

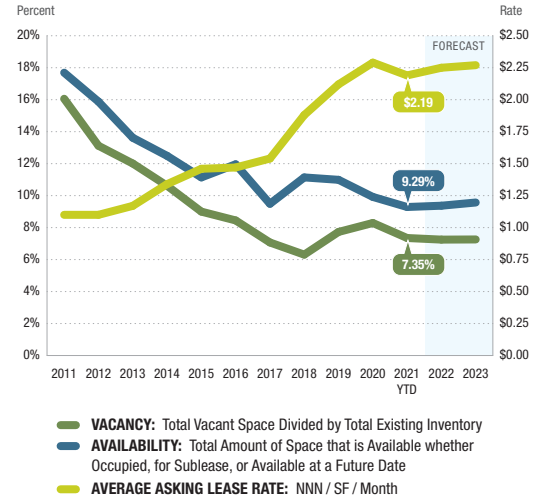
OVERVIEW. The Flex/R&D market is driven by the biotech subset which remains strong. Vacancy and availability continue trending downward, and rental rates remain elevated from a long-term perspective. Transaction volume for the first half of 2021 is on par with recent years. Development picked back up following a soft year of new deliveries in 2020, and biotech conversions from other property types remain red hot. The Flex/R&D market made it through the COVID-19 pandemic 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 2Q 2021 at 7.35%, a decrease of 77 basis points from 2Q 20's vacancy rate of 8.12%. 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 1.9 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 9.29% at the end of 2Q. The decelerating construction pipeline is decreasing the amount of space which is on the market for lease, but not physically unoccupied.

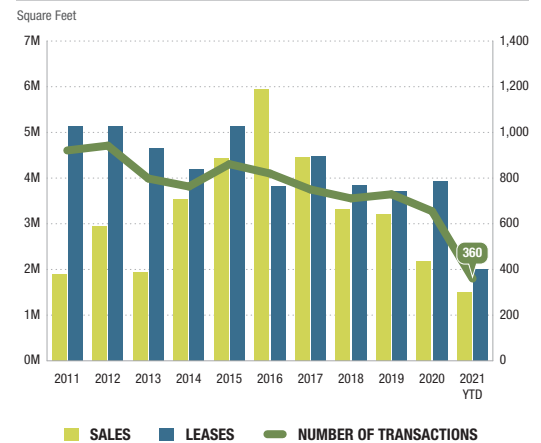
LEASE RATES. The average asking triple net lease rate per square foot per month in San Diego County was \$2.19 at the end of 2Q 2021, which is a 4.3% increase from 2Q 2020. The average asking lease rate has been on a long-term trend of increases, but dramatic increases in the average each of the past 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. The Flex R&D market is relatively small in comparison to the office or industrial markets, and this causes the top line market statistics to fluctuate erratically at times.

TRANSACTION ACTIVITY. The combined amount of square feet leased or sold in 2Q totaled 1.6 MSF, a 9.22% increase from the 1.5 MSF transacted in 2Q 2020. There were 960,504 SF of lease transactions recorded in 2Q, which is right in line with the quarterly average of 964,647 SF leased over the past three years. Leasing volume has remained consistent, while sales volume saw a clear decline in 2020. The 2.2 MSF sold in 2020 was well below the 3.2 MSF sold in each of the prior two years. That trend may be changing in 2021, with the current 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 2Q the two largest Flex R&D sales were both Alexandria acquisitions.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



