# Where Does SD Fall in the Industrial Cycle?

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Robinson: “There’s a period of time here where we’re going to be able to fill a newer, edgier, industrial/office prototype that’s different from anything else built in San Diego.”

SAN DIEGO—The San Diego **industrial** market is somewhat behind other West Coast markets and still has plenty of runway, **RAF Pacifica** principal **Adam Robinson** tells GlobeSt.com. The newly formed firm and **Stos Partners** have acquired a 277,040-square-foot portfolio from an undisclosed seller consisting of 16 individual buildings throughout six **multi-tenant industrial** business parks in San Diego County. The portfolio was 100% leased at the time of the sale, and the buyer plans to invest in each of the projects to enhance the value and increase tenant rents to market rate.

GlobeSt.com spoke exclusively with Robinson and Randy LaChance, SIOR, SVP with **Voit Real Estate Services**, who led a team that represented both parties in the transaction, about the deal and why industrial investors are drawn to the San Diego market.

***GlobeSt.com: What do industrial investors find compelling about the San Diego market?***

***LaChance:*** There's a lot: the barriers to entry, there's no land in Central County to build anything and sales are below replacement cost. Even if you could find the land, with **Title 24, ADA**, storm-water runoff specifications and other factors, replacement cost is still significantly above **acquisition** prices. It's cost-prohibitive to build, so the inventory that's there is the inventory that's going to be there. That's probably number one, in my opinion. Number two is the low finish and limited amount of TIs in this type of product. People pay big money for **apartments**, but they don't have to do a lot of upgrades before the next tenants moves into a unit, and it's the same with these industrial spaces; there's a low cost of turnover. Sixty percent of San Diego businesses employ fewer than 10 people, so the majority of businesses here are small tenants. Nobody else is going to build it, so you're looking at low vacancies across the board caused by a slow-growth **economy**. It didn't recover in a V-shaped fashion like most recoveries—it dropped suddenly and then bounced on the bottom and shot up in the last 18 months. We've seen significant rent growth with low interest rates and low **unemployment**. San Diego also has a diverse economy, so the economy is not based on the housing market or defense like last time; it's a very diversified economy with good underlying fundamentals. Because of all those things, there's not much property available; there are not a lot of sellers so there's low supply.

***Robinson:*** San Diego is constrained on all four borders, so there's a finite amount of land, and it's so expensive to build this product.

***GlobeSt.com: What was attractive about this portfolio?***

***Robinson:*** This portfolio is unique because it ended up being three different sellers. Four of the properties were from one institutional seller, and we added an off-market transaction and got one loan for all six properties. They are in diverse areas of San Diego. We like that this was so diversified, with properties in Miramar, Sorrento Mesa, Oceanside and Rancho Bernardo—all of the best markets in San Diego. It made a lot of sense for us as a long-term hold with good, steady return.

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***GlobeSt.com: How does this market compare to other California industrial markets?***

***Robinson:*** I personally believe that San Diego is running 12 to 18 months behind other markets. I was just in Denver, and they already have a lot of spec buildings being built. The vacancy rates are low, and lease rates are rising here—the same in Orange County and L.A.—and we're just starting to see **development** in San Diego. That's what we're doing—**spec industrial**. We're seeing vacancies at an all-time low of 4% across the board in San Diego. There has not been a lot of product on line since 2008, so there's a period of time here where we're going to be able to fill a newer, edgier, industrial/**office** prototype that's different from anything else built in San Diego.

***LaChance:*** I'm just a San Diego guy, but I'd say we're one of the top markets in California and in the country. We're seeing the same type of fundamentals occurring in Orange County, and the Bay Area is just a whole different animal.

***GlobeSt.com: What qualities do you look for in the properties you acquire?***

***Robinson:*** For the existing stuff, we look for location and making sure the product type is right for the location. In the Sorrento Mesa space, we liked the 4/1,000 parking, but only 20% to 30% of the units are built out; we need to build out more office, and then we can double the rent they were getting. We like knowing the market and managing it with all the different tenants.

***GlobeSt.com: What else should our readers know about RAF Pacifica?***

***Robinson:*** **Steve Leonard**, who owned **Pacifica Capital Investments** and bought assets in L.A. and Denver in the '80s and '90s, was one of our partners at SR Commercial. When **CJ Stos** and I decided to go our separate ways, I talked to Steve, who had existing multi-tenant projects and had built some new industrial. We decided to merge our companies together and raise a fund to buy land, and that's what we're doing right now. Steve's been great because he's been like a mentor for me in the last five years of partnering with him—he's been through a lot of real estate cycles. We can make the same decisions he made back then and not make the same mistakes a lot of other operators did when the market started to pick up.

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