

Surging Industrial Demand Fuels Big Deals on Mexico Border Near San Diego Large Building Sale, Logistics Lease and Planned Spec Development Announced This Month in Otay Mesa

By Lou Hirsh

A series of major deals and projects announced this month in San Diego's Otay Mesa neighborhood, including two of the biggest sales of the past decade, underscore rising industrial demand in parts of the U.S.-Mexico border region.

Chicago-based LaSalle Investment Management acquired an industrial property spanning more than 601,000 square feet, built in 2003 at 2020 Piper Ranch Road, for about \$126.8 million or \$210 per square foot, according to public filings and brokers who handled the deal. The seller was Los Angeles-based investment firm Ares Management, which purchased the property in November 2020 for approximately \$109 million or \$181 per square foot.

Also developers Majestic Realty Co. and Sunroad Enterprises announced the full-building pre-lease of their 240,975-square-foot property under construction at 1610 Landmark Road, to logistics services provider R.L. Jones Customhouse. Pricing wasn't disclosed.

Demand is escalating from companies, including R.L. Jones, looking to expand their distribution presence in the U.S.-Mexico border region as they respond to e-commerce needs and relocate logistics operations to domestic locations in response to overseas supply chain disruptions.

"The response from the tenants to this product and this location as been fast and clear," Majestic Realty Vice President Tom Simmons said in a statement, pointing to relatively quick lease-ups at the Landmark development and also its nearby Majestic Sunroad Center in Otay Mesa.

Otay Mesa is among San Diego's largest industrial hubs and has been one of its most active for new development and leasing during the past decade. The neighborhood has 1.6 million square feet of industrial projects under construction, the most of any San Diego enclave, according to CoStar data.

Major Sale

The Piper Ranch Road sale, involving one of San Diego's largest existing industrial buildings, was among the largest of the past decade by total price, according to CoStar and public data. The Landmark Road leasing was Otay Mesa's largest non-Amazon industrial lease deal by square footage of the past decade and San Diego's largest in the past five years, according to brokerage Colliers International, which represented the landlords.

Developers and brokers said R.L. Jones will be relocating its corporate headquarters from another San Diego property as it expands its current presence at the Otay's Landmark industrial park to a

total of 400,000 square feet. The company's new lease involves a building that is slated for completion in May 2023.

The recently sold Piper Ranch Road building is fully leased to logistics and manufacturing tenants including QS Customs Brokers, Atlas Freight Forwarding and Balboa Water Group. Brokers at Cushman & Wakefield, which represented the seller, said the 31-acre property attracted potential buyers with its proximity to the U.S.-Mexico border and one of the world's busiest international land border crossings between Otay Mesa and Tijuana, Mexico.

"Surrounded by several major corporate neighbors, the project is centrally located within the Otay Mesa submarket that services a broad range of tenants both related to cross-border business and San Diego companies looking for highly functional industrial space," Cushman & Wakefield Vice Chairman Bryce Aberg said in a statement.

In the same neighborhood, developer Elevation Land Co. last week announced plans to build a 1.8-million-square-foot industrial campus called Otay Business Park. The speculative project, planned to eventually include five buildings, is being built in a joint venture with a real estate fund advised by Crow Holdings Capital, according to a statement from developers and Cushman & Wakefield, which is handling leasing.

Developers last year acquired a total of 263 acres of land for \$165 million for the project off Via De La Amistad Road near state Route 905, with the first phase of buildings to be completed in the second half of 2024. Brokers said the project at full buildout would be among the largest industrial campuses in Southern California.

CoStar Market Analytics data as of Feb. 13 showed Otay Mesa's industrial vacancy rate historically tight at 4.4%, and the neighborhood saw rents rise 12.5% during the past year. The neighborhood had 1.4 million square feet of positive net absorption over the past 12 months — more space being filled than vacated — and \$487 million in industrial property sales, up 37.4% from the prior year.