



NEWMARK

# *San Diego:* Industrial Market Overview

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4Q25

# Access the Expanded 4Q25 San Diego Industrial Market Overview



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The expanded version of this report includes:

- **Foreign Trade:** Import and export trade volumes for the Otay Mesa Port of Entry and occupier benefits of Foreign Trade Zones.
- **Inflation and Retail Sales Data:** Details on local inflation, plus the impact of retail sales and e-commerce on the industrial market.
- **Detailed Submarket Statistics:** A breakdown of rents, vacancy, absorption and construction in all of San Diego's industrial submarkets.
- **Capital Markets Sales Information:** In-depth examination of historical sales, active investors, price per square foot and cap rate trends, and how industrial compares to other property sectors.

*Extensive content across 30+ slides—a detailed presentation packed with useful industrial information and in-depth analysis.*

# San Diego Industrial Market Observations



## Economy

- Local unemployment was 4.9% in September, higher than the national average of 4.4%. The federal government shutdown delayed the release of more recent employment data. Nonfarm jobs increased by 7,700 over the past year, while manufacturing lost 2,800 jobs and trade/transportation/utilities lost 900 jobs.
- The consumer price index for all urban customers in the San Diego metro was up 4.0% annually as of November 2025, up from the 2.8% annual rate at the end of 2024.
- 12-month imports and exports at the Otay Mesa Port of Entry retracted 0.5% to \$60.7 billion as of October 2025, down from the all-time high of \$63.7 billion in March 2025.
- The Federal Reserve enacted one 25-basis-point cut in October and another in December, bringing the benchmark rate down to 3.50%-3.75%. Only one rate cut is expected in 2026.



## Leasing Market Fundamentals

- The average asking rent fell to \$1.42/SF NNN, down 3.9% over the past year, the seventh quarter of consecutive decreases.
- Total vacancy retreated slightly to 7.4%, down from the high of 7.8% in the second quarter. Vacancy has climbed from 2.5% in the second quarter of 2022 as new deliveries outpaced demand, but the market has now stabilized and is beginning to absorb vacant space.
- Net absorption posted gains of 430,632 SF for the quarter and losses of 485,608 SF for the year. Absorption has been positive for two quarters in a row after 10 quarters of consecutive losses.
- Developers have started to gradually ramp up construction now that the market is experiencing positive absorption. Under construction activity climbed to 2.1 MSF, up from 1.4 MSF at the start of the year.



## Major Transactions

- Customs broker Norman Krieger signed the largest lease of the quarter, committing to a 77,000-SF warehouse space in Sunroad Enterprises' Landmark at Otay project.
- Amazon purchased a 181,000-SF project in Rancho Bernardo from Realterm Global for \$85.0 million, which it has occupied and operated as an Amazon Flex distribution center since 2017.
- PGIM Real Estate acquired three warehouse properties in Carlsbad, as part of a multi-market, \$300.0-million portfolio from the Los Angeles County Employees Retirement Association. The Carlsbad assets were valued at \$74.2 million.
- New Pacific Realty acquired a 229,000-SF warehouse fully occupied by UPS in Carlsbad from a joint venture between Hines and Walton Street Capital for \$72.9 million.



## Outlook

- Uncertainty around U.S. tariff policy has put a damper on cross-border trade and leasing activity for warehouse space near the border. Occupiers are wary of making long-term real estate commitments in the face of ever-shifting duties on imports.
- Rent growth is poised to return as the market has started to chip away at elevated vacancy levels. Increased speculative developments with higher rents will also help reverse the trend of declining asking rates from the past two years.
- Developers have dialed in the right amount of new development the market can absorb after years of overbuilding and construction activity is likely to continue at current levels. Otay Mesa remains the most attractive submarket for new development due to affordable land costs and proximity to the U.S.-Mexico border.

