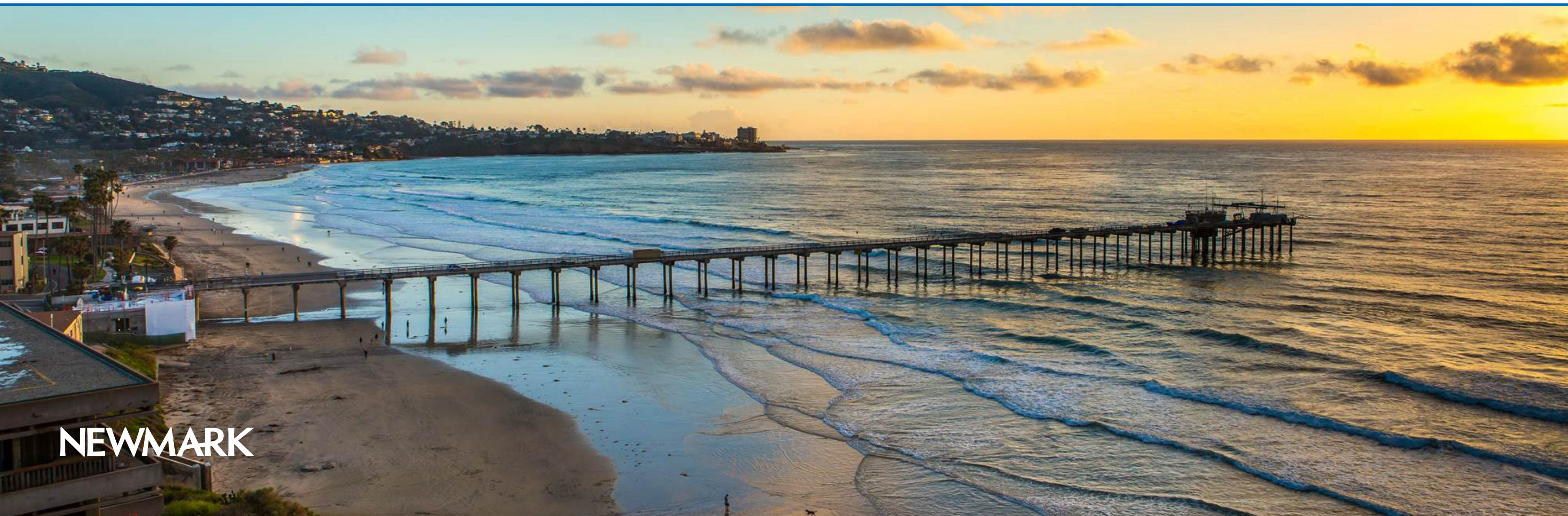


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San Diego Industrial Market Overview



NEWMARK

Market Observations

Economy

- The region’s unemployment rate was 4.0% in May 2025, up 40 basis points over the past year. The metro added 16,200 jobs over the past year, although the number of jobs in industrial-using sectors fell by 4,100.
- The consumer price index for all urban customers in the San Diego metropolitan area was up 3.8% over the past year, down from the record 8.1% annual increase experienced in the first half of 2022.
- Imports and exports at the Otay Mesa port of entry totaled \$62.4 billion over the 12-month period ending May 2025, down slightly from the all-time high set two months earlier. More than 1.0 million commercial trucks passed through the port of entry during this time, transporting more than 1.3 million loaded containers.

Major Transactions

- CenterPoint Properties, a subsidiary of CalPERS, made the largest acquisition of the quarter, purchasing the fully leased distribution building at 4400 Ruffin Road in Kearny Mesa from LBA Realty for \$80.0 million.
- Parallel Capital Partners acquired the 15-building Rose Canyon Business Park for \$67.0 million from Vertical Ventures. The new ownership plans to spend \$5.0 million renovating the property to appeal to small-bay industrial users.
- LaCantina Doors signed the largest lease of the quarter, renewing its 141,000-SF manufacturing space in Oceanside with landlord BGO.

Leasing Market Fundamentals

- The average asking rent fell to \$1.44/SF NNN, down 4.2% 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%, up 200 basis points over the past year and reaching a 10-year high after 10 consecutive quarters of net absorption losses.
- Net absorption posted 757,735 SF of losses for the quarter, bringing year-to-date net absorption to negative 1.3 MSF.
- Sublet availability climbed to an all-time of 3.6 MSF, driven by 499,000 SF of R&D space being listed for sublease in a Rancho Bernardo tech campus.
- 92,480 SF of new projects delivered, the lowest quarterly delivery volume in three years, as construction activity held steady at 1.4 MSF.

Outlook

- Rents are unlikely to rise in the near term, as rent growth generally trails vacancy trends by at least a year, and the market will need time to absorb the current high vacancy rates.
- New deliveries will have a lesser impact on vacancy going forward now that most of the speculative pipeline has delivered and developers have paused starts on new proposed projects.
- Tariffs with Mexico and other countries that route goods through the U.S.-Mexico border threaten to upend industrial fundamentals in Otay Mesa, the region’s largest industrial submarket that is heavily reliant on international trade.

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

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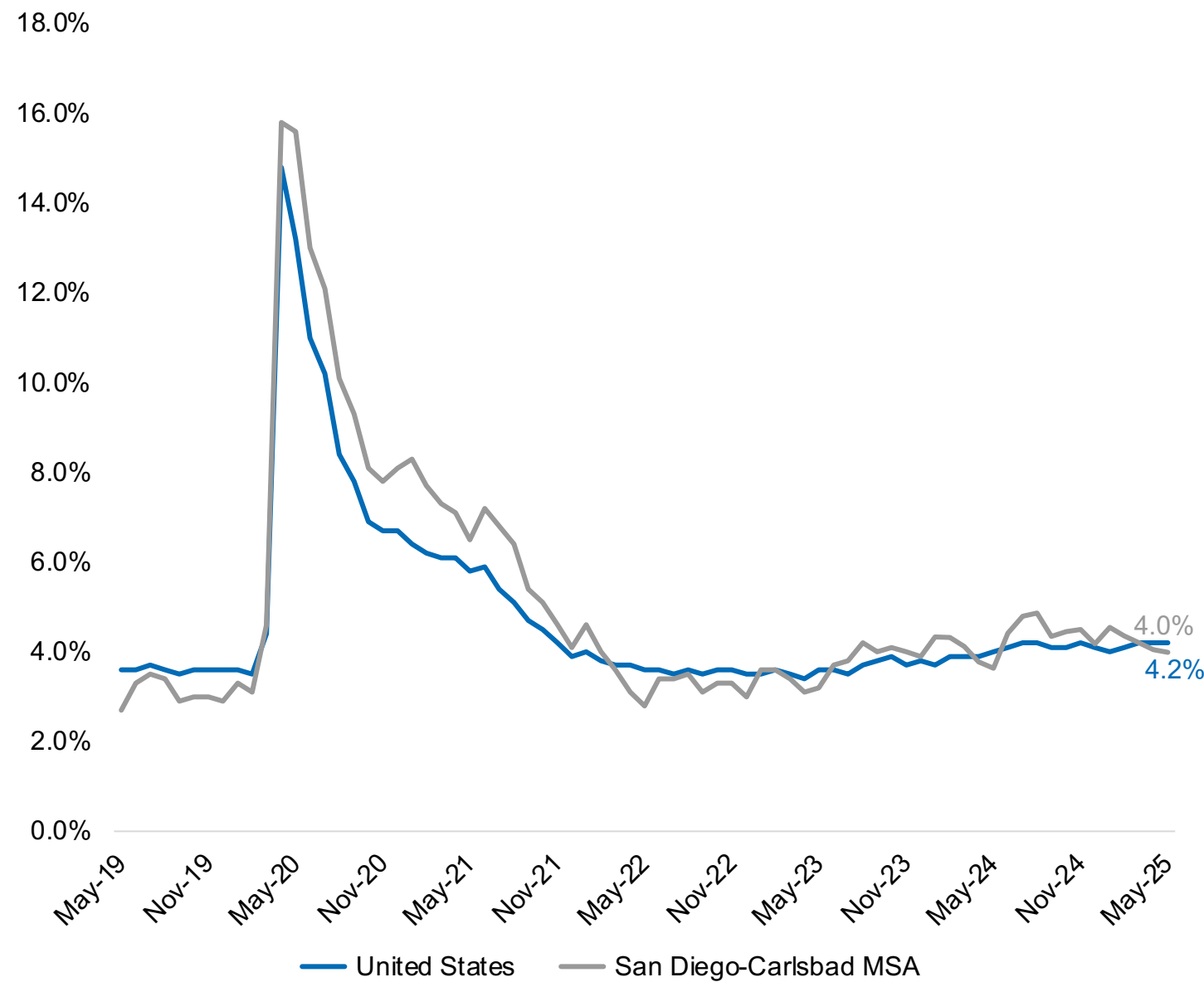
Economy



