

MARKET OVERVIEW. The good news is the San Diego Flex/R&D market had better metrics in the second quarter than in the first quarter 2020, in particular, more combined square feet leased and sold occurred in the second quarter than the first quarter. Net absorption was positive, and the vacancy rate and availability rates both decreased from the previous quarter. The downside is that for the overall first half of the year net absorption is negative, and the vacancy rate increased.

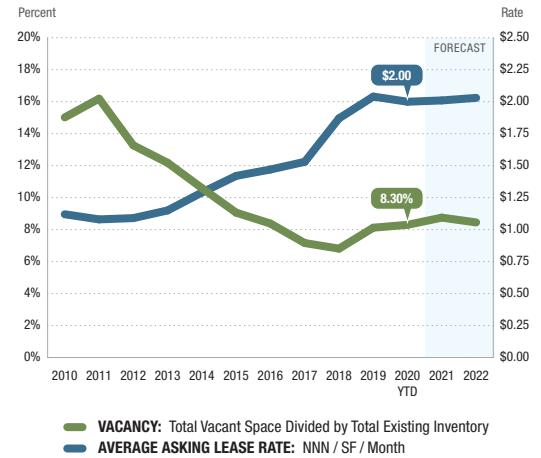
VACANCY. Direct/sublease space (unoccupied) finished the second quarter at 8.30%, a decrease from the previous quarter's vacancy rate of 8.61%, but a 7.8% increase year-over-year. The vacancy rate is on pace for a second consecutive year of increases, following seven straight years of decreases.

LEASE RATES. The average asking triple net lease rate per square foot per month in San Diego County was \$2.00 at the end of the second quarter, which is a six-cent increase over the second quarter 2019. The average asking lease rate has been on a long-term trend of increases, but dramatic increases in the average each of the past two years are likely due to a change in the composition of available space. There is now a larger portion of biotech space in the availability, which is pulling the average asking rate up.

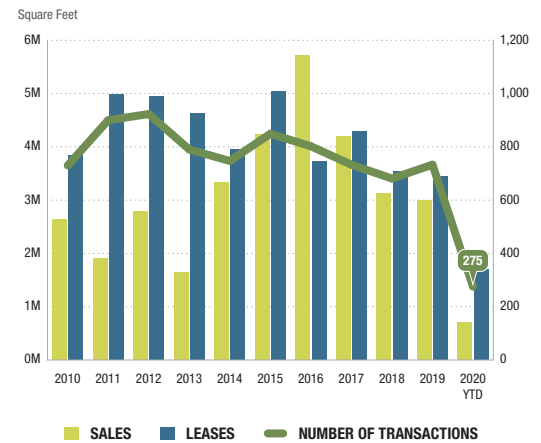
TRANSACTION ACTIVITY. The combined amount of square feet leased or sold in the second quarter totaled 1.2 MSF, an increase from the 1.1 MSF transacted in the first quarter 2020. The leasing volume through the first half is on pace to meet or exceed the level from 2019, while the sales volume is currently on pace for less than half of last year's total. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report.

EMPLOYMENT. The unemployment rate in San Diego County was 15.0% in May 2020, unchanged from a revised 15.0% in April 2020, and above the year-ago estimate of 2.8%. This compares with an unadjusted unemployment rate of 15.9% for California and 13.0% for the nation during the same period. According to the State of California Employment Development Department, San Diego County lost 195,800 payroll jobs between May 2019 and May 2020 and gained 18,200 jobs between April 2020 and May 2020. In June, the employment data the United States as a whole came in with 4.8 million jobs added which was a record for the most jobs added in a month. With the normal delay in reporting from the California EDD, employment figures from June were unavailable at the time of publishing this report.