# 01

## Economy

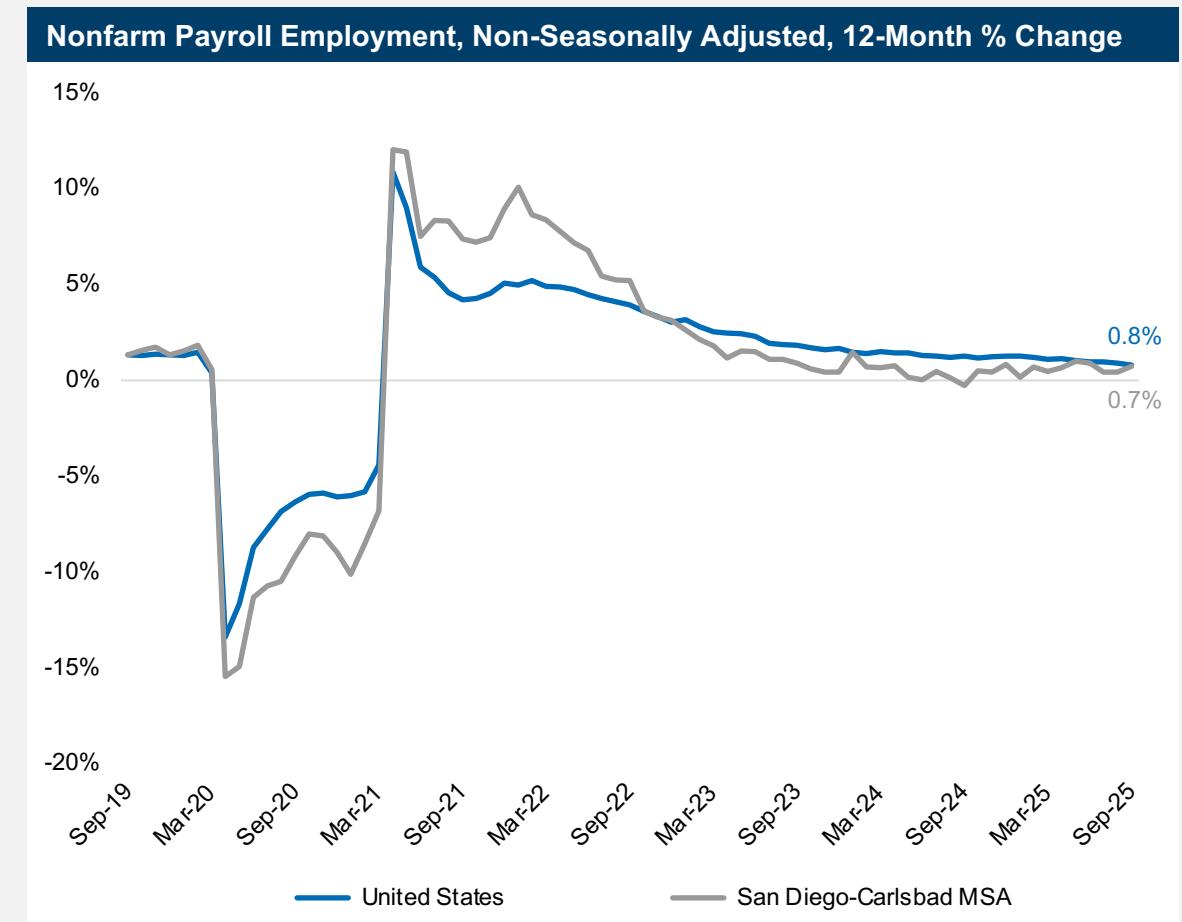
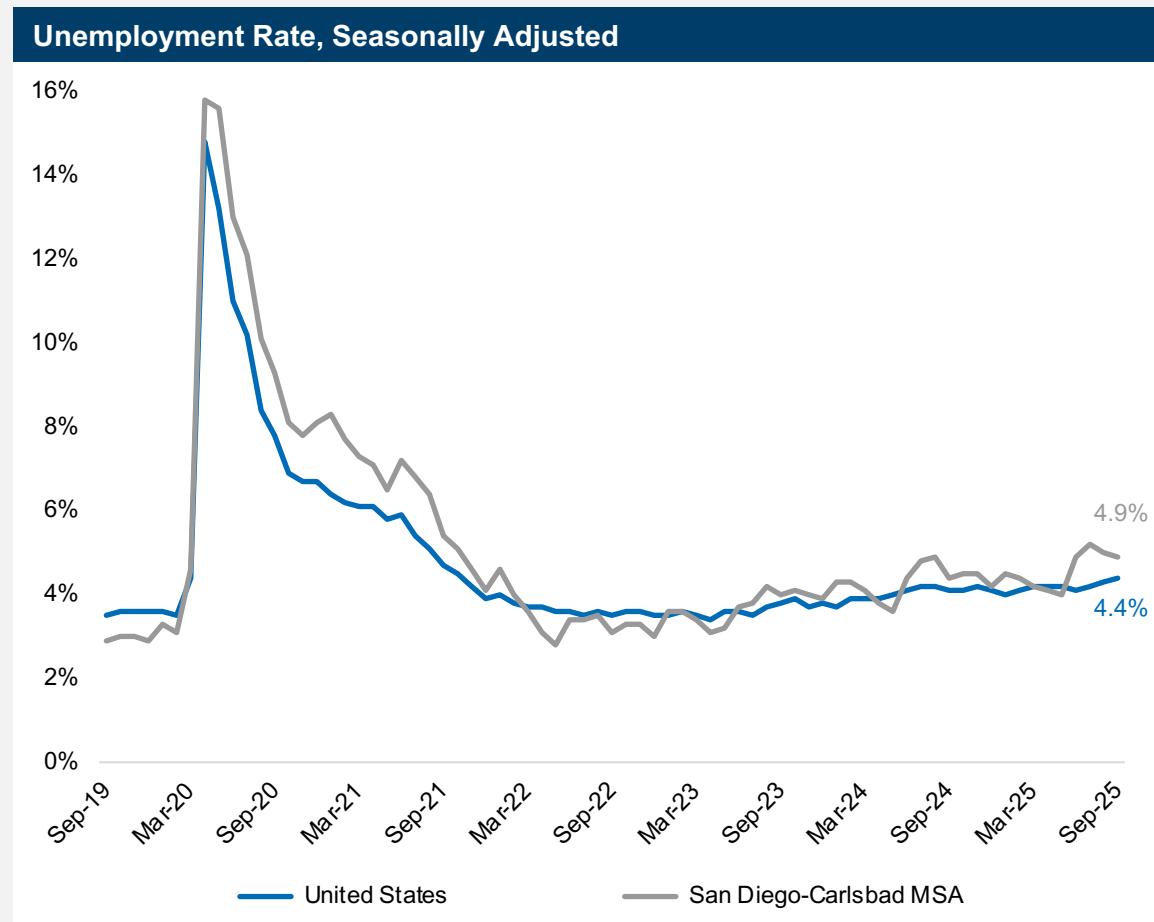
