

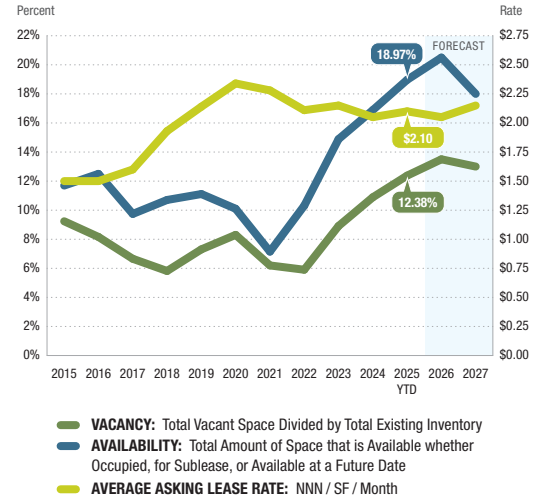
**OVERVIEW.** The Flex/R&D market saw over half a million square feet of negative net absorption in Q1, surpassing the 2024 decrease of occupied space in the first quarter of 2025. Vacancy continued trending higher, and sublease availability continued to surge into the market. Sales and leasing volume in the San Diego Flex/R&D remained subdued at the start of 2025.

**VACANCY & AVAILABILITY.** Direct/sublease space (unoccupied) finished Q1 2025 at 12.4%, a substantial increase of 30% from Q1 2024's vacancy rate of 9.5%. 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 an 18% increase from the prior year. Direct/sublease space being marketed was 19% at the end of Q1 2025. 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. Much of the increase in available space is coming from sublease space coming onto the market. Sublease availability continues to increase, coming in at 5.2% at the end of Q1 2025, after bottoming out at 0.8% in Q1 2022.

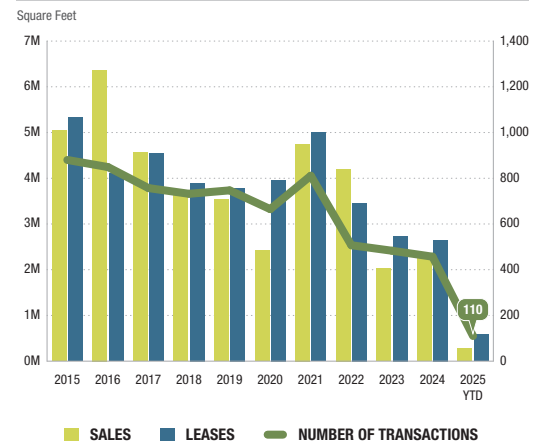
**LEASE RATES.** The average asking triple net lease rate per square foot per month in San Diego County was \$2.10 at the end of Q1 2024, which is a decrease of 8.3% from Q1 2024's rate of \$2.29. The substantial increase in availability and competition from sublease offerings has placed downward pressure 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 40%, 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.** 592,177 SF of Flex/R&D space was leased across 103 transactions in Q1. This reflects a continued trend of moderate leasing activity compared with previous years. Since the beginning of 2023, the leasing market has averaged 644,133 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 1,056,627 SF leased and 133 transactions per quarter. On the sales side, the Flex/R&D market has continued to struggle. Sales volumes for 2023 and 2024 were each the lowest annual totals since 2014. The declining market fundamentals have created opportunities for well capitalized buyers to dislodge trophy properties which rarely change hands. Q1 sales were headlined by BioMed Realty's \$255 million acquisition of Pfizer's campus, and Breakthrough Properties' \$159 million purchase of the MUSE project, both located in prestigious Torrey Pines. But, beyond the two largest sales in Q1, there were less than half a dozen sales of Flex/R&D properties. 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



