Leasing Activity Surges While Availability Continues to Climb

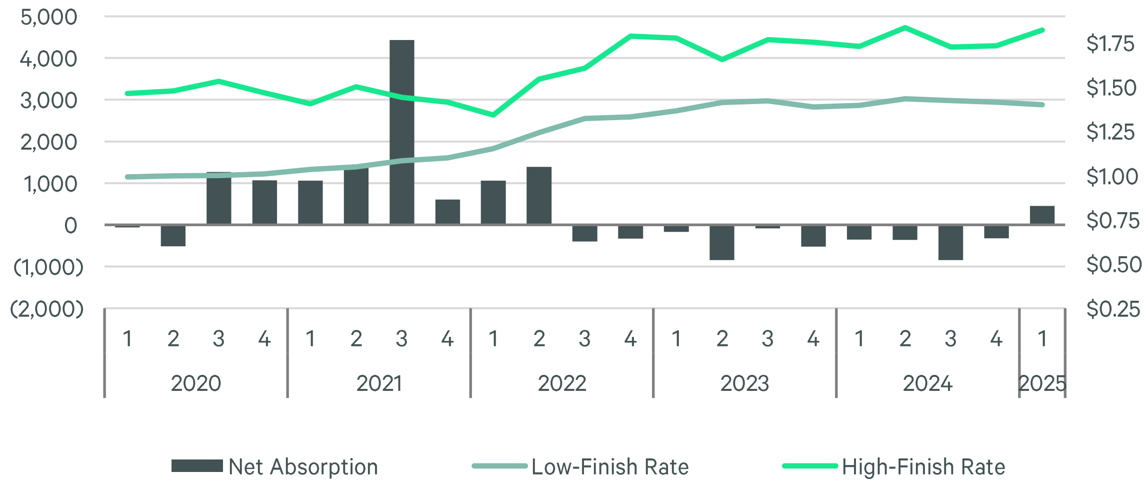
▶ 6.2%	▲ 449,514	▼ 1,525,930	▼ $1.40 NNN	▲ $1.82 NNN
Vacancy Rate	SF Net Absorption	SF Under Construction	Low-finish Lease Rate	High-finish Lease Rate

Note: Arrows indicate change from previous quarter.

HIGHLIGHTS

- The industrial availability rate increased by 10 bps in Q1 to 8.8%, after expanding by 60 bps in Q4.
- Net absorption was positive for the first time in eleven quarters, with leasing activity reaching its highest level since Q2 2022.
- Low-finish asking rents, despite decreasing from 2024's Q2 record-high, still came in well above the 12-quarter average.
- High-finish asking rents, after similarly surging to an all-time high in Q2 2024, increased by 5.2% Q-o-Q, coming in just below the record high and surpassing the 12-quarter average.
- Available sublet space decreased 10 bps from Q4 to 1.6%, the first Q-o-Q decrease in six quarters.
- After deliveries saw significant improvement in Q4, Q1 deliveries fell by more than half and came in well below the two-year average.

FIGURE 1: Net Absorption (SF in Thousands) vs. Asking Lease Rate (PSF/MO/NNN)



Source: CBRE Research, Q1 2025

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MARKET OVERVIEW

The San Diego industrial market saw vacancies stay constant while demand significantly improved in Q1. Overall market fundamentals remained healthy when compared to pre-pandemic historical averages. In the long-term that trend is likely to continue, as the market should benefit from a relatively finite supply of industrial product. Outside of South San Diego, most areas have little land available for growth, which will stunt new construction and keep supply-driven pressure to a minimum.

The local industrial market appears to be well positioned for the future, and though vacancies could move higher in the near-term, modest inventory expansion and a growing economy should hold fundamentals in check.

