

# INVESTMENT OUTLOOK

Industrial  
San Diego Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

MIDYEAR 2025

## Potential Increase in U.S.-Mexico Commercial Truck Traffic Has Positive Implications for San Diego

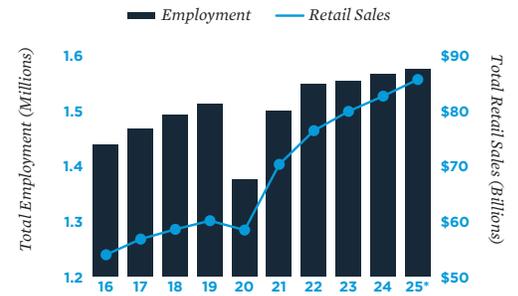
**Trump administration's policies have exaggerated impact on local demand.** San Diego's industrial sector is set to grapple with a third straight year of notable vacancy increase; however, the demand outlook beyond 2025 remains optimistic. Tariffs in place as of June and the potential for higher country-specific rates are expected to favor markets linked to Canada and Mexico under USMCA, especially if companies recalibrate manufacturing and shipping operations in mass. With this in mind, San Diego appears well-positioned. Recent progress on the Otay Mesa East Port of Entry project is also bolstering prospects for warehouse and distribution space. After numerous delays, the project received a \$150 million grant from the Department of Transportation in April, with Biden-era clean construction requirements also removed. The new 12-lane port is now slated to break ground this fall with tentative completion in 2027. Construction commencement alone should benefit leasing velocity proximate to the border — a boon for South Bay, where vacancy is more than 400 basis points above its long-term average.

**Solid demand among smaller users stokes buyer interest.** Vacancy among industrial and flex properties built prior to 2000 was 8.2 percent as of this June. In contrast, the collective rate among facilities constructed this century was 15.9 percent. This disparity may steer more private investors to slightly older assets during the second half, specifically sub-20,000-square-foot listings capable of accommodating multiple tenants. Since April 2024, trades of this scope have accounted for 70 percent of total sales; these transactions fell into the \$1 million to \$3 million price tranche. Available warehouse and manufacturing listings are likely to be most plentiful in Otay Mesa and along Highway 78, with flex options most frequent in Carlsbad and areas surrounding Sorrento Mesa.

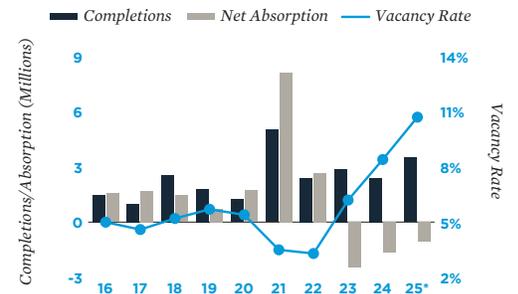
## 2025 MARKET FORECAST

- +0.2%**  **EMPLOYMENT:** The metro lost 2,900 jobs in the first quarter; however, positive hiring velocity returned over spring, placing San Diego on track to add 3,000 roles during 2025.
  - 3.5 million sq. ft.**  **CONSTRUCTION:** Local inventory expands by 1.9 percent, marking a four-year high. An Amazon distribution center and a group of R&D properties compose the bulk of 2025's delivery slate.
  - +230 bps**  **VACANCY:** The openings of numerous, sizable speculative projects, among other factors, place upward pressure on vacancy. At 10.7 percent, the projected year-end rate is the highest since 2011.
  - 6.6%**  **RENT:** A third straight year of notable vacancy increases translates into downward rent movement. The average asking rent ends 2025 at \$18.27 per square foot — down 16 percent from mid-2023.
- INVESTMENT:** *East County has the second-lowest vacancy of the Southern California submarkets with at least 10 million square feet of stock. This dynamic should steer investors to listings in El Cajon and Santee.*

### Economic Trends



### Supply and Demand



### Rent Trends



\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

### Al Pontius

Senior Vice President  
National Director IPA Industrial  
Tel: (415) 963-3000 | apontius@ipausa.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2023. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.