

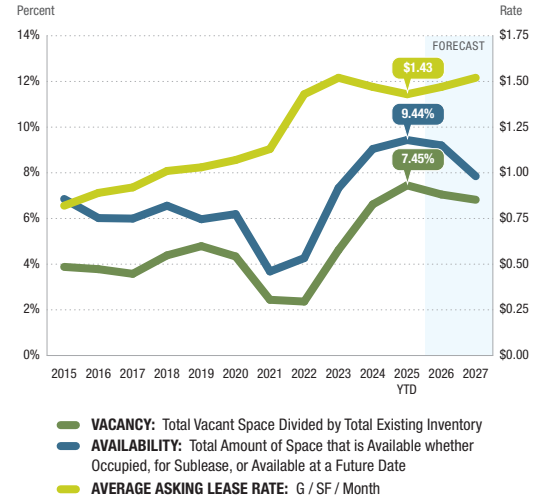
**OVERVIEW.** The tide has clearly shifted in the San Diego industrial market with the countywide vacancy rate tripling over the past two and a half years and asking rental rates pulling back from all-time highs. Steadily since the start of 2024, many landlords have taken a more aggressive approach in pursuing tenants via lowered rental rates and increased concessions.

**VACANCY & AVAILABILITY.** Direct/sublease space (unoccupied) finished Q2 at 7.45%, an increase of half a percentage point from the previous quarter's vacancy rate of 6.94%, and a big jump of 1.76 percentage points compared with Q2 2024's rate of 5.69%. Available space being marketed (regardless of occupancy status) was 9.44% of the county's inventory at the end of Q2, an identical rate of increase versus the previous quarter as the vacancy rate. There were 2.3 MSF of sublease space available at the end of Q2. Sublease availability has remained above 2 MSF for four consecutive quarters, compared with the 225,000 SF of sublease availability at the end of 2021. The elevated level of sublease space in the market indicates that there is a swath of industrial companies in the county struggling and looking to ease their financial strain by offloading excess real estate space.

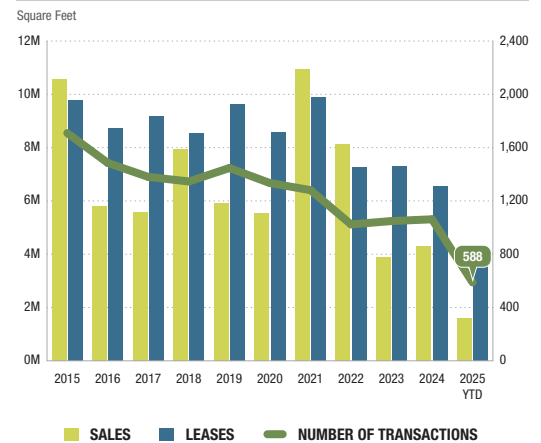
**LEASE RATES.** The average asking lease rate checked in at \$1.43 per square foot per month, a two-cent decrease from the previous quarter. The San Diego industrial market had seen asking rental rates skyrocket in the post-Covid period, increasing from \$1.04 in Q1 2020 to \$1.52 at the end of 2023. But, over the course of the last six quarters, the average asking rate has decreased by a total of 5.9%. This only reflects the movement of asking rates, while concessions such as free rent have increased significantly. The bull market in industrial rent growth is over for now, as increasing vacancy has placed pressure on San Diego industrial landlords who 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 231 lease transactions recorded in Q2, a bit above the quarterly average of 221 transactions between 2021–2024 when high occupancy rates kept the market tight. This is a typical activity level by recent standards but below the average for the preceding five years, which had a quarterly average of 293 lease transactions. The 2 MSF of total leasing in Q1 was the largest in a quarter since Q2 2021. But Q2 saw the leasing volume fail to reach 1.5 MSF for only the second time in the past two years. Otay Mesa continues to dominate the market for large lease transactions, as two of the top three lease transactions in Q2 occurred in that submarket. Sales volume remained subdued in Q2, registering less than \$150 million for the second consecutive quarter, following six consecutive quarters with a minimum of \$200 million in sales. With rental rate growth stalling, and interest rates remaining relatively high, demand for industrial investment sales has waned.