UNEMPLOYMENT

As has been the standard since June 2020, San Diego's unemployment rate remained below the California average. In February, the most recent month for which data was available, the unemployment rate stood at 4.4%, or 110 basis points (bps) below the state norm. This rate also represents a 30 bps decrease year-over-year (Y-o-Y). Additionally, the unemployment rate in February decreased from both Q4 and Q3 of 2024, where it touched the 5%-range for the first time since October 2021. The move higher was driven by people rejoining the workforce, as opposed to a decrease in payrolls. Industrial hiring has been largely stagnant over the past 12 months. However, the number of industrial-using jobs fell by a combined 2.9% in January and February, following a 12-month high in December.

ASKING LEASE RATE ANALYSIS

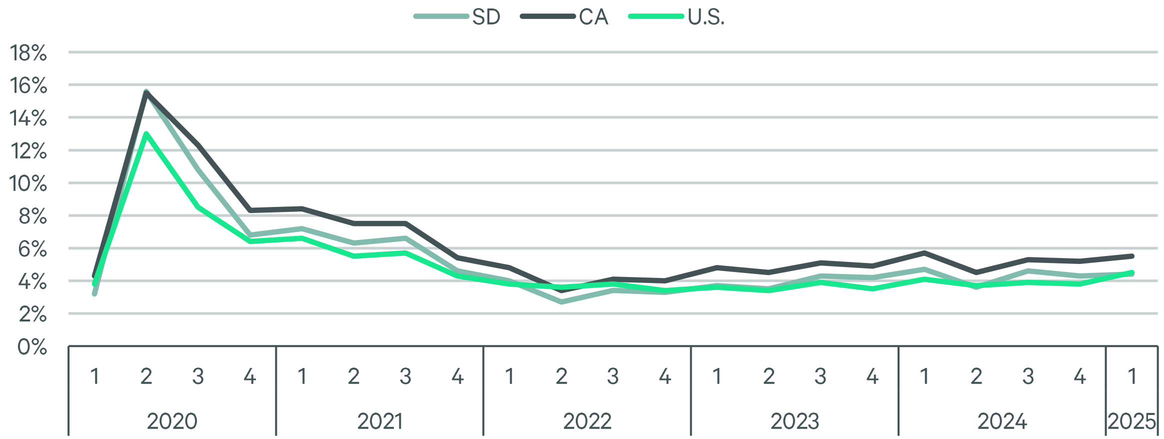
Asking rents have experienced remarkable expansion this decade, particularly for low-finish product. While growth cooled in Q4 due to waning demand, Q1 saw demand greatly improved.

Q-o-Q, the average low-finish asking rent decreased by 0.7%, and remained flat Y-o-Y. Since the end of 2019, rates have surged by an extraordinary 38%. Meanwhile, high-finish rents increased by 5% from Q4 and came in well above the 12-month average. While not as dramatic as low-finish, high-finish rents have grown by 22% since the end of 2019.

The average low-finish rate moved higher Q-o-Q in one of San Diego's five submarkets, with Central San Diego seeing a rise of 1.8%.

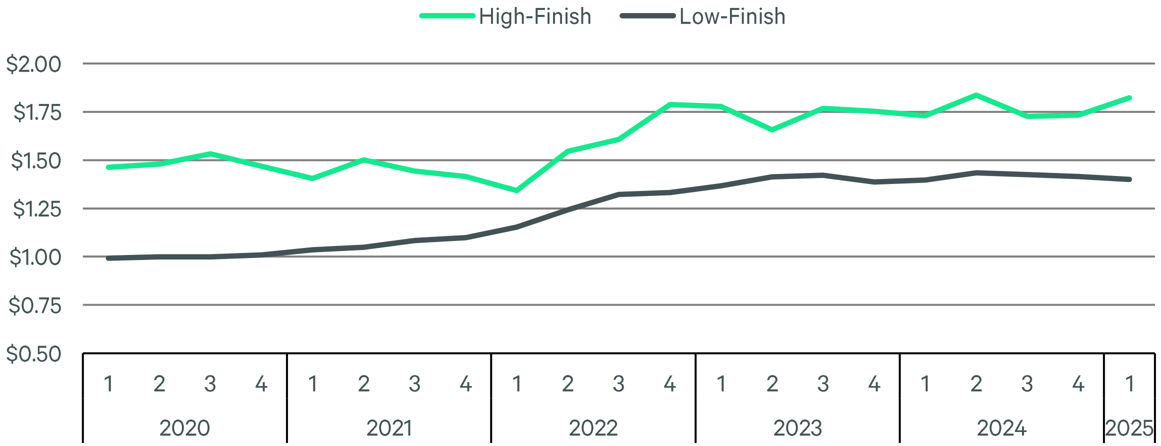
As home to 64.6 million sq. ft., or 34.3%, of all local product, Central San Diego is the county's largest industrial submarket, with Pacific Beach/Rose Canyon/Morena and Rancho Bernardo among its top performing areas in Q1.

