SD Q3 25

THIRD QUARTER 2025 MARKET REPORT

SAN DIEGO INDUSTRIAL

Voit REAL ESTATE SERVICES

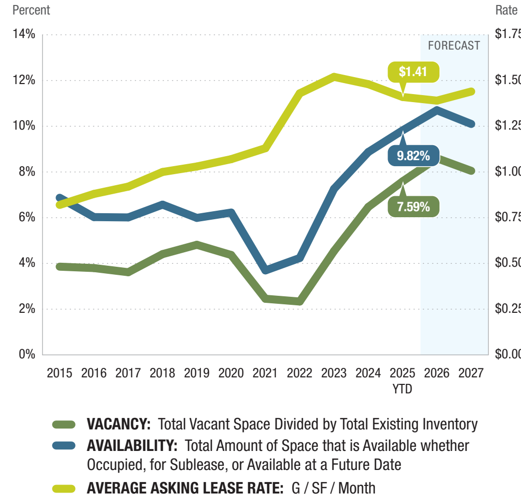
OVERVIEW. The tide has clearly shifted in the San Diego industrial market with the countywide vacancy rate tripling over the past two and a half years and asking rental rates pulling back from all-time highs. Steadily since the start of 2024, many landlords have taken a more aggressive approach in pursuing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

VACANCY & AVAILABILITY. Direct / sublease space (unoccupied) finished Q3 at 7.59%, an increase of 25 basis points from the previous quarter's vacancy rate of 7.34%, and a big jump of 1.68 percentage points compared with Q3 2024's rate of 5.91%. Available space being marketed (regardless of occupancy status) was 9.82% of the county's inventory at the end of Q3, an equivalent increase of percentage points versus the previous year as the vacancy rate. There were 1.9 MSF of sublease space available at the end of Q3. Sublease availability has dipped below 2 MSF for the first time in over a year. This compares to 225,000 SF of sublease availability at the end of 2021. The elevated level of sublease space in the market is one more indicator of the change in market dynamics of over the course of the last three years.

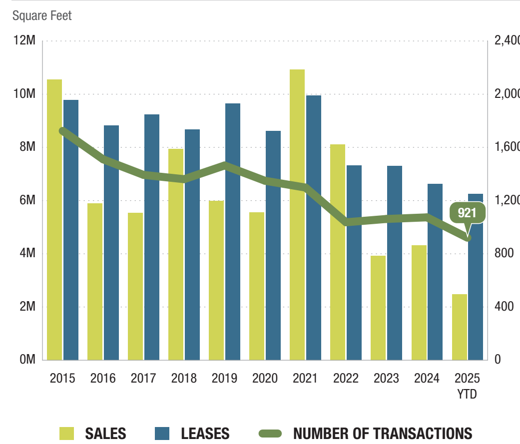
LEASE RATES. The average asking lease rate checked in at $1.41 per square foot per month, a three-cent decrease from the previous quarter. The San Diego industrial market had seen asking rental rates skyrocket in the post-Covid period, increasing from $1.04 in Q1 2020 to $1.52 at the end of 2023. But, over the course of the last seven quarters, the average asking rate has decreased by a total of 7.2%. This only reflects the movement of average asking rates, while concessions such as free rent and introductory promotional rates have increased significantly. Landlords are now going to such efforts as upgrading power to land prospective tenants. 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.

TRANSACTION ACTIVITY. There were 249 lease transactions recorded in Q3, above the quarterly average of 221 transactions between 2021–2024 when high occupancy rates kept the market tight. This was a relatively typical activity level by recent standards, but still below the average for the preceding five years, which had a quarterly average of 293 lease transactions. The 1.8 MSF of total leasing in Q3 put the market on an annualized pace 8.3 MSF for 2025. This would be the largest amount of leasing in a calendar year since 2021. Increased availability in the market and landlords getting aggressive with concessions have led to an uptick in leasing activity in 2025, but sales volume remained subdued in Q3. There has been $570 million of industrial building sales in 2025, and the market is on pace for the first year with less than $1 billion of sales since 2017. 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