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



### Market Statistics

	Change Over Last Quarter	Q2 2025	Q1 2025	Q2 2024	% Change Over Last Year
Vacancy Rate	▲ UP	7.45%	6.94%	5.69%	30.85%
Availability Rate	▲ UP	9.44%	8.95%	7.84%	20.39%
Average Asking Lease Rate	▼ DOWN	\$1.43	\$1.45	\$1.49	(4.03%)
Sale & Lease Transactions	▼ DOWN	2,102,018	3,094,678	2,650,951	(20.71%)
Gross Absorption	▼ DOWN	1,483,522	1,836,071	1,603,383	(7.48%)
Net Absorption	▼ NEGATIVE	(764,932)	(226,417)	(191,480)	N/A

**ABSORPTION.** There were 764,932 SF of negative net absorption in Q2, marking the tenth 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, though vacancy has generally increased across the market. 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.** 348,078 SF of new industrial projects were delivered in the first two quarters of 2025, and 1.4 MSF was under construction at the close of Q2. The vast majority of the recent construction has been speculative, with minimal pre-leasing. Of the total space completed since the start of 2024, 50% remains available, while 53% of the 1.9 MSF 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 claimed 74% of the 12.3 MSF that has been completed since 2020, and 91% of the 1.4 MSF under construction at the end of Q2 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 4.0% in May 2025, down from a revised 4.1% in April 2025, and above the year-ago estimate of 3.6%. This compares with an unadjusted unemployment rate of 4.9% for California and 4.0% for the nation during the same period. Over the 12-month period between May 2024 and May 2025, San Diego County employment increased by 16,200 jobs, an increase of 1%. With the normal delay in reporting from the California EDD, employment figures from June were unavailable at the time of publishing this report. For the nation as a whole, 147,000 jobs were added in June, while the seasonally adjusted U.S. unemployment rate decreased from 4.2% to 4.1%.

## Forecast

Supply augmented with new deliveries, and demand tempered by macroeconomic uncertainty, have been moving in opposite directions for two and a half years. This has led to an increase in vacancy and a pullback in new lease and sale pricing. The tariffs introduced in 2025 have introduced uncertainty into the economy, and most investors and tenants alike will continue to be conservative when making important real estate decisions in the coming months until clarity of direction or outcome in trade policy is achieved.

## Significant Transactions

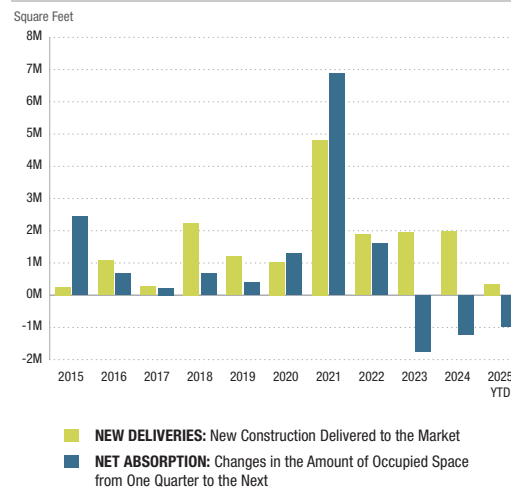
### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
4400 Ruffin Rd.	Kearny Mesa	202,547	\$80,050,000	CenterPoint Properties	LBA Realty
9605 Airway Rd.	Otay Mesa	72,158	\$16,200,000	The Bendetti Company	TA Realty
2260 Oak Ridge Way	Vista	59,379	\$13,360,500	San Diego Food Bank	Advanced Web Offset
8520–8575 Roland Acres Rd.	Santee	50,668	\$11,500,000	Bailey Roland Acres, LP	Mary Jade, LLC
1943–1995 Main St.	Barrio Logan	36,300	\$10,450,000	BBSD Investment Group, LLC	Stockholm Trust

### Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2055 Dublin Dr.	Otay Mesa	136,350	Jun-2025	(Undisclosed)	STAG Industrial
3266 Lionshead Ave.	Carlsbad	85,240	Apr-2025	(Undisclosed)	(Sublease)
2655 Melksee St.	Otay Mesa	66,243	Apr-2025	Frank's Distributing, Inc.	Binyan Realty, LP
2057 Aldergrove Ave.	Escondido	42,333	May-2025	Elite Moving & Storage	(Sublease)
7545 Carroll Rd.	Miramar	40,853	May-2025	ReproHAUS	051 Properties, LLC

