

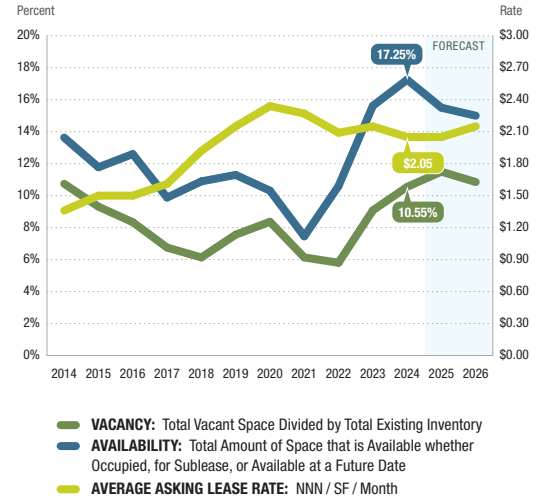
OVERVIEW. The Flex / R&D market completed its second consecutive year with negative net absorption, while vacancy continued trending higher. Sublease availability remains high, and asking rental rates pulled back. Sales and leasing volume in the San Diego Flex / R&D remained subdued in 2024.

VACANCY & AVAILABILITY. Direct / sublease space (unoccupied) finished Q4 2024 at 10.55%, a substantial increase of 16% from Q4 2023's vacancy rate of 9.08%. 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 10.5% increase from the prior year. Direct / sublease space being marketed was 17.25% at the end of 2024. 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 remains elevated, coming in at 3.9% at the end of 2024, after bottoming out at 0.9% in 1Q 2022.

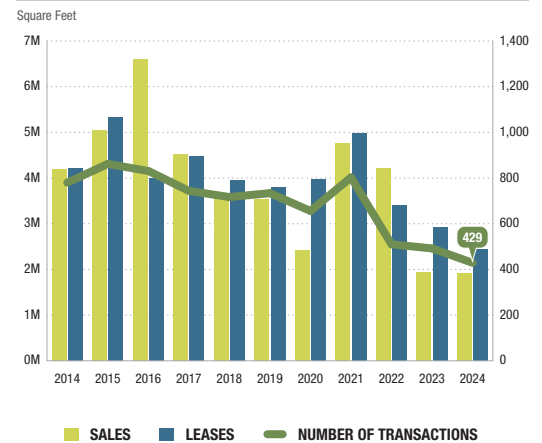
LEASE RATES. The average asking triple net lease rate per square foot per month in San Diego County was \$2.05 at the end of Q4 2024, which is a decrease of 4.7% from Q4 2023's rate of \$2.15. The substantial increase in availability and competition from sublease offerings has placed downward pressure 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. 370,460 SF of Flex / R&D space were leased across 76 transactions in Q4. This reflects a continued trend of moderate leasing activity compared to previous years. Since the beginning of 2023, the leasing market has averaged 714,898 SF and 101 transactions per quarter, highlighting a noticeable slowdown. These figures are significantly below the quarterly average recorded during 2021 and 2022, which saw an average of 1,048,671 SF leased and 133 transactions per quarter. The leasing activity totals account for both sublease and direct transactions. Although the total leasing volume has decreased, a notable trend has emerged: sublet leasing activity has steadily increased for two consecutive years. This rise in sublet transactions comes as increased sublet availability offers tenants more economical alternatives. On the sales side, the Flex / R&D market has continued to struggle. Sales volume for 2023 and 2024 were each the lowest annual totals since 2014. This decline reflects broader economic uncertainties, changes in investor sentiment, or reduced demand for ownership in the current market climate. The persistence of these subdued transaction figures underscores the challenges facing the Flex R&D sector, both in terms of leasing and investment activity.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