FIGURE 2: Unemployment Rate (%)



Source: U.S. Bureau of Labor Statistics, Q1 2025

FIGURE 3: Average Asking Lease Rate ($PSF/MO/NNN)



Source: CBRE Research, Q1 2025

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VACANCY & AVAILABILITY

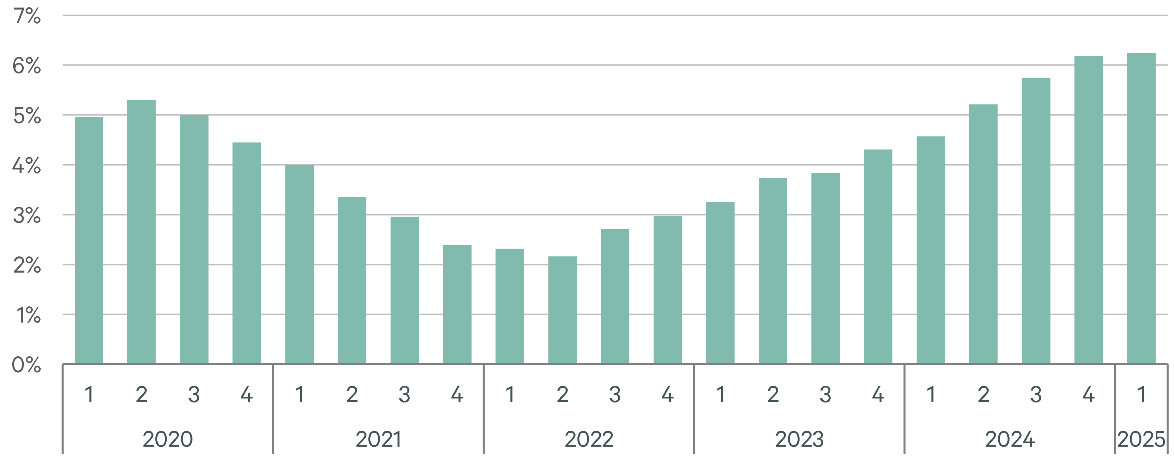
Industrial availability continued to climb in Q1, while vacancy remained unchanged. Q-o-Q, total availability increased 10 bps, to 8.8%, while total vacancy held steady at 6.2%. Still, those levels are near the market's historical norms. San Diego's average industrial vacancy rate from 2010-19 was 6.5%, while total availability during the same period averaged 9.3%.

The vacancy rate increased in four of the five submarkets, with the largest downturn coming in North County increasing by 50 bps to 6.1%, largely due to new deliveries this quarter. Central San Diego and East County both saw vacancies rise marginally.

South San Diego vacancies decreased for the first time in eight quarters, dropping from 11.2% to 10.2%, driven by the highest leasing activity in the area since 2022. Despite this, vacancies remain high due to ongoing new product deliveries. In sum, South San Diego has gained 9.4 million sq. ft. of new inventory since 2020.

Sublease availabilities fell in Q1 to 1.6%, decreasing 10 bps Q-o-Q while increasing 40 bps Y-o-Y, due to several large blocks of space being added to the market in 2024. The current largest available sublease block on the market is a 141K sq. ft. R&D space in Rancho Bernardo.

