Industrial Market showing signs of stability in Mid-2026

▼6.5%
Vacancy Rate

▲132,372
SF Net Absorption

▼0
SF Construction Delivered

▼943,730
SF Under Construction

▼$1.40
NNN/MTH Direct Lease Rate

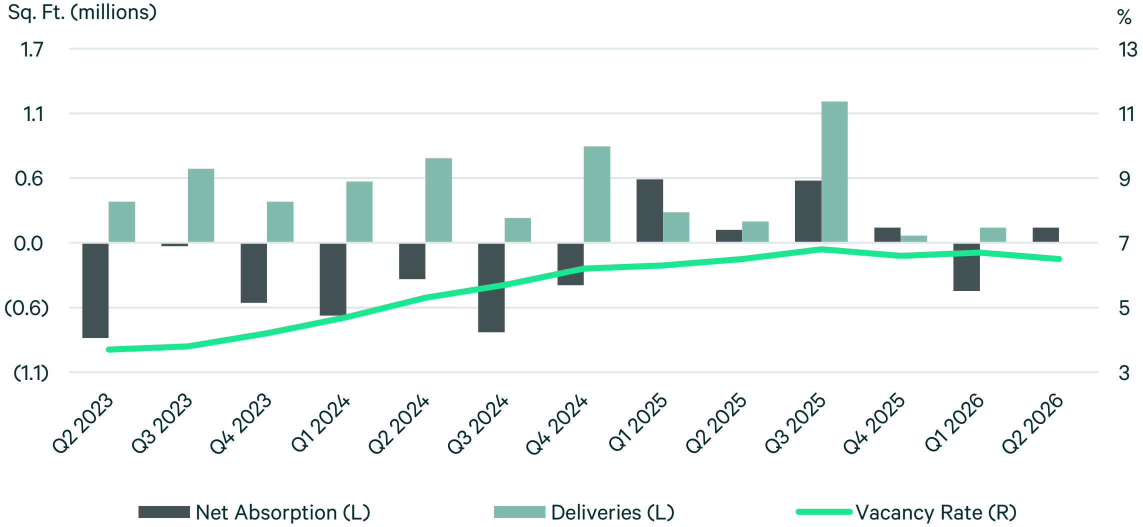
Note: Arrows indicate change from previous quarter.

Market Overview

In Q2 2026, the industrial market recorded positive net absorption of 132,000 sq. ft. This marked a vast improvement over the previous quarter's negative 408,000 sq. ft. Vacancy decreased 20 basis points (bps) quarter over quarter (Q-o-Q) while remaining unchanged year over year (Y-o-Y). Availability also reduced 10 bps Q-o-Q to 9.6%; but increased 50 bps from the previous year. Average asking rents fell $0.01 (0.7%) from Q1 2026 and was $0.13 (8.5%) lower than the year before. Under construction (944,000 sq. ft.) remained relatively the same Q-o-Q, but substantially less than the 2,100,000 sq. ft. experienced the previous year. The market also recorded five lease transactions of 100,000 sq. ft. or more during the quarter.

Since Q2 2023, the market has accumulated 2.4 million sq. ft. of negative net absorption. Over the same three-year period, developers have delivered over 5.4 million sq. ft. of new product. As a result, overall vacancy has increased by 280 bps, and availability rose 310 bps over that timeframe. The combination of tepid demand, higher vacancy and availability illustrates a market still navigating current existing space, while also trying to negotiate an influx of recently added inventory.

