

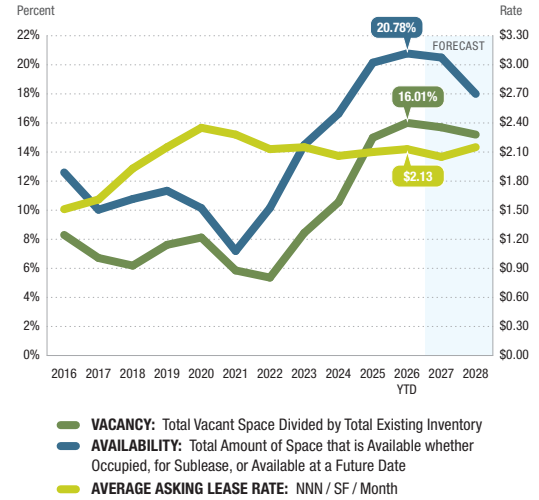
OVERVIEW. The Flex/R&D market began 2026 with more negative net absorption in the first quarter than the entire previous year, and the increase of vacant space in the market is on pace to surpass 10 MSF in 2026. Availability remains above 20% at the end of Q1, with sublease space accounting for more than one-fifth of the lease availability in the market. Leasing volume remained subdued in Q1, and sales activity was even more suppressed.

VACANCY & AVAILABILITY. Direct / sublease space (unoccupied) finished Q1 2026 at 16.01%, a large increase of more than three and a half percentage points from Q1 2025's vacancy rate of 12.46%. The total vacancy in the market has tripled from 2.9 MSF in Q1 2022, to 9.2 MSF at the end of Q1 2026. The rapid increase of the last three years has pushed the market vacancy rate past the peak levels seen during the Great Recession where vacancy reached 15.7%. Available space being marketed was 20.78% at the end of Q1 2026. 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 4.3% at the end of Q1 2026, after bottoming out at 0.9% in Q2 2022.

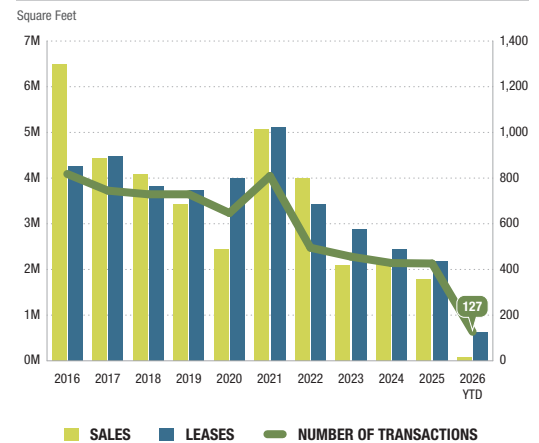
LEASE RATES. The average asking lease rate per square foot per month in San Diego County was \$2.13 at the end of Q1 2026. The Flex/R&D market is relatively small in comparison to the office or industrial markets, and additionally the difference between the rental rates for biotech properties and other 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 over the past three years, the overall average asking rate for the market has decreased by 10.9%, while effective rental rates have fallen even farther. 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. 579,965 SF of Flex/R&D space was leased across 110 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 624,145 SF and 94 transactions per quarter, highlighting a noticeable slowdown. These figures are significantly below the quarterly average recorded during the previous three years. Between 2018 and 2021, the market saw an average of 1,044,766 SF leased