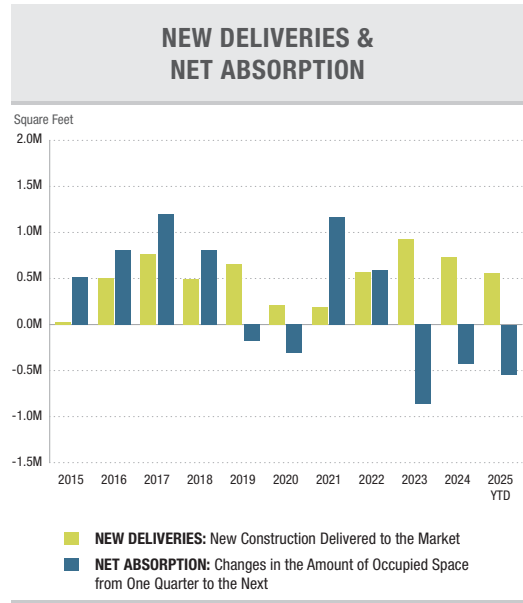
### Market Statistics

	Change Over Last Quarter	Q1 2025	Q4 2024	Q1 2024	% Change Over Last Year
Vacancy Rate	▲ UP	12.38%	10.89%	9.51%	30.22%
Availability Rate	▲ UP	18.97%	16.89%	16.03%	18.30%
Average Asking Lease Rate	▲ UP	\$2.10	\$2.05	\$2.29	(8.30%)
Sale & Lease Transactions	▼ DOWN	866,398	1,441,891	1,058,864	(18.18%)
Gross Absorption	▼ DOWN	588,552	1,010,357	621,236	(5.26%)
Net Absorption	▼ NEGATIVE	(542,683)	80,652	(326,938)	N/A

**ABSORPTION.** The San Diego Flex/R&D market recorded 542,683 SF of negative net absorption in Q1, adding to two consecutive years of negative net absorption. Since the start of 2023 the San Diego market has seen the total footprint of companies occupying Flex real estate decrease by 1.8 MSF. 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 Q1 2025 there were 1.5 MSF under construction or lab conversion, with 50% 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 Q1 were in the submarkets surrounding UCSD, apart from two Carlsbad developments. The Carlsbad projects consisted of Ionis Pharmaceuticals’ 165,000 square foot build-to-suit expansion, along with Techbilt’s three-building, 67,714 square foot 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 4.4% in February 2025, down from a revised 4.5% in January 2025, and above the year-ago estimate of 4.3%. This compares with an unadjusted unemployment rate of 5.5% for California and 4.5% for the nation during the same period. Over the 12-month period between February 2024 and February 2025, San Diego County employment increased by 9,900 jobs, an increase of 0.6%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. For the nation as a whole, 228,000 jobs were added in March, while the seasonally adjusted U.S. unemployment rate increased from 4.1% to 4.2%.



## Forecast

It is evident that the current wave of new property supply in the biotech sector, which began circa 2022, has long eclipsed demand which peaked in that same year. The federal government’s National Institutes of Health funds many research projects in Southern California and partners with local research institutions, thereby acting as lifeblood for many of the R&D companies in San Diego County. The federal government made major NIH funding cuts in 1Q, and this will lead to a further decrease in tenant demand from this sector in the coming quarters.

## Significant Transactions

Sales					
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
10555–10777 Science Center Dr.	Torrey Pines	630,998	\$255,000,000	BioMed Realty	Pfizer
3030–3050 Science Park Rd.	Torrey Pines	186,874	\$159,000,000	Breakthrough Properties, LLC	Diversified Healthcare Trust
6130 Nancy Ridge Dr.	Sorrento Mesa	18,756	\$7,425,500	Heritage Global Partners	Dannis Trust
Leases					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
10945 Alexandria Way	Torrey Pines	122,302	Feb 2025	Altos	Alexandria RE Equities
1812 Aston Ave.	Carlsbad	64,500	Jan 2025	Carbon By Design	RAF Pacifica Group
4930 Directors Pl.	Sorrento Mesa	32,512	Jan 2025	Kura Oncology	Healthpeak Properties
4141 Ruffin Rd.	Kearny Mesa	31,622	Feb 2025	Lucid Motors	Duwright Holdings Ruffin, LLC
2330 Faraday Ave.	Carlsbad	17,451	Feb 2025	Undisclosed	RAF Pacifica Group