Figure 1: Historical Net Absorption, Deliveries, and Vacancy



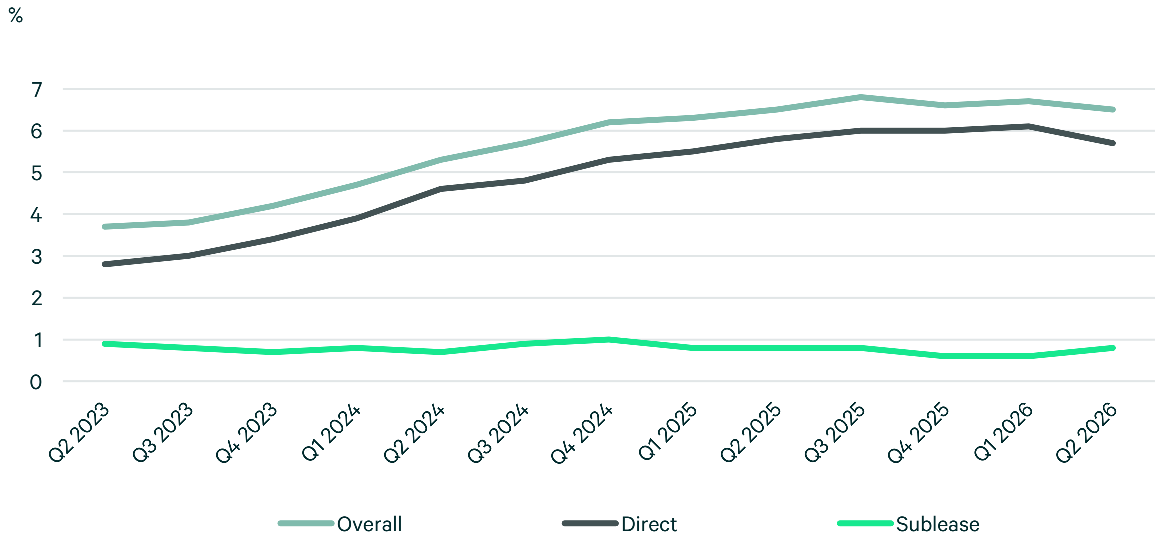
Source: CBRE Research, Q2 2026

Vacancy Rate

Overall vacancy was 6.5% in Q2 2026, down 20 bps from the previous quarter. Direct vacancy experienced a decrease of 40 bps, down to 5.7%. It was also the lowest direct vacancy reported since Q1 2025 (5.5%). Sublease vacancy saw a slight increase of 20 bps to 0.8%, Q-o-Q. Going back one-year, direct vacancy recorded a 10 bps decrease Y-o-Y, while overall vacancy and sublease vacancy both remained unchanged at 6.5% and 0.8%, respectively.

East County recorded the lowest overall vacancy of 1.4% in Q2 2026 among the tracked submarkets. The next lowest vacancy reported was Southwest Riverside at 5.0%. South San Diego posted the highest overall vacancy rate at 10.3%. Across Central San Diego, East County, North County, South San Diego, and Southwest Riverside, sublease space totaled approximately 1.4 million sq. ft. in Q2 2026.