VACANCY vs. AVERAGE ASKING LEASE RATE



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

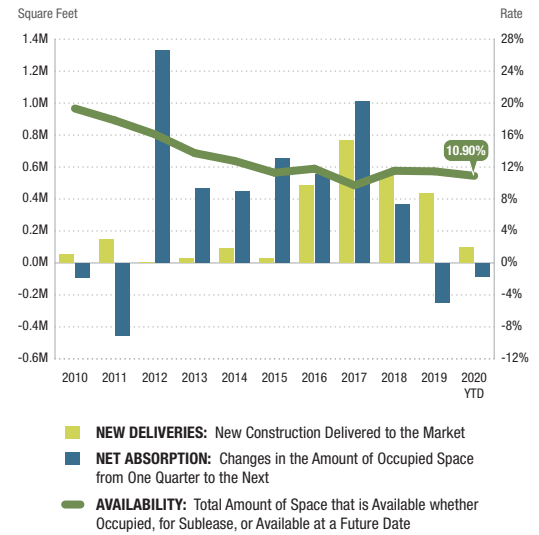
	Change Over Last Quarter	2Q 2020	1Q 2020	2Q 2019	% Change Over Last Year
Vacancy Rate	▼ DOWN	8.30%	8.61%	7.69%	7.82%
Availability Rate	▼ DOWN	10.90%	11.28%	11.18%	(2.54%)
Average Asking Lease Rate	▼ DOWN	\$2.00	\$2.02	\$1.94	3.09%
Sale & Lease Transactions	▲ UP	1,242,699	1,153,585	1,611,829	(22.90%)
Gross Absorption	▼ DOWN	504,342	632,844	823,741	(38.77%)
Net Absorption	▲ POSITIVE	158,398	(243,792)	224,023	N/A

CONSTRUCTION. In the first half of 2020 there were a total of 98,282 square feet of new construction completed, and there were 152,302 square feet under construction at the end of the second quarter. The biotech sector within the Flex/R&D market continues to be the primary driver of new construction. The lack of available building sites in the primary biotech submarkets has led to a steady stream of property conversions and repositioning over the years. There is currently a total of 343,369 square feet of Flex/R&D under renovation, more than double the amount under construction.

AVAILABILITY. Direct/sublease space being marketed was 10.90%, which is a 2.54% decrease year-over-year from the second quarter 2019 availability rate of 11.18%.

ABSORPTION. The San Diego Flex/R&D market recorded 158,398 square feet of positive net absorption in the second quarter 2020, but the market remains in the red for the year thus far with a total net absorption of negative 85,394 square feet for the first half of 2020. Among the two largest Flex/R&D segments of the county, Central County had positive net absorption in the second quarter, while North County was negative.

NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



Forecast

It's too early to tell precisely what the long-term impact the reaction to the virus will have on the San Diego Flex/R&D market, but we do predict a near-term decrease in transaction volume. All eyes will be fixed upon the depth of the downturn and the speed of the recovery to formulate forward guidance. Early indications are that as the economy opens up and principals feel more comfortable making business decisions, leasing activity will rebound.

Based upon the current conditions and outlook, we anticipate Flex/R&D rental rates and vacancy rates will remain in a relatively neutral position for the second half of the year. The situation remains fluid and any potential government actions such as further lockdowns or additional economic stimulus can influence the market one way or another.

Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
10770 Wateridge & 6325 Lusk	Sorrento Mesa	233,570	\$158,500,000	Harrison Street Capital	Bioscience Properties
10070-10180 Barnes Canyon Rd.	Sorrento Mesa	93,840	\$39,000,000	University Vista, LLC	Miramar Metroplex, LP
9877 Waples St.	Sorrento Mesa	62,392	\$17,000,000	Alexandria RE Equities	Lincoln Property Company
8913 Complex Dr.	Kearny Mesa	14,365	\$4,244,460	NVNSD, LLC*	Complex Realty LP*
1690 Frontage Rd.	Chula Vista	23,166	\$4,200,000	Hardware Solutions	Analou, LLC