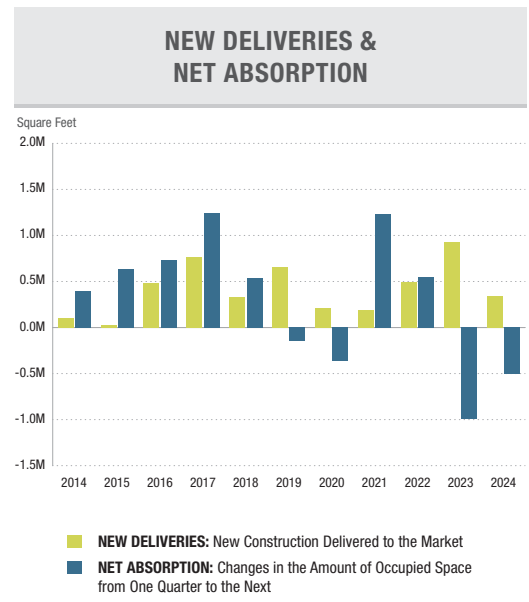
Market Statistics

	Change Over Last Quarter	Q4 2024	Q3 2024	Q4 2023	% Change Over Last Year
Vacancy Rate	▲ UP	10.55%	10.45%	9.08%	16.22%
Availability Rate	▼ DOWN	17.25%	17.35%	15.62%	10.48%
Average Asking Lease Rate	▲ UP	\$2.05	\$2.02	\$2.15	(4.65%)
Sale & Lease Transactions	▲ UP	934,343	778,960	1,244,017	(24.89%)
Gross Absorption	▲ UP	865,635	734,603	890,991	(2.85%)
Net Absorption	▼ NEGATIVE	(57,203)	(152,850)	27,170	N/A

ABSORPTION. The San Diego Flex/R&D market recorded 57,203 SF of negative net absorption in Q4, bringing the 2024 total to 502,114 SF of negative net absorption. This was the second consecutive year of negative net absorption. 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 2024 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 Q4 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 less distinct, 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 4.6% in November 2024, down from a revised 4.7% in October 2024, and above the year-ago estimate of 4.3%. This compares with an unadjusted unemployment rate of 5.3% for California and 4.0% for the nation during the same period. Over the 12-month period between November 2023 and November 2024, San Diego County employment increased by 8,900 jobs, an increase of 0.6%. With the normal delay in reporting from the California EDD, employment figures from December were unavailable at the time of publishing this report. For the nation as a whole, 256,000 jobs were added in December, for a total of 2.2 million jobs added in 2024.



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. The weakness in the leasing market at the end of 2024 will do little to reverse the negative net absorption trend going into 2025. Sublease availability remains high, but it did decrease slightly in 4Q. The Federal Reserve is expected to maintain a cautious approach, potentially holding interest rates higher for longer to combat persistent inflation. This could dampen borrowing and investment activity in the coming quarters.

Significant Transactions

Sales						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
2200 Faraday Ave.	Carlsbad	233,194	\$49,500,000	IDEC Corporation	Hill Companies, LLC	
9520-9530 Padgett St. & 9245-9265 Activity Rd.	Miramar	163,764	\$46,000,000	Hammer Ventures	Hines	
6060 Cornerstone Ct. W.	Sorrento Mesa	67,099	\$12,050,000	Sorrento Biotech Center, LLC*	The UPS Store	
16980 Via Tazon	Rancho Bernardo	35,312	\$10,000,000	BAPS San Diego, LLC	Montana Avenue Capital Partners, LLC	
10165 McKellar Ct.	Sorrento Mesa	70,779	\$9,500,000	Lincoln Property Co.	QuidelOrtho	

Leases						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner	
3013 Science Park Rd.	Torrey Pines	63,000	Nov-2024	RayzeBio	Alexandria RE Equities	
4939 Directors Pl.	Sorrento Mesa	33,138	Nov-2024	Viridos	Healthpeak Properties	
8225 Mercury Ct.	Kearny Mesa	20,800	Dec-2024	Printivity*	Bevash	
4990 Viewridge Ave.	Kearny Mesa	19,491	Oct-2024	Undisclosed	4990 Viewridge, LLC	
8940 Kenamar Dr.	CorDx	16,160	Oct-2024	CorDx	H.G. Fenton	

