



MARKET FUNDAMENTALS

	YOY Chg	Outlook
7.6% Vacancy Rate	▲	▲
-49K YTD Net Absorption, SF	▲	▲
\$1.45 Asking Rent, PSF (Overall, Net Asking Rent)	▼	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.6M San Diego Employment	▲	▲
4.5% San Diego Unemployment Rate	▼	▲
4.2% United States Unemployment Rate Source: BLS	▼	▲

ECONOMIC OVERVIEW

San Diego employment increased by 10,900 jobs, or 0.7% year-over-year (YOY), between August 2025 and August 2026.¹ This modest growth continues to trail historical trends and constrain demand. Health care accounted for the largest gains, adding 12,300 jobs (+5.0% YOY), though the sector generates relatively limited direct demand for warehouse and distribution (W/D) space. Other sectors posted moderate gains, including leisure and hospitality (+5,500 jobs, +2.6% YOY) and administrative and support services (+3,100 jobs, +3.6% YOY). However, employment growth across industrial-related sectors remained subdued, with construction, manufacturing and transportation and warehousing all recording job losses.

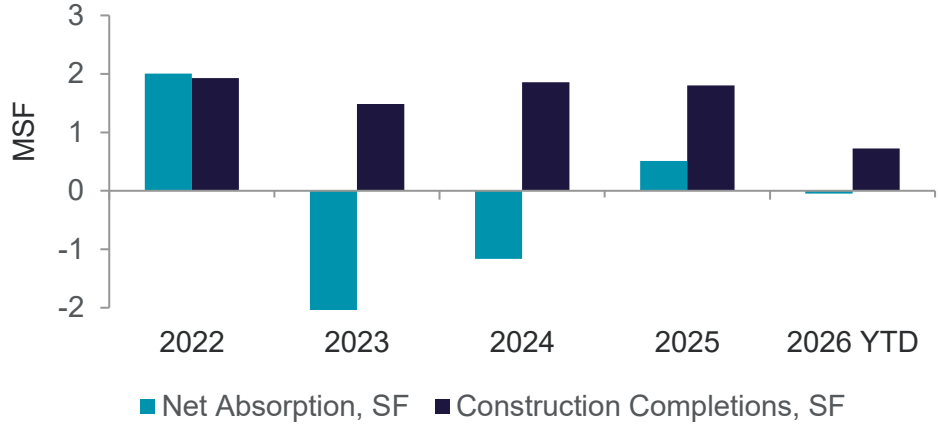
The unemployment rate declined modestly to 4.9%¹ from 5.1% YOY but remained above the Q3 2026 average of 4.5%, reflecting a relatively stable labor market despite slower hiring activity. Because employment gains remained concentrated outside industrial-related sectors, near-term demand for W/D space is expected to remain measured. Looking ahead, employment is projected to grow 1.0% in 2026 and 0.8% in 2027,² both below the five-year historical average of 1.8%. These projections suggest continued near-term headwinds for industrial demand, with leasing activity likely to remain moderate and driven primarily by specific tenant requirements rather than broad-based expansion.

SUPPLY AND DEMAND

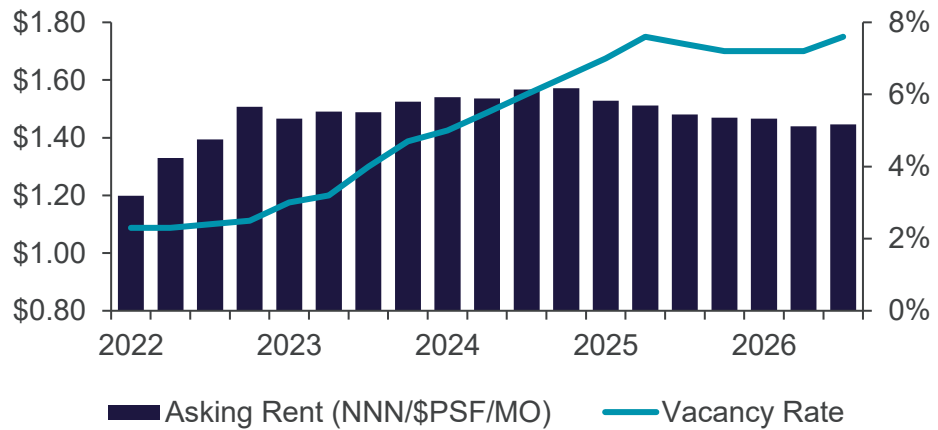
San Diego's overall vacancy rate, including sublease space, increased 40 basis points (bps) quarter-over-quarter (QOQ) and 20 bps YOY to 7.6% in Q3 2026. Market-wide occupancy declined, with negative net absorption of 103,323 square feet (sf). Notable move-ins, including Amazon's 222,000 sf, were more than offset by significant move-outs, including BD's departure of 318,000 sf in Sorrento Mesa.

