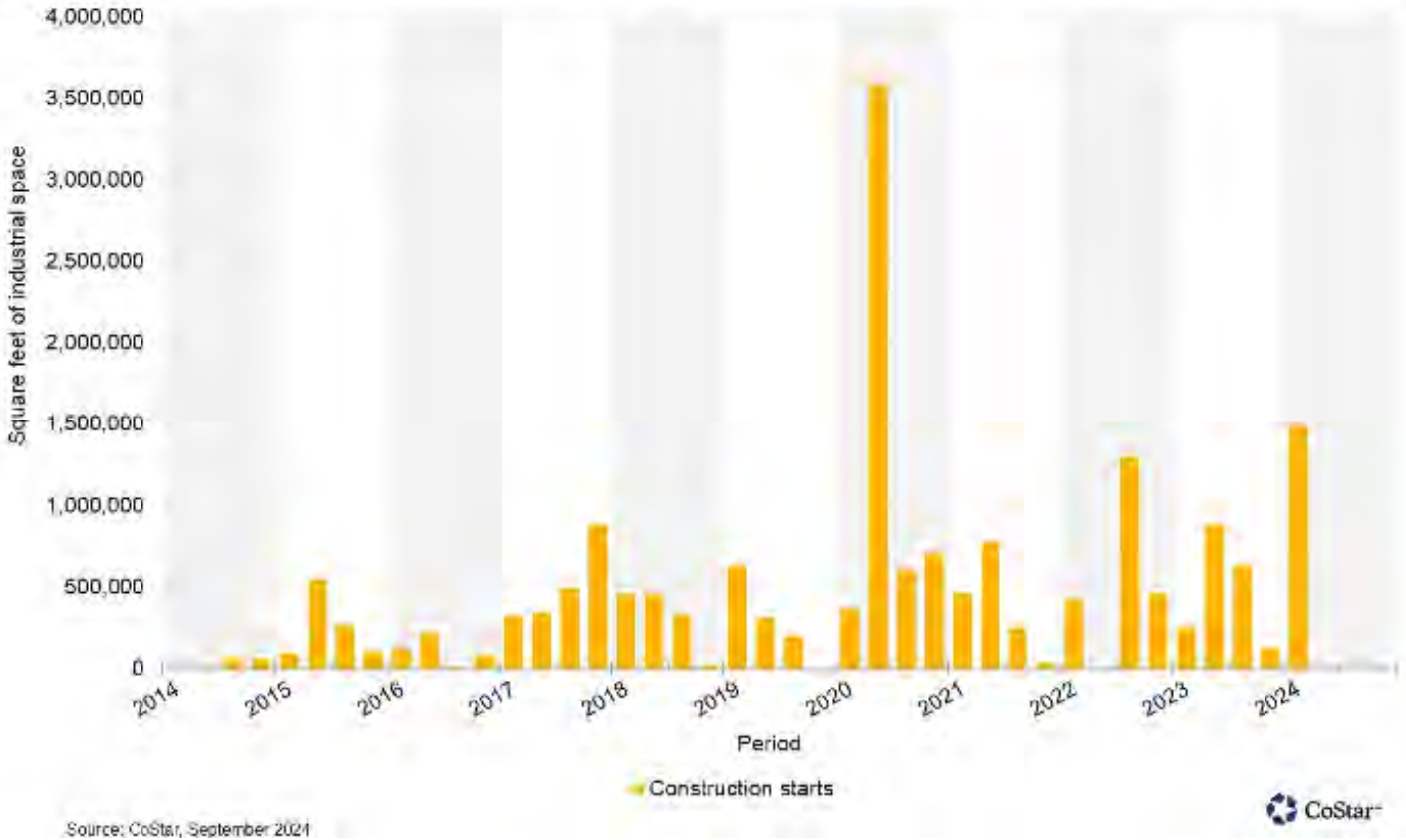


San Diego's industrial market navigates supply pressure Construction starts stall

Developers hit the pause button on new industrial projects



By Joshua Ohl

Following a spate of completions, roughly 1.5 million square feet of industrial space has been completed this year, and 76%, or 1.1 million square feet, is available for lease.

That's in addition to the 1.9 million square feet completed last year in San Diego, California, of which 1.2 million square feet is still available.

Otay Mesa has borne the brunt of that supply pressure. Of the available space completed in San Diego since last year, roughly 2 million square feet is located within two miles of the port of entry there.

That space has come online at a time when large industrial occupiers have shown caution in the face of broader macroeconomic concerns, which has stifled leasing activity for spaces above 50,000 square feet.

Only 160,000 square feet across two new leases have been signed this year in new buildings in Otay Mesa. That has raised concerns among developers, particularly as rent growth has moderated below the long-term benchmark coupled with high borrowing costs to finance development and a vacancy rate that has increased by 11 percentage points since 2022.

As a result, industrial construction starts have come to a standstill in San Diego. No logistics or specialized buildings have broken ground since the start of the second quarter as developers have taken a step back to allow recent completions time to lease. It has been 10 years since a two-quarter stretch passed without any industrial groundbreaking in San Diego.

E-commerce giant Amazon's new 1.1 million-square-foot built-to-suit in Otay Mesa accounts for the bulk of the pipeline, representing a full 50% of industrial space under construction in San Diego. That has left less than 750,000 square feet available in the pipeline, which is one of the lowest levels available in the past five years.

Two of those available projects, totaling more than 200,000 square feet, are located in Kearny Mesa. Both properties are scheduled for completion by year's end.

The other significant speculative development is in El Cajon, called the Gillespie Field iPark. The 381,000-square-foot logistics facility is scheduled to be completed this year, and roughly 160,000 square feet has been pre-leased by GKN Aerospace for an expansion within El Cajon.

The lack of construction starts should give landlords time to fill the new space without further significant supply-side pressure down the road. Even so, given the pullback in demand among large occupiers, it will likely take time for those spaces to fill.