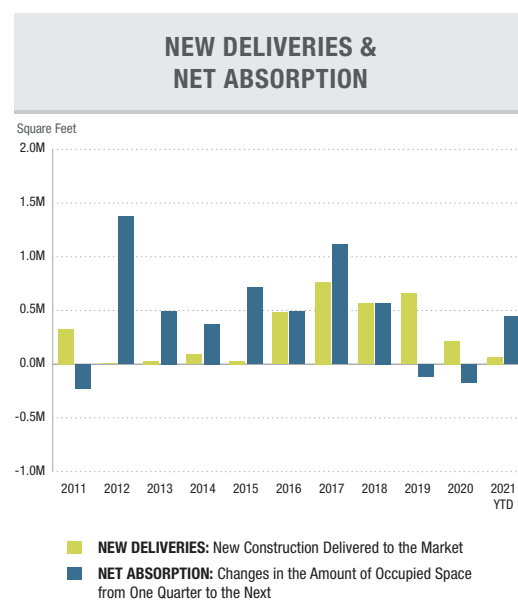
Market Statistics

	Change Over Last Quarter	2Q 2021	1Q 2021	2Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	7.35%	7.42%	8.12%	(9.52%)
Availability Rate	▲ UP	9.29%	9.12%	10.54%	(11.88%)
Average Asking Lease Rate	▼ DOWN	\$2.19	\$2.27	\$2.10	4.29%
Sale & Lease Transactions	▼ DOWN	1,649,444	1,863,608	1,510,212	9.22%
Gross Absorption	▼ DOWN	777,166	970,926	577,942	34.47%
Net Absorption	▲ POSITIVE	37,958	407,379	174,508	N/A

ABSORPTION. The San Diego Flex R&D market recorded 37,958 SF of positive net absorption in 2Q 2021. The total for the year thus far is 445,337 SF of positive net absorption. This is a swing back to growth in the tenant base following two years of negative net absorption. The non-biotech segment of the Flex R&D market had been a source of negative net absorption in the market over the past two years. 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 largest portion of negative net absorption in 2Q came from the South County area, which mostly consists of highly improved industrial properties.

CONSTRUCTION. At the end of 2Q there were 330,937 SF under construction at the end of 2Q. The biotech sector within the Flex R&D market continues to be the primary driver of new construction. There are 2.6 MSF of new planned or proposed Flex/R&D buildings in San Diego County, with more than 85% located in the core biotech 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. There is currently a total of 600,370 SF of Flex/R&D under renovation. Across the county, biotech lab conversions are not the only way in which flex properties are being converted. There are many flex buildings which are getting converted to creative office as well.

EMPLOYMENT. The unemployment rate in San Diego County was 6.4% in May 2021, down from a revised 6.7% in April 2021, and below the year-ago estimate of 15.6%. This compares with an unadjusted unemployment rate of 7.5% for California and 5.5% for the nation during the same period. Over the 12-month period between May 2020 and May 2021, San Diego County employment increased by 119,500 jobs, or 9.3%. 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 850,000 jobs in June, and total U.S. employment remains 7.13 million jobs below the February 2020 level.



Forecast

During the second quarter all California adults became eligible to get a COVID-19 vaccine, and California lifted most COVID-19 restrictions. The general economy is projected to have a greater-than-average growth rate for at least the remainder of 2021, and this will strengthen fundamentals in a market that held up reasonably well throughout the pandemic. Going forward, the competition on the sales side looks to remain fierce for stabilized investment assets, as well as user or biotech conversion in the submarkets surrounding UCSD.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
6260-6350 Sequence Dr.	Sorrento Mesa	482,153	\$298,500,000	Alexandria Real Estate Equities	John Hancock Real Estate
10975-10995 Torreyana Rd.	Torrey Pines	84,829	\$91,000,000	Alexandria Real Estate Equities	Becton, Dickinson and Company
10455 Pacific Center Ct.	Sorrento Mesa	92,477	\$46,000,000	Nuveen Real Estate	Graymark Capital
5785 Oberlin Dr.	Sorrento Mesa	62,824	\$20,250,000	Harrison Street Capital	Alvarez & Marsal Holdings, LLC
3560 Dunhill St. & 10 Roselle St.	Sorrento Valley	28,391	\$11,000,000	Sterling BayWest	Cruzan