Direct vacancy rose to 7.2% (+40 bps YOY), while direct available space increased by 1.7 million square feet (msf) over the past 12 months, pushing the direct availability rate to 9.4% (+100 bps YOY). Sublease vacancy remained limited at 0.4%, down 30 bps YOY, while sublease availability declined 30 bps YOY to 1.4%. The widening gap between vacancy and availability suggests additional space could enter the vacant inventory as existing leases expire, potentially prolonging the market's recovery.

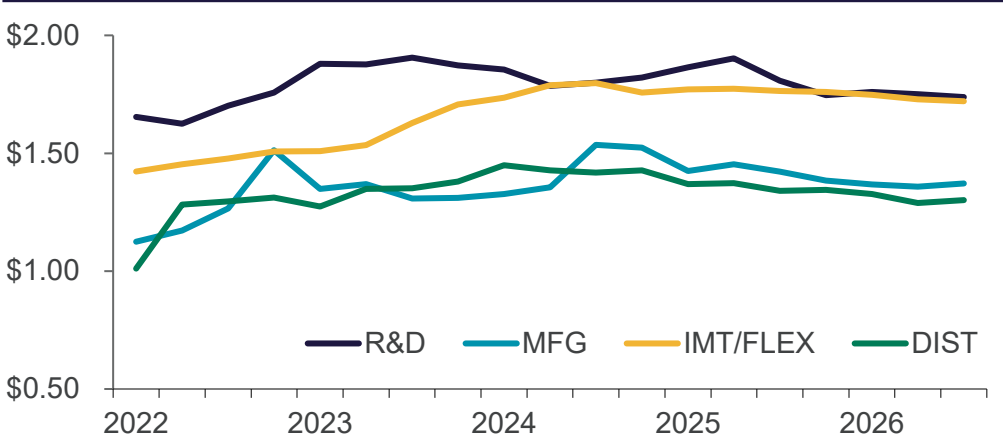
SPACE DEMAND / DELIVERIES



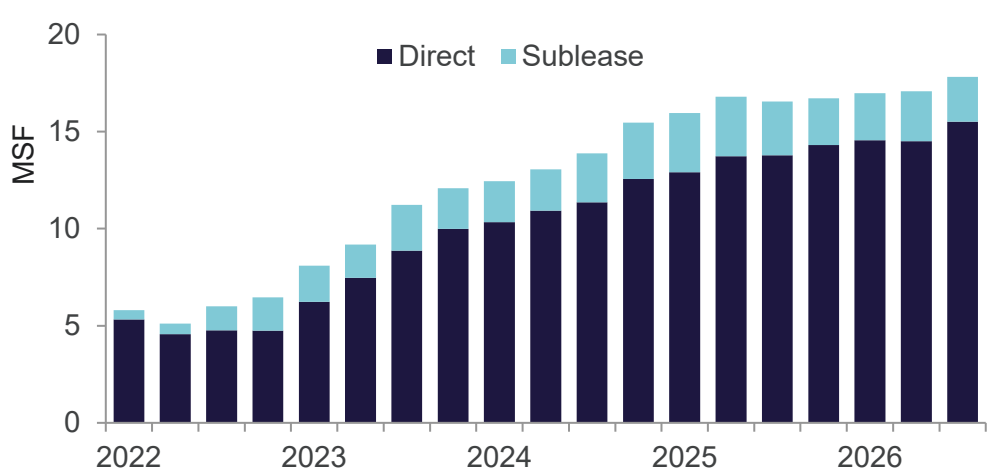
OVERALL VACANCY / ASKING RENT



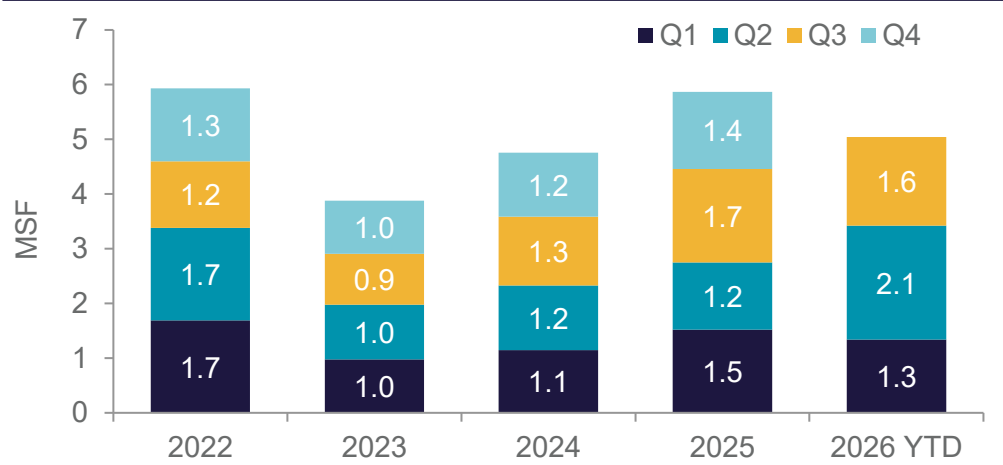
AVERAGE OVERALL ASKING RENT \$PSF MONTHLY



DIRECT VS. SUBLEASE AVAILABLE SPACE



NEW LEASING ACTIVITY



TENANT TRENDS

Leasing activity totaled 1.6 msf in Q3 2026, down 22.0% QOQ and 4.8% YOY, but remained above the five-year quarterly average of 1.3 msf. Year-to-date (YTD), manufacturing led all sectors, accounting for 29% of new leasing volume, followed by transportation, warehousing and utilities (17%) and retail (15%). Despite softer quarterly leasing volume, activity continued to demonstrate demand from a diversified mix of industrial occupiers. Otay Mesa led leasing activity, accounting for 18% of total volume, followed by Miramar (11%) and Vista (9%). Carlsbad and East County each accounted for 8%. Vacancy remained lowest in Central County (5.2%) and North County (6.8%). South County recorded the highest vacancy rate at 12.8%, increasing 160 bps QOQ, primarily reflecting new supply additions, including the delivery of Otay Business Park, which added 612,240 sf of vacant space.