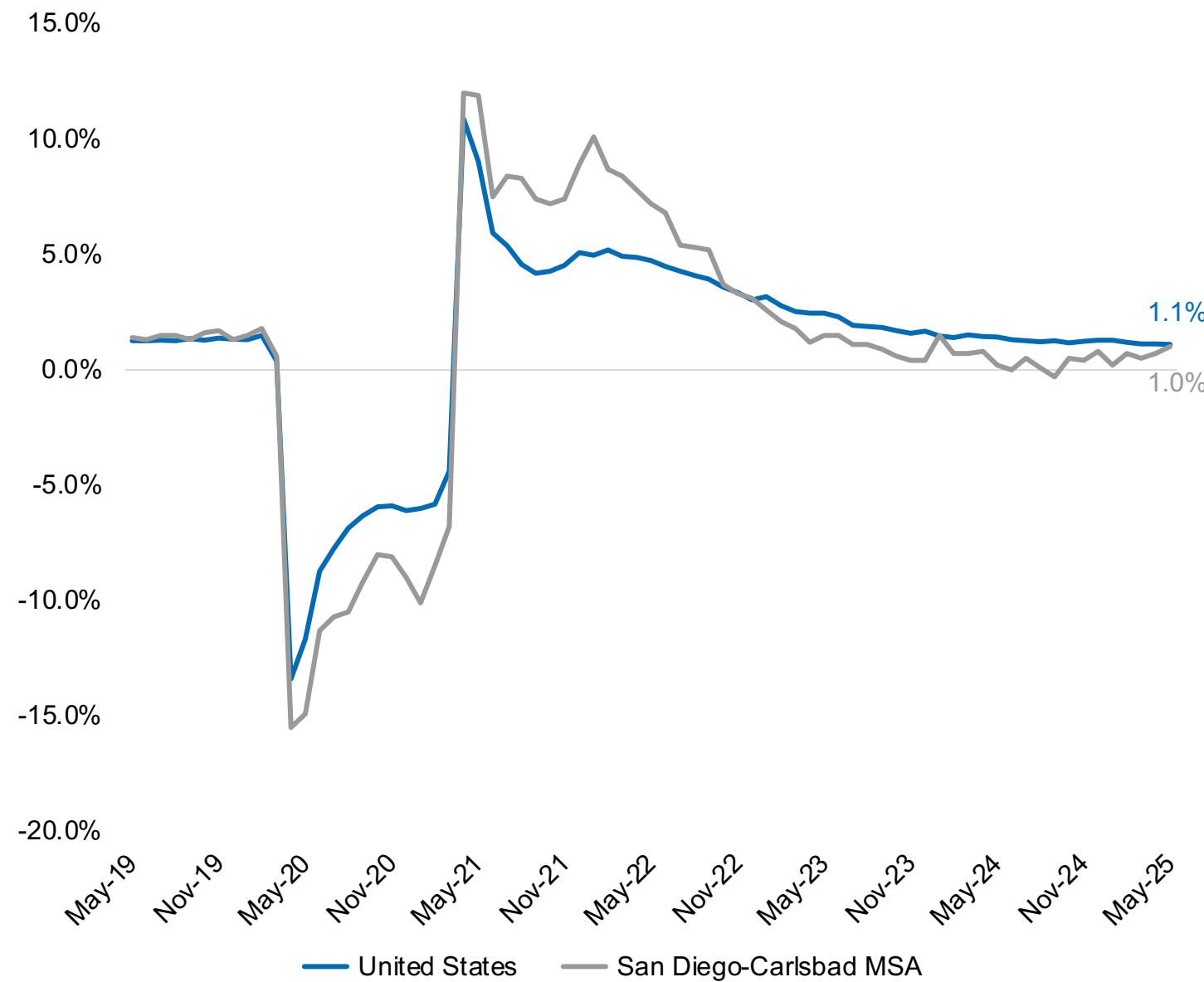
Unemployment Remains Low as Job Growth Slows

The local unemployment rate was 4.0% in May 2025, up 40 basis points over the past year. During this time nonfarm employment continued to post modest but positive gains: employers reported an additional 16,200 jobs over the past year, representing growth of 1.0%, which matched the national average after trailing it for several years.

