

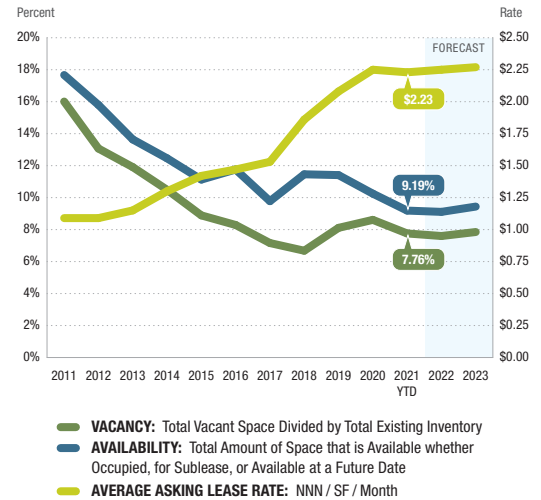
OVERVIEW. The Flex/R&D market began the year with an increase in the average asking rental rate, and a decrease in the vacancy and rental rates. Developers have taken notice of the meteoric growth in the biotech sector and construction is starting to pick back up after a two-year lull. The Flex R&D market made it through the COVID-19 pandemic thus far with minimal setbacks, and as the broader economy reopens, additional business activity will be a booster shot to market fundamentals in this sector.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 1Q 2021 at 7.76%, a decrease of 85 basis points from 1Q 20's vacancy rate of 8.61%. This is an incredibly low vacancy rate compared with a decade ago when the countywide vacancy rate finished 2011 above 16%. On top of that, the gap between vacancy and availability has narrowed to 1.4 percentage points, compared with a 4.8 percentage point difference at the end of 2018. 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. Direct/sublease space being marketed was 9.19% at the end of 1Q. The decelerating construction pipeline is decreasing the amount of space which is on the market for lease, but not physically unoccupied.

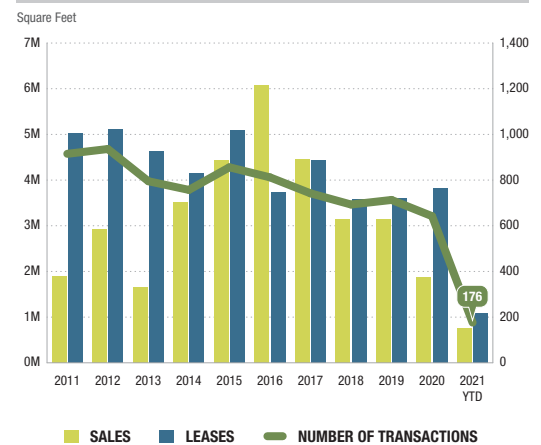
LEASE RATES. The average asking triple net lease rate per square foot per month in San Diego County was \$2.23 at the end of 1Q 2021, which is a seventeen-cent increase from 1Q 2020. The average asking lease rate has been on a long-term trend of increases, but dramatic increases in the average each of the past three years are likely due to a change in the composition of available space. Over the past three years the countywide asking rental rate has increased an average of 13.9% per year, as more space gets built out with expensive biotech laboratories.

TRANSACTION ACTIVITY. The combined amount of square feet leased or sold in 1Q totaled 1.8 MSF, a 32% increase from the 1.3 MSF transacted in both the prior quarter, and the first quarter of a year ago. The 3.8 MSF of leasing volume in 2020 was practically equivalent to the total volume of the previous two years. On the other end of the spectrum, the 1.9 MSF sold in 2020 was well below the 3.1 MSF sold in each of the prior two years. That trend may be changing in 2021, with 1Q sales volume on pace to be back above 3 MSF. Much of the blame for this decrease in sales activity can be laid at the feet of limited availability of properties for sale. Landlords such as Alexandria almost never sell, and they are traditionally one of the most active buyers. In a change from recent precedent, Alexandria was not involved in any of the largest sales of the quarter. But, upon further inspection, none of the top four sales were in the primary life sciences submarkets surrounding UCSD, which are Alexandria's primary hunting grounds in San Diego.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



