



NEWMARK

San Diego:
Industrial Market Overview

1Q26

San Diego Industrial Market Observations



Economy

- Local unemployment was 4.4% in December 2025, up 20 basis points year-over-year. The release of more recent labor market data was delayed due to a partial federal government shutdown in January.
- Total nonfarm employment increased by only 2,400 jobs over the past year, and office-using employment continued its years-long retreat. Over the past year the trade, transportation and utilities sector has lost 2,300 jobs, while manufacturing has lost 1,600 positions.
- The value of all imports and exports passing through the Otay Mesa Port of Entry over the past 12 months totaled \$59.1 billion, down 7.0% over the past year.
- The Federal Reserve was expected to enact another 25-basis-point cut in 2026, but the war with Iran has created uncertainty over oil prices and inflation, leaving a potential cut in doubt.



Leasing Market Fundamentals

- Total vacancy rose 30 basis points to 7.6%, down slightly from the recent high of 7.7% in the second quarter of 2025. Vacancy has climbed from 2.5% in the second quarter of 2022 as new deliveries outpaced demand, but the market is now approaching equilibrium with positive absorption.
- Net absorption totaled 594,204 SF this quarter after a fully leased 1.1-MSF Amazon facility delivered, offsetting smaller move-outs. Absorption has been positive for three-straight quarters.
- Under construction activity fell to 907K SF, down from 2.0 MSF in the previous quarter and the lowest quarterly total since 2017.
- The average asking rent fell to \$1.41/SF NNN, down 2.6% over the past year, the fifth quarter of consecutive decreases.



Major Transactions

- Furniture manufacturer Martin Home Furnishings renewed its lease for its 115,000-SF headquarters on Britannia Boulevard in Otay Mesa.
- Electronics manufacturer Bose extended the lease for its 112,000-SF imports warehouse in Otay Mesa.
- H.G. Fenton made the largest acquisition of the quarter, paying \$74.2 million to acquire 16 buildings in Kearny Mesa totaling 211,000 square feet.
- Realty Income Corp purchased a 134,000-SF warehouse in Poway that is fully leased to Liberty Packaging for \$43.3 million.



Outlook

- While rents have been trending down, three consecutive quarters of positive absorption and a slower pace of construction have set the stage for stabilization and eventual rent growth.
- Uncertainty over tariffs and trade policies, and the resulting decrease in imports and exports, have led many occupiers to delay real estate decisions. The Supreme Court's decision invalidating the Trump administration's "economic emergency" tariffs removed one regulatory barrier, but the subsequent 150-day, 10% global tariff introduced under Section 122 has kept trade costs and policy uncertainty elevated in the near term.
- Trade, transportation and utilities jobs had already been in decline before the war with Iran caused diesel prices to spike. The higher cost of shipping will put renewed emphasis on location, making strategically situated logistics centers – especially those located near the international border – more appealing to importers and distributors.

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Economy

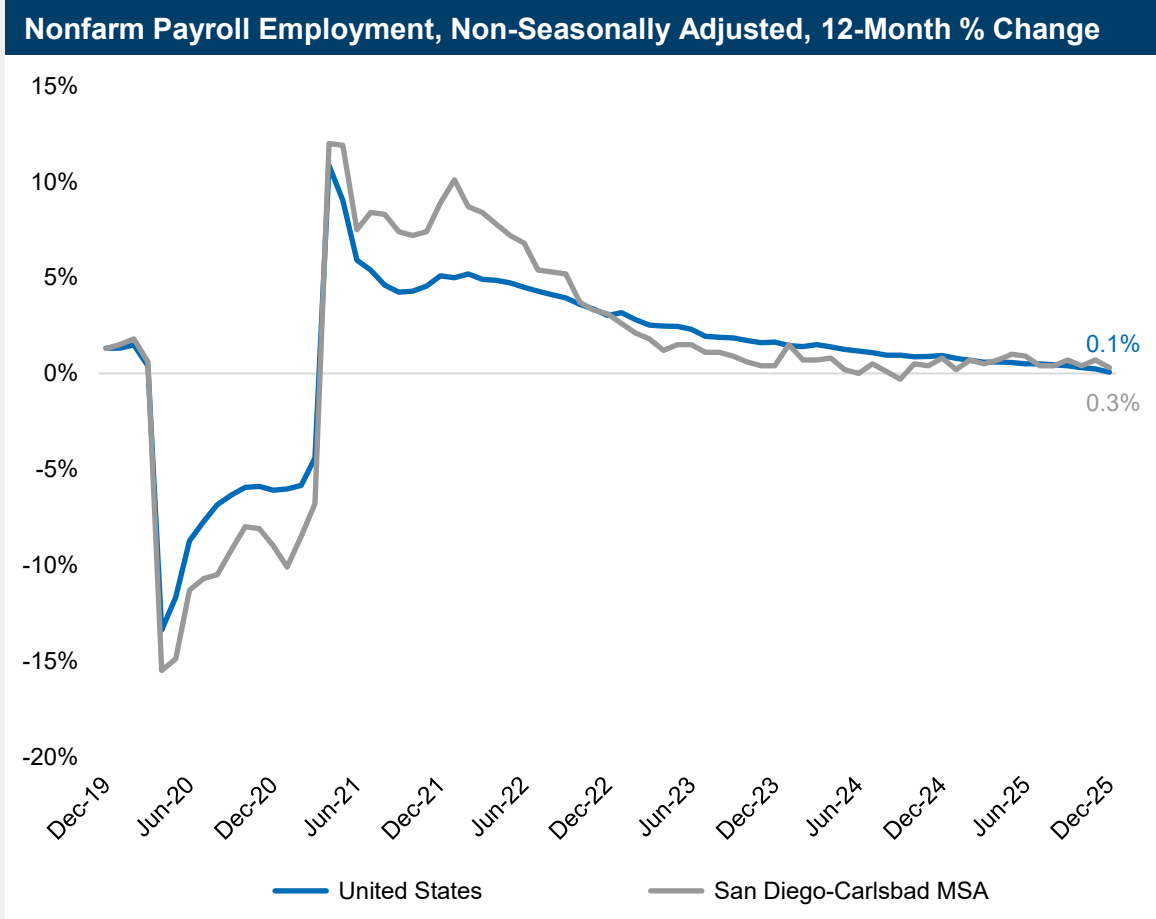
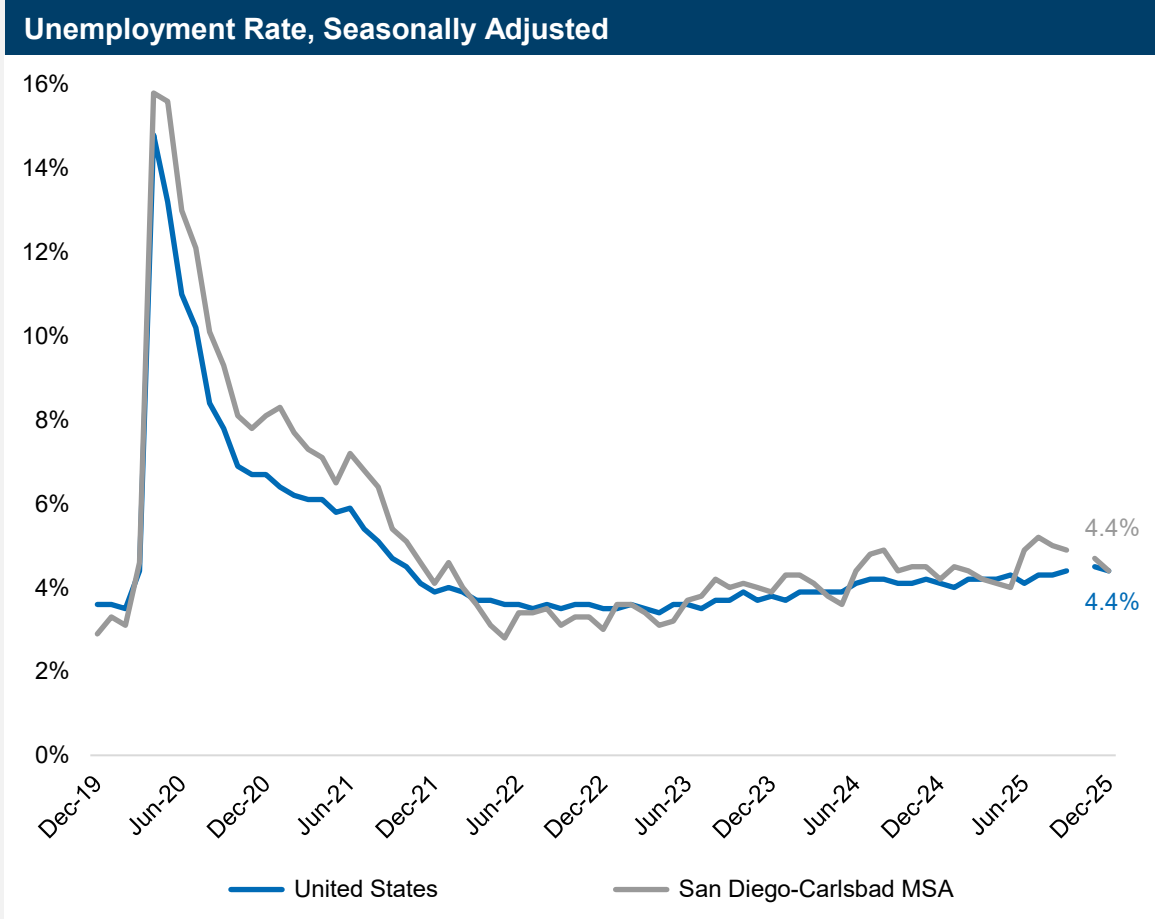
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Unemployment Trends Higher as Job Growth Has Slowed