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

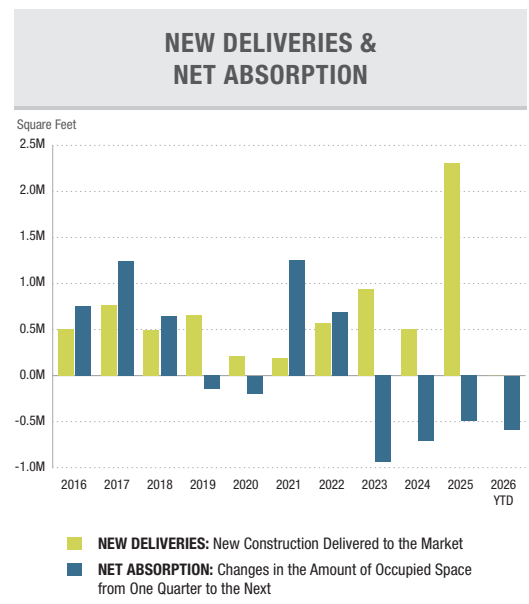
	Change Over Last Quarter	Q1 2026	Q4 2025	Q1 2025	% Change Over Last Year
Vacancy Rate	▲ UP	16.01%	14.99%	12.46%	28.49%
Availability Rate	▲ UP	20.78%	20.15%	18.69%	11.21%
Average Asking Lease Rate	▲ UP	\$2.13	\$2.10	\$2.11	0.95%
Sale & Lease Transactions	▼ DOWN	660,693	1,488,374	897,810	(26.41%)
Gross Absorption	▼ DOWN	383,568	936,553	684,377	(43.95%)
Net Absorption	▼ NEGATIVE	(585,656)	357,109	(410,849)	N/A

and 134 transactions per quarter. The declining market fundamentals have created opportunities for well capitalized buyers to dislodge properties in the core biotech submarkets which have rarely changed hands in recent history. Flex/R&D property sales figures were minimal in Q1, totaling \$27 million, which represents the third lowest quarterly total of the past decade. Distressed sales and subdued transaction figures underscore the challenges facing the Flex / R&D sector.

ABSORPTION. The San Diego Flex/R&D market recorded 585,656 SF of negative net absorption in Q1 which represents a 1% decrease to the total footprint of occupied space. This follows three consecutive calendar years of negative net absorption. The biotech segment of the Flex/R&D market has a very boom/bust nature dominated by a high proportion of large tenants, and this can move the market statistics rapidly in one direction or the other. The net absorption figures have been rapidly and consistently moving more deeply into the red since the start of 2023.

CONSTRUCTION. There were no construction completions in Q1, and at the end of the quarter there was only one building under construction. The lone property under construction was Oxford Properties Group’s 165,000 SF build-to-suit for Ionis Pharmaceuticals in Carlsbad. The San Diego Flex / R&D construction pipeline has turned from a tsunami into a ripple. There were 2.3 MSF of new Flex/R&D buildings delivered in 2025, which represents the largest annual total in two decades, with 90% of this total in the submarkets surrounding UCSD. 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. We have reached 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 4.7% in January 2026, above the year-ago estimate of 4.5%. This compares with an unadjusted unemployment rate of 5.5% for California and 4.7% for the nation during the same period. Over the 12-month period between January 2025 and January 2026, San Diego County employment increased by 10,900 jobs, an increase of 0.7%. With delays in reporting from the California EDD, employment figures from February and March were unavailable at the time of publishing this report. For the nation as a whole, unemployment edged higher to 4.4% from the prior month’s revised 4.3% rate. The U.S. economy has seen an average of 68,000 jobs added per month in 2026, compared to 15,000 in 2025, and 186,000 in 2024.



Forecast

The tidal wave of new property supply in the biotech sector, which began circa 2022, reached its fruition in 2025. But the imbalance between available space and tenant demand is far from over. We expect tenant leverage and elevated leasing concessions to persist in 2026, along with distressed sales occurring within the lab segment of the Flex/R&D market.

