

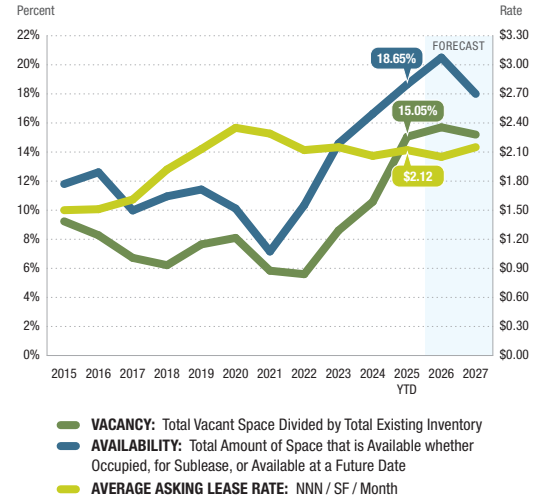
OVERVIEW. The Flex/R&D market saw more than three quarters of a million square feet of negative net absorption in the first three quarters of 2025, surpassing the total 2024 decrease of occupied space. Vacancy continued trending higher, and sublease space accounts for nearly a quarter of availability in the market. Sales and leasing volume in the San Diego Flex/R&D remained subdued in Q3.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q3 2025 at 15%, a substantial increase of 48% from Q3 2024's vacancy rate of 10.2%. The rapid increase of the vacant space seen in the last three years has pushed the market vacancy rate close to the peak levels seen during the Great Recession when vacancy reached 15.7%. Available space being marketed was 18.7% at the end of Q3 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 remains elevated, coming in at 4.6% at the end of Q3 2025, after bottoming out at 0.9% in Q2 2022.

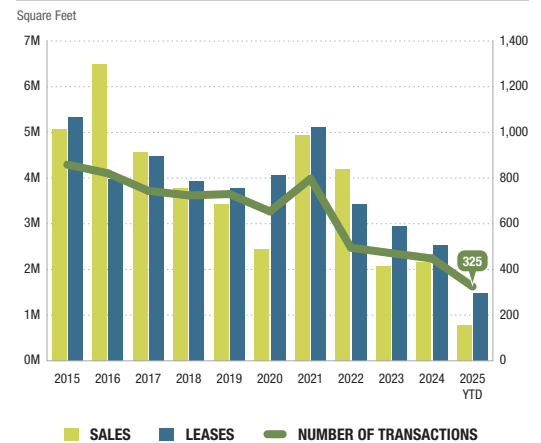
LEASE RATES. The average asking lease rate per square foot per month in San Diego County was \$2.12 at the end of Q3 2025. The Flex/R&D market is relatively small in comparison to the office or industrial markets, and additionally the difference between the rental rates for biotech properties and other Flex/R&D properties is vast. This causes the overall average market statistics to fluctuate periodically. Fluctuations in the composition of availabilities in the market have led to an increase in asking rates in 2025, but since the start of 2024, the overall average asking rate for the market has decreased by 7.8%. The substantial increase in availability and competition from sublease offerings has placed downward pressure on rental rates, and additionally landlords are offering significant concessions in the way of free rent in order to drum up leasing activity.

TRANSACTION ACTIVITY. 352,574 SF of Flex/R&D space was leased across 83 transactions in Q3. This reflects a continued trend of moderate leasing activity compared with previous years. Since the beginning of 2023, the leasing market has averaged 664,442 SF and 100 transactions per quarter, highlighting a noticeable slowdown, especially among the larger tenants. These figures are significantly below the quarterly average recorded during 2021 and 2022, which saw an average of 1,058,781 SF leased and 134 transactions per quarter. On the sales side, the Flex/R&D market has continued to struggle. The declining market fundamentals have created opportunities for well capitalized buyers to dislodge trophy properties which rarely change hands. In Q1 BioMed Realty's made a \$255 million acquisition of Pfizer's campus. The Q2 sales transactions were headlined by Parallel Capital Partners' acquisition of the Rose Canyon Commons business park for \$67 million which the seller sold just before foreclosure. Q3 transactions were headlined by Phase 3's acquisition of 5505 Morehouse Drive from Alexandria. Alexandria was rarely a seller until recent history, and the market has seen some of the largest biotech owners dispose of non-core assets to free up some liquidity. Distressed sales and subdued transaction figures underscore 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

