

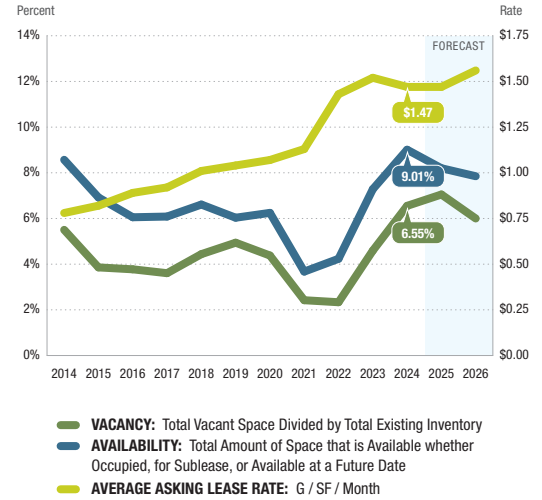
OVERVIEW. A reduced level of leasing and sales volume in the San Diego industrial market continued in 2024. Construction activity remained strong, vacancy increased, and the average asking rental rate decreased throughout 2024. The industrial market saw its second consecutive year of negative net absorption, and the market has pulled back significantly from the all-time high occupancy level of two years ago.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q4 at 6.55%, an increase of 57 basis points from the previous quarter's vacancy rate of 5.98%, and a massive spike of nearly 2 percentage points compared with Q4 2023's rate of 4.59%. In 2010, during the "Great Recession," the overall vacancy rate for the county peaked at 9.7%. At the end of 2024, every submarket cluster other than South County had a vacancy rate of 5.75% or less. Available space being marketed (regardless of occupancy status) was 9.01% of the county's inventory at the end of Q4. South County had the highest availability rate in the county at the end of Q4, at 14.3%.

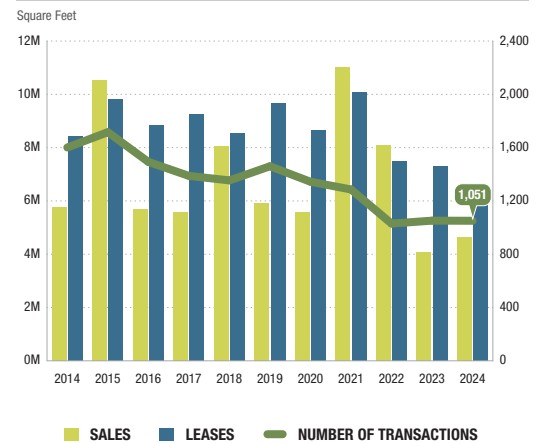
LEASE RATES. The average asking lease rate checked in at \$1.47 per square foot per month, a two-cent decrease from the previous quarter. Over the past three calendar years, asking rental rates have increased by an average of 13% per year. The San Diego industrial market had seen asking rental rates march ever higher since 2013, peaking at \$1.52 per square foot at the end of 2023. But over the course of 2024 the average asking rental rate edged lower multiple times. The bull market in industrial rent growth is over, as increasing vacancy and slower transaction velocity have combined to curtail rental rate growth. The aggregate balance of negotiating leverage across the county has moved from heavily favoring landlords to a more balanced state. Of course, this varies depending on the submarket and building characteristics. Despite the slowing growth of starting rates, it is still common to see landlords insist on fixed annual rent increases of 4%, rather than the 3% increases which had been standard for many years preceding Covid-19.

