

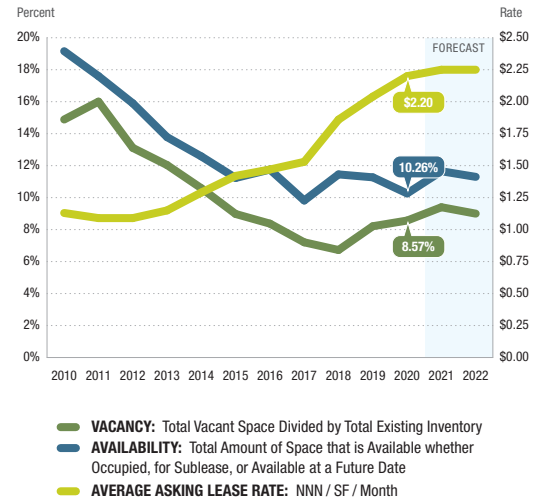
OVERVIEW. The San Diego Flex/R&D market is experiencing bifurcated fundamentals. While the biotech portion of the market is in full growth mode increasing its building inventory and tenant base, the remainder of the Flex/R&D market is experiencing some weakness which is blunting the overall strength of the market. The leasing activity remained consistent compared with recent years with little evidence of disruption from the pandemic. The number of deals was down, however, suggesting that larger tenants were more active in 2020. The availability rate continued to decline which is a leading indicator for future decreases in vacancy. The Flex/R&D fundamentals have been choppy in recent years, which is typical of this asset which seems to move in fits and spurts. The Flex/R&D market has demonstrated that it is not as insulated from the effects of the pandemic as industrial real estate, likely due to the higher employee density.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 2020 at 8.57%, an increase of 36 basis points over 4Q 2019's vacancy rate of 8.21%. The vacancy has now increased for two consecutive years, following seven straight years of decreases. Notably, while vacancy has increased, availability has decreased for two consecutive years. Vacancy measures the amount of space which is occupied 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 or not it is occupied. Direct/sublease space being marketed was 10.26%, which is a full percentage point decrease year-over-year from the 4Q 2019 availability rate of 11.27%. The decelerating construction pipeline is decreasing the amount of space which is on the market for lease, but not physically unoccupied.

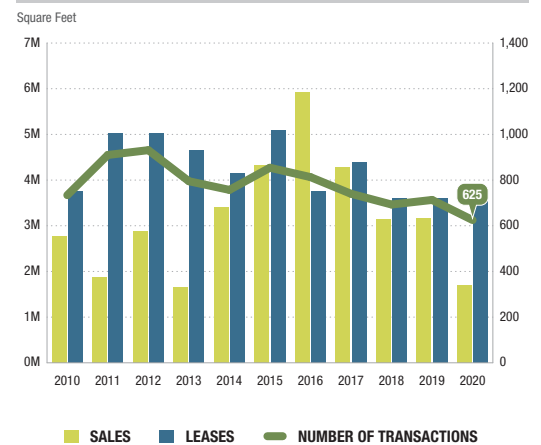
LEASE RATES. The average asking triple net lease rate per square foot per month in San Diego County was \$2.20 at the end of 2020, which is a sixteen-cent increase from 4Q 2019. The average asking lease rate has been on a long-term trend of increases, but dramatic increases in the average each of the past three years are likely due to a change in the composition of available space. Over the past 5 years the countywide asking rental rate has increased an average of 9.4% per year.

TRANSACTION ACTIVITY. The combined amount of SF leased or sold in 4Q totaled 1.2 MSF, a decrease from the 1.3 MSF transacted in 3Q 2020. The 3.6 MSF of leasing volume in 2020 was practically equivalent to the volume of the previous two years. On the other end of the spectrum, the 1.7 MSF sold in 2020 was well below the 3.1 MSF sold in each of the past two years. Much of the blame for this decrease in sales activity can be laid at the feet of limited availability of properties for sale. The transaction statistics can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report. The largest sale of the quarter was Point Loma Nazarene's \$19.9 million acquisition of 9045 Balboa Avenue, a rare owner-user purchase to top the sale chart.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