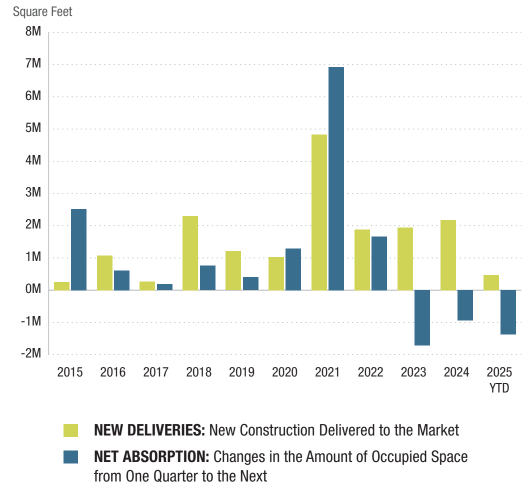
	Change Over Last Quarter	Q3 2025	Q2 2025	Q3 2024	% Change Over Last Year
Vacancy Rate	UP	7.59%	7.34%	5.91%	28.47%
Availability Rate	UP	9.82%	9.32%	8.13%	20.75%
Average Asking Lease Rate	DOWN	$1.41	$1.44	$1.49	(5.37%)
Sale & Lease Transactions	DOWN	2,368,358	3,206,733	2,655,093	(10.80%)
Gross Absorption	UP	1,954,436	1,533,689	1,511,464	29.31%
Net Absorption	NEGATIVE	(283,871)	(804,382)	(145,088)	N/A

ABSORPTION. There were 283,871 SF of negative net absorption in Q3, bringing the 2025 total to a 1.4 MSF decrease in the total industrial-occupier footprint. The market is firmly on track for a third consecutive year 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, and vacancy has 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. 472,078 SF of new industrial projects were delivered in the first three quarters of 2025, and 2 MSF was under construction at the close of Q3. The majority of the recent construction has been speculative, with minimal pre-leasing. Of the total space completed since the start of 2023, 49% remains available, while 44% of the 2 MSF under construction at the end of Q3 2025 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 74% of the 12.5 MSF that has been completed since 2020, and 94% of the 2 MSF under construction at the end of Q3 2025. The largest building under construction at the end of Q3 2025 was a 1.1 MSF Amazon fulfillment center in Otay Mesa which is set to deliver in 2025.

EMPLOYMENT. The unemployment rate in San Diego County was 5.0% in August 2025, down from a revised 5.2% in July 2025, and above the year-ago estimate of 4.9%. This compares with an unadjusted unemployment rate of 5.8% for California and 4.5% for the nation during the same period. Over the 12-month period between August 2024 and August 2025, San Diego County employment increased by 7,700 jobs, an increase of 0.5%. With the normal delay in reporting from the California EDD, employment figures from September were unavailable at the time of publishing this report. For the nation as a whole, 22,000 jobs were added in August, while the seasonally adjusted U.S. unemployment rate increased from 4.2% to 4.3%, the highest unemployment rate since October 2021.

NEW DELIVERIES & NET ABSORPTION



Forecast

The existing 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 while awaiting clarity of direction or outcome in trade policy and the overall economy.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2791 & 2793 Loker Ave. W.	Carlsbad	78,143	$17,800,000	GID	MetLife, Inc.
1332 & 1336 Rocky Point Dr.	Oceanside	51,081	$14,715,000	Foster Display Group	Rexford Industrial
495 Raleigh Ave.	El Cajon	46,000	$10,500,000	Raleigh Ventures, LLC	M. House Family LP
1230 Avenida Chelsea	Vista	38,802	$8,918,500	Atomic Investments, Inc.	The Paskin Group
950 Borra Pl.	Escondido	27,980	$8,550,000	Excelsior Partners, LLC	Meridian Properties

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
8888 Balboa Ave.	Kearny Mesa	123,492	Jul-2025	Solar Turbines	Rexford Industrial
1201 Park Center Dr.	Vista	96,745	Aug-2025	(Undisclosed)	(Sublease)
10926 Woodside Ave. N.	Santee	91,923	Sep-2025	Highland Homes	(Sublease)
2727 Kurtz St.	Sports Arena	83,649	Jul-2025	Saronic Technologies	Realterm
2660 Sarnen St.	Otay Mesa	71,500	Jul-2025	Goggin Warehousing	EastGroup Properties