Significant Transactions

Sales * Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
7520 Mission Valley Rd.	Mission Valley Heights	33,862	\$9,800,000	H.G. Fenton	Tecate Industries, Inc.
3275-3295 Market St.	Southeast San Diego	15,368	\$9,750,000	MRK Partners	BP Investments
2746 Loker Ave. W.	Carlsbad	10,576	\$3,400,000	OTPM, LLC*	CW74 Ventures, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
16710 Via Del Campo Ct.	Rancho Bernardo	168,072	Feb-2026	Northrop Grumman (Renewal)	KKR/Drawbridge Realty
5810 Van Allen Way	Carlsbad	56,835	Mar-2026	Undisclosed	Blackmore Company
5810 Nancy Ridge Dr.	Miramar	49,300	Jan-2026	Neomorph	Alexandria R.E. Equities

	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 2026	Square Feet Available	Availability Rate Q1 2026	Average Asking Lease Rate	Net Absorption Q1 2026	Net Absorption 2026	Gross Absorption Q1 2026	Gross Absorption 2026
Central													
Central City	14	193,501	0	0	34,064	17.60%	39,181	20.25%	\$1.64	2,147	2,147	12,147	12,147
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	0
Kearny Mesa	197	5,091,839	0	198,855	353,258	6.94%	396,599	7.79%	\$1.79	12,057	12,057	22,605	22,605
Mission Gorge	27	277,814	0	0	1,740	0.63%	5,510	1.98%	\$2.04	1,116	1,116	1,116	1,116
Rose Canyon/Morena	39	600,359	0	0	93,764	15.62%	88,264	14.70%	\$1.91	(10,295)	(10,295)	1,066	1,066
Sports Arena/Airport	32	420,487	0	0	65,634	15.61%	695	0.17%	\$1.97	355	355	355	355
Miramar	217	4,847,237	0	0	587,547	12.12%	942,479	19.44%	\$2.45	(130,839)	(130,839)	32,122	32,122
Sorrento Mesa	186	9,965,960	0	279,000	3,413,387	34.25%	3,830,398	38.43%	\$3.23	(18,367)	(18,367)	79,119	79,119
Sorrento Valley	112	2,806,486	0	0	706,323	25.17%	716,788	25.54%	\$2.42	22,513	22,513	36,049	36,049
Torrey Pines/UTC	96	9,164,887	0	1,200,000	1,876,685	20.48%	2,211,193	24.13%	\$2.62	(149,058)	(149,058)	80,607	80,607
Central County Total	946	33,994,436	0	1,677,855	7,132,402	20.98%	8,231,107	24.21%	\$2.53	(270,371)	(270,371)	265,186	265,186
East County													
El Cajon	81	926,509	0	0	20,858	2.25%	46,322	5.00%	\$1.35	(7,860)	(7,860)	890	890
La Mesa/Spring Valley	44	331,165	0	0	14,262	4.31%	14,262	4.31%	\$2.20	5,886	5,886	8,856	8,856
Santee/Lakeside	54	541,464	0	0	12,728	2.35%	27,540	5.09%	\$1.68	(10,928)	(10,928)	0	0
Rural East County	21	94,141	0	0	8,617	9.15%	8,617	9.15%	-	0	0	0	0
East County Total	200	1,893,279	0	0	56,465	2.98%	96,741	5.11%	\$1.78	(12,902)	(12,902)	9,746	9,746
North County													
Escondido	82	769,648	0	0	58,862	7.65%	68,197	8.86%	\$1.16	(15,278)	(15,278)	1,349	1,349
Oceanside	34	1,104,258	0	0	21,189	1.92%	21,319	1.93%	\$1.63	(12,118)	(12,118)	1,023	1,023
San Marcos	48	985,934	0	0	51,119	5.18%	72,566	7.36%	\$1.56	(16,197)	(16,197)	6,161	6,161
Vista	61	1,371,258	0	0	33,228	2.42%	140,245	10.23%	\$1.41	5,928	5,928	5,928	5,928
Carlsbad	254	7,206,660	165,000	0	1,146,056	15.90%	1,685,766	22.87%	\$1.81	(233,148)	(233,148)	9,311	9,311
North Beach Cities	16	137,985	0	0	0	0.00%	0	0.00%	\$3.00	0	0	0	0
Rural North County	23	179,028	0	0	24,830	13.87%	26,130	14.60%	\$1.35	(9,200)	(9,200)	7,000	7,000
North County Total	518	11,754,771	165,000	0	1,335,284	11.36%	2,014,223	16.90%	\$1.68	(280,013)	(280,013)	30,772	30,772
I-15 Corridor													
Poway	61	2,182,570	0	0	37,442	1.72%	81,364	3.73%	\$1.54	(11,862)	(11,862)	7,133	7,133
Rancho Bernardo	99	4,602,948	0	0	391,926	8.51%	1,221,744	26.54%	\$1.60	(2,644)	(2,644)	26,784	26,784
Scripps Ranch	32	1,017,622	0	100,000	163,079	16.03%	207,667	20.41%	\$1.91	0	0	0	0
I-15 Corridor Total	192	7,803,140	0	100,000	592,447	7.59%	1,510,775	19.36%	\$1.65	(14,506)	(14,506)	33,917	33,917
South County													
Chula Vista	85	1,646,864	0	0	80,754	4.90%	137,070	8.32%	\$2.95	13,013	13,013	33,561	33,561
National City	23	300,227	0	0	12,500	4.16%	12,500	4.16%	\$1.95	(3,707)	(3,707)	7,300	7,300
Otay Mesa	6	194,536	0	0	20,127	10.35%	16,645	8.56%	\$1.60	(15,970)	(15,970)	1,886	1,886
South San Diego	5	86,876	0	0	1,200	1.38%	1,200	1.38%	-	(1,200)	(1,200)	1,200	1,200
South County Total	119	2,228,503	0	0	114,581	5.14%	167,415	7.51%	\$1.55	(7,864)	(7,864)	43,947	43,947
San Diego County Total	1,975	57,674,129	165,000	1,777,855	9,231,179	16.01%	12,020,261	20.78%	\$2.13	(585,656)	(585,656)	383,568	383,568