TRANSACTION ACTIVITY. There were 173 lease transactions recorded in Q4. This is below the average of 222 leases recorded per quarter since the beginning of 2021. The preceding five years had a quarterly average of 295 lease transactions. Otay Mesa is dominating the market for large lease transactions, as demonstrated in the table of large Q4 transactions. There is so much new construction there that tenants with large space requirements have the best leverage and most options when choosing Otay Mesa for their facility search. On the sales side, 2023 marked the first year since 2012 without a sales volume greater than 5 MSF, and for a second consecutive year 2024 failed to reach the 5 MSF mark. With rental rate growth stalling, and interest rates remaining relatively high, demand for industrial investment sales has waned. While sales volume is down, pricing remains high. The median price per square foot for industrial sales in 2024 was \$298, a new high-water mark. This figure is highly influenced by the composition of properties which trade. Overall, sales pricing gains in San Diego have cooled, but pricing certainly remains elevated.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



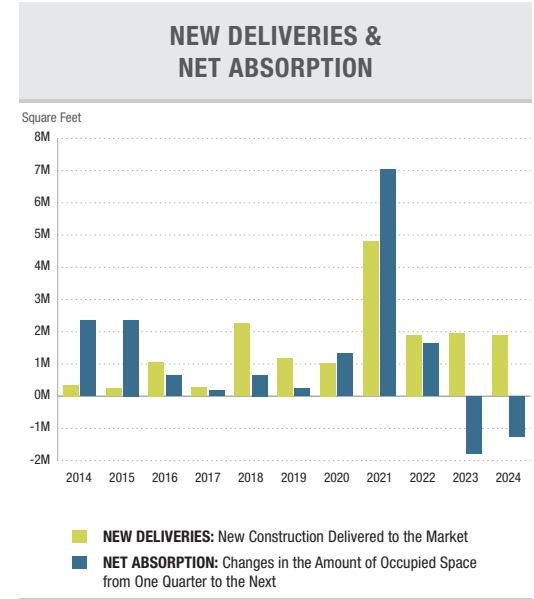
Market Statistics

	Change Over Last Quarter	Q4 2024	Q3 2024	Q4 2023	% Change Over Last Year
Vacancy Rate	▲ UP	6.55%	5.98%	4.59%	42.66%
Availability Rate	▲ UP	9.01%	8.18%	7.14%	26.14%
Average Asking Lease Rate	▼ DOWN	\$1.47	\$1.49	\$1.52	(3.29%)
Sale & Lease Transactions	▲ UP	2,834,819	2,574,347	3,176,413	(10.75%)
Gross Absorption	▼ DOWN	1,463,949	1,500,628	1,216,640	20.33%
Net Absorption	▼ NEGATIVE	(248,937)	(154,355)	(395,256)	N/A

ABSORPTION. There were 248,937 SF of negative net absorption in Q4, marking the eighth consecutive quarter of negative net absorption. The last time the San Diego market recorded two consecutive years of negative net absorption was 2008–2009. The dramatic increase in rental rates in recent years has pushed some tenants to make do with less space than they would prefer. Most areas of the county have relatively low vacancy levels. With the low levels of new construction outside of Otay Mesa, the decrease in occupied space in certain areas has given tenants in the market more options than they have had in years.

CONSTRUCTION. 1.9 MSF of new industrial projects were delivered in 2024, and 1.8 MSF was under construction at the close of the year. The vast majority of the recent construction has been speculative, with minimal pre-leasing. Of the total space completed in 2024, 72% remains available, while 62% of the area delivered in 2023 is still available. As the gateway to international trade, and one of the few areas in San Diego County with significant amount of developable land, Otay Mesa has stood above the rest in recent construction measures. Otay Mesa accounts for 82% of the 10.5 MSF that has been completed since 2020, and 85% of the 1.8 MSF under construction at the end of 2024. The largest building under construction at the end of 2024 was a 1.1 MSF Amazon fulfillment center in Otay Mesa.

EMPLOYMENT. The unemployment rate in San Diego County was 4.6% in November 2024, down from a revised 4.7% in October 2024, and above the year-ago estimate of 4.3%. This compares with an unadjusted unemployment rate of 5.3% for California and 4.0% for the nation during the same period. Over the 12-month period between November 2023 and November 2024, San Diego County employment increased by 8,900 jobs, an increase of 0.6%. With the normal delay in reporting from the California EDD, employment figures from December were unavailable at the time of publishing this report. For the nation as a whole, 256,000 jobs were added in December, for a total of 2.2 million jobs added in 2024.