Figure 2: Vacancy Rate



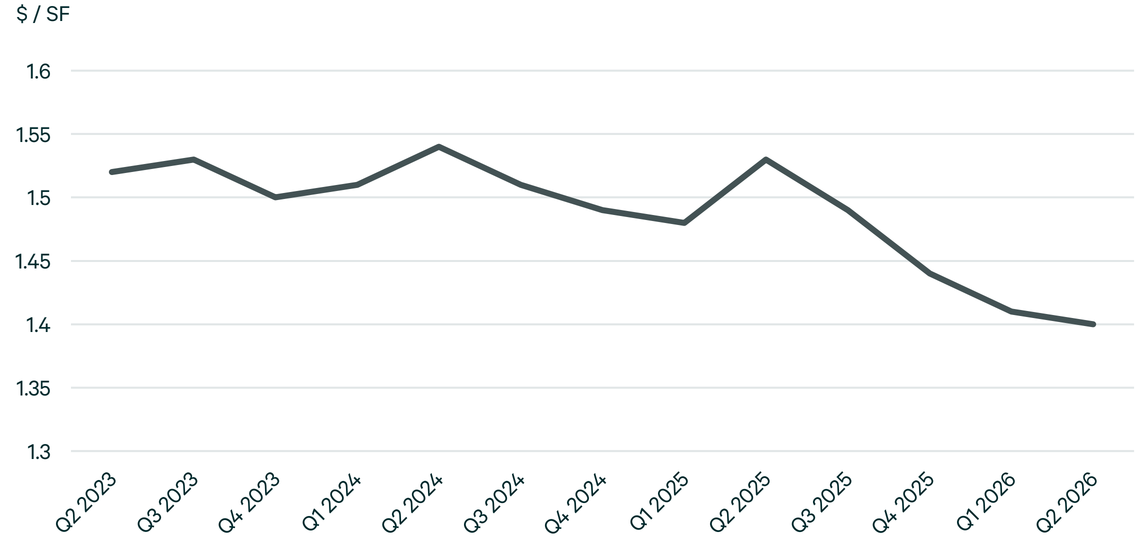
Source: CBRE Research, Q2 2026

Asking Rent

In Q2 2026, the average asking rent was $1.40 per sq. ft., down $0.01 (0.7%) Q-o-Q. Over the past year, the rate has declined 8.5% ($1.53 per sq. ft.). However, it remains only 10% lower than the all-time high of $1.54 experienced in Q2 2024.

Central San Diego had the highest average asking lease rent during the quarter at $1.83 per sq. ft. East County was the next highest at $1.46 per sq. ft., followed by North County ($1.33 per sq. ft.), Southwest Riverside ($1.20 per sq. ft.) and South San Diego ($1.16 per sq. ft.). There's a $0.67 per sq. ft. spread between Central San Diego and South San Diego average asking rents.

Figure 3: Average Direct Asking Rate



Source: CBRE Research, Q2 2026

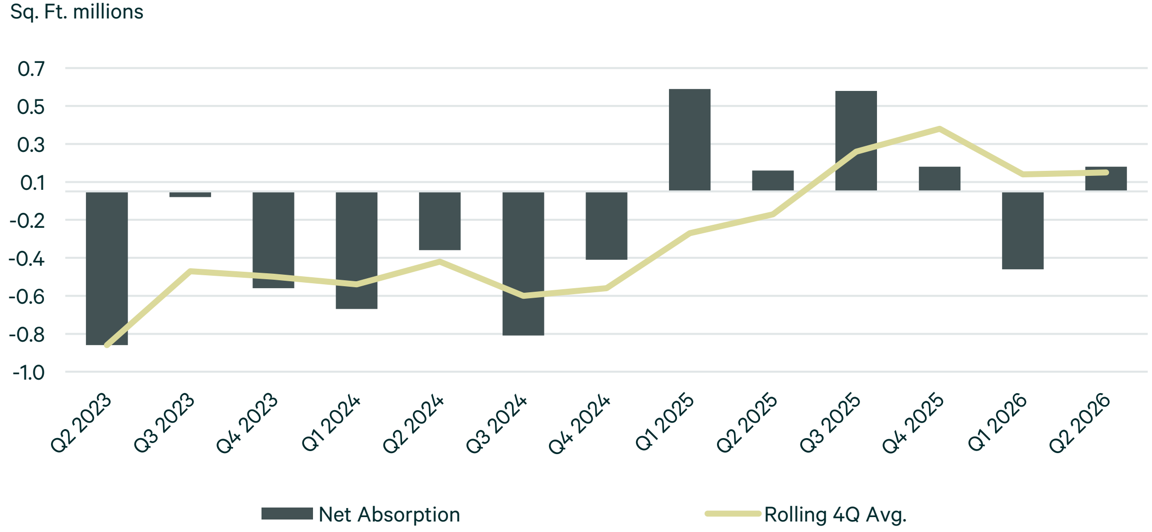
Net Absorption

The market experienced positive net absorption of 132,000 sq. ft. in Q2 2026, a substantial bounce-back from the previous quarter's negative 408,000 sq. ft. On a Y-o-Y basis, net absorption for Q2 2026 increased 16.8% over Q2 2025's 113,000 sq. ft. The rolling four-quarter average net absorption in Q2 2026 was 97,250 sq. ft., exceeding the 92,500 sq. ft. average reported in Q1 2026, resulting in a 5.1% Q-o-Q increase. Q2 2026 was also the fifth out of the last six quarters to have overall positive net absorption.

At the submarket level, East County posted the highest positive net absorption in Q2 2026 at 164,000 sq. ft., followed by North County at 106,000 sq. ft. Central San Diego was the next highest positive submarket, with net absorption of 59,000 sq. ft. South San Diego recorded the most negative net absorption at negative 117,000 sq. ft., with Southwest Riverside at negative 80,000 sq. ft.

