

Emerging Industrial Markets: Otay Mesa, San Diego

October 25, 2023

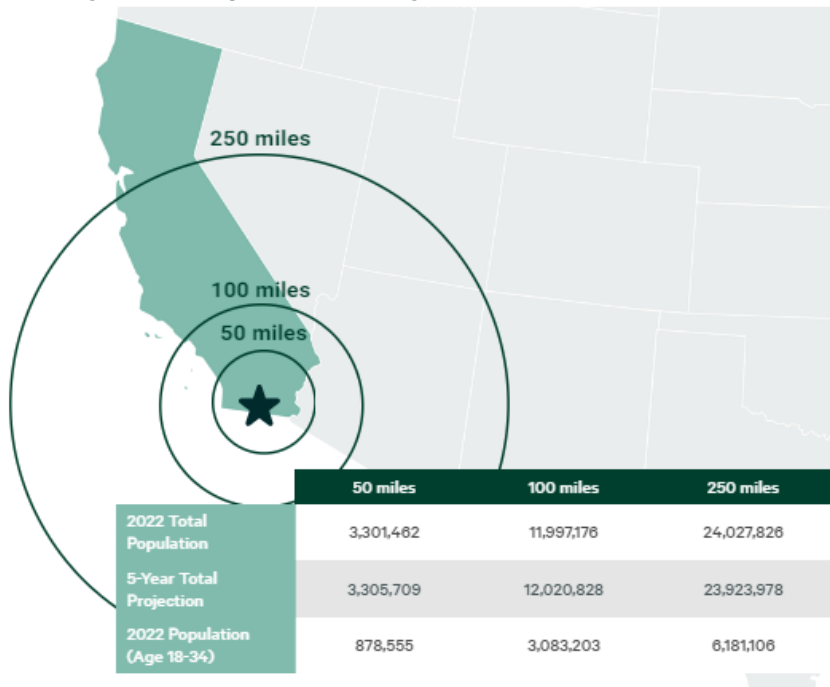
“The cross-border manufacturing partnership between San Diego and Mexico benefits all parties involved. Many occupiers in Otay Mesa/San Diego support maquiladora (tariff-free) manufacturing operations in Tijuana. This includes many industries, from medical heart valve manufacturing to Tacoma truck production. Otay Mesa also has a large base of 3PL users to assist in moving goods and products from Tijuana and Otay Mesa to the Port of Long Beach, and throughout the U.S. Many food and beverage manufacturers and e-commerce companies rely on cross-border employees with U.S. work visas.”

Rob Hixson III
SIOR, CBRE Senior Vice President

Demographics

Approximately 12 million people—26% or 3.1 million aged 18 to 34—live within 100 miles of Otay Mesa, and 24 million live within 250 miles.

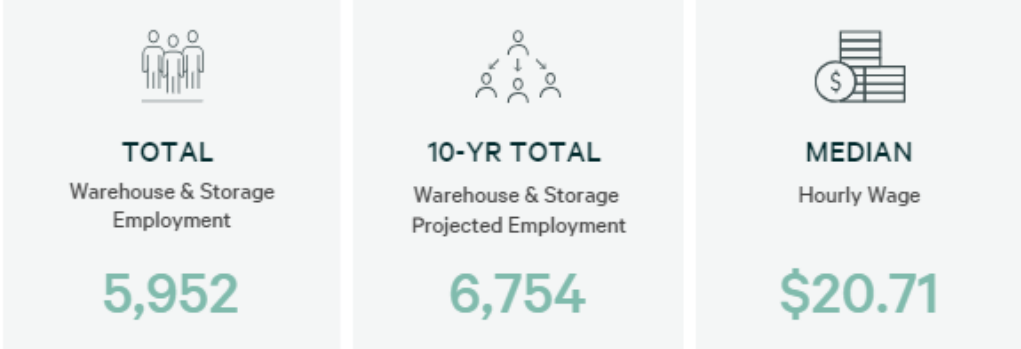
Figure 1: Otay Mesa Population Analysis



Source: CBRE Location Intelligence.

Otay Mesa’s warehouse labor force of 5,952 is expected to grow 13.5% by 2033, according to [CBRE Labor Analytics](#). The average salary for a non-supervisory warehouse worker is \$19.84 to \$22.20 per hour, with an overall average of \$20.71. Otay Mesa is part of the San Diego-Carlsbad-San Marcos, CA area where the unemployment rate is 4.3% as of August 2023 versus 3.5% a year earlier, according to the U.S. Bureau of Labor Statistics. Over the same time period, the state’s unemployment rate rose from 3.8% to 4.6%.

Figure 2: Otay Mesa Warehouse & Storage Labor Fundamentals



Source: CBRE Labor Analytics.

Location Incentives

Over the past five years, there have been over 70 economic incentive deals with employers, valued at more than \$130 million for an average of \$17,300 per new job in metro Otay Mesa, fDi Intelligence reports.

According to [CBRE’s Location Incentives Group](#), among the top incentive programs offered in metro Otay Mesa is the California Competes Tax Credit, providing a discretionary income tax credit to new and expanding businesses in California. This program was extended through 2028 with \$180 million in tax credits available per year for businesses. Program funds can be applied to capital expenditures, new jobs and creating other strategic value to the region.