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q1 2025	Square Feet Available	Availability Rate Q1 2025	Average Asking Lease Rate	Net Absorption Q1 2025	Net Absorption 2025	Gross Absorption Q1 2025	Gross Absorption 2025
<b>Central</b>													
Central City	14	181,681	0	0	38,564	21.23%	40,404	22.24%	\$1.78	0	0	4,500	4,500
East City	3	373,020	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Southeast City	24	254,738	0	0	2,700	1.06%	0	0.00%	-	(2,700)	(2,700)	0	0
Kearny Mesa	200	5,569,044	0	5,400	443,291	7.96%	442,798	7.95%	\$1.74	(35,584)	(35,584)	16,158	16,158
Mission Gorge	27	277,895	0	0	11,750	4.23%	14,510	5.22%	\$2.04	3,957	3,957	3,957	3,957
Rose Canyon/Morena	38	592,709	0	0	58,693	9.90%	76,311	12.87%	\$1.77	(8,284)	(8,284)	6,780	6,780
Sports Arena/Airport	33	427,078	0	0	64,939	15.21%	64,939	15.21%	-	7,000	7,000	7,000	7,000
Miramar	216	4,843,861	0	0	480,562	9.92%	771,006	15.92%	\$2.21	(93,807)	(93,807)	47,839	47,839
Sorrento Mesa	181	8,995,474	650,268	314,623	2,508,147	27.88%	3,419,221	35.45%	\$3.66	(268,645)	(268,645)	142,881	142,881
Sorrento Valley	115	2,830,051	0	0	709,286	25.06%	785,247	27.75%	\$2.94	618	618	73,997	73,997
Torrey Pines/UTC	85	7,692,812	594,968	1,200,000	1,067,885	13.88%	1,949,167	23.52%	\$2.00	(235,166)	(235,166)	0	0
<b>Central County Total</b>	<b>936</b>	<b>32,038,363</b>	<b>1,245,236</b>	<b>1,520,023</b>	<b>5,385,817</b>	<b>16.81%</b>	<b>7,563,603</b>	<b>22.72%</b>	<b>\$2.59</b>	<b>(632,611)</b>	<b>(632,611)</b>	<b>303,112</b>	<b>303,112</b>
<b>East County</b>													
El Cajon	80	943,176	0	0	6,362	0.67%	18,875	2.00%	\$1.49	(4,750)	(4,750)	0	0
La Mesa/Spring Valley	44	323,073	0	60,000	11,535	3.57%	11,535	3.57%	\$1.72	674	674	14,009	14,009
Santee/Lakeside	56	588,053	0	0	3,598	0.61%	3,598	0.61%	\$1.86	(2,386)	(2,386)	0	0
Rural East County	22	95,520	0	0	1,325	1.39%	1,325	1.39%	\$1.50	(1,325)	(1,325)	0	0
<b>East County Total</b>	<b>202</b>	<b>1,949,822</b>	<b>0</b>	<b>60,000</b>	<b>22,820</b>	<b>1.17%</b>	<b>35,333</b>	<b>1.81%</b>	<b>\$1.65</b>	<b>(7,787)</b>	<b>(7,787)</b>	<b>14,009</b>	<b>14,009</b>
<b>North County</b>													
Escondido	83	781,427	0	0	29,578	3.79%	45,686	5.85%	\$1.11	(5,117)	(5,117)	1,383	1,383
Oceanside	32	957,992	0	0	7,232	0.75%	7,232	0.75%	\$1.44	7,788	7,788	9,600	9,600
San Marcos	57	1,085,929	0	0	62,399	5.75%	108,550	10.00%	\$1.43	2,664	2,664	6,075	6,075
Vista	63	1,325,467	0	0	56,497	4.26%	131,726	9.94%	\$1.45	(29,588)	(29,588)	5,205	5,205
Carlsbad	262	7,667,950	232,721	0	757,579	9.88%	1,503,971	19.04%	\$1.86	(1,639)	(1,639)	38,973	38,973
North Beach Cities	17	144,924	0	0	0	0.00%	0	0.00%	\$3.06	880	880	880	880
Rural North County	22	156,056	0	0	9,795	6.28%	10,595	6.79%	\$1.80	863	863	1,568	1,568
<b>North County Total</b>	<b>536</b>	<b>12,119,745</b>	<b>232,721</b>	<b>0</b>	<b>923,080</b>	<b>7.62%</b>	<b>1,807,760</b>	<b>14.63%</b>	<b>\$1.67</b>	<b>(24,149)</b>	<b>(24,149)</b>	<b>63,684</b>	<b>63,684</b>
<b>I-15 Corridor</b>													
Poway	62	2,201,085	0	0	34,361	1.56%	89,700	4.08%	\$1.55	3,942	3,942	20,614	20,614
Rancho Bernardo	100	4,778,145	0	0	358,632	7.51%	1,122,187	23.49%	\$1.81	152,000	152,000	179,343	179,343
Scripps Ranch	32	1,061,014	0	100,000	193,304	18.22%	193,304	18.22%	\$1.92	(23,792)	(23,792)	0	0
<b>I-15 Corridor Total</b>	<b>194</b>	<b>8,040,244</b>	<b>0</b>	<b>100,000</b>	<b>586,297</b>	<b>7.29%</b>	<b>1,405,191</b>	<b>17.48%</b>	<b>\$1.78</b>	<b>132,150</b>	<b>132,150</b>	<b>199,957</b>	<b>199,957</b>
<b>South County</b>													
Chula Vista	81	1,467,727	0	0	32,135	2.19%	100,156	6.82%	\$1.66	(3,766)	(3,766)	7,790	7,790
National City	23	300,227	0	0	5,157	1.72%	8,695	2.90%	\$1.87	(3,375)	(3,375)	0	0
Otay Mesa	11	214,578	0	0	3,145	1.47%	22,687	10.57%	\$1.40	(3,145)	(3,145)	0	0
South San Diego	5	86,876	0	0	0	0.00%	0	0.00%	-	0	0	0	0
<b>South County Total</b>	<b>120</b>	<b>2,069,408</b>	<b>0</b>	<b>0</b>	<b>40,437</b>	<b>1.95%</b>	<b>131,538</b>	<b>6.36%</b>	<b>\$1.60</b>	<b>(10,286)</b>	<b>(10,286)</b>	<b>7,790</b>	<b>7,790</b>
<b>San Diego County Total</b>	<b>1,988</b>	<b>56,217,582</b>	<b>1,477,957</b>	<b>1,680,023</b>	<b>6,958,451</b>	<b>12.38%</b>	<b>10,943,425</b>	<b>18.97%</b>	<b>\$2.10</b>	<b>(542,683)</b>	<b>(542,683)</b>	<b>588,552</b>	<b>588,552</b>