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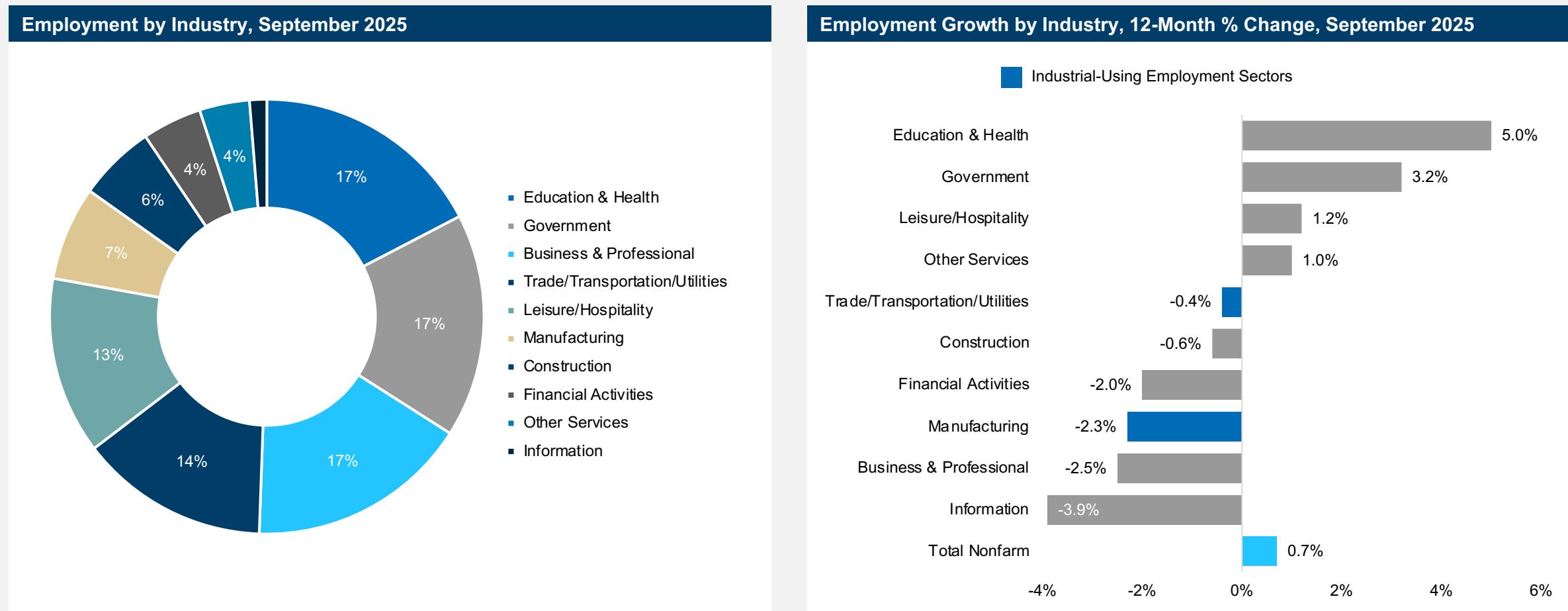
# Unemployment Elevated as Job Growth Slows