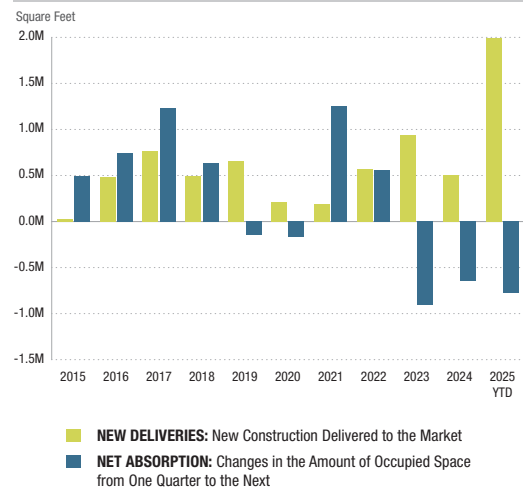
	Change Over Last Quarter	Q3 2025	Q2 2025	Q3 2024	% Change Over Last Year
Vacancy Rate	FLAT	15.05%	15.07%	10.19%	47.67%
Availability Rate	DOWN	18.65%	19.30%	16.77%	11.18%
Average Asking Lease Rate	UP	\$2.12	\$2.10	\$2.02	4.95%
Sale & Lease Transactions	DOWN	472,116	915,925	766,821	(38.43%)
Gross Absorption	DOWN	773,488	988,990	717,823	7.75%
Net Absorption	POSITIVE	164,593	(509,731)	(233,766)	N/A

ABSORPTION. The San Diego Flex / R&D market recorded 164,593 SF of positive net absorption in Q3, but the year-to-date total for 2025 net absorption remains in the red, with 776,549 SF negative. This comes on the heels of two consecutive years of negative net absorption in 2023 and 2024. Since the start of 2023 the San Diego market has seen the total footprint of companies occupying Flex real estate decrease by 2.3 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 Q3 2025 there were 528,873 SF under construction or lab conversion, with 91% of this space preleased. 88% of the rentable building area under construction at the end of Q3 was in the submarkets surrounding UCSD, apart from one Carlsbad development. The Carlsbad project under construction is Techbilt's three-building, 63,366-square-foot speculative project on Whiptail Loop. There have been 1.9 MSF of new Flex/R&D buildings delivered in the first three quarters of 2025, which represents the largest annual total in two decades, with one quarter still to go. 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. These conversions from office or industrial to lab space do not show up in the new construction totals. We are nearing the end of a post-Covid construction boom which has helped push the availability rate up by over ten percentage points since 2021.

EMPLOYMENT. The unemployment rate in San Diego County was 5.0% in August 2025, down from a revised 5.2% in July 2025, and above the year-ago estimate of 4.9%. This compares with an unadjusted unemployment rate of 5.8% for California and 4.5% for the nation during the same period. Over the 12-month period between August 2024 and August 2025, San Diego County employment increased by 7,700 jobs, an increase of 0.5%. 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, 22,000 jobs were added in August, while the seasonally adjusted U.S. unemployment rate increased from 4.2% to 4.3%, the highest unemployment rate since October 2021.

NEW DELIVERIES & NET ABSORPTION



Forecast

It is evident that the current wave of new property supply in the biotech sector, which began circa 2022, has more than 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. Early in 2025 the federal government cut more than \$1 billion in NIH funding, wreaking havoc on the biotech industry. Some of these cuts were later overturned in court. But in Q3 the Trump administration announced that political appointees would have more sway in awarding and canceling federal grants, which further upends the old status quo. The current environment remains in flux, and the life sciences sector is now moving forward in a more conservative manner in light of this shifting landscape.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
5505 Morehouse Dr.	Sorrento Mesa	82,263	\$45,000,000	Phase 3	Alexandria
12575 Stowe Dr.	Poway	18,000	\$6,500,000	Stanley Goodspeed, LLC	12575 Stowe Owner, LLC
1833 Diamond St.	San Marcos	15,393	\$4,070,000	Shooter McGavin, LLC	Patterson Trust