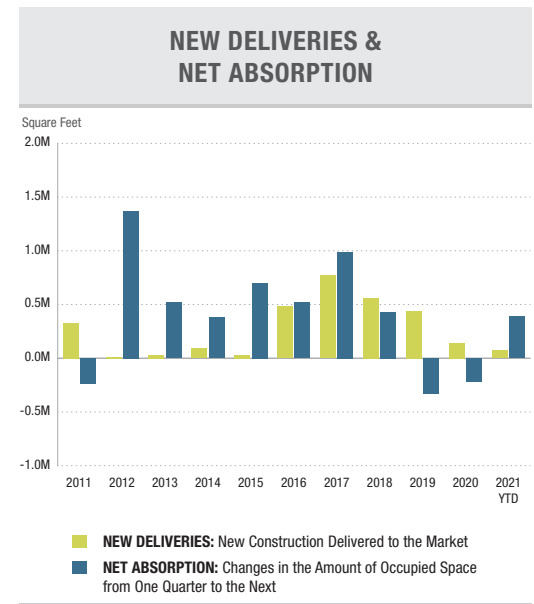
Market Statistics

	Change Over Last Quarter	1Q 2021	4Q 2020	1Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	7.76%	8.61%	8.83%	(12.04%)
Availability Rate	▼ DOWN	9.19%	10.25%	11.10%	(17.17%)
Average Asking Lease Rate	▼ DOWN	\$2.23	\$2.25	\$2.06	8.25%
Sale & Lease Transactions	▲ UP	1,842,500	1,393,056	1,395,657	32.02%
Gross Absorption	▼ DOWN	951,028	1,073,601	635,389	49.68%
Net Absorption	▲ POSITIVE	393,470	427,872	(362,122)	N/A

ABSORPTION. The San Diego Flex R&D market recorded 393,470 SF of positive net absorption in 1Q 2021. The non-biotech segment of the Flex/R&D market has been a source of negative net absorption in the market, with the past two years experienced 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.

CONSTRUCTION. At the end of 1Q there were 330,937 SF under construction at the end of 1Q. 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 359,250 SF of Flex/R&D under renovation, with more to come. There are 2.5 MSF of new planned or proposed Flex/R&D buildings in San Diego County, with more than 80% located in the core biotech submarkets surrounding UCSD.

EMPLOYMENT. The unemployment rate in San Diego County was 7.2% in February 2021, down from a revised 8.0% in January 2021, and substantially greater than the year-ago estimate of 3.2%. This compares with an unadjusted unemployment rate of 8.4% for California and 6.6% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 31,900 jobs between January 2021 and February 2021. Over the 12-month period between February 2020 and February 2021, San Diego County employment fell by 131,700 jobs, or 8.7%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. The jobs report for the U.S. overall showed a gain of 916,000 jobs in March, the largest monthly increase of jobs since August.



Forecast

Within less than a month of this report being published all California adults will be eligible to get a COVID-19 vaccine, and the Governor has announced his intention to have the California economy “fully reopen” before the end of 2Q. U.S. Treasury Secretary Janet Yellen recently predicted a return to full employment in 2022. Based upon these and other predictions from prominent analysts, the economy is projected to have a period of strong growth for at least the upcoming 12-18 months. With the margin between availability and vacancy narrowing, and an expected strong economic rebound on top of a market which has a strong baseline of demand in place, the Flex/R&D market will see rental rates continue to increase and fundamentals remain strong.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
11501 Rancho Bernardo Rd. & 15330 Avenue of Science	Rancho Bernardo	195,269	\$45,500,000	Montana Avenue Capital Partners	Pain in San Diego, LLC
1 Viper Way	Vista	202,844	\$26,100,000	RAF Pacifica Group, Inc.	Stockbridge Capital Group
3209 Lionshead Ave.	Carlsbad	74,774	\$25,250,000	EverWest Real Estate Investors	Graymark Capital
8888 Balboa Ave.	Kearny Mesa	85,761	\$19,900,000	Rexford Industrial Realty	Pajama Properties, LLC
9955 Mesa Rim	Sorrento Mesa	39,644	\$19,750,000	BentallGreenOak	Lincoln Property Co.