The federal government shutdown impacted the collection of jobs data, cancelling data collection for October and delaying November's release. The local unemployment rate was 4.9% in September 2025, up 50 basis points over the past year. The local and national unemployment rates were both higher than any year since 2021. During the past year total nonfarm employment posted minimal gains: employers reported an additional 11,300 jobs, representing growth of 0.7%, which slightly lagged the national average.



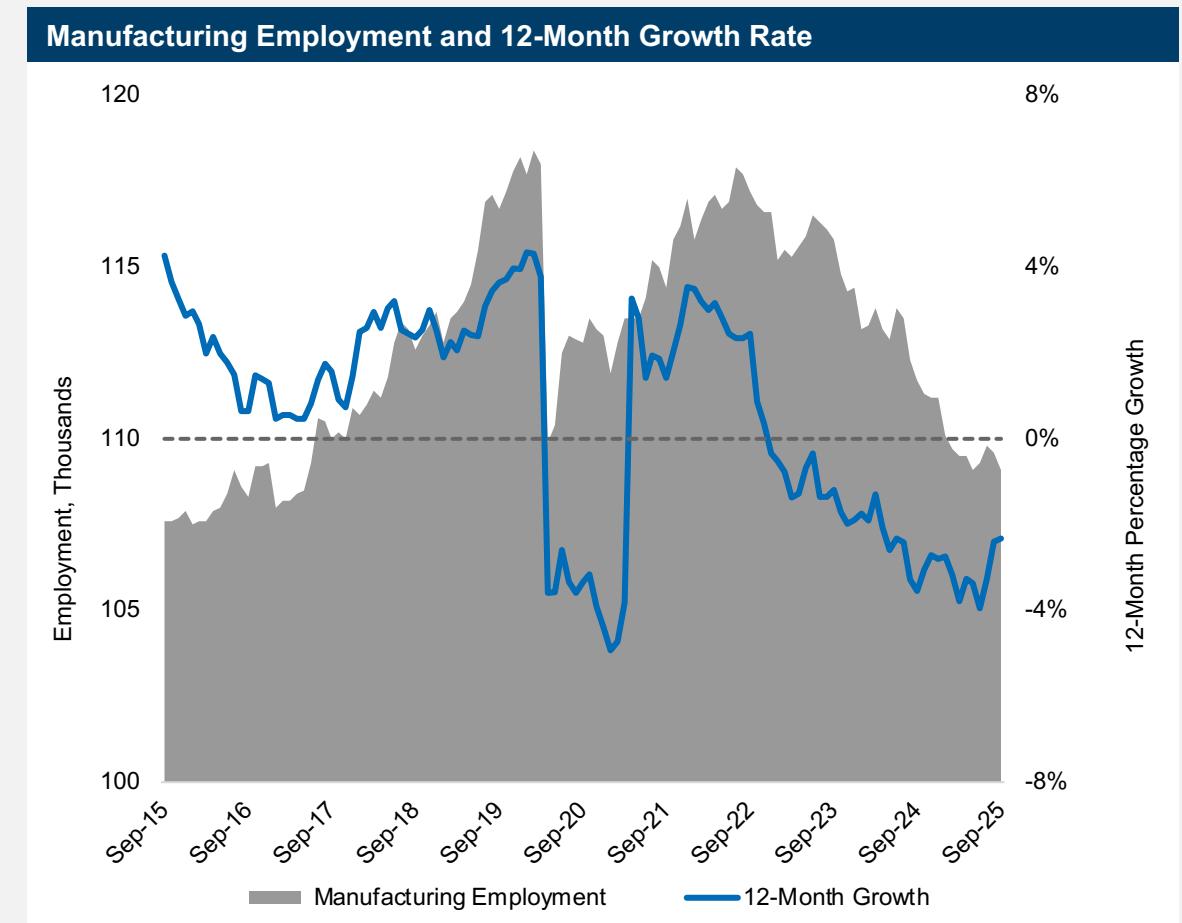
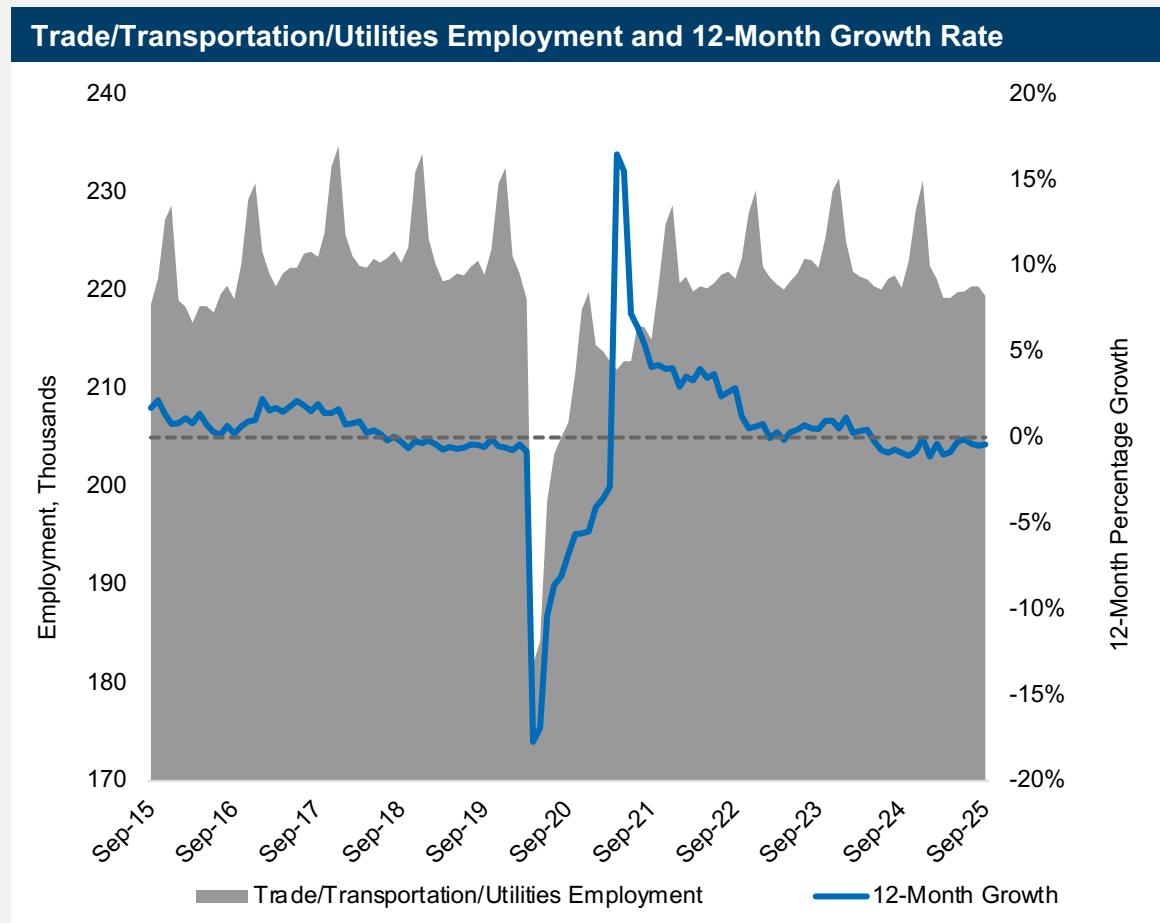
# Manufacturing Jobs Shrink, Trade/Transportation/Utilities Stall

Industrial-using job sectors have been shrinking over the past year. Manufacturing has shed 2,600 jobs since September 2024 and trade, transportation and utilities jobs have declined by 900. Job growth over the past year has largely been driven by the two largest employment sectors, education and health services, which gained 12,900 jobs, and government, which added 8,000 jobs.



# 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 September 2025, the number of TPU jobs was down 1.5% from the three-year average. 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 9,300 jobs compared to the all-time high.