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2827 Whiptail Loop	Carlsbad	139,807	Apr-2020	MilliporeSigma	RAF Pacifica Group
9877 Waples St.	Sorrento Mesa	62,392	Jun-2020	Undisclosed	Lincoln Property Company
10300 Campus Point Dr.	UTC	44,806	Jun-2020	Undisclosed	Alexandria RE Equities
10770 Wateridge Cir.	Sorrento Mesa	43,694	May-2020	AnaptysBio	Harrison Street Capital
9955 Mesa Rim Rd.	Sorrento Mesa	39,644	Jun-2020	Biocept	Lincoln Property 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 2Q2020	Square Feet Available	Availability Rate 2Q2020	Average Asking Lease Rate	Net Absorption 2Q2020	Net Absorption 2020	Gross Absorption 2Q2020	Gross Absorption 2020
Central													
Central City	12	174,781	0	0	27,946	15.99%	27,639	15.81%	\$1.49	0	0	0	0
East City	2	26,892	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Southeast City	21	223,879	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Kearny Mesa	204	5,550,524	0	10,200	418,601	7.54%	507,854	9.15%	\$1.68	6,350	(4,722)	17,543	26,887
Mission Gorge	27	279,740	0	0	9,170	3.28%	9,170	3.28%	\$1.61	(5,400)	2,674	0	11,844
Rose Canyon/Morena	38	597,194	0	0	35,000	5.86%	37,176	6.23%	\$1.41	4,552	9,503	12,450	27,183
Sports Arena/Airport	32	409,430	0	0	71,079	17.36%	71,079	17.36%	\$1.90	(5,300)	(5,300)	0	0
Miramar	221	4,815,998	0	130,510	358,705	7.45%	565,758	11.75%	\$1.84	(5,355)	(37,689)	33,976	126,143
Sorrento Mesa	162	6,819,398	28,000	618,000	1,015,652	14.89%	912,061	13.37%	\$2.37	53,645	(79,728)	97,846	209,851
Sorrento Valley	102	2,381,581	0	220,180	258,733	10.86%	434,278	18.23%	\$2.95	15,056	(5,720)	54,333	96,170
Torrey Pines/UTC	72	6,340,213	124,302	1,046,062	442,227	6.97%	661,044	10.43%	\$4.46	85,710	32,262	102,768	159,917
Central County Total	893	27,619,630	152,302	2,024,952	2,637,113	9.55%	3,226,059	11.68%	\$2.41	149,258	(88,720)	318,916	657,995
East County													
El Cajon	78	875,376	0	40,000	890	0.10%	39,681	4.53%	\$1.43	6,266	11,051	6,266	14,867
La Mesa/Spring Valley	41	295,786	0	0	2,000	0.68%	21,334	7.21%	\$1.96	7,236	13,174	7,236	20,410
Santee/Lakeside	55	555,861	0	0	4,450	0.80%	11,800	2.12%	\$1.15	3,847	47	5,647	7,647
Outlying SD County South	22	96,534	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	196	1,823,557	0	40,000	7,340	0.40%	72,815	3.99%	\$1.41	17,349	24,272	19,149	42,924
North County													
Escondido	79	741,915	0	0	35,118	4.73%	35,118	4.73%	\$1.27	(3,000)	(10,607)	1,600	1,600
Oceanside	33	983,643	0	0	29,326	2.98%	53,188	5.41%	\$0.94	(7,766)	(3,878)	2,706	8,244
San Marcos	59	1,073,953	0	0	76,421	7.12%	88,577	8.25%	\$1.25	(6,542)	(8,677)	1,600	20,410
Vista	63	1,502,340	0	0	97,544	6.49%	350,377	23.32%	\$1.16	(2,260)	(24,226)	4,644	31,149
Carlsbad	259	6,672,143	0	0	829,109	12.43%	921,505	13.81%	\$1.29	(26,103)	(19,071)	69,700	238,078
North Beach Cities	19	164,051	0	0	2,900	1.77%	2,660	1.62%	\$2.53	(240)	2,711	0	5,511
Outlying SD County North	19	139,572	0	0	2,850	2.04%	2,850	2.04%	\$0.50	(1,300)	(1,300)	0	0
North County Total	531	11,277,617	0	0	1,073,268	9.52%	1,454,275	12.90%	\$1.26	(47,211)	(65,048)	80,250	304,992
I-15 Corridor													
Poway	61	1,858,233	0	0	24,346	1.31%	47,688	2.57%	\$1.27	(2,771)	(11,312)	4,436	8,035
Rancho Bernardo	95	4,670,819	0	0	230,516	4.94%	409,142	8.76%	\$1.88	27,081	33,385	55,568	74,460
Scripps Ranch	28	753,623	0	339,400	9,429	1.25%	19,496	2.59%	\$1.37	4,785	4,785	4,785	4,785
I-15 Corridor Total	184	7,282,675	0	339,400	264,291	3.63%	476,326	6.54%	\$1.85	29,095	26,858	64,789	87,280
South County													
Chula Vista	79	1,501,626	0	66,860	142,191	9.47%	188,000	12.52%	\$1.34	12,387	9,631	21,238	30,995
National City	23	333,897	0	0	3,526	1.06%	8,689	2.60%	\$1.41	(2,480)	(2,480)	0	0
Otay Mesa	7	156,362	0	0	27,153	17.37%	31,153	19.92%	\$0.75	0	10,093	0	13,000
South San Diego	5	86,361	0	0	0	0.00%	0	0.00%	-	0	0	0	0
South County Total	114	2,078,246	0	66,860	172,870	8.32%	227,842	10.96%	\$1.09	9,907	17,244	21,238	43,995
San Diego County Total	1,918	50,081,725	152,302	2,471,212	4,154,882	8.30%	5,457,317	10.90%	\$2.00	158,398	(85,394)	504,342	1,137,186