East County is the only submarket with positive year-to-date (YTD) net absorption (198,000 sq. ft.). The remaining submarkets have a combined 473,000 sq. ft. of negative YTD net absorption, with North County recording the most (-186,000 sq. ft.).

Figure 4: Net Absorption Trend



Source: CBRE Research, Q2 2026

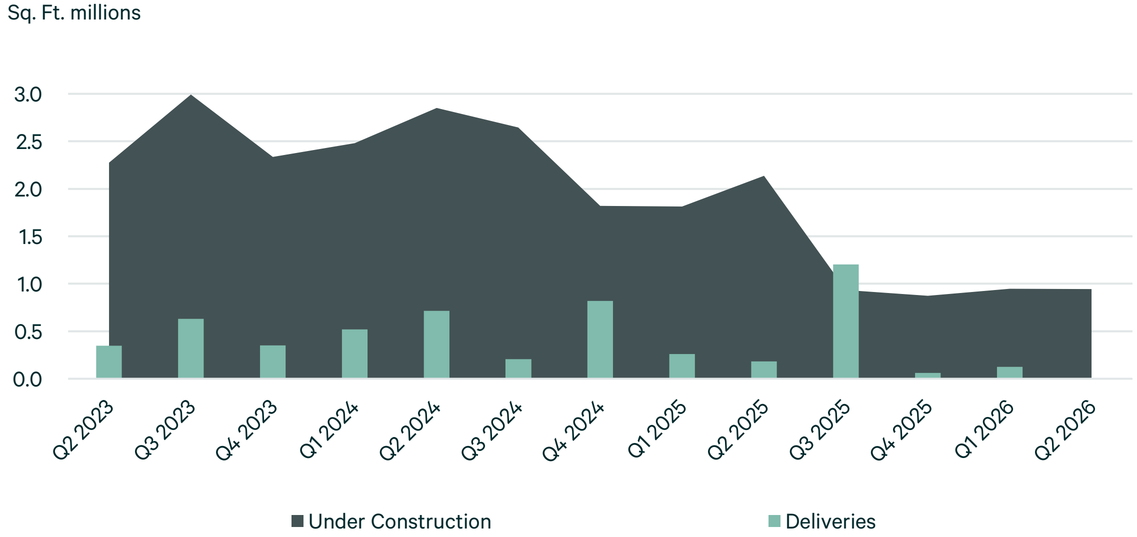
Construction Activity

In Q2 2026, under construction activity totaled 944,000 sq. ft., 0.2% less than the 946,000 sq. ft. from the previous quarter. However, it remained 55.8% lower than the 2.1 million sq. ft. reported in Q2 2025.

There were no industrial properties delivered in Q2 2026. This marks the first time that the market has not delivered an industrial property since Q1 2017.

At the submarket level, South San Diego has the highest under construction volume, with 612,000 sq. ft. of distribution/logistics space across four projects, followed by Central San Diego with 178,000 sq. ft. in a single project. They were the only two submarkets in Q2 2026 with properties under construction.

