

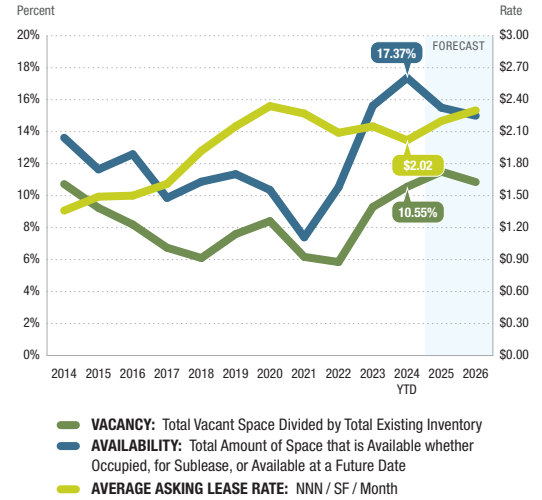
OVERVIEW. The Flex/R&D market is on track for the second consecutive year with negative net absorption, while vacancy continued trending higher. Sublease availability spiked and asking rental rates pulled back. Sales and leasing volume in the San Diego Flex/R&D remained muted in Q3.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q3 2024 at 10.6%, a substantial increase of 23% from Q3 2023's vacancy rate of 8.6%. Despite the increase of the vacancy rate seen in the last two years, this is still well below the vacancy rate from the trough reached during the Great Recession when the countywide vacancy rate finished 2011 above 16%. The availability rate saw a 14% increase from the prior year. Direct/sublease space being marketed was 17.4% at the end of Q3. Vacancy measures the amount of space which is unoccupied regardless of whether it is being marketed for sale or lease. Availability measures the amount of space which is on the market, regardless of whether it is occupied. Sublease availability has spiked to 4.4% at the end of Q3, after bottoming out at 0.9% in Q1 2022.

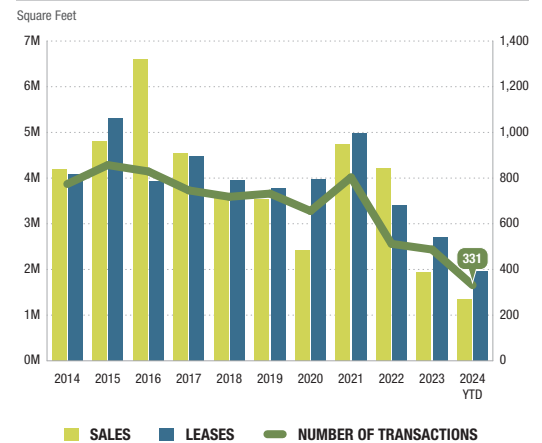
LEASE RATES. The average asking triple net lease rate per square foot per month in San Diego County was \$2.02 at the end of Q3 2024, which is a decrease of 9.8% from Q3 2023's rate of \$2.24. The substantial increase in availability and competition from sublease offerings has placed downward pressure on landlords' asking rates. Despite the recent dip, the average asking lease rate has been on a long-term trend of increases. Over the past ten years the countywide asking rental rate has increased 50%, as more space gets built out with expensive biotech laboratories. The Flex/R&D market is relatively small in comparison to the office or industrial markets, and additionally the difference between the rental rates for biotech properties and other Flex/R&D properties is vast. This causes the overall average market statistics to fluctuate periodically.

TRANSACTION ACTIVITY. There were 643,014 SF of Flex/R&D space leased in 108 transactions recorded in Q3. The leasing market has averaged 664,400 SF and 101 transactions per quarter since the start of 2023. These leasing figures were far below the quarterly average of the preceding two years, 2021-2022, which recorded a quarterly average of 1,048,671 SF in 133 transactions. The leasing activity totals encompass sublease and direct transactions, and while the total leasing volume is down, sublet leasing has increased for two consecutive years. This is reflected in the largest transactions of the quarter, two of which were executed on a sublease basis. Sales activity practically came to a halt at the end of 2023, with the final two quarters of that year recording less than \$100 million of Flex/R&D building sales. The first half of 2024 saw a bounce back to a healthier level of over \$200 million in sales each quarter of the first half of the year, before falling back well