Forecast

The rise in vacancy, along with the slowdown in leasing activity, has pulled the market out of its meteoric growth. New supply has outpaced demand, and market-wide rental rate averages have edged back off their all-time peak. With more new construction on the way, and leasing volumes remaining low, rental rates do not project to return to rapid increases at the start of 2025.

Significant Transactions

Sales						* Estimated allocated portion of multi-market sale.
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
9999 Olson Dr.	Miramar	200,000	\$62,000,000*	Center Capital Partners, LLC	Blackstone	
2080 Sanyo Ave. & Airway Rd.	Otay Mesa	242,969	\$51,720,500	Badiee Development	Rockpoint	
1960 Citracado Pkwy.	Escondido	88,552	\$38,760,500	San Diego County Water Authority	RPG	
2796-2788 Loker Ave. W.	Carlsbad	127,069	\$34,250,000	CIP Real Estate	Peregrine Realty Partners	
5965 Santa Fe St.	Morena/Rose Canyon	76,115	\$14,500,000	Parallel Capital Partners	SANDAG	

Leases					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
8151 Airway Rd.	Otay Mesa	66,126	Dec-2024	Master's Touch	Brookhollow
1291 Rocky Point Dr.	Oceanside	51,152	Oct-2024	Abena	EastGroup Properties
4400 Ruffin Rd.	Kearny Mesa	39,716	Dec-2024	Daikin	LBA Realty
8425 Otay Mesa Rd.	Otay Mesa	35,647	Dec-2024	VAMCO	Majestic Realty Co.
2765 Progress St.	Otay Mesa	34,019	Dec-2024	Packaging Solutions	Ares WMS