Unemployment Rate, Seasonally Adjusted



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

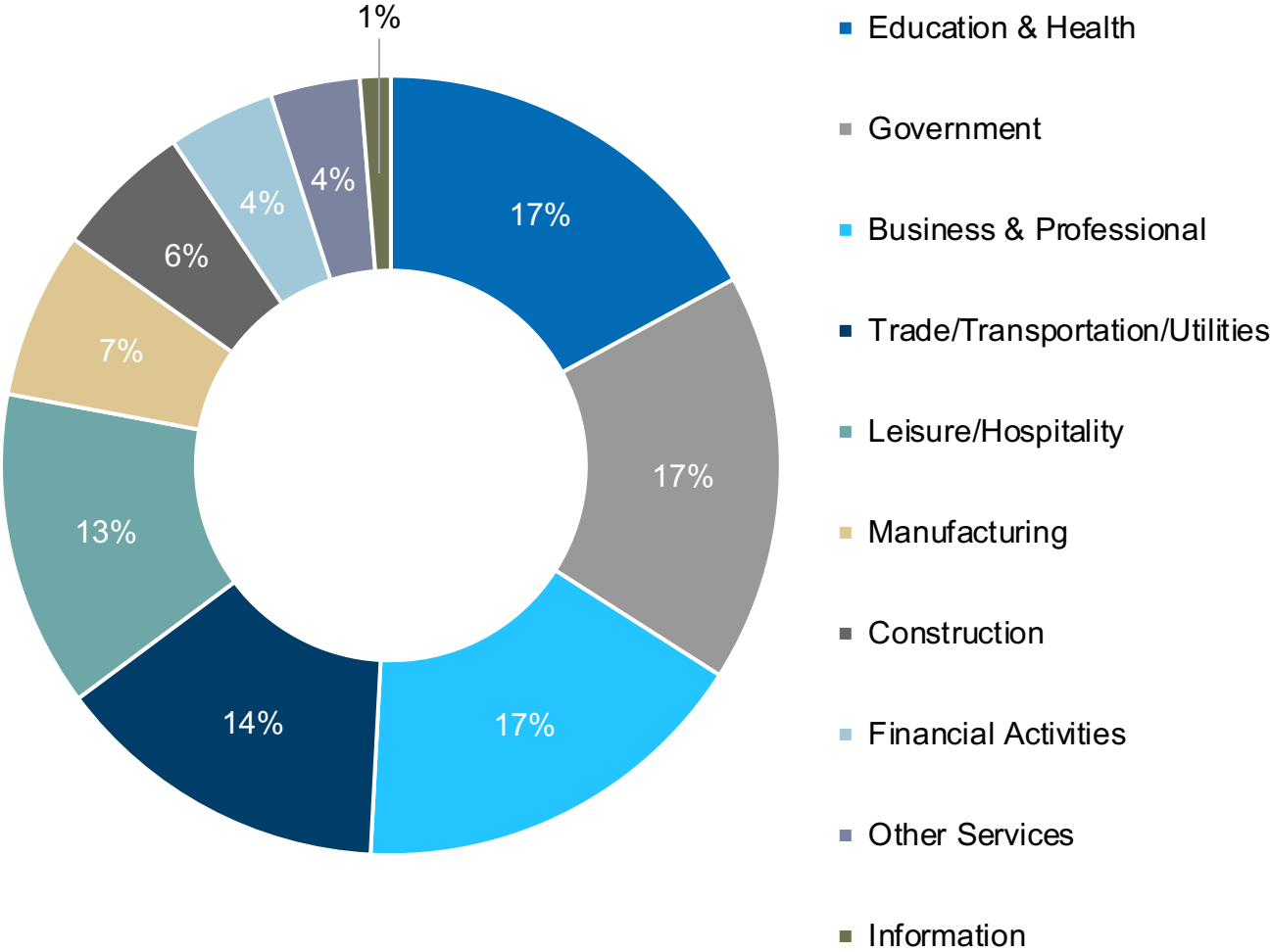


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

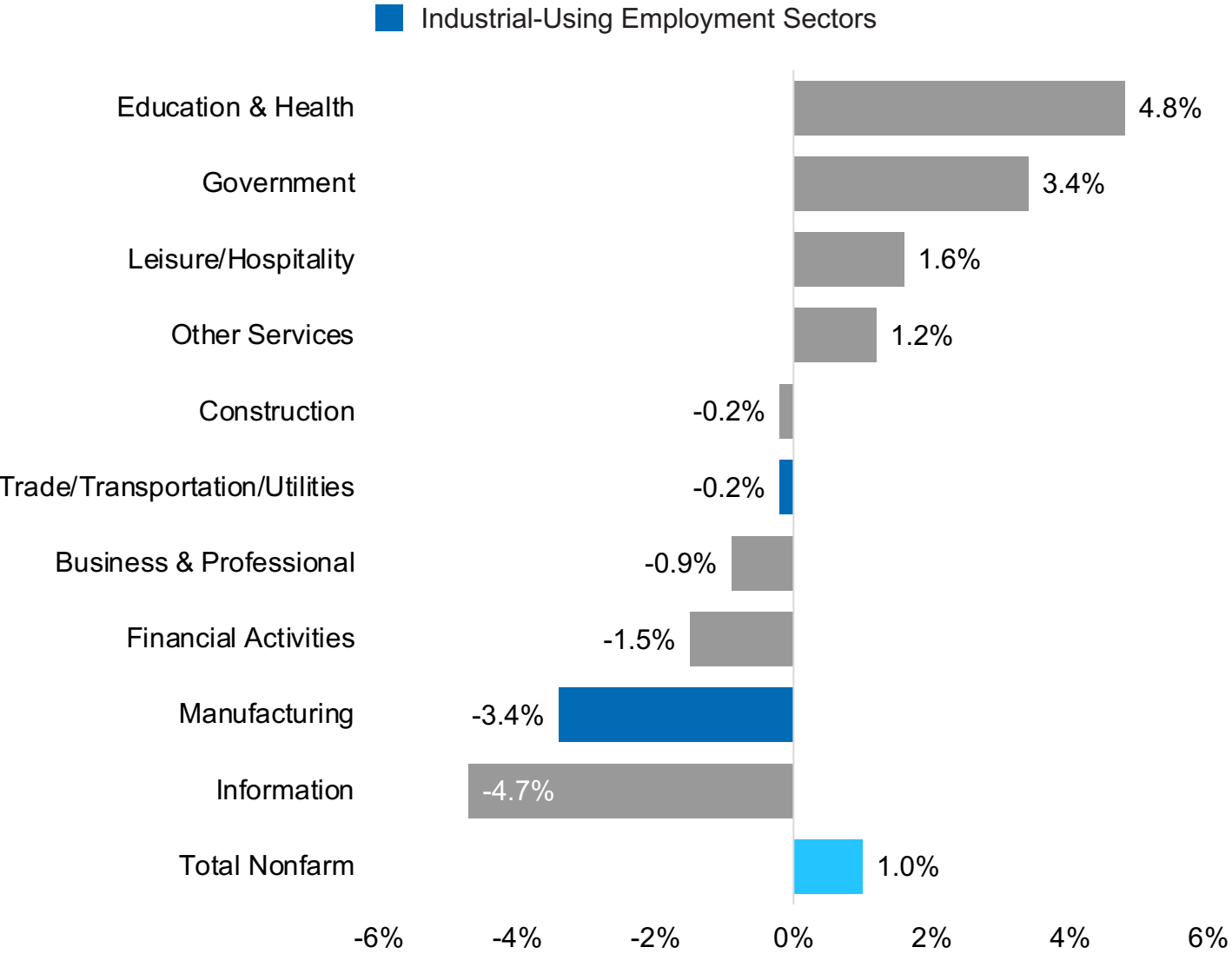
Manufacturing Jobs Decline, Trade/Transportation/Utilities Flat for the Year

The San Diego metro added 16,200 nonfarm jobs over the past year, although industrial-using sectors shed jobs during this period. The manufacturing sector lost 3,800 jobs and the trade/transportation/utilities (TPU) sector was essentially flat, losing 300 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, May 2025