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

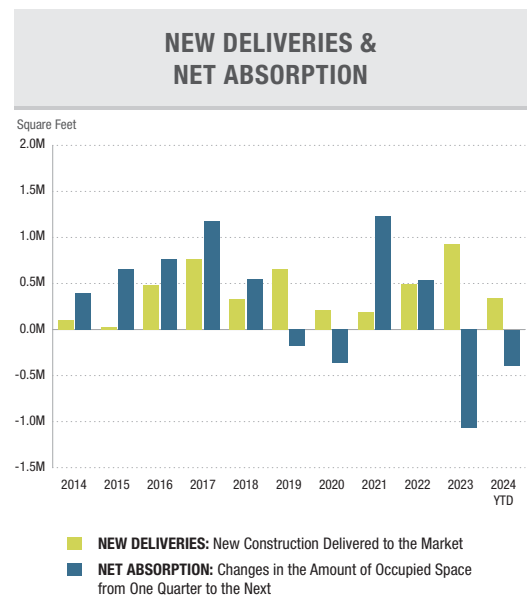
	Change Over Last Quarter	Q3 2024	Q2 2024	Q3 2023	% Change Over Last Year
Vacancy Rate	▲ UP	10.55%	10.24%	8.60%	22.77%
Availability Rate	▲ UP	17.37%	17.16%	15.23%	14.04%
Average Asking Lease Rate	▼ DOWN	\$2.02	\$2.20	\$2.24	(9.82%)
Sale & Lease Transactions	▼ DOWN	736,684	1,535,336	555,345	32.65%
Gross Absorption	▼ DOWN	729,003	763,129	576,470	26.46%
Net Absorption	▼ NEGATIVE	(97,755)	24,741	(396,505)	N/A

below \$100 million in Q3. Prior to Q3 2023, the last time less than \$100 million of Flex/R&D buildings sold in a quarter was in 2019.

ABSORPTION. The San Diego Flex/R&D market recorded 97,755 SF of negative net absorption in Q3, bringing the 2024 total to 390,823 SF of negative net absorption. The decrease in the total Flex/R&D footprint in Q3 was concentrated in the Central County, primarily in the Sorrento Mesa submarket. The biotech segment of the Flex/R&D market has a very boom/bust nature dominated by a high percentage of large tenants, and this can move the market statistics rapidly in one direction or the other.

CONSTRUCTION. At the end of Q3 there were 2.2 MSF under construction or lab conversion, with 65% of this space still available for lease. The lack of available building sites, specifically in the primary biotech submarkets, has led to a steady stream of property conversions and repositioning over the years. All of the properties under construction at the end of Q3 were in the submarkets surrounding UCSD, apart from two Carlsbad developments. The Carlsbad projects consisted of Ionis Pharmaceuticals’ 165,000 SF build-to-suit expansion, along with Techbilt’s three-building, 67,714 SF speculative project, both of which are located on Whiptail Loop. The conversions from office or industrial to lab space do not show up in the new construction totals. The dividing line between office properties and flex properties is becoming blurred, especially in Sorrento Mesa and Sorrento Valley which have been the epicenter of recent lab conversions. Additionally, many ground-up developments are positioned towards both office and lab users to fill their new buildings.

EMPLOYMENT. The unemployment rate in San Diego County was 5.0% in August 2024, up from a revised 4.9% in July 2024, and above the year-ago estimate of 4.4%. This compares with an unadjusted unemployment rate of 5.9% for California and 4.4% for the nation during the same period. Over the 12-month period between August 2023 and August 2024, San Diego County employment increased by 10,800 jobs, an increase of 0.7%. With the normal delay in reporting from the California EDD, employment figures from September were unavailable at the time of publishing this report. For the nation as a whole, 254,000 jobs were added in September, the highest monthly payroll increase in six months.



Forecast

It is evident that the supply of biotech properties has outpaced tenant demand currently in the market, and the vacancy rate remains on a trend of increases. In Q3 the Federal Reserve cut rates for the first time since 2020. Lower interest rates can act to bolster financial markets, which is important to the capital-intensive biotech industry. Lending and underwriting standards have tightened over the past couple of years. Lenders and investors will not be in a rush to reverse course leading up to the U.S. presidential election, so the market is not likely to veer significantly off its current trajectory in Q4.