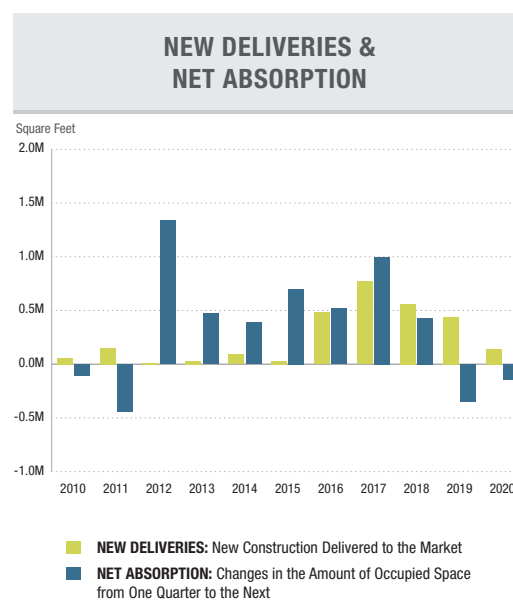
Market Statistics

	Change Over Last Quarter	4Q 2020	3Q 2020	4Q 2019	% Change Over Last Year
Vacancy Rate	▼ DOWN	8.57%	9.39%	8.21%	4.33%
Availability Rate	▼ DOWN	10.26%	11.13%	11.27%	(8.93%)
Average Asking Lease Rate	▲ UP	\$2.20	\$1.98	\$2.04	7.84%
Sale & Lease Transactions	▼ DOWN	1,236,668	1,327,426	2,040,380	(39.39%)
Gross Absorption	▲ UP	1,073,601	496,055	838,022	28.11%
Net Absorption	▲ POSITIVE	425,124	(505,404)	238,036	N/A

ABSORPTION. The San Diego Flex/R&D market recorded 142,952 SF of negative net absorption in 2020, despite the 425,000 SF of positive net absorption in the fourth quarter. The non-biotech segment of the Flex/R&D market is the source of the negative net absorption. Some of these buildings which lost their tenants are being acquired for biotech conversion, as developers are hotly pursuing the fastest growing sector of the San Diego economy. The Flex/R&D market has now posted two consecutive years of negative net absorption following seven consecutive years of positive net absorption.

CONSTRUCTION. In 2020 there was a total of 136,482 SF of new construction completed, and there were 264,077 SF under construction at the end of 2020. 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 137,992 SF of Flex/R&D under renovation, with more to come. All of the buildings currently under construction are in Torrey Pines. There are 2.5 MSF of new planned or proposed Flex/R&D buildings in San Diego County, of which more than 80% are located in the core biotech submarkets surrounding UCSD.

EMPLOYMENT. The unemployment rate in San Diego County was 6.6% in November 2020, down from a revised 7.5% in October 2020, and substantially greater than the year-ago estimate of 2.9%. This compares with an unadjusted unemployment rate of 7.9% for California and 6.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 14,300 jobs between October 2020 and November 2020. With the normal delay in reporting from the California EDD, employment figures from December were unavailable at the time of publishing this report. In December, the employment data for the United States as a whole came in with 140,000 jobs lost, which was the first month of net job losses for the nation since April 2020.



Forecast

We remain optimistic about the Flex/R&D market heading into 2021. The strength of biotech employment growth should buoy the market. The national election and a challenging year for the economy is mostly behind us. As several vaccines get into wider distribution, pandemic restrictions should begin to ease, and broader market activity should increase. With the gap between availability and vacancy narrowing, this suggests that vacancy will trend downwards. There is likely enough angst regarding the broader economy to keep rental rates from increasing at the rapid pace seen over the past few years, but the relative health of the Flex/R&D market should prevent significant decreases in the nominal rents.