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## Market Fundamentals

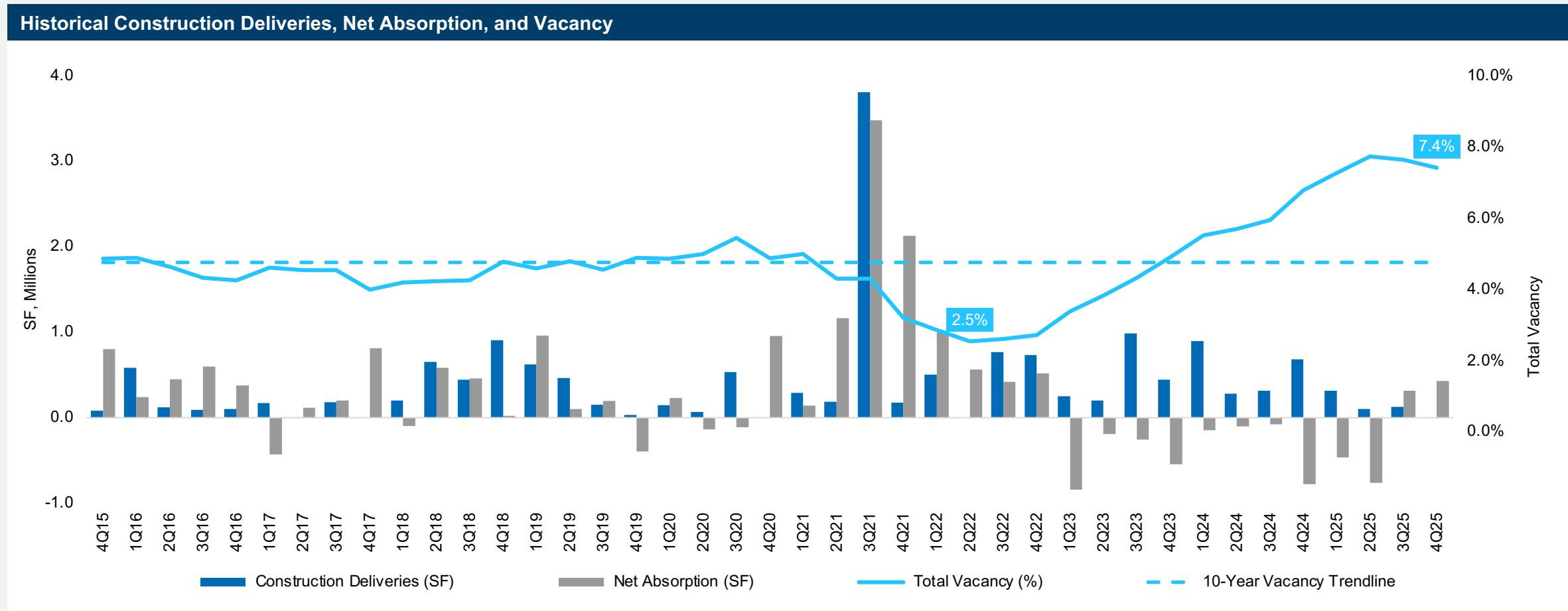
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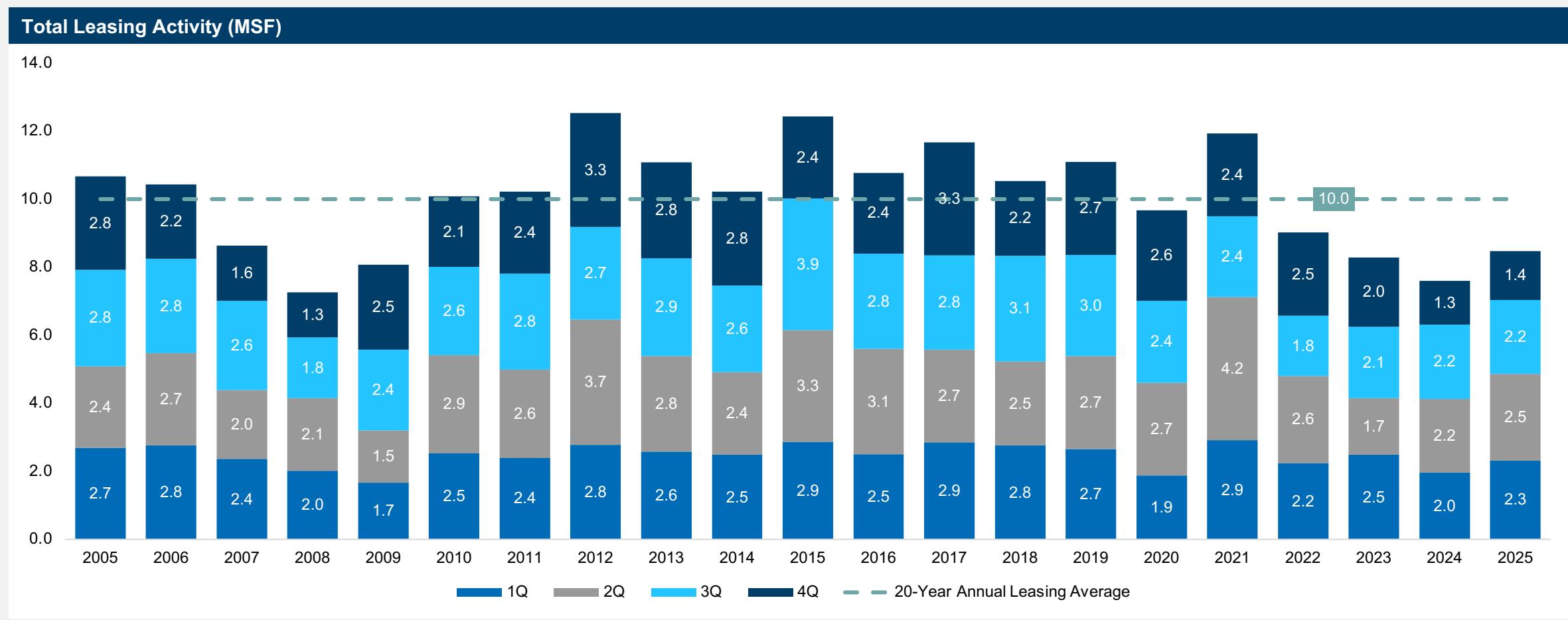
# Vacancy Has Stabilized as Net Absorption Turns Positive

Total vacancy dipped to 7.4% in the fourth quarter of 2025 after hitting a 10-year high of 7.8% in the second quarter. Leasing activity has slowed from the post-pandemic recovery, and the market has seen 11.0 MSF in construction deliveries since 2021, causing supply to outstrip demand. New deliveries are now moderating, while net absorption has turned positive.