## NEW DELIVERIES & NET ABSORPTION



INVENTORY				VACANCY & LEASE RATES					ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q2 2025	Square Feet Available	Availability Rate Q2 2025	Average Asking Lease Rate	Net Absorption Q2 2025	Net Absorption 2025	Gross Absorption Q2 2025	Gross Absorption 2025
Central County													
Central City	80	1,683,342	0	0	14,750	0.88%	15,492	0.92%	\$1.06	12,500	12,500	20,000	20,000
East City	58	604,424	0	0	4,750	0.79%	11,750	1.94%	\$1.65	(4,750)	(4,750)	0	0
Southeast City	368	4,223,329	0	0	243,640	5.77%	340,658	8.07%	\$1.39	11,975	32,099	20,975	84,170
Kearny Mesa	417	9,973,643	0	0	546,242	5.48%	548,736	5.50%	\$1.89	(1,462)	(30,233)	92,459	171,171
Mission Gorge	105	1,788,479	0	0	122,526	6.85%	167,926	9.39%	\$1.69	(94,440)	(86,464)	10,580	20,866
Rose Canyon / Morena	131	2,020,049	0	0	217,375	10.76%	218,532	10.82%	\$1.57	(118,748)	(121,308)	1,769	11,681
Sports Arena / Airport	133	1,536,811	0	0	57,283	3.73%	112,684	7.33%	\$1.62	(15,923)	(15,923)	5,000	5,000
Miramar	580	13,372,041	0	85,000	1,032,888	7.72%	1,426,400	10.67%	\$1.67	54,944	(138,944)	306,547	484,854
Sorrento Mesa	67	3,178,043	0	0	317,421	9.99%	324,120	10.20%	\$1.86	(128,184)	(130,034)	28,599	58,702
Sorrento Valley/UTC	42	989,975	0	0	8,200	0.83%	8,200	0.83%	\$2.23	(5,800)	(8,200)	0	0
Central County Total	1,981	39,370,136	0	85,000	2,565,075	6.52%	3,174,498	8.06%	\$1.68	(289,888)	(491,257)	485,929	856,444
East County													
El Cajon	449	9,536,967	0	0	364,263	3.82%	493,542	5.18%	\$1.57	(54,945)	(70,788)	20,521	63,007
La Mesa / Spring Valley	305	2,797,391	0	0	81,375	2.91%	120,097	4.29%	\$1.65	(8,653)	2,918	2,478	26,688
Santee / Lakeside	287	3,902,583	0	192,245	50,779	1.30%	152,004	3.89%	\$1.53	(16,512)	(10,140)	8,425	29,479
Rural East County	89	991,677	0	0	103,400	10.43%	103,400	10.43%	\$1.36	17,840	(3,400)	21,240	21,240
East County Total	1,130	17,228,618	0	192,245	599,817	3.48%	869,043	5.04%	\$1.55	(62,270)	(81,410)	52,664	140,414
North County													
Escondido	640	7,834,495	0	0	369,383	4.71%	482,493	6.16%	\$1.47	(42,876)	(197,485)	87,022	113,251
Oceanside	397	9,153,261	0	520,446	385,181	4.21%	563,421	6.16%	\$1.26	(3,635)	36,301	84,715	235,131
San Marcos	474	8,135,905	0	223,175	767,013	9.43%	715,671	8.80%	\$1.41	(15,459)	(114,113)	64,071	174,357
Vista	527	13,591,540	123,705	0	1,043,241	7.68%	1,771,570	12.92%	\$1.31	26,714	38,278	127,329	307,524
Carlsbad	226	8,836,287	0	0	608,009	6.88%	1,019,532	11.54%	\$1.50	(88,063)	(125,717)	48,472	87,224
North Beach Cities	36	217,886	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Rural North County	127	1,152,182	0	0	31,617	2.74%	126,709	11.00%	\$0.99	(13,472)	2,888	3,868	31,868
North County Total	2,427	48,921,556	123,705	743,621	3,204,444	6.55%	4,679,396	9.54%	\$1.36	(136,791)	(359,848)	415,477	949,355
I-15 Corridor													
Poway	188	7,661,462	0	0	252,408	3.29%	322,831	4.21%	\$1.59	(5,596)	(13,345)	24,076	24,674
Rancho Bernardo	38	2,877,641	0	0	60,072	2.09%	167,141	5.81%	\$1.60	(6,282)	28,255	24,235	58,772
Scripps Ranch	26	698,647	0	86,000	0	0.00%	15,110	2.16%	\$1.38	0	10,565	0	10,565
I-15 Corridor Total	252	11,237,750	0	86,000	312,480	2.78%	505,082	4.49%	\$1.59	(11,878)	25,475	48,311	94,011
South County													
Chula Vista	326	8,908,972	0	288,814	1,225,472	13.76%	1,073,353	12.05%	\$1.48	(146,157)	(165,744)	71,704	110,524
National City	254	3,781,438	0	93,720	154,231	4.08%	311,897	8.25%	\$1.75	32,514	(30,612)	50,599	75,666
Otay Mesa	392	25,298,636	1,244,413	4,362,413	3,548,892	14.03%	4,129,267	15.56%	\$1.16	(139,960)	126,850	354,535	1,088,636
South San Diego	62	1,329,732	0	0	19,346	1.45%	112,989	8.50%	\$1.42	(10,502)	(14,803)	4,303	4,543
South County Total	1,034	39,318,778	1,244,413	4,744,947	4,947,941	12.58%	5,627,506	13.87%	\$1.27	(264,105)	(84,309)	481,141	1,279,369
San Diego County Total	6,824	156,076,838	1,368,118	5,851,813	11,629,757	7.45%	14,855,525	9.44%	\$1.43	(764,932)	(991,349)	1,483,522	3,319,593
0-9,999	3,053	15,567,136	0	0	402,899	2.59%	540,619	3.47%	\$1.64	(40,677)	(168,969)	145,736	235,894
10,000-19,999	1,782	25,297,870	0	0	884,448	3.50%	1,321,773	5.22%	\$1.59	(58,375)	(134,340)	252,798	502,314
20,000-34,999	963	24,793,511	0	27,720	1,517,338	6.12%	2,016,699	8.13%	\$1.51	(196,341)	(469,766)	230,930	440,893
35,000-49,999	377	15,561,869	43,000	91,438	905,285	5.82%	1,208,814	7.75%	\$1.42	(178,614)	(176,850)	98,650	307,908
50,000-99,999	396	27,364,452	0	833,451	2,586,552	9.45%	3,691,408	13.49%	\$1.38	(242,406)	(354,782)	433,481	855,284
100,000 Plus	253	47,492,000	1,325,118	4,899,204	5,333,235	11.23%	6,076,212	12.45%	\$1.15	(48,519)	313,358	321,927	977,300
San Diego County Total	6,824	156,076,838	1,368,118	5,851,813	11,629,757	7.45%	14,855,525	9.44%	\$1.43	(764,932)	(991,349)	1,483,522	3,319,593