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q4 2024	Square Feet Available	Availability Rate Q4 2024	Average Asking Lease Rate	Net Absorption Q4 2024	Net Absorption 2024	Gross Absorption Q4 2024	Gross Absorption 2024
Central County													
Central City	82	1,745,919	0	0	27,250	1.56%	38,750	2.22%	\$1.17	250	(27,250)	250	9,850
East City	58	602,299	0	0	0	0.00%	0	0.00%	-	0	7,575	0	7,575
Southeast City	370	4,277,934	0	0	282,669	6.61%	410,618	9.60%	\$1.43	(43,416)	(214,220)	14,749	75,369
Kearny Mesa	421	10,090,480	96,096	0	465,311	4.61%	557,038	5.47%	\$1.86	115,525	(71,810)	165,583	344,847
Mission Gorge	107	1,793,229	0	0	36,062	2.01%	150,695	8.40%	\$1.94	29,221	11,859	39,546	103,832
Rose Canyon / Morena	131	2,024,063	0	0	96,067	4.75%	237,711	11.74%	\$1.54	9,660	7,102	19,183	53,472
Sports Arena / Airport	132	1,486,157	0	0	41,360	2.78%	111,956	7.53%	\$1.69	(2,000)	(10,351)	6,000	21,208
Miramar	583	13,422,581	0	85,000	880,425	6.56%	1,365,926	10.18%	\$1.76	(84,536)	(321,009)	155,558	543,159
Sorrento Mesa	69	3,249,642	0	0	163,481	5.03%	199,803	6.15%	\$1.84	(8,472)	(82,415)	44,046	90,273
Sorrento Valley/UTC	41	983,975	0	0	0	0.00%	800	0.08%	\$2.11	800	0	800	3,200
Central County Total	1,994	39,676,279	96,096	85,000	1,992,625	5.02%	3,073,297	7.73%	\$1.72	17,032	(700,519)	445,715	1,252,785
East County													
El Cajon	453	9,573,299	0	0	283,175	2.96%	329,307	3.44%	\$1.55	147,848	165,322	181,185	282,531
La Mesa / Spring Valley	306	2,789,823	0	0	83,793	3.00%	117,813	4.22%	\$1.72	10,436	(63,020)	20,929	56,706
Santee / Lakeside	289	3,962,291	0	251,500	40,639	1.03%	157,543	3.98%	\$1.53	14,468	(6,240)	41,103	83,083
Rural East County	87	988,210	0	0	100,000	10.12%	133,605	13.52%	\$1.04	0	44,400	0	48,400
East County Total	1,135	17,313,623	0	251,500	507,607	2.93%	738,268	4.26%	\$1.43	172,752	140,462	243,217	470,720
North County													
Escondido	636	7,639,092	147,054	0	113,396	1.48%	356,622	4.58%	\$1.50	12,884	(24,723)	29,144	205,292
Oceanside	399	9,018,328	0	520,446	421,482	4.67%	516,195	5.72%	\$1.34	31,803	(25,774)	65,683	386,399
San Marcos	475	8,164,768	0	223,175	652,900	8.00%	806,912	9.88%	\$1.37	84,739	(29,179)	148,672	357,796
Vista	526	13,456,494	22,480	123,705	1,059,039	7.87%	1,594,514	11.83%	\$1.38	(270,847)	(460,714)	173,700	549,162
Carlsbad	226	8,649,300	0	0	482,292	5.58%	798,429	9.23%	\$1.48	(54,526)	198,973	7,402	502,354
North Beach Cities	38	230,040	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Rural North County	121	1,060,868	0	0	39,205	3.70%	63,487	5.98%	\$0.87	(6,580)	(17,205)	920	11,273
North County Total	2,421	48,218,890	169,534	867,326	2,768,314	5.74%	4,136,159	8.55%	\$1.39	(202,527)	(358,622)	425,521	2,012,276
I-15 Corridor													
Poway	187	7,739,967	0	0	239,708	3.10%	262,878	3.40%	\$1.58	(4,974)	(3,018)	2,840	213,844
Rancho Bernardo	38	2,876,670	0	0	88,327	3.07%	126,799	4.41%	\$1.75	(9,882)	(9,882)	0	0
Scripps Ranch	26	698,777	0	86,000	10,565	1.51%	14,065	2.01%	\$1.61	688	(4,565)	2,608	13,413
I-15 Corridor Total	251	11,315,414	0	86,000	338,600	2.99%	403,742	3.57%	\$1.61	(14,168)	(17,465)	5,448	227,257
South County													
Chula Vista	325	8,960,938	0	178,156	1,056,628	11.79%	1,001,419	11.18%	\$1.47	(1,589)	(13,120)	93,543	255,624
National City	255	3,773,421	0	93,720	123,619	3.28%	154,994	4.11%	\$1.73	(23,093)	(82,716)	20,653	98,258
Otay Mesa	391	25,205,240	1,501,209	3,839,213	3,418,946	13.56%	4,640,798	17.38%	\$1.25	(197,104)	(254,645)	229,852	1,233,609
South San Diego	63	1,342,686	0	0	4,543	0.34%	49,008	3.65%	\$1.60	(240)	18,669	0	24,225
South County Total	1,034	39,282,285	1,501,209	4,111,089	4,603,736	11.72%	5,846,219	14.33%	\$1.34	(222,026)	(331,812)	344,048	1,611,716
San Diego County Total	6,835	155,806,491	1,766,839	5,400,915	10,210,882	6.55%	14,197,685	9.01%	\$1.47	(248,937)	(1,267,956)	1,463,949	5,574,754
0-9,999	3,064	15,641,176	0	0	237,071	1.52%	500,956	3.20%	\$1.68	28,829	28,624	120,257	466,341
10,000-19,999	1,780	25,247,008	0	0	723,889	2.87%	1,260,232	4.99%	\$1.59	(80,314)	(195,363)	206,445	943,153
20,000-34,999	964	24,793,651	22,480	27,720	1,037,842	4.19%	1,739,811	7.01%	\$1.51	(57,006)	(319,341)	193,948	901,481
35,000-49,999	382	15,767,687	43,000	95,538	728,435	4.62%	1,022,403	6.47%	\$1.41	33,478	(60,675)	98,939	575,039
50,000-99,999	392	27,010,857	243,150	647,648	2,117,754	7.84%	3,402,358	12.48%	\$1.42	(191,882)	(671,074)	163,789	840,318
100,000 Plus	253	47,346,112	1,458,209	4,630,009	5,365,891	11.33%	6,271,925	12.85%	\$1.24	17,958	(50,127)	680,571	1,848,422
San Diego County Total	6,835	155,806,491	1,766,839	5,400,915	10,210,882	6.55%	14,197,685	9.01%	\$1.47	(248,937)	(1,267,956)	1,463,949	5,574,754

