

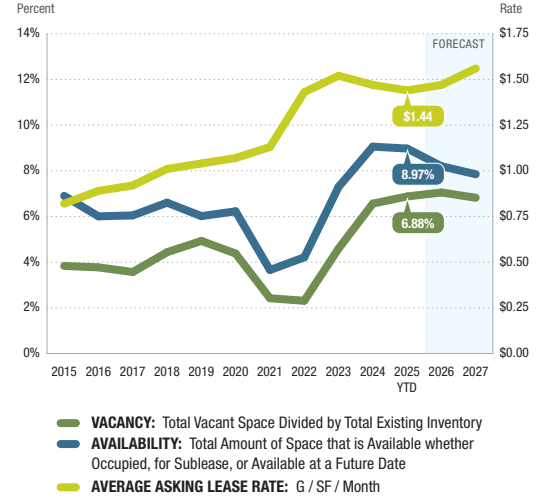
OVERVIEW. The tide has clearly shifted in the San Diego industrial market with the countywide vacancy rate tripling over the past two years and asking rental rates decreasing. Steadily since the start of 2024, landlords have taken a more aggressive approach in pursuing tenants, contributing to the bump in leasing activity in Q1.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q1 at 6.88%, an increase of 32 basis points from the previous quarter's vacancy rate of 6.56%, and a jump of 1.5 percentage points compared with Q1 2024's rate of 5.38%. Available space being marketed (regardless of occupancy status) was 8.97% of the county's inventory at the end of Q1, effectively unchanged from the previous quarter. The vacancy rate can increase while the availability rate remains flat as new construction comes to completion, categorizing that already available space as newly vacant.

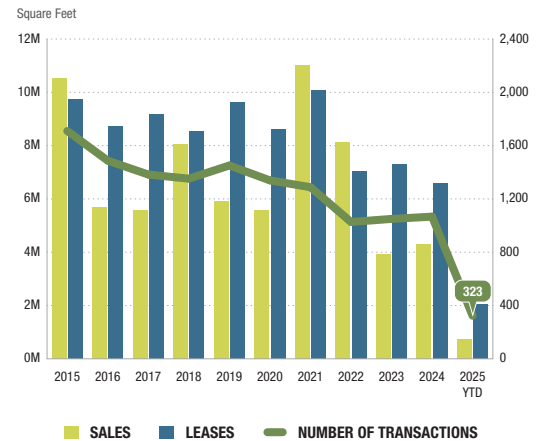
LEASE RATES. The average asking lease rate checked in at \$1.44 per square foot per month, a three-cent decrease from the previous quarter. The San Diego industrial market had seen asking rental rates skyrocket in the post-Covid period, increasing from \$1.04 in Q1 2020 to \$1.52 at the end of 2023. But, over the course of the last five quarters, the average asking rate has decreased by a total of 5.3%. This only reflects the movement of average asking rates, while start rates and concessions such as free rent have moved in tenants' favor to a great extent. The bull market in industrial rent growth is over for now, as increasing vacancy has placed pressure on San Diego industrial landlords which had become accustomed to market conditions being overwhelmingly in their favor throughout the initial post-Covid years. Of course, the local balance of negotiating leverage across the county varies depending on the submarket and building characteristics. Despite the recent decline of starting rates, it is still common to see landlords insist on fixed annual rent increases greater than the 3% that had been standard for many years preceding Covid-19.

TRANSACTION ACTIVITY. There were 266 lease transactions recorded in Q1, well above the quarterly average of 221 transactions between 2021-2024. This is a significant increase, but still below the average for the preceding five years, which had a quarterly average of 295 lease transactions. Additionally, the 2 MSF of total leasing in Q1 was the largest in a quarter for two years, and the second largest quarterly total since Q2 2021. Otay Mesa is dominating the market for large lease transactions, as demonstrated in the table of large Q1 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. In contrast to the bump in leasing activity, sales volume sank to a two-year quarterly low in terms of both dollar and square-foot volume. With rental rate growth stalling, and interest rates remaining relatively high, demand for industrial investment sales has waned. The lack of demand for industrial property sales has started to pull sales prices lower. The median price per square foot in Q1 was \$271.35, which was the second lowest quarterly figure in two years, only surpassing Q4 2024's figure (by less than \$1). There is some room for this pullback considering the median price per square foot has increased more than 40% in the past five years.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