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

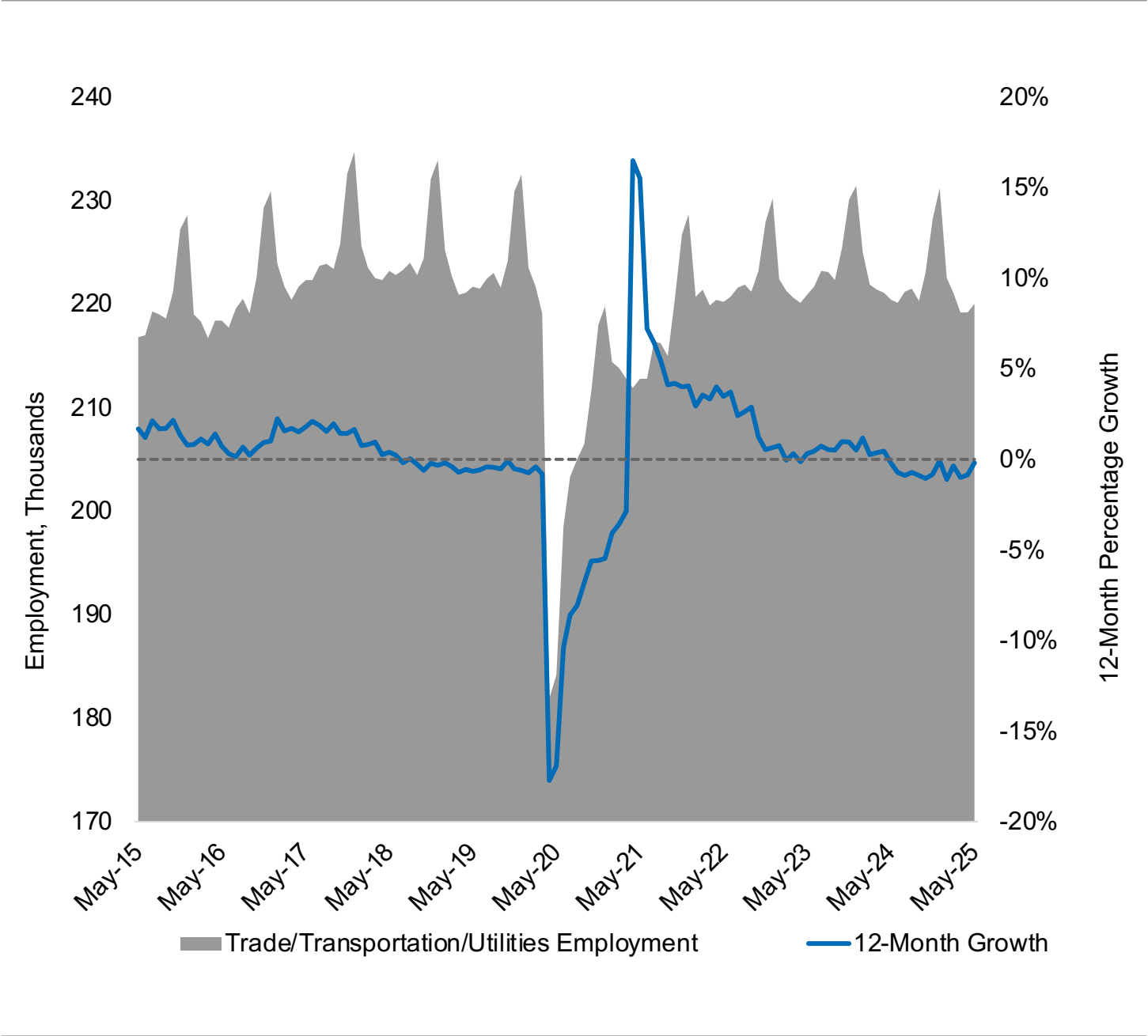


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

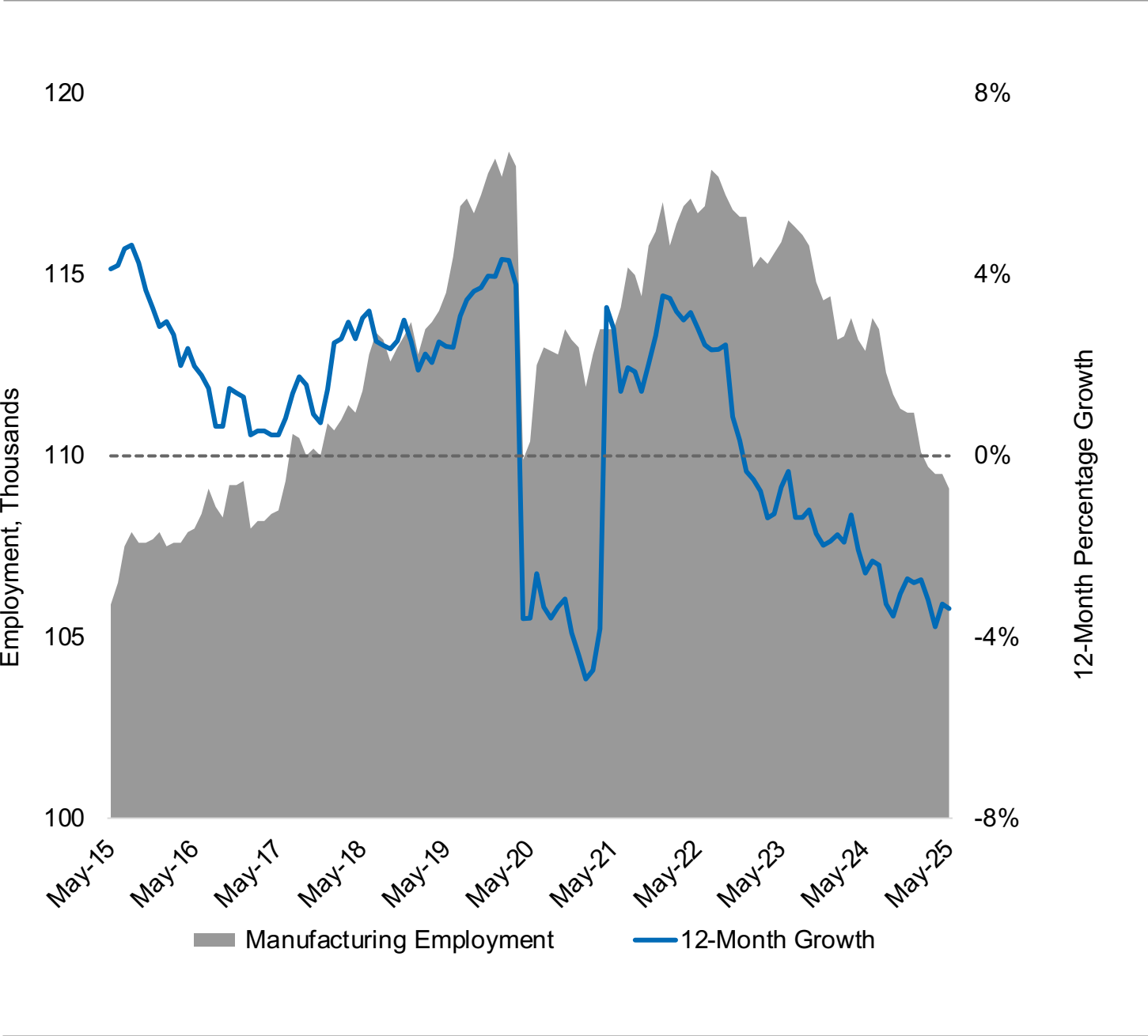
Trade/Transportation/Utilities Stabilize While Manufacturing Continues to Decline

Trade/transportation/utilities employment is at similar levels to the period before the pandemic when accounting for seasonal cycles. 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 8,800 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 Near All-Time High

A low-angle, upward-looking shot of a modern building's interior or exterior structure. The image features a complex network of intersecting steel beams and glass panels, creating a geometric pattern. The perspective draws the eye towards the top of the frame, where the structure seems to converge. The lighting is bright, suggesting a sunny day, and the overall color palette is dominated by the metallic grays of the steel and the light blues and whites of the glass and sky.