Figure 3: Top Incentive Programs

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| California Competes Tax Credit <hr/> Discretionary tax credit program | Employment Training Panel <hr/> Job training grant |
| Manufacturing and R&D Sales and Use Tax Exemption <hr/> Partial exemption of state sales and use tax on qualified manufacturing and R&D equipment | New Employment Credit <hr/> Tax credit for new employees on qualified payroll between 150% and 350% of state minimum wage |

Source: CBRE Location Incentives Group.

Note: The extent of state and local incentive offerings depends on location and scope of the operation.

Logistics Drivers

Otay Mesa is one of the strongest Southern California industrial markets because it's connected to the U.S.-Mexico border, driving enormous industrial activity and growth. The city's Land Port of Entry (POE) is the busiest commercial port in California and the third-busiest POE along the U.S.-Mexico border. Otay Mesa's location offers easy access to several major markets.

Cross-border and nearshoring activity continues to grow. Last year, California received a grant from the U.S. Department of Transportation for \$150 million towards the construction of Otay Mesa East POE (Otay II), a new international border crossing and port due to complete in 2026. The new POE will stimulate cross-border trade and minimize wait times to under 20 minutes. The 905 freeway, 125-toll road and state route 11 are the main roadways to Otay Mesa. Otay Mesa is 18 miles from San Diego's CBD and a few hours' drive to Los Angeles, Phoenix and Las Vegas.

By air, the [Brown Field Municipal Airport](#) located 1.5 miles north of the U.S.-Mexico border in San Diego services the Otay Mesa region. In late 2022, plans to develop Metropolitan Airpark were announced by a developer. This is a 331-acre project to be built over the next 20 years. The project will provide a new terminal at the airport, airplane hangars and potentially over one million sq. ft. of retail and industrial buildings. The [Tijuana International Airport](#) also serves the San Diego area, including Otay Mesa. The airport is connected to the [Cross Border Xpress \(CBX\)](#) pedestrian bridge, connecting a terminal building in San Diego with the Tijuana International Airport.

Supply & Demand

Otay Mesa has over 23 million sq. ft. of existing industrial space, the majority of which (8 million sq. ft.) measures between 100,000 to 250,000 sq. ft. Secondly, 4.7 million sq. ft. of space consists of over 500,000 sq. ft. facilities. Otay Mesa's industrial inventory has grown by 45% since 2019, when it contained 16 million sq. ft. Overall average asking rents in Otay Mesa are currently \$1.31 NNN per sq. ft. per month or \$15.72 NNN per sq. ft. per year, up over 75% since 2019. This market offers some of the lowest industrial rents in the San Diego region. Vacancy has risen from 2% at the end of 2022 to 5.8% by the end of Q3 due to one million sq. ft. of vacant speculative construction space being completed in the last 12 months.

Nearly 2 million sq. ft. of construction activity is underway, with an average project size of approximately 100,000 sq. ft. The most construction in the San Diego market is in Otay Mesa. The biggest project is a 257,000-sq.-ft. speculative warehouse due to deliver in Q2 2024. The largest warehouse in Otay Mesa is 3.4 million sq. ft. and was constructed in 2021 for a national e-commerce company. There are only two other warehouse/distribution facilities in the area over 500,000 sq. ft.

Otay Mesa is well positioned for nearshoring, manufacturing and warehouse/distribution growth in the years to come due to the market's expansion and enhancements of its POEs and other economic incentives. The region continues to entice industrial investors and occupiers with its strong maquiladora activity, increased truck and port capacities and growing cross-border opportunities with Mexico.

Figure 4: Otay Mesa, Historical Data

| | YTD 2023 | 2022 | 2021 | 2020 | 2019 |
|--------------------------------------------|------------|------------|------------|------------|------------|
| Inventory (SF) | 23,137,988 | 22,228,741 | 20,561,180 | 16,243,362 | 15,963,780 |
| Overall Vacancy Rate | 5.8% | 2.0% | 3.4% | 5.8% | 3.3% |
| Net Absorption (SF) | -29,729 | 1,940,549 | 4,210,864 | -139,455 | 761,209 |
| Average Asking Rental Rates (Direct/SF/Mo) | \$1.31 | \$1.19 | \$0.86 | \$0.77 | \$0.74 |
| Construction Completions (SF) | 880,196 | 1,575,023 | 4,306,286 | 266,435 | 290,982 |

Source: CBRE Research, 2023.

Figure 5: Otay Mesa, Size Range Comparison

| Size Range (SF) | Q3 2023 Existing Inventory | Q3 2023 Overall Vacancy Rate | Q3 2022 Existing Inventory | Q3 2022 Overall Vacancy Rate |
|-----------------|----------------------------|------------------------------|----------------------------|------------------------------|
| 10-50K | 4,559,519 | 1.6% | 4,511,460 | 2.3% |
| 50-100K | 4,460,827 | 3.7% | 4,322,677 | 3.6% |
| 100-250K | 8,025,797 | 10.9% | 7,202,989 | 4.8% |
| 250-500K | 1,178,049 | 0.0% | 1,178,049 | 0.0% |
| 500K+ | 4,734,867 | 0.0% | 4,735,181 | 0.0% |

Source: CBRE Research, 2023.