FIGURE 4: Vacancy Rate (%)



Source: CBRE Research, Q1 2025

NET ABSORPTION & LEASING ACTIVITY

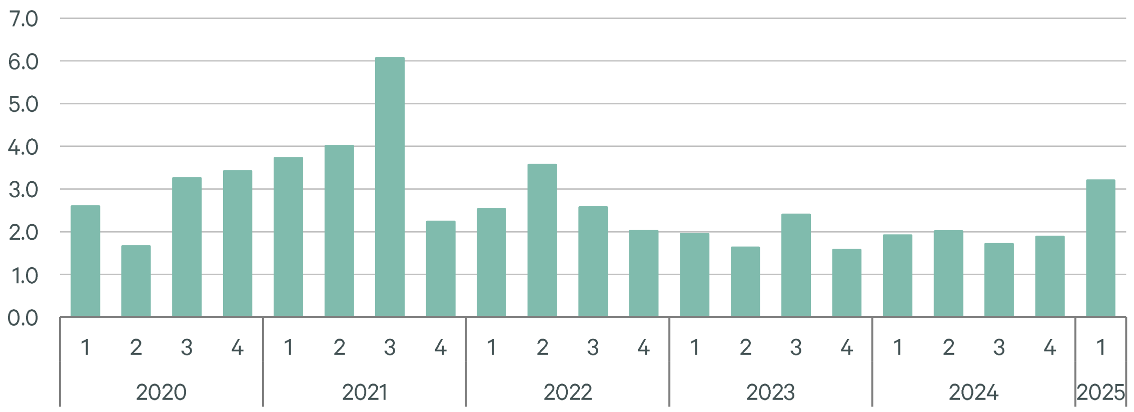
In Q1, demand was positive for the first time since 2022. A total of 449,514 sq. ft. of positive net absorption was recorded, marking a notable shift from the average 424K of negative absorption we've seen over the past 10 quarters. Q1 leasing activity reached 3.2 million sq. ft., significantly higher than the 1.8 million sq. ft. average of the past two years.

South San Diego accounted for much of the county's positive demand in Q1, contributing 437,886 sq. ft. of positive absorption primarily driven by the leasing or withdrawal of three spaces, each exceeding 100K sq. ft. North County also saw positive absorption, totaling 112,730 sq. ft., largely due to a 123K sq. ft. lease. Conversely, the remaining three submarkets recorded slight negative absorption in Q1. South County secured one of the largest deals of the quarter, with JD Group leasing the entire 119,044 sq. ft. building at 2080 Sanyo St in Otay Mesa.

The majority of demand came from low-finish space, which constitutes almost 83% of San Diego's industrial product. Net absorption for this type of space amounted to 352,562 sq. ft. In terms of leasing activity, warehouse/distribution was the strongest subtype, with over 1.4 million sq. ft. of activity in Q1.

The turnaround in absorption, along with the highest leasing activity since 2022, reflects strong demand for occupiers' space needs. Despite the negative absorption in recent quarters, the uptick in availability could offer solutions for expanding tenants, particularly in the most impacted submarkets.

FIGURE 5: Leasing Activity (SF in Millions)



Source: CBRE Research, Q1 2025

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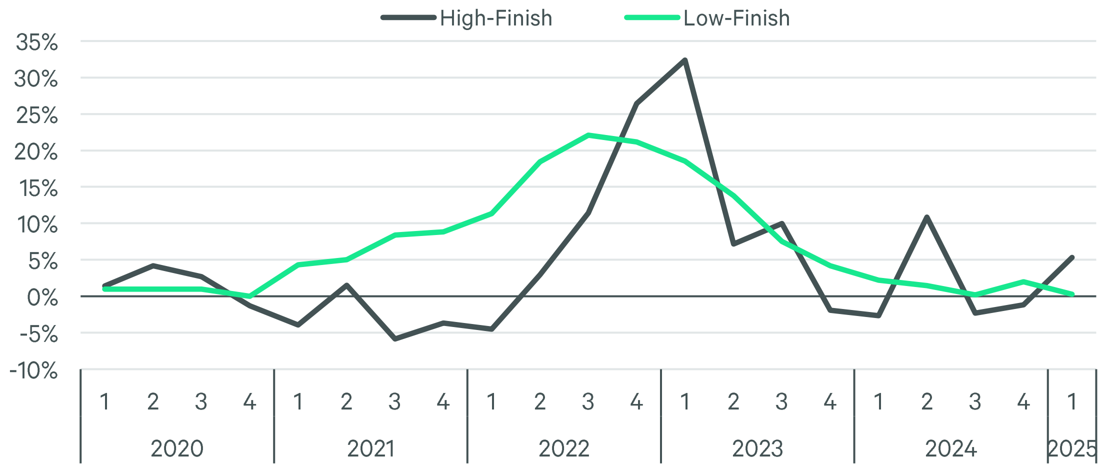
FIGURE 1: Historical Avg. Asking Lease Rate Growth (%)