Figure 5: Construction Activity



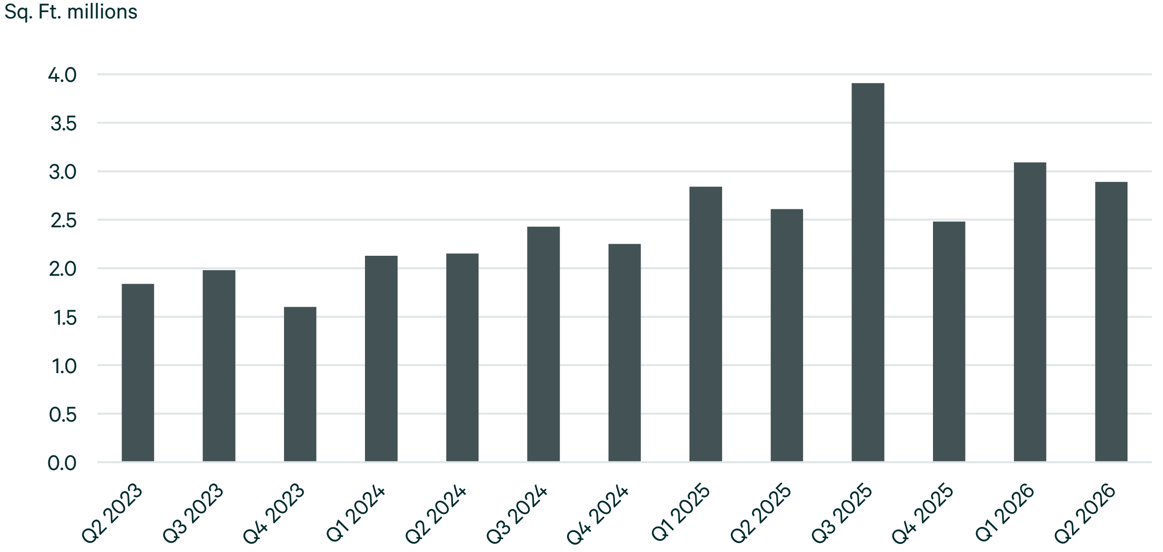
Source: CBRE Research, Q2 2026

Leasing Activity

Leasing activity in Q2 2026 totaled 2.8 million sq. ft., a negative 8.1% Q-o-Q change from Q1 2026 when 3.1 million sq. ft. was leased. However, it was an 8.7% Y-o-Y increase over the 2.6 million sq. ft. recorded in Q2 2025. YTD overall leasing activity is robust at approximately 6 million sq. ft.

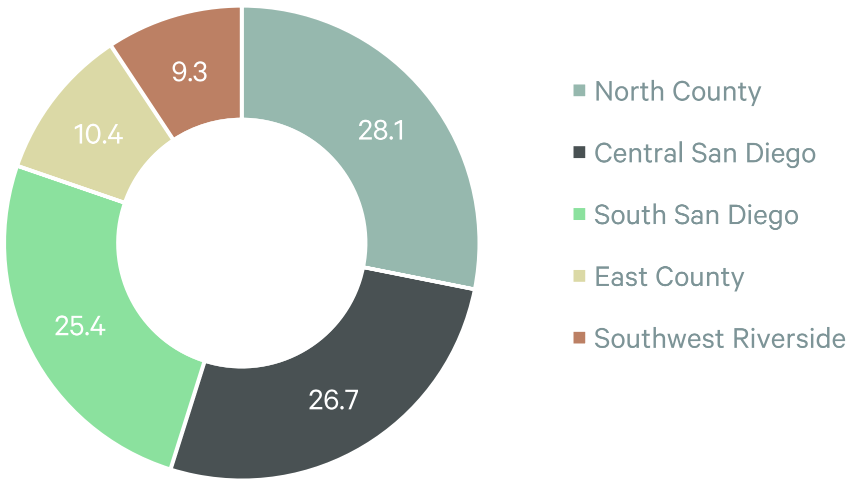
Across submarkets, North County posted the highest positive leasing activity at 798,000 sq. ft., followed closely by Central San Diego with 759,000 sq. ft. and South San Diego with 720,000 sq. ft. East County and Southwest Riverside also recorded moderate leasing activity of 296,000 sq. ft. and 264,000 sq. ft., respectively.

Figure 6: Leasing Activity Trend



Source: CBRE Research, Q2 2026

Figure 7: Leasing Activity by Submarket (% of Total Activity)



Source: CBRE Research, Q2 2026

Figure 8: Key Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Amazon	222,000	New Lease	1756 Weld Blvd	East County
FFF Enterprises	151,000	New Lease	42500 Winchester Rd	Southwest Riverside
Marketplace Brands Canada Inc. a Canadian	133,000	New Lease	2020 Piper Ranch Rd	South San Diego
Waymo	106,000	New Lease	3390 Heritage Rd	South San Diego
Nordic Naturals	103,000	New Lease	2633 Progress St	North County
Rock West Composites	98,000	New Lease	2055 Dublin Dr	South San Diego
Waymo	74,000	New Lease	5260 Anna Ave	Central San Diego
Frank's Distributing, Inc.	66,000	Renewal	2655 Melksee	South San Diego

