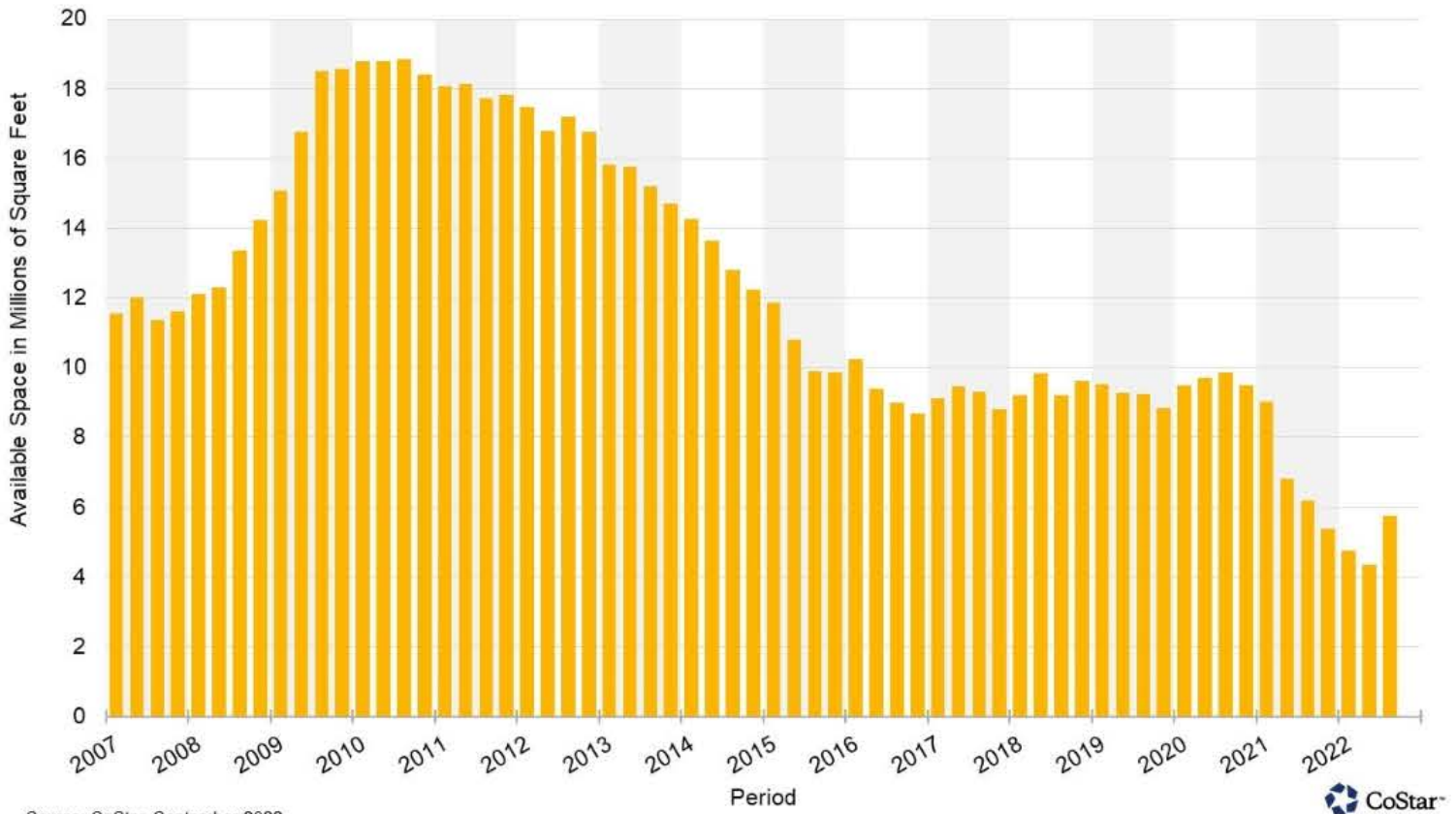


Available Industrial Space Ticks Up With New Developments, But Still Not Enough Leasing Activity Has Moderated Amid This Wave

Available Industrial Space on the Rise with New Construction



By Joshua Ohl

San Diego’s industrial market for specialized and logistics space is firing on all cylinders. Rents are up more than 13% year over year while the vacancy rate has dropped 1% in the past year to 2.4%. Both metrics are trending at historical levels.

Given that the median time on market for industrial space is trending at two months, representing the market's lowest level in more than 15 years, sourcing available industrial space in the region has become increasingly difficult.

Through the second quarter of 2022, the amount of available industrial space in San Diego had fallen for seven straight quarters, reaching a 15-year nadir of only 4.4 million square feet, or just 2.8%

But given the dwindling available inventory in San Diego, leasing activity has somewhat stalled over the past several quarters. While San Diego averaged more than 2.5 million square feet of new quarterly leasing activity earlier in the pandemic, that number has fallen to an average of about 1.9 million square feet over the past four quarters.

There hasn't been a concurrent rise in construction to match increasing demand. Since 2018, when the vacancy rate was nearly 4%, the San Diego industrial market has only had an average of 1.6 million square feet under construction, if Amazon's 3.4 million-square-foot build-to-suit project isn't counted.

There's only about 1.8 million square feet under construction across San Diego, of which about 1.1 million square feet is available for lease. While that should provide a modicum of relief for tenants seeking out new space, it's still the smallest industrial pipeline here since the end of 2020.

Developers are trying to fill the gap, even if activity remains relatively mild. During the third quarter, Majestic Realty broke ground on two more buildings at Landmark at Otay, totaling nearly 500,000 square feet. They are scheduled to deliver next year. The first two buildings in the campus opened earlier this year and were fully leased before the end of the first quarter. The largest tenant, RL Jones, leased one building at 153,000 square feet, while the other was leased to four tenants totaling nearly 220,000 square feet.

In Chula Vista near Otay Mesa, Rockefeller Group broke ground on the three-building Heritage Industrial Park during the third quarter. Totaling 200,000 square feet, it is scheduled to open in 2023 and is fully available.

Given the difficulty of moving projects through the entitlement phase, coupled with supply chain issues, San Diego might not see the necessary uptick in development needed to satiate local industrial demand.