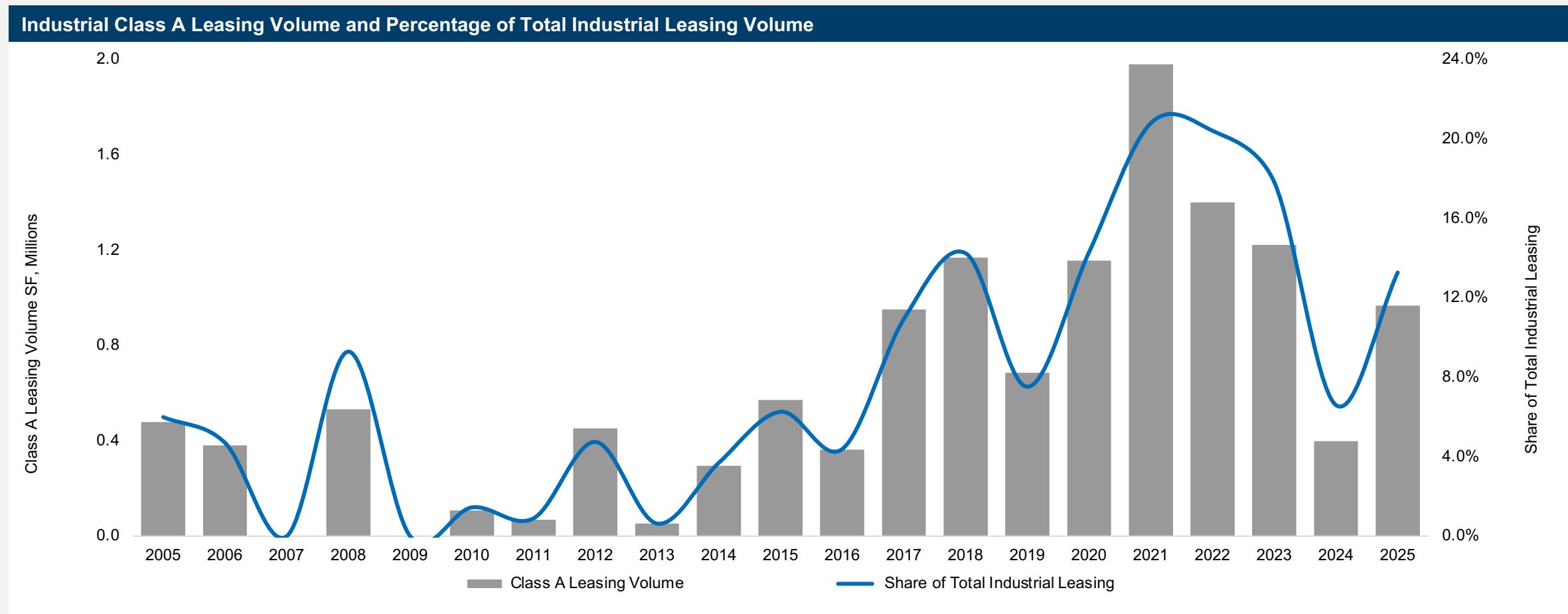
# Industrial Leasing Activity Rebounds From Three Years of Decline

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 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. Demand picked up in 2025, totaling 8.5 MSF, up 11.5% over 2024.



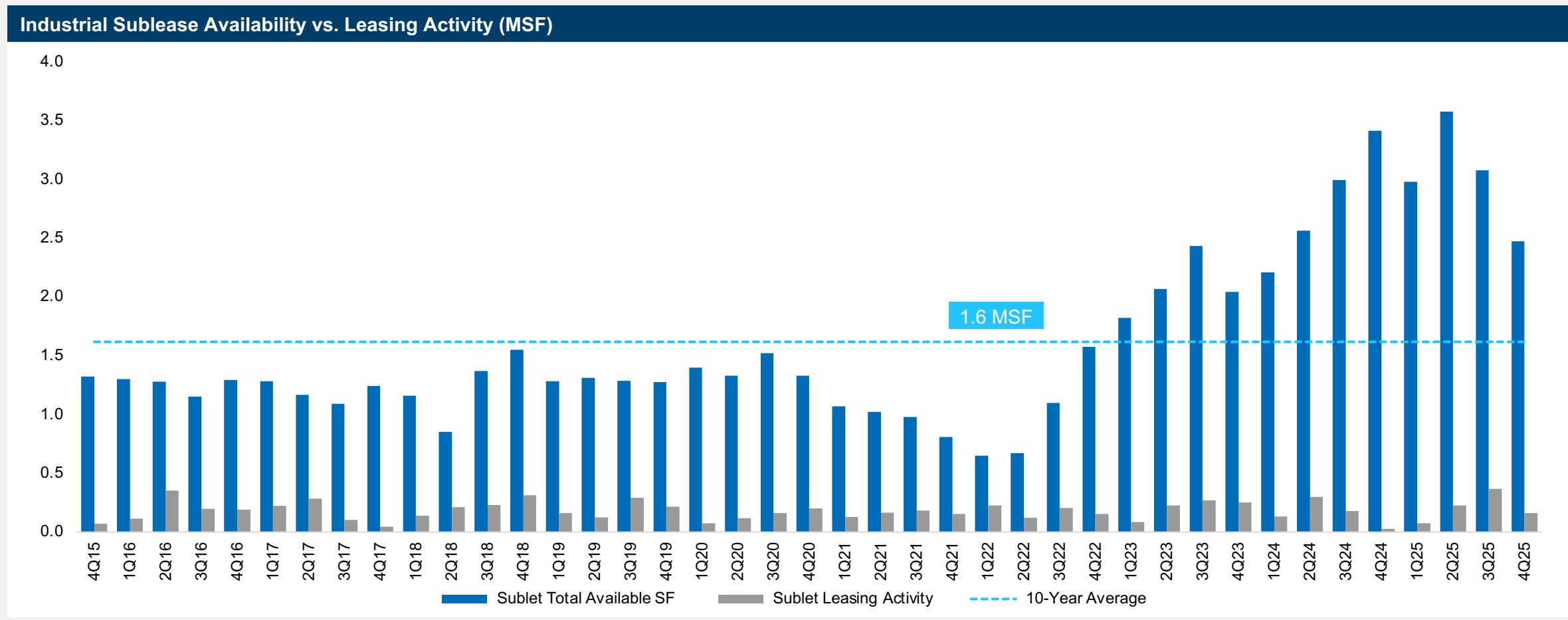
# Class A Leasing Recovers From Last Year's Slump

Class A leasing bounced back in 2025, easily surpassing 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.