Source: CBRE Research, Q2 2026

Market Statistics by Product Type

Figure 9

Product Type	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF NNN/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Distribution/Logistics	65.46M	8.9	12.5	10.7	1.8	1.29	416,000	262,000	-	944,000
Manufacturing - General	65.59M	3.6	6.3	5.3	1.0	1.35	(180,000)	(195,000)	-	-
R&D/Flex	31.51M	7.7	11.5	9.0	2.5	1.67	(162,000)	(291,000)	-	-
Other Industrial	25.86M	6.1	7.9	7.0	0.9	1.53	59,000	(52,000)	-	-
Total	**188.42M**	**6.5**	**9.6**	**8.0**	**1.5**	**1.40**	**132,000**	**(276,000)**	**-**	**944,000**

Source: CBRE Research, Q2 2026

Market Statistics by Size

Figure 10

Size Range	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF NNN/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Below 50K SF	97.66M	4.8	6.9	5.8	1.1	1.54	(244,000)	(398,000)	-	20,000
50K-99,999 SF	34.59M	7.9	11.1	9.0	2.2	1.47	91,000	207,000	-	309,000
100K-249,999 SF	38.71M	11.2	15.0	13.0	2.0	1.28	63,000	(212,000)	-	615,000
250K-499,999 SF	10.53M	3.6	11.6	8.7	2.8	1.09	222,000	222,000	-	-
500K-749,999 SF	2.42M	5.5	16.7	16.7	-	0.95	-	(95,000)	-	-
750,000 SF +	4.51M	-	-	-	-	-	-	-	-	-
Total	**188.42M**	**6.5**	**9.6**	**8.0**	**1.5**	**1.40**	**132,000**	**(276,000)**	**-**	**944,000**

Source: CBRE Research, Q2 2026

Market Statistics by Class

Figure 11

Property Class	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF NNN/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Class A	17.56M	15.0	20.4	17.5	2.8	1.17	173,000	272,000	-	556,000
Institutional	9.12M	17.5	25.0	21.4	3.6	1.09	243,000	268,000	-	-
Other Class A	8.44M	12.4	15.3	13.4	1.9	1.34	(70,000)	4,000	-	556,000
All Other Industrial	170.86M	5.6	8.4	7.1	1.4	1.46	(40,000)	(547,000)	-	388,000
Total	**188.42M**	**6.5**	**9.6**	**8.0**	**1.5**	**1.40**	**132,000**	**(276,000)**	**-**	**944,000**

Source: CBRE Research, Q2 2026

Market Statistics by Submarket

Figure 12

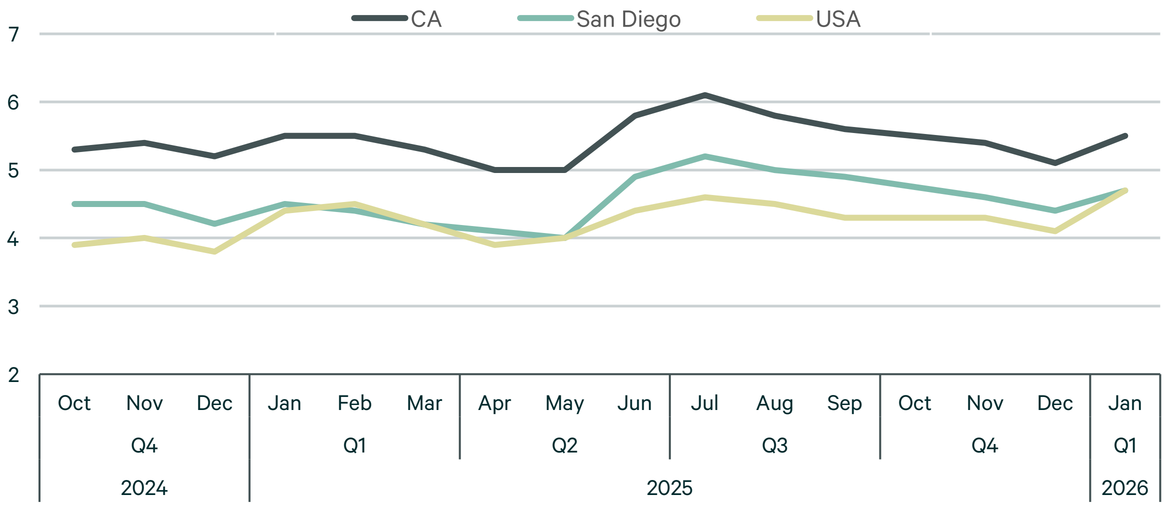
Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF NNN/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Central San Diego	64.51M	5.4	8.8	6.5	2.3	1.83	59,000	(39,000)	-	178,000
East County	16.04M	1.4	2.1	2.0	0.1	1.46	164,000	198,000	-	-
North County	50.77M	6.7	9.1	8.3	0.9	1.33	106,000	(186,000)	-	20,000
South San Diego	41.78M	10.3	14.8	13.2	1.6	1.16	(117,000)	(154,000)	-	746,000
Southwest Riverside	15.32M	5.0	7.8	6.2	1.6	1.20	(80,000)	(94,000)	-	-
Total	**188.42M**	**6.5**	**9.6**	**8.0**	**1.5**	**1.40**	**132,000**	**(276,000)**	**-**	**944,000**