CAPITAL MARKETS

Investment volume totaled \$241 million (M) in Q3 2026, declining 34% QOQ and 9% YOY and remaining well below the five-year quarterly average of \$468M. Average sale prices declined to \$234 per square foot (psf), down 21% QOQ and 4% YOY.³ Lower transaction volume and declining sale prices reflect continued investor selectivity amid elevated financing costs and uncertainty surrounding near-term industrial fundamentals.

PRICING

The average asking rent across all product types rose 0.5% QOQ but fell 2.3% YOY to \$1.45 psf per month on a triple-net basis. Research and development (R&D) space recorded the largest YOY decline, falling 3.8%, followed by manufacturing space, down 3.6%. Rental performance varied across the county, with South County average rent recording the largest YOY decline at 5.0%, followed by Central County (-1.3%). In contrast, North County average asking rent increased 4.3% YOY. These divergent trends highlight how localized supply conditions and tenant demand affect pricing.

FUTURE INVENTORY

As of Q3 2026, approximately 811,890 sf remained under construction across San Diego County, including 483,000 sf in East County, 177,000 sf in Kearny Mesa and approximately 132,000 sf in Otay Mesa. An additional 6.6 msf of proposed projects remained in the pipeline, with Otay Mesa accounting for 59% (3.9 msf).

Construction activity remains concentrated in select submarkets, while the broader development pipeline faces continued pressure from financing costs, elevated vacancy and slower leasing velocity. Developers are increasingly phasing projects and evaluating tenant demand before moving forward with new construction.