Significant Transactions

Sales					
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
8260 Camino Santa Fe	Miramar	60,866	\$17,732,000	8250 Camino Santa Fe, LLC	Hill Properties
9606 Aero Dr.	Kearny Mesa	38,089	\$12,100,000	Steel Peak Properties I RAF Pacifica Group	Event Network, Inc.
335 E. Pennsylvania Ave.	Escondido	10,000	\$2,520,000	Pennsylvania Property Partners, LLC	Blumak, LLC

Leases					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4902 Headquarters Pt.	Sorrento Mesa	66,569	Jul-2024	Mirador Therapeutics	Bioscience Property Investments
16550 W. Bernardo Dr.	Rancho Bernardo	53,181	Sep-2024	Undisclosed	Jay Paul Company
4930 Directors Pl.	Sorrento Mesa	37,400	Aug-2024	Genesis	Healthpeak Properties
9727 Pacific Heights Blvd.	Sorrento Mesa	34,931	Sep-2024	Cirsium Biosciences*	(Sublease)
3193 Lionshead Ave.	Carlsbad	30,890	Jul-2024	Prosperity Alliance	(Sublease)

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q3 2024	Square Feet Available	Availability Rate Q3 2024	Average Asking Lease Rate	Net Absorption Q3 2024	Net Absorption 2024	Gross Absorption Q3 2024	Gross Absorption 2024
Central													
Central City	14	188,791	0	0	45,064	23.87%	46,904	24.84%	\$1.80	(6,500)	(12,900)	0	0
East City	3	373,020	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Southeast City	24	254,826	0	0	5,478	2.15%	5,478	2.15%	-	(5,478)	(3,478)	0	2,000
Kearny Mesa	199	5,324,141	0	5,400	341,983	6.42%	437,680	8.22%	\$1.71	(116,415)	(123,889)	36,254	143,336
Mission Gorge	27	277,263	0	0	9,578	3.45%	9,578	3.45%	\$1.91	(686)	(9,578)	2,171	5,437
Rose Canyon/Morena	37	584,036	0	0	56,673	9.70%	75,016	12.84%	\$1.84	(2,608)	(25,938)	6,087	45,283
Sports Arena/Airport	33	427,078	0	0	71,939	16.84%	14,000	3.28%	\$1.87	(275)	949	6,725	7,949
Miramar	218	4,868,172	0	0	332,422	6.83%	642,660	13.20%	\$1.94	1,462	(63,421)	65,051	149,413
Sorrento Mesa	178	8,549,601	1,206,477	658,524	2,026,976	23.71%	3,467,906	35.55%	\$4.06	(100,131)	(199,062)	155,429	441,595
Sorrento Valley	114	2,771,348	0	0	599,259	21.62%	732,852	26.44%	\$2.46	(46,944)	(115,322)	33,508	142,061
Torrey Pines/UTC	85	7,515,257	757,890	340,000	862,603	11.48%	1,717,448	20.76%	\$2.00	116,090	143,332	198,933	478,585
Central County Total	932	31,133,533	1,964,367	1,003,924	4,351,975	13.98%	7,149,522	21.60%	\$2.44	(161,485)	(409,307)	504,158	1,415,659
East County													
El Cajon	79	896,978	0	0	1,217	0.14%	2,730	0.30%	\$1.51	31,792	21,468	33,009	45,446
La Mesa/Spring Valley	43	307,814	0	60,000	11,159	3.63%	11,159	3.63%	\$1.55	(4,038)	(6,159)	0	2,500
Santee/Lakeside	53	601,956	0	0	0	0.00%	600	0.10%	\$1.34	0	14,812	0	14,812
Rural East County	22	95,520	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	197	1,902,268	0	60,000	12,376	0.65%	14,489	0.76%	\$1.58	27,754	30,121	33,009	62,758
North County													
Escondido	82	767,725	0	0	17,422	2.27%	34,709	4.52%	\$1.34	8,599	10,573	10,000	13,357
Oceanside	32	957,992	0	0	16,570	1.73%	25,491	2.66%	\$1.54	(5,170)	(5,476)	8,900	28,683
San Marcos	56	1,054,187	0	0	41,546	3.94%	74,432	7.06%	\$1.46	(19,927)	(9,876)	6,225	26,565
Vista	62	1,316,773	0	0	27,329	2.08%	69,093	5.25%	\$1.40	(2,814)	19,965	2,811	46,107
Carlsbad	262	7,379,877	232,714	0	659,603	8.94%	1,412,443	18.55%	\$1.80	61,846	(7,829)	103,103	308,905
North Beach Cities	18	157,559	0	0	3,845	2.44%	3,724	2.36%	\$3.11	0	0	0	0
Rural North County	20	150,487	0	0	2,850	1.89%	2,850	1.89%	\$1.11	(2,850)	(1,200)	0	2,950
North County Total	532	11,784,600	232,714	0	769,165	6.53%	1,622,742	13.50%	\$1.64	39,684	6,157	131,039	426,567
I-15 Corridor													
Poway	64	2,264,795	0	0	52,522	2.32%	149,346	6.59%	\$1.55	(178)	(23,780)	9,537	27,591
Rancho Bernardo	100	4,815,644	0	0	402,841	8.37%	708,271	14.71%	\$1.78	21,263	72,684	42,067	150,992
Scripps Ranch	32	1,061,014	0	100,000	169,512	15.98%	169,512	15.98%	\$1.50	(19,941)	(69,796)	0	0
I-15 Corridor Total	196	8,141,453	0	100,000	624,875	7.68%	1,027,129	12.62%	\$1.73	1,144	(20,892)	51,604	178,583
South County													
Chula Vista	81	1,473,880	0	0	38,062	2.58%	106,253	7.21%	\$1.59	(1,695)	(2,942)	9,193	32,687
National City	23	300,227	0	0	2,250	0.75%	5,788	1.93%	\$1.73	0	5,022	0	5,022
Otay Mesa	7	156,368	0	0	3,157	2.02%	3,157	2.02%	\$1.60	(3,157)	(3,157)	0	0
South San Diego	5	86,876	0	0	0	0.00%	0	0.00%	-	0	4,175	0	4,175
South County Total	116	2,017,351	0	0	43,469	2.15%	115,198	5.71%	\$1.60	(4,852)	3,098	9,193	41,884
San Diego County Total	1,973	54,979,205	2,197,081	1,163,924	5,801,860	10.55%	9,929,080	17.37%	\$2.02	(97,755)	(390,823)	729,003	2,125,451