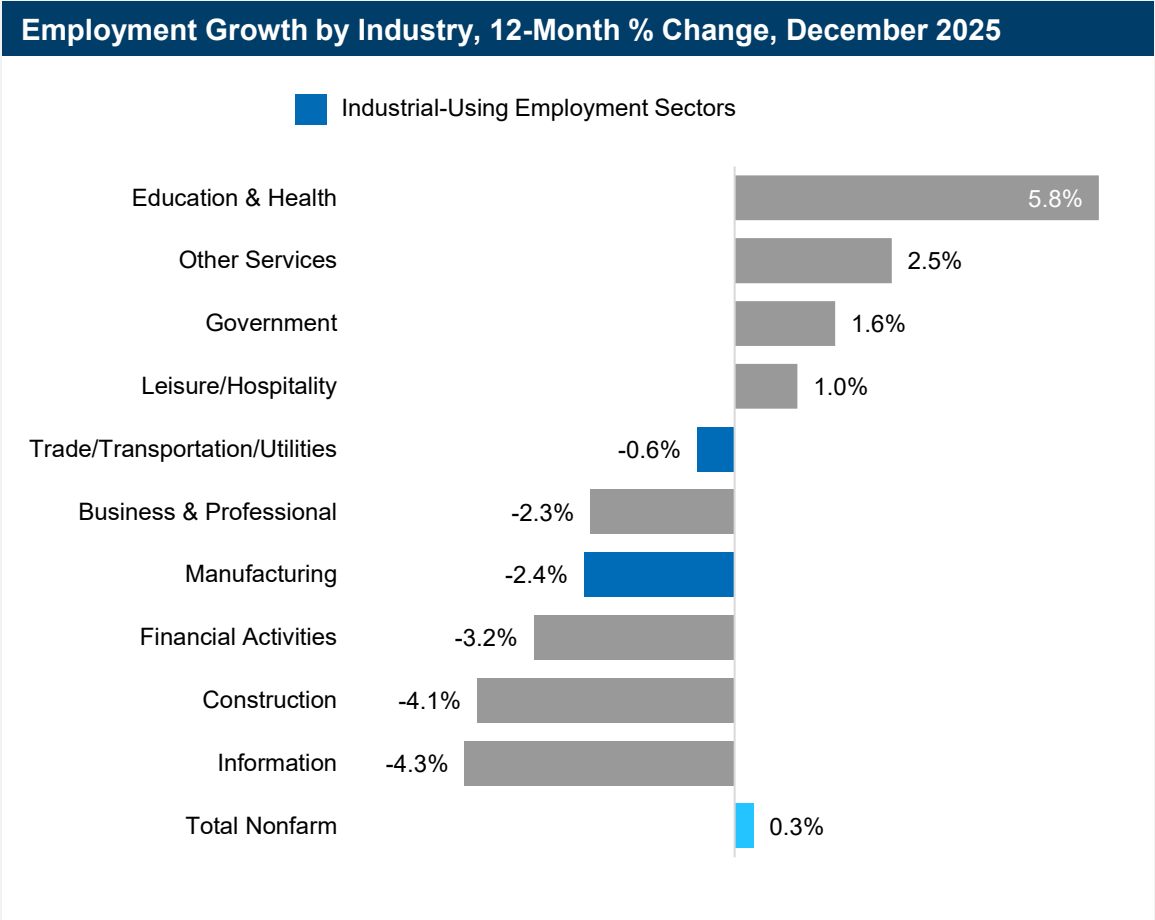
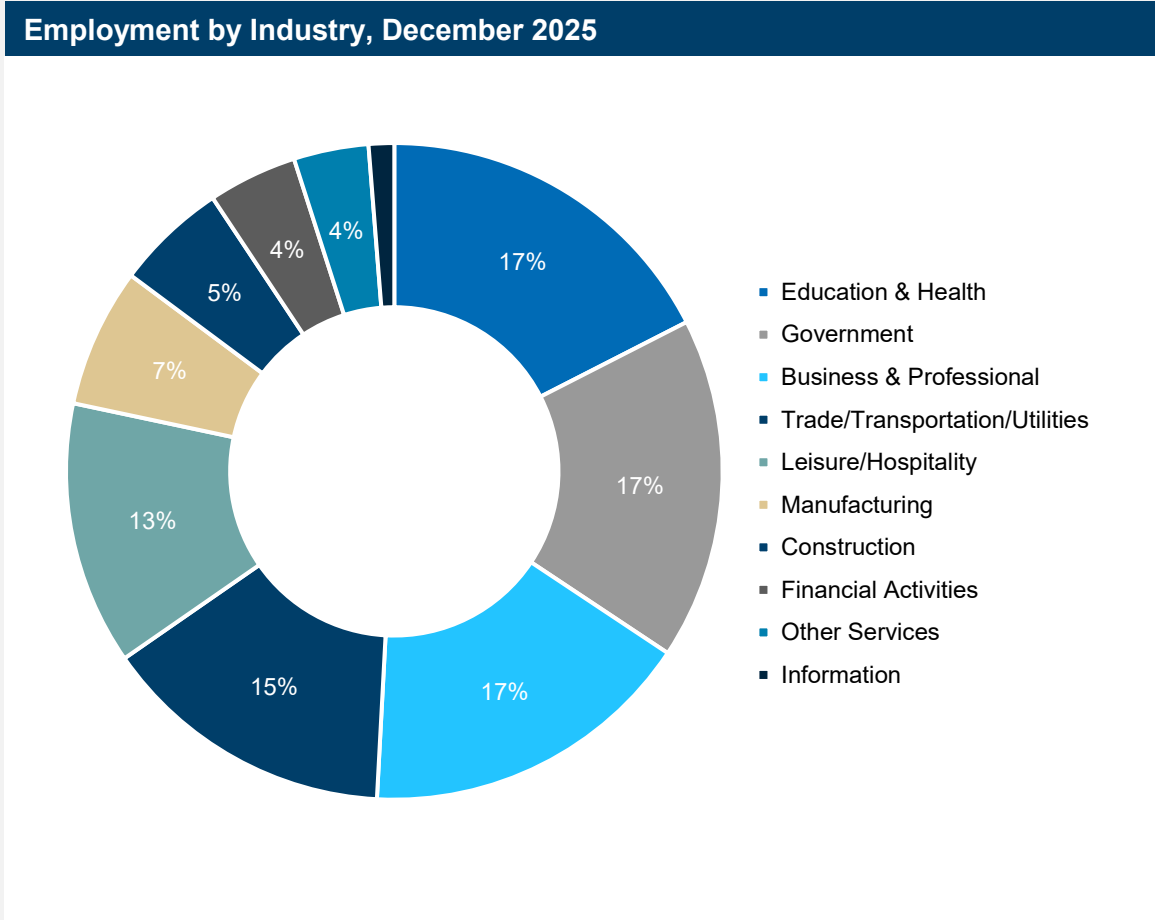
Federal government shutdowns in recent months are affecting the release of timely labor market data. The local unemployment rate was 4.4% in December 2025, up 20 basis points over the past year. The local and national unemployment rates have risen gradually since 2021. During the past year total nonfarm employment posted minimal gains: employers reported an additional 2,400 jobs, representing annual growth of 0.3%.



Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA
 Note: Local employment statistics for October 2025 were unavailable due to the federal government shutdown. 2026's figures are delayed.

Manufacturing Jobs Shrink, Trade/Transportation/Utilities Stall

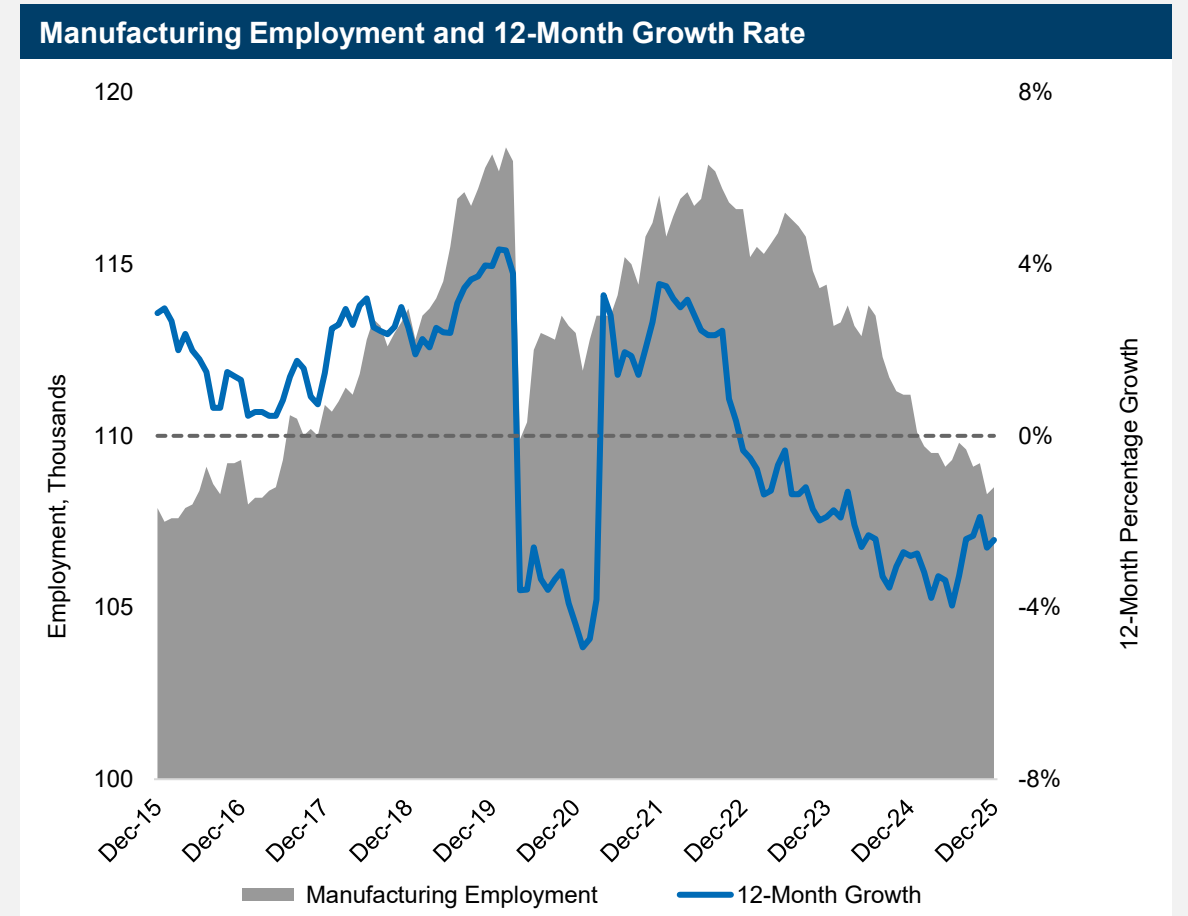
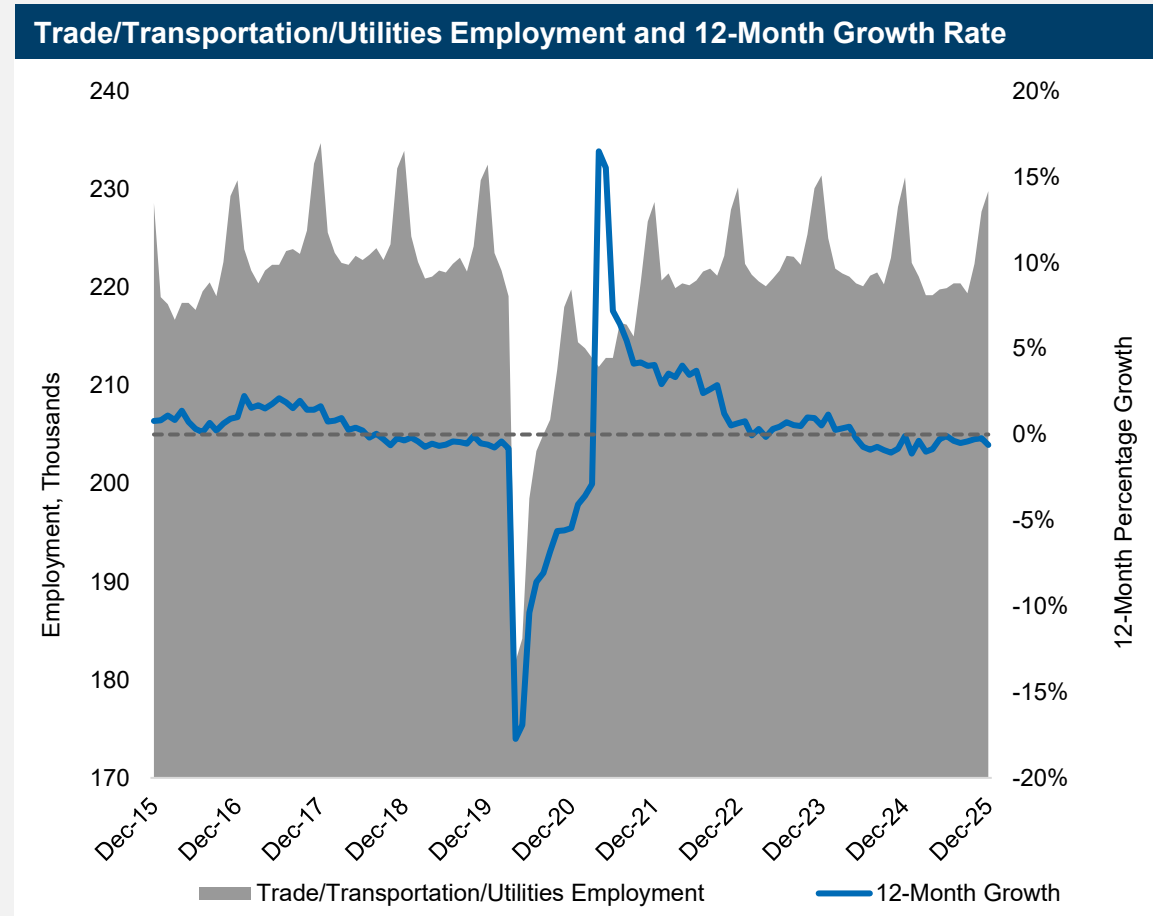
Industrial-using job sectors contracted over the past year; manufacturing shed 1,600 jobs since December 2024 and trade, transportation and utilities jobs declined by 2,300. Job growth over the past year has largely been driven by education and health services, the largest employment sector, which added 14,900 jobs.



Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA
 Note: Local employment statistics for October 2025 were unavailable due to the federal government shutdown. 2026's figures are delayed.

Trade/Transportation/Utilities Stabilize While Manufacturing Near 5-Year Low

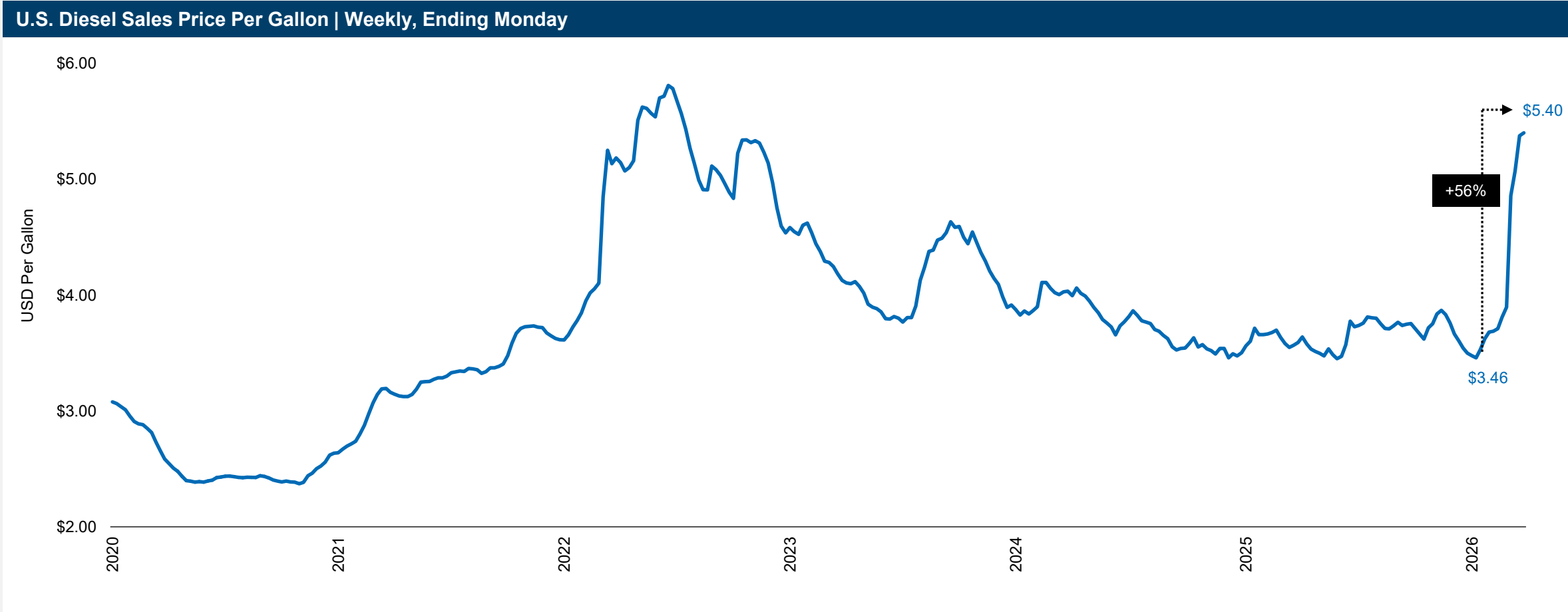
Trade/transportation/utilities (TPU) employment is at similar levels to the period before the pandemic when accounting for seasonal cycles. As of December 2025, the number of TPU jobs was down 0.6% over the past year. Manufacturing employment peaked at 118,400 jobs in February 2020 before dropping significantly during the pandemic. The manufacturing sector bounced back temporarily during the post-pandemic recovery but has since fallen by 8,300 jobs compared to the all-time high.



Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA
 Note: Local employment statistics for October 2025 were unavailable due to the federal government shutdown. 2026's figures are delayed.

Diesel Prices Surge Due to Iran War, Increase Drayage Rates

U.S. per-gallon costs increased 56% from first week of January to the final week of March 2026, intensifying cost pressures on carriers and shippers. Roughly 80% of U.S. communities rely exclusively on trucks to deliver their goods, while fuel costs typically represent 20% to 40% of total truck operating expenses. Sustained fuel price spikes can materially compress margins and raise shipping rates.



Source: Newmark Research, U.S. Energy Information Administration
Note: Fuel prices are likely to remain elevated and volatile as long as the Iran conflict continues to disrupt oil supply routes; a sustained moderation would depend on credible steps toward de-escalation and reopening key shipping lanes, which remain highly uncertain

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Market Fundamentals

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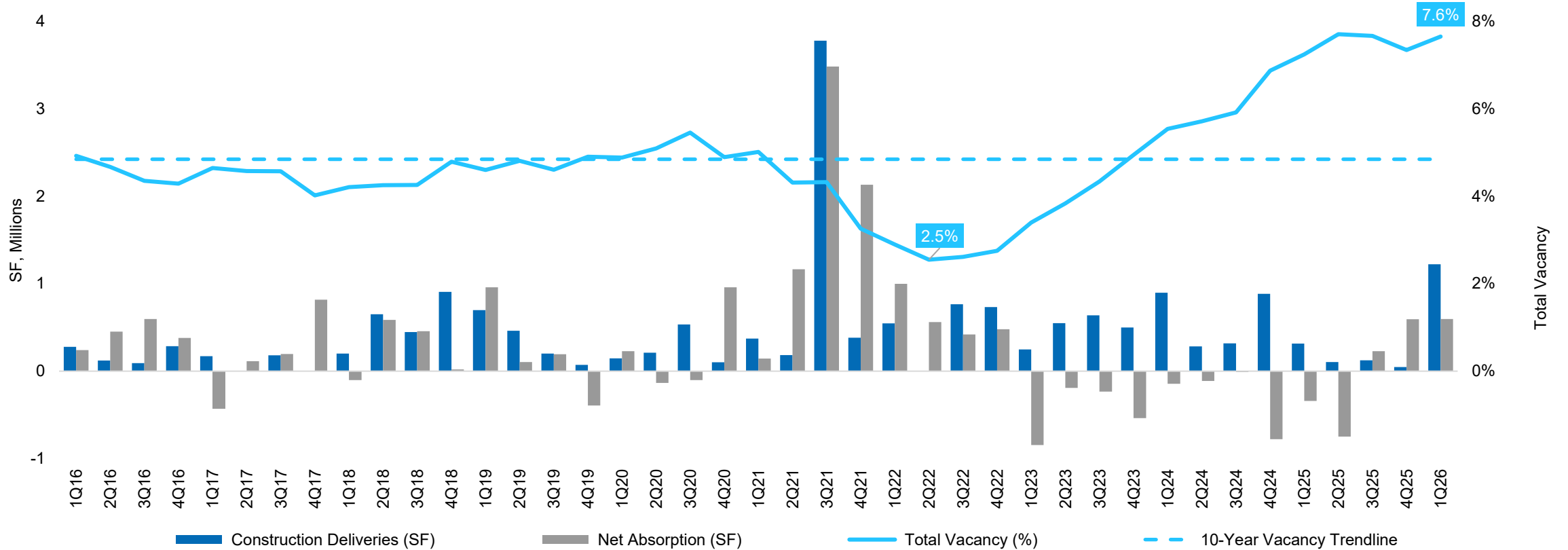
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Vacancy Has Stabilized as Net Absorption Turns Positive

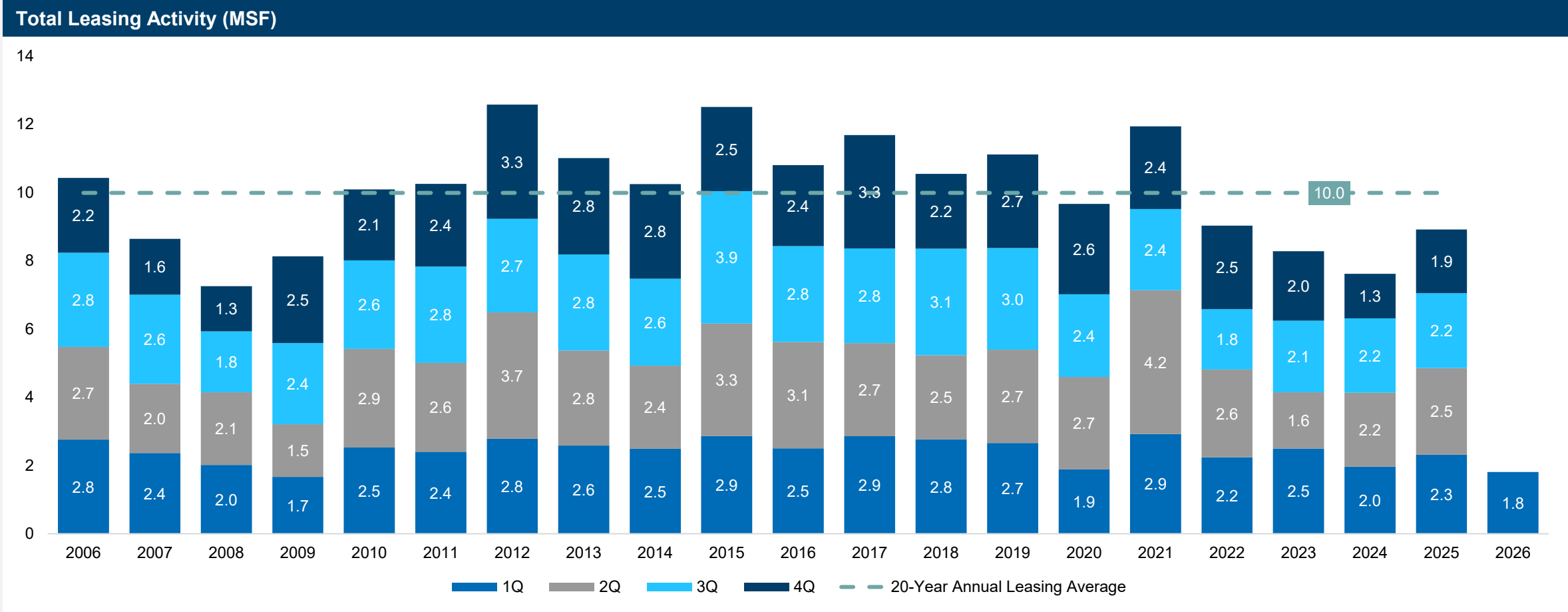
Total vacancy edged up to 7.6% in the first quarter of 2026, from the prior cyclical low of 2.5% reached in the second quarter of 2022. Leasing activity has downshifted from the post-pandemic boom, while roughly 12.9 MSF of new deliveries since 2021 have allowed supply to outpace demand. With construction starts now moderating and the latest quarter posting positive net absorption, the market appears to be moving from an oversupplied phase toward gradual stabilization.