Significant Transactions

Sales						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
9045-9055 Balboa Ave. *	Kearny Mesa	69,909	\$19,855,000	Point Loma Nazarene University	LBA Realty *	
4174-4206 Sorrento Valley Rd.	Sorrento Valley	91,669	\$15,250,000	Hill Properties I Westport Capital Partners	Starkey Investment Co.	
10240 Flanders Ct.	Sorrento Mesa	64,036	\$13,286,200	Bioscience Properties, Inc.	TIG Real Estate Holdings	
8250 & 8260 Camino Santa Fe	Miramar	61,635	\$11,600,000	Hill Properties	Providence Capital Group	
6790 Flanders Dr.	Sorrento Mesa	50,913	\$11,000,000	Centerpark Plaza Owner, LLC	Flanders Invs Prop, LLC	

Leases					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3209 Lionshead Ave.	Carlsbad	74,774	Nov-2020	PrAna	Graymark Capital
3115 Merryfield Row	Torrey Pines	58,006	Dec-2020	Undisclosed	Alexandria Real Estate Equities
5590 Morehouse Dr.	Sorrento Mesa	35,684	Nov-2020	Neomorph	Phase 3 RE Partners
3525 John Hopkins Ct.	Torrey Pines	28,915	Nov-2020	Undisclosed	BioMed Realty
5810 Nancy Ridge Dr.	Miramar	26,293	Nov-2020	Undisclosed	Alexandria Real Estate 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 4Q2020	Square Feet Available	Availability Rate 4Q2020	Average Asking Lease Rate	Net Absorption 4Q2020	Net Absorption 2020	Gross Absorption 4Q2020	Gross Absorption 2020
Central													
Central City	12	174,781	0	0	23,737	13.58%	35,577	20.36%	\$2.00	2,147	4,209	2,147	4,209
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	205	5,569,964	0		424,529	7.62%	563,976	10.13%	\$1.71	56,616	(450)	99,416	169,031
Mission Gorge	27	279,740	0	0	4,548	1.63%	6,508	2.33%	\$1.50	(1,700)	7,296	0	21,014
Rose Canyon/Morena	39	598,837	0	0	30,942	5.17%	32,985	5.51%	\$1.52	(1,152)	13,561	11,937	50,124
Sports Arena/Airport	32	418,986	0	0	64,939	15.50%	64,939	15.50%	\$3.45	5,300	840	5,300	6,140
Miramar	223	4,925,763	0	130,510	350,313	7.11%	542,338	11.01%	\$1.82	91,829	(29,297)	149,345	341,937
Sorrento Mesa	165	7,060,116	0	774,000	824,003	11.67%	635,882	9.01%	\$2.78	218,636	160,799	362,834	709,758
Sorrento Valley	106	2,528,379	0	220,180	317,635	12.56%	485,016	19.18%	\$3.35	21,606	(54,033)	81,443	200,678
Torrey Pines/UTC	73	6,466,553	264,077	905,944	473,223	7.32%	347,182	5.37%	\$5.03	6,668	50,620	121,397	397,215
Central County Total	905	28,273,890	264,077	2,030,634	2,513,869	8.89%	2,714,403	9.60%	\$2.71	399,950	153,545	833,819	1,900,106
East County													
El Cajon	78	869,707	0	40,000	10,131	1.16%	49,215	5.66%	\$1.22	800	4,310	800	15,667
La Mesa/Spring Valley	41	296,306	0	0	2,280	0.77%	8,820	2.98%	\$1.81	1,803	12,894	1,803	24,213
Santee/Lakeside	55	586,728	0	0	12,772	2.18%	10,272	1.75%	\$1.29	(5,400)	(10,772)	1,800	8,100
Rural East County	22	95,520	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	196	1,848,261	0	40,000	25,183	1.36%	68,307	3.70%	\$1.35	(2,797)	6,432	4,403	47,980
North County													
Escondido	79	741,915	0	0	24,170	3.26%	45,032	6.07%	\$1.11	(85)	341	6,596	19,229
Oceanside	33	983,643	0	0	21,693	2.21%	54,722	5.56%	\$1.15	5,213	3,755	8,306	20,320
San Marcos	58	1,066,503	0	0	90,454	8.48%	95,923	8.99%	\$1.16	(10,150)	(22,710)	12,017	42,500
Vista	63	1,414,625	0	0	271,583	19.20%	339,935	24.03%	\$1.16	59,807	(198,265)	67,479	124,278
Carlsbad	258	6,755,557	0	0	829,944	12.29%	952,411	14.10%	\$1.35	18,108	(19,914)	100,668	406,769
North Beach Cities	19	179,409	0	0	22,688	12.65%	2,080	1.16%	\$3.28	580	3,531	1,780	7,531
Rural North County	19	139,572	0	0	2,900	2.08%	2,900	2.08%	\$0.50	0	(1,350)	0	1,550
North County Total	529	11,281,224	0	0	1,263,432	11.20%	1,493,003	13.23%	\$1.29	73,473	(234,612)	196,846	622,177
I-15 Corridor													
Poway	60	1,841,067	0	0	21,218	1.15%	42,158	2.29%	\$1.28	13,119	(8,184)	15,627	30,413
Rancho Bernardo	98	4,717,381	0	0	325,186	6.89%	622,087	13.19%	\$1.81	(55,768)	(61,285)	10,213	85,508
Scripps Ranch	28	757,413	0	339,400	21,896	2.89%	32,478	4.29%	\$1.37	(2,400)	(7,682)	0	11,675
I-15 Corridor Total	186	7,315,861	0	339,400	368,300	5.03%	696,723	9.52%	\$1.78	(45,049)	(77,151)	25,840	127,596
South County													
Chula Vista	79	1,501,251	0	66,860	148,947	9.92%	208,441	13.88%	\$1.13	2,758	2,875	12,693	61,533
National City	23	332,416	0	0	5,182	1.56%	3,211	0.97%	\$1.02	(3,211)	(4,136)	0	2,480
Otay Mesa	7	156,362	0	0	27,153	17.37%	29,553	18.90%	\$0.65	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	2,076,390	0	66,860	181,282	8.73%	241,205	11.62%	\$1.04	(453)	8,832	12,693	77,013
San Diego County Total	1,930	50,795,626	264,077	2,476,894	4,352,066	8.57%	5,213,641	10.26%	\$2.20	425,124	(142,954)	1,073,601	2,774,872

