

CONTINUED: E-Commerce Delivers Strong Impact on SD Industrial Market

2017. North County is leading this trend with more than 1.5 million square feet of industrial space currently under construction. Other large projects are underway in Poway and Otay Mesa.

Rising land prices, the high cost of entitling land, and high construction costs are forcing developers to seek rental rates (for newly built space) that are at a premium to existing buildings. These rents are being validated by tenants searching for the top-end features that are found in the new product. As the cost of developing these new buildings continues to climb, we will see more developers acquire older product and reposition them with the some of these features.

Linda Greenberg, Principal, Lee & Associates – Institutional buyers were active purchasing both portfolios and single-building assets with credit tenants during 2017. A significant trend in the market was the repositioning of older industrial properties by new investors. Murphy Development's acquisition of 2001 and 2055 Sanyo Ave. in Otay Mesa -- 540,284 square feet for approximately \$27.8 million -- was the largest industrial purchase in 2017.

The San Diego industrial market in 2018 should perform at a level at least equal to 2017 with respect to leasing and sales activity. Biotech and defense-related businesses should be market leaders. Factors that could disrupt market momentum are significant increases in borrowing costs and changes to NAFTA regulations that impose increased tariffs on products manufactured in Mexico that are imported into the United States.

Ryan Sparks, Vice President, CBRE Group – General sentiment surrounding the San Diego industrial market has been positive. Market fundamentals were strong in 2017, especially in the second half of the year. Asking rates remain at all-time highs as demand continues to surge within certain segments of the market. Absorption remains relatively stable given the tightness of the market.

With construction deliveries in the pipeline, we anticipate absorption to remain healthy moving into 2018. In addition, the re-positioning/re-purposing of functionally challenged and outdated buildings has become a trend worth keeping an eye on in the upcoming year. This will create more opportunities for owners and developers to alleviate pent-up demand in the industrial market.



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