Historical Construction Deliveries, Net Absorption, and Vacancy



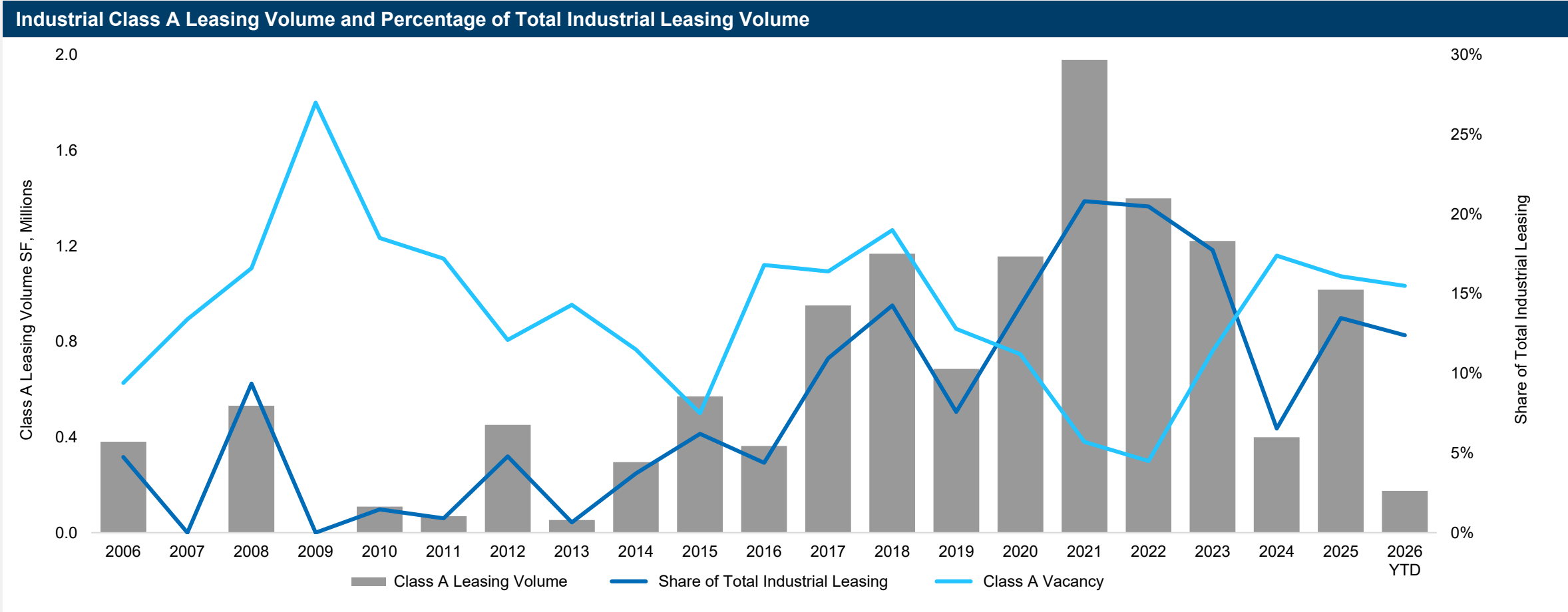
Industrial Leasing Activity Rebounds From Three Years of Decline

Leasing activity steadily dropped for three years after experiencing robust activity in 2021, as economic uncertainty from high interest rates and inflation led many businesses to scale back operations. Inflation, in particular, has slowed retail sales growth. In 2025, leasing activity totaled 8.9 MSF, up 17.1% over 2024. Leasing activity was muted during the first quarter of 2026, logging only 1.8 MSF, 20.2% lower than the quarterly average over the past five years.



Class A Leasing Recovers From Slump

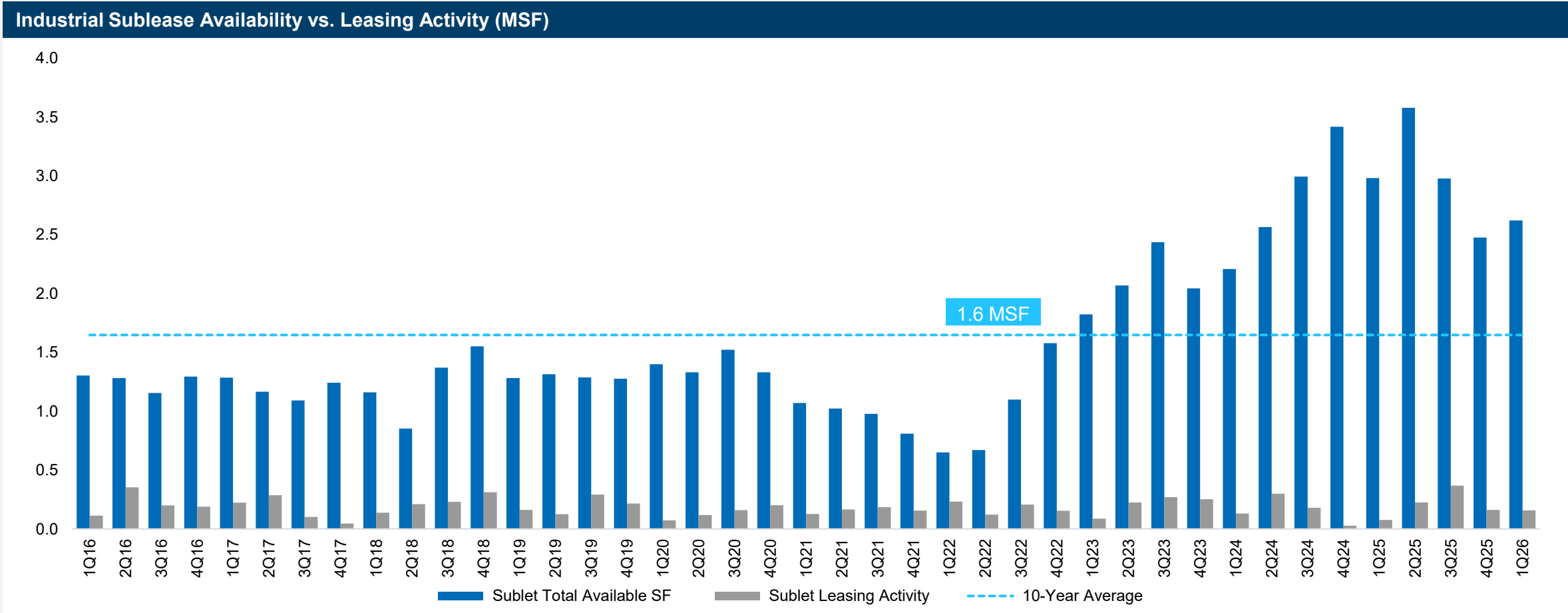
Class A leasing bounced back in 2025 after 2024 recorded the lowest level of activity in eight years. The first quarter of 2026 logged 175,000 SF of Class A leasing, reflecting slower demand in step with a cooling construction pipeline. San Diego’s Class A inventory and demand grew rapidly during the heyday of super-sized distribution facilities, and Amazon’s large leases in Otay Mesa have accounted for the majority of Class A activity since 2021.