OUTLOOK

- San Diego's industrial market is expected to recover gradually as tenants balance flexibility with long-term operational needs. Elevated vacancy and availability will likely maintain tenant-favorable conditions and constrain near-term rent growth.
- Leasing demand is expected to remain strongest in the 20,000 -50,000 sf range, representing 28% of upcoming lease expirations, while tenants under 20,000 sf account for another 31%. Combined, these segments represent 59% of upcoming expirations, reinforcing the importance of small- and mid-sized occupiers. Countywide tenant requirements total approximately 3.7 msf over the next two years, supporting potential leasing activity.
- Manufacturing remains a key demand driver, supported by San Diego's defense, technology, life sciences and medical device industries, which underpin long-term industrial occupancy.
- While e-commerce demand has moderated from its 2020 - 2021 peak, selective expansion continues. Larger transactions remain active but face longer decision timelines amid economic uncertainty and financial constraints. As construction moderates, absorbing existing vacant space will be critical to recovery, supported by stronger industrial employment and leasing momentum.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (ALL)*	OVERALL WEIGHTED AVG NET RENT (MFG)*	OVERALL WEIGHTED AVG NET RENT (W/D)*	OVERALL WEIGHTED AVG NET RENT (R&D)*
North County	50,462,819	3,430,277	6.8%	109,632	1,239	20,006	110,000	\$1.39	\$1.24	\$1.32	\$1.61
Central County	72,372,697	3,771,048	5.2%	-116,996	-78,833	659,863	0	\$1.79	\$1.70	\$1.77	\$1.80
South County	42,041,536	5,360,531	12.8%	-95,959	28,541	132,021	612,240	\$1.19	\$1.16	\$1.17	\$2.00
R&D	23,142,975	2,239,111	9.7%	-297,688	-419,916	0	0	\$1.74			
MFG	60,315,890	2,408,285	4.0%	225,631	450,360	0	0	\$1.37			
IMT/FLEX	21,217,178	1,322,995	6.2%	121,387	-61,818	20,006	0	\$1.72			
W/D	60,201,009	6,591,465	10.9%	-152,653	-17,679	791,884	722,240	\$1.30			
SAN DIEGO TOTALS	164,877,052	12,561,856	7.6%	-103,323	-49,053	811,890	722,240	\$1.45	\$1.37	\$1.30	\$1.74

*Rental rates reflect weighted triple net (NNN) asking \$psf/month. **Renewals not included in leasing statistics. MFG = Manufacturing, IMT/FLEX = Incubator Multi-Tenant/Flex, W/D = Warehouse/Distribution.

KEY LEASE TRANSACTIONS Q3 2026

PROPERTY	SUBMARKET	TENANT	SF	TYPE
2800 Whiptail Loop	Carlsbad	OnTrac	103,984	Renewal**
2611 Business Park Dr.	Vista	AO Reed & Co.	100,596	New
4000 Ruffin Rd.	Kearny Mesa	County of San Diego	56,505	Renewal**
7401 Bristow Ct.	Otay Mesa	DOMO	55,646	New
7727 Paseo de la Fuente	Otay Mesa	Ochoa Dairy Products	52,500	New
9455 Cabot Dr.	Miramar	Bargreen Ellingson	49,040	New