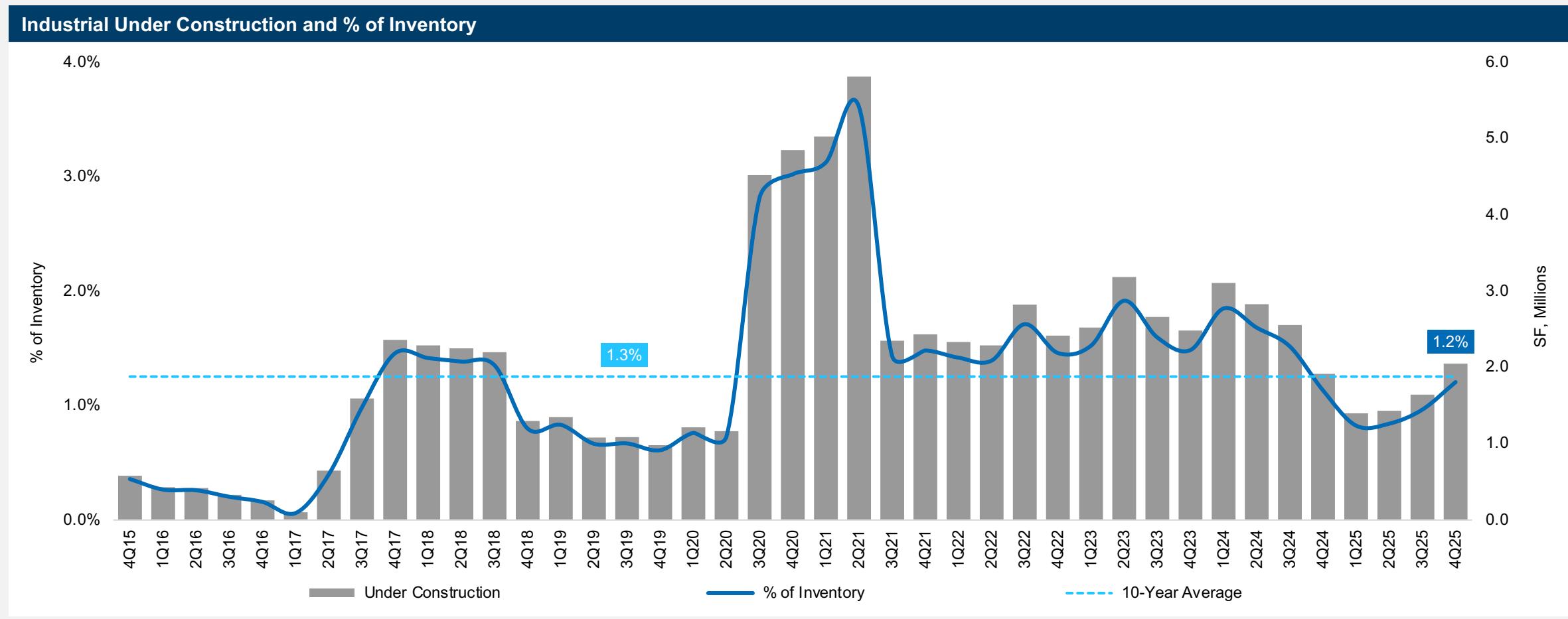
# Sublease Availability Remains Elevated While Sublease Deals Remain Low

Sublease availability fell to 2.5 MSF in the fourth quarter, down from the second quarter'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.