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 Remains Elevated While Sublease Deals Remain Low

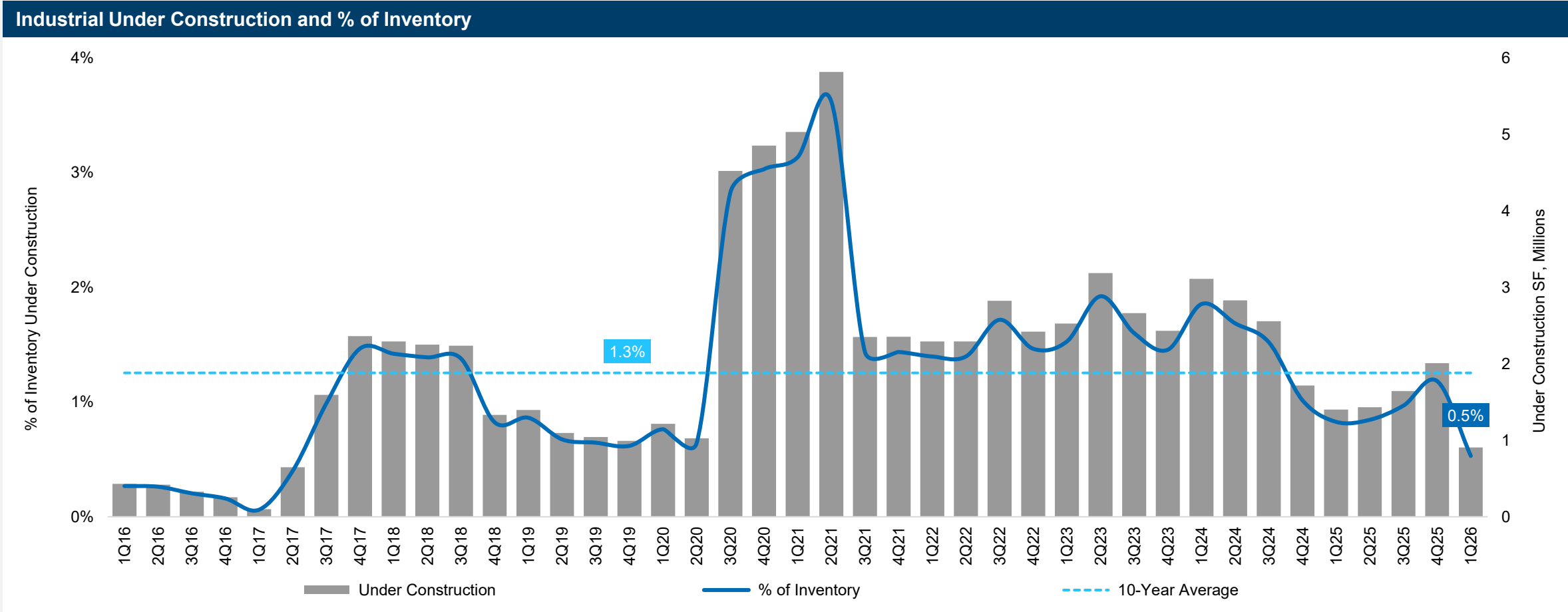
Sublease rose slightly to 2.6 MSF in the first quarter, down from last year’s all-time high but still higher than the 10-year average, largely due to a massive increase of sublease space in the tech-oriented submarket of Rancho Bernardo. Sublease listings bottomed out in 2022 during the surging demand for industrial space during COVID and have increased steadily over the past three years as demand fell. Despite the abundance of options, the amount of sublease transactions remains low.