Lease rates are on an industrial-gross basis.



Navigating Through a Market Down Cycle

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While we brokers are generally optimists, the San Diego industrial market is currently facing notable challenges, with occupancy losses continuing into the fourth quarter of 2024. This marks the eighth consecutive quarter of negative absorption, the longest stretch since the Great Recession. Although we are neither in nor entering a recession, we are undoubtedly past the recent peak following an almost 14-year upcycle. The market is navigating a period of weaker demand, particularly in the defense and biotech sectors. This trend is expected to persist into early 2025, with recovery anticipated over the next 12 to 18 months. Vacancies have risen by two percentage points to 6.5% over the past year, reaching their highest level in a decade.

Demand for multi-tenant and small-bay industrial properties (2,000 to 10,000 SF) remains robust, with relatively high activity levels in these spaces. In contrast, larger logistics facilities are experiencing slower leasing activity, influenced by broader macroeconomic concerns. The availability rate for logistics buildings between 100,000 and 250,000 SF has doubled over the past two years. This trend has been exacerbated by significant development in the South County market, which accounted for most of the new construction over the past year. Approximately 2 MSF of new space was added to San Diego County in 2024, complementing the roughly 2 MSF completed in 2023. This influx of new product, combined with lighter leasing activity in the biotech and larger industrial segments and a general slowdown in market velocity, has contributed to the rise in vacancies, which may take several quarters to stabilize. Despite these short-term challenges, the long-term demand outlook remains positive, particularly in South Bay and Otay Mesa, thanks to their strategic location and access to Mexico's labor force.

Rising vacancies have begun to exert downward pressure on rental rates. While low-finish industrial spaces are seeing the most price stability, some landlords have started to reduce asking rents, reflecting a softening across all industrial market sectors. Institutional owners are largely holding firm on rent levels, though many owners are offering incentives such as several months of free rent for new leases and more flexible terms on annual rental increases.

Broader economic concerns, however, may delay a full recovery in demand until late 2025 or even into 2026. The market is likely to face further occupancy losses in the short term as it adjusts to these challenges. Nevertheless, San Diego's dynamic regional economy provides a solid foundation for recovery. The diversity of local industry, a strong military and defense presence, multiple research institutions and universities generating spin-off companies, a thriving tourism sector, and a growing technology sector, all combine to ensure a resilient future for the industrial market.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on an industrial-gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services

Product Type

MFG./DIST.

Manufacturing / Distribution / Warehouse facilities with up to 49.9% office space.

Submarkets

CENTRAL COUNTY

Central City, East City, Southeast City, Kearny Mesa, Mission Gorge, Rose Canyon / Morena, Sports Arena / Airport, Miramar, Sorrento Mesa, Sorrento Valley

EAST COUNTY

El Cajon, La Mesa / Spring Valley, Santee / Lakeside, Rural East County

NORTH COUNTY

Escondido, Oceanside, San Marcos, Vista, Carlsbad, North Beach Cities, Rural North County

I-15 CORRIDOR

Poway, Rancho Bernardo, Scripps Ranch

SOUTH BAY

Chula Vista, National City, Otay Mesa, South San Diego