Lease rates are on a triple-net basis.



Watching and Waiting in Q3

by **Alex Jize**

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As we wrap up the third quarter of 2024, we continue to see the market cool down. Buyer and tenant demand has slowed, as there are more options appearing on the market. Many business and property owners have retreated to the sidelines as a very important presidential election is just around the corner. Notwithstanding these dynamics, industrial continues to be the strongest commercial asset class in the San Diego market, with relatively high demand from investors and owner-occupants.

Buyers who are currently in the market have gained the benefit of The Federal Reserve cutting rates by 50 basis points, with a signal for more rate cuts ahead. This has had a positive impact on conventional and SBA loan rates. We have seen consecutive rate cuts each month of the third quarter. The SBA 504 rate for 25-year money in September was 5.76%, which is approximately 93 basis points lower than where it was this past April. The consensus is that we will continue to see both conventional and SBA rates come down in the coming months ahead. This will continue to be a major factor in driving buyer activity and keeping pricing stable.

We have continued to see time-on-market for available properties for lease rise as more competing spaces come online, now often extending for months. Landlords are having to give up more concessions in free rent and come off their asking rate to be able to get deals done in today's marketplace. As available inventory continues to increase, owners with lower operating expenses will have a major advantage in attracting price-conscious tenants to their projects.

Overall, San Diego's industrial market remains relatively stable in comparison to the rest of the nation. We have seen pricing remain firm and building owners are still able to achieve near-peak prices on their industrial properties. Many investors and user-purchasers alike are in pursuit of industrial outdoor storage (IOS) properties, which rarely come to market. Investors have a strong appetite for industrial real estate and are actively in the market looking to purchase, but the lack of available inventory and the inability to make deals pencil has kept transaction volume low, which has been the case throughout 2024.

In conclusion, we have seen a continued slowdown in transaction volume and leasing activity through the third quarter but have high hopes there will be elevated activity as we head into the last quarter of the year. Lower interest rates coupled with putting the 2024 election behind us will lead to business owners committing to leasing or purchasing property and building owners executing on their disposition/acquisition strategies.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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Product Type

MFG./DIST.: Flex/Research and Development (R&D) buildings can be one story, one story with a mezzanine, and two story built-out structures with a high ratio of window wall to floor area with lower ceilings. They generally have over 50% built-out office space or laboratory use, with the remaining space being utilized as light manufacturing or warehousing. In addition, the parking ratio must be at least 3 spaces or greater per 1,000 square feet.

Submarkets

CENTRAL COUNTY

Central City, East City, Southeast City, Kearny Mesa, Mission Gorge, Rose Canyon / Morena, Sports Arena / Airport, Miramar, Sorrento Mesa, Sorrento Valley, Torrey Pines / UTC

EAST COUNTY

El Cajon, La Mesa / Spring Valley, Santee / Lakeside, Rural East County

NORTH COUNTY

Escondido, Oceanside, San Marcos, Vista, Carlsbad, North Beach Cities, Rural North County

I-15 CORRIDOR

Poway, Rancho Bernardo, Scripps Ranch

SOUTH BAY

Chula Vista, National City, Otay Mesa, South San Diego