Lease rates are on a triple-net basis.



No Sky Falling Here

by **Todd Holley, SIOR**

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When it comes to the effect of the coronavirus, and the subsequent response, on commercial real estate, industrial real estate has generally fared better than office or retail. While the office and retail sectors face headwinds from telecommuting and e-commerce, industrial real estate has a tailwind from e-commerce. Additionally, there is increasing demand for repatriating and nearshoring essential supply chains from overseas. Locally, with our market butting up to the Mexican border, San Diego County would be a beneficiary of nearshoring. This would be a mid- to long-term trend, while the e-commerce growth is evident in the market here and now. Amazon continues to be the 800-pound gorilla in the room, leasing the entire half a million square foot Vantage Point project in the second quarter, just a couple months before the speculative development was set to deliver. On the Flex/R&D side, there has also been virtually no disruption to demand. The Flex/R&D product in San Diego houses a significant number of biotech and medical device companies. These fields are more important than ever, and government contract money is flowing into these sectors keeping the demand for lab space churning.

Despite outperforming the other commercial real estate segments, there has been an effect in the industrial market. Vacancy rates have been inching up from historical lows over the past 18 months as a wave of new construction comes online, and that continued in the second quarter as the market's vacancy rate moved above 5% for the first time in half a decade. Demand from tenants not mentioned above was lower than normal, with many companies taking a wait-and-see approach. As the end of the quarter approached things started to open up and there was a sense that companies were getting tired of waiting around, which led activity to pick up. A little new availability will be a welcome sight to tenants in many of the county's submarkets where there are a lack of options for tenants. On the sales side, the market remains tight for users looking to purchase. There are a number of user purchase requirements circling in hopes of new acquisition opportunities.

Overall, the industrial market remains stable.

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, Outlying SD County South

NORTH COUNTY

Escondido, Oceanside, San Marcos, Vista, Carlsbad, North Beach Cities, Outlying SD County North

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. ©2020 Voit Real Estate Services, Inc. DRE License #01991785.

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