Source: CBRE Research, Q2 2026

Economic Overview

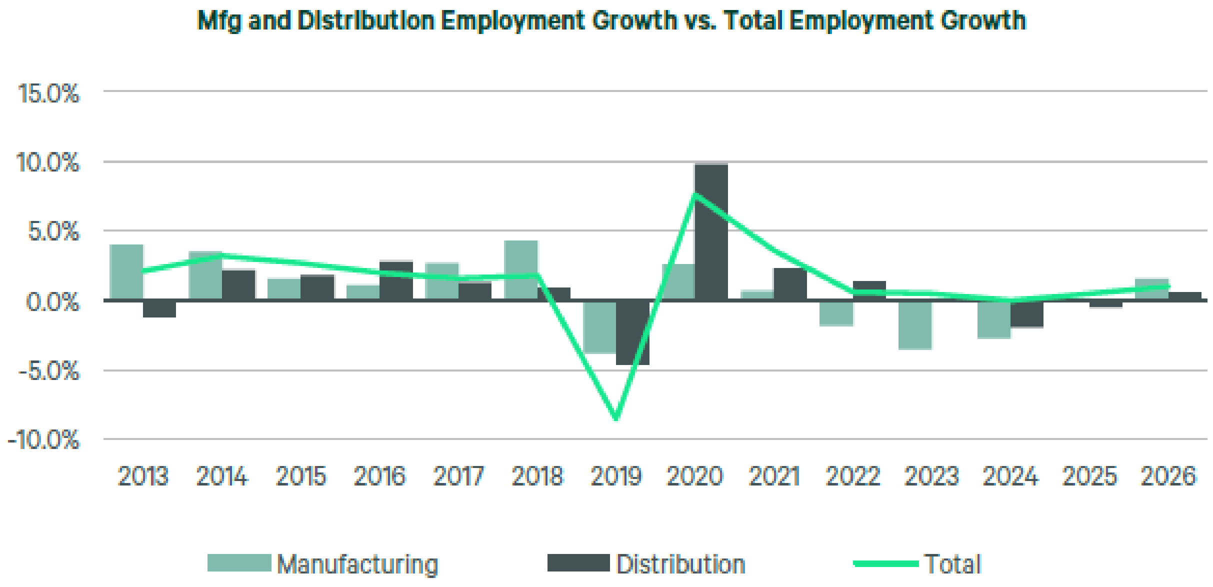
The U.S. economy enters mid-2026 navigating crosscurrents but growing at a healthy pace, with CBRE projecting GDP growth averaging 2.2%, broadly in line with 2025. The AI investment boom is certainly a key driver of this expansion. Concerns surrounding the sustainability of this growth are valid. However, AI-related business investment are expected to continue.