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q4 2024	Square Feet Available	Availability Rate Q4 2024	Average Asking Lease Rate	Net Absorption Q4 2024	Net Absorption 2024	Gross Absorption Q4 2024	Gross Absorption 2024
Central													
Central City	14	181,681	0	0	38,564	21.23%	40,404	22.24%	\$2.50	6,500	(5,900)	6,500	7,000
East City	3	373,020	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Southeast City	24	254,738	0	0	0	0.00%	2,700	1.06%	-	5,478	1,912	5,478	7,390
Kearny Mesa	199	5,324,141	0	5,400	336,703	6.32%	430,082	8.08%	\$1.73	5,280	(118,609)	59,004	202,340
Mission Gorge	27	277,895	0	0	15,707	5.65%	17,667	6.36%	\$2.05	(6,129)	(15,707)	0	5,437
Rose Canyon/Morena	37	584,036	0	0	49,609	8.49%	70,033	11.99%	\$1.79	7,064	(18,874)	8,689	53,972
Sports Arena/Airport	33	427,078	0	0	71,939	16.84%	14,000	3.28%	\$1.87	0	949	0	7,949
Miramar	217	4,865,766	0	0	386,800	7.95%	717,389	14.74%	\$1.96	(54,378)	(117,799)	54,568	203,981
Sorrento Mesa	179	8,566,955	1,211,927	658,524	1,820,123	21.25%	3,377,056	34.53%	\$4.25	114,376	(79,886)	264,364	711,659
Sorrento Valley	114	2,771,348	0	0	709,904	25.62%	801,215	28.91%	\$2.90	(110,645)	(225,967)	13,963	156,024
Torrey Pines/UTC	85	7,515,257	757,890	340,000	731,160	9.73%	1,516,528	18.33%	\$2.00	131,443	274,775	248,153	726,738
Central County Total	932	31,141,915	1,969,817	1,003,924	4,160,509	13.36%	6,987,074	21.10%	\$2.51	98,989	(305,106)	660,719	2,082,490
East County													
El Cajon	79	897,279	0	0	1,612	0.18%	6,033	0.67%	\$1.51	(395)	21,073	1,217	46,663
La Mesa/Spring Valley	43	314,738	0	60,000	12,209	3.88%	12,209	3.88%	\$1.55	3,450	(7,209)	7,250	9,750
Santee/Lakeside	53	601,956	0	0	1,212	0.20%	3,993	0.66%	\$1.34	(1,212)	13,600	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	1,909,493	0	60,000	15,033	0.79%	22,235	1.16%	\$1.43	1,843	27,464	8,467	71,225
North County													
Escondido	82	769,238	0	0	24,461	3.18%	59,237	7.70%	\$1.22	(7,039)	3,534	1,401	14,758
Oceanside	32	957,992	0	0	15,020	1.57%	13,341	1.39%	\$1.53	1,550	(3,926)	1,550	30,233
San Marcos	56	1,054,724	0	0	65,063	6.17%	74,314	7.05%	\$1.46	(23,517)	(33,393)	7,683	34,248
Vista	62	1,316,773	0	0	26,909	2.04%	75,242	5.71%	\$1.40	420	20,385	420	46,527
Carlsbad	261	7,611,437	232,714	0	755,940	9.93%	1,531,596	19.53%	\$1.83	(43,611)	(104,166)	85,972	394,877
North Beach Cities	18	157,559	0	0	2,690	1.71%	3,474	2.20%	\$3.04	1,155	2,550	1,155	3,680
Rural North County	21	153,956	0	0	10,658	6.92%	11,151	7.24%	\$1.51	(4,339)	(9,008)	1,013	3,963
North County Total	532	12,021,679	232,714	0	900,741	7.49%	1,768,355	14.43%	\$1.66	(75,381)	(124,024)	99,194	528,286
I-15 Corridor													
Poway	64	2,264,795	0	0	38,303	1.69%	119,580	5.28%	\$1.54	14,219	(9,561)	19,082	46,673
Rancho Bernardo	100	4,815,956	0	0	510,632	10.60%	721,903	14.99%	\$1.78	(107,791)	(35,107)	55,268	206,260
Scripps Ranch	32	1,061,014	0	100,000	169,512	15.98%	169,512	15.98%	-	0	(69,796)	0	0
I-15 Corridor Total	196	8,141,765	0	100,000	718,447	8.82%	1,010,995	12.42%	\$1.72	(93,572)	(114,464)	74,350	252,933
South County													
Chula Vista	82	1,481,318	0	0	30,769	2.08%	116,833	7.89%	\$1.62	7,293	4,351	17,498	50,185
National City	23	300,227	0	0	1,782	0.59%	5,320	1.77%	\$1.73	468	5,490	2,250	7,272
Otay Mesa	7	156,368	0	0	0	0.00%	0	0.00%	\$1.60	3,157	0	3,157	3,157
South San Diego	5	86,876	0	0	0	0.00%	0	0.00%	-	0	4,175	0	4,175
South County Total	117	2,024,789	0	0	32,551	1.61%	122,153	6.03%	\$1.63	10,918	14,016	22,905	64,789
San Diego County Total	1,974	55,239,641	2,202,531	1,163,924	5,827,281	10.55%	9,910,812	17.25%	\$2.05	(57,203)	(502,114)	865,635	2,999,723