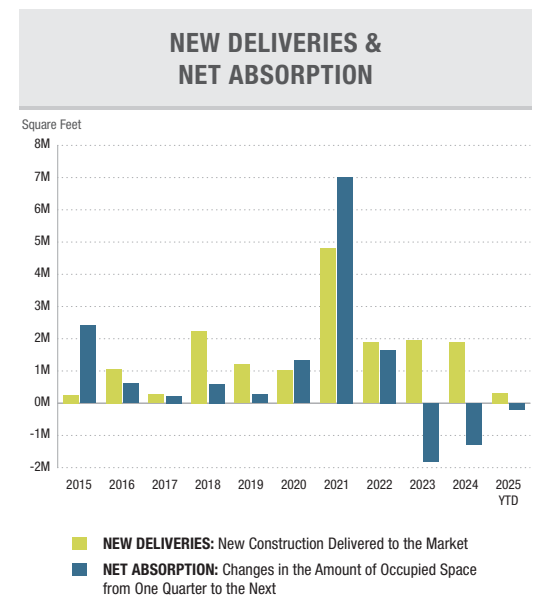
Market Statistics

	Change Over Last Quarter	Q1 2025	Q4 2024	Q1 2024	% Change Over Last Year
Vacancy Rate	▲ UP	6.88%	6.56%	5.38%	27.91%
Availability Rate	▬ FLAT	8.97%	9.06%	7.61%	17.93%
Average Asking Lease Rate	▼ DOWN	\$1.44	\$1.47	\$1.50	(4.00%)
Sale & Lease Transactions	▬ FLAT	2,749,293	2,782,770	2,815,156	(2.34%)
Gross Absorption	▲ UP	1,848,321	1,463,948	1,020,562	81.11%
Net Absorption	▼ NEGATIVE	(210,779)	(266,289)	(647,742)	N/A

ABSORPTION. There were 210,779 SF of negative net absorption in Q1, marking the ninth 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. 315,298 SF of new industrial projects were delivered in Q1 2025, and 1.3 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 since the start of 2024, 59% remains available, while 53% 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 a significant amount of developable land, Otay Mesa has stood above the rest in recent construction statistics. Otay Mesa comprises 77% of the 11.9 MSF that has been completed since 2020, and 91% of the 1.4 MSF under construction at the end of Q1 2025. 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 4.4% in February 2025, down from a revised 4.5% in January 2025, and above the year-ago estimate of 4.3%. This compares with an unadjusted unemployment rate of 5.5% for California and 4.5% for the nation during the same period. Over the 12-month period between February 2024 and February 2025, San Diego County employment increased by 9,900 jobs, an increase of 0.6%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. For the nation as a whole, 228,000 jobs were added in March, while the seasonally adjusted U.S. unemployment rate increased from 4.1% to 4.2%.



Forecast

Supply augmented with new deliveries, and demand tempered by macroeconomic uncertainty, have been moving in opposite directions for two years. This has led to an increase in vacancy and a pullback in new lease and sale pricing. The increase in leasing activity in Q1 is not likely to gain momentum in the coming months with the threat of a potential trade war hanging over the U.S. economy. The on-again, off-again tariffs will lead to many tenants being spooked into a wait-and-see approach in the coming months.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
237 Via Vera Cruz	San Marcos	80,257	\$16,200,000	2055 Meridian Park Blvd., LLC	JLL Income Property Trust
180–230 Roymar Rd. & 3310 Via de la Valle	Oceanside	57,000	\$15,300,000	Ocean Park Ventures	Focus Real Estate Services, LLC
494–524 W. Calle Primera	South San Diego	69,530	\$15,000,000	Partners Capital, Inc.	Border Business Center, LLC
1437–1463 Fayette St.	El Cajon	35,419	\$9,800,000	Skywater-El Cajon, LLC	Jack Goldberg
960–974 Rancheros Dr.	San Marcos	48,692	\$8,000,000	950 Rancheros, LLC	Malcolm Carter Enterprises

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5959 Santa Fe St.	Morena / Rose Canyon	131,299	Jan 2025	Anheuser-Busch (Renewal)	LBA Realty
2760 Progress St.	Vista	123,270	Jan 2025	Undisclosed	ARES Management
9350 Airway Rd.	Otay Mesa	119,044	Jan 2025	Brokerage & Logistic Solutions*	Badiee Development
7498 Colchester Ct.	Otay Mesa	102,099	Jan 2025	Foxx Development	Hines
1395 Aspen Way	Vista	81,928	Feb 2025	Lithium Energy Corp	The Hewson Company