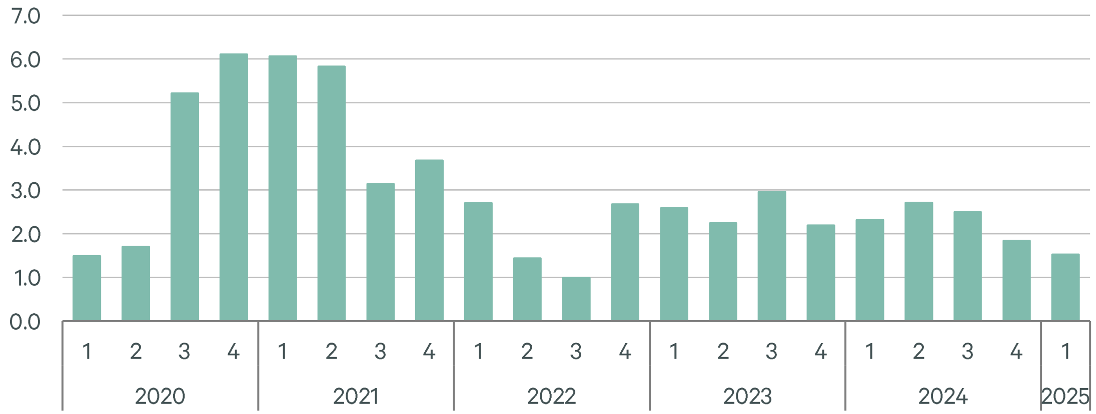


Source: CBRE Research, Q1 2025

FIGURE 2: Historical Availability (%)

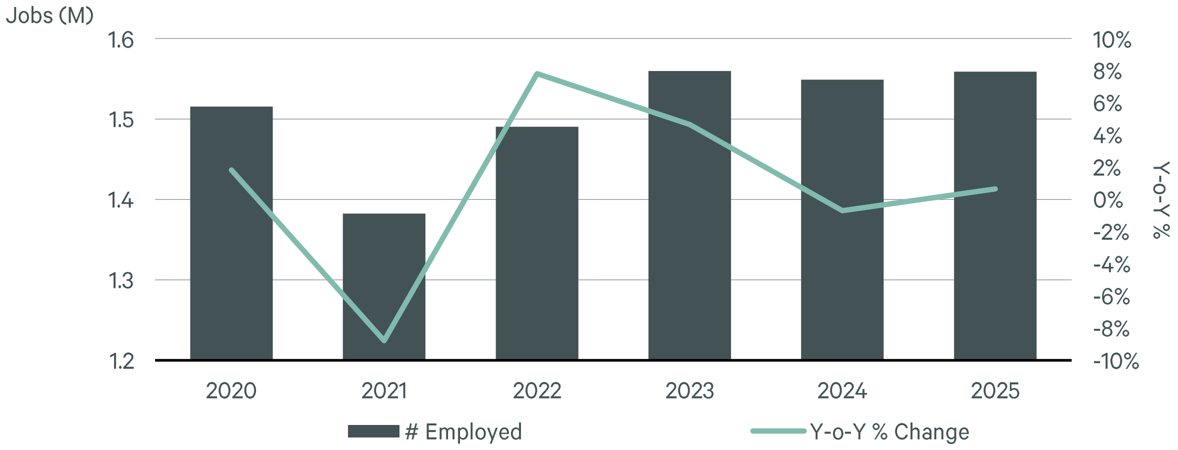
Source: CBRE Research, Q1 2025

FIGURE 3: Historical Under Construction (SF in Millions)