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Inflation Eases From Historical Highs



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



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The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates



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U.S. Consumer Confidence is Down



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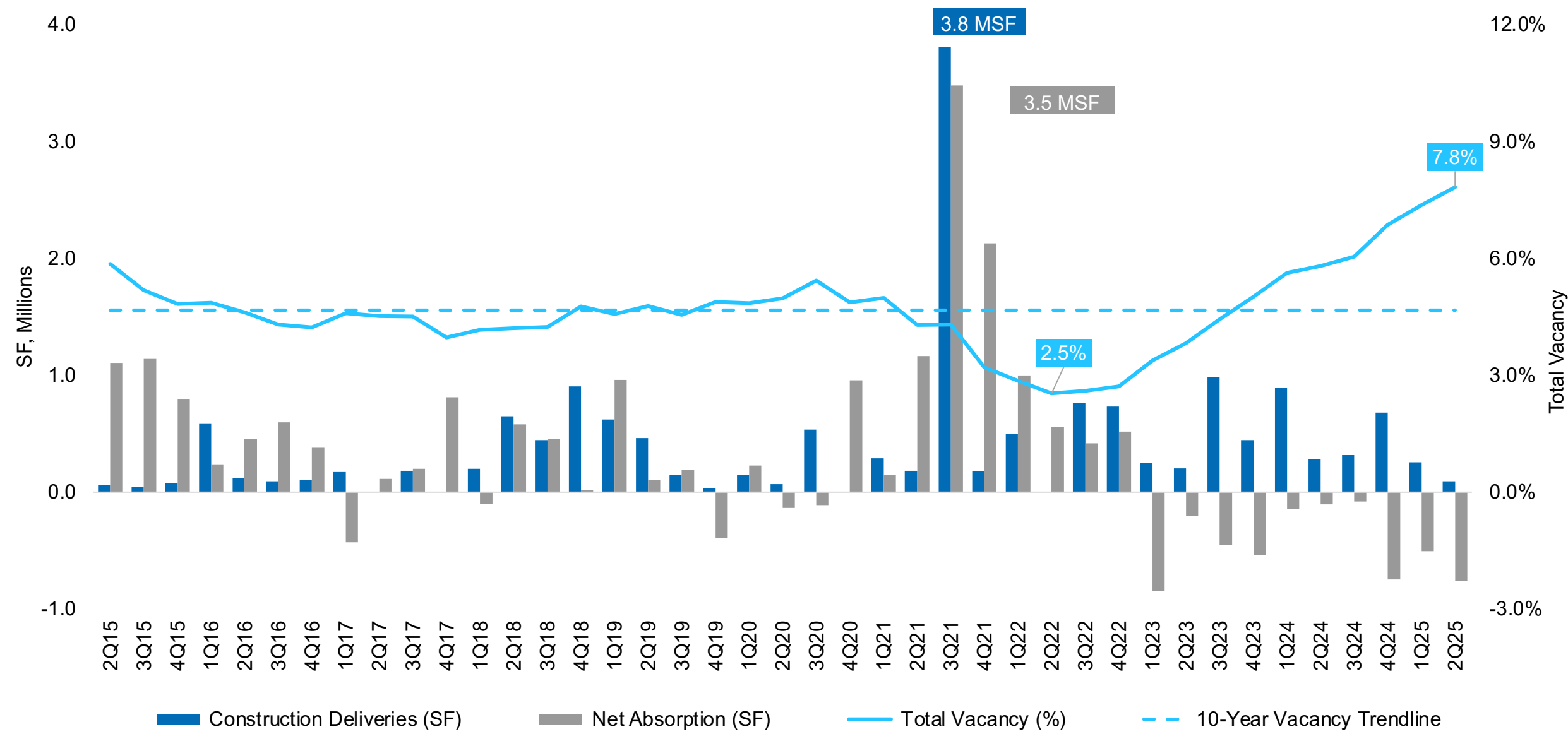
Leasing Market Fundamentals and Sales Activity



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, and vacancy is now at a 10-year high. Since the low-water mark in 2022, the market has seen 5.9 MSF in construction deliveries and 3.4 MSF of negative net absorption. Although construction levels have fallen from record highs in 2022, there is still 1.4 MSF in underway product.

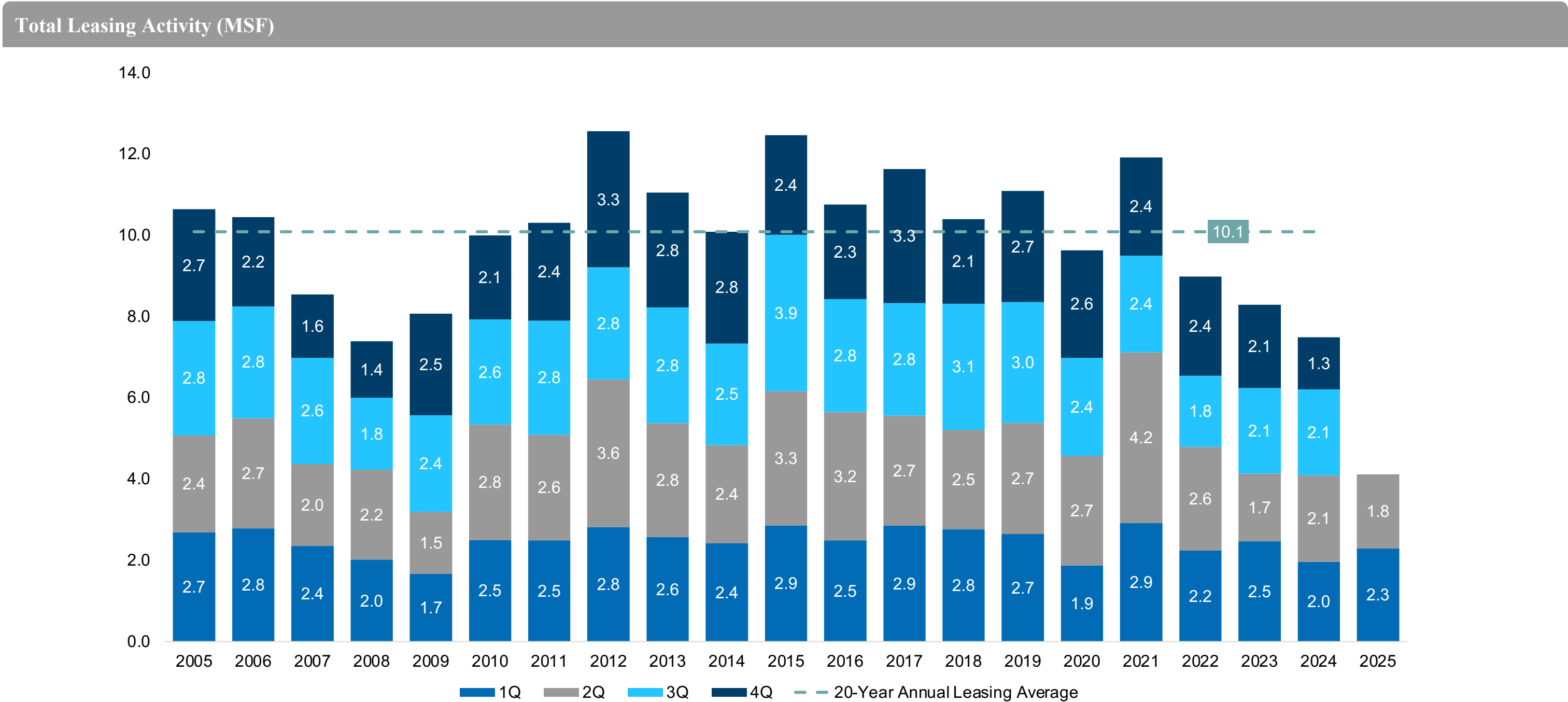
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Has Declined Over the Past Four Years

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 7.5 MSF, 25.7% below the 20-year average and nearly as low as the 2008 total following the Global Financial Crisis. The first half of 2025 recorded 4.1 MSF of leasing, consistent with trends observed over the prior two years.