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
16397 W. Bernardo Dr.	Rancho Bernardo	130,649	Jan-2021	Undisclosed	Swift Real Estate Partners
9440 Carroll Park Dr.	Miramar	97,162	Mar-2021	Undisclosed	The Irvine Company
3030 Science Park Rd.	Torrey Pines	94,456	Mar-2021	Spine Technologies, Inc.	Diversified Healthcare Trust
3115 Merryfield Row	Torrey Pines	77,828	Mar-2021	Erasca	Alexandria Real Estate Equities
1896 Rutherford Rd.	Carlsbad	47,056	Mar-2021	Argonaut Manufacturing Services	Diversified Properties

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2021	Square Feet Available	Availability Rate 1Q2021	Average Asking Lease Rate	Net Absorption 1Q2021	Net Absorption 2021	Gross Absorption 1Q2021	Gross Absorption 2021
Central													
Central City	12	174,781	0	0	23,737	13.58%	35,577	20.36%	\$2.00	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	5,550,540	0	0	449,746	8.10%	496,724	8.95%	\$1.69	(25,217)	(25,217)	22,072	22,072
Mission Gorge	27	279,740	0	0	4,848	1.73%	25,994	9.29%	\$1.65	(300)	(300)	2,780	2,780
Rose Canyon/Morena	38	597,194	0	0	14,641	2.45%	16,910	2.83%	\$1.49	16,301	16,301	20,316	20,316
Sports Arena/Airport	32	418,986	0	0	64,939	15.50%	64,939	15.50%	\$2.22	0	0	0	0
Miramar	223	4,940,951	0	130,510	306,618	6.21%	349,581	7.08%	\$1.96	43,695	43,695	88,178	88,178
Sorrento Mesa	166	7,129,003	0	964,000	749,822	10.52%	815,245	11.44%	\$3.07	40,213	40,213	115,472	115,472
Sorrento Valley	106	2,529,398	0	220,180	338,488	13.38%	424,146	16.77%	\$3.39	(20,853)	(20,853)	45,448	45,448
Torrey Pines/UTC	73	6,466,553	264,077	1,085,944	319,161	4.94%	256,835	3.97%	\$4.94	154,062	154,062	164,955	164,955
Central County Total	904	28,337,917	264,077	2,400,634	2,272,000	8.02%	2,485,951	8.77%	\$2.77	207,901	207,901	459,221	459,221
East County													
El Cajon	78	869,707	0	40,000	34,234	3.94%	44,784	5.15%	\$1.09	(24,103)	(24,103)	1,708	1,708
La Mesa/Spring Valley	41	296,056	0	0	0	0.00%	8,820	2.98%	\$2.05	2,280	2,280	2,280	2,280
Santee/Lakeside	55	586,728	0	0	15,878	2.71%	17,278	2.94%	\$1.28	(3,106)	(3,106)	5,606	5,606
Rural East County	22	95,520	0	0	0	0.00%	1,325	1.39%	\$1.43	0	0	0	0
East County Total	196	1,848,011	0	40,000	50,112	2.71%	72,207	3.91%	\$1.29	(24,929)	(24,929)	9,594	9,594
North County													
Escondido	81	764,715	0	0	28,095	3.67%	56,772	7.42%	\$1.09	(3,925)	(3,925)	990	990
Oceanside	33	983,643	0	0	34,881	3.55%	28,571	2.90%	\$1.21	(13,188)	(13,188)	3,093	3,093
San Marcos	57	1,045,480	0	0	85,840	8.21%	71,008	6.79%	\$1.15	4,614	4,614	9,697	9,697
Vista	64	1,423,627	0	0	278,399	19.56%	317,847	22.33%	\$1.14	(6,816)	(6,816)	6,464	6,464
Carlsbad	260	7,010,327	0	0	567,055	8.09%	788,423	11.25%	\$1.35	331,889	331,889	418,378	418,378
North Beach Cities	18	158,801	0	0	2,480	1.56%	2,480	1.56%	\$3.37	(400)	(400)	0	0
Rural North County	19	139,572	0	0	2,950	2.11%	2,950	2.11%	\$0.50	(50)	(50)	0	0
North County Total	532	11,526,165	0	0	999,700	8.67%	1,268,051	11.00%	\$1.28	312,124	312,124	438,622	438,622
I-15 Corridor													
Poway	59	1,809,772	0	0	46,543	2.57%	53,447	2.95%	\$1.19	(25,325)	(25,325)	12,694	12,694
Rancho Bernardo	100	4,773,173	0	0	409,345	8.58%	512,112	10.73%	\$1.81	(88,258)	(88,258)	6,350	6,350
Scripps Ranch	28	759,247	0	344,000	21,498	2.83%	45,902	6.05%	\$1.47	398	398	4,939	4,939
I-15 Corridor Total	187	7,342,192	0	344,000	477,386	6.50%	611,461	8.33%	\$1.78	(113,185)	(113,185)	23,983	23,983
South County													
Chula Vista	79	1,492,860	66,860	0	144,906	9.71%	231,648	15.52%	\$1.14	4,041	4,041	12,090	12,090
National City	23	332,416	0	0	571	0.17%	3,013	0.91%	\$1.02	4,611	4,611	4,611	4,611
Otay Mesa	7	156,362	0	0	24,246	15.51%	26,646	17.04%	\$0.65	2,907	2,907	2,907	2,907
South San Diego	5	86,361	0	0	0	0.00%	0	0.00%	-	0	0	0	0
South County Total	114	2,067,999	66,860	0	169,723	8.21%	261,307	12.64%	\$1.03	11,559	11,559	19,608	19,608
San Diego County Total	1,933	51,122,284	330,937	2,784,634	3,968,921	7.76%	4,698,977	9.19%	\$2.23	393,470	393,470	951,028	951,028