Source: CBRE Research, Q1 2025

FIGURE 4: Year-Over-Year Job Growth



Source: CBRE Research, Q1 2025

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FIGURE 5: Market Statistics

	RBA	Total Vacant	Total Available	Net Absorption	Under Construction	Construction Deliveries	Asking Rate Low Finish	Asking Rate High Finish	Leasing Activity
Central San Diego	64,604,343	5.1%	7.7%	(50,856)	0	0	$1.70	$1.91	807,158
East County	15,667,637	2.6%	3.5%	(18,403)	0	0	$1.38	$1.54	114,143
North County	51,824,260	6.1%	9.0%	112,730	67,721	169,534	$1.36	$1.71	1,065,786
South San Diego	40,955,427	10.2%	13.0%	437,886	1,458,209	91,601	$1.23	$1.51	1,130,516
Southwest Riverside	15,069,199	4.9%	6.4%	(31,843)	0	0	$1.21	$1.18	87,393
San Diego Totals	**188,120,866**	**6.2%**	**8.8%**	**449,514**	**1,525,930**	**261,135**	**$1.40**	**$1.82**	**3,204,996**
High-Finish	31,717,226	5.3%	8.6%	96,952	67,721	0	$0.00	$1.82	380,293
Business Park R&D	8,633,290	4.7%	6.3%	(23,741)	0	0	$0.00	$1.81	112,939
R&D	23,083,936	5.6%	9.5%	120,693	67,721	0	$0.00	$1.83	267,354
Low-Finish	156,403,640	6.4%	8.8%	352,562	1,458,209	261,135	$1.40	$0.00	2,824,703
Business Park Ind	26,030,544	5.5%	7.6%	(152,394)	0	88,552	$1.58	$0.00	546,235
Warehouse / Distribution	63,274,839	9.8%	12.5%	603,442	1,458,209	172,583	$1.36	$0.00	1,473,362
Light Industrial	67,098,257	3.7%	5.8%	(98,486)	0	0	$1.33	$0.00	805,106

FIGURE 6: Key Lease Transactions

Occupier	Industry Sector	Location	Subtype	Total Sq. Ft.
Anheuser-Busch (R)	Consumer Products & Services	Pacific Beach/Rose Canyon/Morena	Warehouse/Distribution	131,299
JD Group	Transportation/ Distribution/Logistics	Otay Mesa	Warehouse/Distribution	119,044
Foxx Development	Consumer Products & Services	Otay Mesa	Warehouse/Distribution	102,099
ShipLab	Transportation/ Distribution/Logistics	Carlsbad	Warehouse/Distribution	85,240
Earthlite (R)	Consumer Products & Services	Vista	Warehouse/Distribution	82,944

Source: CBRE Research, Q1 2025
(S): Sublease
(R): Renewal

FIGURE 7: Key Sale Transactions

Property	Buyer	Location	Total Price	$/Sq. Ft.	RBA
237 Via Vera Cruz	Private Individual	San Marcos	$16.2M	$202	80,257
Roymar 76 Industrial Park	Ocean Park Partners	Oceanside	$15.3M	$268	57,000
1437-1463 Fayette St	Private Individual	El Cajon	$9.8M	$277	35,419
Dolphin Business Park	Private Individual	San Marcos	$8.0M	$164	48,692
2199 Britannia Blvd	Viz LLC	Otay Mesa	$7.5M	$369	20,352