Source: Newmark Research, CoStar

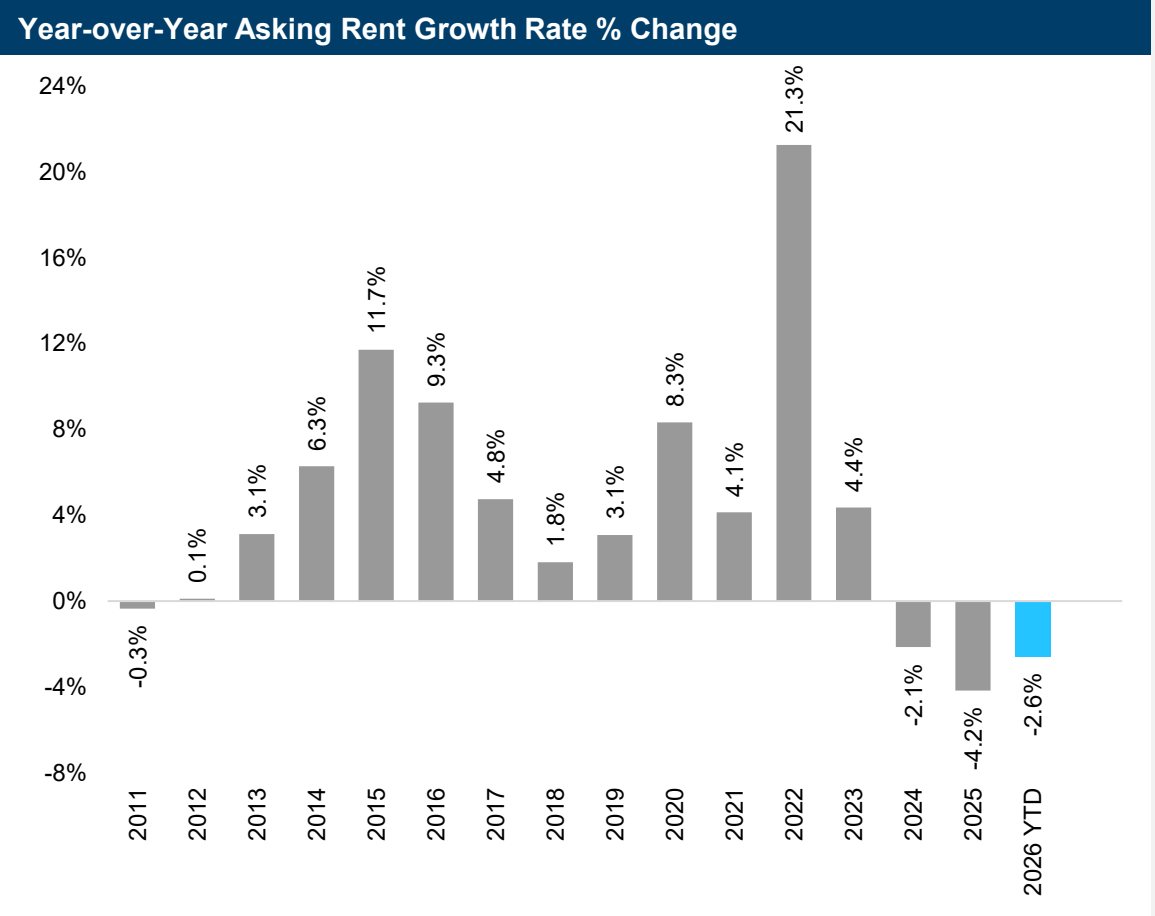
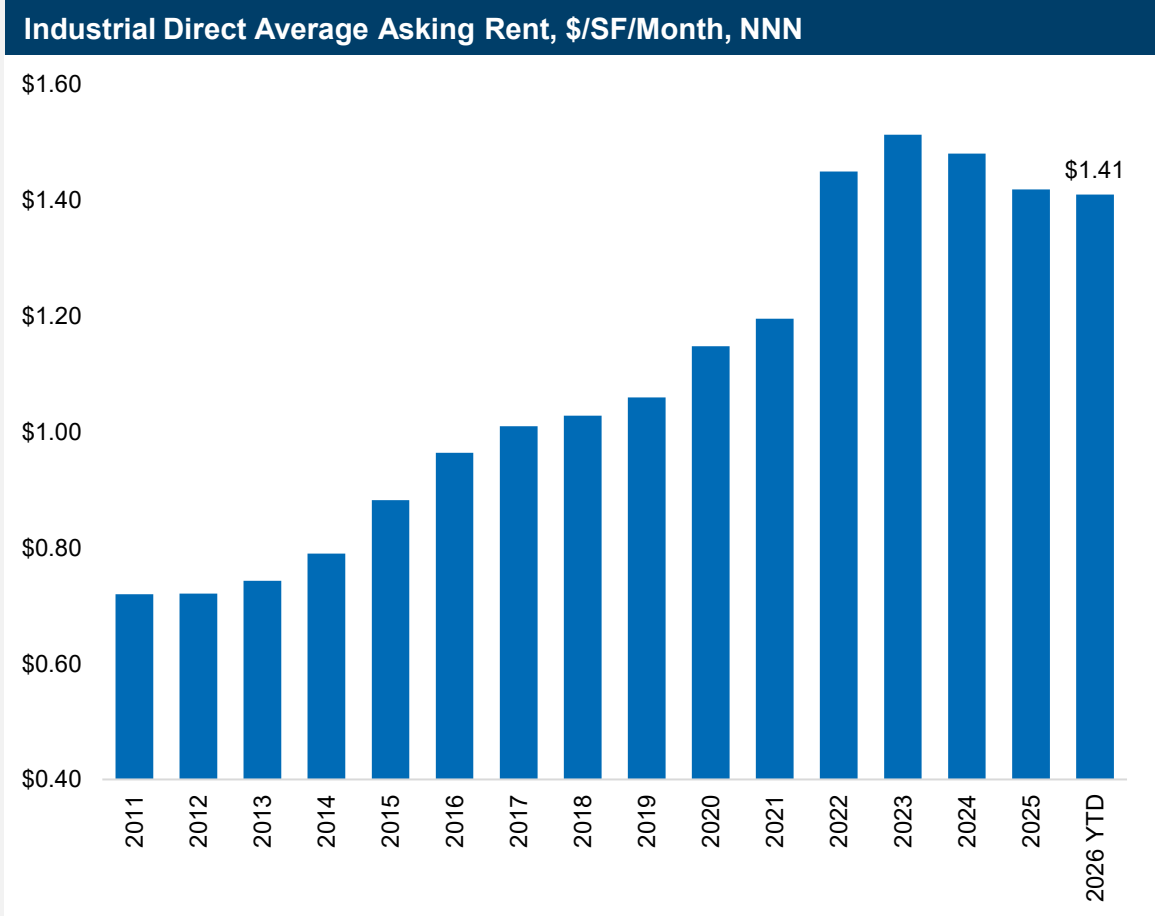
Development Pipeline Scaling Down

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 Otay Mesa. Since then, the pipeline has steadily declined as developers have scaled back on speculative projects. After Amazon’s latest 1.1 MSF distribution facility delivered in the first quarter of 2026, construction levels fell to 907K SF, equivalent to 0.5% of existing inventory and well below the 10-year average of 1.3%.



Asking Rents Gradually Decline

Rising vacancy has caused asking rents to dip to \$1.41/SF in the first quarter, down 2.6% over the past year. This follows a 4.2% annual decline over the course of 2025. Both rent growth and construction activity spiked in 2022 when economic disruptions caused by the pandemic resulted in record demand for modern industrial space, but the market is now undergoing a downward correction.



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

Notable Lease Transactions Across the County

The largest leases of the quarter were all renewals or extensions in the major industrial submarkets of Otay Mesa and Carlsbad. Martin Home Furnishings and Republic Moving both renewed leases for their respective headquarters in Otay Mesa, and SMAC renewed its headquarters located in Carlsbad.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Martin Home Furnishings	2345 Britannia Blvd	Otay Mesa	Renewal	115,510
<i>San-Diego-based furniture company renewed its headquarters location in Otay Mesa.</i>				
Bose	8863 Siempre Viva Rd	Otay Mesa	Lease Extension	112,430
<i>Electronics manufacturer extended the lease for its import warehouse for 37 months.</i>				
Republic Moving	8140 Saint Andrews Ave	Otay Mesa	Renewal	77,154
<i>Moving and storage company renewed the lease for its headquarters.</i>				
Laird Technologies	2091 Rutherford Rd	Carlsbad	Renewal	62,381
<i>A subsidiary of DuPont that manufactures engineered materials for electronics renewed its manufacturing facilities in the Carlsbad Research Center.</i>				
SMAC	5807 Van Allen Wy	Carlsbad	Renewal	48,322
<i>Manufacturer of precision electric actuators renewed the lease for its global headquarters.</i>				

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