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q1 2025	Square Feet Available	Availability Rate Q1 2025	Average Asking Lease Rate	Net Absorption Q1 2025	Net Absorption 2025	Gross Absorption Q1 2025	Gross Absorption 2025
Central County													
Central City	82	1,745,919	0	0	27,250	1.56%	40,850	2.34%	\$1.16	0	0	0	0
East City	58	603,460	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Southeast City	370	4,281,902	0	0	262,545	6.13%	273,909	6.40%	\$1.40	20,124	20,124	63,195	63,195
Kearny Mesa	419	9,994,418	0	0	481,332	4.82%	518,538	5.19%	\$1.90	(16,021)	(16,021)	91,462	91,462
Mission Gorge	106	1,790,982	0	0	28,086	1.57%	129,564	7.23%	\$1.95	7,976	7,976	10,286	10,286
Rose Canyon / Morena	131	2,022,891	0	0	98,627	4.88%	182,787	9.04%	\$1.54	(2,560)	(2,560)	9,912	9,912
Sports Arena / Airport	133	1,523,114	0	0	41,360	2.72%	128,984	8.47%	\$1.71	0	0	0	0
Miramar	584	13,396,173	0	85,000	1,019,933	7.61%	1,481,261	11.06%	\$1.70	(139,508)	(139,508)	178,307	178,307
Sorrento Mesa	68	3,189,550	0	0	165,331	5.18%	229,990	7.21%	\$1.81	(1,850)	(1,850)	30,103	30,103
Sorrento Valley/UTC	41	983,975	0	0	2,400	0.24%	2,400	0.24%	\$2.23	(2,400)	(2,400)	0	0
Central County Total	1,992	39,532,384	0	85,000	2,126,864	5.38%	2,988,283	7.56%	\$1.71	(134,239)	(134,239)	383,265	383,265
East County													
El Cajon	449	9,581,102	10,300	0	299,018	3.12%	367,265	3.83%	\$1.56	(15,843)	(15,843)	42,486	42,486
La Mesa / Spring Valley	306	2,798,611	0	0	72,722	2.60%	97,885	3.50%	\$1.83	11,071	11,071	23,710	23,710
Santee / Lakeside	287	3,902,749	0	188,492	34,267	0.88%	139,653	3.58%	\$1.55	6,372	6,372	21,054	21,054
Rural East County	87	988,729	0	0	121,240	12.26%	115,130	11.64%	\$1.06	(21,240)	(21,240)	0	0
East County Total	1,129	17,271,191	10,300	188,492	527,247	3.05%	719,933	4.17%	\$1.47	(19,640)	(19,640)	87,250	87,250
North County													
Escondido	641	7,778,482	88,552	0	326,507	4.20%	533,361	6.78%	\$1.54	(154,609)	(154,609)	26,229	26,229
Oceanside	398	9,132,481	0	520,446	381,546	4.18%	568,368	6.22%	\$1.32	39,936	39,936	150,416	150,416
San Marcos	474	8,132,559	0	223,175	747,526	9.19%	705,141	8.67%	\$1.41	(94,626)	(94,626)	110,286	110,286
Vista	524	13,557,366	22,480	123,705	1,047,475	7.73%	1,641,686	12.09%	\$1.36	11,564	11,564	180,195	180,195
Carlsbad	225	8,715,713	0	0	519,946	5.97%	939,492	10.78%	\$1.47	(37,654)	(37,654)	38,752	38,752
North Beach Cities	36	217,886	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Rural North County	124	1,181,231	0	0	77,625	6.57%	114,457	9.69%	\$0.63	(38,420)	(38,420)	28,000	28,000
North County Total	2,422	48,715,718	111,032	867,326	3,100,625	6.36%	4,502,505	9.22%	\$1.37	(273,809)	(273,809)	533,878	533,878
I-15 Corridor													
Poway	188	7,663,207	0	0	247,457	3.23%	323,862	4.23%	\$1.58	(7,749)	(7,749)	598	598
Rancho Bernardo	38	2,876,572	0	0	53,790	1.87%	106,676	3.71%	\$1.76	34,537	34,537	34,537	34,537
Scripps Ranch	26	698,647	0	86,000	0	0.00%	8,375	1.20%	\$1.32	10,565	10,565	10,565	10,565
I-15 Corridor Total	252	11,238,426	0	86,000	301,247	2.68%	438,913	3.91%	\$1.60	37,353	37,353	45,700	45,700
South County													
Chula Vista	327	9,011,511	0	178,156	1,079,315	11.98%	1,039,369	11.53%	\$1.46	(19,587)	(19,587)	38,820	38,820
National City	254	3,784,313	0	93,720	186,745	4.93%	209,065	5.52%	\$1.74	(63,126)	(63,126)	25,067	25,067
Otay Mesa	391	25,288,816	1,244,413	4,362,413	3,409,172	13.48%	4,127,161	15.55%	\$1.16	266,570	266,570	734,101	734,101
South San Diego	62	1,329,725	0	0	8,844	0.67%	112,947	8.49%	\$1.40	(4,301)	(4,301)	240	240
South County Total	1,034	39,414,365	1,244,413	4,634,289	4,684,076	11.88%	5,488,542	13.50%	\$1.28	179,556	179,556	798,228	798,228
San Diego County Total	6,829	156,172,084	1,365,745	5,861,107	10,740,059	6.88%	14,138,176	8.97%	\$1.44	(210,779)	(210,779)	1,848,321	1,848,321
0-9,999	3,055	15,587,564	0	0	360,935	2.32%	558,786	3.58%	\$1.73	(123,164)	(123,164)	89,658	89,658
10,000-19,999	1,781	25,284,012	10,300	0	817,254	3.23%	1,315,538	5.20%	\$1.59	(90,965)	(90,965)	249,516	249,516
20,000-34,999	966	24,849,201	22,480	27,720	1,298,517	5.23%	1,942,173	7.81%	\$1.55	(260,675)	(260,675)	222,713	222,713
35,000-49,999	381	15,730,450	43,000	49,538	726,671	4.62%	1,117,706	7.09%	\$1.37	1,764	1,764	209,258	209,258
50,000-99,999	391	27,011,820	88,552	760,940	2,221,092	8.22%	3,369,817	12.43%	\$1.41	(44,836)	(44,836)	421,803	421,803
100,000 Plus	255	47,709,037	1,201,413	5,022,909	5,315,590	11.14%	5,834,156	11.93%	\$1.13	307,097	307,097	655,373	655,373
San Diego County Total	6,829	156,172,084	1,365,745	5,861,107	10,740,059	6.88%	14,138,176	8.97%	\$1.44	(210,779)	(210,779)	1,848,321	1,848,321

