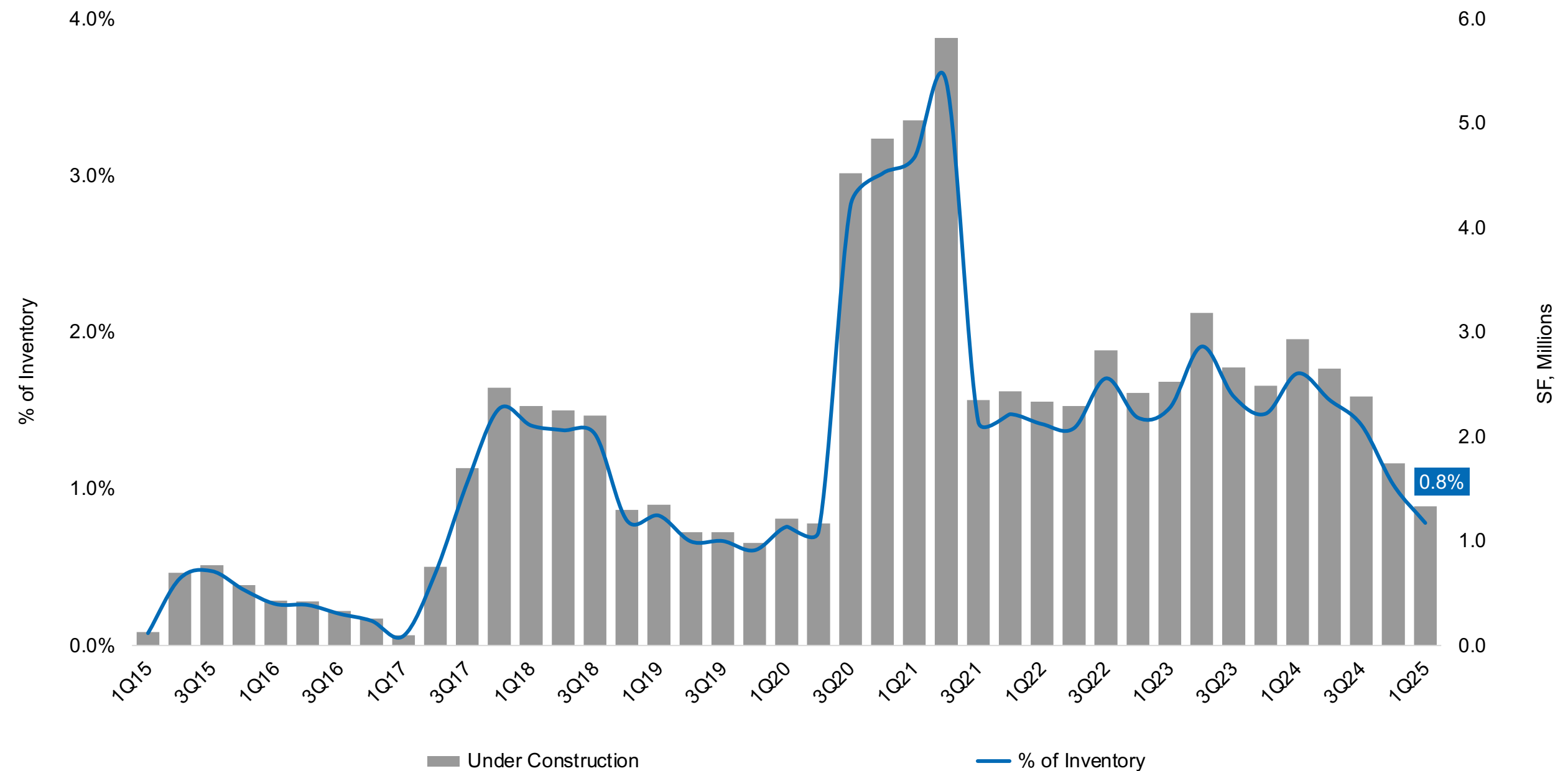


Source: Newmark Research, CoStar

# 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



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# New California Bill Adds Regulations on Warehouse Development in the State

A low-angle, upward-looking shot of a modern building's interior or exterior structure. The image features a complex network of steel beams and girders forming a grid-like pattern. Large glass panels are visible, reflecting light and creating a bright, airy atmosphere. The perspective draws the eye towards the top of the frame, emphasizing the height and scale of the architecture.