KEY SALE TRANSACTIONS Q3 2026

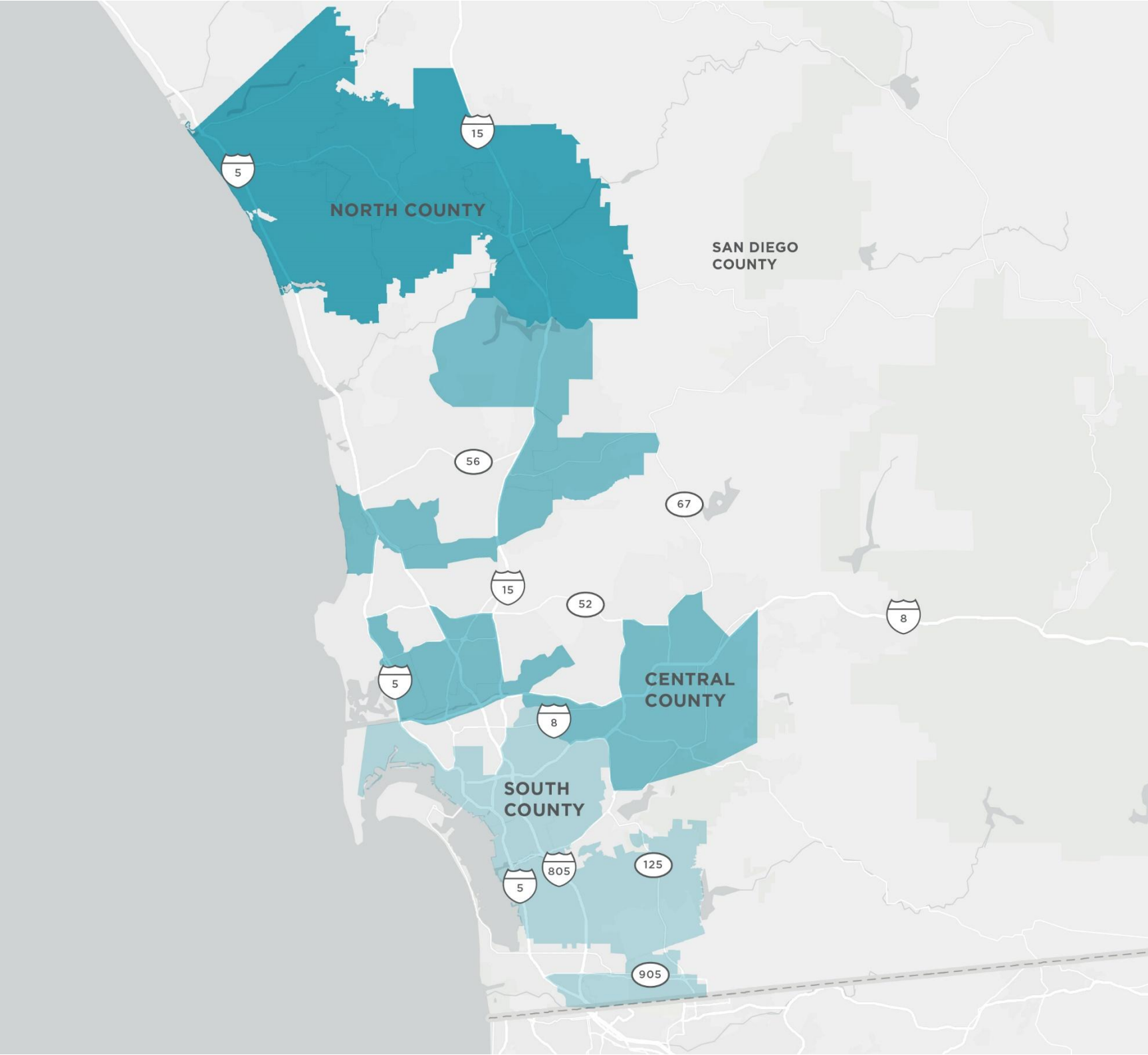
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
2081 Faraday Ave.	Carlsbad	LPC / Majestic Asset Management	157,973	\$45.0M / \$285
8830 Siempre Viva Rd.	Otay Mesa	TIAA / NorthPoint Development	153,166	\$22.6M / \$148
2025 Gillespie Way	East County	Cabot Properties / Gillespie Way LLC	150,159	\$24.0M / \$160
2840 Loker Ave.	Carlsbad	JLL IPT / SENTRE	104,298	\$26.6M / \$255
901 Bay Marina Dr.	National City	DWS / Realty Income	91,541	\$31.0M / \$339
6955 Consolidated Way	Miramar	Elion Partners / Realty Income	82,781	\$21.3M / \$257

KEY CONSTRUCTION COMPLETIONS 2026

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Otay Business Park	Otay Mesa	N/A	612,240	Elevation Land Company
1000 W. Mission Ave.	Escondido	U-Haul	110,000	U-Haul

Sources: ¹ www.EDD.gov San Diego-Chula Vista-Carlsbad, CA MSA. ²Lightcast forecast for San Diego-Chula Vista-Carlsbad, CA MSA as of October 2026. ³Real Capital Analytics.

INDUSTRIAL SUBMARKETS



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