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3030 Callan Rd.	Torrey Pines	185,000	May-2021	Turning Point Therapeutics	Healthpeak
15330 Avenue of Science	Rancho Bernardo	73,756	May-2021	AoPS	Montana Avenue Capital Partners
5505 Morehouse Dr.	Sorrento Mesa	51,621	Jun-2021	Artiva Biosciences	Alexandria Real Estate Equities
Barnes Canyon Rd.	Sorrento Mesa	37,912	Jun-2021	Element Biosciences	Alexandria Real Estate Equities
5580 Morehouse Dr.	Sorrento Mesa	31,592	Jun-2021	ViaCyte	Phase 3 RE Partners

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2021	Square Feet Available	Availability Rate 2Q2021	Average Asking Lease Rate	Net Absorption 2Q2021	Net Absorption 2021	Gross Absorption 2Q2021	Gross Absorption 2021
Central													
Central City	12	174,781	0	0	17,237	9.86%	29,077	16.64%	-	6,500	6,500	6,500	6,500
East City	2	26,892	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Southeast City	21	224,684	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Kearny Mesa	205	5,577,338	0	0	461,973	8.28%	466,245	8.36%	\$1.70	(12,227)	(36,544)	63,826	86,798
Mission Gorge	27	279,740	0	0	9,288	3.32%	33,969	12.14%	\$1.72	(4,440)	(4,740)	0	2,780
Rose Canyon/Morena	39	600,024	0	0	10,439	1.74%	15,039	2.51%	\$1.57	4,202	20,503	6,007	26,323
Sports Arena/Airport	32	418,986	0	0	64,939	15.50%	65,839	15.71%	\$2.61	0	0	0	0
Miramar	223	4,943,581	0	130,510	324,182	6.56%	369,265	7.47%	\$2.01	(17,564)	26,131	128,373	216,551
Sorrento Mesa	169	7,476,354	0	964,000	875,263	11.71%	851,670	11.39%	\$3.32	25,046	82,339	118,746	251,298
Sorrento Valley	106	2,530,359	0	220,180	250,035	9.88%	458,523	18.12%	\$3.50	30,454	9,601	138,295	183,743
Torrey Pines/UTC	73	6,464,267	264,077	876,102	328,849	5.09%	190,429	2.95%	\$4.72	(9,688)	144,374	54,265	219,220
Central County Total	909	28,717,006	264,077	2,190,792	2,342,205	8.16%	2,480,056	8.64%	\$2.76	22,283	248,164	516,012	993,213
East County													
El Cajon	78	869,722	0	40,000	28,314	3.26%	41,453	4.77%	\$1.09	5,920	(18,183)	6,720	8,428
La Mesa/Spring Valley	41	296,056	0	0	8,820	2.98%	13,520	4.57%	\$2.46	(8,820)	(6,540)	0	2,280
Santee/Lakeside	55	586,728	0	0	17,904	3.05%	17,261	2.94%	\$1.32	(2,026)	(5,132)	438	6,044
Rural East County	22	95,520	0	0	0	0.00%	1,325	1.39%	\$1.36	0	0	0	0
East County Total	196	1,848,026	0	40,000	55,038	2.98%	73,559	3.98%	\$1.31	(4,926)	(29,855)	7,158	16,752
North County													
Escondido	81	764,715	0	0	17,423	2.28%	54,791	7.16%	\$1.04	10,672	6,747	14,517	15,507
Oceanside	33	984,037	0	0	21,903	2.23%	17,250	1.75%	\$1.30	12,978	(210)	14,950	18,043
San Marcos	57	1,045,480	0	0	70,349	6.73%	63,249	6.05%	\$1.18	15,491	20,105	17,908	27,605
Vista	64	1,423,627	0	0	282,467	19.84%	363,544	25.54%	\$1.11	(4,068)	(10,884)	41,963	48,427
Carlsbad	260	7,010,048	0	0	556,779	7.94%	920,655	13.13%	\$1.36	10,276	342,165	101,644	520,022
North Beach Cities	19	158,539	0	0	1,200	0.76%	1,200	0.76%	\$3.37	1,280	880	1,280	1,280
Rural North County	19	139,572	0	0	2,950	2.11%	2,950	2.11%	\$0.50	0	(50)	0	0
North County Total	533	11,526,018	0	0	953,071	8.27%	1,423,639	12.35%	\$1.29	46,629	358,753	192,262	630,884
I-15 Corridor													
Poway	62	2,112,272	0	0	37,123	1.76%	45,631	2.16%	\$1.20	9,420	(15,905)	11,307	24,001
Rancho Bernardo	99	4,641,287	0	0	308,203	6.64%	451,737	9.73%	\$1.62	(29,507)	(117,765)	20,166	26,516
Scripps Ranch	29	790,245	0	344,000	7,441	0.94%	150,518	19.05%	\$1.74	15,283	14,985	18,401	24,133
I-15 Corridor Total	190	7,543,804	0	344,000	352,767	4.68%	647,886	8.59%	\$1.60	(4,804)	(118,685)	49,874	74,650
South County													
Chula Vista	78	1,387,277	66,860	0	46,145	3.33%	124,336	8.96%	\$1.18	(6,776)	(2,735)	11,860	23,950
National City	24	349,468	0	0	19,519	5.59%	17,263	4.94%	\$1.31	(14,448)	(13,212)	0	5,736
Otay Mesa	7	156,362	0	0	24,246	15.51%	27,153	17.37%	\$0.65	0	2,907	0	2,907
South San Diego	5	86,361	0	0	0	0.00%	0	0.00%	-	0	0	0	0
South County Total	114	1,979,468	66,860	0	89,910	4.54%	168,752	8.53%	\$1.11	(21,224)	(13,040)	11,860	32,593
San Diego County Total	1,942	51,614,322	330,937	2,574,792	3,792,991	7.35%	4,793,892	9.29%	\$2.19	37,958	445,337	777,166	1,748,092