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q3 2025	Square Feet Available	Availability Rate Q3 2025	Average Asking Lease Rate	Net Absorption Q3 2025	Net Absorption 2025	Gross Absorption Q3 2025	Gross Absorption 2025
Central County													
Central City	78	1,593,071	0	0	0	0.00%	7,992	0.50%	$1.06	14,750	(7,070)	14,750	34,750
East City	58	604,424	0	0	4,750	0.79%	11,750	1.94%	$1.65	0	(4,750)	0	0
Southeast City	367	4,218,544	0	0	342,384	8.12%	364,649	8.64%	$1.32	(98,744)	(66,645)	9,000	93,170
Kearny Mesa	417	10,143,120	0	0	358,233	3.53%	425,376	4.19%	$1.89	131,850	197,713	193,348	404,456
Mission Gorge	105	1,788,479	5,320	0	136,798	7.65%	164,900	9.19%	$1.72	(14,272)	(100,736)	32,138	53,004
Rose Canyon / Morena	131	2,019,360	0	0	212,389	10.52%	238,084	11.79%	$1.58	10,486	(116,322)	17,748	34,929
Sports Arena / Airport	133	1,556,161	0	0	68,545	4.40%	100,841	6.48%	$1.60	(11,262)	(27,185)	0	5,000
Miramar	576	13,326,447	0	85,000	1,099,481	8.25%	1,455,837	10.92%	$1.66	(66,593)	(219,237)	226,385	711,239
Sorrento Mesa	67	3,178,043	0	0	352,468	11.09%	284,783	8.96%	$1.85	(35,047)	(165,081)	30,750	89,452
Sorrento Valley/UTC	42	989,975	0	0	7,400	0.75%	7,400	0.75%	$2.23	800	(7,400)	800	800
Central County Total	1,974	39,417,624	5,320	85,000	2,582,448	6.55%	3,061,612	7.77%	$1.67	(68,032)	(516,713)	524,919	1,426,800
East County													
El Cajon	449	9,543,171	0	0	347,814	3.64%	476,922	5.00%	$1.60	16,449	(54,339)	52,998	116,005
La Mesa / Spring Valley	302	2,789,670	0	0	69,516	2.49%	47,032	1.69%	$1.63	8,884	11,802	21,834	48,522
Santee / Lakeside	287	3,888,395	0	192,245	78,743	2.03%	91,300	2.35%	$1.48	(27,964)	(38,104)	20,650	50,129
Rural East County	90	994,760	0	0	9,800	0.99%	9,800	0.99%	$1.12	(2,400)	(5,800)	0	21,240
East County Total	1,128	17,215,996	0	192,245	505,873	2.94%	625,054	3.63%	$1.54	(5,031)	(86,441)	95,482	235,896
North County													
Escondido	640	7,799,289	0	0	361,865	4.64%	483,671	6.20%	$1.41	7,518	(189,967)	73,509	186,760
Oceanside	396	9,144,256	0	520,446	387,173	4.23%	547,710	5.99%	$1.26	(1,992)	34,309	110,386	345,517
San Marcos	481	8,208,797	0	223,175	760,090	9.26%	703,108	8.57%	$1.40	6,923	(107,190)	86,391	260,748
Vista	528	13,614,144	123,705	0	1,235,652	9.08%	1,648,908	12.00%	$1.27	(192,411)	(154,133)	41,044	348,568
Carlsbad	233	9,096,572	0	0	662,553	7.28%	1,167,341	12.83%	$1.46	(41,391)	(173,493)	161,017	249,826
North Beach Cities	36	217,886	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Rural North County	128	1,153,556	0	10,000	25,607	2.22%	143,818	12.47%	$0.98	6,010	8,898	15,210	47,078
North County Total	2,442	49,234,500	123,705	753,621	3,432,940	6.97%	4,694,556	9.51%	$1.33	(215,343)	(581,576)	487,557	1,438,497
I-15 Corridor													
Poway	188	7,664,377	0	0	244,656	3.19%	257,629	3.36%	$1.64	7,752	(5,593)	64,884	89,558
Rancho Bernardo	38	2,877,641	0	0	129,713	4.51%	263,368	9.15%	$1.50	(69,641)	(41,386)	0	58,772
Scripps Ranch	26	698,630	0	86,000	67,269	9.63%	70,429	10.08%	$1.43	(67,269)	(56,704)	0	10,565
I-15 Corridor Total	252	11,240,648	0	86,000	441,638	3.93%	591,426	5.26%	$1.59	(129,158)	(103,683)	64,884	158,895
South County													
Chula Vista	325	8,882,806	0	110,658	1,142,978	12.87%	1,102,733	12.41%	$1.30	58,476	(107,268)	87,751	198,275
National City	254	3,760,365	0	93,720	189,435	5.04%	360,359	9.58%	$1.71	(35,204)	(65,816)	35,238	110,904
Otay Mesa	394	25,401,545	1,866,586	3,750,173	3,491,012	13.74%	5,020,656	18.41%	$1.16	181,880	175,554	654,865	1,748,246
South San Diego	62	1,329,728	0	0	90,805	6.83%	106,889	8.04%	$1.40	(71,459)	(86,262)	3,740	8,283
South County Total	1,035	39,374,444	1,866,586	3,954,551	4,914,230	12.48%	6,590,637	15.98%	$1.24	133,693	(83,792)	781,594	2,065,708
San Diego County Total	**6,831**	**156,483,212**	**1,995,611**	**5,071,417**	**11,877,129**	**7.59%**	**15,563,285**	**9.82%**	**$1.41**	**(283,871)**	**(1,372,205)**	**1,954,436**	**5,325,796**
0-9,999	3,057	15,601,829	5,320	0	446,892	2.86%	575,616	3.69%	$1.63	(41,468)	(214,337)	153,174	399,313
10,000-19,999	1,779	25,232,249	0	10,000	892,382	3.54%	1,363,621	5.40%	$1.58	3,936	(163,004)	322,443	824,757
20,000-34,999	968	24,889,732	0	27,720	1,398,252	5.62%	2,057,133	8.26%	$1.49	84,520	(400,403)	375,438	817,916
35,000-49,999	376	15,523,285	43,000	91,438	1,099,300	7.08%	1,408,954	9.05%	$1.39	(194,015)	(370,865)	94,166	402,074
50,000-99,999	395	27,309,696	309,093	658,291	2,797,187	10.24%	3,596,089	13.02%	$1.34	(362,794)	(717,576)	192,277	991,402
100,000 Plus	256	47,926,421	1,638,198	4,283,968	5,243,116	10.94%	6,561,872	13.24%	$1.13	225,950	493,980	816,938	1,890,334
San Diego County Total	**6,831**	**156,483,212**	**1,995,611**	**5,071,417**	**11,877,129**	**7.59%**	**15,563,285**	**9.82%**	**$1.41**	**(283,871)**	**(1,372,205)**	**1,954,436**	**5,325,796**