Lease rates are on an industrial-gross basis.



## Lackluster and Uncertain – For Now

by **Michael Mossmer**

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At the conclusion of the second quarter of 2025, I have had the opportunity to speak with many people in various capacities within the real estate industry including brokers, landlords, tenants, developers, and lenders. In these discussions, I have noticed a couple of words often being used in today's parlance when describing the current state of the previously white-hot industrial market. These words are "lackluster" and "uncertain." The industrial market, for many years, was the darling of the real estate investment world, and clearly the real estate investment of choice. Investors were so keen to purchase that they were purchasing properties under construction, on a forward basis, in the hope of landing one of the many credit tenants expanding in the market including companies like Amazon and Walmart. This made sense at the time, as interest rates remained low and both rents and property values were rising to match the extreme enthusiasm for the industrial warehouse/distribution market. There was excitement coupled with hope. But as we know, all good times must come to an end. And so went the market enthusiasm which has now dulled into the lackluster environment we have seen over the last two years.

Any remaining enthusiasm in the general economy has been squelched by current US trade policy. We find ourselves in a dire situation for business decision-makers, as a result of the Trump Administration's tariff policies and additional economic sanctions that have either been imposed or threatened. Of particular harm to the San Diego economy are the impacts to Mexico, including the recent announcement of a 30% tariff set to take effect August 1. These and other policies have had a tremendous dampening effect on South San Diego County, further exacerbating an already slowing economy. These policies and the way they have been so haphazardly introduced have brought extreme uncertainty to the market, which is untenable for anyone facing a real estate-related decision. This has not been a decision factor in our lifetimes, but now industrial tenants and landlords alike are feeling the negative effects of this uncertainty, not only in the South County, but also in all of Southern California and beyond. The result is a paralysis of many decision-makers, whether they are buying, selling, or leasing real estate.

There is, however, a glimmer of hope on the horizon, as I see silver linings in those dark clouds. The worst of times are followed by the best of times, and we are in that transition phase. I see encouraging signs that the economy is slowly turning the corner, the tariff policies will be understood and their negative effect will be mitigated, and soon enough our resilient economy, lifted by our resilient spirit, will be on the mend and heading for prosperous times once again.

## 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

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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