

INVESTMENT FORECAST

Industrial
San Diego

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2022

Cross-Border Trade Projections Foster Leasing Surge and Sales Activity in San Diego's South Bay

Demand in Otay Mesa supports historic fundamentals. San Diego's industrial sector entered 2022 on a high note after users absorbed 6.4 million square feet in the second half of last year — a figure that exceeded the total from the prior 15 quarters. Heightened demand for warehouse and distribution space near the U.S.-Mexico border fueled this strong level of absorption, with e-commerce retailers and logistics providers inking leases in Otay Mesa. As more industrial firms seek tax incentives from cross-border distribution and manufacturing channels, demand in the area is poised to remain robust. Additionally, the expansion of the Otay Mesa Port of Entry will be completed in 2023, bolstering cross-border trade. Expectations for steady user demand have prompted development, with most of San Diego's pipeline concentrated near the border. Sparse construction elsewhere and growing demand for last-mile and biotech-suitable flex space will steer users to a limited stock of available space this year, compressing vacancy below 3 percent.

Highest regional yields warrant diverse buyer pool. Last year was a record 12-month period for trading in San Diego, as investors exhibited confidence in the market during a historic level of user demand and strong rent growth. Across price tranches and property types, notable increases in deal flow occurred, with only Phoenix noting more transactions among U.S. secondary markets. Moving forward, San Diego's average cap rate, which is 70 to 90 basis points higher than other Southern California metros, should attract additional buyers' attention in the near term. National investors seeking either proximity to Mexico or a varied tenant base are targeting Otay Mesa and the SR-78 Corridor for warehouses. Private buyers focused on properties suited for last-mile operations are active as well, acquiring assets at mid-4 percent to high-5 percent returns.

2022 Market Forecast

Employment

up 3.9%



Organizations add 56,000 positions in 2022, pushing the metro's total job count within 1 percent of the pre-pandemic mark.

Construction

1.9 million sq. ft.



After 4.6 million square feet of space was finalized last year, delivery volume moderates in 2022. A collection of projects in Otay Mesa account for most of this year's completions.

Vacancy

down 30 bps



Industrial users absorb more than 2 million square feet of space for a third consecutive year, lowering vacancy to 2.8 percent. Last year, availability compressed 200 basis points.

Rent

up 4.3%



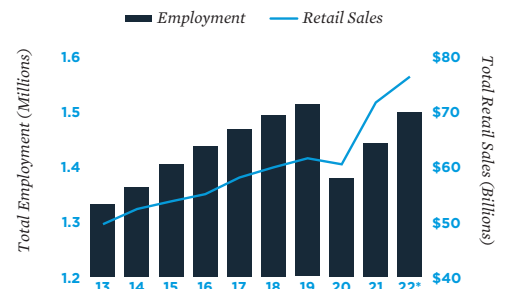
Historically tight conditions support a pace of rent growth that exceeds the prior three-year average, elevating the metro's mean marketed rate to \$17.75 per square foot.

Investment

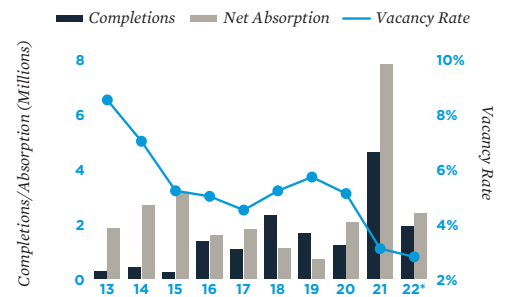


Multiproperty transactions represented nearly 20 percent of last year's deal flow. This activity could generate opportunities for private investors to acquire assets on a one-off basis in 2022, as institutional owners trim down recently-acquired portfolios.

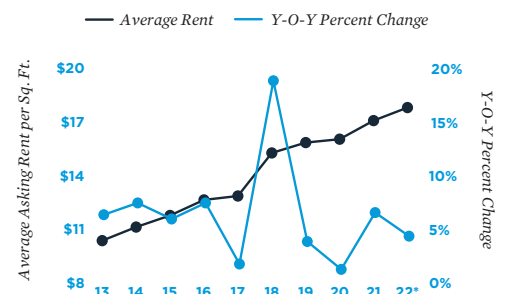
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.