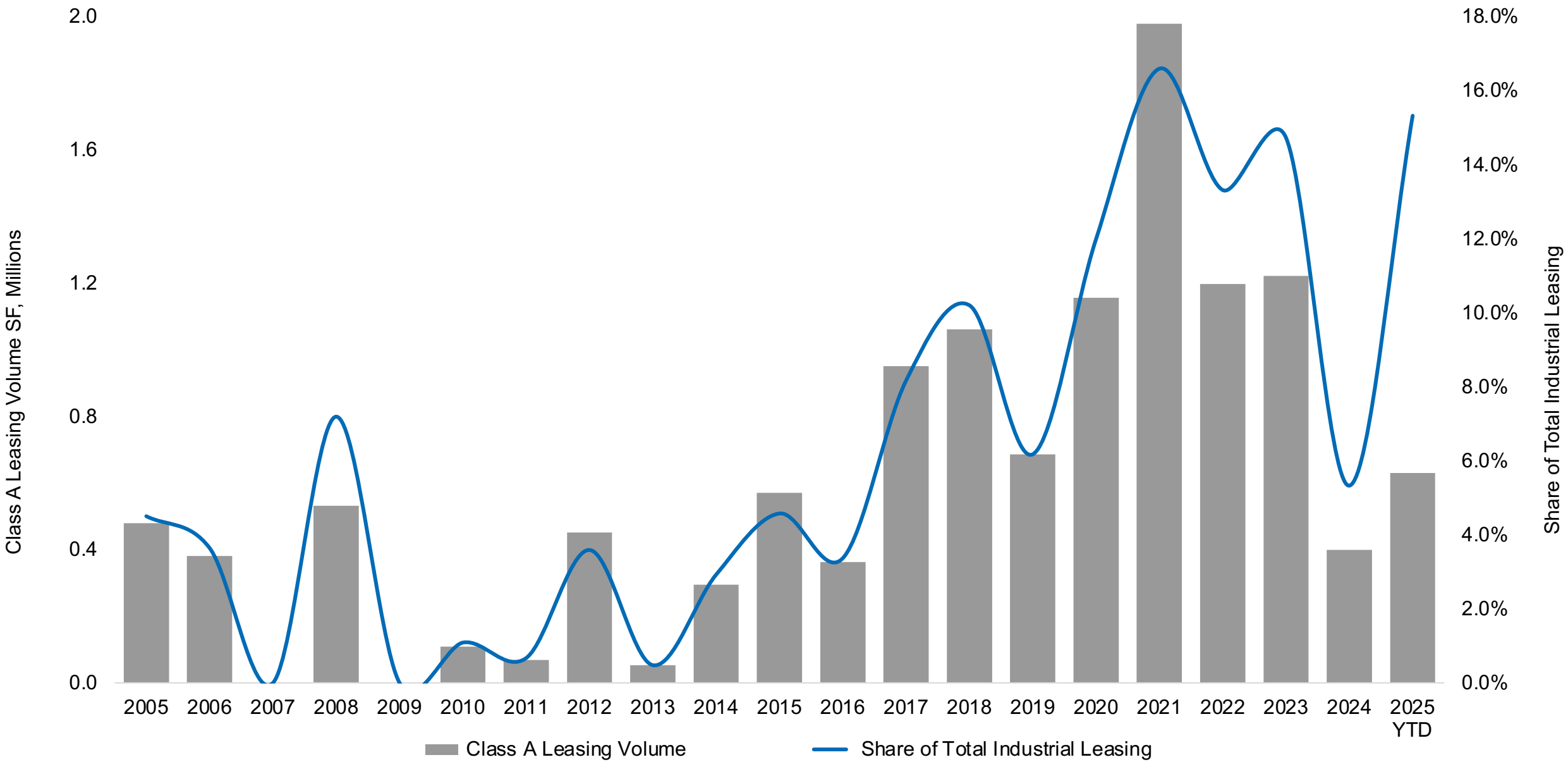


Source: Newmark Research, CoStar

Class A Leasing Recovers From Last Year's Slump

Class A leasing bounced back in the first half of 2025, already exceeding the annual total of 2024, which saw the lowest level of 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 2021 lease for its 3.4-MSF facility in Otay Mesa set the high-water mark for Class A demand.

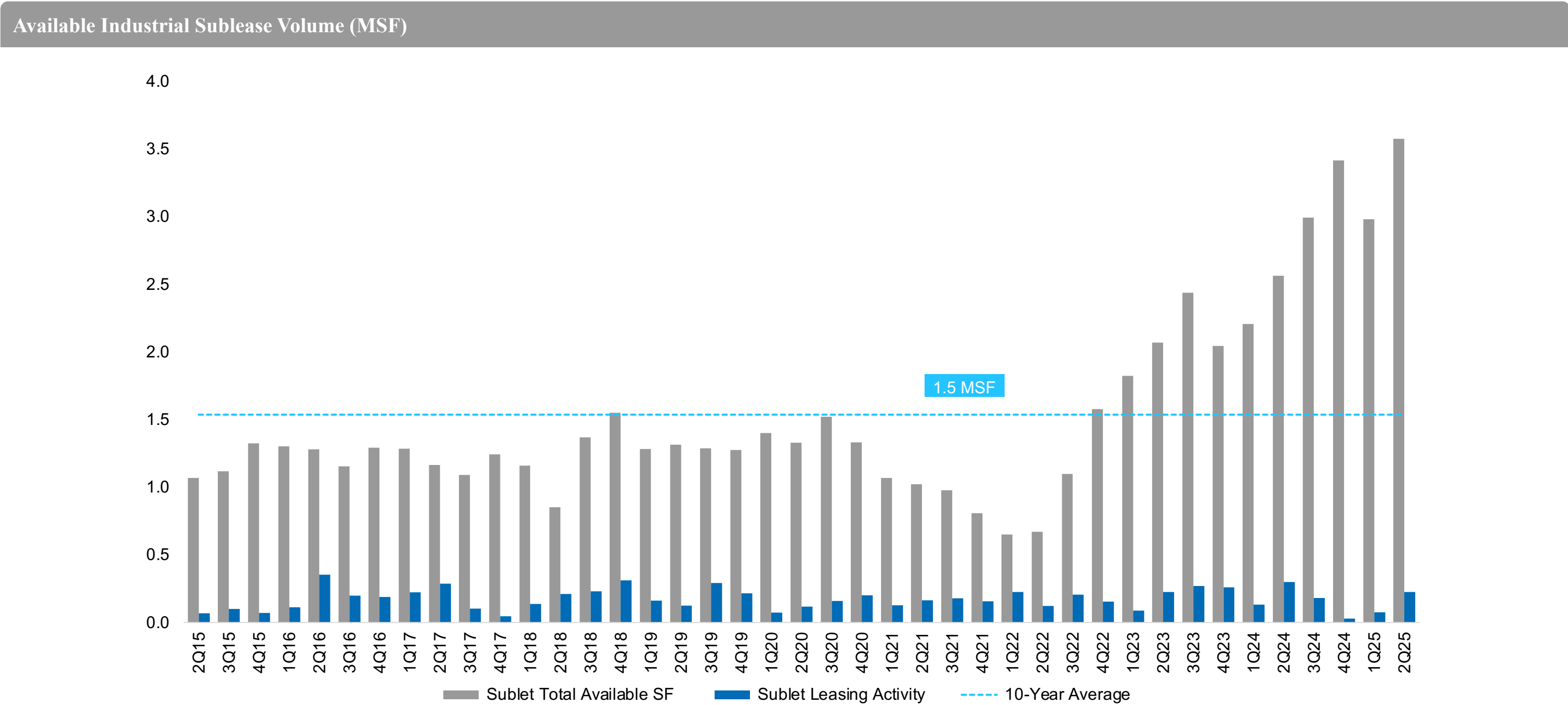
Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