Lease rates are on a triple-net basis.



Navigating Through a Market Down Cycle

by **Brian Mulvaney, SIOR, CCIM**

SENIOR VICE PRESIDENT / PARTNER, SAN DIEGO

858.458.3372 . bmulvaney@voitco.com . Lic. #00938944

While we brokers are generally optimists, the San Diego industrial market is currently facing notable challenges, with occupancy losses continuing into the fourth quarter of 2024. This marks the eighth consecutive quarter of negative absorption, the longest stretch since the Great Recession. Although we are neither in nor entering a recession, we are undoubtedly past the recent peak following an almost 14-year upcycle. The market is navigating a period of weaker demand, particularly in the defense and biotech sectors. This trend is expected to persist into early 2025, with recovery anticipated over the next 12 to 18 months. Vacancies have risen by two percentage points to 6.5% over the past year, reaching their highest level in a decade.

Demand for multi-tenant and small-bay industrial properties (2,000 to 10,000 SF) remains robust, with relatively high activity levels in these spaces. In contrast, larger logistics facilities are experiencing slower leasing activity, influenced by broader macroeconomic concerns. The availability rate for logistics buildings between 100,000 and 250,000 SF has doubled over the past two years. This trend has been exacerbated by significant development in the South County market, which accounted for most of the new construction over the past year. Approximately 2 MSF of new space was added to San Diego County in 2024, complementing the roughly 2 MSF completed in 2023. This influx of new product, combined with lighter leasing activity in the biotech and larger industrial segments and a general slowdown in market velocity, has contributed to the rise in vacancies, which may take several quarters to stabilize. Despite these short-term challenges, the long-term demand outlook remains positive, particularly in South Bay and Otay Mesa, thanks to their strategic location and access to Mexico's labor force.

Rising vacancies have begun to exert downward pressure on rental rates. While low-finish industrial spaces are seeing the most price stability, some landlords have started to reduce asking rents, reflecting a softening across all industrial market sectors. Institutional owners are largely holding firm on rent levels, though many owners are offering incentives such as several months of free rent for new leases and more flexible terms on annual rental increases.

Broader economic concerns, however, may delay a full recovery in demand until late 2025 or even into 2026. The market is likely to face further occupancy losses in the short term as it adjusts to these challenges. Nevertheless, San Diego's dynamic regional economy provides a solid foundation for recovery. The diversity of local industry, a strong military and defense presence, multiple research institutions and universities generating spin-off companies, a thriving tourism sector, and a growing technology sector, all combine to ensure a resilient future for the industrial market.

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

Please Contact Us for Further Information

Joshua Brant
Regional Director of Research
jbrant@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.472.5620

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

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