Lease rates are on an industrial-gross basis.



Tax On, Tax Off

by **Patrick Connors**

SENIOR VICE PRESIDENT / PARTNER, SAN DIEGO
858.458.3359 . pconnors@voitco.com . Lic. #02009924

As I am sure you know, the San Diego Real Estate market enjoyed a huge bull run for more than a decade and went into overdrive during the post-Covid boom of 2020-2022. That run, however, met with some headwinds in 2023, and again in 2024 as investors and tenants waited on the election results to make any big decisions. After Trump was elected, the overwhelming expectation was that interest rates would begin to come down, defense spending would continue to prop up the San Diego market, and government deregulation in the private sector would spur new business investment. Initially, it appeared a bounce back in tenant and buyer activity in the industrial market would come to fruition. Leasing activity was up, and investor sentiment was on the rise. And then came the tariffs.

Trump came into office with a mandate for change and immediately took aggressive action, invoking tariffs against several of our most active trading partners, most notably for San Diego with our Mexican neighbors. Unfortunately for the industrial real estate market, most countries did not respond with concessions, but rather by invoking their own counter-tariffs. This threw the industrial market into flux, especially in the border area of Otay Mesa, but also across San Diego County and Southern California as a whole. Some industries and markets in San Diego would benefit from tariffs, while others would certainly be drastically hindered. Full tariffs or half tariffs or no tariffs, it is largely the uncertainty of how this shakes out that is paralyzing decision-makers across the market.

In this environment many companies are unable to make long-term decisions. Manufacturing operations need to decide if they should repatriate to San Diego to avoid tariffs, or if it will be business as usual. Not knowing which way the dominoes will fall has stagnated some market activity for now. Deals are still getting done, however, and market sentiment remains positive overall with most owners and investors agreeing that 2025 will be a rebound from 2024. But the sooner the trade war reaches a finite conclusion the better for everybody. Hopefully that conclusion isn't a drastic change one way or the other, as market stability will allow every business to confidently make sound, long-term decisions about the direction of their company.

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

Please Contact Us for Further Information

Joshua Brant
Regional Director of Research
jbrant@voitco.com

Anaheim, CA	Carlsbad, CA	Inland Empire, CA	Irvine, CA	Los Angeles, CA	San Diego, CA
714.978.7880	760.472.5620	909.545.8000	949.851.5100	424.329.7500	858.453.0505

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