Source: CBRE Research, Q1 2025

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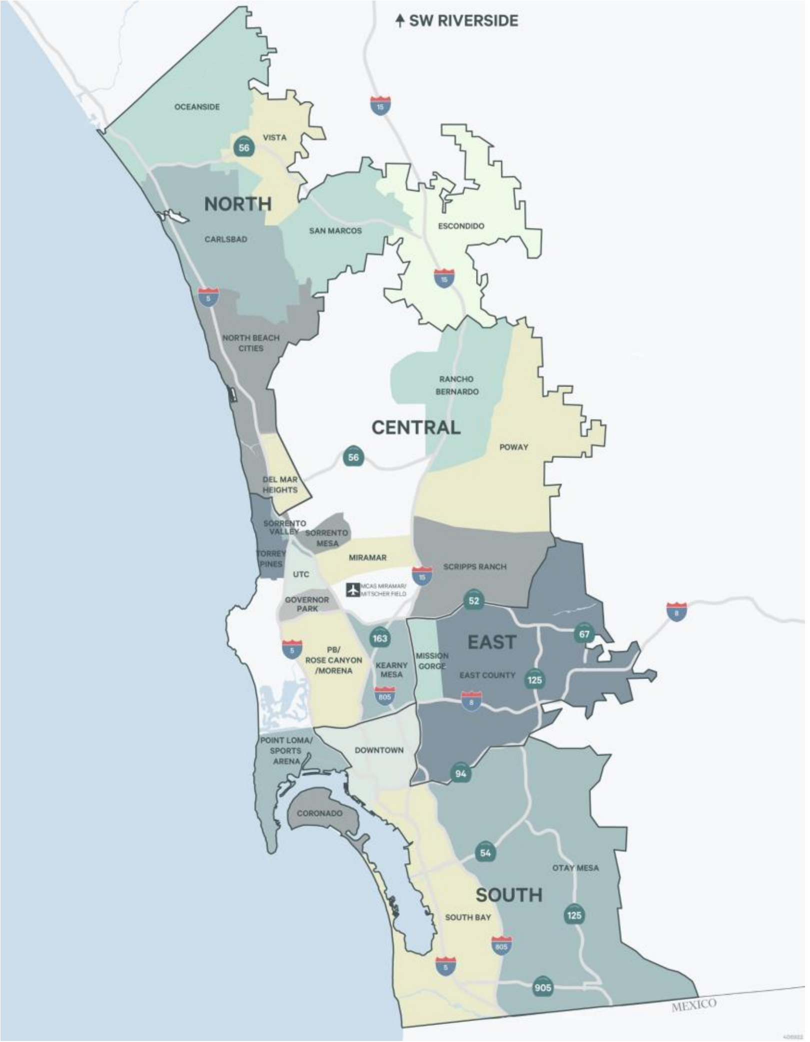
Market Area Overview

Definitions

Net Rentable Area The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies and stairwell areas. Available Sq. Ft. Space Available for lease which is either physically vacant or occupied. Includes Subleases. Vacant Sq. Ft. Portion of Available sq. ft. which is either physically vacant or immediately available. Includes Subleases. Direct Vacancy Sq. Ft. Portion of Available sq. ft. which is either physically vacant or immediately available. Excludes subleases. Vacancy Rate Vacant sq. ft. divided by the NRA. Occupied Sq. Ft. NRA not considered vacant. Net Absorption The change in Occupied sq. ft. from one period to the next. Positive absorption is reflected when a lease is signed, which may not coincide with the date of occupancy. Average Asking Lease Rate The rate determined by multiplying the asking gross lease rate for each building in the summary by its associated available space, summing the products, then dividing by the sum of the available spaces with gross lease rates for all buildings in the summary. Direct leases only; excludes sublease space and parking charges. Full Service Gross (FSG) Lease Type whereby the landlord assumes responsibility for all of the operating expenses and taxes for the property. Normalization Due to a reclassification of the market, the base, number and square footage of buildings for previous quarters have been adjusted to match the current base. Availability and Vacancy figures for those buildings have been adjusted in previous quarters.

Inventory Update

Effective Q1 2022, Lab space has been removed from the Industrial inventory and will be reported as a separate property type. Lab space has been removed from historical data so figures reported previously may have changed.



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