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
10210 Campus Point Dr.	UTC	466,598	Jul-2025	Undisclosed	Alexandria
10398 Pacific Center Ct.	Sorrento Mesa	30,000	Sept-2025	Undisclosed	Sterling Bay
10628 Science Center Dr.	Torrey Pines	27,505	Aug-2025	Radian Bio	Alexandria
9431 Dowdy Dr.	Miramar	25,286	Jul-2025	Firestorm Labs*	Sagard Real Estate
9450 Carroll Park Dr.	Miramar	25,029	Sep-2025	Undisclosed	The Irvine Company

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 2025	Square Feet Available	Availability Rate Q3 2025	Average Asking Lease Rate	Net Absorption Q3 2025	Net Absorption 2025	Gross Absorption Q3 2025	Gross Absorption 2025
Central													
Central City	15	194,739	0	0	36,211	18.59%	38,051	19.54%	\$1.64	200	2,353	1,984	20,984
East City	2	371,128	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Southeast City	24	254,738	0	0	0	0.00%	0	0.00%	\$1.82	0	0	0	2,700
Kearny Mesa	200	5,316,698	0	198,855	334,879	6.30%	445,697	8.38%	\$1.81	17,137	(16,811)	32,063	181,399
Mission Gorge	27	277,814	0	0	10,004	3.60%	13,774	4.96%	\$1.95	(1,449)	5,703	0	7,152
Rose Canyon/Morena	37	590,314	0	0	79,041	13.39%	90,959	15.41%	\$1.95	(9,020)	(28,632)	11,668	31,698
Sports Arena/Airport	32	420,487	0	0	70,209	16.70%	64,939	15.44%	\$1.86	79,190	1,730	84,460	91,460
Miramar	218	4,875,422	0	0	502,806	10.31%	0	0.00%	\$2.38	(13,661)	(129,819)	82,088	202,475
Sorrento Mesa	186	9,724,255	38,507	279,000	3,259,664	33.52%	3,492,866	35.78%	\$3.28	5,092	(411,147)	55,042	277,225
Sorrento Valley	114	2,826,186	0	0	815,830	28.87%	836,386	29.59%	\$2.88	(4,708)	(106,844)	40,201	143,043
Torrey Pines/UTC	94	8,617,622	427,000	1,200,000	1,714,690	19.90%	2,311,172	25.55%	\$2.45	52,121	(149,450)	178,306	626,606
Central County Total	949	33,469,403	465,507	1,677,855	6,823,334	20.39%	7,293,844	21.49%	\$2.54	124,902	(832,917)	485,812	1,584,742
East County													
El Cajon	80	936,716	0	0	11,538	1.23%	15,138	1.62%	\$1.45	2,580	(9,926)	6,480	11,042
La Mesa/Spring Valley	43	314,738	0	0	3,820	1.21%	3,920	1.25%	\$1.60	(1,320)	8,389	0	14,709
Santee/Lakeside	54	541,464	0	0	4,800	0.89%	1,800	0.33%	\$1.57	1,669	(3,588)	2,869	5,050
Rural East County	21	94,141	0	0	0	0.00%	0	0.00%	\$1.50	0	0	0	1,325
East County Total	198	1,887,059	0	0	20,158	1.07%	20,858	1.11%	\$1.53	2,929	(5,125)	9,349	32,126
North County													
Escondido	81	767,278	0	0	42,847	5.58%	58,668	7.65%	\$1.09	(16,978)	(18,386)	2,012	19,333
Oceanside	33	1,101,558	0	0	2,480	0.23%	8,463	0.77%	\$1.51	2,940	82,540	5,420	86,832
San Marcos	49	1,017,410	0	0	85,560	8.41%	91,552	9.00%	\$1.52	(26,433)	(21,463)	13,541	46,888
Vista	61	1,369,388	0	0	48,437	3.54%	115,388	8.43%	\$1.45	3,220	(21,528)	14,650	42,891
Carlsbad	254	7,446,074	63,366	0	924,546	12.42%	1,564,526	20.83%	\$1.80	111,283	(10,374)	202,642	301,318
North Beach Cities	17	144,924	0	0	0	0.00%	0	0.00%	\$3.00	0	880	0	880
Rural North County	23	177,320	0	0	18,095	10.20%	18,095	10.20%	\$1.32	(5,400)	(7,141)	1,200	10,564
North County Total	518	12,023,952	63,366	0	1,121,965	9.33%	1,856,692	15.36%	\$1.65	68,632	4,528	239,465	508,706
I-15 Corridor													
Poway	62	2,201,085	0	0	31,780	1.44%	116,786	5.31%	\$1.54	(7,716)	6,523	2,096	44,019
Rancho Bernardo	100	4,777,487	0	0	396,243	8.29%	1,197,473	25.06%	\$1.68	(12,012)	114,361	8,438	203,113
Scripps Ranch	31	986,624	0	100,000	165,530	16.78%	168,169	17.04%	\$1.92	7,833	(15,959)	15,403	15,403
I-15 Corridor Total	193	7,965,196	0	100,000	593,553	7.45%	1,482,428	18.61%	\$1.69	(11,895)	104,925	25,937	262,535
South County													
Chula Vista	82	1,570,727	0	0	69,318	4.41%	138,227	8.80%	\$2.11	(12,964)	(40,949)	11,143	28,367
National City	23	300,227	0	0	8,793	2.93%	8,793	2.93%	\$1.87	(7,011)	(7,011)	1,782	5,157
Otay Mesa	5	86,876	0	0	0	0.00%	0	0.00%	-	0	0	0	0
South San Diego	5	86,876	0	0	0	0.00%	0	0.00%	-	0	0	0	0
South County Total	115	2,044,706	0	0	78,111	3.82%	147,020	7.19%	\$2.06	(19,975)	(47,960)	12,925	33,524
San Diego County Total	1,973	57,390,316	528,873	1,777,855	8,637,121	15.05%	10,800,842	18.65%	\$2.12	164,593	(776,549)	773,488	2,421,633