Lease rates are on a triple-net basis.



## Tax On, Tax Off

by **Patrick Connors**

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As I am sure you know, the San Diego Real Estate market enjoyed a huge bull run for more than a decade and went into overdrive during the post-Covid boom of 2020-2022. That run, however, met with some headwinds in 2023, and again in 2024 as investors and tenants waited on the election results to make any big decisions. After Trump was elected, the overwhelming expectation was that interest rates would begin to come down, defense spending would continue to prop up the San Diego market, and government deregulation in the private sector would spur new business investment. Initially, it appeared a bounce back in tenant and buyer activity in the industrial market would come to fruition. Leasing activity was up, and investor sentiment was on the rise. And then came the tariffs.

Trump came into office with a mandate for change and immediately took aggressive action, invoking tariffs against several of our most active trading partners, most notably for San Diego with our Mexican neighbors. Unfortunately for the industrial real estate market, most countries did not respond with concessions, but rather by invoking their own counter-tariffs. This threw the industrial market into flux, especially in the border area of Otay Mesa, but also across San Diego County and Southern California as a whole. Some industries and markets in San Diego would benefit from tariffs, while others would certainly be drastically hindered. Full tariffs or half tariffs or no tariffs, it is largely the uncertainty of how this shakes out that is paralyzing decision-makers across the market.

In this environment many companies are unable to make long-term decisions. Manufacturing operations need to decide if they should repatriate to San Diego to avoid tariffs, or if it will be business as usual. Not knowing which way the dominoes will fall has stagnated some market activity for now. Deals are still getting done, however, and market sentiment remains positive overall with most owners and investors agreeing that 2025 will be a rebound from 2024. But the sooner the trade war reaches a finite conclusion the better for everybody. Hopefully that conclusion isn't a drastic change one way or the other, as market stability will allow every business to confidently make sound, long-term decisions about the direction of their company.

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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.

## 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