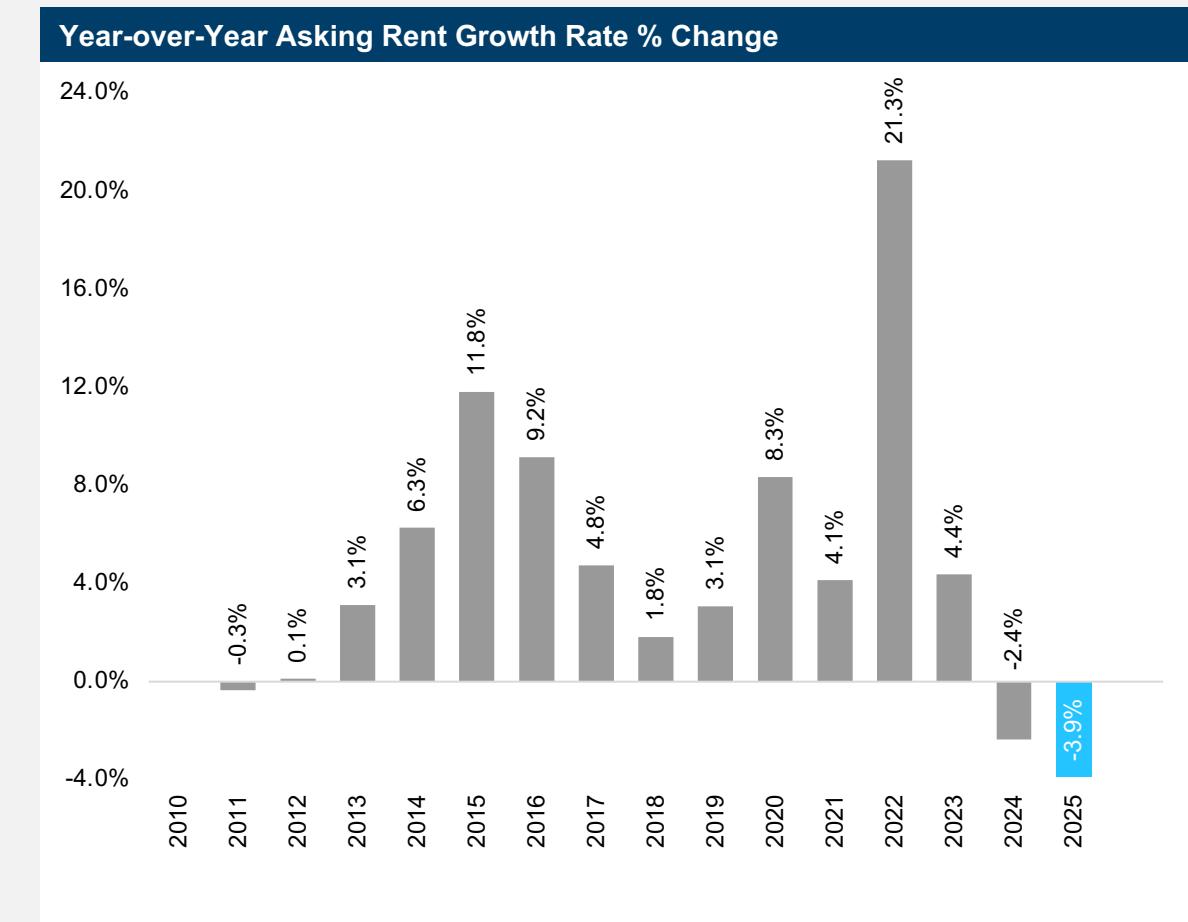
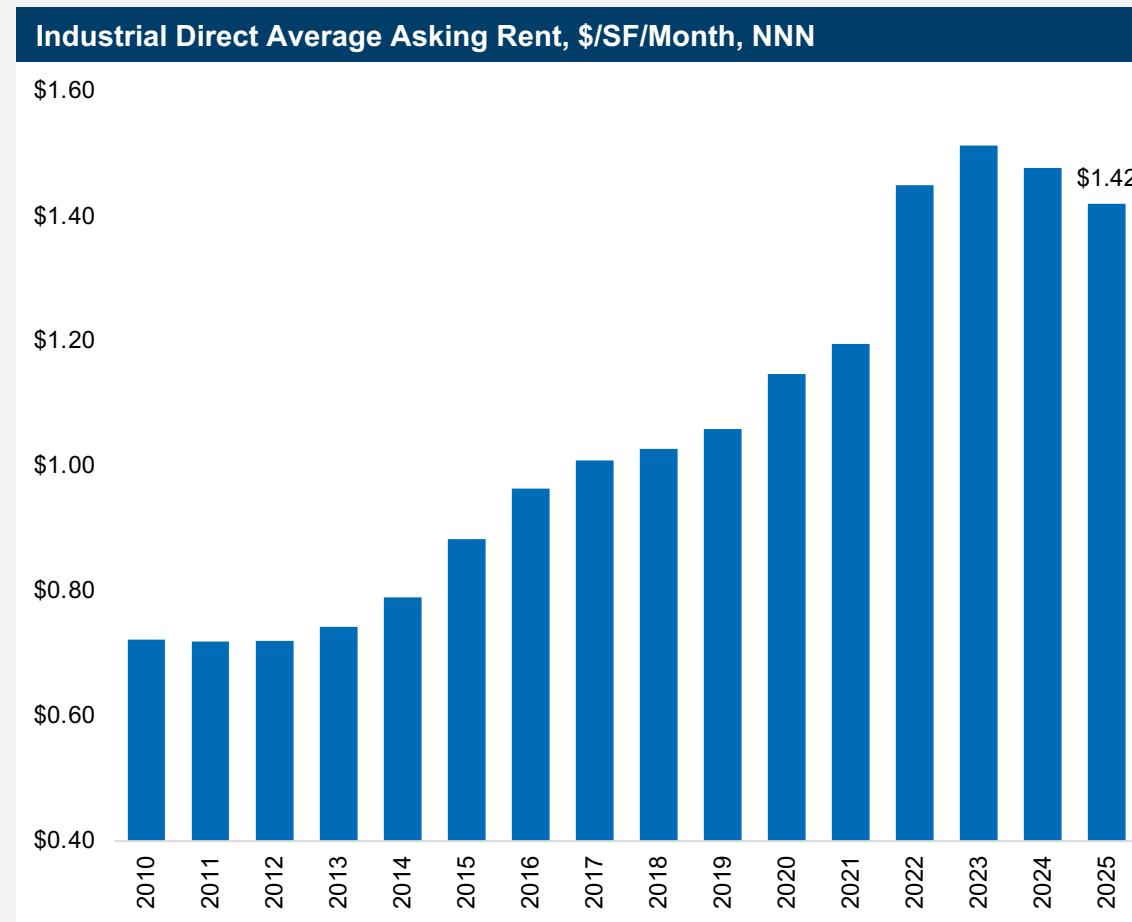
# Development Pipeline Recovers from Recent Dip

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 pipeline slowly ramped up over the course of 2025 as developers became more comfortable with the market's ability to absorb new product, and activity ended the year at 1.2% of existing inventory, inline with the 10-year average of 1.3%.



# Asking Rents Gradually Decline

Rising vacancy has caused asking rents to dip to \$1.42/SF, down 3.9% 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 modern industrial space, but the market is now undergoing a downward correction.



# Notable Lease Transactions Across the County

The largest lease of the quarter was signed by customs broker Norman Krieger, which leased a new 77,000-SF warehouse facility in Otay Mesa. North County performed well, with two notable deals in Carlsbad and a manufacturing deal in Vista.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Norman Krieger	1910 Landmark Rd	Otay Mesa	Direct	76,991
<i>Customs broker leased warehouse space near the U.S.-Mexico border.</i>				
Zest Dental Solutions	2875 Loker Avenue East	Carlsbad	Renewal	44,983
<i>Medical implant company renewed flex space in the Carlsbad Oaks East business park.</i>				
The Picklr	5830 El Camino Real	Carlsbad	Direct	36,169
<i>Indoor pickleball court leased a new location in Carlsbad.</i>				
Redoxblox	6680 Cobra Way	Sorrento Mesa	Direct	35,462
<i>Thermal storage battery manufacturer leased R&amp;D space in Sorrento Mesa.</i>				
PennyPacker Packaging	2580 Pioneer Ave	Vista	Direct	32,660
<i>Custom packaging manufacturer leased space in Vista.</i>				

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