Lease rates are on a triple-net basis.



Coming Out Stronger

by **Chris Duncan**

VICE PRESIDENT / PARTNER, SAN DIEGO
858.458.3307 · cduncan@voitco.com · Lic. #01324067

As we finish the first quarter, we have now eclipsed one year since the initial COVID-19 outbreak. While the after-effects on the business world have left millions unemployed, and clobbered vast swaths of the economy, strikingly, the industrial real estate sector is coming out stronger than a year ago.

One of the pillars of San Diego has long been the biotech and life sciences industry, and that is more evident now than ever. Throughout the past year biotechnology and life sciences has been the single largest catalyst of growth in San Diego. This has accelerated some trends that were already present in the market, such as the conversion of office, R&D, and industrial buildings for lab use. This trend is most visible in the Downtown submarket which went from having no significant biotech presence to now being on the verge of becoming the next major secondary biotech hub in San Diego County, along with North County. IQHQ acquired 8+ acres on the Downtown San Diego bayfront for development of a landmark life sciences campus, and Stockdale Capital Partners which bought the Horton Plaza Mall for redevelopment has expanded their initial focus beyond hi-tech to target biotech as well. The latest domino to fall was the purchase of the former Thomas Jefferson Law School building in Downtown San Diego. This 8-story 200,000 SF building was built in 2011 and was recently purchased by P3RE for conversion to lab use. While Downtown stands out because of its visibility, this conversion trend has been ongoing in the submarkets surrounding UCSD. This has funneled the strong demand for biotech and lab space into office, flex, and industrial properties. Numerous developers and operators such as BioScience Properties are working their way through Sorrento Mesa snapping up properties for conversion. The biotech influence continues to creep towards the east farther into Miramar.

As devastating as the past year has been, it is incredible to realize that rental rates and sales prices have never been higher in San Diego industrial and R&D real estate. For companies in the market looking to buy a facility for their business, they are typically competing with multiple other offers, including stronger offers of all cash, or a shorter escrow period.

All signs point towards the U.S. having turned the corner on the COVID-19 pandemic. Some things will never go back to how they were before March 2020. Amazon, which has single-handedly accounted for hundreds of thousands of square feet worth of demand in the past year, will not be going back to the footprint that it had pre-COVID. That being said, there will be some bounce back in certain industrial businesses which were set back by the pandemic. As California moves to open up vaccination eligibility to all adults in the next month, we will eventually see some return of the service-related uses which have taken a big hit, such as food service, entertainment, etc. The San Diego industrial market is moving forward as strong as ever.

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