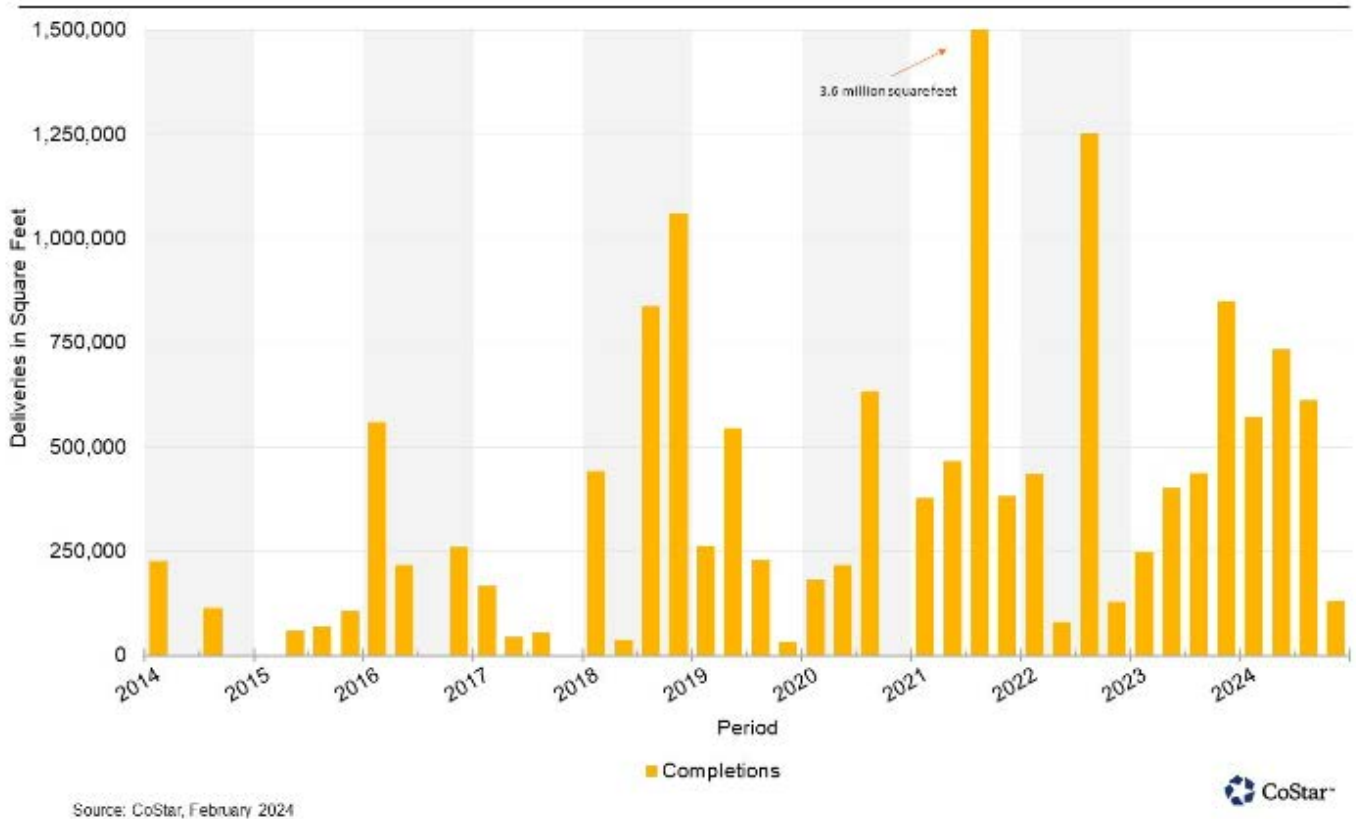


South San Diego County Faces Additional Supply Pressure in 2024 The Region's Available New Inventory Competes With the Pipeline

New Available Industrial Space Set to Pile Up in San Diego



By Joshua Ohl

Last year, San Diego saw 850,000 square feet of industrial space deliver in the fourth quarter, bringing its annual gain to 1.9 million square feet. That was about 50,000 more square feet than a year earlier.

As we navigate the early stages of 2024, 1.5 million square feet of that new space remains available, and, except for a 200,000-square-foot campus in Chula Vista, all that open space is in Otay Mesa. For comparison, only 125,000 square feet is still available from the region's 2022 deliveries.

At the start of the year, there was roughly 2.3 million square feet of industrial space under construction across San Diego, with 2 million square feet scheduled for completion in 2024. A full 80% of the under-construction pipeline is available for lease, increasing supply-side pressure to rent growth and vacancy.

The surfeit of that supply pressure will center in Otay Mesa, where 1.3 million square feet is under construction and 1.2 million square feet is available for lease.

One of the largest projects there is the Otay Border Crossing, or OBX. Kearny Real Estate is building the four-building campus, which spans 350,000 square feet with the largest building covering 200,000 square feet. The buildings are scheduled to deliver in 2024 and are available for lease and sale. The campus is divisible to 25,000 square feet, and the largest facility has 36-foot clear heights, while the smaller-bay properties have 32-foot clear heights.

Those are among the few small-bay properties under construction in San Diego. There is only about 150,000 square feet under construction in buildings that are about 50,000 square feet and below and less than 100,000 square feet currently available. With small-bay demand driving leasing activity in San Diego, local market participants have commented that new construction will provide few options for industrial tenants, which should keep small-bay demand robust in the coming year.

Local brokers have also voiced concern about the amount of new inventory delivering in Otay Mesa. Between 2010 and 2019, inventory expanded by only 5%, or about 900,000 square feet. Since 2020, developers have built nearly 8 million square feet of new industrial space, expanding inventory by nearly 50%.

While landlords hold the line on asking rents for new inventory, they have been more open to offering free rent to secure occupancy.

Some developers in Otay Mesa are delaying projects until the new space is absorbed, but the area boasts unique drivers for industrial demand, such as an immigrant workforce that arrives through the Otay Mesa Land Port of Entry. With consumer confidence improving and recessionary concerns easing, that should provide momentum for demand returning among logistics facilities larger than 100,000 square feet in the coming year.