The more pressing concern in recent months has been the U.S./Iran conflict and its impact on world energy prices, which recently pushed U.S. inflation to 4.2%. Should the prospective peace deal announced in June come to fruition, inflation is expected fall to the upper 3% range by year-end as energy prices slowly decrease. Stickier inflation has pushed Treasury yields well above 4%, complicating real estate markets. On the upside, the prospect for sustained peace and normal trade flows in the Persian Gulf could refresh the optimism the CRE market felt at the beginning of the year.



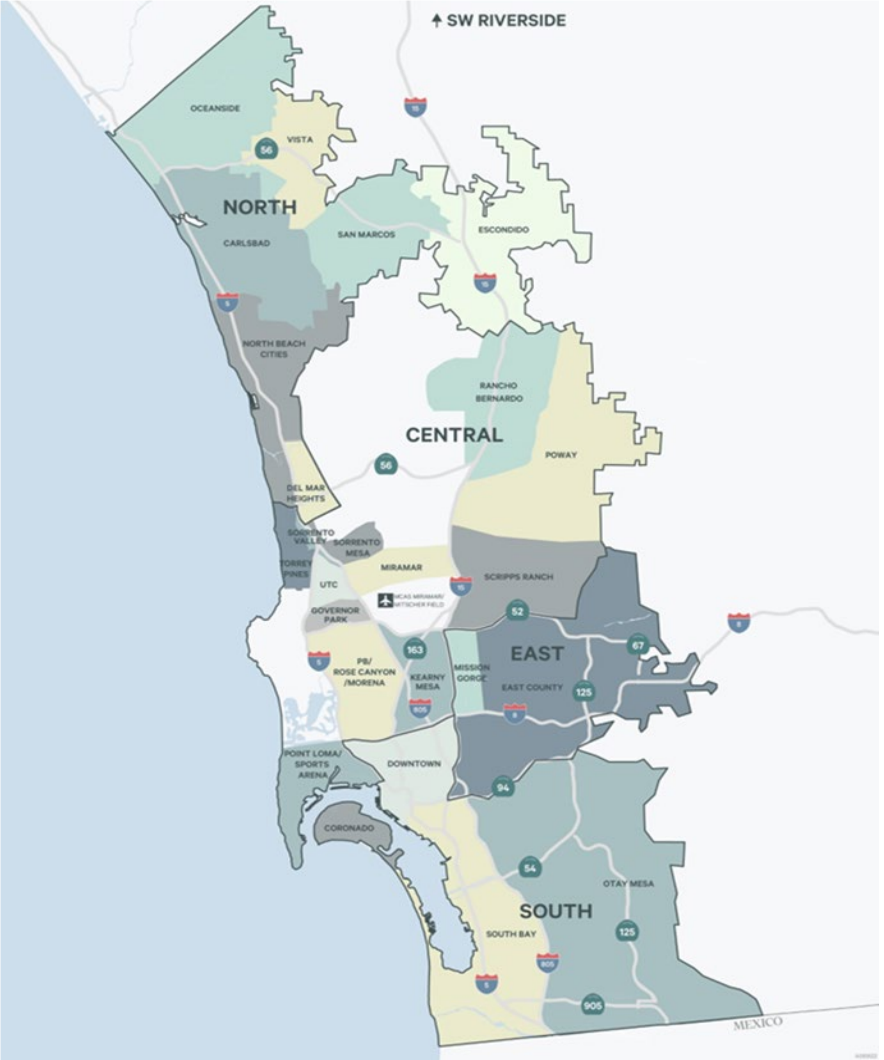
Source: U.S. Bureau of Labor Statistics, Q2 2026

Distribution and manufacturing employment are the primary determinants of demand. Distribution Employment is defined as all the wholesale trade sector plus transportation (trucking and warehousing). The latest estimates of distribution and manufacturing employment for San Diego are 83,100 workers and 108,200 workers, respectively. Over the last five years San Diego's distribution employment has grown by 1.5% while manufacturing employment has declined by 1.0%. Over the last 12 months distribution employment has declined by 0.8% and manufacturing employment has declined by 1.6%.



Source: CBRE Econometric Advisors, Q1 2026

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the ”net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days. Class A industrial are buildings built after 2000, with 32’ or greater clear height and ESFR sprinklers.

Survey Criteria

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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