

# Demand for Medical Devices, E-Commerce Boost Industrial Properties Near US-Mexico Border

*Trends Fueled by Pandemic Could Have Lasting Impact in San Diego*

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A surging need for life-saving medical equipment such as ventilators during the coronavirus pandemic is part of the growing demand on the logistics market at the U.S.-Mexico border region of California's southern San Diego County.

Medical devices are among the cargo that is flowing freely across the U.S.-Mexico border, though federal officials have placed restrictions on travel tied to nonessential industries. Tijuana, the northern Mexican city located just 20 miles south of downtown San Diego, has become a major manufacturing hub in the past decade for respirators, masks and other medical protective gear now deemed to be in critical undersupply as hospitals nationwide deal with a deluge of serious coronavirus cases.

Many device makers ship their products to warehouses in southern San Diego and neighboring Riverside and San Bernardino counties, from where they are distributed to cities nationwide.

"Those manufacturing facilities in Tijuana and Tecate and Mexicali are going full-steam right now to keep pace with demand — it's ventilators, it's masks, it's hospital beds and a lot of other things," said Rich Kwasny, a San Diego senior vice president with brokerage Colliers International, who has tracked industrial trends in the Tijuana area since the early 1990s.

While many smaller U.S. companies in particular could be reeling for some time from the economic fallout, commercial real estate brokers note cargo is still flowing freely at the border, especially if it is tied to industries deemed essential in the current stay-at-home preventive climate.

Kwasny said Tijuana can remain a strong generator of industrial business on the U.S. side during the current climate, provided that its manufacturing ecosystem is not severely impacted by the coronavirus as happened for the past several weeks in China. He noted that Tijuana's current industrial vacancy rate is historically low at 3%, and CoStar data shows Otay Mesa's at 8%. That's also low by historical standards for that neighborhood, where asking rents remain far below San Diego's regional averages.

As confirmed coronavirus cases and deaths increase, government officials and medical officials nationwide anticipate a critical shortage of life-saving devices such as ventilators. New York Gov. Andrew Cuomo recently warned that hospitals in his state, where New York City has become the coronavirus epicenter, may need 30,000 to 40,000 additional ventilators when the coronavirus reaches its caseload peak in coming weeks.

In the border area, medical device production and distribution could play a key role in a much larger nationwide marshaling of resources to ramp up production of life-saving equipment. President Trump recently enacted provisions of the federal Defense Production Act, meant to stimulate production of certain goods in emergency situations and last invoked during the Korean War, and several non-medical-device companies have stepped forward.

Those include General Motors, Ford, 3M, Hanes and Elon Musk, founder and CEO of Tesla and SpaceX, who recently tweeted that he plans to donate to New York City hundreds of ventilators he has secured from several device makers. Musk also said he plans to reopen a shuttered factory in Buffalo, New York, to build more of the much-needed ventilators.

Brokers said the escalating reliance during the pandemic on home deliveries of just about everything as people stay away from public places has probably converted many more Americans to e-commerce if they hadn't already gotten into the habit of shopping online.

This could boost demand among logistics providers for last-mile and same-day delivery facilities in places like San Diego's cross-border region. Amazon is expected to begin construction later this year on a previously disclosed new 2.6 million-square-foot distribution center planned for the city's Otay Mesa neighborhood.

## **Essential Business**

Tijuana is Mexico's largest producer of medical devices, with 44 companies annually producing \$2.1 billion worth of items including ventilators, defibrillators, catheters and surgical supplies, according to data from industrial services provider Tecma Group. The northern Mexican state of Baja California, which includes Tijuana, accounts for half of that country's medical device exports.

This is part of a larger cross-border economy that accounts for \$24.3 billion in annual foreign exports and 418,300 manufacturing jobs, according to a 2018 report from the San Diego Regional Economic Development Corp.

In the past decade, several U.S. and other international medical device makers have found northern Mexico to be optimal for manufacturing because of relatively low labor, material, real estate and related costs of doing business. That's especially true for Tijuana but also other areas including Mexicali, Tecate and Juarez, the latter of which has an active medical-device-production infrastructure across the border from El Paso, Texas.

The medical device industry joins several other industries that are growing in demand as American residents stay home to slow the spread of the virus. E-commerce and grocery delivery are among the others quickly increasing their space in the industrial market.

In Otay Mesa, Southern California developers Sunroad Enterprises and Majestic Realty Co. have started construction on a previously announced 227,000-square-foot industrial complex. Tenants have not been announced, but brokers said likely candidates include companies tied to e-commerce and food distribution, another industry deemed crucial during the current pandemic, as grocers have struggled to keep stores stocked amid panicked consumer hoarding.

Otay Mesa is home to large warehouses of major retailers such as Costco Wholesale and Walmart, along with several food producers and cold-storage facility operators.

For the foreseeable future, food producers and distributors are likely to be relatively unaffected in terms of negative business impacts from the current crisis.

"There is likely an issue regarding what defines an essential business in Otay Mesa," said Linda Greenberg, principal in the San Diego office of brokerage Lee & Associates. "There are food manufacturers such as Jensen Meat that provides frozen hamburger patties to restaurants and produce wholesalers like Expo Fresh that would appear to be essential businesses."

More industrial development could be ahead in the region, though developers and tenants are watching for factors including how quickly consumer spending rebounds, and when life in general returns to normal for business tenants.

"So far I'm not hearing of deals being put off specifically because of the coronavirus," said Chris Holder, a Colliers International senior vice president who handles transactions in areas including San Diego's South County. "We'll need to see how this plays out in the next few weeks."

Colliers' Kwasny noted that, in this uncertain climate, nothing remains certain, though.

"Right now, Tijuana has seen relatively few cases compared with other big cities, but that could change," he said during a March 27 interview.