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

Sublease availability reached 3.6 MSF in the second quarter, a new all-time high and more than 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, then increased steadily over the next three years as demand fell.

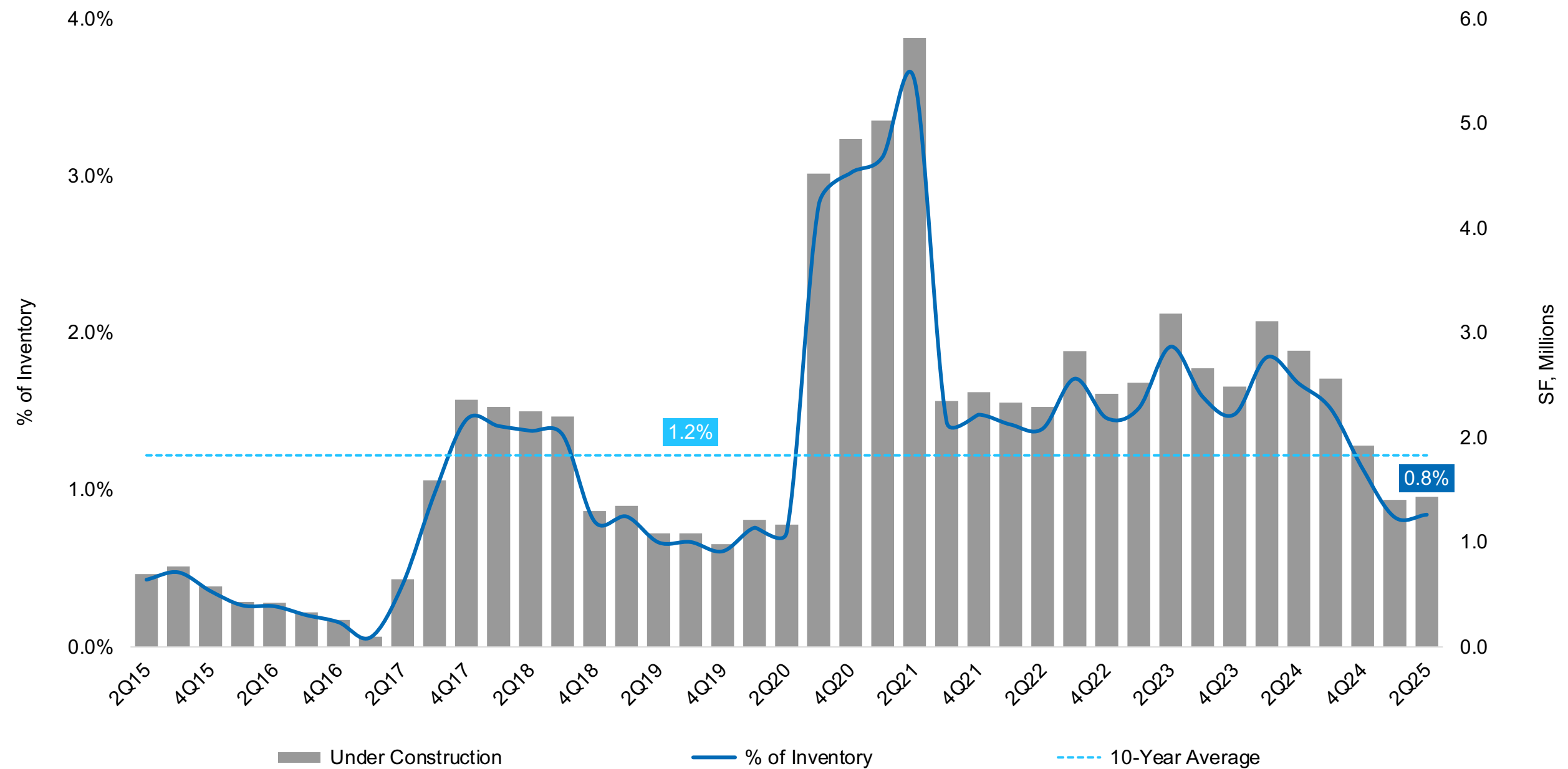


Source: Newmark Research, CoStar

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 Otay 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%.