Lease rates are on a triple-net basis.



A New Beginning

by **Michael Mossmer**

SENIOR VICE PRESIDENT / PARTNER, SAN DIEGO
858.458.3347 · mmossmer@voitco.com · Lic. #00998326

2020 was a year to remember, or rather, one that we will never forget. The daily news headlines were dominated by the inconceivable. Each new day seemed to “trump” the previous day’s news. What would normally cause outrage was summarily accepted, because it was too much for most people to absorb. The barrage of truths and untruths that were foisted upon us from news/fake news ran the gamut from coronavirus and impeachment hearings to extreme civil unrest/riots/looting etc. All of this negativity in 2020 was inexplicably juxtaposed with a record-breaking stock market, the lowest interest rates in our lifetime, steadily increasing lease rates and soaring real estate values. The affluent among us continued their wealth creation, as we recently witnessed Amazon’s Jeff Bezos eclipsed by Tesla/Space-X’s Elon Musk as the wealthiest man in the world — and all of this was happening in the midst of a pandemic.

Yes, 2020 left all of us clamoring for a new beginning, a need to press the restart button. Oh well! Barely seven days into 2021, the capitol building in D.C., our most sacred institution housing our legislative body, was under attack! So much for a new beginning!

All that said, it is the opinion of this eternal optimist that we are poised to have another banner year in industrial real estate in 2021. Consistently low vacancy in existing product in most submarkets, a constraint on future supply as there is little land to develop and is it prohibitively expensive to construct new buildings, the unstoppable march of E-commerce companies gobbling up large chunks of prime real estate for packaging, distribution, and last mile deliveries — this has all contributed to upward pricing pressure. However, there is a cautionary tale that lingers in the background of all of this. The positive prognostication for industrial real estate is tempered by the amount of money printed for government handouts, if or how quickly and to what extent the tax cuts that Trump implemented will be reversed, and the long-term ill effects that inflation will have on the United States economy as a whole. Inflation is inevitable. The need to hedge against it by owning hard assets, such as real estate, will continue pushing all real estate values higher, as the simple truth is that there’s just not enough good real estate available to purchase. For this reason, and others expressed in this editorial, we should experience increasing values throughout 2021, and we remain hopeful that this bull market we are experiencing has legs to carry us through the end of this year. We shall see what the future holds for all of us.

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

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. ©2021 Voit Real Estate Services, Inc. DRE License #01991785.

Represented in 150 Markets
Nationally & Internationally.



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