Lease rates are on a triple-net basis.



Times are Good, But Changes May Be Coming

by **Patrick Connors**

SENIOR ASSOCIATE, SAN DIEGO

858.458.3359 · pconnors@voitco.com · Lic. #02009924

The major theme in San Diego real estate during 2020 was uncertainty. People were working from home instead of the office, worldwide logistics experienced previously unseen problems and delays, some industries were completely shut down or slowed dramatically, and there was a contentious election that worried business owners and patrons alike. Yet, outside of an initial blip on the radar, the Industrial market thrived. Leasing rates rose across the board, sale prices have continued to climb, and owners of Industrial real estate continue to have a leg up on tenants in negotiations. Part of this is a result of the incredibly low interest rates being offered, but it is also due to a major shift in consumer purchasing habits.

Brick and mortar retail has lost a large chunk of business to online shopping, and with that change in habits came a huge rise in demand for warehouse space due to increased logistics use across the board. Amazon is a large part of this rise in demand, as they will occupy more than 6 MSF in the Greater San Diego area by the end of 2022, as new requirements for large blocks of space seem to pop up every quarter.

Although the enormous space absorption from Amazon helps the overall market metrics, they are not the only reason that the sector is booming with investor interest. The general feeling around commercial real estate right now is that industrial warehouses and multi-family are the safest place to put your money. Cap rates for quality product in both sectors is below 5%, and in some industrial cases below 4%. On the owner-user side, low interest rates are helping to drive a rise in demand. The monthly price for owning is still less than leasing, and buyers are taking advantage of the low SBA rates to lock in long-term savings. These owner-user opportunities are hard to find, however.

However, current proposals from the Oval Office lead us to wonder if the market is going to turn. Most significant would be the raising of the capital gains tax. The current proposal would move the tax rate on the sale of most California commercial real estate from an average of approximately 33% (federal and state rates combined), to more than 50% in total capital gains tax in some cases. Nothing is official at this time, but the rise in the tax rate would certainly have a negative impact on transaction volume and investor interest in the commercial real estate sector. A tax increase by itself would slow transaction activity, but if the current proposal to also eliminate or severely limit the 1031 tax deferred exchange is also passed, commercial real estate values would take a large hit across the board. Let's hope that doesn't happen but prepare ourselves for the possibility that changes are coming.

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