Lease rates are on a triple-net basis.



Turning The Ship

by **Danny Rogers**

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San Diego's industrial real estate sector continues to face headwinds as market fundamentals soften further. Asking lease rates have been on a steady decline since 2022, and lease transactions are now regularly closing at rates below asking. Landlords, eager to generate leasing activity, are also being forced to provide additional concessions, even for less-qualified tenants. Countywide vacancy increased again this quarter, reflecting longer lease-up times. On the owner/user and investment side, industrial sales pricing has remained relatively stable, but this is primarily a result of reduced sales volume as a result of unrealistic seller expectations. Development pipelines have also slowed, with few new speculative projects breaking ground as developers wait for rental rate growth to return and for more favorable financing conditions.

The Flex and R&D markets also remain under significant pressure, primarily due to an oversupply of life science space. Much of the new construction that broke ground during the sector's boom has now been delivered, leaving San Diego with millions of square feet of unoccupied first-generation space. The vacancy rate continued to climb in Q3, forcing landlords to reduce asking rents to attract tenants. Some projects have dropped rates by as much as 35% since 2022. Even with these adjustments, absorption has been sluggish. Venture capital funding has also slowed considerably compared with prior years, as investors have become increasingly risk averse. Funding that does get deployed is flowing to more established R&D users rather than early-stage firms, limiting demand from the very companies that previously fueled the sector's growth. As a result, several submarkets—particularly Sorrento Mesa and Torrey Pines—are experiencing rising sublease availability and heightened competition among landlords seeking to capture a limited pool of active tenants.

Across San Diego's commercial real estate landscape tenants maintain the upper hand, successfully negotiating renewals and relocations with favorable concessions. The balance of power has shifted, as landlords prioritize filling space and maintaining income streams over holding firm on pricing. At the same time, deal velocity has slowed, with decision-making timelines stretching out across the board. Both tenants and landlords are taking a more cautious approach, reflecting uncertainty around broader economic conditions and future demand. As a result, while opportunities exist for well-capitalized tenants to secure attractive lease terms, landlords face an increasingly competitive environment in which a proactive strategy is essential to secure and sustain occupancy that optimizes asset performance.

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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