Lease rates are on an industrial-gross basis.

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SAN DIEGO INDUSTRIAL

Voit
REAL ESTATE SERVICES

Turning The Ship

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San Diego's industrial real estate sector continues to face headwinds as market fundamentals soften further. Asking lease rates have been on a steady decline since 2022, and lease transactions are now regularly closing at rates below asking. Landlords, eager to generate leasing activity, are also being forced to provide additional concessions, even for less-qualified tenants. Countywide vacancy increased again this quarter, reflecting longer lease-up times. On the owner/ user and investment side, industrial sales pricing has remained relatively stable, but this is primarily a result of reduced sales volume as a result of unrealistic seller expectations. Development pipelines have also slowed, with few new speculative projects breaking ground as developers wait for rental rate growth to return and for more favorable financing conditions.

The Flex and R&D markets also remain under significant pressure, primarily due to an oversupply of life science space. Much of the new construction that broke ground during the sector's boom has now been delivered, leaving San Diego with millions of square feet of unoccupied first-generation space. The vacancy rate continued to climb in Q3, forcing landlords to reduce asking rents to attract tenants. Some projects have dropped rates by as much as 35% since 2022. Even with these adjustments, absorption has been sluggish. Venture capital funding has also slowed considerably compared with prior years, as investors have become increasingly risk averse. Funding that does get deployed is flowing to more established R&D users rather than early-stage firms, limiting demand from the very companies that previously fueled the sector's growth. As a result, several submarkets—particularly Sorrento Mesa and Torrey Pines—are experiencing rising sublease availability and heightened competition among landlords seeking to capture a limited pool of active tenants.

Across San Diego's commercial real estate landscape tenants maintain the upper hand, successfully negotiating renewals and relocations with favorable concessions. The balance of power has shifted, as landlords prioritize filling space and maintaining income streams over holding firm on pricing. At the same time, deal velocity has slowed, with decision-making timelines stretching out across the board. Both tenants and landlords are taking a more cautious approach, reflecting uncertainty around broader economic conditions and future demand. As a result, while opportunities exist for well-capitalized tenants to secure attractive lease terms, landlords face an increasingly competitive environment in which a proactive strategy is essential to secure and sustain occupancy that optimizes asset performance.

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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