Lease rates are on a triple-net basis.



Uncertainty Certainty

by **Patrick Connors**

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The most notable trend in San Diego's industrial market is the growing availability of low-cost sublease space. Many companies are moving away from traditional three-to-seven-year lease structures and opting instead for more flexible, short-term subleases. Ongoing tariff fluctuations—and more recently, rising oil prices driven by the war in Iran—have created significant uncertainty around operating costs. As a result, businesses are prioritizing low-cost, short-term solutions over long-term price certainty. Many companies simply lack confidence in projecting their expenses 18, 12, or even 6 months ahead, which has contributed to shorter lease commitments overall.

Another challenge facing the market is the wave of new construction projects that were initiated and entitled during the post-COVID boom. Many of these developments are still moving forward, resulting in a growing inventory of large “big box” spaces—typically 100,000 square feet or more—that remain vacant, with additional supply on the way, particularly in Otay Mesa. In response, developers are increasingly subdividing these large buildings into smaller units ranging from 25,000 to 50,000 square feet. This shift has intensified competition, as older properties with similar-sized vacancies are now forced to compete with newer buildings offering modern features such as higher clear heights. Consequently, lease rates have declined, and concessions have become more common.

Despite these headwinds, the beginning of 2026 has brought a renewed sense of optimism following a sluggish 2024 and 2025 in the industrial sector. Leasing activity has picked up, and while tariffs remain a concern, businesses now appear better able to anticipate and plan for their impact—unlike the month-to-month uncertainty that characterized much of 2025. Tariffs continue to influence the global economy, and their effects are especially pronounced in Southern California, where the industrial market is closely tied to port operations and cross-border trade with Mexico.

At the same time, the war in Iran is expected to affect transportation and logistics, particularly through its impact on oil prices. If the conflict persists, it could trigger disruptions similar to those seen during the tariff volatility of 2025. However, there is hope that these pressures will be short-lived. On a more positive note, increased defense spending could drive additional leasing demand in the South Bay, where defense contractors play a significant role in the port and border economies.

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

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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.