

## Small-Bay Industrial Pipeline Picks Up in San Diego

### The inventory Has Fallen Over the Past 10 Years

By Joshua Ohl

Although the amount of available space in San Diego's small-bay industrial buildings has nearly doubled in the past 12 months, a sizeable share of that rise can be attributed to pipeline growth. But even as the pipeline has picked up, it likely has not reached the level to satisfy demand.

In fact, the amount of inventory in small-bay properties, buildings smaller than 50,000 square feet, has fallen by nearly 700,000 square feet in more than 100 buildings since 2010 and a more modest 5,000 square feet during the past year due to demolitions.

More than 300,000 square feet of small-bay properties are under construction during the third quarter, almost all of which is available, the highest amount since the end of 2020. That accounts for almost 10% of San Diego's total industrial pipeline. Every available project is in South County, Chula Vista and Otay Mesa. Small-bay industrial properties have seen strong demand across the San Diego region. Most of these properties are being leased by small local firms that are both in their embryonic and established stages.

Local brokers have noted that multi-tenant, small-bay properties with traditional industrial space have been flying off the shelf. Tenants are still reportedly in the position of having to make their leasing decisions quickly. The median time for space to lease in properties with fewer than 50,000 square feet has fallen to roughly two months, which is close to the fastest pace in the past 10 years.

In an example of a typical lease, Oscar Party Rentals leased 8,800 square feet of warehouse space in southeast San Diego earlier this year. The firm signed a seven-year deal with 3% escalations and no free rent. The starting rate was \$1.20 per square foot triple net. That space had been on the market for less than four months.

Similarly, Team Holdings signed a 6,500-square-foot lease for warehouse space in El Cajon in mid-2023. The property was leased in three months, and the firm signed a three-year term with a starting rate of \$1.60 per square foot gross with 3% escalations and no free rent.

Quarterly leasing volume has averaged a consistent 800,000 square feet over the past two years, with minimal variance during that stretch. Meanwhile, asking rents have increased by 10% year over year for small-bay spaces.

Although there has been an uptick in available space, it likely will not quench the thirst of small industrial tenants. Space is leasing quickly, and even additional under-construction spaces are unlikely to provide a lifeline for the elevated demand for these properties across San Diego.