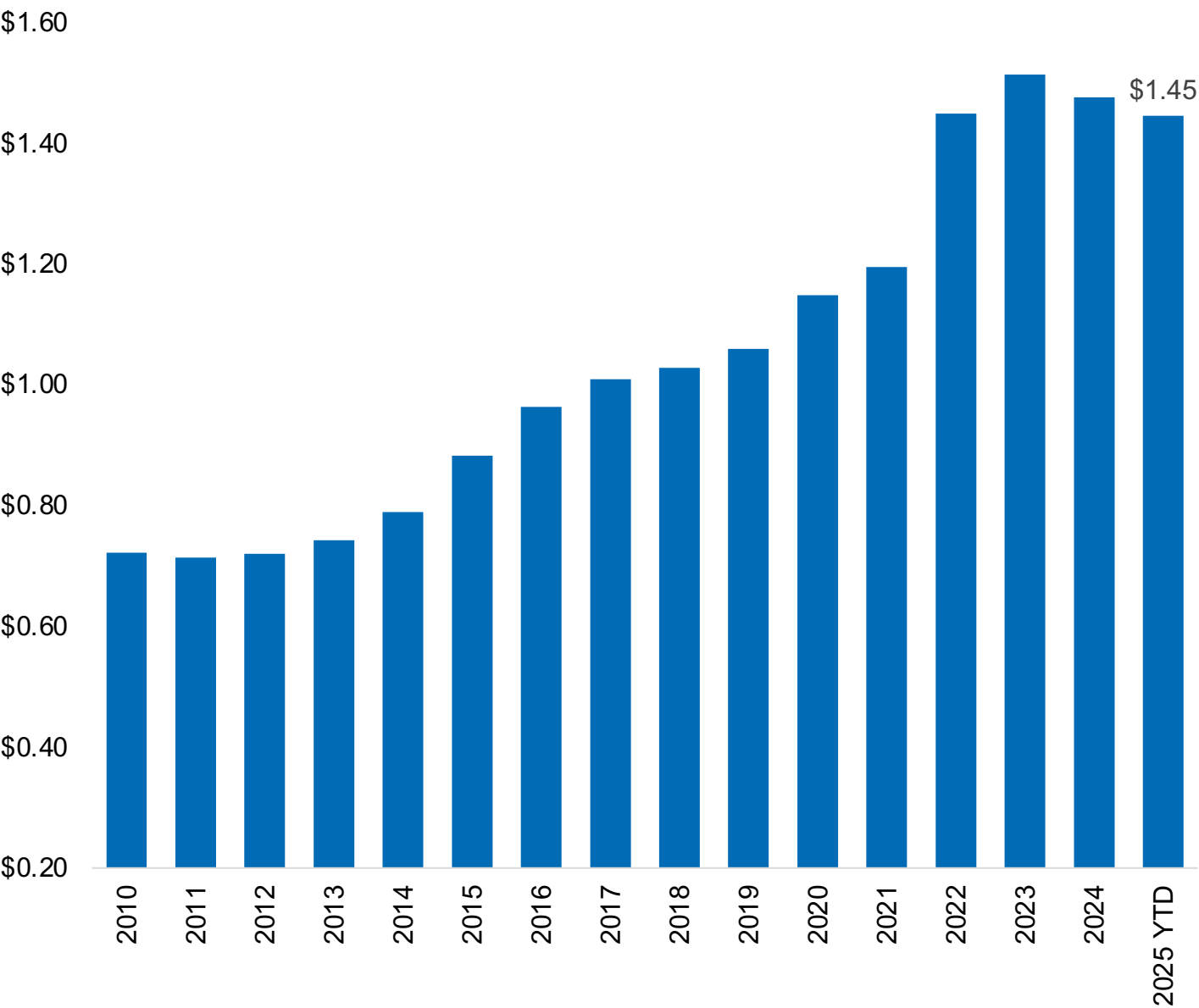
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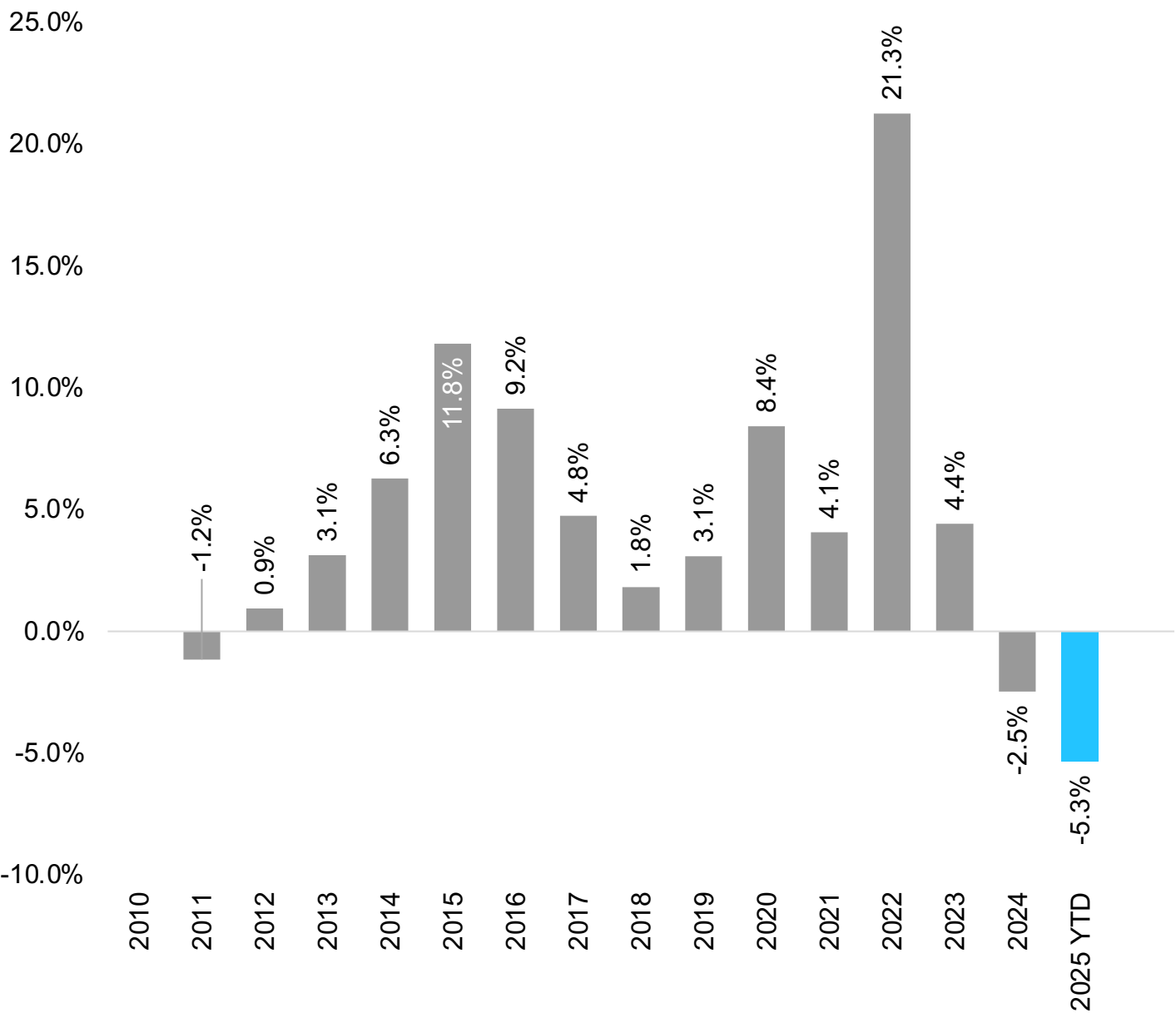
# Asking Rents Start to Decline

The slowdown in leasing activity and rising vacancy has caused asking rents to dip to \$1.45/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



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## Average Lease Sizes Have Declined Amid Lower Leasing Volume

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# Industrial Sales Volume Declines From Recovery Highs



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## Private Buyers Only Active Investors During First Quarter



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# Submarkets





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



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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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## Sublease Availability is Spread Across the Region



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