Industrial Sublet Space in San Diego Reaches Highest Level Since 2010
The Level Has Risen for Six Straight Quarters

By Joshua Ohl

San Diego's industrial availability rate has been on the rise in 2023, reaching 9.5% of total inventory at the end of the third quarter. That's both the highest percentage and most amount of space, 20.1 million square feet, available since mid-2014.

Yet, the rise in availability has not alarmed local market participants, but tenants searching for space, particularly in small-bay properties, still have limited options. Local brokers have noted that demand for smaller industrial spaces between 5,000 to 25,000 square feet remains just as strong as it was earlier this year.

One of the leading causes of the rise in availability this year has been an injection of sublet space becoming available in San Diego. At the end of the third quarter, the amount of available sublet space, 3.7 million square feet, reached its highest level since the beginning of 2010 after rising for six straight quarters. The amount has increased by more than 3 million square feet since the beginning of 2022.

However, there is a glaring difference between now and then. In 2010, when sublet space peaked above 3.8 million square feet, the vacancy rate was 11.2% compared to 5% at the end of the third quarter, and the availability rate reached an all-time high of 14.9%, according to CoStar research.

Among industrial buildings, there was just under 1.7 million square feet of sublet space on the market or less than 1% of specialized and logistics inventory. Amazon accounts for nearly 700,000 square feet of that space after returning five of its regional facilities to the sublet market since last year.

Its two same-day-delivery facilities, one in Otay Mesa that opened earlier this year and another in Rancho Bernardo that opened in 2020, were still occupied by the firm. All of the buildings that have been added to the sublease market have been near other facilities that Amazon operates.

Among small-bay properties, which account for more than 50% of San Diego's industrial stock, less than 1% of inventory, or about 600,000 square feet, was available for sublease.

Otay Mesa, San Diego's primary logistics node, had nearly 500,000 square feet of sublet space available at the end of the third quarter, accounting for nearly 2% of inventory. That's the highest level in more than 10 years there. The vacancy rate at the end of the third quarter, however, was only 5.9%, a rate that was lower than the beginning of 2021. For context, the last time sublet space had reached this high, in 2010, the vacancy rate was north of 20% in Otay Mesa.

The balance of sublet space, 2 million square feet, was in flex buildings at the end of the third quarter, which has been nearly a five-fold increase since the first quarter of last year.

Sorrento Mesa and Torrey Pines have the most flex sublet space available, almost all of which are in flex and lab buildings. Both areas have seen peak-level sublet space this year following several significant lab properties returned to the market. The level would be higher if not for lease terminations for two fully pre-leased buildings that saw them returned to the direct market instead of the sublet market.

Although there is some concern among market participants with the drop in leasing volume and demand in 2023, San Diego's industrial market is in a much better position now than it was the last time sublet space reached 3.7 million square feet more than 10 years ago.