Industrial Under Construction and % of Inventory

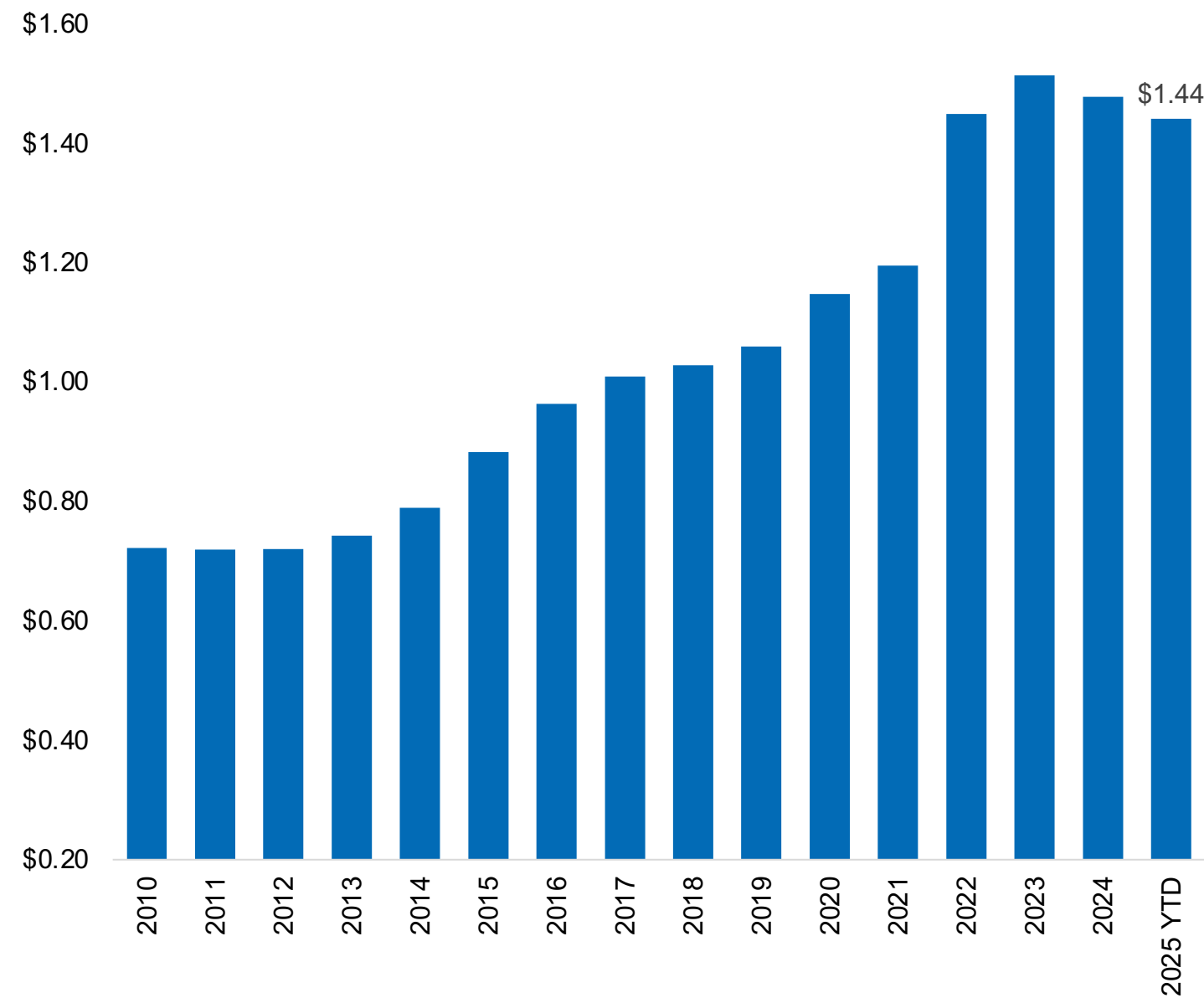


Source: Newmark Research, CoStar

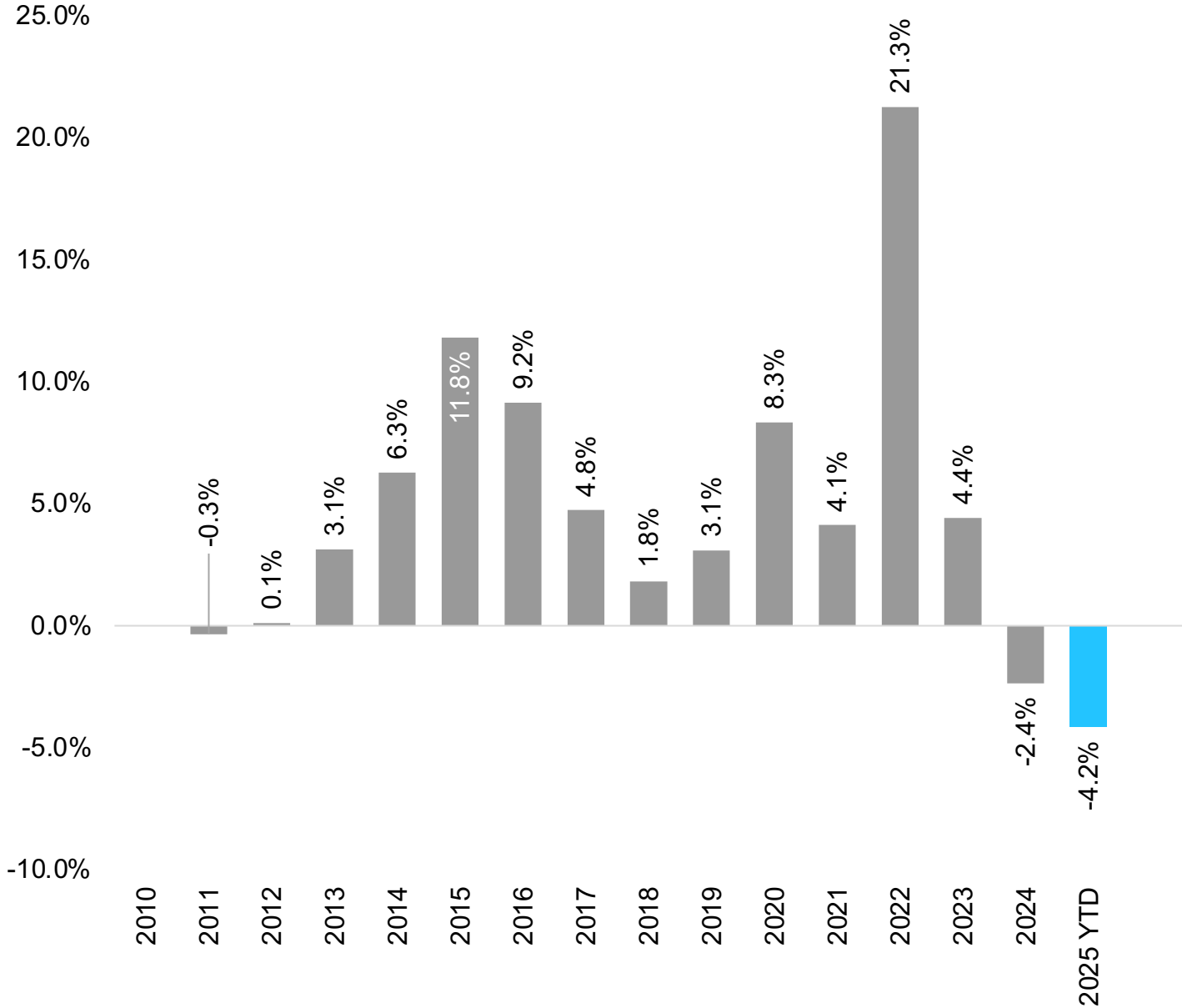
Asking Rents Start to Decline

The slowdown in leasing activity and rising vacancy rates has caused asking rents to dip to \$1.44/SF, down 4.2% 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

The largest lease deals of the quarter were renewals as overall leasing activity declined. The largest such renewal was for a 140,969-SF manufacturing building in Oceanside owned by BGO. Elite Moving & Storage signed the largest sublease of the quarter, taking a 42,333-SF building in Escondido that had originally been leased to Transportation Power.

Select Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
LaCantina Doors	1875 Ord Way	Oceanside	Renewal	140,969
Door manufacturer renewed a production building in Oceanside it has occupied since 2015.				
BEAM Global	5660 Eastgate Dr	Mira Mesa/Miramar	Renewal	51,296
Electric vehicle charging infrastructure company renewed its lease for a manufacturing building in Miramar.				
Elite Moving & Storage	2057 Aldergrove Ave	Escondido	Sublease	42,333
Moving company subleased a freestanding warehouse building with yard space for its operations.				
Extreme Fitness	2390 Boswell Rd	Chula Vista	New Lease	28,841
Gym space with personal trainers leased space adjacent to a public park in Chula Vista.				
AM Warehouse Logistics	8851 Kerns St	Otay Mesa	New Lease	24,752
Warehouse and freight services company leased a portion of a distribution facility in Otay Mesa's Siempre Viva Business Park.				

Source: Newmark Research, CoStar

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 Most Active During First Half



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Submarkets



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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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